CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Profile of Chhattisgarh

The State of Chhattisgarh was formed on 1 November 2000 in terms of the Madhya Pradesh Re-organisation Act, 2000 (No. 28 of 2000) with 16 districts[1] of the erstwhile State of Madhya Pradesh. Two[2] more districts were carved out on May 11, 2007 and nine[3] new districts on January 1, 2012 after the formation of the Chhattisgarh State. The apportionment of Assets and Liabilities of the composite State of Madhya Pradesh, prior to the date of re-organisation, as well as other financial adjustments was carried out in accordance with the provisions of the Act *ibid*.

Chhattisgarh is one of the leading States in the country in mineral resources. The State covers an area of 1, 37,898 square Kms. with a population of 2.55 crore. The density of population in the State is 189 persons per square Km. which is lower as compared to the all-India average of 382 persons per square Km. Chhattisgarh has a higher poverty level of 48.7 *per cent* as compared to the all-India average of 27.5 *per cent* as indicated in ***Appendix-1.1***. The Infant Mortality Rate of the State was 51 (per 1000 live births) which was higher than the all India average of 47 (per 1000 live births). The Literacy Rate of the State was 71.04 *per cent* (Male Literacy Rate 81.05 and Female Literacy Rate 60.6 *per cent*) which was lower than the all India average of 74 *per cent* (Male Literacy Rate 82.14 and Female Literacy Rate 65.46 *per cent*).

1.2 Introduction

The Annual Accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Chhattisgarh are laid out in 19 Statements. The structure and layout of the same is depicted in ***Appendix-1.1(a)***. This chapter provides a broad perspective of the finances of the State Government during year 2011-12 and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and the information obtained from the State Government. ***Appendix-1.2*** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and ***Appendix-1.3*** presents the time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2007-12.

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1 Bastar, Bilaspur Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Koria, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja

2 Bijapur and Narayanpur.

3 Balod, Baloda Bazar, Balrampur, Bemetara, Gariaband, Kondagaon, Mungeli, Sukma and Surajpur.

1.2.1 Summary of Current year's Fiscal Transactions

Table-1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year while ***Appendix-1.4*** provides details of receipts and disbursements as well as the overall fiscal position of the State during the current year.

Table 1.1: Summary of Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
Section-A: Revenue	**Total**	**Total**	**Section-A: Revenue**	**Total**	**Non Plan**	**Plan**	**Total**
Revenue Receipts	22719.54	25867.38	Revenue Expenditure	19355.75	12623.64	10004.41	22628.05
Tax Revenue	9005.14	10712.25	General Services	5247.06	5829.43	74.74	5904.17
Non-tax Revenue	3835.32	4058.48	Social Services	8309.72	3380.89	7095.96	10476.85
Share of Union Taxes/ Duties	5425.19	6320.44	Economic Services	5091.42	2726.64	2833.71	5560.35
Grants from Government of India	4453.89	4776.21	Grants-in-aid and Contributions	707.55	686.68	-	686.68
Section-B: Capital			**Section-B: Capital**				
Misc. Capital Receipts	2.56	3.93	Capital Outlay	2951.51	0.75	4055.65	4056.40
Recoveries of Loans and Advances	561.16	1282.53	Loans and Advances Disbursed	566.55	10.01	1258.73	1268.74
Inter-State Settlement	2.65	2.21	Inter-State Settlement	2.34	-	-	4.03
Public Debt Receipts*	795.19	421.34	Repayment of Public Debt*	690.86	-	-	852.49
Contingency Fund	0.00	0.00	Contingency Fund	0	-	-	0.00
Public Account Receipts	27523.97	34161.23	Public Account Disbursements	26895.50	-	-	32940.27
Opening Cash Balance	1569.66	2712.22	Closing Cash Balance	2712.22	-	-	2700.86
Total	**53174.73**	**64450.84**	**Total**	**53174.73**			**64450.84**

(Source: Finance Accounts of the State Government 2011-12)
**Excluding net transactions under Ways and Means Advances and overdraft.*

The following are the significant changes during 2011-12 over the previous year:

- The revenue receipts during the year increased by 14 *per cent* (₹ 3,148 crore) mainly due to increase in own tax revenue by 19 *per cent* (₹ 1,707 crore) which includes an amount of ₹ 1,165 crore (68 *per cent*) recovered during the year as arrears of taxes and deposit of sales tax by Bhilai Steel Plant as per the directives of the Hon'ble Supreme Court of India, non-tax revenue by six *per cent* (₹ 223 crore), State's share of Union Taxes and Duties by 17 *per cent* (₹ 895 crore) and Grants-in-aid from the Government of India (GoI) by seven *per cent* (₹ 322 crore).
- The revenue expenditure during the year increased by 17 *per cent* (₹ 3,272 crore) due to increase in plan expenditure by 24 *per cent* (₹ 1,935 crore) and non-plan expenditure by 12 *per cent* (₹ 1,337 crore). The Government during the year accorded priority to

the social sector as there was a sharp increase of ₹ 2,167 crore (26 *per cent*) under the revenue expenditure on social sector.

- The capital expenditure during the year increased by 37 *per cent* (₹ 1,105 crore) mainly due to increase in expenditure under the heads Capital outlay on power projects, minor irrigation and urban development. The capital expenditure was however, less by ₹ 2,196 crore[4] (35 *per cent*) than the assessment made by the State Government in its Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act) disclosures for the year 2011-12. The Government needs to take initiatives to adhere to the targets fixed under the FRBM Act.
- The quantum of recovery and disbursements of loans and advances increased by ₹ 721 crore (129 *per cent)* and ₹ 702 crore (124 *per cent)* respectively during the current year.
- Public debt receipts decreased by ₹ 374 crore (47 *per cent*) and repayment of public debt increased by ₹ 162 crore (23 *per cent*) during 2011-12. The decrease in public debt receipts was due to less borrowings through special securities issued to National Small Savings Fund and loans from GoI.
- Public account receipts and disbursements during the year increased by ₹ 6,637 crore (24 *per cent)* and ₹ 6,045 crore (22 *per cent)* respectively.
- The cash balance at the end of the year 2011-12 decreased by ₹ 11 crore[5].

1.2.2 Review of the Fiscal Position

In compliance to the Twelfth Finance Commission's (TFC) recommendations, the Government of Chhattisgarh enacted its Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act), with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a Medium Term Fiscal Framework. According to the FRBM Act, 2005, the State Government is required to present in each financial year before the State Legislature, three[6] statements of fiscal policy in the form of annual disclosures along with the annual financial statement and demands for grants.

Further, the Thirteenth Finance Commission (ThFC) has prescribed a Fiscal Consolidation map which required the State to eliminate revenue deficit by the year 2014-15 and to achieve fiscal deficit of three *per cent* of GSDP by the year 2013-14. The State was also required to amend its FRBM Act to conform to the fiscal reform path. Accordingly the State Government passed the

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4 Amount of Capital Expenditure as per FRBM disclosures-₹ 6252.11 less Actual Capital Expenditure-₹ 4056.40 =2195.71 i.e. ₹ 2196 crore

5 Opening Cash balance- ₹ 2712.22 less Closing Cash balance-₹ 2700.86 = ₹ 11.36

6 (a) The Macroeconomic Framework Statement (b) The Medium Term Fiscal Policy Statement and (c) the Fiscal Policy Strategy Statement.

Chhattisgarh Fiscal Responsibility and Budget Management (Amendment) Act, 2011 on 28 September 2011. According to the Act the State Government:

- shall maintain zero revenue deficit every year, beginning from the financial year 2011-12 upto 2014-15,
- shall maintain actual fiscal deficit as three *per cent* of Gross State Domestic Product (GSDP) every year, beginning from 2010-11 upto 2014-15,
- shall maintain total outstanding debts as a certain *per cent* of the GSDP [at 22.50 *per cent* (2011-12), 23 *per cent* in (2012-13), 23.5 *per cent* in (2013-14) and 23.90 *per cent* (2014-15)].
- shall not assume additional total liabilities in excess of five *per cent* of Gross State Domestic Product (GSDP) for any financial year beginning 2011-12.

The fiscal performance of the State *vis-à-vis* the targets fixed for 2011-12 by the Thirteenth Finance Commission (ThFC), FRBM Act and targets indicated in the FRBM disclosures is presented in **Table 1.2** below:

Table 1.2: Fiscal position of the State *vis-a-vis* targets fixed

(₹ in crore)

Fiscal Forecasts	ThFC Targets	FRBM Act	FRBM Disclosures	Actuals
Own Tax Revenue	10062.56	--	9830.45	10712.25
Non-Tax Revenue	2516.25	--	4310.87	4058.48
Revenue Surplus	To maintain zero revenue deficit.	To maintain zero revenue deficit.	1348.13	3239.33
Fiscal deficit	To maintain fiscal deficit at three *per cent* of GSDP	To maintain fiscal deficit at three *per cent* of GSDP	3819.79	801.17
Primary deficit (-) /Surplus (+)	--	--	(-) 2516.45	(+) 392.03
Outstanding debt as *per cent* of Gross State Domestic Product	22.50 *per cent*	22.50 *per cent*	16.16 *per cent*	12.62 *per cent*

(Source: FRBM Act, 2011-12, Thirteenth Finance Commission report and Finance Accounts 2011-12.)

It would be seen from the above Table that the State's actual Own tax revenue receipts and Non-tax revenue receipts were more than the normative assessment made by the ThFC by ₹ 650 crore (six *per cent*) and ₹ 1,542.23 crore (61 *per cent*) respectively. The tax revenue receipts were also more than the target fixed in the FRBM disclosures by nine *per cent.* However, the Own non-tax receipts were less (by six *per cent*) than the projections made in the FRBM disclosures.

Even though the State has achieved the targets fixed for revenue surplus by ThFC and the FRBM Act and disclosures, there was a decrease of revenue surplus from ₹ 3,364 crore in 2010-11 to ₹ 3,239 crore in 2011-12 due to increase of 17 *per cent* in revenue expenditure during 2011-12, in comparison to 14 *per cent* increase in revenue receipts.

