

CHAPTER I

Finances of the State Government

In Summary

Madhya Pradesh had a relatively comfortable financial year. The State had a revenue surplus of Rs.1717 crore during the year. Capital expenditure increased appreciably by 85 per cent from 2679 crore in 2003-04 to Rs.4951 crore in 2004-05.

The substantial growth in revenue receipts during the year was due to increase of 201.49 per cent in non-tax revenue, 14.49 per cent in tax revenue, 19.54 per cent in central tax transfer and 37.11 per cent in Grants in Aid. Sales tax was the major source of State's own tax revenue having contributed 51 per cent followed by State Excise (15 per cent), and Stamp duty and Registration fees (10 per cent). Non tax revenue has increased from Rs.1480 crore in 2003-04 to Rs.4462 crore in 2004-05. The current levels of cost recovery in supply of merit goods and services by Government were 0.52 per cent for secondary education, 11.68 per cent for technical education, 2.04 per cent in health and family welfare, 6.18 per cent in water supply and sanitation and 15.15 per cent in major and medium irrigation.

Overall expenditure of the State increased from Rs.21648 crore in 2003-04 to Rs.26288 crore in 2004-05. Revenue expenditure, which constituted 68.57 per cent of total expenditure, slightly decreased from 18765 crore in 2003-04 to 18026 crore in 2004-05.

Salaries (Rs.6176 crore), Interest payments (Rs.3661 crore), Pensions (Rs.1330 crore), and Subsidy (Rs.1466 crore) alone consumed 64 per cent of total revenue receipts of the State during the year. The overall fiscal liabilities of the State increased from Rs.37525 crore in 2003-2004 to Rs.44235 crore in 2004-2005. These liabilities as ratio to GSDP increased from 37.14 per cent in 2003-2004 to 40.99 per cent in 2004-2005 and stood at 2.24 times its revenue receipts.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, the use of high cost borrowing for investments, with low yields, is not sustainable.

1.1 Introduction

This Chapter discusses the financial position of the Government of Madhya Pradesh based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in receipts and expenditure, the quality of expenditure and the financial management of the State Government. Some of the terms used in this Chapter are explained in **Appendix-I**.

In terms of the Madhya Pradesh Re-organisation Act 2000 (No.28 of 2000) 16* districts of the erstwhile State of Madhya Pradesh were formed the new

* Bastar, Bilaspur, Dantewada, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Koriya, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja

State of Chhattisgarh on 1 November 2000, 'the appointed day'. The apportionment of assets and liabilities of the composite State of M.P. immediately prior to the appointed day as also the other financial adjustments are being carried out in each case in accordance with the provisions of the Act *ibid*. The actual progress achieved in this direction is indicated in **Appendix-II**.

The Finance Accounts of the Government of Madhya Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The layout of the Finance Accounts is depicted in Box 1.

Box 1

Layout of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc in the consolidated fund, contingency fund and public account of the state.

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2004-05.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No.4 indicates the summary of debt position of the State, which includes internal debt, borrowings from Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporation, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under consolidated fund, contingency fund and public account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the year 2004-2005 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charge and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-2005.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2005, and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserved funds.

1.2 Trend of Finances with reference to previous year

Finances of State Government during the current year compared to that of the previous year were as under:

(Rupees in crore)

2003-04	Sl. No	Major Aggregates	2004-05
14289	1.	Revenue Receipts (2+3+4)	19743
6789	2.	Tax Revenue	7773
1480	3.	Non-Tax Revenue	4462
6020	4.	Other Receipts	7508
36	5.	Non-Debt Capital Receipts	53
36	6.	<i>Of which</i> Recovery of Loans	53
14325	7.	Total Receipts (1+5)	19796
15963	8.	Non-Plan Expenditure (9+11)	19019
15949	9.	On Revenue Account	14861
3206	10.	Of which, Interest Payments	3661
14	11.	On Capital Account	4158
8	12.	Of which Loans disbursed	2775
5685	13.	Plan Expenditure (14+15)	7269
2816	14.	On Revenue Account	3165
2869	15.	On Capital Account	4104
196	16.	Of which Loans disbursed	536
21648	17.	Total Expenditure (8+13)	26288
7323	18.	Fiscal Deficit (17-1-5)	6492
(-4476)	19.	Revenue surplus (+)/ Revenue deficit (-) (9+14-1)	(+) 1717
4117	20.	Primary Deficit (18-10)	2831

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Madhya Pradesh for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

Audit Report (Civil) for the year ended 31 March 2005

Table 1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-2005 (Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
					Non-Plan	Plan	Total
14288.96	I. Revenue receipts	19743.25	18764.72	I. Revenue expenditure	14861.20	3165.17	18026.37
6788.86	Tax revenue	7772.97	6573.58	General services	7424.94	43.41	7468.35
1479.82	Non-tax revenue	4461.86	5321.65	Social Services	3902.12	1770.33	5672.45
4247.14	Share of Union Taxes/Duties	5076.68	6278.58	Economic Services	2797.39	1171.52	3968.91
1773.14	Grants from Govt. of India	2431.74	590.91	Grants-in-aid / Contributions	736.75	179.91	916.66
Section-B: Capital							
	II Misc. Capital Receipts		2678.64	II Capital Outlay	1383.00	3567.98	4950.98
35.84	III. Recoveries of Loans and Advances	53.20	204.36	III Loans and Advances disbursed	2774.65	536.21	3310.86
9938.42	IV Public debt receipts*	8849.00	2275.08	IV Repayment of Public # Debt	3391.38	--	3391.38
22285.06	V Public account receipts	24790.22	22439.02	V Public account # disbursements	23591.45	--	23591.45
--	VI Inter State Settlement	--	--	VI. Inter State Settlement	--	--	--
0.05	VII Amount transferred to Contingency Fund	1.00	1.00	VII Expenditure from Contingency Fund	--	--	--
(-)91.30	Opening Balance	94.21	94.21	Closing Balance	259.84	--	259.84
46457.03	Total	53530.88	46457.03	Total	46261.52	7269.36	53530.88

* Excluding ways and means advances and over draft.

