

CHAPTER – I

Finances of the State Government

Summary

During 2005-06, the revenue deficit reduced significantly to Rs 27 crore from Rs 315 crore in 2004-05. Revenue receipts (Rs 8464 crore) increased by 27 *per cent* over the previous year while the revenue expenditure (Rs 8491 crore) grew by 22 *per cent*. The revenue deficit along with increase in Capital expenditure (Rs 506 crore) and disbursement of loans and advances (Rs 3170 crore) led to fiscal deficit of Rs 5603 crore which was 12 *per cent* of the Gross State Domestic Product (GSDP).

Revenue receipts increased during 2005-06 by Rs 1803 crore over the previous year mainly due to increase in Sales Tax by Rs 330 crore (18 *per cent*), Central Tax transfers by Rs 810 crore (34 *per cent*) and Central Grants-in-aid by Rs 244 crore (28 *per cent*).

While Central tax transfers and Grants-in-aid together contributed 51 *per cent* of the total revenue, 49 *per cent* of the revenue receipts came from the State's own resources. Besides, the State had to suffer a loss of revenue receipts amounting to Rs 1248 crore due to failure to pay the dues to CPSUs in time by JSEB in accordance with the tripartite agreement (Rs 840 crore), not holding of elections for local bodies (Rs 304.62 crore) and not enacting the Fiscal Responsibility and Budgetary Management Act (Rs 103.09 crore).

Among the sources of tax revenue, Sales Tax (80 *per cent*), State Excise (six *per cent*) and Taxes on Vehicles (five *per cent*) were the principal contributors. Of non-tax revenue sources, non-ferrous mining and metallurgical industries (71 *per cent*) were the principal contributors.

Overall expenditure of the State increased from Rs 8886 crore in 2004-05 to Rs 14077 crore in 2005-06 with a growth of 58 *per cent*. Revenue expenditure (Rs 8491 crore) constituted 60 *per cent* of the total expenditure. Salaries, interest payments and pensions consumed nearly 55 *per cent* of the revenue receipts during the year. During 2005-06, the fiscal liabilities (Rs 17360 crore) increased about 29 *per cent* over 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 153 *per cent* from Rs 2217 crore in 2004-05 to Rs 5603 crore in 2005-06 due to increase in Capital Expenditure by 38 *per cent* from Rs 1333 crore in 2004-05 to Rs 1839 crore in 2005-06 and disbursement of loans and advances by 549 *per cent* from Rs 577 crore in 2004-05 to Rs 3747 crore in 2005-06. The ratio of revenue deficit to fiscal deficit was 0.5 *per cent* in 2005-06.

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix 1.1- Part A*). 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 *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Jharkhand for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure 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 2005-06 (Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					Non-Plan	Plan	Total
6660.51	I. Revenue Receipts	8463.88	6975.91	I. Revenue expenditure	6352.39	2138.43	8490.82
2382.79	Tax revenue	2758.04	2943.08	General services	3267.69	309.74	3577.43
1052.45	Non-tax revenue	1426.53	2523.57	Social Services	2084.56	975.74	3060.30
2366.40	Share of Union Taxes and Duties	3175.89	1509.19	Economic Services	1000.13	852.95	1853.08
858.87	Grants from Govt. of India	1103.42	0.07	Grants-in-aid and Contributions	0.01	-	0.01
Section-B: Capital							
	II. Misc. Capital Receipts	-	1333.43	II. Capital Outlay	2.15	1836.88	1839.03
7.58	III. Recoveries of Loans and Advances	9.81	576.80	III. Loans and Advances disbursed	2659.48	1087.36	3746.84
3570.10	IV. Public debt receipts*	3500.62	801.88	IV. Repayment of Public Debt	-	-	281.08
128.34	V. Transfer to Contingency Fund	-	-	V. Expenditure from Contingency Fund	-	-	-
2927.42	VI. Public Account Receipts	3908.13	3602.92	VI. Public Account disbursements	-	-	2463.70
881.40	Opening Cash Balance	884.41	884.41	Closing Cash Balance			(-)54.62
14175.35	Total	16766.85	14175.35	Total			16766.85

* excludes ways and means advances and overdraft.

The revenue receipts during 2005-06 increased by 27 per cent over previous year which was due to increase in State share of Union Taxes and Duties by 34 per cent, Grants-in-aid by 28 per cent and non-tax receipts by 36 per cent. Revenue expenditure also increased by Rs 1515 crore (22 per cent) contributed by increase in expenditure on Social Services (Rs 536 crore), Economic Services (Rs 344 crore) and General Services (Rs 635 crore).

1.2 Overview of Fiscal Situation of the State

1.2.1 Trend in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 2**.

Table 2

(Rupees in crore)

2004-05	S. No.	Major Aggregates	2005-06
6661	1	Revenue Receipts (2+3+4)	8464
2383	2	Tax Revenue	2758
1053	3	Non-Tax Revenue	1427
2366	4	Central Tax Transfers	3176
859		Grants-in-aid	1103
8	5	Non-Debt Capital Receipts	10
8	6	Of which Recovery of Loans	10
6669	7	Total non debt Receipts (1+5)	8474
5281	8	Non-Plan Expenditure (9+11+12)	9014
4996	9	On Revenue Account	6352
1141	10	Of which, Interest Payments	1420
-	11	On Capital Account	2
285	12	On Loans disbursed	2660
3605	13	Plan Expenditure (14+15+16)	5063
1980	14	On Revenue Account	2139
1333	15	On Capital Account	1837
292	16	On Loans disbursed	1087
8886	17	Total Expenditure (8+13)	14077
(-)2217	18	Fiscal Deficit (-)/Surplus (+)(1+5-17)	(-) 5603
(-)315	19	Revenue Deficit (-)/Surplus (+) (1-9-14)	(-) 27
(-)1076	20	Primary Deficit (-)/Surplus (+) (10-18)	(-) 4183

Table 2 shows that the revenue receipts increased during 2005-06 by Rs 1803 crore over previous year whereas the revenue expenditure increased during the year by Rs 1515 crore over previous year which led to decrease in revenue deficit by Rs 288 crore from Rs 315 crore in 2004-05 to Rs 27 crore in 2005-06. However, fiscal deficit sharply increased by 153 per cent from Rs 2217 crore in 2004-05 to Rs 5603 crore in 2005-06 due to increase in capital expenditure by 38 per cent from Rs 1333 crore in 2004-05 to Rs 1839 crore in 2005-06 and increase in disbursement of loans and advances by 549 per cent from Rs 577 crore in 2004-05 to Rs 3747 crore in 2005-06.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 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. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State

Government have been used. As such, the percentages/ratios in relevant table for the years 2002-03, 2003-04 and 2004-05 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. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in *Appendix 1.1 Part C*.

1.4 State Finances by key Indicators

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

Table 3 shows that the total receipts of the State Government for the year 2005-06 were Rs 15883 crore. Of these, revenue receipts were Rs 8464 crore, constituting 53 per cent of the total receipts. The balance of receipts came from borrowings and Public Account.

Table 3 – Resources of Jharkhand (Rupees in crore)

I. Revenue Receipts	8464
II. Capital Receipts	3511
Miscellaneous Capital Receipts	-
Recovery of Loans and Advances	10
Public Debt Receipts	3501
III. Public Account Receipts	3908
Small Savings, Provident Fund, etc.	409
Reserve Fund	161
Deposits and Advances	1328
Suspense and Miscellaneous	90
Remittances	1920
Total Receipts	15883

1.4.2 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax

revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table 4**.

