

CHAPTER – I

Finances of the State Government

Summary

Revenue receipts during 2004-05 were Rs 6661 crore, with an increase of 18 *per cent* over the previous year's figure of Rs 5638 crore while revenue expenditure stood at Rs 6976 crore with an increase of Rs 1570 crore over the previous year, leading to revenue deficit of Rs 315 crore. The sharp increase in revenue expenditure during the current year was mainly due to increase of Rs 889 crore over previous year's expenditure under the Plan sector. The fiscal deficit also increased from Rs 874 crore in 2003-04 to Rs 2217 crore in 2004-05 owing to higher Capital expenditure (Rs 357 crore) and larger disbursement of loans and advances (Rs 443 crore) in the current year.

Revenue receipts increased during 2004-05 by Rs 1023 crore over the previous year mainly due to increase in Sales Tax by Rs 281 crore (18 *per cent*), Central Tax transfers by Rs 386 crore (19 *per cent*) and Central Grants-in-aid by Rs 293 crore (52 *per cent*).

Fifty two *per cent* of the revenue receipts came from the State's own resources, while central tax transfers and grants-in-aid together contributed 48 *per cent* of the total revenue.

Among the sources of tax revenue, Sales Tax (79 *per cent*), State Excise (six *per cent*) and Taxes on Vehicles (five *per cent*) were the principal contributors. Non-ferrous mining and metallurgical industries (89 *per cent*) were the principal contributors to non-tax revenues.

Overall expenditure of the State increased from Rs 6516 crore in 2003-04 to Rs 8886 crore in 2004-05 representing an increase of 36 *per cent*. Revenue expenditure (Rs 6976 crore) constituted 79 *per cent* of the total expenditure. Salaries, interest payments and pensions consumed nearly 59 *per cent* of the revenue receipts during the year. The fiscal liabilities (Rs 13512 crore) increased during 2004-05 by about 28 *per cent* over the previous year and stood nearly two times the revenue receipts.

The fiscal deficit which represents the total borrowing of the Government and its total resource gap, increased by 154 *per cent* from Rs 874 crore in 2003-04 to Rs 2217 crore in 2004-05 due to the increase in Capital Expenditure by 37 *per cent* from Rs 976 crore in 2003-04 to Rs 1333 crore in 2004-05 and disbursement of loans and advances by 330 *per cent* from Rs 134 crore in 2003-04 to Rs 577 crore in 2004-05. The ratio of revenue deficit to fiscal deficit was 14 *per cent* in 2004-05.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure base. However, the State has to either generate more revenue out of its existing assets or needs to provide from current revenue for servicing its debt obligations to improve its financial health. During the year 2004-05 the debt swap was Rs 475.26 crore compared to 678.84 crore in the previous year.

1.1 Introduction

The Finance Accounts of the Government of Jharkhand are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Jharkhand. The lay out of the Finance Accounts is depicted in the 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 internal debt of the State Government, Loans and Advances from 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.

* Not prepared in the absence of bifurcation of assets and liabilities between Bihar and Jharkhand.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-2005.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative 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 Jharkhand.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Jharkhand, 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 reserved funds.

1.2 Trend of Finances with reference to previous year

Financial position of the State Government during the current year as compared to the previous year, were as under:

(Rupees in crore)

2003-04	Sl.No.	Major Aggregates	2004-05
5638	1.	Revenue Receipts (2+3+4)	6661
1986	2.	Tax Revenue	2383
1106	3.	Non-Tax Revenue	1053
1980	4.	Central Tax Transfers	2366
566		Grants in aid	859
4	5.	Non-Debt Capital Receipts	8
4	6.	Of which Recovery of Loans	8
5642	7.	Total non debt Receipts (1+5)	6669
4402	8.	Non-Plan Expenditure (9+11)	5281
4315	9.	On Revenue Account	4996
1182	10.	Of which, Interest Payments	1141
87	11.	On Capital Account	285
87	12.	Of which Loans disbursed	285
2114	13.	Plan Expenditure (14+15)	3605
1091	14.	On Revenue Account	1980
1023	15.	On Capital Account	1625
47	16.	Of which Loans disbursed	292
6516	17.	Total Expenditure (8+13)	8886
(-) 874	18.	Fiscal Deficit (-)/Surplus(+)(1+5-17)	(-) 2217
(+) 232	19.	Revenue Deficit (-)/Surplus (+) (1-9-14)	(-) 315
(+) 308	20.	Primary Deficit (-)/Surplus (+) (10-18)	(-)1076

