

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

The State of Chhattisgarh is one of the leading States in the country in mineral production. The State of Chhattisgarh was formed on 1 November 2000 in terms of the Madhya Pradesh Reorganisation Act 2000 (No. 28 of 2000) with 16 districts<sup>1</sup> of the erstwhile State of Madhya Pradesh. Two<sup>2</sup> more districts have been formed after the formation of the Chhattisgarh State. The apportionment of assets and liabilities of the composite State of Madhya Pradesh prior to the date of reorganisation as well as other financial adjustments were carried out in accordance with the provisions of the Act<sup>3</sup>. Chhattisgarh has higher poverty levels as compared to the all-India average indicated in *Appendix 1.1*. Density of population in Chhattisgarh has increased from 154 persons per sq. km as per census 2001 to 189 persons per sq. km as per census 2011. However Chhattisgarh still has lower density of population as compared to the All India figure. Chhattisgarh State has shown a relatively higher economic growth in the past decade as the Compounded Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 increased to 17.85 *per cent* as compared to 14.68 *per cent* in other General Category States<sup>4</sup>. During this period, its population has grown by 22.59 *per cent* against 17.56 *per cent* in other General Category States. The infant mortality rate of the State was 54 (per 1000 live births) which was higher than the all-India average of 50. The inequality of income distribution in the case of rural areas of Chhattisgarh was less than the all-India average but more in the case of urban areas. The per capita income growth in Chhattisgarh has been higher than that of the General Category States in the current decade.

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Chhattisgarh are laid out in 19 statements, the structure and layout of which are depicted in **Appendix-1.1(a)**.

This chapter provides a broad perspective of the finances of the State Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and the information obtained from the State Government. **Appendix-1.2** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix-1.3** presents the time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2006-11.

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<sup>1</sup> Bastar, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korla, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja

<sup>2</sup> Bijapur and Narayanpur.

<sup>3</sup> Ibid.

<sup>4</sup> Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.

### 1.1.1 Summary of current year's fiscal transactions

**Table-1.1** presents the summary of the State Government's fiscal transactions during the current year (2010-11) vis-à-vis the previous year while **Appendix-1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

**Table 1.1 Summary of Fiscal Operations**

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					Non Plan	Plan	Total
18,153.66	Revenue receipts	22,719.54	17,265.44	Revenue expenditure	11,286.39	8,069.36	19,355.75
7,123.25	Tax revenue	9,005.14	4,349.77	General services	5,210.62	36.44	5,247.06
3,043.01	Non-tax revenue	3,835.32	8,023.54	Social services	2,807.08	5,502.64	8,309.72
4,380.66	Share of Union Taxes/ Duties	5,425.19	4,423.15	Economic services	2,582.25	2,509.17	5,091.42
3,606.74	Grants from Government of India	4,453.89	468.98	Grants-in-aid and Contributions	686.43	21.12	707.55
Section-B: Capital							
2.31	Misc. Capital Receipts	2.56	2,744.92	Capital Outlay	0.98	2,950.53	2,951.51
992.43	Recoveries of Loans and Advances	561.16	896.79	Loans and Advances disbursed	#	#	566.55
3.04	Inter-State Settlement	2.65	3.29	Inter-State Settlement	-	-	2.34
1,287.21	Public Debt receipts*	795.19	651.57	Repayment of Public Debt*	-	-	690.86
0.5	Contingency Fund	0	0	Contingency Fund	-	-	0
24,511.62	Public Account receipts	27,523.97	23,878.77	Public Account disbursements	-	-	26,895.50
2,059.67	Opening Cash Balance	1,569.66	1,569.66	Closing Cash Balance	-	-	2,712.22
<b>47,010.44</b>	<b>Total</b>	<b>53,174.73</b>	<b>47,010.44</b>	<b>Total</b>			<b>53,174.73</b>

(Source: Finance Accounts of the State Government 2010-11)

# Figures for Plan and Non-Plan are not available in the Finance Accounts.

\*Excluding net transactions under ways and means advances and overdraft.

The following are the significant changes during 2010-11 over the previous year:

- Revenue receipts increased by 25 per cent (₹ 4,566 crore), due to increase in own tax revenue by 26 per cent (₹ 1,882 crore), non-tax revenue by 26 per cent (₹ 792 crore), State's share of Union taxes and duties by 24 per cent (₹ 1,045 crore) and grants-in-aid from the Government of India by 23 per cent (₹ 847 crore) over the previous year.
- Revenue expenditure increased by 12 per cent (₹ 2,090 crore) over the previous year due to increase in Plan expenditure by 18 per cent (₹ 1,252 crore) and Non-Plan expenditure by eight per cent (₹ 839 crore).
- Capital expenditure increased by eight per cent (₹ 207 crore) over the previous year mainly due to increase in expenditure under the heads: Roads and Bridges, Education, Sports, Arts and Culture, Minor

Irrigation, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Rural Development Programmes and Social Security. The capital expenditure was ₹ 2,067 crore (41 *per cent*) less than the assessment made (₹ 5,019 crore) by the State Government in its Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act) for the year 2010-11.

- Public debt receipts decreased by ₹ 492 crore (38 *per cent*) and repayment of public debt increased by ₹ 39 crore (six *per cent*) during the year. The decrease in Public debt receipts was mainly due to less borrowings through Market Loan, Loans from Financial Institutions and Loans from GoI.
- Public Account receipts and disbursements increased by ₹ 3,012 crore and ₹ 3017 crore respectively over the previous year.
- The cash balance at the end of the year increased by ₹ 1,142 crore (73 *per cent*) over previous year as a result of inflow/outflow of the funds as stated above.

### 1.1.2. Review of the fiscal position

In response to the Twelfth Finance Commission's (TFC) recommendation, the Government of Chhattisgarh enacted its Fiscal Responsibility and Budget Management Act, 2005, with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework.

The increase of 12 *per cent* in revenue expenditure during 2010-11 in comparison to the 25 *per cent* increase in revenue receipts resulted in an increase in the revenue surplus from ₹ 888 crore in 2009-10 to ₹ 3,364 crore in 2010-11.

As a result of the increase in the revenue surplus by ₹ 2,476 crore, decrease in non-debt capital receipts by ₹ 431 crore and decrease in disbursement of loans and advances including Inter-State Settlement by ₹ 331 crore, the fiscal deficit of ₹ 1,759 crore in 2009-10 changed to fiscal surplus of ₹ 410 crore in 2010-11.

On account of the increase in fiscal surplus (₹ 410 crore), the primary deficit of ₹ 664 crore in 2009-10 changed to primary surplus of ₹ 1,608 crore in 2010-11.

The Thirteenth Finance Commission (ThFC) recommended amendment to the State FRBM Act incorporating there in the continuation of the already achieved zero revenue deficit, setting a target of three *per cent* of fiscal deficit by 2011-12, a feature of independent review/ monitoring system. On the basis of the recommendation of ThFC the Government amended (September 2011) the FRBM Act 2005.

The fiscal performance of the State vis-à-vis FRBM targets and those framed in Thirteenth Finance Commission (ThFC) for the year 2010-11 is presented below:

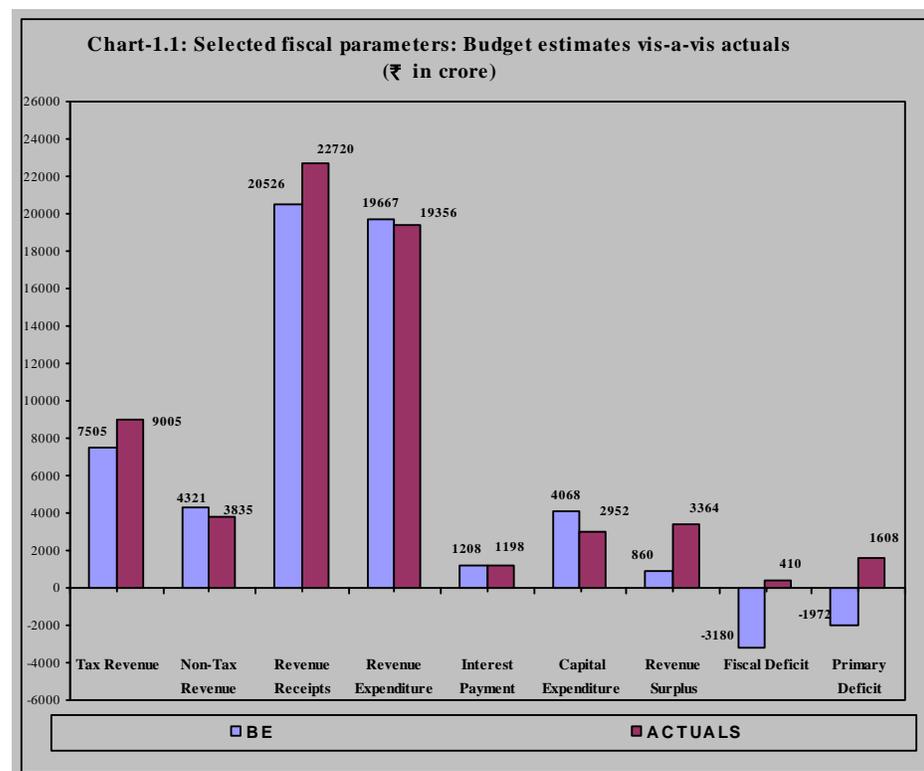
Fiscal forecasts	ThFC Targets	FRBM Targets	Actual
Revenue deficit (-)/ Surplus (+)	--	₹ (+)859.78 crore	₹(+) 3,363.79 crore
Fiscal deficit (-)/ Surplus (+)	To maintain Fiscal Deficit of Three per cent of GSDP	To bring down the Fiscal Deficit to Three per cent of GSDP and Fiscal deficit estimated as ₹ 3,180.03 crore	Turned into fiscal Surplus of ₹ 409.76 crore

(Source : FRBM Act , 2010-11 and Finance Accounts of the respective year.)

Since the State has achieved Revenue Surplus, hence the targets of ThFC and FRBM act have been achieved. The State's actual own tax revenue receipts, non-tax revenue receipts and Non-Plan expenditure were more than the normative assessment of ThFC by ₹ 58 crore (one per cent), ₹ 1,446 crore (61 per cent) and ₹ 2,384 crore (27 per cent) respectively but the interest payments were less by ₹ 380 crore (24 per cent).

### 1.1.3 Budget Estimates and Actuals

Chart-1.1 presents the budget estimates and actuals for some important fiscal parameters.



