

# **CHAPTER – I**

## **AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT**

### **1.1 Introduction**

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the state government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the Appendix –I to this chapter.

### **1.2 Financial position of the State**

In the Government accounting system comprehensive accounting of the fixed assets like land and buildings etc., 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 by the Government. Exhibit I gives an abstract of such liabilities and the assets as on 31 March 2002. While the liabilities in this statement consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. The liabilities of the Government of Jharkhand depicted in the accounts however do not include the pension liabilities payable to the retired state employees and the portion of post retirement benefits already earned by the serving employees.

### **1.3 Sources and applications of fund**

**1.3.1** Exhibit III gives the position of sources and applications of funds during the period. The main sources of funds include the revenue receipts of the Government, recoveries of loans and advances, public debt and receipts in the Public Account. These are applied mainly on revenue and capital expenditure and lending for developmental purposes.

Revenue receipts constituted the most significant source of fund for the State Government. Its relative share in the total receipt was 77 per cent. The share of recoveries of loans and advances was 2 crore only. The receipts from the public debt was 23.75 per cent. Total source of funds was however, reduced by Rs 523.35 crore on account of more disbursements than the receipts under Public Account. Resultantly, there was decrease of Rs 496 crore in cash balance.

**1.3.2** The funds were mainly applied for revenue expenditure, whose share (82 per cent) was significantly higher than the share of revenue receipts (77 per cent) in the total receipts of the State Government. This led to a Revenue deficit of Rs 305 crore. During the year, the percentage of capital expenditure was 12 per cent. Lending for development purposes was 6 per cent.

**EXHIBIT – I**  
**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF**  
**JHARKHAND AS ON 31 MARCH 2002**

<b>Liabilities</b>				
As on 31 March 2001			As on 31 March 2002	
(Rupees in crore)			(Rupees in crore)	
<b>2333.89</b>		<b>Internal Debt</b>		<b>3528.31</b>
	1643.78	Market Loans bearing interest	2013.42	
	0.24	Market Loans not bearing interest	0.24	
	4.70	Loans from LIC	4.70	
	1.60	Loans from GIC	1.60	
	21.71	Loans from other institutions	21.53	
	59.98	Ways and means advances (R.B.I)	59.98	
	601.88	Special securities issued to NSS Fund of Central Government	1426.84	
		<b>Shortfall in Deposit with Reserve Bank</b>		<b>541.15</b>
-				
<b>3811.35</b>		<b>Loans and Advances from Central Government</b>		<b>4009.07</b>
	219.58	Pre 1984-85s loans	190.44	
	1333.43	Non-Plan Loans	1311.35	
	2235.37	Loans for state plan scheme	2477.98	
	3.59	Loans for central plan scheme	3.35	
	4.84	Loans for Centrally Sponsored Plan Scheme	11.41	
	14.54	Ways and means advances	14.54	
<b>150.00</b>		<b>Contingency Fund</b>		<b>150.00</b>
<b>43.99</b>		<b>Small Saving, Provident Fund etc.</b>		<b>(-17.72*</b>
<b>48.77</b>		<b>Deposits</b>		<b>227.15</b>
<b>0.18</b>		<b>Reserve funds</b>		<b>57.55</b>
<b>59.77</b>		<b>Suspense and Miscellaneous Balance</b>		
<b>6447.95</b>		<b>Total</b>		<b>8495.51</b>

\* Apportionment of the balance as on 14.11.2000 between the successor states of Bihar and Jharkhand remains to be done.

		<b>Assets</b>	
<b>161.44</b>		<b>Gross capital outlay on fixed assets</b>	<b>893.94</b>
	-	Investment in shares of companies corporation etc.	6.99#
	161.44	Other Capital Outlay	886.95
<b>22.82</b>		<b>Loans and advances</b>	<b>349.51</b>
	20.00	Loans for power project	284.21
	2.71	Other Development Loans	58.52
	0.11	Loans to Government servants and Misc. loans	6.78
<b>0.10</b>		<b>Advances</b>	<b>1.81</b>
<b>3.91</b>		<b>Remittance Balance</b>	<b>15.30</b>
-		<b>Suspense and Misc. Balance</b>	<b>624.52</b>
<b>944.36</b>		<b>Cash</b>	<b>990.01</b>
		Cash in Treasuries and Local Remittances	
	(-) 4.26	Departmental Cash Balance	52.18
	-	Permanent advances	0.06
	123.27	Deposit with Reserve Bank	
	-	Investment of earmarked funds	--
	825.35	Cash Balance Investment	937.77
<b>5315.32</b>		<b>Deficit on Government Accounts</b>	<b>5620.42</b>
	825.34	Revenue deficit during the year	305.10
	5990.66	Accumulated Deficit	5315.32
	150.00	Miscellaneous deficit 15.11.2000 to 31.03.2001	
<b>6447.95</b>		<b>Total</b>	<b>8495.51</b>

