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## **Chapter-1**

# **FINANCES OF THE STATE GOVERNMENT**

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## CHAPTER 1

### Finances of the State Government

#### *Profile of State*

The State of Madhya Pradesh is located in the central part of India. It is the second largest State in terms of geographical area (308 thousand square kilometre) and the sixth largest by population (7.26 crore as per 2011 census). The composite State of Madhya Pradesh was founded on 1 November 1956. In terms of the Madhya Pradesh Reorganisation Act 2000 (No. 28 of 2000), 16 districts of the erstwhile State of Madhya Pradesh were carved out to form the new State of Chhattisgarh on 1 November 2000.

As indicated in **Appendix 1.1** the State's population increased from 6.03 crore in 2001 to 7.26 crore in 2011 recording a decadal growth of 20.40 *per cent*. The density of population of the State increased from 196 persons per sq. km in 2001 to 236 persons per sq. km in 2011. However, Madhya Pradesh has a lower density of population as compared to the all India average of 382 persons per sq. km. The percentage of population below poverty line (44.30 *per cent*) was higher than that of the All-India average (29.50 *per cent*). The State's literacy rate marginally decreased from 69.69 *per cent* in 2001 to 69.32 *per cent* as per 2011 census, which was lower than the All India average of 73.00 *per cent* (2011 census).

The general data (including development indicators) relating to the State is given in **Appendix 1.1**.

#### *Gross State Domestic Product (GSDP)*

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's GDP and that of the State's GSDP at current prices are indicated below:

#### **Annual growth rate of GDP of India and GSDP of Madhya Pradesh at current prices**

Year	2010-11	2011-12	2012-13	2013-14	2014-15
India's GDP at current price	72,48,860	83,91,691	93,88,876	1,04,72,807	1,15,09,810*
Growth rate of GDP ( <i>per cent</i> )	18.66	15.77	11.88	11.54	-
GSDP of MP at current price	2,63,396	3,05,158	3,61,270	4,34,730	5,08,006
Growth rate of GSDP <sup>®</sup> ( <i>per cent</i> )	15.75	15.86	18.39	20.33	16.86

(Source: Statement released by Ministry of Statistics and Programme Implementation dated 30 July 2015 and Directorate of Economic and Statistics, Government of Madhya Pradesh)

\*Excluding three States namely Goa, Andaman & Nicobar Island and Chandigarh

<sup>®</sup> GSDP at current prices for the years 2011-12 to 2013-14 are revised by the State Government, hence, percentage ratio/buoyancies of various parameters with reference to GSDP for 2011-12 to 2013-14 indicated in earlier Reports have also been revised.

The Gross State Domestic Product (GSDP) of the State in 2014-15 at current prices was ₹ 5,08,006 crore, which increased by 16.86 per cent over the previous year. The Compound Annual Growth Rate (CAGR) of per capita GSDP of Madhya Pradesh (15.05 per cent) was higher than that of the General Category States (13.86 per cent) during 2005-06 to 2014-15.

## 1.1 Introduction

This Chapter provides an audit perspective on the finances of the Government of Madhya Pradesh during 2014-15 and analyses the critical changes observed in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts of the Government of Madhya Pradesh and information provided therein. The structure and form of Government Accounts and the layout of the Finance Accounts are depicted in **Appendix 1.2 Part-A**.

The apportionment of assets and liabilities of the composite State of Madhya Pradesh prior to the date of reorganisation as well as other financial adjustments is carried out in accordance with the provisions of the Madhya Pradesh Reorganisation Act, 2000 (No. 28 of 2000). The actual progress achieved in this direction is indicated in **Appendix 1.2 Part-B**.

The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed under the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005, trends in select fiscal indicators and the time series data of State Finances are depicted in **Appendix 1.3** and **Appendix 1.4**.

### 1.1.1 Summary of fiscal transactions in 2014-15

**Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2014-15) *vis-à-vis* the previous year (2013-14), while **Appendix 1.5 Part-A** provides details of receipts and disbursements as well as overall fiscal position during the current year.

**Table 1.1: Summary of Fiscal operations in 2014-15**

(₹ in crore)							
Receipts	2013-14	2014-15	Disbursements	2013-14	2014-15		
Section-A: Revenue				Non-Plan	Plan	Total	
<b>Revenue Receipts</b>	<b>75,749.24</b>	<b>88,640.78</b>	<b>Revenue Expenditure</b>	<b>69,869.76</b>	<b>55,858.26</b>	<b>26,514.56</b>	<b>82,372.82</b>
Tax revenue	33,552.16	36,567.12	General Services	20,590.93	22,218.41	146.70	22,365.11
Non-Tax revenue	7,704.99	10,375.23	Social Services	27,768.21	17,319.12	14,748.03	32,067.15
Share of Union Taxes/ Duties	22,715.27	24,106.99	Economic Services	16,971.33	12,608.07	11,107.05	23,715.12
Grants from GoI	11,776.82	17,591.44	Grants-in-aid & Contributions	4,539.29	3,712.66	512.78	4,225.44
Section-B: Capital & others							
<b>Misc. Capital Receipts</b>	<b>35.98</b>	<b>27.73</b>	<b>Capital Outlay</b>	<b>10,812.52</b>	<b>56.63</b>	<b>11,821.05</b>	<b>11,877.68</b>
			General Services	196.31	15.22	241.95	257.17
			Social Services	1,899.30	0.69	2,069.63	2,070.32
			Economic Services	8,716.91	40.72	9,509.47	9,550.19
<b>Recoveries of Loans and Advances</b>	<b>93.22</b>	<b>6,765.05</b>	<b>Loans and Advances disbursed</b>	<b>5,077.52</b>	<b>10,639.39</b>	<b>1,895.22</b>	<b>12,534.61</b>

Receipts	2013-14	2014-15	Disbursements	2013-14	2014-15		
Inter-State settlement	2.44	0.91	Inter-State settlement	2.36	-	-	0.98
Public Debt receipts	9,540.82	15,068.71*	Repayment of Public Debt	4,004.65	-	-	4,920.52*
Contingency Fund	-	300.00	Contingency Fund	-	-	-	301.08
Public Account receipts	94,811.32	1,10,294.74	Public Account disbursements	93,063.99	-	-	1,08,165.30
Opening Cash Balance	7,074.81	4,477.03	Closing Cash Balance	4,477.03	-	-	5,401.96
<b>Total</b>	<b>1,87,307.83</b>	<b>2,25,574.95</b>	<b>Total</b>	<b>1,87,307.83</b>			<b>2,25,574.95</b>

\*No Ways & Means advances were drawn during the year.  
(Source: Finance Accounts)

The significant changes during 2014-15 over the previous year are as under:

- Revenue Receipts grew by ₹ 12,891.54 crore (17 per cent) due to increase in Own Tax Revenue (by ₹ 3,014.96 crore), Non-Tax Revenue (by ₹ 2,670.24 crore), share of Union Taxes/Duties (by ₹ 1,391.72 crore) and grants-in-aid and contribution from GoI (by ₹ 5,814.62 crore). Revenue Receipts for 2014-15 fell short by ₹ 14,852.38 crore over the projection (₹ 1,03,493.16 crore) made in the Medium Term Fiscal Policy Statement (MTFPS).
- Revenue Expenditure increased by ₹ 12,503.06 crore (18 per cent). The increase was under economic services sector (by ₹ 6,743.79 crore), social services sector (by ₹ 4,298.94 crore) and general services sector (by ₹ 1,774.18 crore). However, Grants-in-aid and contributions decreased by ₹ 313.85 crore.
- Capital Expenditure increased by ₹ 1,065.16 crore (10 per cent); increase was mainly on account of increase under economic services sector (by ₹ 833.28 crore).
- Recoveries and disbursement of Loans and Advances increased by ₹ 6,671.83 crore and ₹ 7,457.09 crore respectively.
- Public Debt receipts and repayment increased by ₹ 5,527.89 crore (58 per cent) and ₹ 915.87 crore (23 per cent) respectively. No ways and means advance was drawn.
- Public Account receipts and disbursements increased by ₹ 15,483.42 crore (16 per cent) and ₹ 15,101.31 crore (16 per cent) respectively.
- Cash balances of the State Government increased by ₹ 924.93 crore.

### 1.1.2 Review of the fiscal situation

In response to the Twelfth Finance Commission's recommendation, the State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005, which came into force from 1 January 2006 with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy within a Medium Term Fiscal Framework.

The fiscal forecasts as prescribed by Thirteenth Finance Commission (XIII FC), FRBM Act and those framed in Medium Term Fiscal Policy Statement (MTFPS) for the year 2014-15 as well as actuals for 2014-15 are presented in **Table 1.2**.

**Table 1.2: Fiscal forecasts under FRBM Act, MTFPS and XIII FC for 2014-15**

(₹ in crore)				
Fiscal forecasts	XIII FC targets for the State	Targets prescribed in FRBM Act/MTFPS	Targets proposed in the budget 2014-15	Actual achievement
Revenue Deficit (-)/ Surplus (+)	0.0 <i>per cent</i>	Reduce Revenue Deficit in each financial year so as to eliminate it by 31.3.2009 and generate Revenue Surplus thereafter	1.00 <i>per cent</i> of GSDP (as per BE (+) 4,478 crore)	(+) 6,268 (1.23 <i>per cent</i> of GSDP)
Fiscal Deficit / GSDP	3.0 <i>per cent</i>	Reduce fiscal deficit in each financial year so as to bring it down to not more than three <i>per cent</i> of GSDP by 31 March, 2009	2.98 <i>per cent</i> of GSDP ( as per BE (-)13,425 crore)	(-) 11,352 (2.23 <i>per cent</i> of GSDP)
Outstanding Debt as <i>per cent</i> of GSDP	35.30 <i>per cent</i>	Not to exceed 40 <i>per cent</i> of the estimated GSDP for that year	25.34 <i>per cent</i> of GSDP	21.40 <i>per cent</i> of GSDP

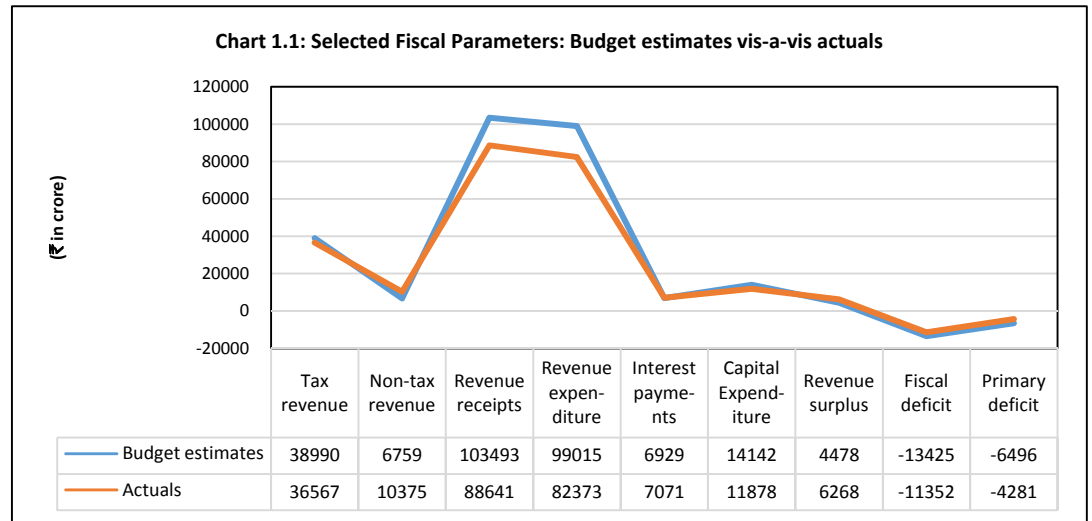
(Source: XIII FC recommendations 2010-15, MPFRBM Act, 2005, Statement laid before the Legislature along with the Budget under FRBM Act during 2014-15 and Finance Accounts 2014-15)

- The State had achieved Revenue Surplus in the year 2004-05 and maintained the surplus thereafter, it increased by ₹ 389 crore during 2014-15 over the previous year.
- The Fiscal Deficit at 2.23 *per cent* of GSDP during 2014-15 was within the limits prescribed (3 *per cent*) in FRBM targets, XIII FC and projections of MTFPS. The ratio was lower than that in 2013-14 (2.27 *per cent*). During 2014-15, it increased by ₹ 1,470 crore over 2013-14.
- The total outstanding debt to GSDP ratio at 21.40 *per cent* was within the limit of 40 *per cent* and 35.30 *per cent* prescribed in the FRBM target and XIII FC respectively. It was also less than the projection made (25.34 *per cent*) in MTFPS.

### 1.1.3 Budget Estimates and Actuals

The importance of accuracy in the budget estimates of revenue receipts and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives.

**Chart 1.1** represents the budget estimates and actuals for some important fiscal parameters for 2014-15.



(Source: Finance Accounts and Budget Estimates 2014-15)

- The State's Revenue Receipts (₹ 88,641 crore) were lower than the budget estimates by ₹ 14,852 crore (14.35 per cent).
- Non-Tax Revenue was higher than the budget estimates by ₹ 3,616 crore (53.49 per cent).
- The State's Tax Revenue (₹ 36,567 crore) was lower than the budget estimates by ₹ 2,423 (6.21 per cent) crore. Further, Revenue Expenditure and Capital Expenditure were less than the budget estimate by ₹ 16,642 crore (16.81 per cent) and ₹ 2,264 crore (16.01 per cent) respectively.
- Interest payments were more than the budget estimates by ₹ 142 crore (2.05 per cent) mainly due to increase in interest on Market Loans and interest on Loans for State/Union Territory Plan.
- The key fiscal indicators viz., Revenue Surplus, Fiscal Deficit and Primary Deficit showed improvement with reference to budget estimates.

#### 1.1.4 Gender Budgeting

Gender Budget of the State discloses the expenditure proposed to be incurred within the overall budget on schemes which are designed to benefit women fully or partially. Gender budgeting was introduced in 2007-08 and separate volume of gender budget was submitted along with the budget to make available the details of budget provisions relating to women and girls. Schemes relating to gender budget were bifurcated in two categories (1) Schemes in which 100 per cent budget provisions were related to women and (2) Schemes in which atleast 30 per cent of budget provisions were related to women.

During 2014-15, budget provisions were made in 25 departments<sup>1</sup> (category-1: 50 schemes and category-2: 393 schemes) for benefit of women.

As per the information furnished (August 2015) by Finance Department (FD), the year-wise allocation and expenditure in respect of categories 1 and 2 for the years from 2010-11 to 2014-15 are given in **Table 1.3**.

**Table 1.3: Gender Budgetary Allocations during 2010-15**

(₹ in crore)

Year	Category 1			Category 2		
	Outlay	Expenditure	Percentage of Expenditure to outlay	Outlay	Expenditure	Percentage of Expenditure to outlay
2010-11	858.27	780.56	90.95	12,809.86	1,467.60	11.46
2011-12	1,510.02	1,245.41	82.48	20,500.64	6,908.51	33.70
2012-13	1,745.00	1,473.08	84.42	23,038.77	19,195.10	83.32
2013-14	1,768.19	1,688.93	95.52	24,464.97	24,229.29	99.04
2014-15	1,813.41	N.A	N.A	36,340.81	N.A	N.A
<b>Total</b>	<b>7,694.89</b>	<b>5,187.98</b>	<b>67.42</b>	<b>1,17,155.05</b>	<b>51,800.50</b>	<b>44.22</b>

\*NA-Not available with Finance Department

(Source: Information provided by Finance Department, GoMP)

On being asked regarding impact analysis on social and economic conditions of women after introduction of Gender Budgeting, no reply was furnished by the Finance Department (July 2015). However, an analysis of information furnished (July 2015) by the Commissioner, Women Empowerment (Women and Child Development) and Integrated Child Development Services, Bhopal, revealed the significant savings in above two departments as shown in **Table 1.4**.

