

MAIN REPORT

Profile of Gujarat

Gujarat is situated on the west coast of India, bound by the Arabian Sea in the west and the states of Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan on the north western fringe. It has a coastline of about 1,600 kilometres, which is one third of India's mainland coastline. It is the seventh largest State in terms of geographical area (1,96,024 sq.km) and the ninth largest by population. As indicated in **Appendix 1.1** the State's population increased from 5.07 crore in 2001 to 6.04 crore in 2011 recording a decadal growth of 19.13 *per cent*. The percentage of population below the poverty line was 27.4 *per cent* as compared to the all-India average of 29.5 *per cent*. The State's Gross State Domestic Product (GSDP) in 2015-16 at current prices was ₹ 9,84,971 crore¹. The State's literacy rate increased from 69.14 *per cent* (as per 2001 census) to 78 *per cent* (as per 2011 census). General data 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 the State's GSDP as compared to India's GDP at current prices are indicated below:

Table 1.1: Trends- Annual growth of State's GSDP as compared to India's GDP

	2011-12	2012-13	2013-14	2014-15	2015-16
India's GDP (₹ in crore) (Base year 2011-12)	87,36,039	99,51,344	1,12,72,764	1,24,88,205	1,35,76,086
Growth rate of GDP (percentage)	N.A.	13.91	13.28	10.78	8.71
State's GSDP* (₹ in crore) (Base year 2011-12)	6,05,456(P)	7,12,123(P)	8,06,745(P)	8,95,202(Q)	9,84,971(A)
Growth rate of GSDP (percentage)	N.A.	17.62	13.29	10.96	10.03

Estimates: (P) = Provisional, (Q) = Quick and (A) = Advance

Source: Ministry of Statistics and Programme Implementation, Central Statistical Organisation, Directorate of Economics and Statistics, Gandhinagar

*Source: Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No.30 of 2016-17)

¹ Advance estimates by Directorate of Economics and Statistics, Gandhinagar

1.1 Introduction

This chapter provides a broad perspective on the finances of the Government of Gujarat during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

1.1.1 Summary of Fiscal Transactions in 2015-16

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2015-16) *vis-à-vis* the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2014-15	2015-16		2014-15	2015-16		
					Non- Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	91,977.78	97,482.58	Revenue expenditure	86,651.71	63,554.46	32,224.08	95,778.54
Tax revenue	61,339.81	62,649.41	General services	30,003.32	31,512.36	1,363.69	32,876.05
Non-tax revenue	9,542.61	10,193.52	Social services	36,714.15	21,620.77	20,499.13	42,119.90
Share of Union taxes/ duties	10,296.35	15,690.43	Economic services	19,398.68	9,862.60	10,361.26	20,223.86
Grants from Government of India	10,799.01	8,949.22	Grants-in-aid and Contributions	535.56	558.73	-	558.73
Section-B: Capital							
Misc. Capital receipts	241.00	0.00	Capital Outlay	24,157.76	76.43	24,093.01	24,169.44
Recoveries of Loans and Advances	621.38	125.46	Loans and Advances disbursed	349.90	56.19	619.00	675.19
Public Debt receipts*	19,453.94	23,486.19	Repayment of Public Debt*	5,509.20	-	-	6,194.26
Contingency Fund	0.11	14.16	Contingency Fund	14.16	-	-	3.75
Public Account receipts	62,387.52	65,131.92	Public Account disbursements	52,309.01	-	-	61,936.12
Opening Cash Balance	15,386.48	21,076.47	Closing Cash Balance	21,076.47	-	-	18,559.48
Total	1,90,068.21	2,07,316.78		1,90,068.21			2,07,316.78

Source: Finance Accounts of the respective years

*Excluding net transactions under ways and means advances and overdrafts.

The following are the significant changes during 2015-16 over the previous year:

- ½ Revenue receipts grew only by ₹ 5,505 crore (5.99 *per cent*) over the previous year. The increase was mainly due to increase in State's share of Union taxes/duties by ₹ 5,394 crore (52.38 *per cent*) and increase in the non-tax revenue by ₹ 651 crore (6.82 *per cent*). The State's own tax revenue increased only by ₹ 1,310 crore (2.13 *per cent*) while the Grants from Government of India (GoI) decreased by ₹ 1,850 crore (17.13 *per cent*).
- ½ Revenue expenditure increased by ₹ 9,127 crore (10.53 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 2,873 crore (9.57 *per cent*), on Social Services by ₹ 5,406 crore (14.72 *per cent*) and on Economic Services by 825 crore (4.25 *per cent*).
- ½ Capital outlay increased only by ₹ 12 crore (0.05 *per cent*) over the previous year whereas the disbursement of loans and advances increased by ₹ 325 crore (92.86 *per cent*).
- ½ Public debt receipts increased significantly by ₹ 4,032 crore while repayment of public debt increased by ₹ 685 crore. The net availability of public debt receipt of ₹ 17,292 crore during 2015-16 was 24 *per cent* more than that of previous year of ₹ 13,945 crore.

1.1.2 Review of fiscal situation

As per the Gujarat Fiscal Responsibility Act, 2005 (GFRA 2005) enacted in line with the recommendations of the Twelfth Finance Commission (TwFC), the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the GSDP by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent* by March 2008. Total outstanding guarantees were to be capped within the limit provided in the Gujarat State Guarantee Act, 1963. Though the State had achieved the above targets by 2006-07, the fiscal deficit targets for 2009-10 and 2010-11 were relaxed by one *per cent* and 0.5 *per cent* of GSDP respectively by GoI.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero from 2011-12 onwards, reduce the fiscal deficit to three *per cent* of the estimated GSDP of the year beginning 2011-12 and maintain it thereafter and to cap the total outstanding debt of the State Government from the level of 28.8 *per cent* in 2011-12 to 27.1 *per cent* at the end of 2014-15 of the estimated GSDP for the respective financial year. The State Legislature in March 2011 amended the Fiscal Responsibility Act after the recommendations of the ThFC.

The Fourteenth Finance Commission (FFC) has also recommended (December 2014) a revised fiscal roadmap to consolidate the finances of the State Government from the financial year 2015-16 onwards. Major fiscal variables provided in the recommendations of the FFC and the projections made in the Medium Term Fiscal Policy Statement (MTFPS) – 2015 by the State Government are depicted in **Table 1.3**.

Table 1.3: Major Fiscal variables

Fiscal variables	2015-16		Actual Achievement
	FFC targets for the State	Targets proposed in the Budget and Projections made in MTFPS	
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	(+)11,795	(+)7,308	(+)1,704
Fiscal Deficit/GSDP (in per cent)	3.00	2.24	2.34
Ratio of total outstanding debt of the Government to GSDP (in per cent)	25.91	-	22.45

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State achieved a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 1,704 crore in 2015-16 which was significantly lower than the projection in MTFPS of ₹ 7,308 crore. At the end of 2015-16, the fiscal deficit as percentage of GSDP was 2.34 per cent, which was within the limit of three per cent recommended by FFC, however, it stood higher than its own projections in MTFPS. In the Fiscal Consolidation Roadmap, FFC fixed the target of 25.91 per cent for the ‘Total Outstanding Debt’² as percentage of GSDP at the end of 2015-16. However, the State Government fixed the target for ‘Total Public Debt’ instead of ‘Total Outstanding Debt’ as percentage of GSDP in Budget and in MTFPS. This was not in consonance with the recommendations of FFC. Total Public Debt constitutes 82 per cent of Total Outstanding Debt in 2015-16. However, the State’s total outstanding debt as percentage of GSDP was 22.45 per cent in 2015-16 which was within the target of 25.91 per cent fixed by the FFC.

Expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2015-16, the Government of Gujarat incorrectly budgeted and booked expenditure of ₹ 492.17 crore relating to Grants-in-aid and expenditure of ₹ 5.25 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to the tune of ₹ 497.42 crore.

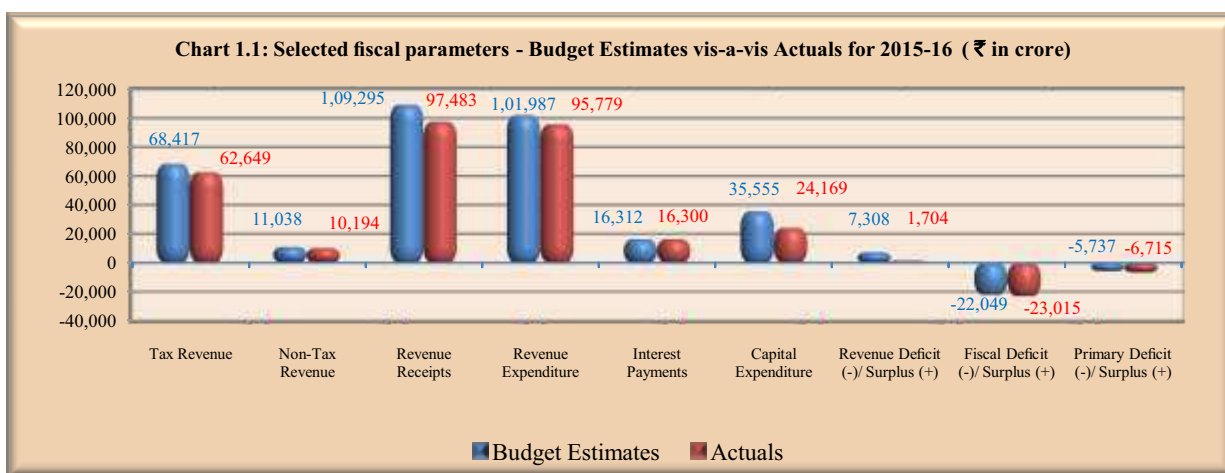
1.1.3 Budget Estimates and Actuals

Budget estimates presented by the State Government provide a description of the projections or estimations of revenue and expenditure for a particular

² Total Outstanding Debt includes Public Debt and Public Account Liabilities. Public Debt includes only Internal Debt and Loans from Government of India. Public Account Liability includes liabilities under small saving funds, GPF, Reserve funds etc.

fiscal year. The importance of accuracy in the estimation of revenue 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 the fact that due care has not been taken during their estimation. Further, it also indicates non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

Chart 1.1 Presents the budget estimates and actuals of some important fiscal parameters.



During 2015-16, compared to the budget estimates, the tax revenue and non-tax revenue were lower by ₹ 5,768 crore (8.43 per cent) and ₹ 844 crore (7.65 per cent) respectively. Further, the revenue receipts decreased over the budget estimates by ₹ 11,812 crore (10.81 per cent) mainly on account of lower realization of tax revenue against the budget estimates. Against an estimated revenue surplus of ₹ 7,308 crore, the financial year ended with a revenue surplus of only ₹ 1,704 crore.

The revenue expenditure stood lower than the budget estimates by ₹ 6,208 crore (6.09 per cent). The actual capital expenditure stood significantly lower than the budget estimate by ₹ 11,386 crore (32.02 per cent), indicating asset creation was not given as much priority as initially intended in the budget estimates. Non achievement of estimated revenue surplus was mainly on account of lower realisation of revenue receipts than estimated in the budget. Due to lower revenue realisation than budgeted, the actual fiscal deficit stood higher than the budget estimates and consequently resulted in higher primary deficit than the budget estimates.

The following tax proposals were made in the budget for the year 2015-16 with a net realisation of ₹ 60 crore.

- ½ The budget proposals included reduction of the Value Added Tax (VAT) from five per cent to one per cent on Imitation Jewellery.

- ½ The VAT on Oral Contraceptive Pills, Isabgul and Isabgul Husk was exempted fully.
- ½ The Budget proposed to reduce the rate of tax on Aviation Turbine Fuel (ATF) from 30 per cent (for duty paid ATF) and 38 per cent (for Bonded ATF) to five per cent when sold from the cities other than Ahmedabad and Vadodara for scheduled Commercial airlines services flights.
- ½ The budget proposal included refund of the tax paid on cotton roving purchased for manufacture of Khadi producers by the Khadi Gramodyog approved institutions.
- ½ It was also proposed to levy VAT at the rate of five per cent including additional tax on Technical Textile .

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. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from the Public Account. **Table 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts. **Chart 1.2** depicts the components and sub-components of resources during the year 2015-16.