1.3 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Jharkhand for 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts/disbursements as emerging from Statement-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
5637.77	I. Revenue Receipts	6660.51	5405.93	I. Revenue expenditure	4995.73	1980.18	6975.91
1986.22	Tax revenue	2382.79	2608.54	General services	2620.55	322.53	2943.08
1105.55	Non-tax revenue	1052.45	1868.75	Social Services	1605.47	918.10	2523.57
1979.73	Share of Union Taxes and Duties	2366.40	928.12	Economic Services	769.64	739.55	1509.19
566.27	Grants from Govt. of India	858.87	0.52	Grants-in-aid and Contributions	0.07		0.07
Section-B: Capital							
	II. Misc. Capital Receipts		975.72	II. Capital Outlay		1333.43	1333.43
3.94	III. Recoveries of Loans and Advances	7.58	133.53	III. Loans and Advances disbursed	285.03	291.77	576.80
2422.33	IV. Public debt receipts*	3570.10	987.01	IV. Repayment of Public Debt			801.88
	V. Transfer to Contingency Fund	128.34	128.34	V. Expenditure from Contingency Fund			-
3112.82	VI. Public account Receipts	2927.42	2912.54	VI. Public account disbursements			3602.92
247.61	Opening Cash Balance	881.40	881.40	Closing Cash Balance			884.41
11424.47	Total	14175.35	11424.47	Total			14175.35

- Includes net ways and means advances and overdraft.

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure in the light of time series data (*Appendix 1.2 to 1.5*) and periodic comparisons.

The key indicators adopted for the purpose 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 mobilization efforts, debt servicing and corrective fiscal measures. The 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 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 the GSDP at current market prices. The new GSDP series with 1993-94 as base as published by the Directorate of Economics and Statistics of the State Government has been used. As such, the percentages/ratios in relevant tables^ψ for the years 2001-02, 2002-03 and 2003-04 as published in the previous Audit Reports have undergone changes. 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. Some of the terms used here are explained in *Appendix-1.1*.

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.

^ψ Table- 3,4,5,7,16,18 and 19

1.5 State Finances by key Indicators

1.5.1 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 Government of India. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from Government of India as well as accruals from Public account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs 13166 crore. Of these, revenue receipts were Rs 6661 crore, constituting 51 *per cent* of the total receipts. The balance of receipts came from borrowings and Public Account.

Table 2 – Resources of Jharkhand (Rupees in crore)

I. Revenue Receipts		6661
II. Capital Receipts		3578
<i>a</i>	<i>Miscellaneous Receipts</i>	-
<i>b</i>	<i>Recovery of Loans and Advances</i>	8
<i>c</i>	<i>Public Debt Receipts</i>	3570
III. Public Account Receipts		2927
<i>a</i>	<i>Small Savings, Provident Fund, etc.</i>	255
<i>b</i>	<i>Reserve Fund</i>	156
<i>c</i>	<i>Deposits and Advances</i>	1136
<i>d</i>	<i>Suspense and Miscellaneous</i>	(-)58
<i>e</i>	<i>Remittances</i>	1438
Total Receipts		13166

The sources of receipts under different heads and GSDP during 2000-2005 are indicated in Table 3.

Table 3 – Sources of Receipts: Trends (Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	1964	1	266	840	3071	10853
2001-02	4495	2	1585	1940	8022	32706
2002-03	4937	3	1889	3049	9878	37385
2003-04	5638	4	2422	3113	11,177	41035
2004-05	6661	8	3570	2927	13166	45043

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to GSDP and their buoyancy are indicated in Table 4.

Table 4: Revenue Receipts – Basic Parameters

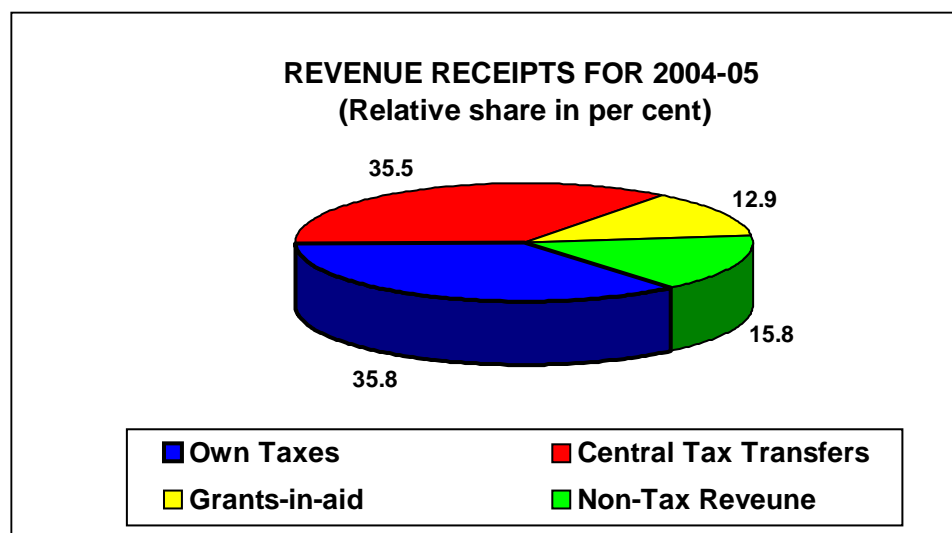
	2000-01*	2001-02	2002-03	2003-04	2004-05
Revenue Receipts (Rupees in crore)	1964	4495	4937	5638	6661
Own taxes (<i>Per cent</i>)	35.6	35.3	35.4	35.2	35.8
Non-Tax Revenue (<i>Per cent</i>)	17.8	18.9	20.0	19.6	15.8
Central Tax Transfers (<i>Per cent</i>)	29.5	35.7	34.5	35.1	35.5
Grants-in-aid (<i>Per cent</i>)	17.1	10.1	10.1	10.1	12.9
Rate of Growth of Revenue Receipt (<i>Per cent</i>)	New State	Not Determined	9.8	14.2	18.1
Rate of growth of own taxes (<i>Per cent</i>)	New State	Not Determined	10.3	13.5	20.0
GSDP Growth (<i>Per cent</i>)	--	--	** 14.3	**9.8	9.8
Revenue Receipts/ GSDP (<i>Per cent</i>)	18.1	** 13.7	** 13.2	**13.7	14.8
Buoyancy of Revenue Receipt with reference to					
GSDP (ratio)	--	--	** 0.69	**1.45	1.85
Own taxes (ratio)	-	-	0.95	1.05	0.91

