

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

Summary

Revenue receipts (Rs 15714 crore) during 2004-05 showed an increase of 26 *per cent* as against 15 *per cent* increase in revenue expenditure (Rs 14638 crore) over the previous year, although *percentage* of own resources of State Government in revenue receipts declined from 31 *per cent* (2000-01) to 24 *per cent* in 2004-05. Central tax transfers & grants-in-aid contributed nearly 76 *per cent* of the revenue receipts. Grants-in-aid from the Central Government increased by 75 *per cent* in 2004-05 over the previous year. Central Tax Transfers also increased from 16 *per cent* in 2003-04 to 20 *per cent* in 2004-05.

Among the sources of tax revenue, Sales Tax (57 *per cent*), Stamps and Registration Fees (13 *per cent*), State Excise (eight *per cent*) and Taxes on vehicles (six *per cent*) were the principal contributors. Of non-tax revenue sources, non-ferrous/mining and metallurgical industries (19 *per cent*) and interest receipts (18 *per cent*) were principal contributors.

Overall expenditure of the State increased from Rs 16829 crore in 2003-04 to Rs 16971 crore in 2004-05 at a marginal growth of 0.84 *per cent*. Revenue expenditure (Rs 14638 crore) constituted 86 *per cent* of total expenditure. The fiscal liabilities (Rs 42483 crore) increased during 2004-05 with a growth of 13 *per cent* over previous year and stood at three times the revenue receipts.

Interest payments increased by four *per cent* from Rs 3343 crore in 2003-04 to Rs 3474 crore in 2004-05 primarily due to continued reliance on borrowings for financing the deficit.

The revenue surplus along with decline in capital expenditure (Rs 1205 crore) in the current year resulted in reduction of fiscal deficit. The fiscal deficit which represents the total borrowings of the Government and its total resource gap decreased by 72 *per cent*. The positive balance from current revenue was mainly due to the increase in State share of Central taxes and non-plan grants-in-aid from Government of India. Also unbooked interest payment on GPF of Rs 1186 crore, if incorporated, would wipe out the positive BCR.

The ratio of fiscal liabilities to GSDP was 68 *per cent* indicating unsustainability of the debt burden of the State.

1.1 Introduction

The Finance Accounts of the Government of Bihar are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital in

the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1.

Box 1.1
Lay out of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government-receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated fund, Contingency fund and Public account of the State.

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

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

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

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

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

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

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

Statement No. 9 shows the revenue and expenditure under different heads for the year 2004-05 as a *percentage* of total revenue/expenditure.

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

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

Statement No.12 provides accounts of revenue and capital expenditure by minor heads under Non-Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

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

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

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

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

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

Statement No. 19 gives the details of earmarked balances of Reserve Funds.

1.2 Trend of finances with reference to previous year

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

(Rupees in crore)

2003-04	Sl. No.	Major Aggregates	2004-05
12456	1	Revenue Receipts (2+3+4)	15714
2890	2	Tax Revenue	3347
320	3	Non-Tax Revenue	418
9246	4	Other Receipts	11949
10	5	Non-Debt Capital Receipts	15
10	6	Of which Recovery of Loans	15
12466	7	Total Receipts (1+5)	15729
14051	8	Non-Plan Expenditure (9+11+12)	13495
11627	9	On Revenue Account	12642
3343	10	Of which, Interest Payments	3474
56	11	On Capital Account	35
2368	12	Loans and advances disbursed	818
2778	13	Plan Expenditure (14+15+16)	3476
1084	14	On Revenue Account	1996
1493	15	On Capital Account	1170
201	16	Loans and advances disbursed	310
16829	17	Total Expenditure (8+13)	16971
(-) 4363	18	Fiscal Deficit (7-17) Deficit (-)/Surplus (+)	(-)1242
(-) 255	19	Revenue Deficit (1-9-14) Deficit (-)/Surplus (+)	(+)1076
(-) 1020	20	Primary Deficit (18-10) Deficit(-)/Surplus(+)	(+)2232

1.3 Summary of Receipts and Disbursements for the year

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

Table 1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-05
(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
					Non-Plan	Plan	Total
12455.56	I. Revenue receipts	15714.14	12710.83	I. Revenue expenditure	12642.78	1995.63	14638.41
2889.69	Tax revenue	3347.39	7175.46	General services	7625.29	178.19	7803.48
320.38	Non-tax revenue	417.79	4033.43	Social Services	3870.36	924.62	4794.98
7627.87	Share of Union Taxes/Duties	9117.13	1498.18	Economic Services	1142.85	892.82	2035.67
1617.62	Grants from Govt. of India	2831.83	3.76	Grants-in-aid / Contributions	4.28	--	4.28
Section-B: Capital							
-	II Misc. Capital Receipts	-	1549.17	II Capital Outlay	34.52	1170.00	1204.52
10.45	III Recoveries of Loans and Advances	14.83	2568.92	III Loans and Advances disbursed	817.56	310.28	1127.84
5068.51	IV Public debt receipts*	7622.58	2801.64	IV Repayment of Public Debt	--	--	3083.72
7440.06	V Public account receipts	4092.67	5788.95	V Public account – disbursements	--	--	5519.18
92.85	Opening Balance	-352.08	- 352.08	Closing Balance			1518.47
25067.43	Total	27092.14	25067.43	Total			27092.14

* Excluding ways and means advances and over drafts

1.4 Audit Methodology

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

The key indicators adopted for analysing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The erstwhile State of Bihar was bifurcated into the successor States of Bihar and Jharkhand with effect from 15 November 2000 as per the Reorganisation Act. Hence the indicators of the financial performances of Government take into account the Finance Accounts figures of the combined State of Bihar and Jharkhand up to 14.11.2000 and of the successor State of Bihar thereafter. The reporting parameters are depicted in Box 1.2.

