

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

Summary

During 2007-08, Revenue receipts (Rs 12027 crore) and revenue expenditure (Rs 10832 crore) each increased by 20 *per cent* over the previous year leading to revenue surplus of Rs 1195 crore. The revenue surplus along with increase in Capital expenditure (Rs 1123 crore) and increase in disbursement of loans and advances (Rs 187 crore) led to increase in fiscal deficit from Rs 910 crore in 2006-07 to Rs 1943 crore in 2007-08. Fiscal deficit was two *per cent* of the Gross State Domestic Product (GSDP).

Revenue receipts increased during 2007-08 by Rs 2017 crore over the previous year mainly due to increase in tax revenue by Rs 285 crore (nine *per cent*), Central Tax transfers by Rs 1059 crore (26 *per cent*), Central Grants-in-aid by Rs 322 crore (21 *per cent*) and Non-tax revenue by Rs 351 crore (28 *per cent*)

While Central tax transfers and Grants-in-aid together contributed 58 *per cent* of the total revenue, 42 *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 1692 crore due to failure to pay the dues to CPSUs in time by JSEB in accordance with the tripartite agreement (Rs 934 crore), not holding of elections for local bodies (Rs 537 crore) and not enacting the Fiscal Responsibility and Budgetary Management Act (Rs 221 crore).

Among the sources of tax revenue, Sales Tax (82 *per cent*) was the principal contributor. Of non-tax revenue sources, non-ferrous mining and metallurgical industries (74 *per cent*) were the principal contributors.

Overall expenditure of the State increased by 28 *per cent* from Rs 10936 crore in 2006-07 to Rs 14014 crore in 2007-08. Revenue expenditure (Rs 10832 crore) constituted 77 *per cent* of the total expenditure. Salaries, interest payments and pensions consumed about 46 *per cent* of the revenue receipts during the year. During 2007-08, the fiscal liabilities (Rs 21615 crore) increased by 11 *per cent* over previous year and stood about two times the revenue receipts.

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 layout 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 2007-08 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 2007-08

(Rupees in crore)

| 2006-07 | Receipts | 2007-08 | 2006-07 | Disbursements | 2007-08 | | |
|--------------------|---------------------------------------|----------|----------|--------------------------------------|----------|---------|----------|
| Section-A: Revenue | | | | | | | |
| | | | | | Non-plan | Plan | Total |
| 10009.82 | I. Revenue Receipts | 12026.55 | 9063.94 | I. Revenue expenditure | 7852.09 | 2979.88 | 10831.97 |
| 3188.50 | Tax revenue | 3473.55 | 3809.98 | General services | 4413.97 | 193.52 | 4607.49 |
| 1250.40 | Non-tax revenue | 1601.40 | 3327.27 | Social Services | 2597.89 | 1659.13 | 4257.02 |
| 4050.90 | Share of Union Taxes and Duties | 5109.83 | 1924.64 | Economic Services | 840.14 | 1127.23 | 1967.37 |
| 1520.02 | Grants from Govt. of India | 1841.77 | 2.05 | Grants-in-aid and Contributions | 0.09 | - | 0.09 |
| Section-B: Capital | | | | | | | |
| - | II. Misc. Capital Receipts | | 1461.34 | II. Capital Outlay | 25.60 | 2557.94 | 2583.54 |
| 15.75 | III. Recoveries of Loans and Advances | 44.22 | 410.81 | III. Loans and Advances disbursed | 181.70 | 415.96 | 597.66 |
| 1865.99 | IV. Public debt receipts * | 2022.65 | 606.34 | IV. Repayment of Public Debt | - | - | 747.37 |
| | V. Transfers to Contingency Fund | 31.75 | 31.75 | V. Expenditure from Contingency Fund | - | - | - |
| 4292.80 | VI. Public Account Receipts | 7013.07 | 3551.92 | VI. Public Account disbursements | - | - | 6206.46 |
| (-)54.62 | Opening Cash Balance | 1003.64 | 1003.64 | Closing Cash Balance | - | - | 1174.88 |
| 16129.74 | Total | 22141.88 | 16129.74 | Total | 8059.39 | 5953.78 | 22141.88 |

* Excludes ways and means advances and overdraft.

- The revenue receipts during 2007-08 increased significantly by Rs 2017 crore (20 per cent) over previous year which was due to increase in tax revenue by Rs 285 crore (nine per cent), Non-tax receipts by Rs 351 crore (28 per cent), State's share of Union Taxes and Duties by Rs 1059 crore (26 per cent) and Grants-in-aid by Rs 322 crore (21 per cent).
- Revenue expenditure also increased by Rs 1768 crore (20 per cent) contributed mainly by increase in expenditure on Social Services (Rs 930 crore) and General Services (Rs 797 crore).
- Capital expenditure increased significantly by Rs 1123 crore (77 per cent) over previous year.
- Recovery of loans and advances increased by Rs 28.47 crore (181 per cent) against the increase in disbursement of Rs 187 crore (45 per cent) in 2007-08 over the previous year.
- Public Debt receipts and payments increased by Rs 157 crore (eight per cent) and Rs 141 crore (23 per cent) respectively over the previous year.

- Public Account receipt and disbursements increased significantly by Rs 2720 crore (63 *per cent*) and by Rs 2654 crore (75 *per cent*) respectively over the previous year.
- The net impact of these transactions led to an increase of Rs 171 crore in Cash Balance of the State over the 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)

| 2006-07 | Sl. No. | Major Aggregates | 2007-08 |
|----------------|-----------|---|----------------|
| 10010 | 1 | Revenue Receipts (2+3+4) | 12027 |
| 3189 | 2 | Tax Revenue | 3474 |
| 1250 | 3 | Non-Tax Revenue | 1601 |
| 4051 | 4 | Central Tax Transfers | 5110 |
| 1520 | | Grants-in-aid | 1842 |
| 16 | 5 | Non-Debt Capital Receipts | 44 |
| 16 | 6 | Of which Recovery of Loans | 44 |
| 10026 | 7 | Total non debt Receipts (1+5) | 12071 |
| 6924 | 8 | Non-Plan Expenditure (9+11+12) | 8060 |
| 6632 | 9 | On Revenue Account | 7852 |
| 1613 | 10 | Of which, Interest Payments | 1758 |
| - | 11 | On Capital Account | 26 |
| 292 | 12 | On Loans disbursed | 182 |
| 4012 | 13 | Plan Expenditure (14+15+16) | 5954 |
| 2432 | 14 | On Revenue Account | 2980 |
| 1461 | 15 | On Capital Account | 2558 |
| 119 | 16 | On Loans disbursed | 416 |
| 10936 | 17 | Total Expenditure (8+13) | 14014 |
| (-) 910 | 18 | Fiscal Deficit (-)/Surplus (+) (7-17) | (-)1943 |
| (+) 946 | 19 | Revenue Deficit (-)/Surplus (+) (1-9-14) | (+)1195 |
| (+) 703 | 20 | Primary Deficit (-)/Surplus (+) 7-(17-10) | (-)185 |

Table 1.2 shows increase in the revenue receipts and revenue expenditure by Rs 2017 crore (20 *per cent*) and by Rs 1768 crore (20 *per cent*) respectively during 2007-08 over the previous year leading to revenue surplus of Rs 1195 crore as compared to revenue surplus of Rs 946 crore during 2006-07. However, fiscal deficit sharply increased by Rs 1033 crore (114 *per cent*) from Rs 910 crore in 2006-07 to Rs 1943 crore in 2007-08 which was mainly due to increase in capital expenditure by 77 *per cent* (Rs 1123 crore) and in disbursement of loans and advances by 45 *per cent* (Rs 187 crore) in 2007-08 relative to the previous year. The deterioration in fiscal deficit by Rs 1033 crore together with an increase of Rs 145 crore in interest payment turned the primary surplus of Rs 703 crore in previous year into the primary deficit of Rs 185 crore in 2007-08.

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 2002-03 to 2007-08 and observations have been made on their behaviour. 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 Fiscal Responsibility and Budget Management (FRBM) Act was enacted by the State Government in April 2007 and notification issued in May 2007. Assuming that Gross State Domestic Product (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 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. The new GSDP series 1999-2000 as base year (**Table 1.3**) as published by the Directorate of Statistics & Evaluation of the State Government have been used in estimating these percentages and buoyancy ratios.

Table 1.3: Trends in Growth of Gross State Domestic Product

| Estimates | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------|---------|---------|---------|---------|---------|
| GSDP (Rupees in crore) | 37967 | 42449 | 57939 | 62239 | 73579 | 87620 |
| GSDP (Growth rate in <i>per cent</i>) | 8.3 | 11.8 | 36.5 | 7.4 | 18.2 | 19.1 |

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**.

1.2.1 The Fiscal Responsibility and Budget Management Act, 2007

Jharkhand FRBM Act, 2007 aims to provide the responsibility to the State Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term frame work and for matters connected therewith or incidental thereto. Accordingly, in order to give effect to the fiscal management principles as laid down in the Act, and/or the rules framed there under prescribed the following monitorable fiscal targets for the State Government:

- reduce revenue deficit to 'nil' at the end of the 31 day of March 2009;
- reduce fiscal deficit by such percentage of GSDP in each of the financial years to bring it at a level of not more than three *per cent* of the estimated GSDP at the end of the 31 day of March 2009;
- generate a primary surplus of over three *per cent* of GSDP by the year ending 31 March 2008;
- in order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt is to be limited to 18 to 25 *per cent*;
- the total debt stock should be limited to 300 *per cent* of the total revenue receipt of the State (by the year ending 2007-08);
- other important monitorable fiscal targets would be:
 - the ratio of salary to State's Own revenue is to be reduced to 80 *per cent*;
 - the ratio of non interest committed revenue expenditure to State's Own and Mandated Revenue is to be reduced to 55 *per cent* by the year ending 31 March 2008;
 - the ratio of revenue deficit to revenue receipt is to be reduced to 'Zero' by the year ending 31 March 2009.

It was also stated that revenue deficit and fiscal deficit may exceed the limits specified in the Act due to unforeseen demands on the finances of the State Government arising out of natural calamities. It was also stated that such excess shall not exceed the actual fiscal cost that can be attributed to the natural calamities.

Fiscal Correction Path (FCP)

After enactment of the FRBM Act, 2007, the State Government has developed its own Fiscal Correction Path indicating the milestone of the outcome indicators with target dates of implementation up to 2009-10 as given in ***Appendix 1.1 Part D***. It is observed that FCP seems to have been developed during 2008-09 as it indicates the actual for 2007-08, BE for 2008-09 and projections for 2009-10.

1.2.2 Mid Term Fiscal Plan (MTFP)

As per Jharkhand FRBM Act, 2007, the State Government shall lay MTFP along with annual budget in the Legislature in each financial year. MTFP shall set forth a three year rolling target for prescribed fiscal indicators with specification of underlining assumption. Since FRBM Act was enacted in May 2007, MTFP was prepared and laid before the House only along with the Annual Budget for 2008-09 giving the revised estimates for 2007-08, BE for 2008-09 and projections for 2009-10 and 2010-11.