* Jharkhand was created on 15 November 2000. The figures are therefore for only four and half months. Hence rate of growth was not determined for 2000-01 and 2001-02.

** Due to revision in State Domestic product, growth rate is determined as per new GSDP figures supplied by the State.

Revenue receipts of the State increased from Rs 5,638 crore in 2003-04 to Rs 6,661 crore in 2004-05. It grew by 18 *per cent* over the previous year mainly due to increase in sales tax (Rs 281 crore), State excise (Rs 50 crore), taxes on vehicles (Rs 31 crore), taxes on goods and passengers (Rs 24 crore), on central tax transfer (Rs 386 crore) and Grant-in-aid (Rs 293 crore) offset by decrease in non-tax revenue (Rs 53 crore). This decline was mainly due to less receipt under interest (Rs 28 crore) and forestry and wild life (Rs 17 crore).

While on an average around 52 *per cent* of the revenue during 2004-05 came from the State's own resources, Central tax transfers and grants-in-aid together continued to contribute nearly 48 *per cent* of the total revenue. Sales tax was the major source of State's own tax revenue having contributed 79 *per cent* of the tax revenue followed by state excise (six *per cent*), taxes on vehicles (five *per cent*) etc. Non-ferrous mining and metallurgical industries (89 *per cent*) were the principal contributors to non-tax revenues.



1.6 Application of resources

1.6.1 Trend of Growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 6,516 crore in 2003-04 to Rs 8,886 crore in 2004-05 with growth rate of 36 per cent.

Total expenditure, its annual growth rate, ratio of expenditure to the State's GSDP and to revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5.

Table 5: Total Expenditure – Basic Parameters

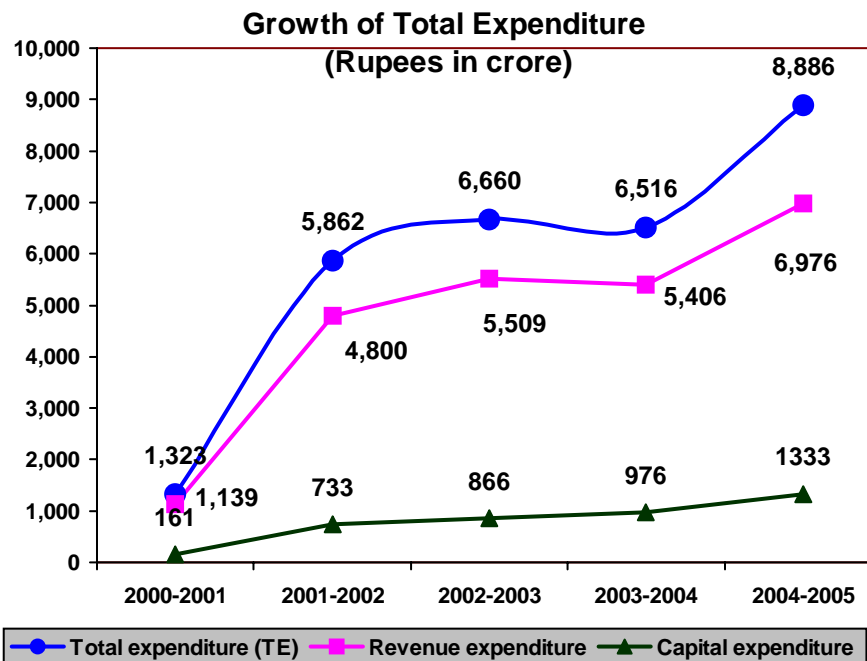
	2000-01*	2001-02	2002-03	2003-04	2004-05
Total Expenditure# (Rupees in crore)	1323	5862	6660	6516	8886
Rate of Growth (per cent)	--	--	13.6	(-)2.2	36.4
TE/GSDP (per cent)	12.2	17.9	17.8	15.9	19.7
Revenue Receipts/TE (per cent)	New State	76.7	74.1	86.5	75.0
Buoyancy of Total Expenditure with reference to					
GSDP (ratio)	--	--	0.95	♣	3.71
Revenue Receipts (ratio)	--	--	1.38	♣	2.01

* Jharkhand was created on 15 November 2000. The figures are, therefore, for only four and half months. Hence rate of growth was not determined for 2000-01 & 2001-02.

