

CHAPTER – I

Finances of the State Government

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 1.1 summarises the finances of the Government of Jharkhand for the year 2006-07 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 1.1 : Summary of receipts and disbursements for the year 2006-07 (Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non-plan	Plan	Total
8463.88	I. Revenue Receipts	10009.82	8490.82	I. Revenue expenditure	6632.26	2431.68	9063.94
2758.04	Tax revenue	3188.50	3577.43	General services	3453.66	356.32	3809.98
1426.53	Non-tax revenue	1250.40	3060.30	Social Services	2242.21	1085.06	3327.27
3175.89	Share of Union Taxes and Duties	4050.90	1853.08	Economic Services	934.34	990.30	1924.64
1103.42	Grants from Govt. of India	1520.02	0.01	Grants-in-aid and Contributions	2.05	-	2.05
Section-B: Capital							
-	II. Misc. Capital Receipts		1839.03	II. Capital Outlay	0.02	1461.32	1461.34
9.81	III. Recoveries of Loans and Advances	15.75	3746.84	III. Loans and Advances disbursed	291.90	118.91	410.81
3500.62	IV. Public debt receipts*	1865.99	281.08	IV. Repayment of Public Debt	-	-	606.34
-	V. Transfer to Contingency Fund		-	V. Expenditure from Contingency Fund	-	-	31.75
3908.13	VI. Public Account Receipts	4292.80	2463.70	VI. Public Account disbursements	-	-	3551.92
884.41	Opening Cash Balance	(-)54.62	(-)54.62	Closing Cash Balance	-	-	1003.64
16766.85	Total	16129.74	16766.85	Total			16129.74

* Excludes ways and means advances and overdraft.

- The revenue receipts during 2006-07 increased by Rs 1546 crore (18 per cent) over previous year which was due to increase in tax revenue by Rs 431 crore (16 per cent), State share of Union Taxes and Duties by

Rs 875 crore (28 per cent) and Grants-in-aid by Rs 417 crore (38 per cent) offset by decrease in Non-tax receipts by Rs 177 crore (12 per cent).

- Revenue expenditure increased by Rs 573 crore (seven per cent) contributed by increase in expenditure on Social Services (Rs 267 crore), General Services (Rs 233 crore) and Economic Services (Rs 72 crore).
- Capital expenditure decreased by Rs 378 crore (21 Per cent) over previous year.
- Public Debt receipts decreased by Rs 1635 crore (47 per cent) over previous year mainly due to decrease in borrowing from National Small Saving Fund (NSSF) (Rs 378 crore) and compensation and other bonds (Rs 1216 crore). However Public Debt repayment increased by Rs 325 crore over previous year.
- Public Account receipt increased by Rs 385 crore whereas disbursements decreased by Rs 1088 crore over previous year.
- Expenditure of Rs 32 crore out of advance drawn from contingency fund remained un-recouped till the end of financial year as a result of which total disbursement was understated to the extent.
- Cash Balances of the State as a result of above stated inflows/outflows of funds have increased by Rs 1058 crore at the close of 2006-07 over previous year.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2.**

Table 1.2

(Rupees in crore)

2005-06	S. No.	Major Aggregates	2006-07
8464	1	Revenue Receipts (2+3+4)	10010
2758	2	Tax Revenue	3189
1427	3	Non-Tax Revenue	1250
3176	4	Central Tax Transfers	4051
1103		Grants-in-aid	1520
10	5	Non-Debt Capital Receipts	16
10	6	Of which Recovery of Loans	16
8474	7	Total non debt Receipts (1+5)	10026
9014	8	Non-Plan Expenditure (9+11+12)	6924
6352	9	On Revenue Account	6632
1420	10	Of which, Interest Payments	1613
2	11	On Capital Account	-
2660	12	On Loans disbursed	292
5063	13	Plan Expenditure (14+15+16)	4012
2139	14	On Revenue Account	2432
1837	15	On Capital Account	1461
1087	16	On Loans disbursed	119
14077	17	Total Expenditure (8+13)	10936
(-) 5603	18	Fiscal Deficit (-)/Surplus (+) (1+5-17)	(-) 910
(-) 27	19	Revenue Deficit (-)/Surplus (+) (1-9-14)	(+) 946
(-) 4183	20	Primary Deficit (-)/Surplus (+) (1+5)-(17-10)	(+) 703

Table 1.2 shows increase in the revenue receipts and revenue expenditure by Rs 1546 crore (18 *per cent*) and by Rs 573 crore (seven *per cent*) respectively during 2006-07 over previous year resulting in revenue surplus of Rs 946 crore during 2006-07 from the deficit of Rs 27 crore in 2005-06. However, fiscal deficit sharply decreased by 84 *per cent* from Rs 5603 crore in 2005-06 to Rs 910 crore in 2006-07 which was mainly due to decrease in disbursement of loans and advances by 89 *per cent* from Rs 3747 crore in 2005-06 to Rs 411 crore in 2006-07 and Capital expenditure by 21 *per cent* from Rs 1839 crore in 2005-06 to Rs 1461 crore in 2006-07. The State finances indicates reversal of last year trend as there was revenue surplus of Rs 946 crore and primary surplus of Rs 703 crore during the current year as against revenue deficit of Rs 27 crore and primary deficit of Rs 4183 crore in 2005-06 respectively.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over the period from 2001-02 to 2006-07 and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The FRBM Act was enacted by the State Government in April 2007 and notification issued in May 2007. Assuming that GSDP is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc. with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP.

Table 1.3: Trends in Growth of Gross State Domestic Product (GSDP)

Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP (Rupees in crore)	35030	38187	42494	56871	62950	69752
GSDP (Growth Rate in <i>per cent</i>)	9.15	9.01	11.27	33.83	10.69	10.80

Source: Directorate of Statistics and Evaluation, Government of Jharkhand

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and Composition of Aggregate Receipts, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits (*Appendix 1.2 to 1.5*). 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. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts 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 1.4 shows the total receipts of the State Government for 2006-07 at Rs 16185 crore, of which Rs 10010 crore (62 per cent) came from revenue receipts and balance (38 per cent) from borrowings and Public Account.

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

<i>(Rupees in crore)</i>						
Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	4495	4937	5638	6661	8464	10010
II Capital Receipts	1587	1892	2426	3578	3511	1882
Recovery of Loans and Advances	2	3	4	8	10	16
Public Debt Receipts	1585	1889	2422	3570	3501	1866
Miscellaneous Capital Receipts	-	-	-	-	-	-
III Contingency Fund	-	-	-	-	-	-
IV Public Account Receipts	1940	3049	3113	2927	3908	4293
a. Small Savings, Provident Fund etc.	170	411	368	255	409	453
b. Reserve Fund	58	62	155	156	161	157
c. Deposits and Advances	1038	1215	1185	1136	1328	1579
d. Suspense and Miscellaneous	-136	106	106	-58	90	143
e. Remittances	810	1255	1299	1438	1920	1961
Total Receipts	8022	9878	11177	13166	15883	16185

The share of revenue receipts of the State to total receipt decreased from 56 per cent in 2001-02 to 50 per cent in 2002-03 but again increased steadily to 62 per cent in 2006-07. On the other hand, the capital receipts together with public debt receipt ranged between 38 and 50 per cent of total receipts during 2001-07. Revenue receipts increased steadily by 123 per cent from Rs 4495 crore in 2001-02 to Rs 10010 crore in 2006-07, whereas the debt capital receipts which create future repayment obligation increased steadily from Rs 1585 crore (20 per cent of total receipt) in 2001-02 to Rs 3570 crore (27 per cent) in 2004-05 but declined to Rs 1866 crore (12 per cent) in 2006-07. Public account receipts with inter year fluctuation increased from Rs 1940 crore in 2001-02 to Rs 4293 crore in 2006-07 ranging between 22 and 31 per cent of total receipt during 2001-07. The recovery of Loans and Advances was negligible in comparison to total receipt.

1.3.1 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 buoyancy are indicated in **Table 1.5**.