# Excludes Rs 2 crore invested from Revenue Account.

**EXHIBIT – II**  
**ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE**  
**YEAR 2001-2002**

Receipts				Disbursement					
2000-2001			2001-2002	2000-2001		Non plan	Plan	Total	2001-2002
<i>(Rupees in crore)</i>				<i>(Rupees in crore)</i>					
	SECTION – A	REVENUE							
1964.16	I Revenue receipts		4495.02	1138.82	I Revenue expenditure				4800.12
700.26	- Tax revenue	1585.48		484.51	General Services	1708.32	131.25	1839.57	
348.59	- Non – Tax Revenue	851.88		437.97	Social Services	1378.34	519.08	1897.42	
579.26	- State’s share of union taxes	1603.19		284.74	Education Sport, Art and Culture	944.78	85.67	1030.45	
83.03	- Non plan grants	95.65		62.20	- Health and Family Welfare	158.51	91.83	250.34	
209.52	- Grant for State Plan Scheme	106.23		19.75	- Water Supply, Sanitation Housing and Urban Development	86.20	38.64	124.84	
43.50	- Grants for Central and Centrally Sponsored Plan Scheme	252.59		0.85	- Information and Broadcasting	5.60	0.86	6.46	
				40.48	- Welfare of Scheduled Caste Scheduled Tribes and other Backward Classes	66.59	249.02	315.61	
				4.96	- Labour and Labour Welfare	15.87	0.28	16.15	
				24.28	- Social Welfare and Nutrition	95.59	52.78	148.37	
				0.71	- Others	5.20	--	5.20	
				216.34	-Economic Service	450.90	611.54	1062.44	
				70.39	-Agriculture and Allied Activities	161.88	117.18	279.06	
				103.78	- Rural Development	114.72	161.46	276.18	
					- Special Area Programme	--	--	--	
				11.59	- Irrigation and Flood control	38.01	8.33	46.34	
					- Energy	--	3.00	3.00	
				5.16	- Industry and Minerals	16.32	49.61	65.93	
				21.15	- Transport	92.77	251.90	344.67	
				4.27	- General Economic services	27.20	20.06	47.26	
					- Grants– in-aid Contributions	0.69	--	0.69	
			4495.02		Total	3538.25	1261.87	4800.12	4800.12
	II. Revenue deficit carried over to Section – B		305.10		II. Revenue Surplus Carried over to Section – B				

<b>SECTION – B</b>									
(-) 28.72*	III. Opening cash including permanent Advances and Cash Balance Investment		944.36	Nil	III. Opening Overdraft from RBI				
	IV. Miscellaneous capital receipts				IV. Capital Outlay				732.50
				3.34	General Services	--	7.41	7.41	
				2.74	Social Services	--	122.70	122.70	
				1.40	-Education Sports, Art and Culture	--	4.58	4.58	
					- Health and Family Welfare	--	21.65	21.65	
				0.06	- Water Supply, Sanitation	--	90.72	90.72	
				1.28	- Housing and Urban Development	--	--	--	
					- Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	5.75	5.75	
				155.36	Economic Services		602.39	602.39	
					-Agriculture and Allied Activities	--	--	--	
				79.15	- Rural Development Special Areas Programmes	--	269.00	269.00	
				59.42	-Irrigation and Flood Control	--	189.86	189.86	
					Energy	--	30.00	30.00	
					-Industry and Minerals	--	--	--	
				16.79	- Transport	--	106.54	106.54	
					Other Economic Services	--	6.99	6.99	
0.64	V. Recoveries of Loans and Advances		2.49		V. Loans and Advances disbursed				329.18
	- From Power Project	--		20.00	- For Power project			264.21	
0.51	- From Government servants	2.03		0.62	-To Government servants			8.70	
0.13	- From others	0.46		2.84	To others			56.27	
825.34	VI. Revenue surplus brought down				VI- Revenue Deficit brought down			--	305.10
265.81	VII. Public debt receipts		1585.38		VII – Repayment of Public Debt				193.24

\* Allocated from Bihar out of balance at the end of 14.11.2000.