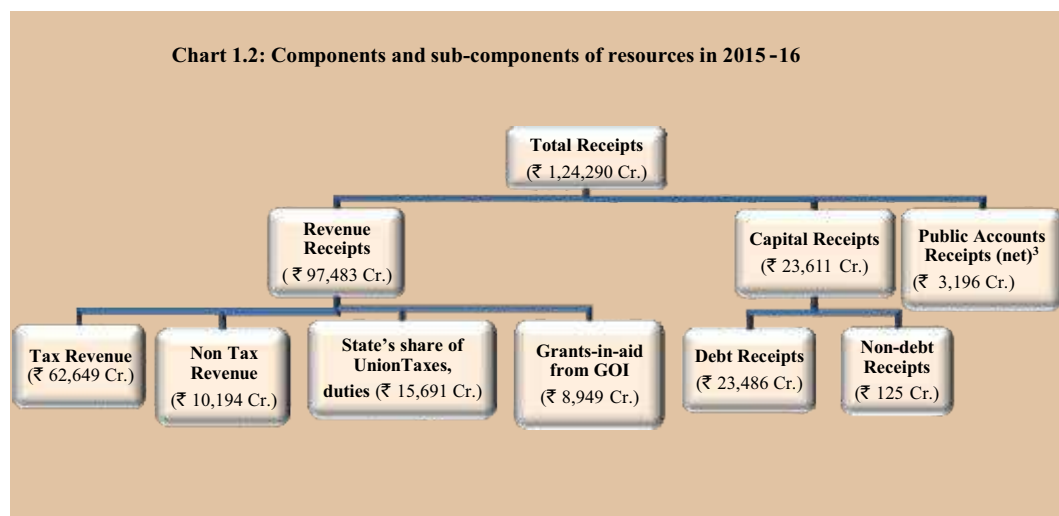
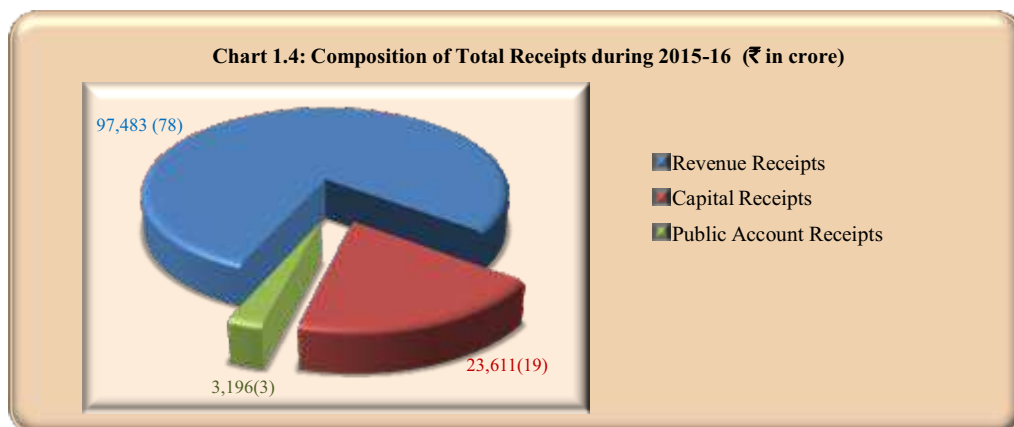
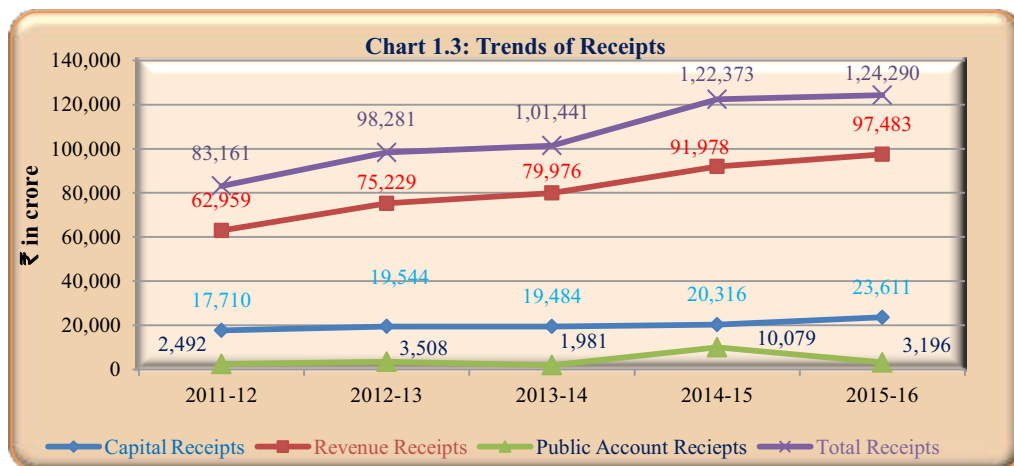


Chart 1.3 depicts the trends of various components of the State’s receipts during 2011-12 to 2015-16 and **Chart 1.4** depicts the composition of resources of the State during the current year 2015-16.

³ Public Account Receipts (Gross) is ₹ 65,132 crore

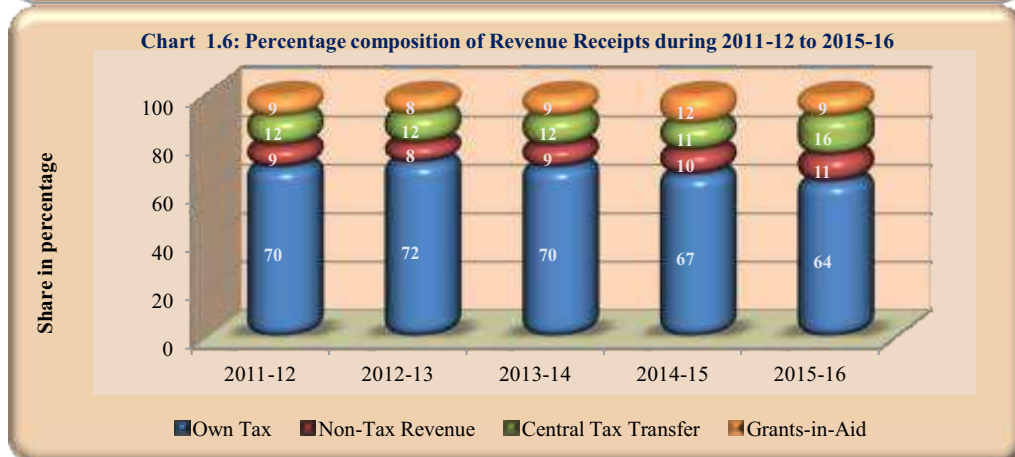
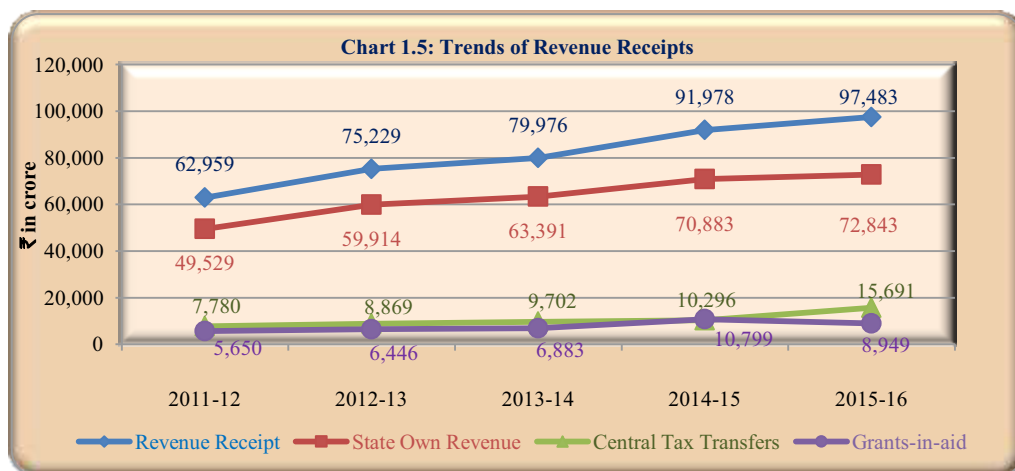


Figures in parenthesis indicate percentage share

The total resources of the State Government show a progressive increase steadily from ₹ 83,161 crore in 2011-12 to ₹ 1,24,290 crore in 2015-16. The increase in total resources during the period of 2011-12 to 2015-16 was 49.46 per cent. The relative share of Revenue receipts which stood at 75.71 per cent of the total resources in 2011-12 increased to 78.43 per cent in 2015-16, while that of Capital receipts and Public Account receipts to total resources, declined from 21.30 per cent and 3.00 per cent in 2011-12 to 19.00 per cent and 2.57 per cent in 2015-16 respectively.

1.3 Revenue Receipts

Statement-14 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of the State’s 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 2011-12 to 2015-16 are presented in the **Charts 1.5 and 1.6** and also depicted in **Appendix 1.4**.



The revenue receipts during the year 2015-16 grew by 5.99 per cent over the previous year mainly due to 52.39 per cent increase in Central Tax Transfer. The State’s own tax revenue grew only at 2.13 per cent over the previous year. The increase of non-tax revenue by 6.82 per cent during 2015-16 was also lower by a significant margin when compared with its percentage increase in 2014-15 over its previous year. The Grants-in-aid by GoI decreased by 17.13 per cent in 2015-16 over the previous year.

Chart 1.6 shows that 75 per cent of revenue came from State’s own resources during 2015-16 and the balance was from GoI in the form of State’s share of taxes and Grants-in-aid. The share of own tax revenue increased from 70 per cent in 2011-12 to 72 per cent in 2012-13 and then decreased continuously in subsequent years.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the State’s own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends of Revenue Receipts relative to GSDP

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR) (₹ in crore)	62,959	75,229	79,976	91,978	97,483
Rate of growth of RR (<i>per cent</i>)	20.23	19.49	6.31	15.01	5.99
RR/GSDP (<i>per cent</i>)	10.40	10.56	9.91	10.27	9.90
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP ⁴	1.26	1.11	0.47	1.37	0.60
State's Own Tax Buoyancy w.r.t. GSDP ⁴	1.35	1.24	0.35	0.80	0.21
Revenue Buoyancy with reference to State's own taxes	0.93	0.89	1.37	1.70	2.81

Source: Finance Accounts of the respective years

The GSDP at current prices increased from ₹ 8,95,202 crore in 2014-15 to ₹ 9,84,971 crore in 2015-16 representing an increase of 10.03 *per cent*. The growth rate of revenue receipts fluctuated significantly during the period from 2011-12 to 2015-16 ranging between 20.23 *per cent* to 5.99 *per cent*. During 2015-16, revenue receipts grew only at 5.99 *per cent* despite higher tax transfer by the Central Government. It is evident from **Table 1.4** that the buoyancy of revenue receipts is more than one from the period 2011-12 to 2014-15 except during 2013-14, indicating that revenue receipts grew at higher rate than the growth of GSDP. The sharp decline in revenue buoyancy in 2015-16 was mainly on account of exceptionally low growth rate of own tax revenue receipts. Further, State's own tax revenue was more responsive to GSDP compared to revenue receipts of the state from 2011-12 and 2012-13 but the situation reversed from 2013-14 onwards. The state's own tax buoyancy stood lowest at 0.21 in 2015-16 indicating need to ensure better tax compliance.

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 Central Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2011-12 to 2015-16 along with the respective all-India average are presented in **Appendix 1.5**.

The State's actual tax and non-tax receipts for the year 2015-16 *vis-à-vis* assessment made by FFC and MTFPS (February 2015) are presented in **Chart 1.7** and **Table 1.5** below:

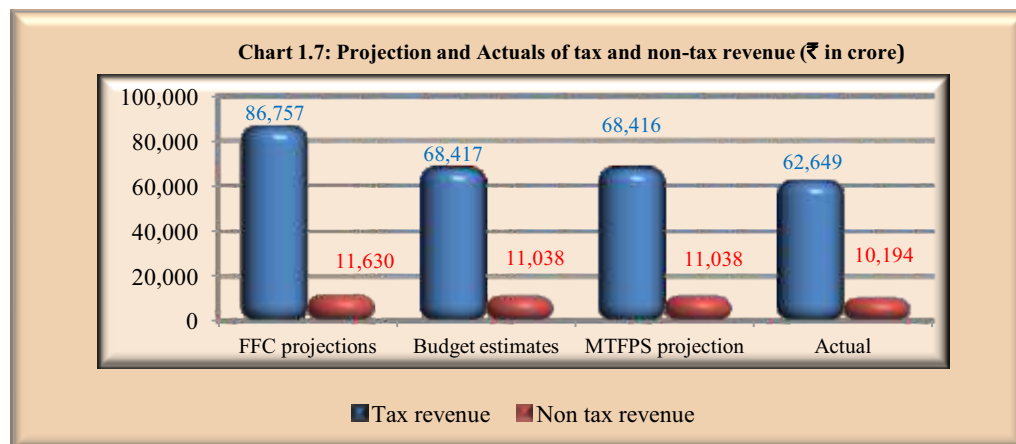
⁴ Figures differ from last year's report due to change in GSDP figures of 2011-12 to 2015-16

Table 1.5: Projections and Actuals of tax and non-tax revenues

(₹ in crore)

	FFC projections	Budget estimates	MTFPS projection	Actual
Tax revenue	86,757	68,417	68,417	62,649
Non tax revenue	11,630	11,038	11,038	10,194

Source: Finance Accounts of Gujarat State 2015-16 and Budget Publication No. 30 of GoG.



