

CHAPTER-I

Finances of the State Government

Summary

Revenue receipts (Rs 5638 crore) during 2003-04 showed an increase of 14 *per cent* while revenue expenditure (Rs 5406 crore) decreased by two *per cent* over the previous year leading to revenue surplus (Rs 232 crore). Consequently fiscal deficit decreased to Rs 874 crore during the year from Rs 1720 crore in 2002-03.

Revenue receipts increased during 2003-04 by Rs 701 crore over the previous year mainly due to increase in Sales Tax by Rs 235 crore (17 *per cent*), Central Tax transfers by Rs 277 crore (16 *per cent*), Central Grants-in-aid by Rs 69 crore (14 *per cent*) and non-ferrous mining and metallurgical industries Rs 117 crore (15 *per cent*).

Fifty five *per cent* of the revenue receipts came from the State's own resources, while central tax transfers and grants-in-aid together contributed 45 *per cent* of the total revenue.

Among the sources of tax revenue, Sales Tax (81 *per cent*), State Excise (five *per cent*) and Taxes on Vehicles (five *per cent*) were the principal contributors. Of non-tax revenue sources non-ferrous mining and metallurgical industries (83 *per cent*) and Interest receipt (four *per cent*) were the principal contributors.

Overall expenditure of the State decreased from Rs 6660 crore in 2002-03 to Rs 6516 crore in 2003-04 with a negative growth of two *per cent*. Revenue expenditure (Rs 5406 crore) constituted 83 *per cent* of the total expenditure. Salaries, interest payments and pensions consumed nearly sixty five *per cent* of the revenue receipts during the year. The fiscal liabilities (Rs 10569 crore) increased during 2003-04 with a growth of about 19 *per cent* over previous year and stood nearly at two times of the revenue receipts.

Although interest payments decreased by nearly 17 *per cent* from Rs 1419 crore in 2002-03 to Rs 1182 crore in 2003-04, the ratio of interest payments to revenue receipt at 21 *per cent* was significantly higher than the threshold of 18 *per cent* recommended by the Eleventh Finance Commission.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure base. However, the State has to either generate more revenue out of its existing assets or need to provide from current revenue for servicing its debt obligations to improve its financial health. The debt swap of high cost loans by market borrowing at lower rate of interest is a step in the right direction.

1.1 Introduction

The Finance Accounts of the Government of Jharkhand are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Jharkhand. The lay out of the Finance Accounts is depicted in the Box 1.1.

Box 1.1

Lay out of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government –receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2003-04.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.*

Statement No. 4 indicates the summary of debt position of the State, which includes internal debt of the State Government, Loans and Advances from Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporation, local bodies and other institutions*.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

Statement No. 9 shows the revenue and expenditure under different heads for the year 2003-04 as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charge and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

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

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2003-2004.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc. up to the end of 2003-04.

Statement No. 15 depicts the capital and other expenditure to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

* Not prepared in the absence of bifurcation of Assets and Liabilities between Bihar and Jharkhand.

Statement No. 17 presents detailed account of debt and other interest bearing obligations of the Government of Jharkhand.

Statement No.18 provides the detailed account of loans and advances given by the Government of Jharkhand, the amount of loan repaid during the year, the balance as on 31 March 2004, and the amount of interest received during the year.

Statement No. 19 gives the details of earmarked balances of reserved funds.

1.2 Trend of Finances with reference to previous year

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

(Rupees in crore)

2002-03	Sl. No.	Major Aggregates	2003-04
4937	1.	Revenue Receipts (2+3+4)	5638
1750	2.	Tax Revenue	1986
987	3.	Non-Tax Revenue	1106
1703	4.	Central Tax Transfers	1980
497		Grants in aid	566
3	5.	Non-Debt Capital Receipts	4
3	6.	Of which Recovery of Loans	4
4940	7.	Total non debt Receipts (1+5)	5642
4584	8.	Non-Plan Expenditure (9+11)	4402
4484	9.	On Revenue Account	4315
1419	10.	Of which, Interest Payments	1182
100	11.	On Capital Account	87
100	12.	Of which Loans disbursed	87
2076	13.	Plan Expenditure (14+15)	2114
1025	14.	On Revenue Account	1091
1051	15.	On Capital Account	1023
185	16.	Of which Loans disbursed	47
6660	17.	Total Expenditure (8+13)	6516
1720	18.	Fiscal Deficit (17-1-5)	874
(-) 572	19.	Revenue Deficit (-)/Surplus (+) (1-9-14)	(+) 232
(-) 301	20.	Primary Deficit (-)/Surplus (+) (10-18)	(+) 308

