EXECUTIVE SUMMARY

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Background

Maharashtra is the second largest State in India, in terms of population (11.24 crore as per 2011 census) and has 3.08 lakh sq. km. of geographical area. The State has shown slightly lower economic growth in the past decade, since the compounded annual growth rate of its Gross State Domestic Product for the period 2007-08 to 2016-17 has been 14.2 *per cent* as against 14.6 *per cent* in the General Category States of the country. During the above mentioned period, its population grew by 12.7 *per cent* as against 11.9 *per cent* in General Category States. The population below the poverty line in Maharashtra (17.4 *per cent*) was lower than the all India average of 21.9 *per cent*. The State's per capita income compounded annual growth rate in the current decade was lower at 12.7 *per cent* when compared with General Category State's growth rate of 13.2 *per cent*.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2016-17 and to provide the State Government and State Legislature with timely inputs, based on analysis of the financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budgetary Management Act, 2005 and the Budget Estimates of 2016-17.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2017, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the State's fiscal position as on 31 March 2017. It provides an insight into trends of committed expenditure and the borrowings made by the State.

Chapter II is based on audit of Appropriation Accounts and gives a grant-wise description of Appropriations voted for by the Legislature and the extent to which the allocated resources were managed by the service delivery Departments of the Government.

Chapter III gives a selected insight into the State Government's compliance to various reporting requirements and Financial Rules. The Report also compiles the data collated from various Government Departments/ Organisations in support of the audit findings.

Audit findings and recommendations

Chapter I

Finances of the State Government

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

During 2016-17, the State achieved two of the three major parameters specified by the Fourteenth Finance Commission *viz.* (i) the ratio of debt to Gross State Domestic Product at 17.5 *per cent* was lower than the norm (22.64 *per cent*), and (ii) the fiscal deficit at 1.5 *per cent* of Gross State Domestic Product was lower than the norm (3.25 *per cent*). However, the third parameter of Interest Payment/Revenue Receipt at 13.94 *per cent* was higher than the norm prescribed by Fourteenth Finance Commission (12.17 *per cent*) and to the norm prescribed by State's Medium Term Fiscal Policy Statement (12.78 *per cent*) during 2016-17. As against the revenue deficit of ₹ 5,338 crore during 2015-16, the deficit during 2016-17 was ₹ 8,536 crore due to higher growth rate of the revenue expenditure (12 *per cent*) than the revenue receipts (11 *per cent*) over the previous year.

Revenue receipts: The State could not maintain the momentum of growth of revenue receipts during 2012-13 to 2014-15. The rate of growth of revenue receipts which had increased to 11.9 *per cent* in 2015-16 from 10.4 *per cent* in the previous year 2014-15 had decreased to 10.6 *per cent* in 2016-17.

Central tax transfers: Tax devolutions from the Central Government increased from ₹ 28,106 crore in 2015-16 (15 *per cent* of revenue receipts) to ₹ 33,715 crore in 2016-17 (16 *per cent* of revenue receipts). The devolution of the State's share of Union Taxes assigned to the State increased by 20 *per cent* during the second year of award period of Fourteenth Finance Commission as compared to the first year of Fourteenth Finance Commission. Grants-in-aid from GoI which constituted nine *per cent* of revenue receipt in 2015-16 however, increased to 11 *per cent* in 2016-17.

Interest payments: Interest payments (₹ 28,532 crore), which increased by 11 *per cent* during the year over 2015-16, was more than the projections made in MTFPS (₹ 28,220 crore) but less than the projections made in the Fiscal Correction Path (₹ 29,361 crore) and assessment made by the Fourteenth Finance Commission (₹ 29,697 crore).

Non-plan revenue expenditure: The revenue expenditure (₹ 2,13,229 crore) constituted 87 *per cent* of the total expenditure (₹ 2,45,055 crore) of which, 80 *per cent* (₹ 1,71,140 crore) was incurred on the non-plan component. Non-plan revenue expenditure constituted 83 *per cent* of revenue receipts, during 2016-17, same as in previous year. During 2016-17, the non-plan revenue expenditure (₹ 1,71,140 crore) remained lower than the normative assessment made in the budget estimates, Medium Term Fiscal Policy Statement (₹ 1,75,193 crore) and Fiscal Correction Path (₹ 1,73,668 crore).