Table 1.5: Revenue Receipts – Basic Parameters

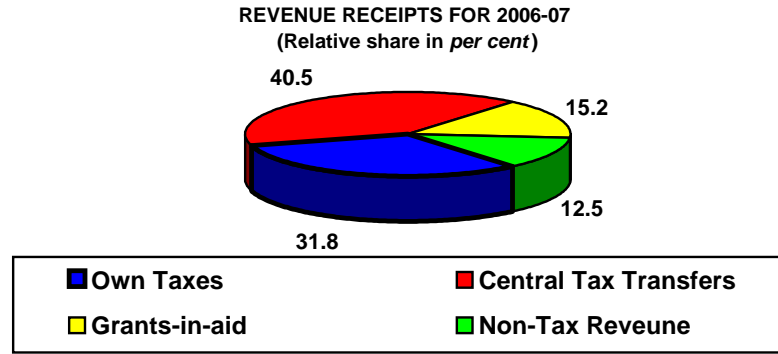
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (Rupees in crore)	4495	4937	5638	6661	8464	10010
Own taxes (Rupees in crore)	1586 (35.3)	1750 (35.4)	1986 (35.2)	2383 (35.8)	2758 (32.5)	3189(31.8)
Non-Tax Revenue (Rupees in crore)	852 (18.9)	987 (20.0)	1106 (19.6)	1053 (15.8)	1427 (16.9)	1250(12.5)
Central Tax Transfers (Rupees in crore)	1603 (35.7)	1703 (34.5)	1980 (35.1)	2366 (35.5)	3176 (37.5)	4051(40.5)
Grants-in-aid (Rupees in crore)	454 (10.1)	497 (10.1)	566 (10.1)	859 (12.9)	1103 (13.1)	1520(15.2)
Growth rate of Revenue Receipts (<i>per cent</i>)	*	9.8	14.2	18.1	27.1	18.3
Rate of Growth of own taxes (<i>per cent</i>)	*	10.3	13.5	20.0	15.7	15.6
G.S.D.P Growth (<i>per cent</i>)	--	** 9.8	**11.3	**33.8	**10.7	10.8
Revenue Receipts/ GSDP (<i>per cent</i>)	12.8	**12.9	**13.3	**11.7	**13.4	14.4
Revenue buoyancy (ratio)	--	**1.09	**1.26	**0.54	**2.53	1.69
State's own taxes Buoyancy (ratio)		1.14	1.19	0.59	1.47	1.44
Revenue Buoyancy with reference to State's own taxes (ratio)	-	0.95	1.05	0.91	1.73	1.17

* 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: The revenue receipt steadily increased by 123 *per cent* from Rs 4495 crore in 2001-02 to Rs 10010 crore in 2006-07. While on an average around 44 *per cent* of the revenue in 2006-07 came from the State's own resources, Central tax transfers and Grants-in-aid together contributed about 56 *per cent* of the total revenue. Revenue receipts of the State increased from Rs 8464 crore in 2005-06 to Rs 10010 crore in 2006-07. It grew by 18 *per cent* over the previous year due to increase in Tax Revenue by Rs 430 crore (16 *per cent*), Central tax transfers by Rs 875 crore (28 *per cent*) and Grants-in-aid by Rs 417 crore (38 *per cent*) offset by decrease in Non-tax revenue by Rs 176 crore (12 *per cent*). Revenue Buoyancy and State's own taxes Buoyancy both declined from 2.53 and 1.47 in 2005-06 to 1.69 and 1.44 in 2006-07 respectively. The ratio of State's own resources to total revenue receipts steadily declined from 55 *per cent* in 2002-03 to 44 *per cent* in 2006-07.



Tax Revenue: The percentage of Tax Revenue to total revenue receipts ranged between 31.8 and 35.8 per cent during 2001-07. However, its percentage to total revenue receipts declined from 32.5 in 2005-06 to 31.8 per cent in 2006-07. Though the Tax Revenue increased by 16 per cent over previous year, its actual collection of Rs 3189 crore during 2006-07 was less by Rs 200 crore if compared with normative assessment of Own Tax Revenue (Rs 3389 crore) made by TFC of the State for 2006-07. Of the total Tax Revenue in 2006-07, Sales tax contributed 80 per cent of Tax Revenue followed by taxes on vehicle (seven per cent). The increase in tax revenue during 2006-07 over previous year was mainly due to increase in Sales tax (Rs 345 crore), Taxes on Vehicles (Rs 80 crore) and Stamps and Registration Fees (Rs 30 crore). **Table 1.6** below shows the trend of Tax Revenue during 2001-07.

Table 1.6: Tax Revenue

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Land Revenue	10	15	17	17	18	36
Stamp and Registration	64	83	82	87	92	122
State Excise	100	99	96	146	162	130
Sales Tax	1239	1366	1601	1882	2212	2557
Taxes on vehicles	86	105	99	103	138	218
Other Taxes*	87	83	91	121	136	126
Total	1586	1750	1986	2383	2758	3189

* Other taxes include Taxes on Goods and Passengers, Taxes and Duties on electricity etc.

As indicated in Table 1.6, increase in Land Revenue was mainly due to more acquisition of land, more settlement of khas mahal land and transfer/lease settlement of the Government land. Reasons for increase of receipt under Stamp Registration and Taxes on vehicles were not furnished by the Government. However, it was ascertained in audit that increase under Taxes on Vehicles was mainly due to registration of more non-commercial vehicles and use of smart card for issue of driving licenses and registration certificates. Increase in Sales Tax was attributed to better tax administration and good growth in iron and steel sector. Decrease in State Excise receipt was attributed by the department to surrender of license for shops by group I (Country Spirit and Spiced Country Spirit) and non-settlement of excise shops during February and March 2007.

Non-tax Revenue: Non-tax revenue as percentage of revenue receipts oscillated between 12.5 and 20 during 2001-07. It, however, declined in 2006-

07 by 12 *per cent* over previous year mainly due to decrease in receipts from Education, Sports, Art and Culture (Rs 155 crore), Interest receipts (Rs 33 crore) and Forestry and Wild Life (Rs 37 crore). The decrease in revenue under Education, Sports, Art and Culture was mainly due to sharp decrease under Sports and Youth Services (Rs 150 crore) and Technical Education (Rs 9 crore) which was partly offset by increase under General Education. Of non-tax revenue sources, Non-ferrous Mining and Metallurgical Industries were the principal contributors (82 *per cent*) followed by Interest receipts (three *per cent*). Revenue receipt under Interest, Dividend etc and Economic Services was Rs 38 crore and Rs 1115 crore as against budget provision of Rs 62 crore and Rs 1287 crore respectively.

The performance of State in regard to the mobilization of its own resources vis-à-vis its own budget estimates and the normative assessment made by TFC for the year is indicated below:

Mobilization of State's Own Resources vis-à-vis Budget Estimate and the assessment made by TFC

(Rupees in crore)

	Assessments made by TFC	Budget Estimate	Actual
	(1)	(2)	(3)
Tax Revenue	3389	3128	3189
Non-Tax Revenue	1412	1434	1250

The Budget estimate and Actual collection of Tax revenue were less by Rs 261 crore and Rs 200 crore if compared to the normative assessment of Rs 3389 crore. In respect of Non-tax Revenue, Budget estimate was Rs 1434 crore as against the normative assessment of Rs 1412 crore by the TFC but the actual collection was less by Rs 162 crore and Rs 184 crore in comparison to the TFC norm and the budget estimate respectively.

Central tax transfer: Central tax transfer increased by Rs 875 crore from Rs 3176 crore in 2005-06 to Rs 4051 crore in 2006-07 and constituted 40.5 *per cent* of revenue receipt during the year. The increase was mainly due to increase in Corporation Tax (Rs 387 crore), Taxes on Income other than Corporation Tax (Rs 150 crore), Customs Duties (Rs 171 crore) and Service Tax (Rs 154 crore).

Grants-in-aid: Grants-in-aid increased by 38 *per cent* from Rs 1103 crore in 2005-06 to Rs 1520 crore in 2006-07 mainly due to increases in grants for Centrally Sponsored Plan Schemes (Rs 220 crore) and non-plan grants (Rs 148 crore) and State Plan grants (Rs 42 crore). Increase in Non-plan grants was mainly due to receipt of grants under the Proviso to Article 275 (1) of the Constitution (Rs 173.61 crore). Grants under Centrally Sponsored Scheme increased due to increase in Grants under Elementary Education (Rs 58 crore) and Social Welfare (Rs 160 crore). The specific grants amounting to Rs 59.03 crore and Rs 32 crore for Education and Health sectors respectively recommended by TFC have also been included in total Grants-in-aid transferred to the State during the year. Details of Grants-in-aid from GOI are given in **Table 1.7**.

Table No 1.7: Grants-in-aid from GOI

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State Plan Schemes	106	246	314	555	719	761
Non Plan Grants	96	42	90	86	112	260
Grants for Central and Centrally Sponsored Schemes	252	209	162	218	272	499
Total	454	497	566	859	1103	1520
Percentage of increase over previous year.	35	9	14	52	28	38

Loss of plan grants from GOI: Scrutiny in Audit showed that, due to failure of JSEB to pay the dues to CPSUs in time as per tripartite agreement among Government of Jharkhand, RBI and Government of India, the State suffered loss of grant component of normal central assistance given under State Plan amounting to Rs 934.45 crore during 2001-07.

Revenue arrears: The arrears of revenue as on 31 March 2007 were Rs 1655.94 crore (excluding figures of Water Resources Department on account of their non availability) against the total arrears of Rs 1671.73 crore as on 31 March 2006. The arrears of revenue as on 31 March 2007 to own resources was 37 per cent as against 40 per cent at the end of 2005-06. The major parts of the revenue arrear relate to the Finance (Commercial tax) Department, Mining and Geology Department and Transport Department. At the end of 2006-07, the arrears with these departments were Rs 1256.80 crore, Rs 229.92 crore and Rs 128.65 crore respectively. Out of total arrears of these departments, Rs 383.59 crore, Rs 175.72 crore and Rs 4.96 crore respectively were outstanding for more than five years as on 31 March 2007, of which Rs 422.99 crore and Rs 642.36 crore had been stayed by the courts and the Government respectively.