Table 4: Revenue Receipts – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (Rupees in crore)	4495	4937	5638	6661	8464
Own taxes (Rupees in crore)	1586 (35.3)	1750 (35.4)	1986 (35.2)	2383 (35.8)	2758 (32.5)
Non-Tax Revenue (Rupees in crore)	852 (18.9)	987 (20.0)	1106 (19.6)	1053 (15.8)	1427 (16.9)
Central Tax Transfers (Rupees in crore)	1603 (35.7)	1703 (34.5)	1980 (35.1)	2366 (35.5)	3176 (37.5)
Grants-in-aid (Rupees in crore)	454 (10.1)	497 (10.1)	566 (10.1)	859 (12.9)	1103 (13.1)
Growth rate of Revenue Receipts (<i>per cent</i>)	*	9.8	14.2	18.1	27.1
Rate of Growth of own taxes (<i>per cent</i>)	*	10.3	13.5	20.0	15.7
G.S.D.P Growth (<i>per cent</i>)	--	** 11.3	**9.2	**9.8	7.9
Revenue Receipts/ GSDP (<i>per cent</i>)	13.7	** 13.6	**14.2	**15.2	18
Revenue buoyancy (ratio)	--	** 0.87	**1.54	**1.85	3.43
State's own taxes Buoyancy (ratio)		0.91	1.47	2.04	1.99
Revenue Buoyancy with reference to State's own taxes (ratio)	-	0.95	1.05	0.91	1.73

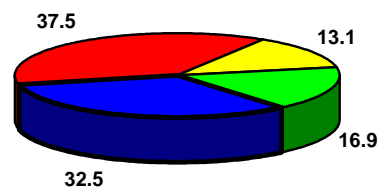
* Jharkhand was created on 15 November 2000. Hence, rate of growth was not determined for 2001-02.

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

Note: Figures in bracket denote percentage to total revenue receipts.

General Trend: While on an average around 49 *per cent* of the revenue during 2005-06 came from the State's own resources, Central tax transfers and Grants-in-aid together contributed nearly 51 *per cent* of the total revenue. Revenue receipts of the State increased from Rs 6661 crore in 2004-2005 to Rs 8464 crore in 2005-2006. It grew by 27 *per cent* over the previous year due to increase in tax revenue by Rs 375 crore (16 *per cent*), non- tax revenue by Rs 374 crore (36 *per cent*), Central tax transfers by Rs 810 crore (34 *per cent*) and Grants-in-aid by Rs 244 crore (28 *per cent*). Revenue Buoyancy increased from 1.85 in 2004-05 to 3.43 in 2005-06 whereas State's own taxes Buoyancy declined from 2.04 in 2004-05 to 1.99 in 2005-06. The ratio of State's own resources to total revenue receipts steadily declined from 55 *per cent* in 2002-03 to 49 *per cent* in 2005-06.

REVENUE RECEIPTS FOR 2005-06
(Relative share in *per cent*)



■ Own Taxes	■ Central Tax Transfers
■ Grants-in-aid	■ Non-Tax Revenue

Tax Revenue: The percentage of tax revenue to total revenue receipts ranged between 32.5 to 35.8 *per cent* during 2001-06. However, its percentage to total revenue receipts declined from 35.8 in 2004-05 to 32.5 *per cent* in 2005-06. The actual collection of tax revenue of Rs 2758 crore during 2005-06 was less

by Rs 236 crore if compared with normative assessment of own tax revenue (Rs 2994 crore) made by Twelfth Finance Commission (TWFC) of the State for 2005-06. Of the total tax revenue in 2005-06, sales tax contributed 80 *per cent* of tax revenue followed by State excise (six *per cent*). The increase in tax revenue during 2005-06 over previous year was mainly due to increase in sales tax (Rs 330 crore), taxes on goods and passengers (Rs 18 crore) and state excise (Rs 16 crore).

Non-tax Revenue: Non-tax revenue as percentage of revenue receipts oscillated within 15.8 to 20 during 2001-06. The non-tax revenue receipts in 2005-06, however, grew by 36 *per cent* over previous year mainly due to increase in receipts from education, sports, art and culture (Rs 164 crore), non-ferrous mining and metallurgical industries (Rs 76 crore), interest receipts (Rs 53 crore) and forestry and wild life (Rs 36 crore). Of non-tax revenue sources, non-ferrous mining and metallurgical industries were the principal contributors (71 *per cent*) followed by education, sports, art and culture (12 *per cent*) and interest receipts (five *per cent*).

Central tax transfer: Central tax transfer increased by Rs 810 crore from Rs 2366 crore in 2004-05 to Rs 3176 crore in 2005-06.

Grants-in-aid: Grants-in-aid increased by 28 *per cent* from Rs 859 crore in 2004-05 to Rs 1103 crore in 2005-06 mainly due to increases in State Plan grants (Rs 164 crore), grants for centrally sponsored plan schemes (Rs 62 crore) and non-plan grants (Rs 26 crore). The specific grants amounting to Rs 107.82 crore and Rs 57.39 crore for education and health sectors respectively recommended by TWFC have also been included in total grants-in-aid transferred to the State during the year.

Loss of plan grants from GOI: Scrutiny in Audit showed that, due to failure to pay the dues to CPSUs in time by JSEB in accordance with the tripartite agreement between Government of Jharkhand, RBI and Government of India, the State has lost out Rs 840 crore from the grant component of normal central assistance given under State Plan during 2001-06. The loss incurred on account of non-compliance of the provisions of the tripartite agreement.

Revenue arrears: The arrears of revenue as on 31 March 2006 were Rs 1611.10 crore (excluding figures of Excise and Prohibition Department, Transport Department and Water Resources Department on account of their non availability) against the total arrears of Rs 1741.08 crore as on 31 March 2005. The major parts of the arrear revenue relate to the Finance (Commercial tax) Department and Mining and Geology Department. At the end of 2005-06, the arrears with these departments were Rs 1296.01 crore and Rs 312.73 crore as against Rs 1361.37 crore and Rs 234.68 crore respectively at the end of 2004-05. The *per cent* of arrear revenue as on 31 March 2006 to own resources was 38 *per cent* as against 51 *per cent* at the end of 2005. Out of total arrear revenue of both the departments, Rs 1024.65 crore and Rs 193.19 crore respectively were outstanding for more than five years as on 31 March 2006, of which Rs 546.42 crore and Rs 593.65 crore had been stayed by the

courts and the Government respectively and rest of the arrears were due to other reasons.

1.4.3 Source of Receipts

The source of receipts under different heads as well as GSDP during 2001-2006 is indicated in **Table 5**.

Table 5: 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		
2001-02	4495	2	1585	1940	8022	32706
2002-03	4937	3	1889	3049	9878	36418
2003-04	5638	4	2422	3113	11177	39773
2004-05	6661	8	3570	2927	13166	43687
2005-06	8464	10	3501	3908	15883	47117

The share of revenue receipts of the State decreased from 56 *per cent* in 2001-02 to 50 *per cent* in 2002-03 to the total receipts but had again showed an increasing trend from 50 *per cent* in 2002-03 to 53 *per cent* in 2005-06. On the other hand, the capital receipts ranged between 44 to 50 *per cent* of total receipts during 2001-06. Revenue receipts increased steadily by 88 *per cent* from Rs 4495 crore in 2001-02 to Rs 8464 crore in 2005-06, whereas the capital receipts increased by 110 *per cent* from Rs 3527 crore in 2001-02 to Rs 7419 crore in 2005-06 mainly on account of an increase in accruals in Public Account.

Among capital receipts, the debt receipts increased from 45 *per cent* in 2001-02 to 47 *per cent* in 2005-06 of the capital receipts whereas, the receipts from Public Account ranged between 45 to 62 *per cent* during 2001-06.

The GSDP although consistently increased in absolute terms during the period 2001-06 but its annual growth rate fluctuated within the range from 7.9 *per cent* to 11 *per cent*. The growth rate of GSDP, however, decreased from 9.8 *per cent* in 2004-05 to 7.9 *per cent* in 2005-06, which is below the normative projection of an annual average rate of 11 *per cent* by TWFC during the Award period (2005-10).