Bifurcation of plan and non- plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure from the statements of the Finance Accounts for the year 2004-05 and wherever necessary, show these in the light of time series data (**Appendix III to VI**) and periodic comparisons.

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. 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.

The reporting parameters are depicted in Box 1.2

Box 1. 2
Reporting Parameters
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 GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics Department 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.
For most series a trend growth during 2000-2005 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in Appendix- I .

The accounts of the state Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

Box 1.3	
State Government Funds and the Public Account	
<p>Consolidated Fund</p> <p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled the Consolidated Fund of the State established under Article 266(1) of the Constitution of India.</p>	<p>Contingency Fund</p> <p>Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by State Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p>Public Account</p> <p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.</p>	

1.5 State Finances by key Indicators

1.5.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consists of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts are comprised of miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/ commercial banks etc and loans and advances from Government of India as well as accruals from the Public account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs.53436 crore. Of these, the revenue receipts of the State Government were Rs.19743 crore only, constituting 37 per cent of the total receipts. The balance of receipts came from borrowings and public account .

Table 2 – Resources of Madhya Pradesh

		(Rupees in crore)
I Revenue Receipts		19743
II Capital Receipts		8902
a	Miscellaneous Receipts	--
b	Recovery of Loans and Advances	53
c	Public Debt Receipts	8849
III Contingency fund Receipts		1
IV Public Account Receipts		24790
a	Small Savings, Provident Fund, etc.	1810
b	Reserve Fund	351
c	Deposits and Advances	3875
d	Suspense and Miscellaneous	13436
e	Remittances	5318
Total Receipts		53436

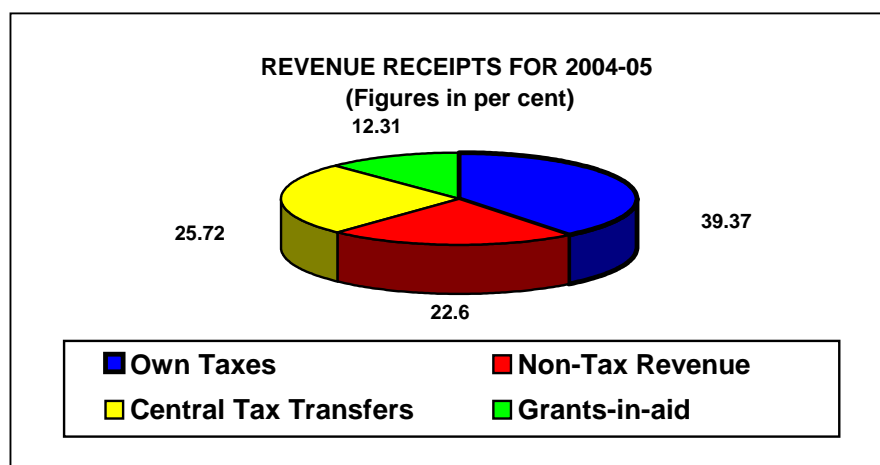
1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) are indicated in Table 3.

Table 3: Revenue Receipts – Basic Parameters (Values in Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	12839	11211	13391	14289	19743
Own taxes	43.93	41.74	46.04	47.51	39.37
Non-Tax Revenue	13.43	14.29	12.21	10.36	22.60
Central Tax Transfers	30.80	30.68	27.85	29.72	25.72
Grants-in-aid	11.84	13.30	13.90	12.41	12.31
Rate of Growth	Neg	Neg	19.45	6.70	38.16
Revenue Receipts/GSDP	14.52	13.79	16.13	14.14	18.29
Percentage growth of GSDP	Neg.	Neg.	2.122	21.703	6.828
Revenue Buoyancy	Neg.	Neg.	9.166	0.309	5.588
Revenue Buoyancy with reference to own taxes	Neg.	Neg.	14.962	0.466	2.122

Rate of growth of revenue receipts, which was 6.7 per cent during 2003-2004 increased to 38.16 per cent during the year 2004-05. While the receipts from Non Tax Revenue increased by 12.24 percent, the receipts from Own Taxes, Central Tax Transfers and Grant in Aid decreased by 8.14, 4.00 and 0.10 percent respectively. The increase of Rs.5454 crore in the Revenue Receipts during 2004-05 was due to increase in receipts under Power (Rs.2749 crore), Taxes on sales Trades etc. (Rs.619 crore), Corporation tax (Rs.293 crore) and Taxes on Income other than Corporation Tax (Rs.244 crore). Increase in the collection of revenue receipts by Rs.5454 crore helped State Government in achieving the revenue surplus of Rs.1717 crore during the year.



On an average around 62 per cent of the revenue had come from the State's own resources, central tax transfers and grants-in-aid together continued to contribute nearly 38 per cent of the total revenue. Sales tax was the major source of State's own tax revenue having contributed 51 per cent of the tax revenue followed by State Excise (15 per cent), taxes on Stamps and Registration (10 per cent) etc. Of non-tax revenue sources, Power (62 per cent) Non-Ferrous Mining and Metallurgical Industries mainly the royalty from minerals (16 per cent) and Forestry and Wild life (13 per cent) were the principal contributors. Non-tax revenue increased sharply by 201 percent from Rs.1480 crore in 2003-04 to Rs.4462 crore in 2004-05. The current levels of cost recovery in supply of merit goods and services by Government are 0.52 per cent for secondary education, 11.68 per cent for technical education, 2.04 per cent in health and family welfare, 6.18 per cent in water supply and sanitation and 15.15 per cent in major and medium irrigation.

1.6 Application of resources

The sources of receipts under different heads/sections of Government Account and GSDP during 2000-2005 are indicated in Table 4.