1.2.3 Fiscal performance during 2007-08

The fiscal performance of the State Government in terms of key fiscal variables *vis-à-vis* the targets laid in FRBM Act, 2007 and the revised estimates as projected by the State Government for the year 2007-08 is

presented in the following Table:

(Values in crore of rupees and ratios in per cent)

| Key Fiscal variables | Targets under FRBM Act | RE – 2007-08 | Actual – 2007-08 | Remarks/Observations |
|---|------------------------|--------------|------------------|--|
| Revenue Deficit | 0.0 (By 31.3.2009) | (+) 992.50 | (+) 1195 | Revenue Surplus since 2006-07 and exceeded the RE |
| Revenue Deficit/ Revenue Receipt | 0.0 (By 31.3.2009) | - | (+) 10.0 | Revenue surplus since 2006-07 |
| Fiscal Deficit/ GSDP Ratio | 3.0 (By 31.3.2009) | 4.89 | 2.2 | Already within the FRBM Target |
| Primary Surplus (+)/ Primary Deficit (-) to GSDP Ratio | 3.0 (By 31.3.2009) | (-) 1.92 | (-) 0.2 | Experienced Primary Deficit but it is well within the RE |
| Interest payment/ Revenue Receipt | 18 to 25 | 13.74 | 14.6 | Well within the norms of FRBM Act but marginally exceeded the RE |
| Debt stock/ Revenue Receipt | 300.0 | - | 161.4 | Within the ceiling limit of FRBM Act |
| Salary/ State own Revenue | 80.0 (By 31.3.2008) | - | 58.8 | Within the ceiling limit of FRBM Act |
| Non-interest Committed Revenue Expenditure/State's own and Mandated revenue | 55.0 (By 31.3.2008) | - | 37.3 | Within the ceiling limit of FRBM Act |

The trends in major fiscal parameters/variables *vis-à-vis* projections made in FRBM Act and the Budget for 2007-08 presented in the above Table reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in State's FRBM Rules, 2007 as well as in its revised estimates for the year 2007-08. The State has achieved fiscal targets as laid down in the FRBM Act/Rules and TFC much before the timeline indicated in them with the current year ending in revenue surplus of Rs 1195 crore and fiscal deficit which was 2.2 *per cent* of GSDP.

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 2007-08 as Rs 21139 crore, of which Rs 12027 crore (57 *per cent*) came from revenue receipts and balance (43 *per cent*) from borrowings and Public Account.

Table1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

| Sources of State's Receipts | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| I Revenue Receipts | 4937 | 5638 | 6661 | 8464 | 10010 | 12027 |
| II Capital Receipts | 1892 | 2426 | 3578 | 3511 | 1882 | 2067 |
| Recovery of Loans and Advances | 3 | 4 | 8 | 10 | 16 | 44 |
| Public Debt Receipts | 1889 | 2422 | 3570 | 3501 | 1866 | 2023 |
| Miscellaneous Capital Receipts | - | - | - | - | - | - |
| III Contingency Fund | - | - | - | - | - | 32 |
| IV Public Account Receipts | 3049 | 3113 | 2927 | 3908 | 4293 | 7013 |
| a. Small Savings, Provident Fund etc. | 411 | 368 | 255 | 409 | 453 | 479 |
| b. Reserve Fund | 62 | 155 | 156 | 161 | 157 | 198 |
| c. Deposits and Advances | 1215 | 1185 | 1136 | 1328 | 1579 | 3297 |
| d. Suspense and Miscellaneous | 106 | 106 | -58 | 90 | 143 | 49 |
| e. Remittances | 1255 | 1299 | 1438 | 1920 | 1961 | 2990 |
| Total Receipts | 9878 | 11177 | 13166 | 15883 | 16185 | 21139 |

The total receipt of the State increased steadily from Rs 9878 crore in 2002-03 to Rs 21139 crore in 2007-08. The share of revenue receipts of the State to total receipt increased steadily from 50 *per cent* in 2002-03 to 62 *per cent* in 2006-07 but declined to 57 *per cent* in 2007-08. On the other hand, the capital receipts comprising mainly of public debt receipt of the State ranged between 10 and 27 *per cent* of total receipts during 2002-08. During 2007-08, total receipt of Rs 21139 crore was comprised of revenue receipt (57 *per cent*), followed by public account receipts (33 *per cent*) and public debt receipt (10 *per cent*). The debt capital receipts which create future repayment obligation decreased from Rs 3570 crore (27 *per cent*) in 2004-05 to Rs 1866 crore (12 *per cent*) in 2006-07, but increased to Rs 2023 crore (10 *per cent*) in 2007-08. Public account receipts with inter year fluctuation increased from Rs 3049 crore in 2002-03 to Rs 7013 crore in 2007-08 ranging between 22 and 33 *per cent* of total receipt during 2002-08.

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**.

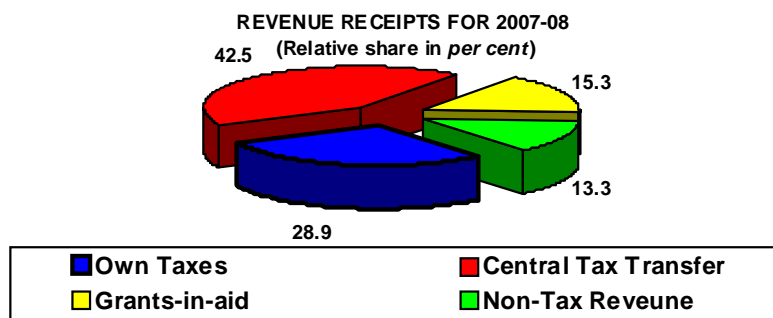
Table 1.5: Revenue Receipts – Basic Parameters

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue Receipts (Rupees in crore) | 4937 | 5638 | 6661 | 8464 | 10010 | 12027 |
| Own taxes (Rupees in crore) | 1750 (35.4) | 1986 (35.2) | 2383 (35.8) | 2758 (32.5) | 3189 (31.8) | 3474 (28.9) |
| Non-Tax Revenue (Rupees in crore) | 987 (20.0) | 1106 (19.6) | 1053 (15.8) | 1427 (16.9) | 1250 (12.5) | 1601 (13.3) |
| Central Tax Transfers (Rupees in crore) | 1703 (34.5) | 1980 (35.1) | 2366 (35.5) | 3176 (37.5) | 4051 (40.5) | 5110 (42.5) |
| Grants-in-aid (Rupees in crore) | 497 (10.1) | 566 (10.1) | 859 (12.9) | 1103 (13.1) | 1520 (15.2) | 1842 (15.3) |
| Growth rate of Revenue Receipts (<i>per cent</i>) | 9.8 | 14.2 | 18.1 | 27.1 | 18.3 | 20.1 |
| Rate of Growth of own taxes (<i>per cent</i>) | 10.3 | 13.5 | 20.0 | 15.7 | 15.6 | 8.9 |
| GSDP Growth (<i>per cent</i>) | *8.3 | *11.8 | *36.5 | *7.4 | 18.2 | 19.1 |
| Revenue Receipts/ GSDP (<i>per cent</i>) | *13.0 | *13.3 | *11.5 | *13.6 | 13.6 | 13.7 |
| Revenue buoyancy (ratio) | *1.18 | *1.20 | *0.50 | *3.66 | 1.01 | 1.05 |
| State's own taxes Buoyancy (ratio) | 1.24 | 1.14 | 0.55 | 2.12 | 0.86 | 0.47 |
| Revenue Buoyancy with reference to State's own taxes (ratio) | 0.95 | 1.05 | 0.91 | 1.73 | 1.17 | 2.26 |

* 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 144 *per cent* from Rs 4937 crore in 2002-03 to Rs 12027 crore in 2007-08. However, the share of State's own resources to total revenue receipts steadily declined from 55 *per cent* in 2002-03 to 42 *per cent* in 2007-08. On the other hand share of both central tax transfer and grant-in-aid showed increasing trend during 2002-08. While on an average around 42 *per cent* of the revenue in 2007-08 came from the State's own resources, Central tax transfers and Grants-in-aid together contributed about 58 *per cent* of the total revenue. Revenue buoyancy fluctuated between 1.01 and 1.20 during 2002-08 except in 2004-05 and 2005-06. In 2004-05 it was only 0.50 due to less collection of non-tax revenue and sharp increase in GSDP (36.5 *per cent*), whereas, in 2005-06 it was exceptionally high (3.66 *per cent*) due to sharp increase in non-tax revenue (36 *per cent*) and decrease in GSDP. State's own taxes buoyancies declined from 1.24 in 2002-03 to 0.47 in 2007-08 with inter year variations corresponding to the fluctuations in the rates of growth of GSDP during the period.



Tax Revenue: The Tax revenue of the State increased from Rs 1750 crore in 2002-03 to Rs 3474 crore in 2007-08. However, its share to total revenue receipts showed decreasing trend from 35.4 *per cent* in 2002-03 to 28.9

per cent in 2007-08. Of the total Tax revenue in 2007-08, sales tax contributed 82 per cent of tax revenue followed by state excise (five per cent), stamps and registration (five per cent); taxes on vehicles (3.9 per cent) and other taxes (4.4 per cent). The increase in Tax revenue during 2007-08 over previous year was mainly due to increase in sales tax (Rs 289 crore), and stamps and registration (Rs 34 crore) **Table 1.6** below shows the trend of Tax revenue during 2002-08.

Table 1.6: Tax Revenue

| | (Rupees in crore) | | | | | |
|------------------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Land Revenue | 15 | 17 | 17 | 18 | 36 | 26 |
| Stamp and Registration | 83 | 82 | 87 | 92 | 122 | 156 |
| State Excise | 99 | 96 | 146 | 162 | 130 | 157 |
| Sales Tax | 1366 | 1601 | 1882 | 2212 | 2557 | 2846 |
| Taxes on vehicles | 105 | 99 | 130 | 138 | 218 | 136 |
| Other Taxes* | 82 | 91 | 121 | 136 | 126 | 153 |
| Total | 1750 | 1986 | 2383 | 2758 | 3189 | 3474 |

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

As indicated in **Table 1.6**, Land Revenue and Taxes on Vehicles decreased from Rs 36 crore and Rs 218 crore in 2006-07 to Rs 26 crore and Rs 136 crore in 2007-08 respectively. Collection of Land Revenue decreased due to delay in acquisition/transfer of land and delay in grant of lease/settlement of land to different projects by the Government.

Non-tax Revenue: The share of Non-tax revenue in total revenue receipts oscillated between 12.5 and 20 per cent during 2002-08. It, however, increased in 2007-08 by Rs 351 crore (28 per cent) over previous year mainly due to increase in receipt from Non-Ferrous Mining and Metallurgical Industries (Rs 156 crore), receipts from Major Irrigation (Rs 109 crore) and Interest Receipts (Rs 49 crore). Of Non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries were the principal contributors (74 per cent) followed by receipt from Major Irrigation (nine per cent), and Interest Receipts (five per cent).

