

Chapter 1

Finances of the State Government

Profile of Rajasthan

Rajasthan is a desert State, comprising about 11 *per cent* of India's geographical land mass. During the period (2002-12), its population has grown by 17.20 *per cent* against 13.90 *per cent* in General Category States and the *per capita* income growth (14.01 *per cent*) in Rajasthan has gone up as compared to General Category States (13.09 *per cent*) (**Appendix 1.1**). In the last ten years, the density of population in the State has increased from 165 person per square km to 201 persons. However, Rajasthan still has lower density of population as compared to All India.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Rajasthan (GoR) during 2011-12 and analyses the changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is depicted in **Appendix 1.2 Part B**. In May 2005, Rajasthan Government responded to the Twelfth Finance Commission (TFC) recommendation by legislating its "Fiscal Responsibility and Budgetary Management (FRBM) Act" and as per the recommendations of Thirteenth Finance Commission (XIII-FC) the State Government amended the Act in March 2011 and September 2011. As prescribed in the Act, Government has laid in legislature (March 2011) the Medium Term Fiscal Policy Statement (MTFPS) for 2011-12. In compliance of Section 8 of FRBM Act, the State Government constituted (February 2006) a Public Expenditure Review Committee (PERC) under chairmanship of the Chief Secretary, GoR.

A summary of the FRBM Act, 2005 and FRBM (Amendment) Act, 2011 of the State is given in **Appendix 1.3**.

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year while

Appendix 1.5 provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(₹ in crore)

	2010-11	2011-12		2010-11	2011-12		
<i>Section A</i>	<i>Total</i>	<i>Total</i>	<i>Section A</i>	<i>Total</i>	<i>Non-Plan</i>	<i>Plan</i>	<i>Total</i>
Revenue receipts	45,928.20	57,010.76	Revenue expenditure	44,873.35	41,237.78	12,415.53	53,653.31
<i>Tax revenue</i>	<i>20,758.13</i>	<i>25,377.06</i>	<i>General services</i>	<i>16,737.50</i>	<i>18,286.83</i>	<i>421.69</i>	<i>18,708.52</i>
<i>Non-Tax Revenue</i>	<i>6,294.12</i>	<i>9,175.10</i>	<i>Social services</i>	<i>17,895.24</i>	<i>15,980.69</i>	<i>5,947.18</i>	<i>21,927.87</i>
<i>Share of Union Taxes/Duties</i>	<i>12,855.62</i>	<i>14,977.04</i>	<i>Economic services</i>	<i>10,219.60</i>	<i>6,963.92</i>	<i>5,779.97</i>	<i>12,743.89</i>
<i>Grants from Government of India</i>	<i>6,020.33</i>	<i>7,481.56</i>	<i>Grants-in-aid and Contributions</i>	<i>21.01</i>	<i>6.34</i>	<i>266.69</i>	<i>273.03</i>
Section-B				Section B			
Total Capital receipts	8,309.17	7,163.44	Total Capital disbursements	8,829.97	-	-	11,718.77
Miscellaneous Capital receipts	13.42	15.73	Capital Outlay	5,250.62	16.33	7,102.92	7,119.25
Recoveries of Loans and Advances	318.40	1,229.31	Loans and Advances disbursed	262.11	58.05	1,051.05	1,109.10
Public Debt receipts ¹	7,977.35	5,918.40	Repayment of Public Debt ¹	3,317.24	-	-	3,490.42
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Account receipts	1,19,489.98	1,27,214.84	Public Account disbursements	1,16,297.92	-	-	1,22,319.61
Opening Cash Balance	2,361.65	6,087.76	Closing Cash Balance	6,087.76	-	-	9,785.11
Total	1,76,089.00	1,97,476.80	Total	1,76,089.00			1,97,476.80

Source: Finance Accounts

Detailed explanations of this statement are given in subsequent paragraphs

1.2.1 Growth and composition of Gross State Domestic Product

Gross State Domestic Product (GSDP) is being used as a base in presenting the trends in key fiscal parameters as well as in estimating various buoyancy ratios especially for revenue and expenditure aggregates. The qualitative assessment of the trends and pattern of various fiscal variables would depend on the quality and correctness of the GSDP estimates.

¹ Excluding net transactions under ways and means advances and overdraft.

Assuming that GSDP is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenue, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP.

The trends in growth and composition of GSDP for last five years are presented in **Table-1.2**.

Table – 1.2: Trends in Growth and Composition of GSDP at Current Prices

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Gross State Domestic Product	1,94,822	2,30,949	2,63,258 ²	3,23,682 ³	3,68,320 ⁴
Agriculture Sector (Percentage Share)	48,846 (25.1)	55,445 (24.0)	61,485 (23.4)	88,495 (27.3)	98,564 (26.8)
Industries Sector (Percentage Share)	60,418 (31.0)	71,777 (31.1)	79,809 (30.3)	92,101 (28.5)	1,05,338 (28.6)
Services Sector (Percentage Share)	85,558 (43.9)	1,03,727 (44.9)	1,21,964 (46.3)	1,43,086 (44.2)	1,64,418 (44.6)
Annual growth rate (per cent)					
GSDP	13.9	18.5	14.0	23.0	13.8
Agriculture Sector	16.6	13.5	10.1	43.9	11.4
Industries Sector	9.5	18.8	11.2	15.4	14.4
Services Sector	15.6	21.2	17.6	17.3	14.9

Source: Directorate of Economic and Statistics, Government of Rajasthan.

Note: Figures in parentheses represent percentages of share of total GSDP.

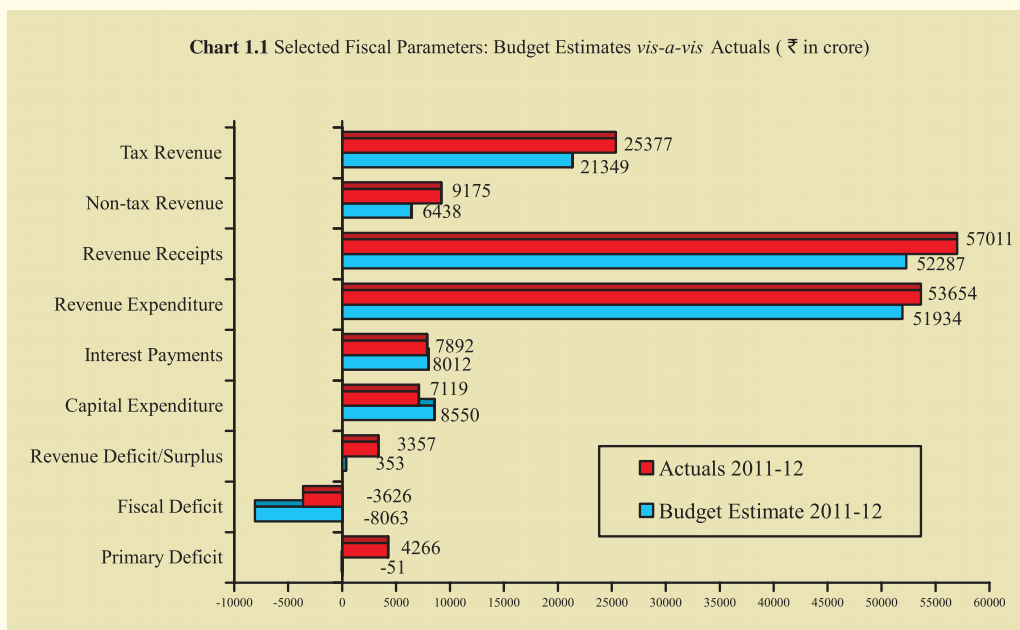
The GSDP have shown a progressive increase over the period 2007-12 with only marginal changes in its composition i.e. the agriculture sector, industries sector and services sector. The annual growth rate of GSDP and agriculture sector in 2011-12 sharply decreased over the previous year.

1.3 Budget estimates and actuals

As per the State Budget Manual (1995), the Finance Department is responsible for preparation of the annual budget for different departments. The departmental estimates of receipts and expenditure are prepared by Controlling Officers on the advice of the Heads of Departments and submitted to the Finance Department by the prescribed dates. The Finance Department then consolidates the estimates and prepares the Budget Estimates.

2. Provisional estimates
3. Quick estimates
4. Advance estimates

Compared to the budget estimates for 2011-12, the actual revenue receipts and revenue expenditure increased by nine *per cent* and three *per cent* respectively. Resultantly, the revenue surplus increased by ₹ 3,004 crore over the budgeted revenue surplus. The capital expenditure decreased by 17 *per cent* over the budget estimates. The budgeted and actual figures under revenue receipts and expenditure are shown in **Chart 1.1** and *Appendix-1.7*.



Source: Finance Accounts and Budget Documents

As may be observed from **Chart 1.1** and *Appendix 1.7* there was considerable variation between budget estimates and actuals in the case of several key parameters. *During the year, revenue receipts had a positive variation (₹ 4,724 crore: nine per cent) over budget estimates and almost all categories of revenue receipts (with the exception of Taxes on Immovable Property other than Agricultural land, Taxes on Goods and Passengers, other Taxes and Duties on Commodities and Services, Water Supply and Sanitation, Police and Public Works) were higher than budget estimates.* Revenue expenditure showed a positive variation of three *per cent* over budget estimates, mainly because the expenditure in Taxes on Sales, Trade etc. Family Welfare, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Social Security and Welfare, Nutrition, Relief on account of Natural Calamities, Crop Husbandry and Power etc. exceeded the budget estimates. *As a result, the revenue surplus increased from the budget estimate of ₹ 353 crore to ₹ 3,357 crore and the fiscal deficit⁵ decreased from the budget estimate of ₹ 8,063 crore to ₹ 3,626 crore. The estimated primary deficit (₹ 51 crore) turned into primary surplus (₹ 4,266 crore).* Asset creation was not given as much priority as intended in the budget estimates as there was a shortfall of 17 *per cent* in Capital expenditure over the budget estimates mainly under Capital Outlay on Water Supply and Sanitation, Capital Outlay on Urban Development, Capital Outlay on other General Economic Services, Capital outlay on Minor Irrigation and Capital Outlay on Major Irrigation.

5. see glossary at page 164

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the State Government's resource base. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table 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 2006-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2 Trends in receipts
(₹ in crore)

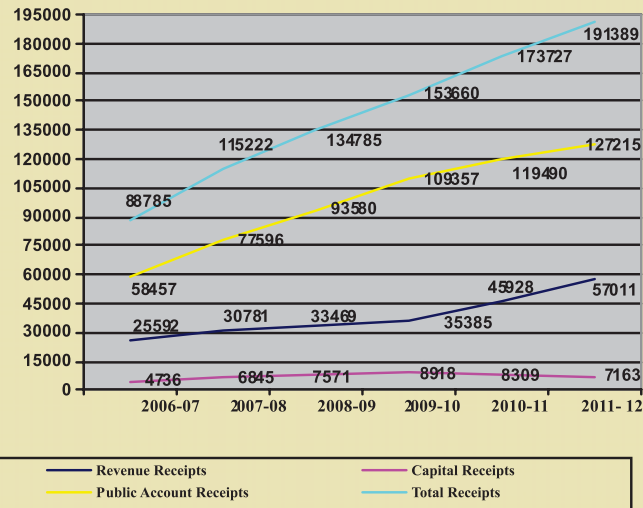
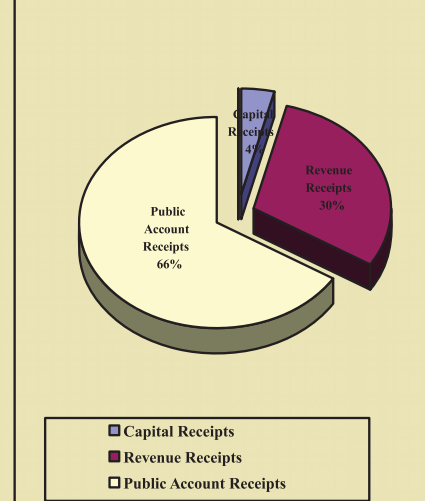


Chart 1.3 Composition of Receipts during 2011-12 (in per cent)



Source: Finance Accounts

Chart 1.2 shows that during 2011-12, the revenue receipts were 30 per cent of the total receipts. The balance came from capital receipts, borrowings and Public Account receipts. During 2006-12, the average revenue receipts were ₹ 38,028 crore, constituting 27 per cent of the average total receipts (₹ 1,42,928 crore).

The total receipts of the State increased by 116 per cent from 2006-07 to 2011-12. Public Debt receipts (₹ 5,918 crore) constitute nearly 83 per cent of the Capital receipts. Major share of the Public Debt (₹ 5,581 crore: 94 per cent) was from Internal Debt.

Deposits and Advances (₹ 1,14,301 crore) constitute about 90 per cent of the total receipts under Public Account. Major share of the Deposits and

Advances were in the form of working funds of five power companies⁶ formed after the dismantling of Rajasthan State Electricity Board and channelised through the 'Minor Head 107–State Electricity Boards Working Funds' (₹ 93,289 crore: 82 *per cent*), Personal Deposits (₹ 9,535 crore: eight *per cent*) under Civil Deposits. Similarly, 89 *per cent* (₹ 5,010 crore) of the remittances (₹ 5,618 crore) have come from Public Works Remittances.

1.4.2 Funds transferred to State implementing agencies outside the State Budget

The GoI has been transferring a sizeable quantum of funds directly to the State implementing agencies⁷ for implementation of various schemes/programmes in Social and Economic sectors recognized as critical for the development of Rajasthan. 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, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, the implementing agencies/departments were requested to furnish the details of funds received by them directly from GoI. The information obtained is presented in *Appendix 1.8*.

It was observed that the funds transferred directly to State implementing agencies (Central Share) decreased during the current year (₹ 6,838 crore) compared to the previous year (₹ 8,671 crore). The overall decrease of ₹ 1,833 crore (21 *per cent*) was the combined effect of decrease under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) (₹ 1,169 crore), Crop Compensatory Scheme (₹ 679 crore), Pradhan Mantri Gram Sadak Yojana (₹ 218 crore), Renovation of Co-operative Credit Structure (₹ 77 crore), Desert Development Programme (₹ 72 crore) and Up-gradation of State Government Medical Colleges (₹ 52 crore) set off by increase under Crop Insurance (₹ 159 crore), Rashtriya Madhyamik Shiksha Abhiyan (₹ 94 crore), Sakshar Bharat Mission (₹ 74 crore), Members of Parliament Local Area Development Scheme (₹ 68 crore) and National Rural Health Mission (₹ 63 crore).

The GoI directly transferred funds of ₹ 6,838 crore (*Appendix 1.8*) to State implementing agencies during 2011-12, out of which ₹ 2,831 crore (41 *per cent*) transferred to the Zila Parishad (Rural Development Cell) and in which ₹ 1,620 crore was only for MGNREGS. Further, GoI transferred ₹ 1,486 crore (22 *per cent*) for Sarva Shiksha Abhiyan; ₹ 668 crore (10 *per cent*) for Pradhan Mantri Gram Sadak Yojana; ₹ 573 crore (eight *per cent*) for National Rural Health Mission and ₹ 337 crore (five *per cent*) for Crop Insurance Scheme.

