

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In summary

The finances of the State indicate improvement in all deficit indicators during the year 2005-06. The revenue deficit decreased sharply from Rs.4,037 crore in 2004-05 to Rs.398 crore in 2005-06. The fiscal deficit decreased from Rs.8,691 crore in 2004-05 to Rs.6,268 crore in 2005-06. Also, the primary deficit decreased significantly from Rs.2,612 crore in 2004-05 to Rs.125 crore in 2005-06.

The revenue receipts of the State increased from Rs.20,265 crore in 2004-05 to Rs.25,067 crore in 2005-06. The growth rate of revenue receipts was 23.70 *per cent* during 2005-06 mainly due to 52 *per cent* increase in central tax transfer, 32 *per cent* increase in Grant-in-aid and 21 *per cent* increase in own tax revenue. The total expenditure of the State increased from Rs.29,142 crore in 2004-05 to Rs.33,127 crore in 2005-06. The revenue expenditure increased from Rs.24,302 crore in 2004-05 to Rs.25,465 crore in 2005-06. Interest payments and Pension together consumed 33 *per cent* of total revenue receipts. The targets as prescribed for containing interest payment and Non-Plan revenue expenditure were not met.

The overall fiscal liabilities of the State increased from Rs.71,083 crore in 2004-05 to Rs.81,367 crore in 2005-06. A low or negligible return on investments is a cause for concern. The reform in the power sector is still to take off and State continues to support this sector in the form of huge subsidy. The State Government can achieve long-term fiscal stability by measures like compressing non-plan revenue expenditure and enhancing additional resources mobilisation through improved tax.

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1(i)-Part A**). The Finance Accounts of the Government of Gujarat are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Gujarat. The lay out of the Finance Accounts is depicted in **Appendix 1(i)-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Gujarat for the year 2005-06, covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1: Summary of receipts and disbursements for the year 2005-06

(Rupees in crore)							
2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue					Non Plan	Plan	Total
20264.94	Revenue receipts	25066.87	24301.80	Revenue expenditure	21544.07	3921.42	25465.49
12957.70	Tax revenue	15698.11	10024.31	General services	11208.38	79.71	11288.09
3090.50	Non-tax revenue	3353.37	7850.93	Social services	6265.15	2007.72	8272.87
2219.30	Share of Union Taxes/Duties	3372.43	6283.25	Economic services	3962.49	1833.99	5796.48
1997.44	Grants from Government of India	2642.96	143.31	Grants-in-aid and Contributions	108.05	0.00	108.05
Section-B: Capital							
5.90	Misc Capital Receipts	7.94	4100.21	Capital Outlay	164.22	6794.44	6958.66
180.20	Recoveries of Loans and Advances	1783.69	739.57	Loans and Advances disbursed	299.44	404.78	704.22
13328.48	Public debt receipts*	10663.19	5815.04	Repayment of Public Debt*	#	#	1128.41
92.74	Contingency Fund	7.26	7.26	Contingency Fund	23.95	52.16	76.11
32787.59	Public Account receipts	36334.35	31018.87	Public Account disbursements	#	#	34827.48
1887.95	Opening Cash Balance	2565.05	2565.05	Closing Cash Balance	#	#	7267.98\$
68547.80	Total	76428.35	68547.80	Total	22031.68	11172.80	76428.35

* Excluding Ways and Means Advances and Overdraft

Bifurcation of plan & Non-plan not available

\$ Excludes Rs.415.93 crore booked under MH-8782 to be transferred to MH-8999 for which investigations are being carried out in consultation with State Government

Revenue receipts of the State increased significantly from Rs.20,265 crore in 2004-05 to Rs.25,067 crore in 2005-06. There is only marginal increase in Revenue expenditure, however, the expenditure on General Services being non-development expenditure increased by 12.61 per cent during the year. The public debt receipts decreased by 20 per cent during the year; repayment decreased significantly (80.6 per cent) during the year.

1.1.2 The Gujarat Fiscal Responsibility Act, 2005

The State Government has enacted the Gujarat Fiscal Responsibility Act, 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal frame work. To give effect to the fiscal management principles as laid down in the Act and /or the

rules framed there under, the Government prescribed the following fiscal management targets:

- (a) Reduce the revenue deficit in each of financial year commencing from the 1st April 2005 so as to eliminate it by 31st March 2008 and maintain at that level or generate revenue surplus thereafter.
- (b) Reduce fiscal deficit in each of financial year commencing from the 1st April 2005 so as to bring it down to not more than three *per cent* of GSDP by 31st March 2009.
- (c) Cap within a period of three years commencing from the 1st April 2005 and ending on the 31st March 2008, the total public debt of the State Government at thirty *per cent* of estimated GSDP for that year.
- (d) Cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963.

The revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost spent to meet the situation.

1.1.3 Fiscal Policy Statements

As prescribed in the Act, the State Government was required to lay the following statements of fiscal policy along with the budget before the Legislature.

- (a) The Medium Term Fiscal Policy Statement (MTFPS).
- (b) The Fiscal Policy Strategy Statement.

The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement shall set forth the fiscal objectives, strategic priorities of the State Government and a three years policy target for fiscal management as stated in Para 1.1.2.

1.1.4 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

Keeping in view the fiscal targets laid down in the Fiscal Responsibility and Budget Management (FRBM) Act and/or the rules made thereunder and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award period following its recommendation, the State Government has developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix 1 (ii)**).

1.1.5 Mid-Term Review of Fiscal Situation

The Gujarat Fiscal Responsibility Act, 2005 was enacted in March 2005; the rules for carrying out the provisions of the Act were published only in

February 2006. The State Government has therefore not laid any Mid-Term Review statement on fiscal situation before Legislature for 2005-06.

The State Government in its MTFPS estimated own tax revenue at Rs.18,533.40 crore for the year 2005-06 (RE). The State's own non-tax revenue was estimated at Rs.3,162.33 crore for the year 2005-06 (RE). The plan grants were estimated at Rs.2,102.91 crore and non-plan grant estimated at Rs.1,329.89 crore. The State Government estimated growth rate of seven *per cent* and 4.95 *per cent* for the plan and non-plan revenue expenditure respectively for the year 2005-06 onwards. The average cost of borrowing for the year 2005-06 was estimated at 9.42 *per cent*. The growth rate of the subsidy was estimated at seven *per cent*. The growth rates of salaries and pension payments were projected at two *per cent* and seven *per cent* respectively.