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 2007-08 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 | 3837 | 3551 | 3474 |
| Non-Tax Revenue | 1516 | 1599 | 1601 |

The Budget estimate and Actual collection of Tax revenue were less by Rs 286 crore and Rs 363 crore if compared to the normative assessment of Rs 3837 crore. In respect of Non-tax Revenue, both the Budget estimate and actual collection was higher by Rs 83 crore and Rs 85 crore respectively in comparison to the TFC assessment.

Central tax transfer: Central tax transfer increased by Rs 1059 crore from Rs 4051 crore in 2006-07 to Rs 5110 crore in 2007-08 and constituted 42.5

per cent of revenue receipt during the year. The increase was mainly due to increase in Corporation Tax (Rs 358 crore), Taxes on Income other than Corporation Tax (Rs 321 crore), Customs Duties (Rs 176 crore) and Service Tax (Rs 122 crore).

Grants-in-aid: Grants-in-aid from Government of India increased by Rs 322 crore (21 per cent) from Rs 1520 crore in 2006-07 to Rs 1842 crore in 2007-08 mainly due to increases in non-plan grants (Rs 297 crore) and grants for Centrally Sponsored Plan Schemes (Rs 39 crore). Increase in Non-plan grants was mainly due to increase in receipt of grants under the Proviso to Article 275 (1) of the Constitution (Rs 113.86 crore) and grants towards contribution to Calamity Relief Fund (Rs 100.15 crore). Grants under Centrally Sponsored Scheme increased due to increase in Grants under Elementary Education (Rs 36.43 crore) and Water Supply (91.46 crore) offset by decrease in grants under Social Welfare (Rs 38.53 crore) and Family Welfare (Rs 15.65 crore). 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) | | | | | |
|--|-------------------|------------|------------|-------------|-------------|-------------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Grants for State Plan Schemes | 246 | 314 | 555 | 719 | 761 | 752 |
| Non Plan Grants | 42 | 90 | 86 | 112 | 260 | 557 |
| Grants for Central and Centrally Sponsored Schemes | 209 | 162 | 218 | 272 | 499 | 533 |
| Total | 497 | 566 | 859 | 1103 | 1520 | 1842 |
| Percentage of increase over previous year. | 9 | 14 | 52 | 28 | 38 | 21 |

Loss of Non-plan grants from GOI: The specific grants amounting to Rs 64.64 crore and Rs 103.35 crore for Education and Health sectors have also been included in total Grants-in-aid transferred to the State during the year which were below the amounts of Rs 129.28 crore and in excess of Rs 71.35 crore recommended by TFC for the year respectively. Precondition for release of grants-in-aid in these sectors was that BE under NPPE for 2007-08 and actual of 2005-06 for NPPE of the relevant head should not be less than the projected normal expenditure as prescribed plus actual release of the grants for 2005-06. As there was short fall in actual NPPE of 2005-06 for Education by 83.11 crore, the State has received grants during 2007-08 which were less by Rs 64.64 crore than what was recommended by TFC for the State for the current year

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. However, no amount had been recovered from the State in this regard during 2007-08.

Revenue arrears: The arrears of revenue as on 31 March 2008 were Rs 1757.27 crore (excluding figures of Water Resources Department on account of their non-availability) against the total arrears of Rs 1655.94 crore as on 31 March 2007. The arrears of revenue as on 31 March 2008 to own resources were 35 per cent as against 37 per cent at the end of 2006-07. The major parts of the revenue arrear relate to the Finance (Commercial Taxes)

Department, Mining and Geology Department and Transport Department. At the end of 2007-08, the arrears with these departments were Rs 1261.41 crore, Rs 290.72 crore and Rs 174.30 crore respectively. Out of total arrears of these departments, Rs 489.08 crore, Rs 5.01 crore and Rs 27.50 crore respectively were outstanding for more than five years as on 31 March 2008. Out of total arrears of Rs 1757.27 crore, Rs 315.61 crore and Rs 73.07 crore had been stayed by the courts and by 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 6660 crore in 2002-03 to Rs 14014 crore in 2007-08. 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

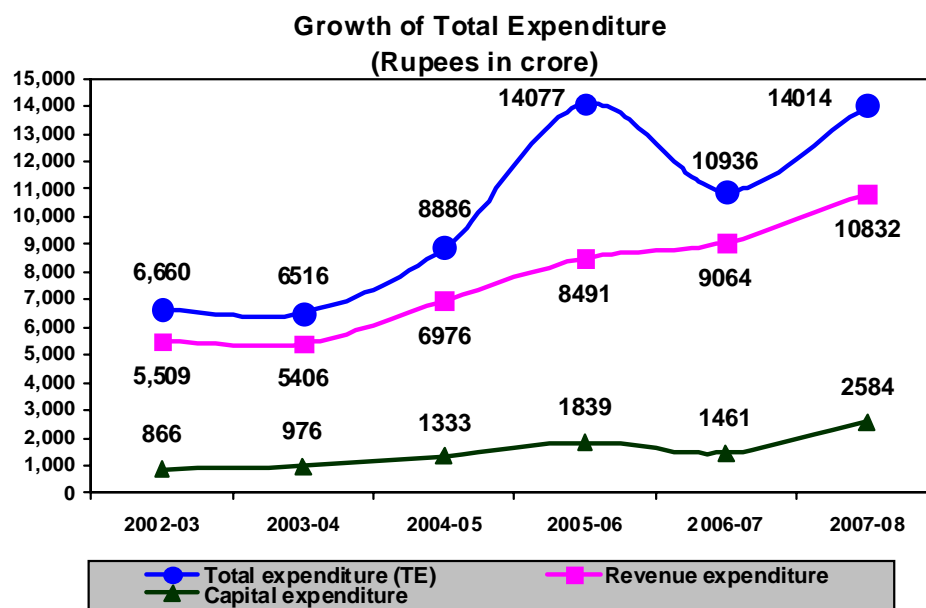
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------|----------|---------|---------|----------|---------|
| Total Expenditure # (Rupees in crore) | 6660 | 6516 | 8886 | 14077 | 10936 | 14014 |
| Rate of Growth (<i>per cent</i>) | 13.6 | (-) 2.2 | 36.4 | 58.4 | (-) 22.3 | 28.1 |
| TE/GSDP (<i>per cent</i>) | 17.5 | 15.4 | 15.3 | 22.6 | 14.9 | 16.0 |
| Revenue Receipts/TE (<i>per cent</i>) | 74.1 | 86.5 | 75.0 | 60.1 | 91.5 | 85.8 |
| Buoyancy of Total Expenditure with reference to | | | | | | |
| GSDP (ratio) | 1.64 | (-) 0.19 | 1.00 | 7.89 | (-) 1.23 | 1.47 |
| Revenue Receipts (ratio) | 1.38 | (-) 0.15 | 2.01 | 2.15 | (-) 1.22 | 1.40 |

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

Total expenditure during 2007-08 increased by Rs 3078 crore (28 *per cent*) over previous year. The increase was due to increase in capital expenditure by Rs 1123 crore (77 *per cent*), disbursement of loans and advances by Rs 187 crore (45 *per cent*) and revenue expenditure by Rs 1768 crore (20 *per cent*). The increase in capital expenditure was mainly due to increase in capital outlay on Major Irrigation (Rs 297 crore), Medium Irrigation (Rs 126 crore), Roads and Bridges (Rs 172 crore), other Rural Development Programme (Rs 119 crore) and Water Supply and Sanitation (Rs 113 crore). The increase in disbursement of loans and advances by 45 *per cent* during 2007-08 over previous year was mainly due to increase in disbursement of loans for Power Projects i.e. from Rs 334.45 crore in 2006-07 to Rs 514.30 crore in 2007-08. Increase in loans to power projects was mainly due to accrual of interest on power bonds shown as loans to JSEB and loans for purchase of power from CPSUs and not for any capital expenditure in power sector.

The trend in total expenditure in the form of plan and non-plan expenditure during 2007-08 reveal that non-plan expenditure contributed major share of 58 *per cent* while 42 *per cent* was in the form of plan expenditure as against 63 *per cent* and 37 *per cent* respectively in 2006-07. Moreover, of the increase of

Rs 3078 crore in total expenditure, plan expenditure shared 63 per cent (Rs 1942 crore) while non-plan expenditure contributed 37 per cent (Rs 1136 crore)



The ratio of revenue receipts to total expenditure decreased from 91.5 per cent in 2006-07 to 85.8 per cent in 2007-08, indicating that nearly 86 per cent of the State's total expenditure was met from its current revenue, leaving the balance to be financed from non-debt capital receipts and borrowings. The buoyancy of total expenditure with reference to GSDP as well as revenue receipts stood at around 1.4 in 2007-08 indicating tendency to spend more than the increase in income of the State.

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**.

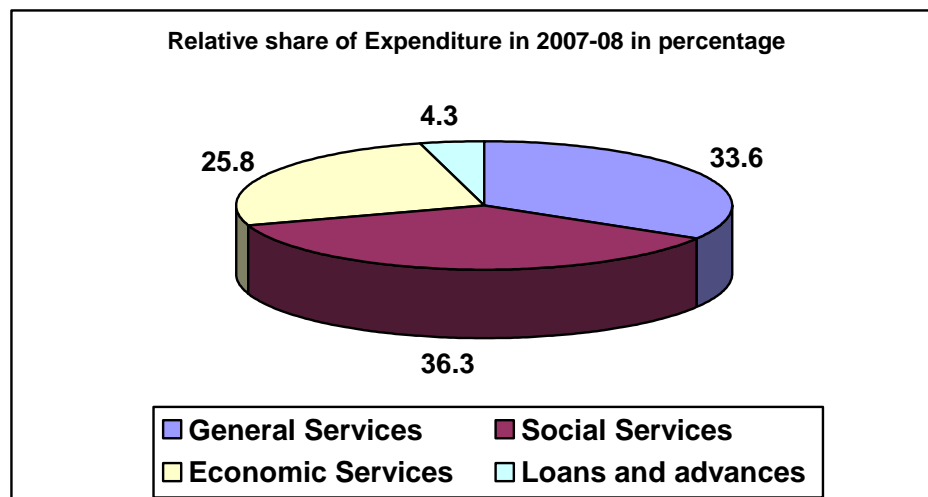
Table 1.9: Components of expenditure – Relative Share (in per cent)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| General Services | 41.8 | 40.5 | 33.3 | 26.0 | 35.5 | 33.6 |
| Of which Interest payments | 21.3 | 18.1 | 12.8 | 10.1 | 14.7 | 12.5 |
| Social Services | 31.5 | 30.6 | 31.0 | 25.6 | 34.9 | 36.3 |
| Economic Services | 22.4 | 26.8 | 29.2 | 21.8 | 25.8 | 25.8 |
| Grants-in-aid | * | * | - | - | - | - |
| Loans and advances | 4.3 | 2.1 | 6.5 | 26.6 | 3.8 | 4.3 |

* 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, decreased with inter year fluctuation from 41.8 per cent in 2002-03 to 33.6 per cent in 2007-08 in total expenditure, of which interest payment also declined from 21.3 per cent in 2002-03 to 12.5 per cent in 2007-08. The relative share of Social Services increased gradually from 31.5 per cent in 2002-03 to 36.3 per cent in 2007-08 except in 2005-06 (25.6

per cent) whereas the share of Economic Services ranged between 21.8 and 29.2 per cent during 2002-08 and stood at 25.8 per cent in 2007-08. The share of loans and advances showed decreasing trend from 4.3 per cent in 2002-03 to 2.1 per cent in 2003-04 but increased sharply to 26.6 per cent in 2005-06 mainly on account of steep increase in loans for power project but declined to trend level of 3.8 per cent in 2006-07 and 4.3 per cent in 2007-08.