Table 4 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account	Contingency Fund		
2000-01	12839	13	3101	16520	7	32480	88445
2001-02	11211	1588	3281	15013	-	31093	81286
2002-03	13391	43	4949	20120	-	38503	83011
2003-04	14289	36	9938	22285	-	46548	101027
2004-05	19743	53	8849	24790	1	53436	107926

1.6.1 Trend of growth

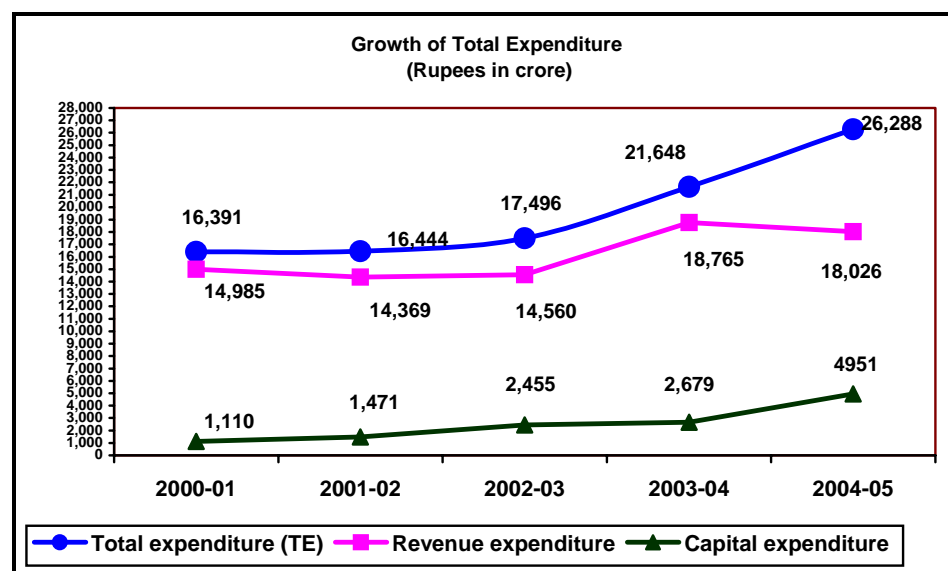
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased by 21 per cent during the year.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts is indicated in Table-5 below:

Table 5: Total Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure	16391	16444	17496	21648	26288
Rate of Growth	--	--	6.40	23.73	21.43
TE/GSDP	18.53	20.23	21.08	21.43	24.36
Revenue Receipts/TE	78.33	68.18	76.54	66.00	75.10

The increase in total expenditure in the current year was primarily due to appreciable increase of Rs.2272 crore under Capital section. The ratio of revenue receipts to total expenditure increased from 66 per cent in 2003-04 to 75.10 per cent in 2004-05 indicating that about 75 per cent of the State's total expenditure was met from its current revenue and the balance of 25 per cent was financed from borrowings.

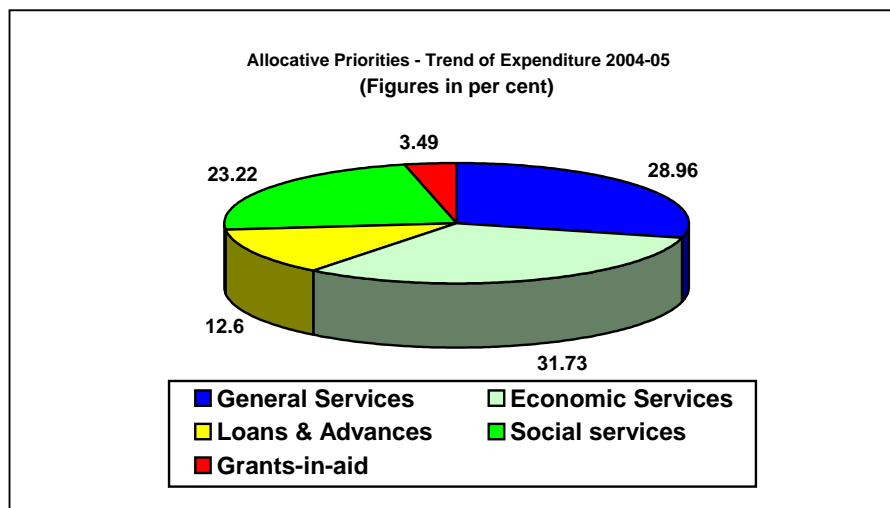


In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

Table 6: Components of expenditure – Relative Share (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	32.57	30.80	31.33	30.53	28.96
Social Services	36.43	28.92	33.26	27.05	23.22
Economic Services	25.97	34.30	30.34	38.74	31.73
Grants-in-aid	3.22	2.27	2.32	2.73	3.49
Loans and advances	1.81	3.64	2.75	0.95	12.60

The movement of the relative shares of these components of expenditure indicated that the share of General, Social and Economic Service in Total Expenditure declined from 30.53, 27.05 and 38.74 per cent in 2003-04 to 28.96, 23.22 and 31.73 per cent in 2004-05 respectively. However, disbursement of loans and advances increase appreciably from 0.95 to 12.60 percent.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts is indicated in Table 7 below:

Table 7: Revenue Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure	14985	14369	14560	18765	18026
Rate of Growth	Neg.	Neg.	1.33	28.88	Neg.
RE/ GSDP	16.94	17.68	17.54	18.57	16.70
RE as <i>per cent</i> of TE	91.42	87.38	83.22	86.68	68.57
RE as <i>per cent</i> to Revenue Receipts	117	128	109	131	91

Revenue expenditure of the state decreased by 4 percent from Rs.18765 crore in 2003-04 to Rs.18026 crore in 2004-05. The decrease was mainly due to less expenditure on power (Rs.2488 crore) and Relief on account of natural calamities (Rs.152 crore) in comparison to previous year.