Total expenditure includes revenue expenditure, capital expenditure and loans & advances.

♣ Total expenditure had a negative growth.

The ratio of revenue receipts to total expenditure in 2004-05 indicated that 75 per cent of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowing.



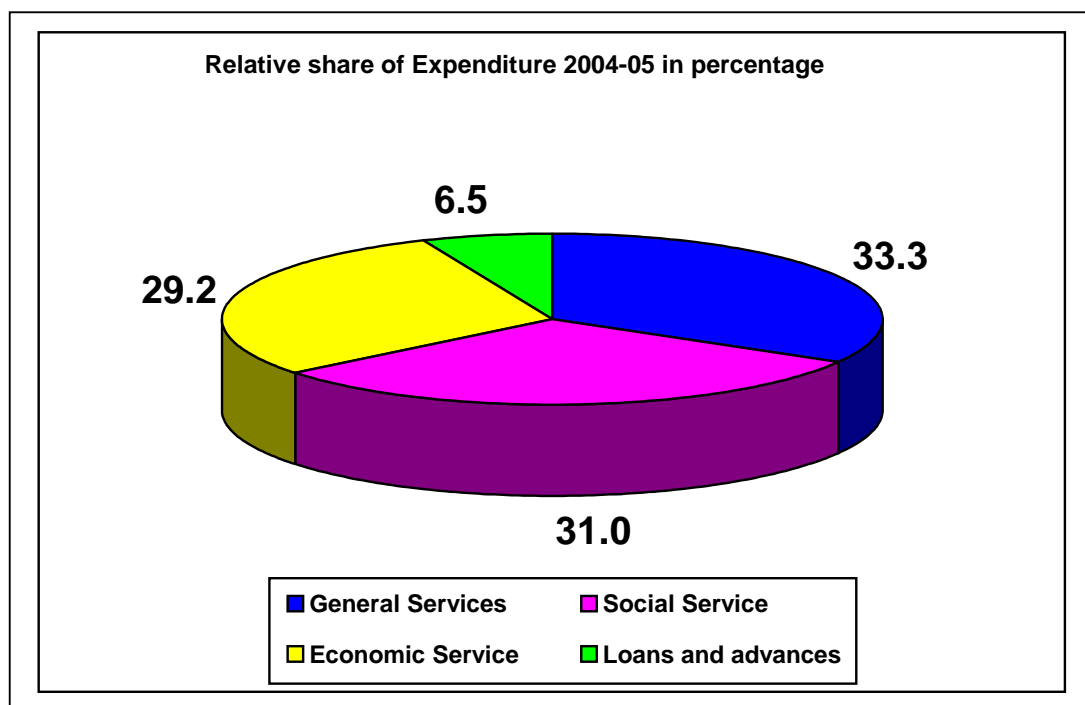
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative shares of these components in total expenditure are indicated in Table 6.

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

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	30.8	21.8	20.5	22.4	20.5
Social Services	33.3	34.5	31.5	30.6	31.0
Economic Services	28.1	28.4	22.4	26.8	29.2
Grants-in-aid	--	*	*	*	-
Loans and advances	1.7	5.6	4.3	2.1	6.5
Interest payments	6.1	9.7	21.3	18.1	12.8

* Percentage of Grant-in-aid being only 0.01 hence not indicated.

The movement of relative shares of these components of expenditure indicated that the share of general services (including interest) which was considered as non-developmental declined from 40.5 per cent in 2003-04 to 33.3 per cent in 2004-05 in total expenditure. On the other hand, the relative share of social services and economic services (developmental expenditure) increased from 30.6 per cent and 26.8 per cent in 2003-04 to 31 per cent and 29.2 per cent respectively in 2004-05.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure and is usually incurred to maintain the current level of services and payment for the past obligation and does not result in any addition to the state infrastructure and service network.

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

Table 7: Revenue Expenditure–Basic Parameters

	2000-01**	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (Rupees in crore)	1139	4800	5509	5406	6976
Rate of Growth (<i>per cent</i>)	New State	New State	14.8	(-) 1.9	29.0
RE/ GSDP (<i>per cent</i>)	10.5	14.7	14.7	13.2	15.5
RE as <i>per cent</i> of TE	86.1	81.9	82.7	83.0	78.5
RE as <i>per cent</i> to Revenue Receipts	58.0	106.8	111.6	95.9	104.7
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	New State	-	1.03	*	2.96
Revenue Receipts (ratio)	New State	-	1.50	*	1.60

** Jharkhand was created on 15 November 2000. The figures are therefore for only four and half months. Hence rate of growth was not determined for 2000-01 & 2001-02.

* Revenue expenditure had a negative growth.