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**.

Table 1.10: Revenue Expenditure: Basic Parameters

(Rupees in crore)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|----------|---------|---------|---------|---------|
| Revenue Expenditure (RE) | 5509 | 5406 | 6976 | 8491 | 9064 | 10832 |
| Of which | 4484 | 4315 | 4996 | 6352 | 6632 | 7852 |
| Non-Plan Revenue Expenditure (NPRE) | (81) | (80) | (72) | (75) | (73) | (72) |
| Plan Revenue Expenditure (PRE) | 1025 | 1091 | 1980 | 2139 | 2432 | 2980 |
| | (19) | (20) | (28) | (25) | (27) | (28) |
| Rate of Growth (<i>per cent</i>) | 26.7 | (-) 3.8 | 15.8 | 27.1 | 4.4 | 18.4 |
| NPRE | | | | | | |
| PRE | (-)18.8 | 6.4 | 81.5 | 8.0 | 13.7 | 22.5 |
| NPRE/GSDP (<i>per cent</i>) | 11.8 | 10.2 | 8.6 | 10.2 | 9.0 | 9.0 |
| NPRE as <i>per cent</i> of TE | 67.3 | 66.2 | 56.2 | 45.1 | 60.7 | 56.0 |
| NPRE as <i>per cent</i> of RR | 90.8 | 76.5 | 75.0 | 75.0 | 66.3 | 65.3 |
| Buoyancy of Revenue Expenditure with | | | | | | |
| GSDP (ratio) | 1.64 | (-) 0.16 | 0.79 | 2.93 | 0.37 | 1.02 |
| Revenue Receipts (ratio) | 1.50 | (-) 0.13 | 1.60 | 0.80 | 0.37 | 0.97 |
| Buoyancy of Non- Plan Revenue Expenditure with | | | | | | |
| GSDP (ratio) | 2.97 | (-) 0.32 | 0.43 | 3.66 | 0.24 | 0.96 |
| Revenue Receipts (ratio) | 2.72 | (-) 0.27 | 0.87 | 1.0 | 0.24 | 0.92 |

The revenue expenditure increased by 97 per cent from Rs 5509 crore in

2002-03 to Rs 10832 crore in 2007-08. Increase in NPRE by Rs 1220 crore and PRE by Rs 548 crore contributed to total increase of Rs 1768 crore (20 *per cent*) in revenue expenditure in 2007-08 over previous year. Salaries (Rs 2985 crore), interest payments (Rs 1758 crore) and pension (Rs 818 crore) alone accounted for 51 *per cent* of total revenue expenditure and consumed 46 *per cent* of total revenue receipts during the year.

Revenue expenditure accounted for 77 *per cent* of total expenditure during 2007-08. The NPRE has shown a consistent increase by 82 *per cent* from Rs 4315 crore in 2003-04 to Rs 7852 crore in 2007-08 and continued to share dominant proportion varying in the narrow range of 72-80 *per cent* of revenue expenditure. The rate of growth of NPRE sharply increased from 4.4 *per cent* in 2006-07 to 18.4 *per cent* in 2007-08 over previous year mainly due to more expenditure on Secretariat General Services (Rs 528 crore), Interest payment (Rs 145 crore), General Education (Rs 139 crore), Pension (Rs 139 crore) Social Security and Welfare (Rs 86 crore), Police (Rs 73 crore) etc. offset by less expenditure under Power (Rs 133 crore). The rate of growth of plan expenditure on the other hand increased from 13.7 *per cent* in 2006-07 to 22.5 *per cent* in 2007-08 over previous year resulting in an increase of Rs 548 crore during the current year. Increase in plan revenue expenditure during the year was mainly due to increase in General Education (Rs 344 crore), Social Security and Welfare (Rs 150 crore), Rural Employment (Rs 98 crore) etc. offset by less expenditure under District Administration (Rs 201 crore).

The buoyancy of revenue expenditure and NPRE with reference to GSDP and revenue receipt showed improvement in 2007-08 as both increased nearly by one in 2007-08 indicating the growth rate of revenue expenditure and NPRE almost at par with growth rate of GSDP and revenue receipt. 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 | 6770 | 8090 | 7852 |

The actual non-plan revenue expenditure during 2007-08 was higher by Rs 1082 crore, if compared with normative assessment of Rs 6770 crore made by TFC, but was well within the budget estimate of Rs 8090 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**.

Table1.11: Expenditure on Salaries

| (Rupees in crore) | | | | | | |
|--------------------------------|---------|---------|---------|---------|---------|---------|
| Heads | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Expenditure on salaries | 1243 | 1932 | 2179 | 2547 | 2744 | 2985 |
| Of which | | | | | | |
| Non-Plan Head | 1079 | 1744 | 1910 | 2326 | 2518 | 2803 |
| Plan Head* | 164 | 188 | 269 | 221 | 226 | 182 |
| As <i>per cent</i> of GSDP | 3.3 | 4.6 | 3.8 | 4.1 | 3.7 | 3.4 |
| As <i>per cent</i> of RR | 25.2 | 34.3 | 32.7 | 30.1 | 27.4 | 24.8 |

* 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 25 *per cent* of the revenue receipts of the State during the year. It increased by nine *per cent* from Rs 2744 crore in 2006-07 to Rs 2985 crore in 2007-08. Expenditure on salaries under non-plan head during 2007-08 increased by Rs 285 crore (11 *per cent*) over previous year, whereas the salary expenditure on Plan head decreased by Rs 44 crore (19 *per cent*) over previous year. Expenditure on salaries under non-plan head as a percentage of non-plan revenue expenditure net of interest payment and pension amounts to 53 *per cent*, which was significantly 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 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Expenditure on Pensions | 520 | 560 | 620 | 657 | 679 | 818 |
| As <i>per cent</i> of GSDP | 1.4 | 1.3 | 1.1 | 1.1 | 0.9 | 0.9 |
| As <i>per cent</i> of RR | 10.5 | 9.9 | 9.3 | 7.8 | 6.8 | 6.8 |

The expenditure on pensions increased during 2002-08 by 57 *per cent* from Rs 520 crore in 2002-03 to Rs 818 crore in 2007-08. Pension payment increased by 20 *per cent* during 2007-08 over previous year against TFC norms of 10 *per cent*. 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 145 crore (nine *per cent*) during 2007-08 over previous year, its percentage to revenue receipts decreased from 16 *per cent* in 2006-07 to 15 *per cent* in 2007-08 at par with the TFC norms two years ahead.

Table 1.13: 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 |
| 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 |
| 2007-08 | 12027 | 10832 | 1758 | 15 | 16 |

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 was less than 23 *per cent*. In case of Jharkhand, since this ratio was 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 2007-08 the increase was nine *per cent* as against 14 *per cent* during 2006-07. The increase of Rs 145 crore in 2007-08 over previous year was mainly due to increase in payment of interest on Special Securities issued to National Small Savings fund of Central Government (Rs 163 crore) off set by less payment of Market loan (Rs 54 crore).

The State Government enacted the FRBM Act in May 2007, as a result, the State Government could not avail the benefit of the debt re-schedulement and interest rate relief amounting to Rs 221.36 crore for the years 2005-06 and 2006-07. As regards the current year, the State should have got the interest rate relief amounting to Rs 87.75 crore on GOI loans after re-schedulement of its debt over the next 20 years. However, the confirmation to this effect is yet to be received from the State Government (December 2008).

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 the quality of expenditure. **Table 1.14** gives these ratios during 2002-08.

Table 1.14: Indicators of Quality of Expenditure

| | (Rupees in crore) | | | | | |
|--|-------------------|-----------|-----------|-----------|-----------|-----------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Capital Expenditure | 866 | 976 | 1333 | 1839 | 1461 | 2584 |
| Revenue Expenditure | 5509 | 5406 | 6976 | 8491 | 9064 | 10832 |
| Total (CE+RE) | 6375 | 6382 | 8309 | 10330 | 10525 | 13416 |
| Total revenue expenditure on Social and Economic Services | 2756 | 2797 | 4033 | 4913 | 5252 | 6224 |
| Of which | | | | | | |
| (i) Salary Component | 903 (33) | 1342 (48) | 1506 (37) | 1730 (35) | 1881 (36) | 2005 (32) |
| (ii) Non-Salary Component | 1853 (67) | 1455 (52) | 2527 (63) | 3183 (65) | 3371 (64) | 4219 (68) |
| As per cent of Total Expenditure (Excluding Loans and Advances) | | | | | | |
| Capital Expenditure | 14 | 15 | 16 | 18 | 14 | 19 |
| Revenue Expenditure | 86 | 85 | 84 | 82 | 86 | 81 |
| As per cent of GSDP | | | | | | |
| Capital Expenditure | 2.3 | 2.3 | 2.3 | 3.0 | 2.0 | 2.9 |
| Revenue Expenditure | 14.5 | 12.7 | 12.0 | 13.6 | 12.3 | 12.4 |

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 varied between 81 and 86 *per cent* of the total expenditure (revenue & capital) during 2002-08 resulting in lesser share

of capital expenditure which varied between 14 and 19 *per cent*. Similarly, the ratio of capital expenditure to GSDP increased with inter-year fluctuations from 2.3 *per cent* in 2002-03 to 2.9 *per cent* in 2007-08. Within the revenue expenditure being spent on social and economic services, non-salaries component of revenue expenditure on Social and Economic Services increased steadily from Rs 1455 crore (27 *per cent* of revenue expenditure) in 2003-04 to Rs 4219 crore (39 *per cent*) in 2007-08 whereas salary components declined steadily from 25 *per cent* in 2003-04 to 19 *per cent* in 2007-08. These trends indicate focus of the government towards improving the quality of expenditure and improvement in Social and Economic Services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators¹ 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 adequate 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 2002-08.