The tax revenue of the State in 2015-16 stood lower by a significant margin of ₹ 24,108 crore than the FFC projections of ₹ 86,757 crore. Also, it could not achieve the target of budget estimates or MTFPS projection. Actual non-tax revenue was also less than MTFPS projection, budget estimates as well as FFC projections.

1.3.1.1 Tax revenue

The main components of tax revenue raised in the State during 2011-12 to 2015-16 are given in **Table 1.6**.

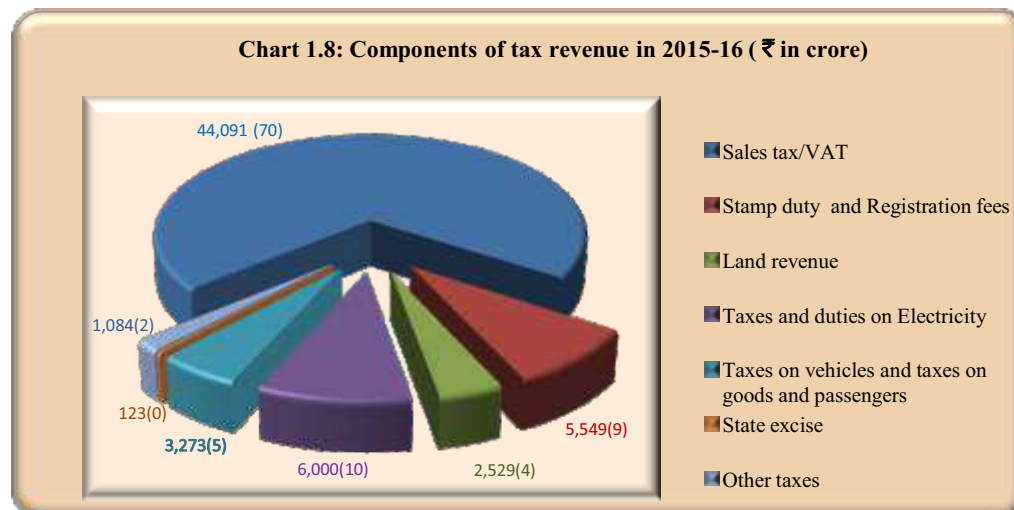
Table 1.6: Main components of State's tax revenue

(₹ in crore)

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16	Percentage increase over previous year
Sales tax/VAT	31,202.31	39,464.67	40,976.06	44,145.26	44,091.05	(-).12
Stamp duty and Registration fees	4,670.27	4,426.93	4,749.35	5,503.34	5,549.42	0.84
Land revenue	1,477.18	2,207.85	1,727.41	1,892.65	2,528.50	33.60
Taxes and duties on Electricity	3,654.56	4,406.60	4,692.77	5,877.65	5,999.66	2.08
Taxes on vehicles and taxes on goods and passengers	2,459.37	2,486.84	3,116.37	2,905.44	3,273.17	12.66
State excise	72.11	84.91	109.82	140.27	123.32	(-).12.08
Other taxes	716.49	818.89	1,000.59	875.20	1,084.29	23.89
Total	44,252.29	53,896.69	56,372.37	61,339.81	62,649.41	2.13

Source: Finance Accounts of the respective years

The components of tax revenue for the year 2015-16 are presented in **Chart 1.8**.



Figures in parenthesis indicate percentage share

The State's own tax revenue increased only by 2.13 *per cent* during 2015-16 over the previous year. Except Sales Tax/VAT and State Excise all the components of own tax revenue grew during 2015-16. During the period of 2011-12 to 2014-15 the growth rate of VAT receipts fluctuated widely but it registered negative growth for the first time in 2015-16.

Land revenue increased significantly by ₹ 636 crore registering 33.60 *per cent* increase during 2015-16 over the previous year. Taxes on vehicles and taxes on goods and passengers showed increase of ₹ 368 crore during the year and was 12.66 *per cent* more than previous year. The FFC projected the tax-GSDP ratio of 9.31 *per cent* for 2015-16. However, it actually stood lower at only 6.36 *per cent*.

The Finance Department (FD) attributed (December 2016) lower growth rate of VAT receipts to decrease in price of Petrol/Diesel, decrease in rate of tax credit deduction in interstate transactions, decrease in sales of bullion and jewellery and non-receipt of instalment of ₹ 677 crore Essar Oil Limited in the financial year 2015-16.

Thus, to achieve the target as projected by the FFC, the state government needs to take necessary and urgent steps to augment the tax revenue especially by better tax compliance.

1.3.1.2 Non-tax Revenue

The main components of non-tax revenue raised in the State during 2011-12 to 2015-16 are given in **Table 1.7**.

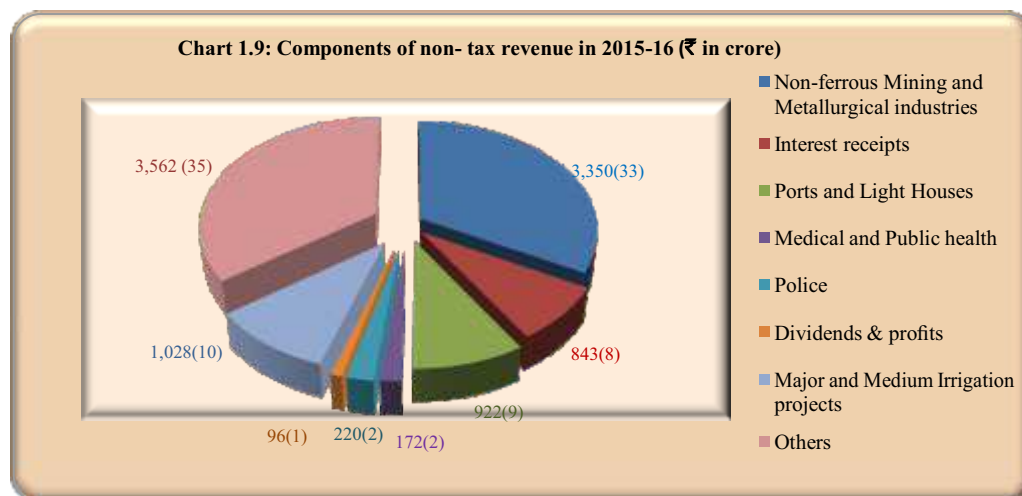
Table 1.7: Main components of State’s non-tax revenue

(₹ in crore)

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16	Percentage increase over previous year
Interest receipts	631.89	1,325.84	1,267.18	1,011.47	843.00	(-)16.66
Non-ferrous Mining and Metallurgical industries	1,819.64	1,847.16	1,578.34	4,285.85	3,350.19	(-)21.83
Major and Medium Irrigation projects	684.15	714.13	897.51	1,034.91	1,028.42	(-) 0.63
Ports and Light Houses	453.51	577.68	636.84	742.08	922.24	24.28
Medical and Public health	90.76	126.34	111.88	243.57	171.51	(-)29.58
Police	138.97	163.84	177.81	214.20	219.82	2.62
Dividends & profits	128.93	54.31	277.44	89.54	96.06	7.28
Others	1,328.67	1,207.69	2,071.31	1,920.99	3,562.27	85.44
Total	5,276.52	6,016.99	7,018.31	9,542.61	10,193.51	6.82

Source: Finance Accounts of the respective years

The components of non-tax revenue for the year 2015-16 are presented in **Chart 1.9** below.



Figures in parenthesis indicate percentage share

The non-tax revenue of the State during 2015-16 increased only by ₹ 651 crore (6.82 per cent) over the previous year due to negative growth in Non-ferrous Mining and Metallurgical Industries receipts. The interest receipts declined sharply by 17 per cent over the previous year mainly due to decrease in interest realised on investment of cash balances to ₹ 585 crore in 2015-16 from ₹ 637 crore in 2014-15. Due to negative growth of 22 per cent in 2015-16 over the previous year, the share of receipts from Non-ferrous mining and Metallurgical Industries in non-tax revenue significantly declined from 45 per cent in 2014-15 to 33 per cent in 2015-16.

The dividends and profits improved marginally by seven per cent during 2015-16 over the previous year. The Government received dividends mainly

from Gujarat Mineral Development Corporation Ltd. (₹ 70.60 crore), Gujarat State Petroleum Gas Company Ltd. (₹ 4.50 crore) and Gujarat State Financial Services Limited (₹ 8.63 crore). The receipts from major and medium irrigation projects during the period continuously increased from ₹ 684 crore in 2011-12 to ₹ 1,035 crore in 2014-15 and reduced to ₹ 1,028 crore in 2015-16.

As pointed out earlier in the **Chart 1.6**, the share of non-tax revenue in revenue receipt ranged between eight to eleven *per cent* during five years period from 2011-12 to 2015-16 indicating that non tax resources did not contribute a significant role in financing the state expenditure.

1.3.2 Central Tax transfers

The FFC had recommended the States' share of Central taxes to be increased to 42 *per cent* from 32 *per cent* as recommended by ThFC. FFC awarded 3.084 *per cent* of shareable taxes excluding service tax and 3.172 *per cent* of shareable service tax to Gujarat in its award period (2015-16 to 2019-20). The Central tax transfer stood at ₹ 15,691 crore in 2015-16 registering growth of 52.38 *per cent* over the previous year. Among all the constituents of revenue receipts, the growth of Central tax transfers was the highest due to increase in vertical allocation and higher share of Gujarat than that awarded by ThFC.

1.3.2.1 Comparison of devolution under ThFC and FFC

Tax devolution to the state of Gujarat in first year of FFC award i.e. 2015-16 against the last year of ThFC award i.e. 2014-15 increased to ₹ 15,691 crore in 2015-16 (16.10 *per cent* of revenue receipts) from ₹ 10,296 crore in 2014-15 (11.19 *per cent* of revenue receipts). Grants-in-aid from GoI which constituted 11.78 *per cent* of revenue receipts in 2014-15 reduced to 9.18 *per cent* in 2015-16.

Receipts under Finance Commissions

The funds received by the State Government under the recommendations of Finance Commissions were as follows in **Table 1.8**:

Table 1.8: Funds received by the State from the Finance Commission

Sl. No.	Transfers	Amount received		Net effect
		2014-15 (Last year of ThFC award period)	2015-16 (First year of FFC award period)	
1.	Local Bodies	744.68	1,536.31	(+)791.63
	Grants to PRIs	390.06	932.25	(+)542.19
	General performance grants to PRI	115.74	0.00	(-)115.74
	Grants to ULBs	217.64	604.06	(+)386.42
	General performance grants to ULBs	0.00	0.00	0.00
	Scheduled Area Grant	14.40	0.00	(-)14.40
	Scheduled Area Performance Grant	6.84	0.00	(-)6.84
2	Disaster Relief including capacity Building	463.75	528.75	(+)65.00
3	Improving Outcome grants	70.07	0.00	(-)70.07
4	Environment related grants	755.85	0.00	(-)755.85
5	Elementary education	115.00	0.00	(-)115.00
6	Roads and bridges	0.00	0.00	0.00
7	State Specific Grants	116.55	0.00	(-)116.55
8	Share of Union Taxes/Duties	10,296.35	15,690.43	(+)5,394.08
9	Other Grants from Central Government	8,533.11	6,884.16	(-)1,648.95
	Total	21,095.36	24,639.65	(+)3,544.29

Source: Finance Department of Government of Gujarat

The FFC has recommended devolution of funds under only three types of Grants-in-aid to states viz. Local Government, Disaster Management and Post-Devolution Revenue Deficit. The FFC has desisted from recommending specific purpose grants and has suggested a separate institutional arrangement for the purpose. As seen from the table above, the Grants-in-aid to the Local bodies has been increased twofold while there is a marginal increase in the GIA under Disaster Relief. Other GIA viz. State specific grants, environment related grants, Roads and Bridges etc. have not been recommended.

Fund of ₹ 24,639.65 crore has been received in the first year of the award of FFC which is an increase of ₹ 3,544.29 crore (16.80 *per cent*) over the last year of ThFC. The increase in devolution to States consequent to FFC recommendations is expected to be reflected in the States' expenditure programmes. The details of expenditure incurred during 2014-15 and 2015-16 are as shown in **Table 1.9**.

Table 1.9: Details of expenditure during 2014-15 and 2015-16

(₹ in crore)

	2014-15	2015-16
GSDP	8,95,202(Q)	9,84,971(A)
Section- A: As per type		
Revenue Expenditure	86,652 (9.68)	95,779 (9.72)
Capital Expenditure	24,158 (2.70)	24,169 (2.45)
Section – B : As per nature		
Development Expenditure	79,684 (8.90)	86,324 (8.76)
Non development Expenditure	31,476 (3.52)	34,299 (3.48)

Figures in parenthesis indicate percentage to GSDP

Source: Finance Accounts

(Q)Quick estimates of GSDP at current prices

(A)Advance estimate of GSDP at current prices

From the table above, it is observed that the revenue expenditure as percentage of GSDP, remained almost similar during the years 2014-15 and 2015-16. Though there was an increase of ₹ 6,640 crore (8.33 per cent) in monetary terms from 2014-15 to 2015-16 in development expenditure, there was a decrease in percentage terms from 8.90 per cent in 2014-15 to 8.76 per cent in 2015-16.