Capital expenditure: The percentage of capital expenditure to total expenditure remained constant at 11 *per cent* during 2012-13 and 2013-14. This declined to 10 *per cent* and remained at that level during 2014-15 to 2016-17. Greater fiscal priority needs to be given to this area since increased priority to physical capital formation is expected to increase the growth prospects of the State by creating durable assets.

Fiscal priority: During 2016-17, priority given to Health and Family Welfare in the State was lower (4.4 *per cent*) than that given by the General Category States (4.8 *per cent*). Thus greater Fiscal priority needs to be given to this sector.

Review of Government investments: The average return on the State Government's investment in Government Companies, Joint Stock Companies and Partnerships and Statutory Corporations *etc.* was 0.04 *per cent* during 2012-17 while the Government paid average interest at the rate of 7.6 *per cent* on its borrowings during the same period.

The Government may take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns.

Debt servicing: The average expenditure on debt servicing during 2012-17 was ₹ 30,652 crore which accounted for 89.1 *per cent* of average public debt receipts during the same period, implying that a larger percentage of debt was being used for debt servicing. This also indicated that a very insignificant portion of the debt was available for meeting developmental expenditure to promote growth. Further, the State has to mobilise the resources for repayment of ₹ 43,952.10 crore (an increase ₹ 30,235.04 crore compared to the period 2016-18) during the period 2018-20. Unless there is a definite plan to meet this liability the resources available for development may shrink.

Cash balances: There was an increase of 24 *per cent* in the cash balances of the State Government over the previous year, significant part of which pertained to balances in the Public Account. During 2016-17, the cash balance (₹ 68,750 crore) was nearly 28 *per cent* of the total expenditure (₹ 2,45,055 crore) of the State Government. The State Government managed to maintain the minimum cash balance required in the bank during 2016-17 and did not resort to Ways and Means Advances for the second consecutive year.

Fiscal liabilities: During 2016-17, the fiscal liabilities (₹ 3,95,858 crore) increased over the previous year (₹ 3,51,341 crore). The ratio of fiscal liabilities to GSDP at 17.5 *per cent* was lower than the norm of 22.64 *per cent* recommended by the Fourteenth Finance Commission. These liabilities were nearly twice the revenue receipts.

Chapter II

Financial Management and Budgetary Control

The programme implementation of various social and developmental programmes in the State left an overall saving of ₹ 49,240.15 crore, set-off by an excess of ₹ 167.69 crore. This requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of March 2017, leaving no scope for utilising these funds for other developmental purposes.

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

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

Chapter III

Financial Reporting

The Government's compliance with various rules, procedures and directives was found wanting in various Departments which was evident from delays in furnishing of Utilisation Certificates by various Grantee Institutions against the loans and Grants-in-aid received by them from the State Government. Delays were also seen in submission of Annual Accounts by Autonomous Bodies and Departmentally managed Commercial Undertakings. The Controlling Departments may identify the reasons for delay in finalisation of Accounts of Autonomous Bodies/Undertakings and institute remedial measures to ensure that arrears in Accounts are cleared in a time bound manner.

There were instances of large outstanding cases of losses and misappropriations for which Departmental action was pending since long. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book and internal controls in all the organisations should be strengthened.

Omnibus Minor Head across Major Heads continued to be operated during the year for recording receipts and expenditure. This affects transparency in financial reporting.

Non-reconciliation of 17 *per cent* (₹ 37,255 crore) of total expenditure and five *per cent* (₹ 7,278 crore) of total receipts during the year, despite being highlighted in earlier years, indicated violation of Codal provisions and Financial Rules by the Controlling Officers.

Detailed Contingency Bills were not submitted on time or not furnished at all in violation of prescribed Rules and Regulations, indicating lack of internal controls besides raising apprehensions about proper end-use of funds. Prolonged non-submission/delay in submission of Detailed Contingent Bills render the expenditure on Abstract Contingency Bills opaque. Further, to the extent of non-submission of Detailed Contingency Bill, the expenditure shown in the Finance Accounts could not be vouched as correct or final. An effective monitoring mechanism needs to be put in place in the Departments to adjust the advances drawn on Abstract Contingent Bills within the stipulated period, as required under the extant rules.