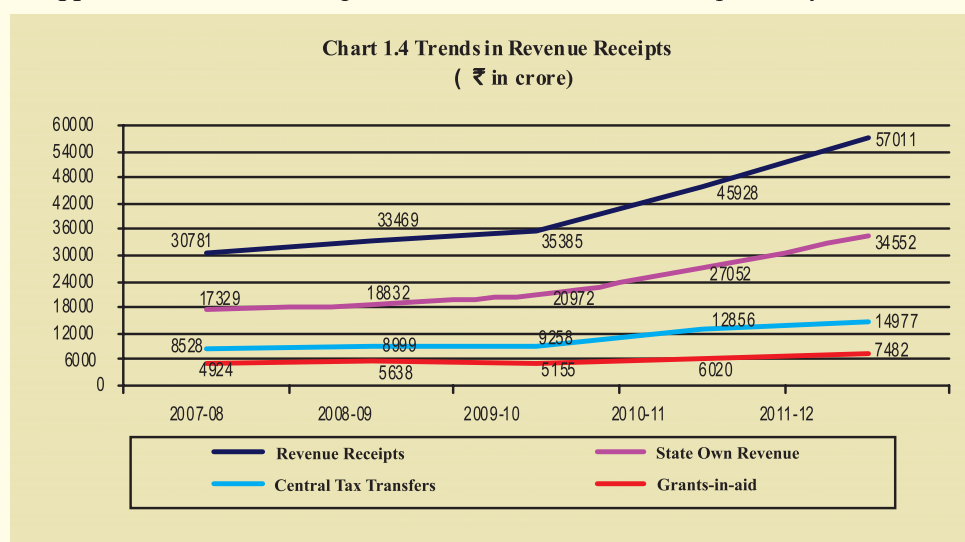
6 (i) Rajasthan Rajya Vidyut Utpadan Nigam Limited, (ii) Rajasthan Rajya Vidyut Prasaran Nigam Limited, (iii) Jaipur Vidyut Vitran Nigam Limited, (iv) Jodhpur Vidyut Vitran Nigam Limited and (v) Ajmer Vidyut Vitran Nigam Limited.

7 State implementing agency may be any Organization/Institution including Non-Governmental Organisation which is authorized by the State Government to receive the funds from the GoI for implementing specific programmes in the State, e.g. Zila Parishad (Rural Development Cell) for MGNREGS and Rajasthan State Health Society for NRHM etc.

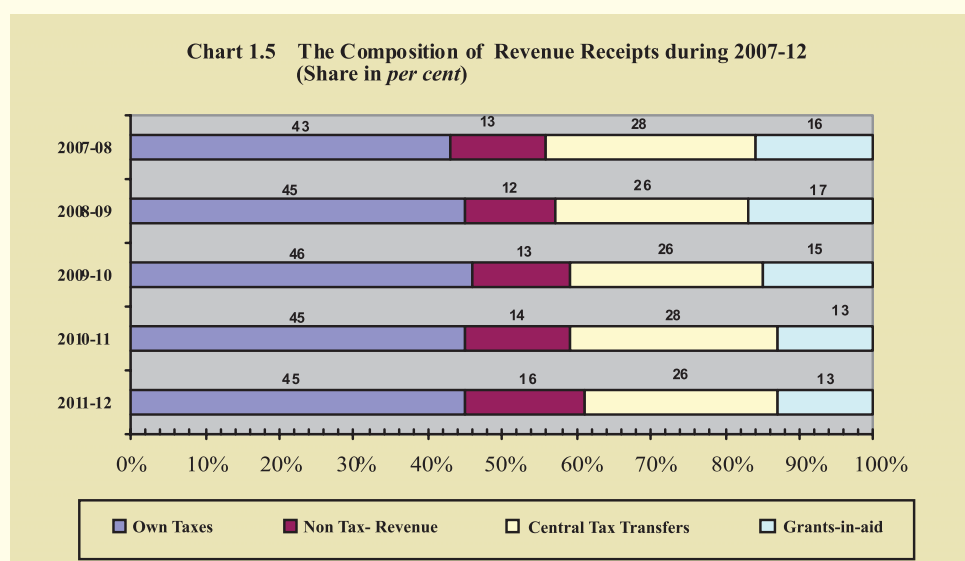
Direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the proper end use of these direct transfers.

1.5 Revenue Receipts

Statement 11 of the Finance Accounts depicts details of the revenue receipts of the Government. The revenue receipts consist of 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 2007-12 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.



Source: Finance Accounts



Source: Finance Accounts

The revenue receipts have shown a progressive increase over the period 2007-12 with only marginal changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers in revenue exhibited relative stability during the period 2007-12 with marginal inter-year variations.

The trends in revenue receipts relative to GSDP are as follows:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	30,781	33,469	35,385	45,928	57,011
Rate of growth ⁸ of RR (<i>per cent</i>)	20.3	8.7	5.7	29.8	24.1
RR/GSDP (<i>per cent</i>)	15.8	14.5	13.4	14.2	15.5
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.5	0.5	0.4	1.3	1.7
State's Own Tax Buoyancy w.r.t GSDP	1.0	0.7	0.7	1.2	1.6
Gross State Domestic Product (GSDP)[@] (₹ in crore)	1,94,822	2,30,949	2,63,258⁹	3,23,682¹⁰	3,68,320¹¹
Rate of growth of GSDP	13.9	18.5	14.0	23.0	13.8

[@] **Source of GSDP:** Directorate of Economic and Statistics, Government of Rajasthan.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As GSDP grows, the ability of the Government to mobilize own tax revenue should also increase. In 2008-10, the growth in Own Tax Resources as compared to growth in GSDP was lower than one but from 2010-11 the situation improved and revenue buoyancy was higher than one.

The increase of 24 *per cent* in revenue receipts during 2011-12 was on account of increase in State's own taxes (22 *per cent*), non-tax revenue (46 *per cent*), Central tax transfers (16 *per cent*) and Grant-in-aid (24 *per cent*). ***The revenue receipts were nine per cent higher than the assessment made by the State Government in the MTFPS (₹ 52,287 crore) for the year 2011-12.***

Central tax transfers

The Central tax transfers increased by ₹ 2,121 crore over the previous year and constituted 26 *per cent* of revenue receipts. The increase was under Corporation Tax (₹ 870 crore), Service Tax (₹ 506 crore), Customs (₹ 349 crore), Taxes on Income other than Corporation Tax (₹ 339 crore), Union Excise Duties (₹ 45 crore), and Taxes on Wealth (₹ 12 crore).

Grants-in-aid from the Government of India

The Grants-in-aid from GoI during 2011-12 increased by 24 *per cent* over the previous year. The increase was under Non-Plan Grants (₹ 1,185 crore) and Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes (₹ 349 crore) which was counterbalanced by decrease in Grants for

8. see glossary at page 164

9. Provisional estimates

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State Plan Schemes (₹ 72 crore). Details of Grant-in-aid from GoI are given in **Table 1.4.**

Table 1.4: Grants-in-aid from Government of India

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Grants for State Plan Schemes	1,768	2,077	1,606	2,488	2,416
Non-Plan Grants	1,051	1,272	1,715	1,716	2,901
Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes	2,105	2,289	1,834	1,816	2,165
Total	4,924	5,638	5,155	6,020	7,482
Percentage of increase/decrease over previous year	29.8	14.5	(-) 8.6	16.8	24.3

Source: Finance Accounts

As per recommendation of XIII-FC, the GoI released ₹ 2,660.52 crore during the current year under Non-Plan for Local Bodies: ₹ 885.83 crore, Contribution to State Disaster Response Fund: ₹ 698.27 crore, Capacity Buildings: ₹ 6 crore, Primary Education: ₹ 320 crore, Maintenance of Forests: ₹ 11.04 crore, Water Sector Management: ₹ 56 crore, Maintenance of Roads and Bridges: ₹ 303 crore, Judicial Improvement: ₹ 26.85 crore, District Innovation Fund: ₹ 16.50 crore, Improvement of Statistical System at State and District Level: ₹ 6.60 crore and State Specific Grants: ₹ 330.43 crore (Drinking Water: ₹ 127.37 crore, Irrigation: ₹ 101.50 crore, Public Health Infrastructure: ₹ 37.50 crore, Highways: ₹ 37.50 crore and Training of Police, prison personnel and Home Guards: ₹ 26.56 crore).

1.5.1 Under utilisation of grant-in-aid recommended by XIII-Finance Commission (XIII-FC)

As per recommendation of XIII-FC, GoI allocated grant-in-aid of ₹ 12,950 crore¹² to GoR to be utilised during 2010-15. The GoR constituted (June 2010), a High Level Monitoring Committee (HLMC) headed by the Chief Secretary to ensure proper utilisation of grant-in-aid.

Test check (March to July 2012) of records of Finance, Directorate of Economic and Statistics, Forest, Information Technology and Communication, Law and Legal Affairs, Water Resources, Public Health Engineering, Medical and Health and Public Works Department pertaining to utilisation of assistance received from GoI as per recommendations of XIII-FC revealed the following:

¹² Local Bodies: ₹ 5,164 crore, Contribution to State Disaster Response Fund : ₹ 2,489 crore, Elementary Education: ₹ 1,766 crore, Maintenance of Forests: ₹ 88 crore, Improving delivery of Justice: ₹ 269 crore, Incentive Grant for issuing Unique Identification: ₹ 135 crore, District Innovation Fund: ₹ 33 crore, Improvement of Statistical System at State and District Level: ₹ 33 crore, Employee and Pension Data-base: ₹ 10 crore, Water Sector Management: ₹ 224 crore, Maintenance of Roads and Bridges: ₹ 1,509 crore, Capacity Building: ₹ 30 crore and State Specific Grants: ₹ 1,200 crore (Drinking Water: ₹ 500 crore, Irrigation: ₹ 300 crore, Public Health Infrastructure: ₹ 150 crore, Highways: ₹ 150 crore and Training of Police, prison personnel and Home Guards: ₹ 100 crore).

- In Directorate of Economics and Statistics, GoI released (August 2011) first instalment of ₹ 6.60 crore for enhancing the quality of data, improving the feedback loops to assess the fiscal impact of policy initiatives and enhance productivity. Of which only ₹ 0.43 crore was utilised during 2011-12 and ₹ 6.17 crore remained unutilised due to non-availability of technical and expertise services.
- In Forest Department, GoI released (September 2011) grant of ₹ 11.04 crore for maintenance of Forests. However, the department could not fully utilize the grants during the year and surrendered (March 2012) ₹ 3.23 crore due to non completion of construction of wall and boundary pillars in forest area.
- In Information Technology and Communication Department, GoI released (July 2010) ₹ 13.49 crore towards incentive for issuing Unique Identification (UID) for BPL persons. The GoR released (March 2011) the funds after eight months and deposited the same into non-interest bearing Personal Deposit Account of the Department. The Department could not utilise the grant due to non-evolving the procedure for payment of incentive to the BPL beneficiaries by Unique Identification Authority of India. Further, instalments of ₹ 40.47 crore *i.e.* ₹ 13.49 crore as second installment of 2010-11 and ₹ 26.98 crore as two instalments of 2011-12 also could not be secured by the State Government.
- In Law and Legal Affairs Department, GoI released (November 2011) first tranche of ₹ 26.85 crore for improving delivery of Justice during 2011-12. The GoR released (December 2011- February 2012) ₹ 35.80 crore to the Department (including earlier balance grant of ₹ 8.95 crore). However, Department could utilise only ₹ 8.51 crore during 2011-12 and ₹ 27.29 crore remained unutilised due to delay in release of grant by GoR. Resultantly, second trench of ₹ 26.85 crore could not be released by GoI during 2011-12.
- In Water Resources Department, GoI released (September 2011 and January 2012) ₹ 56 crore for water sector management to meet the non-salary maintenance expenditure of Major, Medium and Minor Irrigation schemes during 2011-12 subject to the conditions¹³ laid down in XIII-FC guidelines. The grant could not be utilised as the State Government could not setup the Water Regulatory Authority till the end of March 2012.
- In Water Resources Department, GoI released (January 2012) ₹ 101.50 crore for supporting the pending irrigation projects under State-specific needs grants. As per Guidelines issued (April 2011) by GoI, the funds could not be utilised for acquisition of land, wherever land was required for the project, such land would be made available by the State Government. However, ₹ 24.41 crore (₹ 16.86 crore cost of land *plus* ₹ 7.55 crore pro-rata

¹³ State should set up a statutory and independent Water Regulatory Authority by 31 March 2012 that would fix and regulate the water tariff charges for every category of water users and periodically review and monitor the water sector costs and revenues and for 2011-12 also to achieve the projected recovery rates based on revenue receipts (Major heads 0700, 0701 and 0702) as percentage of Non-Plan Revenue Expenditure (NPRE) (Major heads 2700, 2701 and 2702) in 2010-11 (BE).

charges) was utilized for acquisition of land by the Department. Further, Department could utilise only ₹ 47.49 crore during 2011-12.

- In Public Health Engineering Department, GoI released ₹ 102.37 crore (January 2012) and ₹ 25 crore (March 2012) for development of border area to manage problem of drinking water under State-specific needs grants. GoR released ₹ 125 crore to the Department, out of which only ₹ 39.64 crore was utilised during 2011-12 and remaining grants was not utilised due to delay in tendering process and prequalification criteria from competent Authorities.
- In Medical and Health Department, GoI released (January 2012) ₹ 37.50 crore¹⁴ for strengthening infrastructure in public hospitals including diagnostic equipments and generators under State-specific needs grants. The GoR sanctioned the same to the Department. However, the Department could utilise only ₹ 7.28 crore during 2011-12 and surrendered (March 2012) ₹ 30.22 crore due to late approval of Action Plan by GoR.
- In Public Work Department (PWD), GoI released (August 2011) ₹ 303 crore for maintenance of roads to the extent of 50 *per cent* of the requirement assessed for non-PMGSY roads and 90 *per cent* for PMGSY roads. The GoR released the same to PWD. Scrutiny revealed that grant was not utilized as per the action plan approved by HLMC for ₹ 303 crore. The Department spent ₹ 19.80 crore, ₹ 180.20 crore and ₹ 103 crore on renewal of PMGSY roads, State's roads and patch repair works against provision of ₹ 153 crore, ₹ 80 crore and ₹ 70 crore respectively in the approved Action Plan.

Similarly, GoI released (January 2012) ₹ 37.50 crore to PWD for supporting the upgrading and improvement of those State Highways and Minor District Roads (MDR) which have not been taken up in other programmes under State-specific needs grants. Against these directions, the Department incurred an expenditure of ₹ 25.10 crore on road works already sanctioned under Head '5054 of States Plan' during 2011-12. Department could utilised ₹ 37.28 crore out of ₹ 37.50 crore.

The State Government should monitor the release and utilisation of grant recommended by XIII-FC more effectively to ensure that the grants are utilised in effective and timely manner for the intended purposes.

The matter was brought to the notice of Government (September 2012), reply was awaited (September 2012).

1.5.2 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendation of the Finance Commission, collection of Central tax receipts and Central assistance for Plan Schemes etc. the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax resources.

¹⁴ Machines, Equipments, Tools and Plants (METPS): ₹ 19.25 crore and construction work: ₹ 18.25 crore.

The actual receipts under State's tax and non-tax revenue *vis-à-vis* assessment made by XIII-FC and by the State Government in MTFPS are as follows:

Table 1.5: Revenue receipts relative to XIII-FC and State's projections for 2011-12

	(₹ in crore)		
	Assessments made by XIII-FC	Assessments made by State Government in MTFPS	Actual
State's Tax Revenue	22,192	21,349	25,377
State's Own Non-Tax Revenue	5,670	6,438	9,175
State's Own Resources	27,862	27,787	34,552
GSDP	2,72,768	3,33,694	3,68,320 ¹⁵

Source: Finance Accounts, Budget Documents and Report of XIII-FC.