*Audit Report (Civil) for the year ended March 2002*

122.62	-Internal debt other than ways and means Advance and overdraft	1196.47		0.42	- Internal debt other than Ways and Means Advances and overdraft			2.05	
Nil	Net transactions under Ways and Means advance and overdraft	Nil							
143.19	-Loans and Advances from the Central Government	388.91		82.09	Repayment of Loans and Advances from the Central Government			191.19	
	VIII- Appropriation to Contingency Fund	--	--		VIII- Appropriation to Contingency Fund	--	--	--	--
150.00	IX-Amount transferred to Contingency Fund	--	--		IX- Expenditure from Contingency Fund	--	--	--	--
840.42	X-Public Account receipts		1940.12		X-Public Account Disbursements				2463.47
125.79	-Small Savings and Provident Funds	169.59		81.80	-Small Savings and Provident Funds			231.30	
0.35	Reserve funds	57.87		0.17	-Reserve Fund			0.50	
270.20	-Suspense and Misc.	(-) 136.04		210.42	-Suspense and Misc.			548.25	
169.26	Remittances	810.54		173.17	-Remittances			821.93	
274.82	Deposit and Advances	1038.16		226.15	-Deposit and Advances			861.49	
	XI-Closing Overdraft from Reserve Bank of India				XI-Cash Balance at end				448.86
					-Cash in Treasuries and Local Remittances				
				123.27	-Deposit with Reserve Bank			(-) 541.15	
				(-)4.26*	Departmental Cash Balance Including Advances			52.24	
					Investment of earmarked funds			--	
				825.35	-Cash Balance Investment			937.77	
<b>2053.48</b>	<b>Total</b>		<b>4472.35</b>	<b>2053.48</b>					<b>4472.35</b>

\* Minus balance was due to receipts in adjustment of outstanding balances as on 14.11.2000 also which are yet to be allocated between successor states of Bihar and Jharkhand .

**EXHIBIT – III**

**SOURCES AND APPLICATION OF FUNDS**

<b>Sources</b>				
<b>2000-2001</b>				<b>2001-2002</b>
<b>(Rupees in crore)</b>				
1964.16		1. Revenue receipts		4495.02
0.64		2. Recoveries of loans and advances		2.49
183.30		3. Increase in public debt other than overdraft		1392.14
148.70		4. Net receipts from public account		(-) 523.35
	43.99	Increase in small savings	(-) 61.71	
	48.68	Increase in deposit and advances	176.67	
	0.17	Increase in reserve fund	57.37	
	59.77	Net effect of suspense and miscellaneous transaction	(-) 684.29	
	(-) 3.91	Net effect of remittance transactions	(-) 11.39	
150.00		5. Net effect of Contingency Fund transactions	--	--
		6. Decrease in closing cash balance		495.50
<b>2446.80</b>		<b>Total</b>		<b>5861.80</b>
<b>Application</b>				
1138.82		1. Revenue expenditure		4800.12
23.46		2. Lending for development and other purposes		329.18
161.44		3. Capital expenditure		732.50
150.00		4. Transfer to Contingency fund		--
973.08		5. Increase in closing cash balance		
<b>2446.80</b>		<b>Total</b>		<b>5861.80</b>

**Explanatory notes for Exhibit I, II and III:**

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Remittance, Suspense and miscellaneous balances include cheques issued but not paid, payments made on behalf of other states and other transactions pending settlement etc.
4. In terms of the Bihar Reorganisation Act, 2000 (No. 30 of 2000) the State of Bihar has been reorganised and a new state known as State of Jharkhand comprising 18 districts of the composite State of Bihar has been formed with effect from 15<sup>th</sup> November 2000 (i.e. appointed day). The apportionment of assets and liabilities of the composite State of Bihar immediately prior to the appointed day as also other financial adjustments are to be done in each case with reference to the provision of the Bihar Reorganisation Act, 2000. Such allocation has so far been made in respect of Public Debt and Cash balance only.

**EXHIBIT – IV**

**TIME SERIES DATA ON STATE GOVERNMENT FINANCES**  
(Refer to Paragraph 1.4.3)

	2000-2001 (15-11-2000 to 31-03-2001)	2001-2002
<i>(Rupees in crore)</i>		
<b>Part A Receipts</b>		
<b>1. Revenue Receipts</b>	<b>1964</b>	<b>4495</b>
<b>(i) Tax revenue</b>	<b>700 (36)</b>	<b>1586 (35)</b>
Taxes on Agricultural Income		--
Taxes on Sales, Trade, etc.	585 (83)	1239 (78)
State Excise	37 (5)	100 (6)
Taxes on Vehicles	18 (3)	86 (5)
Stamps and Registration fees	25 (4)	64 (4)
Land Revenue	3 (...)	10 (1)
Other taxes	32 (5)	87 (6)
(ii) Non Tax Revenue	349 (18)	852 (19)
(iii) State's share of Union taxes and duties	579 (29)	1603 (36)
(iv) Grants in aid from GOI	336 (17)	454 (10)
<b>2. Misc. Capital Receipts</b>	<b>-</b>	<b>-</b>
<b>3. Total revenue and Non debt capital receipts (1+2)</b>	<b>1964</b>	<b>4495</b>
<b>4. Recoveries of Loans and Advances</b>	<b>1</b>	<b>2</b>
<b>5. Public Debt Receipts</b>	<b>266</b>	<b>1585</b>
Internal Debt (excluding Ways and Means Advances and Overdrafts)	123	1196
Net transactions under Ways and Means Advances and Overdrafts	--	--
Loans and Advances from Government of India	143	389
<b>6. Total receipts in the Consolidated Fund (3+4+5)</b>	<b>2231</b>	<b>6082</b>
<b>7. Contingency Fund Receipts</b>	<b>150</b>	<b>--</b>
<b>8. Public Account receipts</b>	<b>840</b>	<b>1940</b>
<b>9. Total receipts of the State (6+7+8)</b>	<b>3221</b>	<b>8022</b>
<b>Part B Expenditure/Disbursement</b>		
<b>10. Revenue Expenditure</b>	<b>1139 (86)</b>	<b>4800 (82)</b>
Plan	192 (17)	1262 (26)
Non-Plan	947 (83)	3538 (74)
General Services (including Interests payments)	485 (43)	1840 (38)
Social Services	438 (38)	1897 (40)
Economic Services	216 (19)	1062 (22)
Grants in aid and Contributions	-	0.69
<b>11. Capital Expenditure</b>	<b>161 (12)</b>	<b>733 (12)</b>
Plan	161 (100)	733 (100)
Non-Plan	-	--
General Services	3 (2)	7 (1)
Social Services	3 (2)	123 (17)
Economic Services	155 (96)	603 (82)
<b>12. Disbursement of Loans and Advances</b>	<b>23 (2)</b>	<b>329 (6)</b>
<b>13. Total (10+11+12)</b>	<b>1323</b>	<b>5862</b>
<b>14. Repayments of Public Debt</b>	<b>83</b>	<b>193</b>
Internal Debt (excluding Ways Means Advances and Overdrafts)	1	2
Net transactions under Ways and Means Advances and Overdrafts	-	--
Loans and Advances from Government of India	82	191