1.3.3 Grants-in-aid from Government of India

The components of grants-in-aid received from the GoI during 2011-12 to 2015-16 are given in **Table 1.10**.

Table 1.10: Main components of Grants-in-aid from GoI

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Non-Plan Grants	1,467.13	1,230.30	2,079.21	2,668.94	2,179.28
Grants for State Plan Schemes	2,227.79	3,466.74	2,604.46	7,341.11	6,064.11
Grants for Central Plan Schemes	70.71	83.41	58.21	104.78	104.28
Grants for Centrally Sponsored Schemes	1,884.23	1,665.35	2,141.25	684.18	601.55
Total	5,649.86	6,445.80	6,883.13	10,799.01	8,949.22
Percentage of increase over previous year	27.52	14.09	6.78	56.89	(-)17.13
Total grants as a percentage of Revenue Receipts	8.97	8.57	8.61	11.74	9.18

Source: Finance Accounts of the respective years

The Grants-in-aid from GoI increased from ₹ 5,650 crore in 2011-12 to ₹ 10,799 crore in 2014-15. The high growth in receipts for State Plan Schemes in 2014-15 was due to changed classification of plan assistance to State Plan and its routing through Consolidated Fund of the State. In 2015-16,

the discontinuation of grants-in-aid by FFC except Post-Devolution revenue deficit, disaster relief and local bodies grants resulted in lower receipts than that of previous year.

1.3.4 Funds transferred by the Central Government to State Implementing Agencies

The Central Government had been transferring a sizeable quantum of funds directly to the State Implementing Agencies⁵ for the implementation of various schemes/programmes in the social and economic sector. As these funds were not routed through the State Budget/State Treasury System, the Annual Finance Accounts did not capture these fund flows and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them were not representing the whole picture.

The Government of India had decided that the plan assistance under all Centrally Sponsored Schemes (CSS) and block-grants would be classified as Central Assistance to State Plan. It was also decided to transfer the central assistance through the Consolidated Fund of the state in a phased manner from 2014-15 onwards.

1.3.5 Optimisation of the FFC grants

The recommendations of FFC for the award period 2015-16 include release of grants-in-aid to the State Governments. Consequently, Gujarat State had to receive two types of grants in conformity with the recommendations of the FFC.

The details of amounts awarded and received for the year 2015-16 are given below in **Table 1.11**

Table 1.11: Details of amounts awarded and received for the award period 2015-2016

(₹ in crore)				
Sl. No.	Transfers	Amount awarded	Amount received	Difference
1.	Local Bodies	1,547.16	1,536.31	10.85
	Grants to PRIs	932.25	932.25	0.00
	General performance grants to PRI	0.00	0.00	0.00
	Grants to ULBs	614.91	604.06	10.85
	General performance grants to ULBs	0.00	0.00	0.00
2	Disaster Relief including capacity Building	528.00	528.75	(-)0.75
	Total	2,075.16	2,065.06	10.10

Source: Finance Department of Government of Gujarat

As per the FFC award, during 2015-16, the State was entitled to receive ₹ 2,075.16 crore as grants-in-aid from GoI against which it had received ₹ 2,065.06 crore. On being pointed out (in case of general performance grants to ULBs) that there was a difference of ₹ 10.85 crore in amounts

⁵ See glossary

awarded and received, the Urban Development and Urban Housing Department intimated (June 2016) that due to incorrect reporting of ULBs as 167 instead of 170 the less grant was released from Government of India.

1.4 Capital Receipts

Trends in growth and composition of receipts of the State are given in the **Table 1.12**.

Table 1.12: Details of Capital Receipts

(₹ in crore)					
Sources of State's Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Capital Receipts (CR)	17,710	19,544	19,484	20,316	23,611
Miscellaneous Capital Receipts	10	0	0	241	0
Recovery of Loans and Advances	165	47	141	621	125
Public Debt Receipts	17,535	19,497	19,343	19,454	23,486
Rate of growth of debt capital receipts	5.11	11.19	(-0.79)	0.57	20.73
Rate of growth of non-debt capital receipts	(-53.21)	(-71.52)	200	340	(-79.87)
Rate of growth of GSDP	16.09	17.62	13.29	10.96	10.03
Rate of growth of CR (<i>per cent</i>)	3.83	10.36	(-0.30)	4.27	16.22

Source: Finance Accounts of the respective years

The capital receipts of the State increased from ₹ 17,710 crore in 2011-12 to ₹ 23,611 crore in 2015-16. The public debt receipts stood at almost 99.47 *per cent* of capital receipts. During 2015-16 the growth rate of capital receipt was 16.22 *per cent* mainly due to 21 *per cent* increase in debt capital receipts over the previous year. The trends in the Public Debt Receipts are given in **Table 1.13**.

Table 1.13: Public Debt Receipts

(₹ in crore)					
	2011-12	2012-13	2013-14	2014-15	2015-16
Market Borrowings	16,500	15,546	15,493	14,920	16,260
NSSF (National Small Saving Fund)	67	1,659	1,912	2,774	4,269
Loans from Other Financial Institutions	780	1,700	1,777	1,437	2,704
Total Internal Debt	17,347	18,905	19,182	19,131	23,233
Loans and Advances from GoI	188	592	161	323	253
Total Public Debt Receipts	17,535	19,497	19,343	19,454	23,486

Source: Finance Accounts of the respective years

During 2015-16, the internal debt receipt increased by ₹ 4,102 crore on account of increase in all constituents. The NSSF loans increased significantly by ₹ 1,495 crore in 2015-16 over the previous year. The total receipt of debt from internal sources increased continuously from 2011-12 to 2013-14 and after marginal decrease in 2014-15, again grew by 21 *per cent* during 2015-16.

The total public debt receipts also increased by 34 *per cent* from 2011-12 to 2015-16. In 2015-16 the loan and advances from GOI decreased by

22 per cent over 2014-15 on account of less receipts of loans for State 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 fund available with the Government for use. The resources under various heads of Public Account Receipts are given in Table 1.14.

Table: 1.14: Public Accounts Receipts (Net)

	(₹ in crore)				
Resources under various heads	2011-12	2012-13	2013-14	2014-15	2015-16
Public Account Receipts					
a. Small Savings, Provident Fund etc.	558	589	507	502	478
b. Reserve Fund	680	488	84	5,568	(-)295
c. Deposits and Advances	1,358	1,844	2,242	3,107	2,476
d. Suspense and Miscellaneous	(-)57	656	(-)1,033	843	256
e. Remittances	(-)47	(-)69	181	59	281
Total	2,492	3,508	1,981	10,079	3,196

Source: Finance Accounts of the respective years

The net Public Account Receipts decreased from ₹ 10,079 crore in 2014-15 to ₹ 3,196 crore in 2015-16. During 2015-16, except Remittances, the receipts from other constituents decreased significantly over the previous year. In Reserve Fund, the decrease was mainly on account of Sinking Fund and Guarantee Redemption Fund. In Deposits and Advances, the decrease was on account of Deposits of Local Fund. In Suspense and Miscellaneous, the decrease was on account of Treasury cheques.

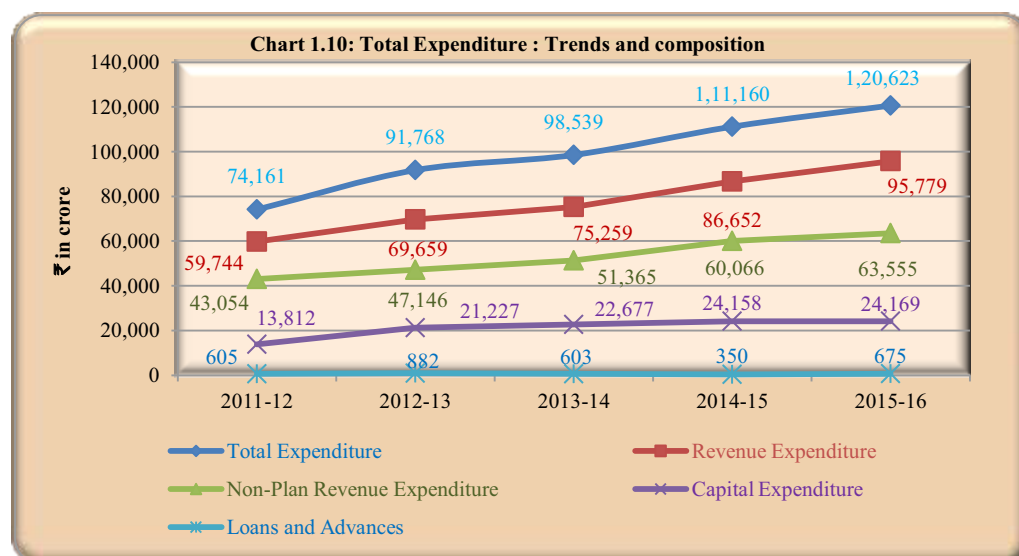
The net availability of funds under Small Savings, Provident Fund, Reserve Fund and Deposits and Advances are being consistently used in financing of fiscal deficit.

1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted to the State Government. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards the State's working as a welfare state.

1.6.1 Growth and Composition of Expenditure

Chart 1.10 presents the trends in total expenditure over a period of five years (2011-12 to 2015-16) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in Tables 1.15 and 1.16 respectively.



The total expenditure during 2015-16 increased by 8.51 per cent over the previous year, mainly due to 10.53 per cent increase in revenue expenditure. The revenue expenditure stood at 79 per cent of the total expenditure. The non-plan component was 66 per cent of revenue expenditure.

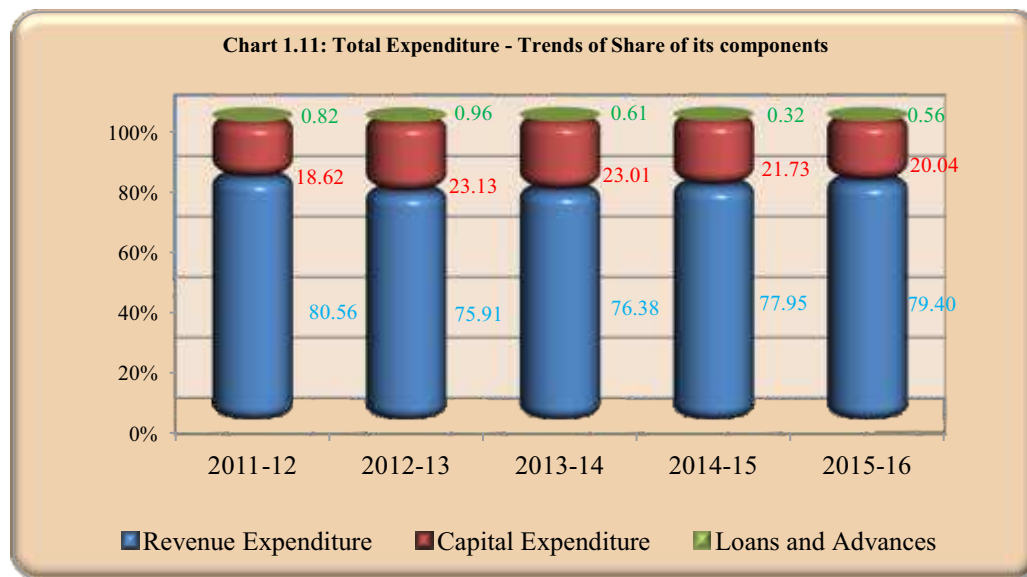
During 2015-16, the plan revenue expenditure grew at 21.21 per cent while the non-plan revenue expenditure grew at 5.81 per cent.

Table 1.15: Total Expenditure- Trends of Share of its components
(Figures in per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Expenditure	80.56	75.91	76.38	77.95	79.40
Capital Expenditure	18.62	23.13	23.01	21.73	20.04
Loans and Advances	0.82	0.96	0.61	0.32	0.56

Source: Finance Accounts of the respective years

Chart 1.11 presents composition of total expenditure over a period of five years (2011-12 to 2015-16).



The share of revenue expenditure in total expenditure declined from 80.56 per cent in 2011-12 to 75.91 per cent in 2012-13 and continuously increased thereafter to 79.40 per cent in 2015-16.