Source: Finance Accounts of the State Government 2010-11 and Budget Estimate 2010-11 of State)

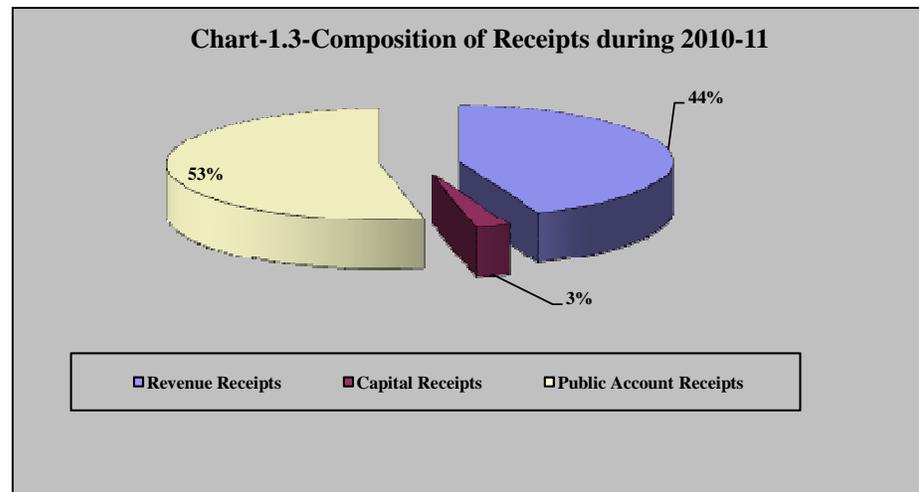
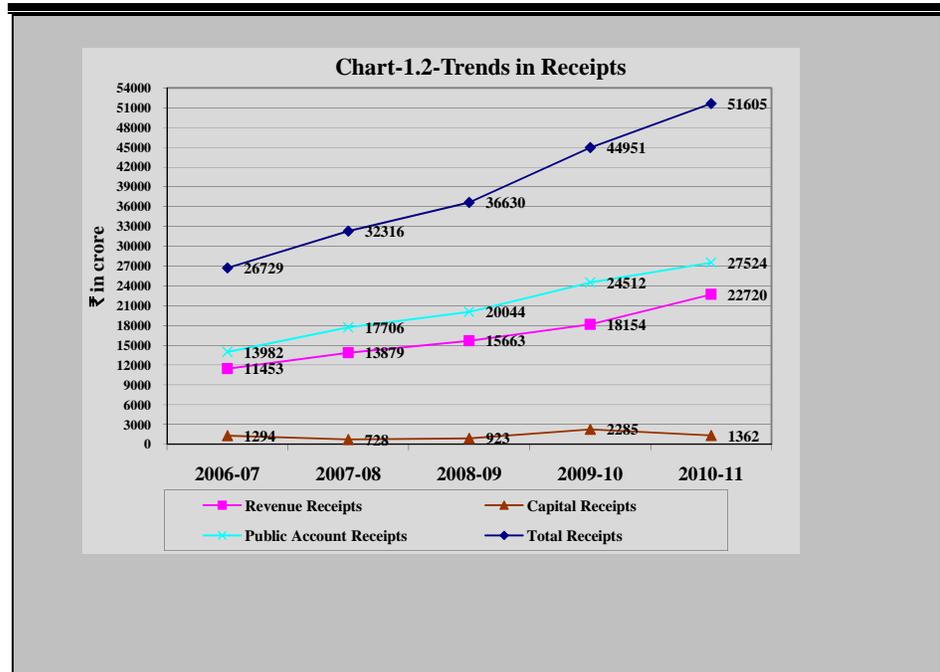
It is evident from the above chart that during 2010-11, there were considerable differences in case of several parameters as detailed below :

1. Revenue Receipts were more than the BE by 11 *per cent* (₹ 2,194 crore) due to Tax Revenue being higher than BE by ₹ 1,500 crore (20 *per cent*) while Non-Tax Revenue was less than BE by ₹ 486 crore (11 *per cent*).
2. Revenue Expenditure and Capital Expenditure were less than the BE by ₹ 311 crore (two *per cent*) and ₹ 1,116 crore (27 *per cent*) respectively.
3. Revenue surplus was more than BE by ₹ 2,504 crore (291 *per cent*) mainly due to Revenue Receipts being 11 *per cent* higher than the BE as compared to decrease of one percent in Revenue Expenditure over the BE.
4. The Fiscal deficit and Primary deficit, depicted as ₹ 3,180 crore and ₹ 1,972 crore respectively in the BE, turned into fiscal surplus of ₹ 410 crore and primary surplus of ₹ 1,608 crore mainly due to higher revenue receipts and lower Revenue Expenditure and Capital Expenditure than the BE.

## 1.2 Resources of the State

### 1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (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 the Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart-1.2** depicts the trends in various components of the receipts of the State during 2006-11. **Chart-1.3** depicts the composition of resources of the State during the current year.



The total receipts of the State for the year 2010-11 were ₹ 51,605 crore. The total receipts rose by 15 per cent (₹ 6,654 crore) during 2010-11 over the previous year, mainly due to increase of 25 per cent (₹ 4,566 crore) in revenue receipts and increase of 12 per cent (₹ 3,012 crore) in public account receipts. However, Capital receipts decreased by 40 per cent (₹ 924 crore) during 2010-11.

## 1.2.2 Funds transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies<sup>5</sup> for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the state budget/state treasury system, the annual Finance Accounts do not capture the flow of these funds and to that extent, the state's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated.

Government of India transferred funds of ₹ 4,360.17 crore directly to the State implementing agencies. Instances of funds directly transferred to the State implementing agencies are presented in **Table-1.2**.

**Table-1.2: Funds transferred directly to the major State Implementing Agencies**

Sl. No	Name of the Programme	Name of the implementing Agency in the State	Funds released by the Government of India (₹ in crore)	
			2009-10	2010-11
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (90:10)	Chief Executive Officer, Zila Panchayat	827.10	1,653.76
2	Sarva Shiksha Abhiyaan (60:40)	Mission Director, Rajiv Gandhi Shiksha Mission	555.94	878.63
3	Pradhan Mantri Gram Sadak Yojna (100%)	Chief Executive Officer, Chhattisgarh Rural Development Authority	438.03	678.58
4	National Rural Health Mission (85:15)	Mission Director, National Rural Health Mission	180.19	205.87
5	Indira Awas Yojna (75:25)	Chief Executive Officer, Zilla Panchayat	162.60	132.00
6.	National Rural Drinking Water Programme	Executive Engineer, Public Health Engineering	83.38	122.01
7.	National Horticulture Mission	Director, Horticulture, Raipur	60.00	96.57
8	Swarna Jayanti Gram Swarozgar Yojna (75:25)	Chief Executive Officer, Zilla Panchayat	65.13	73.64
9	Integrated Water shed Management Programme(75:25)	Chief Executive Officer, Zilla Panchayat	51.57	73.72
10	Scheme for setting 6000 Model Schools (75:25)	Mission Director, Rajiv Gandhi Shiksha Mission	22.65	59.16
11	Central Rural Sanitation Scheme	Chhattisgarh Rajya Jal evan Swasthya Mission	50.18	54.80

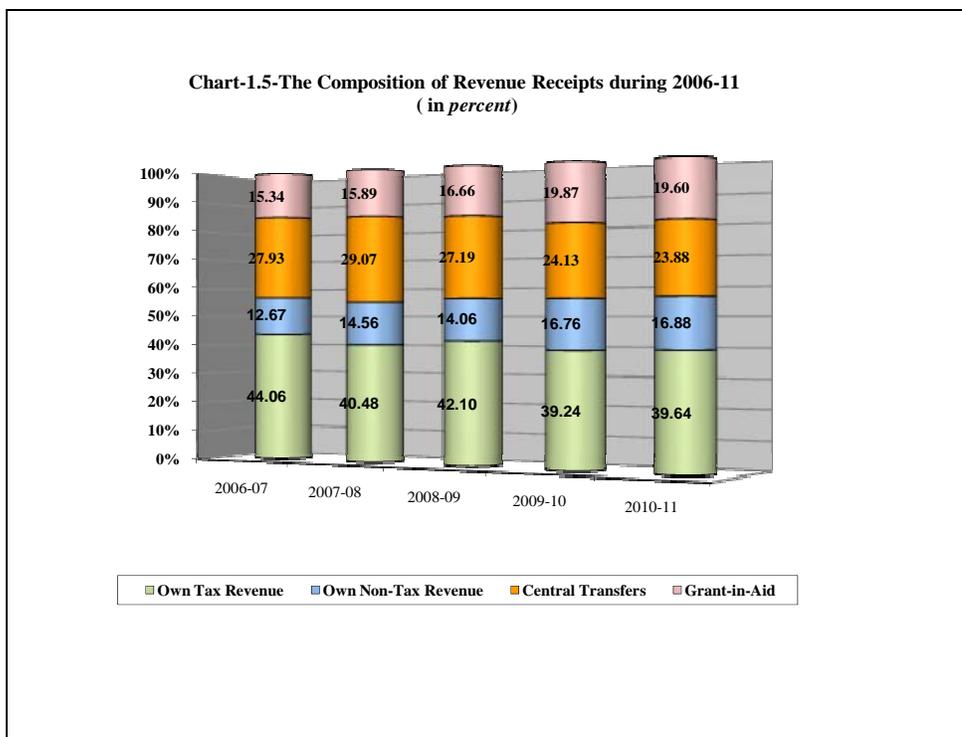
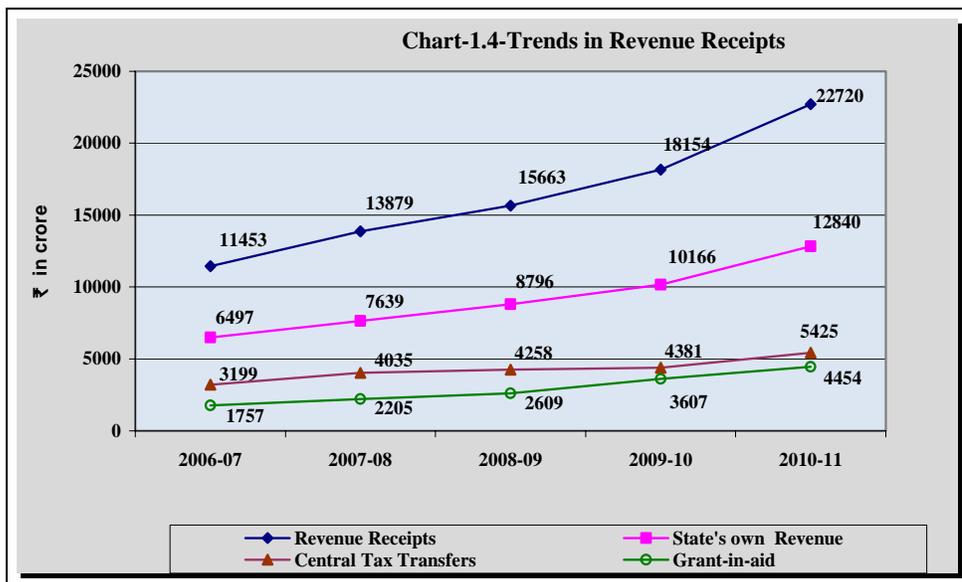
(Source: Appendix-VII of Finance Accounts 2010-11)

Direct transfer of funds from GoI to the implementing agencies ran the risk of improper utilisation of funds by these agencies. The aggregate amount of unspent balances in the accounts of the implementing agencies kept outside the Government accounts (in Bank account) is also not readily ascertainable. The Government releases as well as actual expenditure as reflected in the accounts to that extent are, therefore, not final.