*Chapter-I-An Overview of the Finances of the State Government*

	2000-2001 (15-11-2000 to 31-03-2001)	2001-2002
	<i>(Rupees in crore)</i>	
<b>15. Appropriation to Contingency Fund</b>	150	--
<b>16. Total disbursement out of Consolidated Fund (13+14+15)</b>	<b>1556</b>	<b>6055</b>
<b>17. Contingency Fund disbursements</b>	-	--
<b>18. Public Account disbursements</b>	<b>692</b>	<b>2463</b>
<b>19. Total disbursement by the State (16+17+18)</b>	<b>2248</b>	<b>8518</b>
<b>Part C Deficits</b>		
<b>20. Revenue Deficit (-) / Surplus (+) (1-10)</b>	825	(-)305
<b>21. Fiscal Deficit (-) / Surplus (+) (3+4 -13)</b>	642	(-)1365
<b>22. Primary Deficit (21-23)</b>	<b>561</b>	<b>797</b>
<b>Part D Other Data</b>		
23. Interest Payments (included in revenue exp.)	81	568
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)	1144 (109%)	1762(72)
25. Financial Assistance to local bodies etc.	70	367
26. Ways and Means Advances/ Overdraft availed (days)	1	1
27. Interest on WMA/ Overdraft	--	# --
28. Gross State Domestic Product (GSDP)	10853	@28985
29. Outstanding Debt (year end)	6145	7537
30. Outstanding guarantees (year end)	-	--
31. Maximum amount guaranteed (year end)	-	--
32. Number of incomplete projects	1	1
33. Capital blocked in incomplete projects	878	907

# *Rs 21,227 only*  
 @ *As per advance Estimate*

#### **1.4 Financial operations of the State Government**

Exhibit II gives the details of the receipts and disbursements made by the State Government. The Revenue expenditure (Rs 4800 crore) during the year exceeded the revenue receipt (Rs 4495 crore) resulting in a revenue deficit of Rs 305 crore primarily due to subsidy/financial assistance of Rs 250 crore to Indian Railways for undertaking various projects in the State in next few years.