Table: 1.16: Total Expenditure- Trends by activities

(Share in per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16
General Services	29.72	27.07	28.05	27.79	27.93
Social Services	37.56	38.81	39.61	39.49	40.24
Economic Services	31.64	32.98	31.40	31.92	30.81
Loans and Advances	0.82	0.96	0.61	0.32	0.56
Grants-in-aid	0.26	0.18	0.33	0.48	0.46

Source: Finance Accounts of the respective years

The movement of relative share of these components exhibited relative stability during the period from 2011-12 to 2015-16 with marginal inter year variations. The share of Social services improved by 2.68 per cent in five year period and stood at 40.24 per cent. There was an increase in share of Social Services while it declined in General Services. The share of loans and advances indicated increasing trend from 2011-12 to 2012-13 and declined thereafter till 2014-15 but improved in 2015-16 by 24 basis points.

Chart 1.12 and **Chart 1.13** present components to total expenditure (in per cent) and activity wise allocation of total expenditure (in per cent) for the year 2015-16.

Chart 1.12: Components of Total expenditure (2015-16) (per cent)

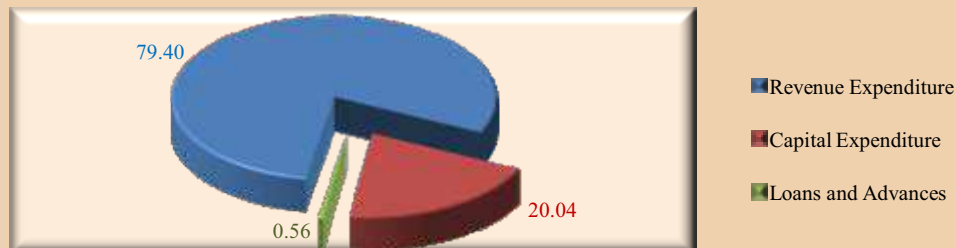
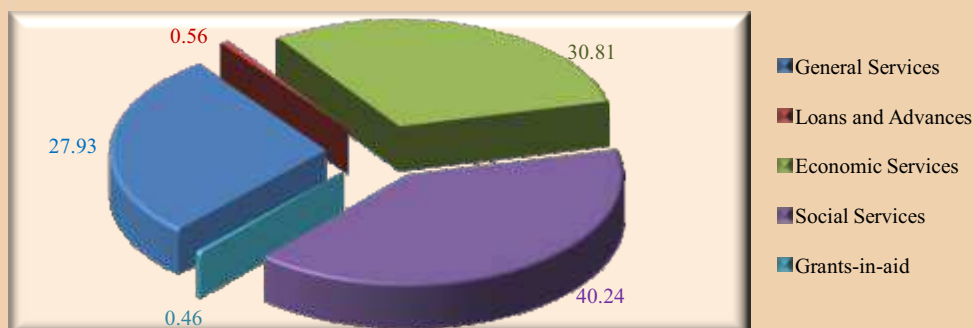


Chart 1.13: Activity wise allocation of Total expenditure (2015-16) (per cent)



1.6.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services. The overall revenue expenditure, its rate of growth and ratio of revenue expenditure to GSDP are indicated in **Table 1.17**.

Table 1.17: Trends of Revenue Expenditure relative to GSDP

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR) (₹ in crore)	62,959	75,229	79,976	91,978	97,483
Rate of growth of RR (per cent)	20.23	19.49	6.31	15.01	5.98
Revenue Expenditure (RE) (₹ in crore)	59,744	69,659	75,259	86,652	95,779
Rate of growth of RE (per cent)	4.01	16.60	8.04	15.14	10.53
RE/ GSDP Ratio (per cent)	9.87	9.78	9.33	9.68	9.72

Source: Finance Accounts of the respective years

Revenue expenditure continuously increased from ₹ 59,744 crore in 2011-12 to ₹ 95,779 crore in 2015-16. However, the growth rate fluctuated widely from 4.01 per cent in 2011-12 to 15.14 per cent in 2014-15. In 2015-16, it increased by 10.53 per cent over the previous year. The revenue expenditure grew at higher rate than that of revenue receipts from 2013-14 to 2015-16. The significant increase in gap of growth rates of revenue expenditure and revenue receipts resulted in lowering of revenue surplus in 2015-16. Revenue expenditure as a per cent of GSDP decreased from a high of 9.87 per cent in

2011-12 to lowest at 9.33 *per cent* in 2013-14 and increased to 9.72 *per cent* in 2015-16.

The increase in revenue expenditure during 2015-16 was mainly due to more expenditure on General Education (₹ 1,505 crore), Interest Payments (₹ 1,355 crore), Other Rural Development Programmes (₹ 1,192 crore) and Pension and Other Retirement Benefit (₹ 777 crore). Revenue expenditure during 2015-16 decreased for Power (₹ 895 crore), Road Transport (₹ 415 crore), Co-operation (₹ 374 crore) and Electricity (₹ 166 crore).

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** and **Chart 1.14** present the trends in the expenditure on these components during 2011-16.

Table 1.18: Components of Committed Expenditure (₹ in crore)

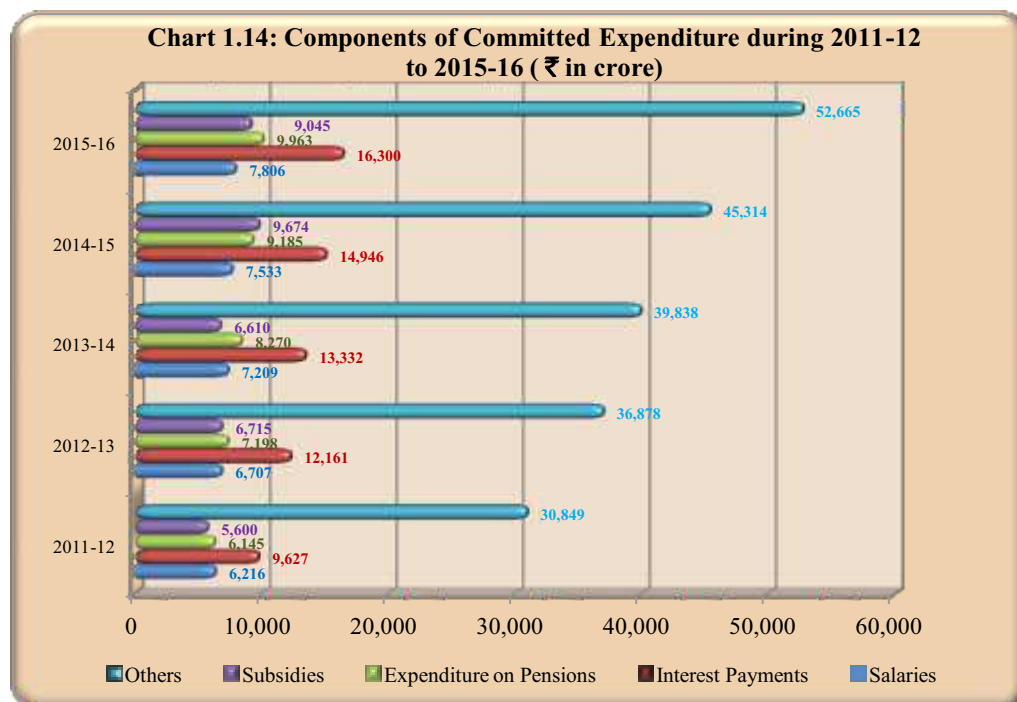
Components of Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16	
					BE	Actuals
Salaries, of which	6,216 (9.87)	6,707 (8.92)	7,209 (9.01)	7,533 (8.19)	8,177 (7.48)	7,806 (8.01)
Non-Plan Head	4,900	5,174	5,497	5,702	@	5,886 (6.03)
Plan Head*	1,316	1,533	1,712	1,831		1,920 (1.96)
Interest Payments	10,934 (17.37)	12,161 (16.17)	13,332 (16.67)	14,946 (16.25)	16,312 (14.92)	16,300 (16.72)
Expenditure on Pensions	6,145 (9.76)	7,198 (9.57)	8,270 (10.34)	9,185 (9.99)	8,533 (7.81)	9,963 (10.22)
Subsidies	5,600 (8.89)	6,715 (8.93)	6,610 (8.26)	9,674 (10.52)	5,129 (4.69)	9,045 (9.27)
Total expenditure on Salaries, Interest Payments, Pensions and Subsidies	28,895 (45.89)	32,781 (43.57)	35,421 (44.29)	41,338 (44.94)	38,151 (34.91)	43,114 (44.23)
Other components	30,849 (49.00)	36,878 (49.02)	39,838 (49.81)	45,314 (49.27)	63,836 (5.84)	52,665 (54.02)
Total Revenue Expenditure	59,744	69,659	75,259	86,652	1,01,987	95,779
Total Revenue Receipts	62,959	75,229	79,976	91,978	1,09,295	97,483

*Plan head includes Salaries and Wages under Centrally Sponsored Schemes.

@ The bifurcation in Non-Plan and Plan is not available for BE.

Figures in parenthesis indicate percentage of Revenue Receipts.

Source: Finance Accounts of the respective years



1.6.3.1 Expenditure on Salaries

In 2015-16, the expenditure on salaries increased by 3.62 per cent over the previous year. As a percentage of the revenue receipts, the expenditure on salaries decreased from 8.19 per cent in 2014-15 to 8.01 per cent in 2015-16.

1.6.3.2 Interest Payments

Interest payments increased steadily from ₹ 10,934 crore in 2011-12 to ₹ 16,300 crore in 2015-16. In percentage terms, it increased by 9.06 per cent over the previous year. The increase was mainly due to 15 per cent more payment of interest on market loans than that in the previous year. The share of interest payment on market borrowings and special securities issued to NSSF was 54 per cent and 29 per cent respectively. However, interest payments as a percentage of revenue receipts declined from 17.37 per cent to 16.72 per cent from 2011-12 to 2015-16 respectively.

1.6.3.3 Pension Payments

The actual expenditure on pension at ₹ 9,963 crore was 16.76 per cent higher than the budget estimates of the Government and it stood at 10 per cent of total revenue receipts of the State during the year. The estimated yearly pension liabilities were prepared on the basis of trend growth rates instead of actuarial basis. The expenditure on Pension during current year increased by ₹ 778 crore (8.47 per cent) over the previous year, mainly on account of increase in payment of superannuation and retirement allowances along with family pensions.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005, the Government estimated the pension payment as percentage of Revenue Receipts to be 9.04 per cent, however, it stood higher at 10.22 per cent.

1.6.3.4 Migration to New Pension Scheme

The State Government has introduced the New Defined Contribution Pension Scheme (NPS) with effect from 1 April 2005. The State Government signed (January 2009) agreements with the NPS trust for the fund management of the Scheme and adopted (May 2009) the central architecture designed for this scheme. The Government contributed ₹ 315.77 crore as matching contribution in 2015-16 as compared to ₹ 249.66 crore in 2014-15. The funds kept in Public Account which were to be transferred to the Trustee stood at ₹ 16.08 crore at the end of the financial year 2015-16.

1.6.3.5 Expenditure on Subsidies

The expenditure on subsidies increased by 62 per cent from ₹ 5,600 crore in 2011-12 to ₹ 9,045 crore in 2015-16. The expenditure on subsidies decreased during the current year by 6.51 per cent over the previous year, however it stood much higher when compared to the Budget estimates for 2015-16. The subsidy in the Power Sector decreased to ₹ 4,452 crore in the current year compared to ₹ 5,347 crore in the previous year. The subsidy for the Power Sector against total subsidy was 49.22 per cent in the current year. For Agriculture and Allied Activities, the subsidy decreased from ₹ 945 crore in 2014-15 to ₹ 711 crore in 2015-16. The food and related subsidy during 2015-16 remained same as that of 2014-15 at ₹ 343 crore. Subsidy to GSRTC on account of uneconomic routes, student concessions etc. decreased from ₹ 714 crore in 2014-15 to ₹ 301 crore in 2015-16.

1.6.4 Financial Assistance by the State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.19**.

Table 1.19: Financial Assistance to Local Bodies etc.

	(₹ in crore)				
Financial Assistance to Institutions	2011-12	2012-13	2013-14	2014-15	2015-16
Panchayati Raj Institutions (PRIs)	13,087.87	14,464.38	17,295.00	17,503.96	22,085.57
Urban Local Bodies	3,619.49	3,100.74	2,914.06	8,289.19	8,479.84
Public Sector Undertakings	119.69	4.05	27.55	59.60	54.93
Autonomous Bodies	1,626.18	644.45	650.77	2,912.78	3,090.62
Others	9,489.01	12,910.99	15,273.20	11,198.62	10,337.45
Total	27,942.24	31,124.61	36,160.58	39,964.15	44,048.41
Assistance as percentage of Revenue Expenditure	46.77	44.68	48.05	46.12	45.99

Source: Finance Accounts of the respective years

Financial assistance to local bodies and other institutions continuously increased from ₹ 27,942 crore in 2011-12 to ₹ 44,048 crore in 2015-16 which included payment of grants-in-aid to Municipal

Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, it ranged from 44.68 *per cent* to 48.05 *per cent*.

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 the expenditure, efficiency of expenditure use and its effectiveness.

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels require the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.20** analyses the fiscal priority of the State with regard to development expenditure, social expenditure and capital expenditure during 2015-16.