**Table 1.4: Showing category-wise Provision and Expenditure during 2014-15**

(₹ in crore )

Name of Department	Category-1 (100 per cent)				Category-2 (30 per cent)			
	No. of schemes	Total Provision	Total Expenditure	Saving (per cent)	No. of schemes	Total Provision	Total Expenditure	Saving (per cent)
Women Empowerment Department	11	818.00	34.55	783.45 (95.77%)	10	75.37	36.93	38.44 (51%)
Intregated Child Development Services (ICDS)	4	474.85	434.60	40.25 (8.48%)	14	2573.97	1817.12	756.85 (29.40%)

- Specific reasons for savings were attributed to financial ban & code of conduct by Election Commission in many districts of the State, non-formation of rules for operation of funds, non-utilisation of funds in some heads of pay & allowances and less expenditure in training and office expenditure.

<sup>1</sup> 1. Home Department, 2. Sports and Youth Welfare, 3. Commerce, Industry & Employment, 4. Farmer Welfare & Agriculture Development, 5. Cooperation Department, 6. Public Health and Family Welfare, 7. Urban Administration & Development, 8. School Education, 9. Panchayat, 10. Tribal Welfare, 11. Social Justice, 12. Food and Civil Supplies, 13. Water Resources Department, 14. Animal Husbandry, 15. Higher Education, 16. Man Power Planning, 17. Aviation, 18. Women & Child Development, 19. Rural Industry, 20. Welfare of Backward Classes, 21. Scheduled Castes Welfare, 22. Rural Development, 23. Horticulture & Food Processing, 24. Ayush Department, 25. Vimukta, Ghumakkad evam Ardhghumakkad Castes Welfare



- Eight schemes under Category 1 and 12 schemes under Category 2, where savings exceeded ₹ one crore are shown in **Appendix 1.6**.

It is evident that the provision earmarked remained unutilised between 7.48 per cent and 99.11 per cent which indicates that women oriented schemes were not implemented properly.

During the exit conference (November 2015) FD replied that a new format for Gender Budget was under consideration.

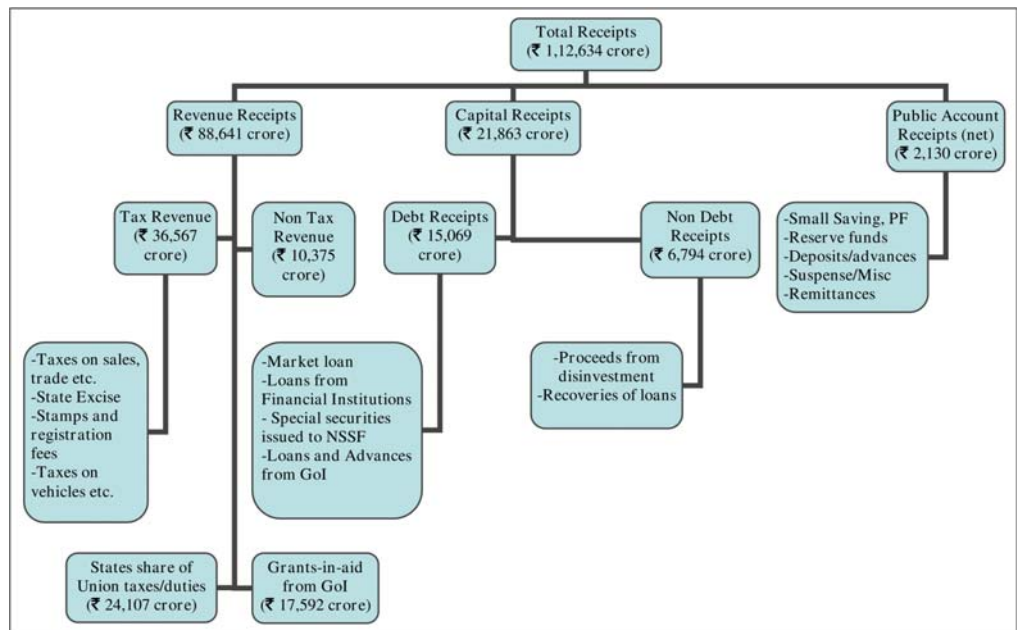
**1.2 Resources of the State**

**1.2.1 Resources of the State as per Annual Finance Accounts**

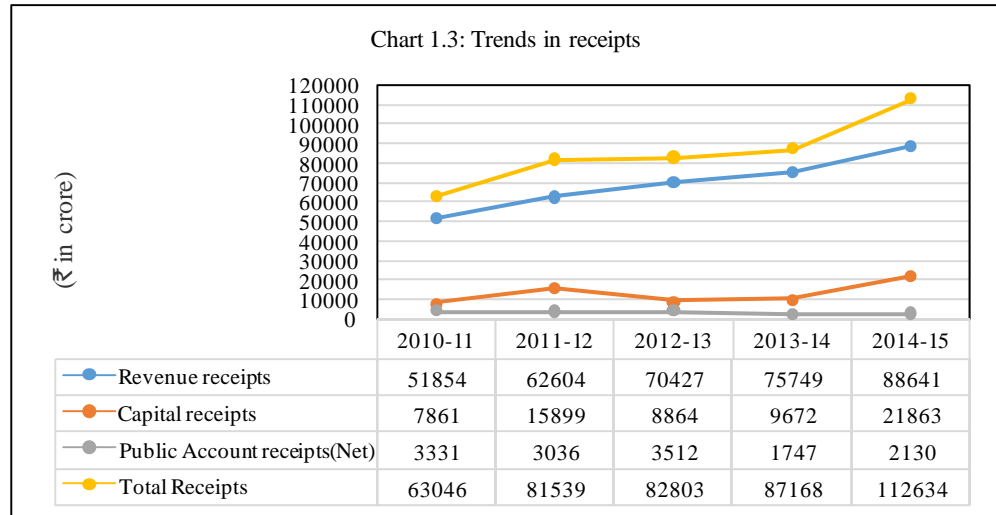
Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of tax revenues, non-tax revenues, State’s share of Union Taxes and Duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and Loans and Advances from GoI as well as net accruals from Public Account.

The components of the State’s receipts during 2014-15 have been categorised in **Chart 1.2**.

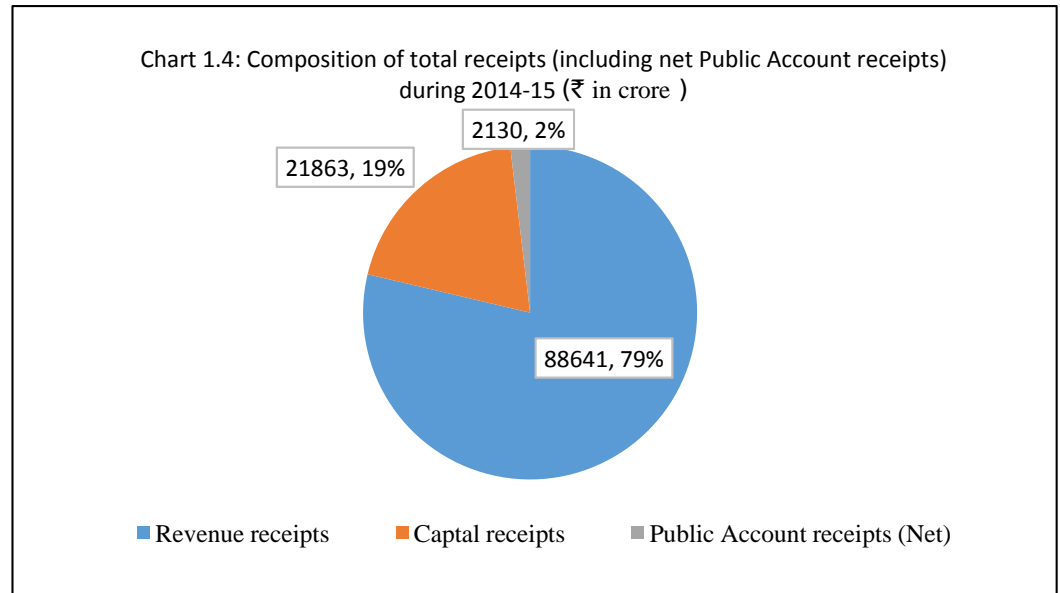
**Chart 1.2: Flow chart of components and sub-components of Resources of the State**



**Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.3** depicts the trends in various components of the receipts of the State during the period 2010-15 and **Chart 1.4** depicts the composition of receipts during 2014-15.



(Source: Finance Accounts of respective years)



(Source: Finance Accounts)

- The Revenue, Capital and Public Account receipts (net) constituted 79 per cent, 19 per cent and two per cent respectively of the total receipts during 2014-15.
- The total receipts (including net Public Accounts receipts) of the State increased by 79 per cent during the period 2010-15. Revenue Receipts and Capital Receipts increased by 71 per cent and 178 per cent respectively while net Public Account Receipts decreased by 36 per cent during the period 2010-15.
- Growth rate of the total receipts was 29 per cent in 2014-15 over the previous year.
- The relative share of Revenue Receipts in total receipts during the years 2010-11 to 2014-15 ranged between 77 per cent and 87 per cent. The share of Capital Receipts in total receipts during the years 2010-11 to 2014-15 ranged between 11 per cent and 19 per cent.

- During 2014-15, Revenue Receipts and Capital Receipts increased by ₹ 12,892 crore (17 per cent) and ₹ 12,191 crore (126 per cent) respectively over the previous year. Net receipts under Public Account increased by ₹ 383 crore (22 per cent).
- The Public Debt Receipts increased due to more borrowings under Market Loans and Loans from the Special Securities issued to National Bank for Agricultural and Rural Development.

### 1.2.2 Funds directly transferred to State Implementing Agencies outside the State Budget

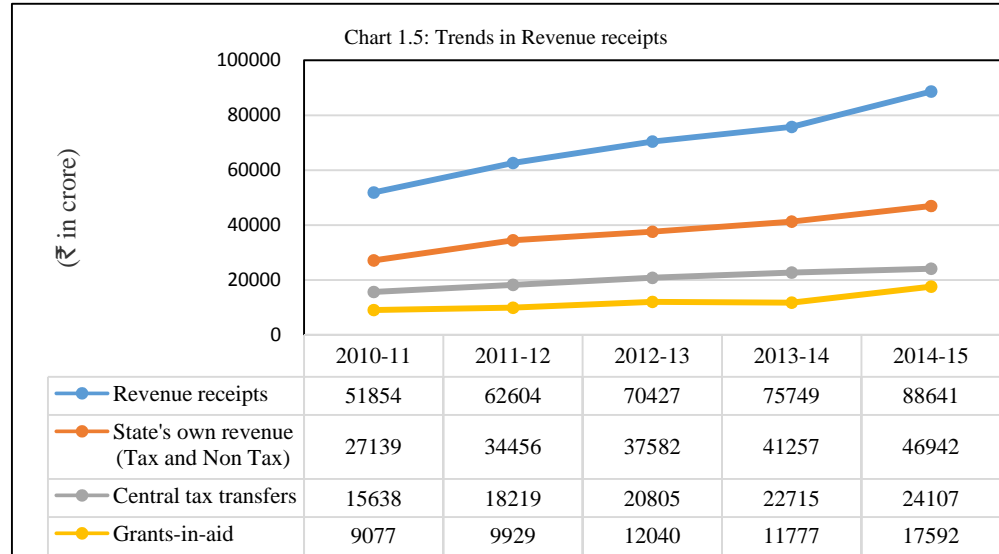
The GoI has been transferring a sizeable quantum of funds directly to the State Implementing agencies<sup>2</sup> for implementation of various schemes/programmes in social and economic sectors, which are recognized as critical. As in the present mechanism these funds are not routed through the State Budget/State Treasury System, these are not reflected in the accounts of the State Government. As such, the Annual Finance Accounts of the State do not provide a complete picture of the resources under the control of the State Government. However, Government of India decided (July 2013) to transfer funds for Centrally Sponsored Schemes/Additional Central Assistance directly to the State Governments through Consolidated Fund of the States in a phased manner from 2014-15 onwards.

During the year 2014-15 the Government of India directly transferred ₹ 854.85 crore only to the State Implementing agencies which was less than the previous year by ₹ 8425.20 crore (90.79 per cent). The major receipts were MPs Local Area Development Scheme (₹ 165 crore i.e. 19.30 per cent), Indian Institute of Technology, Indore (₹ 113.45 crore i.e. 13.27 per cent), Indian Institute of Science Education and Research, Bhopal (₹ 96.50 crore i.e. 11.28 per cent), All India Institute of Medical Science, Bhopal (₹ 82 crore i.e. 9.59 per cent), Indian Institute of Information Technology, Jabalpur (₹ 66.48 crore i.e. 7.78 per cent) and Maulana Azad National Institute of Technology, Bhopal (₹ 56 crore i.e. 6.55 per cent).

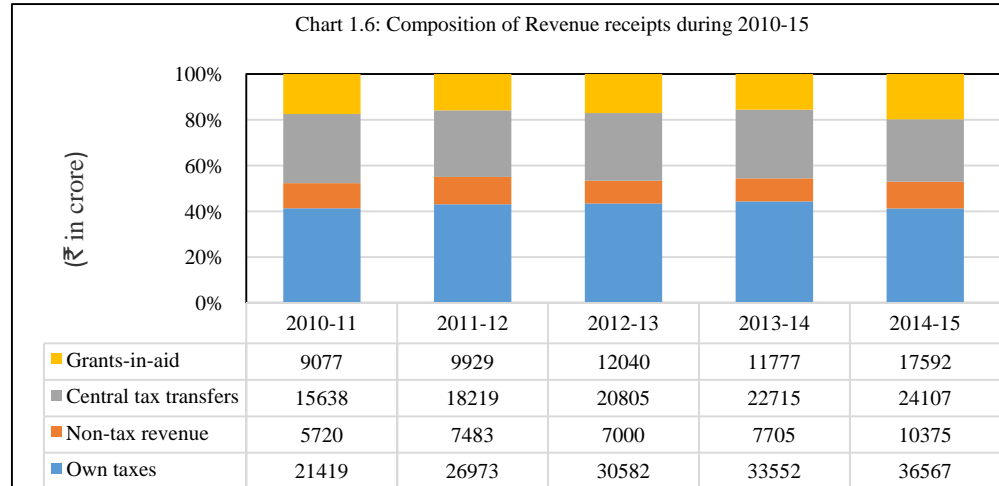
## 1.3 Revenue Receipts

Statement-14 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts consist of own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of Revenue Receipts over the period 2010-15 are presented in **Appendix 1.4** and also depicted in **Charts 1.5 and 1.6** respectively.

<sup>2</sup> State Implementing agencies include any organisation/ institution including Non-Governmental Organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State.



(Source: Finance Accounts of respective years)



(Source: Finance Accounts of respective years)

### General trends

- The Revenue Receipts of the State increased by 71 per cent from ₹ 51,854 crore in 2010-11 to ₹ 88,641 crore in 2014-15 at an average annual growth rate of 14.20 per cent. Growth rate during 2014-15 was 17.02 per cent against 7.56 per cent in 2013-14. While 53 per cent of the Revenue Receipts during 2014-15 had come from the State's own resources comprising Tax Revenue (41 per cent) and Non-Tax Revenue (12 per cent), the balance 47 per cent was contributed by Central tax transfers and grants-in-aid together.
- The relative share of the State's own tax revenue in total Revenue Receipts ranged between 41 per cent and 44 per cent during the years 2010-11 to 2014-15, while share of other components of Revenue Receipts, viz. Non-Tax Revenue, Central Tax Transfers and Grants-in-aid together, ranged between 56 per cent and 59 per cent during the years 2010-11 to 2014-15.
- As shown in **Appendix 1.1**, during the period 2005-06 to 2013-14 and 2013-14 to 2014-15, the Compound Annual Growth Rate (CAGR) of revenue receipts in case of Madhya Pradesh was higher than that of General Category States (GCS).