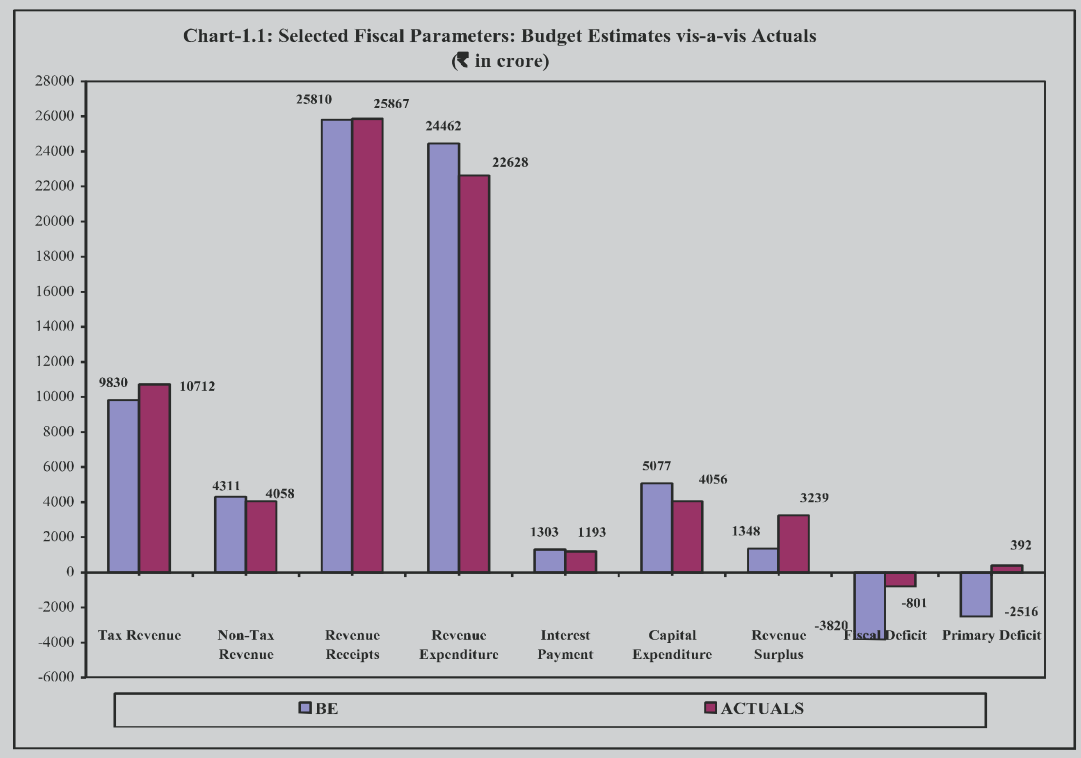
As a result of decrease of ₹ 124 crore in revenue surplus and increase in non-debt capital receipts of ₹ 722 crore, Capital outlay of ₹ 1105 crore and in disbursement of loans and advances including inter-State settlement of ₹ 704 crore, the fiscal surplus of ₹ 410 crore in 2010-11 turned into fiscal deficit of ₹ 801 crore in 2011-12. However, the fiscal deficit was less than that projected in the FRBM disclosures.

Owing to conversion of the fiscal surplus of ₹ 410 crore during the year 2010-11 into fiscal deficit of ₹ 801 crore in 2011-12, the primary surplus decreased by 76 *per cent* from ₹ 1,608 crore in 2010-11 to ₹ 392 crore in 2011-12, although the FRBM disclosures had projected a primary deficit of ₹ 2516.45 crore.

The outstanding debt was 12.62 *per cent* of the GSDP which was lower than the targets fixed by the ThFC and FRBM Act and disclosures.

1.2.3 Budget Estimates and Actuals

Chart-1.1 presents the budget estimates and actuals for some important fiscal parameters. The details of actuals vis-à-vis budget estimates are given in ***Appendix-1.5.***



(Source: Finance Accounts and budget documents relating to 2011-12 of the State)

The above chart depicts that there were wide variations in case of various parameters during 2011-12, as discussed below:

1. Revenue receipts were higher than the projections made in the BE by ₹ 57 crore mainly as a result of increase in tax revenue as compared to

BE by ₹ 882 crore (nine *per cent*). However, the Non-tax revenue fell short of the BE by ₹ 253 crore (six *per cent*).

2. Revenue expenditure and capital expenditure were less than the BE by ₹ 1,834 crore (seven *per cent*) and ₹ 1,021 crore (20 *per cent*) respectively. The variation in revenue expenditure was due to less expenditure of ₹ 1,383 crore under Social service, ₹ 284 crore under Economic services and ₹ 241 crore under General services which was offset by ₹ 74 crore under Grants-in-aid and contributions.

3. Revenue surplus was more by ₹1,891 crore than that provisioned in the BE mainly due to increase in revenue receipts by ₹ 57 crore than the projections made in the BE and decrease of ₹ 1,834 crore in revenue expenditure over the projection made in the BE.

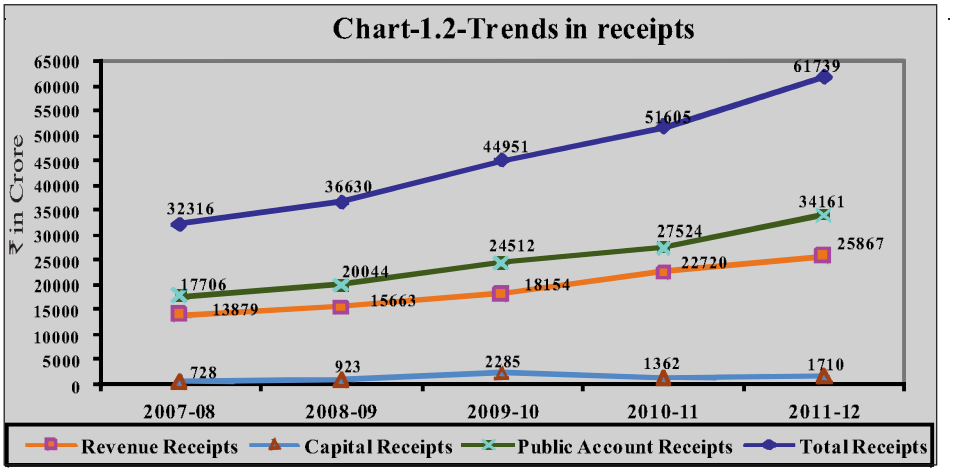
4. Fiscal deficit was less by ₹ 3,019 crore over the projections made in the budget estimates (₹ 3,820 crore) mainly due to increase in revenue surplus by ₹1,891 crore than that provisioned in the BE.

Primary deficit depicted as ₹ 2,516 crore in the budget estimates, turned into primary surplus of ₹ 392 crore due to decrease in fiscal deficit and interest payments as compared to the projection made in the BE.

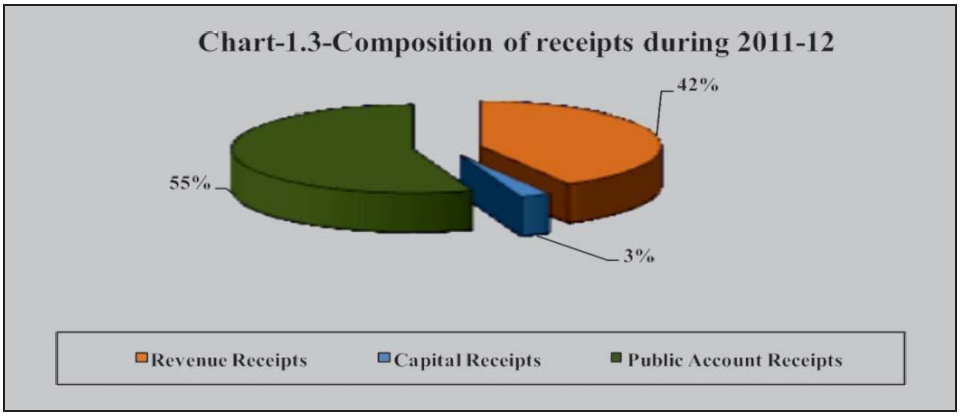
1.3 Resources of the State

1.3.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and Duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/Commercial Banks etc.) and loans and advances from GoI as well as accruals from the Public Account. **Table-1.1** presents the status of the receipts and disbursements of the State during the year 2011-12 as recorded in Annual Finance Accounts while **Chart-1.2** depicts the trends in various components of the receipts of the State during the period 2007-12. **Chart-1.3** depicts the composition of resources of the State during the year 2011-12.



(Source: Finance Accounts of the respective years)



(Source:Finance Accounts 2011-12)

During the period 2007-12, total receipts increased by 91 *per cent* (₹ 29,423 crore) from ₹ 32,316 crore in 2007-08 to ₹ 61,739 crore in 2011-12, of which public account receipts, revenue receipts and capital receipts increased by ₹ 16,455 crore,₹ 11,988 crore and ₹ 982 crore respectively.

The total receipts of the State for the year 2011-12 were ₹ 61,739 crore. The total receipts rose by 20 *per cent* (₹ 10,134 crore) during 2011-12 over the previous year, mainly due to increase of revenue receipts, public account receipts and capital receipts by 14 *per cent* (₹ 3,148 crore), 24 *per cent* (₹ 6,637 crore) and 26 *per cent* (₹ 348 crore) respectively during 2011-12.

1.3.2 Utilisation of grants received under recommendations of the Thirteenth Finance Commission (Grant number-48)

To improve the various organs of the State Government, the Thirteenth Finance Commission recommended grants for the State Governments. The financial status under some of the Major Heads under Grant number-48 is given in **Table-1.3.**

Table 1.3: Financial status of Thirteenth Finance Commission grants

(₹in crore)

Major Head and Nomenclature	Budgeted Amount	Status		
		Surrender	Savings	Total unutilised amount
2014-Administration of Justice	48.74	24.37	24.37	48.74
2053-District Administration	9.00	4.50	0.30	4.80
2054-Treasury and Accounts	1.00	0.00	0.23	0.23
2055-Police	1.27	0.00	0.89	0.89
2202-General Education	154.00	0.00	0.00	0.00
2205-Art and Culture	4.00	4.00	0.00	4.00
2406-Forestry and Wild Life	43.89	7.21	0.04	7.25
3054-Road and Bridges	69.00	0.00	0.00	0.00
3454- Census Survey and Statistics	21.80	21.80	0.00	21.80
4059- Capital Outlay on Public Works	55.00	2.82	38.20	41.02
4202-Capital Outlay on Education, Sports, Art and Culture	7.25	7.25	0.00	7.25
4210- Capital Outlay on Medical and Public Health	16.46	0.00	7.07	7.07
4216- Capital Outlay on Housing	62.50	0.00	2.63	2.63
4217- Capital Outlay on Urban Development	137.50	0.00	137.50	137.50
4235-Capital Outlay on Social Security and Welfare	37.50	0.00	0.06	0.06
4406- Capital Outlay on Forestry and Wild Life	12.25	0.00	3.07	3.07
Total	**681.16**	**71.95**	**214.36**	**286.31**

(Source: Appropriation Accounts for the year 2011-12)

It may be seen from the above table that out of the total budget provided (₹ 681.16 crore) under Grant number-48, an amount of ₹ 286.31 crore constituting 42 *per cent* of the total amount was either surrendered (₹ 71.95 crore) or lapsed to the Government Account (₹ 214.36 crore) at the close of 2011-12.

We further observed that there were cent *per cent* surrenders under the major heads 3454-Census Survey and Statistics, 4202-Capital Outlay on Education and 2205-Art and Culture and cent *per cent* funds lapsed to the Government Account under the major head 4217-Capital outlay on Urban Development. Similarly, 50 *per cent* funds were surrendered under the major heads 2053-District Administration and 2014- Administration of Justice and there were savings of 50 *per cent* under the major heads 2014-Administration of Justice, 2055-Police and 4059- Capital Outlay on Public Works.

Thus, the Government could not utilise 42 *per cent* (₹ 286.31 crore) of the funds provided on the basis of recommendations of the ThFC for the intended purposes.

1.3.3. Funds transferred to State implementing agencies outside the State budget

The Government of India has been transferring a sizeable quantum of funds directly to the State implementing agencies[7] for the implementation of various schemes/programmes in social and economic sectors recognised as critical. These funds are not routed through the State budget/State treasury system and therefore the annual finance accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them do not take these funds into account.