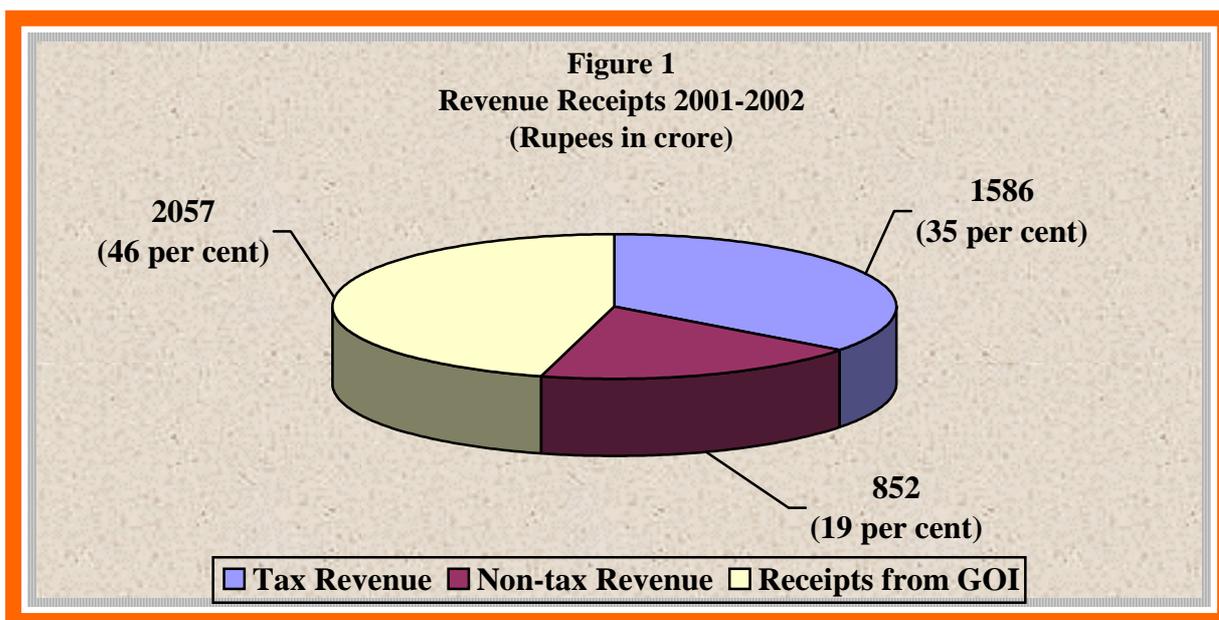
**1.4.1** Revenue receipts comprised tax revenue (Rs 1586 crore), non-tax revenue (Rs 852 crore), State's share of Union Taxes and duties (Rs 1603 crore) and grants-in-aid from the Central Government (Rs 454 crore). The main sources of tax revenue were sales tax (78 per cent), state excise (6 per cent), stamps and registrations fees (4 per cent) and Taxes on Vehicles (5 per cent). Non-tax revenue came mainly from Non-Ferrous Mining and Metallurgical Industries (83 per cent).

**1.4.2** The Capital receipt comprised Rs 1585 crore from Public Debt and Rs 2 crore from recoveries of loans and advances. Against this, the expenditure was Rs 733 crore on Capital outlay, Rs 329 crore on disbursement of loans and advances and Rs 193 crore on repayment of Public debt. The receipts in the Public Account amounted to Rs 1940 crore, against which Rs 2463 crore were disbursed. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was a decrease of Rs 496 crore in the cash balance at the end of the year.

**1.4.3** The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and Exhibit IV.

#### **1.5 Revenue receipts**

**1.5.1** The revenue receipts consists mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1.



### 1.5.2 Tax revenue

These constituted 35 per cent of the revenue receipts during the year 2001-2002. Exhibit IV shows that the relative contribution of major constituents of tax revenue were Sales Tax, State Excise, taxes on vehicles, Stamp and Registration.

### 1.5.3 Non-tax revenue

The non-tax revenue contributed 19 per cent of the revenue receipts of the Government during the year 2001-2002 in which 83 per cent receipts were from non-ferrous mining i.e. 709 crore.

### 1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

These constituted the major share (36 & 10 per cent respectively) of the revenue receipts. This includes State's share of Union taxes (custom, excise duties, income and corporation taxes, other taxes on income and expenditure, taxes on wealth, Service tax and other taxes and duties on commodities and services) and grants-in-aid from Government of India.

## **1.6 Revenue expenditure**

**1.6.1** The revenue expenditure accounted for the most (82 per cent) of the expenditure of the State Government. Non-plan expenditure constituted 74 per cent of revenue expenditure while plan expenditure had only 26 per cent share in it. As a proportion of revenue expenditure the share of General Services was 38 per cent (Rs 1840 crore) mostly on non-plan account and those of social services (Rs 1897 crore) and Economic Services (Rs 1062 crore) was 40 and 22 per cent respectively.

Expenditure on Police (Rs 412 crore), Interest payment (Rs 568 crore) and Pensions (Rs 515 crore) alone accounted for 61.32% of the state's own revenue. While expenditure on Education, Sports, Art and Culture (Rs 1030 crore), Health and Family Welfare (Rs 250 crore) and Welfare of S.C, S.T & O.B.C (Rs 316 crore) accounted for 33.25% of the revenue expenditure. In an unique measure Jharkhand gave a subsidy/financial assistance of Rs.250 crore to Indian Railways for execution of various railway projects in the State.

### **1.6.2 Interest payments**

During the year, State's expenditure on interest payment was Rs 568 crore. Of which, Rs 472 crore was paid to the Central Government. During 2001-02, the State Government made gross market borrowings of Rs 370 crore and paid Rs 3.23 crore as interest on market loan. This is further discussed in the section on financial indicators (Para 1.11).

