

**Socio-economic indicators of the State**

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 northwestern 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. The State's population increased from 5.71 crore in 2008 to 6.39 crore in 2017 recording a decadal growth of 12 *per cent*. The percentage of population below poverty<sup>1</sup> line was 16.6 *per cent* in 2011-12 as compared to the all-India average of 21.9 *per cent*. The Gross State Domestic Product (GSDP) in 2017-18 at current prices was ₹ 13,20,167 crore. The *per capita* GSDP of the State at ₹ 2,06,447 during 2017-18 was higher than the all India average of ₹ 1,29,800 during the same period. The State's literacy rate was 78 *per cent* (as per 2011 census). The Social and Economic indicators of the State are given in **Appendix 1.1 Part A**.

**Gross State Domestic Product (GSDP)** is the market value of all officially recognised final goods and services produced within the State in a given period of time. The trends in the annual growth of the State's GSDP as compared to India's Gross Domestic Product (GDP) at current prices<sup>2</sup> are indicated below.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
India's GDP <sup>3</sup> (₹ in crore)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (percentage)	12.97	10.99	10.40	10.82	9.96
State's GSDP <sup>4</sup> (₹ in crore)	8,07,623	9,21,773	10,25,188(P)	11,58,151(Q)	13,20,167(A)
Growth rate of GSDP (percentage)	11.47	14.13	11.22	12.97	13.99

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

<sup>1</sup> Economic Survey 2017-18 (January 2018), Vol. II page A 160-161

<sup>2</sup> Base year 2011-12

<sup>3</sup> Ministry of Statistics and Programme Implementation, Central Statistical Office

<sup>4</sup> Directorate of Economics and Statistics, Gandhinagar - Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No.30 of 2018-19)

## **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 and the overall trends during the preceding 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 2017-18**

The summary of the State Government's fiscal transactions during the current year (2017-18) *vis-à-vis* the previous year is presented in **Table 1.2** while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position of the State during the current year.

Table 1.2: Summary of Fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2016-17	2017-18		2016-17	2017-18		
					State Fund Expenditure	Central Assistance including CSS/CS	Total
<b>Section-A: Revenue</b>							
<b>Revenue receipts</b>	<b>1,09,841.81</b>	<b>1,23,291.27</b>	<b>Revenue expenditure</b>	<b>1,03,894.83</b>	<b>1,03,043.68</b>	<b>15,015.98</b>	<b>1,18,059.66</b>
Tax revenue	64,442.71	71,549.41	General services	35,804.35	40,932.63	468.93	41,401.56
Non-tax revenue	13,345.66	15,073.97	Social services	44,926.02	38,934.11	10,104.89	49,039.00
Share of Union taxes/duties	18,835.39	20,782.29	Economic services	22,748.51	22,702.88	4,442.16	27,145.04
Grants from Government of India	13,218.05	15,885.60	Grants-in-aid and Contributions	415.95	474.06	0.00	474.06
<b>Section-B: Capital</b>							
<b>Misc. Capital receipts</b>	<b>240.05</b>	<b>0.00</b>	<b>Capital Outlay</b>	<b>22,355.39</b>	<b>20,305.34</b>	<b>6,007.85</b>	<b>26,313.19</b>
<b>Recoveries of Loans and Advances</b>	<b>165.77</b>	<b>346.22</b>	<b>Loans and Advances disbursed</b>	<b>477.56</b>	<b>631.07</b>	<b>-</b>	<b>631.07</b>
<b>Public Debt receipts*</b>	<b>27,668.31</b>	<b>26,952.74</b>	<b>Repayment of Public Debt*</b>	<b>9,073.17</b>	<b>-</b>	<b>-</b>	<b>13,700.23</b>
<b>Contingency Fund</b>	<b>3.75</b>	<b>0.00</b>	<b>Contingency Fund</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>0.00</b>
<b>Net Public<sup>5</sup> Account</b>	<b>2,570.71</b>	<b>1,394.21</b>	<b>Net Public Account</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>0.00</b>
<b>Opening Cash Balance</b>	<b>18,559.48</b>	<b>23,248.93</b>	<b>Closing Cash Balance</b>	<b>23,248.93</b>	<b>-</b>	<b>-</b>	<b>16,529.22</b>
<b>Total</b>	<b>1,59,049.88</b>	<b>1,75,233.37</b>		<b>1,59,049.88</b>			<b>1,75,233.37</b>

Source: Finance Accounts of the State Government for the years 2016-17 and 2017-18

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

The following are the significant changes during 2017-18 over the previous year:

- Revenue receipts grew by ₹ 13,449 crore (12.24 per cent) over the previous year. All the components of revenue receipts showed an increasing trend during 2017-18. The grants from Government of India (GoI) increased by ₹ 2,667.55 crore (20.18 per cent), non-tax revenue by ₹ 1,728.31 crore

<sup>5</sup> Net Public Account represents total public account receipts less disbursement. During 2017-18, public account receipts were ₹ 89,132.67 crore and disbursement were ₹ 87,738.46 crore, leaving a Net Public Account balance of ₹ 1,394.21 crore.

(12.95 *per cent*), State's share of Union taxes by ₹ 1,946.90 crore (10.34 *per cent*) while State's tax revenue increased by ₹ 7,106.70 crore (11.03 *per cent*).

- Revenue expenditure increased by ₹ 14,164.83 crore (13.63 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 5,597.23 crore (15.63 *per cent*), Social Services by ₹ 4,112.98 crore (9.16 *per cent*) and Economic Services by ₹ 4,396.53 crore (19.33 *per cent*). The grants-in-aid released by the State Government increased by ₹ 58.11 crore (13.97 *per cent*) over the previous year.
- Capital outlay increased by ₹ 3,957.80 crore (17.70 *per cent*) over the previous year and the disbursement of loans and advances also increased by ₹ 153.51 crore (32.14 *per cent*).
- The Public Debt receipts decreased by ₹ 715.57 crore whereas, Public Debt repayments increased by ₹ 4,627.06 crore.
- The net Public Account receipts decreased by ₹ 1,176.50 crore.

The status of other fiscal indicators *i.e.* revenue surplus, fiscal deficit and primary deficit are discussed in paragraph 1.1.3 and 1.11 of this Report.

### **1.1.2 Review of fiscal situation**

In pursuance of recommendations of the Twelfth Finance Commission (12<sup>th</sup> FC) for the period 2005-10, the State Government enacted the Gujarat Fiscal Responsibility Act, 2005 with a view to ensuring prudence in fiscal management and to maintain fiscal stability in the State. As per Section 3 of the Act, the State Government is required to lay before the Legislature in every financial year the Medium Term Fiscal Policy Statement (MTFPS) along with the budget. The MTFPS and the Fiscal Policy Strategy Statement set forth the fiscal objectives, strategic priorities of the State Government and a three-year rolling target for fiscal management. The targets for fiscal consolidation *viz.* revenue deficit, fiscal deficit, total public debt and outstanding guarantees have been set forth in Section 5 of the Act.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (13<sup>th</sup> FC) for the period 2010-15 had recommended a fiscal consolidation roadmap for the States by amending (2011) their fiscal responsibility legislations. This required the States 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 of the respective financial year.

The Fourteenth Finance Commission (14<sup>th</sup> FC) for the period 2015-20 also recommended (December 2014) a revised fiscal roadmap to consolidate the finances of the State Government from the financial year 2015-16 onwards. The targets for major fiscal variables set out by the 14<sup>th</sup> FC and the projections made by the State Government in the MTFPS for the year 2017-18 compared to actual achievements are depicted in **Table 1.3**.

**Table 1.3: Major fiscal variables- targets and achievements for 2017-18**

Fiscal variables	14 <sup>th</sup> FC targets for the State	Targets proposed in MTFPS	Actual achievement
Revenue Deficit <sup>6</sup> (-)/ Surplus (+) (₹ in crore)	(+19,156	(+6,066	(+5,231.61
Fiscal Deficit <sup>7</sup> /GSDP(in <i>per cent</i> )	3.00	1.82	1.62
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i> )	25.83	-	19.42
Ratio of Public debt to GSDP (in <i>per cent</i> )	27.10	16.83	16.10
Outstanding Government Guarantees (₹ in crore)	-	Below 16,000	4,834.24

Source: 14<sup>th</sup> FC Report, Budget Estimates and Finance Accounts for the year 2017-18

The State achieved zero revenue deficit target in 2011-12 and reported a revenue surplus of ₹ 3,215 crore in that year and the revenue surplus continued thereafter. The revenue surplus stood at ₹ 5,232 crore in 2017-18 which was significantly lower than the projections made in 14<sup>th</sup> FC and MTFPS.

Indian Government Accounting Standards (IGAS)-2 prescribes that grants-in-aid should be booked under revenue expenditure. However, in 2017-18, the State Government incorrectly budgeted and booked expenditure of ₹ 119.38 crore<sup>8</sup> relating to grants-in-aid under the capital section instead of the revenue section. This resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to that extent.

At the end of 2017-18, the fiscal deficit as a percentage of GSDP stood at 1.62 *per cent*, which was within the limit of three *per cent* recommended by the 14<sup>th</sup> FC and also within the limit of the Government's own projection of 1.82 *per cent* in MTFPS. The State Government maintained the percentage of public debt to GSDP at 16.10 during 2017-18 against the target of 16.83 *per cent* set out in MTFPS. The fiscal deficit to GDP ratio of the GoI was 3.53 *per cent* and public debt to GDP ratio was 39.07 *per cent* during 2017-18, indicating that the Government of Gujarat had acceptable and sustainable levels of public debt.

In the fiscal consolidation roadmap, the 14<sup>th</sup> FC had recommended the percentage of outstanding liabilities<sup>9</sup> to GSDP at 25.83 for 2017-18, against which, the percentage of actual outstanding liabilities to GSDP stood at 19.42 during 2017-18.

Against the non-debt capital receipts of ₹ 346.22 crore on account of recoveries of loans and advances and revenue surplus of ₹ 5,232 crore during 2017-18, the State expended ₹ 40,644 crore in 2017-18 for capital outlay, disbursement of loans and repayment of public debt, which necessitated borrowings to meet capital expenditure.

<sup>6</sup> Revenue Deficit = Revenue expenditure – Revenue receipts

<sup>7</sup> Fiscal Deficit=Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Miscellaneous capital receipts

<sup>8</sup> Details of expenditure booked are shown in Table 2.10 under paragraph 2.6, Chapter - II

<sup>9</sup> Total Outstanding Liabilities include 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.*

### 1.1.3 Budget estimates, revised estimates and actuals

The budget papers presented by the State Government provide projections or estimations of receipts and expenditure for a particular fiscal year. The importance of accuracy in the estimation of receipts and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates (BE) are indicative of non-attainment/non-optimisation of the desired fiscal objectives due to various reasons, some within the control of the Government and some beyond its control. The State Government presented its revised estimates (RE) of financial year 2017-18 along with BE of 2018-19 on 20 February 2018.

Taking a cue from the Centre, the Gujarat Government has decided to do away with the distinction between plan and non-plan expenditure in its budget from the financial year 2017-18 onwards and named it as State Fund Expenditure. The Government believes that the merger will enable it to provide an appropriate budgetary framework having focus on revenue and capital expenditure.

A comparison of actuals with BE and RE for the year 2017-18 is given in **Table 1.4** below and a detailed comparison is shown in **Appendix 1.4**.

**Table 1.4: Budget estimates, revised estimates and actuals for the year 2017-18**

(₹ in crore)

Fiscal Parameters	Budget estimates	Revised estimates	Actuals	Difference between BE and actuals	Difference between RE and actuals
Tax Revenue	76,553.43	77,967.35	71,549.41	(-)5,004.02	(-)6,417.94
Non-tax Revenue	18,399.61	16,995.28	15,073.97	(-)3,325.64	(-)1,921.31
State's share of Union taxes and duties	20,897.06	20,782.34	20,782.29	(-)114.77	(-)0.05
Grants-in-aid from GoI	15,671.13	15,805.54	15,885.60	214.47	80.06
Revenue receipts	1,31,521.23	1,31,550.51	1,23,291.27	(-)8,229.96	(-)8,259.24
Revenue expenditure	1,25,455.63	1,25,573.92	1,18,059.66	(-)7,395.97	(-)7,514.26
Interest payments	19,337.77	19,060.17	18,954.04	(-)383.73	(-)106.13
Capital expenditure	28,926.95	27,647.53	26,313.19	(-)2,613.76	(-)1,334.34
Revenue surplus (+)	6,065.70	5,976.59	5,231.61	(-)834.09	(-)744.98
Net loans and advances	364.00	402.00	284.85	(-)79.15	(-)117.15
Miscellaneous capital receipts	10.00	125.00	0.00	(-)10.00	(-)125.00
Fiscal deficit (-)	23,215.00	21,948.00	21,366.43	(-)1,848.57	(-)581.57
Primary deficit (-) <sup>10</sup>	3,877.83	2,887.83	2,412.39	(-)1,465.44	(-)475.44

Source: Finance Accounts and budget publications of the State Government for the year 2017-18

<sup>10</sup> Primary deficit = Fiscal deficit – interest payments

Analysis of the important parameters is discussed in the succeeding paragraphs.

### 1.1.3.1 Revenue receipts

Revenue receipts were lower by ₹ 8,230 crore (6.26 per cent) and ₹ 8,259 crore (6.28 per cent) over BE and RE respectively. The shortfall *vis-à-vis* BE was on account of less collection of (i) revenue from Value Added Tax and State Goods and Services Tax (SGST) (₹ 2,713 crore), (ii) land revenue (₹ 1,761 crore), (iii) interest receipts (₹ 950 crore), (iv) revenue from education, arts, sports and culture (₹ 351 crore), and (v) receipts from major irrigation projects (₹ 319 crore). In respect of non-ferrous, mining and metallurgical industries, actuals were lower than BE and RE (₹ 957 crore).

### 1.1.3.2 Revenue expenditure

Revenue expenditure was less than BE and RE by ₹ 7,396 crore (5.90 per cent) and ₹ 7,514 crore (5.98 per cent) respectively. The shortfall *vis-à-vis* BE was mainly due to less expenditure on miscellaneous general services (₹ 5,990 crore); housing (₹ 1,522 crore); urban development (₹ 1,135 crore); and nutrition (₹ 1,007 crore). The RE was higher than the actual revenue expenditure in all three services *viz.* general, social and economic services.

The Finance Department attributed (March 2019) the variations to items like dearness allowance related policy decisions, decretal payments and lesser receipt for the Centrally Sponsored Schemes from GoI. Moreover, the amount of market borrowing, decretal interest payments, net average balance of general provident fund, changes in rate of LIBOR<sup>11</sup> and foreign exchange rates also affects the amount of actual interest payment in any financial year and therefore to figure out exact prediction about these factors is a complex task.