Revenue expenditure of the State increased from Rs 5406 crore in 2003-04 to Rs 6976 crore in 2004-05. The increase of 29 *per cent* in the revenue expenditure during the year was mainly due to more expenditure on General Education (Rs 322 crore), Power (Rs 262 crore), Medical and Public Health (Rs 143 crore), Co-operation (Rs 113 crore), Police (Rs 112 crore) etc. offset by less expenditure under Interest Payment (Rs 41 crore). Revenue expenditure accounted for 79 *per cent* of total expenditure during 2004-05. This was higher than the share of revenue receipts (75 *per cent* of total expenditure) of the State Government, which led to revenue deficit. The ratio of revenue expenditure to revenue receipts increased from 96 *per cent* in 2003-04 to 105 *per cent* in 2004-05. The expenditure on Salaries (Rs 2179 crore), Interest payments (Rs 1141 crore) and Pensions (Rs 620 crore) alone accounted for 56 *per cent* of total revenue expenditure and consumed 59 *per cent* of total revenue receipts of the State during the year.

1.7 Committed expenditure

1.7.1 High salary expenditure and Pension payment

Salaries and pension alone accounted for nearly 42 *per cent* of the revenue receipts of the State. The expenditure on salaries and pension increased from Rs 2492 crore in 2003-04 to Rs 2799 crore in 2004-05 at an average trend rate of 12 *per cent*. Further the segregation of pension liabilities between Bihar and Jharkhand as a result of the division of the erstwhile composite State with effect from 15 November 2000 had not been finalised (September 2005). Consequently, there was a saving of Rs 308 crore under Pension during 2004-05.

Table 8: Salary and pension

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary and pension expenditure	N.A*	1834	1763	2492	2799
As percentage of revenue expenditure	N.A	38.2	32.0	46.1	40.1
As percentage of Revenue Receipts	N.A	40.8	35.7	44.2	42.0

* Jharkhand was created on 15 November 2000. The salary figures are not available for four and half months.

With the increase in the number of retirees, the pension liabilities were 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 were increasing, reforms in the existing pension schemes assume critical importance.

1.7.2 Interest payments

The interest payment as a percentage of revenue receipts has fallen to 17 *per cent* during 2004-05 as against 21 *per cent* during 2003-04.

As indicated in Table 9, though the interest payments decreased by about four *per cent* *i.e.* from Rs 1182 crore in 2003-04 to Rs 1141 crore in 2004-05, the large interest payments, due to continued reliance on borrowings for meeting

the deficits, crowded out the expenditure on primary education, health and social welfare schemes.

Table 9: Interest Payment

Year	Revenue Receipts	Revenue expenditure	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2000-2001	1964	1139	81 [♥]	4	7
2001-2002	4495	4800	568	13	12
2002-2003	4937	5509	1419	29	26
2003-2004	5638	5406	1182	21	22
2004-2005	6661	6976	1141	17	16

1.8 Expenditure by Allocative Priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of the Finance Accounts reflects its quality. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure. Table 10 below gives the percentage share of these components of expenditure in State's total expenditure.

Table 10: Quality of expenditure (per cent to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	27.2	36.1	29.7	32.4	39.9
Capital Expenditure	12.4	13.3	13.6	15.3	16.0
Developmental Expenditure	62.5	66.6	56.3	58.6	64.3

Plan, Capital and Developmental expenditure showed a relative increase during 2004-05. Plan expenditure increased from 32.4 *per cent* of total expenditure in 2003-04 to 39.9 *per cent* in 2004-05 due to increase in plan expenditure mainly on social and economic services. The increase in capital expenditure from 15.3 *per cent* in 2003-04 to 16 *per cent* in 2004-05 was due to increase in capital outlay on Water Supply and Sanitation, Rural Development, Power and Road and Bridges.

Out of the developmental expenditure (Rs 5346 crore), social services (Rs 2750 crore) accounted for 51 *per cent* during 2004-05. General Education, Health and Family Welfare and Water Supply, Sanitation, Housing & Urban Development consumed nearly three-fourths (76 *per cent*) of the expenditure on social sector.

[♥] Jharkhand was created on 15th November 2000. The figures are therefore for four and half months.

Table 11: Social Sector Expenditure (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Education, Sports, Art and Culture	286	1035	1088	1023	1409
Health and Family Welfare	62	272	245	238	427
Water Supply Sanitation, Housing and Urban Development	21	216	267	213	265
Total	369	1523	1600	1474	2101

Similarly, the expenditure on Economic Services (Rs 2596 crore) accounted for 49 *per cent* of the developmental expenditure during the year. Of this, Power (Rs 407 crore), Irrigation and Flood Control (Rs 296 crore) and Transport (Rs 444 crore) accounted for 44 *per cent* of the expenditure on Economic sector. The expenditure on Transport included Rs 121 crore given by the State Government during the year to the Indian Railways for execution of various railway projects in the State.

Table 12: Economic Sector Expenditure (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Energy	-	33	141	98	407
Irrigation and flood control	71	236	261	359	296
Transport	38	451	232	274	444
Total	109	720	634	731	1147

1.9 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions and public utility services. These bodies and authorities receive financial assistance from the Government who also provide financial assistance to other institutions such as those registered under the State Co-operative Societies Act and Companies Act, 1956, to implement various programmes of the Government. The grants are given by the Government mainly for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

Table 13 contains the details of the quantum of assistance provided to different bodies during the period 2000-05.

