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Chapter – 5

EXPENDITURE MANAGEMENT IN MAHARASHTRA

5.1 Introduction

The finances of both the Central government and the State governments in India have been under tremendous pressure in recent times. They have gone into a critical stage during the last decade or so. In recent years the state finances have been under pressure as reflected in various fiscal indictors such as fiscal deficit, primary deficit, the level of debt and rise in debt service obligation. The gross fiscal deficit for all state was 3.3 percent of GDP in 1990-91 which increased to 4.7 percent of GDP in 1999-2000. The gross fiscal deficit of the states has shown continuous increase over the years mainly due to higher level of revenue deficit. The increase in the revenue deficit has resulted from inadequate buoyancy in revenue receipts and rising level of revenue expenditure. Good

5.2 Need of Fiscal Reforms

Fiscal consolidation measures in federal countries like India need fiscal reforms of national as well as state level aggregate government liabilities. That is public debt to GDP ratio has risen to nearly 80 percent. matter of fiscal concern

This must be brought down as stated earlier to 60 percent of GDP.

Most of this high amount of public debt is used for revenue expenditure. Ever increasing interest payment liabilities has its severe impact on revenue expenditure. In addition to this administrative cost, pension liabilities are further burdening the non-developmental revenue expenditure and it exceeds revenue receipts.

Like Central government, the financial condition of the state government in India has also been a cause for concern over the years the consolidation financial position of the state government has shown a marked deterioration in some of their major deficit indictors on the fundamental weakness of the state government finances in Indian can be attributed to the increase in non-development expenditure particularly the revenue component of the non-development expenditure and interest payment as a proportion of revenue receipts.

These problems have been aggravated a great deal over the past few years because of variety of reasons. The resource constraints in state finances have been accentuated by a near stagnant tax GDP ratio, rising share of non-developmental outlays in total expenditure large volumes of hidden implicit subsidies etc. fiscal situation in the states has also come under much greater pressure with the acceptance of the report of the Fifth Pay Commission by several state governments in India.

The slow growth in revenue mobilisation at the state level has posed serious difficulties for the state governments to meet their expenditure. Most importantly state governments has to find a way to reduce their expenditure on wages and salaries of their employees. The state governments expenditure on administrative services rose to 44.3 on account of the revision of pay scale of government employees following the 5th Pay Commission awards. All this aggravates the revenue deficit, the growth of which has led to fiscal stress at the state level.

5.3 Fiscal Responsibility and Budget Management Bill 2000

Against the background of fiscal crisis in the 1990's, the Government of India constituted the committee on fiscal responsibility legislation on January 17, 2000 to go into various aspects of the fiscal system and recommended draft legislation on fiscal responsibility. According to the Fiscal Responsibility and Budget Management Bill 2000 was introduced in Lok Sabha in December 2000. The preamble to the bill states its objectives which are as follows :

a) Ensure inter-generational equity in fiscal management and long term macro economic stability.

b) Achieve sufficient revenue surplus.

c) Eliminate fiscal deficit and remove fiscal impediments in the effective conduct of monetary policy.

d) Evolve prudential debt management policy consistent with fiscal sustainability through limits on the central government borrowing debt and deficits.

e) Develop greater transparently in fiscal operation of the central government and conduct fiscal policy in a medium term framework.

The major features of the bill are as follows :

1) Reduce revenue deficit by an amount equivalent to one percent or more of the estimated GDP at the end of each financial year on the 1st day of April.

2) Reduce revenue deficit to nil within a period of five years beginning from the initial financial years on the 1st day of April 2001 and ending on the 31st day of March 2006.

3) Build up surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets.

4) Reduce fiscal deficit by an amount~~ing~~ equivalent to one half percent or more of the estimated GDP at the end of each financial year beginning on the 1st April.

5) Reduce fiscal deficit for a financial year to not more than two percent of the estimated GDP for that years on 1st April 2001 and ending on 31st March 2006.

6) Ensure that the government do es not give guarantee for any amount exceeding one half percent of the estimated GDP in any financial year.