1.4 Application of resources

1.4.1 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 but decreased to Rs 10936 crore (22 per cent) in 2006-07. 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 1.8.

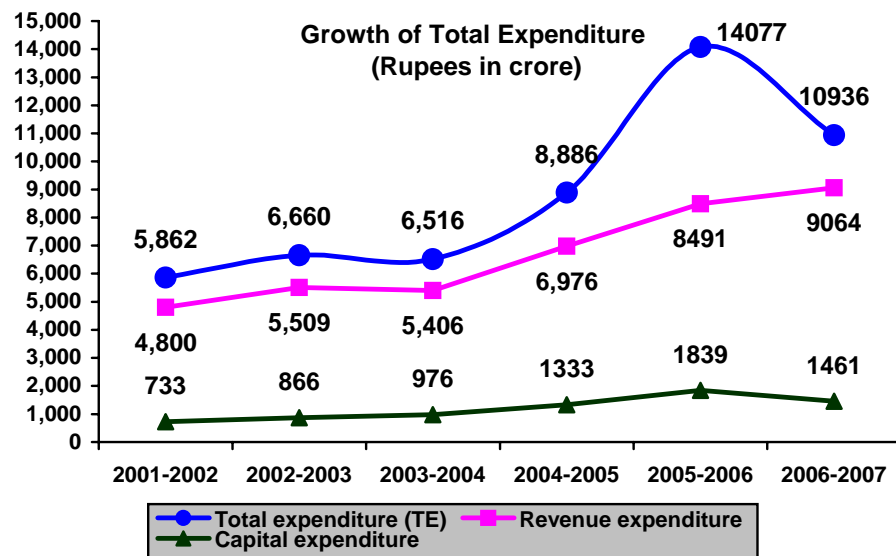
Table 1.8: Total Expenditure – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure # (Rupees in crore)	5862	6660	6516	8886	14077	10936
Rate of Growth (per cent)	*	13.6	(-) 2.2	36.4	58.4	(-)22.3
TE/GSDP (per cent)	16.7	17.4	15.3	15.6	22.4	15.7
Revenue Receipts/TE (per cent)	76.7	74.1	86.5	75.0	60.1	91.5
Buoyancy of Total Expenditure with reference to						
GSDP (ratio)	--	1.51	(-) 0.19	1.08	5.46	(-)2.06
Revenue Receipts (ratio)	--	1.38	(-) 0.15	2.01	2.15	(-)1.22

* 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 2006-07 decreased by Rs 3141 crore (22 per cent) over previous year against growth of 58 per cent in 2005-06. The decrease was due to decrease in capital expenditure by Rs 378 crore (21 per cent) and disbursement of loans and advances by Rs 3336 crore (89 per cent) despite offset of rise in revenue expenditure by Rs 573 crore. The decrease in capital expenditure was mainly due to decrease in capital outlay on Major & Medium Irrigation (Rs 125 crore), Roads and Bridges (Rs 111 crore), other Rural Development Programme (Rs 93 crore) and Water Supply and Sanitation (Rs 42 crore). The sharp decrease in disbursement of loans and advances by 89 per cent during 2006-07 over previous year was mainly due to decrease in disbursement of loans for Power Projects i.e. from Rs 3651.12 crore in 2005-06 to Rs 334.45 crore in 2006-07. Plan expenditure of the State decreased from Rs 5063 crore in 2005-06 to Rs 4012 crore in 2006-07 (21 per cent) due to less disbursement of Loans and Advances by Rs 968 crore and less expenditure on capital account as mentioned above. Non-plan expenditure also decreased from Rs 9014 crore in 2005-06 to Rs 6924 crore in 2006-07 (23 per cent) due to less disbursement of Loans and Advances by Rs 2368 crore.



The ratio of revenue receipts to total expenditure in 2006-07 indicated that 91.5 per cent of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowing. The Buoyancy of total expenditure with reference to GSDP and revenue receipt turned to negative in 2006-07 as against 5.46 and 2.15 respectively in 2005-06 indicating State's failure in spending money in conformity with the increase in income of the State. Non-utilisation of budget provision resulting in huge saving under various sectors on revenue and capital account was another reason of negative buoyancy.

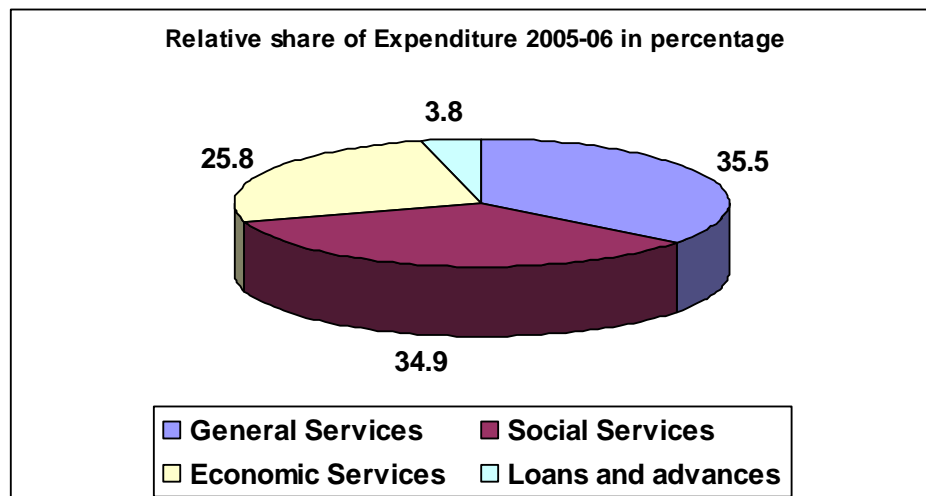
Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, Social and Economic Services, Grants-in-aid and Loans and Advances. Relative share of these components in total expenditure is indicated in **Table 1.9**.

Table 1.9: Components of expenditure – Relative Share (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	31.5	41.8	40.5	33.3	26.0	35.5
Of which Interest payments	9.7	21.3	18.1	12.8	10.1	14.7
Social Services	34.5	31.5	30.6	31.0	25.6	34.9
Economic Services	28.4	22.4	26.8	29.2	21.8	25.8
Grants-in-aid	*	*	*	-	-	-
Loans and advances	5.6	4.3	2.1	6.5	26.6	3.8

* 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 per cent in 2005-06 in total expenditure but increased to 35.5 per cent in 2006-07, of which interest payment also declined from 21.3 per cent in 2002-03 to 10.1 per cent in 2005-06 but again increased to 14.7 per cent in 2006-07. The relative share of Social Services varied from 34.5 per cent in 2001-02 to 34.9 per cent in 2006-07, whereas the share of Economic Services ranged between 21.8 and 29.2 per cent during 2001-07. 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 but again declined to 3.8 per cent in 2006-07.



1.4.2 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 1.10** below:

Table 1.10: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	4800	5509	5406	6976	8491	9064
Of which	3538	4484	4315	4996	6352	6632
Non-Plan Revenue Expenditure (NPRE)	(74)	(81)	(80)	(72)	(75)	(73)
Plan Revenue Expenditure (PRE)	1262	1025	1091	1980	2139	2432
	(26)	(19)	(20)	(28)	(25)	(27)
Rate of Growth (<i>per cent</i>)	**	26.7	(-3.8)	15.8	27.1	4.4
NPRE	**	(-18.8)	6.4	81.5	8.0	13.7
PRE						
NPRE/GSDP (<i>per cent</i>)	10.1	11.7	10.2	8.8	10.1	9.5
NPRE as <i>per cent</i> of TE	60.4	67.3	66.2	56.2	45.1	60.7
NPRE as <i>per cent</i> of RR	78.7	90.8	76.5	75.0	75.0	66.3
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	-	1.64	(-0.17)	0.86	2.03	0.62
Revenue Receipts (ratio)	-	1.50	(-0.13)	1.60	0.80	0.37
Buoyancy of Non- Plan Revenue Expenditure with						
GSDP (ratio)	-	2.97	(-0.34)	0.47	2.53	0.41
Revenue Receipts (ratio)	-	2.72	(-0.27)	0.87	1.0	0.24

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

The revenue expenditure increased by 89 *per cent* from Rs 4800 crore in 2001-02 to Rs 9064 crore in 2006-07. It increased from Rs 8491 crore in 2005-06 to Rs 9064 crore in 2006-07 with growth rate of seven *per cent*. Salaries (Rs 2744 crore), interest payments (Rs 1613 crore) and pension (Rs 679 crore) alone accounted for 56 *per cent* of total revenue expenditure and consumed 50 *per cent* of total revenue receipts during the year. Revenue expenditure accounted for 83 *per cent* of total expenditure during 2006-07. The ratio of revenue expenditure to total expenditure increased from 60.3 *per cent* in 2005-06 to 82.9 *per cent* in 2006-07, whereas the ratio of revenue expenditure to revenue receipt decreased from 100.3 *per cent* in 2005-06 to 90.5 *per cent* in 2006-07.