The State's Own Resources (₹ 34,552 crore) constituted 54 *per cent* of the total receipts (₹ 64,174 crore) under Consolidated Fund of the State.

The receipts under tax revenue and non-tax revenue during 2011-12 exceeded the normative assessment made by XIII-FC at 14.4 per cent and 61.8 per cent respectively and the targets fixed by the State Government in the MTFPS at 18.9 per cent and 42.5 per cent respectively.

The actual tax revenue as a percentage of GSDP (6.9 per cent) was lower than the normative assessment made by XIII-FC (8.1 per cent) and higher than the assessment made by the State Government in the MTFPS (6.4 per cent) for the year 2011-12. This is because the GSDP was higher than that estimated. The actual non-tax revenue as a percentage of GSDP (2.5 per cent) was however higher than the normative assessment made by XIII-FC (2.1 per cent) and the assessment made by the State Government in the MTFPS (1.9 per cent) for the year 2011-12.

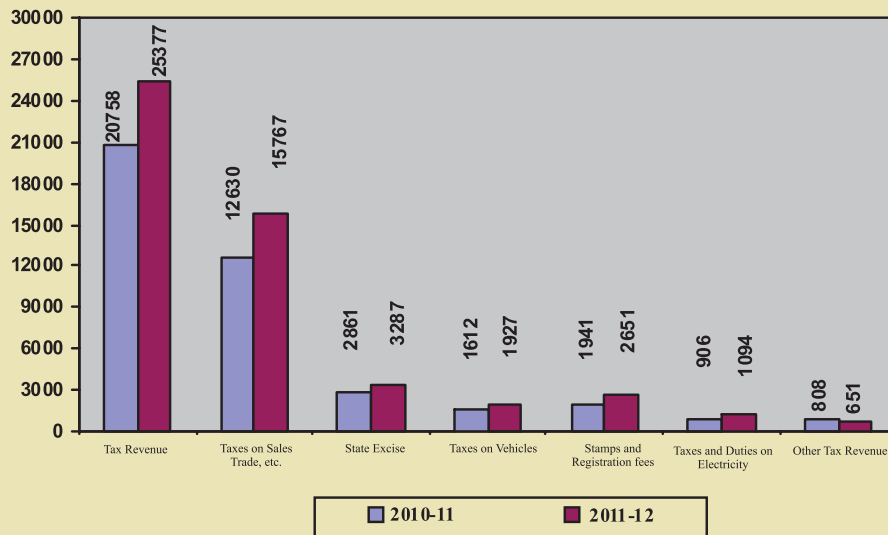
The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2007-08 to 2011-12 are presented in **Appendix 1.4**.

Tax revenue

The State's tax revenue increased by 22 *per cent* during the current year (₹ 25,377 crore) as compared to the previous year (₹ 20,758 crore). The components-wise break-up of tax revenue during the current year *vis-a-vis* previous year is given in **Chart 1.6**.

¹⁵ Advance estimates.

Chart 1.6 - Tax Revenue component during 2010-11 and 2011-12
(₹ in crore)



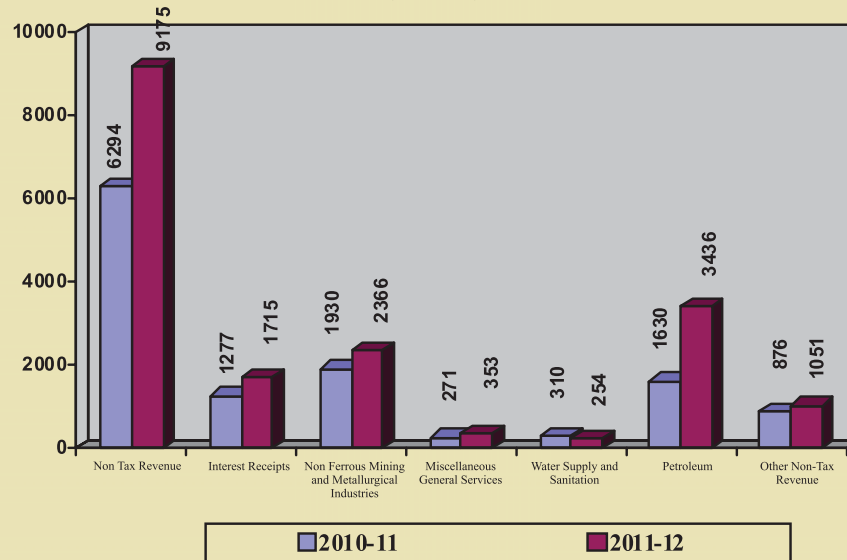
Source: Finance Accounts

The revenue through Sales Tax not only contributed a major share of tax revenue (62 *per cent*) but also increased by 25 *per cent* over the previous year. The tax revenue increased mainly in State Excise, Taxes on Vehicles, Stamps and Registration Fees, Taxes and Duties on Electricity due to more receipt from sale of Malt liquor, foreign liquor and spirits, increase in collection of receipts under the State Motor Vehicle Taxation Act, sale of Non-Judicial Stamps, receipt of taxes on consumption and sale of electricity respectively.

Non-tax revenue

The components of non-tax revenue during the current year *vis-a-vis* previous year are given in **Chart 1.7**.

Chart 1.7 - Non-tax Revenue component during 2010-11 and 2011-12
(₹ in crore)



Source: Finance Accounts

The non-tax revenue which constituted 16 *per cent* of total revenue receipts increased by 46 *per cent* (₹ 2,881 crore) over the previous year. Petroleum receipts increased by ₹ 1,806 crore due to increased production of crude oil in State leading to more receipt of royalty. Interest Receipts were mainly due to book adjustment of interest received from departmentally managed Irrigation Projects and interest received on investment of cash balances.

1.5.3 Cost recovery in supply of merit goods and services

The current levels of cost recovery (Non-Tax Receipts (NTR)) as a percentage of Non-Plan Revenue Expenditure (NPRE)) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.6**.

Table 1.6: Cost recovery in supply of merit goods and services during 2010-12

S. No.	Service	2010-11			2011-12		
		NTR	NPRE	Cost Recovery (in <i>per cent</i>)	NTR	NPRE	Cost Recovery (in <i>per cent</i>)
1	Elementary Education	10.74	4,671.27	0.23	7.80	5,053.91	0.15
2	Medical and Public Health	45.46	1,779.92	2.55	59.38	1,932.75	3.07
3	Water Supply and Sanitation	309.74	1,479.54	20.93	254.03	1,625.26	15.63
4	Major, Medium and Minor Irrigation	103.91	344.45 ¹⁶	30.17	109.87	383.33 ¹⁶	28.66
5	Road and Bridges	6.47	392.27	1.65	5.66	770.62	0.73

As can be seen from above table, while the cost recovery for Water Supply and Sanitation and Major, Medium and Minor Irrigation during 2011-12 was 15.63 and 28.66 *per cent* respectively, for Elementary Education, Medical and Public Health, and Road and Bridges, it was 0.15, 3.07 and 0.73 *per cent* respectively. While cost recovery from social services like education and health are expected to be lower than that of economic services, it is a matter of concern that compared to 2010-11, cost recovery has decreased in Elementary Education, Water Supply and Sanitation, Major, Medium and Minor Irrigation and Road and Bridges in 2011-12.

The actual recovery rate of Irrigation under Major, Medium and Minor Irrigation (Revenue receipts as a percentage of Non Plan Revenue Expenditure) was 28.66 per cent during 2011-12, that was higher than the normative assessment made by XIII-FC (27 per cent). However, the actual recovery rate decreased by 1.51 percentage point over the previous year.

1.5.4 Cost of collection

The gross collection of the major revenue receipts, expenditure incurred on collection and the percentages of such expenditure to gross collection during the years 2009-10 to 2011-12 along with the relevant all India average

¹⁶ Excluding notional adjustment of interest expenditure 2010-11: ₹ 921.95 crore and 2011-12: ₹ 961.67 crore.

percentage of expenditure on collection to gross collection for 2009-10 and 2010-11 are as follows:

Table 1.7: Cost of collection

(₹ in crore)

Heads of Revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentages for the year 2009-10 and 2010-11
Taxes on Sales, Trade etc.	2009-10	10,163	86	0.85	0.96
	2010-11	12,630	87	0.69	0.75
	2011-12	15,767	85	0.54	NA
State Excise	2009-10	2,300	86	3.74	3.64
	2010-11	2,861	88	3.08	3.05
	2011-12	3,287	83	2.53	NA
Taxes on Vehicles	2009-10	1,373	27	1.97	3.07
	2010-11	1,612	31	1.92	3.71
	2011-12	1,927	41	2.13	NA
Stamp Duty and Registration Fees	2009-10	1,363	31	2.27	2.47
	2010-11	1,941	34	1.75	1.60
	2011-12	2,651	43	1.62	NA

Source: Finance Accounts and Office of the Principal Accountant General (E&RSA).

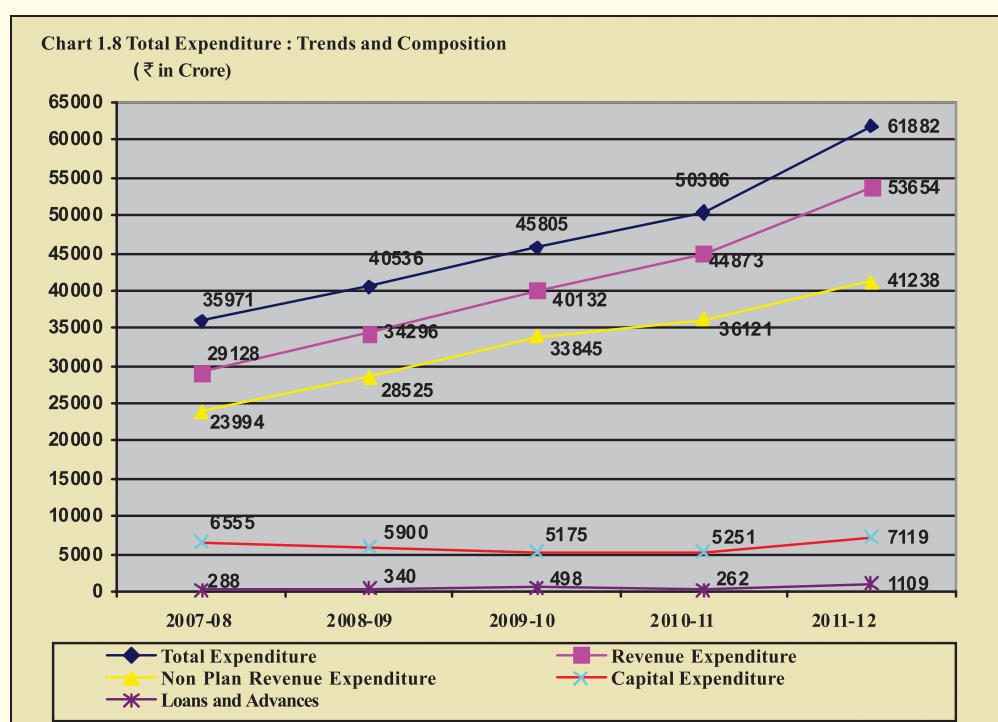
During 2011-12 the percentage of expenditure on collection decreased in Taxes on Sales, Trade etc., State Excise and Stamp Duty and Registration Fees over the previous year, while percentage of expenditure on collection increased in Taxes on Vehicles. During 2010-11 the percentage of expenditure on collection was slightly higher than in State Excise and Stamp Duty and Registration Fees compared to All India average.

1.6 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 done at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.6.1 Growth and composition of expenditure

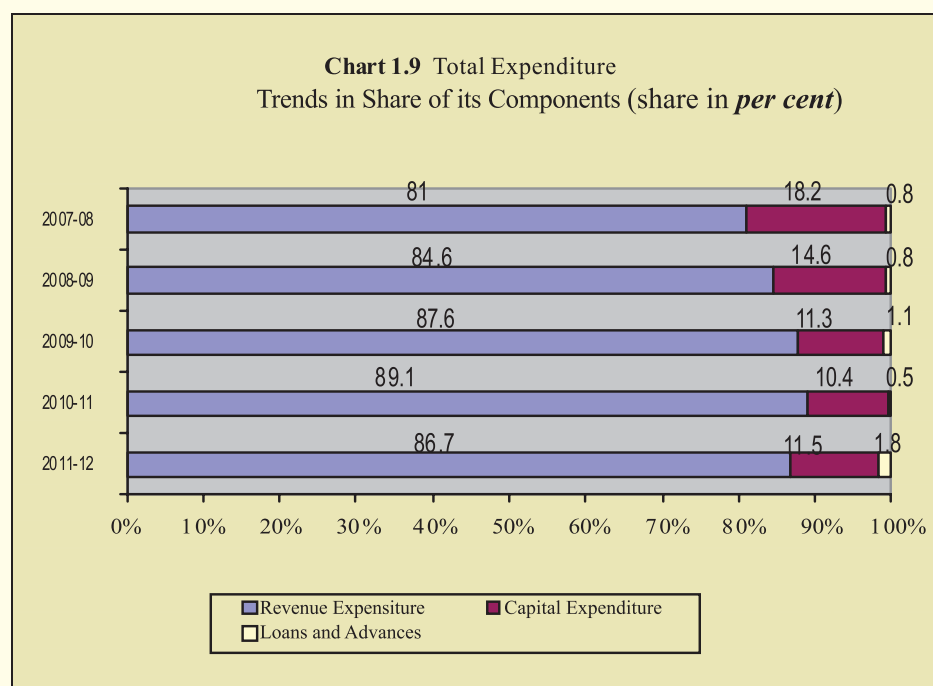
Chart 1.8 presents the trends in total expenditure over a period of five years (2007-12) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.9 and 1.10** respectively.

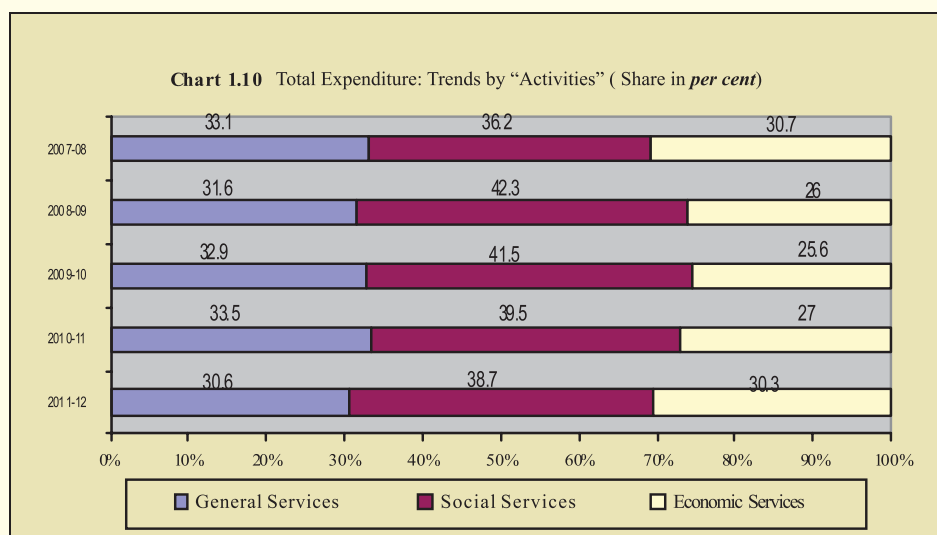


Source: Finance Accounts

Total expenditure

The total expenditure of the State has increased by 72 per cent from 2007-08 to 2011-12. It has increased by 23 per cent over the previous year. While the revenue expenditure increased by ₹ 8,781 crore (20 per cent), capital expenditure increased by ₹ 1,868 crore (36 per cent) and repayment of loans and advances increased by ₹ 847 crore (323 per cent) over the previous year.