### 1.1.3.3 Capital expenditure

In 2017-18, Capital expenditure was lower by ₹ 2,614 crore (9.04 per cent) and ₹ 1,334 crore (4.83 per cent) than BE and RE respectively. Capital expenditure was less than the projections made in BE mainly due to less expenditure on education, arts, sports and culture (₹ 847 crore); other social services (₹ 341 crore); major irrigation (₹ 272 crore); and welfare of scheduled castes, scheduled tribes, other backward classes and minorities (₹ 274 crore).

### 1.1.3.4 Deficits/surpluses

Against the projected revenue surplus of ₹ 6,066 crore and ₹ 5,977 crore in BE and RE respectively, the State had an actual revenue surplus of ₹ 5,232 crore (0.40 per cent of GSDP). Against the projected primary deficit of ₹ 3,878 crore and ₹ 2,888 crore in BE and RE respectively, the State had a primary deficit of ₹ 2,412 crore (0.18 per cent of GSDP). In 2017-18, the fiscal deficit stood at ₹ 21,366 crore (1.62 per cent of GSDP) which was lower than that estimated in BE and RE by ₹ 1,849 crore and ₹ 582 crore respectively.

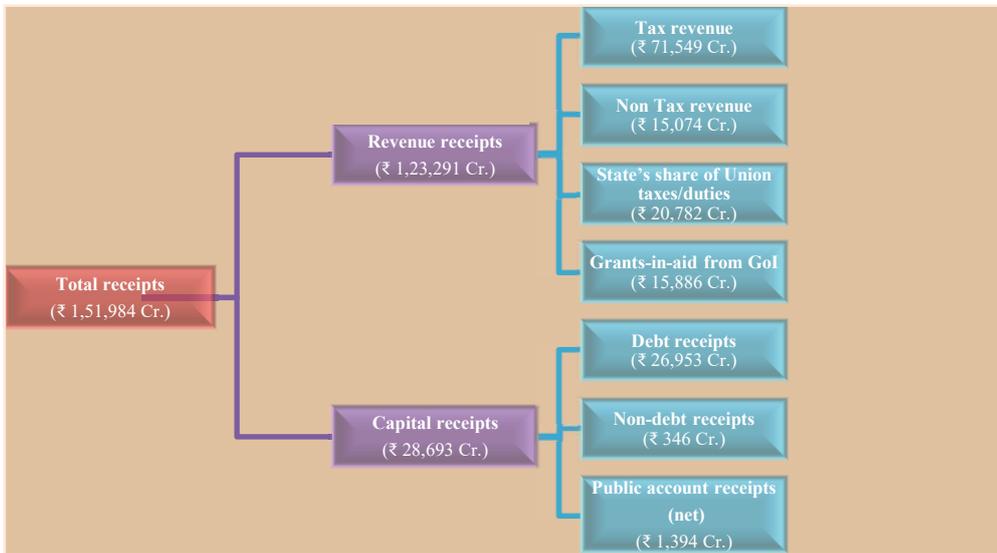
<sup>11</sup> The London Interbank Offered Rate is the average interest rate at which leading banks borrow funds from other banks in the London market. LIBOR is the most widely used global benchmark or reference rate for short term interest rates.

1.2 Resources of the State

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 GoI. 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 net receipts 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 1.1 depicts the components and sub-components of resources during the year 2017-18.

Chart 1.1: Components and sub-components of resources in 2017-18



Tax revenue	Non-tax revenue	State's share of Union taxes	Debt receipts	Grants-in -aid
<ul style="list-style-type: none"> <li>Value Added Tax (₹ 29,639 cr.)</li> <li>State Goods &amp; Services Tax (₹ 21,251 cr.)</li> <li>Stamp and registration (₹ 7,255 cr.)</li> <li>Electricity and duties (₹ 6,484 cr.)</li> <li>Others (₹ 6,920 cr.)</li> </ul>	<ul style="list-style-type: none"> <li>Non-ferrous mining and metallurgical Industries (₹ 8,989 cr.)</li> <li>Interest receipts (₹ 1,081 cr.)</li> <li>Others (₹ 5,004 cr.)</li> </ul>	<ul style="list-style-type: none"> <li>Income tax (₹ 5,371 cr.)</li> <li>Corporation Tax (₹ 6,361 cr.)</li> <li>Central Goods &amp; Services Tax (292 cr.)</li> <li>Integrated Goods &amp; Services Tax apportioned (2,097 cr.)</li> <li>Service tax (2,373 cr.)</li> <li>Others (₹ 4,288 cr.)</li> </ul>	<ul style="list-style-type: none"> <li>Market loans (₹ 24,000 cr.)</li> <li>Others (₹ 2,953 cr.)</li> </ul>	<ul style="list-style-type: none"> <li>Goods &amp; Services Tax Compensation (₹ 3,687 cr.)</li> <li>Others (₹ 12,199 cr.)</li> </ul>

Chart 1.2 depicts the trends of various components of the State’s receipts during 2013-14 to 2017-18.

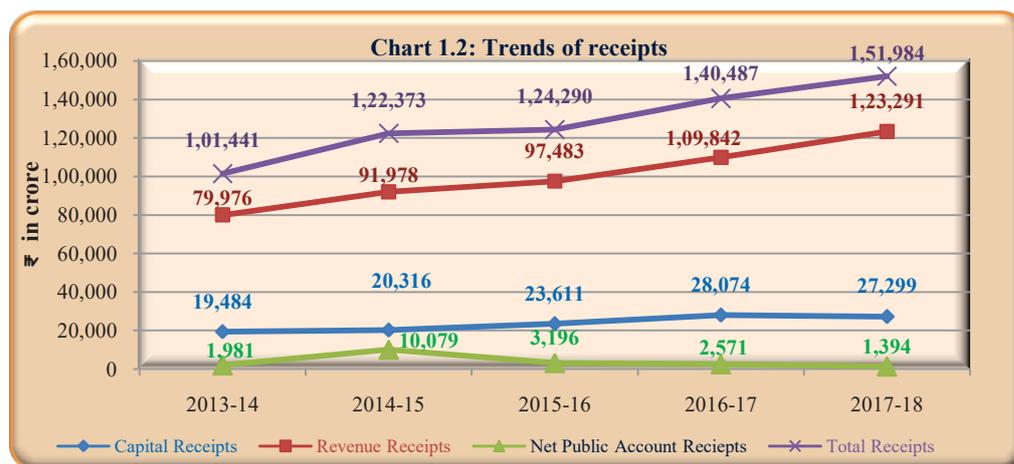
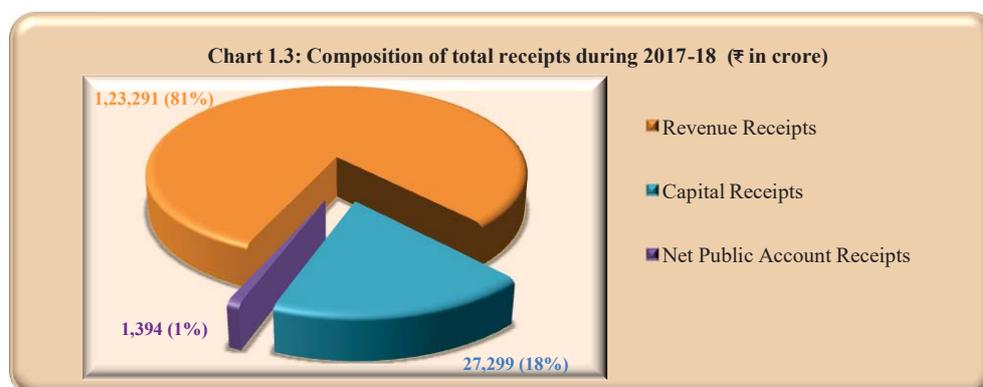


Chart 1.3 depicts the composition of resources of the State in total receipts during the current year 2017-18.

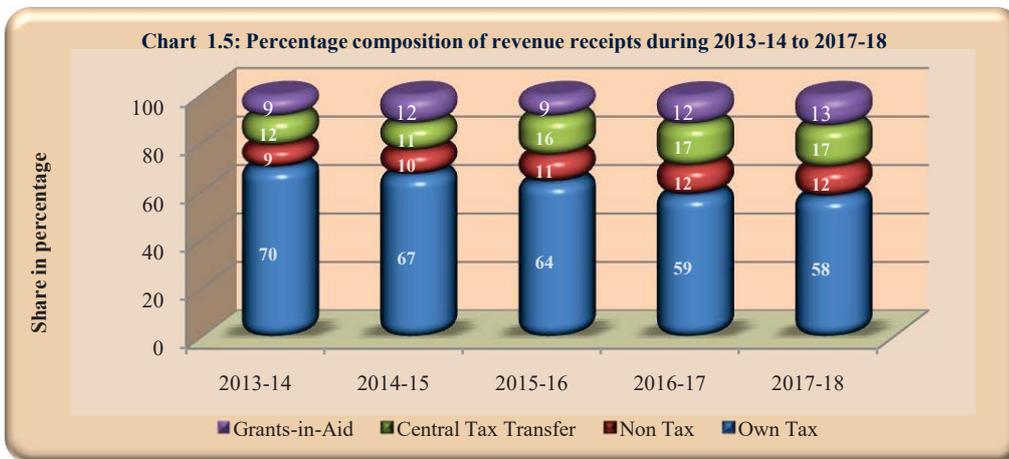
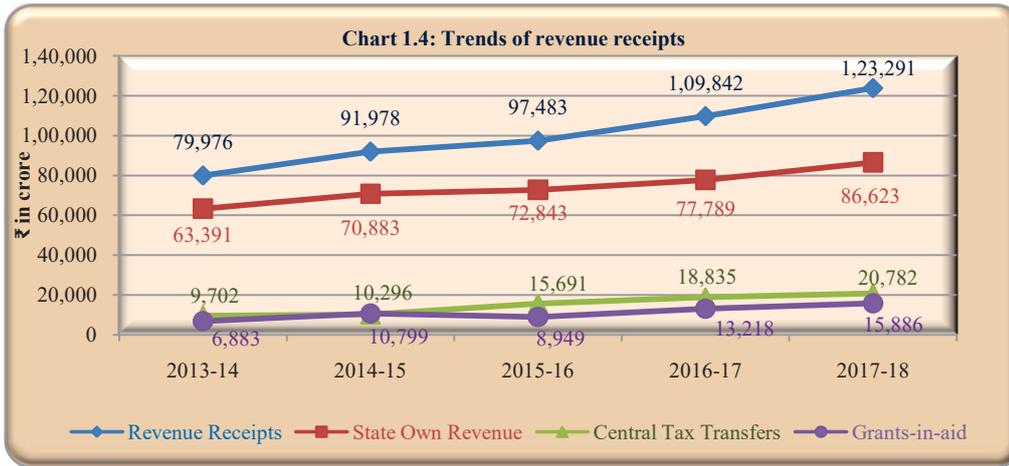


The total receipts of the State Government show a steady increase from ₹ 1,01,441 crore in 2013-14 to ₹ 1,51,984 crore in 2017-18. The total receipts increased by ₹ 11,497 crore in 2017-18 over the previous year. The increase was mainly due to increased growth in revenue despite a decrease in capital receipts and net public account receipts.

The revenue receipts remained the highest contributor (over three-fourth) of the total receipts over the five-year period. The share of net public account receipts to total receipts remained lowest in 2017-18. The components of revenue receipts, capital receipts and public account receipts are discussed in paragraph 1.3 to 1.5.

### 1.3 Revenue Receipts

The revenue receipts of the Government are detailed in Statement-14 of the Finance Accounts. 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 percentage composition of revenue receipts over the period 2013-14 to 2017-18 are presented in **Charts 1.4 and 1.5** and also given in **Appendix 1.5**.



Revenue receipts grew by ₹ 13,449 crore (12.24 per cent) over the previous year. The State’s tax revenue increased by ₹ 7,106.70 crore (11.03 per cent) and the non-tax revenue increased by ₹ 1,728.31 crore (12.95 per cent). The State’s share of Union taxes increased by ₹ 1,946.90 crore (10.34 per cent) while the grants from GoI increased by ₹ 2,667.55 crore (20.18 per cent).

Chart 1.5 shows that 70 per cent of revenue came from the State’s own resources during 2017-18 and the balance was from GoI in the form of the State’s share of taxes and grants-in-aid. The share of own tax revenue decreased steadily from 70 per cent in 2013-14 to 58 per cent in 2017-18 whereas, the share of central tax transfers increased continuously from 2014-15 to 2016-17 and remained the same during 2017-18.

### 1.3.1 Trends of revenue receipts relative to GSDP

The trends of revenue receipts relative to GSDP are presented in Table 1.5 below.

**Table 1.5: Trends of revenue receipts relative to GSDP**

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Revenue receipts (RR) (₹ in crore)</b>	<b>79,976</b>	<b>91,978</b>	<b>97,483</b>	<b>1,09,842</b>	<b>1,23,291</b>
Rate of growth of RR ( <i>per cent</i> )	6.31	15.01	5.99	12.68	12.24
Rate of growth of State's own revenue ( <i>per cent</i> )	5.80	11.82	2.77	6.79	11.36
<i>Percentage of RR to GSDP</i>	9.90	9.98	9.51	9.48	9.34

Source: Finance Accounts of the State Government for the year 2013-14 to 2017-18

GSDP at current prices increased from ₹ 11,58,151 crore in 2016-17 to ₹ 13,20,167 crore in 2017-18, representing growth of 13.99 *per cent*. The growth rate of revenue receipts fluctuated during 2013-14 to 2017-18, ranging between a high of 15.01 *per cent* in 2014-15 and a low of 5.99 *per cent* in 2015-16. The revenue receipts grew by 12.24 *per cent* in 2017-18 over the previous year. The percentage of revenue receipts to GSDP had been continuously on a decline from 2014-15 onwards, meaning that revenue receipts grew at a slower rate than GSDP.

### 1.3.2 Trends in buoyancy ratios

Buoyancy ratio<sup>12</sup> indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The value more than one indicates high degree of responsiveness of the fiscal variable to the base variable. As GSDP grows, the ability of the Government to mobilise revenue should also increase. The trends of buoyancy of revenue with respect to change in GDP of State are presented in **Table 1.6** below.

**Table 1.6: Trends in buoyancy ratios**

<b>Buoyancy Ratios</b>	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue buoyancy with respect to GSDP <sup>13</sup>	0.55	1.06	0.53	0.98	0.87 <sup>14</sup>
State's own tax buoyancy with respect to GSDP	0.51	0.84	0.25	0.52	0.81
Revenue buoyancy with respect to State's own taxes	1.09	1.27	2.16	1.87	1.08

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

It is evident from **Table 1.6** that the buoyancy of revenue receipts to GSDP was less than one during 2013-14 to 2017-18, except in 2014-15, indicating that revenue receipts grew at a slower rate than GSDP. Likewise, the State's own tax buoyancy to GSDP stood at 0.81 in 2017-18. In view of the robust economic growth (more than 11 *per cent*) in the last five years, the State Government needs to harness its potential to improve its own tax collection.