**Table 1.5: Trends of Revenue Receipts relative to GSDP**

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>51,854</b>	<b>62,604</b>	<b>70,427</b>	<b>75,749</b>	<b>88,641</b>
Rate of growth of RR ( <i>per cent</i> )	25.27	20.73	12.50	7.56	17.02
Rate of growth of GSDP ( <i>per cent</i> )	15.75	15.86	18.39	20.33	16.86
Rate of growth of State's own taxes ( <i>per cent</i> )	24.00	25.93	13.38	9.71	8.99
RR/GSDP ( <i>per cent</i> )	19.69	20.52	19.49	17.42	17.45
<b>Buoyancy ratios<sup>3</sup></b>					
Revenue buoyancy w.r.t GSDP	1.60	1.31	0.68	0.37	1.01
State's own tax buoyancy w.r.t GSDP	1.52	1.63	0.73	0.48	0.53
Revenue buoyancy w.r.t State's own taxes	1.05	0.80	0.93	0.78	1.89

(Source: Finance Accounts and information furnished by Directorate of Economics and Statistics, Government of Madhya Pradesh) GSDP estimates at current prices for the years 2011-12 to 2013-14 are revised, hence, percentage ratio/buoyancies of various parameters with reference to GSDP for 2011-12 to 2013-14 indicated in earlier Reports have also been revised.

Ideally, the growth rate of revenue receipts should be higher than GSDP growth rate so that over the time the budget can be better balanced. An analysis of the **Table 1.5** revealed the following:

- The revenue receipts relative to GSDP decreased from 19.69 *per cent* in 2010-11 to 17.45 *per cent* in 2014-15 with inter-year fluctuation.
- Growth of revenue receipts decreased constantly from 25.27 *per cent* in 2010-11 to 7.56 *per cent* in 2013-14, and then increased to 17.02 *per cent* in 2014-15 mainly due to increase in own tax revenue and Grants-in-aid from GoI.
- The revenue buoyancy as well as State's own tax buoyancy with reference to GSDP increased in 2014-15 (1.01 and 0.53 respectively) as compared to the previous year (0.37 and 0.48 respectively) owing to increase in growth rate of Revenue Receipts and decrease in growth rate of GSDP during the year 2014-15.

### 1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid from GoI are determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources is assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2014-15 *vis-a-vis* assessment made by XIII FC, in RE and in MTFPS and their growth rates are given in **Table 1.6 and 1.7** respectively.

**Table 1.6: Tax Revenue and Non-Tax Revenue**

	XIII FC projections	Revised Budget Estimates (RE) 2014-15	MTFPS projection	Actual
Tax Revenue	27,329	66,479	66,671	36,567
Non-Tax Revenue	5,816	9,598	6,759	10,375

(Source: Finance Accounts and Statement laid before the legislature under FRBM Act along with State Budgets 2014-15 and 2015-16 and the recommendations of XIII FC)

<sup>3</sup> 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 0.6 implies that revenue receipts tend to increase by 0.6 percentage points if the GSDP increases by one per cent.

**Table 1.7: Growth Rate of Tax/Non-Tax Revenue during 2010-15**

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Tax Revenue	21,419	26,973	30,582	33,552	36,567
Rate of Growth (per cent)	24.00	25.93	13.38	9.71	8.99
Non-Tax Revenue	5,720	7,483	7,000	7,705	10,375
Rate of Growth (per cent)	-10.37	30.82	-6.45	10.07	34.65

(Source: Finance Accounts of respective years)

It is evident that the State's Tax Revenue and Non-Tax Revenue during the current year was higher by ₹ 3,015 crore and ₹ 2,670 crore respectively over the previous year, the actual realisation under Tax Revenue and Non-Tax revenue was significantly higher than the assessment made by the XIII FC (by 33.80 per cent and 78.39 per cent respectively). Actual realisation under tax revenue was considerably lower than MTFPS projections and Revised Budget Estimates while Non-Tax revenue was higher than assessment made by the XIII FC, Revised Budget Estimates and MTFPS projection.

Against the actual realisation of Tax Revenue of ₹ 36,567 crore, Revised Budget Estimates 2014-15 of ₹ 66,479 crore projected by the State was not realistic.

During the exit conference (November 2015) FD informed that shortfall in State own tax revenue was on account of general lack of buoyancy in the economy.

### 1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties are given in **Table 1.8**.

**Table 1.8: Components of Tax Revenue of the State**

Revenue Head	(₹ in crore)					
	2010-11	2011-12	2012-13	2013-14	2014-15	Increase(+)/ decrease (-) over previous year (in per cent)
Taxes on Sales, Trades etc.	10,257	12,517	14,856	16,650	18,136	(+ )8.92
State Excise	3,603	4,317	5,078	5,907	6,696	(+ )13.37
Taxes on Vehicles	1,198	1,357	1,531	1,599	1,824	(+ )14.07
Stamps and Registration Fees	2,514	3,284	3,944	3,400	3,893	(+ )14.50
Land Revenue	361	279	444	366	243	(- )33.61
Taxes on Goods and Passengers	1,746	2,047	2,395	2,579	2,686	(+ )4.15
Taxes and Duties on Electricity	1,476	1,773	1,478	1,972	2,010	(+ )1.93
Other Taxes*	264	1,399	856	1,079	1,079*	(+ )0.00
<b>Total Tax Revenue</b>	<b>21,419</b>	<b>26,973</b>	<b>30,582</b>	<b>33,552</b>	<b>36,567</b>	<b>(+ )8.99</b>

\* Other taxes include Taxes on Immovable Property other than Agricultural Land (₹ 635 crore), Other Taxes on Income and Expenditure (₹ 284 crore) and Other Taxes and Duties on Commodities and Services (₹ 160 crore).  
(Source: Finance Accounts of respective years)

- The State's own tax revenue increased by 8.99 per cent during 2014-15 over the previous year. Taxes on Sales, Trades etc. were the major contributors (49.60 per cent) of the State's own tax revenue followed by State Excise (18.31 per cent), Stamps and Registration Fees (10.65 per cent), Taxes on Goods and Passengers (7.35 per cent), Taxes on Duties on Electricity (5.50 per cent) and Taxes on Vehicles (4.99 per cent) during 2014-15.

- The increase in receipts under Taxes on Sales, Trades etc. (by ₹ 1,486 crore) was mainly due to more receipts under the sub-head 102- State Sales Tax Act (by ₹ 1,406 crore). The increase in State Excise receipts (by ₹ 789 crore) was mainly under '800-Other receipts'. The increase under Stamps and Registration Fees (by ₹ 493 crore) was mainly due to increase under 'sub head- Sale of Stamps' (by ₹ 271 crore). The decrease in Land Revenue (by ₹ 123 crore) was mainly due to less receipts under the sub head '800-Other receipts'.

### Cost of collection of Revenues

The gross collection of Taxes on Sales, Trade etc., Taxes on Vehicles, State Excise and Stamps and Registration Fees, expenditure incurred on their collection and its percentage to gross collection during the years 2013-14 and 2014-15 along with their All India average cost of collection for the respective previous years are indicated in **Table 1.9**.

**Table 1.9: Cost of collection of Revenue Receipts**

Sl.No.	Head of Revenue	Year	BE (Budget Estimates) (₹ in crore)	Actual collection (₹ in crore)	Expenditure on collection of Revenue (₹ in crore)	Percentage of Expenditure on collection	All-India Average (in per cent)
1.	Taxes on Sales, Trades etc.	2013-14	16,500.00	16,649.85	136.63	0.82	0.73
		2014-15	19,500.00	18,135.96	144.81	0.80	0.88
2	Taxes on Vehicles	2013-14	1,650.00	1,598.93	50.67	3.17	4.17
		2014-15	2,000.00	1,823.84	42.67	2.34	6.25
3.	State Excise	2013-14	5,750.00	5,907.39	1,320.37	22.35	2.96
		2014-15	6,730.00	6,695.54	1,233.87	18.43	1.81
4.	Stamps and Registration Fees	2013-14	4,000.00	3,400.00	85.93	2.53	3.25
		2014-15	4,000.00	3,892.77	102.96	2.64	3.37

(Source: Finance Accounts and information compiled by AG (E&RSA), MP)

- It would be seen that during 2014-15, the percentage of cost of collection in respect of State Excise was more than the All India average cost of collection. However, in respect of Taxes on Sales, Trade etc., Taxes on Vehicles and Stamps and Registration Fees, it was lower than the All India average.
- During 2014-15, the gross collection was less than the Budget Estimates in respect of all the Taxes i.e. Taxes on Sales, Trade etc., Taxes on Vehicles, State Excise and Stamps & Registration Fees.

### 1.3.1.2 Non-Tax Revenue

Non-Tax Revenue comprises receipts mainly from Interest, Non-Ferrous Mining and Metallurgical Industries, Forestry and Wildlife, Education, Sports, Art and Culture etc. as indicated in **Table 1.10**.

**Table 1.10: Growth rate of Non-Tax Revenue**

Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage increase (+)/ decrease (-) during 2014-15
Interest receipts	299	1,571	301	318	1,261	(+296.54)
Non-Ferrous Mining and Metallurgical Industries	2,121	2,038	2,443	2,306	2,814	(+22.03)
Forestry and Wildlife	837	879	910	1,037	969	(-6.56)
Education, Sports, Art	1,194	1,551	1,682	2,008	3,276	(+63.15)

Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage increase (+)/ decrease (-) during 2014-15
and Culture						
Dividends and Profits	32	38	18	379	80	(-)78.89
Other non-tax receipts	1,237	1,406	1,646	1,657	1,975	(+)19.19
<b>Total</b>	<b>5,720</b>	<b>7,483</b>	<b>7,000</b>	<b>7,705</b>	<b>10,375</b>	<b>(+)34.65</b>

(Source- Finance Accounts of respective years)

- Non-tax revenue increased by ₹ 2,670 crore from ₹ 7,705 crore in 2013-14 to ₹ 10,375 crore in 2014-15, mainly due to increase in receipts under Education, Sports, Art and Culture (by ₹ 1,268 crore) and Interest Receipts (by ₹ 943 crore).
- Major contributors of Non-tax revenue during 2014-15 were Education, Sports, Art and Culture (31.58 per cent), Non-Ferrous Mining and Metallurgical Industries (27.12 per cent) and Interest Receipts (12.15 per cent).
- No funds, as debt waivers under Debt Consolidation and Relief Facilities (DCRF) schemes, were received by the State Government.

### 1.3.2 Grants-in-aid from GoI

Table 1.11: Grants-in-aid from GoI

Particulars	₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Non-Plan Grants	1,636	2,114	333	3,540	4,425
Grants for State Plan Schemes	4,522	4,215	7,099	5,536	9,011
Grants for Central Plan Schemes	649	364	500	153	1,263
Grants for Centrally Sponsored Schemes	2,270	3,236	4,108	2,548	2,893
Grants for Special Plan Schemes	--	--	--	--	--
<b>Total</b>	<b>9,077</b>	<b>9,929</b>	<b>12,040</b>	<b>11,777</b>	<b>17,592</b>
Percentage of increase(+)/decrease(-) over previous year	36.23	9.39	21.26	(-) 2.18	49.38
Total Grants as a percentage of Revenue Receipts	17.50	15.86	17.10	15.55	19.85

(Source: Finance Accounts of respective years)

Grants-in-aid from GoI increased from ₹ 9,077 crore in 2010-11 to ₹ 17,592 crore (93.81 per cent) in 2014-15. The increase is mainly on account of non-plan grants (170.48 per cent), State Plan Schemes (99.27 per cent) and Central Plan Schemes (94.61 per cent).

The increase of 49.38 per cent in grants-in-aid from GoI in 2014-15 over previous year was mainly due to increase in grants for Central Plan Schemes (725.49 per cent) and State Plan Schemes (62.77 per cent).

### 1.3.3 Central Tax transfers

The Central tax devolutions are determined by the Finance Commission award. The Central tax transfer of ₹ 24,107 crore during 2014-15 was marginally less than the estimated amount of ₹ 27,681 crore as given in Macro Economic Framework Statement. However, it increased by ₹ 1,392 crore from ₹ 22,715 crore in 2013-14 mainly due to increase under Taxes on Income other than Corporation Tax (by ₹ 981.13 crore) and Corporation Tax (by ₹ 778.87 crore).



### 1.3.4 Optimisation of the XIII Finance Commission Grants

To improve the various organs of the State Government, the XIII Finance Commission (FC) recommended grants for the State Governments. As per Statement No. 11 of Finance Accounts during the year 2010-11 to 2013-14 and Statement No. 14 of Finance Accounts 2014-15, the State Government received during the year 2010-11 to 2014-15 Finance Commission Grants of ₹ 7394.67 crore (₹ 6722.37 crore under major head 1601-01-104-Grants under the proviso to Art. 275(1) of the Constitution Finance Commission Grants and ₹ 672.30 crore under major head 1601-01-109-Grants towards contribution to State Disaster Response Fund). The position of utilisation of the XIII FC grants under various heads, where total provision was ₹ one crore or more during the period 2010-15, are given in **Appendix 1.7**.

- Out of total budget provision of ₹ 5,043.64 crore, an amount of ₹ 3,326.41 crore constituting 66 *per cent* of total amount was utilised during 2010-15. Out of remaining amount of ₹ 1,717.23 crore (34 *per cent*), ₹ 958.02 crore was surrendered/reappropriated and ₹ 759.21 crore lapsed to the Government Accounts. It indicates lack of initiatives in utilisation of grants provided by XIII FC.
- During 2010-15, entire provision was utilised under major head 3054-800-6446 Recommendations of Central Finance Commission-Maintenance of Roads and Bridges (₹ 209.79 crore) and 5452-190-8808 Works Related to Information Technology (₹ one crore).
- However, entire provision remained unutilised under the major head 2029-800-5193 Training Programme relating to calamity (₹ five crore) and 2235-800-6370 Capacity Construction (₹ 13 crore). In the remaining cases, the percentage of savings ranged between 11.26 *per cent* and 99.41 *per cent*, which indicates that schemes were not implemented properly.
- Under the major head 2406-101-6898 - Forestry Maintenance and Development, ₹ 19.78 crore was surrendered against the unutilised provision of ₹ 12.43 crore, resulting in excess surrender of ₹ 7.35 crore which shows inadequate budgetary control.

#### 1.3.4.1 Drawal of funds to avoid lapse of budget grant recommended by XIII Finance Commission

As per the provisions of the Madhya Pradesh Treasury Rules 284, no money shall be drawn from the treasury unless it is required for immediate disbursement. It is a serious irregularity to draw advances from the treasury in anticipation of demands, or to prevent the lapse of budget grants, and person are fault render themselves liable to disciplinary action for such drawal.

Scrutiny of Detailed Appropriation Accounts for the period 2011-15 revealed that an amount of ₹ 61.39 crore (as depicted in **Table 1.12**) related to XIII FC was transferred to 8443- Civil Deposit-800-Other Deposit.