Revenue expenditure constituted about 69 per cent of total expenditure during the year 2004-05. The ratio of revenue expenditure to revenue receipts decreased from 131 per cent in 2003-04 to 91 per cent in 2004-05. However salaries, (Rs.6176 crore), interest payments (Rs 3661 crore), pension (Rs.1330 crore), and subsidy (Rs.1466 crore) together consumed 64 per cent of total revenue receipts of the State during the year.

(a) High salary expenditure

Salaries alone accounted for nearly 31 per cent of the revenue receipts of the State. The expenditure on salaries increased from Rs.5312 crore in 2003-04 to Rs.6176 crore in 2004-05. Yearwise expenditure on salaries for the last five years is given in Table 8:

Table 8

Heads	(Rupees in crore)				
	2000-01	2001-02	2002-03	2003-04	2204-05
Salary expenditure	5715	4669	5258	5312	6176 ^u
As percentage of GSDP	6.46	5.74	6.33	5.26	5.72
As percentage of Revenue Receipts	44.51	41.65	39.27	37.17	31.28

(b) Expenditure on pension payments

Pension payments have increased by 11.11 per cent from Rs.1197 crore in 2003-04 to Rs.1330 crore in 2004-05 mainly due to increase in payment of dearness relief on pension and leave encashment benefits.

Year-wise breakup of expenditure incurred on pension payments during the years 2000-2001 to 2004-2005 was as under:

Table 9

Year	Expenditure	Percentage to total revenue Receipt
Rupees in crore		
2000-2001	962.65	7
2001-2002	1010.76	9
2002-2003	1082.68	8
2003-2004	1197.27	8
2004-05	1329.89	7

With the increase in the number of retirees from 2000-01, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

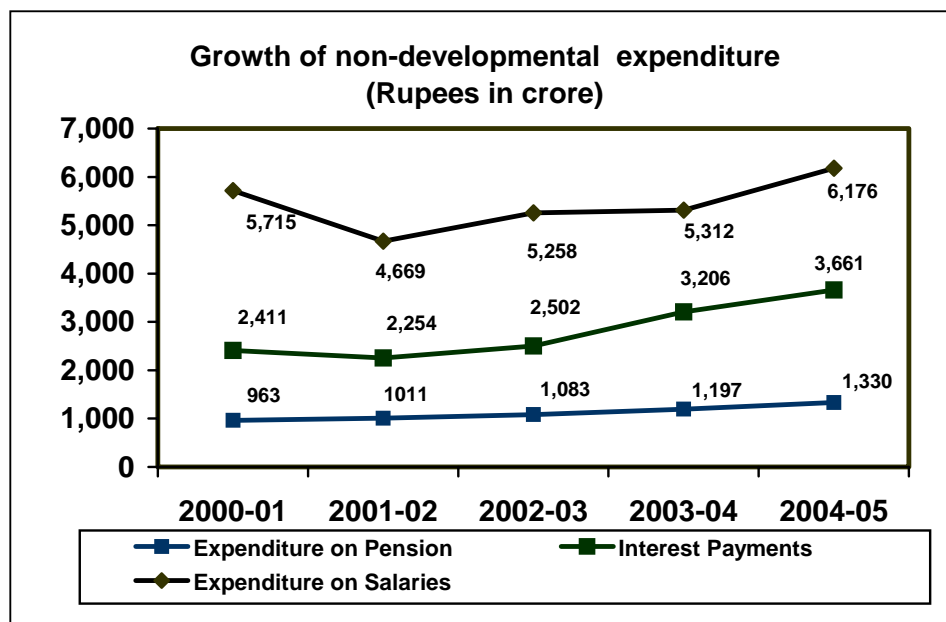
(c) Interest payments

The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, the States should endeavour to keep interest payment as a ratio to revenue receipts pegged to 18 per cent. It was observed, however, that interest payment as percentage of revenue receipts during the year 2004-05 was 19 per cent.

^u Source: details supplied by Finance Department

Table 10

Year	Interest Payment (Rupees in crore)	Percentage of interest payment with reference to Revenue Receipts	Revenue Expenditure
2000-2001	2411	18.78	16.09
2001-2002	2254	20.11	15.69
2002-2003	2502	18.68	17.18
2003-2004	3206	22.43	17.08
2004-2005	3661	18.54	20.31



The rate of growth of interest payments which was 28 per cent during 2003-04 decreased to 14 per cent in 2004-05.

(d) Subsidies by the Government

State Government continued to pay subsidies to its Electricity Board and Road Transport Corporation. During the last five years, State Government paid subsidies under various schemes as under.

(Rupees in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1	Madhya Pradesh State Electricity Board	410.33	2037.08	938.88	3924.78	1465.93
2	Madhya Pradesh State Road Transport Corporation	1.20	1.08	0.00	2.00	0.00
	Total	411.53	2038.16	938.88	3926.78	1465.93
3	Percentage increase (+)/decrease(-) over previous year	(-)64.89	(+)395.26	(-)53.93	(+) 318.24	(-)62.67
4	Percentage of subsidy with total expenditure	2.51	12.40	5.37	18.14	5.58

Note:- Details of subsidies paid to the other Corporations and Nigams are not readily available with the Finance Department

Though the expenditure on payment of subsidies declined by 63 per cent during the year, it still constituted 6 per cent of total expenditure which was paid to M.P.S.E.B.

(e) Incorrect budgeting and classification of expenditure

As per the Rules^s, expenditure on grants-in-aid to local bodies/institutions even for the purpose of creating assets has to be classified as revenue expenditure. However, during 2004-05, the State Government provided Rs.30 crore for payment of grant in aid to local bodies under capital account and accordingly the expenditure of Rs.27.60 crore on grants-in-aid to local bodies/institutions was booked in the Capital section of the accounts under Capital Outlay on Urban Development, as follows:

(Rupees in crore)

Sl. No.	Major/Minor Heads	Grants-in-aid to/for	Budget provision	Expenditure
1	4217-01-191-1201-8294	Bhoj Wet Land Conservations	25.00	22.60
2	4217-03-191-1301-5866	Basic Services under Recommendation of finance commission	5.0	5.0
		Total	30.00	27.60

The incorrect classification not only inflated the Capital outlay by Rs.27.60 crore but also increased the revenue surplus to that extent.