<sup>12</sup> Buoyancy ratio is the rate of growth of a parameter with respect to rate of growth of another parameter

<sup>13</sup> Figures differ from last year's Report due to change in GSDP figures

<sup>14</sup> Revenue buoyancy with respect to GSDP = rate of growth of revenue receipts ÷ rate of growth of GSDP = 12.24 % ÷ 13.99 % = 0.87

### 1.3.3 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, expenditure incurred on their collection and percentage of such expenditure to the gross collection during 2013-14 to 2017-18 along with the respective all-India average are presented in **Appendix 1.6**.

The State's actual tax and non-tax receipts for the year 2017-18 *vis-à-vis* assessments made by 14<sup>th</sup> FC and MTFPS (February 2017) are presented in **Table 1.7** below.

**Table 1.7: Projections and actuals of tax and non-tax revenue for 2017-18**

(₹ in crore)

	14 <sup>th</sup> FC projections	MTFPS / Budget estimates	Revised estimates	Actuals
<b>Tax revenue</b>	1,12,719	76,553	77,967	71,549
<b>Non-tax revenue</b>	14,398	18,400	16,995	15,074

Source: Finance Accounts of the State Government for the year 2017-18 and Budget publication No. 30 of the State

The actual tax revenue of the State in 2017-18 stood significantly lower than the projections made in the 14<sup>th</sup> FC, MTFPS/budget estimates and revised estimates. The actual tax revenue was lower than budget estimates mainly due to less collection of land revenue (₹ 1,761 crore), taxes on sales, trade *etc.* (₹ 1,505 crore) and SGST (₹ 3,749 crore). Actual non-tax revenue was higher than the 14<sup>th</sup> FC projections but lower than the MTFPS/ budget estimates and revised estimates.

#### 1.3.3.1 Tax revenue

The main components of the State's tax revenue during 2013-14 to 2017-18 are given in **Table 1.8**.

**Table 1.8: Main components of State's tax revenue**

(₹ in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage change over previous year
Sales tax/VAT	40,976.06	44,145.26	44,091.05	46,313.78	29,638.88	(-36.00)
Entertainment Tax and Luxury Tax	202.59	185.06	195.63	223.57	85.41	(-60.97)
SGST <sup>15</sup>	-	-	-	-	21,250.85	-
<b>Sub-total</b>	<b>41,178.65</b>	<b>44,330.32</b>	<b>44,286.68</b>	<b>46,537.35</b>	<b>50,975.14</b>	<b>9.54</b>

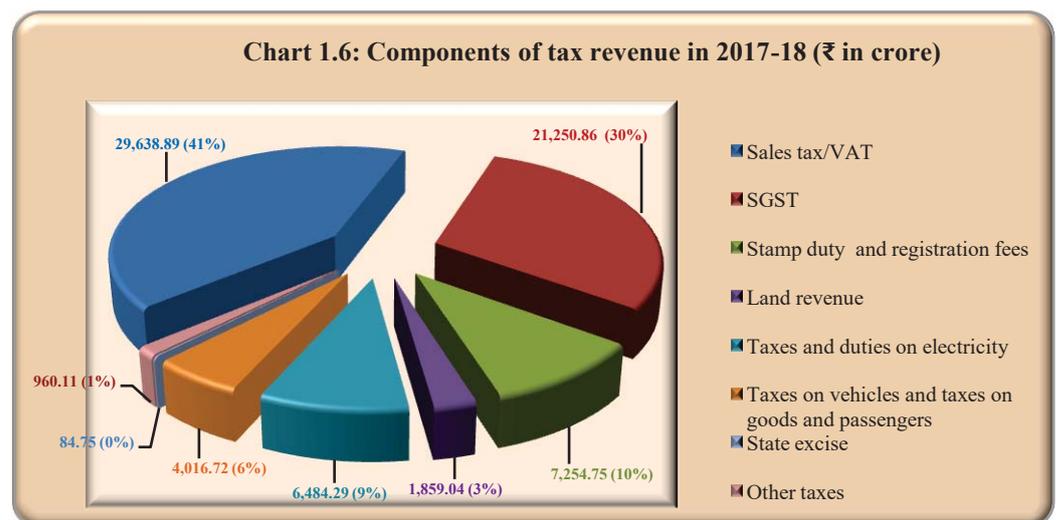
<sup>15</sup> GST was implemented in the State from 01 July 2017; SGST (RE) projected in 2017-18 was ₹ 25,000 crore against which, ₹ 21,250.86 crore was collected.

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage change over previous year
State excise	109.82	140.27	123.32	151.53	84.75	(-)44.07
Stamp duty and registration fees	4,749.35	5,503.34	5,549.42	5,782.93	7,254.75	25.45
Land revenue	1,727.41	1,892.65	2,528.50	1,998.52	1,859.04	(-)6.98
Taxes and duties on electricity	4,692.77	5,877.65	5,999.66	5,833.10	6,484.29	11.16
Taxes on vehicles and taxes on goods and passengers	3,116.37	2,905.44	3,273.17	3,279.35	4,016.72	22.49
Other taxes	798.00	690.14	888.66	859.93	874.72	1.72
<b>Total</b>	<b>56,372.37</b>	<b>61,339.81</b>	<b>62,649.41</b>	<b>64,442.71</b>	<b>71,549.41</b>	<b>11.03</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The State's tax revenue increased in 2017-18 by ₹ 7,106.70 crore (11.03 per cent) compared to the previous year. In 2017-18, the tax revenue increased mainly due to increase of ₹ 4,575.95 crore on sales tax/VAT collection and SGST; ₹ 1,471.82 crore on receipt of stamp duty and registration fees; ₹ 737.37 crore under taxes on vehicles and taxes on goods and passengers and ₹ 651.19 crore on taxes and duties on electricity. However, receipts under land revenue decreased during the current year compared to the previous year primarily on account of fewer<sup>16</sup> receipts under the Minor Head 'Receipts on account of Survey and Settlement Operations'. State excise decreased by ₹ 66.78 crore due to less receipts under medicinal and toilet preparations containing alcohol, opium *etc* as these were subsumed in Goods and Services Tax (GST).

The components of tax revenue for the year 2017-18 are presented in **Chart 1.6**.



Figures in parenthesis indicate percentage share in total tax revenue

The Tax-GSDP ratio in Gujarat registered a decreasing trend during the last five years from 6.98 per cent in 2013-14 to 5.42 per cent in 2017-18. The ratio of

<sup>16</sup> Receipts under this Minor Head decreased from ₹ 357.14 crore in 2016-17 to ₹ 65.90 crore in 2017-18.

own tax revenue to GSDP at 5.42 per cent was lower than the GoI ratio of 7.42 per cent during 2017-18.

**1.3.3.2 Non-tax revenue**

The main components of the State’s non-tax revenue during 2013-14 to 2017-18 are given in **Table 1.9**.

**Table 1.9: Main components of State’s non-tax revenue**

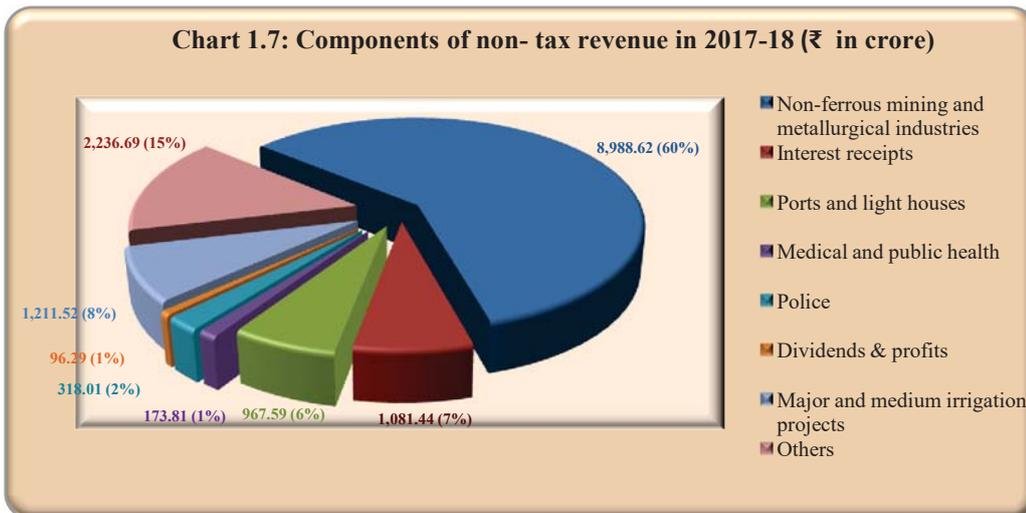
(₹ in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage increase over previous year
Interest receipts	1,267.18	1,011.47	843.00	2,580.10	1,081.44	(-)58.09
Non-ferrous mining and metallurgical industries	1,578.34	4,285.85	3,350.19	3,746.50	8,988.62	139.92
Major and medium irrigation projects	897.51	1,034.91	1,028.42	1,086.10	1,211.52	11.55
Ports and light houses	636.84	742.08	922.24	933.49	967.59	3.65
Medical and public health	111.88	243.57	171.51	981.98	173.81	(-)82.30
Police	177.81	214.20	219.82	248.88	318.01	27.78
Dividends & profits	277.44	89.54	96.06	110.10	96.29	(-)12.54
Others	2,071.31	1,920.99	3,562.27	3,658.51	2,236.69	(-)38.86
<b>Total</b>	<b>7,018.31</b>	<b>9,542.61</b>	<b>10,193.51</b>	<b>13,345.66</b>	<b>15,073.97</b>	<b>12.95</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

During 2013-14 to 2017-18, the non-tax revenue showed a continuous increasing trend from ₹ 7,018.31 crore in 2013-14 to ₹ 15,073.97 crore in 2017-18.

The components of non-tax revenue for the year 2017-18 are presented in **Chart 1.7** below.



Figures in parenthesis indicate percentage share in total non-tax revenue

The non-tax revenue of the State during 2017-18 increased by ₹ 1,728.31 crore (12.95 per cent) over the previous year, due to growth in revenue from non-ferrous mining and metallurgical industries (₹ 5,242.12 crore), Major and

medium irrigation projects (₹ 125.42 crore), ports and light houses (₹ 34.10 crore) and police (₹ 69.13 crore). The increase of ₹ 5,242.12 crore in non-ferrous mining and metallurgical industries was mainly due to increase in mineral concession fees, rent and royalties.

Interest receipts decreased by ₹ 1,498.66 crore (58.09 *per cent*) over the previous year due to less receipts under Minor Head 800 'Other Receipts'. Medical and public health receipts decreased by ₹ 808.17 crore over the previous year due to less receipts under Sub Major Head 80, Minor Head 800 'Other Receipts'.

The Finance Department (March 2019) accepted the facts.

### ***1.3.3.3 Unspent balances of previous years incorrectly credited as Revenue Receipts***

As per Paragraph 103 of the Gujarat Budget Manual, 1983, spending Departments should surrender unspent grants/appropriations or portions thereof to the Finance Department as and when savings are anticipated. These unspent balances should be credited to the concerned revenue expenditure Major Heads as reduction in expenditure. The Finance Department vide circular of October 2016 directed all Public Sector Enterprises to park funds with Gujarat State Financial Services Ltd. (GSFS)<sup>17</sup> which are not required either immediately or within 10 days of the receipt of funds.

During test-check of revenue receipts *challans* of four Departments<sup>18</sup>, Audit observed that unspent balances of revenue expenditure of previous years (2014-15 to 2016-17) amounting ₹ 160.81 crore had been initially parked with GSFS and subsequently, the unspent balances were deposited as revenue receipts into the Government Account in 2017-18. This affected the correct depiction of revenue receipts of the current year (2017-18) to that extent (**Appendix 1.7**).

The Finance Department did not furnish reply to the audit observation.

### **1.3.4 Central tax transfers**

The 14<sup>th</sup> FC had recommended the States' share of Central taxes<sup>19</sup> to be increased to 42 *per cent* from 32 *per cent* as recommended by the 13<sup>th</sup> FC. Gujarat's share in the net proceeds of Central tax and Service tax was fixed at 3.084 *per cent* and 3.172 *per cent* respectively by the 14<sup>th</sup> FC for the award period 2015-20. The Central tax transfers stood at ₹ 20,782 crore in 2017-18, registering a growth of 10.34 *per cent* over the previous year. Of the total Central tax transfers, the direct tax transfers increased by 14.68 *per cent* and the indirect tax transfers, which included the Central Goods and Services Tax (CGST) and the Integrated Goods and Services Tax (IGST) components

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<sup>17</sup> GSFS is a wholly owned subsidiary of Government of Gujarat in which the Government has 100 *per cent* holding and is registered with Reserve Bank of India as a Non-Banking Finance Company.

<sup>18</sup> Agriculture and Co-operation, Industries and Mines, Home and Science and Technology

<sup>19</sup> The CGST was introduced after the 14<sup>th</sup> FC recommendations and therefore, indicate no specific rates.

received under the GST regime from 01 July 2017, rose by 5.16 *per cent* over the previous year.

The Finance Department (March 2019) accepted the facts.

### 1.3.5 Grants-in-aid from Government of India

The components of grants-in-aid received from GoI during 2013-14 to 2017-18 are given in **Table 1.10**.

**Table 1.10: Main components of grants-in-aid received from GoI**

Particulars <sup>20</sup>	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Non Plan Grants	2,079.21	2,668.94	2,179.280	3,192.93	0.00
Grants for State/Union Territory Plan Schemes	2,604.46	7,341.11	6,064.11	8,505.95	0.00
Grants for Central Plan Schemes	58.21	104.78	104.28	53.41	0.00
Grants for Centrally Sponsored plan schemes	2,141.25	684.18	601.55	1,465.76	0.00
Centrally Sponsored Schemes	0.00	0.00	0.00	0.00	8,942.08
Finance Commission grants	0.00	0.00	0.00	0.00	3,166.85
Other grants	0.00	0.00	0.00	0.00	3,776.67 <sup>21</sup>
<b>Total</b>	<b>6,883.13</b>	<b>10,799.01</b>	<b>8,949.22</b>	<b>13,218.05</b>	<b>15,885.60</b>
Percentage increase over previous year	6.78	56.89	(-)17.13	47.70	20.18
Total grants as percentage of revenue receipts	8.61	11.74	9.18	12.03	12.88

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The grants-in-aid from GoI increased continuously from ₹ 6,883.13 crore in 2013-14 to ₹ 15,885.60 crore in 2017-18 except for a decrease in 2015-16. The plan and non-plan classification in annual accounts was abolished from financial year 2017-18 and the grants-in-aid from GoI were given in the form of Centrally Sponsored Schemes, Finance Commission grants and other grants. The grants-in-aid from GoI in 2017-18 increased by ₹ 2,667.55 crore (20.18 *per cent*) over the previous year. The increase was mainly due to grants released under GST compensation of ₹ 3,687 crore, the details of which are given in the succeeding paragraph.

The Finance Department (March 2019) accepted the facts.