Table 1.20: Fiscal priority of the State in 2012-13 and 2015-16

Fiscal Priority by the State	AE /GSDP	DE [#] /AE	SSE /AE	ESE /AE	CE /AE	Education /AE	Health /AE
General Category State's Average (Ratio) 2012-13	14.14	70.03	38.47	29.70	13.70	17.72	4.72
Gujarat's Average(Ratio) 2012-13	12.89	72.69	38.83	33.86	23.13	15.28	5.04
General Category State's Average (Ratio) 2015-16	16.05	70.63	36.29	34.34	14.89	15.63	4.45
Gujarat's Average (Ratio) 2015-16	12.25	71.57	40.36	31.21	20.04	15.96	5.91

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, CE: Capital Expenditure

Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed

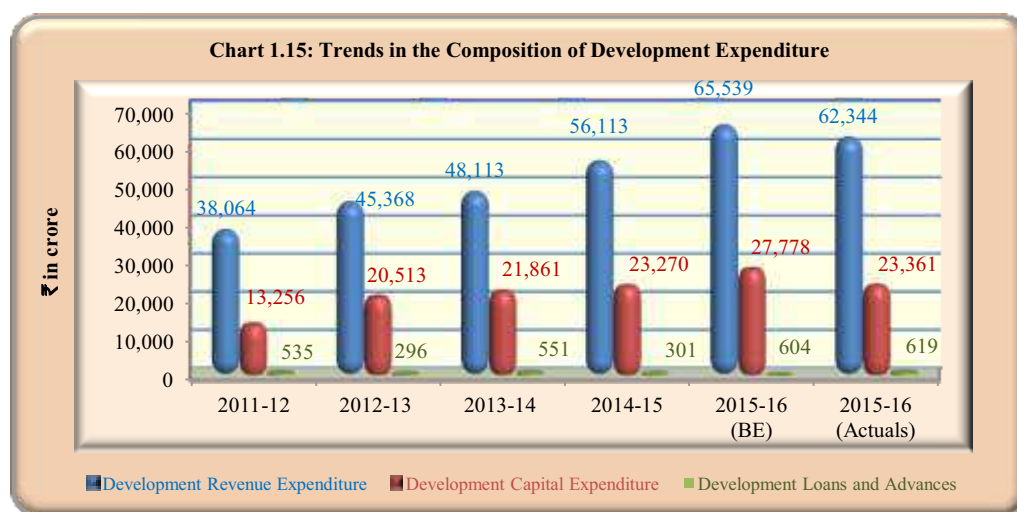
Table 1.20 indicates the following:

- 1) Gujarat spent a smaller proportion of its GSDP on aggregate expenditure in 2012-13 as well as in 2015-16 as compared to the General Category States (GCS). This clearly indicates that the State was spending less as a proportion of its GSDP as compared to GCS.
- 2) Development expenditure as a proportion of aggregate expenditure in Gujarat is higher than the GCS average during 2012-13 as well as in the current year. Developmental expenditure consists of both economic service expenditure and social sector expenditure. The expenditure on social sector as a proportion of aggregate expenditure in the State was higher than that of the GCS. The expenditure on economic sector as a proportion of aggregate expenditure in the State was higher in 2012-13 but lower in 2015-16 than that of GCS.

- 3) The ratio of Capital expenditure to aggregate expenditure indicates that the State Government adequately prioritised the capital expenditure in 2012-13 as well as in the current year as compared to GCS. However, CE as a percentage of AE was 23.13 *per cent* which declined to 20.04 *per cent* in the state.
- 4) Gujarat has spent less, as proportion of its aggregate expenditure on education sector as compared to other GCS in 2012-13 but improved marginally in 2015-16. Gujarat has given adequate priority to health sector in 2015-16 as compared to other GCS.

1.7.2 Efficiency of Expenditure

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 goods⁶. Apart from improving the allocation towards development expenditure⁷, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.15** presents the trends in development expenditure relative to the aggregate expenditure *vis-à-vis* budget estimates during the current year i.e. 2015-16. **Table 1.21** provides the details of capital expenditure and the components of revenue expenditure under selected social and economic services.



Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The

⁶ See glossary

⁷ The aggregate expenditure data segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the expenditure on social and economic services constitutes development expenditure, while expenditure on general services is treated as non-development expenditure.

development expenditure increased from ₹ 51,855 crore in 2011-12 to ₹ 86,324 crore in 2015-16. As a percentage of the total expenditure, the development expenditure of the State increased from 69.92 *per cent* in 2011-12 to 71.57 *per cent* in 2015-16. The capital expenditure component increased from ₹ 13,256 crore in 2011-12 to ₹ 23,361 crore in 2015-16. In the five year period from 2011-12 to 2015-16 the revenue expenditure on Socio-Economic services grew by 64 *per cent* while capital expenditure grew by 76 *per cent*. However, in 2015-16 the development revenue expenditure grew by 11 *per cent* but development capital expenditure grew only by 0.39 *per cent*. The disbursement of loans and advances for development purposes increased by 106 *per cent* in 2015-16 over the previous year.

Table 1.21: Efficiency of Expenditure under selected Social and Economic Services
(figures in *per cent*)

Social/Economic Infrastructure	2014-15		2015-16	
	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries
Social Services (SS) (absolute figures- ₹ in crore)	7,186	-	6,417	-
Education	7.48	3.95	6.65	3.76
Health and Family Welfare	30.93	27.51	26.61	24.58
Water Supply, Sanitation, Housing and Urban Development	25.47	0.52	19.58	0.45
Total (SS)	16.37	6.79	13.18	6.13
Economic Services (ES) (absolute figures- ₹ in crore)	16,084	-	16,944	-
Agriculture & Allied Activities	15.98	12.71	17.98	12.11
Irrigation and Flood Control	88.06	26.36	89.24	27.55
Power & Energy	27.42	0.74	41.62	0.92
Transport	39.62	0.83	38.62	0.86
Total (ES)	45.33	5.36	45.02	5.09
Total (SS+ES)	29.31	6.30	27.06	5.79

Source: Finance Accounts of the respective years

Expenditure on Social Services

Capital expenditure on the Social Services decreased by 10.70 *per cent* in absolute terms from ₹ 7,186 crore in 2014-15 to ₹ 6,417 crore in 2015-16. The share of Capital expenditure to the total expenditure under Social Services decreased significantly from 16.37 *per cent* to 13.18 *per cent*.

In education, the capital expenditure decreased mainly due to less expenditure on projects related to elementary education. In Health and Family Welfare, the capital expenditure decreased mainly due to less expenditure on Primary and Community Health Centers. In Water Supply, Sanitation, Housing and Urban Development, the capital expenditure

decreased on account of lower expenditure on water supply and urban development compared to that of the previous year.

The share of salaries in revenue expenditure under Social Services decreased from 6.79 *per cent* in 2014-15 to 6.13 *per cent* in 2015-16.

Expenditure on Economic Services

Capital expenditure on Economic Services increased from ₹ 16,084 crore in 2014-15 to ₹ 16,944 crore in 2015-16, registering a growth of 5.35 *per cent*. The share of capital expenditure to total expenditure under Economic Services decreased from 45.33 *per cent* in 2014-15 to 45.02 *per cent* in 2015-16. In Agriculture and Allied activities, the capital expenditure during current year increased mainly due to increase in expenditure on Soil and Water Conservation. Capital expenditure on Irrigation and Flood Control increased mainly due to more expenditure on medium and minor irrigation projects. In power and energy, capital expenditure increased mainly due to higher investment in Gujarat Urja Vikas Nigam Limited and Sardar Sarovar Narmada Nigam.

The share of salaries in revenue expenditure under Economic Services decreased from 5.36 *per cent* to 5.09 *per cent*, mainly on account of decrease in the share of salaries under Agricultural and Allied activities (12.71 *per cent* to 12.11 *per cent*).

1.8 Financial Analysis of Government Expenditure and Investments

The State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous year.

1.8.1 Financial Results of Irrigation Projects

At the end of March 2016, ₹ 2,346.79 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized from these irrigation projects during the year was ₹ 234.49 crore, against which the maintenance expenditure was ₹ 136.25 crore, indicating a revenue surplus of ₹ 98.24 crore. When compared with the investment on these projects, the return was 4.19 *per cent*.

1.8.2 Incomplete projects

At the end of March 2016, there were 70 incomplete capital works involving ₹ 6,270 crore. The Department-wise details of incomplete works (each costing ₹ 10 crore or more) are given in **Table 1.22**.

Table 1.22: Department-wise Profile of Incomplete Works

Department	Number of incomplete works	Initial Budgeted Cost	₹ in crore)	
			Cumulative expenditure as on 31 March 2016	actual as on 31 March 2016
Road and Buildings	52	2,192		1,632
Narmada, Water Resources, Water Supply and Kalpsar	18	4,078		3,278
Total	70	6,270		4,910

Source: Finance Accounts of the year 2015-16

It can be seen from the **Table 1.22** that Road and Buildings Department could incur expenditure to the extent of 74.45 *per cent* on the 52 incomplete projects when compared to the initial budgeted cost. In Narmada Water Resources, Water Supply and Kalpsar Department 18 projects remained incomplete incurring expenditure to the extent of 80.38 *per cent* of the initial budgeted cost.

In view of involvement of large financial cost, the Government should redirect its effort and resources to complete these incomplete projects so that intended benefit to users may be ensured.

1.8.3 Investment and returns

As of 31 March 2016, Government had invested ₹ 70,730 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions and Local Bodies (**Table 1.23**). The average return on the investments was 0.25 *per cent* in the last five years while the Government paid an average 7.67 *per cent* as interest on its borrowings during 2011-12 to 2015-16. Forty nine PSUs earned a net profit of ₹ 3,726 crore in financial year 2014-15. However, the State Government received only ₹ 96.06 crore as dividend from these PSUs in financial year 2015-16. In view of negligible return from PSUs, the State Government may consider formulation of a suitable dividend policy to be applicable to the State PSUs.

Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment in high cost funds.

Table1.23: Return on Investment

Investment/Return/Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Investment at the end of the year ⁸ (₹ in crore)	39,179	47,171	55,058	62,929	70,730
Return (₹ in crore)	128.93	54.31	277.44	89.54	96.06
Return (<i>per cent</i>)	0.33	0.12	0.50	0.14	0.14
Average rate of interest on Government borrowings (<i>per cent</i>)	7.63	7.66	7.62	7.76	7.69
Difference between average interest rate on Government borrowings and rate of return (<i>per cent</i>)	7.30	7.54	7.12	7.62	7.55

Source: Finance Accounts of the respective years

During the period of last five years, 2011-12 to 2015-16, the State Government's Investments had increased by ₹ 31,551 crore. During 2015-16, Government invested ₹ 387 crore in Statutory Corporations, ₹ 7,400 crore in Government Companies and ₹ 14 crore in Co-operative institutions etc. Out of ₹ 7,801 crore invested during 2015-16, 53 *per cent* (₹ 4,105 crore) was invested this year in the Sardar Sarovar Narmada Nigam Limited, a State -owned Company, which is executing the multi-purpose Narmada Project.

Investment in PPP projects

Public Private Partnership (PPP) is formed by the government agencies and bodies usually to promote and develop infrastructure facilities.

The status of Public Private Partnership (PPP) projects in infrastructure sector at various stages is presented in **Table 1.24**

**Table 1.24: Status of Public Private Partnership (PPP) projects in infrastructure sector
(As on 31 March, 2016)**

Sl. No.	Sector /Project Name	Projects completed		Projects under Implementation		Projects in Pipeline	
		No.	Estimated Cost	No.	Estimated Cost	No.	Estimated Cost
1	Road Sector	23	2,896.10	15	4,559	10	3,574.75
2	Urban Infrastructure	104	2,150.13	13	690.86	33	1,113.04
3	Water Sector	-	-	-	-	6	5,853
4	Power Sector	4	7,600	-	-	11	22,245
5	Ports	34	26,015	25	9,336	28	10,119
6	Logistic Parks	-	-	-	-	3	2,200
7	Aviation	-	-	-	-	6	2,500
8	IT & ITES Biotech	6	235	4	83	1	100
9	Railways	1	395	2	1,262	-	-
	Total	172	39,291.23	59	15,930.86	98	47,704.79

Source: Gujarat Industries Development Board

⁸ Includes all investments to Government companies, Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives Institutions and Local Bodies

Table 1.24 shows that out of 329 PPP projects of ₹ 1,02,927 crore in infrastructure sector in Gujarat, 172 projects of ₹ 39,291 crore were completed at the end of 2015-16. The Ports sector involves maximum investment in completed projects and maximum number of projects under implementation while Urban Infrastructure sector has maximum number of completed projects and maximum number of projects in pipeline.

The FD stated (December 2016) that the motto behind the investment by government in statutory corporations and government companies was to achieve an overall development of the state and for upliftment of the society.