### **1.6.3 Financial assistance to local bodies and other institutions**

The quantum of assistance provided to different local bodies etc., during the period was as below:-

**Table 1.1**

	<b>2000-2001</b>	<b>2001-2002</b>
	<i>(Rupees in crore)</i>	
University and Educational Institutions	60.41	200.94
Municipal Corporations and Municipalities	1.99	39.58
Zilla parishads and Panchayati Raj Institutions	0.46	Nil
Development agencies	0.19	10.46
Other Institutions	6.54	115.93
Total	69.59	366.91
Assistance as a percent of revenue expenditure	6.15	8.16

## 1.7 Capital expenditure

Capital expenditure leads to assets creation. In addition, financial assets arise from monies invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations etc., and loans and advances.

**1.7.1** During the year 2001-2002, the share of capital expenditure was 12 per cent (Rs 733 crore) of the total expenditure. Exhibit IV shows that most of the capital expenditure was incurred on economic services i.e. 82 per cent on plan side.

## 1.7.2 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions etc., for developmental and non-developmental activities. Allocation of balances as on 14.11.2000 between the successor states of Bihar and Jharkhand is yet to be done (July 2003).

**Table 1.2**

	2000-2001	2001-2002
	<i>(Rupees in crore)</i>	
Opening balance	Nil	22.82
Amount advanced during the year	23.46	329.18
Amount repaid during the year	0.64	2.49
Closing balance	22.82	349.51
Net addition	Nil	326.69
Interest received	0.01	0.02

## 1.8 Quality of expenditure

**1.8.1** Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and revenue and capital. While the Plan and Capital expenditure are usually associated with asset creation; the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital expenditure can be viewed as contributing to the quality of expenditure.

**1.8.2** Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

The following table lists out the trend in these indicators:

**Table 1.3**

		<b>15.11.2000 to 31.03.2001</b>	<b>2001-2002</b>
1.	Plan expenditure as a Percentage of: - Revenue Expenditure - Capital Expenditure	17 100	26 100
2.	Capital expenditure as percentage of total expenditure	12	13
3.	Non-remunerative Expenditure on incomplete project (Progressive amount at the end of the year)	Rs 878 crore	Rs 907 crore

It would be seen that the share of Plan expenditure on the revenue side was 26 per cent during the year. The share of capital expenditure in the total expenditure was 13 per cent during the year 2001-2002.

### **1.8.3 Poor plan performance**

State Government obtained Central Loan (Rs 389 crore), market borrowings (Rs 370 crore), receipts from National small savings fund (Rs 826 crore) and grants from Central Government (Rs 454 crore) aggregating Rs 2039 crore for State Plan Schemes during 2001-2002. As against that, an amount of Rs 733 crore was incurred on Capital Account and Rs 329 crore was also spent as loans and advances.

It was also seen from the Appropriation Accounts of the State Government for the year 2001-2002 that out of the budgeted provisions, the State Government failed to spend Rs 1350.24 crore (38 per cent) on various State Plan Schemes (Rs 1123.19 crore) as well as on Centrally Sponsored Schemes (Rs 223.63 crore) and Central Plan Schemes (Rs 3.42 crore) vide Appendix II. Further discussions on savings are included in paragraph 2.3.

## **1.9      *Financial management***

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

### **1.9.1      *Investments and returns***

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The investments made by the composite State of Bihar up to 14 November 2000 in Statutory Corporations, Government corporations, Joint Stock companies and Cooperative Institutions aggregated to Rs 658.13 crore. Its allocation between the successor States of Bihar and Jharkhand has not so far (July 2003) been made. During 2001-2002 the state of Jharkhand has invested Rs 2 crore in Jharkhand State Police Building Construction Corporation and Rs 6.99 crore in the Regional Rural Banks.

### **1.9.2      *Incomplete projects***

In one Irrigation Project (namely Subernarekha project) capital of Rs 907 crore was invested as of March 2002 vide Appendix III. The project got investments of Rs 29 crore (2001-02) by the Jharkhand Government.

### **1.9.3      *Arrears of revenue***

As on 31 March 2002, arrears of revenue pending collection, as reported by the departments was Rs 1761.63 crore of which Rs 1243.44 crore nearly 71 per cent related to Taxes on Sales, Trade etc., Non-ferrous Mining and Metallurgical Industries Rs 370.75 crore i.e. 21 per cent and Taxes on vehicles Rs 114.96 crore i.e. 7 per cent.

### 1.9.4 Deficit

**1.9.4 (a)** Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

**1.9.4 (b)** The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary deficit is fiscal deficit less interest payments. The following exhibit gives a break up of the deficit in Government account.