Non-plan Revenue Expenditure increased by 87 *per cent* from Rs 3538 crore in 2001-02 to Rs 6632 crore in 2006-07. Its growth rate, however, decreased considerably during 2006-07 to 4.4 *per cent* from 27.1 *per cent* in 2005-06 over previous year. The NPRE continued to share dominant proportion varying from 72 to 81 *per cent* of revenue expenditure during 2001-07. The increase in the Non-plan revenue expenditure during the year was mainly due to more expenditure on Interest payment (Rs 194 crore), General Education (Rs 75 crore), Housing (Rs 101 crore), Other Rural Development Programme (Rs 53 crore), etc. offset by less expenditure under Power (Rs 153 crore), and Medical and Public Health (Rs 76 crore). However, the ratio of NPRE to total expenditure showed decreasing trend from 67.3 *per cent* in 2002-03 to 45.1 *per cent* in 2005-06, but again increased to 60.7 *per cent* in 2006-07, whereas its ratio to revenue receipt showed decreasing trend from 90.8 *per cent* in 2002-03 to 66.3 *per cent* in 2006-07. The ratio of NPRE to GSDP varied from 8.8 *per cent* to 11.7 *per cent* in 2001-07. The buoyancy of NPRE to GSDP decreased from 2.53 in 2005-06 to 0.41 in 2006-07, while with reference to revenue receipts it decreased from one *per cent* in 2005-06 to 0.24 *per cent* in

2006-07. The Budget Estimate and Actual NPRE *vis-à-vis* assessment made by TFC are given below:

	Assessments made by TFC	Budget Estimate	Actual NPRE
Non-plan revenue expenditure	5258	6794	6632

The actual non-plan revenue expenditure during 2006-07 increased by Rs 1374 crore, if compared with normative assessment of Rs 5258 crore made by TFC, but was less by Rs 162 crore against the budget estimate of Rs 6794 crore.

The plan revenue expenditure increased by Rs 293 crore in 2006-07 over previous year at the growth rate of 13.7 *per cent* as against growth rate of 8 *per cent* in 2005-06 mainly due to more expenditure on General Education (Rs 86 crore), Social Security and Welfare (Rs 89 crore), Other Rural Development Programme (Rs 59 crore) etc. partly offset by less expenditure under Technical Education (Rs 53 crore), Welfare of Schedule Castes and Tribes (Rs 59 crore), and Housing (Rs 18 crore).

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries

The trends in expenditure on salary both under plan and non-plan heads are presented in the **Table 1.11**.

Table 1.11: Expenditure on Salaries

Heads	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries	1319	1243	1932	2179	2547	2744
Of which						
Non-Plan Head	1001	1079	1744	1910	2326	2518
Plan Head**	318	164	188	269	221	226
As <i>per cent</i> of GSDP	3.8	3.3	4.5	3.8	4.0	3.9
As <i>per cent</i> of RR	29.3	25.2	34.3	32.7	30.1	27.4

** Plan Head also includes the salaries paid under Centrally Sponsored Schemes.
Salary expenditure figures were taken from Appendix IV of Finance Accounts.

Salaries alone accounted for nearly 27 *per cent* of the revenue receipts of the State during the year. It increased by eight *per cent* from Rs 2547 crore in 2005-06 to Rs 2744 crore in 2006-07. Expenditure on salaries under non-plan head during 2006-07 increased by Rs 192 crore (8 *per cent*) over previous year, whereas the salary expenditure on Plan head marginally increased by Rs five crore (two *per cent*) over previous year. Non-plan salary expenditure ranged between 76 and 92 *per cent* of total expenditure on salaries during 2001-07. Expenditure on salaries as a percentage of revenue expenditure, net of interest payment and pension amounts to 40.5 *per cent*, which is higher than the norm of 35 *per cent* recommended by TFC.

1.4.3.2 Pension payments

Table 1.12: Expenditure on Pensions

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	515	520	560	620	657	679
As per cent of GSDP	1.5	1.4	1.3	1.1	1.0	1.0
As per cent of RR	11.5	10.5	9.9	9.3	7.8	6.8

The expenditure on pensions showed increasing trend during 2001-2007. It increased by 32 per cent from Rs 515 crore in 2001-02 to Rs 679 crore in 2006-07. The ratio of Pension to GSDP and revenue receipt showed decreasing trend from 1.5 per cent and 11.5 per cent in 2001-02 to one per cent and 6.8 per cent in 2006-07 respectively. With the increase in the number of pensioners, 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.

1.4.3.3 Interest payments

The TFC 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 193 crore (14 per cent) during 2006-07 over previous year, its percentage to revenue receipts decreased from 17 per cent in 2005-06 to 16 per cent in 2006-07.

Table 1.13: Interest Payment

Year	Total revenue Receipts	Total revenue expenditure	Interest payments	Percentage of interest payment with reference to	
				Revenue Receipts	Revenue Expenditure
(Rupees in crore)					
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
2006-07	10010	9064	1613	16	18

As indicated in **Table 1.13**, 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. TFC 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 2006-07 the increase was 14 per cent as against 24 per cent during 2005-06. The increase of Rs 193 crore in 2006-07 over previous year was mainly due to increase in payment of interest on market loans (Rs 83 crore) and Special Securities issued to National Small Saving Fund of Central Government (Rs 98 crore). The State Government enacted the Fiscal Responsibility and

Budgetary Management (FRBM) Act only in May 2007, as a result, the State Government could not avail the benefit of the debt reschedulement and interest rate relief of Rs 221.36 up to 2006-07 including Rs 118.27 crore of current year.

1.5 Expenditure by Allocative Priorities

1.5.1 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 1.14** gives these ratios during 2001-07.

Table 1.14: Indicators of Quality of Expenditure

	<i>(Rupees in crore)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	733	866	976	1333	1839	1461
Revenue Expenditure	4800	5509	5406	6976	8491	9064
Total (CE+RE)	5533	6375	6382	8309	10330	10525
Total revenue expenditure on Social and Economic Services	2960	2756	2797	4033	4913	5252
Of which						
(i) Salary Component	902 (31)	903 (33)	1342 (48)	1506(37)	1730 (35)	1881(36)
(ii) Non-Salary Component	2058 (69)	1853 (67)	1455(52)	2527(63)	3183(65)	3371(64)
As per cent of Total Expenditure (Excluding Loans and Advances)						
Capital Expenditure	13	14	15	16	18	14
Revenue Expenditure	87	86	85	84	82	86
As per cent of GSDP						
Capital Expenditure	2.1	2.3	2.3	2.3	2.9	2.1
Revenue Expenditure	13.7	14.4	12.7	12.3	13.5	13.0

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

Revenue expenditure of the State varying within the narrow range of 82 to 87 per cent of the total expenditure during 2002-07 crowded over the capital expenditure, which ranged between 13 and 18 per cent only. As a percentage of total expenditure, revenue expenditure showed decreasing trend from 87 per cent in 2001-02 to 82 per cent in 2005-06 and again increased to 86 per cent in 2006-07, whereas capital expenditure showed increasing trend from 13 per cent in 2001-02 to 18 per cent in 2005-06 but again it declined to 14 per cent in 2006-07. The ratio of capital expenditure to GSDP increased from 2.1 per cent in 2001-02 to 2.9 per cent in 2005-06 but declined to 2.1 per cent in 2006-07 which is far below the projection of seven per cent (all States average) recommended by TFC indicating the need for changing the allocative priorities. Revenue expenditure on Social and Economic Services ranged between 43 and 53 per cent of total revenue and capital expenditure during 2001-07. Non-salaries component of revenue expenditure on Social and Economic Services increased steadily from Rs 1455 crore (23 per cent of revenue and capital expenditure) in 2003-04 to Rs 3371 crore (32 per cent) in 2006-07 whereas salary components declined steadily from 21 per cent in

2003-04 to 17 per cent in 2005-06 and again increased to 18 per cent in 2006-07.