1.3 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Jharkhand for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1 Summary of receipts and disbursements for the year 2003-04

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section-A: Revenue					Non-Plan	Plan	Total
4936.78	I. Revenue Receipts	5637.77	5509.48	I. Revenue expenditure	4314.94	1090.99	5405.93
1750.30	Tax revenue	1986.22	2752.53	General services	2429.26	179.28	2608.54
987.14	Non-tax revenue	1105.55	1935.36	Social Services	1427.74	441.01	1868.75
1702.52	Share of Union Taxes and Duties	1979.73	820.87	Economic Services	457.42	470.70	928.12
496.82	Grants from Govt. of India	566.27	0.72	Grants-in-aid and Contributions	0.52	-	0.52
Section-B: Capital							
--	II. Misc. Capital Receipts		865.91	II. Capital Outlay	-	975.72	975.72
3.23	III. Recoveries of Loans and Advances	3.94	284.92	III. Loans and Advances disbursed	86.32	47.21	133.53
1889.24	IV. Public debt receipts*	2422.33	985.50	IV. Repayment of Public Debt			987.01
	V. Transfer from Contingency Fund		-	V. Expenditure from Contingency Fund			128.34
3049.26	VI. Public account Receipts	3112.82	2433.95	VI. Public account disbursements			2912.54
448.86	Opening Cash Balance	247.61	247.61	Closing Cash Balance			881.40
10327.37	Total	11,424.47	10327.37	Total			11,424.47

* Includes net ways and means advances and overdraft.

1.4 Audit Methodology

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

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set

of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in Box 1.2.

Box 1.2: Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The new GSDP series with 1993-94 as base as published by the Directorate of Economics and Statistics of the State Government has been used. As such, the percentages/ratios in relevant tables^ψ for the years 2001-02 and 2002-03 as published in the previous Audit Reports have undergone changes.</p> <p>For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. Some of the terms used here are explained in <i>Appendix- I</i>.</p>

The accounts of the state Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

Box 1.3: State Government Funds and the Public Account		
Consolidated Fund	Contingency Fund	Public Account
<p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'the Consolidated Fund of the State' established under Article 266(1) of the Constitution of India.</p>	<p>Contingency Fund of the State established under Article 267 (2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>	<p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266 (2) of the Constitution and the related disbursement are made from it.</p>

^ψ Table- 3, 4, 5, 7, 11, 16, 18 and 19

1.5 State Finances by key Indicators

1.5.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from Government of India as well as accruals from Public Account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs 11177 crore. Of these, revenue receipts were Rs 5638 crore, constituting 50 per cent of the total receipts. The balance of receipts came from borrowings and Public Account.

Table 2 – Resources of Jharkhand (Rupees in crore)

I. Revenue Receipts		5638
II. Capital Receipts		2426
a	Miscellaneous Receipts	-
b	Recovery of Loans and Advances	4
c	Public Debt Receipts	2422
III. Public Account Receipts		3113
a	Small Savings, Provident Fund, etc.	368
b	Reserve Fund	155
c	Deposits and Advances	1185
d	Suspense and Miscellaneous	106
e	Remittances	1299
Total Receipts		11,177

The sources of receipts under different heads and GSDP during 2000-2004 are indicated in Table 3.

Table 3 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	1964	1	266	840	3071	10853
2001-02	4495	2	1585	1940	8022	30774
2002-03	4937	3	1889	3049	9878	33675
2003-04	5638	4	2422	3113	11,177	37574

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and their buoyancy are indicated in Table 4.