1.2 Overview of Fiscal situation of the State

1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in Table 2.

Table 2

(Rupees in crore)

2004-05	Sl. No	Major Aggregates	2005-06
20265	1.	Revenue Receipts (2+3+4+5)	25067
12958	2.	Tax Revenue (own tax Revenue)	15698
2219	3.	Tax transfers	3373
3090	4.	Non-Tax Revenue	3353
1998	5.	Other Receipts	2643
186	6.	Non-Debt Capital Receipts (7+8)	1792
6	7.	Capital Receipts	8
180	8.	Recovery of Loans and Advances	1784
20451	9.	Total Receipts (1+6)	26859
20720	10.	Non-Plan Expenditure (11+13+14)	22007
20056	11.	On Revenue Account	21544
6074	12.	Of which, interest payments	6135
189	13.	On Capital Account	164
475	14.	On Loans disbursed	299
8422	15.	Plan Expenditure (16+18+19)	11120
4246	16.	On Revenue Account	3921
5	17.	Of which, interest payments	8 [♥]
3911	18.	On Capital Account	6794
265	19.	On Loans disbursed	405
29142	20.	Total Expenditure (10+15)	33127
4037	21.	Revenue Deficit (11+16-1)	398
8691	22.	Fiscal Deficit (20-1-6)	6268
2612	23.	Primary Deficit (22-12-17)	125

[♥] This amount of interest payment was incurred against the Budget provision made under Plan head

Revenue receipts of the State increased from Rs.20,265 crore (2004-05) to Rs.25,067 crore in 2005-06 (23.70 *per cent*). The non plan expenditure of the State increased from Rs.20,720 crore in 2004-05 to Rs.22,007 crore in 2005-06. The total expenditure increased significantly from Rs.29,142 crore in 2004-05 to Rs.33,127 crore in 2005-06. The revenue deficit decreased significantly from Rs.4,037 crore in 2004-05 to Rs.398 crore in 2005-06. The fiscal deficit decreased from Rs.8,691 crore in 2004-05 to Rs.6,268 crore in 2005-06. Also the primary deficit decreased significantly from Rs.2,612 crore in 2004-05 to Rs.125 crore in 2005-06.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary analyse them in the light of time series data (**Appendix II to V**) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used. For tax revenues, non-tax revenues, revenue expenditure etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix 1(i) Part C**.

1.4 State Finances by Key Indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-3** shows that the total receipts of the State Government for the year 2005-06 were Rs.73,863 crore. Of these, the revenue receipts were Rs.25,067 crore, constituting 33.94 *per cent* of the total receipts. The balance came from borrowings, receipts from Contingency Fund and Public Account.

Table-3: Resources of Gujarat

(Rupees in crore)

I Revenue Receipts		25067
II Capital Receipts		12455
Recovery of Loans and Advances	1784	
Public Debt Receipts	10663	
Miscellaneous Capital Receipts	8	
III Contingency Fund		7
IV Public Account Receipts		36334
a. Small Savings, Provident Fund, etc.	884	
b. Reserve Fund	1963	
c. Deposits and Advances	12193	
d. Suspense and Miscellaneous	13249*	
e. Remittances	8045 [♥]	
Total Receipts		73863

1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-4**.

Table-4: Revenue Receipts - Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	15739	15986	17875	18248	20265	25067
Own Taxes (<i>per cent</i>)	57.48	57.84	53.25	61.23	63.94	62.63
Non-Tax Revenue (<i>per cent</i>)	21.28	23.53	22.36	17.93	15.25	13.38
Central Tax Transfers (<i>per cent</i>)	10.00	9.31	7.63	10.77	10.95	13.45
Grants-in-aid (<i>per cent</i>)	11.24	9.32	16.76	10.07	9.86	10.54
Rate of growth of RR (<i>per cent</i>)	12.65	1.57	11.82	2.08	11.05	23.70
RR/GSDP (<i>per cent</i>)	14.51	13.15	12.80	11.01	11.29	12.62
Revenue Buoyancy (ratio)	(-) 31.63	0.13	0.79	0.11	1.32	2.24
State's own taxes Buoyancy (ratio)	(-) 27.10	0.18	0.20	0.93	1.91	1.99
Revenue Buoyancy with reference to State's own taxes (ratio)	(-) 1.08	(-) 0.68	4.39	(-) 0.12	0.69	1.12
GSDP Growth (<i>per cent</i>)	(-) 0.40	12.02	14.95	18.63	8.35	10.59 [♣]

* As against disbursement in 2005-06 which was Rs.14008.95 crore

♥ Excludes Rs.415.93 crore booked under MH-8782 to be transferred to MH-8999 for which investigations are being carried out in consultation with State Government

♣ Estimated using log linear regression model and the time series data of CSO for the period 1993-94 to 2004-05 of GSDP of State of Gujarat. Projected figures are also utilised in subsequent tables as GSDP figures were not available as of January 2007

Revenue receipts of the State increased from Rs.15,739 crore in 2000-01 to Rs.25,067 crore in 2005-06. The growth rate of revenue receipts was 23.70 *per cent* during 2005-06 mainly due to 52 *per cent* increase in Central tax transfer, 32 *per cent* increase in Grant-in-aid and 21 *per cent* increase in Own tax revenue.

The State Government in its MTFPS estimated own tax revenue at Rs.18,533.40 crore for the year 2005-06 (RE), however, it stood at Rs.15,698 crore.

The breakup of revenue receipts was: Own taxes 62.63 *per cent*, Non-tax revenue 13.38 *per cent*, Central Tax Transfer 13.45 *per cent* and Grant-in-Aid 10.54 *per cent*.

The own tax revenue of the State increased from Rs.9,047 crore in 2000-01 to Rs.15,698 crore in 2005-06. The own Tax Revenue of State increased 21.15 *per cent* during 2005-06.

The increase in tax revenue during 2005-06 was mainly due to increase in Taxes on Sales, Trade etc., (Rs.2,252.72 crore), Stamps and Registration fees (Rs.190.36 crore) and Land Revenue (Rs.145.35 crore).

The taxes on Sales, Trade etc., was the major source of State's own tax revenue which contributed 55 *per cent* followed by taxes and duties on Electricity (10 *per cent*), Taxes on vehicles (six *per cent*) and Stamp duty and Registration fees (six *per cent*).