Table 1.15: Expenditure on Social Services

(Rupees in crore)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Education, Sports, Art and Culture | | | | | | |
| Revenue Expenditure | 1084.2 | 1017.9 | 1375.0 | 1628.1 | 1738.6 | 2299.5 |
| <i>Of which (a) Salary Component</i> | 549.0 (98) | 751.8 (99) | 864.6 (99) | 910.7 (99) | 949.8 (99.8) | 988.4 (99.9) |
| <i>(b) Non-Salary Component</i> | 535.2 | 266.1 | 510.4 | 717.4 | 788.8 | 1311.1 |
| Capital Expenditure | 3.3 | 5.4 | 34.4 | 171.3 | 196.7 | 223.5 |
| Sub total (RE + CE) | 1087.5 | 1023.3 | 1409.4 | 1799.4 | 1935.3 | 2523.0 |
| Health and Family Welfare | | | | | | |
| Revenue Expenditure | 242.6 | 221.7 | 388.8 | 472.3 | 395.8 | 391.6 |
| <i>Of which (a) Salary Component</i> | 106.5 (60) | 109.2 (76) | 200.4 (58) | 213.9 (83) | 194.0 (94) | 229.8 (84) |
| <i>(b) Non-Salary Component</i> | 136.1 | 112.5 | 188.4 | 258.4 | 201.8 | 161.8 |
| Capital Expenditure | 2.8 | 15.8 | 38.4 | 59.3 | 53.0 | 133.5 |
| <i>Of which Salary Component</i> | - | - | - | - | - | - |
| Sub total (RE + CE) | 245.4 | 237.5 | 427.2 | 531.6 | 448.8 | 525.1 |
| Water Supply, Sanitation, Housing and Urban Development | | | | | | |
| Revenue Expenditure | 118.7 | 113.1 | 117.1 | 166.3 | 277.1 | 285.0 |
| <i>Of which (a) Salary Component</i> | 16.9 (100) | 83.0 (100) | 41.3 (100) | 45.9 (100) | 56.9 (100) | 60.9 (100) |
| <i>(b) Non-Salary Component</i> | 101.8 | 30.1 | 75.8 | 120.4 | 220.2 | 224.1 |
| Capital Expenditure | 148 | 100.2 | 148 | 254.1 | 193.9 | 386.3 |
| <i>Of which Salary Component</i> | - | - | - | - | - | - |
| Sub total (RE + CE) | 266.7 | 213.3 | 265.1 | 420.4 | 471.0 | 671.3 |
| Other Social Services | | | | | | |
| Revenue Expenditure | 489.9 | 516.1 | 642.7 | 793.6 | 915.8 | 1280.9 |
| <i>Of which (a) Salary Component</i> | 54.7 (71) | 43.2 (60) | 41.0 (85) | 145.1 (49) | 130.4 (46) | 97.9 (71) |
| <i>(b) Non-Salary Component</i> | 435.2 | 472.9 | 601.7 | 648.5 | 785.4 | 1183.0 |
| Capital Expenditure | 7.8 | 4.2 | 5.4 | 62.4 | 51.2 | 88.2 |
| Sub total (RE + CE) | 497.7 | 520.3 | 648.1 | 856.0 | 967.0 | 1369.1 |
| Total (Social Services) | | | | | | |
| Revenue Expenditure | 1935.4 | 1868.8 | 2523.6 | 3060.3 | 3327.3 | 4257.0 |
| <i>Of which (a) Salary Component</i> | 727.1 (90) | 987.2 (95) | 1147.3 (92) | 1315.6 (91) | 1331.1 (94) | 1377.0 (95) |
| <i>(b) Non-Salary Component</i> | 1208.3 | 881.6 | 1376.3 | 1744.7 | 1996.2 | 2880.0 |
| Capital Expenditure | 161.9 | 125.6 | 226.2 | 547.1 | 494.8 | 831.5 |
| <i>Of which Salary Component</i> | - | - | - | - | - | - |
| Grand Total (RE + CE) | 2097.3 (32) | 1994.4 (31) | 2749.8 (31) | 3607.4 (26) | 3822.1 (35) | 5088.5 (36) |

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.

¹ Human development indicators as per Economic Survey 2007-08 vis-à-vis National averages are given in **Appendix 1.9**.

Expenditure on Social Service increased steadily by 155 *per cent* from Rs 1994 crore in 2003-04 to Rs 5089 crore in 2007-08 ranging between 26 and 36 *per cent* of total expenditure during 2002-08 and accounted for 58 *per cent* of total expenditure on Social and Economic Service during 2007-08. The expenditure on Social Services increased sharply by 33 *per cent* (Rs 1267 crore) during 2007-08 over previous year as against increase of six *per cent* (Rs 215 crore) during 2006-07. Increase in expenditure of Rs 1267 crore on Social Services during 2007-08 shared by increase of Rs 588 crore under Education sector, Rs 76 crore under Health sector and Rs 200 crore under Water Supply & Sanitation. Out of total expenditure on Social Services during 2002-08, 50 to 52 *per cent* was incurred on Education, Sports, Arts and Culture, 10 to 16 *per cent* on Health and Family Welfare and 10 to 13 *per cent* on Water Supply and Sanitation, Housing and Urban Development. The trend analysis of revenue and capital expenditure on Social Services during 2002-08 revealed that the share of capital expenditure ranged between 6 and 16 *per cent* indicating substantial share of revenue expenditure. However, capital expenditure on Social Services increased by 68 *per cent* (Rs 337 crore) during 2007-08 over previous year. Of the revenue expenditure on Social Services, share of salary component declined steadily from 53 *per cent* in 2003-04 to 32 *per cent* in 2007-08 implying more expenditure on non-salary component which have increased from 47 *per cent* in 2003-04 to 68 *per cent* in 2007-08 indicating a move towards providing better quality of services.

Growth rate of non-plan salary component in General Education decreased from 4.5 *per cent* in 2006-07 to 4.1 *per cent* in 2007-08 over previous year as against norms of six *per cent* recommended by TFC, whereas, non-salary component increased from 11 *per cent* in 2006-07 to 29 *per cent* in 2007-08 over previous year which is marginally lower than the norms of 30 *per cent* prescribed by TFC. Further, the combined growth rate of salary and non-salary component increased from 6.2 *per cent* in 2006-07 to 11 *per cent* in 2007-08 which is higher than the TFC norms of 9.5 *per cent*. In another priority sector of Health and Family Welfare, though total revenue expenditure marginally declined in 2007-08 over previous year, salary component in revenue expenditure increased sharply by 19 *per cent* from Rs 194 crore in 2006-07 to Rs 230 crore in 2007-08. On the other hand the non-salary component in revenue expenditure declined sharply by 20 *per cent* (Rs 40 crore) over previous year. The salary and non-salary component taken together in this sector has increased by eight *per cent* in 2007-08 over previous year which is below the combined growth rate of 11.5 *per cent* as recommended by TFC. Scrutiny of relevant records of Education and Health and Family 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**. In view of the fact that the education and health indicators in the State are below the national average (**Appendix 1.9**), these trends indicate the need for change in allocative priorities especially in education and health sectors and focus on 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 3611 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 60 per cent of the expenditure.

Table 1.16: Expenditure on Economic Sector

(Rupees in crore)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Agriculture, Allied Activities | | | | | | |
| Revenue Expenditure | 283.8 | 308.7 | 448.9 | 446.4 | 507.4 | 584.7 |
| <i>Of which (a) Salary Component</i> | 80.2 (91) | 185.9 (61) | 186.1 (66) | 128.5 (96) | 232.2 (61) | 217.3 (68) |
| <i>(b) Non-Salary Component</i> | 203.6 | 122.8 | 262.8 | 317.9 | 275.2 | 367.4 |
| Capital Expenditure | 0.6 | 0.1 | - | 7.7 | 16.7 | 6.9 |
| Sub total (RE + CE) | 284.4 | 308.8 | 448.9 | 454.1 | 524.1 | 591.6 |
| Irrigation and Flood Control | | | | | | |
| Revenue Expenditure | 36.9 | 44.4 | 39.1 | 116.9 | 162.5 | 163.4 |
| <i>Of which (a) Salary Component</i> | 12.7 (100) | 23.6 (100) | 27.3 (100) | 98.4 (100) | 148.0(100) | 156.8 (100) |
| <i>(b) Non-Salary Component</i> | 24.2 | 20.8 | 11.8 | 18.5 | 14.5 | 6.6 |
| Capital Expenditure | 223.5 | 314.9 | 256.9 | 340.6 | 205.1 | 704.5 |
| <i>Of which Salary Component</i> | 41.3 | 25.8 | 63.0 | 31.2 | 1.2 | - |
| Sub total (RE + CE) | 260.4 | 359.3 | 296.0 | 457.5 | 367.6 | 867.9 |
| Power & Energy | | | | | | |
| Revenue Expenditure | 101.3 | 95.6 | 358.7 | 441.4 | 239.5 | 118.6 |
| <i>Of which (a) Salary Component</i> | - | - | - | - | - | - |
| <i>(b) Non-Salary Component</i> | 101.3 | 95.6 | 358.7 | 441.4 | 239.5 | 118.6 |
| Capital Expenditure | 39.8 | 2.0 | 48.4 | 30.0 | 53.0 | - |
| Sub total (RE + CE) | 141.1 | 97.6 | 407.1 | 471.4 | 292.5 | 118.6 |
| Transport | | | | | | |
| Revenue Expenditure | 60.6 | 109.0 | 203.0 | 173.8 | 293.4 | 275.3 |
| <i>Of which (a) Salary Component</i> | 13.8 (87) | 35.2 (97) | 31.1 (96) | 34.8 (95) | 38.6 (95) | 45 (94) |
| <i>(b) Non-Salary Component</i> | 46.8 | 73.8 | 171.9 | 139.0 | 254.8 | 230.3 |
| Capital Expenditure | 171.7 | 165.4 | 241.1 | 249.4 | 129.5 | 307.7 |
| <i>Of which Salary Component</i> | - | - | - | - | - | - |
| Sub total (RE + CE) | 232.3 | 274.4 | 444.1 | 423.2 | 422.9 | 583.0 |
| Other Economic Services | | | | | | |
| Revenue Expenditure | 338.3 | 370.4 | 459.5 | 674.6 | 721.8 | 825.4 |
| <i>Of which (a) Salary Component</i> | 69.7 (83) | 109.8 (95) | 114.3 (91) | 152.3 (79) | 131.3 (95) | 208.6 (96) |
| <i>(b) Non-Salary Component</i> | 268.6 | 260.6 | 345.2 | 522.3 | 590.5 | 616.8 |
| Capital Expenditure | 238.4 | 334.3 | 540.9 | 588.0 | 489.8 | 624.6 |
| <i>Of which Salary Component</i> | 27.6 | 23.7 | 20.4 | 25.8 | 26.9 | 33.1 |
| Sub total (RE + CE) | 576.7 | 704.7 | 1000.4 | 1262.6 | 1211.6 | 1449.9 |
| Total (Economic Services) | | | | | | |
| Revenue Expenditure | 820.9 | 928.1 | 1509.2 | 1853.1 | 1924.6 | 1967.4 |
| <i>Of which (a) Salary Component</i> | 176.4 (88) | 354.5 (78) | 358.8 (79) | 414.0 (91) | 550.1 (82) | 627.7 (87) |
| <i>(b) Non-Salary Component</i> | 644.5 | 573.6 | 1150.4 | 1439.1 | 1374.5 | 1339.7 |
| Capital Expenditure | 674.0 | 816.7 | 1087.3 | 1215.7 | 894.1 | 1643.7 |
| <i>Of which Salary Component</i> | 68.9 | 49.5 | 83.4 | 57.0 | 28.1 | 33.1 |
| Grand Total (RE + CE) | 1494.9 (22) | 1744.8 (27) | 2596.5 (29) | 3068.8 (22) | 2818.7 (26) | 3611.1 (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

The expenditure on Economic Services increased consistently by 142 per cent from Rs 1495 crore in 2002-03 to Rs 3611 crore in 2007-08 ranging between 22 and 29 per cent of total expenditure in 2002-08 constituting 42 per cent of developmental expenditure during 2007-08. Out of total expenditure on Economic Services, 15 to 19 per cent was incurred on Agriculture and allied

activities, 11 to 24 *per cent* on Irrigation & Flood Control, 3 to 16 *per cent* on Energy and Power and 14 to 17 *per cent* on Transport during 2002-08.