1.5.2 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 1.15** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

Table 1.15: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004.-05	2005-06	2006-07
Education, Sports, Art and Culture						
Revenue Expenditure	1030.5	1084.2	1017.9	1375.0	1628.1	1738.6
Of which (a) Salary Component	355.0 (95)	549.0 (98)	751.8 (99)	864.6 (99)	910.7(99)	949.8(99.8)
(b) Non-Salary Component	675.5	535.2	266.1	510.4	717.4	788.8
Capital Expenditure	4.6	3.3	5.4	34.4	171.3	196.7
Sub total (RE + CE)	1035.1	1087.5	1023.3	1409.4	1799.4	1935.3
Health and Family Welfare						
Revenue Expenditure	250.3	242.6	221.7	388.8	472.3	395.8
Of which (a) Salary Component	163.7 (62)	106.5 (60)	109.2 (76)	200.4(58)	213.9(83)	194.0(94)
(b) Non-Salary Component	86.6	136.1	112.5	188.4	258.4	201.8
Capital Expenditure	21.7	2.8	15.8	38.4	59.3	53.0
Of which Salary Component	7.6	-	-	-	-	-
Sub total (RE + CE)	272.0	245.4	237.5	427.2	531.6	448.8
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	124.8	118.7	113.1	117.1	166.3	277.1
Of which (a) Salary Component	24.1 (100)	16.9 (100)	83.0 (100)	41.3(100)	45.9(100)	56.9(100)
(b) Non-Salary Component	100.7	101.8	30.1	75.8	120.4	220.2
Capital Expenditure	90.7	148	100.2	148	254.1	193.9
Of which Salary Component	2.6	-	-	-	-	-
Sub total (RE + CE)	215.5	266.7	213.3	265.1	420.4	471.0
Other Social Services						
Revenue Expenditure	491.8	489.9	516.1	642.7	793.6	915.8
Of which (a) Salary Component	61.3 (38)	54.7 (71)	43.2 (60)	41.0 (85)	145.1(49)	130.4(46)
(b) Non-Salary Component	430.5	435.2	472.9	601.7	648.5	785.4
Capital Expenditure	5.7	7.8	4.2	5.4	62.4	51.2
Sub total (RE + CE)	497.5	497.7	520.3	648.1	856.0	967.0
Total (Social Services)						
Revenue Expenditure	1897.4	1935.4	1868.8	2523.6	3060.3	3327.3
Of which (a) Salary Component	604.1 (81)	727.1(90)	987.2(95)	1147.3(92)	1315.6(91)	1331.1(94)
(b) Non-Salary Component	1293.3	1208.3	881.6	1376.3	1744.7	1996.2
Capital Expenditure	122.7	161.9	125.6	226.2	547.1	494.8
Of which Salary Component	10.2	-	-	-	-	-
Grand Total (RE + CE)	2020.1 (34)	2097.3 (32)	1994.4 (31)	2749.8 (31)	3607.4 (26)	3822.1(35)

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 on Social Service increased by 89 per cent from Rs 2020 crore in 2001-02 to Rs 3822 crore in 2006-07 ranging between 26 and 35 per cent of total expenditure in 2001-07 and accounted for 58 per cent of total expenditure on Social and Economic Service during 2006-07. The growth rate of revenue expenditure and capital expenditure in Social service decreased sharply from 21 per cent and 142 per cent in 2005-06 to 9 per cent and negative growth of 10 per cent in 2006-07 respectively over previous year. Out of total expenditure on Social Services during 2001-07, 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 2001-07 revealed that the share of capital expenditure ranged between 6 and 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 steadily to 40 *per cent* in 2006-07 implying more expenditure on non-salary component. Growth rate of non-plan salary component in General Education decreased from 5.1 *per cent* in 2005-06 to 4.5 *per cent* in 2006-07 over previous year as against norms of six *per cent* recommended by TFC, whereas, non-salary component also decreased from 70 *per cent* in 2005-06 to 11 *per cent* in 2006-07 over previous year which is substantially lower than the norms of 30 *per cent* prescribed by TFC. In another priority sector of Health and Family Welfare, due to decline in total revenue expenditure in 2006-07 over the previous year, a fall in both salary and non-salary components was observed during the current year, *i.e.* the salary component decreased by 9 *per cent* (Rs 20 crore) while the non-salary component decreased by 22 *per cent* (Rs 56 crore) in 2006-07 over the previous year. The salary and non-salary component taken together in health sector has declined by 21 *per cent* in 2006-07 over previous year against combined growth rate of 11.5 *per cent* as recommended by TFC. The capital expenditure in this sector has also decreased by 11 *per cent* in 2006-07 over previous year. Scrutiny of relevant records of the key services departments *viz.* Education, Health and Family Welfare and Welfare Departments further revealed that there were huge savings/surrenders of allocated funds. The adverse impact on the performance of these departments is indicated in **Appendix 1.6**. These trends indicate the need for change in allocative priorities especially in favor of education and health sectors and focus on the effective utilization of allocated funds in these priority sectors.

1.5.3 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 2819 crore) accounted for 26 *per cent* of the total expenditure (**Table 1.16**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 57 *per cent* of the expenditure.

Table 1.16: Expenditure on Economic Sector

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities						
Revenue Expenditure	279.1	283.8	308.7	448.9	446.4	507.4
<i>Of which (a) Salary Component</i>	118.0 (86)	80.2 (91)	185.9 (61)	186.1 (66)	128.5(96)	232.2 (61)
<i>(b) Non-Salary Component</i>	161.1	203.6	122.8	262.8	317.9	275.2
Capital Expenditure	-	0.6	0.1	-	7.7	16.7
Sub total (RE + CE)	279.1	284.4	308.8	448.9	454.1	524.1
Irrigation and Flood Control						
Revenue Expenditure	46.3	36.9	44.4	39.1	116.9	162.5
<i>Of which (a) Salary Component</i>	16.9 (100)	12.7 (100)	23.6 (100)	27.3 (100)	98.4 (100)	148.0(100)
<i>(b) Non-Salary Component</i>	29.4	24.2	20.8	11.8	18.5	14.5
Capital Expenditure	189.9	223.5	314.9	256.9	340.6	205.1
<i>Of which Salary Component</i>	51.0	41.3	25.8	63.0	31.2	1.2
Sub total (RE + CE)	236.2	260.4	359.3	296.0	457.5	367.6
Power & Energy						
Revenue Expenditure	3.0	101.3	95.6	358.7	441.4	239.5
<i>Of which (a) Salary Component</i>	-	-	-	-	-	-
<i>(b) Non-Salary Component</i>	3.0	101.3	95.6	358.7	441.4	239.5
Capital Expenditure	30.0	39.8	2.0	48.4	30.0	53.0
Sub total (RE + CE)	33.0	141.1	97.6	407.1	471.4	292.5
Transport						
Revenue Expenditure	344.7	60.6	109.0	203.0	173.8	293.4
<i>Of which (a) Salary Component</i>	28.0 (96)	13.8 (87)	35.2 (97)	31.1 (96)	34.8 (95)	38.6(95)
<i>(b) Non-Salary Component</i>	316.7	46.8	73.8	171.9	139.0	254.8
Capital Expenditure	106.5	171.7	165.4	241.1	249.4	129.5
<i>Of which Salary Component</i>	12.4	-	-	-	-	-
Sub total (RE + CE)	451.2	232.3	274.4	444.1	423.2	422.9
Other Economic Services						
Revenue Expenditure	389.3	338.3	370.4	459.5	674.6	721.8
<i>Of which (a) Salary Component</i>	135.3 (74)	69.7 (83)	109.8 (95)	114.3 (91)	152.3 (79)	131.3(95)
<i>(b) Non-Salary Component</i>	254.0	268.6	260.6	345.2	522.3	590.5
Capital Expenditure	276.0	238.4	334.3	540.9	588.0	489.8
<i>Of which Salary Component</i>	62.6	27.6	23.7	20.4	25.8	26.9
Sub total (RE + CE)	665.3	576.7	704.7	1000.4	1262.6	1211.6
Total (Economic Services)						
Revenue Expenditure	1062.4	820.9	928.1	1509.2	1853.1	1924.6
<i>Of which (a) Salary Component</i>	298.2 (82)	176.4 (88)	354.5 (78)	358.8 (79)	414.0 (91)	550.1(82)
<i>(b) Non-Salary Component</i>	764.2	644.5	573.6	1150.4	1439.1	1374.5
Capital Expenditure	602.4	674.0	816.7	1087.3	1215.7	894.1
<i>Of which Salary Component</i>	126.0	68.9	49.5	83.4	57.0	28.1
Grand Total (RE + CE)	1664.8(28)	1494.9(22)	1744.8(27)	2596.5(29)	3068.8 (22)	2818.7(26)

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 2001-07. The salary component in total expenditure on Economic Services ranged between 15 and 25 per cent during 2001-07. The non-plan salary component has increased by 20 per cent from Rs 376 crore in 2005-06 to Rs 452 crore in 2006-07 against the norm of a five per cent increase recommended by TFC.

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently increased from Rs 602.4 crore (36 per cent of total expenditure) in 2001-02 to Rs 1215.7 crore (40 per cent) in 2005-06, but decreased sharply by 26 per cent to Rs 894 crore (32 per cent) in

2006-07, while revenue expenditure with inter year fluctuation increased from Rs 1062.4 crore (64 per cent) in 2001-02 to Rs 1924.6 crore (68 per cent) in 2006-07. A decrease of Rs 322 crore (26 per cent) in 2006-07 over previous year in capital expenditure was mainly due to decrease in capital outlay on the Major and Medium Irrigation (Rs 125 crore), Roads and Bridges (Rs 111 crore) and other Rural Development (Rs 93 crore) partly offset by increase in Power Projects (Rs 23 crore). Of the revenue expenditure, salary component ranged from 21 per cent to 38 per cent during 2001-07. It increased from Rs 414 crore (22 per cent) in 2005-06 to Rs 550 crore (29 per cent) in 2006-07 at growth rate of 33 per cent whereas non-salary component decreased by five per cent from Rs 1439 crore (78 per cent) in 2005-06 to Rs 1374 crore (71 per cent) in 2006-07. The non-salary component under the Major, Medium & Minor Irrigation during 2005-06 was Rs 17.37 crore against the maintenance expenditure of Rs 41.11 crore recommended by TFC which further decreased to Rs 14.31 crore in 2006-07 against the norms of Rs 43.17 crore. In respect of Road & Bridges the non-salary component was Rs 73.44 crore in 2005-06 against TFC norms of Rs 92.05 crore which further declined to Rs 68.77 crore in 2006-07 against norms of Rs 96.65 crore. Besides, significant savings/surrenders were observed during the audit scrutiny in various economic sectors during the year. The adverse impact on the performance of Energy and Rural Development Department due to huge savings/surrenders of allocated fund is indicated in *Appendix 1.7*.