Non-tax revenue of the State increased 8.51 *per cent* during 2005-06, however, the contribution of non-tax revenue declined from 15.25 *per cent* in 2004-05 to 13.28 *per cent* in 2005-06. Of non-tax revenue receipts (Rs.3,353.37 crore), Non-ferrous mining and Metallurgical Industries (Rs.1,880.18 crore), dividends and profits (Rs.139.58 crore) and Miscellaneous General Services (Rs.3.31 crore) were main contributors.

The Central tax transfers for the State increased from Rs.2219 crore in 2004-05 to Rs.3,373 crore in 2005-06. The contribution of the Central tax transfers to the revenue receipts also increased from 10.95 *per cent* to 13.43 *per cent* in 2005-06.

The increase in Central tax transfers (Rs.1,153 crore) was mainly due to increase in Corporation Tax (Rs.299 crore), Union Excise Duties (Rs.260 crore), Taxes on Income other than Corporation Tax (Rs.250 crore), Customs (Rs.212 crore) and Service Tax (Rs.131 crore). The Grants-in-aid from Government of India increased from Rs.1,997 crore in 2004-05 to Rs.2,643 crore in 2005-06. The non-plan grants increased by 23.12 *per cent* to Rs.703.58 crore due to increase in Grant for Calamity Relief Fund by Rs.287 crore during 2005-06. The grants for State Plan Scheme increased by 39.12 *per cent* during 2005-06 to Rs.1,332.34 crore. The grants for Central and Centrally sponsored plan schemes increased by 29.61 *per cent* during 2005-06 to Rs.607.09 crore.

The arrears of revenue increased by 87 *per cent* from Rs.5,663 crore in 2000-01 to Rs.10,584 crore at the end of 2005-06. Arrears were mainly in respect of Taxes on Sales, Trade etc., (Rs.10,130 crore); of this, recovery of

Rs.1,750 crore was involved in litigation. The deterioration in the position of arrears of revenue showed a slackening of the revenue realising efforts of the State Government.

1.4.3 Sources of Receipts

The sources of receipts under different heads as well as GSDP during 2000-06 are indicated in **Table-5**.

Table-5: Sources of Receipts – Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	15739	2227	7686	14	25129	50795	108484
2001-02	15986	2207	8158	109	23703	50163	121525
2002-03	17875	171	9684	7	20666	48403	139690
2003-04	18248	200	15008	12	25039	58507	165708
2004-05	20265	186	13328	93	32788	66660	179544
2005-06	25067	1792	10663	7	36334	73863	198557*

The total receipts of the State increased from Rs.50,795 crore in 2000-01 to Rs.73,863 crore in 2005-06. The contribution of revenue receipts in the total receipts during 2005-06 was only 33.94 *per cent*. The capital receipts of the State increased from Rs.35,056 crore in 2000-01 to Rs.48,796 crore in 2005-06. The debt receipts increased from Rs.7,686 crore in 2000-01 to Rs.10,663 crore in 2005-06. Similarly, accruals in Public Account increased from Rs.25,129 crore in 2000-01 to Rs.36,334 crore in 2005-06, contributing to 74 *per cent* of total capital receipts.

1.5 Application of resources

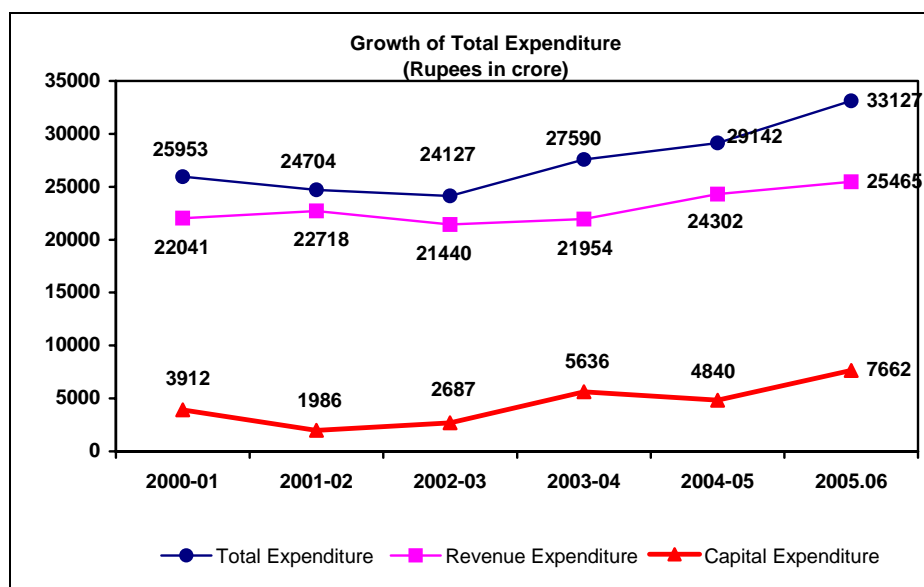
1.5.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.25,953 crore in 2000-01 to Rs.33,127 crore in 2005-06. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-6**.

* Figures of GSDP for 2005-06 have not been received from the State Government as of January 2007. Estimated using log linear regression model and the time series data of CSO for the period 1993-94 to 2004-05 of GSDP of State of Gujarat

Table-6: Total Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE) [♦] (Rupees in crore)	25953	24704	24127	27590	29142	33127
Rate of Growth (<i>per cent</i>)	24.55	(-) 4.81	(-) 2.34	14.35	5.63	13.67
TE/GSDP Ratio (<i>per cent</i>)	23.92	20.33	17.27	16.65	16.23	16.68
RR /TE Ratio (<i>per cent</i>)	60.64	64.71	74.09	66.14	69.54	75.67
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	(-) 61.37	(-) 0.40	(-) 0.16	0.77	0.67	1.29
RR (ratio)	1.94	(-) 3.07	(-) 0.20	6.88	0.51	0.58



The total expenditure increased by 13.67 *per cent* during 2005-06. Revenue expenditure declined from 84.93 *per cent* of total expenditure in 2000-01 to 76.87 *per cent* in 2005-06. Capital expenditure continuously increased from 8.04 *per cent* of total expenditure in 2001-02 to 23.15 *per cent* in 2005-06. The non-plan expenditure increased by 6.21 *per cent*, while plan expenditure increased by 32.03 *per cent* during 2005-06. There was significant increase in the ratio of revenue receipts to total expenditure from 60.64 *per cent* in 2000-01 to 75.67 *per cent* in 2005-06, indicating that nearly 76 *per cent* of the State's total expenditure was met from its revenue receipts, leaving the balance to be met from borrowings.