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently increased by 144 *per cent* from Rs 674 crore (45 *per cent* of total expenditure) in 2002-03 to Rs 1644 crore (46 *per cent*) in 2007-08 except a dip in 2006-07. On the other hand revenue expenditure increased steadily by 140 *per cent* from Rs 821 crore (55 *per cent*) in 2002-03 to Rs 1967 crore (54 *per cent*) in 2007-08. An increase of Rs 750 crore (84 *per cent*) in 2007-08 over previous year in capital expenditure led to the increase in its share in total expenditure incurred on economic services from 32 *per cent* in 2006-07 to 46 *per cent* in 2007-08 suppressing the share of revenue expenditure correspondingly to 58 *per cent* and 44 *per cent* respectively. Within the revenue expenditure, the share of salary component increased from 21 *per cent* in 2002-03 to 32 *per cent* during 2007-08 with inter year variations and the share of non-salary component has correspondingly reduced from 79 *per cent* to 68 *per cent* during the period. Besides, significant savings/surrenders in various economic sectors were observed in audit scrutiny during the year and the intended benefits which remained unachieved are 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 programmes 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 2002-08 was as follows:

Table 1.17 Financial Assistance

(Rupees in crore)

| Sl. No. | Bodies/authorities, etc. | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--------------|--|---------------|---------------|---------------|----------------|----------------|----------------|
| 1 | Universities and Educational Institutions | 234.82 | 219.59 | 222.41 | 363.95 | 419.59 | 402.16 |
| 2 | Municipal Corporations and Municipalities | 44.20 | 18.18 | 48.83 | 77.28 | 109.58 | 146.07 |
| 3 | Zila Parishads and Panchayati Raj Institutions | 7.75 | 21.29 | 8.83 | 93.09 | 151.27 | 79.43 |
| 4 | Development Agencies | 97.01 | 101.67 | 639.68 | 551.39 | 422.54 | 142.45 |
| 5 | Other Institutions ² (including statutory bodies) | 75.32 | 91.43 | 38.16 | 69.79 | 528.20 | 496.01 |
| Total | | 459.10 | 452.16 | 957.91 | 1155.50 | 1631.18 | 1266.12 |
| | Assistance as a percentage of revenue receipts | 9 | 8 | 14 | 14 | 16 | 11 |
| | Percentage of assistance to revenue expenditure | 8 | 8 | 14 | 14 | 18 | 12 |

The financial assistance to local bodies increased steadily from Rs 459.10 crore in 2002-03 to Rs 1631.18 crore in 2006-07 which decreased by Rs 365 crore (22 *per cent*) in 2007-08 over previous year due to steep fall in

² Bhudan Yojna Samitee, Industrial units, Railways, Institutions performing art & culture activities etc.

assistance to Developmental Agencies (Rs 280.09 crore) and Zila Parishads and Panchayati Raj Institutions (Rs 71.84 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 536.62 crore up to 2007-08 (Rs 116 crore pertains to 2007-08) 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 2,717 utilisation certificates (UCs) due in respect of grants aggregating Rs 4070.46 crore paid up to 2007-08, 2,460 UCs (91 *per cent*) for an aggregate amount of Rs 3291.33 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 2008, none of the departments of the Government have furnished details for 2007-08. However, 65 such institutions had been recognized of which only two institutions had submitted their accounts to audit upto 2007-08, nine institutions upto 2006-07, two upto 2005-06, 24 upto 2004-05 and one upto 2002-03. Other 27 institutions had not submitted their accounts since their inception.

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 | Period of entrustment of audit | Year of account received upto | Date of receipt of account from autonomous body | Date of issue of Separate Audit Report (SAR) | Date on which placed before Legislature |
|---------------------------------------|--------------------------------|-------------------------------|---|---|---|
| Birsa Agricultural University, Ranchi | 2001-02 to 2005-06 | 2001-02 2002-03 2003-04 | 29.11.2005 01.11.2006 20.08.2007 | 11.09.2006 17.04.2008 Draft SAR under process of finalisation | No information regarding placement |
| State Legal Services Authority | 2002-03 onwards | 2002-03 to 2005-06 | 03.11.2006 | 22.06.2007 SAR for 2003-04 to 2005-06 had been finalized but not issued for want of information of laying of earlier SARs. | No information regarding placement |

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 2008, compared with the corresponding position on 31 March 2007. 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 2007-08, the assets grew by Rs 3424 crore (24 *per cent*) whereas, liabilities grew by Rs 2229 crore (11 *per cent*) over the previous year. The ratio of assets to liabilities has constantly increased from 33 *per cent* in 2002-03 to 81 *per cent* in 2007-08 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 (September 2008). **Appendix 1.5** depicts the time series data on the State Government finances for the period 2002-08.

1.6.1 Financial Analysis of Government Investments

1.6.1.1 Incomplete projects

The 25 incomplete projects with total investment of Rs two crore and above pertain to Road Construction Department (15) and Water Resources Department (10). Target dates of completion of projects of Road Construction Department were from March 2004 to November 2007, whereas completion dates of most of the projects of Water Resources Department were extended up to 2008-09 and 2009-10. The total investment in 25 projects as on 31.03.2008 amounted to Rs 1615.92 crore, of which 76 *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. These undertakings are required to prepare annually, *proforma* accounts showing the results of financial operations so that Government can assess the results of their working.

There were 34³ such units concerning to various departments *viz.* Agriculture (21), Forest (9), Animal husbandry (2), Health (1) and Finance (1) in the State which were required to prepare *proforma* accounts annually. But, no information regarding preparation of *proforma* accounts by these units, made available as of September 2008. Audit of 11 concerned units, conducted during 2001-08, also revealed that they had not prepared any *proforma* accounts since their inception.

³ 29 units less from previous report (some deleted due to non existence and some transferred to commercial wing)

1.6.1.3 Investments and Returns

As of 31 March 2008, the Government had invested Rs 98.96 crore in six Government Companies (Rs 36.76 crore) and 12 Co-operatives Banks and Societies (Rs 62.20 crore) since inception of the new State. The investment of Rs 68.26 crore (69 *per cent*) was made during 2007-08 out of which Rs 11.97 crore invested in Regional Rural Banks, Rs one crore in JIDCO, Rs 41 crore in District Central Co-operative Banks, Rs six crore in Jharkhand State Marketing Development Co-operative Union Ltd., Rs two crore in LAMPUS, Rs three crore in PACCSO Vyapar Mandal etc. Against the rate of interest on borrowing paid by Government varying from six to nine *per cent* per annum during 2002-08, return on investments made by the State Government is reported to be negligible. In the absence of up to date finance accounts of major companies, it is difficult to make comments/observations on their financial position especially regarding their accumulated losses. 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.

Table1.19: 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 |
| 2007-08 | 98.96 | Nil | Nil | 7.97 | 7.97 |

1.6.1.4 Loans and advances by State Government

In addition to its investment in Co-operative Societies, Corporations and Companies, the Government provided loans and advances amounting to Rs 597.66 crore during 2007-08, which was an increase of Rs 186.85 crore over the previous year. The increase was mainly due to increase in loans (Rs 179.85 crore) advanced to Jharkhand State Electricity Board during 2007-08 by way of converting the accrued interest on power bonds into loans to JSEB and loans advanced to the Board for purchase of power from CPSUs and not for any capital expenditure in power sector. The total interest receipts during 2007-08 were contributed in the form of interest income accrued to the Government on cash balances held with RBI (Rs 81.57 crore). The interest receipts on loans advanced by the Government to institutions/organizations, therefore turned out to be nil although the Government borrowed fund at the rate of 7.97 *per cent*. 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 1.52 *per cent* of the outstanding loans during 2007-08 needing appropriate corrective action.

The repayment of outstanding loans and advances was very poor ranging between 0.3 *per cent* and one *per cent* of the total outstanding loans and advances during 2002-08. Jharkhand State Electricity Board was the major

defaulter in re-payment of debt-service obligations. Out of total outstanding loans of Rs 6015.54 crore at the end of March 2008, Rs 5568.23 crore (93 *per cent*) was outstanding against JSEB and Rs 367.92 crore were outstanding with Urban Local Bodies.

Table 1.20: Interest Receipts of the State Government

| | (Rupees in crore) | | | | | |
|---|-------------------|---------------|----------------|----------------|----------------|----------------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Opening Balance | 349.51 | 631.20 | 760.79 | 1330.01 | 5067.04 | 5462.09 |
| Amount advanced during the year | 284.92 | 133.53 | 576.80 | 3746.84 | 410.81 | 597.66 |
| Amount repaid during the year | 3.23 | 3.94 | 7.58 | 9.81 | 15.75 | 44.22 |
| Closing Balance | 631.20 | 760.79 | 1330.01 | 5067.04 | 5462.10 | 6015.54 |
| Net Addition | 281.69 | 129.59 | 569.22 | 3737.03 | 395.06 | 553.45 |
| Interest Received | 96.08 | 46.65 | 18.63 | 71.49 | 38.09 | 87.14 |
| Interest received to Loans and Advances (in <i>per cent</i>) | 19.59 | 6.70 | 1.78 | 2.24 | 0.72 | 1.52 |
| Average interest paid by the State Government to Fiscal Liabilities (in <i>per cent</i>) | 16.97 | 12.13 | 9.48 | 9.20 | 8.77 | 8.57 |
| Difference between interest received and paid (<i>per cent</i>) | 2.62 | (-) 5.43 | (-) 7.70 | (-) 6.96 | (-) 8.05 | 7.05 |

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 2007-08, Jharkhand had ordinary WMA limit of Rs 280 crore. In addition, Special Ways and Means Advances not exceeding Rs 4.08 crore (with effect from 2 April 2007), Rs 4.06 crore (with effect from 3 July 2007), Rs 4.12 crore (with effect from 1 October 2007), Rs 4.15 crore (with effect from 1 January 2008), were 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 day. The State Government's cash balance at the end of current year amounted to Rs 1174.88 crore, out of which Rs 1471.05 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 81.57 crore during 2007-08.

| | (Rupees in crore) | | | | | |
|-------------------------|-------------------|---------|---------|---------|---------|---------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Ways and Means Advances | | | | | | |
| Taken in the year | - | 320.93 | - | - | 229.75 | - |
| Outstanding | 8.86 | 8.86 | 8.86 | 8.86 | 8.86 | 8.86 |
| Interest paid | * | 0.79 | - | - | 0.47 | - |
| Number of days | - | 31 | - | - | 29 | - |

* Amount is below thirty thousand.