The movement of relative share of these components of total expenditure indicated that while the share of general services and economic services together in total expenditure declined from 33.1 *per cent* and 30.7 *per cent* in 2007-08 to 30.6 *per cent* and 30.3 *per cent* respectively in 2011-12, the relative share of social services increased from 36.2 *per cent* in 2007-08 to 38.7 *per cent* in 2011-12. Expenditure considered as non-Development on general services, accounted for 30.6 *per cent* in 2011-12 as against 33.5 *per cent* in 2010-11, decrease of 2.9 percentage points over the previous year. On the other hand, Development expenditure i.e. expenditure on social and economic services together accounted for 69 *per cent* in 2011-12 as against 66.5 *per cent* in 2010-11, an increase of 2.5 percentage points over the previous year.

Revenue expenditure

The revenue expenditure constituted 87 *per cent* of the total expenditure during 2011-12, while the Non-Plan Revenue Expenditure (NPRE) constituted 77 *per cent* of revenue expenditure and 67 *per cent* of total expenditure. The revenue expenditure exceeded the assessments made by the State Government in the MTFPS (₹ 51,934 crore) for the year 2011-12 by three *per cent*.

Similarly, NPRE increased by 14.2 *per cent* during the year over previous year relative to the projections of 9.5 *per cent* made by the State Government in MTFPS for 2011-12.

The Plan Revenue Expenditure (PRE) and NPRE have shown consistent increase over the period 2007-12. The PRE increased by 41.9 *per cent* over the previous year. The PRE was more than the projected increase of 16.2 *per cent* in MTFPS for 2011-12.

Plan revenue expenditure

The increase in PRE by ₹ 3,664 crore over previous year was mainly due to increased expenditure on Other Rural Development Programmes (₹ 802 crore), *Sarva Shiksha Abhiyan* under Elementary education (₹ 473 crore), Power (₹ 403 crore), Medical and Public Health (₹ 312 crore), Nutrition

(₹ 304 crore), Family Welfare (₹ 280 crore), Compensation and Assignments to Local Bodies and Panchayati Raj Institutions (₹ 267 crore), Taxes on Sales, Trades etc. (₹ 248 crore), Social Security and Welfare (₹ 139 crore), Tribal Area Sub-plan for Welfare of Scheduled Tribes under Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 127 crore), Urban Development (₹ 124 crore), Government Secondary School (₹ 116 crore) and Civil Supplies (₹ 92 crore) which was counterbalanced by decrease in Crop Husbandry (₹ 305 crore) and National Rural Employment Guarantee Scheme under Rural Employment (₹ 85 crore).

Non-Plan revenue expenditure

The increase in NPRE by ₹ 5,117 crore during the current year was mainly due to Pensions and other Retirement Benefits (₹ 769 crore), State Disaster Response Fund (₹ 631 crore), Power (₹ 535 crore), Interest Payments (₹ 523 crore), Elementary Education (₹ 383 crore), District and Other Roads under Roads and Bridges (₹ 308 crore), Government Secondary School (₹ 266 crore), assistance to Municipal Corporations, Municipalities/Municipal Councils under Urban Development (₹ 230 crore), District Police under Police (₹ 219 crore), Assistance to Gram Panchayats under Other Rural Development Programmes (₹ 212 crore), other Social Security and Welfare Programmes under Social Security and Welfare (₹ 162 crore), Medical and Public Health (₹ 153 crore), Transfer to Reserve Funds/ Deposits Accounts of Guarantee Redemption Fund under Miscellaneous General Services (₹ 121 crore), Urban Water Supply Programmes (₹ 106 crore), Rural Water Supply Programmes (₹ 70 crore) and Assistance to Block Panchayats/Intermediate level Panchayats under Other Rural Development Programmes (₹ 66 crore).

The actual NPRE and PRE *vis-à-vis* assessments made by the XIII-FC and by the State Government in MTFPS are given below:

Table 1.8 NPRE and PRE *vis-à-vis* assessments made by XIII-FC and MTFPS

	(₹ in crore)		
	Assessments made by XIII-FC	Assessments made by State Government in MTFPS	Actuals
Non-Plan Revenue Expenditure	29,342	41,223	41,238
Plan Revenue Expenditure	Not Applicable	10,711	12,416

Source: Finance Accounts, Budget Documents and Report of XIII-FC.

The actual NPRE exceeded the normative assessment made by XIII-FC by ₹ 11,896 crore (41 *per cent*) and the assessment made by the State Government in MTFPS for the year 2011-12 by ₹ 15 crore. The actual PRE was more than the projections made in MTFPS by ₹ 1,705 crore (16 *per cent*).

Capital expenditure

The capital expenditure at ₹ 7,119 crore was lower than the assessment made by the State Government in MTFPS (₹ 8,550 crore) by 17 *per cent* for the year 2011-12. Capital expenditure increased by 36 *per cent* (₹ 1,868 crore) over the previous year. The increase was mainly under Power Project (₹ 1,163 crore),

Roads and Bridges (₹ 530 crore), Urban Development (₹ 124 crore), Medical and Public Health (₹ 61 crore), Forestry and Wild Life (₹ 49 crore) and Other Special Area Programme (₹ 48 crore) though there was decrease in Medium Irrigation (₹ 81 crore) and Other General Economic Services (₹ 54 crore).

1.6.2 Committed expenditure

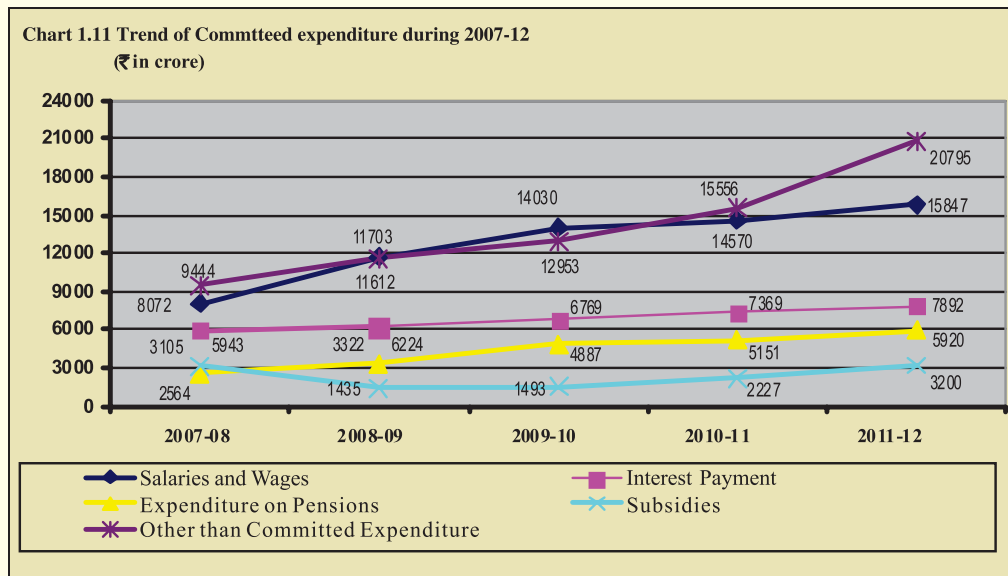
The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.9** and **Chart 1.11** present the trends in the expenditure on these components during 2007-12.

Table 1.9: Components of committed expenditure

	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Salaries & Wages, <i>Of which</i>	8,072 (26.2)	11,703 (35.0)	14,030 (39.7)	14,570 (31.7)	15,835 (30.3)	15,847 (27.8) ^{\$}
Non-Plan Head	7,579	11,053	13,348	13,730	-	14,829
Plan Head*	493	650	682	840	-	1,018
Interest Payments	5,943 (19.3)	6,224 (18.6)	6,769 (19.1)	7,369 (16.0)	8,012 (15.3)	7,892 (13.8)
Expenditure on Pensions	2,564 (8.3)	3,322 (9.9)	4,887 (13.8)	5,151 (11.2)	6,155 (11.8)	5,920 (10.4)
Total Subsidies, <i>Of which</i>	3,105 (10.1)	1,435 (4.3)	1,493 (4.2)	2,227 (4.8)	5,041 (9.6)	3,200 (5.6)
Explicit Subsidies	3,105	1,435	1,493	2,001	5,041	3,197
Implicit Subsidies	-	-	-	226	-	3
Total committed expenditure	19,684 (63.9)	22,684 (67.8)	27,179 (76.8)	29,317 (63.8)	35,043 (67.0)	32,859 (57.6)
Other Components, i.e. other than committed expenditure	9,444 (30.7)	11,612 (34.7)	12,953 (36.6)	15,556 (33.9)	16,891 (32.3)	20,795 (36.5)
Total Revenue Expenditure	29,128	34,296	40,132	44,873	51,934	53,654
Revenue Receipts	30,781	33,469	35,385	45,928	52,287	57,011

Note: Figures in the parentheses indicate percentage to Revenue Receipts
 \$ Salaries: ₹ 15,498 crore + Wages: ₹ 349 crore
 *Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Source: Finance Accounts



Source: Finance Accounts

Salaries and wages

The expenditure on salaries and wages increased by 96 *per cent* from ₹ 8,072 crore in 2007-08 to ₹ 15,847 crore in 2011-12. Expenditure on salaries and wages increased by nine *per cent* over the previous year. This was three percentage points higher than that recommended by XIII-FC¹⁷ (six *per cent*). The salaries and wages expenditure (₹ 15,847 crore) was higher than the assessment made by the State Government in MTFPS (₹ 15,835 crore) for the year 2011-12.

Pension payments

The expenditure on pension payments increased by 131 *per cent* from ₹ 2,564 crore in 2007-08 to ₹ 5,920 crore in 2011-12. The pension payments recorded a growth of 15 *per cent* over the previous year which was higher than the projected growth of 10 *per cent* recommended by XIII-FC¹⁸. The increase in expenditure under pension was due to increase in total number of pensioners by 14,712¹⁹ (4.7 *per cent*). The comparative analysis of actual pension payments and the assessment/projection made by XIII-FC and the State Government in MTFPS shows that actual pension payment (₹ 5,920 crore) exceeded the normative assessment made by XIII-FC (₹ 3,976 crore) by 49 *per cent* and was lower than the assessment made by the State Government in MTFPS (₹ 6,155 crore) for the year 2011-12 by four *per cent*.

The expenditure on pension and other retirement benefits to State Government employees during the year was 11 *per cent* of total revenue expenditure. However, the State Government has switched over to the New Pension Scheme with effect from January 2004. An amount of ₹ 602.49 crore towards employee's contribution has been deposited under the head '8011-106(03) New Contributory Pension Scheme for Government Employees' during the year. The State Government liability on this account was ₹ 1,445.99 crore at the end of March 2012. As per orders of Finance Department, GoR (August 2009) the contribution towards the pension fund deposited in the interest bearing PD Account of State Government has to be transferred to the intermediaries registered and regulated by Pension Fund Regulatory and Development Authority (PFRDA) constituted by the GoI and thereafter regular contribution will also be transferred to them. However, pension contribution was not transferred to PFRDA and was lying in the PD Account of State Government.

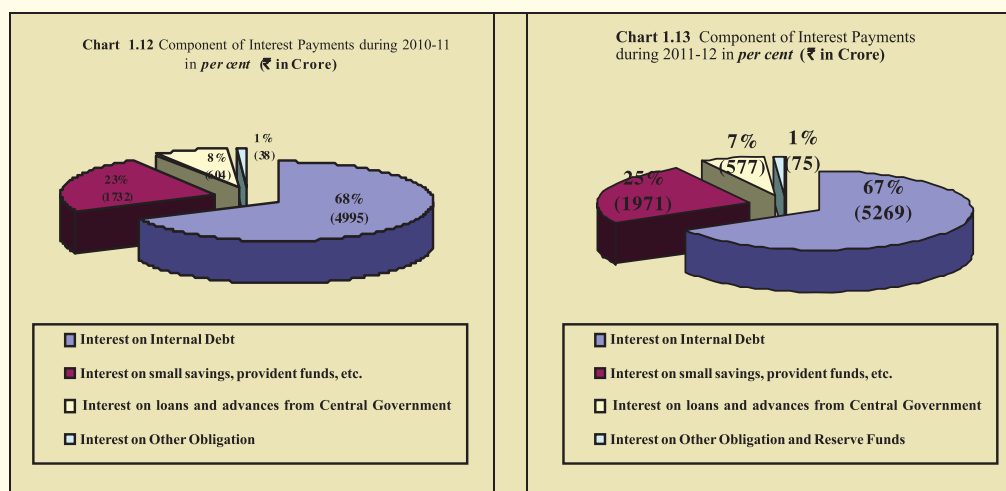
Interest Payments

The components of Interest Payments during the current year *vis-a-vis* previous year are given in **Chart 1.12 and 1.13**.

17. XIII-FC Report Para No. 7.60.

18. XIII-FC Report Para No. 7.65.

19. Number of pensioners 2010-11: 3,15,623 and 2011-12: 3,30,335.



Note: Figures in parentheses represent ₹ in crore

Source: Finance Accounts

The interest payments (₹ 7,892 crore) increased by seven *per cent* over the previous year (₹ 7,369 crore). It contributed a major share of interest on internal debt and interest on small savings, provident fund etc.

The interest on internal debt increased by five *per cent* over the previous year mainly on account of increase in payment of interest on market loans by 12 *per cent* and interest on other internal debts by 18 *per cent* over the previous year. The interest on small savings, provident fund etc. also increased by 14 *per cent* on account of increase in interest on State provident fund, interest on insurance and pension fund and interest on defined contribution pension scheme by 12 *per cent*, 13 *per cent* and 51 *per cent* respectively relative to previous year.

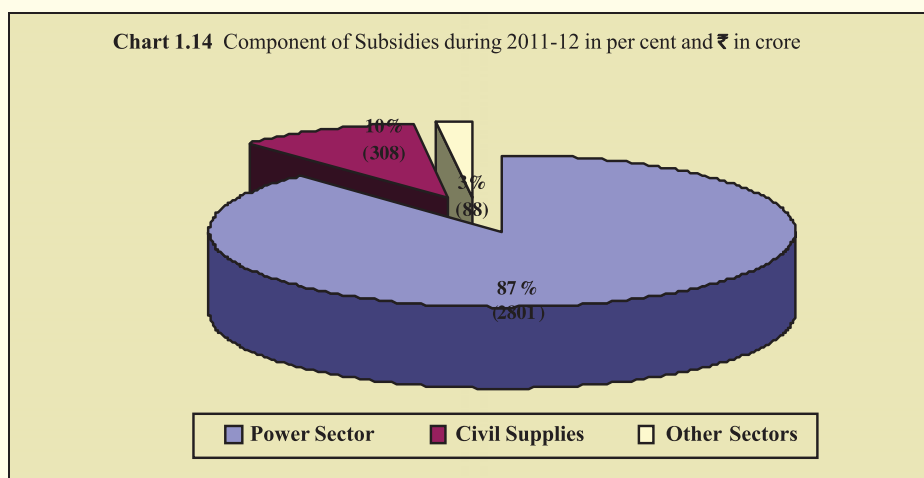
The interest payments made during the year 2011-12 remained lower than the projections made by State Government in MTFPS (₹ 8,012 crore) and projections made in XIII-FC (₹ 7,982 crore).

Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies may be dispensed either explicitly or implicitly by providing subsidised public services to the people.

• Explicit Subsidies

The components of explicit Subsidies during the current year are shown in **Chart 1.14**.

Chart 1.14 Component of Subsidies during 2011-12 in per cent and ₹ in crore


Note: Figures in brackets represent ₹ in crore.

Source: Finance Accounts

The percentage of explicit subsidies to revenue receipts decreased by 4.5 percentage point during 2011-12 in comparison to 2007-08. During the year, subsidy was paid to power sector mainly for cash assistance under financial re-modification programme (₹ 800 crore), non-increase of rates (₹ 1,000 crore) and Grant for electricity duty (₹ 945 crore) and subsidy to Civil Supplies Scheme (₹ 308 crore) for food distribution and Domestic Gas.

The ratio of committed expenditure (salaries and wages, interest payments, pensions and subsidies) to revenue receipts of the State during the current year was 57.6 *per cent* showing a decrease of 6.2 percentage points over the previous year. During 2011-12, the committed expenditure decreased by 6.3 percentage point in comparison to 2007-08.

1.6.3 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during 2011-12 relative to the previous years is as follows:

Table 1.10: Financial Assistance to Local Bodies etc.

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	(₹ in crore)	
					2011-12 BE	2011-12 Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	202.27	234.99	448.63	1,506.21	2,013.12	2,013.12
Municipal Corporations and Municipalities	793.82	932.41	1,047.23	1,130.04	1,354.64	1,339.94
Panchayati Raj Institutions	2,651.43	2,993.02	3,868.59	4,365.15	6,227.46	6,217.95
Development Agencies	49.72	52.96	376.36	354.18	95.10	75.07
Hospitals and Other Charitable Institutions	135.63	96.23	107.51	117.03	72.50	72.50
Other Institutions	1,402.86	2,178.99	2,195.49	2,743.03	2,607.04	2,618.23
Total	5,235.73	6,488.60	8,043.81	10,215.64	12,369.86	12,336.81
Revenue Expenditure (RE)	29,128	34,296	40,132	44,873	51,934	53,654
Assistance as per percentage of RE	18	19	20	23	24	23

Source: Finance Accounts and vouchers compiled by PAG (A & E).

Financial assistance to local bodies and other Institutions increased by ₹ 2,121 crore recording a growth rate of 21 *per cent* over the previous year and constituted 18 to 23 *per cent* of revenue expenditure during the years 2007-08 to 2011-12. During 2011-12, the financial assistance was given by the Government mainly to Panchayat Samities for Primary Schools: ₹ 2,120 crore (17 *per cent*), *Sarva Shiksha Abhiyan*: ₹ 1,660 crore (13 *per cent*), Crop Husbandry: ₹ 945 crore (eight *per cent*), Mid-Day Meal: ₹ 621 crore (five *per cent*), Untied Development Funds for Panchayati Raj Institutions: ₹ 610 crore (five *per cent*) and Special Grants to Municipalities/Municipal Council: ₹ 506 crore (four *per cent*).

The funds are generally not being spent fully by the implementing agencies in the same financial year. The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside Government accounts (in bank accounts) is not readily ascertainable. The Government expenditure as reflected in the Accounts to that extent is, therefore, not final.

1.6.4 Major issues relating to Local Bodies

The position of major issues related to Local Bodies i.e. Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) are summarised in following paras:

1.6.4.1 Panchayati Raj Institutions (PRIs)

(i) Introduction

There are 33 *Zila Parishads* (Rural Development Cell), 33 *Zila Parishads* (*Panchayat Cell*), 249 *Panchayats Samities* (PS) and 9,177 *Gram Panchayats* (GP) in the State as on 31 March 2012. At State level the PRIs are headed by Pr. Secretary, Rural Development and Panchayati Raj Department (RDPRD).

(ii) Audit

The Director, Local Fund Audit Department (DLFAD) is the Primary Auditor and the C&AG of India conducts audit under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act 1971. Section 75(4) of Rajasthan Panchayati Raj Act, (RPRA), 1994 provides for test audit by the CAG of India. Further, the State Government has entrusted (February 2011) Technical Guidance and Supervision (TGS) over audit of PRIs by the DLFAD.

(iii) Accounting

Till 31 March 2012, the Accounts of Local Bodies were maintained in conventional formats prescribed under Rajasthan Panchayati Raj Rules, 1996 framed under RPRA, 1994. This was despite (i) acceptance of CAG's formats by RDPRD in 2003 and their further simplification in 2009 which too have been accepted by State Government and (ii) giving of CAG's eight data base formats on finance of PRIs to the State Government. Despite provision in the Rajasthan Local Fund Audit Rules, 1955, the Accounts are not being certified by the DLFAD.

(iv) Devolution

Article 243G of Constitution of India, inserted through the Constitutional Amendment Act, (CAA) 1992 envisaged devolution of funds, functions and functionaries to PRIs in respect of 29 subjects mentioned in XI Schedule of the Constitution. Major orders on devolution were issued by State Government in June 2003 and October 2010. As per information provided (May 2012) by the PRD devolution of funds, functions and functionaries was done in respect of 20, 28 and 20 subjects respectively (as on May 2012). However, five functions (Drinking Water, Fuel and Fodder, Roads and Bridges, Public Distribution System and maintenance of Community Assets) were transferred back to their respective Departments.

(v) Reporting

As per Section 75(4) of RDPR, 1994, as amended through RPR (Amendment) Act, 2011, the CAG of India may conduct test audit of accounts and the Audit Report shall be laid before the State Legislature.

1.6.4.2 Urban Local Bodies (ULBs)

(i) Introduction

There are five Municipal Corporations, 13 Municipal Councils and 166 Municipal Boards in the State headed by Principal Secretary, Local Self Government Department (LSGD) at State Level.

(ii) Audit

The Director, Local Fund Audit Department (DLFAD) is the Primary Auditor and the CAG of India conducts audit under Section 14 of the DPC Act 1971. Section 99 (A) of the Rajasthan Municipal Act (RMA), 2009, as amended in 2011 provides for audit of account of municipalities by the CAG of India. Further, the State Government has entrusted (February 2011) TGS over audit of ULBs by the DLFAD.

(iii) Accounting

Section 90 of the RMA, 2009 contain provisions regarding maintenance of accounts in municipalities. The Department prepared the State Municipal Accounting Manual on the lines of National Municipal Accounting Manual in 2005. The ULBs are still in the process of completely switching over double entry accounting system despite the orders issued by the LSGD in December 2009. The work was initially outsourced to Oswal TSF under ADB assistance for accrual based accounting system in six ULBs and to Rajasthan Urban Infrastructure Finance Department Corporation (RUIFDC) for 178 ULBs. Besides, complete adoption of the eight data base formats is also yet to be done though the same have been circulated to all the ULBs in the State. Despite provisions in the Rajasthan Local Fund Audit Rules, 1955 the accounts are not being certified by the DLFAD.

(iv) Devolution

Article 243G inserted through 74 CAA, 1992 envisages devolution of funds, functions and functionaries to ULBs in respect of 18 subjects mentioned in XII schedule of the Constitution.

Prior enactment of Rajasthan Municipal Act (RMA) 2009, the State Government amended (1994) the RMA, 1959 inserting Section 101 (WW)(i) and (ii) which provided for preparation of plan for Economic Development and Social Justice by ULBs and also performance of functions and implementation of schemes that may be entrusted by the State Government to ULBs including those in relation to matters listed in the Twelfth Schedule of the Constitution of India. While no specific orders were issued by the State Government regarding devolution the Section 45 of RMA, 2009 listed core municipal functions and provision in Section 47 of RMA, 2009 envisaged that the State Government may by general or special order, require a Municipality to perform such other municipal functions as the State Government may having regard to necessity and the resources of the Municipality, think fit to be performed by the Municipality.

(v) Reporting

As per Section 99A of Rajasthan Municipal Act, 2009 the State Government shall cause the Audit Report under the Rajasthan Local Fund Audit Act, 1954 alongwith Technical Inspection Report of the CAG of India on Technical Guidance and Supervision as referred in sub section (2) to be laid before the State Legislature.

Audit Report (Civil-Local Bodies) for the year 2008-10 has been tabled in October 2012.

1.7 Quality of expenditure

Availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. 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).

1.7.1 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 and 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

development expenditure, social expenditure and capital expenditure during 2011-12.

Table 1.11: Fiscal Priority of the State in 2008-09 and 2011-12

Fiscal Priority by the State	AE/GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/AE	Health/AE
*General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Rajasthan's Average (Ratio) 2008-09	17.55	68.35	42.32	14.55	19.02	5.06
General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Rajasthan's Average (Ratio) 2011-12	16.80	69.00	38.75	11.50	18.90	5.45
<p>* General Category States exclude three States i.e. Delhi, Goa and Puducherry. 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.</p>						

Source: For GSDP, the information was collected from the Directorate of Economics and Statistics, Government of Rajasthan and Finance Accounts

Table 1.11 indicates the following:

1. Rajasthan is spending marginally more of its GSDP as Aggregate Expenditure compared to General Category States. However, compared to 2008-09, Rajasthan is spending a smaller proportion of its GSDP on Aggregate Expenditure.
2. Development expenditure as a proportion of Aggregate Expenditure in Rajasthan has also been higher than the General Category States' average. Development expenditure consists of both economic service expenditure and social sector expenditure. Social sector expenditure (as a proportion of Aggregate Expenditure) in Rajasthan has been much higher than that of the average of General Category States. Significant improvement in priority to health and education sectors has been observed in the current year.
3. Capital expenditure however, seems to have been given less priority in the current year not only when compared to other General Category States but also when compared to the priority given in 2008-09.

1.7.2 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 rationalisation measures and lay emphasis on provision of core public and merit goods²⁰. Apart from

20 *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that goods, 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.

improving the allocation towards development expenditure²¹, 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. Development expenditure comprised revenue and capital expenditure including loans and advances on socio-economic services **Table 1.12** and **Chart 1.15** present the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted for the year as well as actuals in the previous years.

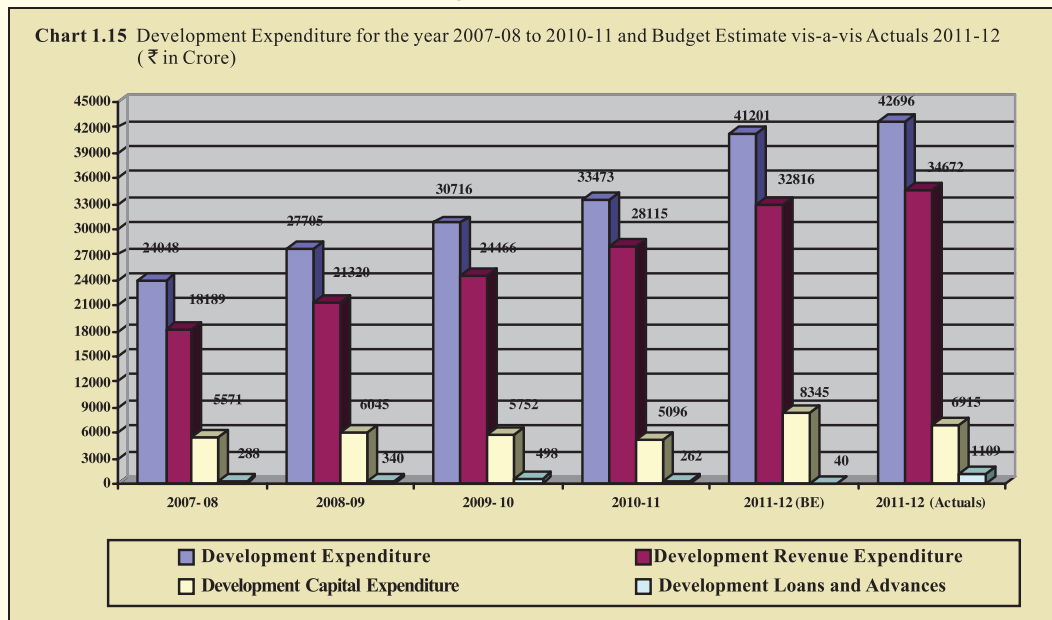
Table 1.12: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Development Expenditure (a to c)	24,048 (66.9)	27,705 (68.3)	30,716 (67.1)	33,473 (66.4)	41,201 (68.1)	42,696 (69.0)
a. Development Revenue Expenditure	18,189 (50.6)	21,320 (52.6)	24,466 (53.4)	28,115 (55.8)	32,816 (54.2)	34,672 (56.0)
b. Development Capital Expenditure	5,571 (15.5)	6,045 (14.9)	5,752 (12.6)	5,096 (10.1)	8,345 (13.8)	6,915 (11.2)
c. Development Loans and Advances	288 (0.8)	340 (0.8)	498 (1.1)	262 (0.5)	40 (0.1)	1,109 (1.8)

Figures in parentheses indicate percentage to aggregate expenditure

Source: Finance Accounts and Budget Documents.



Source: Finance Accounts and Budget Documents.

21 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.

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	2010-11			2011-12		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O & M *		S & W	O & M *
Social Services (SS)						
General Education	0.05	61.46	Negligible	0.04	59.18	Negligible
Health and Family Welfare	1.41	80.84	0.10	2.85	68.96	0.12
Water Supply, Sanitation, Housing and Urban Development	36.13	33.31	1.92	33.38	29.12	1.48
Total (SS)	9.31	53.12	0.30	8.35	47.34	0.24
Economic Services (ES)						
Agriculture and Allied Activities	6.50	32.95	0.68	7.43	37.57	0.46
Irrigation and Flood Control	35.47	19.65	6.24	31.98	19.12	6.31
Power & Energy	38.51	-	-	44.99	0.03	-
Transport	39.14	11.05	15.33	45.97	8.01	10.81
Total (ES)	24.18	14.15	2.30	27.85	12.16	1.91
Total (SS+ES)	15.34	38.95	1.03	16.63	34.41	0.85
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.						
* As per Finance Accounts it represents actual expenditure booked under Detailed Head-21-Maintenance and Repairs.						

Source: Finance Accounts.

Share of Capital expenditure should ideally show an increase in total expenditure since this indicates assets creation. The ratio of capital expenditure to the total expenditure for social and economic services increased from 15.34 in 2010-11 to 16.63 in 2011-12, indicating more improvement in the efficiency of expenditure. Due to higher priority given to capital expenditure, there was increase in the share of capital expenditure as a ratio of total expenditure under Health and Family Welfare in the social service sector and under Agriculture and Allied Activities, Power and Transport in the economic service sector. However, less improvement was visible in the Water Supply, Sanitation, Housing and Urban Development in the social service sector and Irrigation Flood Control in the economic service sector.

Ideally, the share of salary and wages should be controlled, which the State has managed to do. The share of salary and wage in revenue expenditure of social and economic services decreased by 4.54 percentage point from 38.95 *per cent* in 2010-11 to 34.41 *per cent* in 2011-12. The ratio of salary and wage to revenue expenditure under social services decreased by 5.78 percentage point from 53.12 *per cent* in 2010-11 to 47.34 *per cent* in 2011-12 mainly on account of decrease in the share of salaries and wage under General Education, Health and Family Welfare and Water Supply, Sanitation, Housing and Urban Development by 2.28, 11.88 and 4.19 percentage point respectively over the previous year.

The ratio of salary and wage to revenue expenditure under economic services decreased by 1.99 percentage point from 14.15 *per cent* in 2010-11 to 12.16 *per cent* in 2011-12 mainly on account of decrease in the share of salaries and

wage under Transport by 3.04 percentage point over the previous year, however, it increased in Agriculture and Allied Activities by 4.62 percentage point.