Direct transfer of funds from the GoI to State implementing agencies implies the presence of an adequate control mechanism for effective oversight of utilisation of funds, in the absence of which it could impact and inhibit the Fiscal Responsibility and Budget Management Act's requirement of transparency in fiscal operations and accountability. During 2011-12 GoI had transferred an amount of ₹ 4989.89 crore as against ₹ 4379.95 crore[8] transferred in 2010-11 directly to the State implementing agencies. The increase in direct transfer of funds was 14 *per cent* over the previous year. The status of the funds directly transferred to the major State implementing agencies by the GoI during 2011-12 in respect of some of the major programmes are presented in **Table-1.4**.

Table-1.4: Funds transferred directly to the major State implementing agencies

Sl. No	Name of the programme	Name of the implementing agency in the State	Funds released by the GoI (₹ in crore)	
			2010-11	2011-12
1	Mahatma Gandhi National Rural Employment Guarantee Scheme	Chief Executive Officer, Zila Panchayat	1,685.04	1,638.56
2	Sarva Shiksha Abhiyaan	Mission Director, Rajiv Gandhi Shiksha Mission	878.63	698.70
3	Pradhan Mantri Gram Sadak Yojna	Chief Executive Officer, Chhattisgarh Rural Development Authority	678.58	801.51
4	National Rural Health Mission	Mission Director, National Rural Health Mission	205.87	363.21
5	Indira Awas Yojna	Chief Executive Officer, Zila Panchayat	132.80	258.32
6.	National Rural Drinking Water Programme	Executive Engineer, Public Health Engineering	122.01	139.06
7.	National Horticulture Mission	Director, Horticulture, Raipur	96.57	85.22
8	Integrated Water shed Management Programme	Chief Executive Officer, Zila Panchayat	73.72	91.00
9	Aajeevika	District Rural Development Authority (DRDA)	80.23	66.18
10	National Food Security Mission	State Agriculture Management Extension Training Institute (SAMETI)	19.54	56.25
11	Rashtriya Madhyamic Shiksha Abhiyan (RMSA)	Mission Director, Rajiv Gandhi Shiksha Mission	15.25	344.70

(Source: Appendix-VII of Finance Accounts 2011-12)

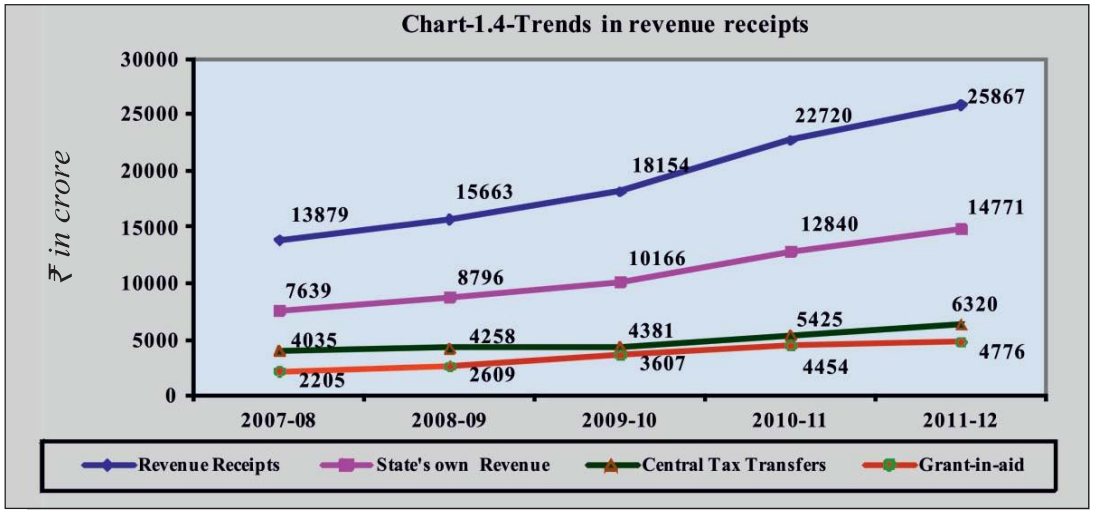
[7] State implementing agency includes any organisation/institution including Non-Governmental Organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

[8] The figures of 2010-11 have been changed to ₹ 4379.95 crore due to the fact that some of the sanctions released at the end of March 2011 were not updated in the year 2010-11, which may have been updated later.

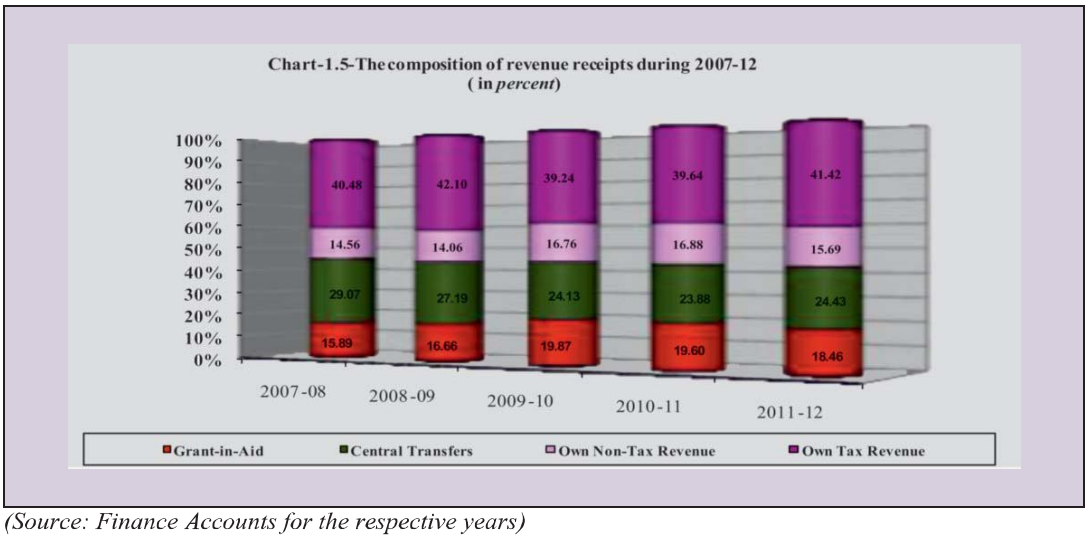
It would be seen from the Table that there were significant increases of ₹ 329.45 crore under *Rashtriya Madhyamik Shiksha Abhiyan (RMSA),* ₹ 157.34 crore (76 *per cent*) under *National Rural Health Mission,* ₹ 125.52 crore (95 *per cent*) under *Indira Awas Yojna* and ₹ 122.93 crore (18 *per cent*) under *Pradhan Mantri Gram Sadak Yojana* during 2011-12 over the previous year. Likewise, decrease of ₹ 179.93 crore (20 *per cent*) under *Sarva Shiksha Abhiyan* and ₹ 46.48 crore (three *per cent*) under *Mahatma Gandhi National Rural Employment Guarantee Scheme* was noticed during 2011-12 over the previous year.

1.4 Revenue Receipts

The revenue receipts consist of the State's own tax and non-tax revenues, central tax transfers and Grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2007-12 are given in ***Appendix-1.3*** and also depicted in **Charts-1.4** and **1.5** respectively.



(Source: Finance Accounts for the respective years)



(Source: Finance Accounts for the respective years)

It would be seen from the above charts that revenue receipts showed progressive increase from ₹ 13,879 crore in 2007-08 to ₹ 25,867 crore in 2011-12. It increased by 14 *per cent* (₹ 3,148 crore) during 2011-12 over the previous year. While 57 *per cent* of the revenue receipts during 2011-12 were contributed from the State's own resources comprising tax and non-tax revenue, central tax transfers and Grants-in-aid together contributed 43 *per cent* of the total revenue. An increase of 19 *per cent* (₹ 1,707 crore) in tax revenue, six *per cent* (₹ 223 crore) in non-tax Revenue, 17 *per cent* (₹ 895 crore) in State's share of union taxes and duties from GoI and seven *per cent* (₹ 322 crore) in Grants-in-aid from GoI resulted in increase of ₹ 3,148 crore in the revenue receipts in 2011-12 over the previous year.

The trends in revenue receipts relative to the Gross State Domestic Product (GSDP) are presented in **Table-1.5** below:

Table-1.5: Trends in revenue receipts relative to GSDP[9]

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue receipts (RR) (₹ in crore)	**13,879**	**15,663**	**18,154**	**22,720**	**25,867**
Rate of growth of RR (*per cent*)	21.2	12.86	15.90	25.15	13.86
RR/GSDP (*per cent*)	17.48	16.15	18.29	19.32	19.08
Buoyancy Ratios[10]					
Revenue buoyancy with respect to GSDP	1.06	0.62	6.74	1.36	0.91
State's own tax buoyancy with reference to GSDP	0.57	1.83	3.40	1.43	1.24
Gross State Domestic Product *(₹ in crore)*	80,255.11	96,972.18	99,261.96	1,17,566.74	1,35,536.34
Rate of growth of GSDP	20.01	20.83	2.36	18.44	15.28

(Source: Finance Accounts of the respective years and Economic Survey 2011-12)

Revenue buoyancy and State's own tax buoyancy with respect to the growth of GSDP showed an oscillating trend and ranged between 0.62 to 6.74 and 0.57 to 3.40 respectively during 2007-12. However, these ratios decreased over the previous year due to lower growth rate of 25.15 *per cent* in revenue receipts as well as growth rate of 18.96 *per cent* over the previous year.

Grants-in-aid

The Grants-in-aid from GoI increased by ₹ 322 crore (seven *per cent*) from ₹ 4454 crore in 2010-11 to ₹ 4776 crore in 2011-12, mainly due to increase in Grants-in-aid of ₹ 414 crore under centrally sponsored schemes and ₹ 147 crore in non-plan grants. However, the receipt of plan grants for State plan schemes decreased by ₹ 239 crore during the year ***(Appendix-1.4)***.

9 The buoyancy figures, as depicted in the earlier Reports of State Finances, have changed due to change in GSDP figures.

10 Buoyancy ratio indicates the elasticity or degree of responsiveness of fiscal variables with respect to a given change in the base variables. For instances, revenue buoyancy at 0.6 implies that the revenue receipts tend to increase by 0.6 percentage points in the GSDP increase by one *per cent*.

Central Tax Transfers

The quantum of the central tax transfers increased by 17 *per cent* from ₹ 5,425 crore in 2010-11 to ₹ 6,320 crore in 2011-12. The increase was primarily due to increase of corporation tax by ₹ 367 crore (17 *per cent*), service tax by ₹ 213 crore (39 *per cent*), customs duties by ₹ 147 crore (15 *per cent*) and taxes on income other than corporation tax by ₹ 143 crore (13 *per cent*).

1.4.1 State's own resources

The State's share of Central Taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central Tax Receipts and Central assistance for Plan schemes etc. The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising Revenue from its own tax and non-tax sources.