Box 1.2 Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as *percentage* to GSDP at current market prices. The GSDP series provided by the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 2000-2005 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix V*.

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

Box 1.3 - State Government Funds and the Public Account

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

Indicators of financial performance of the successor State of Bihar after 14 November 2000 are subject to variation after completion of allocation of assets and liabilities between the successor States of Bihar and Jharkhand.

The chapter was discussed with Finance Secretary, Government of Bihar and views of the Government have been considered and incorporated at appropriate place.

1.5 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts

from internal sources viz. market loans, borrowings from financial institutions/ commercial banks etc. and loans and advances from Government of India as well as accruals from the Public Account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs 27444 crore, of which, the revenue receipts of the State Government were only Rs 15714 crore, constituting 52.26 per cent of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

Table 2 – Resources of Bihar

		<i>(Rupees in crore)</i>
I Revenue Receipts		15714.14
II Capital Receipts		7637.41
a	Miscellaneous Receipts	--
b	Recovery of Loans and Advances	14.83
c	Public Debt Receipts	7622.58
III Public Account Receipts		4092.67
(a)	Small Savings, Provident Fund etc.	1198.00
(b)	Reserve Fund	188.59
(c)	Deposits and Advances	3129.42
(d)	Suspense and Miscellaneous	(-) 1661.61
(e)	Remittances	1238.27
Total Receipts		27444.22

1.5.1 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue receipts of the Government. Revenue receipts of the State increased from Rs 11177 crore in 2000-2001 (erstwhile composite state) to Rs 15714 crore in 2004-05 (successor state). Although *percentage* of own resources of State Government declined from 31 per cent from 2000-01 to 24 per cent in 2004-05 the rate of growth of revenue receipts during 2004-05 over the previous year was 26 per cent primarily due to 75 per cent growth in the Grants-in-aid from Government of India and 20 per cent growth in the State's share in Union taxes and duties.

Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

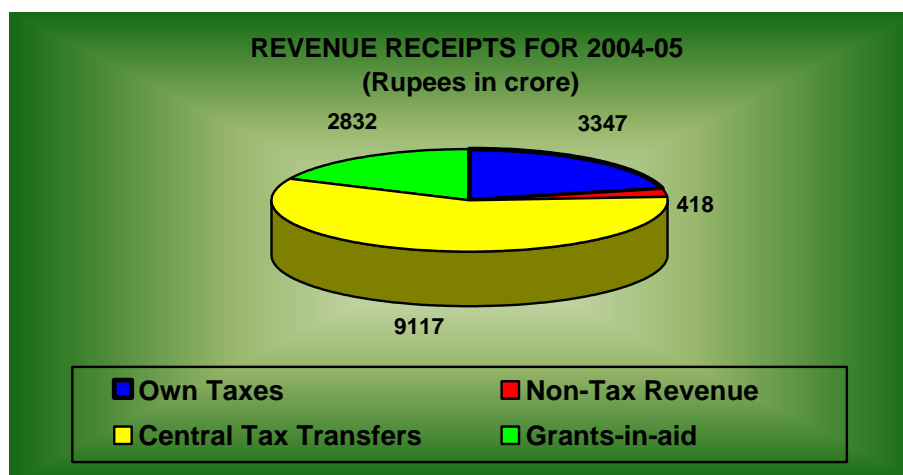
Table 3: Revenue Receipts – Basic Parameters
(Values in Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts (RR)	11177	9839	10968	12456	15714
Own taxes*	2809 (25)	2319(24)	2761(25)	2890(23)	3347(21)
Non-Tax Revenue*	712(6)	287(3)	261(2)	320(3)	418(3)
Central Tax Transfers*	6576(59)	6177(63)	6549(60)	7628(61)	9117(58)
Grants-in-aid*	1080(10)	1057(11)	1397(13)	1618(13)	2832(18)
Rate of Growth of RR	4.86	(-)11.97	11.47	13.57	26.16
Revenue Receipts/GSDP	22.63	19.30	19.35	20.81	25.03
Revenue Buoyancy	•	•	1.03	2.42	5.34
Own Tax Buoyancy	0.28	•	1.70	0.83	3.23
GSDP Growth	(-) 31.49	3.25	11.18	5.60	4.89

* (Figure in bracket represents percentage)

• Blank cell in the table represents buoyancy in negative.