#### 1.3.5.1 Provisional apportionment of IGST and its adjustment against GST compensation

Gujarat implemented GST with effect from 01 July 2017. GST is levied on *intra-State* supply of goods or services (except alcohol for human consumption

<sup>20</sup> The Controller General of Accounts has revised classification of grants-in-aid with effect from 01 April 2017

<sup>21</sup> Being the compensation for loss of revenue (₹ 3,687 crore)

and five specified petroleum products<sup>22</sup>) and its components are shared by the Centre (CGST) and the State (SGST). Further, IGST is levied and collected by the Central Government on *inter-State* supply of goods and services. The IGST so collected is apportioned between the Centre and the concerned State where the goods and services are consumed.

The GoI enacted the Goods and Services Tax (Compensation to States) Act, 2017 to compensate the States, should the share of a State falls short of the revenue earned in the pre-GST regime. The compensation was to be given by considering the base figure of revenue of a State for the year 2015-16, escalated by 14 *per cent per annum* for the next five years commencing from 01 July 2017. For the State of Gujarat, the audited base year (2015-16) revenue to be subsumed<sup>23</sup> by the GST regime was fixed by GoI at ₹ 28,856.39 crore. Thus, the protected revenue for Gujarat worked out to ₹ 28,126.32 crore<sup>24</sup> for the period 01 July 2017 to 31 March 2018.

Against the protected revenue of ₹ 28,126.32 crore, the State Government earned a revenue of ₹ 22,589.32 crore during 01 July 2017 to 31 March 2018 and therefore, entitled to a compensation of ₹ 5,537 crore. The revenue earned was inclusive of ₹ 1,263 crore representing advance apportionment of unsettled IGST on *ad hoc* basis in terms of Section 11(3) of GST Settlement of Funds Rules, 2017, which was subject to adjustment in 10 installments in next financial year *i.e.* 2018-19 against the amount finally apportioned.

The State Government received ₹ 3,687 crore as compensation till March 2018, leaving a deficit of ₹ 1,850 crore. Of the deficit of ₹ 1,850 crore, the State Government received ₹ 590 crore from GoI in May 2018 (2018-19) and the remaining ₹ 1,260 crore was not received as it was adjusted (February 2018) against advance apportionment of unsettled IGST (₹ 1,263 crore).

### **1.3.6 Funds transferred by the Central Government to implementing agencies in the State**

The Central Government had been transferring a sizeable quantum of funds directly to the State implementing agencies<sup>25</sup> for 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 did not present the complete picture.

With effect from 01 April 2014, GoI decided to release all assistance for Centrally Sponsored Schemes/Additional Central Assistance directly to the State Governments and not to the implementing agencies. In Gujarat, however,

<sup>22</sup> Petroleum products: crude, high speed diesel, petrol, aviation turbine fuel and natural gas

<sup>23</sup> Taxes that have subsumed under GST *i.e.* Value Added Tax, Central Sales Tax, Entertainment Tax, Luxury Tax, Entry tax, Cesses & Surcharges, Duties on Excise on medicinal and toilet preparations excluding VAT and CST on alcohol for human consumption and five specified petroleum products

<sup>24</sup> Base year revenue of ₹ 28,856.39 crore escalated at compound rate of 14% annually for two years (2016-17 and 2017-18) worked out to ₹ 37,501.764 crore for 2017-18. Therefore, the *pro-rata* protected revenue for nine months (01 July 2017 to 31 March 2018) was ₹ 28,126.32 crore.

<sup>25</sup> See Glossary; Appendix 4.1

Central funds were transferred directly to the State implementing agencies during 2017-18. The Schemes involving major transfers of Central funds directly to implementing agencies were: Mahatma Gandhi National Rural Employment Guarantee Scheme (₹ 602.88 crore), National Dairy Plan (₹ 389.98 crore), Member of Parliament Local Area Development Scheme (₹ 162.50 crore), *Pradhan Mantri Matru Vandana Yojana* (₹ 93.19 crore), e-Courts Phase II (₹ 29.07 crore) and National Programme for Dairy Development (₹ 10.91 crore).

The Finance Department accepted (March 2019) the audit observation and stated that various Ministries of GoI have not issued guidelines with regard to disbursement of Central grants through Consolidated Fund of the States.

### 1.3.7 Grants awarded by the 14<sup>th</sup> Finance Commission

The 14<sup>th</sup> FC had recommended devolution of funds only in respect of three types of grants-in-aid to States *viz.* local Government, disaster management and post-devolution revenue deficit. During 2017-18, the State received two types of grants from GoI *i.e.* grants for local Government and disaster management amounting to ₹ 3,249.60 crore, against ₹ 3,534.22 crore of the awarded amount. Being a revenue surplus State, the State Government was not eligible for post-devolution revenue deficit grants. The details of amounts awarded and received during 2017-18 are shown in **Table 1.11**.

**Table 1.11: Details of amounts awarded and received during 2017-18**

(₹ in crore)

Sr. No.	Transfers	Amount awarded	Amount received
1.	<b>Local Government grants</b>		
	General Basic grants to Panchayati Raj Institutions	1,491.47	1,491.47
	General Performance grants to Panchayati Raj Institutions	191.61	191.61
	General Basic grants to Urban Local Bodies	983.77	983.77
	General Performance grants to Urban Local Bodies	284.37	0.00
2	<b>State Disaster Relief Fund</b>	583.00	582.75
	<b>Total</b>	<b>3,534.22</b>	<b>3,249.60</b>

Source: Finance Department of Government of Gujarat

Non-disbursement of Performance Grant (PG) to Urban Local Bodies (ULBs) during 2017-18 was due to non-fulfilment of criteria prescribed by the Ministry of Housing and Urban Affairs, GoI regarding service delivery benchmarks, increase in own revenue sources and completed audited annual accounts. However, post 2017-18, there was a discernible improvement in the situation. As of August 2018, 116 of 170 ULBs had become eligible for PG as they had met the above criteria, leaving 54 ULBs who were yet to meet the prescribed criteria and therefore, not eligible for PG.

The Finance Department (March 2019) accepted the facts.

## 1.4 Capital Receipts

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

**Table 1.12: Trends in growth and composition of capital receipts**

Sources of State's receipts	2013-14	2014-15	2015-16	2016-17	2017-18
	(₹ in crore)				
<b>Capital receipts (CR)</b>	<b>19,484</b>	<b>20,316</b>	<b>23,611</b>	<b>28,074</b>	<b>27,299</b>
Public debt receipts	19,343	19,454	23,486	27,668	26,953
Non-debt capital receipts	141	862	125	406	346
Consisting of					
a) Miscellaneous capital receipts	0	241	0	240	0
b) Recovery of loans and advances	141	621	125	166	346
Rate of growth of CR ( <i>per cent</i> )	(-)0.30	4.27	16.22	18.90	(-)2.76
Rate of growth of GSDP( <i>per cent</i> )	11.47	14.13	11.22	12.97	13.99
Rate of growth of public debt receipts( <i>per cent</i> )	(-)0.79	0.57	20.73	17.81	(-)2.58
Rate of growth of non-debt capital receipts( <i>per cent</i> )	200.00	511.35	(-)85.50	224.80	(-)14.78

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The Capital Receipts of the State increased from ₹ 19,484 crore in 2013-14 to ₹ 27,299 crore in 2017-18. The share of public debt receipts to Capital Receipts stood at 98.73 *per cent* in 2017-18. During 2017-18, Capital Receipts decreased by 2.76 *per cent* over the previous year mainly due to decrease of 2.58 *per cent* in public debt receipts. The trends in the public debt receipts during the last five years are shown in **Table 1.13**.

**Table 1.13: Trends in public debt receipts**

Components	2013-14	2014-15	2015-16	2016-17	2017-18
	(₹ in crore)				
Market borrowings	15,493	14,920	16,260	24,720	24,000
National Small Saving Fund (NSSF) <sup>26</sup>	1,912	2,774	4,269	0	0
Loans from other financial institutions	1,777	1,437	2,704	2,757	2,863
<b>Total internal debt</b>	<b>19,182</b>	<b>19,131</b>	<b>23,233</b>	<b>27,477</b>	<b>26,863</b>
<b>Loans and advances from GoI</b>	<b>161</b>	<b>323</b>	<b>253</b>	<b>191</b>	<b>90</b>
<b>Total public debt receipts</b>	<b>19,343</b>	<b>19,454</b>	<b>23,486</b>	<b>27,668</b>	<b>26,953</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The internal debt receipts increased continuously during 2014-17 but decreased marginally in 2017-18, with an overall increase of 40.04 *per cent* during 2013-18. Loans and advances from GoI decreased continuously during 2014-18.

<sup>26</sup> The 14<sup>th</sup> FC recommended that State Governments be excluded from the investment operations of the NSSF. The NSSF loans come at an extra cost to the State Governments as compared to the market loans, which were available at considerably lower rates. The Union Cabinet accepted this recommendation in January 2017 with retrospective effect from 01 April 2016.

The Finance Department stated (March 2019) that the public debt receipts is a part of capital receipt and is of unpredictable nature. The loans and advances from GoI being part of public debt receipts, decreased during 2017-18 compared to 2016-17, on account of less Externally Aided Projects.

## 1.5 Public Account 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 of India 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. These balances (net of receipts and disbursements) in respect of various heads in Public Account are given in **Table 1.14**.

**Table: 1.14: Public account receipts (Net)**

(₹ in crore)

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Public account receipts (Net)</b>					
a) Small savings, provident fund <i>etc.</i>	507	502	478	533	340
b) Reserve fund	84	5,568	(-295)	1,416	(-748)
c) Deposits and advances	2,242	3,107	2,476	2,270	1,096
d) Suspense and miscellaneous	(-1,033)	843	256	(-1,579)	498
e) Remittances	181	59	281	(-69)	208
<b>Total</b>	<b>1,981</b>	<b>10,079</b>	<b>3,196</b>	<b>2,571</b>	<b>1,394</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

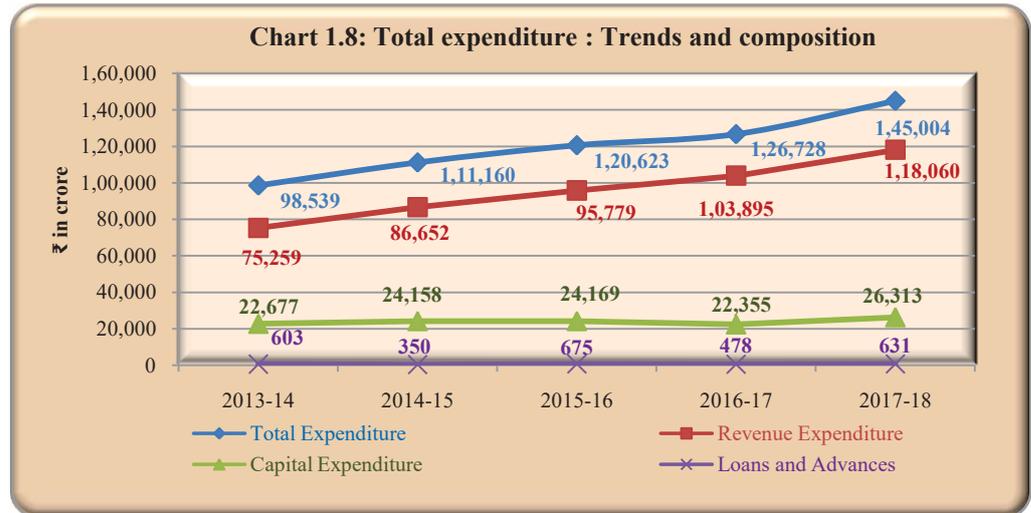
During 2014-18, the net public account receipts decreased continuously after an abrupt increase in 2014-15 over 2013-14. The net public account receipts available for use to the State Government during 2017-18 stood at ₹ 1,394 crore.

## 1.6 Application of Resources

Since major expenditure responsibilities are entrusted to the State Government, allocation of expenditure at the State Government level assumes significance. 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 development of the social sector.

### 1.6.1 Total expenditure

**Chart 1.8** presents the trends in total expenditure over a period of five years (2013-14 to 2017-18), and its composition both in terms of 'economic classification' and 'expenditure by activities' are depicted in **Table 1.15** and **Table 1.16** respectively.



The total expenditure during 2017-18 increased by 14.42 per cent over the previous year, mainly due to an increase of 13.63 per cent in revenue expenditure. The share of revenue expenditure to total expenditure in 2017-18 stood at 81.42 per cent. State funded revenue expenditure<sup>27</sup> accounted for 87.28 per cent of the total revenue expenditure (Table 1.2 refers).

**Table 1.15: Trends in total expenditure in terms of economic classification**

(Share in per cent)

Components of total expenditure	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue expenditure	76.38	77.95	79.40	81.98	81.42
Capital expenditure	23.01	21.73	20.04	17.64	18.15
Loans and advances	0.61	0.32	0.56	0.38	0.43

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

During 2013-17, the share of revenue expenditure to total expenditure increased continuously, with a minor decrease in 2017-18. However, the share of capital expenditure to total expenditure decreased continuously during 2013-17, except for a marginal increase in 2017-18.

**Table 1.16: Trends in total expenditure in terms of expenditure by activities**

(Share in per cent)

	2013-14	2014-15	2015-16	2016-17	2017-18
General services	28.05	27.79	27.93	28.74	29.15
Social services	39.61	39.49	40.24	40.35	38.51
Economic services	31.40	31.92	30.81	30.20	31.57
Loans and advances	0.61	0.32	0.56	0.38	0.44
Grants-in-aid	0.33	0.48	0.46	0.33	0.33

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The movement of the relative share of general, social and economic services exhibited stability during 2013-18, with marginal inter-year variations. The share of social services decreased by 1.10 per cent over the five-year period while the share of general services increased by 1.10 per cent.

<sup>27</sup> Excludes expenditure met from Central Assistance

## 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 to GSDP are indicated in **Table 1.17**.

**Table 1.17: Trends of revenue expenditure**

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue expenditure (RE) (₹ in crore)	75,259	86,652	95,779	1,03,895	1,18,060
Rate of growth of RE ( <i>per cent</i> )	8.04	15.14	10.53	8.47	13.63
RE/ GSDP ratio ( <i>per cent</i> )	9.32	9.40	9.34	8.97	8.94

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

Revenue expenditure increased continuously from ₹ 75,259 crore in 2013-14 to ₹ 1,18,060 crore in 2017-18 and grew by ₹ 14,165 crore during 2017-18 over the previous year. The increase in revenue expenditure in 2017-18 was mainly due to more expenditure on pension and other retirement benefits (₹ 2,675 crore), General Education (₹ 2,607 crore), Crop Husbandry (₹ 2,080 crore), Interest Payments (₹ 1,157 crore), Power (₹ 735 crore) and Labour, Employment and Skill Development (₹ 682 crore) as compared to previous year, offset by decrease in expenditure on Housing (₹ 389 crore), Urban Development (₹ 200 crore) and Rural Development (₹ 223 crore).

The growth rate of revenue expenditure fluctuated widely from a low of 8.04 *per cent* in 2013-14 to a high of 15.14 *per cent* in 2014-15. In 2017-18, it increased by 13.63 *per cent* over the previous year. Revenue expenditure as a *per cent* of GSDP decreased over the period 2014-18 and stood lowest during 2017-18.