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 5862 crore in 2001-02 to Rs 14077 crore in 2005-06. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts

and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 6.**

Table 6: Total Expenditure – Basic Parameters

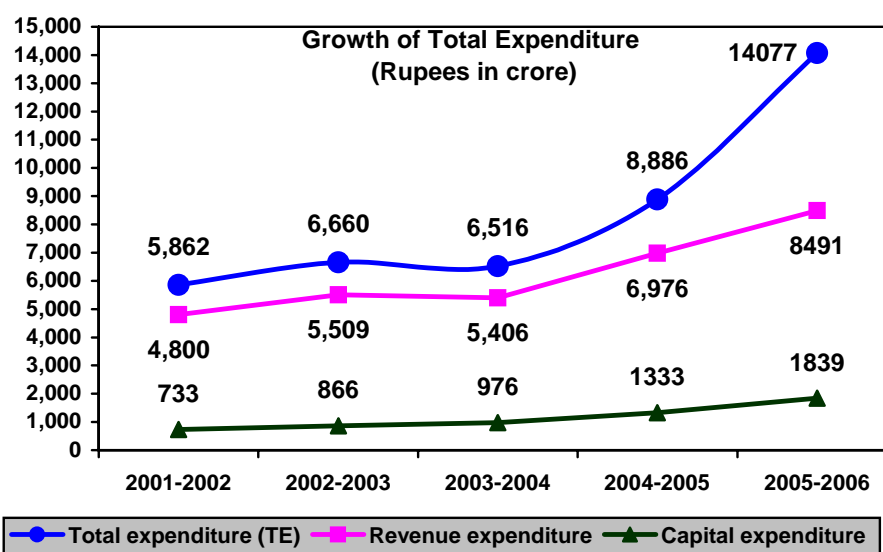
	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure # (Rupees in crore)	5862	6660	6516	8886	14077
Rate of Growth (<i>per cent</i>)	*	13.6	(-) 2.2	36.4	58.4
TE/GSDP (<i>per cent</i>)	17.9	18.3	16.4	20.3	29.9
Revenue Receipts/TE (<i>per cent</i>)	76.7	74.1	86.5	75.0	60.1
Buoyancy of Total Expenditure with reference to					
GSDP (ratio)	--	1.20	(-) 0.24	3.71	7.39
Revenue Receipts (ratio)	--	1.38	(-) 0.15	2.01	2.15

* Jharkhand was created on 15 November 2000. Hence, rate of growth was not determined for 2001-02

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

Total expenditure during 2005-06 increased by Rs 5191 crore (58 *per cent*) over previous year. The increase in revenue expenditure by Rs 1515 crore (22 *per cent*), capital expenditure by Rs 506 crore (38 *per cent*) and disbursement of loans and advances by Rs 3170 crore (549 *per cent*) explain the sharp increase in total expenditure. The increase in capital expenditure was mainly due to increase in capital outlay on Education, Sports & Arts (Rs 137 crore), Water Supply and Sanitation (Rs 71 crore), Major & Medium Irrigation (Rs 68 crore) and Welfare of Scheduled Caste Schedule Tribe and other Backward classes (Rs 57 crore). The sharp increase in loans and advances by 549 *per cent* during 2005-06 over previous year was mainly due to disbursement of loans for Power Projects amounting to Rs 3651.12 crore in 2005-06 as against Rs 490.54 crore in 2004-05. The buoyancy of total expenditure with reference to GSDP and revenue receipts showed increasing trend except in 2003-04 where total expenditure had negative growth.

The ratio of revenue receipts to total expenditure in 2005-06 indicated that 60 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowing.



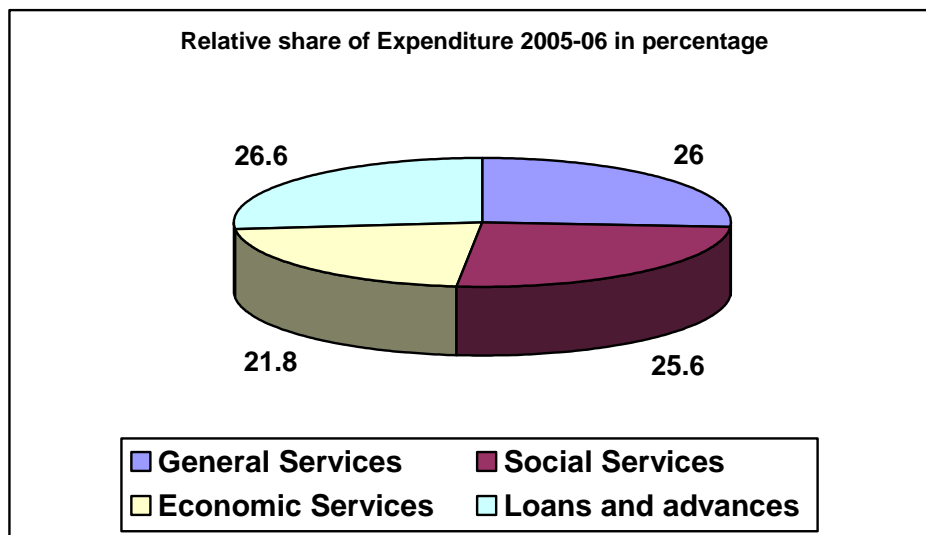
Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 7**.

Table 7: Components of expenditure – Relative Share (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	31.5	41.8	40.5	33.3	26.0
Of which Interest payments	9.7	21.3	18.1	12.8	10.1
Social Services	34.5	31.5	30.6	31.0	25.6
Economic Services	28.4	22.4	26.8	29.2	21.8
Grants-in-aid	*	*	*	-	-
Loans and advances	5.6	4.3	2.1	6.5	26.6

* Percentage of Grants-in-aid being 0.01 was not included.

The movement of relative shares of these components of expenditure indicated that the share of general services (including interest) which is considered as non-developmental, showed decreasing trend from 41.8 *per cent* in 2002-03 to 26.0 *per cent* in 2005-06 in total expenditure, of which interest payment also declined from 21.3 *per cent* in 2002-03 to 10.1 *per cent* in 2005-06. The relative share of Social Services reveals decreasing trend from 34.5 *per cent* in 2001-02 to 25.6 *per cent* in 2005-06 (except in 2004-05), whereas the share of economic services ranged between 21.8 to 29.2 *per cent* during 2001-06. The share of loans and advances showed decreasing trend from 5.6 *per cent* in 2001-02 to 2.1 *per cent* in 2003-04 but increased sharply to 26.6 *per cent* in 2005-06 mainly on account of a steep increase in loans for power project.



1.5.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the state infrastructure and service network. The 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 8** below:

Table 8: Revenue Expenditure: Basic Parameters (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	4800	5509	5406	6976	8491
Of which	3538	4484	4315	4996	6352
Non-Plan Revenue Expenditure (NPRE)	(74)	(81)	(80)	(72)	(75)
Plan Revenue Expenditure (PRE)	1262	1025	1091	1980	2139
	(26)	(19)	(20)	(28)	(25)
Rate of Growth (<i>per cent</i>)	**	26.7	(-)3.8	15.8	27.1
NPRE	**	(-)18.8	6.4	81.5	8.0
PRE					
NPRE/GSDP (<i>per cent</i>)	10.8	12.3	10.8	11.4	13.5
NPRE as <i>per cent</i> of TE	60.4	67.3	66.2	56.2	45.1
NPRE as <i>per cent</i> of RR	78.7	90.8	76.5	75.0	75.0
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	-	1.31	(-)0.21	2.96	2.75
Revenue Receipts (ratio)	-	1.50	(-)0.13	1.60	0.80
Buoyancy of Non- Plan Revenue Expenditure with					
GSDP (ratio)	-	2.36	(-)0.41	1.61	3.43
Revenue Receipts (ratio)	-	2.72	(-)0.27	0.87	1.0

** Jharkhand was created on 15 November 2000. Hence, rate of growth was not determined for 2001-02. Figures in bracket show percentage with RE

Revenue expenditure of the State increased from Rs 6976 crore in 2004-05 to Rs 8491 crore in 2005-2006 with growth rate of 22 *per cent*. During 2005-06, non Plan expenditure increased by Rs 1356 crore (27 *per cent*) over previous year whereas Plan expenditure by Rs 159 crore (eight *per cent*). The increase in the revenue expenditure during the year was mainly due to more expenditure on Interest payment (Rs 279 crore), Police (Rs 272 crore), General Education (Rs 211 crore), Other Rural Development Programme (Rs 134 crore), Medical and Public Health (Rs 101 crore) offset by less expenditure under other Transport Services (Rs 59 crore) and Election (Rs 51 crore). Salaries (Rs 2547 crore), interest payments (Rs 1420 crore) and pension (Rs 657 crore) alone accounted for 54 *per cent* of total revenue expenditure and consumed 55 *per cent* of total revenue receipts during the year.