<sup>5</sup> State implementing agency includes any organization/institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

### 1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix-1.3** and also depicted in **Charts-1.4** and **1.5** respectively.



The Revenue receipts increased from ₹ 11,453 crore in 2006-07 to ₹ 22,720 crore in 2010-11 and increased by 25 per cent (₹ 4,566 crore) during 2010-11 over previous year.

*The compounded annual growth rate of revenue receipts of the state during 2001-02 to 2009-10 was 19.46 per cent as against 15.20 per cent of General Category States.*

While 57 per cent of the revenue receipts during 2010-11 came from the State's own resources comprising tax and non-tax revenue, the Central tax transfers and grants-in-aid together contributed 43 per cent of the total revenue. The increase of ₹ 4,566 crore in the revenue receipts in 2010-11 over the previous year was due to increase of 26 per cent (₹ 1,882 crore) in tax revenue, 26 per cent (₹ 792 crore) in non-tax revenue, 24 per cent (₹ 1045 crore) in State's share of Union taxes and duties from GoI and 23 per cent (₹ 847 crore) in grants-in-aid from GoI.

The trends in revenue receipts relative to the Gross State Domestic Product are presented in **Table-1.3** below:

**Table-1.3: Trends in Revenue Receipts relative to GSDP<sup>6</sup>**

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>11,453</b>	<b>13,879</b>	<b>15,663</b>	<b>18,154</b>	<b>22,720</b>
Rate of growth of RR ( <i>per cent</i> )	29.6	21.2	12.86	15.90	25.15
RR/GSDP ( <i>per cent</i> )	17.70	17.48	16.45	16.83	17.52
<b>Buoyancy Ratios<sup>7</sup></b>					
Revenue Buoyancy with respect to GSDP	1.17	1.06	0.80	0.89	1.39
State's own tax Buoyancy with reference to GSDP	0.97	0.57	1.06	0.45	1.46
Gross State Domestic Product (₹ in crore)	66,874.89	80,255.11	93,179.43	1,09,823.43	1,29,717.54
Rate of Growth of GSDP	25.28	20.01	16.10	17.86	18.11

Revenue buoyancy with respect to the growth of GSDP decreased from 1.17 in 2006-07 to 0.80 in 2008-09 and then increased to 1.39 during 2010-11 due to the higher growth rate of revenue receipts in comparison to GSDP growth.

As the GSDP grows, the ability to increase the State's own tax revenue should also increase. During 2006-11, the State's own tax buoyancy with reference to GSDP showed an oscillating trend and ranged between 0.45 and 1.46.

### **Grants-in-aid**

The Grants-in-aid from Government of India increased by ₹ 847 crore (23 per cent) from ₹ 3,607 crore in 2009-10 to ₹ 4,454 crore in 2010-11, mainly due to increase of ₹ 192 crore in Centrally Sponsored Scheme and ₹ 740 crore in Plan

<sup>6</sup> The Buoyancy figures have changed due to change in GSDP figures (as outlined in Appendix 1.2).

<sup>7</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

grants for State Plan schemes. However, the receipt of non-plan grants decreased by ₹ 85 crore during the year.

### Central tax transfers

Central tax transfers increased by ₹ 1,045 crore (24 per cent) from ₹ 4,381 crore in 2009-10 to ₹ 5,425 crore in 2010-11. The increase was primarily due to increase of Customs duties by ₹ 336 crore (55 per cent), corporation tax by ₹ 318 crore (18 per cent), Union excise duties by ₹ 196 crore (40 per cent) and taxes on income other than corporation tax by ₹ 116 crore (12 per cent).

#### 1.3.1 State's own resources

The State's share of Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for Plan schemes etc. The State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The tax administration cost in the State was relatively lower than the national average during 2010-11 showing greater effectiveness in tax collection as detailed in **Appendix-1.5**.

The actual receipts under the State's tax and non-tax revenue vis-à-vis assessment made by ThFC and the State Government in its budget estimate are given below:

(₹ in crore)

	Assessment made by ThFC	Budget estimates	Actual
State's Tax Revenue	8,946.59	7,505.47	9,005.14
State's Non-Tax Revenue	2,389.38	4,321.46	3,835.32

**Table 1.4 : Growth Rate of Tax/Non-Tax Revenue between 2006-11**

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Tax Revenue	5,046	5,618	6,594	7,123	9,005
Rate of Growth (per cent)	24.53	11.34	17.37	8.03	26.42
Non-Tax Revenue	1,451	2,021	2,202	3,043	3,835
Rate of Growth (per cent)	18.06	39.28	8.96	38.19	26.03

### Tax Revenue

Tax revenue increased by 26 per cent (₹ 1,882 crore) during 2010-11 (₹ 9,005 crore) over the previous year (₹ 7,123 crore), mainly due to increase in taxes on Sales and trades etc. (₹ 1,129 crore), State excise (₹ 336 crore) and Stamps and registration (₹ 319 crore) over the previous year.

The growth rate of Tax Revenue during 2006-11 showed an oscillating trend and ranged between eight per cent and 26 per cent. The State's Tax Revenue (₹ 9,005 crore) during the current year was more than the projection made by ThFC (₹ 8,947 crore) and the normative assessment made in Budget estimates.

*The compounded annual growth rate of own tax revenue of the state during 2001-02 to 2009-10 was 17.26 per cent as against 14.53 per cent of General category states.*

The sector-wise components of tax revenue during the period 2006-11 are shown in **Table-1.5**.

**Table-1.5: Sector-wise components of tax revenue**

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Taxes on Sales, Trade, etc.	2,843	3,024	3,611	3,712	4,841
State Excise	707	843	964	1,188	1,506
Taxes on Vehicles	253	277	314	352	428
Stamps and Registration Fees	390	463	496	583	786
Land Revenue	61	88	359	160	247
Taxes on Goods and Passengers	302	511	421	696	675
Other Taxes	490	412	429	432	522
<b>Total</b>	<b>5,046</b>	<b>5,618</b>	<b>6,594</b>	<b>7,123</b>	<b>9,005</b>
<b>Growth Rate (in per cent)</b>	<b>24.53</b>	<b>11.34</b>	<b>17.37</b>	<b>8.03</b>	<b>26.42</b>

(Source: Finance Accounts)

### Non-Tax Revenue

Non-tax revenue increased by 26 per cent (₹ 792 crore) during 2010-11 over the previous year, mainly due to increase in receipts from non-ferrous mining and metallurgical industries (₹ 810 crore), major irrigation (₹ 144 crore) and general education (₹ 64 crore). Mining receipts (Mineral concession fees, rents, royalties and other receipts) was one of the major source of revenue receipts in Chhattisgarh and this alone constituted 64 per cent of the non-tax revenue receipts during the year 2010-11 as compared to 55 per cent in 2009-10.

The growth rate of Non-Tax Revenue during 2006-11 showed an oscillating trend and ranged between nine and 39 per cent. The Non-Tax Revenue receipts in 2010-11 exceeded the normative assessments made by ThFC by 61 per cent but were lower by ₹ 486 crore (11 per cent) than the assessments made by the State Government in its budget estimates due to short receipt from Minor Irrigation (₹ 388 crore) and energy (₹ 400 crore) than the budget estimates.

*The compounded annual growth rate of non-tax revenue of the state during 2001-02 to 2009-10 was 19.69 per cent as against 13.87 per cent of General category states.*

### 1.3.2 Loss of Revenue due to evasion of taxes, write off/waivers and refunds

There were two cases of evasion of tax pending finalization in respect of State Excise as on 31 March 2011 while 129 cases of sales tax and two cases of State Excise department involving ₹ 4.63 crore and ₹ 0.01 crore respectively were pending for refund.

### 1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2011 in respect of some principal heads of revenue as reported by eight departments amounted to ₹ 738.41 crore, of which ₹ 198.46 crore (27 per cent) was outstanding for more than five years.

Arrears were mainly in respect of revenue from Commercial Tax (₹ 450.85 crore), taxes and duties on electricity (₹ 199.64 crore), Land Revenue (₹ 38.30 crore), State excise duty (₹ 25.30 crore), Taxes on vehicles (₹ 14.65

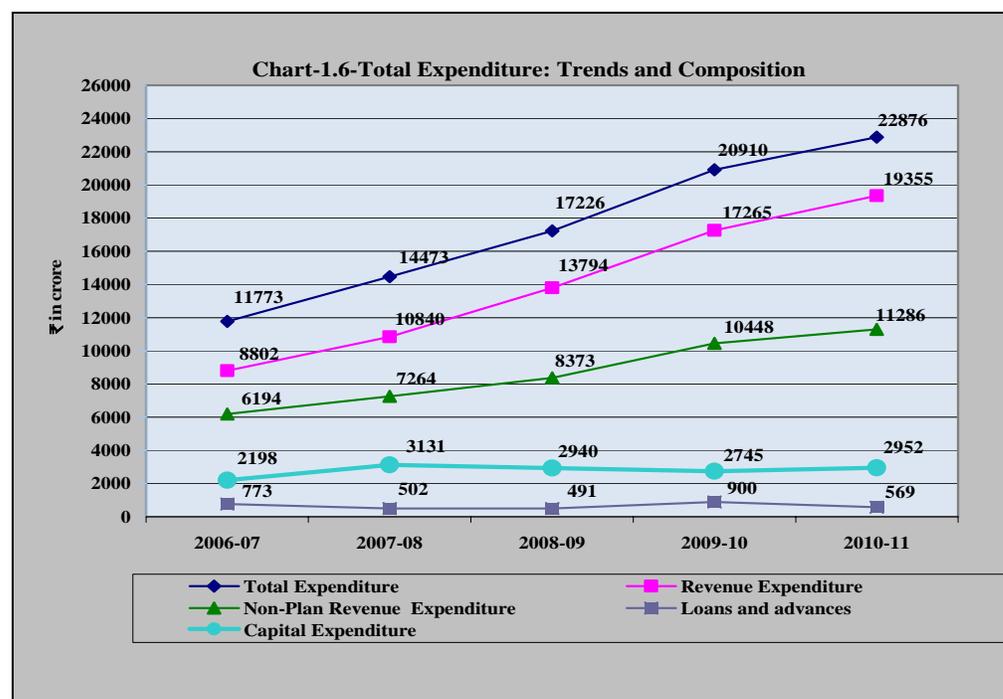
crore), stamps and registration fees (₹ 5.43 crore), forest (₹ 2.45 crore) and mineral resources (₹ 1.79 crore).

## 1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the onGoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

### 1.4.1 Growth and composition of expenditure

**Chart-1.6** presents the trends in total expenditure over a period of five years (2006-11).



The total expenditure comprising revenue expenditure, capital expenditure and loans and advances including inter-State settlement, increased from ₹ 11773 crore in 2006-07 to ₹ 22876 crore in 2010-11. The increase of ₹ 1,966 crore in total expenditure in 2010-11 over the previous year was, mainly on account of an increase of ₹ 2090 crore (12 per cent) in revenue expenditure and of ₹ 207 crore (eight per cent) in Capital Expenditure which was set-off by decrease of ₹ 331 crore (37 per cent) in Loans and Advances including Inter State Settlement.