While on average around 24 per cent of revenue receipts have come from own resources, Central Tax Transfers and Grants-in-aid together continued nearly 76 per cent of total revenue. Sales tax (57 per cent) was the major source of the State tax revenue followed by stamp and registration fees (13 per cent) and taxes on vehicles (6 per cent). Of non-tax revenue sources mining and metallurgical industries (19 per cent) and interest receipts 18 per cent were the principal contributors.



As on 31 March 2005 arrears of revenue pending collection under eight¹ of the major heads of revenue as reported by the Department were Rs 1101.34 crore out of which Rs. 395.35¹ crore were outstanding for more than five years.

The source of receipts under different heads and GSDP during 2000-2005 is indicated in Table 4.

Table 4 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product (GSDP)
		Non-Debt Receipts	Debt Receipts	Public Account Receipt		
2000-01	11177	11	3528	10462	25178	49383
2001-02	9839	13	3758	7719	21329	50987
2002-03	10968	16	4190	5584	20758	56688
2003-04	12456	10	5069	7440	24975	59862
2004-05	15714	15	n7623	4092	27444	62792

¹ Taxes on sales and trade etc (Rs. 699.19 crore), Non-ferrous mining and metallurgical industries (Rs. 116.63 crore); Land revenue (Rs. 106.99 crore), Water rates (Rs. 147.45 crore), Taxes and duties on electricity (Rs. 7.14 crore); Taxes on sugarcane (Rs 15.43 crore); Entry tax (Rs. 5.64 crore) and Entertainment tax (Rs. 2.87 crore).

¹ Taxes on sales and trade etc (Rs.304.10 crore), Non-ferrous mining and metallurgical industries (Rs. 47.77 crore); Land revenue (Rs. 18.65 crore); Taxes and duties on electricity (Rs. 6.67 crore); Taxes on sugarcane (Rs 13.84 crore); Entry tax (Rs. 2.34 crore) and Entertainment tax (Rs.1.98 crore).

1.6 Application of resources

1.6.1 Trend of growth

The total expenditure of the state increased marginally from Rs 15263 crore in 2000-2001 for the erstwhile composite State of Bihar to Rs 16971 crore in 2004-05 for the reorganised State of Bihar.

The total expenditure of the State, its trend and annual growth, the ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:

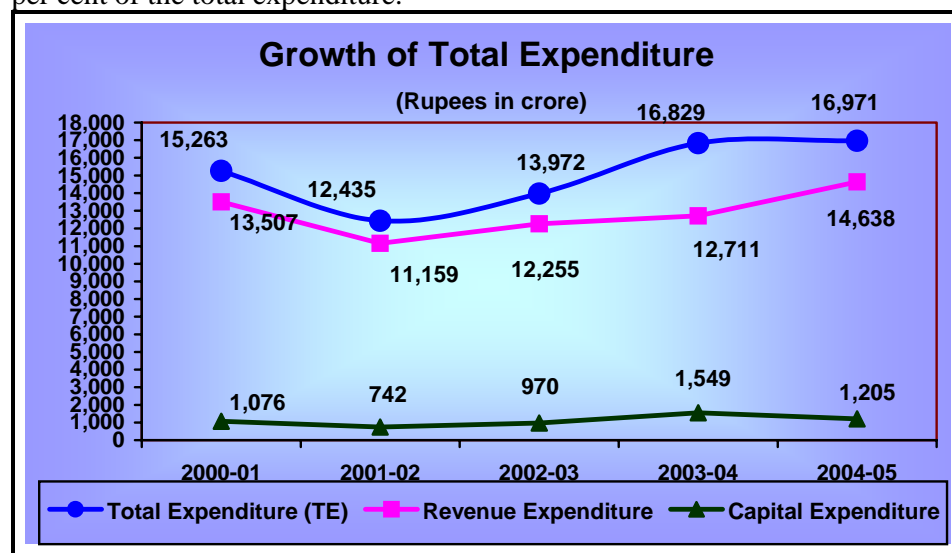
Table 5: Total Expenditure – Basic Parameters

(Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure	15263	12435	13972	16829	16971
Rate of Growth	(-) 8.42	(-) 18.53	12.36	20.45	0.84
TE/GSDP	30.91	24.39	24.65	28.11	27.03
Revenue Receipts/TE	73.23	79.12	78.50	74.02	92.59
Buoyancy of total expenditure with					
GSDP	0.27	-5.70	1.10	3.65	0.17
Revenue Receipts	*	1.55	1.08	1.51	0.03

(* Blank cell in the table represent buoyancy in negative).