1.5.4 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 2001-2007 was as follows:

Table 1.17 Financial Assistance

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	Universities and Educational Institutions	200.94	234.82	219.59	222.41	363.95	419.59
2	Municipal Corporations and Municipalities	39.58	44.20	18.18	48.83	77.28	109.58
3	Zila Parishads and Panchayati Raj Institutions	Nil	7.75	21.29	8.83	93.09	151.27
4	Development Agencies	10.46	97.01	101.67	639.68	551.39	422.54
5	Other Institutions (including statutory bodies)	115.93	75.32	91.43	38.16	69.79	528.20
	Total	366.91	459.10	452.16	957.91	1155.50	1631.18
	Assistance as a percentage of revenue receipts	8	9	8	14	14	16
	Percentage of assistance to revenue expenditure	8	8	8	14	14	18

Assistance given by the State ranged from 8 to 16 per cent of revenue receipts and 8 to 18 per cent of revenue expenditure during 2001-07. The financial assistance to local bodies increased steadily by 345 per cent from Rs 366.91

crore in 2001-02 to Rs 1631.18 crore in 2006-07. It increased sharply by 41 per cent (Rs 476 crore) during 2006-07 over previous year due to sharp increase in assistance to other institutions (Rs 458.41 crore) mainly to Civil Aviation Department (Rs 23.23 crore), Legislative Council (Rs 68.05 crore), Planning and Development Department (Rs 255.13 crore), Disaster Management Department (Rs 21.44 crore), Urban Development and Housing Department (Rs 10.37 crore) and Welfare Department (Rs 6.14 crore). However, it partly offset by decrease in assistance to Development Agencies (Rs 128.85 crore).

1.5.5 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 grant of Rs 420.62 crore up to 2006-07 (Rs 116 crore pertains to 2006-07) 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 that extent which might have adversely affected delivery of services in the local areas of the State.

1.5.6 Delay in furnishing utilisation certificates

Of the 2252 utilisation certificates (UCs) due in respect of grants aggregating Rs 4260.06 crore paid up to 2006-07, 1743 UCs for an aggregate amount of Rs 2876.60 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.8**.

1.5.7 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 August 2007, none of the departments of the Government has furnished details for 2006-07.

1.5.8 Abstract of performance of the autonomous bodies

The audit of accounts of only two bodies 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 1.18**.

Table 1.18

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
Birsra Agriculture University, Ranchi	2001-02	2001-02	29.11.2005	11.09.2006	No information regarding placement
	to	2002-03	07.11.2006	Draft SAR sent for reply on 05.09.2007.	
	2005-06	2003-04	20.08.2007	Not taken up for want of earlier report.	
State Legal services authority	2002-03	2002-03	04.11.2006	Being finalised	NA

1.6 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 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from 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. In 2006-07, the assets grew by Rs 2972 crore (26 per cent) whereas, liabilities grew by Rs 2026 crore (11 per cent) over the previous year. The ratio of assets to liabilities has constantly increased from 34 per cent in 2001-02 to 73 per cent in 2006-07 as shown in **Table 1.27**. 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 2007). *Appendix 1.5* depicts the time series data on the State Government finances for the period 2001-07.

1.6.1 Financial Analysis of Government Investments

1.6.1.1 Incomplete projects

In 27 incomplete projects with total investment of Rs one crore and above pertaining to Road Construction Department (20), Building Construction Department (1) and Water Resources Department (6) involved the total investment amounting to Rs 1489.01 crore up to 31 March 2007. Of the total investment of Rs 1489.01 crore in incomplete projects, 83 per cent (Rs 1229.65 crore) is tied up only in one irrigation project (Subernarekha Project) which was although initiated about a decade ago but yet to be completed.

1.6.1.2 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 13 concerned units conducted between 1997-98 and 2006-07 revealed that they had not prepared any proforma accounts since their inception. In respect of remaining units requisite details are not available.

1.6.1.3 Investments and Returns

As of 31 March 2007, the Government had invested Rs 28.70 crore in five Government Companies (Rs 21.79 crore) and nine Co-operatives Banks and Societies (Rs 6.91 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 2001-07, 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 1.19: 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
	(Rupees in crore)			(in per cent)	
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
2006-07	28.70	Nil	Nil	8.20	8.20

1.6.1.4 Loans and advances by State Government

In addition to its investment in Co-operative Societies, Corporations and Companies, during 2006-07 the Government provided loans and advances amounting to Rs 410.81 crore, which was a decrease of Rs 3336.03 crore over the previous year. The decrease was mainly due to fewer loans advanced to Jharkhand State Electricity Board during 2006-07. Although TFC 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), the interest receipts stand only 0.72 *per cent* of the outstanding loans during 2006-07 needing appropriate corrective action. However, of the total interest receipts during 2006-07, about 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 very low. Interest realized against these advances was one *per cent* of total interest receipt during 2006-07. Of the total repayment of outstanding loans and advances during 2001-07, 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. Of the total repayment in 2006-07, Government organization/institution repaid the loans to the extent of only four *per cent* as against two *per cent* in 2005-06.

Table 1.20: Interest Receipts of the State Government

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	22.82	349.51	631.20	760.79	1330.01	5067.04
Amount advanced during the year	329.18	284.92	133.53	576.80	3746.84	410.81
Amount repaid during the year	2.49	3.23	3.94	7.58	9.81	15.75
Closing Balance	349.51	631.20	760.79	1330.01	5067.04	5462.10
Net Addition	326.69	281.69	129.59	569.22	3737.03	395.06
Interest Received	61.06	96.08	46.65	18.63	71.49	38.09
Interest received to Loans and Advances (in per cent)	*32.80	19.59	6.70	1.78	2.24	0.72
Average interest paid by the State Government to Fiscal Liabilities (in per cent)	8.09	16.97	12.13	9.48	9.20	8.77
Difference between interest received and paid (per cent)	24.71	2.62	(-)5.43	(-)7.70	(-)6.96	(-)8.05

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

1.6.2 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 2006-07, Jharkhand had ordinary WMA limit of Rs 280 crore. In addition, Special Ways and Means Advances not exceeding Rs 4.34 crore (with effect from 1 April 2006), Rs 0.03 crore (with effect from 12 May 2006), Rs 4.18 crore (with effect from 2 June 2006), Rs 4.07 crore (with effect from 3 July 2006), Rs 4.17 crore (with effect from 3 October 2006) and Rs 4.18 crore (with effect from 2 January 2007) to 31 March 2007 were made available against securities of the Government of India held by the State Government. During the year, the State Government availed of this source of finance on 29 days for which interest of Rs 0.47 crore was paid. The State Government's cash balance at the end of current year amounted to Rs 1003.65 crore, out of which Rs 966.97 crore was invested in the Treasury Bills of Government of India and securities of other States. The interest earned on cash balance investment was Rs 36.20 crore during 2006-07

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances						
Taken in the year	11.92	-	320.93	-	-	229.75
Outstanding	59.99	8.86	8.86	8.86	8.86	8.86
Interest paid	-	*	0.79	-	-	0.47
Number of days	1	-	31	-	-	29

* Amount is below thirty thousand.

The outstanding balance of Rs 8.86 crore WMA was due to apportionment of outstanding balance between Bihar and Jharkhand by the Government of India as on 14.11.2000 taking into consideration the population ratio 645.30:218.44 whereas the Reserve Bank of India apportioned the same in the ratio 79.4:20.6 and made recovery accordingly.

1.7 Undischarged Liabilities

1.7.1 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. The TFC has recommended to set up sinking funds, to be maintained outside the consolidated fund of the State and the public account, for amortization of all loans including loans from banks, liabilities on account of NSSF etc., but no such fund has been set up till date.

Table 1.21 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 1.21: Fiscal Liabilities–Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities * (Rupees in crore)	7804	8923	10569	13512	17360	19417
Rate of growth (<i>per cent</i>)	--	14.3	18.5	27.8	28.5	11.8
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	22.3	23.4	24.9	23.8	27.6	27.8
Revenue Receipts (<i>per cent</i>)	173.6	180.7	187.5	202.9	205.1	194.0
Own Resources (<i>per cent</i>)	320.1	326.0	341.8	393.2	414.8	437.4
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	#	1.59	1.63	0.82	2.66	1.09
Revenue Receipts (ratio)	#	1.46	1.30	1.54	1.05	0.64
Own Resources (ratio)	#	1.16	1.42	2.50	1.31	1.93

* 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.