Revenue expenditure accounted for 60.3 *per cent* of total expenditure during 2005-2006. The ratio of revenue expenditure to total expenditure and revenue receipts decreased from 78.5 *per cent* and 104.7 *per cent* in 2004-05 to 60.3 *per cent* and 100.3 *per cent* in 2005-06 respectively. The ratio of non-plan revenue expenditure to total expenditure and revenue receipts showed decreasing trend from 67.3 *per cent* and 90.8 *per cent* in 2002-03 to 45.1 *per cent* and 75 *per cent* during 2005-06 respectively. The ratio of non-plan revenue expenditure to GSDP showed increasing trend from 10.8 *per cent* in 2001-02 to 13.5 *per cent* in 2005-06 except in 2003-04. The buoyancy of non-plan revenue expenditure to GSDP ranged between (-) 0.41 to 3.43 during 2002-03 to 2005-06. It increased from 1.61 in 2004-05 to 3.43 in 2005-06. The buoyancy of non-plan revenue expenditure with reference to revenue receipts ranged between (-) 0.27 to 2.72 during 2002-06. It increased from 0.87 in

2004-05 to 1.0 in 2005-06. Non-plan expenditure accounted for nearly three fourths of the revenue expenditure during 2001-06.

The increase of Rs 889 crore (81 *per cent*) in plan revenue expenditure during 2004-05 over previous year was mainly due to increase in District Administration (Rs 95 crore), General Education (Rs 196 crore), Health and Family Welfare (Rs 121 crore) and Power (Rs 120 crore) etc. The plan revenue expenditure with a moderate increase of 8 *per cent* was sustained during 2005-06.

1.5.3 Committed Expenditure

1.5.3.1 Expenditure on Salaries

Table 9: Expenditure on Salaries (Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Salaries	1319	1243	1932	2179	2547
Of which					
Non-Plan Head	1001	1079	1744	1910	2326
Plan Head**	318	164	188	269	221
As <i>per cent</i> of GSDP	4.0	3.4	4.9	5.0	5.4
As <i>per cent</i> of RR	29.3	25.2	34.3	32.7	30.1

**Plan Head also includes the salaries paid under Centrally Sponsored Schemes.

Salaries alone accounted for nearly 30 *per cent* of the revenue receipts of the State during the year. The expenditure on salaries increased by 17 *per cent* from Rs 2179 crore in 2004-05 to Rs 2547 crore in 2005-06. Expenditure on salaries under non-plan head during 2005-06 increased by Rs 416 crore (22 *per cent*) over previous year, whereas the salary expenditure on Plan head decreased by Rs 48 crore (18 *per cent*) over previous year. The reasons for sharp increase in non-plan salary expenditure in 2005-06 were reportedly due to recruitment of large number of police personnel in Home Department and payment of arrears of pay in Irrigation Department. Non-plan salary expenditure ranged between 76 *per cent* to 91 *per cent* of total expenditure on salaries during the period 2001-06 (**Table 9**). Expenditure on salaries as a percentage of revenue expenditure, net of interest payment and pension amounts to 40 *per cent* which is higher than the norm of 35 *per cent* recommended by TWFC.

1.5.3.2 Pension payments

Table 10: Expenditure on Pensions (Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	515	520	560	620	657
As <i>per cent</i> of GSDP	1.6	1.4	1.4	1.4	1.4
As <i>per cent</i> of RR	11.5	10.5	9.9	9.3	7.8

The expenditure on pensions showed increasing trend during 2001-2006. It increased from Rs 515 crore in 2001-02 to Rs 657 crore in 2005-06. The ratio of Pension to GSDP remained constant at 1.4 *per cent* during 2001-02 to 2005-06 except in 2001-02 where it was 1.6 *per cent*. However, its ratio to revenue receipts decreased from 11.5 *per cent* in 2001-02 to 7.8 *per cent* in

2005-06 (**Table 10**). Pension payment increased by six *per cent* during 2005-06 over previous year against TWFC norms of 10 *per cent*. With the increase in the number of retirees, the pension liabilities are likely to increase in future. The State Government, therefore, needs to initiate appropriate policy measures to address the increasing pension liabilities within the framework suggested by TWFC.

1.5.3.3 Interest payments

The Twelfth Finance Commission recommended that the State should endeavor to level down the interest payments to revenue receipts so that it should be 15 *per cent* by 2009-10. Though the interest payment increased by Rs 279 crore (24 *per cent*) during 2005-06 over previous year, its percentage to revenue receipts remained constant at 17 *per cent* during 2004-05 and 2005-06 on account of 27 *per cent* increase in the latter.

Table 11: Interest Payment

Year	Total revenue Receipts	Total revenue expenditure	Interest payments	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2001-02	4495	4800	568	13	12
2002-03	4937	5509	1419	29	26
2003-04	5638	5406	1182	21	22
2004-05	6661	6976	1141	17	16
2005-06	8464	8491	1420	17	17

As indicated in table 11, interest payments showed decreasing trend from Rs 1419 crore (26 *per cent* of revenue expenditure) in 2002-03 to Rs 1141 crore (16 *per cent*) in 2004-05 due to swapping of high cost loans with low cost borrowings under debt swap scheme. TWFC while projecting non-plan revenue expenditure for the states for award period has assigned a growth rate of 8.5 *per cent* in interest payments if the ratio of interest payment to total revenue receipts is less than 23 *per cent*. In case of Jharkhand since this ratio is 17 *per cent* during the base year 2004-05, interest payment should have increased ideally at an average rate of 8.5 *per cent*; however, during 2005-06 the increase was 24 *per cent*.

The State Government did not enact the Fiscal Responsibility and Budgetary Management (FRBM) Act. As a result, the State Government could not avail the benefit of the debt reschedulement and interest rate relief of Rs 103.09 crore during the period 2005-06.

1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic

services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 12** gives these ratios during 2001-06.

Table 12: Indicators of Quality of Expenditure (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	733	866	976	1333	1839
Revenue Expenditure	4800	5509	5406	6976	8491
Total (CE+RE)	5533	6375	6382	8309	10330
<i>Of which</i>					
Social and Economic Services with					
(i) Salary component	3685 (31)	3592 (33)	3739 (48)	5346 (37)	6676(35)
(ii) Non-Salary component	2646 (69)	2620 (67)	2348(52)	3757(63)	4890(65)
As per cent of Total Expenditure*					
Capital Expenditure	13	13	15	15	13
Revenue Expenditure	82	83	83	79	60
As per cent of GSDP					
Capital Expenditure	2.2	2.4	2.5	3.1	3.9
Revenue Expenditure	14.7	15.1	13.6	16.0	18.0

*(RE + CE + Loans & advances)

Figures in bracket denote the percentage of salary component and non-salary component in revenue expenditure incurred on Social & Economic Services.

Revenue expenditure of the State crowded the total expenditure ranging between 60 to 83 *per cent* during the period 2001-06 resulting in less expenditure on capital account ranging between 13 to 15 *per cent* only. As percentage of total expenditure, revenue and capital expenditure declined from 79 *per cent* and 15 *per cent* in 2004-05 to 60 *per cent* and 13 *per cent* during 2005-06 respectively mainly due to increase in disbursement of loan and advances from six *per cent* in 2004-05 to 27 *per cent* in 2005-06. The ratio of capital expenditure to GSDP though, increased from 2.2 *per cent* in 2001-02 to 3.9 *per cent* in 2005-06, it still seems to be below the projection of seven *per cent* (all states average) recommended by TWFC indicating the need for changing the allocative priorities. Expenditure on Social and Economic Services ranged between 56 to 67 *per cent* of total revenue and capital expenditure during 2001-06. Non-salaries component expenditure on Social and Economic Services increased steadily from Rs 2348 crore (37 *per cent* of revenue and capital expenditure) in 2003-04 to Rs 4890 crore (47 *per cent*) in 2005-06, whereas salary components declined from 22 *per cent* in 2003-04 to 17 *per cent* in 2005-06. This indicates the better quality of expenditure and improvement in social and economic services.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 13** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-06.