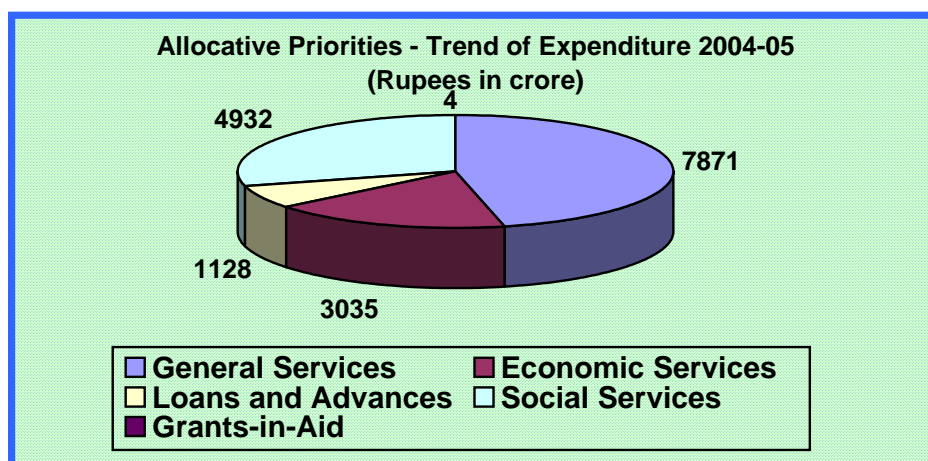
The total expenditure of the State increased by 0.84 per cent during 2004-05 over the previous year. During 2004-05 revenue receipts accounted for 92.59 per cent of the total expenditure.



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

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

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	45.81	51.00	47.63	42.77	46.38
Social Services	32.05	28.75	29.04	24.93	29.06
Economic Services	17.66	15.94	17.96	17.01	17.89
Grants-in-Aid	0.02	0.02	0.02	0.02	0.02
Loans and Advances	4.46	4.29	5.35	15.27	6.65



The movement of the relative shares of these components of expenditure indicated that while the share of social services in total expenditure declined from 32.05 per cent in 2000-2001 to 29.06 per cent in 2004-05, the relative share of general services increased from 45.81 per cent to 46.38 per cent during the period. Loans and advances increased from 4.46 per cent to 6.65 per cent during the same period. The share of economic services showed marginal increase by 0.22 per cent.

1.6.2 Incidence of revenue expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services.

Revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts are indicated in Table 7 below:

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (RE)	13507	11159	12255	12711	14638
Rate of Growth	(-) 5.95	(-) 17.38	9.82	3.72	15.16
RE/ GSDP	27.35	21.89	21.62	21.23	23.31
RE as per cent of Total Expenditure	88.50	89.74	87.71	75.53	86.25
RE as per cent to Revenue Receipts	120.85	113.42	111.73	102.05	93.15
Buoyancy of Revenue Expenditure with					
GSDP	0.19		0.88	0.66	3.10
Revenue Receipts		1.45	0.86	0.27	0.58

(Blank cell in the table represent buoyancy in negative).

Revenue expenditure of the State increased from Rs 13507 crore in 2000-2001 (for the composite State) to Rs 14638 crore in 2004-05. Revenue expenditure was 86.25 *per cent* of total expenditure (Rs 16971 crore) during 2004-05.

Though the ratio of revenue expenditure to revenue receipts declined from 120.85 *per cent* in 2000-01 to 93.15 *per cent* in 2004-05, the dependence of the State on borrowings for meeting its current expenditure continued.

◆ **Expenditure on salaries**

Salaries alone accounted for nearly 32 *per cent* of the revenue receipts of the State as indicated in the table below:

Table 8: Salary Expenditure

<i>(Rupees in crore)</i>					
Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary Expenditure	7129.22	5275.89	5073.07	5019.88	5005.36
As <i>percentage</i> of GSDP	14.44	10.35	8.95	8.39	7.97
As <i>percentage</i> of Revenue Receipts	63.78	53.62	46.25	40.30	31.85

◆ **Expenditure on pension and other retirement benefits**

Pension payments have increased by 16 *per cent* from Rs 2011 crore in 2000-2001 to Rs 2325 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during 2000-2005 was as under:

Table 9: Expenditure on Pensions

<i>(Rupees in crore)</i>		
Year	Expenditure	<i>Percentage to Revenue Receipts</i>
2000-2001	2011	17.99
2001-2002	2273	23.10
2002-2003	2049	18.68
2003-2004	2269	18.22
2004-2005	2325	14.80

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government had not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing in the last few years, reforms in the existing pension schemes assume critical importance. The State Government clarified (December 2005) that the new contributed pension scheme on the pattern of Government of India has been introduced w.e.f. 1.10.2005.

◆ **Interest payments**

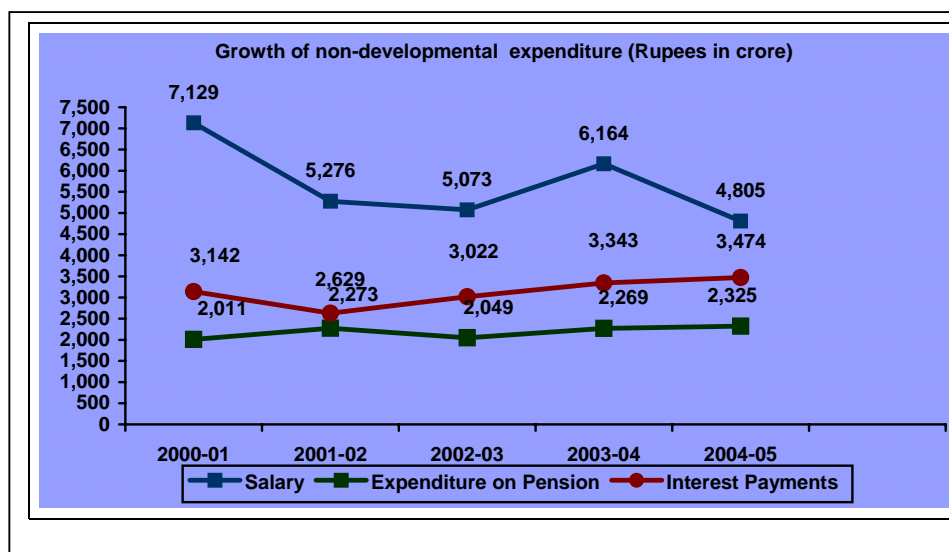
The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payment as a ratio to revenue receipts at 18 *per cent*. It was however observed that interest payments as *percentage* of revenue receipts ranged between 22 and 28 *per cent* during the last five years.