While acknowledging that investment by the Government is required for attaining socio-economic welfare, Audit intends to flag the aspect of poor returns from profit making PSUs.

1.8.4 Loans and Advances by State Government

In addition to investments in Co-operative institutions, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.25** presents the position of loans and advances and 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

Quantum of Loans and Advances /Interest Receipts/ Cost of Borrowings	2013-14	2014-15	2015-16
Opening Balance	6,585	7,048	6,777
Amount advanced during the year	603	350	675
Amount repaid during the year	141	621	125
Closing Balance	7,048	6,777	7,327
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	6,536	6,517	6,811
Net addition	463	(-)271	550
Interest Receipts	100	142	172
Interest receipts as percentage of outstanding Loans and Advances	1.42	2.10	2.35
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.28	7.39	7.37
Difference between interest receipts and interest payments (per cent)	(-).5.86	(-).5.29	(-).5.02

Source: Finance Accounts of the respective years

The total amount of outstanding loans and advances increased from ₹ 7,048 crore in 2013-14 to ₹ 7,327 crore in 2015-16. The loans advanced during the year increased by ₹ 325 crore over the previous year. Out of the loans advanced and disbursed during the year, ₹ 146 crore was under Social Services, ₹ 473 crore under Economic Services and ₹ 56 crore as personal advances to Government and local self-government employees. The loans advanced under Social Services were used for urban development and

Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes and Minorities. Major portion of the loan advanced for Economic Services went to road transport (54 per cent), power (30 per cent) and engineering industries (13 per cent).

1.8.5 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.26**.

Table 1.26: Cash Balances and Investment of Cash Balances

(₹ in crore)

Cash Balances and Investment of Cash balances	Opening balance on 1/4/2015	Closing balance on 31/3/2016
(a) General Cash Balance -		
Cash in Treasuries	0.00	0.00
Deposits with Reserve Bank ⁹	(-)389.00	(-)598.63
Remittances in transit - Local	4.19	4.19
Investments held in Cash Balance investment account	12,401.93	8,945.52
Total (a)	12,017.12	8,351.08
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	25.02	(-)0.38
Permanent advances for contingent expenditure with departmental officers	0.27	0.27
Investment of earmarked funds	9,034.06	10,208.51
Total (b)	9,059.35	10,208.40
Grand total (a)+ (b)	21,076.47	18,559.48

Source: Finance Accounts of the respective years

Due to large surplus cash balance, during 2015-16, the State Government did not avail of any Ways and Means Advance from the RBI for maintenance of its minimum cash balance.

Outstanding balances under the head ‘Cheques and Bills’

The Major Head ‘8670 – Cheques and Bills’ is an intermediary account head for initial record of transactions which are to be cleared eventually. The outstanding balance under the Major Head ‘8670 – Cheques and Bills’ represents the amount of unencashed cheques. Cheques amounting to ₹ 3,321 crore remained unencashed as on 31 March, 2016.

Fresh borrowings despite availability of large cash balances

As per financial prudence, States with large cash balances, should direct their efforts towards utilising their existing cash balances before resorting to fresh borrowings. Further, States should consider utilising their surplus cash

⁹ The balance under the head ‘Deposits with Reserve Bank’ is arrived at after taking into account the Inter-Government monetary settlements pertaining to transactions of the Financial Year 2014-15 advised to the RBI till 15 April-2015.

balances for lump sum repayment of market borrowings raised during the period 2002-05, which would be due for repayment during the next few years. The Reserve Bank of India also reiterated the fact and advised the States to manage their cash balance more efficiently. The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,402 crore and ₹ 8,946 crore at the end of 2014-15 and 2015-16 respectively.

The persistence of large cash Surplus is a 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. In view of availability of resources under Public Accounts of the State, the Government could have curtailed the market borrowings to avoid interest burden for the coming years. The State Government should adopt the policy of need based borrowing and maintain minimum surplus cash balance.

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of the fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2016 compared with the corresponding position on 31 March 2015. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

As per the Statement under the Gujarat Fiscal Responsibility Act, 2005 the State Government liabilities comprise the following components : –

- (i) Special Securities issued to the National Small Savings Fund
- (ii) Loans and Advances from Central Government
- (iii) Market Loans
- (iv) Loans from Financial Institutions/Banks
- (v) Ways and Means Advances/Overdraft from RBI
- (vi) Small Savings, Provident Fund of Government Employees etc.
- (vii) Pension Liabilities
- (viii) Reserve Fund/Deposits & Provident Fund of other employees
- (ix) Other Liabilities.

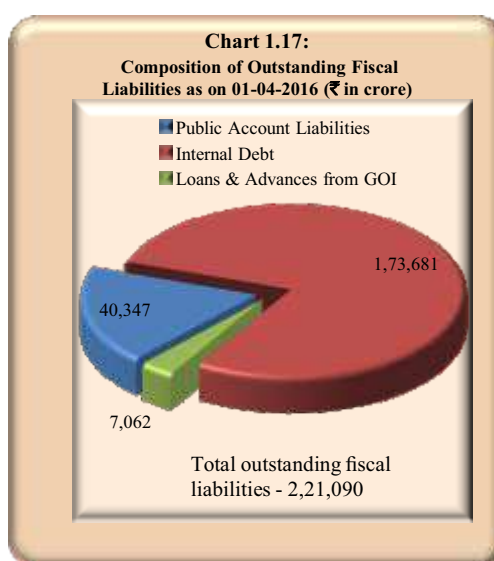
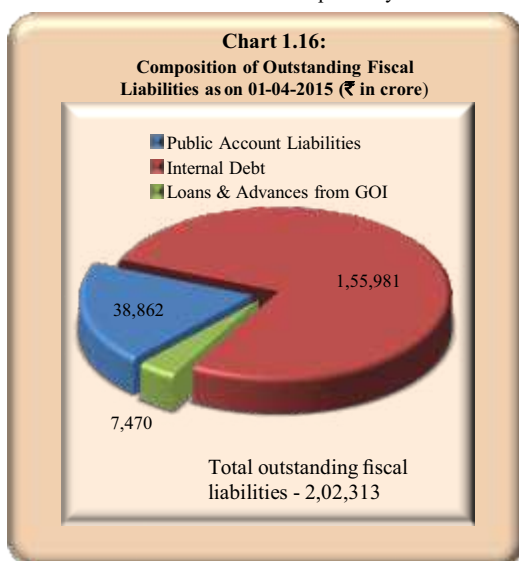
1.9.2 Fiscal Liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is as presented in the **Charts 1.16** and **1.17** below:

Table: 1.27: - Fiscal Liabilities – Basic Parameters

	2011-12	2012-13	2013-14	2014-15	2015-16
Fiscal Liabilities (₹ in crore)	1,50,785	1,66,667	1,83,057	2,02,313	2,21,090
Rate of Growth (<i>per cent</i>)	11.15	10.53	9.83	10.52	9.28
Ratio of Fiscal Liability to					
GSDP (<i>per cent</i>)	24.90	23.40	22.69	22.60	22.45
Revenue Receipts (<i>per cent</i>)	239	222	229	220	227
Own Resources (<i>per cent</i>)	304	278	289	285	304
Buoyancy of Fiscal Liabilities to					
GSDP (<i>Ratio</i>)	0.69	0.60	0.74	0.96	0.93
Revenue Receipts (<i>Ratio</i>)	0.55	0.54	1.56	0.70	1.55
Own Resources (<i>Ratio</i>)	0.56	0.50	1.69	0.89	3.35

Source: Finance Accounts of the respective years



Figures in parenthesis indicate percentage share

The outstanding fiscal liabilities have shown a steady increase over the years from ₹ 1,50,785 crore at the end of 2011-12 to ₹ 2,21,090 crore as at the end of 2015-16. The fiscal liabilities in the period from 2011-12 to 2015-16 increased by 47 *per cent* at annual average rate of 10.26 *per cent*. In 2015-16 the fiscal liabilities grew at 9.28 *per cent* against 10.52 *per cent* in 2014-15. The fiscal liabilities comprised internal debt of ₹ 1,73,681 crore (79*per cent*), public account of ₹ 40,347 crore (18 *per cent*) and loans and advances from GoI of ₹ 7,062 crore (three *per cent*) as at the end of 2015-16. The internal debt comprised mainly of market loans (₹ 1,15,158 crore) and special securities issued to National Small Savings Fund (₹ 49,817 crore). The fiscal liabilities at the end of 2011-12 represented 239 *per cent* of the revenue receipts during the year 2011-12 which reduced to 220 *per cent* at the end of 2014-15 but again increased to 227 *per cent* at the end of 2015-16. The outstanding debt to GSDP ratio at 22.45 *per cent* in the current year was in line with the projected ratio of 25.91 *per cent* in the fiscal consolidation roadmap of FFC.

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**.

1.9.3 Transactions under Reserve fund

There were 15 Reserve Funds earmarked for specific purposes out of which five funds were inoperative. The total accumulated balance as on 31 March 2016 in these funds was ₹ 14,263.74 crore (₹ 14,260.87 crore in operational funds and ₹ 2.87 crore in non-operational funds). However, the investment out of these funds was only ₹ 10,208.17 crore.

1.9.4 Ujwal DISCOM Assurance Yojana (UDAY)

The Ujwal DISCOM Assurance Yojana (UDAY) was launched by the Government of India in November 2015 for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). The Scheme aims to reduce the interest burden, cost of power, power losses in Distribution sector and improve operational efficiency of DISCOMs.

An agreement between State Government, DISCOMs and Government of India has been envisaged under the scheme for stipulating the respective responsibilities for achieving operational and financial milestones described in the scheme after which State Governments shall take over 75 per cent of outstanding debt of DISCOMs as on 30 September 2015 over two years i.e. 50 per cent in 2015-16 and 25 per cent in 2016-17.

Gujarat Government has entered into a tripartite MOU with DISCOMs and Ministry of Power (GoI) in February 2016. Since all the four DISCOMs of Gujarat have already achieved financial turn-around, the Government of Gujarat has decided to participate in UDAY Scheme without the component of financial turn-around and financing of future losses and working capital. In view of this, no assistance has been provided by the Government of Gujarat to the state DISCOMs during 2015-16.

1.9.5 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.28**.

Table 1.28: Guarantees given by the Government of Gujarat

Guarantees	2011-12	2012-13	2013-14	2014-15	2015-16
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	10,387	10,525	11,175	11,235	11,333
Outstanding amount of guarantees	7,449	6,195	6,549	5,984	5,236
Percentage of outstanding amount of guarantees to total revenue receipts	11.83	8.23	8.19	6.51	5.37

Source: Finance Accounts of the respective years

The Gujarat Fiscal Responsibility Act, 2005 prescribed capping of outstanding guarantees within the limit (₹ 20,000 crore) as prescribed in the Gujarat State Guarantees Act, 1963. During the year, the State Government has not extended any guarantee to any institutions. Out of total outstanding guarantees of ₹ 5,236 crore, 31 per cent (₹ 1,625 crore) were towards Sardar Sarovar Narmada Nigam Limited and nearly 13 per cent (₹ 658 crore) were towards Gujarat Urja Vikas Nigam Limited. The outstanding guarantees (₹ 5,236 crore) accounted for 5.37 per cent of the revenue receipts (₹ 97,483 crore) of the State Government and were well within the limit prescribed under the Fiscal Responsibility Act. During the year, the Government paid ₹ 6.39 crore on account of invocation of guarantee given to National Co-operative Tobacco Growers Federation Limited.

The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹ 623 crore at the end of 2015-16. During the year the Government did not contribute any amount towards the Guarantee Redemption Fund. However, the Government received ₹ 15 crore as guarantee fees against ₹ 21 crore received in the previous year.

1.10 Debt Management

Debt Sustainability

Debt sustainability implies State's ability to service the debt. Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability¹⁰ of the State. The analysis of various debt sustainability indicators of the State for the period of five years beginning from 2011-12 is given by **Table 1.29**.

Table 1.29: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2011-12	2012-13	2013-14	2014-15	2015-16
Outstanding Debt (₹ in crore)	1,50,785	1,66,667	1,83,057	2,02,313	2,21,090
Rate of Growth of outstanding Debt	11.15	10.53	9.83	10.52	9.28
Rate of Growth of GSDP	16.09	17.62	13.29	10.96	10.03
Average interest rate of outstanding debt	7.63	7.66	7.62	7.76	7.69
Interest/Revenue Receipt (<i>per cent</i>)	17.37	16.17	16.67	16.25	16.72
Debt Repayment/Debt Receipts	0.68	0.70	0.71	0.70	0.73
Net Debt available to the State	3,921	3,722	3,058	4,310	2,477

Source: Finance Accounts of the respective years

Table 1.29 reveals that outstanding debt increased from ₹ 1,50,785 crore in 2011-12 to ₹ 2,21,090 crore in 2015-16. The outstanding debt at the end of year 2015-16 comprised of Internal debt (₹ 1,73,681 crore), Loans and advances from the Central Government (₹ 7,062 crore) and small savings, Provident Fund etc. (₹ 40,347 crore). The gap of GSDP growth rate and average interest rate has been going down and stood lowest in 2015-16. The

¹⁰ See Glossary, Appendix 4.1

net debt available after providing for the interest and repayment declined from ₹ 4,310 crore in 2014-15 to ₹ 2,477 crore in 2015-16. During the last five years, net debt available stood lowest in 2015-16.