Table 13: Expenditure on Social Services (Rupees in crore)

	2001-02	2002-03	2003-04	2004.-05	2005-06
Education, Sports, Art and Culture					
Revenue Expenditure	1030.5	1084.2	1017.9	1375.0	1628.1
<i>Of which (a) Salary Component</i>	355.0 (95)	549.0 (98)	751.8 (99)	864.6 (99)	910.7(99)
<i>(b) Non-Salary component</i>	675.5	535.2	266.1	510.4	717.4
Capital Expenditure	4.6	3.3	5.4	34.4	171.3
Sub total (RE + CE)	1035.1	1087.5	1023.3	1409.4	1799.4
Health and Family Welfare					
Revenue Expenditure	250.3	242.6	221.7	388.8	472.3
<i>Of which (a) Salary Component</i>	163.7 (62)	106.5 (60)	109.2 (76)	200.4(58)	213.9(83)
<i>(b) Non-Salary component</i>	86.6	136.1	112.5	188.4	258.4
Capital Expenditure	21.7	2.8	15.8	38.4	59.3
<i>Of which salary component</i>	7.6	-	-	-	-
Sub total (RE + CE)	272.0	245.4	237.5	427.2	531.6
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	124.8	118.7	113.1	117.1	166.3
<i>Of which (a) Salary Component</i>	24.1 (100)	16.9 (100)	83.0 (100)	41.3(100)	45.9(100)
<i>(b) Non-Salary component</i>	100.7	101.8	30.1	75.8	120.4
Capital Expenditure	90.7	148	100.2	148	254.1
<i>Of which salary component</i>	2.6	-	-	-	-
Sub total (RE + CE)	215.5	266.7	213.3	265.1	420.4
Other Social Services					
Revenue Expenditure	491.8	489.9	516.1	642.7	793.6
<i>Of which (a) Salary Component</i>	61.3 (38)	54.7 (71)	43.2 (60)	41.0 (85)	145.1(49)
<i>(b) Non-Salary component</i>	430.5	435.2	472.9	601.7	648.5
Capital Expenditure	5.7	7.8	4.2	5.4	62.4
Sub total (RE + CE)	497.5	497.7	520.3	648.1	856.0
Total (Social Services)					
Revenue Expenditure	1897.4	1935.4	1868.8	2523.6	3060.3
<i>Of which (a) Salary Component</i>	604.1 (81)	727.1(90)	987.2(95)	1147.3 (92)	1315.6(91)
<i>(b) Non-Salary component</i>	1293.3	1208.3	881.6	1376.3	1744.7
Capital Expenditure	122.7	161.9	125.6	226.2	547.1
<i>Of which salary component</i>	10.2	-	-	-	-
Grand Total (RE + CE)	2020.1 (34)	2097.3 (32)	1994.4 (31)	2749.8 (31)	3607.4 (26)

1. The figures in bracket against grand total indicate the percentage of expenditure on Social Services to total expenditure
2. The figures in bracket against salary component indicate the percentage of non-plan salary component in total salary.

Expenditure of State on social services ranged between 26 to 34 *per cent* of total expenditure during 2001-02 to 2005-06. Out of total expenditure on Social Services during 2001-06, 50 to 52 *per cent* was incurred on Education, Sports, Arts and Culture, 12 to 16 *per cent* on Health and Family Welfare and 9 to 13 *per cent* on Water Supply and Sanitation, Housing and Urban Development. The trend in revenue and capital expenditure on social services during 2001-06 revealed that the share of capital expenditure ranged between 6 to 15 *per cent* indicating dominant share of revenue expenditure. Of the revenue expenditure on social services, share of salary component increased from 32 *per cent* in 2001-02 to 53 *per cent* in 2003-04 but declined to 43 *per cent* in 2005-06 implying more expenditure on non-salary component. Even in priority sectors of education and health & family welfare, despite the fact that the salary component shared dominantly in their revenue expenditure, the decrease in salary component from 74 *per cent* in 2003-04 to 56 *per cent* in 2005-06 in education (including sports, art and culture) and from 49 *per cent* in 2003-04 to 45 *per cent* in 2005-06 in health and the increasing trends in capital as well as non-salary component indicate towards expansion as well as quality aspects of services being provided by these sectors. Non-plan salary component in general education increased by 5.1 *per cent* during 2005-06 over previous year being within norms of six *per cent* recommended by TWFC, whereas non-salary component increased by 70 *per cent* which is substantially

higher than the norms of 30 per cent prescribed by TWFC. In health sector, however, non-plan salary component increased by 51 per cent against TWFC norms of five per cent, whereas non-salary component increased by 121 per cent during 2005-06 over previous year. However, the combined growth rates of salary and non-salary components in general education and health sector were 16.6 per cent and 81 per cent against TWFC norms of 9.5 per cent and 11.5 per cent respectively.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 3069 crore) accounted for 22 per cent of the total expenditure (Table 14). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 59 per cent of the expenditure.

Table 14: Expenditure on Economic Sector (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities					
Revenue Expenditure	279.1	283.8	308.7	448.9	446.4
<i>Of which (a) Salary Component</i>	118.0 (86)	80.2(91)	185.9 (61)	186.1 (66)	128.5(96)
<i>(b) Non-Salary component</i>	161.1	203.6	122.8	262.8	317.9
Capital Expenditure	-	0.6	0.1	-	7.7
Sub total (RE + CE)	279.1	284.4	308.8	448.9	454.1
Irrigation and Flood Control					
Revenue Expenditure	46.3	36.9	44.4	39.1	116.9
<i>Of which (a) Salary Component</i>	16.9 (100)	12.7 (100)	23.6 (100)	27.3 (100)	98.4 (100)
<i>(b) Non-Salary component</i>	29.4	24.2	20.8	11.8	18.5
Capital Expenditure	189.9	223.5	314.9	256.9	340.6
<i>Of which salary component</i>	51.0	41.3	25.8	63.0	31.2
Sub total (RE + CE)	236.2	260.4	359.3	296.0	457.5
Power & Energy					
Revenue Expenditure	3.0	101.3	95.6	358.7	441.4
<i>Of which (a) Salary Component</i>	-	-	-	-	-
<i>(b) Non-Salary component</i>	3.0	101.3	95.6	358.7	441.4
Capital Expenditure	30.0	39.8	2.0	48.4	30.0
Sub total (RE + CE)	33.0	141.1	97.6	407.1	471.4
Transport					
Revenue Expenditure	344.7	60.6	109.0	203.0	173.8
<i>Of which (a) Salary Component</i>	28.0 (96)	13.8 (87)	35.2 (97)	31.1 (96)	34.8 (95)
<i>(b) Non-Salary component</i>	316.7	46.8	73.8	171.9	139.0
Capital Expenditure	106.5	171.7	165.4	241.1	249.4
<i>Of which salary component</i>	12.4	-	-	-	-
Sub total (RE + CE)	451.2	232.3	274.4	444.1	423.2
Other Economic Services					
Revenue Expenditure	389.3	338.3	370.4	459.5	674.6
<i>Of which (a) Salary Component</i>	135.3 (74)	69.7 (83)	109.8 (95)	114.3 (91)	152.3 (79)
<i>(b) Non-Salary component</i>	254.0	268.6	260.6	345.2	522.3
Capital Expenditure	276.0	238.4	334.3	540.9	588.0
<i>Of which Salary component</i>	62.6	27.6	23.7	20.4	25.8
Sub total (RE + CE)	665.3	576.7	704.7	1000.4	1262.6
Total (Economic Services)					
Revenue Expenditure	1062.4	820.9	928.1	1509.2	1853.1
<i>Of which (a) Salary Component</i>	298.2 (82)	176.4 (88)	354.5 (78)	358.8 (79)	414.0 (91)
<i>(b) Non-Salary component</i>	764.2	644.5	573.6	1150.4	1439.1
Capital Expenditure	602.4	674.0	816.7	1087.3	1215.7
<i>Of which Salary component</i>	126.0	68.9	49.5	83.4	57.0
Grand Total (RE + CE)	1664.8(28)	1494.9(22)	1744.8(27)	2596.5(29)	3068.8 (22)

1. The figures in bracket against salary component indicate the percentage of on non-plan salary component in total salary
2. The figures in bracket against grand total indicate the percentage of expenditure on Economic Services to total expenditure

Out of total expenditure on Economic Services, 15 to 19 *per cent* was incurred on Agriculture and Allied Activities, 11 to 21 *per cent* on Irrigation & Flood Control, 2 to 16 *per cent* on Energy and Power and 14 to 27 *per cent* on Transport during 2001-06. The salary component in total expenditure on Economic Services ranged between 15 to 25 *per cent* during 2001-06. The non-plan salary component increased by 32 *per cent* from Rs 284 crore in 2004-05 to Rs 376 crore in 2005-06 against the norm of five *per cent* increase recommended by TWFC.