The actual receipts under the State's tax and non-tax revenue *vis-a-vis* assessment made by ThFC and the State Government in its budget estimate are given in **Table 1.6.** The growth rate of tax/non tax revenue during the period 2007-12 is given in the **Table 1.7** below:

Table 1.6 : Tax and non-tax revenue *vis-à-vis* assessment of ThFC and BE during 2011-12

(₹ in crore)

	Assessment made by ThFC	Budget estimates	Actuals
State's tax revenue	10,063	9,830	10,712
State's non-tax revenue	2,516	4,311	4,058

(Source: Finance Accounts 2011-12)

Table 1.7 : Growth rate of tax/non-tax revenue between 2007-12

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Tax revenue	5,618	6,594	7,123	9,005	10,712
Rate of growth *(per cent)*	11.34	17.37	8.03	26.42	18.96
Non-tax revenue	2,021	2,202	3,043	3,835	4,058
Rate of growth *(per cent)*	39.28	8.96	38.19	26.03	5.81

(Source: Finance Accounts of the respective years)

Tax revenue

Tax revenue increased by 19 *per cent* (₹ 1,707 crore) during 2011-12 (₹ 10712 crore) over the previous year (₹ 9,005 crore), mainly due to increase in taxes on sales and trades etc. (₹ 1,165 crore), goods and passengers (₹ 151 crore) and taxes and duties on electricity (₹ 135 crore) over the previous year.

The growth rate of tax revenue during 2007-12 showed an oscillating trend and ranged between eight and 26 *per cent*. However, the growth rate decreased over the previous year. The State's tax revenue (₹ 10,712 crore) during the current year was more by ₹ 649 crore and ₹ 882 crore than the projection made by ThFC (₹ 10,063 crore) and the normative assessment made in the budget estimates (₹ 9,830 crore) respectively.

The sector-wise components of tax revenue during the period 2007-12 are shown in **Table-1.8**.

Table-1.8: Sector-wise components of tax revenue

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
VAT/Taxes on sales, trade etc.	3,024	3,611	3,712	4,841	6,006
State excise	843	964	1,188	1,506	1,597
Taxes on vehicles	277	314	352	428	502
Stamps and registration fees	463	496	583	786	846
Land Revenue	88	359	160	247	271
Taxes on goods and passengers	511	421	696	675	826
Other Taxes	412	429	432	522	664
Total	**5,618**	**6,594**	**7,123**	**9,005**	**10,712**
Growth rate (in *per cent*)	11.34	17.37	8.03	26.42	18.96

(Source: Finance Accounts of the respective years)

Non-Tax Revenue

Non-tax revenue increased by six *per cent* (₹ 223 crore) during 2011-12 over the previous year, mainly due to increase in receipts from non-ferrous mining and metallurgical industries (₹ 274 crore), major irrigation projects (₹ 108 crore) and interest receipts (₹ 46 crore).

The growth rate of non-tax revenue during 2007-12 showed an oscillating trend and ranged between nine and 39 *per cent*. However, the growth rate of non-tax revenue receipts decreased (18.96 *per cent*) in 2011-12 over the previous year (26.42 *per cent*) The non-tax revenue receipts in 2011-12 exceeded the normative assessments made by the ThFC by 61 *per cent* but were lower by ₹ 253 crore (six *per cent*) than the assessments made by the State Government in its budget estimates.

1.4.2 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2009-10, 2010-11 and 2011-12 along with the relevant all India average percentage of expenditure on collection for the relevant previous years are mentioned in **Table 1.9** below:

Table-1.9: Cost of collection of taxes and duties

Heads of revenue	Year	Gross collection (₹ in crore)	Expenditure on collection of revenue (₹ in crore)	Percentage of expenditure on collection	All-India average percentage of previous years
VAT/Taxes on sales, trade etc.	2009-10	3,712.16	25.71	0.69	0.88
	2010-11	4,840.79	29.99	0.62	0.96
	2011-12	6,006.25	40.63	0.68	**0.75**
Taxes on vehicles	2009-10	351.00	10.00	2.85	2.93
	2010-11	427.52	7.93	1.85	3.07
	2011-12	502.19	10.00	1.99	**3.71**
State excise	2009-10	1,187.72	35.35	2.98	3.66
	2010-11	1,506.44	40.68	2.70	3.64
	2011-12	1,596.97	52.06	3.26	**3.05**
Stamps and Registration fees	2009-10	583.13	14.94	2.56	2.77
	2010-11	785.85	18.52	2.36	2.47
	2011-12	845.82	20.75	2.45	**1.60**

(Source: Information furnished by the Revenue Audit wing of the AG (Audit)

It can be seen from the above Table that the percentage of cost of collection in respect of Stamps and Registration fees during 2011-12 in the State was higher than the all India average cost of collection.

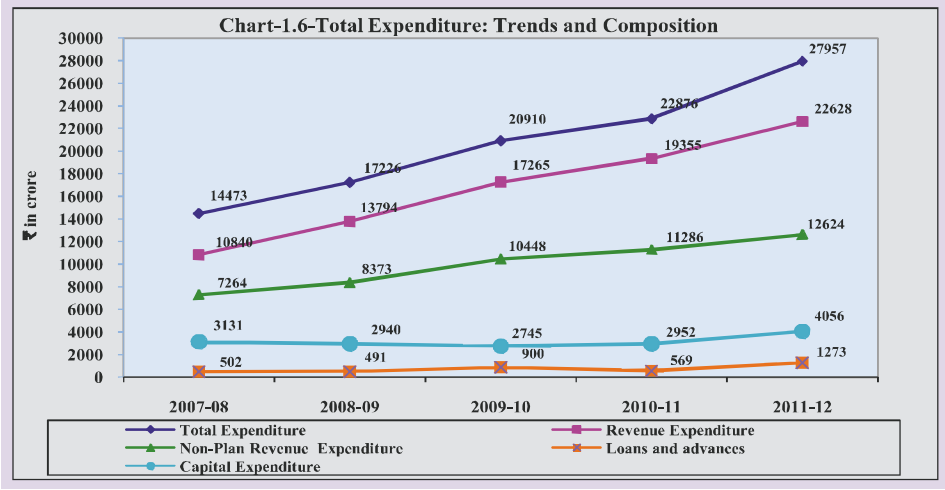
It is recommended that the Government should analyse the high cost of collection and take appropriate measures in this regard.

1.5 Application of Resources

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

1.5.1 Growth and composition of expenditure

Chart-1.6 presents the trends in total expenditure over a period of five years (2007-12).



(Source: Finance Accounts of the respective years)

The total expenditure comprising revenue expenditure, capital expenditure and loans and advances including inter-state settlement, increased from ₹ 14,473 crore in 2007-08 to ₹ 27,957 crore in 2011-12. The increase of ₹ 5,081 crore in total expenditure in 2011-12 over the previous year was mainly due to increase of ₹ 3,272 crore (17 *per cent*) in revenue expenditure, ₹ 1,105 crore (37 *per cent*) in capital expenditure and ₹ 704 crore (124 *per cent*) in loans and advances including inter state settlement. The growth rate of total expenditure ranged between *nine* and 23 *per cent* during 2007-12. The growth rate of total expenditure also increased from nine *per cent* in 2010-11 to 22 *per cent* in 2011-12. The total expenditure was 21 *per cent* of GSDP during 2011-12 as compared to 19 *per cent* during the previous year.

The total expenditure and its composition during the years 2007-08 to 2011-12 are given below in **Table-1.10**.

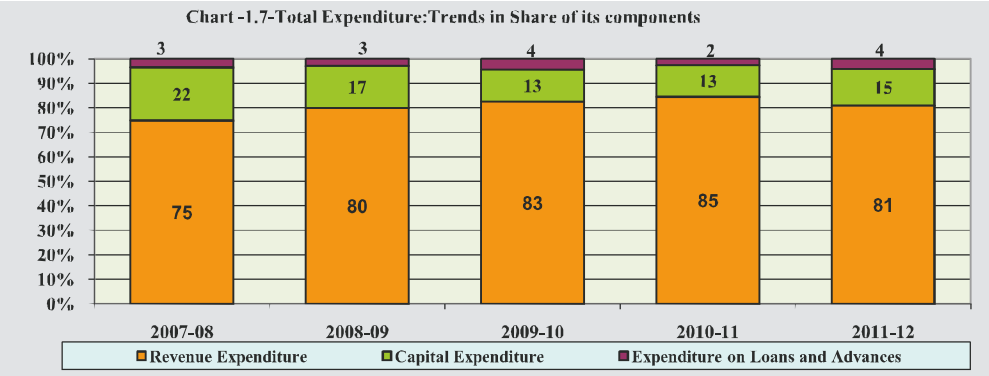
Table-1.10: Total expenditure and its composition

(₹ in crore)

Description	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure	14,473	17,226	20,910	22,876	27,957
Rate of growth	22.93	19.02	21.39	9.40	22.21
Revenue expenditure (Percentage to Total expenditure)	10,840 (75)	13,794 (80)	17,265 (83)	19,356 (85)	22,628 (81)
Of which, non plan revenue expenditure	7,264	8,373	10,448	11,287	12,624
Capital expenditure (Percentage to Total expenditure)	3,131 (22)	2,940 (17)	2,745 (13)	2,952 (13)	4,056 (15)
Loans and advances* (Percentage to total expenditure)	502 (04)	492 (03)	900 (04)	569 (02)	1273 (04)

**Includes Inter- State Settlement*
(Source: Finance Accounts of respective years)

Chart-1.7 depicts the composition of total expenditure in terms of Economic classification over the period 2007-12.



(Source: Finance Accounts of the respective years)

Revenue expenditure

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

The Revenue expenditure was 81 *per cent* of the total expenditure, of which, 56 *per cent* was on non-plan revenue expenditure and 44 *per cent* was on plan expenditure ***(Appendix-1.3)*** indicating that more than half of the revenue expenditure was incurred on non-plan expenditure.

Plan revenue expenditure

The share of plan revenue expenditure which normally covered the maintenance expenditure incurred on services, increased as a percentage of the total revenue expenditure from 33 in 2007-08 to 44 in 2011-12. The plan revenue expenditure during 2011-12 increased by ₹ 1,935 crore (24 *per cent*) relative to 2010-11 mainly due to increase under education, sports, arts and culture (₹ 722 crore), social welfare and nutrition (₹ 324 crore), rural development programmes (₹ 230 crore), welfare of Scheduled caste, Scheduled tribes and Other backward castes (₹ 192 crore), water supply, sanitation, Housing and urban development programmes (₹ 187 crore) and

Health and family welfare (₹ 158 crore). However, the plan revenue expenditure (₹ 10004 crore) was less than the budget estimates (₹ 11,182 crore) by ₹ 1,178 crore (11 *per cent)* as detailed in ***Appendix1.7.***

Non-plan revenue expenditure

The non-plan revenue expenditure (NPRE) during 2011-12 increased by ₹ 1,337 crore (12 *per cent*) mainly due to increase in the expenditure under Administrative services (₹ 405 crore), social welfare and nutrition (₹ 264 crore), rural development (₹ 240 crore), fiscal services (₹ 138 crore), transport (₹ 130 crore) and education, sports, arts and culture (₹ 105 crore) ***(Appendix-1.7).***

The NPRE (₹ 12,624 crore) was less than the normative projection made in the budget estimates (₹ 13,280 crore) by five *per cent* (₹ 656 crore). However, the share of NPRE to total revenue expenditure declined from 67 *per cent* in 2007-08 to 56 *per cent* in 2011-12.