**Table 1.12: Details of drawal of funds to avoid lapse of budget**

(₹ in crore)

Year	Grant No. and Name	Head and name of the Scheme	Total Budget Provision (Original+supplementary)	Expenditure incurred	Amount Transferred to 8443-Civil-Deposit-800 Other deposit
2011-12	19-Public Health and Family Welfare	4210-01-110-1301-6453-Strengthening of Health Infrastructure	40.65	6.10	1.22
	31-Planning, Economics and Statistics	3451-101-0101-6267-Jila Navachaar kosh	16.00	16.00	16.00
	41-Tribal Areas Sub-Plan (Public Health and Family Welfare Department)	4210-01-796-110-1302-6453-Strengthening of Health Infrastructure	12.50	4.93	2.53
	64-Scheduled Castes Sub-Plan (Public Health and Family Welfare Department)	4210-01-789-110-1303-6453- Strengthening of Health Infrastructure	9.35	2.39	0.31
2012-13	03-Police	2055-109-1301-6463-Upgradation of Police Training Institutions	9.07	8.75	4.18
2014-15	19-Public Health and Family Welfare	4210-01-110-1301-6453-Strengthening of Health Infrastructure	60.00	51.68	20.29
	41-Tribal Areas Sub-Plan (Public Health and Family Welfare Department)	4210-01-110-1302-6453-Strengthening of Health Infrastructure	20.50	13.50	2.17
	64-Scheduled Castes Sub-Plan (Public Health and Family Welfare Department)	4210-01-110-1303-6453 Strengthening of Health Infrastructure	30.00	24.28	8.69
	73- Medical Education	4210-03-105-1301-6458 Establishment of Virology Lab in Medical College, Bhopal	12.00	6.00	6.00
<b>Total</b>			<b>210.07</b>	<b>133.63</b>	<b>61.39</b>

(Source: Appropriation Accounts of respective years)

In respect of the above mentioned cases, the amount drawn were not remitted to the Government Accounts at the end of respective financial years thus drawal of funds was to avoid lapse of Budget Grant recommended by XIII FC.

### 1.3.5 Foregone Revenue

The details of evasion of revenue as on 31 March 2015 as reported by two departments are given in **Table 1.13**. The information has not been provided by four other revenue departments.

**Table 1.13: Evasion of Tax**

Nature of Revenue	No. of cases pending as on 31.03.2014	No. of cases detected during 2014-15	Total no. of cases	No. of cases in which investigation completed and additional demand including penalty raised		No. of pending cases as on 31.03.2015
				No. of cases	Amount (₹ in crore)	
Taxes on Sales, Trade etc.	269	352	621	274	269.10	347
Stamps and Registration fees	13,576	12,036	25,612	10,368	32.98	15,244
<b>Total</b>	<b>13,845</b>	<b>12,388</b>	<b>26,233</b>	<b>10,642</b>	<b>302.08</b>	<b>15,591</b>

(Source: Information maintained by AG (E&RSA), MP)

## 1.4 Capital Receipts

Table 1.14 shows the trends in growth and composition of Capital Receipts.

Table 1.14: Trends in growth and composition of Receipts

Sources of State's Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Capital Receipts (CR)</b>	<b>7,861</b>	<b>15,899</b>	<b>8,864</b>	<b>9,672</b>	<b>21,863</b>
<b>Non Debt Capital Receipts</b>	<b>403</b>	<b>9,149</b>	<b>73</b>	<b>131</b>	<b>6,794</b>
Miscellaneous Capital Receipts	367	23	31	36	28
Inter-State Settlement	2	3	9	2	1
Recovery of Loans and Advances	34	9,123	33	93	6,765
<b>Debt Capital Receipts</b>	<b>7,458</b>	<b>6,750</b>	<b>8,791</b>	<b>9,541</b>	<b>15,069</b>
Rate of growth of CR ( <i>per cent</i> )	-9.13	102.25	-44.25	9.12	126.04
Rate of growth of non-debt Capital Receipts ( <i>per cent</i> )	739.58	2,170.22	-99.20	79.45	5,086.26
Rate of growth of debt Capital Receipts ( <i>per cent</i> )	-13.31	-9.49	30.24	8.53	57.94
Rate of growth of GSDP ( <i>per cent</i> )	15.75	15.86	18.39	20.33	16.86

(Source: Finance Accounts of respective years)

### 1.4.1 Proceeds from disinvestment

As per Finance Account 2014-15, disinvestment of Co-operative Societies/Banks under Miscellaneous Capital Receipts marginally decreased from ₹ 25.54 crore in 2013-14 to ₹ 22.22 crore in 2014-15.

### 1.4.2 Recoveries of Loans and Advances

The recovery of Loans and Advances of ₹ 6,765 crore during 2014-15 exceeded the Budget Estimates (₹ 122.35 crore) considerably. Increase of ₹ 6,672 crore in actual recovery over the previous year was attributed to recovery under 'Loans for Power Projects' amounting to ₹ 6,694 crore.

### 1.4.3 Public Debt Receipts

Public Debt Receipts consists of Internal Debts and Loans from GoI. During 2014-15, Public Debt Receipts increased by ₹ 5,528 crore mainly due to increase under Internal Debt (by ₹ 5,368 crore) from ₹ 8,328 crore in 2013-14 to ₹ 13,696 crore in 2014-15. The increase in Internal Debt was mainly due to increase under Market Loans and Loans from the National Bank for Agricultural and Rural Development.

Loans and Advances from GoI marginally increased by ₹ 160 crore from ₹ 1,212 crore in 2013-14 to ₹ 1,372 crore in 2014-15. Entire increase was under Loans for State/Union Territory Plan Schemes.

## 1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here the Government Acts as a banker. The balance after disbursements is the available fund with the Government for its use.

The trends in respect of Public Account Receipts during 2010-15 are presented in **Table 1.15**.

**Table 1.15: Trends in Public Account Receipts**

(₹ in crore)					
Resources under various heads	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Public Account Receipts (Gross)</b>	<b>65,675</b>	<b>76,315</b>	<b>86,248</b>	<b>94,811</b>	<b>1,10,295</b>
a. Small Savings, Provident Fund etc.	1,737	2,033	2,319	2,784	3,143
b. Reserve Fund	1,191	1,534	2,441	1,612	1,172
c. Deposits and Advances	9,724	9,872	6,502	10,369	16,349
d. Suspense and Miscellaneous	41,810	50,620	59,819	64,444	76,099
e. Remittances	11,213	12,256	15,167	15,602	13,532

(Source: Finance Accounts of respective years)

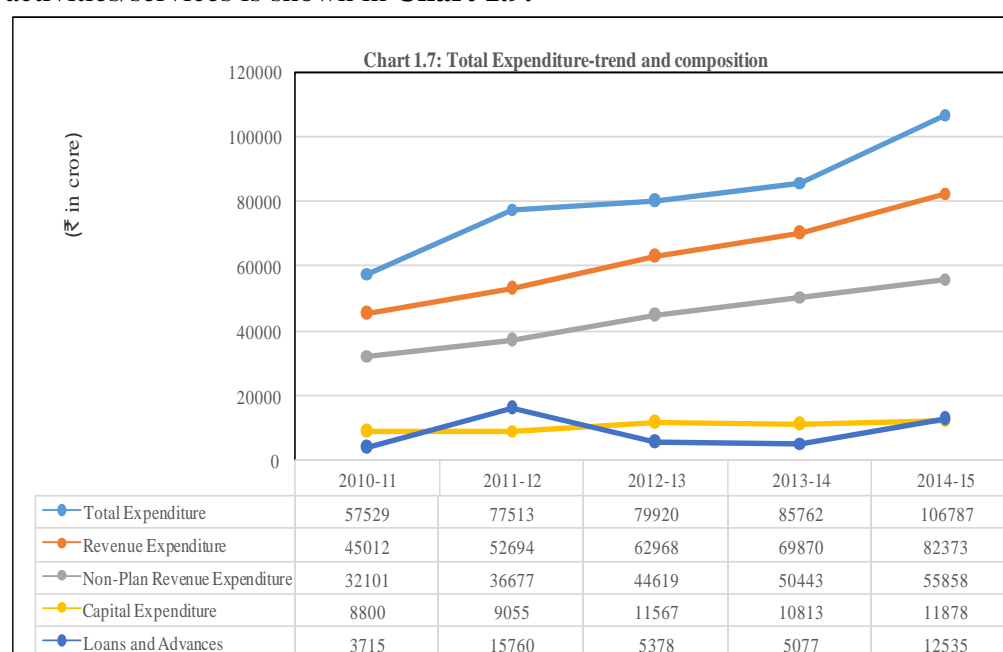
Public Account Receipts (Gross) increased by ₹ 15,484 crore (16 per cent) from ₹ 94,811 crore in 2013-14 to ₹ 1,10,295 crore in 2014-15. The increase was mainly under Deposits and Advances (by ₹ 5,980 crore) and Suspense & Miscellaneous (by ₹ 11,655 crore).

## 1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, however, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of the expenditure directed towards development of social sector.

### 1.6.1 Growth and composition of expenditure

**Chart 1.7** presents the trend in Total Expenditure (excluding Public Debt repayments) over a period of the last five years (2010-15). Expenditure under various components is depicted in **Chart 1.8** and the trend of expenditure by activities/services is shown in **Chart 1.9**.



(Source: Finance Accounts of respective years)

During the period 2010-15, the Total Expenditure of the State increased by ₹ 49,258 crore (86 per cent). The Revenue Expenditure and Capital Expenditure increased by ₹ 37,361 crore (83 per cent) and ₹ 3,078 crore (35 per cent) respectively during the same period.

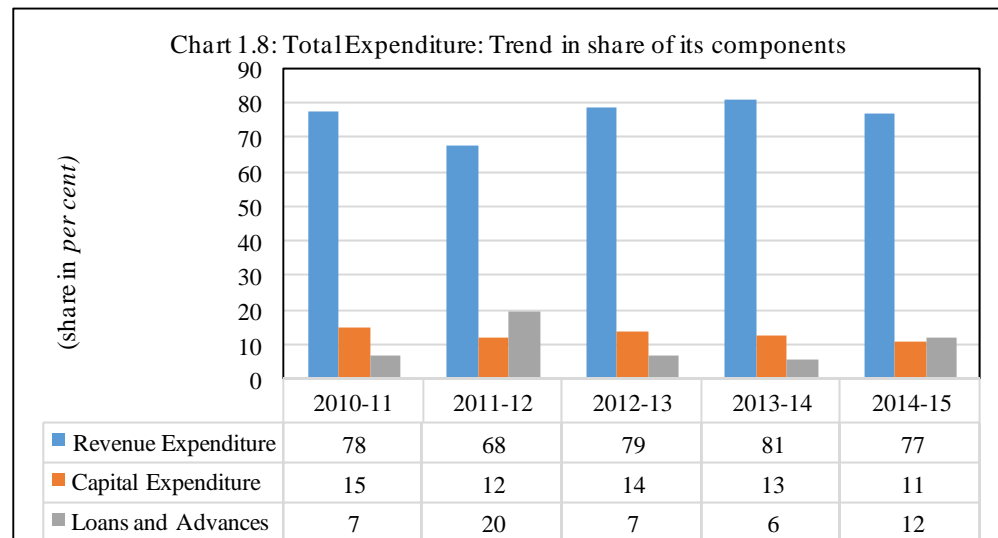
During 2014-15, the increase of ₹ 21,025 crore in Total Expenditure (by 25 per cent) over 2013-14 was mainly due to increase of ₹ 12,503 crore (18 per cent) in Revenue Expenditure and ₹ 7,458 crore (147 per cent) under Loans and Advances.

The total Plan expenditure<sup>4</sup> and the total Non-Plan expenditure<sup>5</sup> during 2014-15 increased by ₹ 7,863 crore and ₹ 13,162 crore over the previous year respectively. The total Plan expenditure and Non-Plan expenditure during 2014-15 consisted 38 per cent and 62 per cent respectively of Total Expenditure.

The increase in Revenue Expenditure was mainly due to increase in Rural Development (by ₹ 3,212 crore), Education, Sports, Art & Culture (by ₹ 2,525 crore), Agriculture and Allied Activities (by ₹ 2,077 crore), Energy (by ₹ 1,765 crore) and Health and Family Welfare (by ₹ 1,238 crore).

During 2014-15, the Non-Plan Revenue Expenditure increased by ₹ 5,415 crore (11 per cent) over the previous year.

In 2014-15, 83 per cent of the Total Expenditure (₹ 1,06,787 crore) could be met out of Revenue Receipts (₹ 88,641 crore).

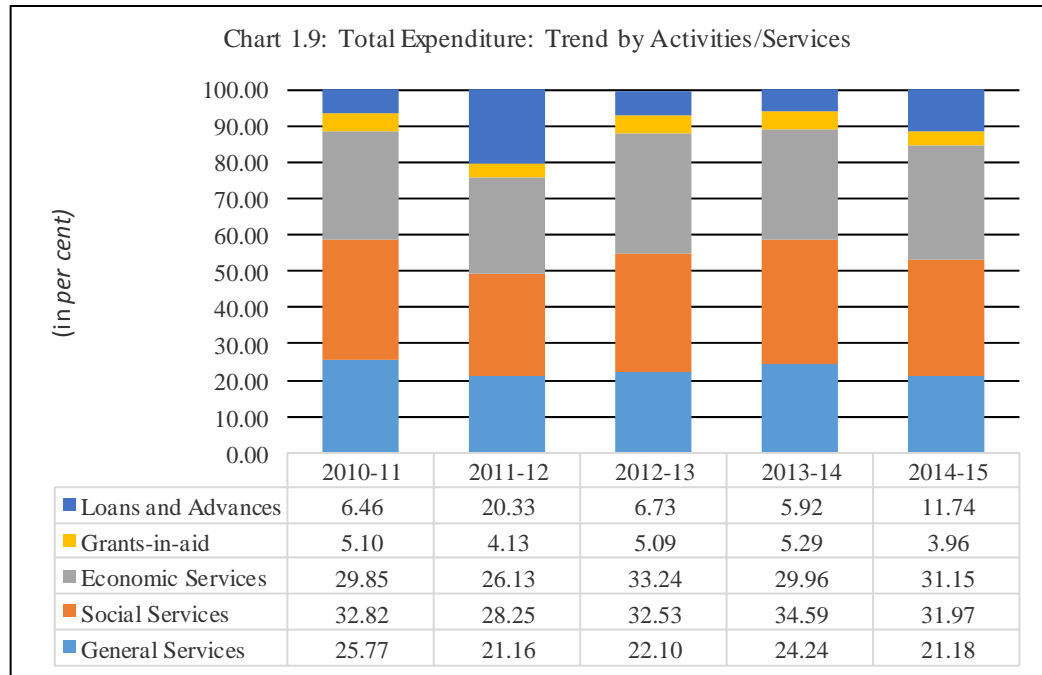


(Source: Finance Accounts of respective years)

As seen from the **Chart 1.8**, the share of Revenue Expenditure in Total Expenditure decreased from 78 per cent in 2010-11 to 77 per cent in 2014-15. The share of Capital expenditure in Total Expenditure continuously decreased from 15 per cent in 2010-11 to 11 per cent in 2014-15 except during the year 2012-13.

<sup>4</sup> Includes Plan Expenditure under Revenue, Capital and Loans & Advances

<sup>5</sup> Includes Non-Plan Expenditure under Revenue, Capital and Loans & Advances



(Source: Finance Accounts of respective years)

- As shown in **Chart 1.9**, the share of expenditure under General Services (including Interest Payments) and Social Services to Total Expenditure declined from 25.77 per cent in 2010-11 to 21.18 per cent in 2014-15 and from 32.82 per cent in 2010-11 to 31.97 per cent in 2014-15 respectively while the share of expenditure under Economic Services increased from 29.85 per cent in 2010-11 to 31.15 per cent in 2014-15. The development expenditure comprising Social and Economic Services together increased from 62.67 per cent in 2010-11 to 63.12 per cent in 2014-15 with inter-year variation.
- The share of Grants-in-aid in Total Expenditure decreased from 5.10 per cent in 2010-11 to 3.96 per cent in 2014-15 with inter-year fluctuation.
- The share of Loans and Advances in Total Expenditure increased from 6.46 per cent in 2010-11 to 11.74 per cent in 2014-15.