Further the central government has to ensure within a period of ten financial years beginning from the financial year on the 1st April 2001 and ending on the 31st March 2011, that the total liabilities (including external debt of current exchange rate of the end of financial year) do not exceed 50 percent of the estimated GDP for the year.

There are provisions for relaxation from deficit reduction to deal with unforeseen demands on the finances of the central government on account of national security or natural calamities of national dimension however, the central government shall not borrow directly from the Reserve Bank of India.

But the central government may borrow from Reserve Bank of India by way of advances to meet temporary excess of cash disbursement over cash receipts during any financial year in accordance with the agreement with Reserve Bank of India.

7) The bill also envisages measures for fiscal transparency namely, The central government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize as far as possible secrecy in the preparation of the annual budget. In particular the central government shall at the time of presentation of the annual budget disclose in a statement.

Significant changes in the accounting standards, policies and practices affecting of likely to affect the computation of prescribed fiscal indictors.

5.4 State Government Initiatives

Like central government, the state governments have been experiencing fiscal stress in recent years as evident from large and increasing fiscal and revenue deficits. The rise in the gross fiscal deficit (GFD) was pronounced in the second half of the 1990's with an increasing high proportion being accounted for by the rising revenue deficit. In recent years on an average, more than one half of the GFD has been on account of revenue deficit. This implies that a significant proportion of the borrowed funds have been utilised for meeting revenue expenditure. The consequential accumulation of debt and debt service obligations has put constraints on the states ability to undertake developmental activities viz. provision of economic and social infrastructure. In order to address this problem, the state ~~level~~ s at their level have been undertaking a number of policy measures relating to revenue augmentation, containment of expenditure and public sector reforms. The state s' initiatives towards fiscal reforms have also been supplemented by the central government.

Fiscal reforms of the states ~~level~~ have assumed critical importance in recent years while measures towards reforms have been undertaken by many states. Some states have initiated steps to provide statutory backing to the fiscal reform process.

5.5 Karnataka Fiscal Responsibility Act

As announced in the Karnataka budget for 2001-02, the Government of Karnataka had prepared a Fiscal Responsibility Bill subsequently, this has been notified as the Fiscal Responsibility Act in the Karnataka Gazette dated August 30, 2002.

The key features of Karnataka Fiscal Responsibility Act are as under :

1) Reduction in the revenue deficit to nil within four financial years beginning from April 2002 and ending March 31, 2006.

2) Reduction in the fiscal deficit to not more than 3 percent of the estimated gross state domestic product (GSDP) within four financial years beginning from April 2002 and ending March 31, 2006.

3) Reduce revenue and fiscal deficits as a percentage of GSDP in each of the financial year.

4) Limiting the guarantees within the prescribed limits under the guarantees act and ensure that by the end of March, 2015 the total liabilities do not exceed 25 percent of the estimated GSDP for that year.

In addition to these fiscal targets, the act provides for a medium term fiscal plan (MTFP) setting forth a four year rolling target for prescribed fiscal indictors. This would also include an assessment of the sustainability relating to the balance between revenue receipts and revenue expenditure and the use of capital receipts including borrowing for generating productive assets. The medium term fiscal plan would also contain an evaluation of the performance of the prescribed fiscal indictors in the previous year vis-à-vis the targets set out earlier and the likely performance in the current year as per revised estimates.

5.6 Fiscal Responsibility and Budget Management Bill of Punjab

The Punjab government has introduced the Fiscal Responsibility and Budget Management Bill in the state legislature. The bill provides for the state government's responsibility to ensure inter generational equity in fiscal management and long term financial stability for achieving sufficient revenue surplus eliminating fiscal deficit prudential debt management, greater transparency in fiscal operation and conducting fiscal policy in a medium term framework.

The state governments will have to

a) Contain the rate of growth of fiscal deficit to 2 percent per annum in normal terms.

b) Reduce revenue deficit as percent of total revenue receipts by at least five percentage points from the previous year unit fiscal balance is achieved.

c) Cap the ratio of debt (GSDP) of the level achieved in the previous years subject to an absolute ceiling of 40 percent to be achieved by 2004-05.

d) Capital outstanding guarantees on long – term debt to 80 percent of revenue receipt of the previous year.