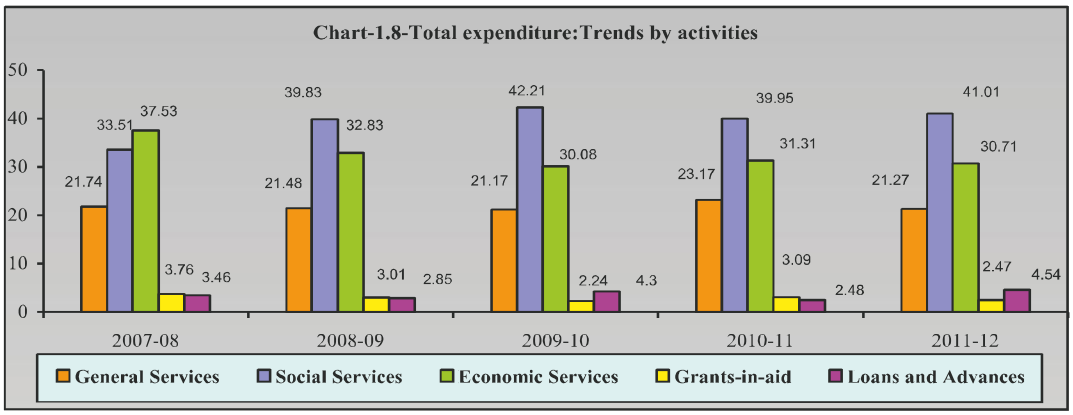
Capital expenditure

- Capital expenditure increased by 37 *per cent* (₹ 1,105 crore) over the previous year mainly due to increase in expenditure under the Heads: capital outlay on power projects (₹ 900 crore), minor irrigation (₹ 242 crore) and urban development programmes (₹ 241 crore).
- The capital expenditure and loans and advances including inter-state settlement were 15 *per cent* and four *per cent* respectively of the total expenditure.

The share of expenditure on loans and advances together with inter-state settlement in 2010-11 was two *per cent* which increased to four *per cent* of the total expenditure during the year due to increase in disbursement in loans and advances by the State Government.

Trends in total expenditure in terms of activities

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



(*Source: Finance Accounts of the respective years)*

The expenditure by activities during 2007-12 showed inter-variations in its composition. The expenditure on General services ranged between 21.17 to 23.17 *per cent*, on social services between 33.51 to 42.21 *per cent* and on economic services between 30.08 to 37.53 *per cent* of total expenditure during 2007-12. However, the expenditure under the General services and economic services had decreased from 23.17 to 21.27 *per cent* and 31.31 to 30.71 *per cent* respectively, while the expenditure on social services increased from 39.95 to 41.01 *per cent* of total expenditure during the year 2011-12.

The share of Grants-in-aid and loans and advances ranged between 2.24 to 3.76 *per cent* and 2.48 to 4.54 *per cent* of total expenditure during 2007-12.

1.5.2 Expenditure on salaries and wages, pensions and subsidies

The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies.

Table-1.11 and **Chart-1.9** presents the trends in the expenditure on these components during 2007-12.

Table-1.11: Expenditure on salaries and wages, interest payments, pension and subsidies

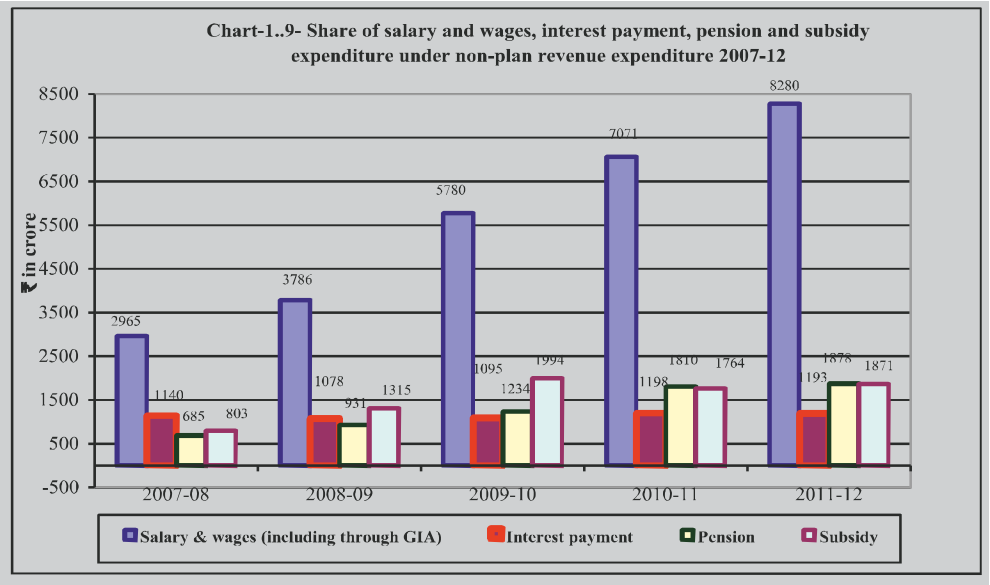
Components of expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BEs	Actuals
Salaries & wages, *of which*	2,965.01 (21.36)	3,670.34 (23.43)	5,646.29 (31.10)	6,362.92 (28.01)	8371.02	7382.61[11] (28.54)
Non-plan Head	2,307.68	2,772.46	4,016.30	4,338.28	NA	4893.18
Plan Head**	657.33	897.88	1,629.99	2,024.64	NA	2489.43
Salary through Grants-in-aid	NA	115.60 (0.74)	133.71 (0.74)	708.33 (3.12)	NA	897.27 (3.47)
Interest payments	1,140 (8.21)	1,077.53 (6.88)	1,094.86 (6.03)	1,198.38 (5.27)	1303.34	1193.20 (4.61)
Expenditure on pensions	684.58 (4.93)	930.77 (5.94)	1,233.76 (6.80)	1,810.33 (7.97)	1621.90	1877.87 (7.26)
Subsidies	802.55 (5.78)	1,314.68 (8.39)	1,994.30 (10.99)	1,763.83 (7.76)	1826.26	1870.93 (7.23)
Total	**5,592.14**	**7,108.92**	**10,102.92**	**11,843.79**		**13221.88**

Figures in the brackets indicate percentage to Revenue Receipts

** Head also includes the Salaries and Wages paid under Centrally Sponsored Schemes.

(Source: Finance Accounts of the State Government of the respective years)

[11] It includes Salary- ₹ 6,976.48 crore and Wages - ₹ 406.13 crore.



(Source: Finance Accounts of the respective years)

The total expenditure on salaries and wages, interest payments, pension and subsidies increased by ₹ 7,630 crore and constituted 58 *per cent* of revenue expenditure and 51 *per cent* of revenue receipts during the period 2007-12.

The component-wise analysis is given as under:

(1) Expenditure on salaries and wages

The expenditure on salaries and wages increased by ₹ 1019.69 crore (16 *per cent*) during 2011-12 as compared to the year 2010-11 and the quantum of salaries paid through Grants-in-aid (GIA)[12] increased by ₹ 188.94 crore (26.67 *per cent*) during 2011-12 as compared to the year 2010-11.

- The expenditure on salaries and wages during the year was less by 12 *per cent* (₹ 988 crore) than the assessment made by the State Government in its budget estimates (₹ 8,371 crore) during the year 2011-12.
- The revenue expenditure on salaries and wages (₹ 7,280 crore) during the year was higher by 25 *per cent* (₹ 1,436 crore) than the provisions made in the disclosures of FRBM Act (₹ 5,844 crore) during the year 2011-12.

(2) Expenditure on pension

The expenditure on pension increased by three *per cent* (₹ 68 crore) from ₹ 1,810 crore in 2010-11 to ₹ 1,878 crore in 2011-12. The increase was mainly due to increase in superannuation pension and relief thereon and increase in Government's contribution on defined pension contribution scheme.

- The expenditure on pension (₹ 1,878 crore) was eight *per cent* of the revenue expenditure (₹ 22,628 crore) and 15 *per cent* of non-plan revenue expenditure (₹ 12623 crore) while consuming seven *per cent* of the total revenue receipts (₹ 25,867 crore).

[12] Salaries paid to various institutions under Education, Sports, Art and Culture, Agriculture and allied activities and Rural Development through Grants- in-aid.

- The expenditure on pension payment (₹ 1,878 crore) exceeded the projections made in its the budget estimates (₹ 1,622 crore) for the year 2011-12 by 16 *per cent* (₹ 256 crore).

(3) Interest payments

Interest payments comprising interest charges on internal debts, small savings, provident funds etc., loans raised from GoI and other obligations, marginally decreased by ₹ five crore from ₹ 1,198 crore in 2010-11 to ₹ 1,193 crore in 2011-12.

The interest payments (₹ 1,193 crore) were well within the assessment made by the State Government in its budget estimates (₹ 1,303 crore) for the year 2011-12. The interest payment as a ratio of revenue expenditure (₹ 22,628 crore) and revenue receipts (₹ 25,867 crore) was five *per cent* during the year.

(4) Expenditure on subsidies

The details of subsidies provided by the State Government during the period 2007-12 are shown in **Table-1.12**:

Table-1.12: Details of subsidies provided by Government during 2007-12

(₹ in crore)

Head of account and name of the department	2007-08	2008-09	2009-10	2010-11	2011-12
2235-Social Welfare and Nutrition	0.44	946.28	1,288.78	886.73	950.51
2401-Crop Husbandry	39.35	41.23	41.00	40.07	46.36
2405-Fisheries	0.55	0.41	0.47	0.75	0.60
2406-Forestry and Wild Life	19.53	10.09	10.00	10.00	8.10
2408-Food Storage and Warehousing	606.16	109.47	406.61	488.65	383.67
2425-Co-operation	7.50	40.03	46.00	83.07	95.32
2702-Minor Irrigation	8.09	10.49	10.62	11.01	10.88
2801-Power	110.14	128.04	150.10	202.10	321.10
2851-Village and Small Industries	9.66	24.27	39.26	37.71	52.52
2852-Industries	1.13	4.37	1.46	3.72	1.87
Total	**802.55**	**1,314.68**	**1,994.30**	**1,763.81**	**1,870.93**

(Source: Finance Accounts of the respective years)

It would be seen from the above table that the expenditure on subsidies increased by ₹ 107.12 crore from ₹1,763.81crore in 2010-11 to ₹ 1,870.93 crore in 2011-12. It constituted eight *per cent* of revenue expenditure (₹ 22,628 crore) and seven *per cent* of revenue receipts (₹ 25,867 crore). The major recipients of subsidies during 2011-12 were social welfare and nutrition (₹ 951 crore), Agriculture and allied activities[13] (₹ 534 crore) and energy (₹ 321crore) sectors. Out of the total subsidies of ₹ 1871 crore, ₹ 363 crore (19 *per cent*) was under non-plan, ₹ 1,474 crore (₹ 79 *per cent*) under plan

[13] Includes Crop Husbandry, Fisheries, Forestry and Wild Life, Food Storage and Warehousing and Co-operation.

heads and ₹ 34 crore (two *per cent*) was under Centrally Sponsored Schemes/Central Plan Schemes.

1.5.3 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the current and previous years is presented in **Table-1.13.**

Table-1.13: Financial assistance to local bodies etc.