### 1.6.2 Capital Expenditure (CE)

Capital Expenditure increased from ₹ 8,800 crore in 2010-11 to ₹ 11,567 crore in 2012-13 then decreased to ₹ 10,813 crore in 2013-14 and again increased to ₹ 11,878 crore in 2014-15. During 2014-15 increase was ₹ 1,065 crore (by 10 per cent) over the previous year. The increase of ₹ 1,065 crore in Capital Expenditure over the previous year was mainly under Rural Development (by ₹ 546 crore), Energy (by ₹ 279 crore) and Transport (by ₹ 492 crore). The total CE during 2014-15 was less (by ₹ 2,264 crore) than the BE of ₹ 14,142 crore.

### 1.6.3 Trends in growth of Revenue Expenditure

- The Revenue Expenditure of the State increased from ₹ 45,012 crore in 2010-11 to ₹ 82,373 crore in 2014-15, showing an average annual

growth of 16.60 *per cent* over the period. Total increase of Revenue Expenditure during 2014-15 was ₹ 12,503 crore (17.89 *per cent*) over the previous year. During 2014-15, the Non-Plan Revenue Expenditure (NPRE) of ₹ 55,858 crore constituted 68 *per cent* of total Revenue Expenditure.

- The actual NPRE was much higher (by ₹ 18,986 crore: 51.49 *per cent*) than the assessment made by XIII FC but marginally less than the projection made by the State Government in its MTFPS (9.88 *per cent*), as shown in **Table 1.16**.

**Table 1.16: Trends in the growth of Non-Plan Revenue Expenditure (NPRE)**

(₹ in crore)			
Year	Assessments made by XIII FC	Assessments made by State Government in MTFPS	Actual NPRE
2014-15	36,872	61,980	55,858

(Source :Finance Accounts and XIII FC Recommendations and Statement laid under FRBM Act)

- NPRE increased from ₹ 32,101 crore in 2010-11 to ₹ 55,858 crore in 2014-15 showing an average annual growth of 14.80 *per cent* over the period. NPRE increased by 10.73 *per cent* over the previous year. During the exit conference (November 2015) FD informed that increase in NPRE was largely attributed to payment of salary, pension and interest.
- The increase in NPRE by ₹ 5,415 crore during 2014-15 was mainly due to increase in expenditure on Power (by ₹ 1951 crore), Social Welfare and Nutrition (by ₹ 911 crore), Education, Sports, Art and Culture (by ₹ 910 crore) and Health & Family Welfare (by ₹ 143 crore).
- The Plan Revenue Expenditure (PRE), which consistently increased during the period 2010-15, increased by ₹ 7,088 crore (36.49 *per cent*) during 2014-15 over the previous year. The increase in PRE in 2014-15 was mainly under Rural Development (by ₹ 3,101 crore), Education, Sports, Art and Culture (by ₹ 1,616 crore), Agriculture and Allied Activities (by ₹ 1,572 crore) and Health and Family Welfare (by ₹ 1,094 crore) partly offset by decrease under Social Welfare and Nutrition (by ₹ 702 crore).

#### **1.6.4 Expenditure on salaries, interest payments, pension payments and subsidies**

The expenditures of the State Government on interest payments, expenditure on salaries and wages, pensions and subsidies are considered as committed expenditure. **Table 1.17** and **Chart 1.10** present the trends of expenditure on these components during the period 2010-15.

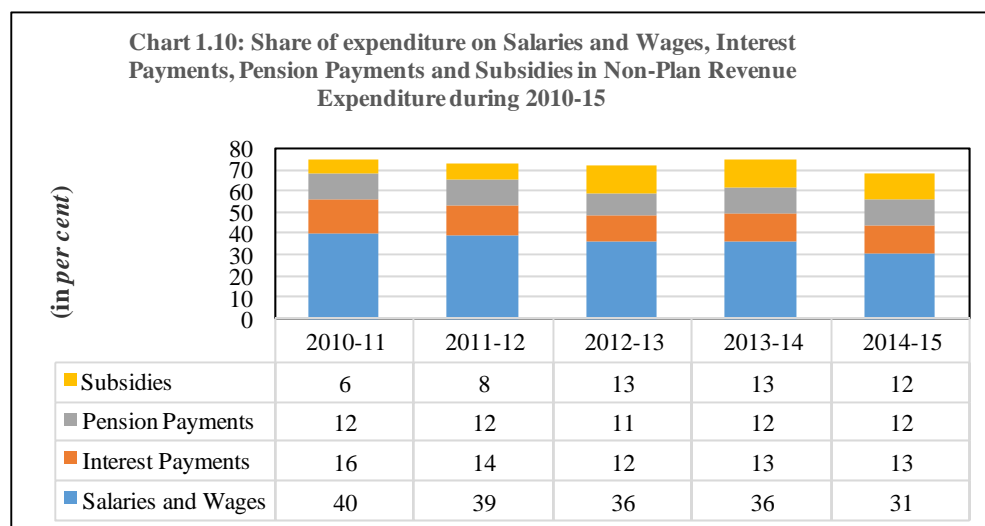
Table 1.17: Components of committed expenditure

Components of committed expenditure	2010-11	2011-12	2012-13	2013-14	2014-15	
					BE	Actuals
Salaries and Wages, of which	13,100 (25.26)	14,113 (22.54)	16,026 (22.76)	18,361 (24.24)	26,178	19,997 (22.56)
<i>Non-Plan Head</i>	<i>11,490</i>	<i>12,274</i>	<i>14,133</i>	<i>16,081</i>	--	<i>17,285</i>
<i>Plan Head**</i>	<i>1,610</i>	<i>1,839</i>	<i>1,893</i>	<i>2,280</i>	--	<i>2,712</i>
Interest Payments	5,049 (9.74)	5,300 (8.47)	5,574 (7.91)	6,391 (8.44)	6,929	7,071 (7.98)
Pension Payments	3,767 (7.26)	4,389 (7.01)	4,947 (7.02)	5,932 (7.83)	6,334	6,836 (7.71)
Subsidies, of which	1,810 (3.49)	2,926 (4.67)	5,697 (8.09)	6,567 (8.67)	46,275	9,954 (11.23)
<i>Non-Plan Head</i>	<i>1,581</i>	<i>1,544</i>	<i>4,148</i>	<i>4,596</i>	--	<i>6,953</i>
<i>Plan Head</i>	<i>229</i>	<i>1,382</i>	<i>1,549</i>	<i>1,971</i>	--	<i>3,001</i>
<b>Total</b>	<b>23,726</b> <b>(46)</b>	<b>26,728</b> <b>(43)</b>	<b>32,244</b> <b>(46)</b>	<b>37,251</b> <b>(49)</b>	<b>85,716</b> <b>(83)</b>	<b>43,858</b> <b>(49)</b>

Note: Figures in parentheses indicate percentage of Revenue Receipts

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

(Source: Finance Accounts of respective years and VLC data compiled by Pr.AG (A&E) MP)



(Source: Finance Accounts of respective years, data compiled by Pr.AG (A&E) Madhya Pradesh and Budget documents)

During 2014-15, total expenditure on salaries and wages, pension payments, interest payments and subsidies (₹ 43,858 crore) was 53 per cent of revenue expenditure and 68 per cent of NPRE. The overall expenditure on salaries and wages, interest payments, pension payments and subsidies increased by 85 per cent during the period 2010-15, at an average annual growth of 16.97 per cent. The increase was 17.74 per cent during 2014-15 as compared to 15.53 per cent during 2013-14. As a percentage of revenue receipts, it ranged between 43 and 49 per cent during the period 2010-15. During 2014-15, it constituted 49 per cent of the revenue receipts and was less than the budget estimates. The component-wise analysis is given as under:



#### 1.6.4.1 Salaries and Wages

The expenditure on salaries and wages increased by 53 *per cent* from ₹ 13,100 crore in 2010-11 to ₹ 19,997 crore in 2014-15. Actual expenditure on salaries and wages in 2014-15 was less than the projection in the BE (₹ 26,178 crore). Such expenditure as a percentage of revenue receipts ranged between 22.54 *per cent* and 25.26 *per cent* during the period 2010-15. During 2014-15, it was 22.56 *per cent* of revenue receipts.

There was an increase of seven *per cent* in expenditure on salaries and wages under the Non-Plan head during 2014-15 over the previous year.

#### 1.6.4.2 Pension Payments

Expenditure on pension payments increased from ₹ 3,767 crore in 2010-11 to ₹ 6,836 crore in 2014-15. The increase during 2014-15 over the previous year was ₹ 904 crore (by 15 *per cent*) mainly on account of increase under superannuation and retirement allowances (by ₹ 569 crore), gratuities (by ₹ 124 crore), family pensions (by ₹ 90 crore), Government contribution for defined contribution pension schemes (by ₹ 63 crore) and leave encashment benefits (by ₹ 43 crore).

Actual pension payment of ₹ 6,836 crore in 2014-15 was 7.93 *per cent* more than the BE of ₹ 6,334 crore and 59.20 *per cent* more than ₹ 4,294 crore as projected by the XIII FC.

#### Contribution Pension Scheme

State Government employees recruited on or after 1 January 2005 are covered under the New Pension Scheme, which is a defined contributory pension scheme. In terms of the Scheme, the employees' contribution along with matching share of the State Government is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank. However, actual amount of employees' contribution and the matching contribution of State Government has not been estimated. The State Government follows the method of budgeting and booking employees' contributions in the New Pension Scheme under the Receipt Major Head "0071-Contributions and Recoveries towards Pension and Other Retirement Benefits". These contributions are subsequently transferred to the Fund by operating the minor head "900-Deduct Refunds" under the same Major Head. Since the Consolidated Fund is closed to Government at the end of the year, any shortfall in the remittance of the contributions to the Fund in any year is not available in the accounts of subsequent years.

During 2014-15, against employees' contribution of ₹ 216.73 crore, Government contributed ₹ 239.40 crore. Under the present accounting methodology, it cannot be ascertained whether the Government contribution in excess of employees' contribution for 2014-15 was against the shortfalls of earlier years. We observed that out of total contribution of ₹ 456.13 crore credited under Major Head 0071, the State Government transferred only ₹ 438.47 crore to NSDL/Trustee Bank as of March 2015. Since this amount was not retained in a Fund, it got lapsed to Government account at the end of the financial year. Uncollected, unmatched and non-transferred amounts, with accrued interest, represent outstanding liabilities under the Scheme.

### 1.6.4.3 Interest Payments

Interest payments made during the years 2010-11 to 2014-15 are given in **Table 1.18**.

**Table 1.18: Interest Payments**

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Interest Payments	5,049	5,300	5,574	6,391	7,071

(Source: Finance Accounts of respective years)

Interest Payments of ₹ 7,071 crore during 2014-15 accounted for 7.98 per cent of the revenue receipts and constituted 8.58 per cent of revenue expenditure. Interest payments were mainly on market loans (₹ 3,155 crore), Special Securities issued to National Small Saving Fund (NSSF) of the Central Government (₹ 1,755 crore), State Provident Fund (₹ 977 crore) and other internal debt (₹ 447 crore).

The increase of ₹ 680 crore (10.64 per cent) in interest payment during 2014-15 over the previous year was the result of increase under interest on market loans (by ₹ 575 crore), State Provident Fund (by ₹ 134 crore), and interest on Special Securities issued to National Small Savings Fund of the Central Government by State Government (by ₹ 116 crore) partly offset by decrease mainly under interest on other obligations (by ₹ 135 crore).

Interest payments of ₹ 7,071 crore during the year were higher than the BE of ₹ 6,929 crore and lower than the projection made by the XIII FC (₹ 7,622 crore) for 2014-15.

### 1.6.4.4 Subsidies

Subsidy payment of ₹ 9,954 crore (Non-plan: ₹ 6,953 crore and Plan: ₹ 3,001 crore) accounted for 11.23 per cent of the revenue receipts and constituted 12.08 per cent of the revenue expenditure during 2014-15.

During 2014-15, out of the total subsidies of ₹ 9,954 crore, ₹ 4,923 crore (49 per cent) was under the Energy Department. Actual subsidies in 2014-15 was 21.51 per cent of BE of ₹ 46,275 crore.

The increase in the amount of subsidy (by ₹ 3,387 crore) in 2014-15 over the previous year was mainly due to increase in subsidy of Energy (by ₹ 1,882 crore), Food and Civil Supplies (by ₹ 447 crore) and Crop Husbandry (by ₹ 872 crore).

### 1.6.5 Financial assistance by State Government to Local Bodies and other Institutions

The quantum of assistance provided by way of Grants and Loans to Local Bodies and other institutions during the period 2013-14 to 2014-15 is presented in **Table 1.19**.

**Table 1.19: Financial assistance to Local Bodies and other Institutions**

	(₹ in crore)	
Financial Assistance to Institutions	2013-14	2014-15
Educational Institutions	3,862.98	4,457.99
Medical and Public Health	743.05	792.14
Housing	225.02	829.19
Urban Development	1,170.22	565.49
Welfare of SC/ST/OBC	387.91	500.28
Social Security and Welfare	649.67	687.16

Rural Development	2,650.05	5,941.93
Panchayati Raj	4,314.29	3,995.44
Water Supply and Sanitation	237.94	179.35
Other Institutions	712.21	718.82
<b>Total</b>	<b>14,953.34</b>	<b>18,667.79</b>
<b>Assistance as a percentage of Revenue Expenditure</b>	<b>21.40</b>	<b>22.66</b>

(Source: VLC data of Pr.AG (A&E), Madhya Pradesh)

- Financial assistance to Local Bodies and other Institutions increased by ₹ 3,714.45 crore from ₹ 14,953.34 crore in 2013-14 to ₹ 18,667.79 crore in 2014-15. The increase was mainly on account of Financial Assistance to Rural Development (by ₹ 3,291.88 crore: 124 per cent).
- The assistance as a percentage of Revenue Expenditure marginally increased from 21.40 per cent in 2013-14 to 22.66 per cent in 2014-15.

### 1.6.6 Devolution of funds and auditing arrangements of Local Bodies

After enactment of the 73<sup>rd</sup> and 74<sup>th</sup> Constitution (Amendment) Act, 1992, the Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs) were made full fledged and vibrant institutions of Local Self Government by vesting them with clearly defined functions and responsibilities. Accordingly, the State Government organised ULBs and PRIs into three types<sup>6</sup>. At present, there are 378 ULBs<sup>7</sup> and 23,369 PRIs<sup>8</sup> in the State.

#### 1.6.6.1 Transfer of Funds, Functions and Functionaries

According to amendment (Eleventh and Twelfth schedules of the Constitution), 29 and 18 functions were to be devolved in PRIs and ULBs by the State Government as detailed in **Appendix 1.8**. Though the State Government devolved all functions in ULBs, no separate funds and functionaries have been transferred by the Government (September 2015). However, no function was devolved in PRIs.

#### 1.6.6.2 Devolution of Grants to ULBs and PRIs

As recommended by the Third State Finance Commission (SFC) and accepted by State Government in February 2010, one per cent and four per cent of divisible fund<sup>9</sup> of the State Government should be devolved to ULBs and PRIs respectively. During the year 2014-15, the devolution of SFC grants was made by Finance Department in ULBs and PRIs, as shown in **Table 1.20**.

**Table 1.20: Devolution of Grants to ULBs and PRIs**

Year	ULBs		Excess released	PRIs		Short released
	Fund was to be devolved	Fund actually devolved		Fund was to be devolved	Fund actually devolved	
1	2	3	(3-2)	4	5	(4-5)
2014-15	256.79	270.47	13.68	1027.14	591.47	435.67

<sup>6</sup> ULBs: Municipal Corporations (MC) for larger urban areas, Municipal Councils for smaller urban areas and Nagar Parishads (NP) for a transitional areas. PRIs: Zila Panchayat (ZP) at district level, Janpad Panchayat (JP) at block level and Gram Panchayat (GP) at village level.

<sup>7</sup> ULBs: 16 MC, 98 Municipal Councils, 264 NP

<sup>8</sup> PRIs: 50 ZP, 313 JP, 23006 GP

<sup>9</sup> Divisible fund means net of State tax revenue of previous year after deduction of ten per cent towards expenditure for collection of taxes, minus assigned revenue to PRIs and ULBs.