## 1.6.3 Capital expenditure

Capital expenditure continuously increased from ₹ 22,677 crore in 2013-14 to ₹ 26,313 crore in 2017-18, except for a decrease in 2016-17 (₹ 22,355 crore).

The increase in capital expenditure during 2017-18 over the previous year was mainly on Roads and Bridges (₹ 935.15 crore), Water Supply and Sanitation (₹ 656.51 crore), Major Irrigation (₹ 486.76 crore), Medium Irrigation (₹ 777.31 crore), Minor Irrigation (₹ 388.70 crore) and Urban Development (₹ 189.57 crore).

The percentage share of capital expenditure to total expenditure increased from 17.64 *per cent* in 2016-17 to 18.15 *per cent* in 2017-18. However, during the five year period 2013-18, capital expenditure increased by only 16.03 *per cent*, while the total expenditure increased by 47.15 *per cent* during the same period. During 2017-18, capital expenditure accounted for 98 *per cent* of the total public debt receipts (₹ 26,953 crore).

The ratio of capital expenditure to GSDP of the state has been consistently declining over the four year period 2013-14 to 2016-17 (2013-14: 2.80 *per cent*,

2014-15: 2.62 per cent, 2015-16: 2.35 per cent, 2016-17: 1.93 per cent) and went up marginally in 2017-18 (1.99 per cent).

#### 1.6.4 Committed expenditure

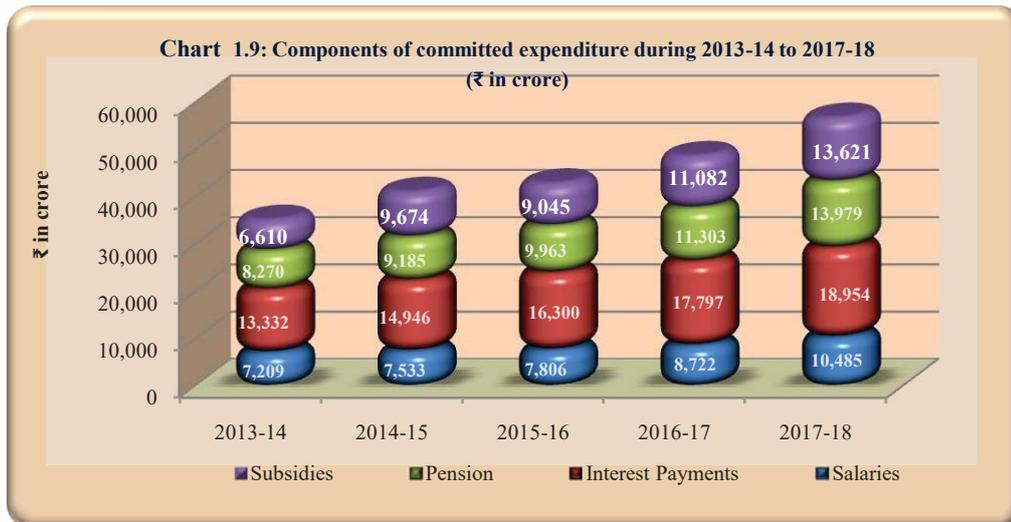
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** and **Chart 1.9** present the trends in the expenditure on these components during 2013-14 to 2017-18.

**Table 1.18: Components of committed expenditure**

(₹ in crore)					
Components of committed expenditure	2013-14	2014-15	2015-16	2016-17	2017-18
Salaries	7,209 (9.01)	7,533 (8.19)	7,806 (8.01)	8,722 (7.94)	10,485 (8.50)
Interest payments	13,332 (16.67)	14,946 (16.25)	16,300 (16.72)	17,797 (16.21)	18,954 (15.37)
Pension	8,270 (10.34)	9,185 (9.99)	9,963 (10.22)	11,303 (10.29)	13,979 (11.34)
Subsidies	6,610 (8.26)	9,674 (10.52)	9,045 (9.27)	11,082 (10.09)	13,621 (11.05)
<b>Total committed expenditure</b>	<b>35,421</b> <b>(44.29)</b>	<b>41,338</b> <b>(44.94)</b>	<b>43,114</b> <b>(44.23)</b>	<b>48,904</b> <b>(44.52)</b>	<b>57,039</b> <b>(46.26)</b>
<b>Total revenue expenditure</b>	<b>75,259</b>	<b>86,652</b>	<b>95,779</b>	<b>1,03,895</b>	<b>1,18,060</b>
Committed expenditure as per cent of revenue expenditure	47.07	47.71	45.01	47.07	48.31

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18  
 Figures in parenthesis indicate percentage to revenue receipts

The share of committed expenditure to revenue receipts increased from ₹ 35,421 crore (44.29 per cent) in 2013-14 to ₹ 57,039 crore (46.26 per cent) in 2017-18. As a percentage of revenue expenditure, committed expenditure increased from 47.07 per cent in 2013-14 to 48.31 per cent in 2017-18. The component wise break-up of committed expenditure is given below.



### 1.6.4.1 Salaries

In 2017-18, expenditure on salaries increased by 20.21 per cent over 2016-17, as compared to an increase of 11.73 per cent in 2016-17 over 2015-16. As a percentage of the revenue receipts, expenditure on salaries increased from 7.94 per cent in 2016-17 to 8.50 per cent in 2017-18. Expenditure on salaries (₹ 10,485 crore) in 2017-18 remained higher by ₹ 1,174 crore against the projections made in budget estimates (₹ 9,311 crore).

### 1.6.4.2 Interest payments

Interest payments increased steadily from ₹ 13,332 crore in 2013-14 to ₹ 18,954 crore in 2017-18. In percentage terms, it increased by 6.50 per cent in 2017-18 over the previous year. The increase was mainly due to increased interest liability (13.33 per cent) on market loans. During 2017-18, interest payment on market loans stood at 61.02 per cent of the total interest payments while interest on special securities issued to National Small Savings Fund accounted for 23.62 per cent of the total interest payments. During 2013-14 to 2017-18, ₹ 81,329 crore had been spent on interest payments, indicating that 16.18 per cent of the total revenue receipts of last five years had been utilised on debt servicing.

### 1.6.4.3 Pension payments

There were 4.38 lakh pensioners<sup>28</sup> in Gujarat State as of 31 March 2018. Expenditure on pension in 2017-18 (₹ 13,979 crore) increased by 23.68 per cent over the previous year (₹ 11,303 crore) mainly on account of payment of superannuation and retirement benefits along with family pensions, gratuities and commuted value of pension. Expenditure on pension in 2017-18 accounted for 11.34 per cent of the total revenue receipts of the State.

<sup>28</sup> As per Fiscal Policy Strategy Statement under Gujarat Fiscal Responsibility Act, 2005 for 2017-18 (February 2017). These are pensioners of Gujarat Government and aided institutions and do not include Social Security Pension.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005, the State Government estimated the pension payments as a percentage of revenue receipts at 9.83 *per cent*. However, it stood higher at 11.34 *per cent* in 2017-18.

#### **1.6.4.4 Expenditure on subsidies**

Expenditure on subsidies increased by 22.92 *per cent* from ₹ 11,082 crore in 2016-17 to ₹ 13,621 crore in 2017-18. The major beneficiaries of subsidy during 2017-18 were Energy and Petrochemicals Department, Industries and Mines Department and Agriculture and Co-operation Department. Energy and Petrochemicals Department received a subsidy of ₹ 5,775.71 crore (43 *per cent*) of which, major portion was ₹ 2,745 crore on account of fuel price and power purchase adjustment charges, ₹ 1,206.75 crore for compensation in agriculture tariff, ₹ 1,100 crore for horse power based tariff to agriculturists. Of ₹ 1,715.97 crore received as subsidy (13 *per cent*) by Agriculture and Co-operation Department, ₹ 868.26 crore was given as financial assistance to farmers for subvention of interest. Similarly, in Industries and Mines Department, of the total subsidy of ₹ 2,614.02 crore (19 *per cent*), ₹ 945.91 crore was given for development of textile industry. The Gujarat State Road Transport Corporation was also given a subsidy of ₹ 475 crore to compensate for operations in uneconomic routes, student concessions *etc.*

#### **1.6.5 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 other institutions during the current year relative to previous years is presented in **Table 1.19**.

**Table 1.19: Financial assistance to local bodies and other institutions**

(₹ in crore)					
Financial assistance to institutions	2013-14	2014-15	2015-16	2016-17	2017-18
Panchayati Raj Institutions (PRIs)	17,295.00	17,503.96	22,085.57	16,123.76	19,686.35
Urban Local Bodies	2,914.06	8,289.19	8,479.84	7,336.19	7,790.57
Public Sector Undertakings	27.55	59.60	54.93	76.98	74.32
Autonomous Bodies	650.77	2,912.78	3,090.62	4,720.06	5,307.75
Others	15,273.20	11,198.62	10,337.45	19,798.39	21,948.19
<b>Total</b>	<b>36,160.58</b>	<b>39,964.15</b>	<b>44,048.41</b>	<b>48,055.38</b>	<b>54,807.18</b>
Assistance as percentage of revenue expenditure	48.05	46.12	45.99	46.25	46.42

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

Financial assistance to local bodies and other institutions continuously increased from ₹ 36,160.58 crore in 2013-14 to ₹ 54,807.18 crore in 2017-18. As a percentage of the revenue expenditure, it decreased from 48.05 *per cent* in 2013-14 to 46.42 *per cent* in 2017-18.

### 1.6.5.1 Building and Other Construction Workers' Welfare Board

The Building and Other Construction Workers' Welfare Cess Act, 1996 and the Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996 cover every establishment which employs, or had employed on any day of the preceding 12 months, 10 or more building workers in any building or other construction work. The Acts, *inter alia*, provide for constitution of Welfare Boards with the aim of improving the working conditions of workers and to provide financial aid to them, and to augment the resources of the Welfare Boards through the levy and collection of cess on the cost of construction. Accordingly, the State Government formed (December 2004) the Gujarat Building and Other Construction Workers' Board (Board), and, in terms of the Cess Act, levies cess at one *per cent* on cost of construction. As per provisions contained in Rule 5 of the Building and Other Construction Workers' Welfare Cess Rules, 1998, the amount collected as cess shall be transferred to the Board within 30 days of collection.

Audit observed that the Board did not finalise (November 2018) its accounts since 2006-07. While the details of amount of cess collected by the various departments could not be ascertained, the details of cess collected by the State Government during the period 2006-07 to 2017-18 and transferred to the Board are given in **Table 1.20** below.

**Table 1.20: Status of cess collected and transferred to the Board**

(₹ in crore)

Year	Cess collected by State Government	Cess transferred to the Board
2005-06	Nil	Nil
2006-07	17.68	Nil
2007-08	24.59	2.98
2008-09	44.87	1.70
2009-10	77.98	3.07
2010-11	104.99	3.50
2011-12	115.54	3.16
2012-13	155.04	6.26
2013-14	210.82	10.57
2014-15	249.51	293.43
2015-16	323.31	346.52
2016-17	287.65	191.85
2017-18	375.98	748.93
<b>Total</b>	<b>1,987.94</b>	<b>1,611.97</b>

Source: Information provided by the Gujarat Building and Other Construction Workers' Board

As could be seen, the State Government failed to transfer ₹ 375.97 crore to the Board as of March 2018, in violation of Rule 5 of the Building and Other Construction Workers' Welfare Cess Rules, 1998. This led to overstatement of revenue surplus and understatement of fiscal deficit to that extent in 2017-18. However, the State Government transferred ₹ 157 crore of ₹ 375.97 crore to the Board by January 2019.

The Finance Department did not furnish reply to this audit observation.

## 1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz. adequacy of expenditure, efficiency of expenditure use, and its effectiveness.

### 1.7.1 Adequacy of public expenditure

Expenditure responsibilities relating to social sector and economic infrastructure are assigned to the State Governments as these 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 is attached to a particular sector, if the ratio of expenditure under a category to total expenditure is below the respective national average. **Table 1.21** shows the fiscal priority of the State with regard to total expenditure, development expenditure, social sector expenditure, economic services expenditure and capital expenditure *vis-à-vis* General Category States<sup>29</sup> (GCS) during 2013-14 and 2017-18.

**Table 1.21: Fiscal priority of the State during 2013-14 and 2017-18**

Fiscal Priority	Total Expenditure/ GSDP	Development Expenditure / Total Expenditure	Social Sector Expenditure / Total Expenditure	Economic Sector Expenditure / Total Expenditure	Capital Expenditure / Total Expenditure	Education/ Total Expenditure	Health/ Total Expenditure
General Category States' Average (Ratio) 2013-14	14.7	66.5	37.6	28.9	13.6	17.2	4.5
Gujarat (Ratio) 2013-14	12.2	71.6	39.6	31.9	23.0	15.9	5.2
General Category States' Average (Ratio) 2017-18	16.10	67.9	36.7	29.6	14.4	15.5	4.9
Gujarat (Ratio) 2017-18	11.0	70.8	39.0	31.8	18.2	15.4	5.9

Source: Finance Accounts of the State Government for the years 2013-14 and 2017-18

**Table 1.21** reveals the following:

- The ratio of total expenditure to GSDP in Gujarat for 2013-14 and 2017-18 was lower as compared to the GCS average.
- Development expenditure<sup>30</sup> as a proportion of total expenditure in Gujarat was higher than the GCS average in 2013-14 and in 2017-18. Development expenditure consists of both economic services expenditure and social sector expenditure. The expenditure on both sectors as a proportion of total

<sup>29</sup> See Glossary; Appendix 4.1

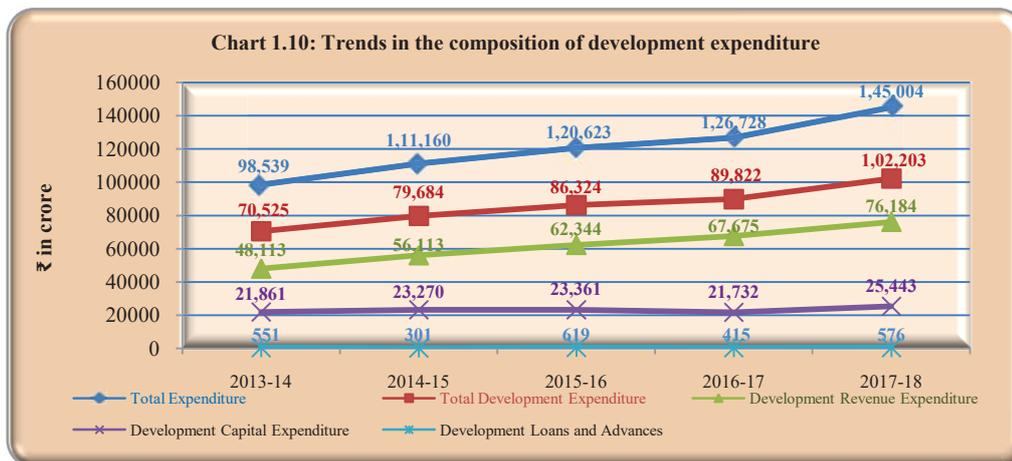
<sup>30</sup> Development expenditure includes development revenue expenditure, development capital expenditure and loans and advances disbursed.

expenditure in the State was higher than the GCS average in 2013-14 and in 2017-18.