(₹ in crore)

Financial assistance to institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	98.86	83.82	83.90	144.82	**163.07**
Power/Energy	135.13	118.00	65.05	101.05	**149.56**
Agriculture	16.81	19.78	26.50	37.50	**56.50**
Urban bodies	618.15	737.26	577.71	905.50	**1,268.53**
Panchayati raj Institutions	955.14	1,299.47	1,520.71	1,835.92	**2,811.71**
Other Institutions	183.17	304.72	478.25	376.43	**158.21**
Total	**2,007.26**	**2,563.05**	**2752.12**	**3401.22**	**4,607.58**
Revenue expenditure (RE)	10840	13794	17265	19356	**22628**
Assistance as percentage of RE	18.52	18.58	15.94	17.57	20.36

(Source: Finance and Appropriation Accounts of the respective years)

Financial assistance to local bodies and other institutions increased from ₹ 2,007 crore in 2007-08 to ₹ 4,608 crore in 2011-12, recording a growth of 130 *per cent* during the period and a growth rate of 35 *per cent* over the year 2010-11.

The assistance, as a percentage of revenue expenditure, ranged between 15.94 to 20.36 *per cent*. However, it was at the highest level of 20.36 *per cent* during 2011-12. The major financial assistance was given by the Government mainly to Panchayati Raj Institutions and Urban Bodies which works out to 61 *per cent* of the total assistance given during 2011-12.

1.6 Quality of expenditure

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

1.6.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is

attached to a particular sector, if it is below the respective national average. **Table 1.14** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2011-12.

Table 1.14: 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
Chhattisgarh's Average (Ratio) 2008-09	17.76	75.44	40.09	19.93	14.80	3.61
General Category Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Chhattisgarh's Average (Ratio) 2011-12	20.63	76.22	41.24	19.06	18.21	3.95

* As *per cent* to GSDP (The GSDP 2011-12 figures are advance figures)
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.

It can be seen from the above Table that:

- Chhattisgarh State has been spending a higher portion of its GSDP on aggregate expenditure as compared to General Category States in both the years 2008-09 and 2011-12.
- Development expenditure, social sector expenditure and the capital expenditure as a percentage to aggregate expenditure in the State was also higher than the General Category State's average during 2008-09 and 2011-12.
- The expenditure in the education sector as a percentage of aggregate expenditure in 2008-09 was lower than the corresponding percentage of General Category States but was higher in 2011-12.
- The expenditure under Health Sector as a percentage of aggregate expenditure was slightly less as compared to General Category States in the years 2008-09 as well as 2011-12.

The Government should take necessary steps to increase the share of expenditure in respect of Health sector.

1.6.2 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 Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[14]. Apart from improving the allocation towards development expenditure[15], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on Operation and Maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table-1.15** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2011-12 *vis-à-vis* those budgeted in the previous years.

Table-1.15: 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)	**10,773 (74)**	**12,995 (75)**	**16,002 (77)**	**16,857 (73)**	**23,830**	**21,310 (76)**
a. Development Revenue Expenditure	7,257 (50)	9,676 (56)	12,447 (60)	13,401 (59)	17,704	16,037 (57)
b. Development Capital Expenditure	3,024 (21)	2,838 (16)	2,668 (13)	2,899 (13)	4,949	4014 (15)
c. Development Loans and Advances	492 (03)	481 (03)	887 (04)	557 (02)	1,177	1259 (05)

Figures in brackets indicate percentage to aggregate expenditure

(Source: Finance Accounts of the respective years)

The development expenditure, comprising of revenue and capital expenditure and loans and advances for socio-economic services, as a percentage of the aggregate expenditure of the State, increased from 74 *per cent* (₹ 10,773 crore) in 2007-08 to 76 *per cent* (₹ 21,310 crore) during 2011-12. The total development expenditure increased by ₹ 4,453 crore (26 *per cent*) during 2011-12 over the previous year mainly due to increase in development revenue expenditure from ₹ 2,636 crore (20 *per cent*), development capital expenditure ₹ 1,115 crore (38 *per cent*) and loans and advances by ₹ 702 crore (126 *per cent*).

[14] Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidised 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 subsidised 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.

[15] 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 categorised 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.

The development revenue expenditure as a percentage of aggregate expenditure of the State came down from 59 *per cent* in 2010-11 to 57 *per cent* during the year 2011-12. However, the development capital expenditure and loans and advances as a percentage of aggregate development expenditure increased from 13 and two *per cent* in 2010-11 to 15 and five *per cent* respectively in 2011-12.

Table 1.16 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table-1.16: 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	
		ME	S &W		ME	S&W
Social Services (SS)						
Total social services *Of which*	**3.62**	**1.22**	**42.08**	**3.54**	**1.90**	**38.24**
General education	1.10	0.37	45.84	0.52	2.08	41.32
Public health and family welfare	0.43	0.45	75.41	0.53	0.64	57.18
Water supply, Sanitation and Housing and urban development	0.81	4.21	14.20	1.73	2.97	27.73
Economic services (ES)						
Total Economic services *of which*	**9.05**	**4.35**	**25.84**	**10.82**	**5.49**	**27.43**
Agriculture and allied Activities	0.23	1.08	29.78	0.33	1.41	39.35
Irrigation and flood Control	4.54	7.63	74.46	4.37	6.97	74.29

TE: Total Expenditure in the concerned sector; CE: Capital Expenditure in the concerned sector; RE: Revenue Expenditure in the concerned sector; S&W: Salaries and Wages, ME: Maintenance Expenditure

(Source: Appendices of Finance Accounts 2011-12)

Expenditure on Social Services

Capital expenditure on social services increased from ₹ 827.60 crore in 2010-11 to ₹ 988.68 crore in 2011-12, but the share of capital expenditure on social services to total expenditure decreased from 3.62 *per cent* in 2010-11 to 3.54 *per cent* in 2011-12.

While the share of salary expenditure in revenue expenditure in 2011-12 under social services decreased from 42.08 *per cent* to 38.24 *per cent*, the maintenance expenditure increased from 1.22 to 1.90 *per cent* during the year 2011-12 over the previous year.

Expenditure on economic services

Capital expenditure on economic services increased from ₹ 2,071 crore in 2010-11 to ₹ 3,025 crore in 2011-12, the share of capital expenditure on economic services to total expenditure also increased from 9.05 *per cent* in 2010-11 to 10.82 *per cent* in 2011-12.

The share of salaries and maintenance expenditure under revenue expenditure in economic services increased from 25.84 *per cent* to 27.43 *per cent* and 4.35 *per cent* to 5.49 *per cent* during the year respectively as compared to the year 2010-11.

1.7 Financial analysis of Government Expenditure and Investments

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

1.7.1 Incomplete Projects

Information pertaining to Incomplete Projects costing more than ₹ 10 crore and above as on 31 March 2012, is given in **Table-1.17**.

Table-1.17: Department-wise profile of incomplete projects

(₹ in crore)

Department	No.of Incomplete projects as on 31 March 2012	Initial budgeted cost of the incomplete projects	Revised Total cost of incomplete projects (number of projects)	Cost overrun pertaining to incomplete projects due to revision of initial cost	Cumulative Actual expenditure on incomplete projects as on 31 March 2012	Cost Overrun pertaining to incomplete projects due to incurring of expenditure over the sanctioned cost	Total Cost Overrun pertaining to incomplete projects
1	2	3	4	5=4-3	6	7	8=5+7
Public Works Department	54	1301.65	1459.21	157.56 (11)	704.67	1.72 (03)	**159.28**
Water Resources Department	83	5097.81	5931.52	833.71 (17)	1292.81	43.23 (09)	**876.94**
Total	**137**	**6,399.46**	**7,390.73**	**991.27**	**2,042.43**	**44.95**	**1,036.22**

(Source: Finance Accounts 2011-12)

As against the initial budgeted cost of ₹ 6,399 crore in respect of 137 works stipulated to be completed on or before March 2012, the progressive expenditure as of March 2012 was ₹ 2042 crore as detailed in ***Appendix-1.6.*** In 28 cases, the initial budgeted cost was revised by the Government involving cost overrun of ₹ 991.27 crore and in 12 cases the expenditure crossed the initial sanctioned cost leading to cost overrun of ₹ 44.95 crore. This resulted in a total cost of over run of ₹ 1,036.22 crore as of March 2012.

Non-completion of the projects within the stipulated period not only resulted in cost overrun but also deprived the beneficiaries from availing the intended benefits.

1.7.2 Investment and Returns

As of 31 March 2012, Government had invested ₹ 1,194.38 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table-1.18**). The average return on the investment was 0.04 *per cent* while the Government paid at an average interest rate of 7.08 *per cent* on its borrowings during the year 2011-12. The details are given in **Table-1.18**.

Table-1.18: Returns 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)	400.95	430.01	251.67	259.92	1194.38
Return on Investment (₹ in crore)	0.10	0.10	0.44	4.30	0.46
Return on Investment (*per cent*)	0.02	0.02	0.17	1.65	0.04
Average rate of Interest on Government Borrowing (*per cent*)	7.97	7.36	7.13	7.34	7.08
Difference between Interest rate and Return (*per cent*)	7.95	7.34	6.96	5.69	7.04

**The investment at the end of the year does not include un-apportioned investment*
(Source: Finance Accounts of the respective years)

We noticed that out of ₹ 1,194.38 crore invested upto 2011-12, ₹ 165.51 crore was invested in Co-operatives, ₹ 979.06 crore in Government Companies/ Boards and Departments, ₹ 22.88 crore was invested in Statutory Corporations, ₹ 24.31 crore in Rural Banks and ₹ 2.63 crore in Joint Stock Companies.

During 2011-12, the Government mainly invested in the share capital of Chhattisgarh State Electricity Distribution Company (₹ 150 crore), Chhattisgarh State Electricity Transmission Company (₹ 150 crore) and Chhattisgarh State Power Generation Company (₹ 600 crore).

Continued use of borrowed funds to fund investments which do not have sufficient financial returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment of high cost funds.

1.7.3 Loans and Advances by State Government

In addition to Investments in Co-operative Societies, Corporations and Companies, the Government has also been providing loans and advances to many institutions/organisations. **Table-1.19** presents the status of outstanding loans and advances as on 31 March 2012 and interest receipts *vis-à-vis* interest payments during the last three years.

Table-1.19: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of loans/Interest receipts/ cost of borrowings	2009-10	2010-11	2011-12
Opening balance	1,625.53	1,529.89	1535.64[16]
Amount advanced during the year	896.79	566.55	1268.74
Amount repaid during the year	992.43	561.16	1282.53
Closing balance	**1,529.89**	**1,535.28**	**1521.85**
Of which outstanding balance for which terms and conditions have been settled	1,517.60	1,523.68	1094.48
Net addition	(-) 95.64	(+)5.39	(-)13.79
Interest receipts	71.63	79.86	62.79
Interest receipts as *per cent* to outstanding Loans and advances	4.54	5.21	4.11
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.13	7.34	7.08
Difference between Interest receipts and interest payments (*per cent*)	(-)2.59	(-)2.13	(-)2.97

(Source: Finance Accounts of the respective years)

At the end of March 2012, the Government had outstanding loans and advances of ₹ 1521.85 crore, of which loans for general services was ₹ 146.11 crore, loans for social services was ₹ 810.31 crore, and loans for economic services was ₹ 575.46 crore. The outstanding loans and advances was off-set by recovery of ₹ 10.03 crore on account of loans given to government servants. The interest received against these loans and advances was only 4.11 *per cent* during 2011-12 as against 5.21 *per cent* in the previous year.

1.7.4 Cash balances and investment of cash balances

Table-1.20 depicts the cash balances and investments made by the State Government out of the cash balances during the year.