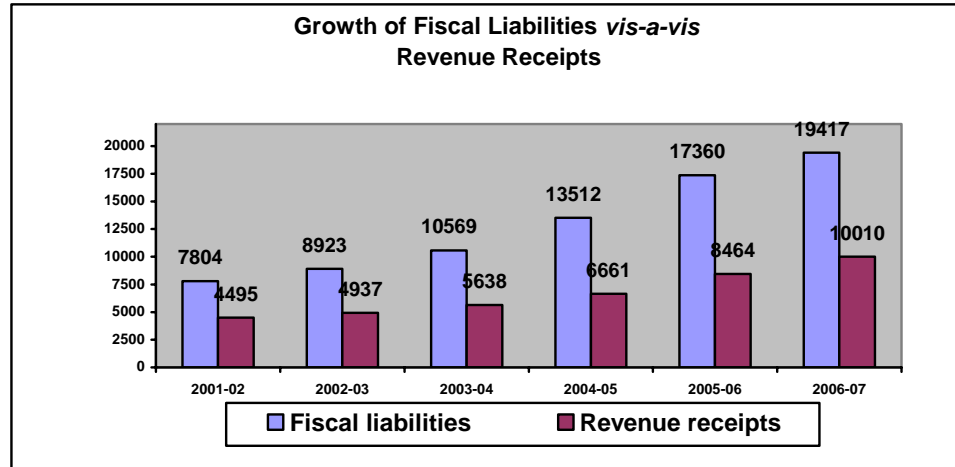
Not comparable as Jharkhand was created on 15 November 2000.

Overall fiscal liabilities of the State increased consistently by 149 *per cent* from Rs 7804 crore in 2001-02 to Rs 19417 crore in 2006-07 at growth rate of 11.8 *per cent* in 2006-07 over previous year. The ratio of fiscal liabilities to GSDP also increased from 22.3 *per cent* in 2001-02 to 27.8 *per cent* in 2006-07. These liabilities stood at about two times the revenue receipts and four times of the States own resources as at the end of 2006-07. The fiscal liabilities had grown faster than the State's GSDP during 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 1.09 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.09 *per cent*.

The fiscal liabilities at the end of the year 2006-07 comprise of internal debt (Rs 14423 crore), loans and advances from the Central Government (Rs 2701 crore), Small savings, provident funds etc. (Rs 719 crore) and other obligations (Rs 1574 crore). Of internal debt (Rs 14423 crore), the share of market loan was Rs 3815 crore, special securities issued to NSS Fund of Central Government (Rs 8251 crore), compensation and other bonds (Rs 1912 crore) and other institutions (Rs 445 crore). Increasing liabilities had raised the issue of sustainability of State Government finances.

Apportionment of fiscal liabilities of the Composite State of Bihar between the successor States of Bihar and Jharkhand has not been done so far (September 2007). Information about the guarantees given by the Government of Jharkhand has not been furnished by the Government.

(Rupees in crore)



1.8 Debt Sustainability

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

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.22**.

Table 1.22: Debt Sustainability–Interest Rate and GSDP Growth

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest paid (per cent)	17.0	12.1	9.5	9.2	8.8
GSDP Growth	9.0	11.3	33.8	10.7	10.8
Interest spread	(-) 8	(-) 0.8	24.3	1.5	2.0
Total Debt (Rs in crore)	7804	8923	10569	13512	17360
Quantum Spread (Rs in crore)	(-) 624.32	(-) 71.38	2568.27	202.68	347.20
Primary Deficit (-) / Surplus (+) (Rupees in crore)	(-) 301	(+) 308	(-) 1076	(-) 4183	(+) 703

Table 1.22 reveals that quantum spread together with primary deficit has been fluctuating during 2002-07. The quantum spread together with primary deficit has turned to positive in 2006-07 as against negative in 2005-06 indicating decline in Debt-GSDP ratio in 2006-07. The percentage of outstanding debt at the beginning of the year with GSDP ranged between 19 and 25 *per cent* during 2002-07. The ratio of fiscal deficit to GSDP also decreased sharply from nine *per cent* in 2005-06 to one *per cent* in 2006-07.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated, if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.23** indicates the resource gap as defined for the period 2001-07.

Table 1.23: Incremental Revenue Receipts and Revenue Expenditure
(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	443	(-) 53	851	798	(-) 355
2003-04	702	93	(-) 237	(-) 144	(+) 846
2004-05	1027	2411	(-) 41	2370	(-) 1343
2005-06	1805	4912	279	5191	(-) 3386
2006-07	1552	(-) 3334	193	(-) 3141	(+) 4693

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During 2002-07, although three out of five years reflects the negative gaps but the last year is a pointer towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on; (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.24 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table 1.24: Net availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt¹						
Receipts	1208	1482	1951	3057	3495	1849
Repayments (Principal +Interest)	107	748	653	836	1016	1513
Net Funds Available	1101	734	1298	2221	2479	336
Net Funds available (<i>per cent</i>)	91	50	67	73	71	18
Loans and Advances from GOI						
Receipts	389	408	471	513	6	17
Repayments (Principal +Interest)	663	1354	1304	1028	476	468
Net Funds Available	#	#	#	#	#	#
Net Funds available (<i>per cent</i>)	#	#	#	#	#	#
Other obligation						
Other Receipts	1118	1536	1599	1428	1782	2061
Repayments (Principal +Interest)	947	1572	1600	1334	1362	1502
Net Funds Available	171	#	#	94	420	559
Net Funds available (<i>per cent</i>)	15	#	#	7	24	27
Total Liabilities						
Receipts	2715	3426	4021	4998	5283	3927
Repayments (Principal +Interest)	1717	3674	3557	3198	2854	3483
Net Funds Available	998	#	464	1800	2429	444
Net Funds available (<i>per cent</i>)	37	#	12	36	46	11

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 2001-07. The net availability, however, decreased from 46 *per cent* in 2005-06 to 11 *per cent* in 2006-07 due to increased repayment and less receipt during the current year. During the year, the Government paid internal debt of Rs 444 crore, Government of India loans of Rs 162 crore and also discharged other obligations of Rs 1263 crore along with interest of Rs 1613 crore.

Table 1.24 shows the increasing trend of borrowings on account of internal debt during 2001-06. Internal debt receipts increased by 189 *per cent* from Rs 1208 crore in 2001-02 to Rs 3495 crore in 2005-06, however it decreased to Rs 1849 crore in 2006-07.

The State Government raised market loans of Rs 400.52 crore during 2006-07 at an average rate of interest of 8.20 *per cent* as against Rs 364.12 crore at an average rate of 7.55 *per cent* during 2005-06. The State Government borrowed Rs 1255.75 crore from National Small Saving Fund during 2006-07. Further, the interest payment on account of Government of India loans declined from Rs 495 crore in 2002-03 to Rs 306 crore in 2006-07 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 468 crore in 2006-07.

As on 31 March 2006, 32 *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 they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicated that nearly 45 *per cent*

¹ Internal debt excluding ways and means advances.

of the total market loans were repayable within the next five years while the remaining 55 per cent of loans were required to be repaid within 6 to 10 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 and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.25**.

Table 1.25: Fiscal imbalance-Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit (-)/Surplus (+) (Rupees in crore)	(-) 305	(-) 572	(+) 232	(-) 315	(-) 27	(+) 946
Fiscal Deficit (-)/Surplus (+) (Rupees in crore)	(-) 1365	(-) 1720	(-) 874	(-) 2217	(-) 5603	(-) 910
Primary Deficit (-)/Surplus(+) (Rupees in crore)	(-) 797	(-) 301	(+) 308	(-) 1076	(-) 4183	(+) 703
RD/GSDP (<i>per cent</i>)	(-) 0.9	(-) 1.5	(+) 0.5	(-) 0.6	0.0	(+) 1.4
FD/GSDP (<i>per cent</i>)	(-) 3.9	(-) 4.5	(-) 2.1	(-) 3.9	(-) 8.9	(-) 1.3
PD/GSDP (<i>per cent</i>)	(-) 2.3	(-) 0.8	(+) 0.7	(-) 1.9	(-) 6.6	(+) 1.0
RD/FD (<i>per cent</i>)	(+) 22.3	(+) 33.3	(-) 26.5	(+) 14.2	(+) 0.5	(-) 104.0

The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts after inter year fluctuation, decreased from Rs 305 crore in 2001-02 to revenue surplus of Rs 946 crore in 2006-07. The revenue deficit of Rs 27 crore in 2005-06 turned into huge revenue surplus of Rs 946 crore mainly due to increase of Rs 1546 crore (18 per cent) in revenue receipts as against an increase of Rs 573 crore (7 per cent) in respect of revenue expenditure. However, 84 per cent of incremental revenue receipts (Rs 1292 crore) are contributed by increase of central transfers comprising of State's share in Union pool of taxes and duties (Rs 875 crore) and grants in aid from government of India (Rs 417 crore) in 2006-07 over the previous year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 1365 crore in 2001-02 to Rs 5603 crore in 2005-06, but sharply reduced to Rs 910 crore in 2006-07. Given the cushion of Rs 973 crore in the form a surplus in revenue account during 2006-07, the fiscal deficit during the year was reduced by Rs 4693 crore (84 per cent) over previous year mainly due to decrease in disbursement of loans and advances by Rs 3336 crore and in capital expenditure by Rs 378 crore as well as a marginal fall of Rs 6 crore in non debt capital receipts during 2006-07 over the previous year.