It is important to ensure that adequate funds are allocated to operations and maintenance since assets have to be maintained. The share of operations and maintenance in revenue expenditure on social services and economic services decreased by 0.18 percentage point over the previous year (1.03 *per cent*). During 2011-12, only 0.85 *per cent* of total revenue expenditure was allotted to operations and maintenance which was very low to preserve the assets created.

The share of operations and maintenance decreased in revenue expenditure on social services and economic services from 0.30 *per cent* and 2.30 *per cent* in 2010-11 to 0.24 *per cent* and 1.91 *per cent* respectively in 2011-12. The decrease was mainly under Water Supply, Sanitation, Housing and Urban Development, Transport and Agriculture and Allied Activities while the increase was under Irrigation and Flood Control. During 2011-12, as per Finance Accounts the State Government booked only ₹ 359 crore under Detailed Head-21-Maintenance and Repairs to maintain its public assets. The total corpus of assets, being maintained with ₹ 359 crore, was rather large and the limited allocation of funds may not suffice to keep assets in a good state of repair.

1.8 Analysis of Government Expenditure and Investment

In the post-FRBM framework, the State is expected to keep its fiscal deficit at low levels and also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return 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 an analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.8.1 Financial results of completed Irrigation Projects

The financial results of six major and 11 medium irrigation projects (*Appendix 1.9*) completed with a capital outlay of ₹ 5,074 crore at the end of March 2012 revealed that revenue realised (₹ 61 crore) from these projects during 2011-12 was only 1.2 *per cent* of the capital expenditure which was not sufficient to cover the direct working expenses. After meeting the working and maintenance expenditure (₹ 152 crore) and interest charges (₹ 488 crore), the projects suffered a net loss of ₹ 579 crore.

Indira Gandhi Nahar Project (IGNP) is the largest irrigation project under execution in Rajasthan and various stages of it have been completed over the years. At the end of March 2012, the capital expenditure on IGNP was ₹ 3,988 crore. During 2011-12 the revenue realised from IGNP was ₹ 22 crore comprising just only 0.55 *per cent* of the capital expenditure. This revenue

was negligible (4.80 *per cent*) even with reference to total working and maintenance expenditure (₹ 68 crore) incurred and the interest charges of ₹ 390 crore, the project suffered a net loss of ₹ 436 crore.

Gang Canal is the second largest irrigation project in the State. At the end of March 2012, the capital expenditure on Gang Canal was ₹ 448 crore. During 2011-12 the revenue realised from Gang Canal was ₹ 2 crore, which was not sufficient to cover the working and maintenance expenditure (₹ 15 crore) and interest charges (₹ 43 crore), the project suffered a net loss of ₹ 56 crore.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2012 is as follows:

Table 1.14: Department-wise profile of incomplete projects

(₹ in crore)

Department	Total no. of incomplete projects	Original sanctioned cost of all incomplete projects	Original estimated cost of 40 projects which were revised		Revised cost of 40 incomplete projects	Cost Overrun of 40 projects which were revised	Cumulative actual exp. of all incomplete projects as on 31.3.2012
			No.	Amount			
Water Resources Department /Projects	31	1,201.90	20	895.36	3,381.25	2,485.89	2,507.19
Public Works Department/ Project	57	1,469.74	8	110.72	117.87	7.15	401.11
Public Health Engineering Department	72	10,084.75	12	1,560.58	2,872.25	1,311.67	5,084.43
Total	160	12,756.39	40	2,566.66	6,371.37	3,804.71	7,992.73

Source: Finance Accounts 2011-12.

According to information received from the State Government, as of 31 March 2012, there were 160 incomplete projects (cost more than ₹ 10 crore in each project) in which ₹ 7,993 crore were blocked. Of these, 115 projects involving ₹ 2,966 crore remained incomplete for less than five years, 45 projects involving ₹ 5,027 crore remained incomplete for periods ranging from five to 18 years. The revised cost of 40 incomplete projects increased by 148 *per cent* from ₹ 2,566 crore (initial budgeted cost) to ₹ 6,371 crore (total revised cost). Out of the total cost overrun of ₹ 3,805 crore, ₹ 2,486 crore pertained to Irrigation Works/Projects, of which *Narmada Jalore* Project alone increased by 431 *per cent* (₹ 2,013.96 crore) from ₹ 467.53 crore to ₹ 2,481.49 crore.

The amount blocked in these projects/works was 12 *per cent* of the cumulative capital outlay of the State. *Due to non-completion of projects within the stipulated time frame, not only were the benefits to be accrued to the society delayed but the cost to the exchequer also increased due to time overrun involved in their completion.*

1.8.3 Investment and returns

As of 31 March 2012, Government had invested ₹ 13,920.78 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.15**). The average return on this investment was 0.2 to 0.4 *per cent* during the last three years while the Government paid an average interest rate of

7.7 per cent on its borrowings during 2009-2012. *Continued use of borrowed funds for investments which do not yield sufficient financial return will lead to unsustainable financial position. The Government may ensure commensurate results by better monitoring.*

Table 1.15: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	6,575.97	7,929.63	9,533.57	11,112.16	13,920.78
Return (₹ in crore)	12.67	43.39	37.26	20.76	57.58
Return (per cent)	0.2	0.5	0.4	0.2	0.4
Average rate ²² of interest on Govt. borrowing (per cent)	8.0	7.7	7.7	7.7	7.7
Difference between interest rate and return (per cent)	7.8	7.2	7.3	7.5	7.3

Source: Finance Accounts

During 2011-12, the State Government has net invested ₹ 2,808.62 crore in Government Companies, Rural Banks and Co-operative Banks and Societies. The sectors/companies where major investments were made during 2011-12 were (i) Co-operative Banks and Societies (₹ 9 crore), (ii) Jaipur Vidyut Vitran Nigam Limited (₹ 563 crore), (iii) Rajasthan Rajya Vidyut Utpadan Nigam Limited (₹ 521 crore), (iv) Ajmer Vidyut Vitran Nigam Limited (₹ 508 crore), (v) Jodhpur Vidyut Vitran Nigam Limited (₹ 467 crore), (vi) Rajasthan Rajya Vidyut Prasaran Nigam Limited (₹ 400 crore) and (vii) Jaipur Metro Rail Corporation, Jaipur (₹ 307 crore).

The investment of State Government included ₹ 13,122.99 crore in 39 Government Companies, of which only six companies declared dividend aggregating to ₹ 55.20 crore against an investment of ₹ 292.83 crore. Government had invested ₹ 12,118.09 crore (87 per cent of total investment) in five power companies as on 31 March 2012. Of these three companies showed nil Profit/Loss in their accounts upto 2009-10, whereas Rajasthan Rajya Vidyut Utpadan Nigam Limited showed accumulated loss in their accounts upto 2009-10 and Rajasthan Rajya Vidyut Prasaran Nigam Limited showed net profit of ₹ 42 crore during 2010-11 but no dividend was paid to the Government.

The State Government had invested ₹ 7,806 crore in two statutory corporations, one rural bank, 15 Government companies and six joint stock companies and their accumulated losses amounted to ₹ 4,641 crore as per the accounts furnished by these companies up to 2011-12. Rajasthan State Road Transport Corporation, Jaipur (₹ 871.55 crore), Rajasthan Pariyojana Nirman Nigam Limited, New Delhi (₹ 684.90 crore), National Textiles Corporation, New Delhi (₹ 572.40 crore), Rajasthan Rajya Vidyut Utpadan Nigam Limited (₹ 507.72 crore) and Rajasthan Rajya Vidyut Prasaran Nigam Limited (₹ 1,634.57 crore) were major loss making organizations.

In view of the huge losses of some of the State-owned public sector undertakings, Government should review their working so as to reduce their losses, to make them economically viable or ensure their closure.

22 see glossary at page 164 for method of calculation

1.8.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government upto the year for which *pro forma* accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in *Appendices-1.10 and 3.4*. It is observed that:

- An amount of ₹ 10,155.62 crore had been invested by the State Government in 10 undertakings at the end of financial year upto which their accounts were finalised. The accumulated losses of these departmental undertakings were ₹ 7,961.65 crore as against the total investment of ₹ 10,155.62 crore.
- Of the total 10 undertakings, only two undertakings could earn net profit during current year amounting to ₹ 25.06 crore.
- Of all the loss making undertakings, eight undertakings were incurring losses continuously for more than five years.

Detailed analysis of *pro forma* accounts of Rajasthan Water Supply and Sewerage Management Board (RWSSMB) for the year 2010-11 revealed the following:

- Despite repeatedly being pointed out in the Reports of the Comptroller and Auditor General of India (Civil) from the year ended 31 March 2007, RWSSMB, Jaipur did not maintain essential Ledgers/ Reports²³.
- The revenue of RWSSMB from sale of water (₹ 192.28 crore) was insufficient even to recover the cost of electricity charges (₹ 329.12 crore) for the year 2010-11. The accumulated loss in the undertaking has mounted to ₹ 7,952.71 crore mainly due to very low uneconomical tariff for water charges fixed by the State Government without considering the actual cost of distribution.

1.8.5 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.16** presents the outstanding loans and advances as on 31 March 2012, interest receipts vis-à-vis interest payments during the last three years.

Table 1.16: Average interest received on loans advanced by Government

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	(₹ in crore)	
			BE	Actual
Opening Balance	2,989	3,375	3,229	3,318
Amount advanced during the year	498	262	40	1,109
Amount repaid during the year	112	319	168	1,229
Closing Balance	3,375	3,318	3,101	3,198

23. Works Abstract, Journal Adjustment Book, Fixed Assets Registers and Works Registers.

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12	
			BE	Actual
<i>Of which</i> , outstanding balance for which terms and conditions have been settled	N.A.	N.A.	N.A.	N.A.
Net addition	386	(-) 57	(-) 128	(-) 120
Interest Receipts	151	144		130
Interest receipts as <i>per cent</i> to outstanding Loans and advances	4.7	4.3		4.0
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.7	7.7		7.7
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 3.0	(-) 3.4		(-) 3.7

Source: Finance Accounts

Out of the total loans and advances of ₹ 3,198 crore as on 31 March 2012, the loans and advances of ₹ 2,218 crore (69 *per cent*) were given to Power Projects. The amount of loans and advances disbursed during the year increased by ₹ 847 crore from ₹ 262 crore in 2010-11 to ₹ 1,109 crore in 2011-12. Out of the total amount of loans advanced during the year ₹ 53 crore were transferred to social services and ₹ 1,056 crore to economic services. During the current year major portion of loan was advanced to Jaipur *Vidyut Vitran Nigam Limited* (₹ 391 crore), Jodhpur *Vidyut Vitran Nigam Limited* (₹ 308 crore), Ajmer *Vidyut Vitran Nigam Limited* (₹ 296 crore), Jai Narayan Vyas University (₹ 30 crore), Agriculture University (₹ 19 crore), Integrated Development of Small and Medium Towns under Urban Development (₹ 17 crore) and Macro Co-operative Development Project (₹ 13 crore).

During 2011-12, the recovery of loans and advances increased by ₹ 910 crore. During 2011-12, 37 *per cent* (₹ 1,229 crore) loan was repaid by institutions/ organisations (Rajasthan *Rajya Vidyut Prasaran Nigam Limited*: ₹ 375 crore, Jaipur *Vidyut Vitran Nigam Limited*: ₹ 278 crore, Jodhpur *Vidyut Vitran Nigam Limited*: ₹ 216 crore, Ajmer *Vidyut Vitran Nigam Limited*: ₹ 271 crore, Rajasthan State Co-operative Bank Limited under Co-operation: ₹ 29 crore, Rajasthan Agriculture Marketing Board under Crop Husbandry: ₹ 24 crore and Rajasthan Handloom Development Corporation: ₹ 11 crore). More than ₹ 87 crore of loans were not repaid by the institutions (*Appendix 1.11*) since last nine or more years.

Similarly, interest received against these loans decreased from 4.3 *per cent* in 2010-11 to four *per cent* in 2011-12. The interest received against these loans decreased by ₹ 14 crore over the previous year. The decrease was mainly due to less interest receipts from Loans for godown construction in rural areas under Food Storage and Warehousing (₹ 7.47 crore), Power Projects (₹ 5.11 crore), Rajasthan Agriculture Marketing Board under Crop Husbandry (₹ 1.89 crore) and Guaranteed Loans from Life Insurance Corporation (₹ 0.63 crore) over the previous year which was counterbalanced by increase in interest receipts on Loans to Government Servants etc. (₹ 2.16 crore).

1.8.6 Cash balances and Investment of Cash balances

Table 1.17 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.17: Cash balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1 April 2011	As on 31 March 2012	Increase/ Decrease (-)
Cash in Treasuries	0.05	0.05	-
Deposits with Reserve Bank	(-) 23.43	38.90	62.33
Remittances in Transit-Local	(-) 2.93	(-) 3.47	(-) 0.54
Cash with the departmental Officers, Viz., Divisional Officers of the Public Works and Forest Departments	1.38	1.26	(-) 0.12
Permanent advance for contingent expenditure with departmental officers	5.43	5.11	(-) 0.32
Investments from Cash balances (a to d)	5,708.67	9,307.78	3,599.11
a. GoI Treasury Bills/Securities	5,708.51	9,307.62	3,599.11
b. Securities of the State Government	0.03	0.03	-
c. Sterling Securities	0.05	0.05	-
d. Short-term deposit with banks and other accounts	0.08	0.08	-
Funds-wise Break-up of Investment from Earmarked balances (a to c)	398.59	435.48	36.89
a. Guarantee Redemption Fund Investment account	148.87	187.29	38.42
b. Government of India Securities	172.08	170.55	(-) 1.53
c. Pay back of Rajasthan State Development Loans	77.64	77.64	-
Total Cash Balance	6,087.76	9,785.11	3,697.35
Interest realised	180.44	589.51	409.07

Source: Finance Accounts.

The State Government's cash balances at the end of the current year amounted to ₹ 9,785 crore. It increased by ₹ 3,697 crore (61 *per cent*) over the previous year. It was observed that ₹ 9,308 crore were invested in Government of India Treasury Bills/Securities, which earned an interest of ₹ 589 crore during the year. Further, ₹ 435 crore was invested in earmarked funds. Deposits with Reserve Bank of India were ₹ 39 crore as on 31 March 2012. State Government maintained a minimum cash balance of ₹ 2.34 crore as per agreement with the Reserve Bank of India during the year.

Surplus cash balance was mainly due to market borrowings of ₹ 4,500 crore raised during 2011-12 in September (₹ 500 crore at 8.65 *per cent*), October (₹ 500 crore at 8.85 *per cent* and ₹ 500 crore at 9.06 *per cent*), November (₹ 500 crore at 9.20 *per cent* and ₹ 383 crore at 9.23 *per cent*), December (₹ 500 crore at 9.02 *per cent* and ₹ 500 crore at 8.88 *per cent*), January (₹ 617 crore at 8.74 *per cent*) and March (₹ 500 crore at 9.24 *per cent*).