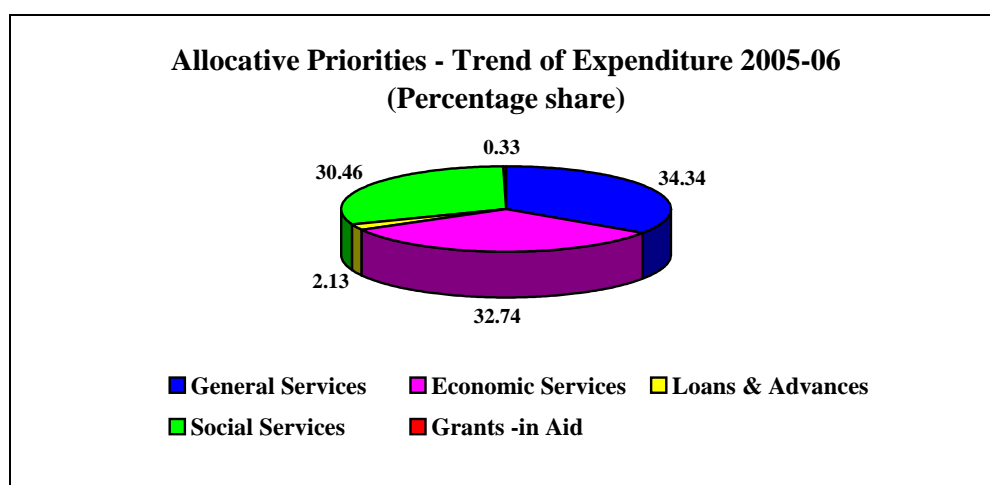
Trends in total expenditure by activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-7**.

[♦] Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

Table-7: Components of Expenditure – Relative Share

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	23.83	29.12	34.57	33.73	34.69	34.34
Of which Interest payments	12.06	20.51	21.29	21.68	20.86	18.54
Social Services	33.78	34.74	31.32	29.86	31.92	30.46
Economic Services	38.67	34.99	32.25	27.25	30.36	32.74
Grants-in-aid	0.19	0.22	0.43	0.37	0.49	0.33
Loans and Advances	3.53	0.93	1.43	8.79	2.54	2.13



The movement of relative share of these components indicates that while the share of social services in total expenditure declined from 33.78 *per cent* in 2000-01 to 30.46 *per cent* in 2005-06, the relative share of General Services considered as non-developmental increased from 23.83 *per cent* in 2000-01 to 34.34 *per cent* in 2005-06. The share of economic services declined from 38.67 *per cent* in 2000-01 to 32.74 *per cent* in 2005-06.

1.5.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment, for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-8**.

Table-8: Revenue Expenditure: Basic Parameters

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	22041	22718	21440	21954	24302	25465
Of which						
Non-Plan Revenue Expenditure (NPRE)	19040	20897	19373	18645	20056	21544
Plan Revenue Expenditure (PRE)	3001	1821	2067	3309	4246	3921
Rate of Growth (<i>per cent</i>)	25.83	3.07	(-) 5.63	2.40	10.70	4.79
NPRE	28.33	9.75	(-) 7.29	(-) 3.76	7.57	7.42
PRE	11.98	(-) 39.32	13.51	60.08	28.32	(-) 7.65
NPRE/GSDP (<i>per cent</i>)	17.55	17.20	13.87	11.25	11.17	10.85
NPRE as <i>per cent</i> of TE	73.36	84.59	80.30	67.58	68.82	65.03
NPRE as <i>per cent</i> of RR	120.97	130.72	108.38	102.18	98.97	85.95
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	(-) 64.57	0.26	(-) 0.38	0.13	1.28	0.45
Revenue Receipts (ratio)	2.04	1.96	(-) 0.48	1.15	0.97	0.20

Revenue expenditure increased from Rs.22,041 crore in 2000-01 to Rs.25,465 crore in 2005-06. The plan expenditure increased from Rs.3,001 crore in 2000-01 to Rs.3,921 crore in 2005-06. The non-plan expenditure increased from Rs.19,040 crore in 2000-01 to Rs.21,544 crore in 2005-06. The non plan revenue expenditure stood at 65 *per cent* of total expenditure and 86 *per cent* of revenue receipts. The State Government in its Medium Term Fiscal Policy statement projected a growth rate of seven *per cent* in plan revenue expenditure and of 4.95 *per cent* in non-plan revenue expenditure. During 2005-06, the Revenue expenditure increased by 4.79 *per cent*. Increase in non-plan revenue expenditure was 7.42 *per cent* while plan expenditure decreased by 7.65 *per cent*.

1.5.3 Committed Expenditure

Expenditure on Salaries

The expenditure on Salaries was Rs.2,522.31 crore in 2005-06. Out of total expenditure on salaries non-plan Salary heads accounted for 87.6 *per cent* (Rs.2,208.81 crore).

Pension Payments

Table 9: Expenditure on Pensions

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	1438.60	1502.17	1588.33	1733.94	1891.60	2101.17
As <i>per cent</i> of GSDP	1.33	1.24	1.14	1.05	1.05	1.06
As <i>per cent</i> of RR	9	9	9	10	9	8

Pension payments have increased by 46.06 *per cent* from Rs.1,438.60 crore in 2000-01 to Rs.2,101.07 crore in 2005-06. During 2005-06, the pension payment increased by 11.08 *per cent* mainly due to increase in number of pensioners against the seven *per cent* growth assessed by the State Government in its Medium Term Fiscal Policy Statement.

Interest payments

Table-10: Interest payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
	(Rupees in crore)			
2000-01	15739	3131	20	14
2001-02	15986	4206	26	19
2002-03	17875	4949	28	23
2003-04	18248	5875	32	27
2004-05	20265	6079	30	25
2005-06	25067	6143	25	24

The State Government had projected in the FRBM Act, interest payment as 23.60 per cent of the revenue receipts in the year 2005-06. It was, however, observed that interest payment as a percentage of revenue receipts stood at 25 per cent in 2005-06. The interest payment increased steadily by 96 per cent from Rs.3,131 crore in 2000-01 to Rs.6,143 crore in 2005-06 primarily due to increasing borrowing for financing the fiscal deficit. Interest on special securities issued to National Small Savings Fund constituted 51.76 per cent of interest payment during 2005-06.

Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table 11**.

Table-11: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2000-01	2021.26	51.99	7.79
2001-02	4075.85	101.65	16.50
2002-03	2050.16	(-) 49.70	8.50
2003-04	2824.18	37.75	10.24
2004-05	3371.97	19.40	11.57
2005-06	2760.91	(-) 18.12	8.33

The power sector continues to be highly subsidised and subsidy of Rs.2,053 crore was paid during 2005-06 which constitutes 74 per cent of total subsidy during the year. The Agriculture and allied activities availed subsidy of Rs.183.58 crore during 2005-06. The subsidy stood at 8.33 per cent of the total expenditure during 2005-06.

1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 12** gives these ratios during 2000-06.

Table 12 – Indicators of Quality of Expenditure

(Rupees in crore)						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	2994.84	1756.87	2341.30	3211.44	4100.20	6958.65
Revenue Expenditure	22040.82	22717.60	21440.13	21954.14	24301.80	25465.49
<i>Of which</i>						
Social and Economic Services with						
(i) Salary & Wage Component	NA	1676.92	1649.54	1632.70	1711.22	1747.00
(percentage of RE)		(7.38)	(7.69)	(7.44)	(7.04)	(6.86)
(ii) Non-Salary & Wage component		13819.61	11383.95	10971.31	12422.97	12322.34
(percentage of RE)		(60.83)	(53.10)	(49.97)	(51.12)	(48.39)
<i>As per cent of Total Expenditure</i>						
Capital Expenditure	11.54	7.11	9.70	11.64	14.07	21.01
Revenue Expenditure	84.93	91.96	88.86	79.57	83.39	76.87
<i>As per cent of GSDP</i>						
Capital Expenditure	2.76	1.45	1.68	1.94	2.28	3.50
Revenue Expenditure	20.32	18.69	15.35	13.25	13.54	12.82

Revenue expenditure declined from 84.93 per cent of total expenditure in 2000-01 to 76.87 per cent in 2005-06. Capital expenditure increased from 11.54 per cent of total expenditure in 2000-01 to 21.01 per cent in 2005-06.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 13** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2000-06.

Table 13: Expenditure on Social Services

(Rupees in crore)						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	246.83	234.89	216.24	275.95	291.47
(b) Non-Salary & Wage component		3011.32	3389.09	3467.16	3714.15	3870.55
Capital Expenditure		5.40	10.39	9.24	11.83	147.27
Total		3263.55	3634.37	3692.64	4001.93	4309.29
Health and Family Welfare						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	605.32	587.92	583.65	577.77	522.12
(b) Non-Salary & Wage component		110.16	258.95	294.48	366.81	520.74
Capital Expenditure		13.29	16.68	8.54	26.49	26.47
Total		728.77	863.55	886.67	971.07	1069.33
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	25.36	25.00	22.84	20.86	25.82
(b) Non-Salary & Wage component		482.14	674.56	965.49	1199.95	981.55
Capital Expenditure		288.46	442.16	491.62	851.22	818.96
Total		795.96	1141.72	1479.95	2072.03	1826.33

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Other Social Services						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	211.38	227.75	241.45	276.93	340.10
(b) Non-Salary & Wage component		3029.68	1141.06	1284.36	1418.51	1720.52
Capital Expenditure		552.60	548.31	652.66	560.17	826.07
Total		3793.66	1917.12	2178.47	2255.61	2886.69
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	1088.89	1075.56	1064.18	1151.51	1179.51
(b) Non-Salary & Wage component		6633.30	5463.66	6011.49	6699.42	7093.36
Capital Expenditure		859.75	1017.54	1162.06	1449.71	1818.77
Total (Social Services)		8581.94	7556.76	8237.73	9300.64	10091.64

Out of the total expenditure on Social and Economic Services (Rs. 20,939 crore), Social Services (Rs. 10,092 crore) accounted for 48 *per cent* during the year. General Education, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development consumed 71 *per cent* of the expenditure on Social Services.

The capital expenditure on Social Services increased from Rs.860 crore in 2001-02 to Rs.1,819 crore in 2005-06, indicating improved quality of expenditure on these services.

1.6.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.10,847 crore) accounted for 33 *per cent* of the total expenditure (**Table 14**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Power and Energy and Transport consumed nearly 88 *per cent* of the expenditure.

Table-14: Expenditure on Economic Sector

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	270.18	247.86	311.37	240.12	261.86
(b) Non-Salary & Wage component		625.70	382.67	435.11	696.04	655.38
Capital Expenditure		128.02	85.94	132.78	111.49	120.38
Total		1023.90	716.47	879.26	1047.65	1037.62
Irrigation and Flood Control						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component	NA	163.32	170.41	135.67	178.91	157.08
(b) Non-Salary & Wage component		1642.21	1769.08	234.51	196.56	215.33
Capital Expenditure		529.77	847.92	1340.29	1765.37	2251.39
Total		2335.30	2787.41	1710.47	2140.84	2623.80

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Power & Energy						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component		-	-	-	-	-
(b) Non-Salary & Wage component	NA	3551.10	2219.35	2561.76	2623.10	2073.52
Capital Expenditure		(-) 48.44	(-) 86.06	8.39	151.89	1949.91
Total		3502.66	2133.29	2570.15	2774.99	4023.43
Transport						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component		22.76	26.89	16.48	24.19	27.49
(b) Non-Salary & Wage component	NA	568.60	631.43	748.91	932.89	1065.50
Capital Expenditure		247.02	427.49	510.24	532.40	723.59
Total		838.38	1085.81	1275.63	1489.48	1816.58
Other Economic Services						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component		131.77	128.82	105.00	116.49	121.06
(b) Non-Salary & Wage component	NA	798.70	917.76	979.53	1274.96	1219.26
Capital Expenditure		12.62	10.66	-0.60	4.83	5.23
Total		943.09	1057.24	1083.93	1396.28	1345.55
Total (Economic Services)						
Revenue Expenditure						
<i>Of which</i>						
(a) Salary & Wage Component		588.03	573.98	568.52	559.71	567.49
(b) Non-Salary & Wage component	NA	7186.31	5920.29	4959.82	5723.55	5228.99
Capital Expenditure		868.99	1285.95	1991.10	2565.98	5050.50
Total		8643.33	7780.22	7519.44	8849.24	10846.98

Out of total expenditure on Social and Economic Services (Rs.20,939 crore), Economic Services (Rs.10,847 crore) accounted for 52 per cent during the year. The Power and Energy (Rs.4,023 crore), Irrigation and Flood Control (Rs.2,624 crore) and Transport (Rs.1,817 crore) accounted for 78 per cent of the expenditure on Economic Services.