1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of expenditure. Table 12 below gives the percentage share of these components of expenditure in the State's total expenditure.

Table 12: Quality of expenditure (per cent to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	24.79	26.22	36.77	26.26	27.65
Capital Expenditure	6.77	8.95	14.03	12.38	18.83
Developmental Expenditure	62.40	63.22	63.60	65.79	54.95

The plan expenditure which constituted 26.26 per cent of total expenditure during 2003-04 increased to 27.65 per cent during the year. The capital expenditure increased by Rs.2272 crore, and its share in the total expenditure also increased by six per cent.

Social services (Rs.6104 crore) accounted for 42 per cent of the developmental expenditure (Rs.14446 crore) during the year. Out of the expenditure on Social services, 42 per cent was spent on General Education, 18 per cent on Welfare of Schedule Caste/Schedule Tribe/Other Backward Classes, 11 per cent on Social Welfare and Nutrition, 12 per cent on Water and Sanitation and 15 per cent on Health and Family Welfare.

^s Rules 30 and 31 of Government Accounting Rules, 1990

Table 13
Social Sector Expenditure

(Rupees in crore)					
Major Head	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	2763 (3.12)	2126 (2.62)	2312 (2.84)	2376 (2.35)	2576 (2.39)
Medical and Public Health	862 (0.97)	688 (0.85)	779 (0.90)	799 (0.79)	899 (0.83)
Water Supply and Sanitation	701 (0.79)	608 (0.75)	792 (0.97)	820 (0.81)	721 (0.67)
Welfare of SC/ST/OBC	1007 (1.14)	753 (0.93)	937 (1.15)	979 (0.97)	1116 (1.03)
Social Welfare and Nutrition	547 (0.62)	501 (0.62)	911 (1.12)	794 (0.79)	700 (0.65)

Percentage of GSDP in brackets

Similarly, the expenditure on Economic Services (Rs.8342 crore) accounted for 58 per cent of the developmental expenditure, of which, Power consumed 39 per cent (largely in the nature of assistance/ subsidy to the State Electricity Board), Agriculture and Allied Activities 16 per cent and Rural Development 12 per cent.

Table 14
Economic Sector Expenditure

(Rupees in crore)					
Major Head	2000-01	2001-02	2002-03	2003-04	2004-05
Agriculture and Allied Activities	1258	1131	1259	1198	1303
Rural Development	970	768	855	833	1008
Power	649	2210	1327	4283	3212

1.7.1 Financial assistance to local bodies and other institution

(a) Autonomous bodies and authorities including local bodies are set up to discharge generally non commercial functions of Public utility services. These bodies/authorities receive substantial financial assistance from government. Government also provides substantial financial assistance to other institutions such as those registered under the respective state co-operative societies Act 1960 and companies Act 1956 etc; to implement various programmes of government. The grants are given by government mainly for maintenance of educational institutions, hospitals, charitable institutions, constructions and maintenance of Schools and Hospital Buildings improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different bodies etc. by the departments test checked during the period of five years ending 2004-05 was as follows:

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Sl. No.	Name of bodies authorities etc.	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Educational Institutions	156.20	154.80	134.56	173.96	158.74
2.	Municipal corporations and municipalities	190.72	430.72	506.00	557.35	320.61
3.	Panchayati Raj Institutions	218.89	431.90	526.29	524.58	437.82
4.	Development Agencies	9.08	153.05	253.29	21.30	7.33
5.	Hospitals and other medical Institutions	18.90	4.60	7.08	13.71	8.67
6.	Other institutions	170.36	29.65	121.22	113.72	170.90
	Total	764.15	1204.72	1548.44	1404.62	1104.07
	Percentage increase (+) decrease (-) over previous year	Not possible*	Not possible #	29 +	9 (-)	2.14 (-)
	Assistance as percentage of revenue receipt	Not possible *	11	12		5.59
	Assistance as percentage of revenue expenditure	Not possible	8	11		6.12

(b) Delay in furnishing utilization certificate

The financial rule 179-182 of MPFC Vol-I require that certificates of utilization are to be obtained by the department officers from the grantees and after verification, these should be forwarded to Accountant General (A&E) up to 30 September of the subsequent financial year.

2469 utilisation certificates of Rs. 1401.26 crore for the period from 1997-98 to 2004-05 were not received from 28 departments as under.

(Rupees in crore)

Sl. No.	Name of Department	No. of Institution	1997 to 2000-01		2001-02		2002-03		2003-04		2004-05		Total	
			No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1.	Education	4	-	-	139	1.40	59	0.70	51	61.29	139	138.84	388	202.23
2.	Municipal Corporation	1	45 [§]	61.76 [§]	45	21.98 [§]	45	37.60 [§]	45	23.26 [§]	336	320.61	516	465.21
3.	Punchayati Raj	4	-	-	89	3.79	93	5.73	95	24.30	110	437.75	387	471.57
4.	Development Agencies	1	--	--	--	--	--	--	--	--	31	6.32	31	6.32
5.	Medical	3	2	2.33	1	0.54	2	7.31	2	7.92	4	8.65	11	26.75
6.	Other department	15	104	4.36	128	40.00	160	19.03	292	61.25	452	104.54	1136	229.18
	Total	28	151	68.45	402	67.71	359	70.37	485	178.02	1072	1016.71	2469	1401.26

Being first complete financial year after Reorganisation of State.

* Due to reorganization of State

[§] Utilisation certificate of following schemes were not obtained.

(i) SGSY, (ii) Drinking Water & Latrines in slum area, (iii) Rehabilitation and (iv) 15% compensation of private colonies SGSY (Swarn Jayanti Swarojgar Yojana)

(c) Delay in submission of accounts by autonomous bodies

The status of submission of accounts by the autonomous bodies as on September 2005 was as under.