- The State has a higher ratio of capital expenditure to total expenditure in 2013-14 and 2017-18 as compared to GCS average. However, capital expenditure as a percentage of total expenditure in the State declined from 23 per cent in 2013-14 to 18.2 per cent in 2017-18.
- Gujarat’s spending on education sector as a proportion of its total expenditure was less in 2013-14 and 2017-18 as compared to GCS average. Whereas, the State has given adequate priority to health sector in 2013-14 and in 2017-18 as compared to GCS average.

### 1.7.2 Efficiency of expenditure

In view of importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>31</sup>. Apart from improving allocation towards development expenditure<sup>32</sup>, the efficiency of expenditure 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 1.10** presents the trends in development expenditure relative to the total expenditure during the period 2013-18. **Table 1.22** and **Table 1.23** provide 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 development expenditure increased from ₹ 70,525 crore in 2013-14 to

<sup>31</sup> See Glossary; Appendix 4.1

<sup>32</sup> The total expenditure data is 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.

₹ 1,02,203 crore in 2017-18. As a percentage of the total expenditure, the development expenditure of the State decreased from 70.88 *per cent* in 2016-17 to 70.48 *per cent* in 2017-18. During 2013-18, the development revenue expenditure grew by 58.34 *per cent* while the development capital expenditure grew by 16.39 *per cent*. The development expenditure in the State in 2017-18 was largely revenue oriented.

### 1.7.2.1 Expenditure on social services

Capital expenditure on social services increased by ₹ 598 crore over previous year and stood at ₹ 6,813 crore in 2017-18. The share of salaries in revenue expenditure under social services increased by ₹ 384 crore over previous year and stood at ₹ 2,989 crore in 2017-18. While the ratio of capital expenditure to total expenditure in the sector remained almost the same during 2016-17 and 2017-18, the share of salaries in the revenue expenditure increased from 5.80 *per cent* to 6.10 *per cent* over the same period. The details are indicated in **Table 1.22**.

**Table: 1.22: Efficiency of expenditure under selected social services**

Sector and sub-sector	(in per cent)									
	Share of capital expenditure to total expenditure in the sub-sector					Share of salaries in revenue expenditure in the sub-sector				
	2013-14	2014-15	2015-16	2016-17	2017-18	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Social services (absolute figures of capital expenditure in ₹ crore)</b>	6,650	7,186	6,417	6,215	6,813	2,383	2,493	2,580	2,605	2,989
Education, Sports, Art and Culture	7.53	7.48	6.65	5.91	3.56	4.45	3.95	3.76	3.84	3.94
Health and Family Welfare	32.01	30.93	26.61	18.93	18.44	33.54	27.51	24.58	21.50	22.11
Water Supply, Sanitation, Housing And Urban Development	26.62	25.47	19.58	21.46	27.12	0.61	0.52	0.45	0.39	0.39
Others	12.42	11.23	7.39	3.64	3.64	8.37	8.22	6.72	6.12	5.66
<b>Total (SS)</b>	<b>17.03</b>	<b>16.37</b>	<b>13.18</b>	<b>12.10</b>	<b>12.14</b>	<b>7.36</b>	<b>6.79</b>	<b>6.13</b>	<b>5.80</b>	<b>6.10</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

### 1.7.2.2 Expenditure on economic services

Capital expenditure on economic services increased by 20.06 *per cent* from ₹ 15,517 crore in 2016-17 to ₹ 18,630 crore in 2017-18. Under the sub-sector Irrigation and Flood Control, the capital expenditure during the current year increased by ₹ 1,656 crore over the previous year, mainly due to rise in expenditure on Medium Irrigation (₹ 777 crore), Major Irrigation (₹ 487 crore) and Minor Irrigation (₹ 389 crore). Under the sub-sector Transport, the capital expenditure increased by ₹ 1,025 crore during the year, mainly due to rise in expenditure on construction of roads and bridges (₹ 935 crore). The share of salaries in revenue expenditure under economic services decreased from 4.46 *per cent* in 2016-17 to 4.07 *per cent* in 2017-18. The details are indicated in **Table 1.23**.

**Table: 1.23: Efficiency of expenditure under selected economic services**

(in per cent)

Sector and sub-sectors	Share of capital expenditure to total expenditure in the sub-sector					Share of salaries in revenue expenditure in the sub-sector				
	2013-14	2014-15	2015-16	2016-17	2017-18	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Economic services (absolute figures- ₹ in crore)</b>	15,211	16,084	16,944	15,517	18,630	1,054	1,040	1,030	1,013	1,106
Agriculture and Allied Activities	17.76	15.98	17.98	13.81	9.56	13.12	12.71	12.11	10.28	7.57
Irrigation and Flood Control	87.36	88.06	89.24	85.63	89.30	30.35	26.36	27.55	21.84	24.22
Energy	33.64	27.42	41.62	34.29	33.15	0.52	0.74	0.92	0.59	0.59
Transport	47.32	39.62	38.62	38.91	44.76	1.11	0.83	0.86	0.76	0.73
Others	39.29	37.68	22.05	19.42	19.05	5.42	3.90	2.54	2.33	2.36
<b>Total (ES)</b>	<b>49.15</b>	<b>45.33</b>	<b>45.02</b>	<b>40.34</b>	<b>40.42</b>	<b>6.70</b>	<b>5.36</b>	<b>5.09</b>	<b>4.46</b>	<b>4.07</b>

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The Finance Department (March 2019) accepted the facts.

## 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 State Government during the current year *vis-à-vis* the previous year.

### 1.8.1 Financial results of irrigation projects

At the end of March 2018, ₹ 3,967.04 crore was spent on 30 major and medium irrigation projects<sup>33</sup>. The revenue realised from these completed irrigation projects during the year was ₹ 645.19 crore, against which, the maintenance expenditure was ₹ 117.60 crore, leaving a revenue surplus of ₹ 527.60 crore. When compared with the investments made on these projects, the return was 13.30 per cent.

### 1.8.2 Incomplete projects

At the end of March 2018, 96 capital works were incomplete involving an expenditure of ₹ 4,278.41 crore. Department-wise details of incomplete projects (each valuing ₹ 10 crore or more) are given in **Table 1.24**.

<sup>33</sup> This excludes expenditure incurred on irrigation projects by Sardar Sarovar Narmada Nigam Limited

**Table 1.24: Department-wise profile of incomplete projects**

(₹ in crore)

Department	Number of incomplete projects	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2018
Roads and Buildings	84	3,038.20	1,923.27
Narmada, Water Resources, Water Supply and Kalpsar	12	2,239.41	2,355.14
<b>Total</b>	<b>96</b>	<b>5,277.61</b>	<b>4,278.41</b>

Source: Finance Accounts of the State Government for the year 2017-18

It may be seen that the Roads and Buildings Department incurred an expenditure to the extent of 63.30 *per cent* on the 84 incomplete projects while the Narmada, Water Resources, Water Supply and Kalpsar Department incurred an expenditure to the extent of 105.17 *per cent* on 12 incomplete projects (as compared to initial budgeted costs).

In view of involvement of large financial costs, the State Government needs to redirect its efforts and resources to complete these projects so that intended benefits flow to users without further delay.

### 1.8.3 Investment and returns

Statement No. 19 of the annual finance accounts of the State Government contains the details of investments made by the State Government in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. As of 31 March 2018, the State Government invested ₹ 86,113.96 crore in these companies/corporations/institutions (Table 1.25).

**Table 1.25: Return on investments**

Investment/Return/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (₹ in crore)	55,058	62,929	70,730	77,833	86,114
Return (₹ in crore)	277.44	89.54	96.06	110.10	96.30
Return ( <i>per cent</i> )	0.50	0.14	0.14	0.14	0.11
Average rate of interest on Government borrowings ( <i>per cent</i> )	7.62	7.76	7.69	7.67	7.59
Difference between average interest rate on Government borrowings and rate of return ( <i>per cent</i> )	7.12	7.62	7.55	7.53	7.48

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The table shows that during 2013-18, the State Government's investments increased by ₹ 31,056 crore. During 2017-18, the State Government made an additional investment of ₹ 8,281 crore over the previous year which largely included ₹ 7,561 crore in Government companies, ₹ 593.29 crore in statutory corporations and ₹ 1.47 crore in co-operative institutions. Of ₹ 7,561 crore invested in Government companies, ₹ 4,721 crore (62 *per cent*) was invested in Sardar Sarovar Narmada Nigam Limited (SSNNL).

The table also shows that the average return on investments in these companies/corporations/institutions was 0.21 *per cent* during 2013-18 while the Government paid an average interest of 7.67 *per cent* on its borrowings during the same period.

The Finance Department stated (March 2019) that the objective behind investments by the Government in Statutory Corporations and Government Companies is to achieve an overall development of the State. Therefore, sometimes, the funds borrowed by the Government at higher rates are also invested.

### ***1.8.3.1 Status of working State Public Sector Undertakings***

As per the latest finalised accounts (up to September 2018), of 73 working State Public Sector Undertakings (SPSUs), 50 SPSUs earned a profit of ₹ 5,113.94 crore and 19 SPSUs incurred a loss of ₹ 3,813.93 crore. The remaining four<sup>34</sup> SPSUs reported neither profits nor losses.

The State Government received ₹ 97.89 crore as dividend from six of 50 profit-making SPSUs in the financial year 2017-18. In view of negligible returns (1.91 *per cent*) from SPSUs, the State Government may consider formulation of suitable dividend policy for SPSUs.

The major profit-making SPSUs (out of 50) were:

- Gujarat State Petronet Limited (₹ 1,010.81 crore);
- Gujarat Energy Transmission Corporation Limited (₹ 668.81 crore);
- Gujarat State Electricity Corporation Limited (₹ 596.07 crore);
- Gujarat Mineral Development Corporation Limited (₹ 556.93 crore);
- and
- Gujarat Gas Limited (₹ 462.84 crore).

The major loss-making SPSUs (out of 19) were:

- Gujarat State Petroleum Corporation Limited (₹ 1,564.64 crore);
- *Sardar Sarovar Narmada Nigam* Limited (₹ 1,075.80 crore);
- Bhavnagar Energy Company Limited (₹ 617.31 crore);
- Gujarat State Road Transport Corporation (₹ 264.81 crore); and
- Gujarat Water Infrastructure Limited (₹ 137.53 crore).

The Finance Department stated (March 2019) that standing instructions were issued in October 1994 by which all the profit-making PSUs were required to pay dividend to the Government regularly.

However, the Finance Department did not furnish the reasons for non-payment of dividend by the remaining 44 profit-making PSUs despite issue of instructions in October 1994.

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<sup>34</sup> Two SPSUs (Gandhinagar Railway and Urban Development Corporation Limited; and Gujarat Rail Infrastructure Development Corporation Limited) did not finalise their first accounts. One SPSU (Gujarat Women Economic Development Corporation Limited) adjusted the excess of expenditure over income against capital reserve non-plan grants while the other (Gujarat State Police Housing Corporation Limited) transferred the excess of expenditure over income to works completed.

### ***1.8.3.2 Erosion of capital in State Public Sector Undertakings due to losses***

As per the latest finalised accounts (up to September 2018), investments<sup>35</sup> and accumulated losses of 73 working SPSUs was ₹ 1,56,615.95 crore and ₹ 9,949.78 crore respectively. As on 31 March 2018, the aggregate networth<sup>36</sup> of the working SPSUs was positive. Further analysis revealed that erosion in networth occurred in nine out of 73 working SPSUs. The accumulated losses of these nine SPSUs were ₹ 22,431.63 crore as against their paid-up capital and free reserves of ₹ 10,202.40 crore<sup>37</sup>.

The investment in 73 working SPSUs increased from ₹ 1,10,319.66 crore in 2013-14 to ₹ 1,56,615.95 crore in 2017-18. The return on investments ranged between 4.90 *per cent* and 6.82 *per cent* during 2013-18. Similarly, the total equity of the SPSUs increased from ₹ 69,689.57 crore in 2013-14 to ₹ 99,784.53 crore in 2017-18. The return on equity ranged between 0.27 *per cent* and 2.56 *per cent* during 2013-16 while it was nil during 2016-18 due to net losses.

### ***1.8.3.3 Investment in joint stock companies and partnerships***

The Finance Accounts (Statement No. 19) revealed investment of the State Government to the extent of ₹ 32.56 crore in shares of 28 Other Joint Stock Companies (JSC) and partnerships. The investment in seven of 28 JSC dated prior to the formation of the State of Gujarat (1960). Three of 28 JSC were under liquidation; one had already been dissolved while shares of one were yet to be transferred to the State Government. No dividend was received by the State Government from these 28 JSC during 2017-18.

Audit enquired (October 2017) from the State Government about the existence of these JSC along with the reasons for non-payment of dividend and steps taken to write-off the investments of the Government in JSC under liquidation. The Finance Department stated (January 2018) that the concerned Administrative Departments have been requested to provide the required information. However, no progress had been reported by the Finance Department (January 2019).

### ***1.8.3.4 Investment in Public Private Partnership projects***

Public Private Partnerships (PPPs) are formed by the Government agencies and bodies usually to promote and develop infrastructure facilities.

The status of PPP projects in infrastructure sector at various stages (as on 31 March 2018) is presented in **Table 1.26**.

<sup>35</sup> Investment comprises paid up capital plus long term borrowings plus free reserves.

<sup>36</sup> Networth comprises the sum total of paid-up share capital and free reserves and surplus less accumulated losses and deferred revenue expenditure.

<sup>37</sup> Paid up capital of ₹ 2,774.36 crore + Free Reserves of ₹ 7,428.04 crore

**Table 1.26: Status of PPP projects in infrastructure sector**

(₹ in crore)

Sr. No.	Sector	Projects completed		Projects under implementation	
		No.	Total investment	No.	Expenditure incurred
1.	Roads	18	2,081.80	11	6,137.09
2.	Urban infrastructure	110	2,150.47	28	1,197.65
3.	Water	0	0	2	2,700.00
4.	Power	4	7,600.00	0	0.00
5.	Ports	62	56,896.63	41	22,674.95
6.	Logistic parks	0	0	0	0.00
7.	Aviation	0	0	0	0.00
8.	IT, ITES and Biotech	5	230.00	1	80.00
9.	Railways	1	395.00	2	1,262.25
10.	Agriculture	2	23.18	0	0.00
11.	Health	1	5.12	0	0.00
12.	Road Transport	3	621.41	7	641.36
	<b>Total</b>	<b>206</b>	<b>70,003.61</b>	<b>92</b>	<b>34,693.30</b>

Source: Information provided by Gujarat Infrastructure Development Board

**Table 1.26** shows that of 298 PPP projects valuing ₹ 1,04,697 crore in the infrastructure sector in Gujarat, 206 projects valuing ₹ 70,004 crore had been completed at the end of 2017-18. The major investment was in ports sector where 62 projects have been completed and a further 41 projects were under implementation. The maximum number of completed projects was in the urban infrastructure sector.