Government of India Treasury Bills amounting to ₹ 75,291 crore were purchased and ₹ 71,692 crore rediscounted during 2011-12. Resultantly, investment from cash balance increased by ₹ 3,599 crore (63 *per cent*) over the previous year. *In view of the comfortable position of cash balances, the open market borrowings could have been limited to meet the short term liabilities of the Government.*

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

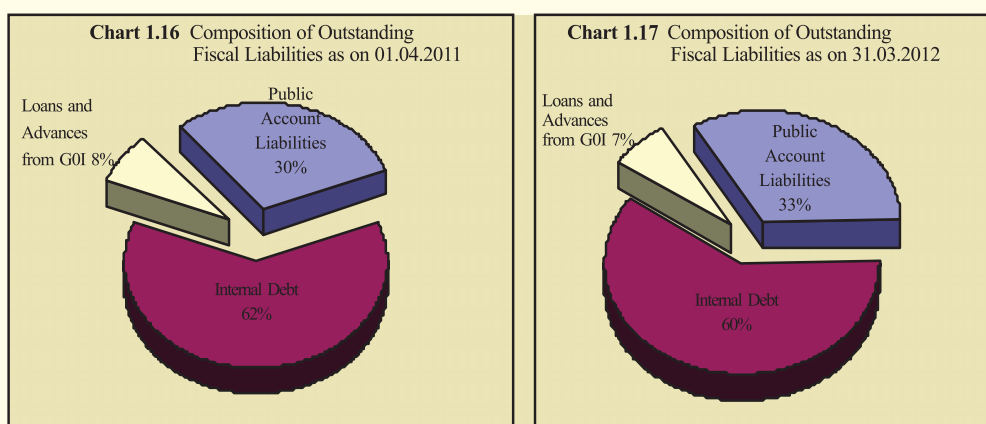
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done.

However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.6** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. 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.

According to Rajasthan Fiscal Responsibility and Budget Management (FRBM) Act, 2005, the total liability means the explicit liabilities under Consolidated Fund of the State and the Public Account of the State including General Provident Fund.

1.9.2 Fiscal Liabilities

The outstanding fiscal liabilities²⁴ of the State at the end of 2011-12 was ₹ 1,06,560 crore, which showed an annual growth of 10 *per cent* during 2007-12. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.16** and **1.17**.



Source: Finance Accounts

During 2011-12, the fiscal liabilities increased by seven *per cent* (₹ 7,275 crore) over the previous year. The Consolidated Fund Liability (₹ 71,706 crore) comprised market loan (₹ 38,552 crore), loans from Government of India (₹ 7,249 crore) and other loans (₹ 25,905 crore). The Public Account liabilities (₹ 34,854 crore) comprise Small Saving, Provident Fund (₹ 24,580 crore), interest bearing obligations (₹ 3,601 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 6,673 crore). ***During 2011-12, the fiscal liabilities (total outstanding debt) to GSDP ratio at 28.9 per cent was lower than the norm of 39.3 per cent²⁵ (for Rajasthan) recommended by the XIII-FC and also than the assessment made by the State Government in its MTFPS (32.1 per cent) for 2011-12. These liabilities stood at 1.9 times the revenue receipts and 3.1 times the States own resources at the end of 2011-12.***

24 2006-07: ₹ 71,146 crore, 2007-08: ₹ 77,138 crore, 2008-09: ₹ 84,023 crore, 2009-10: ₹ 91,533 crore, 2010-11: ₹ 99,285 crore and 2011-12: ₹ 1,06,560 crore.

25 XIII-FC Report Annexure 9.1.

During 2011-12, annual incremental borrowings²⁶ (₹7,275 crore) was lower than the ceilings fixed by the GoI (₹9,489 crore) as per recommendations of XIII-FC.

1.9.3 Status of Guarantees – Contingent liabilities

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

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is as follows:

Table 1.18: Guarantees given by the Government of Rajasthan

Guarantees	(₹ in crore)		
	2009-10	2010-11	2011-12
Maximum amount guaranteed	63,621	88,112	97,566
Outstanding amount of guarantees	39,069	50,692	60,711
Percentage of maximum amount guaranteed to total revenue receipts	179.8	191.8	171.1

Source: Finance Accounts

The outstanding guarantees increased by 20 *per cent* from ₹ 50,692 crore in 2010-11 to ₹ 60,711 crore in 2011-12. The outstanding guarantees of ₹ 60,711 crore mainly pertained to five Power Companies (₹ 57,081 crore: 94 *per cent*), eight Co-operatives (₹ 1,607 crore: 3 *per cent*) and four Urban Development and Housing (₹ 1,413 crore: 2 *per cent*). The guarantees of Power Companies were given for repayment of loans/overdraft, amount raised by issue of bonds/debentures and payment of interest at stipulated rates. The outstanding guarantees were 106 *per cent* of the revenue receipts of the Government. No guarantee was invoked during the year 2011-12.

The State Government set up a Guarantee Redemption Fund in 1999-2000 and as on 31 March 2012 there was a balance of ₹ 360.28 crore (₹ 344.90 crore as Guarantee Fees and ₹ 15.38 crore interest received on investment of this Fund) under this Fund. During the year no amount has been reimbursed from this Fund. During 2011-12, Government received ₹ 113.06 crore as guarantee commission which was booked as Miscellaneous Receipts. Of this, ₹ 2.14 crore was not transferred to Guarantee Redemption Fund. Hence, the revenue surplus was over stated by ₹ 2.14 crore.

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase to 45.4 per cent from the existing 28.9 per cent.

²⁶ It included Open Market Borrowings, Negotiated Loans from financial institutions, National Small Saving Fund loans, Central Government loans including EAPs, any loans for State Plan Schemes and Centrally Sponsored Schemes other liabilities arising out of Public Account transfers under Small Savings, Provident Funds, Reserve Funds, Deposits etc.

1.9.4 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the fiscal liabilities shown in Appendix 1.6, the State guaranteed loans availed of by Government companies/corporations. These companies/ corporations borrow funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns are repaid by the Government and ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Through off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings. Details of borrowings collected from *Zila Parishads* disclosed that during 2011-12, the *Zila Parishads* owed ₹ 945.38 crore to Housing Urban Development Corporation (HUDCO) towards its borrowings for executing Mukhya Mantri BPL Awas Yojana. The State Government had undertaken to repay the principal and interest and thus these off-budget borrowings, though add to the fiscal liability of the State but not captured in the Finance Accounts of the State.

1.9.5 Reserve Funds

As on 31 March 2012, there was a closing balance of ₹ 1,549.71 crore in 30 Reserve Funds. Out of ₹ 1,549.71 crore, Government had invested ₹ 435.48 crore (Government of India Securities: ₹ 170.55 crore, Guarantee Redemption Fund Investment account: ₹ 187.29 crore and Pay back of Rajasthan State Development Loans: ₹ 77.64 crore) at the end of the year. During the year an amount of ₹ 1,638.05 crore (net) was transferred as annual contribution in various Reserve Funds. The contribution was mainly under State Disaster Response Fund (SDRF): ₹ 955.62 crore (share of GoI: ₹ 698.27 crore, share of State Government: ₹ 232.75 crore and Interest on SDRF: ₹ 24.60 crore), State Road and Bridges Fund: ₹ 283.65 crore, National Rural Employment Guarantee Fund: ₹ 200 crore, Guarantee Redemption Fund: ₹ 165.61 crore and RIPD Fund: ₹ 25 crore. The Reserve Funds of the State increased by ₹ 1,019.76 crore over the previous year, hence the fiscal liabilities of the State Government was increased to that extent at the end of the year 2011-12.

1.9.5.1 State Disaster Response Fund

The State Disaster Response Fund (SDRF) has been set up from 1 April 2010 replacing the existing Calamity Relief Fund. The size of the Fund for Rajasthan for the year 2010-15 fixed by the XIII-FC was ₹ 3,319 crore²⁷, 75 per cent of which was to be contributed by the GoI and 25 per cent by the State Government. During the year the GoI and the State Government contributed their share. As on 31 March 2012, the balance in SDRF was ₹ 639.81 crore (including interest paid by Government on un-invested amount: ₹ 24.60 crore) after setting off the expenditure for disaster relief operations (₹ 89.73 crore).

27 2010-11: ₹ 600.66 crore, 2011-12: ₹ 630.69 crore, 2012-13: ₹ 662.22 crore, 2013-14: ₹ 695.33 crore and 2014-15: ₹ 730.10 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF were to be invested in Central Government dated securities and/or Auctioned Treasury Bills and/or interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made by the State Government during 2011-12.

1.9.6 Large number of adverse balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayments than the original amount advanced.

As of 31 March 2012, there were 54 cases in 7 Major Heads²⁸ amounting to ₹ 321.73 crore of adverse balances under Debt, Deposit and Remittances (DDR) heads. The adverse balances were mainly under Pension Funds of employees of Municipalities/Municipal councils (₹ 199.52 crore) under 'Insurance and Pension Fund', Disbursement of Rajasthan *Rajya Vidyut Utpadan Nigam* Limited (₹ 101.27 crore) and Disbursement of Rajasthan *Rajya Vidyut Prasaran Nigam* Limited (₹ 12.16 crore) under 'Deposits of Local Fund', Remittance to Treasury (₹ 3.86 crore) and Adjustable heads by Division (₹ 2.03 crore) under 'Cash Remittance and adjustments between officers rendering accounts to the same Accounts Officers' and Loans to Government Servants (₹ 1.72 crore).

1.10 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also indicates 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 rise in fiscal deficit should match with the increase in capacity to service the debt. **Table 1.19** analyses the debt sustainability of the State according to these indicators for the period of three years beginning 2009-10.

Table 1.19: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	1,763	17,248	10,322
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 3,325	6,173	500
Net Availability of Borrowed Funds	741	383	(-) 617
Burden of Interest Payments (IP/RR <i>per cent</i>)	19	16	14

28 Loans to Government Servants (42 cases: ₹ 1.72 crore), Insurance and Pension Funds (1 case: ₹ 199.52 crore), State Provident Funds (1 case: ₹ 0.01 crore), Deposits of Local Funds (2 cases: ₹ 113.43 crore), Civil Advances (2 cases: ₹ 0.01 crore), Civil Deposits (1 case: ₹ 0.01 crore) and Cash Remittance and adjustments between officers rendering accounts to the same Accounts Officer (5 cases: ₹ 7.03 crore).

Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP 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.

The sum of Quantum Spread and Primary deficit was positive during 2009-12 resulting in declining trend in debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilization, which, if continued would eventually improve the debt sustainability position of the State.

Sufficiency of Non-Debt Receipts

For debt stability and its sustainability the incremental non-debt receipts of the State should be adequate to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

The persistent negative non-debt receipts (Resource Gap) indicate the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The resource gap which was negative during 2009-10, turned positive from 2010-11. This meant that the State did not depend on borrowed funds for meeting current revenue and capital expenditure. During 2011-12, the non-debt receipts increased by ₹ 11,996 crore (26 *per cent*) while the total expenditure increased by ₹ 11,496 crore (23 *per cent*).

Net availability of borrowed funds

Net availability of borrowed funds is 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.

The net fund available from borrowing after providing for the interest and repayment decreased from ₹ 383 crore in 2010-11 to (-) ₹ 617 crore in 2011-12. During the current year the available borrowed fund increased by ₹ 6,119 crore while the Government repayment increased by ₹ 7,119 crore over the previous year. Total receipts and total repayments (including interest) of liabilities during 2011-12 were ₹ 1,27,732 crore and ₹ 1,28,349 crore respectively, hence excess payment was of ₹ 617 crore.

Interest burden

The ratio of interest payments to revenue determines the debt sustainability of the State. During the year, interest payments reduced by two percentage points over the previous year and constituted 14 *per cent* of Revenue Receipts of the State.

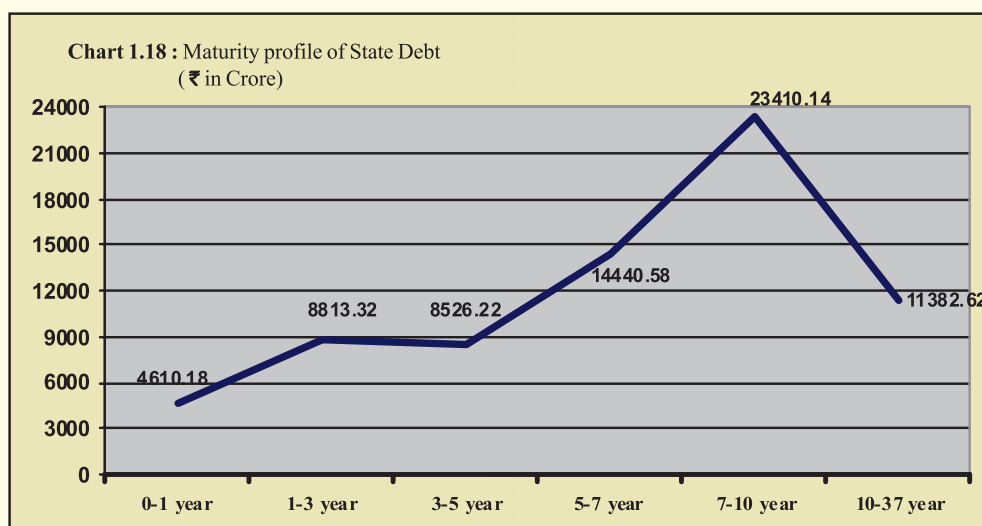
Maturity Profile of State Debt

The Maturity Profile of State Debt as on 31 March 2012 is as follows:

Table 1.20: Maturity Profile of State Debt

(₹ in crore)		
Maturity Profile	Amount	Percent
0-1 year	4,610.18	6.43
1-3 Years	8,813.32	12.29
3-5 Years	8,526.22	11.89
5-7 Years	14,440.58	20.14
7-10 Years	23,410.14	32.65
10-37 Years	11,382.62	15.87
Information of maturity profile not furnished by the State Government	522.60	0.73
Total	71,705.66	100.00

Source: Finance Accounts



Source: Finance Accounts

As per data shown in **Table 1.20**, the maturity profile of ₹ 522.60 crore is not clearly defined. There will be a bunching of repayments in around 1-3 years time (₹ 8,813.32 crore) and 3-5 years time (₹ 8,526.22 crore) as well as 5-7 years time (₹ 14,440.58 crore). A well thought out debt repayment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

Expired Loans

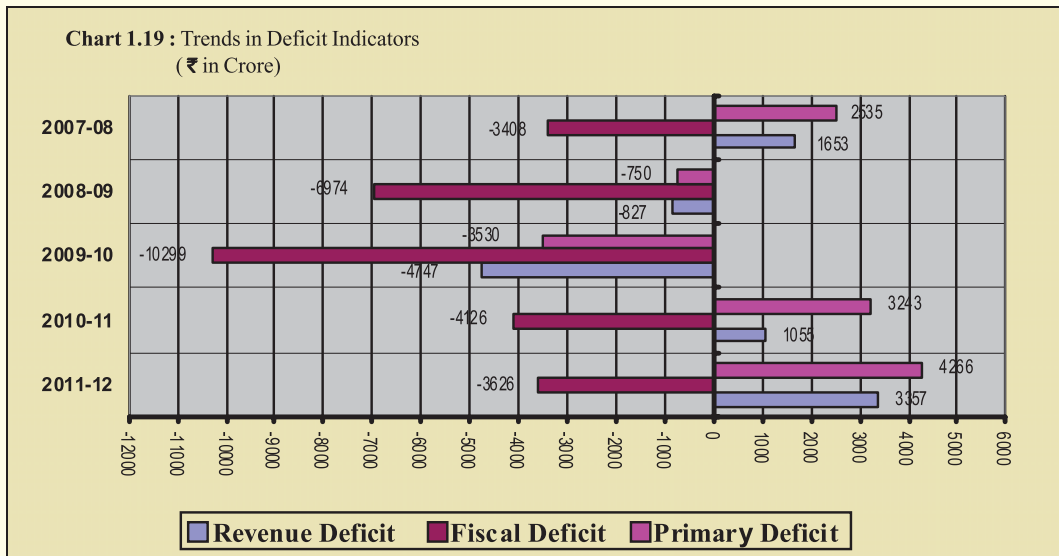
The State Government raise long term loans in the open market through Reserve Bank of India/Agency Banks and repays after their maturity. The maturity date of loans is mentioned in the notification issued for floating of loans. As of 31 March 2012, as per Annexure to Statement No 15 of Finance Account, the expired loans of ₹ 0.28 crore were not repaid by the Government due to non-submission of Securities/Stock certificates for repayment by the investors.