Sl. No.	Name of bodies	Submission of Accounts	Present position of pending
1.	Madhya Pradesh Housing Board Bhopal	1998-99 to 1999-2000	Account for the period 2000-01 to 2004-05
2.	Madhya Pradesh Khadi & Village Industry Bhopal	2000-01 to 2003-04	Accounts for the period 2004-05
3.	Madhya Pradesh Human Rights Commission Bhopal	2001-02 to 2004-05	Accounts for the period 2003-04 to 2004-05

(d) Audit arrangement

The audit of Local Bodies (Nagar Palika, Town Area/Notified Area committees) some educational Institutions, some Panchayati Raj Institutions etc. was conducted by the Commissioner of Local Fund Audit Madhya Pradesh, Gwalior. Audit of co-operative societies is conducted by the Registrar, Co-operative Societies Madhya Pradesh, Bhopal.

Out of 472 units which attracted audit by Comptroller and Auditor General of India, 313 units were audited during 2004-05.

(e) Unutilised grants

During 2004-05 Rs.5.76 crore were drawn and deposited in Civil deposit instead of providing as grants to the concerned Institutions -Panchayat & Samajik Nyaya Bhopal (Rs.4.78 crore), Director of Veterinary Services (Rs.0.82 crore) and Director General Science and Technology Bhopal (Rs. 0.16 crore).

During 2004-05, Rs. 11.20 crore were also drawn & deposited in Banks instead of Providing as grants to the concerned Institutions Commissioner of Public education Bhopal Rs.0.52 crore and by Public Health Engineering department Bhopal Rs.10.68 crore.

(f) Assets created by the Local Bodies

The departments have not maintained any record in respect of assets created by the local bodies.

1.7.2 Misappropriation, defalcations, etc.

State Government reported 719 cases involving Rs.4.70 crore on account of misappropriation, defalcations etc. of Government money. These cases pertained to the period from 1965-66 to the end of March, 2005 on which final

action was pending at the end of June 2005. The department-wise/year-wise and category-wise break-up of pending cases is given in **Appendix-VII and VIII** respectively.

1.7.3 Write off of losses, etc.

During 2004-2005, Rs.12.45 lakh representing losses due to theft, fire and irrecoverable revenue, etc. were written off in 70 cases by competent authorities as reported to audit. The relevant details are shown in **Appendix-IX**.

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. **Appendix-III** presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure, loans and advances given by the State Government and the cash balances.

The liabilities of the Government of Madhya Pradesh, which increased by 17 per cent during the year, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comfort issued by the State Government. **Appendix-VI** depicts the Time Series Data on State Government Finances for the period from April 2000 to 31 October 2000 of the composite State of Madhya Pradesh and from November 2000 to 31 March 2005 of the successor State of Madhya Pradesh.

1.8.1 Financial results of irrigation works

The financial results of 13 major, medium and minor irrigation projects with revenue expenditure of Rs.295.50 crore during the year showed that revenue realised (Rs.45.23 crore) from these projects during 2004-05 was 15.31 per cent of revenue expenditure which was far from sufficient to meet even the expenditure on maintenance.

1.8.2 Incomplete projects

As on 31 March 2005, there were 436 incomplete projects with a cumulative investment of Rs.9031 crore. This showed that the Government was spreading its resources thinly, which failed to yield any return.

1.8.3 Investments and returns

Government as on 31 March 2005, had invested Rs.4151.65 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. However, Government's return on this investment was meagre (less than one per cent) as indicated in Table 17 below. Of these, 3 statutory corporation and 11 government companies with an aggregate investment of Rs.591 crore upto 2004-2005 were incurring losses and their accumulated losses amounted to Rs.4202 crore as per the accounts furnished by these companies upto 2004-05 (Appendix-X).

Thus, Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address to the losses on account of these sick units by disinvestment of such units. During 1996-98, Rs.710 crore were invested in Madhya Pradesh State Electricity Board which was restructured (November 2000) into Chhattisgarh and Madhya Pradesh States but its assets and liabilities were yet to be redistributed.

Out of the total investment of Rs.4151.65 crore at the end of March 2005, Rs.1619.56 crore pertained to the composite State of Madhya Pradesh but retained in M.P. pending allocation between M.P and Chhattisgarh State (Statutory Corporations (Rs.935.57 crore) Government Companies (Rs.199.54 crore), Co-operative Banks and Societies (Rs.482.91 crore) and Joint-Stock Companies (Rs.1.54 crore).

Table 17: Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return
2000-01	1679.09	0.31	0.02
2001-02	1687.08	1.64	0.10
2002-03	1702.39	4.09	0.24
2003-04	1737.29	8.42	0.48
2004-05	4151.65	2.50	0.06

1.8.4 Loans and advances by State Government

In addition to its investment, Government has also been providing loans and advances to many local bodies and non-government institutions. Total outstanding balance of the loans advanced was Rs.5866 crore as on 31 March 2005 (Table 18). Overall, interest received against these advances declined sharply from 0.42 in 2003-04 per cent to 0.09 per cent during 2004-2005 primarily due to less receipts from State Public Sector undertakings. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

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Table 18: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	2845	2991	2002	2440	2608
Amount advanced during the year	295	599	481	204	3311
Amount repaid during the year	13	1588	43	36	53
Closing Balance	2991*[@]	2002	2440	2608	5866
Net Addition (+) / Reduction (-)	146	(-)989	438	168	3258
Interest Received (Rupees in crore)	157	237	24	11	5
Interest received as <i>per cent</i> to outstanding Loans and advances	5.25	11.84	0.98	0.42	0.09
Average rate of interest paid by the State	10.69	8.51	8.25	8.54	8.28
Difference between interest paid and received	(-)5.44	3.33	(-)7.27	(-)8.12	(-)8.19

* Differs by Rs.136 crore allocated to Chhattisgarh State.