**Table 1.4**

CONSOLIDATED FUND (CF)		(Rupees in crore)			
Receipt	Amount		Disbursement	Amount	
Revenue	4495	<b>Revenue Deficit 305</b>	<b>Revenue</b>		4800
Misc. capital receipts				Capital	733
Recovery of loans and advances	2			Loans and advances disbursement	329
<b>Sub Total</b>	<b>4497</b>	<b>Gross fiscal Deficit 1365</b>	<b>Sub Total</b>		<b>5862</b>
Public debt	1585			Public debt repayment	193
<b>Total</b>	<b>6082</b>	<b>A: Surplus in C.F. 27</b>			<b>6055</b>
<b>B : CONTINGENCY FUND : NIL PUBLIC ACCOUNT</b>					
Small saving PF etc.	169			Small saving PF etc.	231
Deposits & advances	1038			Deposits & advances	861
Reserve funds	58			Reserve funds	01
Suspense & misc.	(-) 136			Suspense & misc.	548
Remittances	811			Remittances	822
<b>Total Public Account</b>	<b>1940</b>	<b>C: Public Account Deficit 523</b>			<b>2463</b>
<b>Decrease in cash balance (A+B+C): 496</b>					

The table shows that there was a Revenue deficit of Rs 305 crore. There was surplus in the Consolidated Fund by Rs 27 crore and deficit in the Public

Account (Rs 523 crore) and decrease in cash balance by Rs 496 crore. The Government borrowed Rs 370 crore at the weighted average interest rate of 8.88 per cent per annum from market when there was sufficient balance in the Treasury bills of RBI with relatively lower rate of interest. The fiscal deficit of Rs 1365 crore was financed by net proceeds of Public Debt (Rs 1392 crore). The deficit of Rs 523 crore in Public Account was partly financed by surplus in the Consolidated Fund (Rs 27 crore) and partly by drawal from cash balance (Rs 496 crore).

### **1.10 Public debt**

**1.10.1** The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit.

The details of the total liabilities of the State Government since its formation are given in the following table.

**Table 1.5**

Year	Internal debt	Loans and advances from Central Government	Total Public debt	Other liabilities*	Total Liabilities	Ratio of debt to GSDP
<i>(Rupees in crore)</i>						
On 14.11.2000 Allocated to New State of Jharkhand	2212	3750	5962	Allocation is pending	5962	
2000-2001	2334	3811	6145	93	6238	0.216
2001-2002	3528	4009	7537	174	7711	0.266

In terms of Bihar Reorganisation Act, 2000 (No. 30 of 2000), the State of Bihar was reorganised and new State known as State of Jharkhand comprising 18 districts of the composite State of Bihar was formed with effect from 15<sup>th</sup> November 2000. Consequent to this the Public debt liabilities outstanding on 14.11.2000 against erstwhile State of Bihar was apportioned between the successor state of Bihar and Jharkhand in population ratio 645.30: 218.44 by an order issued by the Government of India in consultation with the Comptroller and Auditor General of India in exercise of the powers vested under section 48 (2) of the Bihar Reorganisation Act, 2000 (No. 30 of 2000) read with section 2 (h) thereof. Accordingly, out of such outstanding balances, balances of Rs 2211.69 crore in respect of Internal Debt of the State Government and Rs 3750.25 crore in respect of Loans and Advances from the Government of India were allocated to the new State of Jharkhand. During the period 2001-2002 Government borrowed Rs 370 crore in the open market at

weighted average interest rates of 8.88 per cent per annum. The State Government however did not avail the choice of raising a part of their borrowing requirements through auctions. The maturity profile of market loans indicated that the entire outstanding market loan of Rs 493 crore had a maturity period of 6-10 years.

**1.10.2** The amounts of funds raised through public debt, the amount of repayment and net funds available are given in the following table:

**Table 1.6**

*(Rupees in crore)*

	2000-2001	2001-2002
<b>Internal Debt including Ways &amp; Means advances and Overdraft</b>		
- Receipts	175	1208
-Repayment (Principal + interest)	54	107
-Net funds available	121	1101
(Per cent)	69	91
<b>Loans &amp; advances from GOI</b>		
- Receipt during the year	143	389
-Repayment (principal + interest)	82 <sup>@</sup>	663
-Net funds available	61	- 274
(Per cent)	43	- 70
<b>Other liabilities *</b>		
Receipt during the year	359	1118
-Repayment (Principal + interest)	345	947
- Net funds available	14	171
(Per cent)	4	15

Though the market borrowing was the cheapest source of finance, the state borrowed Rs 825 crore from NSSF of Government of India @ 11.5 per cent per annum and Rs 389 crore from Government of India (plan loans etc.) @ 12 per cent per annum.

The liabilities of the Government of Jharkhand depicted in the accounts however do not include the pension liabilities payable to the retired state employees and the portion of post retirement benefits already earned by the serving employees.

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@ *Principal only.*

\* *Other liabilities consist small savings, P.F., reserve funds and deposits.*

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## **1.11 Indicators of financial performance**

**1.11.1** A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity\*, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

### **(i) Sustainability**

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

### **(ii) Flexibility**

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expending its revenues or increasing its debt burden.

### **(iii) Vulnerability**

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

**(iv) Transparency**

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

**1.11.2** Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in Appendix-IV and V. Exhibit V indicates the behavior of these indices/ratios during 2001-02.