Table 10 : Interest payments

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
2000-2001	3142	28.11	23.26
2001-2002	2629	26.72	23.56
2002-2003	3022	27.55	24.66
2003-2004	3343	26.84	26.30
2004-2005	3474	22.11	23.73

In absolute terms, interest payments increased steadily by 11 *per cent* from Rs 3142 crore in 2000-01 to Rs 3474 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit. The interest payment consumed 92 *per cent* of the State's own revenue. The increasing interest payments had adversely affected both development expenditure and social welfare schemes.

The State Government raised market loans of Rs 1889.17 crore at the average interest rate of 6.63 *per cent* during the year, whereas the borrowings of Rs 1198 crore from the National Small Saving Fund carried interest at the rate of 9.50 *per cent per annum* and the loan of Rs 1654.18 crore from Government of India carried interest at the rate of nine *per cent per annum*. Nearly 36 *per cent* of the total outstanding market loans as of 31 March 2005 carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on past loans was much higher than the rate at which State was able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that nearly 32 *per cent* of the total market loans are repayable within next five years while remaining loans are required to be repaid within five to 10 years. Thus, the rise in expenditure on interest payment is not likely to slow down in near future. The State Government has stated that they are forced to take higher interest cost loan from National Small Savings Fund and Government of India.



◆ **Understatement of interest payment on State Provident Fund**

The budgetary provisions of interest payment on provident fund were inadequate as these were not based on interest rates on provident fund fixed by the Government. The amount of interest payment even on the basis of average of opening balance and closing balance during 2000-2005 should have been Rs 3458.40 crore instead of Rs 2272.71 crore as reflected in the accounts as detailed below:

Table 11

(Rupees in crore)

Years	Admissible rate of interest on GPF (in per cent)	Amount of interest payment provided in the accounts	State Provident Fund		Average of OB and CB	Minimum amount of interest to be booked in the accounts at the admissible rate of interest	Difference of column 7 and column 3
			Opening Balance (OB)	Closing Balance (CB)			
1	2	3	4	5	6	7	8
01.4.2000 – 14.11.2000	11.00	335.47	7115.21	7403.39	7259.30	499.08	163.61
15.11.2000 – 31.03.01	11.00	122.03	7403.39	7504.91	7454.15	307.48	185.45
2001-02	9.50	329.00	7504.91	7639.62	7572.27	719.37	390.37
2002-03	8.00	427.00	7639.62	7918.92	7779.27	622.34	195.34
2003-04	8.00	461.67	7918.92	8119.07	8018.99	641.52	179.85
2004-05	8.00	597.54	8119.07	8596.17	8357.62	668.61	71.07
Total		2272.71				3458.40	1185.69

(Calculated on average sum of opening and closing balance)

Government stated (December 2005) that provident fund and small savings have not been bifurcated between Bihar and Jharkhand. Therefore the interest provided for in the budget relates to the assumed figure for the Bihar portion of GPF balance.

1.7 Expenditure by allocative priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of the Finance Accounts reflect the allocative priorities of the State. The higher the ratio of these components to total expenditure, the better be the deemed quality of expenditure.

Table 12 below gives the *percentage* share of these components of expenditure in State's total expenditure*.

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	13.13	13.52	17.57	18.07	19.98
Capital Expenditure	7.38	6.23	7.33	10.86	7.61
Developmental Expenditure	52.04	46.69	49.66	49.50	50.29

* Total expenditure excludes expenditure on loans and advances.

Plan expenditure varied between 13.13 *per cent* of total expenditure in 2000-2001 to 19.98 *per cent* in 2004-05. Out of the developmental expenditure

(Rs 7968 crore), Social Services (Rs 4932 crore) accounted for 61.90 *per cent* during the year. Education, Sports, Art and Culture, Health and Family Welfare and Water supply and Sanitation consumed 83.33 *per cent* of the expenditure in the social sector.