Table-1.20: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2011	As on 31 March 2012	Increase(+)/ decrease(-)
Cash balance (A+B+C)	**2,712.22**	**2700.86**	**(-) 11.36**
1. Investments from cash balances (a to d)	**3,380.80**	**1645.92**	**(-)1734.88**
a. GoI Treasury bills	2,016.75	**1645.92**	**(-)370.83**
b. GoI securities	1,364.05	0	**(-)1364.05**
c. Other securities, if any specify	0.00	0	0
d. Other investments	0.00	0	0
2. Funds wise break-up of investment from earmarked balances (a to d)	**799.04**	**948.90**	**149.86**
a. Sinking fund	796.94	946.94	150.00
b. Famine relief fund	1.32	1.18	**(-)0.14**
c. Revenue reserve fund	0.73	0.73	0.00
d. Development and welfare fund	0.05	0.05	0.00
Interest realised	**89.73**	**153.17**	**63.44**

(Source: Finance Accounts 2011-12)

The State had maintained huge cash balance of ₹ 2,700.86 crore as on 31 March 2012 as against the required minimum cash balance of ₹ 0.72 crore with the Reserve Bank of India (RBI). Intermittently, surplus cash balance was invested by the State Government in short term deposits of Government

[16] Opening Balance changed due to adjustment made in the Finance Accounts 2011-12.

Treasury bills and an aggregate interest of ₹ 153.17 crore earned during the year 2011-12 which was higher by ₹ 63.44 crore as compared to the previous year. The cash balance as on 31 March 2012 had however, decreased by ₹ 11.36 crore over the previous year.

1.8 Assets and Liabilities

1.8.1 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 assets created out of the expenditure incurred. ***Appendix-1.4*** gives an abstract of such liabilities and assets as on 31 March 2012, compared with the corresponding position, as on 31 March 2011. While the liabilities in ***Appendix-1.4*** 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.

1.8.2 Fiscal Liabilities

The trends in outstanding Fiscal Liabilities of the State are presented in ***Appendix-1.4***. However, the composition of Fiscal Liabilities during the year 2011-12 *vis-à-vis* the previous year is presented in **Chart-1.10 and 1.11**.

Chart-1.10 - Composition of outstanding fiscal liabilities as on 01.04.2011 (₹ in crore)

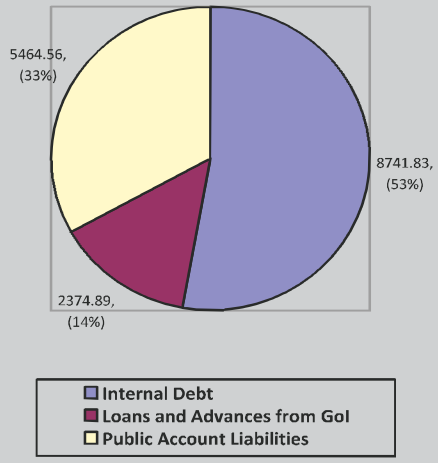
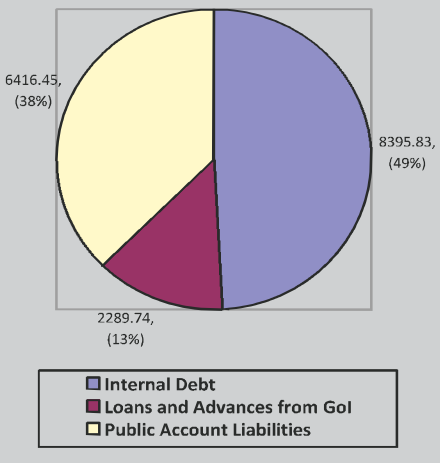


Chart-1.11 - Composition of outstanding fiscal liabilities as on 01.04.2012 (₹ in crore)



It would be seen from the above chart that there are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund- Capital account. It includes market loans, special

securities issued to RBI and loans and advances from GoI. The Constitution of India provides that the State may borrow within the territory of India upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of the Legislature and give guarantees within such limits as may be fixed. Other liabilities or fiscal liabilities which are a part of the Public Account include deposits under the small savings scheme, provident funds and other deposits.

Internal debts decreased from 53 *per cent* in 2010-11 to 49 *per cent* of the fiscal liabilities at the end of 2011-12. While the Public Account liabilities as a percentage of the fiscal liabilities increased from 33 *per cent* in 2010-11 to 38 *per cent* in 2011-12, the quantum of outstanding loans and advances from GoI decreased marginally from 14 *per cent* in 2010-11 to 13 *per cent* in 2011-12.

The fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP and Revenue Receipts are presented in **Table-1.21**:

Table-1.21: Fiscal Liabilities Basic Parameters

	2007-08	2008-09	2009-10	2010-11[17]	2011-12
Fiscal Liabilities (₹ in crore)	14,512	14,780	15,933	16,581	17,102
Rate of Growth of Fiscal Liabilities (in *per cent*)	2.83	1.85	7.79	4.06	3.14
Fiscal Liabilities/GSDP (Debt-GSDP ratio) (in *per cent*)	18.08	15.24	16. 05	14.10	12.62
Fiscal Liabilities/Revenue receipts (in *per cent*)	104.56	94.36	87.77	72.98	66.11
Gross State Domestic Product (₹ in crore)	80,255	96,972	99,262	1,17,567	1,35,536

(Source: Finance Accounts of the respective years.)

The overall fiscal liabilities of the State increased from ₹ 14,512 crore in 2007-08 to ₹ 17,102 crore (18 *per cent)* in 2011-12. The growth rate of liabilities was 3.14 *per cent* during 2011-12 as against the growth rate of 4.06 *per cent* in 2010-11.

The fiscal liabilities as at the end of 2011-12 represented 66.11 *per cent* of the revenue receipts during the year as against 72.98 *per cent* during 2010-11. During 2011-12, the Debt-GSDP ratio at 12.62 *per cent* was less than the projection made (16.16 *per cent*) in MTFPS.

The decreasing trend of Debt-GSDP ratio indicates the State's capability to discharge its liabilities.

1.8.3 Status of Guarantees Contingent Liabilities

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

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years are given in **Table-1.22**.

[17] Figures of 2010-11 changed due to adjustments made in Finance Accounts and change in GSDP Figures.

Table-1.22: Guarantees given by the Government of Chhattisgarh

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	4,400.65	5,053.59	7,079.29
Outstanding amount of guarantees	3,337.53	2,849.35	2,637.40
Revenue Receipts	18,153.66	22,719.54	25,867.38
Percentage of maximum amount guaranteed to total revenue receipts	24.24	22.24	27.37

(Source: Finance Accounts of the respective years)

No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limits within which Government may give guarantee on security of the Consolidated Fund of the State. However, the State Government has guaranteed loans raised by various corporations and others which stood at ₹ 2,637 crore at the end of 2011-12.

The outstanding guarantees were of ₹ 2,637.40 crore were given to Co-operatives (₹ 1,947 crore), Power (₹ 429 crore), Housing and Urban Development (₹ 177 crore), State Financial Corporation (₹ 81 crore) and others (₹ four crore). The outstanding amount of guarantees in the nature of contingent liabilities was about 10 *per cent* of the total revenue receipts (₹ 25,867.38 crore) of the State.

To provide for sudden discharge of the State's obligations on guarantees, the TFC recommended that States should set up a Guarantee Redemption Fund through earmarked guarantee fees. However, the State Government had decided not to form the Guarantee Redemption Fund in view of very less number of high risk guarantees in the State. No guarantee was, however, invoked during the year 2011-12.

1.9 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability[18] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[19]; sufficiency of non-debt receipts[20]; net availability of borrowed funds[21]; burden of interest payments (measured by interest

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

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

[20] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[21] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

payments to revenue receipts ratio) and maturity profile of State Government securities. **Table-1.23** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2009-10.

Table-1.23: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread +Primary Deficit)	245	3,324	1,752
Sufficiency of incremental Non-debt Receipts (Resource Gap)	(-)731	(+)2,169	(-)1211
Net Availability of Borrowed Funds	57	(-)438	(-) 672
Interest Payments	1,095	1,198	1,193
Revenue Receipts	18,154	22,720	25,867
Burden of Interest Payments (IP/RR Ratio)	6.03	5.27	4.61

(Source: Finance Accounts of the respective years)

The trends in **Table-1.23** reveals that the quantum spread together with the primary deficit consistently remained positive during the period 2009-12, leading to a constant decline in fiscal liabilities to GSDP ratio which came down to 12.62 *per cent* in 2011-12 from 14.10 *per cent* in 2010-11.

The sufficiency of incremental Non-debt receipts (resources gap) was negative during the year 2009-10 and 2011-12 which showed that the incremental Non-debt receipts were inadequate to finance incremental primary expenditure.

The net availability of borrowed funds after repayment of principal and interest declined during 2009-12 from ₹ 57 crore to (-) ₹ 672 crore. This shows that a larger part of the borrowing was being used for debt redemption. During 2011-12, the Government re-paid ₹ 5405 crore (principal and interest on account of internal debt of ₹ 1,442 crore, GoI loans of ₹ 330 crore and also discharged other obligations of ₹ 3,633 crore) which were more than the total receipts of ₹ 4,733 crore (internal debt of ₹ 365 crore, GoI loans of ₹ 57 crore and other obligations of ₹ 4,311 crore) resulting in negative net availability of funds during the year 2011-12.

A maturity profile of the State Debt for repayment in future by the State is shown in the **Table 1.24.**

Table 1.24: Maturity Profile of the State Debt (In years)

(₹ in crore)

Years	2009-10	2010-11	2011-12	Percentage to Total Debt (2011-12)
0-5	4,224.98	4,182.47	4,252.03	40
6-10	3,333.13	3,351.11	3,115.08	29
11-15	1,987.75	2,039.44	1,958.45	18
16-20	1,150.28	1,164.79	1,012.50	10
20 and above	316.25	378.91	347.50[22]	03
Total	**11,012.39**	**11,116.72**	**10,685.56**	

(Source: Finance Accounts of the respective years)

[22] Includes the details of maturity year was not available and taken as loan amount allocated to Madhya Pradesh but repaid by Chhattisgarh.

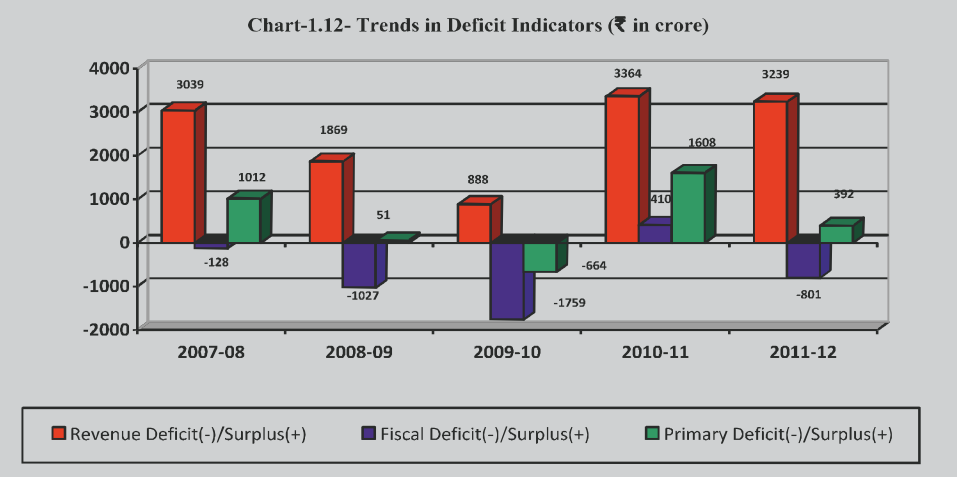
The above Table indicates that there will be bunching of repayment to the extent of 40 *per cent* of State debt after five years and the repayment burden will be critical.