The outstanding balance of Rs 8.86 crore WMA was due to apportionment of outstanding balance of Rs 189.00 crore between Bihar and Jharkhand by the Government of India as on 14 November 2000 taking into consideration the population ratio 74.71:25.29. The Reserve Bank of India apportioned the WMA in the ratio of 79.4:20.6 and made recovery accordingly which led to an outstanding balance against the Jharkhand State. No information regarding the steps taken for its clearance was available.

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

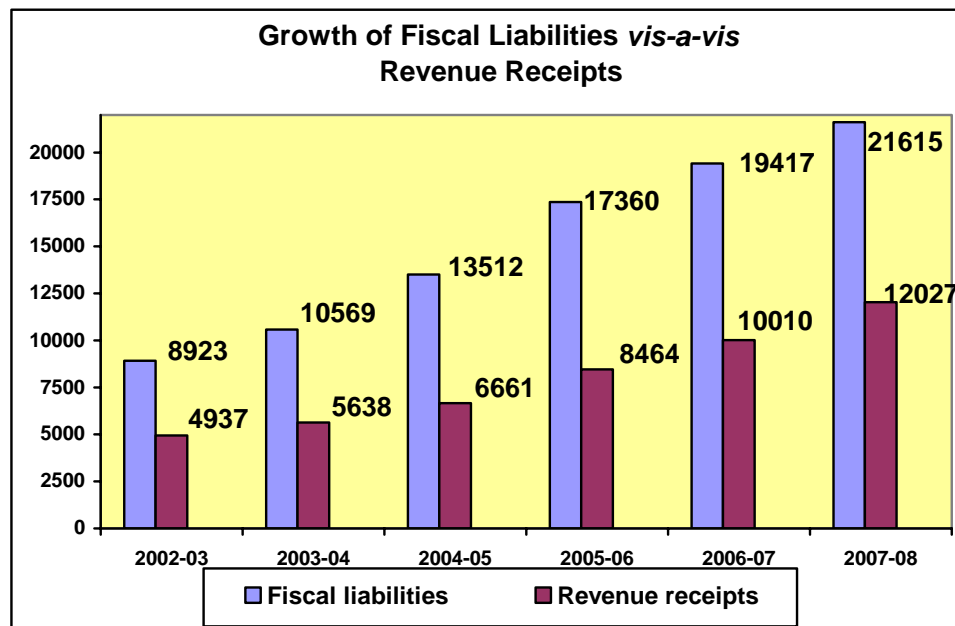
| | (Rupees in crore) | | | | | |
|--|-------------------|---------|---------|---------|---------|---------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Fiscal Liabilities * (Rupees in crore) | 8923 | 10569 | 13512 | 17360 | 19417 | 21615 |
| Rate of growth (<i>per cent</i>) | 14.3 | 18.5 | 27.8 | 28.5 | 11.8 | 11.3 |
| Ratio of Fiscal Liabilities to | | | | | | |
| GSDP (<i>per cent</i>) | 23.5 | 24.9 | 23.3 | 27.9 | 26.4 | 24.7 |
| Revenue Receipts (<i>per cent</i>) | 180.7 | 187.5 | 202.9 | 205.1 | 194.0 | 179.7 |
| Own Resources (<i>per cent</i>) | 326.0 | 341.8 | 393.2 | 414.8 | 437.4 | 425.9 |
| Buoyancy of Fiscal Liabilities to | | | | | | |
| GSDP (ratio) | 1.72 | 1.56 | 0.76 | 3.85 | 0.65 | 0.59 |
| Revenue Receipts (ratio) | 1.46 | 1.30 | 1.54 | 1.05 | 0.64 | 0.56 |
| Own Resources (ratio) | 1.16 | 1.42 | 2.50 | 1.31 | 1.93 | 0.79 |

* 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.

Overall fiscal liabilities of the State increased consistently by 142 *per cent* from Rs 8923 crore in 2002-03 to Rs 21615 crore in 2007-08 at growth rate of 11.3 *per cent* in 2007-08 over previous year. The fiscal liabilities at the end of the year 2007-08 comprise of internal debt of Rs 15859 crore (73 *per cent*), loans and advances from the Central Government of Rs 2540 crore (12 *per cent*), Small savings, provident funds etc. of Rs 881 crore (four *per cent*) and other obligations of Rs 2334 crore (11 *per cent*). Of internal debt (Rs 15859 crore), the share of market loan was Rs 4736 crore, special securities issued to NSS Fund of Central Government (Rs 8376 crore) and other institutions (Rs 425 crore). Increasing liabilities had raised the issue of sustainability of State Government finances. The ratio of fiscal liabilities to GSDP ranged between 23.3 and 27.9 *per cent* during 2002-08. These liabilities stood at 1.8 times the revenue receipts and 4.3 times of the States own resources as at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP

showed decreasing trend from 1.72 in 2002-03 to 0.59 in 2007-08 except in 2005-06 (3.85). Similarly, buoyancy with respect to revenue receipt decreased consistently from 1.54 in 2004-05 to 0.56 in 2007-08. The lower buoyancy of these liabilities during 2007-08 with reference to GSDP and revenue receipt indicates higher growth rate in GSDP and revenue receipt in comparison to fiscal liabilities.

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 2008). Information about the guarantees given by the Government of Jharkhand has not been furnished by the Government.



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) | | | | |
|--|---------------|----------|------------|---------|---------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Average Interest paid (<i>per cent</i>) | 12.1 | 9.5 | 9.2 | 8.8 | 8.6 |
| GSDP Growth | 11.8 | 36.5 | 7.4 | 18.2 | 19.1 |
| Interest spread | (-) 0.3 | 27.0 | (-)1.8 | 9.4 | 10.5 |
| Outstanding Debt (Rs in crore) | 8923 | 10569 | 13512 | 17360 | 19417 |
| Quantum Spread (Rs in crore) | (-) 26.77 | 2853.63 | (-) 243.22 | 1631.84 | 2038.78 |
| Primary Deficit (-) / Surplus (+) (Rupees in crore) | (+) 308 | (-) 1076 | (-) 4183 | (+) 703 | (-) 185 |

Table 1.22 reveals that quantum spread together with primary deficit has been consistently positive except 2005-06 and accordingly the ratio of fiscal liabilities to GSDP declined by 1.6 percentage points and attained the level of 23.3 *per cent* in 2004-05. In 2005-06 not only quantum spread was negative but the primary deficit was at its ever highest level resulting in debt-GSDP ratio to reach to the peak level of 27.9 *per cent* in 2005-06. Thereafter, consistent positive quantum spread together with primary deficit/surplus led to a steady decline in debt to GSDP ratio which stood at 24.7 *per cent* in 2007-08. These trends indicate that to move towards debt stabilisation which in turn would improve the debt sustainability of the State. State needs to bring the consistent improvement in its fiscal position in ensuing years

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. 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. **Table 1.23** indicates the resource gap as defined for the period 2003-08.

Table 1.23: Incremental Revenue Receipts and Revenue Expenditure

| Period | Incremental | | | | Resource Gap |
|---------|-------------------|---------------------|-------------------|-------------------|--------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | |
| 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 |
| 2007-08 | 2045 | 2933 | 145 | 3078 | (-) 1033 |

The debt sustainability of State in terms of resource gap oscillated between negative and positive phases during 2003-08. **Table 1.23** reveals that incremental non-debt receipts were inadequate to cover the incremental primary expenditure except in 2003-04 and 2006-07. The financial year 2006-07 in fact experienced an exceptional situation when primary expenditure declined due to 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 resulting in huge positive resource gap of Rs 4693 crore. During the current year, huge positive resource gap in 2006-07 turned into negative mainly due to steep increase in the capital expenditure (77 *per cent*). These trends indicate instability in the State fiscal position which if continued may deteriorate the capacity of the State to sustain the debt in the medium to long run unless consistent improvement is made in ensuing years.

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) | | | | | |
|---|----------------------|----------------------|---------|----------|----------|----------|
| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Internal Debt⁴ | | | | | | |
| Receipts | 1482 | 1951 | 3057 | 3495 | 1849 | 2009 |
| Repayments (Principal +Interest) | 748 | 653 | 836 | 1016 | 1513 | 1785 |
| Net Funds Available | 734 | 1298 | 2221 | 2479 | 336 | 224 |
| Net Funds available (<i>per cent</i>) | 50 | 67 | 73 | 71 | 18 | 11 |
| Loans and Advances from GOI | | | | | | |
| Receipts | 408 | 471 | 513 | 6 | 17 | 14 |
| Repayments (Principal +Interest) | 1354 | 1304 | 1028 | 476 | 468 | 480 |
| Net Funds Available | (-) 946 | (-) 833 [#] | (-) 515 | (-) 470 | (-) 451 | (-) 466 |
| Net Funds available (<i>per cent</i>) | (-) 232 | (-) 177 | (-) 100 | (-) 7833 | (-) 2653 | (-) 3329 |
| Other obligation | | | | | | |
| Other Receipts | 1536 | 1599 | 1428 | 1782 | 2061 | 3858 |
| Repayments (Principal +Interest) | 1572 | 1600 | 1334 | 1362 | 1502 | 3177 |
| Net Funds Available | (-) 36 | (-) 1 | 94 | 420 | 559 | 681 |
| Net Funds available (<i>per cent</i>) | (-) 2 [#] | - | 7 | 24 | 27 | 18 |
| Total Liabilities | | | | | | |
| Receipts | 3426 | 4021 | 4998 | 5283 | 3927 | 5881 |
| Repayments (Principal +Interest) | 3674 | 3557 | 3198 | 2854 | 3483 | 5442 |
| Net Funds Available | (-) 248 [#] | 464 | 1800 | 2429 | 444 | 439 |
| Net Funds available (<i>per cent</i>) | (-) 7 [#] | 12 | 36 | 46 | 11 | 7 |

[#] Availability of fund was negative.

Debt redemption ratio exceeded the unity in 2002-03 when the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year. In subsequent years up to 2005-06, debt redemption ratio steadily increased indicating the fact that the borrowed funds

⁴ Internal debt excluding ways and means advances.

are being made available for the use of development purposes during the period. However during 2006-07 and 2007-08 the ratio has steeply declined and reached the level of 93 *per cent* during the current year reflecting the fact that borrowed funds are being increasingly used for discharging the past debt service obligations.

