

## Executive Summary

### ***Background***

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted the Gujarat Fiscal Responsibility Act, 2005 (GFRA) which incorporated the objectives of prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, sustainable debt management and greater transparency in the fiscal operations of the Government.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations. This required the State to reduce the revenue deficit to zero by 2011-12, the fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product (GSDP) for the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* of the estimated GSDP by end of 2014-15 and to cap the outstanding guarantees within the limit (₹ 20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963.

### ***The Report***

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

**Chapter I** is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2015. It provides an insight into trends of different components of the Government's receipts, expenditure and borrowing pattern, besides giving a brief account of fiscal imbalances.

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

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

## Audit findings and recommendations

### Fiscal position

The State had a revenue deficit in 2010-11 which turned into a revenue surplus during the period of 2011-12 to 2014-15. In 2014-15, the State had a revenue surplus of ₹ 5,326 crore, an increase of ₹ 609 crore over the previous year. The increase in the revenue surplus during the current year was mainly on account of an increase of ₹ 12,002 crore (15.01 *per cent*) in revenue receipts against an increase of ₹ 11,393 crore (15.14 *per cent*) in revenue expenditure over the previous year. The fiscal deficit increased from ₹ 15,074 crore in 2010-11 to ₹ 18,422 crore in 2013-14 and stood at ₹ 18,320 crore in 2014-15. The marginal decrease in fiscal deficit during current year was mainly on account of larger cushion of revenue surplus than in the previous year. A decrease of ₹ 102 crore in fiscal deficit together with an increase of ₹ 1,614 crore in interest payment resulted in decrease in primary deficit from ₹ 5,090 crore in 2013-14 to ₹ 3,374 crore in 2014-15.

The expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in the accounts. However, during 2014-15, the Government of Gujarat wrongly budgeted and booked expenditure of ₹ 871.43 crore on account of Grants-in-aid and expenditure of ₹ 55 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and overstatement of revenue surplus to the tune of ₹ 926.43 crore.

During the period 2010-11 to 2014-15, the non-debt receipts did not cover the primary expenditure<sup>1</sup> resulting in primary deficit in each year. In 2014-15, primary revenue expenditure and capital expenditure increased over the previous year without commensurate increase in non-debt receipts and decrease in disbursement of loans and advances, there was decrease in primary deficit from ₹ 5,090 crore to ₹ 3,374 crore.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 11,923 crore and ₹ 12,402 crore at the end of 2013-14 and 2014-15 respectively. The persistence of large cash Surplus is result of higher debt which increases the accompanying debt service burden along with lower return on investments. 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 State Government should adopt the policy of need based borrowing and maintain minimum surplus cash balance.

### State's own resources

The tax revenue of the State in 2014-15 stood lower than the ThFC projection by ₹ 4,682 crore. Also, it could not achieve the target of budget estimates and

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<sup>1</sup>Primary Expenditure is total expenditure except interest payments of the concerned year.

Medium Term Fiscal Policy Statement (MTFPS) projection and stood lower by ₹ 1,728 crore and ₹ 727 crore respectively. Actual non-tax revenue was slightly higher than MTFPS projections and budget estimates. The non tax revenue showed a significant improvement over the ThFC projections.

### **Revenue expenditure**

The share of revenue expenditure in total expenditure declined from 84.70 *per cent* in 2010-11 to 77.95 *per cent* in 2014-15 mainly on account of high growth rate attained by capital expenditure during this period except 2013-14.

Revenue expenditure continuously increased from ₹ 57,440 crore in 2010-11 to ₹ 86,652 crore in 2014-15. However, the growth rate fluctuated widely from 18.10 *per cent* in 2010-11 to 4.01 *per cent* in 2011-12 to 15.14 *per cent* in 2014-15.

### **Quality of expenditure**

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 47,482 crore in 2010-11 to ₹ 79,684 crore in 2014-15. As a percentage of the total expenditure, the total development expenditure of the State increased from 70.02 *per cent* in 2010-11 to 71.68 *per cent* in 2014-15.

### **Investment and returns**

As of 31 March 2015, Government had invested ₹ 62,929 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions and Local Bodies. The average return on the investments was 0.28 *per cent* in the last five years while the Government paid an average 7.65 *per cent* as interest on its borrowings during 2010-11 to 2014-15. Forty six PSUs earned a net profit of ₹ 3,364 crore in financial year 2013-14. However, the State Government received only ₹ 90 crore as dividend from PSUs in financial year 2014-15.

### **Funds and other Liabilities**

There were 16 Reserve Funds earmarked for specific purposes, out of which six funds were inoperative. The total accumulated balance as on 31 March 2015 in these funds was ₹ 14,558.41 crore (₹ 14,555.54 crore in operational funds and ₹ 2.87 crore in non-operational funds). However, the investment out of these funds was only ₹ 9,033.72 crore.

### **Debt sustainability**

The positive resource gap for two consecutive years turned into negative in 2012-13 and 2013-14. However, in the year 2014-15 it was again positive. It happened mainly on account of 12.92 *per cent* increase in primary expenditure against 15.88 *per cent* increase in non-debt receipts during current year.

The net funds available from borrowed fund after providing for the interest and repayment declined from ₹ 6,912 crore in 2010-11 to ₹ 4,310 crore in 2014-15.

### **Financial management and budgetary control**

Against total provision of ₹ 1,33,465.61 crore during 2014-15, an expenditure of ₹ 1,17,670.05 crore was incurred. This resulted in a total savings of ₹ 21,614.05 crore which was a result of the savings of ₹ 21,758.50 crore being offset by the excess expenditure of ₹ 144.45 crore under various grants.

As of now the excess expenditure of ₹ 9,544.69 crore (₹ 144.45 crore plus ₹ 9,400.24 crore) relating to the period 2003-04 to 2014-15 requires regularisation under Article 205 of the Constitution of India.

In two grants/appropriations in which savings of ₹ 646.52 crore occurred, the amounts had not been surrendered by the concerned departments.

Under 98 grants, out of the total provision of ₹ 54,840.40 crore in respect of 915 sub-heads, ₹ 19,078.70 crore (34.79 per cent) were surrendered.

### **Financial reporting**

Non-submission of utilisation certificates of ₹ 8,160.78 crore indicates lack of proper monitoring by the departments in utilisation of grants given for specific purposes. There has been non-submission/delay in submission of accounts of autonomous bodies/authorities. There is pendency in submission of detailed contingent bills against large amounts drawn on abstract contingent bills amounting to ₹ 582.52 crore by the departmental authorities. The 147 outstanding cases of misappropriations, losses etc., and non recovery of amounts indicate lack of adequate efforts by the departments to make good the losses and fix responsibility. Further, accounting of various important items of expenditure relating to various sectors, revenue receipts etc. under omnibus Minor Head – 800 resulted in non classification of diverse activities of the Government under available minor heads.