It can be seen from **Table 1.20** that FD devolved excess fund to the tune of ₹ 13.68 crore to ULBs during 2014-15. However, there was short release of ₹ 435.67 crore to PRIs during 2014-15. Reasons for excess and short release of fund to ULBs and PRIs respectively were not intimated (November 2015) by FD.

#### **1.6.6.3 Audit arrangements**

According to TGS arrangements, the Director Local Fund Audit would pursue the compliance of paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports. A total number of 2984 observations (including 805 observations issued during 2014-15) were outstanding in ULBs and 23855 observations (including 3148 observations issued during 2014-15) were outstanding in PRIs at the end of 2014-15 for compliance.

#### **1.6.6.4 Placement of report**

As per amendment to the MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 in PRIs (July 2011) and the Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 in ULBs (January 2012), the Annual Technical Inspection Report (ATIR) of C&AG as well as the Annual Report of the Director of Local Fund Audit (DLFA) should be placed before the State Legislature. ATIR of the State for 2013-14 was submitted (May 2015) to the Governor of Madhya Pradesh to table before Legislature. Finance Department of Madhya Pradesh intimated (September 2015) that ATIR would be submitted to the Governor along with Annual Audit Report of Director Local Fund Audit.

## **1.7 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 expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for selected services).

### **1.7.1 Adequacy of Public Expenditure**

The expenditure responsibilities relating to the social and economic infrastructure assigned to the State Government are largely State subjects. Enhancing human development levels require the States to step up their expenditure on key social services like, education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is below the GCS' average for that year.

**Table 1.21** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure relative to GCS' average in 2011-12, 2013-14 and the current year 2014-15.

Table 1.21: Fiscal priority of the State in 2011-12, 2013-14 and 2014-15

Fiscal Priority by the State	(in per cent)						
	AE/ GSDP	DE#/ AE	SSE/ AE	ESC/ AE	CE/AE	Expenditure on Education/ AE	Expenditure on Health/AE
*General Category States Average (Ratio) 2011-12	15.98	65.39	36.63	28.76	13.23	17.10	4.68
Madhya Pradesh's Average (Ratio) 2011-12	25.40	74.71	28.43	46.28	11.68	12.88	3.32
*General Category States Average (Ratio) 2013-14	15.68	68.12	37.60	30.53	13.60	17.15	4.59
Madhya Pradesh's Average (Ratio) 2013-14	19.73	70.46	34.67	35.79	12.61	16.14	4.02
*General Category States Average (Ratio) 2014-15	16.49	69.12	36.50	32.61	14.01	16.23	5.04
Madhya Pradesh's Average (Ratio) 2014-15	21.02	74.86	31.98	42.88	11.12	15.50	4.46
* Based on 18 General Category States such as 1) Andhra Pradesh including Telangana, 2) Bihar, 3) Chhattisgarh, 4) Goa, 5) Gujarat, 6) Harayana, 7) Jharkhand, 8) Karnataka, 9) Kerala, 10) Madhya Pradesh, 11) Maharashtra, 12) Odisha, 13) Punjab, 14) Rajasthan, 15) Tamil Nadu, 16) Uttar Pradesh, 17) West Bengal, 18) Delhi							
# Based on 17 States except Goa and Puducherry							
AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure							
# Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed							
Source: For GSDP, the information as available on CSO website as on 31 July, 2015 except in case of Kerala, Gujarat where the figures were provided by the PAsG							

Comparative analysis revealed the following:

- Madhya Pradesh spent a higher proportion of its GSDP on Aggregate Expenditure during 2011-12, 2013-14 and 2014-15 as compared to GCS.
- Development Expenditure as a proportion of Aggregate Expenditure in Madhya Pradesh during 2011-12, 2013-14 and 2014-15 has also been higher than the GCS' Average.
- Expenditure on Economic Services (as a proportion of Aggregate Expenditure) in Madhya Pradesh during 2011-12, 2013-14 and 2014-15 has been higher than that of the average of GCS.
- Expenditure on Social Services (as a proportion of Aggregate Expenditure) has been lower than that of the average of GCS.
- During 2011-12, 2013-14 and 2014-15 priority given to Health as well as Education sectors was not adequate as lower expenditure was incurred on these two sectors as compared to GCS' Average.
- It was observed that Capital Expenditure as a percentage of Aggregate Expenditure in Madhya Pradesh was lower than that of GCS' Average during the year 2011-12, 2013-14 and 2014-15.

### 1.7.2 Efficiency of Expenditure use

In view of the importance of public expenditure on development heads from the point of view of Social and Economic Development, it is important for the State Governments to take appropriate expenditure rationalisation measures

and lay emphasis on provision of Core Public and Merit goods<sup>10</sup>. Apart from improving the allocation towards Development Expenditure<sup>11</sup>, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure (CE) to Total Expenditure (TE) and the proportion of Revenue Expenditure being spent on Operation and Maintenance (O&M) of the existing Social and Economic Services. The higher the ratio of these components to the TE, the better would be the quality of expenditure.

**Table 1.22** provides the details of CE and the components of Revenue Expenditure incurred on maintenance of selected Social and Economic Services.

**Table 1.22: Efficiency of Expenditure use in Selected Social and Economic Services**  
(in per cent)

Social/Economic Infrastructure	2013-14			2014-15		
	Share of CE to TE	In concerned sector of RE, the share of		Share of CE to TE	In concerned sector of RE, the share of	
		S&W	O&M		S & W	O&M
<b>Social Services (SS)</b>						
Education, Sports, Art and Culture	0.95	48.85	0.05	1.95	43.73	0.05
Health and Family Welfare	4.81	63.89	0.18	5.05	51.24	0.21
Water Supply, Sanitation, Housing and Urban Development	24.30	3.34	2.09	24.97	3.51	2.99
Other Social Services	7.83	28.55	0.10	4.93	27.66	0.07
<b>Total (SS)</b>	<b>6.39</b>	<b>35.53</b>	<b>0.65</b>	<b>6.06</b>	<b>33.05</b>	<b>0.81</b>
<b>Economic Services (ES)</b>						
Agriculture and Allied Activities	2.78	35.24	0.19	1.94	30.63	0.16
Irrigation and Flood Control	85.28	63.93	6.36	83.00	62.96	7.31
Power and Energy	7.59	0.01	0.21	5.10	0.01	0.03
Transport	62.79	2.57	29.87	69.05	1.66	14.13
Other Economic Services	14.95	38.09	18.70	14.75	45.59	13.29
<b>Total (ES)</b>	<b>28.40</b>	<b>19.53</b>	<b>7.86</b>	<b>20.86</b>	<b>15.79</b>	<b>4.09</b>
<b>Total (SS+ES)</b>	<b>17.57</b>	<b>29.46</b>	<b>3.38</b>	<b>14.54</b>	<b>25.71</b>	<b>2.21</b>

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

(Source: Finance Accounts and information furnished by Pr.AG (A&E), Madhya Pradesh)

**Table 1.22** reveals that under Social Services, share of CE to TE marginally decreased from 6.39 per cent in 2013-14 to 6.06 per cent in 2014-15. However, under Economic Services, the share of CE to TE decreased from 28.40 per cent in 2013-14 to 20.86 per cent in 2014-15.

- The decrease in share of Capital Expenditure under Social Services was mainly under Other Social Services while the decrease in the share of Capital Expenditure under Economic Services was mainly under the sectors Irrigation and Flood Control and Power and Energy. This indicated that priority for Capital Expenditure under social and economic services needs to be improved.

<sup>10</sup> Core public goods are goods which all citizens enjoy in common, in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc.

Merit goods are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

<sup>11</sup> The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

- In Revenue Expenditure, the share of salaries & wages under Social and Economic Services together decreased from 29.46 *per cent* in 2013-14 to 25.71 *per cent* in 2014-15. In case of O&M also, expenditure decreased from 3.38 *per cent* in 2013-14 to 2.21 *per cent* in 2014-15, mainly under Power and Energy and Transport. This indicated improvement in fiscal situation.

As shown in **Appendix 1.1**, during the period 2005-14, CAGR of revenue expenditure on Education in case of Madhya Pradesh was higher than that of other GCS, while CAGR of revenue expenditure on Health sector was lower than that of GCS. During the period 2014-15, CAGR of revenue expenditure on Education and Health sector was higher than that of other GCS over the previous year. This indicated improvement in the expenditure on Education and Health sector.

## 1.8 Financial analysis of Government Expenditure and Investments

In the post-FRBM framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also to initiate measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same 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 2014-15 *vis-à-vis* previous years.

### 1.8.1 Investment and Returns

As of 31 March 2015, Government had invested ₹ 16,104.55 crore in Statutory Corporations (26), Government Companies (35), Joint Stock Companies and Partnerships (23), Banks (one) and Co-operative Societies (130) etc. (**Table 1.23**). The average return on the investments was 0.73 *per cent* in the last five years while the Government paid an average 6.80 *per cent* as interest on its borrowings during 2010-11 to 2014-15.

**Table 1.23: Return on Investments**

	(₹ in crore)				
Investment/Return/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Investment at the end of the year	12,216.04	13,183.59	14,656.50	15,275.10	16,104.55
Return	32.20	37.98	18.38	378.72	80.35
Return ( <i>per cent</i> )	0.26	0.29	0.13	2.48	0.50
Average rate of Interest on Government Borrowings ( <i>per cent</i> )	7.04	6.74	6.48	6.84	6.88
Difference between Interest rate and Return ( <i>per cent</i> )	6.78	6.45	6.35	4.36	6.38

(Source: Finance Accounts of respective years)

- Out of the total investment of ₹ 16,104.55 crore in 215 entities at the end of March 2015, ₹ 1,076.04 crore pertained to the composite State of Madhya Pradesh and was pending for allocation between Madhya Pradesh and Chhattisgarh (Statutory Corporations: ₹ 411 crore; Government Companies: ₹ 180.49 crore; Co-operative Banks and Societies: ₹ 483.01 crore and Joint-Stock Companies and Partnerships: ₹ 1.54 crore).

- During 2014-15, the return on these investments was 0.50 *per cent* while the Government paid interest at an average rate of 6.88 *per cent* on its borrowings during the year.

During the exit conference (November 2015) FD replied that as most of the public enterprises were to implement various policies of the State Government, the profit was not driving force always.

The fact remains that the return on Government investments was meagre as compared to cost of its borrowing.

- Twenty seven Government Companies and Statutory Corporations with an aggregate investment of ₹ 13,523.24 crore for the latest year for which accounts were finalised as of 2014-15 were running in losses which accumulated to ₹ 29,268.72 crore. Details are given in **Appendix 1.9**.

### 1.8.2 Incomplete Projects

Department-wise information pertaining to incomplete projects/works (each costing ₹ one crore or above) as on 31 March 2015 is given in **Table 1.24**.

**Table 1.24: Position of Incomplete Projects as on 31 March 2015**

(₹ in crore)				
Sl.No	Particulars	Number of Incomplete Projects/Works	Initial budgeted cost	Cumulative actual Expenditure
1	Narmada Valley Development Authority	14	3,972.31	10,717.30
2	Water Resources Department	54	6,537.33	3,626.95
	<b>Total</b>	<b>68</b>	<b>10,509.64</b>	<b>14,344.25</b>

(Source: Appendix IX of Finance Accounts 2014-15 and information furnished by the O/o the Accountant General (E&RSA), Madhya Pradesh, Bhopal)

It would be seen from the above table, 68 projects/works were not completed within the stipulated time though an expenditure of ₹ 14,344.25 crore was incurred up to March 2015. Delay in completion of projects/works may result in cost overrun, besides denying the desired benefit to the people and the State.

During the exit conference (November 2015) FD replied that there might be delay due to issues relating to tendering process and progress was regularly monitored at appropriate levels.

### Public Private Partnership (PPP) Projects

Recourse to the PPP mode for project financing is encouraged because it provides valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming. Government of Madhya Pradesh have been implementing PPP projects in the areas of Dairy, Education, Energy, Health, Industry, Road, Sports, Tourism, Transport, Urban, Warehousing and Logistics and Water Supply etc.

We observed that out of 210 PPP projects (cost: ₹ 28,767.15 crore) initiated under 12 sectors as of June 2015, only 45 projects (21.43 *per cent*) were completed at a cost of ₹ 5,831.01 crore. While 91 projects (43.33 *per cent*) costing ₹ 11,946.25 crore were in progress, 74 projects (35.24 *per cent*) costing ₹ 10,989.89 crore were under pipeline or bidding. Section-wise details



of delay period of the projects was not furnished by department. The details are given in **Appendix 1.10**.

### 1.8.3 Loans and Advances by the State Government

In addition to investments in Co-operative societies, Corporations and Companies, the Government has also provided Loans and Advances to many of these institutions/organisations. **Table 1.25** presents the outstanding loans and advances as on 31 March 2015, interest receipts *vis-à-vis* interest payments during the last three years.

**Table 1.25: Average Interest Received on Loans and Advances given by the State Government**  
(₹ in crore)

Quantum of Loans/Interest Receipts/cost of Borrowings	2012-13	2013-14	2014-15	
			BE	Actual
Opening Balance of Loans given	21,742	27,088	--	32,072
Amount advanced during the year	5,378	5,077	3,884	12,535
Amount repaid during the year	32	93	122	6,765
Closing Balance	27,088	32,072	--	37,842
Net addition	5,346	4,984	4,006	5,770
Interest received	42	12	1,134	1,058
Interest Receipts as percentage of outstanding Loans and Advances	0.17	0.04	--	2.80
Interest payments as a percentage of outstanding fiscal liabilities of the State Government	6.48	6.84	--	6.88
Difference between interest payments and interest receipts ( <i>per cent</i> )	6.31	6.80	--	4.08

(Source: Finance Accounts of respective years and Budget Estimates 2014-15)

- The total outstanding loans and advances as on 31 March 2015 was ₹ 37,842 crore<sup>12</sup>. The interest received against these loans was ₹ 1,058 crore. Loans advanced to various State Government institutions were higher than the amount of loans recovered resulting in increase in outstanding loans and advances.
- It was observed that 83 *per cent* (₹ 31,415 crore) of outstanding loans and advances as on 31 March 2015, pertained to Madhya Pradesh State Electricity Board (MPSEB) and its successor companies, six *per cent* Water Supply, Sanitation, Housing and Urban Development (₹ 2,170 crore) and four *per cent* was to be recovered from units engaged in Agriculture and Allied Activities (₹ 1,687 crore).
- Considering the average interest paid on borrowings at the rate of 6.88 *per cent* during 2014-15, the rate of interest received was 2.80 *per cent* on Loans and Advances given by the Government.
- During 2014-15, interest received (₹ 1,058 crore) was less than the BE for 2014-15 (₹ 1,134 crore) and higher than actuals for 2013-14 (₹ 12 crore).

### 1.8.4 Cash Balances and Investment of Cash Balances

**Table 1.26** depicts the Cash Balances and Investments made by the State Government out of the Cash Balances during the year.

<sup>12</sup> Including ₹2,186 crore pertaining to Chattisgarh which has not been finalised/transferred.