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently increased from Rs 602.4 crore (36 *per cent*) in 2001-02 to Rs 1215.7 crore (40 *per cent*) in 2005-06, while revenue expenditure with inter year fluctuation increased from 1062.4 crore (64 *per cent*) in 2001-02 to Rs 1853.1 crore (60 *per cent*) in 2005-06. An increase of Rs 344 crore (23 *per cent*) during 2005-06 over previous year in revenue expenditure was mainly due to increase in Rural Development (Rs 163 crore), Irrigation & Flood Control (Rs 78 crore) and Energy (Rs 82 crore). Of the revenue expenditure, salary component ranged from 21 *per cent* to 38 *per cent* during 2001-06. It increased from Rs 355 crore (38 *per cent*) in 2003-04 to Rs 414 crore (22 *per cent*) in 2005-06 whereas non-salary component increased from Rs 574 crore (62 *per cent*) to Rs 1439 crore (78 *per cent*) indicating allocative priorities probably towards their maintenance and the better quality of services.

1.6.4 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 substantial financial assistance from the Government. Government also provides substantial financial assistance to other institutions such as those registered under the State Co-operative Societies Act, Companies Act, 1956, etc. to implement various programme of the Government. The grants are given by 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.

The quantum of assistance provided to different bodies etc., during the period 2001-2006 was as follows:

Table 15: Financial Assistance

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Universities and Educational Institutions	200.94	234.82	219.59	222.41	363.95
2.	Municipal Corporations and Municipalities	39.58	44.20	18.18	48.83	77.28
3.	Zila Parishads and Panchayati Raj Institutions	Nil	7.75	21.29	8.83	93.09
4.	Development Agencies	10.46	97.01	101.67	639.68	551.39
5.	Other Institutions (including statutory bodies)	115.93	75.32	91.43	38.16	69.79
	Total	366.91	459.10	452.16	957.91	1155.50
	Assistance as a <i>percentage</i> of revenue receipts	8	9	8	14	14
	<i>Percentage</i> of assistance to revenue expenditure	8	8	8	14	14

Assistance given by the State ranged between 8 to 14 *per cent* of revenue expenditure and revenue receipts during 2001-06. The financial assistance to local bodies increased steadily from Rs 366.91 crore in 2001-02 to Rs 452.16 crore in 2003-04 but increased sharply to Rs 957.91 crore and Rs 1155.50 crore in 2004-05 and 2005-06 respectively due to heavy increase in assistance to developmental agencies. In 2005-06, the increase in assistance by Rs 197.59 crore over previous year was mainly attributed to increase in assistance to Panchayat Samities, Zila Parishad etc. by the Rural Development Department (Rs 84.26 crore), Educational Institutions by Higher Education Department, Science & Technology Department and Primary and Mass Education Department (Rs 139.82 crore) and to other institutions by Labour Department and Disaster Management Department (Rs 17.86 crore) and partly offset by decrease in assistance to Co-operative Societies and Institutions (Rs 49.24 crore).

1.6.5 Deprivation of GOI grants to Local Bodies

It was observed that elections for local bodies were not held and consequently the State Government was deprived of Rs 304.62 crore which would have devolved to it as per the recommendations of the Eleventh and Twelfth Finance Commission. As a result, the transfer of resources to local bodies for the development of their respective areas was reduced to the extent due to non-availability of grants from GOI for these bodies which might have adversely affected delivery of services in the local areas of the State.

1.6.6 Delay in furnishing utilisation certificates

Of the 1676 utilisation certificates (UCs) due in respect of grants aggregating Rs 3147.75 crore paid up to 2005-06, 1221 UCs for an aggregate amount of Rs 2093.09 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in ***Appendix 1.6***.

1.6.7 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of October 2006, none of the departments of the Government has furnished details for the year 2005-06.

1.6.8 Abstract of performance of the autonomous bodies

The audit of accounts of only one body in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in the **Table 16**.

Table 16

Name of the autonomous body	Entrustment of audit upto	Year of account	Date of receipts of accounts of autonomous body	Date of issue of Separate Audit Report	Date on which placed before Legislature
Birsa Agriculture University, Ranchi	2001-02 to 2005-06	2001-02	29.11.2005	11.09.2006	No information regarding placement

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.2* gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. *Appendix 1.5* depicts the time series data on the State Government finances for the period 2001-2006. The ratios of assets to liabilities of the State during the years 2001-02 to 2005-06 were 34 per cent, 33 per cent, 44 per cent, 54 per cent and 64 per cent respectively, as shown in **Table 23**. 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 (October 2006).

1.7.1 Incomplete projects

In 11 incomplete projects with total investment of Rs one crore and above pertaining to Road Construction Department (8), Building Construction Department (1) and Water Resources Department (2) involved the total investment amounting to Rs 1310.17 crore up to 31 March 2006. Of the total investment of Rs 1310.17 crore in incomplete projects; 93 per cent (Rs 1223.60 crore) is tied up only in one irrigation project (Swarnrekha Project) which was although initiated about a decade ago but yet to be completed.

1.7.2 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. There are 63 such units concerning to various departments viz. Industry (12), Forest and Environment (25), Animal husbandry (2), Health (1), Labour (1), Finance (1) and Agriculture (21) which were required to prepare the proforma accounts, annually. However, the audit of 10 concerned units conducted between 1997-98 and 2005-06 revealed that they had not prepared any proforma

accounts since their inception. In respect of remaining units requisite details are not available.

1.7.3 Investments and Returns

As of 31 March 2006, Government had invested Rs 25.05 crore in five Government Companies (Rs 21.29 crore) and seven Co-operatives Banks and Societies (Rs 3.76 crore) since inception of the new State. Against the rate of interest on borrowing paid by Government varying from six to nine *per cent* per annum during 2001-06, return on investments made by the State Government is reported to be negligible. Investments in these institutions as well as Statutory Corporations and Joint Stock Companies up to 14 November 2000 by the composite Bihar State have not been apportioned between the successor States of Bihar and Jharkhand.

Table 17: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing	Difference between interest rate and return
	<i>(Rupees in crore)</i>			<i>(in per cent)</i>	
2001-02	13.99	Nil	Nil	9.37	9.37
2002-03	15.55	Nil	Nil	7.22	7.22
2003-04	16.60	Nil	Nil	6.15	6.15
2004-05	18.05	1.0	6	6.56	0.56
2005-06	25.05	Nil	Nil	7.55	7.55

1.7.4 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 2005-06, Government provided loans and advances amounting to Rs 3746.84 crore, an increase of Rs 3170.04 crore over previous year. The increase was mainly due to loans advanced to Jharkhand State Electricity Board amounting to Rs 3554 crore, comprising Rs 3064 crore as block loans and a loan of Rs 490 crore advanced for making repayment of outstanding interest against bonds issued by Electricity Board. Although TWFC has recommended that interest receipts on loans of the Government should gradually increase to seven *per cent* by the end of award period (2009-10), but the interest receipts stand only 2.1 *per cent* of outstanding loans during 2005-06 needing appropriate corrective action. However, of the total interest receipts during 2005-06, more than 99 *per cent* is contributed in the form of interest income accrued to the Government on cash balances held with RBI and from other sources. The interest receipts on loans advanced by the Government to institutions/ organizations, therefore, turned out to be negligible. Of the total repayments of outstanding loans and advances during the period 2001-06, the repayment by the government organizations/ institutions is reported to be low varying from 2 to 18 *per cent* of the total repayment during the period.