The capital expenditure on Economic Services increased from Rs.869 crore in 2001-02 to Rs.5,050 crore in 2005-06 indicating towards improvement in quality of expenditure.

1.6.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-years period 2000-06 is presented in **Table 15**.

Table-15: Financial Assistance

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	*NA	100.63	95.45	85.01	83.75	91.96
Municipal Corporations and Municipalities	331.72	208.89	222.71	244.03	823.49	263.26
Zilla Parishads and Other Panchayati Raj Institutions	288.83	1470.91	1637.43	1572.61	1815.79	2025.29
Other Institutions [#]	213.32	1191.95	1011.97	1058.32	480.83	1100.25
Total	833.87	2972.38	2967.56	2959.97	3203.86	3480.76
Assistance as percentage of RE	3.78	13.08	13.84	13.48	13.18	13.67

* Information not furnished by the concerned department

Other Institutions include Development agencies, Hospitals and other Charitable institutions

The financial assistance to local bodies and other institutions increased from Rs.833.87 crore in 2000-01 to Rs.3,480.76 crore in 2005-06. The financial assistance as percentage of revenue expenditure increased from 3.78 *per cent* in 2000-01 to 13.67 *per cent* in 2005-06.

1.6.5 Delay in furnishing utilisation certificates

Of the 20,778 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs.3,201.53 crore paid upto 2005-06, 17,206 UCs for an aggregate amount of Rs.2844.65 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

1.6.6 Abstract of performance of the autonomous bodies

The audit of accounts of six bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix VII**.

1.6.7 Misappropriations, losses, defalcations, etc.

State Government reported 179 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs.8.36 crore upto the period October 2006 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix VIII** and nature of these cases is given in **Appendix IX**.

1.6.8 Write off of losses, etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. amounting to Rs.0.27 lakh in two cases were written-off during 2005-06 by competent authorities. The relevant details are given in **Appendix X**.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of 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 II** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix V** depicts the time series data on State Government finances for the period 2000-2006.

1.7.1 Financial Results of Irrigation Works

The financial results of Major and Medium Irrigation Projects with capital expenditure of Rs.1,095.55 crore showed that revenue realised during 2005-06 (Rs.143.94 crore) was only 13.14 *per cent* of the capital expenditure. After

meeting the working and maintenance expenditure (Rs.52.65 crore) the net profit was Rs.91.29 crore.

1.7.2 Incomplete projects

As per information received from the State Government as of 31 March 2006; there were 179 incomplete projects in which Rs.929 crore were blocked in the project having cost above rupees one crore.

1.7.3 Investments and returns

As of 31 March 2006, Government had invested Rs.15,199 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 16**). The return on this investment ranged between 0.27 and 0.92 *per cent* in the last six years while the Government paid interest at the average rate of 8.06 to 10.17 *per cent* on its borrowings during 2000-2006.

Table-16: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest rate and return
	(Rupees in crore)			(per cent)	
2000-01	4707	26.07	0.55	8.75	8.20
2001-02	4978	27.52	0.55	9.86	9.31
2002-03	5014	42.02	0.84	10.11	9.27
2003-04	11220	29.89	0.27	10.17	9.90
2004-05	12739	35.82	0.28	9.08	8.80
2005-06	15199	139.58	0.92	8.06	7.14

Out of the above investment, three statutory corporations and 19 Government companies with an aggregate investment of Rs.1,061 crore upto 2005-06 were incurring losses and their accumulated losses amounted to Rs.12,121 crore as per the accounts furnished by these companies (**Appendix XI**).

1.7.4 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2006, were Rs.4,665 crore (**Table 17**).

Table-17: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	6054.00	4744.00	2767.00	2942.00	5185.00	5744.00
Amount advanced during the year	917.00	229.00	346.00	2425.00	739.00	704.00
Amount repaid during the year	2227.00	2206.00	171.00	182.00	180.00	1784.00
Closing Balance	4744.00	2767.00	2942.00	5185.00	5744.00	4665.00
Net addition	(-)1310.00	(-)1977.00	175.00	2243.00	559.00	(-)1079.00
Interest Received	371.00	67.00	82.00	0.01	0.10	0.01
Interest received as <i>per cent</i> to outstanding Loans and advances	6.87	1.78	2.87	0.00	0.00	0.00
Weighted interest rate (in <i>per cent</i>) paid on borrowings by State Government	8.75	9.86	10.11	10.17	9.08	8.06
Difference between weighted interest paid and received (<i>per cent</i>)	(-)1.88	(-)8.08	(-)7.24	(-)10.17	(-)9.08	(-)8.06

The loans and advances by the State Government decreased from Rs.6,054 crore in 2000-01 to Rs.5744 crore in 2005-06. The interest received declined sharply from Rs.371 crore in 2000-01 to Rs.0.01 crore in 2005-06. The interest received as *per cent* to outstanding loans and advances was negligible though the Government borrowed funds during the year at an average rate of 8.06 *per cent*.

1.7.5 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Ways and Means Advances and Overdrafts availed; the number of occasions it was availed and interest paid by the State is detailed in **Table 18**.