[@] Includes Rs.2191 crore retained in Madhya Pradesh pending further apportionment between the successor States.

Repayments, except for the year 2001-02, have constituted only a very small percentage of loans advanced during the period 2000-2005. The interest received on these loans has also been meagre indicating not only injudicious investment but also poor loan administration.

1.8.5 Management of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Madhya Pradesh had the WMA limit of Rs.345 crore from 3rd March 2003 and Rs.395 crore from 1st April 2004. During the year, the State has used this mechanism for 127 days only as against 200 days last year although it raised borrowings of Rs.1730 crore from the market on six occasions.

Table 20: Ways and Means and Overdrafts of the State and Interest paid thereon (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances					
Taken in the Year	2246.46	2491.64	2306.65	5330.26	2234.74
Outstanding	--	--	--	266.78	--
Interest Paid	8.22	10.51	11.55	14.06	3.75
Number of days state was in W.MA	165	117	103	200	127
Overdraft					
Taken in the Year	1220.14	3722.79	4140.40	1083.54	--
Outstanding	--	--	--	--	--
Interest Paid	2.79	5.08	6.69	3.41	--
Number of Days State was in Overdraft	47	172	176	60	--

1.8.6 Undischarged Liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that 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 an act of Legislature. However, no such law was passed by the State to lay down any such limit. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under

Debt, Deposit and Remittances heads from which the liabilities are worked out.

It would be observed that the overall fiscal liabilities of the State increased from Rs.22548 crore in 2000-01 to Rs.44235 crore in 2004-2005. These liabilities as ratio to GSDP increased from 36.55 per cent in 2002-2003 to 40.99 per cent in 2004-2005 and stood at 2.24 times of its revenue receipts and 3.62 times of its own resources comprising its own tax and non-tax revenue. Table 21 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources.

Table 21: Fiscal Imbalances–Basic Parameters (Rupees in crore and Ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities *	22548	26487	30340	37525	44235
Rate of growth			14.55	23.68	17.88
Ratio of Fiscal Liabilities to					
GSDP	25.49	32.58	36.55	37.14	40.99
Revenue Receipts	175.62	236.26	226.57	262.61	224.05
Own Resources	306.19	421.70	388.97	453.80	361.54

* Fiscal liabilities- Public debt and other liabilities like small savings, reserve funds and deposits etc.

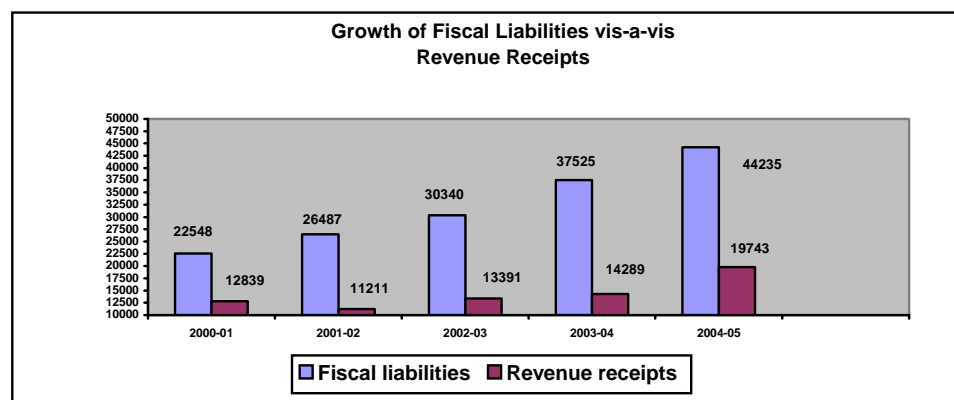
In addition to these liabilities, Government had guaranteed loans raised by various Corporations and others, which in 2004-2005 stood at Rs.12507 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP.

Increasing liabilities raised the issue of sustainability of State Government. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 22.

Table 22: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	9.94	9.19	8.81	9.41	8.96
GSDP Growth	(-)10.45	(-)8.09	2.12	21.70	6.83
Interest spread	(-)20.39	(-)17.29	(-)6.68	12.29	(-)2.13



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Another important indication of debt sustainability is the net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 23 below gives the position of the receipts and repayments of internal debt over the last 5 years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments decreased from 48 per cent to 31 per cent during 2003-2005.

Table 23: Net Availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt*					
Receipts	1876	1830	3169	7949	6968
Repayments (Principal + Interest)	843	906	1105	1857	3061
Net Funds Available	1033	924	2064	6092	3907
Net Funds Available (<i>per cent</i>)	55	50	65	77	56
Loans and Advances from Government of India					
Receipts	994	1451	1780	1723	1881
Repayments (Principal + Interest)	1494	1368	2468	3158	3052
Net Funds Available	(-500)	83	(-688)	(-1435)	(-1171)
Net Funds Available (<i>per cent</i>)	(-50)	6	(-39)	(-83)	(-62)
Total Public Debt					
Receipts	2870	3281	4949	9672	8849
Repayments (Principal + Interest)	2337	2274	3573	5015	6113
Net Funds Available	533	1007	1376	4657	2736
Net Funds Available (<i>per cent</i>)	19	31	28	48	31

* Internal debt excluding ways and means advances

The State Government raised market loans of Rs.1730.19 crore during the year. The average interest rate on borrowing during the year was 6.56 per cent whereas the State Government borrowed Rs.2765.67 crore from National Small Saving Fund at the rate of 9.5 per cent per annum and Rs.1881 crore at the rate of 9 per cent per annum from Government of India. The State Government did not use the option of raising the market borrowing at competitive rates through auctions. As on 31 March 2005, 48 per cent of the existing market loans of the State Government carried an interest rate exceeding 10 per cent. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which Government is able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that nearly one- third of the total market loans are repayable within next five years while remaining two third loans are required to be repaid within 5 to 10 years.