**Table 1.26: Cash Balances and Investment of Cash Balances**

	(₹ in crore)		
	Opening balance on 1 April 2014	Closing balance on 31 March 2015	Increase (+)/ Decrease(-)
<b>(1) General Cash Balance [(i) to (iv)+2]</b>	<b>4,072.36</b>	<b>4,990.63</b>	<b>(+)918.27</b>
(i)Cash in Treasuries	--	--	--
(ii)Deposits with Reserve Bank	173.22	199.32	(+) 26.10
(iii)Deposits with other Banks	--	--	--
(iv)Remittances in transit - Local	--	--	--
<b>Total (i) to (iv)</b>	<b>173.22</b>	<b>199.32</b>	<b>(+) 26.10</b>
<b>(2) Investments held in Cash Balance Investment account</b>	<b>3,899.14</b>	<b>4,791.31</b>	<b>(+)892.17</b>
<b>(3) Other Cash Balances and Investments [(i) to (iii)]</b>	<b>404.67</b>	<b>411.33</b>	<b>(+)6.66</b>
(i)Departmental cash balances	2.57	7.02	(+)4.45
(ii)Permanent Imprest	0.83	0.84	(+)0.01
(iii)Investment out of earmarked funds	401.27	403.47	(+) 2.20
<b>Overall Cash position (1)+(3)</b>	<b>4,477.03</b>	<b>5,401.96</b>	<b>(+)924.93</b>

(Source: Finance Accounts)

- The Cash Balances of the Government at the end of 2014-15 increased by ₹ 924.93 crore from ₹ 4,477.03 crore in the previous year.
- As per Finance Accounts 2014-15, ₹ 4,791.31 crore was invested in Government of India Treasury Bills, which earned an interest of ₹ 150 crore during the year. Maintaining large cash balances is not advisable as these are invested in low interest-bearing 14 days Treasury Bills.
- Under an agreement with the Reserve Bank of India (RBI), the Government of Madhya Pradesh has to maintain with the RBI a minimum Cash Balance of ₹ 1.96 crore. If this balance falls below the agreed minimum on any day, the deficiency is made good by taking Ordinary and Special Ways and Means Advances/Overdrafts from time to time. No Ways and Means Advance (Normal/Special) was taken by the State during the years 2013-14 and 2014-15.
- Outstanding balances under the major head 8670-Cheques and Bills represents the amount of unencashed cheques. As per Finance Accounts 2014-15, outstanding balance at the end of the year under this head was ₹ 593.12 crore in 2014-15 as compared to ₹ 56.69 crore in 2013-14. The cash balances were overstated to the extent of outstanding cheques.

## **1.9 Assets and Liabilities**

### **1.9.1 Growth and composition of assets and liabilities**

In the existing Government accounting system, comprehensive accounting of fixed assets like land and building 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.

Total liabilities, as defined in the FRBM Act, 2005 are the liabilities under the Consolidated fund and the Public Account of the State. Consolidated Fund liabilities consist of Internal Debt and Loans and Advances from GoI.

Further, the internal debt includes market loans, special securities issued to NSSF of Central Government, Compensation and other Bonds and Loans from Financial Institutions. The Constitution of India provides that States may borrow within the territory of India upon the security of their Consolidated Funds, within such limits, as may from time to time be fixed by an Act of the Legislature and give guarantees within such limits as may be fixed. The public Accounts liability includes small savings, provident fund etc., reserve funds and other deposits.

Government Assets comprise assets under Consolidated Fund and cash. The assets under Consolidated Fund consist of capital outlay on fixed assets-investments in shares of companies and corporations and loans and advances, which in turn consist of loans for power projects and other development loans.

**Appendix 1.5 Part B** gives an abstract of such liabilities and assets as on 31 March 2015 compared with the corresponding position as on 31 March 2014.

### 1.9.2 Fiscal Liabilities

The trends in outstanding Fiscal Liabilities of the State for the last five years are presented in **Table 1.27**.

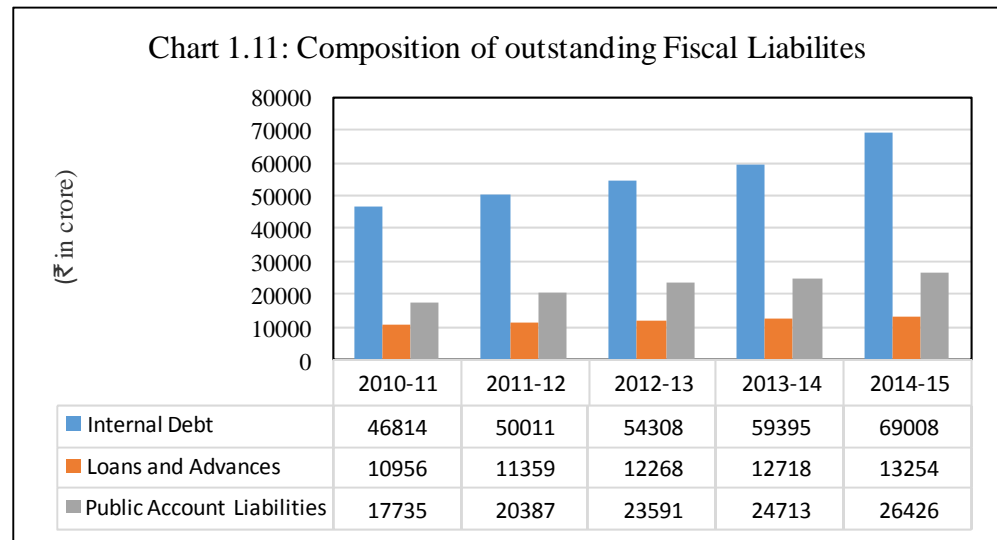
**Table 1.27: Trends of outstanding Fiscal Liabilities relative to GSDP**

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Outstanding Fiscal Liabilities (₹ in crore)</b>	75,504	81,757	90,168	96,826	1,08,688
<i>Internal Debt</i>	46,814	50,011	54,309	59,395	69,008
<i>Loans and Advances</i>	10,956	11,359	12,268	12,718	13,254
<i>Public Account Liabilities</i>	17,735	20,387	23,591	24,713	26,426
Revenue Receipts	51,854	62,604	70,427	75,749	88,641
Rate of growth of RR ( <i>per cent</i> )	25.27	20.73	12.50	7.56	17.02
Rate of growth of GSDP ( <i>per cent</i> )	15.75	15.86	18.39	20.33	16.86
Rate of growth of Fiscal Liabilities ( <i>per cent</i> )	11.28	8.28	10.29	7.38	12.25
<b>Buoyancy Ratios</b>					
Revenue Buoyancy w.r.t GSDP	1.60	1.31	0.68	0.37	1.01
Fiscal liabilities w.r.t GSDP	0.72	0.52	0.56	0.36	0.73

(Source: Finance Accounts of respective years)

The overall Fiscal Liabilities of the State increased from ₹ 75,504 crore in 2010-11 to ₹ 1,08,688 crore in 2014-15. These liabilities increased by 12.25 *per cent* during 2014-15 as against 7.38 *per cent* in 2013-14. The increase in Fiscal Liabilities during 2014-15 over the previous year was mainly under Market Loans (by ₹ 8,171 crore), Special Securities issued to National Small Saving Fund (NSSF) (by ₹ 1,184 crore), Loans from NABARD (by ₹ 673 crore) and Loans and Advances from Government of India (by ₹ 536 crore).

**Chart 1.11** presents the composition of outstanding Fiscal Liabilities over the period 2010-15.



**Table 1.28** depicts the details of Fiscal Liabilities of the State at the end of the years 2013-14 and 2014-15.

**Table 1.28: Components of Fiscal Liabilities of the State**

(₹ in crore)

S.No.	Name	2013-14	2014-15
<b>1.</b>	<b>Consolidated Fund Liabilities (Public Debt)</b>	<b>72,113</b>	<b>82,262</b>
(i)	Market loans	34,979	43,150
(ii)	Special Securities issued to NSSF	18,076	19,260
(iii)	Compensation and issue of other bonds	1,052	691
(iv)	Loans from NABARD	4,839	5,512
(v)	Other Loans	449	395
<b>(vi)</b>	<b>Total (i) to (v)</b>	<b>59,395</b>	<b>69,008</b>
<b>(vii)</b>	<b>Loans and Advances from GoI</b>	<b>12,718</b>	<b>13,254</b>
<b>2.</b>	<b>Public Account Liabilities</b>	<b>24,713</b>	<b>26,426</b>
(i)	Small Savings, Provident Funds etc.	11,699	12,659
(ii)	Interest bearing obligations	189	161
(iii)	Non- interest bearing obligations	12,825	13,606

(Source: Finance Accounts of respective years)

Fiscal Liabilities at the end of 2014-15 were 21.40 *per cent* of GSDP against the limit of 35.30 *per cent* prescribed by XIII Finance Commission. These were 1.23 times of the Revenue Receipts and 2.32 times of the State's Own Resources. The buoyancy of these liabilities with respect to GSDP increased from 0.36 in 2013-14 to 0.73 during the year mainly due to increase in the growth rate of these liabilities.

During the exit conference (November 2015) FD replied that all the borrowings by the State Government were need based only and within the prescribed limits. The State was closely in touch with the RBI on cash management and cash reserves were tried to be maintained at optimum level.

Facts remain that the growing volume of debt has resulted in increasing liability for servicing the debt.

### 1.9.3 Setting-up of Sinking Fund for amortisation of all loans

The Twelfth Finance Commission in its report's Para No.12.59 recommended that States should set up Sinking Funds for amortization of loans. In terms of the guidelines of the Reserve Bank of India, States are required to contribute to the Consolidated Sinking Fund, a minimum of 0.5 *per cent* of their outstanding liabilities (internal debt + public account liabilities) as at the end of the previous year. We observed that the Sinking Fund was not set-up in the State as of July 2015.

During the exit conference (November 2015) FD informed that setting up of sinking fund was under consideration.

### 1.9.4 Status of Guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by the borrowers for whom the guarantee are extended.

Madhya Pradesh State Government Guarantee Rules (MPSGGR), 2009 (amended) came into force from 20 November 2009 and apply in all cases where State Government stands guarantee for repayment of loans and interest thereon under article 293 of the Constitution of India. Sanction orders of the guarantees are issued by the Finance Department.

Clause 9(2)(d) of the MPFRBM Act, 2005 prescribes the fiscal target of limiting annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 *per cent* of the total revenue receipts in the year preceding the current year. During the year 2014-15, the annual incremental guarantees were within the ceiling limit fixed under the MPFRBM Act.

As recorded in Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years are given in **Table 1.29**.

**Table 1.29: Guarantees given by the Government of MP**

Particulars of Guarantees	₹ in crore)		
	2012-13	2013-14	2014-15
Maximum amount Guaranteed	14,751.71	21,472.12	31,884.57
Outstanding amount of Guarantees	7,719.54	9,977.62	20,124.25
80 <i>per cent</i> of the total Revenue Receipts in the year preceding the current year ( criterion as per FRBM Act)	50,083.20	56,341.60	60,599.39
Percentage of maximum amount of Guarantee to total Revenue Receipts	20.95	28.35	35.97
Percentage of outstanding Guarantee to total Revenue Receipts of preceding year	12.33	14.17	26.57
Guarantee or fee receivable	NA	102.86	171.81
Guarantee or fee received	4.81	2.50	5.29

NA- Not Available

(Source: Finance Accounts of respective years)

During the year 2014-15, guarantees were given in respect of Power Sector (57), Co-operative Sector (5), State Financial Corporation Sector (22), Urban Development and Housing Sector (299) and other infrastructure (81). Maximum amount guaranteed increased substantially by ₹ 10,412.45 crore over the previous year during 2014-15 as can be seen from above table.

### **Guarantee Redemption Fund**

The State Government constituted the Guarantee Redemption Fund during the year 2005-06, which had a closing balance of ₹ 394.58 crore at the end of 2014-15. The whole amount stood invested.

Guarantee Fee at the rate of one *per cent* is charged from the principal debtors unless exempted specially. The proceeds of the fees so realised are credited to the revenue of the Government. During the year 2014-15, a sum of ₹ 5.29 crore (3.08 *per cent*) out of ₹ 171.81 crore receivable, was recovered as Guarantee Fees and credited to the Government Account. No Guarantee was invoked during 2014-15.

As per Gazette notification dated 27 January 2006 issued by the Finance Department, Government of Madhya Pradesh, contribution to the fund every year should be the guarantee fees realised in the preceding year and matching contribution by the State Government. Guarantee fees of ₹ 2.50 crore was realised during 2013-14 thus ₹ 5.00 crore was to be contributed by the State to the Fund during 2014-15 but only ₹ 2.50 crore contributed. Consequently, the Revenue Surplus of the State Government was overstated by ₹ 2.50 crore.

#### **1.9.5 In-operative Reserve Funds**

We observed that Reserve Fund under the Major Head 8229-200-Compensatory Forestation Fund have credit balance of ₹ 31.81 crore as on 31 March 2015 which were neither utilised nor invested since last seven years.

During the exit conference (November 2015) FD informed that budget provision had been made in the financial year 2015-16 for utilising the fund.

## **1.10 Debt Management**

### **1.10.1 Debt Sustainability**

Apart from the magnitude of debt of the Government, it is important to analyse various indicators that determine the Debt Sustainability<sup>13</sup> of the State. This section assesses the sustainability of debt of the Government in terms of Debt Stabilisation<sup>14</sup>; Sufficiency of Non-debt Receipts<sup>15</sup>; Net Availability of Borrowed Funds<sup>16</sup>; the burden of Interest Payments (measured by the ratio of Interest Payments to Revenue Receipts) and the maturity profile of

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<sup>13</sup> Debt Sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

<sup>14</sup> 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  $\times$  rate spread), the debt sustainability condition states that if the Quantum Spread, together with the Primary Deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilise eventually. On the other hand, if the Primary Deficit together with the Quantum Spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

<sup>15</sup> Adequacy of incremental Non-debt receipts of the State to cover the incremental interest liabilities and incremental Primary Expenditure. The Debt Sustainability could be significantly facilitated if the incremental Non-debt receipts could meet the incremental interest burden and the incremental Primary Expenditure.

<sup>16</sup> Defined as the ratio of the Debt Redemption (Principal + Interest Payments) to total Debt Receipts and indicates the extent to which the debt receipts are used in Debt Redemption indicating the Net Availability of Borrowed Funds.

Government Securities. **Table 1.30** analyses the debt sustainability of the State according to these indicators for the period 2010-15.

**Table 1.30: Debt Sustainability: Indicators and Trend**

Indicators of Debt Sustainability	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Debt as a percentage of GSDP	21.93	20.11	18.43	16.59	16.19
Sufficiency of Non-debt Receipts (Resource Gap)	927	(-488)	(-3,660)	(-462)	(-1,470)
Net availability of Borrowed Funds (percentage in bracket)	2,606 (13)	955 (5)	2,838 (15)	569 (2)	4,793 (13)
Burden of Interest Payments (Interest Payments/Revenue Receipt Ratio)	0.10	0.08	0.08	0.08	0.08

An important indicator for debt sustainability is debt as a percentage of GSDP. Debt as a percentage of GSDP in the State is declining continuously and reached to 16.19 *per cent* in 2014-15.

### 1.10.2 Sufficiency of Non-Debt Receipts

Another indicator of debt sustainability is the sufficiency of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. A positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run while a negative resource gap indicates otherwise.

During the year 2010-11, Non-debt receipts met not only the incremental requirement of the primary expenditure but also the incremental interest liabilities, resulted in a positive resource gap indicating the increasing capacity of the State to sustain its debt. During the periods 2011-12 to 2014-15, incremental Non-debt receipts, however, were not enough to meet the incremental primary expenditure resulting in a negative resource gap. No significant recovery of loans were noticed during the period 2011-12 to 2014-15.

### 1.10.3 Net availability of borrowed funds

Debt Redemption ratio indicated a fluctuating trend ranged between 0.87 to 0.98 during the period 2010-15 (**Appendix 1.4**), leaving very less funds for asset creation. During the year 2014-15, internal debt repayment (₹ 4,084 crore) was 30 *per cent* of fresh internal debt receipts (₹ 13,696 crore), repayment of GoI loans (₹ 837 crore) was 61 *per cent* of fresh debt receipts of ₹ 1,372 crore while in case of other obligations, repayment (₹ 18,768 crore) was 92 *per cent* of fresh receipts of ₹ 20,484 crore. This indicated that fresh debt receipts were partly utilised for repayment of debt.