*The compounded annual growth rate of total expenditure of the State during 2001-02 to 2009-10 was 18.16 per cent as against 13.53 per cent of General Category States.*

The growth rate of total expenditure showed an oscillating trend and ranged between nine and 26 *per cent* during 2006-11. The growth rate of total expenditure stood at its lowest of 9.40 in 2010-11 during last five years.

The total expenditure and its composition during the years 2005-06 to 2010-11 is given below in **Table-1.6**.

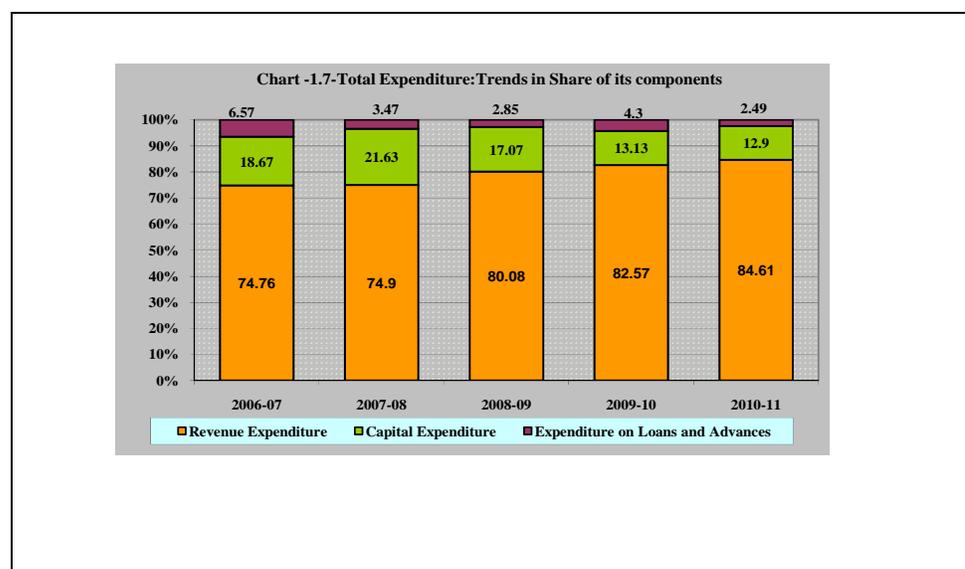
**Table-1.6: Total expenditure and its composition**

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure	11,773	14,473	17,226	20,910	22,876
Rate of Growth	26.71	22.93	19.02	21.39	9.40
Revenue Expenditure	8,802	10,840	13,794	17,265	19,356
	(75)	(75)	(80)	(83)	(85)
Of which, Non Plan Revenue Expenditure	6,194	7,264	8,373	10,448	11,287
Capital Expenditure	2,198	3,131	2,940	2,745	2,952
	(19)	(22)	(17)	(13)	(13)
Loans and Advances*	773	502	492	900	569
	(07)	(04)	(03)	(04)	(02)

\*Includes Inter State Settlements

(Source : Finance Accounts)

**Charts-1.7** depicts the composition of total expenditure in terms of ‘economic classification’ over the period 2006-11.



### Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network

The revenue expenditure was 85 *per cent* of the total expenditure of which 58 *per cent* was on Non-Plan components and 42 *per cent* was on Plan components (**Appendix-1.3**).

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The share of Plan revenue expenditure which normally covered the maintenance expenditure incurred on services, increased as a percentage of the total revenue expenditure, from 30 in 2006-07 to 42 in 2010-11. The Plan revenue expenditure during 2010-11 increased by ₹ 1252 crore (18 per cent) relative to 2009-10 mainly due to increase under education (₹ 758 crore), Agriculture and Allied Activities (₹ 303 crore) and Rural Development Programmes (₹ 290 crore).

The NPRE during 2010-11 increased by ₹ 838 crore (eight per cent) mainly on account of increase in the expenditure under Pension and Other Retirement Benefits (₹ 577 crore), Compensation and assignment to Local Bodies and Panchayati Raj Institutions (₹ 242 crore), Police (₹ 159 crore), General Education (₹ 127 crore) and Interest Payments (₹ 103 crore). However, The share of NPRE in total revenue expenditure declined from 70 per cent in 2006-07 to 58 per cent in 2010-11.

*The NPRE (₹ 11,286 crore) exceeded the normative projection of the ThFC (₹ 8,901 crore) by 27 per cent and the budget estimates (₹ 11,071 crore) by two per cent.*

### **Capital Expenditure**

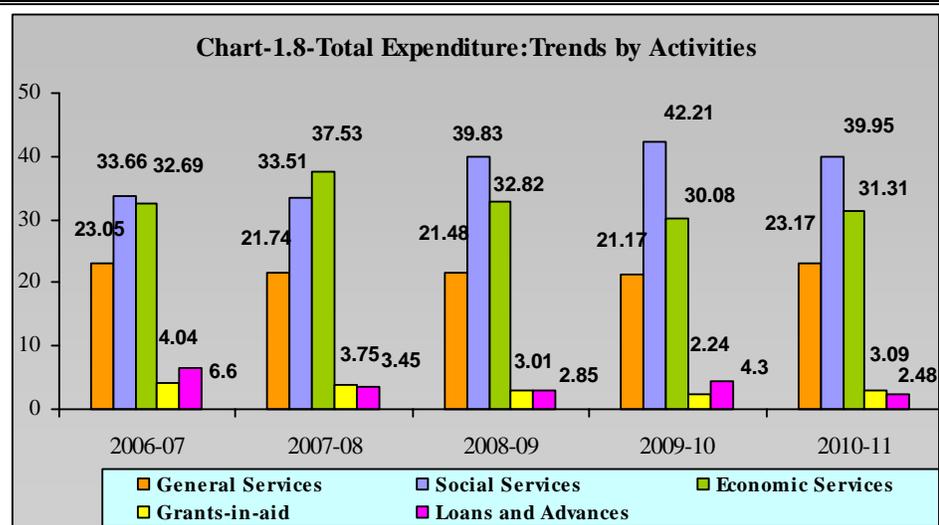
The capital expenditure and loans and advances including inter-State settlement were 13 per cent and two per cent respectively of the total expenditure.

*The compounded annual growth rate of capital expenditure of the State was 24.48 per cent during 2001-02 to 2009-10 as against 22.61 per cent of General Category States.*

The share of expenditure on grants-in aid and loans and advances together with inter-state settlement in 2009-10 was 6.55 per cent which decreased to 5.58 per cent of the total expenditure during the year due to decrease in Loans and Advances in the Inter-State Settlements.

### **Trends in expenditure by activities**

In terms of activities, total expenditure could be considered as being composed of expenditure on general services(including interest payments), social and economic services, grant-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Chart-1.8**



The expenditure on general service which was 23.05 per cent during 2006-07 decreased to 21.17 per cent of total expenditure during 2009-10 and further increased to 23.17 per cent during 2010-11. The expenditure on social services which was 33.66 per cent during 2006-07 increased to 42.21 per cent of total expenditure during 2009-10 and decreased to 39.95 per cent during 2010-11

The share of expenditure on economic services which was 32.69 per cent during 2006-07 increased to 37.53 per cent of total expenditure in 2007-08 and decreased to 31.31 per cent during 2010-11

#### 1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table-1.7** and **Chart-1.9** present the trends in the expenditure on these components during 2006-11.

**Table-1.7: Components of committed expenditure**

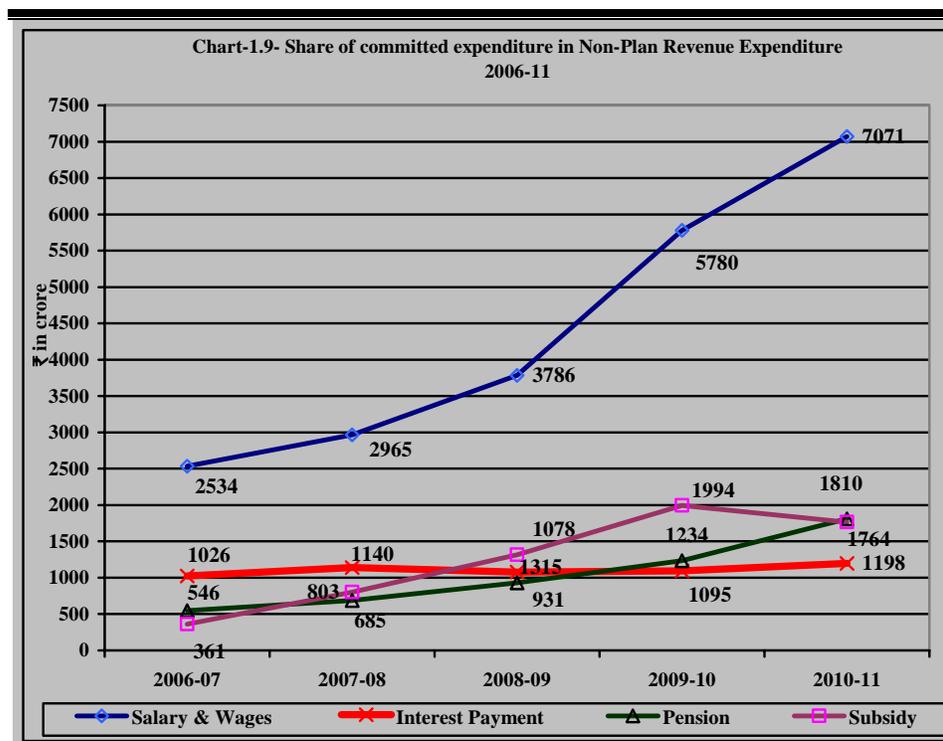
(₹ in crore)

Components of committed expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries & Wages , of which	2,534.16 (22.13)	2,965.01 (21.36)	3,670.34 (23.43)	5,646.29 (31.10)	7,147.77	6,362.92 <sup>8</sup> (28.01)
Non-Plan Head	2,030.83	2,307.68	2,772.46	4,016.30	NA	4,338.28
Plan Head**	503.33	657.33	897.88	1,629.99	NA	2,024.64
Salary through Grants-in-aid	NA	NA	115.60 (0.74)	133.71 (0.74)	NA	708.33 (3.12)
Interest Payments	1,026 (8.96)	1,140 ( 8.21)	1,077.53 (6.88)	1,094.86 (6.03)	1,808.05	1,198.38 (5.27)
Expenditure on Pensions	546.08 (4.77)	684.58 (4.93)	930.77 (5.94)	1,233.76 (6.80)	1,233.85	1,810.33 (7.97)
Subsidies	361.07 (3.15)	802.55 (5.78)	1,314.68 (8.39)	1,994.30 (10.99)	1,839.97	1,763.83 (7.76)
<b>Total</b>	<b>4,467.31</b>	<b>5,592.14</b>	<b>7,108.92</b>	<b>10,102.92</b>	<b>12,029.64</b>	<b>11,843.79</b>

Figures in the brackets indicate percentage to Revenue Receipts  
 \*\* Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

(Source: Finance Accounts of the State Government 2010-11)

<sup>8</sup> It includes Salary- ₹ 5,988.09 crore and Wages - ₹ 374.83 crore.