1.9 Management of deficits

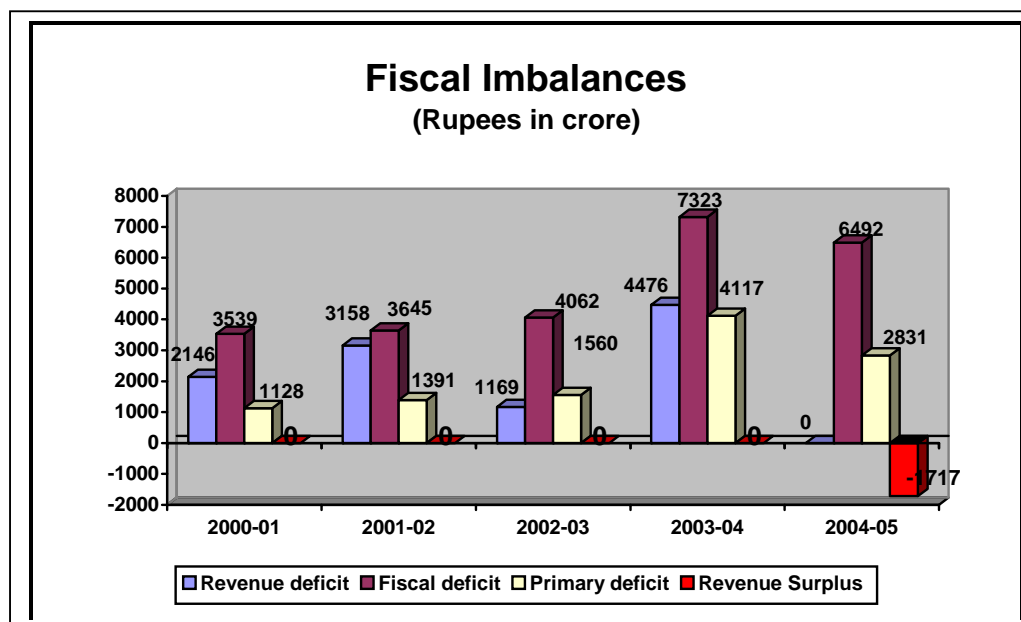
1.9.1 Fiscal imbalances

The deficits in Government accounts represent 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 so raised are applied, are important pointers to the fiscal health.

The revenue deficit (Statement 1 of Finance Account) of the State, which is the excess of its revenue expenditure over revenue receipts, increased from Rs.3158 crore in 2001-02 to Rs.4476 crore in 2003-2004. However, the State had a revenue surplus of Rs.1717 crore during 2004-05. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs.7323 crore in 2003-04 to Rs.6492 crore in 2004-2005. State also had a primary deficit decreasing from Rs.4117 crore in 2003-04 to Rs.2831 crore in 2004-05 as indicated in Table 24.

Table 24: Fiscal Imbalances – Basic Parameters (Value: Rupees in crore and Ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit (-) /surplus (+)	(-)2146	(-)3158	(-)1169	(-)4476	(+)1717
Fiscal deficit	(-)3539	(-)3645	(-)4062	(-)7323	(-)6492
Primary Deficit	(-)1128	(-)1391	(-)1560	(-)4117	(-)2831
RD/GSDP	2.43	3.89	1.41	4.43	1.59 ^w
FD/GSDP	4.00	4.48	4.89	7.25	6.02
PD/GSDP	1.28	1.71	1.88	4.08	2.62
RD/FD	60.64	86.64	28.78	61.12	N.A



1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 25 below presents a summarized position of Government Finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

^w Figure pertains to Revenue Surplus / GSDP

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The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. These ratios, show a continuous improvement during 2000-2005 indicating mobilization of resources and its sustainability.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilization. While the development expenditure has remained around two-third of the total expenditure during 2000-2005, the capital expenditure as percentage to total expenditure has increased from 12 per cent in 2003-04 to 22 per cent in 2004-2005.

Table 25: Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	2000-01	2001-02	2002-03	2003-04	2004-05
Resources Mobilization					
Revenue Receipts/GSDP	14.52	13.79	16.13	14.14	18.29
Own Tax/GSDP	6.377	5.756	7.427	6.720	7.202
Expenditure Management					
Total Expenditure/GSDP	18.53	20.23	21.08	21.43	24.36
Revenue Receipts/ Total Expenditure	78.33	68.18	76.54	66.00	75.10
Revenue Expenditure/Total Exp.	91.42	87.38	83.22	86.68	68.57
Capital Expenditure/Total Exp.	6.90	9.29	14.43	12.49	21.54
Development Expenditure/Total Expenditure (RE+CE)	63.55	65.63	65.40	66.41	62.87
Management of Fiscal Imbalances					
Revenue deficit (Rs. in crore)	2146	3158	1169	4476	1717 [^]
Fiscal deficit (Rs. in crore)	3539	3645	4062	7323	6492
Primary Deficit (Rs. in crore)	1128	1391	1560	4117	2831
Revenue Deficit/Fiscal Deficit	60.64	86.64	28.78	61.12	N.A
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	25.49	32.58	36.55	37.14	40.99
Fiscal Liabilities/RR	175.62	236.26	226.57	262.61	224.05
Net Fund Available	19	31	28	48	31
Other Fiscal Health Indicators					
Return on Investment	0.11	0.02	0.39	0.48	0.06
BCR (Rs. in crore)	(-793)	(-1811)	791	(-3057)	2909
Financial Assets/Liabilities	0.80*	0.71*	0.71*	0.65 *	0.75*

* Assets and some of the liabilities are yet to be apportioned and transferred to Chhattisgarh State.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, decrease in primary deficit indicating increase in interest payments coupled with increase in payments on other non-developmental expenditure like Salaries, Subsidies, Pensions year after year reduced the net availability of funds from its borrowings for infrastructural developments as a larger portion of these funds was being used for debt servicing. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it is not sustainable.

[^] Figure pertains to Revenue Surplus