5.7 Fiscal Responsibility and Management Bill of Maharashtra

Maharashtra government has introduced the Fiscal Responsibility and Budget Management Bill in the state legislature. The main features of the bill are as follows :

1) Ensuring that for a period of 5 years from the appointed day the revenue expenditure shall not exceed revenue receipts.

2) Bringing budgetary transparency by identifying all liabilities (post and present) constitution of a doubtful loans and equity fund.

very good features of the Bill.

3) Presenting to the legislature every year estimated yearly pension liabilities worked out an actual basis for the next ten years.

4) Preparation of the budget in a multi-year framework and presenting three years forward estimates of revenue and expenditure.

5) Restriction on borrowing, regulating salary expenditure, ceiling on expenditure on grant in aid institution and ceiling on subsidies.

6) Achieving the non salary development expenditure of not less than 60 percent of total expenditure.

7) To regulate the guarantees issued during the year so that the amount of risk due to such guarantees shall not exceed 1.5 percent of expected revenue receipts and to classify the guarantee obligation according to the risk of development.

8) Constitution of the fiscal advisory board to advise the government on matters relating to the implementation of the fiscal responsibility legislation.

On the fiscal correction through legislation what is crucial is the political will of the government both of the Centre and State level to put into actual pricing policy and make serious efforts to reduce revenue deficit. The state government will have to realise that annual budget making is a integral part of a medium form fiscal policy framework and hence move annually in a direction that leads to effective implementation of the desire objectives of fiscal correction. Such concerted effort only will lead to rectification of the fiscal crisis that state governments face.

5.8 Policy Development

In order to improve the financial position of the states, their budgets for 2002-03 have proposed to take measures towards revenue augmentation, expenditure compression public sector undertaking (PSUs) reforms, promotion of private investment in crucial sectors and institutional reforms. These measures broadly include enhancement of the revenue receipts through revision of tax rates, broadening of tax base and improved tax compliance. Other important initiatives relate to the preparatory work for introduction of Value Added Tax (VAT) and rationalization of user charges relating to power, water, transport etc. On the expenditure front, a number of states have proposed to contain revenue expenditure through a set of economy measures such as restrictions on fresh recruitment/creation of new posts and containing growth in administrative expenditure. Three states have proposed introduction of a new contributory pension scheme for newly recruited staff. A few states have set up Committees/Commissions relating to fiscal reforms. State wise the government of Punjab has constituted a Cabinet Committee on fiscal mismanagement. While Tamil Nadu has decided to constitute Tax Reforms and Revenue Commission. The Tax Reforms Commission constituted by Karnataka has already submitted its report to the state government.

The initiative/measure pertaining to state level PSUs reforms have been proposed by a number of states. The Government of Maharashtra has constituted a board for restructuring of the state PSUs which will also facilitate disinvestment or closure wherever necessary.

Supplementing the states effort, the centre has also initiated measure to encourage fiscal reforms at the state level. The Eleventh Finance Commission (EFC) had recommended institution of an incentive fund for the purpose of encouraging fiscal reforms in the states.

On the basis of monitorable fiscal reforms programme the Government of India has drawn up a scheme called the "States Fiscal Reforms Facility" (2000-01 to 2004-05). Under this scheme an incentive fund of Rs. 10607 crores has been earmarked over a period of five years to encourage the states to implement monitorable fiscal reforms. In this connection, a number of states have drawn up Medium term fiscal reform programme (MTERP) in consultation with the Central Government. The MTERP of states over various areas such as fiscal consolidation public sector enterprises reforms power sector reforms fiscal transparency etc. Sentence is incomplete Further the Union Budget 2002-03 had made a provision for reform linked assistance of Rs. 12300 crores for states under various schemes such as a Accelerated Power Development Programme (ARDRP) Accelerated Irrigation Benefit Programme (AIBP), Urban Reforms Incentive Fund (URIF) and Rural Infrastructure Development Fund (RIDF). In addition to lump sum amount of Rs. 2500 crores has been proposed for implementing policy reforms in sectors which are constraining growth and development.