The overall committed expenditure increased by ₹ 7,377 crore from ₹ 4,467 crore in 2006-07 to ₹ 11,844 crore in 2010-11. Committed expenditure during 2010-11 had constituted 61 per cent of the Revenue Expenditure and 52 per cent of the revenue receipts. The component-wise analysis is given as under:

**(1) Expenditure on salary and wages**

The expenditure on salaries and wages increased by ₹ 716.63 crore from ₹ 5,646.29 crore in 2009-10 to ₹ 6,362.92 crore in 2010-11 and the salary paid through Grants-in-aid (GIA)<sup>9</sup> increased from ₹ 113.71 crore in 2009-10 to ₹ 708.33 crore in 2010-11. The increase was due to release of second installment of the Sixth Pay Commission arrear.

*The compounded annual growth rate of salaries and wages of the State was 15.15 per cent during 2001-02 to 2009-10 as against 11.45 per cent of General Category States.*

The expenditure on Salary and Wages during the year was less by 11 per cent (₹ 746 crore) than the assessment made by the State Government in its budget estimate 2010-11. However, the expenditure on Non-plan salary and wages in 2010-11 was more by 22 per cent (₹ 790 crore) than the assessments made by ThFC.

<sup>9</sup> Salaries paid to various institutions under Education, Sports, Art and Culture, Agriculture and allied activities and Rural Development through grants-in-aid.

**(2) Expenditure on pension**

The expenditure on pension increased by 46.73 per cent (₹ 576.57 crore) from ₹ 1,233.76 crore in 2009-10 to ₹ 1,810.33 crore in 2010-11. The increase was mainly due to revision of Pension as per recommendations of Sixth Pay Commission, increase in relief of Pension etc.

*The compounded annual growth rate of pension of the State was 13.21 per cent during 2001-02 to 2009-10 as against 14.09 per cent of General Category States.*

The expenditure on pension was nine per cent of revenue expenditure and 16.04 per cent of Non-Plan revenue expenditure and consumed 7.97 per cent of the revenue receipts.

The expenditure on pension payment exceeded the projections made by State Government (₹ 1,233.85 crore) in its Budget Estimate for 2010-11 by 46.72 per cent (₹ 576.48 crore). As per the projection made by ThFC, the pension payments were to be ₹ 984 crore at the end of 2010-11. The actual payment on pension during 2010-11 exceeded the ThFC norms by ₹ 826 crore (84 per cent).

**(3) Interest payment**

Interest payment comprising interest charges on internal debts, loans raised from GoI and other obligations, increased by ₹ 103 crore from ₹ 1,094.86 crore in 2009-10 to ₹ 1,198.38 crore in 2010-11.

The interest payments (₹ 1,198 crore) were within the projection made by the ThFC (₹ 1,578 crore) for the year 2010-11. The interest payment as a ratio of revenue receipts and revenue expenditure were five and six per cent respectively during the year.

**(4) Expenditure on subsidies**

The details of subsidies provided by State Government during 2006-11 are shown in **Table-1.9**:

**Table-1.9: Details of Subsidies provided by Government during 2006-11**

(₹ in crore)

Head	2006-07	2007-08	2008-09	2009-10	2010-11
Social Security and Welfare	0.32	0.44	946.28	1,288.78	886.73
Crop Husbandry	35.93	39.35	41.23	41.00	40.07
Fisheries	0.00	0.55	0.41	0.47	0.75
Forestry and Wild Life	28.52	19.53	10.09	10.00	10.00
Food Storage and Warehousing	157.01	606.16	109.47	406.61	488.65
Co-operation	9.24	7.50	40.03	46.00	83.07
Minor Irrigation	6.99	8.09	10.49	10.62	11.01
Power	112.87	110.14	128.04	150.10	202.10
Village and Small Industries	6.98	9.66	24.27	39.26	37.71
Industries	3.20	1.13	4.37	1.46	3.72
<b>Total</b>	<b>361.06</b>	<b>802.55</b>	<b>1,314.68</b>	<b>1,994.30</b>	<b>1,763.81</b>

(Source: Finance Accounts)

The expenditure on subsidies decreased by ₹ 230.49 crore from ₹ 1,994.30 crore in 2009-10 to ₹ 1,763.81 crore in 2010-11. It constituted nine *per cent* of revenue expenditure. The major recipients of subsidies during 2010-11 were agriculture and allied activities<sup>10</sup> (₹ 622.54 crore), energy (₹ 202.10 crore) and Social Welfare and Nutrition (₹ 88.73 crore).

### 1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current and previous years is presented in **Table-1.10**.

**Table-1.10: Financial assistance to Local Bodies etc.**

(₹ in crore)

Financial assistance to institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (aided schools, aided colleges, Universities, etc.)	75.91	98.86	83.82	83.90	144.82
Power/energy	572.13	135.13	118.00	65.05	101.05
Agriculture	25.31	16.81	19.78	26.50	37.50
Urban Bodies	544.84	618.15	737.26	577.71	905.50
Panchayat Raj Institutions	763.82	955.14	1,299.47	1,520.71	1,835.92
Other Institutions	219.79	183.17	304.72	478.25	376.43
<b>Total</b>	<b>2,201.80</b>	<b>2,007.26</b>	<b>2,563.05</b>	<b>2752.12</b>	<b>3401.22</b>
Assistance as percentage of RE	25.01	18.52	18.58	15.94	17.57

(Source: Finance and Appropriation Accounts)

Financial assistance to local bodies and other institutions increased from ₹ 2,201.80 crore in 2006-07 to ₹ 3,401.22 crore in 2010-11, recording a growth rate of 24 *per cent* over the previous year. During 2010-11, the financial assistance was given by the Government mainly to urban bodies (26 *per cent*), Panchayati Raj institutions (54 *per cent*) and other institutions (11 *per cent*).

## 1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz. adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

### 1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. Table 1.11 analyses the fiscal priority of the State Government with regard to

<sup>10</sup> Includes – Crop Husbandry, Fisheries, Forestry and Wild Life, Food Storage and warehousing and Co-operation.

development expenditure, social expenditure and capital expenditure during 2010-11.

**Table 1.11: Fiscal Priority of the State in 2007-08 and 2010-11**

Fiscal Priority by the State*	AE/ GSDP	DE <sup>#</sup> /AE	SSE/AE	CE/AE	Education AE	Health/ AE
General Category States Average (Ratio) 2007-08	17.09	64.28	32.54	16.14	14.64	3.98
Chhattisgarh's Average (Ratio) 2007-08	18.03	74.44	33.90	25.10	16.12	4.92
General Category Average (Ratio) 2010-11	16.68	64.29	36.68	13.25	17.39	4.34
Chhattisgarh's Average (Ratio) 2010-11	17.64	73.69	40.23	15.39	19.17	3.70
* As per cent to GSDP AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure. # Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.						

**Table 1.11** indicates the following:

1. Chhattisgarh has been spending a higher proportion of its GSDP on Aggregate Expenditure as compared to general category states.
2. Development expenditure as a proportion of Aggregate Expenditure in Chhattisgarh is also marginally higher than the general category states' average during 2007-08 as well as in the current year. Developmental expenditure consists of both economic service expenditure and social sector expenditure.
3. Capital expenditure as a corresponding ratio to aggregate expenditure ratio has been given higher priority in the current year as well as in 2007-08. Increased priority to physical capital formation will further increase the prospects of the state by creating durable assets.
4. Chhattisgarh had given adequate priority to both education sector and health sector in 2007-08 but less priority to health sector as compared to general category states during the current year.

### 1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods<sup>11</sup>. Apart from improving the allocation towards development expenditure<sup>12</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table-1.12** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years.

**Table-1.12: Development expenditure**

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
<b>Development Expenditure (a to c)</b>	<b>8,578</b> (73)	<b>10,773</b> (74)	<b>12,995</b> (75)	<b>16,002</b> (77)	<b>19,010</b>	<b>16,857</b> (73)
a. Development Revenue Expenditure	5,687 (48)	7,257 (50)	9,676 (56)	12,447 (60)	14,113	13,401 (59)
b. Development Capital Expenditure	2,123 (18)	3,024 (21)	2,838 (16)	2,668 (13)	3,969	2,899 (13)
c. Development Loans and Advances	768 (07)	492 (03)	481 (03)	887 (04)	928	557 (02)

Figures in brackets indicate percentage to aggregate expenditure

(Source: Finance Accounts)

Development expenditure, in real terms and as a percentage of the aggregate expenditure of the State, increased continuously upto 2009-10. However, despite a marginal increase in real terms, as a percentage of aggregate expenditure, the same decreased from 77 per cent in 2009-10 to 73 per cent in 2010-11. The total development expenditure increased by ₹ 855 crore (five per

<sup>11</sup> Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

<sup>12</sup> The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

cent) during 2010-11 over previous year mainly due to increase in development revenue expenditure (eight per cent) and development Capital expenditure (nine per cent) while the Loans and Advances decreased by 37 per cent.

The development capital expenditure as a percentage of aggregate expenditure of the State remained same during the year 2010-11 as compared to 2009-10. However, the development expenditure on loans and advances as a percentage of development expenditure came down from four per cent in 2009-10 to two per cent in 2010-11.

**Table 1.13** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.13: Efficiency of expenditure use in selected Social and Economic Services**

(in per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		ME	S & W		ME	S&W <sup>13</sup>
<b>Social Services (SS)</b>						
<b>Total Social Services</b>	<b>3.84</b>	<b>0.84</b>	<b>39.92</b>	<b>3.62</b>	<b>1.22</b>	<b>42.08</b>
<i>Of which</i>						
General Education	0.57	0.32	52.85	1.10	0.37	45.84
Public Health and Family Welfare	0.46	0.55	73.61	0.75	0.45	75.41
Water Supply, Sanitation and Housing and Urban Development	1.69	4.31	10.07	0.81	4.21	14.20
<b>Economic Services (ES)</b>						
<b>Total Economic Services</b>	<b>8.92</b>	<b>7.23</b>	<b>27.00</b>	<b>9.05</b>	<b>4.35</b>	<b>25.84</b>
<i>of which</i>						
Agriculture and Allied Activities	0.32	1.08	30.51	0.23	1.08	29.78
Irrigation and Flood Control	4.64	4.57	63.28	4.54	7.63	74.46

TE: Total Expenditure in the concerned sector; CE: Capital Expenditure in the concerned sector; RE: Revenue Expenditure in the concerned sector; S&W: Salaries and Wages, ME: Maintenance Expenditure (does not include operational expenses.)