Table-18: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances						
Availed in the Year	1371.57	7059.00	5092.13	5394.18	3072.59	Nil
Outstanding WMAs, if any	888.89	452.20	42.44	42.44	Nil	Nil
Interest Paid	7.32	21.78	12.28	11.62	3.47	0.26 #
Number of Days	173	235	250	203	127	Nil
Overdraft						
Availed in the year	3259.90	10212.54	9624.93	1766.93	Nil	Nil
Number of Days	45	72	47	21	Nil	Nil
Interest Paid	0.82	1.54	3.00	0.46	Nil	Nil

Interest payments pertaining to previous year

1.8 Undischarged Liabilities

The total liabilities of the State mean the liabilities under the Consolidated Fund of the State of Gujarat and the public account of the State.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other

liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table-19 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-19: Fiscal Liabilities – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore)*	40007	45301	52572	62876	71083	81367
Rate of Growth (<i>per cent</i>)	26.76	13.23	16.05	19.60	13.05	14.47
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	36.88	37.28	37.63	37.94	39.59	40.98
Revenue Receipts (<i>per cent</i>)	254.20	283.38	294.10	344.56	350.77	324.60
Own Resources (<i>per cent</i>)	322.70	348.30	389.00	435.27	442.91	427.11
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	(-) 66.90	1.10	1.07	1.05	1.56	1.37
Revenue Receipts (ratio)	2.12	8.43	1.36	9.39	1.18	0.61
Own Resources (ratio)	2.40	2.68	4.12	2.85	1.18	0.71

Overall fiscal liabilities of the State increased from Rs.40,007 crore in 2000-01 to Rs.81,367 crore in 2005-06. The growth rate was 14.47 *per cent* during 2005-06 over previous year. These liabilities stood at 3.25 times the revenue receipts and 4.27 times of the State's own resources at the end of 2005-06. The State Government has set up the Consolidated Debt Sinking Fund to take care of payment at the time of maturity of the market borrowings.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2000-06 is given in **Table 20**.

Table-20: Guarantees given by the Government of Gujarat

(Rupees in crore)			
Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2000-01	13255	12693	84
2001-02	16781	16219	105
2002-03	19426	18866	109
2003-04	18032	17473	99
2004-05	16122	15587	80
2005-06	13965	13430	56

* The fiscal liabilities of the State include internal debt of the State, Loans and Advances from the Central Government, Small Savings, Provident Funds and other interest and non-interest bearing obligations

Under Article 293 of the Constitution of India and Gujarat State Guarantee Act, 1963 as amended by the Act of 2001 the limit upto Rs.20,000 crore was laid down within which Government may give guarantee on the security of the Consolidated Fund of the State. The outstanding guarantees (Rs.13,430 crore) accounted for 54 *per cent* of the revenue receipts (Rs.25,067 crore) of the State Government. Out of the total outstanding guarantees of Rs.13,430 crore, almost 78 *per cent* were towards Sardar Sarovar Narmada Nigam Limited (SSNNL) and Gujarat Electricity Board (GEB). The State Government has set up the Guarantee Redemption Fund to take care of any contingent liabilities arising out of the State Government guarantees.

1.8.3 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

Table-21 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last six years.

Table-21: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt						
Receipt	7121	5926	8365	12004	11510	9941
Repayment (Principal + Interest)	671	1715	2339	3436	4962	5057
Net Fund Available	6450	4211	6026	8568	6548	4884
Net Fund Available (<i>per cent</i>)	90.58	71.06	72.04	71.38	56.89	49.13
Loans and Advances from GOI						
Receipt	(-) 98	2231	1318	3004	1818	722
Repayment (Principal + Interest)	3060	2834	4780	7135	6294	1527
Net Fund Available	(-) 3134	(-) 603	(-) 3462	(-) 4131	(-) 4476	(-) 805
Net Fund Available (<i>per cent</i>)	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Other obligations						
Receipt	15259	10759	10898	9508	11964	14883
Repayment (Principal + Interest)	13898	12989	10470	10456	11201	14821
Net Fund Available	1361	(-) 2230	428	(-) 948	763	62
Net Fund Available (<i>per cent</i>)	8.92	Neg.	3.93	Neg.	6.38	0.42
Total liabilities						
Receipt	22282	18916	20581	24516	25292	25546
Repayment (Principal + Interest)	17629	17538	17589	21027	22457	21405
Net Fund Available	4653	1378	2992	3489	2835	4141
Net Fund Available (<i>per cent</i>)	20.88	7.28	14.54	14.23	11.21	16.21

The internal debt receipts decreased from Rs.11,510 crore in 2004-05 to Rs.9,941 crore in 2005-06. After accounting for the repayment of Rs.5,057 crore (including interest) in 2005-06, the net availability of fund from the internal debt stood at Rs.4,884 crore. The loan receipt from Government of India (GOI) decreased from Rs.1,818 crore in 2004-05 to Rs.722 crore in

2005-06. After accounting for the repayment of Rs.1,527 crore (including interest) in 2005-06, it resulted in negative net availability of fund from Loans and Advances from GOI.

The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayment declined from 20.88 *per cent* (2000-01) to 16.21 *per cent* (2005-06). The State Government raised market loan of Rs.602.27 crore during the year. The weighted average rate of market borrowing during the year was 7.66 *per cent*. As on 31 March 2006, 25.5 *per cent* of the existing market loans of the State Government carried the interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on their past loans was much higher than the rate at which they are able to raise resources at present from the market.

1.9 Management of deficits

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 deficit is financed and the resources raised and applied are important pointers to its fiscal health.

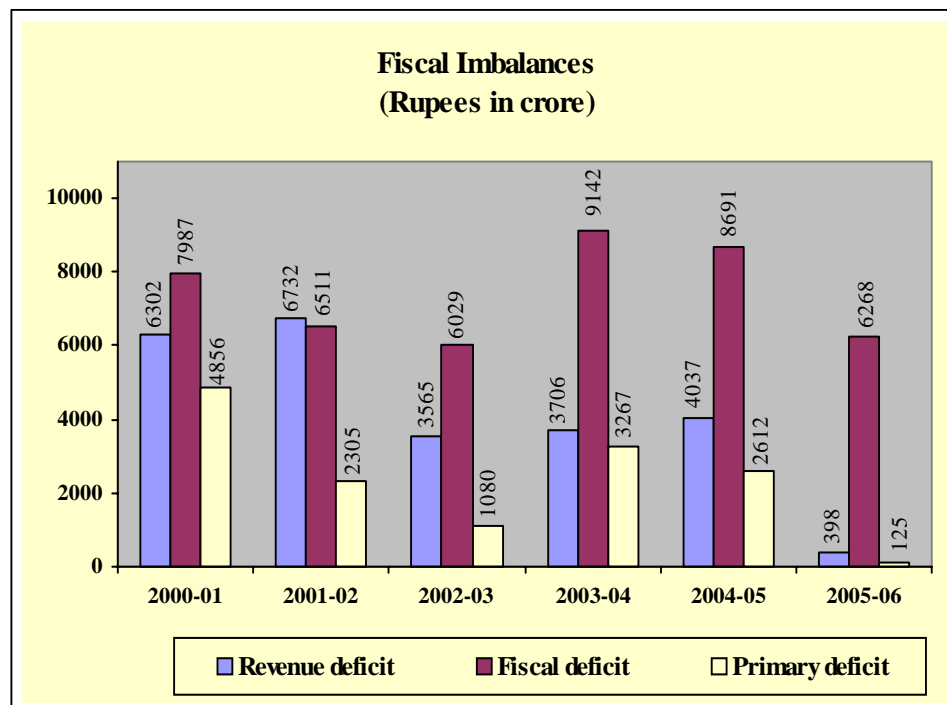
The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased from Rs.6,302 crore in 2000-01 to Rs.398 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs.7,987 crore in 2000-01 to Rs.6,268 crore in 2005-06. The State also had a primary deficit of Rs.4,856 crore in 2000-01 which decreased to Rs.125 crore in 2005-06 as indicated in **Table-22**.