Table 13: Assistance provided to local bodies and others (Rupees in crore)

Sl. No.	Bodies/authorities etc.	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Universities and Educational Institutions	60.41	200.94	234.82	219.59	222.41
2.	Municipal Corporations and Municipalities	1.99	39.58	44.20	18.18	48.83
3.	Zila Parishads and Panchayati Raj Institutions	0.46	Nil	7.75	21.29	8.83
4.	Development Agencies	0.19	10.46	97.01	101.67	639.68
5.	Other Institutions (including statutory bodies)	6.54	115.93	75.32	91.43	38.16
	Total	69.59	366.91	459.10	452.16	957.91
	Assistance as a percentage of revenue receipts	4	8	9	8	14
	Percentage of assistance to revenue expenditure	6	8	8	8	14

1.10 Assets & Liabilities

The Government accounting system does not attempt 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 incurred. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-1.2* presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this appendix 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 the capital outlay, loans and advances given by the State Government and cash balances.

The liabilities of Government of Jharkhand depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comforts issued by the State Government. The ratios of assets to liabilities of the State during the years 2001-02 to 2004-05 were 34 *per cent*, 33 *per cent*, 44 *per cent* and 54 *per cent* respectively, as shown in *Table-19*. The low ratio of assets to liabilities is partly due to the fact that while the State inherited Public Debt liability amounting to Rs 5991 crore from composite Bihar, apportionment of assets has not been done so far (September 2005).

1.10.1 Investments and Returns

As of 31 March 2005, Government had invested Rs 18.05 crore in Government Companies and Co-operatives since inception of the new State (Table 14). Government's return on the investments was Rs one crore during the year. Investments in these institutions as well as Statutory Corporations and Joint Stock Companies upto 14 November 2000 by the composite Bihar State have not been apportioned between the successor States of Bihar and Jharkhand.

Table 14: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing
	(Rupees in crore)			(per cent)
2000-01	-	-	-	-
2001-02	13.99	Nil	Nil	8 to 10.82
2002-03	15.55	Nil	Nil	6.75 to 7.80
2003-04	16.60	Nil	Nil	5.85 to 6.40
2004-05	18.05	1.0	6	5.60 to 7.36

1.10.2 Loans and advances by State Government

In addition to its investment in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. During 2004-05 Government provided loans and advances amounting to Rs 576.80 crore, an increase of Rs 443.27 crore over the previous year. The increase was mainly due to loans paid to Jharkhand state Electricity Board for repayment of outstanding interest against bonds issued by the Board and for other purposes. Total outstanding loans advanced were Rs 1330.01 crore (excluding the amount to be allocated from erstwhile composite Bihar) as on 31 March 2005 (Table 15). Interest received against these advances was 1.78 *per cent* during 2004-05 as against 6.70 *per cent* in the previous year. Government orders sanctioning the loans did not specify the terms and conditions in all the cases.

Table 15: 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	Nil	22.82	349.51	631.20	760.79
Amount advanced during the year	23.46	329.18	284.92	133.53	576.80
Amount repaid during the year	0.64	2.49	3.23	3.94	7.58
Closing Balance	22.82	349.51	631.20	760.79	1330.01
Net Addition (+) / Reduction (-)	Nil	326.69	281.69	129.59	569.22
Interest Received (Rupees in crore)	0.01	61.06	96.08	46.65	18.63
Interest received as <i>per cent</i> to Loans advanced	Nil	# 32.80	19.59	6.70	1.78
Average interest paid by the State (<i>per cent</i>)	NA*	8.09	16.97	12.13	9.48
Difference between interest paid and received (<i>per cent</i>)	NA*	24.71	2.62	(-)5.43	(-)7.70

1.10.3 Management of cash balances

It is generally desirable that the flow of resources should match the expenditure obligations of the State. 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. Jharkhand had the WMA limit of Rs 51 crore. During the year, the State Government did not avail of this source of finance any day as against 31 days availed in 2003-04.

1.11 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,

Includes interest accrued on old balances of loan yet to apportioned to Jharkhand from composite Bihar.

* NA - Not Available.

from time to time, be fixed by an Act of its Legislature. However, no such law was passed by the State.

Statement 4 read with Statements 16 and 17 of the 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 fiscal liability of the State has grown much faster as compared to the rate of growth of GSDP. The overall fiscal liabilities of the State increased from Rs 6238 crore in 2000-01 to Rs 13512 crore in 2004-05. During 2004-05 the growth rate of fiscal liability was 27.8 *per cent*. The ratio of fiscal liability to GSDP increased from 25.8 *per cent* in 2003-04 to 30 *per cent* in 2004-05 and stood at 2.03 times of its revenue receipts and 3.93 times of its own resources. Table 16 gives the fiscal Liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 16: Fiscal Imbalances–Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities* (Rupees in crore)	6238	7804	8923	10569	13512
Rate of growth (<i>per cent</i>)	New State	--	14.3	18.5	27.8
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	**	23.9	23.9	25.8	30.0
Revenue Receipts (<i>per cent</i>)	**	173.6	180.7	187.5	202.9
Own Resources (<i>per cent</i>)	**	320.1	326.0	341.8	393.2
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	New State	#	1.0	1.89	2.84
Revenue Receipts (ratio)	New State	#	1.46	1.30	1.54
Own Resources (ratio)	New State	#	1.16	1.42	2.50