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 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|-----------|----------|
| Revenue Deficit (-)/Surplus (+) (Rupees in crore) | (-) 572 | (+) 232 | (-) 315 | (-) 27 | (+) 946 | (+) 1195 |
| Fiscal Deficit (-)/Surplus (+) (Rupees in crore) | (-) 1720 | (-) 874 | (-) 2217 | (-) 5603 | (-) 910 | (-) 1943 |
| Primary Deficit (-)/Surplus(+) (Rupees in crore) | (-) 301 | (+) 308 | (-) 1076 | (-) 4183 | (+) 703 | (-) 185 |
| RD/GSDP (<i>per cent</i>) | (-) 1.5 | (+) 0.5 | (-) 0.5 | 0.0 | (+) 1.3 | (+) 1.4 |
| FD/GSDP (<i>per cent</i>) | (-) 4.5 | (-) 2.1 | (-) 3.8 | (-) 9.0 | (-) 1.2 | (-) 2.2 |
| PD/GSDP (<i>per cent</i>) | (-) 0.8 | (+) 0.7 | (-) 1.9 | (-) 6.7 | (+) 1.0 | (-) 0.2 |
| RD/FD (<i>per cent</i>) | (+) 33.3 | (-) 26.5 | (+) 14.2 | (+) 0.5 | (-) 104.0 | (-) 61.5 |

The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, reveals wide inter year fluctuations during the period 2002-08. For instance, a revenue deficit of Rs 572 crore turned into surplus of Rs 232 crore which again plunged into deficit in 2004-05 which of course declined steeply in 2005-06 and turned into huge surplus of Rs 946 crore in 2006-07 which further improved to Rs 1195 crore during the current year. An increase of Rs 249 crore (26 *per cent*) in Revenue surplus in 2007-08 over previous year was mainly due to increase of Rs 2017 crore (20 *per cent*) in revenue receipt during 2007-08 against an increase of Rs 1768 crore (19.5 *per cent*) in revenue expenditure. The improvement in revenue surplus during the current year should, however, be seen in view of the fact that 68 *per cent* of incremental revenue receipt was contributed by increase of central tax transfer (Rs 1059 crore) and grant-in-aid (Rs 322 crore) in 2007-08 over previous year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, exhibited wild fluctuations during the period 2002-08. Even with a cushion of Rs 249 crore in the form of incremental revenue surplus in 2007-08, the fiscal deficit has increased by Rs 1033 crore (114 *per cent*) over previous year mainly due to increase in capital expenditure (Rs 1123 crore) and disbursement of loans and advances (Rs 187 crore). The fiscal deficit as percentage of GSDP at 2.2 *per cent* was, however, within norm of three *per cent* stipulated in FRBM Act, 2007.

In tandem with fiscal deficit, the primary deficit/surplus of the State also exhibited wild fluctuations during the period 2002-08. Despite an increase of Rs 145 crore in interest payments in 2007-08 relative to previous year, a huge surplus of Rs 703 crore in 2006-07 turned into a deficit of Rs 185 crore during the current year mainly on account of an increase of Rs 1033 crore in fiscal deficit. Relative to GSDP it was 0.2 *per cent* which was also well within the norm stipulated in FRBM Act of the State.

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 2006-07 and 2007-08. These trends indicate improvement in the quality of deficit during 2006-08, wherein 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 | NDR minus PRE | Primary deficit (-)/surplus (+) |
|---------|------------------|-----------------------------|---------------------|--------------------|---------------------|---------------|---------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2-6) |
| 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 |
| 2007-08 | 12071 | 9074 | 2584 | 598 | 12256 | 2997 | (-) 185 |

The bifurcation of factors resulting into primary deficit or surplus of the State during 2002-08 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 2002-08) 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 deficits in four years during the period 2002-08 (except during 2003-04 and 2006-07). These trends indicate the extent to which primary deficit has been on account of enhancement of capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

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 2002-08, 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.

Table 1.27: Indicators of Fiscal Health

(in per cent)

| Fiscal Indicators | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|------------|----------|----------|-------------|----------|----------|
| Resources Mobilization | | | | | | |
| Revenue Receipts/GSDP | 13.0 | 13.3 | 11.5 | 13.6 | 13.6 | 13.7 |
| Revenue Buoyancy | 1.09 | 1.20 | 0.50 | 3.66 | 1.01 | 1.05 |
| Own Tax/GSDP | 4.6 | 4.7 | 4.1 | 4.4 | 4.3 | 4.0 |
| Expenditure Management | | | | | | |
| Total Expenditure /GSDP | 17.5 | 15.4 | 15.3 | 22.6 | 14.9 | 16.0 |
| Total Revenue Receipt/ Total Expenditure | 74.1 | 86.5 | 75.0 | 60.1 | 91.5 | 85.8 |
| Total Expenditure /Revenue Receipts | 134.9 | 115.6 | 133.4 | 166.3 | 109.3 | 116.5 |
| Revenue Expenditure /Total Expenditure | 82.7 | 83.0 | 78.5 | 60.3 | 82.9 | 77.3 |
| Salary expenditure on Social and Economic Service/Total Revenue Expenditure | 16.4 | 24.8 | 21.6 | 20.4 | 20.8 | 18.5 |
| Non-Salary expenditure on Social and Economic Service/Total Revenue Expenditure | 33.6 | 26.9 | 36.2 | 37.5 | 37.2 | 38.9 |
| Capital expenditure /Total expenditure | 13.0 | 15.0 | 15.0 | 13.1 | 13.4 | 18.4 |
| Capital Expenditure on Social and Economic Service/ Total Expenditure | 12.6 | 14.5 | 14.8 | 12.5 | 12.7 | 17.7 |
| Buoyancy of TE with RR | 1.38 | (-) 0.15 | 2.01 | 2.15 | (-) 1.22 | 1.40 |
| Buoyancy of RE with RR | 1.50 | (-) 0.13 | 1.60 | 0.80 | 0.37 | 0.97 |
| Management of Fiscal Imbalances | | | | | | |
| Revenue Deficit(-)/Surplus(+) (Rs in crore) | (-) 572 | (+) 232 | (-) 315 | (-) 27 | (+) 946 | (+) 1195 |
| Fiscal Deficit(-)/Surplus(+) (Rs in crore) | (-) 1720 | (-) 874 | (-) 2217 | (-) 5603 | (-) 910 | (-) 1943 |
| Primary Deficit (-)/Surplus(+) (Rs in crore) | (-) 301 | (+) 308 | (-) 1076 | (-) 4183 | (+) 703 | (-) 185 |
| Revenue Deficit/Fiscal Deficit | (+) 33.3 | (-) 26.5 | (+) 14.2 | (+) 0.5 | (-) 104 | (-) 61.5 |
| Management of Fiscal Liabilities | | | | | | |
| Fiscal Liabilities / GSDP | 23.5 | 24.9 | 23.3 | 27.9 | 26.4 | 24.7 |
| Fiscal Liabilities/RR | 180.7 | 187.5 | 202.9 | 205.1 | 194.0 | 179.7 |
| Buoyancy of FL with RR | 1.46 | 1.30 | 1.54 | 1.05 | 0.64 | 0.56 |
| Buoyancy of FL with OR | 1.16 | 1.42 | 2.50 | 1.31 | 1.93 | 0.79 |
| Primary Deficit <i>vis-à-vis</i> quantum spread (Rs in crore) | (-) 979.94 | 281.23 | 1777.63 | (-) 4426.22 | 2334.84 | 1853.78 |
| Net Fund Available | (-) 7 | 12 | 36 | 46 | 11 | 7 |
| Other Fiscal Health Indicators | | | | | | |
| Return on Investment (Rs in crore) | Nil | Nil | 1 | Nil | Nil | Nil |
| BCR (Rs in crore) | (-) 2 | 847 | 892 | 1120 | 2117 | 2890 |
| Financial Assets/Liabilities (in per cent) | 33 | 44 | 54 | 64 | 73 | 81 |

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State 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 trends in the ratio of revenue receipts to GSDP exhibited relative stability around 13 *per cent* during the period 2002-08 except in 2004-05 when it dipped to 11.5 *per cent* due to unusually high rate of growth of 36.5 *per cent* in GSDP during the year. However, the ratio of own tax to GSDP showed decreasing trend from 4.7 *per cent* in 2003-04 to four *per cent* in 2007-08 due to declining rates of growth in tax revenue of the State since 2004-05 indicating deterioration in own tax buoyancy. During 2007-08, the ratio at 4 *per cent* was almost at par with its budgeted estimate of 4.05 *per cent* for the year.

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 83 *per cent* in 2002-03 to 77 *per cent* in 2007-08 with wide inter year variations but it continued to share the dominant proportion during the period. The buoyancy of total expenditure with respect to revenue receipts remained higher as compared to the buoyancy of revenue expenditure with respect to revenue receipts which indicates the propensity of the State Government to create assets by restoring to capital expenditure. About 86 *per cent* of total expenditure was met out from revenue receipts during 2007-08 as against 92 *per cent* in 2006-07 indicating increase in State's dependency on borrowings especially for meeting its capital expenditure on expansion of its development activities. The increase in proportion of plan expenditure and capital expenditure, in total expenditure during 2007-08 over previous year also indicates an improvement in development expenditure as well as in its quality.

Although the key fiscal indicators reveal the mixed trends with regard to the fiscal position of the State during the year but deterioration in fiscal deficit during 2007-08 over previous year was observed mainly on account of increase in share of capital expenditure in the total expenditure during the year which led an improvement in the ratio of assets to financial liabilities which increased from 73 *per cent* in 2006-07 to 81 *per cent* in 2007-08. However, 19 *per cent* of the liabilities of the State were still remained without the backup of the assets. Besides, the Balance from Current Revenue (BCR) showed improvement continuously during 2003-08. It increased by 37 *per cent*, from Rs 2117 crore in 2006-07 to Rs 2890 crore in 2007-08 which indicates improvement in availability of funds for creation of assets and meeting plan expenditure.

1.11 Conclusion

The key fiscal parameters - revenue and fiscal deficits - revealed a mixed trend in the fiscal situation of the State during the current year as revenue surplus increased by 26 *per cent* (Rs 249 crore) while the fiscal deficits deteriorated by 114 *per cent* (Rs 1033 crore) and primary surplus turned into deficit in 2007-08 relative to the previous year. An improvement in the revenue surplus may, however, be seen in view of the fact that 68 *per cent* of the incremental revenue receipt (Rs 2017 crore) are contributed by increase of central transfers comprising of State's share in Union pool of taxes and duties (Rs 1059 crore) and grants-in-aid from Government of India (Rs 322 crore) in 2007-08 over the previous year. Moreover, within the State's own resources, 1/4th of increase in 2007-08 over the previous year was contributed in the form of mineral fee, rents and royalties. Besides, the deterioration in fiscal deficit was mainly due to increase in capital expenditure by 77 *per cent* (Rs 1123 crore) and disbursement of loans and advances by 45 *per cent* (Rs 187 crore), relative to GSDP it was within the norm of three *per cent* (2.2 *per cent*) stipulated in FRBM Act, 2007. The expenditure pattern of the State reveals that the revenue expenditure continued to share dominant proportion in total expenditure of the State which was around 77 *per cent* during 2007-08 and within the revenue expenditure, NPPE at Rs 7852 crore in 2007-08 was although well within its

budget estimate but remained significantly higher than the normative assessment of Rs 6770 crore made by TFC for the year. Further, three components- salary expenditure, pension liabilities and interest payments constitute about 69 *per cent* of the NPRES during 2007-08. The continued prevalence of fiscal deficit in the finance accounts of the State indicates the reliance on borrowing funds resulting in increasing fiscal liabilities of the State. The increasing fiscal liabilities 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 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 1692.43 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 endeavor to hold the elections of the local bodies.