The ratio of revenue deficit to fiscal deficit was 6.35 *per cent* during 2005-06.

Table-22 Fiscal Imbalances: Basic Parameters

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (Rupees in crore)	6302	6732	3565	3706	4037	398
Fiscal deficit (Rupees in crore)	7987	6511	6029 [@]	9142	8691	6268
Primary deficit (Rupees in crore)	4856	2305	1080 [@]	3267	2612	125
RD/GSDP (<i>per cent</i>)	5.81	5.54	2.55	2.24	2.25	0.20
FD/GSDP (<i>per cent</i>)	7.36	5.36	4.28	5.52	4.84	3.16
PD/GSDP (<i>per cent</i>)	4.48	1.90	0.74	1.97	1.32	0.06
RD/FD (<i>per cent</i>)	78.90	103.39	59.13	40.54	46.45	6.35

[@] Figures as mentioned in the Audit Report 2002-03 are revised after adding capital receipts



The sharp decrease in the revenue deficit was mainly due to 23.7 per cent increase in the revenue receipts of the State as the non-plan revenue expenditure grew only at 7.42 per cent during 2005-06. The decrease in the fiscal deficit was mainly due to 31.33 per cent increase in revenue receipts and non-debt capital receipts and 13.67 per cent increase in the total expenditure.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-23** below presents a summarised position of Government finances over 2000-06, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facets.

Table-23: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7
I Resource Mobilisation						
Revenue Receipt/GSDP	14.51	13.15	12.80	11.01	11.29	12.62
Revenue Buoyancy	(-) 31.63	0.13	0.79	0.11	1.32	2.24
Own Tax/GSDP	8.34	7.61	6.82	6.74	7.22	7.90
II Expenditure Management						
Total Expenditure/GSDP	23.92	20.33	17.27	16.65	16.23	16.68
Total Expenditure/Revenue Receipts	164.90	154.54	134.98	151.19	143.80	132.15
Revenue Expenditure/Total Expenditure	84.93	91.96	88.86	79.57	83.39	76.87

1	2	3	4	5	6	7
Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	7.38	7.69	7.44	7.04	6.86
Non-Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	60.83	53.10	49.97	51.12	48.39
Capital Expenditure/Total Expenditure	11.54	7.11	9.70	11.64	14.07	21.01
Capital Expenditure on Social and Economic Services/Total Expenditure.	11.39	7.00	9.55	11.43	13.78	20.74
Buoyancy of TE with RR	1.94	(-) 3.07	(-) 0.20	6.88	0.51	0.58
Buoyancy of RE with RR	2.04	1.96	(-) 0.48	1.15	0.97	0.20
III Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	6302	6732	3565	3706	4037	398
Fiscal deficit (Rs. in crore)	7987	6511	6029	9142	8691	6268
Primary Deficit (Rs. in crore)	4856	2305	1080	3267	2612	125
Revenue Deficit/Fiscal Deficit	78.90	103.39	59.30	40.54	46.45	6.35
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	36.88	37.28	37.63	37.94	39.59	40.98
Fiscal Liabilities/RR	254.20	283.38	294.10	344.56	350.77	324.60
Buoyancy of FL with RR	2.12	8.43	1.36	9.39	1.18	0.61
Buoyancy of FL with Own Receipt	2.40	2.68	4.12	2.85	1.18	0.71
Primary deficit vis-à-vis quantum spread	(-) 1.31	2.35	0.42	0.61	(-) 4.57	0.08
Net Funds Available	20.88	7.28	14.54	14.23	11.21	16.21
V Other Fiscal Health Indicators						
Return on Investment	0.55	0.55	0.84	0.27	0.28	0.92
Balance from Current Revenue (Rs. in crore)	(-) 4246	(-) 6048	(-) 2370	(-) 1771	(-) 977	2833
Financial Assets/Liabilities	0.65	0.56	0.55	0.56	0.56	0.53

Various ratios concerning the expenditure management of the State indicate quality of its expenditure. The ratio of revenue expenditure to total expenditure decreased from 84.93 *per cent* in 2000-01 to 76.87 *per cent* in 2005-06. The ratio of capital expenditure to total expenditure has shown continuous increase from 7.18 *per cent* in 2001-02 to 21.01 *per cent* in 2005-06. The state has the unproductive investment in companies with either nil or negligible returns ranging between 0.27 and 0.92 *per cent*. The much-awaited reforms in the power sector are still to take-off and the State continues to support this sector in the form of huge subsidy.

1.11 Conclusion

The State Government in its Medium Term Fiscal Policy Statement estimated the revenue deficit of Rs.1,439 crore for 2005-06 (BE) while the revenue deficit stood at Rs.398 crore in 2005-06, indicating improved revenue realisations. Similarly the State Government estimated the fiscal deficit of Rs.7,438 crore for 2005-06, which stood at Rs.6,268 crore. However, the target prescribed for containing of interest payment was not met. Similarly, the target for non-plan expenditure was not met. Further committed expenditure towards salary, interest and pension payment was 43 *per cent* of revenue

receipt indicating that from own resources only limited funds would be applied towards development expenditure.

The fiscal liabilities of the State were about 3.25 times of the revenue receipts indicating requirement of borrowings.

The Government investment in Companies and Statutory Corporations etc. fetched returns ranging between 0.27 to 0.92 *per cent* during 2000-06, however the Government continued to borrow funds at much higher rates. The reforms in the power sector are still to take off and State continues to support this sector in the form of huge subsidy.