Table 13
Social Sector expenditure

(Rupees in crore)

Major Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Education, Sports, Art and Culture	3288.06	2501.70	2750.20	2875.92	3159.82
Health and Family Welfare	680.18	518.61	571.64	539.03	629.41
Water Supply and Sanitation, Housing and Urban Development	264.88	153.33	294.13	276.23	320.73
Total	4233.12	3173.64	3615.97	3691.18	4109.96

Similarly, the expenditure on Economic Services (Rs 3036 crore) accounted for 38.10 *per cent* of the developmental expenditure. Of this, Rural Development (Rs 1170 crore), Irrigation and Flood Control (Rs 916 crore) and Transport (Rs 369 crore) accounted for 80.84 *per cent* of the expenditure on economic sector.

Table 14
Economic Sector expenditure

(Rupees in crore)

Major Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Rural Development	992.92	814.74	1126.55	1094.97	1170.15
Irrigation and Flood Control	827.63	624.25	666.62	840.45	915.54
Transport	331.87	127.75	285.05	266.14	368.67
Total	2152.42	1566.74	2078.22	2201.56	2454.36

In addition, State Government paid Rs 1127.84 crore as loans and advances during the year. Of this, Rs 1071.04 crore (95 *per cent*) was paid to the Bihar State Electricity Board (BSEB).

1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions and public utility services. These bodies along with other bodies such as those registered under the State Co-operative Societies Act, the Companies Act, 1956, etc. receive substantial financial assistance from the Government to implement various programmes. The quantum of assistance provided to different bodies during the period of five years ending 2004-05 was as follows:

Table 15

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Universities and Educational Institutions	463.00	369.13	461.13	545.94	564.99
2.	Municipal Corporations and Municipalities	57.18	28.99	99.98	83.71	117.91

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	2000-01	2001-02	2002-03	2003-04	2004-05
3.	Zila Parishads and Panchayati Raj Institutions	2.90	106.60	292.34	133.92	2.63
4.	Development Agencies	61.32	12.87	34.81	3.87	110.15
5.	Other Institutions (including statutory bodies)	49.20	47.05	133.45	20.99	17.68
	Total	633.60	564.64	1021.71	788.43	813.36
	Percentage increase (+) / decrease (-) over previous year	(-)10.14	10.88	80.94	(-) 22.83	3.16

1.7.2 Delay in furnishing utilisation certificates

The financial rules of Government require that where grants are given for specific purposes, certificates of utilisation (UCs) are to be obtained by the departmental officers from the grantees and after verification these should be forwarded to the Accountant General (AG) within 15 months from the date of sanction of the grant unless specified otherwise.

Of UCs due in respect of grants-in-aid of Rs 1931.10 crore (up to 2004-05), UCs for only Rs 164.78 crore were furnished to the Accountant General by 30 June 2005 and UCs for Rs 1766.32 crore were in arrears. Department-wise and age-wise break up is given in **Appendix VI**.

1.7.3 Delay in submission of accounts by Autonomous Bodies

The status of submission of accounts by the autonomous bodies and submission of Audit Reports thereon to the State Legislature is indicated in **Appendix VII**. Out of these autonomous bodies accounts were pending for over five years in respect of Bihar State Housing Board, Patna and Bihar Khadi and Village Industries Board, Patna.

1.8 Assets and Liabilities

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

The liabilities of Government of Bihar depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees and guarantees/ letters of comforts etc. issued by the State Government.

Appendix-IV depicts the Time Series Data on State Government Finances for the period 2000-2005.

1.8.1 Incomplete projects

As per information received from the State Government, as of 31 March 2005, there were 18 incomplete projects in which Rs 1183 crore were blocked. (Refer: **Appendix -VIII**)

1.8.2 Investments and returns

As on 31 March 2005 Government had invested Rs 708.66 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was negligible as indicated in Table 16 below:

Table 16: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest on market loans
	(Rupees in crore)			
2000-2001	685.47	Rs 4500Only	NIL	10.62
2001-2002	686.67	0.01	NIL	8.71
2002-2003	694.34	0.02	NIL	9.00
2003-2004	700.01	0.04	0.01	9.00
2004-2005	708.66	0.04	NIL	9.59

1.8.3 Loans and Advances by State Government

In addition to its investment, Government has also been providing loans and advances to many organisations. Total outstanding balance of the loans advanced was Rs 11877 crore as on 31 March 2005 (Table 17). Interest received against these advances during 2000-05 was meagre varying from 0.12 per cent to 0.63 per cent.

Table 17: Average Interest received on Loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	6282.97	6952.84	7473.60	8205.21	10763.68
Amount advanced during the year	680.46	533.71	747.19	2568.92	1127.84
Amount repaid during the year	10.59	12.95	15.58	1045	14.83
Closing Balance	6952.84	7473.60	8205.21	10763.68	11876.69
Net Addition (+) / Reduction (-)	669.87	520.76	731.61	2558.47	1113.01
Interest Received	8.58	11.75	53.01	23.08	75.06
Interest received as per cent to outstanding Loans and advances	0.12	0.16	0.65	0.21	0.63

1.8.4 Commercial activities

Lack of accountability for the use of public funds in departmental commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that the Government can assess the results of their working. The Heads of Departments in the Government are to ensure that the undertakings, which are funded through the budget, prepare the accounts on timely basis and submit the same to the Accountant General for audit.