The State also had a primary deficit of Rs 797 crore in 2001-02 which increased to Rs 4183 crore in 2005-06 but decreased sharply to primary surplus of Rs 703 crore in 2006-07. A sharp decline of Rs 4693 crore in fiscal deficit together with increase of Rs 123 crore in interest payment resulted into primary surplus of Rs 703 crore during 2006-07 indicating that the fiscal

deficit in the State's budget was solely on account of payment obligation arising from the past fiscal operation of the Government.

As proportion to GSDP, the revenue surplus was 1.4 *per cent*, whereas fiscal deficit had reached 1.3 *per cent* in 2006-07. The existence of revenue surplus during the year indicates that the revenue receipts of the State were able to meet its revenue expenditure and part of capital expenditure too.

1.9.2 Quality of Deficit /Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which moderately declined from 33.3 *per cent* in 2002-03 to 14.2 *per cent* in 2004-05 was reduced very steeply to 0.5 *per cent* in 2005-06 and RD was wiped out and turned into surplus during the current year. This indicates improvement in the quality of deficit during 2006-07 and all borrowings were used in activities resulting in expansion in asset back up of the State.

Table 1.26: Primary deficit/Surplus- Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipt	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2001-02	4497	4232	733	329	5294	265	(-) 797
2002-03	4940	4090	866	285	5241	850	(-) 301
2003-04	5642	4224	976	134	5334	1418	(+) 308
2004-05	6669	5835	1333	577	7745	834	(-) 1076
2005-06	8474	7071	1839	3747	12657	1403	(-) 4183
2006-07	10026	7451	1461	411	9323	2575	(+) 703

The bifurcation of factors resulting into primary deficit or surplus of the State during 2001-07 reveals (Table 1.26) that the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of State which comprised mainly of revenue receipt (more than 99 *per cent* during 2001-07) were enough to meet the primary expenditure requirement in revenue account, rather left some receipts to meet the expenditure under capital account. But the surplus receipts were not enough to meet the expenditure requirement under capital account resulting in primary deficit and State Government had to depend on borrowing for meeting the capital expenditure (except during 2003-04 and 2006-07). During 2006-07, the existence of primary surplus with reference to capital expenditure indicates that receipts were enough to meet the expenditure under capital account also. However, it was possible due to sharp decrease on capital account by Rs 3714 crore (66 *per cent*) in 2006-07 over previous year.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.27** below presents a summarized position of Government finances over 2001-07, 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 ratio 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 by one *per cent* from 13.4 *per cent* in 2005-06 to 14.4 *per cent* in 2006-07, whereas the ratio of own tax to GSDP increased marginally from 4.4 *per cent* in 2005-06 to 4.6 *per cent* in 2006-07.

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 increased from 60 *per cent* in 2005-06 to 83 *per cent* in 2006-07. The total expenditure, when compared to its revenue receipts, has shown negative buoyancy due to decrease in total expenditure, whereas, the revenue expenditure when compared to revenue receipts has shown lower buoyancy. About 92 *per cent* of total expenditure was met out from revenue receipts during 2006-07 indicating State's continuous dependency on borrowings for meeting its capital expenditure on expansion of its development activities.

Revenue surplus and significant decline in fiscal deficit during 2006-07 indicates an improvement in fiscal position of the State. The Balance from Current Revenue (BCR) increased by 89 *per cent*, from Rs 1120 crore in 2005-06 to Rs 2117 crore in 2006-07, indicates ample funds for creation of assets and meeting plan expenditure but the State Government failed to utilize the same which resulted in sharp decrease in total expenditure.

Table 1.27: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Resources Mobilization						
Revenue Receipts/GSDP	12.8	12.9	13.3	11.7	13.4	14.4
Revenue Buoyancy	--	1.09	1.26	0.54	2.53	1.69
Own Tax/GSDP	4.5	4.6	4.7	4.2	4.4	4.6
Expenditure Management						
Total Expenditure /GSDP	16.7	17.4	15.3	15.6	22.4	15.7
Total Revenue Receipt/ Total Expenditure	76.7	74.1	86.5	75.0	60.1	91.5
Total Expenditure /Revenue Receipts	130.4	134.9	115.6	133.4	166.3	109.3
Revenue Expenditure /Total Expenditure	81.9	82.7	83.0	78.5	60.3	82.9
Salary expenditure on Social and Economic Service/Total Revenue Expenditure	18.8	16.4	24.8	21.6	20.4	20.8
Non-Salary expenditure on Social and Economic Service/Total Revenue Expenditure	42.9	33.6	26.9	36.2	37.5	37.2
Capital expenditure /Total expenditure	12.5	13.0	15.0	15.0	13.1	13.4
Capital Expenditure on Social and Economic Service/ Total Expenditure	12.4	12.6	14.5	14.8	12.5	12.7
Buoyancy of TE with RR	-	1.38	(-) 0.15	2.01	2.15	(-) 1.22
Buoyancy of RE with RR	-	1.50	(-) 0.13	1.60	0.80	0.37
Management of Fiscal Imbalances						
Revenue Deficit(-)/Surplus(+) (Rs in crore)	(-) 305	(-) 572	(+) 232	(-) 315	(-) 27	(+) 946
Fiscal Deficit(-)/Surplus(+) (Rs in crore)	(-) 1365	(-) 1720	(-) 874	(-) 2217	(-) 5603	(-) 910
Primary Deficit (-)/Surplus(+) (Rs in crore)	(-) 797	(-) 301	(+) 308	(-) 1076	(-) 4183	(+) 703
Revenue Deficit/Fiscal Deficit	(+) 22.3	(+) 33.3	(-) 26.5	(+) 14.2	(+) 0.5	(-) 104
Management of Fiscal Liabilities						
Fiscal Liabilities / GSDP	22.3	23.45	24.9	23.8	27.6	27.8
Fiscal Liabilities/RR	173.6	180.7	187.5	202.9	205.1	194.0
Buoyancy of FL with RR		1.46	1.30	1.54	1.05	0.64
Buoyancy of FL with OR		1.16	1.42	2.50	1.31	1.93
Primary Deficit <i>vis-à-vis</i> quantum spread (Rs in crore)	-	(-) 925.32	236.62.	1492.27	3980.32	1050.20
Net Fund Available	37	(-) 7	12	36	46	11
Other Fiscal Health Indicators						
Return on Investment (Rs in crore)	Nil	Nil	Nil	1	Nil	Nil
BCR (Rs in crore)	599	(-) 2	847	892	1120	2117
Financial Assets/Liabilities (in per cent)	34	33	44	54	64	73

1.11 Conclusion

The key fiscal parameters - revenue and fiscal deficits - reveal a significant improvement in the fiscal situation of the State during 2006-07 over the previous year. The revenue surplus of Rs 946 crore in 2006-07 relative to a deficit of Rs 27 crore in the previous year however needs to be assessed in view of the fact that 84 per cent of incremental revenue receipts (Rs 1292 crore) are contributed by increase of central transfers comprising of State's share in Union pool of taxes and duties (Rs 875 crore) and grants in aid from government of India (Rs 417 crore) in 2006-07 over the previous year. Similarly, a steep decline of Rs 4693 crore in fiscal deficit during 2006-07 from the level of Rs 5603 crore in the previous year needs to be looked at keeping in view a sharp decline of Rs 3317 crore in the disbursement of loans for power sector projects and a decrease of Rs 378 crore in capital expenditure during the current year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure varied within a narrow range of 82-87 per cent during the period 2001-07 leaving inadequate resources for expansion of services and creation of assets as a result of which 27 per cent of fiscal liabilities of the State were still without the asset backup up during 2006-07. Moreover, within the revenue expenditure, NPRE at Rs 6632 crore in 2006-07 remained significantly higher than the normative

assessment of Rs 5258 crore made by TFC for the year. Further, three components – salary expenditure, pension liabilities and interest payments constitute about 76 per cent of the NPPE during 2006-07. The decrease in plan expenditure and capital expenditure, in total expenditure during 2006-07 over previous year, indicates State's tendency towards deterioration in development and quality of expenditure. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress on the State in medium to long run unless a suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non-tax sources in ensuing years. Besides, it is observed that the loss of revenue receipts amounting to Rs 1576.43 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 to hold elections of local bodies, not enacting the Fiscal Responsibility legislation as recommended by the TFC in time has also adversely affected the position of State's revenue receipts. Therefore, to avail all grants made available by GOI, the State should endeavour to hold the elections of the local bodies.