#### 1.8.4 Loans and advances by State Government

In addition to investments in co-operative institutions, corporations and companies, the State Government had also been granting loans and advances to these institutions/organisations for implementing various Schemes. **Table 1.27** presents the position of loans and advances and interest receipts *vis-à-vis* interest payments during last three years.

**Table 1.27: Average interest received on loans and advances given by State Government**

(₹ in crore)

Quantum of loans and advances given /Interest receipts/ Cost of borrowings	2015-16	2016-17	2017-18
Opening balance of loans and advances given	6,777	7,327	7,638
Loans advanced during the year	675	477	631
Loans repaid during the year	125	166	346
<b>Closing Balance of loans and advances given</b>	<b>7,327</b>	<b>7,638</b>	<b>7,923</b>
Loans for which terms and conditions have been settled	6,811	7,459	7,744
Net addition during the year	550	311	285
Interest receipts during the year	172	117	88
Interest receipts as percentage of outstanding loans and advances	2.35	1.53	1.13
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.37	7.32	7.39
<b>Difference between interest receipts and interest payments (per cent)</b>	<b>(-)5.02</b>	<b>(-)5.79</b>	<b>(-)6.26</b>

Source: Finance Accounts of the State Government for the years 2015-16 to 2017-18

The total amount of outstanding loans and advances increased from ₹ 7,327 crore in 2016-17 to ₹ 7,923 crore in 2017-18. Loans advanced during the year increased by ₹ 154 crore over the previous year. This included a loan of ₹ 25 lakh given to Gujarat Dairy Development Corporation, a non-working SPSU during 2017-18. Of the total loans advanced during the year (₹ 631 crore), ₹ 265 crore was under social services, ₹ 311 crore was under economic services and ₹ 55 crore was advanced for Miscellaneous purposes. 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 loans advanced under economic services went to power sector (₹ 107 crore) and transport sector (₹ 195 crore).

#### ***1.8.4.1 Finalisation and adherence to terms and conditions of loans***

As per Rule 71 of the Gujarat Financial Rules, 1971, an authority competent to sanction a loan shall, while sanctioning a loan, specify terms and conditions of loan including the terms and conditions of repayment of loan and rate of interest in the sanction order. The above provisions were reiterated *vide* Finance Department circular dated 08 July 2010 by laying down the procedure for finalisation of terms and conditions of the loans granted by State Government to other bodies/authorities. The circular further required the Administrative Departments to maintain a register of loans so sanctioned, in accordance with Rule 78 of Gujarat Financial Rules, 1971. The circular also envisaged monitoring of repayment of loans and interest recovery by the concerned Administrative Departments. The Administrative Departments were also required to send a return in the prescribed format to the Finance Department regarding the status of outstanding loans at the end of each financial year.

Mention was made in paragraph 1.8.4.1 of the Report of the Comptroller and Auditor General of India on State Finances for the year ended 31 March 2017 (Report No. 2 of the year 2018) regarding non-maintenance of register of loans by Industries and Mines Department and non-submission of returns to Finance Department (for loans disbursed by it in previous years). Subsequent follow-up by Audit revealed no improvement in the situation.

The Finance Department stated (March 2019) that all the administrative departments have been instructed (July 2010/March 2018) to monitor and maintain the records of loans advanced.

However, persistent audit observations indicate that the instructions of Finance Department were not being followed by the administrative departments.

### 1.8.5 Cash balances and investment of cash balances

Details of cash balances and investments made by the State Government during 2017-18 are shown in **Table 1.28**.

**Table 1.28: Cash balances and investment of cash balances**

(₹ in crore)

Cash balances and investment of cash balances	Opening balance on 01/04/2017	Closing balance on 31/03/2018
<b>(a) General cash balance</b>		
Cash in Treasuries	0.00	0.00
Deposits with Reserve Bank <sup>38</sup>	(-)471.82	(-)359.53
Remittances in Transit – Local	4.19	4.19
Investments held in Cash balance investment account	12,749.99	5,198.09
<b>Total (a)</b>	<b>12,282.36</b>	<b>4,842.75</b>
<b>(b) Other Cash balances and investments</b>		
Cash with Departmental Officers viz. Public Works, Forest, District Collectors etc.	(-)0.28	(-)0.21
Permanent advances for contingent expenditure with Departmental Officers	0.27	0.29
Investment of earmarked funds	10,966.58	11,686.39
<b>Total (b)</b>	<b>10,966.57</b>	<b>11,686.47</b>
<b>Grand total (a)+ (b)</b>	<b>23,248.93</b>	<b>16,529.22</b>

Source: Finance Accounts of the State Government for the years 2016-17 and 2017-18

Due to adequate surplus cash balance during 2017-18, the State Government did not avail of any Ways and Means Advance from the RBI for maintenance of its minimum cash balance.

#### 1.8.5.1 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 balances under this Major Head represent the amount of uncashed cheques, which was ₹ 2,575.23 crore as on 31 March 2018.

#### 1.8.5.2 Reduction in Investment held in Cash Balance Investment Account

The 13<sup>th</sup> FC had suggested that States should utilise their surplus cash balances before resorting to fresh borrowings. The RBI also reiterated the fact and advised the States to manage their cash balances more efficiently. The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,750 crore at the end of 2016-17 which came down to ₹ 5,198 crore at the end of 2017-18, indicating better utilisation of cash balances.

<sup>38</sup> 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 2017-18 advised to the RBI till 10 April 2018.

## 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 2018 compared with the corresponding position on 31 March 2017. 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 of capital outlay and loans and advances given by the State Government and cash balances.

As per the disclosure form B-2(A) 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 and provident fund of other employees
- (ix) Other liabilities

### 1.9.2 Fiscal liabilities

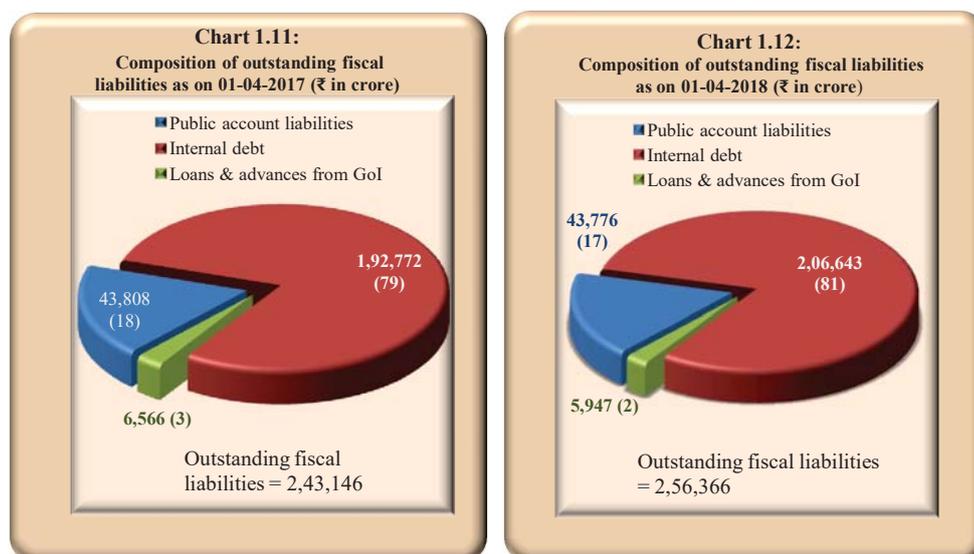
The outstanding fiscal liabilities of the State increased from ₹ 1,83,057 crore in 2013-14 to ₹ 2,56,366 crore at the end of 2017-18 at an average annual rate of 9.01 *per cent*. In 2017-18, the fiscal liabilities grew at 5.44 *per cent* over the previous year. The trends in fiscal liabilities relative to GSDP, revenue receipts and own resources are shown in **Table 1.29**.

**Table: 1.29: - Fiscal liabilities – Basic parameters**

	2013-14	2014-15	2015-16	2016-17	2017-18
Fiscal liabilities (₹ in crore)	1,83,057	2,02,313	2,21,090	2,43,146	2,56,366
Rate of growth ( <i>per cent</i> )	9.83	10.52	9.28	9.98	5.44
<b>Ratio of Fiscal liability to</b>					
GSDP ( <i>per cent</i> )	22.67	21.95	21.57	20.99	19.42
Revenue receipts ( <i>per cent</i> )	229	220	227	221	208
Own resources ( <i>per cent</i> )	289	285	304	313	296
<b>Buoyancy of Fiscal liability to<sup>39</sup></b>					
GSDP (ratio)	0.85	0.75	0.83	0.77	0.39
Revenue receipts (ratio)	1.56	0.70	1.55	0.79	0.44
Own resources (ratio)	1.69	0.89	3.35	1.47	0.48

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is as presented in the **Charts 1.11** and **1.12** below.



Figures in parenthesis indicate percentage share

**Chart 1.12** shows that the outstanding fiscal liabilities of the State Government at the end of financial year 2017-18 comprised internal debt of ₹ 2,06,643 crore (81 *per cent*), public account of ₹ 43,776 crore (17 *per cent*) and loans and advances from GoI of ₹ 5,947 crore (two *per cent*). The internal debt largely comprised of market loans (₹ 1,51,887 crore) and special securities issued to NSSF (₹ 42,919 crore). The fiscal liabilities at the end of 2017-18 stood at 208 *per cent* of the revenue receipts. The ratio of outstanding fiscal liabilities to GSDP at 19.42 *per cent* in the current year was in line with the ratio of 25.83 *per cent* as projected in the fiscal consolidation roadmap of 14<sup>th</sup> FC.

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.5**.

<sup>39</sup> It is ratio of growth rate of fiscal liability to growth rate of a given parameter.

### 1.9.3 Transactions under reserve funds

There were 15 Reserve funds earmarked for specific purposes during 2017-18 of which, five funds were inoperative<sup>40</sup> with a balance of ₹ 2.11 crore. The total accumulated balance in these funds as on 31 March 2018 was ₹ 14,931.88 crore of which, ₹ 11,686.04 crore was invested.

#### *1.9.3.1 Creation of consolidated sinking fund*

The 12<sup>th</sup> FC recommended creation of a Consolidated Sinking Fund (CSF) by the State Governments for amortisation of outstanding liabilities. The RBI, which is responsible for administering the fund, stipulated a minimum annual contribution of 0.5 *per cent* of the outstanding liabilities (at the end of the previous financial year) by the State Governments to the fund. Further, as per recommendations of the RBI, the State Governments were required to maintain a minimum balance of three *per cent* of their outstanding liabilities at the close of each financial year in the fund.

The balance as on 31 March 2018 in CSF was ₹ 11,609.81 crore against the minimum required level of ₹ 7,690.98 crore<sup>41</sup>. Since the State Government had maintained more than the minimum balance required in the fund, no amount was contributed during the year. The State Government credited an accrued interest of ₹ 693.56 crore to the fund during 2017-18.

#### *1.9.3.2 State disaster response fund*

As per recommendations of 13<sup>th</sup> FC, the State Government had been operating the 'State Disaster Response Fund' with effect from 2011-12. In terms of GoI guidelines (September 2010), the Central and State Governments were required to contribute to the fund in the ratio of 75:25.

As on 01 April 2017, the fund had an opening balance of ₹ 3,493.41 crore. During 2017-18, the State Government transferred ₹ 666.66 crore (₹ 500 crore Central share and ₹ 167 crore State share) to the fund. Of the total available balance of ₹ 4,160.07 crore, an expenditure of ₹ 1,804.95 crore<sup>42</sup> incurred on natural calamities during the year was set off against the fund balance, leaving ₹ 2,355.12 crore in the fund at end of March 2018. In terms of the GoI guidelines, balances lying in the fund were required to be invested<sup>43</sup>, which was not done. The interest to be credited to the fund on the balances of earlier years had also not been estimated by the State Government.

<sup>40</sup> Four funds (₹ 2.10 crore) since 1999-2000 and one fund (₹ 0.01 crore) since 2014-15

<sup>41</sup> 3% of ₹ 2,56,366 crore (outstanding liabilities as on 31 March 2018)

<sup>42</sup> Major Head 2245-05 (Relief on account of natural calamities-SDRF)

<sup>43</sup> The accretions to the SDRF are to be invested through RBI in Central Government dated Securities, Auctioned Treasury Bills and Interest earning deposits and certificates of deposits with Scheduled Commercial Banks.

### **1.9.3.3 Migration to new pension Scheme**

The State Government introduced the ‘Defined Contribution Pension Scheme (National Pension System)’ with effect from 01 April 2005. As per the guidelines of the Scheme, the employee contributes 10 *per cent* of his basic pay and dearness allowance every month which is matched by the State Government and the entire amount is transferred to the designated fund manager through National Securities Depository Limited (NSDL)/Trustee Bank. The State Government signed (January 2009) agreements with the NPS trust for fund management of the Scheme and adopted (May 2009) the Central framework for implementation of the Scheme.

The employees’ contribution and State share is credited to Public Account<sup>44</sup> and then transferred to NSDL. The opening balance in the Deposit Account as on 01 April 2017 was ₹ 20.57 crore. During the year, receipts were ₹ 1,220.53 crore and transfers to NSDL was ₹ 1,208.76 crore, leaving a balance of ₹ 32.34 crore which was yet to be transferred to NSDL. During 2017-18, the State Government paid an interest of ₹ 3.23 crore to the fund manager for late/delayed transfer of funds.

### **1.9.4 Ujwal DISCOM Assurance Yojana**

The *Ujwal DISCOM Assurance Yojana* (UDAY) was launched by the GoI in November 2015 for operational and financial turnaround of State-owned power distribution companies (DISCOMs). The UDAY envisaged signing of an agreement between State Governments, DISCOMs and GoI for stipulating the respective responsibilities of the parties for achieving operational and financial milestones as described in the Scheme, after which, the State Governments were to take over 75 *per cent* of outstanding debts of DISCOMs as on 30 September 2015 over two years *i.e.* 50 *per cent* in 2016-17 and 25 *per cent* in 2017-18.

The Government of Gujarat entered (February 2016) into a tripartite Memorandum of Understanding with four State-owned DISCOMs and GoI, but without the component of financial turnaround and financing of future losses and working capital, as all the four DISCOMs had already achieved financial turnaround in 2005-06. In view of this, no financial assistance had been provided by the State Government to the State DISCOMs during 2017-18 under UDAY Scheme.

### **1.9.5 Contingent liabilities**

#### **1.9.5.1 Status of guarantees**

Guarantees are liabilities having encumbrance on the Consolidated Fund of the State in cases of defaults by borrowers for whom guarantees have been extended by the State Government. The maximum amount for which guarantees were given by the State Government and outstanding guarantees for the last five years is given in **Table 1.30**.