(Source: Finance Account )

The above table reveals that while the share of capital expenditure on Social Services decreased from 3.84 per cent to 3.62 per cent, the share of Economic Services increased from 8.92 per cent to 9.05 per cent during the same period.

### Expenditure on Social Services

Capital expenditure on social services increased from ₹ 802.10 crore in 2009-10 to ₹ 827.60 crore in 2010-11, but the share of capital expenditure on social services decreased from 3.84 per cent in 2009-10 to 3.62 per cent in 2010-11.

The share of salaries in revenue expenditure under social services increased from 39.92 per cent in 2009-10 to 42.08 per cent in 2010-11 mainly on account of increase in the share of salaries due to release of second instalment

<sup>13</sup> Including salary Grants-in-aid.

of Sixth Pay Commission arrears. In the case of maintenance, the expenditure increased from 0.84 to 1.22 *per cent* in 2010-11.

### Expenditure on Economic services

Capital expenditure on economic services increased from ₹ 1,866.01 crore in 2009-10 to ₹ 2,071.04 crore in 2010-11, but the share of capital expenditure on economic services increased from 8.92 *per cent* in 2009-10 to 9.05 *per cent* in 2010-11.

The share of salaries under revenue expenditure in economic services decreased from 27 *per cent* to 25.84 *per cent*. In the case of maintenance, the expenditure decreased from 7.23 *per cent* to 4.35 *per cent* in 2010-11.

## 1.6 Financial analysis of Government expenditure and investments

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

### 1.6.1 Incomplete projects

Blocking of funds on incomplete works which include works stopped due to reasons like litigations, etc., impinges negatively on the quality of expenditure. At the end of March 2011, there were 78 incomplete projects each costing ₹ one crore or more involving ₹ 2,449 crore as given in **Table-1.14**.

**Table-1.14: Department-wise profile of incomplete projects**

(₹ in crore)

Department	No. of incomplete projects	Initial budgeted cost	Revised total cost of projects	Cost overrun	Cumulative actual expenditure as on 31.3.2011
Public Works Department	49	1,144.15	1,407.86	0.81	498.69
Water Resources Department	29	867.53	1,041.45	4.05	388.72
<b>Total</b>	<b>78</b>	<b>2,011.68</b>	<b>2,449.30</b>	<b>4.86</b>	<b>887.41</b>

(Source: Finance Account 2010-11)

As against the initial budgeted cost of ₹ 2,011.68 crore in respect of 78 works stipulated to be completed on or before March 2011, the progressive expenditure of ₹ 887.41 crore was made as of March 2011. In five cases, the cost over run aggregated ₹ 4.86 crore. The time overrun of the above projects ranged from six months to five years as of September 2011.

Reasonwise number of incomplete works in Public Works Department alongwith the progressive expenditure upto 31 March 2011 are shown in **Table 1.15** :

**Table 1.15: Reasonswise breakup of incomplete projects***(₹ in crore)*

Reasons	No. of incomplete works	Progressive expenditure as on 31-03-2011
Slow progress by contractor	15	166.51
Naxal problem	3	62.50
Non availability of land/ delay in acquisition of land	5	55.03
Railway portion	5	47.40
Approval of revised estimate	3	35.98
Work left incomplete by original contractor	4	33.33
Work delayed due to Court case	1	9.31
Forest clearance	3	4.85
Change of Drawing/design	2	0.42
Other Reasons	8	83.36
<b>Total</b>	<b>49</b>	<b>498.69</b>

*(Source : O/o The Engineer-in-Chief, PWD, Chhattisgarh)*

As may be observed from the above table that, in the 49 incomplete works costing ₹ one crore or more each of the Public Works Department, progressive expenditure upto 2010-11 was ₹ 498.69 crore. Further, outstanding liability of ₹ 180.86 crore was created for payment of pending bills. This resulted into blockage of funds of ₹ 679.55 crore.

Reasons for non-completion of projects of Water Resources Department in the scheduled time were not intimated by the Department.

### 1.6.2 Investment and returns

As of 31 March 2011, Government had invested ₹ 259.92 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table-1.16**). The average return on this investment was 1.65 *per cent* while the Government paid an average interest rate of 7.34 *per cent* on its borrowings during 2010-11. Continued use of borrowed funds to fund investments which do not have sufficient financial returns may lead to an unsustainable financial position. The Government may ensure proper justification for investment of high cost funds.

**Table-1.16: Return on investment**

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year* (₹ in crore)	159.64	400.95	430.01	251.67	259.92
Return on investment (₹ in crore)	0.00	0.10	0.10	0.44	4.30
Return on investment ( <i>per cent</i> )	0.00	0.02	0.02	0.17	1.65
Average rate of interest on Govt. borrowing ( <i>per cent</i> )	7.49	7.97	7.36	7.13	7.34
Difference between interest rate and return ( <i>per cent</i> )	7.49	7.95	7.34	6.96	5.69

\*The investment at the end of the year does not include un-apportioned investment

Out of ₹ 259.92 crore invested upto 2010-11, ₹ 147.17 crore was invested in 26 co-operatives, ₹ 78.06 crore in 12 Government companies/boards and departments, ₹ 21.86 crore was invested in two statutory corporations, ₹ 10.21 crore in rural banks and ₹ 2.63 crore in joint stock companies.

There were no set norms prescribed for making investments in various public sectors companies, rural banks etc.

### 1.6.3 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/organizations. **Table-1.17** presents the outstanding loans and advances as on 31 March 2011 and interest receipts vis-à-vis interest payments during the last three years.

**Table-1.17: Average interest received on loans advanced by the State Government**

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11
Opening balance	1,667.38	1,625.53	1,529.89
Amount advanced during the year	490.75	896.79	566.55
Amount repaid during the year	533.42	992.43	561.16
<b>Closing Balance</b>	<b>1,624.71</b>	<b>1,529.89</b>	<b>1,535.28</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	NA	1,517.60	1,523.68
Net addition	(-)42.67	(-) 95.64	(+)5.39
Interest receipts	121.89	71.63	79.86
Interest receipts as <i>per cent</i> to outstanding Loans and advances	7.40	4.54	5.21
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.36	7.13	7.34
Difference between interest receipts and interest payments ( <i>per cent</i> )	(+)0.04	(-)2.59	(-)2.13

At the end of March 2011, the Government had outstanding loans and advances of ₹ 1,535.28 crore, of which loans for General Services was ₹ 136.11 crore, loans for Social Services was ₹ 756.74 crore and for Economic Services ₹ 653.49 crore. The outstanding loans and advances was off-set by recovery of ₹ 11.05 crore on account of Loans to Government Servants. The interest received against these loans and advances was only 5.21 *per cent* during 2010-11 as against 4.54 *per cent* in the previous year.

**1.6.4 Cash balances and investment of cash balances**

**Table-1.18:** depicts the cash balances of the State and the investments made by the State Government out of that during the year.

**Table-1.18: Cash balances and investment of cash balances**

(₹ in crore)

Particulars	As on 31 March 2010	As on 31 March 2011	Increase(+)/ decrease(-)
<b>Cash Balance (A+B+C)</b>	<b>1,569.66</b>	<b>2,712.22</b>	<b>1,142.56</b>
<b>A. General Cash Balances</b>			
1. Deposits with Reserve Bank	(-)554.81	(-)1,480.73	(-)925.92
2. Remittances in Transit	(-)0.25	0.00	0.25
3. Investments from Cash Balances (a to d)	1,364.05	3,380.80	2,016.75
a. GOI Treasury Bills	(-) 363.57	2,016.75	2,380.32
b. GOI Securities	1727.62	1,364.05	(-) 363.57
c. Other Securities, if any specify	0.00	0.00	0.00
d. Other Investments	0.00	0.00	0.00
<b>Total (A)- General Cash Balances (1 to 3)</b>	<b>808.99</b>	<b>1,900.07</b>	<b>1,091.08</b>
<b>B. Other Cash balances and investments (Cash/Permanent Advances with departmental Officers)</b>	<b>11.30</b>	<b>13.11</b>	<b>1.81</b>
<b>C. Funds wise Break-up of Investment from Earmarked balances (a to d)</b>	<b>749.37</b>	<b>799.04</b>	<b>49.67</b>
a. Sinking Fund	746.94	796.94	50.00
b. Famine Relief Fund	1.41	1.32	-0.09
c. Revenue Reserve Fund	0.97	0.73	-0.24
d. Development and Welfare Fund	0.05	0.05	0.00
<b>Interest realised</b>	<b>149.07</b>	<b>89.73</b>	<b>59.34</b>

(Source: Finance Account 2010-11)

As against the required minimum cash balance of ₹ 0.72 crore with the Reserve Bank of India (RBI), the State had maintained a cash balance ranging from ₹ 824 crore to ₹ 3241 crore on the last date of each month during 2010-11. Intermittently, surplus cash balance was invested by the State government in short term deposits of Government of India (GoI) Treasury bills and GoI securities earning an aggregate interest of ₹ 89.73 crore during the year 2010-11. While the State earned an average interest on these deposits at an average of 2.65 per cent, it had paid average interest on its market borrowings at the rate of 7.34 per cent. Instead of locking up cash balances in low interest investments, it would have been more prudent for the Government to retire high cost debt using cash available beyond the optimum levels recommended under FRBM Act.

## 1.7 Assets and Liabilities

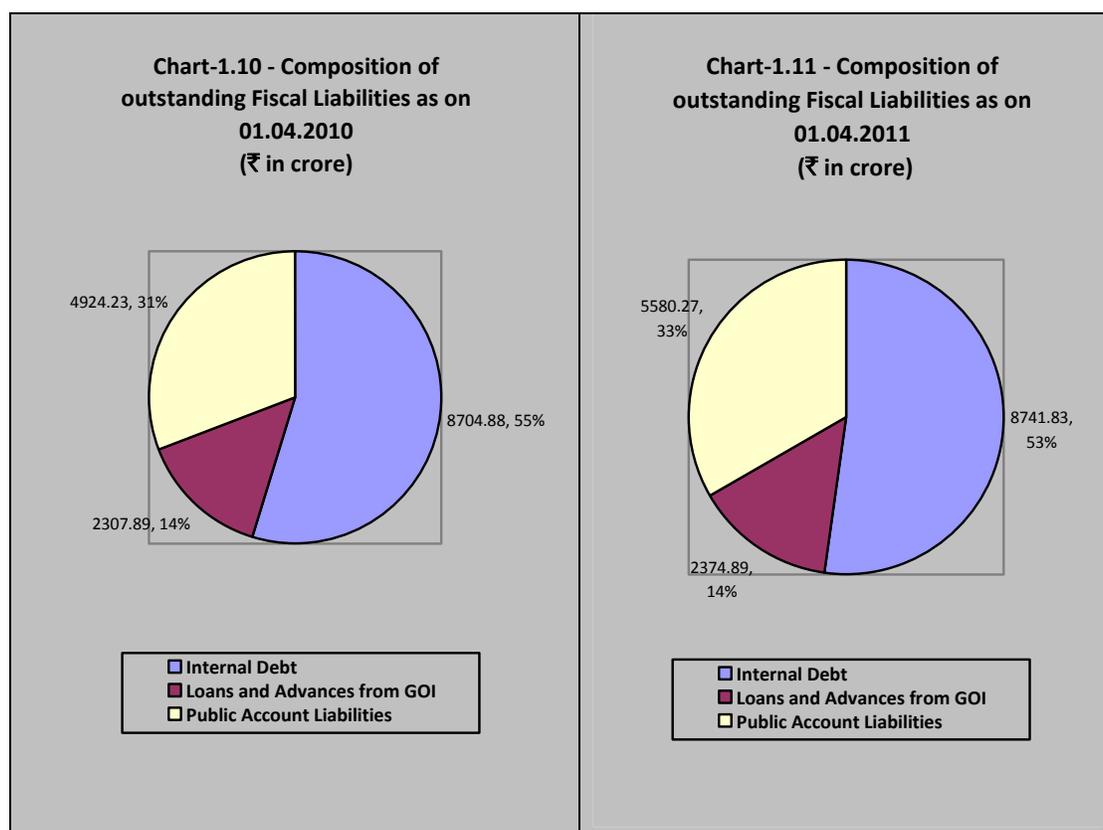
### 1.7.1 Growth and composition of assets and liabilities

In the existing 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-1.4** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. 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.