1.10 Fiscal Imbalances

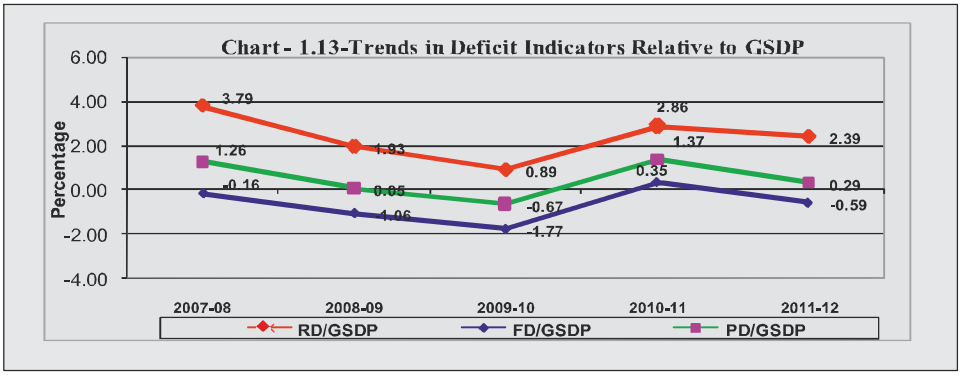
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2011-12.

1.10.1 Trends in Deficits

Chart-1.12 and 1.13 and the **Table 1.25** present the trends in deficit indicators over the period 2007-12.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years and Economic Survey 2011-12)

Table-1.25:Trends in Deficit

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue deficit (-) / surplus (+)	(+)3,039	(+)1,869	(+)888	(+)3,364	(+)3,239
Fiscal deficit (-) / surplus (+)	(-)128	(-)1,027	(-)1,759	(+)410	(-)801
Primary deficit (-)/ surplus (+)	(+)1,012	(+)51	(-)664	(+)1,608	(+)392

(Source: Finance Accounts of respective years)

The revenue surplus of the State which indicates the excess of its revenue receipts over revenue expenditure, showed oscillating trend during 2007-12. The revenue surplus decreased from ₹ 3,039 crore in 2007-08 to ₹ 888 crore in 2009-10 and increased to ₹ 3,364 crore in 2010-11. However, it further decreased to ₹ 3,239 crore in 2011-12.The decrease of revenue surplus of ₹ 124 crore (Four *per cent*) during the year compared to the previous year was due to increase of 16.91 *per cent* in revenue expenditure in comparison to 14 *per cent* increase in revenue receipts.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 128 crore in 2007-08 to ₹ 1759 crore in 2009-10 but turned into fiscal surplus of ₹ 410 crore during 2010-11. During 2011-12 the fiscal surplus again turned into fiscal deficit of ₹ 801 crore.

The primary surplus showed inter-variations during 2007-12. It decreased from ₹ 1,012 crore in 2007-08 and reached the lowest level of ₹ 51 crore in 2008-09 before turning into a primary deficit of ₹ 664 crore in 2009-10. The primary deficit which turned into primary surplus of ₹ 1,608 crore during 2010-11 decreased to ₹ 392 crore during 2011-12.

The revenue surplus as a percentage of GSDP decreased from 2.86 in 2010-11 to 2.39 in 2011-12. Though, the fiscal surplus relative to GSDP was 0.35 *per cent* in 2010-11, it turned into fiscal deficit of 0.59 *per cent* of GSDP in 2011-12.

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The fiscal deficit is the total borrowing requirement of the State and is the excess of revenue expenditure and Capital Expenditure including Loans and Advances over Revenue and Non-debt Capital Receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirements of funds over and above the revenue and non-debt receipts. The financing pattern of the fiscal deficit is reflected in the **Table-1.26**.

Table-1.26: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit						
1	Revenue Deficit(-)/Surplus(+)	3,038.79	1,869.06	888.22	3,363.79	3239.33
2	Net Capital Expenditure	(-)3,103.73	(-)2,938.38	(-)2,742.61	(-) 2,948.95	(-)4052.47
3	Net Loans and Advances[23]	(-)62.77	42.67	95.39	(-) 5.08	11.97
	Total	**(-)127.71**	**(-)1,026.65**	**(-)1,759.00**	**409.76**	**(-)801.17**
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	(-)157.08	(-)153.44	449.85	(-) 235.03	(-)313.14
2	Loans from GoI	(-)167.06	94.93	106.83	67.38	(-)85.15
3	Special Securities Issued to NSSF	37.75	(-)2.78	146.33	373.47	13.00
4	Loans from Financial Institutions	(-)10.06	(-)41.73	(-)67.36	(-) 101.49	(-)45.86
5	Small Savings, PF etc	51.50	73.74	294.37	328.97	307.76
6	Deposits and Advances	441.77	30.20	(-)22.47	355.26	585.94
7	Suspense and Miscellaneous	(-)257.12	1,024.80	512.00	(-) 2,129.58	1758.77
8	Remittances	(-)78.72	80.65	(-)111.83	33.68	96.10
9	Others[24]	184.00	265.96	244.91	(-) 28.08	58.90
	Total	**44.98**	**1,372.33**	**1,552.63**	**(-) 1,335.42**	**2376.32**
	Overall Surplus(+)/Deficit(-)	**(-)82.73**	**345.68**	**(-)206.37**	**(-) 925.66**	**1575.15**
	Total	**127.71**	**1,026.65**	**1,759.00**	**(-) 409.76**	**801.17**

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

(Source: Finance Account of the respective years)

Decomposition of fiscal deficit/surplus shows fiscal deficit during 2007-12 except during 2010-11. During 2007-08, the deficit was financed mostly from the Special Securities issued to National Small Savings Fund but the trend changed over the years and during 2011-12, the fiscal deficit was mainly financed from the resources raised from Special Securities issued to National Small Savings Fund, Small Savings, Provident fund, Deposits and Advances, suspense and Miscellaneous, Remittances.

1.10.3 Quality of Deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit[25] and capital expenditure (including Loans and Advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption

The bifurcation of the primary deficit (**Table-1.27**) would indicate the extent to which the deficit has been on account of enhancement in Capital Expenditure which may be desirable to improve the productive capacity of the State's economy.

[23] It includes inter-State settlement.

[24] It includes Contingency Fund, Reserve Fund.

[25] Primary revenue deficit is defined as the gap between non interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

Table-1.27: Primary Deficit/surplus Bifurcation of Factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure[26]	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2007-08	14,345	9,700	3,131	502	13,333	(+)4,645	(+)1,012
2008-09	16,199	12,716	2,940	492	16,148	(+)3,481	(+)51
2009-10	19,151	16,170	2,745	900	19,815	(+)2,981	(-)664
2010-11	23,286	18,157	2,952	569	21,678	(+)5,129	(+)1,608
2011-12	27,156	21,435	4,056	1,273	26,764	(+)5,721	(+)392

(Source: Finance Accounts of the respective years)

During 2007-12, non-debt receipts increased by (89 *per cent* from ₹ 14,345 crore in 2007-08 to ₹ 27,156 crore in 2011-12 against an increase of primary revenue expenditure from ₹ 9,700 crore to ₹ 21,435 crore (121 *per cent)*

Bifurcation of the factors leading to primary surplus of the State revealed that the State was having primary surplus during the period 2007-12 except during 2009-10. In other words, non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account during the period. This indicates a healthy trend in the State's finances.

1.11 Conclusion and Recommendations

Fiscal Position

The fiscal position of the State had declined in terms of the key parameters. While the revenue surplus and primary surplus decreased over the previous year, the fiscal surplus turned into fiscal deficit during the year 2011-12.

Due to substantial increase in total expenditure (₹ 5,081 crore) over the previous year as compared to the total revenue and non-debt receipts (₹ 3,870 crore) of the State, the fiscal surplus (₹ 410 crore) turned into fiscal deficit (₹ 801 crore) and marginal decrease in interest payment resulted in the decrease of primary surplus from ₹ 1,608 crore to ₹ 392 crore.

The fiscal liabilities at the end of the current year worked out to ₹ 17,102 crore which is 12.62 *per cent* of GSDP against projection of 16.16 *per cent* made in FRBM Act.

Revenue Receipts

Revenue receipts increased by 14 *per cent* over the previous year due to increase in tax revenue and central transfers comprising the State's share in Union Taxes/ Duties and Grants-in-aid from GoI during 2011-12 (by 17 *per cent* and by seven *per cent*) respectively as compared to 2010-11.

[26] Primary expenditure of the State is defined as the total expenditure net of interest payments and indicates the expenditure incurred on the transactions undertaken during the year.

The State's own tax revenue (₹ 10,712 crore) was higher than the normative assessment made by the ThFC (₹ 10,063 crore) and budget estimates (₹ 9830 crore). The State's own non-tax revenue (₹ 4058 crore) was higher than the projections made by the ThFC (₹ 2516 crore) but it could not achieve the targets fixed in the budget estimates (₹ 4311 crore).

Recommendation

The State should make efforts to increase the non-tax revenue to improve the State finances.

Revenue Expenditure

The Revenue expenditure continued to be a dominant (81 *per cent*) part of the total expenditure during 2011-12. The Non plan revenue expenditure (₹ 12,624 crore) was less than the budget estimates (₹ 13,280 crore) by five *per cent* (₹ 656 crore)

The expenditure on salaries and wages, pension, interest payment and subsidies constituted 85 *per cent* of NPRE during 2011-12 and 51 *per cent* of revenue receipts of the State were spent on salaries & wages, pension, interest payment and subsidies.

Capital Expenditure

The Capital expenditure (₹ 4,056 crore) increased by ₹ 1,105 crore over the previous year and its proportion to total expenditure increased from 13 to 15 *per cent*. However, it was less than the projection made in the FRBM Act (₹ 6,264 crore) and budget estimates (₹ 5,077 crore) by 35 *per cent* and 20 *per cent* respectively.

Recommendation

The State Government should step up asset creation by enhancing the share of Capital expenditure which would increase the growth prospects of the State.

Return on investment and Loans and Advances

The State Government had invested ₹ 1,194.38 crore upto the end of March 2012 and the outstanding loans and advances due for recovery was ₹ 1,521.85 crore. The average return on Government's investments and outstanding loans were only 0.04 *per cent* and 4.11 *per cent* respectively while the Government paid an average interest rate of 7.08 *per cent* on its borrowings during 2011-12.

Recommendation

The Government may ensure proper justification for investment of high cost funds.

Status of Cash Balance

The State Government had been investing its huge surplus cash balances in the treasury bills of GoI with Reserve Bank of India.

Recommendation

The Government should effectively plan the utilisation of surplus Cash Balances before resorting to fresh borrowings.

Incomplete Projects

Funds aggregating to ₹2,042 crore were blocked due to inordinate delays in completion of works and irrigation projects leading to cost escalation which is also a major area of concern for the State Government.

Recommendation

Due priority should be accorded by the Government for completion of the incomplete projects to avoid cost and time overrun.