As of March 2005, there were 29 departmentally managed Commercial/Quasi-Commercial undertakings in the State. Of these, 26 undertakings, detailed in *Appendix-IX*, had not prepared proforma accounts since their inception. The matter had been taken up with the concerned Administrative Departments and the Finance Department from time to time.

The Proforma Accounts of three other undertakings were in arrears for varying periods ranging from 18 to 28 years as of March 2005. Relevant details are furnished in *Appendix-X*.

It was seen that none of the undertakings was maintaining its commercial accounts (accounts in double entry system) as prescribed in respect of the departmentally managed Commercial/Quasi-Commercial undertakings.

1.8.5 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India has been put in place. Bihar had the WMA limit of Rs 340 crore from April 1, 2004. Special WMA not exceeding Rs 21.28 crore with effect from 1 April 2004 and Rs 20.80 crore with effect from 1 October 2004 and Rs 20.52 crore with effect from 1 January 2005 were made available against security of Government of India held by the State Government with effect from March 2004.

Table 18

Ways and Means advances and overdrafts of the State and interest paid thereon (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances					
Taken in the year	2144.41	2593.23	7.12	1708.45	3.50
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest paid	10.70	7.86	0.13	3.71	Negligible
Overdraft					
Taken in the year	1224.55	3229.53	NIL	1142.89	NIL
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest paid	1.36	3.94	NIL	1.42	NIL
Number of days the State was in overdraft	63	123	NIL	44	NIL

1.8.6 Undischarged Liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that a State may borrow within the territory of India, upon the security of its consolidated fund within such limits as may from time to time be fixed by an Act of Legislature. However, no such law was passed by the State. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out. It would be observed that the overall fiscal liabilities of the State increased from Rs 28444 crore in 2000-01 to Rs 42483 crore in 2004-05. These liabilities as ratio to GSDP increased from 57.60 per cent in 2000-01 to 67.70 per cent in 2004-05 and stood at 2.70 times of its revenue receipts and 11.28 times of its own resources comprising its own tax and non-tax revenues. Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

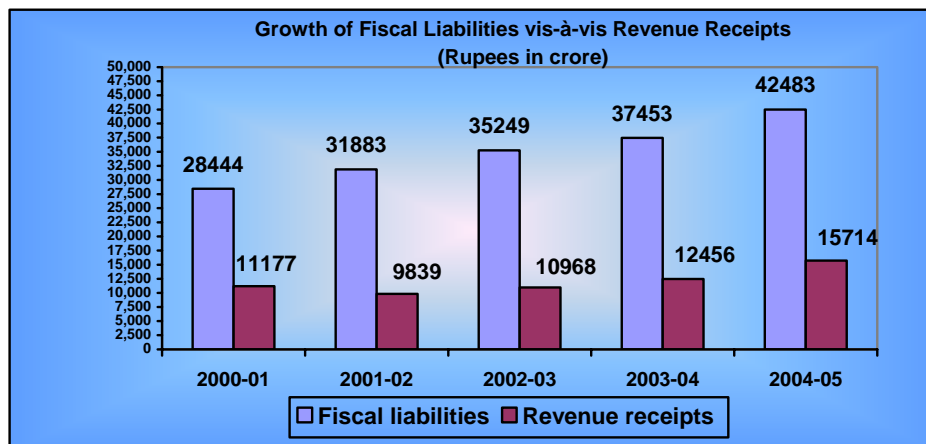
Table 19
Fiscal Imbalances–Basic Parameters

(Rupees in crore and Ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities	28444	31883	35249	37453	42483
Rate of Growth	(-) 7.08	12.09	10.56	6.25	13.43
Ratio of Fiscal Liabilities to					
GSDP	57.60	62.50	62.20	62.60	67.70
Revenue Receipts	254.50	324.00	321.37	300.70	270.40
Own Resources	807.80	1223.90	1166.46	1166.80	1128.40
Buoyancy of Fiscal Liabilities to					
GSDP	0.22	3.72	0.94	1.12	2.75
Revenue Receipts	*	*	0.92	0.46	0.51
Own Resources	0.41	*	0.66	1.00	0.78

(* Blank cell in the table represents buoyancy in negative)

In addition to these liabilities, Government had guaranteed loans taken by various Corporations and others, which in 2004-05 stood at Rs 473.44 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there is an obligation on the State to honour this commitment. The fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP as shown by the high buoyancy ratio of 2.75 during 2004-05.



Another important indicator of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 20 below gives the position of the receipts and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments oscillated from -0.06 per cent in 2000-01 to 22 per cent during 2004-05.

Table 20 : Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt*					
Receipts	2045	2681	2935	4249	5969
Repayments (Principal + Interest)	1029	987	923	1766	2047
Net funds available	1016	1694	2012	2483	3922
Net funds available (per cent)	50.00	63	69	58	66
Loans and Advances from Government of India					
Receipts	1246	1077	1255	820	1654
Repayments (Principal + Interest)	2264	1926	3195	3894	3881
Net funds available	(-) 1018	(-) 849	(-) 1940	(-) 3074	(-)2227
Net funds available (per cent)	(-) 82	(-) 79	(-) 155	(-) 375	(-)135
Total Public Debt					
Receipts	3291	3758	4190	5069	7623
Repayments (Principal + Interest)	3293	2913	4118	5660	5928
Net funds available	(-)2	845	72	(-)591	1695
Net funds available (per cent) of total receipts	(-)0.06	22.49	1.72	(-)12	22

* Internal debt excluding ways and means advances

1.9 Management of deficits

1.9.1 Fiscal imbalances

The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed are important pointers to fiscal health.