Debt Maturity Profile

From the outstanding debt of ₹ 2,21,090 crore as at the close of 2015-16, ₹ 40,347 crore pertains to Other Liabilities. The maturity profile of the remaining Public Debt is shown in **Table 1.30**.

Table 1.30: Maturity profile of Public Debt

Maturity Profile (in years)	Amount	Per cent
0 – 1	6,592.94	3.65
2 – 3	24,274.58	13.43
4 – 5	28,190.39	15.60
6 – 7	35,325.91	19.54
8 and above	86,359.00	47.78
Total	1,80,742.82	100.00

Source: Finance Accounts 2015-16

The maturity profile of the Public debt indicates that the liability of the State to repay the debt during the periods 2019-21 and 2021-23 would be ₹ 28,190.39 crore and ₹ 35,325.91 crore respectively which may put a strain on the Government budget during that period. It is observed that ₹ 94,383.82 crore i.e. 52.22 *per cent* of the total Public debt is repayable within the next seven years.

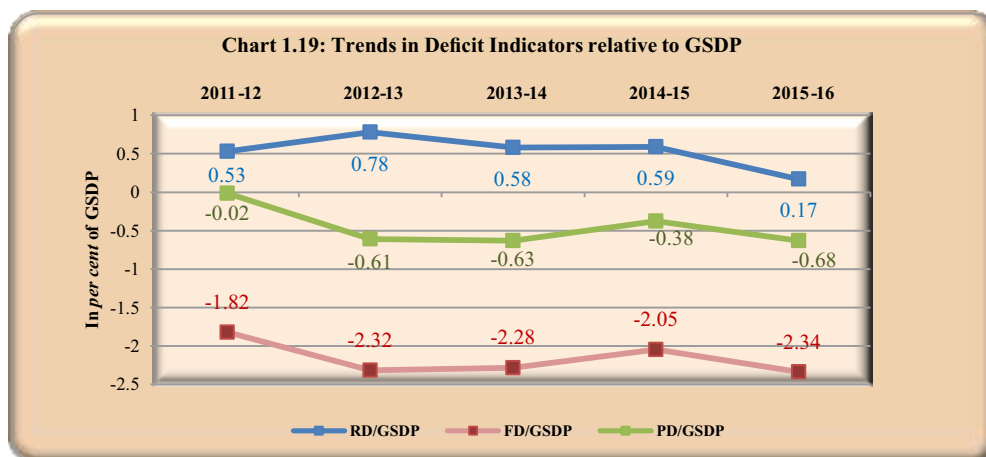
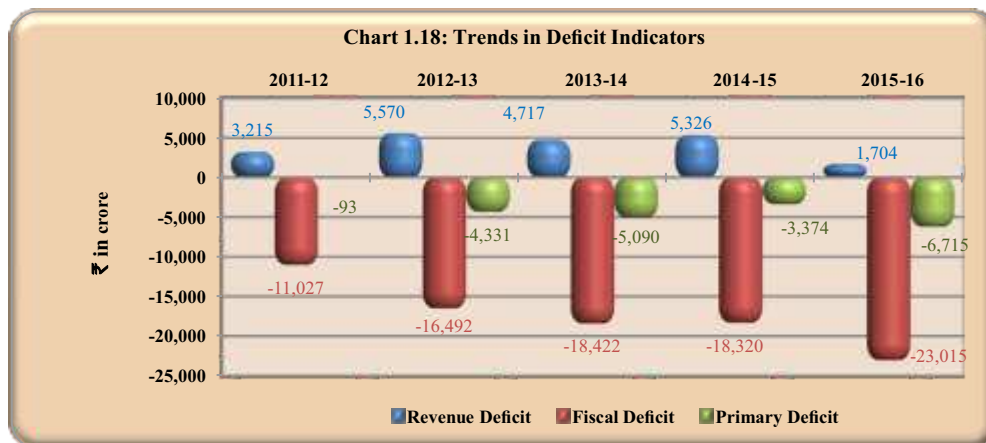
As per TwFC recommendations, the ratio of interest payments to revenue receipts should decline to 15 *per cent* by 2009-10. The interest payments on the total liabilities as a percentage of revenue receipts of the State for the period 2011-12 to 2015-16 ranged between 16.17 *per cent* and 17.37 *per cent* which was more than the recommended 15 *per cent*. In 2015-16, this percentage increased to 16.72 *per cent* due to higher growth rate of interest payment than that of revenue receipts.

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 deficits are financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under the FRBM Act/Rules for the financial year 2015-16.

1.11.1 Trends in Deficits

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2011-12 to 2015-16.



The revenue surplus of ₹ 3,215 crore in 2011-12 reduced to revenue surplus of ₹ 1,704 crore in 2015-16. The decrease in the revenue surplus during the current year was on account of increase of only ₹ 5,505 crore (6 per cent) in revenue receipts against an increase of ₹ 9,127 crore (10.53 per cent) in revenue expenditure over the previous year.

The fiscal deficit increased from ₹ 11,027 crore in 2011-12 to ₹ 23,015 crore in 2015-16. The significant increase in fiscal deficit during current year was mainly on account of substantial decline in revenue surplus compared to the previous year. An increase of ₹ 4,695 crore in fiscal deficit together with an increase of ₹ 1,354 crore in interest payment resulted in increase in primary deficit from ₹ 3,374 crore in 2014-15 to ₹ 6,715 crore in 2015-16. The fiscal deficit (2.34 per cent) still remained within the targeted level of three per cent of GSDP as set under the Gujarat Fiscal Responsibility Act.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.31**.

Table 1.31: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
Particulars		2011-12	2012-13	2013-14	2014-15	2015-16
Decomposition of Fiscal Deficit		11,027	16,492	18,422	18,320	23,015
1	Revenue Deficit (-)/Surplus(+)	(+),3,215	(+), 5,570	(+),4,717	(+),5,326	(+),1,704
2	Net Capital Expenditure	13,802	21,227	22,677	23,917	24,169
3	Net Loans and Advances	440	835	462	(-)271	550
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	15,083	12,846	13,047	13,246	14,565
2	Loans from GOI	(-)932	(-) 150	(-)495	(-)337	(-)408
3	Special Securities issued to NSSF	(-)1,864	(-) 561	(-)353	475	1,501
4	Loans from Financial Institutions	(-)28	826	940	561	1,633
5	Small Savings, PF etc	558	589	507	502	478
6	Deposits and Advances	1,358	1,844	2,242	3,107	2,476
7	Suspense and Miscellaneous	(-)56	656	(-)1,033	843	256
8	Remittances	(-)47	(-) 69	181	59	281
9	Reserve Fund	680	488	84	5,568	(-)294
10	Contingency Fund	(-) 80	81	0	(-)14	10
Total		14,672	16,550	15,119	24,010	20,498
Increase/Decrease (-) in Cash Balance		(+),3,645	(+), 58	(-),3,303	(+),5,690	(-),2,517

*All these figures are net of disbursements/outflows during the year
Source: Finance Accounts of the respective years

Table 1.31 reveals that during the last five years, market borrowings and net accretions in Small Savings, PF etc, Deposits and Advances along with Reserve Fund are main sources used by the State Government to finance the fiscal deficit. In 2015-16, the fiscal deficit of ₹ 23,015 crore was mainly met from net market borrowings of ₹ 14,565 crore. The contribution from NSSF loans and loans from financial institution improved significantly in current year as compared to the previous year. In view of availability of resources under Public Accounts of the State, this along with market borrowings resulted into large increase in Cash balance, after financing its deficit. In such situation, the Government could have curtailed the market borrowings to avoid interest burden for the coming years.

1.11.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.32**) would indicate the extent to which the deficit had been

on account of increase in capital expenditure which may have been desirable to improve the productive capacity of the State's economy.

Table 1.32: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ¹¹	Primary Revenue Deficit (-)/surplus (+)	Primary Deficit (-)/Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2011-12	63,134	48,810	13,812	605	63,227	(+)14,324	(-)93
2012-13	75,276	57,498	21,227	882	79,607	(+) 17,778	(-) 4,331
2013-14	80,117	61,927	22,677	603	85,207	(+)18,190	(-)5,090
2014-15	92,840	71,706	24,158	350	96,214	(+)21,134	(-)3,374
2015-16	97,608	79,479	24,169	675	1,04,323	(+)18,129	(-)6,715

Source: Finance Accounts of the respective years

During the period 2011-12 to 2015-16, primary expenditure increased by 65 per cent from ₹ 63,227 crore to ₹ 1,04,323 crore against the increase of non-debt receipt from ₹ 63,134 crore to ₹ 97,608 crore (55 per cent). During the period 2011-12 to 2015-16, the non-debt receipts did not cover the primary expenditure resulting in primary deficit in each year. In 2015-16, primary revenue expenditure and capital expenditure increased over the previous year. However, without commensurate increase in non-debt receipts vis-à-vis primary expenditure and increase in disbursement of loan and advances, there was increase in primary deficit from ₹ 3,374 crore to ₹ 6,715 crore.

1.12 Conclusion and Recommendations

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State achieved a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 1,704 crore in 2015-16 which was significantly lower than the projection in MTFPS of ₹ 7,308 crore. At the end of 2015-16, the fiscal deficit as percentage to GSDP was 2.34 per cent, which was within the limit of three per cent. The State's total outstanding debt as percentage of GSDP was 22.45 per cent in 2015-16 which was within the target of 25.91 per cent fixed by the FFC.

The revenue receipts of the State increased steadily from ₹ 62,959 crore in 2011-12 to ₹ 97,483 crore in 2015-16. The growth rate of revenue receipts fluctuated significantly during the period from 2011-12 to 2015-16 ranging between 20.23 per cent to 5.99 per cent. During 2015-16, revenue receipts grew only at 5.99 per cent despite higher tax transfer by the Central Government. State's own tax revenue was more responsive to GSDP compared to revenue receipts of the state from 2011-12 and 2012-13 but the situation reversed from 2013-14 onwards. The tax revenue of the State in

¹¹ Primary Expenditure is total expenditure except interest payments of the concerned year.

2015-16 could not achieve the target of budget estimates or MTFPS projection.

As per the FFC award, during 2015-16, the State was entitled to receive ₹ 2,075.16 crore as grants-in-aid from GoI against which it had received ₹ 2,065.06 crore due to incorrect reporting of ULBs.

The State Government may explore mobilising additional resources through tax and non-tax sources by ensuring better tax compliance and rationalising the user charges/fees respectively. The State Government may ensure compliance of conditions stipulated by the Finance Commission for receiving grants so that State does not suffer any financial losses on this account.

Revenue expenditure continuously increased from ₹ 59,744 crore in 2011-12 to ₹ 95,779 crore in 2015-16. However, the growth rate fluctuated widely from 4.01 per cent in 2011-12 to 15.14 per cent in 2014-15. In 2015-16, it increased by 10.53 per cent over the previous year. The revenue expenditure grew at higher rate than that of revenue receipts from 2013-14 to 2015-16. However, the Non Plan Revenue Expenditure (NPRE) has also shown consistent increase over the period from ₹ 43,054 crore in 2011-12 to ₹ 63,555 crore in 2015-16 and stood at 66.36 per cent of revenue expenditure. The expenditure on salaries, interest payments, pensions and subsidies increased from ₹ 28,895 crore in 2011-12 to ₹ 43,114 in 2015-16.

Whereas major chunk 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.

During 2015-16, Government invested ₹ 387 crore in Statutory Corporations, ₹ 7,400 crore in Government Companies and ₹ 14 crore in Co-operative institutions etc. The average return on the investments was 0.25 per cent in the last five years while the Government paid an average 7.67 per cent as interest on its borrowings during 2011-12 to 2015-16. Further, 49 PSUs earned a net profit of ₹ 3,726 crore in financial year 2014-15. However, the State Government received only ₹ 96.06 crore as dividend from these PSUs in financial year 2015-16.

The State Government may consider formulation of a dividend policy regarding payment of reasonable return from the profit earning PSUs on paid up share capital contributed by the State Government.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,402 crore and ₹ 8,946 crore at the end of 2014-15 and 2015-16 respectively. 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 have shown a steady increase over the years, from ₹ 1,50,785 crore at the end of 2011-12 to ₹ 2,21,090 crore at the end of 2015-16, though it remained within the target of 25.91 *per cent* fixed by the FFC. In view of availability of resources under Public Accounts of the State, the Government could have curtailed the market borrowings to avoid interest burden for the coming years.

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