EXECUTIVE SUMMARY

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Background

Maharashtra is the second largest State in India, in terms of population and third in terms of geographical area. The State has shown lower economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product for the period 2005-06 to 2014-15 has been 14.81 *per cent* as compared to 15.44 *per cent* in the General Category States of the country. The population below the poverty line in Maharashtra (20 *per cent*) is lower than the all India average of 29.5 *per cent*. During the above mentioned period, its population grew by 13.35 *per cent* against 12.76 *per cent* in General Category States. However, the per capita income compound annual growth rate in Maharashtra (13.22 *per cent*) has been lower than that of the General Category States (13.86 *per cent*) in the current decade.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2014-15 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budgetary Management Act, 2005 and in the budget estimates of 2014-15.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2015, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2015. It provides an insight into trends of committed expenditure and the borrowing pattern.

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

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

Audit findings and recommendations

Chapter I

Finances of the State Government

Fiscal correction: The fiscal parameters *i.e.* revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period.

During 2014-15, the State achieved two of the three major parameters specified by the Thirteenth Finance Commission and under Maharashtra Fiscal Responsibility and Budgetary Management Act *viz.* (i) the ratio of fiscal liability to Gross State Domestic Product at 19.0 *per cent* was lower than the norm of 25.3 *per cent* and (ii) the fiscal deficit at 1.89 *per cent* of Gross State Domestic Product was lower than the norm of three *per cent*. However, the third parameter of revenue surplus could not be achieved during 2014-15. The significant gap between the growth rates of the revenue receipts (10 *per cent*) and revenue expenditure (15 *per cent*) over the previous year resulted in revenue deficit of ₹ 12,138 crore during 2014-15.

Revenue receipts: The State could not maintain the momentum of growth of revenue receipts it achieved during 2010-13. The rate of growth of revenue receipts increased from 4.81 *per cent* in 2013-14 to 10.41 *per cent* in 2014-15. Grants-in-aid from Government of India in 2014-15 as compared to 2013-14 increased by 52 *per cent* mainly due to discontinuance of direct transfers to implementing agencies by Government of India.

Central tax transfers: The devolution of the State's share of union taxes substantially increased by 114 *per cent* during the award period of Thirteenth Finance Commission as compared to the Twelfth Finance Commission. The overall tax devolution during the award period was more than the projection and there was an increasing trend in all the components of the State share of the union taxes.

Interest payments: Interest payments (₹ 23,965 crore), which increased by 13 *per cent* during the year over 2013-14, were less than the projections made in the Thirteenth Finance Commission (₹ 26,775 crore) and Fiscal Correction Path (₹ 24,283 crore) but, marginally higher than the projections made in the Medium Term Fiscal Policy Statement (₹ 23,805 crore).

Non-plan revenue expenditure: The revenue expenditure (₹ 1,77,553 crore) constituted 89 *per cent* of the total expenditure (₹ 1,98,217 crore). Of the revenue expenditure (₹ 1,77,553 crore), 82 *per cent* (₹ 1,46,245 crore) was incurred on the non-plan component and as a percentage of revenue receipts, it increased to 88 *per cent* in 2014-15 from 86 *per cent* in 2013-14. The non-plan revenue expenditure at ₹ 1,46,245 crore remained higher than the normative assessments made by the Thirteenth Finance Commission (₹ 1,01,881 crore) and the projections made in the Medium Term Fiscal Policy Statement/Budget (₹ 1,41,354 crore) but less than that projected in the Fiscal Correction Path (₹ 1,54,084 crore).

Capital expenditure: The percentage of capital expenditure to total expenditure showed a declining trend from 14 *per cent* in 2010-11 to 10 *per cent* in 2014-15. There was negative growth of capital expenditure during 2014-15 over 2013-14 (-2.48 *per cent*) compared to the positive growth rate of General Category States (21.87 *per cent*). The ratio of capital expenditure to aggregate expenditure in 2014-15 was lower than the ratio of General Category States. Greater fiscal priority needs to be given to this area as increased priority to physical capital formation will increase the growth prospects of the State by creating durable assets.

Fiscal priority: The priority given to health and family welfare in the State (4.52 *per cent*) was less than that given to the General Category States (5.04 *per cent*). During 2005-06 to 2013-14, the compound annual growth rate of revenue expenditure on health (15.69 *per cent*) was lower than the growth rate of General Category States (16.20 *per cent*). The growth of revenue expenditure on health during 2014-15 over 2013-14 (24.67 *per* cent) was also lower than the growth rate of General Category States (28.73 *per cent*). Thus, greater fiscal priority needs to be given to this area.

Review of Government investments: The average return on the State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.02 and 0.05 *per cent* in the past three years while the Government paid an average interest of 7.42 *per cent* to 7.81 *per cent* on its borrowings. In spite of this unsustainable proposition there was no disinvestment during 2012-15.

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

Cash balances: There was an increase of six *per cent* in the cash balances of the State Government over the previous year, significant part of which pertained to balances in public accounts. The cash balances (₹ 49,648 crore) was nearly 25 *per cent* of the total expenditure (₹ 1,98,217 crore) of the State Government during 2014-15.

Debt sustainability: The resource gap in the State during 2013-14 and 2014-15 was negative, indicating decreasing capacity of the State to sustain the debt in the medium to long run. This was a result of insufficiency of the incremental non-debt receipt to meet the incremental primary expenditure and incremental interest payments. In order to bridge the resource gap, the State needs to improve its resource mobilisation as well as prune unproductive expenditure.

Chapter II

Financial Management and Budgetary Control

The slow pace of implementation of various social and developmental programmes in the State left a saving of ₹ 43,265.62 crore, set-off by an excess of ₹ 3,817.72 crore. The excess expenditure increased from ₹ 604.64 crore in 2013-14 to ₹ 3817.72 crore in 2014-15. The excess over provision occurred in 32 grants/appropriation during the year and requires regularization of the State Legislature. There were instances of inadequate provision of funds. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of March 2015, leaving no scope for utilising these funds for other developmental purposes.

All the departments should submit realistic budget estimates, keeping in view the trends of expenditure and the actual requirement of funds in order to avoid large savings/excesses. All the departments should closely monitor the expenditure against the allocations and firm measures need to be put in place to avoid excess expenditure over the grants. Surrender of funds should be done much before the last working day of the closing year so as to enable the State Government to utilize the funds on other schemes. Release of funds at the end of the year should be avoided.

Instances of Government receipts being kept in Personal Ledger Accounts without crediting the same to the Consolidated Fund of the State were also noticed.

Chapter III

Financial Reporting

The Government's compliance to various rules, procedures and directives was lacking in various departments which was evident from delays in furnishing of utilisation certificates by various grantee institutions against the loans and grants-in-aid. Delays were also seen in submission of annual accounts by autonomous bodies and departmentally managed commercial undertakings. There were instances of large outstanding cases of losses and misappropriations for which departmental action was pending since long. There were delays in submission of detailed contingent bills drawn against abstract contingent bills. Significant amounts of expenditure and receipts under Central and State Schemes, booked under the Minor head '800-Other expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts of 2014-15 thus, adversely affecting its transparency.

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