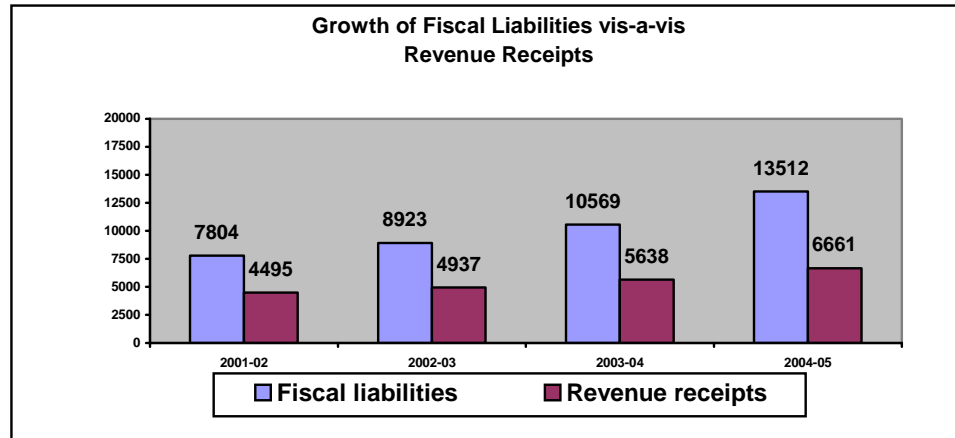
Apportionment of such liabilities of the Composite State of Bihar between the successor States of Bihar and Jharkhand has not been done so far (September 2005). Information about the guarantee, if any, given by the Government of Jharkhand has not been furnished by the Government.

Increasing liabilities had raised the issue of sustainability of State Government finances.

* The figures shown here excludes the liabilities in respect of balances of Provident Funds etc, Reserve Funds and Deposits of Composite Bihar as on 14 November 2000 pending their apportionment between the successor States Bihar and Jharkhand.

** Jharkhand was created on 15 November 2000, hence ratios not worked out.

Not comparable



One of the important indications of debt sustainability is net availability of funds after repayment of principal and interest.

Table 17 below gives the position of the receipts and repayment of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from the Government of India after providing for interest and repayments varied from minus 11 *per cent* to 57 *per cent* during 2000-05. The net availability, however, increased from 19 *per cent* in 2003-04 to 48 *per cent* in 2004-05 due to decreased repayment during the current year.

Table 17: Net availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt*					
Receipts	175	1208	1482	1951	3057
Repayments (Principal +Interest)	54	107	748	653	836
Net Funds Available	121	1101	734	1298	2221
Net Funds available (<i>per cent</i>)	69	91	50	67	73
Loans and Advances from Government of India					
Receipts	143	389	408	471	513
Repayments (Principal +Interest)	82	663	1354	1304	1028
Net Funds Available	61	#	#	#	#
Net Funds available (<i>per cent</i>)	43	#	#	#	#
Total Public Debt					
Receipts	318	1597	1890	2422	3570
Repayments (Principal +Interest)	136	770	2102	1957	1864
Net Funds Available	182	827	#	465	1706
Net Funds available (<i>per cent</i>)	57	52	#	19	48

Availability of fund was negative.

The State Government raised market loans of Rs 559.65 crore during the year. The average rate of interest of market borrowing during the year was 6.56 *per cent* where as the State Government borrowed Rs 1593.02 crore from National Small Saving Fund and Rs 513.36 crore from Government of India at the rate of nine *per cent* per annum. Further, the Government of India loan of Rs 475.26 crore was cleared during the year under the Debt Swap Scheme.

* Internal debt excluding ways and means advances.

The State Government did not use the option of raising the market borrowing at competitive rates through auctions. As on 31 March 2005, 44 *per cent* of the existing market loans of the State Government carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on their past loans was much higher than the rate at which resources were raised from the market. The maturity profile of the State Government market loans indicated that nearly 34 *per cent* of the total market loans were repayable within the next five years while the remaining 66 *per cent* of loans were required to be repaid within six to 12 years.

1.12 Management of deficits

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 and the resources raised are applied are important pointers to fiscal health.

It would be observed that there was revenue deficit of Rs 315 crore in 2004-05 which is the excess of revenue expenditure over revenue receipt as against revenue surplus of Rs 232 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 874 crore in 2003-04 to Rs 2217 crore in 2004-05. The State also had a primary deficit increasing from Primary Surplus of Rs 308 crore in 2003-04 to primary deficit of Rs 1076 crore in 2004-05 as indicated in Table 18.