The revenue deficit of the State, which continued during the period 2000-04 had improved in 2004-05. The fiscal deficit, which represents the total borrowing of the Government and the total resource gap, increased from

Rs 2583 crore in 2001-02 to Rs 4363 crore in 2003-04 and then decreased to Rs 1242 crore in 2004-05. The State with the primary deficit of Rs 933 crore in 2000-01 ended up with surplus of Rs. 22.32 crore in 2004-05. As proportionate to GSDP the fiscal deficit had decreased to 1.98 per cent.

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Deficit	(-)2330	(-)1320	(-)1287	(-)255	(+)1076
Fiscal Deficit	(-)4075	(-)2583	(-)2988	(-)4363	(-)1242
Primary Deficit (-) / Surplus (+)	(-)933	(+) 46	(+) 34	(-)1020	(+)2232
RD/GSDP	(-)4.70	(-) 2.60	(-)2.27	(-)0.43	(+)1.71
FD/GSDP	(-)8.30	(-) 5.10	(-)5.27	(-)7.29	(-)1.98
PD/GSDP	(-)1.90	(+)0.10	(+)0.06	(-)1.70	(+)3.55
RD/FD	(+)57	(+)51	(+)43	(+)6	(-)87

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 22 below presents a summarized position of Government finances during 2000-2005 with reference to certain key indicators that help in assessing the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. These ratios show an improvement during 2000-2005 indicating improved mobilization of resources and its sustainability.

Various ratios concerning expenditure management of the State indicate the quality of its expenditure and the sustainability of these in relation to its resource mobilisation. The ratio of revenue expenditure to total expenditure declined from 88.50 per cent in 2000-01 to 86.25 per cent in 2004-05. The developmental expenditure to total expenditure ratio has also declined from 52.04 per cent in 2000-01 to 50.29 per cent in 2004-05. The capital expenditure as percentage to total expenditure declined from 10.86 per cent from 2003-04 to 7.61 per cent in 2004-05.

Table 22: Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	2000-01	2001-02	2002-03	2003-04	2004-05
Resource Mobilization					
Revenue Receipts/GSDP	22.63	19.30	19.35	20.81	25.03
Revenue Buoyancy	*	*	1.02	2.42	5.35
Own Tax/GSDP	5.69	4.55	4.87	4.83	5.31
Expenditure Management					
Total Expenditure/GSDP	30.91	24.39	24.65	28.11	27.03
Revenue Receipts/ Total Expenditure	73.23	79.12	78.50	74.02	92.59
Revenue Expenditure/Total Expenditure	88.50	89.74	87.71	75.53	86.25
Capital Expenditure	7.38	6.23	7.33	10.86	7.61
Development Expenditure/Total	52.04	46.69	49.66	49.50	50.29

Fiscal Ratios	2000-01	2001-02	2002-03	2003-04	2004-05
Expenditure (RE+CE)					
Buoyancy of TE with RR	*	1.55	1.08	1.51	0.03
Buoyancy of RE with RR	*	1.45	0.86	0.27	0.58
Management of Fiscal Imbalances					
Revenue Deficit (Rs in crore)	(-) 2330	(-) 1320	(-)1287	(-)255	+1076
Fiscal Deficit (Rs in crore)	(-)4075	(-)2583	(-)2988	(-)4363	(-)1242
Primary Deficit (Rs in crore)	(-)933	(+) 46	(+) 34	(-)1020	(+)2232
Revenue Deficit/Fiscal Deficit (Per cent)	57	51	43	6	-87
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	57.60	62.50	62.20	62.60	67.66
Fiscal Liabilities/RR	254.50	324.00	321.37	300.70	270.40
Buoyancy of FL with RR	1.46	1.01	0.92	0.46	0.51
Buoyancy of FL with OR	0.41	0.46	0.66	1.00	0.78
Interest Spread	(-)41.45	(-)7.37	2.47	(-)3.40	(-)4.11
Net fund available	(-)0.06	22.49	1.72	(-)12	22
Other Fiscal Health Indicators					
Return on Investment	NIL	0.01	0.02	0.04	0.04
Balance of Current Revenue(BCR) (Rs in crore)	(-) 2387	(-) 1246	(-) 1039	(-)638	924
Financial Assets/Liabilities	73	72	72	72	78

(* Blank cell in the table represents buoyancy in negative).

Conclusions

While the BCR, Fiscal deficit showed positive trends, it may be seen that BCR would be negative if the GPF interest of Rs 1186 crore is taken into account. The areas of concern in State finances are that State's own resources have declined from 31 *per cent* in 2000-01 to 24 *per cent* in 2004-05. Fiscal liabilities stood at Rs 42483 crore being 68 *per cent* of GSDP which is an alarming situation.