Table 18: Interest Receipts of the State Government (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	22.82	349.51	631.20	760.79	1330.01
Amount advanced during the year	329.18	284.92	133.53	576.80	3746.84
Amount repaid during the year	2.49	3.23	3.94	7.58	9.81
Closing Balance	349.51	631.20	760.79	1330.01	5067.04
Net Addition	326.69	281.69	129.59	569.22	3737.03
Interest Received	61.06	96.08	46.65	18.63	71.49
Interest received as <i>per cent</i> to Loans and Advances	# 32.80	19.59	6.70	1.78	2.24
Average interest paid by the State Government (<i>per cent</i>)	8.09	16.97	12.13	9.48	9.20
Difference between interest paid and received (<i>per cent</i>)	24.71	2.62	(-)5.43	(-)7.70	(-)6.96

1.7.5 Management of cash balances

It is generally desirable that 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. During 2005-06, Jharkhand had ordinary WMA limit of Rs 225 crore. In addition, Special Ways and Means Advances not exceeding Rs 6.90 crore (w.e.f. 1 April 2005), Rs 6.82 crore (w.e.f. 1 July 2005), Rs 6.74 crore (w.e.f. 1 October 2005), Rs 4.46 crore (w.e.f. 11 October 2005) and Rs 4.40 crore (w.e.f. 1 January 2006) to 31 March 2006 are made available against securities of the Government of India held by the State Government. During the year, the State Government did not avail of this source of finance on any occasion.

1.8 Undischarged Liabilities

1.8.1 Fiscal Liabilities –Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. 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 the Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law was passed by the State. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits.

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

Table 19 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 19: Fiscal Liabilities–Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities * (Rupees in crore)	7804	8923	10569	13512	17360
Rate of growth (<i>per cent</i>)	--	14.3	18.5	27.8	28.5
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	23.9	24.5	26.6	30.9	36.8
Revenue Receipts (<i>per cent</i>)	173.6	180.7	187.5	202.9	205.1
Own Resources (<i>per cent</i>)	320.1	326.0	341.8	393.2	414.8
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	#	1.27	2.01	2.84	3.61
Revenue Receipts (ratio)	#	1.46	1.30	1.54	1.05
Own Resources (ratio)	#	1.16	1.42	2.50	1.31

* 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.

Not comparable as Jharkhand was created on 15 November 2000.

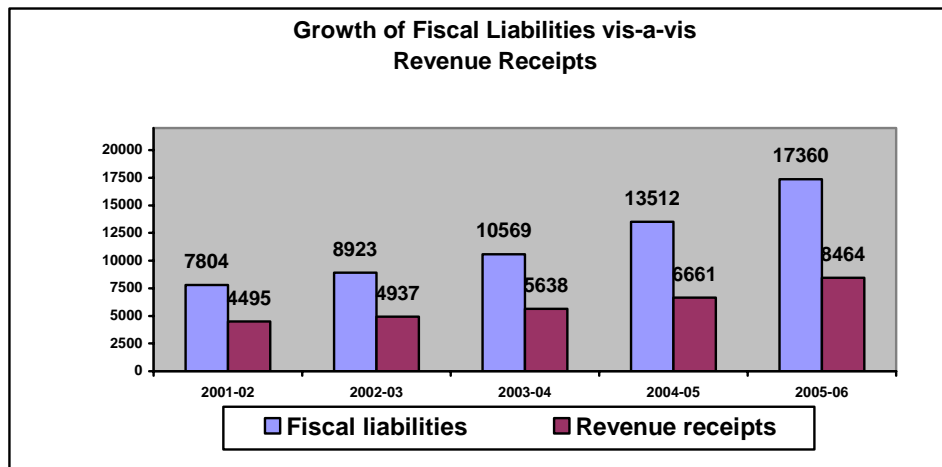
Overall fiscal liabilities of the State increased from Rs 7804 crore in 2001-02 to Rs 17360 crore in 2005-06 at an average growth rate of 24.5 *per cent*. The growth rate was 28.5 *per cent* during 2005-06 over previous year. The ratio of fiscal liabilities to GSDP also increased from 23.9 *per cent* in 2001-02 to 36.8 *per cent* in 2005-06. These liabilities stood at two times the revenue receipts and nearly four times of the States own resources as at the end of 2005-06. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 3.61 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 3.61 *per cent*.

Apportionment of such liabilities of the Composite State of Bihar between the successor States of Bihar and Jharkhand has not been done so far (October 2006). Information about the guarantees given by the Government of Jharkhand has not been furnished by the Government.

The fiscal liabilities at the end of the year 2005-06 comprise of internal debt (Rs 13018 crore), loans and advances from the Central Government (Rs 2846 crore), Small savings, provident funds etc. (Rs 491 crore) and other obligations (Rs 1005 crore). Of internal debt (Rs 13018 crore), the share of market loan was Rs 3553 crore, special securities issued to NSS Fund of Central Government (Rs 7036 crore), compensation and other bonds (Rs 2126 crore) and other institutions (Rs 303 crore).

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

(Rupees in crore)



1.8.2 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt (PD) is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (QS) (Debt* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GDP ratio would be constant or sustainable. On the other hand, if PD is greater than QS, debt-GDP ratio would be rising and if PD is less than QS, it would be falling.

Table 20: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

	2002-03	2003-04	2004-05	2005-06
Average Interest paid (per cent)	17.0	12.1	9.5	9.2
GSDP Growth	11.3	9.2	9.8	7.9
Interest spread	(-)5.7	(-)2.9	0.3	(-)1.3
Total Debt (Rs in crore)	8923	10569	13512	17360
Quantum Spread (Rs in crore)	(-)508.61	(-)306.50	40.54	(-)225.68
Primary Deficit (-) / Surplus (+) (Rs in crore)	(-)301	(+)308	(-)1076	(-)4183

Table 20 reveals that quantum spread together with primary deficit has been consistently negative during 2002-06 indicating rising debt-GSDP ratios during the period. Debt-GSDP ratio has increased steadily from 23.9 per cent in 2001-02 to 36.8 per cent in 2005-06. The ratio of fiscal deficit to GSDP increased from five per cent in 2004-05 to 12 per cent in 2005-06. If these trends continue to persist in near future, the debt position of the State would tend to become unsustainable.

1.8.3 Net Availability of Funds

One of the important indications of debt sustainability is net availability of funds after payment of principal on account of earlier contracted liabilities and

interest. **Table 21** below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the state over the last five years.

Table 21: Net availability of Borrowed Funds (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt*					
Receipts	1208	1482	1951	3057	3495
Repayments (Principal +Interest)	107	748	653	836	1016
Net Funds Available	1101	734	1298	2221	2479
Net Funds available (<i>per cent</i>)	91	50	67	73	71
Loans and Advances from GOI					
Receipts	389	408	471	513	6
Repayments (Principal +Interest)	663	1354	1304	1028	476
Net Funds Available	#	#	#	#	#
Net Funds available (<i>per cent</i>)	#	#	#	#	#
Other obligation					
Other Receipts	1118	1536	1599	1428	1782
Repayments (Principal +Interest)	947	1572	1600	1334	1362
Net Funds Available	171	#	#	94	420
Net Funds available (<i>per cent</i>)	15	#	#	7	24
Total Liabilities					
Receipts	2715	3426	4021	4998	5283
Repayments (Principal +Interest)	1717	3674	3557	3198	2854
Net Funds Available	998	#	464	1800	2429
Net Funds available (<i>per cent</i>)	37	#	12	36	46

Availability of fund was negative.

The net funds available on account of the internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayments varied from minus 7 *per cent* to 46 *per cent* during 2001-06. The net availability, however, increased from 36 *per cent* in 2004-05 to 46 *per cent* in 2005-06 due to decreased repayment during the current year.

Table 21 shows the increasing trend of borrowing on account of internal debt. Internal debt receipts increased by 189 *per cent* from Rs 1208 crore in 2001-02 to Rs 3495 crore in 2005-06.