Table 18: Fiscal imbalance-Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit (-)/Surplus (+) (Rupees in crore)	(+) 825	(-) 305	(-) 572	(+) 232	(-) 315
Fiscal deficit (-)/Surplus (+) (Rupees in crore)	(+) 642	(-) 1365	(-) 1720	(-) 874	(-) 2217
Primary Deficit(-)/Surplus(+) (Rupees in crore)	(+) 561	(-) 797	(-) 301	(+) 308	(-)1076
RD/GSDP (<i>Per cent</i>)	(+) 7.6	(-) 0.9	(-) 1.5	(+) 0.6	(-) 0.7
FD/GSDP (<i>Per cent</i>)	(+) 5.9	(-) 4.2	(-) 4.6	(-) 2.1	(-) 4.9
PD/GSDP (<i>Per cent</i>)	(+) 5.2	(-) 2.4	(-) 0.8	(+) 0.8	(-) 2.4
RD/FD (<i>Per cent</i>)	(+) 128.5	(+) 22.3	(+) 33.3	(-) 26.5	(+) 14.2

The ratio of revenue deficit to fiscal deficit has increased from minus 27 *per cent* in 2003-04 to 14 *per cent* in 2004-05. As proportion to GSDP, revenue deficit has increased nearly to one *per cent* and fiscal deficit to five *per cent* in 2004-05. The existence of revenue deficit indicate that the revenue receipt of the State was not able to meet its revenue expenditure and Government had to borrow funds to meet its current obligations. The table also shows that the deficits has increased much faster than GSDP during 2004-05.

1.13 Fiscal ratios

The finances of the State should be sustainable, flexible and non-vulnerable. Table 19 below presents a summarized position of Government Finances over 2004-05 with reference to certain key indicators. These help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of Revenue Receipt to GSDP has increased from 13.7 *per cent* in 2003-04 to 14.8 *per cent* in 2004-05 and the ratio of own tax to GSDP increased from 4.8 *per cent* in 2003-04 to 5.3 *per cent* in 2004-05.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure has decreased to 79 *per cent* in 2004-05 from 83 *per cent* in 2003-04; whereas the developmental expenditure as percentage to total expenditure has increased to 64.3 *per cent* in 2004-05 from 58.6 *per cent* in 2003-04. Both revenue and total expenditure when compared to its revenue receipts have shown comparatively higher buoyancy. About 75 *per cent* of total expenditure was met out from revenue receipt during 2004-05. All these indicate State's increasing dependence on borrowings for meeting its revenue and capital expenditure on expansion of its development activities.

Table 19: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05
Resources Mobilization					
Revenue Receipts/GSDP	18.1	13.7	13.2	13.7	14.8
Revenue Buoyancy	*	*	0.69	1.45	1.85
Own Tax/GSDP	6.5	4.9	4.7	4.8	5.3
Expenditure Management					
Total expenditure /GSDP	12.2	17.9	17.8	15.9	19.7
Revenue Receipts/ Total Expenditure	148.5	76.7	74.1	86.5	75.0
Revenue expenditure /Total Expenditure	86.1	81.9	82.7	83.0	78.5
Capital expenditure /Total expenditure (RE + CE)	12.4	13.3	13.6	15.3	16.0
Developmental Expenditure/ Total Expenditure (RE+CE)	62.5	66.6	56.3	58.6	64.3
Buoyancy of TE with RR	*	*	1.38	(-) 0.15	2.01
Buoyancy of RE with RR	*	*	1.50	(-) 0.13	1.60
Management of Fiscal Imbalances					
Revenue deficit(-)/Surplus(+) (Rs in crore)	(+) 825	(-) 305	(-) 572	(+) 232	(-)315
Fiscal Deficit(-)/Surplus(+) (Rs in crore)	(+) 642	(-) 1365	(-) 1720	(-) 874	(-)2217
Primary Deficit (-)/Surplus(+) (Rs in crore)	(+) 561	(-) 797	(-) 301	(+) 308	(-)1076
Revenue Deficit/Fiscal Deficit	(+) 128.5	(+)22.3	(+)33.3	(-) 26.5	(+)14.2
Management of Fiscal Liabilities					
Fiscal Liabilities / GSDP	57.5	23.9	23.9	25.8	30.0
Fiscal Liabilities/RR	317.6	173.6	180.7	187.5	202.9

Buoyancy of FL with RR	*	*	1.46	1.30	1.54
Buoyancy of FL with OR	*	*	1.16	1.42	2.50
Interest Spread	-	-	(-) 2.7	(-) 2.3	(+) 0.3
Net Fund Available on account of Public Debt	57	52	(-) 11	19	48
Other Fiscal Health Indicators					
BCR (Rs in crore)	--	599	(-) 2	847	892
Financial Assets/Liabilities (in <i>per cent</i>)	--	34	33	44	54

* New State

1.14 Conclusion

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, revenue deficit and large fiscal deficit year after year, together with low or no return on investments gradually affects the State's financial sustainability. The low ratio of assets to liabilities is partly due to the fact that while the state inherited Public Debt liability amounting to Rs 5991 crore from composite Bihar, apportionment of assets has not been done so far (September 2005). The debt swap of high cost loans by market borrowings at lower rate of interest is a step in the right direction. The State has to either generate more revenue out of its existing assets or provide from its current revenues for servicing its debts obligations. The state should also endeavour to pass a fiscal responsibility bill on the pattern of Central Government and other progressive states to ensure greater transparency in fiscal operations and macro-economic fiscal stability in a medium term framework.