Out of receipts of ₹ 13,696 crore under internal debt during the year, the Government raised ₹ 10,300 crore from market loans at an average interest rate of 8.62 *per cent* per annum, ₹ 1,407 crore from NABARD, ₹ 1,914 crore from NSSF and ₹ 48 crore from National Co-operative Development Corporation and Loans from other Institutions ₹ 28 crore.

The receipt of Loans and Advances from GoI increased from ₹ 1,212 crore in 2013-14 to ₹ 1,372 crore in 2014-15 mainly due to increase in the receipt of

Block Loans under 'Loans for State/Union Territories Plan Scheme'. Market loans constituted the major part of the Internal Debt.

#### 1.10.4 Maturity Profile of State Debt

Table 1.31: Maturity Profile of State Debt for the years 2013-14 and 2014-15

In Years	FY 2013-14				FY 2014-15			
	6003- Internal Debt Amount	6004- Loans and Advances Amount	Total Amount	Percentage of Repayment due to Debt	6003- Internal Debt Amount	6004- Loans and Advances Amount	Total Amount	Percentage of Repayment due to Debt
0-1	2,859.37	1,148.62	4,007.99	5.56	2,671.65	1,177.70	3,849.35	4.68
1-3	4,901.40	1,176.90	6,078.30	8.43	6,198.88	1,201.15	7,400.03	9.00
3-5	8,231.36	1,199.59	9,430.95	13.07	12,106.91	1,228.04	13,334.95	16.22
5-7	11,853.71	1,205.75	13,059.46	18.11	10,415.48	1,236.70	11,652.18	14.17
7-9	10,632.71	1,205.50	11,838.21	16.41	12,015.48	920.98	12,936.46	15.73
9-11	7,132.71	432.36	7,565.07	10.49	12,587.64	303.61	12,891.25	15.68
11-13	2,019.12	228.88	2,248.00	3.12	1,938.31	214.82	2,153.13	2.62
13-15	1,818.72	140.15	1,958.87	2.72	1,617.81	131.70	1,749.51	2.13
above 15	3,605.54	104.81	3,710.35	5.15	2,857.37	124.26	2,981.63	3.63
Misc.*	6,340.45	5,875.67	12,216.12	16.94	6,598.15	6,714.87	13,285.02	16.16
<b>Total</b>	<b>59,395.09</b>	<b>12,718.23</b>	<b>72,113.32</b>		<b>69,007.68</b>	<b>13,253.83</b>	<b>82,233.51</b>	

(Source: Finance Accounts of respective years)

\* Information about the maturity of loans awaited from State Government/Reserve Bank of India

The maturity profile of State debt as given above indicates that the State Government will have to repay 44 per cent of its debt within seven years, 34 per cent between seven and 13 years, six per cent between 13 and 15 years above. The maturity profile of repayment of about 16 per cent of State debt was not available as the information had not been received from the Government/Reserve Bank of India.

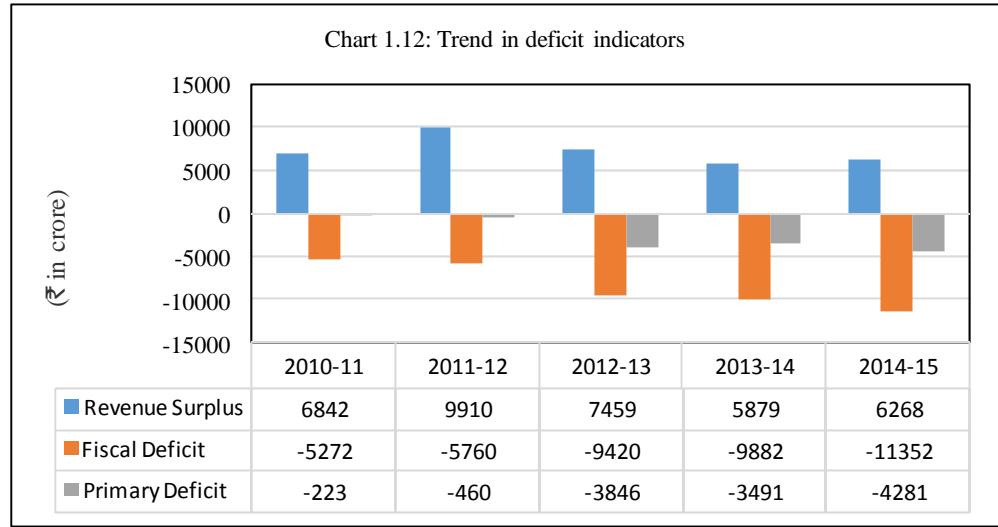
### 1.11 Fiscal Imbalances

Three key fiscal parameters - Revenue, Fiscal and Primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of Revenue, Primary and Fiscal Deficits vis-a-vis the targets set under FRBM Act/Rules for the financial year 2014-15.

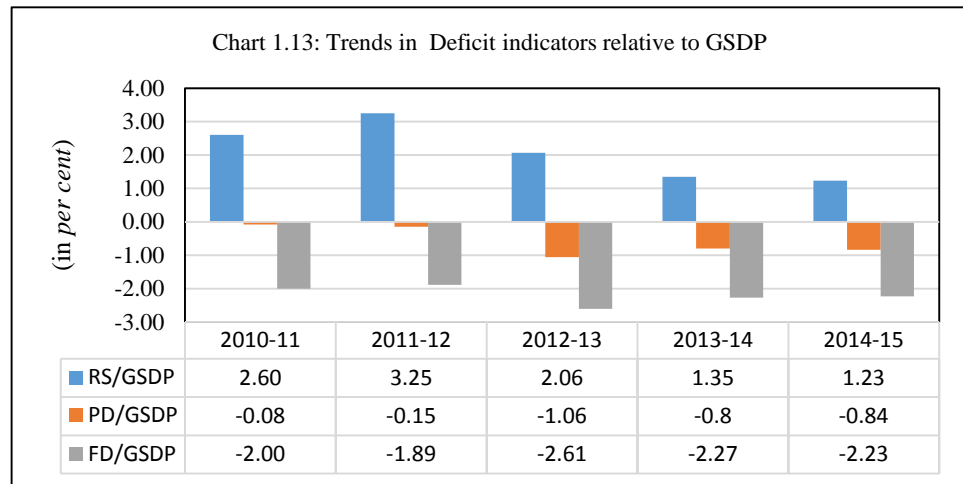


## Trends of Deficits

Chart 1.12 and 1.13 present the trends in deficit indicators over the period 2010-15.



(Source: Finance Accounts of respective years)



(Source: Finance Accounts of respective years and Directorate of Economic and Statistics, Government of Madhya Pradesh)

- The fiscal target of eliminating the Revenue Deficit by March 2009 as laid down in the FRBM Act, 2005 was achieved by the State in the year 2004-05. Thereafter, the State maintained a Revenue Surplus which increased from ₹ 6,842 crore in 2010-11 to ₹ 9,910 crore in 2011-12, then decreased to ₹ 5,879 crore in 2013-14 and again increased to ₹ 6,268 crore in 2014-15. It increased by ₹ 389 crore over the previous year. The Revenue Surplus as a percentage of GSDP increased from 2.60 per cent in 2010-11 to 3.25 per cent in 2011-12, then decreased to 1.23 per cent in 2014-15 due to increase in GSDP during 2014-15. It was more than the BE of 1.00 per cent during 2014-15.

- The Fiscal Deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 5,272 crore in 2010-11 to ₹ 11,352 crore in 2014-15. During the current year, Fiscal Deficit increased by ₹ 1,470 crore over the previous year. The Fiscal Deficit relative to GSDP marginally decreased from 2.27 per cent in 2013-14 to 2.23 per cent in 2014-15, which remained within the BE (2.98 per cent) and also within the limit of three per cent recommended by the XIII FC as well as prescribed under the FRBM Act 2005.
- The Primary Deficit of ₹ 223 crore in 2010-11 increased to ₹ 4,281 crore during 2014-15 with inter-year fluctuations.

### 1.11.1 Components of Fiscal Deficit and its Financing Pattern

Fiscal Deficit is the total borrowing requirement of the State and is the excess of the Revenue and Capital Expenditure including Loans and Advances over Revenue and Non-debt Capital Receipts. Decomposition of Fiscal Deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above Revenue and Non-debt receipts. The financing pattern of the Fiscal Deficit is reflected in **Table 1.32**.

**Table 1.32: Components of Fiscal Deficit and its Financing Pattern**

Particulars		(₹ in crore)				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Fiscal Deficit</b>		<b>-5,272</b>	<b>-5,760</b>	<b>-9,420</b>	<b>-9,882</b>	<b>-11,352</b>
1	Revenue Surplus	6,842	9,910	7,459	5,879	6,268
2	Net Capital Expenditure	-8,433	-9,032	-11,534	-10,777	-11,850
3	Net Loans and Advances	-3,681	-6,638	-5,345	-4,984	-5,770
<b>Financing pattern of Fiscal Deficit*</b>						
1	Market Borrowings	3,258	3,166	3,363	3,572	8,171
2	Loans from GoI	577	403	909	450	536
3	Special Securities issued to NSSF	1,582	-167	725	1,270	1,184
4	Loans from Financial Institutions	-488	198	210	245	258
5	Reserve Funds	275	1,191	2,020	971	143
6	Small Savings, PF etc.	773	698	837	948	962
7	Deposits and Advances	1,678	783	348	-490	618
8	Suspense and Miscellaneous	86	-28	-93	32	462
9	Remittances	519	391	400	286	- 57
10	Cash balances increase(+)/ decrease(-)	+2,988	+875	-701	-2,598	+925

\* Figures are net of disbursements/ outflows during the year  
(Source: Finance Accounts of respective years)

It would be seen that during 2014-15, Market Borrowings raised by the State Government continued to finance a major portion of Fiscal Deficit. Its share in financing Fiscal Deficit was 71.98 per cent in 2014-15. The amount of Deposits and Advances and Suspense and Miscellaneous in financing Fiscal Deficit was higher in 2014-15 than in 2013-14 indicating increase of interest burden in future.

## 1.12 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans and Advances) would indicate the quality of deficit in the State's finances. In case of Madhya Pradesh there has been a Revenue Surplus

since 2004-05. The bifurcation of the Primary Deficit (**Table 1.33**) 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 1.33: Primary Deficit/Surplus – bifurcation of factors**

(₹ in crore)								
Year	Non-debt Receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure (CE)	Loans and Advances*	Primary Expenditure (PE)	Non-debt Receipt vis-à-vis PRE	Primary Deficit (-)/ Surplus(+)	CE as per cent of PE
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2010-11	52,257	39,963	8,800	3,717	52,480	12,294	-223	16.77
2011-12	71,753	47,394	9,055	15,764	72,213	24,359	-460	12.54
2012-13	70,500	57,394	11,567	5,385	74,346	13,106	-3,846	15.56
2013-14	75,880	63,479	10,813	5,079	79,371	12,401	-3,491	13.62
2014-15	95,435	75,302	11,878	12,536	99,716	20,133	-4,281	11.91

\*Including Inter-State settlement

(Source: Finance Accounts of respective years)

Bifurcation of the factors resulting in Primary Deficits during the period 2010-15 reveals that the Primary Deficits were on account of Capital Expenditure incurred and Loans and Advances disbursed by the State Government. In other words, Non-debt receipts of the State were not only adequate to meet the Primary Revenue Expenditure but also meet the whole/part of the Capital Expenditure. Although the surplus Non-debt receipts were enough to meet the Capital Expenditure in all the years, they were not enough to meet the entire Loans and Advances resulting in Primary Deficit during the period 2010-15.

### 1.13 Conclusion and Recommendations

#### Management of fiscal imbalances and resource mobilisation

- The State maintained Revenue Surplus during the year 2014-15 at ₹ 6,268 crore. It increased by ₹ 389 crore over the previous year. Though the Fiscal Deficit of the State (₹ 11,352 crore) was within the limits prescribed by XIII FC, FRBM Act and Budget estimates, the Fiscal Deficit increased from the previous year by ₹ 1,470 crore. However, Fiscal Deficit relative to GSDP decreased from 2.27 per cent in 2013-14 to 2.23 per cent in the current year, mainly because of increase in GSDP during 2014-15 compared to the previous year.
- The tax revenue (₹ 36,567 crore) realised during 2014-15 fell short of target prescribed in Revised Budget Estimates 2014-15 (by ₹ 29,912 crore) and MTFPS projection (by ₹ 30,104 crore). Revised Budget Estimates 2014-15 of ₹ 66,479 crore projected by the State was not realistic.

The State Government may explore mobilizing additional resources through tax and non-tax sources by ensuring better tax compliance. The State Government should also project realistic figures while preparing Budget Estimates and Revised Budget Estimates.

### **Expenditure management and fiscal priority**

- Capital Expenditure in 2014-15 increased by 10 *per cent* over the previous year. The increase was mainly under Rural Development, Energy and Transport.
- During 2014-15, the Revenue Expenditure (RE) of the State (₹ 82,373 crore) increased by 17.89 *per cent*. The Non-Plan Revenue Expenditure (NPRE) increased by 10.73 *per cent* and constituted 68 *per cent* of RE. Actual NPRE was 51.49 *per cent* more than the XIII FC projection but marginally less than the projection made in the MTFPS of the State.
- Expenditure on salaries & wages, pension payments, interest payments and subsidies together constituted 53 *per cent* of Revenue Expenditure and 49 *per cent* of Revenue Receipts. Out of total subsidy payments of ₹ 9,954 crore, 49 *per cent* pertained to Energy Department.

Since major portion of the non plan revenue expenditure is on salaries, pension and interest payments which is largely uncontrollable, the State Government may explore suitable measures for containing the other components of non plan revenue expenditure so that revenue surplus could be maintained for allowing scope for assets creation and sustainable development of the State. The expenditure on subsidies which is increasing steadily requires utmost attention by the Government.

- The priority given to Social Sector Expenditure and expenditure on Education and Health Sectors in Madhya Pradesh was not adequate during 2014-15, when compared with General Category States' Average.

Government should give greater fiscal priority to Social Services particularly to the Education Sector and Health Sector in the State.

### **Return on investment**

- During 2014-15, return (₹ 80.35 crore) on investment of ₹ 16,104.55 crore made by the Government up to 2014-15 in Statutory corporations, companies, Co-operative societies etc. was only 0.50 *per cent* against the average borrowing cost of 6.88 *per cent* during the year.

Government should ensure better value for its investments.

- Twenty seven Government Companies and Statutory Corporations, with an aggregate investment of ₹ 13,523.24 crore for the latest year for which accounts were finalised as of 2014-15, were running in losses which accumulated to ₹ 29,268.72 crore.

Government should review the working of State PSUs which are incurring huge losses and work out either a revival strategy or closure policy.

### **Incomplete projects**

- Expenditure of ₹ 14,344.25 crore incurred on 68 incomplete projects in the Departments of Narmada Valley Development Authority and Water Resources remained unfruitful as of 31 March 2015.

Government should take initiative to get the projects completed to avoid time and cost over runs.

### **Management of cash balance and liabilities**

- The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 4477 crore and ₹ 5402 crore at the end of 2013-14 and 2014-15 respectively. Keeping the huge amount in the Cash Balance Investment Account at lower rate of interest while borrowing at higher rate has financial implications. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management.
- The outstanding fiscal liabilities steadily increased over the years from ₹ 75,504 crore at the end of 2010-11 to ₹ 1,08,688 crore at the end of 2014-15. Fiscal liabilities at the end of 2014-15 were 21.40 *per cent* of GSDP against the limit of 35.30 *per cent* prescribed by XIII Finance Commission. The growing volume of debt has resulted in increasing liability for servicing the debt.

The State Government may consider need-based borrowings and utilising the existing cash balances before resorting to fresh borrowing.