While the growth rate of the liabilities decreased from 8.98 *per cent* in 2009-10 to 4.13 *per cent* in 2010-11, the growth rate of assets increased from 11.99 *per cent* to 19.17 *per cent* during the same period.

### 1.7.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix-1.4**. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Chart-1.10 and 1.11**.



There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of the internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund- capital account. It

includes market loans, special securities issued to RBI and loans and advances from GoI. The Constitution of India provides that the 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 the Legislature and give guarantees within such limits as may be fixed. Other liabilities or fiscal liabilities which are a part of the Public Account include deposits under the small savings scheme, provident funds and other deposits.

Internal debts decreased from 55 *per cent* in 2009-10 to 53 *per cent* of the fiscal liabilities at the end of 2010-11. While the Public Account liabilities as a percentage of the fiscal liabilities slightly increased from 31 *per cent* in 2009-10 to 33 *per cent* in 2010-11, the outstanding loans and advances from GoI at 14 *per cent* remained the same as that of the previous year.

The fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP and revenue receipts are brought out in **Table-1.19**:

**Table-1.19: Fiscal Liabilities – Basic Parameters**

	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal liabilities (₹ in crore)	14,113	14,512	14,780	15,933	16,697
Rate of growth of Fiscal liabilities (in <i>per cent</i> )	6.33	2.83	1.85	7.79	4.77
Fiscal liabilities/GSDP (in <i>per cent</i> )	21.10	18.08	15.86	14.51	12.87
Fiscal liabilities/Revenue receipts (in <i>per cent</i> )	123.23	104.56	94.36	87.77	73.49

(Source : Finance Accounts)

The overall fiscal liabilities of the State increased from ₹ 14,113 crore in 2006-07 to ₹ 16,697 crore in 2010-11. The growth rate of liabilities was 4.77 *per cent* during 2010-11 as against 7.79 *per cent* growth rate in 2009-10.

The fiscal liabilities as at the end of 2010-11 represented 73.49 *per cent* of the revenue receipts during the year as against 87.77 *per cent* during 2009-10. During 2010-11, the debt to GSDP ratio at 12.87 *per cent* was less than the projection made (19.23 *per cent*) in MTFPS.

### 1.7.3 Status of guarantees – contingent liabilities

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

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table-1.20**.

**Table-1.20: Guarantees given by the Government of Chhattisgarh**

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed	3,649.53	4,400.65	5,053.59
Outstanding amount of guarantees	895.16	3,337.53	2,849.35
Percentage of maximum amount guaranteed to total revenue receipts	23.30	24.24	22.24

No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limits within which Government may give guarantee on security of Consolidated Fund of the State. However, the State

Government has guaranteed loans raised by various corporations and others which stood at ₹ 2,849.35 crore at the end of 2010-11.

The outstanding guarantees given to Banks and Financial Institutions included 45 institutions/companies, under co-operative societies and banks (₹ 2,172 crore), power (₹ 429 crore), Urban Development & Housing (₹ 177 crore), State Finance and Development Corporation (₹ 63 crore) and others (₹ four crore).

The outstanding amount of guarantees in the nature of contingent liabilities was about 12.54 per cent of total revenue receipts of the State.

To provide for sudden discharge of State's obligations on guarantees, the TFC recommended that States should set up a Guarantee Redemption Fund through earmarked guarantee fees. However, the State Government had decided not to form Guarantee Redemption Fund in view of less high risk Guarantees in the State.

#### 1.7.4 Off-budget borrowings

Government companies/corporations borrow funds from the market/ financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of many of these concerns may sometimes turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. The information on off-budget borrowing has not been received from Finance Department (September 2011).

### 1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability<sup>14</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization<sup>15</sup>;

sufficiency of non-debt receipts<sup>16</sup>; net availability of borrowed funds<sup>17</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio)

<sup>14</sup> Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that a rise in fiscal deficit should match with the increase in capacity to service the debt.

<sup>15</sup> A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt\*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

<sup>16</sup> Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

and maturity profile of State Government securities. **Table-1.21** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2008-09.

**Table-1.21: Debt Sustainability: Indicators and Trends**

(₹ in crore)

Indicators of Debt Sustainability	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread +Primary Deficit)	1,868	245	3,324
Sufficiency of incremental Non-debt Receipts (Resource Gap)	(-)898	(-)731	(+)2,169
Net Availability of Borrowed Funds	(-)1,106.81	57	(-)438
Burden of Interest Payments (IP/RR Ratio)	6.88	6.03	5.27

(Source: Finance Account)

The trends in **Table-1.21** reveal that the quantum spread together with the primary deficit was positive during the period 2008-11, leading to a constant decline in fiscal liabilities to GSDP ratio which came down to 12.87 in 2010-11 from 14.51 in 2009-10.

Though the quantum spread and primary deficit was positive during the period, the same increased over the previous year.

During the current year, internal debt redemption and redemption of GoI loans was cent *per cent* of fresh debt receipts while in case of other obligations, repayments were 85.72 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilized for repayment of debt.

A persistent negative resource gap indicates non-sustainability of debt while a positive resource gap strengthens the capacity of the State to sustain the debt. The sufficiency of incremental non-debt receipts increased substantially from ₹ (-)731 crore in 2009-10 to ₹ 2,169 crore during the current year, indicating the increasing capacity of the State to sustain the debt in the medium / long run.

<sup>17</sup> Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

**Table 1.22: Maturity Profile of the State Debt (In Years)**

(₹ in crore)

Years	2008-09	2009-10	2010-11	Percentage to total debt
0-5	3,728.29	4,224.98	4,182.47	38
6-10	3,022.19	3,333.13	3,351.11	30
11-15	1,951.07	1,987.75	2,039.44	18
16-20	1,282.04	1,150.28	1,164.79	11
20 and above	393.16	316.25	378.91 <sup>18</sup>	3
<b>Total</b>	<b>10,376.75</b>	<b>11,012.39</b>	<b>11,116.72</b>	

(Source: Finance Account)

As regards repayment of debt, large amounts of repayments to the extent of 38 per cent of the State debt would be taking place in the next five years. Hence, the State may consider restricting its short-term borrowings so that repayment obligations in the next five years do not increase unduly.

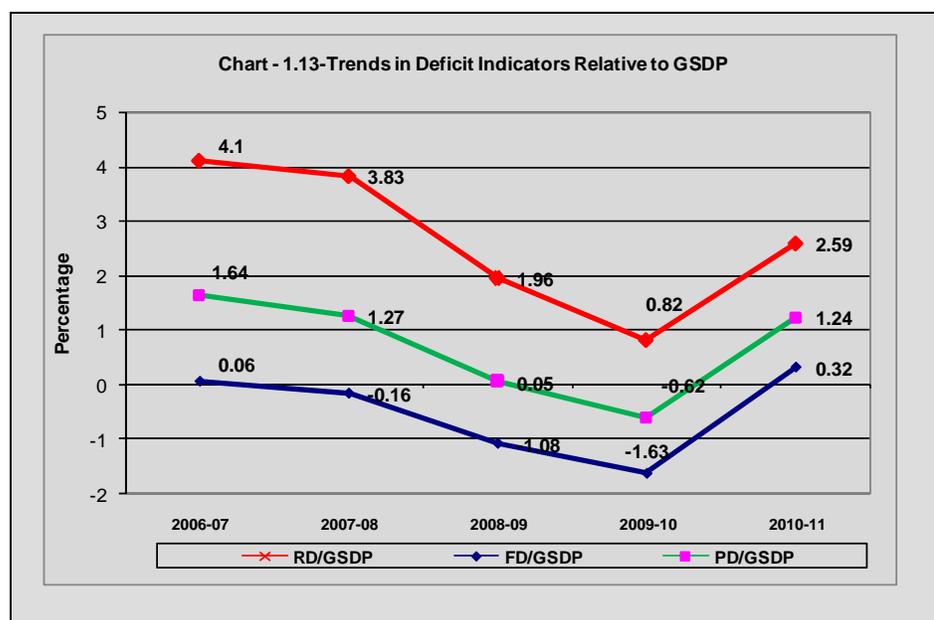
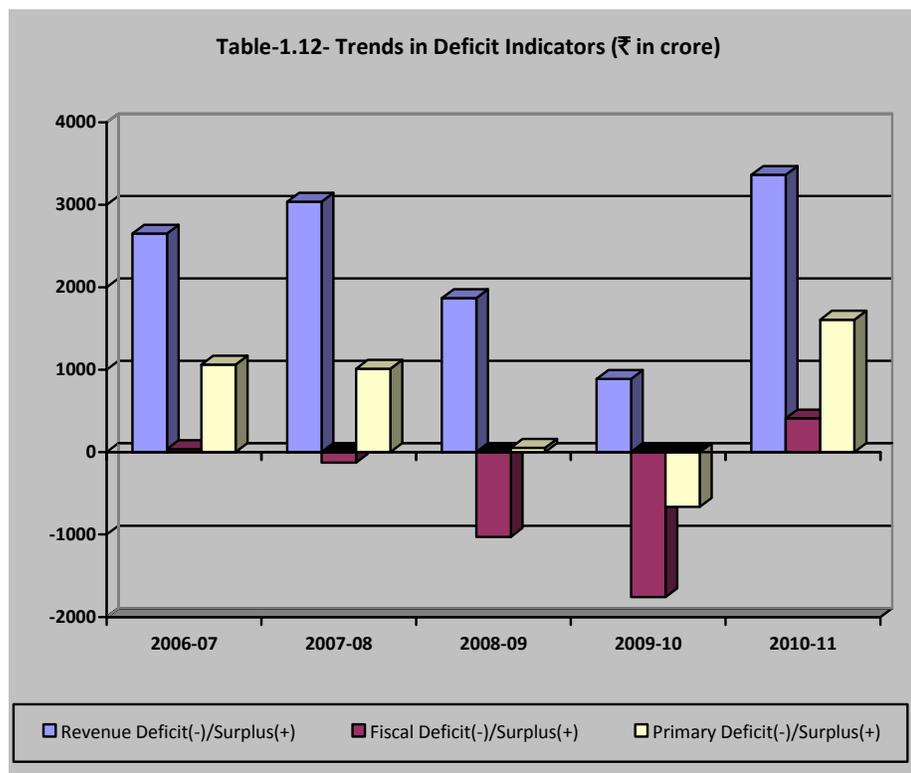
## 1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2010-11.