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<sup>44</sup> Major Head 8342-117 (Other Deposits- Defined Contribution Pension Scheme for Government Employees)

Table 1.30: Guarantees given by the Government of Gujarat

Guarantees	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Ceiling limit on Government Guarantees under Gujarat State Guarantees Act, 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	11,175	11,235	11,333	11,333	11,796
Outstanding amount of guarantees	6,549	5,984	5,236	4,804	4,834
Percentage of outstanding amount of guarantees to total revenue receipts	8.19	6.51	5.37	4.37	3.92

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

The Gujarat Fiscal Responsibility Act, 2005 prescribed capping of outstanding guarantees within the limit of ₹ 20,000 crore as provided for in the Gujarat State Guarantees Act, 1963. During 2017-18, the State Government extended guarantees amounting ₹ 130.50 crore. Of the total outstanding guarantees of ₹ 4,834 crore, 29 per cent (₹ 1,409 crore) were in respect of *Sardar Sarovar Narmada Nigam Limited* and 13 per cent (₹ 650 crore) were in respect of *Gujarat Water Infrastructure Limited*. The outstanding guarantees (₹ 4,834 crore) accounted for 3.92 per cent of the total revenue receipts of the State Government (₹ 1,23,291 crore) and were well within the limit prescribed under the Gujarat Fiscal Responsibility Act, 2005.

The 12<sup>th</sup> FC recommended setting up of a Guarantee Redemption Fund to meet the contingent liabilities arising from the guarantees given by the State Government. Consequently, the GRF was set up in February 2006. In terms of the guidelines of the RBI, which administers the fund, the corpus of the fund was to be gradually increased to the desired level of five per cent of outstanding guarantees. Against the minimum requirement of ₹ 241.70 crore, the balance in the fund was ₹ 666.46 crore as on 31 March 2018. During 2017-18, the State Government credited the accrued interest of ₹ 26.24 crore to the fund. The State Government received ₹ 4.58 crore as guarantee fees during 2017-18 from State level bodies, as against ₹ 9.01 crore received in the previous year. During 2017-18, no amount was paid by the State Government on account of invocation of guarantees.

## 1.10 Debt Management

### 1.10.1 Debt sustainability

Debt sustainability<sup>45</sup> implies the State's ability to service debts. Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability of the State. The analysis of various debt sustainability indicators of the State during the last five years from 2013-14 to 2017-18 is given by **Table 1.31**.

<sup>45</sup> See Glossary; Appendix 4.1

Table 1.31: Debt sustainability: Indicators and trends

(₹ in crore)

Sr. No.	Indicators of debt sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Outstanding debt (₹ in crore)	1,83,057	2,02,313	2,21,090	2,43,146	2,56,366
2.	Rate of Growth of outstanding debt	9.83	10.52	9.28	9.98	5.44
3.	Rate of growth of GSDP	11.47	14.13	11.22	12.97	13.99
4.	Average rate of interest on outstanding debt ( <i>per cent</i> )	7.62	7.76	7.69	7.67	7.59
5.	Interest Payments/revenue receipts ( <i>per cent</i> )	16.67	16.25	16.72	16.20	15.37
6.	Debt receipts during the year	56,566	63,892	70,239	72,224	81,158
7.	Debt repayments during the year	40,176	44,636	51,462	50,168	67,938
8.	Interest payments during the year	13,332	14,946	16,300	17,797	18,954
9.	Debt Redemption /Debt receipts	0.95	0.93	0.96	0.94	1.07
10.	Net availability of borrowed funds [6-(7+8)]	(+)3,058	(+)4,310	(+)2,477	(+)4,259	(-)5,734

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

**Table 1.31** reveals that total outstanding liabilities of the State increased from ₹ 1,83,057 crore in 2013-14 to ₹ 2,56,366 crore in 2017-18. The outstanding liabilities at the end of 2017-18 comprised of internal debt (₹ 2,06,643 crore), loans and advances from the Central Government (₹ 5,947 crore) and other liabilities (₹ 43,776 crore)<sup>46</sup>.

Net availability of borrowed funds is the difference between debt redemption (principal and interest payments) and total debt receipts, indicating the extent to which the debt receipts were used for redemption of old debts. During 2017-18, net availability of borrowed funds was negative, as debt redemption was more than debt receipts.

The ratio of interest payments to revenue receipts is one of the indicators that determine the debt sustainability of the State. As per 12<sup>th</sup> FC recommendations, the ratio of interest payments to revenue receipts should decline to 15 *per cent* by 2009-10. However, this percentage ranged between 16.20 and 16.72 during the period 2013-17 and stood at 15.37 *per cent* in 2017-18, indicating that for every ₹ 100 earned as revenue, ₹ 15.37 was used for interest payments.

### 1.10.2 Debt maturity profile

Of the total outstanding liabilities of ₹ 2,56,366 crore as at the close of 2017-18, ₹ 43,776 crore pertained to 'Other Liabilities'. The maturity profile of the remaining public debt (₹ 2,12,590 crore) is shown in **Table 1.32**.

<sup>46</sup> Other liabilities include small savings, provident funds, reserve funds, and deposits

Table 1.32: Maturity profile of public debt

(₹ in crore)		
Maturity profile (in years)	Amount	Per cent
0 – 1	15,401.01	7.24
1 – 3	34,722.38	16.33
3 – 5	44,533.21	20.95
5 – 7	39,773.78	18.71
7 and above	78,160.09	36.77
<b>Total</b>	<b>2,12,590.47</b>	<b>100.00</b>

Source: Finance Accounts of the State Government for the year 2017-18

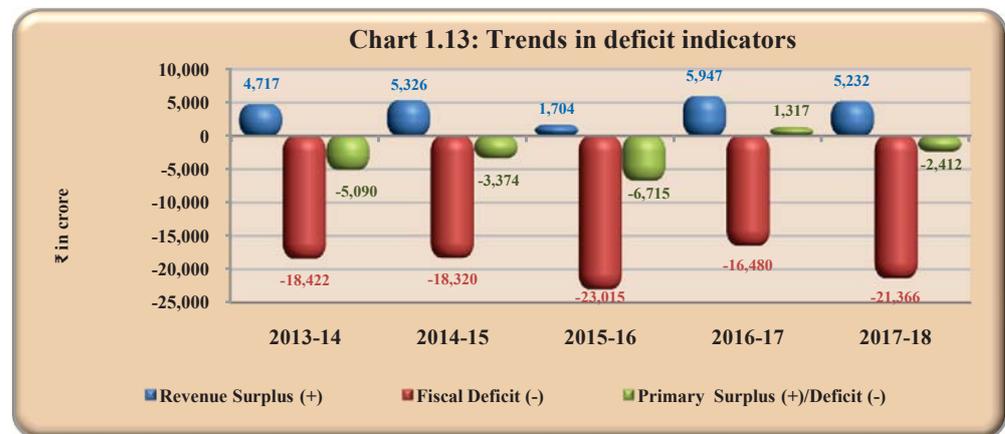
The maturity profile of the public debt indicates that the liability of the State to repay the debts during the periods 2019-21, 2021-23 and 2023-25 would be ₹ 34,722.38 crore, ₹ 44,533.21 crore and ₹ 39,773.78 crore respectively.

### 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 and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and manner of financing of these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under the Gujarat Fiscal Responsibility Act, 2005/Rules, 2006 for the financial year 2017-18.

#### 1.11.1 Trends in deficits

Chart 1.13 shows the trends in deficit indicators over the period 2013-14 to 2017-18.



The revenue surplus of ₹ 1,704 crore in 2015-16 increased to ₹ 5,947 crore in 2016-17 and decreased to ₹ 5,232 crore in 2017-18. The decrease in revenue surplus during the current year was on account of increase of ₹ 14,165 core

(13.63 per cent) in revenue expenditure against an increase of ₹ 13,449 crore (12.24 per cent) in revenue receipts over the previous year.

The fiscal deficit decreased from ₹ 18,422 crore in 2013-14 to ₹ 16,480 crore in 2016-17, except for an increase in 2015-16 (₹ 23,015 crore). During 2017-18, the fiscal deficit (₹ 21,366 crore) increased by ₹ 4,886 crore (29.65 per cent) over the previous year mainly on account of increase in capital expenditure by ₹ 3,958 crore and decrease in revenue surplus by ₹ 715 crore.

An increase of ₹ 4,886 crore in fiscal deficit during 2017-18 offset by an increase of ₹ 1,157 crore in interest payment over the previous year turned the primary surplus of ₹ 1,317 crore in 2016-17 to a primary deficit of ₹ 2,412 crore in 2017-18.

### 1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.33**.

**Table 1.33: Components of fiscal deficit and its financing pattern**

		(₹ in crore)				
Particulars		2013-14	2014-15	2015-16	2016-17	2017-18
<b>Composition of fiscal deficit*</b>		<b>(-)18,422</b>	<b>(-)18,320</b>	<b>(-)23,015</b>	<b>(-)16,480</b>	<b>(-)21,366</b>
1.	Revenue Deficit(-)/surplus(+)	4,717	5,326	1,704	5,947	5,232
2.	Net Capital Expenditure <sup>47</sup>	(-)22,677	(-)23,917	(-)24,169	(-)22,115	(-)26,313
3.	Net Loans and advances	(-)462	(-)271	(-)550	(-)312	(-)285
<b>Financing pattern of fiscal deficit*</b>						
1.	Market borrowings	13,047	13,246	14,565	20,944	15,785
2.	Special securities issued to NSSF	(-)353	475	1,501	(-)3,447	(-)3,451
3.	Loans from financial institutions	940	561	1,633	1,594	1,538
4.	Loans from GoI	(-)495	(-)337	(-)408	(-)496	(-)619
5.	Small savings, PF etc.	507	502	478	533	340
6.	Deposits and Advances	2,242	3,107	2,476	2,270	1,096
7.	Suspense and Miscellaneous	(-)1,033	843	256	(-)1,579	497
8.	Remittances	181	59	281	(-)69	208
9.	Reserve Fund	84	5568	(-)294	1,416	(-)748
10.	Contingency Fund	0	(-)14	10	4	0
<b>Total</b>		<b>15,119</b>	<b>24,010</b>	<b>20,498</b>	<b>21,170</b>	<b>14,646</b>
(+)/Increase/(-)decrease in Cash balance		(-)3,303	(+)5,690	(-)2,517	(+)4,690	(-)6,720

\*All these figures are net of disbursements/outflows during the year  
Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

**Table 1.33** revealed that fiscal deficit of ₹ 21,366 crore in 2017-18 was met mainly from net market borrowings (₹ 15,785 crore), loans from financial institutions (₹ 1,538 crore) and deposits and advances (₹ 1,096 crore). However, even after financing the deficit, there still remained a gap of ₹ 6,720 crore,

<sup>47</sup> Net Capital Expenditure is total capital expenditure minus miscellaneous capital receipts.

which was met from cash balances, thus, decreasing the cash balances to that extent in 2017-18.

### 1.11.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the composition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds had been used for current consumption. Persistent high ratio of revenue deficit to fiscal deficit indicates that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have adequate assets backup.

The bifurcation of the primary deficit (**Table 1.34**) indicated the extent to which the deficit was on account of increase in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

**Table 1.34: Primary deficit/surplus – Bifurcation of factors**

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure <sup>48</sup>	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
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
2016-17	1,10,248	86,098	22,355	478	1,08,931	(+)24,150	(+)1,317
2017-18	1,23,637	99,105	26,313	631	1,26,049	(+)24,531	(-)2,412

Source: Finance Accounts of the State Government for the years 2013-14 to 2017-18

During 2013-18, primary expenditure increased by 47.93 per cent from ₹ 85,207 crore to ₹ 1,26,050 crore against the increase of non-debt receipts from ₹ 80,117 crore to ₹ 1,23,637 crore (54.32 per cent) during the same period. Further, during 2013-14 to 2015-16 and in 2017-18, the non-debt receipts did not fully cover the primary expenditure, resulting in primary deficit in each year.

### 1.12 Follow up

Reports of the Comptroller and Auditor General of India on State Finances are being prepared from the year 2008-09 onwards and presented to the State Legislature. The Public Accounts Committee was yet to discuss these reports.

### 1.13 Conclusion and Recommendations

The revenue receipts remained the highest contributor (over three-fourth) of the State's total receipts over the last five years and grew by ₹ 13,449.46 crore

<sup>48</sup> Primary expenditure is total expenditure less interest payments of the concerned year.

(12.24 *per cent*) in 2017-18 over the previous year. In 2017-18, revenue buoyancy with respect to GSDP stood at 0.87 *per cent*. The tax revenue of the State in 2017-18 stood lower by a significant margin of ₹ 41,170 crore than the 14<sup>th</sup> FC projections of ₹ 1,12,719 crore. The State received Goods and Services Tax compensation of ₹ 3,687 crore till March 2018. The 14<sup>th</sup> FC projected a Tax-GSDP ratio of 9.42 *per cent* for 2017-18. However, it actually stood lower at 5.42 *per cent*. During 2017-18, the State received ₹ 15,885.60 crore as grants-in-aid from the Government of India. Unspent balances of previous year's revenue expenditure were incorrectly credited as revenue receipts during 2017-18 by certain departments.

***The State Government may explore mobilising additional resources through tax revenues and also ensure better tax compliance.***

Revenue expenditure continuously increased from ₹ 75,259 crore in 2013-14 to ₹ 1,18,060 crore in 2017-18. The growth rate of revenue expenditure fluctuated widely from a low of 8.04 *per cent* in 2013-14 to a high of 15.14 *per cent* in 2014-15. In 2017-18, it increased by 13.63 *per cent* over the previous year. Revenue expenditure as a *per cent* of GSDP slightly decreased over the previous year and stood lowest at 8.94 *per cent* during the last five years. The expenditure on salaries, interest payments, pension and subsidies increased continuously from ₹ 35,421 crore in 2013-14 to ₹ 57,039 crore in 2017-18.

***Whereas major portion of revenue expenditure was on salaries, pension and interest payments which is obligatory in nature, the State Government may explore suitable measures for containing other components of revenue expenditure so that revenue surplus could be maintained for allowing scope for assets creation and sustainable development of the State.***

During 2017-18, the State Government made an additional investment of ₹ 8,281 crore over the previous year which largely included ₹ 7,561 crore in Government companies, ₹ 593.29 crore in statutory corporations and ₹ 1.47 crore in co-operative institutions. Of ₹ 7,561 crore invested in Government companies, ₹ 4,721 crore (62 *per cent*) was invested in *Sardar Sarovar Narmada Nigam Limited*. The average return on investment in these companies/statutory corporations/institutions during 2013-18 was 0.21 *per cent* while the Government paid an average interest of 7.67 *per cent* on its borrowings during the same period. The State Government received ₹ 97.89 crore as dividend from six of 50 profit-making State Public Sector Undertakings in the financial year 2017-18.

***The State Government may consider formulation of a dividend policy for payment of a reasonable returns from profit-making State Public Sector Undertakings on the paid up share capital contributed by the State Government.***

The investment held in 'Cash Balance Investment Account' by the State Government decreased from ₹ 12,750 crore at the end of March 2017 to ₹ 5,198 crore by March 2018, indicating better utilisation of cash balances.