The State Government raised market loans of Rs 364.12 crore during the year 2005-06 at an average rate of interest of 7.55 *per cent* as against Rs 559.65 crore at an average rate of 6.56 *per cent* during 2004-05. The State Government borrowed Rs 1633.81 crore from National Small Saving Fund at the rate of 9.5 *per cent* and Rs 1216.26 crore on account of compensation and other bonds at the rate of 8.5 *per cent* during 2005-06. Further, the interest payment on account of Government of India loans declined from Rs 495 crore in 2002-03 to Rs 325 crore in 2005-06 due to swapping of high cost loans with low cost borrowings under debt Swap Scheme. The repayment of GOI loans including interest decreased steadily from Rs 1354 crore in 2002-03 to Rs 476 crore in 2005-06.

As on 31 March 2005, 38 *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 is much higher than the rate at which

* Internal debt excluding ways and means advances.

they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicated that nearly 38 *per cent* of the total market loans were repayable within the next five years while the remaining 62 *per cent* of loans were required to be repaid within 6 to 11 years.

1.9 Management of Deficits

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

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased from Rs 305 crore in 2001-02 to Rs 27 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, sharply increased from Rs 1365 crore in 2001-02 to Rs 5603 crore in 2005-06. The State also had a primary deficit of Rs 797 crore in 2001-02 which increased to Rs 4183 crore in 2005-06 as indicated in **Table 22**.

As proportion to GSDP, the revenue deficit had reached 0.1 *per cent* whereas fiscal deficit had reached 12 *per cent* in 2005-06. The ratio of revenue deficit to fiscal deficit during 2005-06 was 0.5 *per cent*. The existence of revenue deficit indicates that the revenue receipts of the State were not able to meet its revenue expenditure and Government had to borrow funds to meet its current obligations.

Table 22: Fiscal imbalance-Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Deficit (-)/Surplus (+) (Rupees in crore)	(-) 305	(-) 572	(+) 232	(-) 315	(-) 27
Fiscal Deficit (-)/Surplus (+) (Rupees in crore)	(-) 1365	(-) 1720	(-) 874	(-) 2217	(-) 5603
Primary Deficit (-)/Surplus(+) (Rupees in crore)	(-) 797	(-) 301	(+) 308	(-) 1076	(-) 4183
RD/GSDP (<i>per cent</i>)	(-) 0.9	(-) 1.6	(+) 0.6	(-) 0.7	(-) 0.1
FD/GSDP (<i>per cent</i>)	(-) 4.2	(-) 4.7	(-) 2.2	(-) 5.1	(-) 11.9
PD/GSDP (<i>per cent</i>)	(-) 2.4	(-) 0.8	(+) 0.8	(-) 2.5	(-) 8.9
RD/FD (<i>per cent</i>)	(+) 22.3	(+) 33.3	(-) 26.5	(+) 14.2	(+) 0.5

The revenue deficit during the year 2005-06 decreased by Rs 288 crore (91 *per cent*) over previous year due to increase in growth rate of revenue receipts by 27 *per cent* as against 22 *per cent* in respect of revenue expenditure. On the other hand, the fiscal deficit during the year increased by Rs 3386 crore (153 *per cent*) over previous year mainly due to increase in disbursement of loans and advances by Rs 3170 crore and capital expenditure by Rs 506 crore. The worsening fiscal deficit position of the State in 2005-06 has also resulted into the deterioration in primary account of the State.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 23** below presents a summarized position of Government finances over 2001-06, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

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 Receipts to GSDP has increased from 15.2 *per cent* in 2004-05 to 18 *per cent* in 2005-06 and the ratio of own tax to GSDP increased from 5.5 *per cent* in 2004-05 to 5.9 *per cent* in 2005-06.

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 from 79 *per cent* in 2004-05 to 60 *per cent* in 2005-06. Though, the total expenditure when compared to its revenue receipts has shown higher buoyancy, the revenue expenditure when compared to revenue receipts has shown lower buoyancy. About 60 *per cent* of total expenditure was met out from revenue receipts during 2005-06. All these indicate State's increasing dependence on borrowings for meeting its revenue and capital expenditure on expansion of its development activities.

Table 23: Indicators of Fiscal Health (in *per cent*)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
Resources Mobilization					
Revenue Receipts/GSDP	13.7	13.6	14.2	15.2	18
Revenue Buoyancy	--	0.87	1.54	1.85	3.43
Own Tax/GSDP	4.9	4.8	5.0	5.5	5.9
Expenditure Management					
Total Expenditure /GSDP	17.9	18.3	16.4	20.3	29.9
Total Expenditure /Revenue Receipts	130.4	134.9	115.6	133.4	166.3
Revenue Expenditure /Total Expenditure	81.9	82.7	83.0	78.5	60.3
Salary expenditure on Social and Economic Service/Total Revenue Expenditure	18.8	16.4	24.8	21.6	20.4
Non-Salary expenditure on Social and Economic	42.9	33.6	26.9	36.2	37.5

Service/Total Revenue Expenditure					
Capital expenditure /Total expenditure	12.5	13.0	15.0	15.0	13.1
Capital Expenditure on Social and Economic Service/ Total Expenditure	12.4	12.6	14.5	14.8	12.5
Buoyancy of TE with RR	-	1.38	(-) 0.15	2.01	2.15
Buoyancy of RE with RR	-	1.50	(-) 0.13	1.60	0.80
Management of Fiscal Imbalances					
Revenue Deficit(-)/Surplus(+) (Rs in crore)	(-) 305	(-) 572	(+) 232	(-) 315	(-) 27
Fiscal Deficit(-)/Surplus(+) (Rs in crore)	(-) 1365	(-) 1720	(-) 874	(-) 2217	(-) 5603
Primary Deficit (-)/Surplus(+) (Rs in crore)	(-) 797	(-) 301	(+) 308	(-) 1076	(-) 4183
Revenue Deficit/Fiscal Deficit	(+) 22.3	(+) 33.3	(-) 26.5	(+) 14.2	(+) 0.5
Management of Fiscal Liabilities					
Fiscal Liabilities / GSDP	23.9	24.5	26.6	30.9	36.8
Fiscal Liabilities/RR	173.6	180.7	187.5	202.9	205.1
Buoyancy of FL with RR		1.46	1.30	1.54	1.05
Buoyancy of FL with OR		1.16	1.42	2.50	1.31
Primary Deficit vis-à-vis quantum spread (Rs in crore)	-	(-) 809.61	(+) 1.5	(-) 1035.46	(-) 4408.68
Net Fund Available	37	(-) 7	12	36	46
Other Fiscal Health Indicators					
Return on Investment (Rs in crore)	Nil	Nil	Nil	1	Nil
BCR (Rs in crore)	599	(-) 2	847	892	1120
Financial Assets/Liabilities (in per cent)	34	33	44	54	64

1.11 Conclusion

The key fiscal parameters - revenue and fiscal deficits - reveal a mixed trend in fiscal situation of the State during 2001-06. The fiscal situation which had substantially improved in 2003-04 has deteriorated in the subsequent year. The revenue account although indicated an improvement in 2005-06 as revenue deficit has declined by Rs 288 crore on account of an increment of Rs 810 crore in central transfers and Rs 244 crore in grants-in-aid during 2005-06 but

the fiscal deficit position deteriorated during the year by Rs 3386 crore mainly on account of a one time steep increase of Rs 3161 crore in the disbursement of loans for power sector projects. The increasing debt liabilities of the State, which increased by Rs 3848 crore during 2005-06 over the previous year accompanied with quantum spread together with primary deficit being consistently negative, indicate that State is heading towards a situation of unsustainable debt unless corrective actions are taken. Besides, it is observed that the loss of revenue receipts amounting to Rs 1248 crore on account of delay in clearing the dues to CPSUs in time by JSEB in accordance with the tripartite agreement, inability on the part of State for not holding elections to local bodies, not enacting the Fiscal Responsibility legislation as recommended by the TWFC has also adversely affected the position of State's revenue receipts. Therefore, to avail all grants made available by GOI, the State should endeavor to hold the elections to local bodies and take all possible steps to get the Fiscal Responsibility Act enacted as soon as possible.