<sup>18</sup> Includes ₹ 152.81 crore for which details of maturity year not available and ₹ 0.23 crore taken as loan amount allocated to Madhya Pradesh but repaid by Chhattisgarh.

### 1.9.1 Trends in Deficits

Chart-1.12 and 1.13 presents the trends in deficit indicators over the period 2006-11.



**Table-1.23: Trends in deficit**

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue deficit (-) / surplus (+)	(+)2,651	(+)3,039	(+)1,869	(+)888	(+)3,364
Fiscal deficit (-) / surplus (+)	(+)37	(-)128	(-)1,027	(-)1,759	(+)410
Primary deficit (-)/ surplus (+)	(+)1,063	(+)1,012	(+)51	(-)664	(+)1,608

The State maintained a revenue surplus, which increased from ₹ 2,651 crore in 2006-07 to ₹ 3,039 crore in 2007-08. The decrease in revenue surplus began in 2008-09 and it declined sharply from ₹ 1,869 crore in 2008-09 to ₹ 888 crore in 2009-10 which however increased by ₹ 2,476 crore during 2010-11. The increase was mainly due to increase of 25 *per cent* (₹ 4,566 crore) in revenue receipts in comparison to an increase of 12 *per cent* (₹ 2,090 crore) in revenue expenditure during 2010-11.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 128 crore in 2007-08 to ₹ 1,759 crore in 2009-10 but turned into fiscal surplus of ₹ 410 crore during 2010-11.

The primary surplus decreased from ₹ 1,063 crore in 2006-07 and reached the lowest level of ₹ 51 crore in 2008-09 before turning into a primary deficit of ₹ 664 crore in 2009-10 which again turned into a primary surplus of ₹ 1,608 crore during 2010-11.

The revenue surplus as a percentage of GSDP increased from 0.82 in 2009-10 to 2.59 in 2010-11. Though the fiscal deficit relative to GSDP was (-)1.63 *per cent* in 2009-10 it turned into a fiscal surplus of 0.32 *per cent* of GSDP in 2010-11.

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

The fiscal deficit is the total borrowing requirement of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt capital receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirements of funds over and above revenue and non-debt receipts.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table-1.24**.

**Table-1.24: Components of Fiscal Deficit and its Financing Pattern**

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Decomposition of Fiscal Deficit</b>						
1	Revenue Deficit(-)/Surplus(+)	2,650.80	3,038.79	1,869.06	888.22	3,363.79
2	Net Capital Expenditure	(-)2,198.10	(-)3,103.73	(-)2,938.38	(-)2,742.61	(-) 2,948.95
3	Net Loans and Advances <sup>19</sup>	(-)416.18	(-)62.77	42.67	95.39	(-) 5.08
	<b>Total</b>	<b>36.52</b>	<b>(-)127.71</b>	<b>(-)1,026.65</b>	<b>(-)1,759.00</b>	<b>409.76</b>
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	(-)95.24	(-)157.08	(-)153.44	449.85	(-) 235.03
2	Loans from GoI	42.04	(-)167.06	94.93	106.83	67.38
3	Special Securities Issued to NSSF	736.23	37.75	(-)2.78	146.33	373.47
4	Loans from Financial Institutions	34.68	(-)10.06	(-)41.73	(-)67.36	(-) 101.49
5	Small Savings, PF etc	9.65	51.50	73.74	294.37	328.97
6	Deposits and Advances	312.77	441.77	30.20	(-)22.47	355.26
7	Suspense and Miscellaneous	(-)1,026.83	(-)257.12	1,024.80	512.00	(-) 2,129.58
8	Remittances	26.82	(-)78.72	80.65	(-)111.83	33.68
9	Others <sup>20</sup>	(-)203.09	184.00	265.96	244.91	(-) 28.08
	<b>Total</b>	<b>(-)162.97</b>	<b>44.98</b>	<b>1,372.33</b>	<b>1,552.63</b>	<b>(-) 1,335.42</b>
	<b>Overall Surplus(+)/Deficit(-)</b>	<b>(-)126.45</b>	<b>(-)82.73</b>	<b>345.68</b>	<b>(-)206.37</b>	<b>(-) 925.66</b>
	<b>Total</b>	<b>(-)36.52</b>	<b>127.71</b>	<b>1,026.65</b>	<b>1,759.00</b>	<b>(-) 409.76</b>

\*All these figures are net of disbursements/outflows during the year

(Source: Finance Account)

During 2006-07, the deficit was financed mostly from the Special Securities issued to NSSF but the trend changed over the years and during 2009-10, the fiscal deficit was mainly financed from the resources raised from market borrowings, loans from GoI, special securities issued to NSSF and small savings, provident fund etc. However, the fiscal deficit of the state turned into fiscal surplus during 2010-11.

### 1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit<sup>21</sup> and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption

The bifurcation of the primary deficit (**Table-1.25**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

<sup>19</sup> It includes inter-State settlement.

<sup>20</sup> It includes Contingency Fund, Reserve Fund.

<sup>21</sup> Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

**Table-1.25: Primary deficit/surplus – Bifurcation of factors**

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure <sup>22</sup>	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	11,810	7,776	2,198	773	10,747	(+4,034)	(+)1,063
2007-08	14,345	9,700	3,131	502	13,333	(+4,645)	(+)1,012
2008-09	16,199	12,716	2,940	492	16,148	(+3,481)	(+)51
2009-10	19,151	16,170	2,745	900	19,815	(+2,981)	(-)664
2010-11	23,286	18,157	2,952	569	21,678	(+5,129)	(+)1,608

(Source: Finance Account)

The above table shows that the primary surplus showed declining trend during 2006-07 to 2008-09 and turned into primary deficit in 2009-10. However, the primary deficit again turned into primary surplus during 2010-11.

The growth rate of non-debt receipts of the state increased to 22 per cent in 2010-11 from 18 per cent in 2009-10.

The capital expenditure as a percentage of primary expenditure exhibited decreasing trend during 2008-11, indicating higher revenue expenditure. The reason for higher revenue expenditure during 2010-11 was due to payment of 2<sup>nd</sup> instalment of arrears of Sixth Pay Commission, revision of Pension and increase in relief of Pension.

While primary Revenue expenditure and Capital Expenditure increased by ₹ 1,988 crore (13.57 per cent) and ₹ 207 crore (7.54 per cent) respectively, the Loans and Advances decreased by ₹ 331 crore (37 per cent) during the year.

## 1.10 Conclusions and Recommendations

### Fiscal position

The Fiscal position of the state had improved in terms of the key parameters – revenue surplus substantially increased and fiscal deficit and primary deficit turned into fiscal surplus and primary surplus respectively.

The increase in the revenue surplus was mainly due to the increase in the State's own resources and its share of Union Taxes duties.

Due to substantial increase in total receipts (₹ 4,134 crore) over previous year as compared to the total expenditure (₹ 1,966 crore) of the state, the fiscal deficit (₹ 1,759 crore) turned into fiscal surplus (₹ 410 crore) and increase in Interest Payment resulted in the Primary deficit (₹ 664 crore) turning into Primary Surplus (₹ 1,608 crore)

The fiscal liabilities at the end of the current year worked out to ₹ 16697 crore which is 12.87 per cent of GSDP against projection of 19.23 per cent made in FRBM Act.

<sup>22</sup> Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

### **Revenue Receipts**

Revenue Receipts increased by 25 per cent over previous year due to substantial increase in Tax Revenue/Non-Tax Revenue by 26 per cent and by 25 per cent in Central transfers comprising the State's share in Union Taxes/Duties and Grant-in-aid from GoI during 2010-11 as compared to 2009-10.

The State's own tax revenue (₹ 9,005 crore) was higher than the normative assessment made by the ThFC (₹ 8,947 crore) and budget estimates (₹ 7,505 crore). On the other hand, although, the state's own non-tax revenue (₹ 3,835 crore) was higher than the ThFC projection (₹ 2,389 crore) but it was less than the budget estimates (₹ 4,321 crore).

### **Recommendation**

As GSDP grows, the State has the potential to increase its own tax revenue as well as non-tax revenue. The State may explore the possibility of widening the non-tax base so that there is greater fiscal space for undertaking developmental projects.

### **Revenue expenditure**

The revenue expenditure continued to be a dominant (85 per cent) part of the total expenditure during 2010-11.

Non-plan expenditure exceeded the normative projection of the ThFC and budget estimates by 27 per cent and two per cent respectively.

The committed expenditure on salaries and wages, pension, interest payment and subsidies constituted 87 per cent of NPRES during 2010-11 mainly due to release of second instalment of Sixth Pay Commission arrears .

### **Recommendation**

The expenditure on salaries and pension witnessed substantial increase during this year due to release of arrears of Sixth Pay Commission and revision of pension. As the expenditure on these items is expected to stabilize in the coming years, the State should take action to restrict the other components of Non-Plan revenue expenditure by phasing out subsidies and by ensuring that borrowings continue to be used for creation of productive capital assets.

### **Capital expenditure**

The Capital Expenditure (₹ 2,952 crore) increased by ₹ 207 crore over previous year and its proportion to total expenditure (13 per cent) remained same as previous year. It was less than the projection made in FRBM Act (₹ 5,019 crore) and budget estimates (₹ 4,068 crore) by 41 per cent and 27 per cent respectively.

### **Recommendation**

The State Government should step up asset creation through capital expenditure, as this would enhance future growth prospects.

### **Return on Investment**

The average return on Government's investments was 1.65 *per cent* while the Government paid an average interest rate of 7.34 *per cent* on its borrowings during 2010-11.

### **Recommendation**

The Government may ensure proper justification for investment of high cost funds and set norms prescribed for making investments in various public sector companies, rural banks etc.

### **Position of Cash Balance**

The closing cash balance significantly increased at the end of 2010-11. Holding large cash balance in the form of investment of ₹4180 crore which earned interest at 2.15 *per cent* against the average interest rate of 7.34 *per cent* on market borrowings indicated lack of prudent cash management.

### **Recommendation**

Proper debt management through advance planning is likely to minimize the need to hold large cash balances.

### **Incomplete Projects**

Fund aggregating ₹ 887 crore were blocked due to inordinate delays in completion of 78 works and irrigation projects leading to cost escalation which is also a major area of concern for the State Government.

### **Recommendation**

The State Government should formulate guidelines to complete all pending works/projects in a well defined time frame and to avoid cost escalation so that people derive the benefits in time.