1.11 Fiscal Imbalances

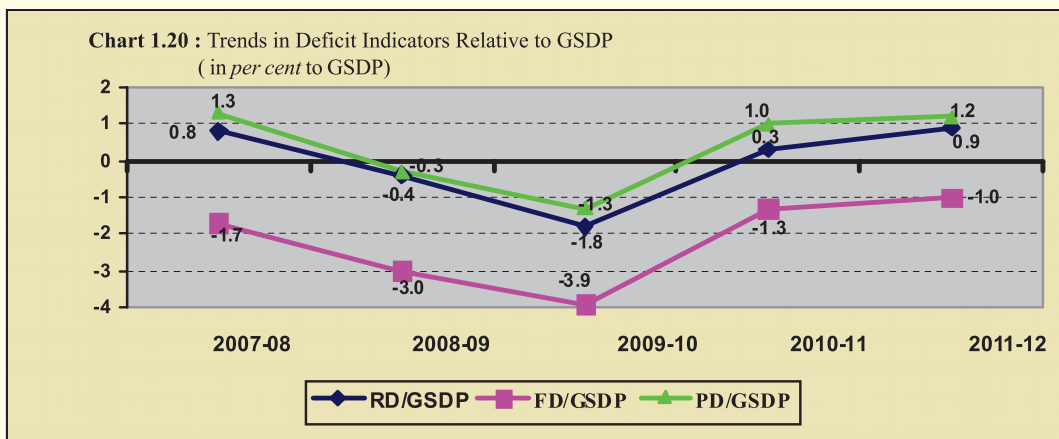
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the way in which the deficit is financed and the resources 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 2011-12.

1.11.1 Trends in Deficits

Charts 1.19 and 1.20 presents the trends in deficit indicators over the period 2007-12.



Source: Finance Accounts



From a situation of revenue deficit in 2008-09 and 2009-10, the State turned into revenue surplus from 2010-11. During 2011-12, the revenue surplus was increase sharply by ₹ 2,302 crore (218 *per cent*) from ₹ 1,055 crore in 2010-11 to ₹ 3,357 crore in 2011-12. Consequently, the increase in revenue surplus

combined with increase in capital expenditure and decrease in net disbursement of loans and advances in 2011-12 resulted in a decrease in fiscal deficit by ₹ 500 crore (12 per cent) from ₹ 4,126 crore in 2010-11 to ₹ 3,626 crore in 2011-12. **Fiscal deficit as a percentage of GSDP decreased from 1.3 per cent in 2010-11 to one per cent in 2011-12 which was within the target of achieving three per cent as prescribed by revised FRBM Act for 2011-12.** The primary deficit from 2008-09 also turned into primary surplus from 2010-11. The primary surplus increased by ₹ 1,023 crore (32 per cent) from ₹ 3,243 crore in 2010-11 to ₹ 4,266 crore in 2011-12.

1.11.2 Components of fiscal deficit and its item-wise financing pattern

Table 1.21 presents the each item-wise net of disbursements/outflows financing pattern of fiscal deficits of the state during 2006-07 to 2011-12 along with receipts and disbursements during the year.

Table 1.21: Components of fiscal deficit and its each item-wise financing of pattern

(₹ in crore)

		Net disbursements/outflows					2011-12		
		2006-07	2007-08	2008-09	2009-10	2010-11	Receipts	Disbursements	Net
Decomposition of Fiscal Deficit (1 to 3) (a)		3,970	3,408	6,974	10,299	4,126	58,256	61,882	3,626
1	Revenue Deficit/ Surplus (-)	(-) 638	(-) 1,653	827	4,747	(-) 1,055	57,011	53,654	(-) 3,357
2	Net Capital Expenditure	4,809	6,554	5,896	5,166	5,238	16	7,119	7,103
3	Net Loans and Advances	(-) 201	(-) 1,493	251	386	(-) 57	1,229	1,109	(-) 120
Financing Pattern of Fiscal Deficit									
1	Market Borrowings	1,065	3,233	5,196	6,112	4,837	4,500	1,397	3,103
2	Loans from GoI	(-) 295	46	(-) 66	(-) 142	(-) 94	337	468	(-) 131
3	Special Securities Issued to National Small Saving Funds	1,745	(-) 223	(-) 434	(-) 560	(-) 553	-	1,138	(-) 1,138
4	Ways and Means	59	(-) 59	-	-	-	-	-	-
5	Loans from Financial Institutions	(-) 132	220	350	442	470	1,081	487	594
6	Small Savings, Provident Fund etc	1,245	1,119	1,405	2,145	2,841	5,630	2,863	2,767
7	Deposits and Advances	592	557	347	1,274	885	1,14,301	1,13,205	1,096
8	Suspense and Miscellaneous	51	2	39	(-) 14	(-) 49	27	15	12
9	Remittances	(-) ²⁹	(-) 14	21	(-) 1	-	5,618	5,618	-
10	Reserve Fund	710	1,198	(-) 11	(-) 1,761	(-) 485	1,638	618	1,020
11	Total (1 to 10) (b)	5,040	6,079	6,847	7,495	7,852	1,33,132	1,25,809	7,323
12	Increase (-)/ Decrease (+) in Cash Balance (a-b)	(-) 1,070	(-) 2,671	127	2,804	(-) 3,726	-	-	(-) 3,697
13	Overall Deficit (11+12)	3,970 (2.3)	3,408 (1.7)	6,974 (3.0)	10,299 (3.9)	4,126 (1.3)	-	-	3,626 (1.0)

Figures in brackets indicate the per cent to GSDP.

Source : Finance Accounts.

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 receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

29 only ₹ 0.29 crore.

During 2011-12, the revenue surplus (₹ 1,055 crore) of 2010-11 was increased by ₹ 3,357 crore thereby affecting the extent of fiscal deficit which could be financed by revenue surplus. The fiscal deficit of ₹ 3,626 crore in 2011-12 was met out from net borrowing of ₹ 7,323 crore resulting in increase in the cash balance by ₹ 3,697 crore.

It can be seen from **Table 1.21** that the fiscal deficit in 2006-07 to 2011-12 was due to large net capital expenditure. Market borrowings by the State Government continued to finance a major portion of fiscal deficit but its share in financing fiscal deficit decreased from 117 *per cent* in 2010-11 to 86 *per cent* in 2011-12. During 2011-12, the fiscal deficit of ₹ 3,626 crore was mainly met out from market borrowings (₹ 3,103 crore) and Small Savings and Provident Fund etc. (₹ 2,767 crore) which was counterbalanced by increase in Cash Balance (₹ 3,697 crore). The market borrowings and the small saving, provident fund etc, increased by nine *per cent* and 13 *per cent* respectively over the previous year; thus increasing the interest burden in future.

1.11.3 Cost of Borrowings

During the year 2011-12, the State Government raised market loans of ₹ 4,500 crore under Internal Debt. The cost of raising of this internal debt being ₹ 11.43 crore was 0.25 *per cent* of market loan taken by the State Government. The Cost of Borrowings increased by 0.11 percentage point over the previous year (0.14 *per cent*). This increased the Fiscal deficit to the extent of ₹ 11.43 crore.

1.11.4 Quality of Deficit/Surplus

The ratio of RD to FD and the composition of primary deficit into primary revenue deficit 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. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) did not have adequate asset backup. The bifurcation of the primary deficit (**Table-1.22**) indicated 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.

1.22: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2007-08	32,563	23,185	6,555	288	30,028	(+) 9,378	(+) 2,535
2008-09	33,562	28,072	5,900	340	34,312	(+) 5,490	(-) 750
2009-10	35,506	33,363	5,175	498	39,036	(+) 2,143	(-) 3,530
2010-11	46,260	37,504	5,251	262	43,017	(+) 8,756	(+) 3,243
2011-12	58,256	45,762	7,119	1,109	53,990	(+) 12,494	(+) 4,266

Source: Finance Accounts

The share of Capital expenditure in primary expenditure was 22 *per cent* in 2007-08, which decreased to 13 *per cent* in 2011-12. The non-debt receipts increased by ₹ 11,996 crore against an increase of ₹ 10,973 crore in primary expenditure over the previous year. This resulted in increase in primary surplus by ₹ 1,023 crore over the previous year. The primary revenue expenditure, capital expenditure and disbursement of loans and advance increased by 22 *per cent*, 36 *per cent* and 323 *per cent* respectively over the previous year. During 2011-12, the non-debt receipt was higher than the primary expenditure resulting in a primary surplus.

1.12 Resource availability of the State under Public Private Partnerships

The concept of Public Private Partnership (PPP) has evolved for meeting rising demands of the people for adequate and qualitative infrastructure. The PPP cell established on 26 July 2007 in the Planning Department of the State Government is the nodal agency to coordinate all efforts of the State Government regarding development of infrastructure sectors involving PPP.

As per information furnished (September 2012) by the PPP Cell during 1995-12, 154 projects involving cost of ₹ 14,397.78 crore (**Appendix 1.12-A and 1.12-B**) have been taken up in the State in different sectors. Of this, 83 projects (₹ 3,297.77 crore) have been completed as of March 2012 and 71 projects (₹ 11,100.01 crore) relating to road construction, power and social sector were under progress at the end of 2011-12. Besides 59 projects involving cost of ₹ 13,992.66 crore (**Appendix 1.13**) relating to Road, Power, Urban Infrastructures, Social and Water & Sanitation scheme have been planned for future. These projects are likely to be awarded upto March 2016. Sector-wise details of PPP Projects completed, ongoing and to be taken in future is given in the **Table 1.23**.

Table: 1.23: Sector wise Public Private Partnership Projects

(₹ in crore)

S. No.	Sector	Completed		On going		Planning for future	
		No.	Estimated cost	No.	Estimated cost	No.	Estimated cost
1.	Road Sector	44	2,653.97	22	4,289.73	14	2,493.08
2.	Urban Infrastructure	15	33.90	10	506.75	9	7,672.30
3.	Power Sector	-	-	4	5,509.60	4	1,333.18
4.	I. T. Sector	-	-	2	226.61	-	-
5.	Social Sector	21	302.62	29	557.37	25	501.90
6.	Water and Sanitation Sector	1	300.00	-	-	4	1,740.00
7.	Any Other Sector	2	7.28	4	9.95	3	252.20
	Total	83	3,297.77	71	11,100.01	59	13,992.66

Source: Planning Department, Government of Rajasthan

In one project (Widening and Strengthening of Delhi-Ramgarh–Alwar Road) (estimated cost ₹ 25.28 crore) State Government has contributed ₹ 4.15 crore.

1.13 Conclusion and Recommendations

The State Government has shown a return to fiscal consolidation by showing a healthy growth in both tax and non-tax revenue. As a result the revenue and primary surplus increased by ₹ 2,302 crore and ₹ 1,023 crore respectively over the previous year and fiscal deficit was a healthy one per cent of GSDP as against the target of three per cent as prescribed by revised FRBM Act for 2011-12. Some concerns regarding the State's finances are as follows:

Revenue Receipts: During 2011-12, the State's revenue receipts (₹ 57,011 crore) increased by 24.1 per cent over the previous year. The growth in revenue receipts was mainly due to improvement in both tax revenue and non-tax revenue. The State's revenue receipts as a percentage of GSDP marginally declined from 15.8 per cent in 2007-08 to 15.5 per cent in 2011-12, which indicates that the growth of tax revenue and non-tax revenue had not kept pace with that of GSDP. Government should mobilise additional resources through tax and non-tax revenue by expanding the tax base and rationalising the user charges.

Revenue expenditure: Of the total expenditure of ₹ 61,882 crore during 2011-12, the revenue expenditure (RE) constituted 87 per cent of the total expenditure while the Non-Plan Revenue Expenditure constituted 77 per cent of RE. Nearly 58 per cent of the revenue receipts of the State was spent on committed expenditure such as salaries and wages, interest, pension and subsidies leaving little for other purposes. There is a necessity to contain the committed expenditure.

Budget estimates

The actual revenue receipts and revenue expenditure increased by nine per cent and three per cent respectively as compared to the budget estimates for 2011-12. Resultantly, the revenue surplus increased by ₹ 3,004 crore over the budgeted revenue surplus. The capital expenditure decreased by 17 per cent over the budget estimates. The estimated primary deficit turned into primary surplus. The actual fiscal deficit decreased from the budget estimate by ₹ 4,437 crore.

Inadequate Priority to Capital expenditure: The capital expenditure increased by 36 per cent over the previous year and constituted 11.5 per cent of total expenditure against previous year 10.4 per cent. It was 17 per cent lower than that projected in MTFPS for 2011-12. However, the ratio of capital expenditure (11.5 per cent) as a proportion of aggregate expenditure in the current year was lower than 2007-08 (18.2 per cent). The progressive capital expenditure (₹ 68,553) at the end of March 2012 includes ₹ 7,993 crore (11.7 per cent) blocked on 160 incomplete projects. Government should give adequate priority to capital expenditure since the capital expenditure was lower than the projections of State Government in its MTFPS. The State Government should formulate guidelines for quick completion of incomplete projects to avoid time and cost over runs with a view to take corrective action. Increase in asset creation even if it involves an increase in fiscal deficit (within the bounds of three per cent) may be to the advantage of the state.

Financial Management

Review of Government investments: The average return on State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.2 to 0.4 *per cent* in the past three years while the Government paid an average interest of 7.7 *per cent* on this investment. As of 31 March 2012, investment of ₹ 7,806 crore (56 *per cent*) was made in Statutory corporations, rural banks, Government companies and joint stock companies having accumulated loss of ₹ 4,641 crore.

It would be advisable for the State Government to ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification as to why high cost borrowings should be channeled there. It would also be prudent to review the working of state public sector undertakings which are incurring huge losses and work out either a revival strategy (for those which can be made viable) or closed down (if they are not likely to be viable given the current market conditions).

Prudent cash management: As on 31 March 2012, the State had a surplus cash balance of ₹ 9,785 crore. It increased by 61 *per cent* over the previous year. The cost of holding surplus cash balances is high. Since, maintaining huge idle cash balance is not prudent cash management, appropriate steps should be taken for spending on capital projects for creation of assets.

Transfer of funds to State implementing agencies

Oversight of funds transferred directly from the GoI to the State implementing agencies: During 2011-12, the GoI directly transferred ₹ 6,838 crore to the State Implementing Agencies compared to ₹ 8,671 crore during the previous year. It was seen that a major portion i.e ₹ 2,831 crore (41 *per cent*) went to *Zila Parishads* (Rural Development Cell) and ₹ 668 crore (10 *per cent*) to *Sarva Shiksha Abhiyan*. Direct transfer of funds from the GoI to the State Implementing Agencies runs the risk of improper utilisation of funds by these agencies.

As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GoI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General.

A review of release and utilization of grants recommended by XIII-FC by some Departments revealed non-utilisation of grant of ₹ 265 crore against sanctioned amount of ₹ 404 crore by eight departments due to non-finalisation of action plan/work plans.