**1.11.3** The implications of these indices/ratios given in Exhibit V for the financial health of the State Government are discussed in the following paragraphs:

**EXHIBIT – V**  
**FINANCIAL INDICATORS FOR GOVERNMENT OF**  
**JHARKHAND**

	2000-2001	2001-2002
<b>Sustainability</b>		
BCR (Rs in crore)	764	502
Primary deficit (PD) (Rs in crore)	Surplus 723	797
Interest Ratio	0.04	0.11
Capital outlay/capital receipts	0.56	0.61
<b>Total Tax Receipts/GSDP</b>	0.118	0.11
State Tax Receipts/GSDP	0.064	0.05
Return on Investment Ratio	-	
<b>Flexibility</b>		
BCR (Rs in crore)	764	502
Capital repayment/capital borrowing	0.31	0.12
State Tax Receipts/GSDP	0.064	0.05
Debt/GSDP	0.22	0.27
<b>Vulnerability</b>		
Revenue deficit (RD) (Rs in crore)	Surplus of 825	305
Fiscal deficit (FD) (Rs in crore)	Surplus of 642	1365
Primary deficit (PD) (Rs in crore)	Surplus of 723	797
PD/FD	--	0.58
RD/FD	--	0.22
Outstanding Guarantees/revenue receipts	--	--

*(i) Balance from current revenue (BCR)*

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had a surplus of Rs 502 crore from current revenues.

*(ii) Interest ratio*

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Jharkhand this ratio was 0.11.

*(iii) Capital outlay / Capital receipts*

This ratio would indicate as to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal

performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Jharkhand this ratio was 0.61.

**(iv) Tax receipts Vs Gross State Domestic Product (GSDP)**

Tax receipts consist of state taxes and state's share of central taxes. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its flexibility. State had a very low own tax-GSDP ratio of 0.05. Its overall tax-GSDP ratio was also moderate at 0.11.

**(v) Return on Investment (ROI)**

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. After its formation with effect from 15<sup>th</sup> November 2000, the State invested Rs 2 crore in Police Building Corporation from Revenue account and Rs 7 crore in Rural Banks from Capital account, for the first time during 2001-02.

**(vi) Capital repayments vs capital borrowings**

This ratio indicates the extent to which the borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Jharkhand Government this ratio was 0.12.

**(vii) Debt vs Gross State Domestic Product (GSDP)**

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/ GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Jharkhand, this ratio was 0.27

**(viii) Revenue deficit/fiscal deficit**

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowing etc. Evidently, the higher the revenue deficit, the more vulnerable is the state. Since fiscal

deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus the higher the ratio the worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the state. During the year, the ratio was 0.22 and only 19 per cent of borrowings were applied to meet revenue deficit.

**(ix) Primary deficit vs fiscal deficit**

Primary deficit is the fiscal deficit minus interest payments. This means that the lower the value the lesser the availability of funds for capital investment. During the year, the ratio was 0.58 and the State applied 46 per cent on Capital expenditure and 21 per cent on disbursements of loans and advances.

**(x) Budget**

There was no delay in submission of the budget and its approval. Chapter-II of this Report includes a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by the resumption (surrenders) of significant amounts *vis-a-vis* the final modified grant. During the subject period 28 per cent of the total budgeted funds were not spent (savings). Further, supplementary provision obtained during the year constituted 18 per cent of the original budget provision. Only 56 per cent of the savings was surrendered and that too, at the fag end of the year.

**(xi) Accounts**

It was observed that the treasuries and other accounting units like Public Works and Forest Divisions were not rendering accounts on due dates. For example March 2002 accounts were delayed between 30 and 90 days by 101 treasuries, 501 Public Works Divisions and 581 Forest Divisions, between 91 to 180 days by 63 Public Works Divisions and 116 Forest Divisions and 181 to 270 days by 4 Public Work Divisions and 5 Forest Divisions. Consequently, for most of the months of the year the accounts did not reflect the actual level of expenditure. Delayed submission caused delay in finalisation of accounts of the State Government.

**1.11.4 Conclusion**

The new state of Jharkhand comprising 18 districts of the composite state of Bihar was formed with effect from 15<sup>th</sup> November 2000 (appointed day) as a result of reorganisation of the composite state of Bihar. The apportionment of assets and liabilities of the composite state of Bihar prior to the appointed day as also other financial adjustments are to be done in each case with reference to the provision of the Bihar Reorganisation Act, 2000 (No. 30 of 2000). So far (September 2002) apportionment of liability in respect of internal Debt of the State Government and loans and advances from the Central Government and Deposits with Reserve Bank (a minus balance) have been done. A true picture of the financial position of the state will emerge only after completion of apportionment of assets and liabilities. However, the account for the period 1.04.2001 to 31.3.2002 has revealed revenue, fiscal and primary deficit resulting in a sharp decrease in cash balance by Rs 496 crore on the one hand and saving of about 28 per cent of budgeted provision on the other which may be due to slow implementation of plan schemes.