Table 4: Revenue Receipts – Basic Parameters

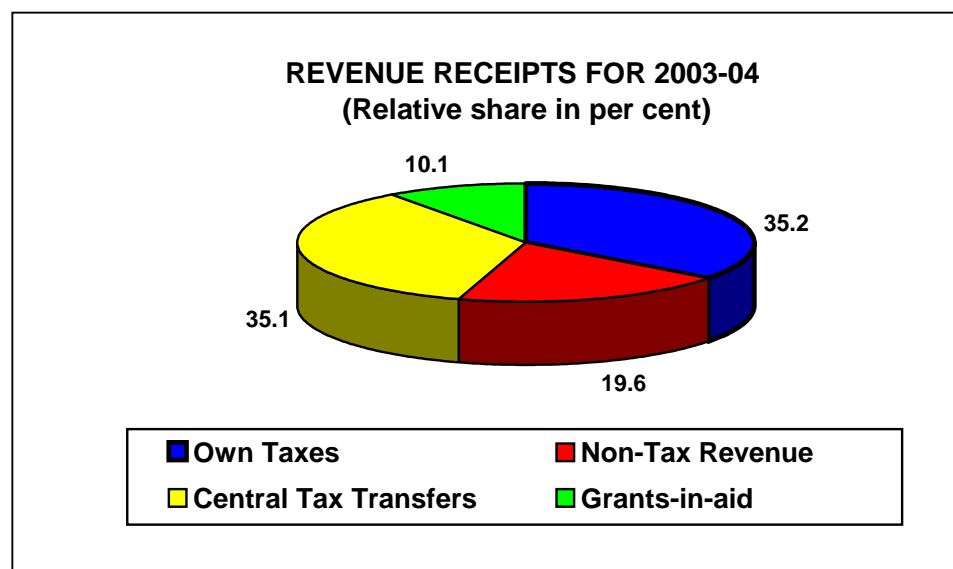
	2000-01*	2001-02	2002-03	2003-04
Revenue Receipts (Rupees in crore)	1964	4495	4937	5638
Own taxes (<i>Per cent</i>)	35.6	35.3	35.4	35.2
Non-Tax Revenue (<i>Per cent</i>)	17.8	18.9	20.0	19.6
Central Tax Transfers (<i>Per cent</i>)	29.5	35.7	34.5	35.1
Grants-in-aid (<i>Per cent</i>)	17.1	10.1	10.1	10.1
Rate of Growth of Revenue Receipt (<i>Per cent</i>)	New State	Not Determined	9.8	14.2
Revenue Receipts/ GSDP (<i>Per cent</i>)	18.1	** 14.6	** 14.7	15.0
Revenue Buoyancy (ratio)	--	--	** 1.04	1.22
G.S.D.P Growth (<i>Per cent</i>)	--	--	** 9.4	11.6

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

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

Revenue receipts of the State increased from Rs 4937 crore in 2002-2003 to Rs 5638 crore in 2003-2004. It grew by 14 *per cent* over the previous year mainly due to increase in sales tax (Rs 235 crore), taxes on goods and passengers (Rs 15 crore) and on central tax transfer (Rs 277 crore) where as increase in non-tax revenue was mainly on non-ferrous mining and metallurgical industries (Rs 117 crore).

While on an average around 55 *per cent* of the revenue during 2003-04 came from the State's own resources, Central tax transfers and grants-in-aid together continued to contribute nearly 45 *per cent* of the total revenue. Sales tax was the major source of State's own tax revenue having contributed 81 *per cent* of the tax revenue followed by state excise (five *per cent*), taxes on vehicles (five *per cent*) etc. Of non-tax revenue sources, non-ferrous mining and metallurgical industries (83 *per cent*) and interest receipts (four *per cent*) were the principal contributors.



1.6 Application of resources

1.6.1 Trend of Growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State decreased from Rs 6660 crore in 2002-03 to Rs 6516 crore in 2003-2004.

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

Table 5: Total Expenditure – Basic Parameters

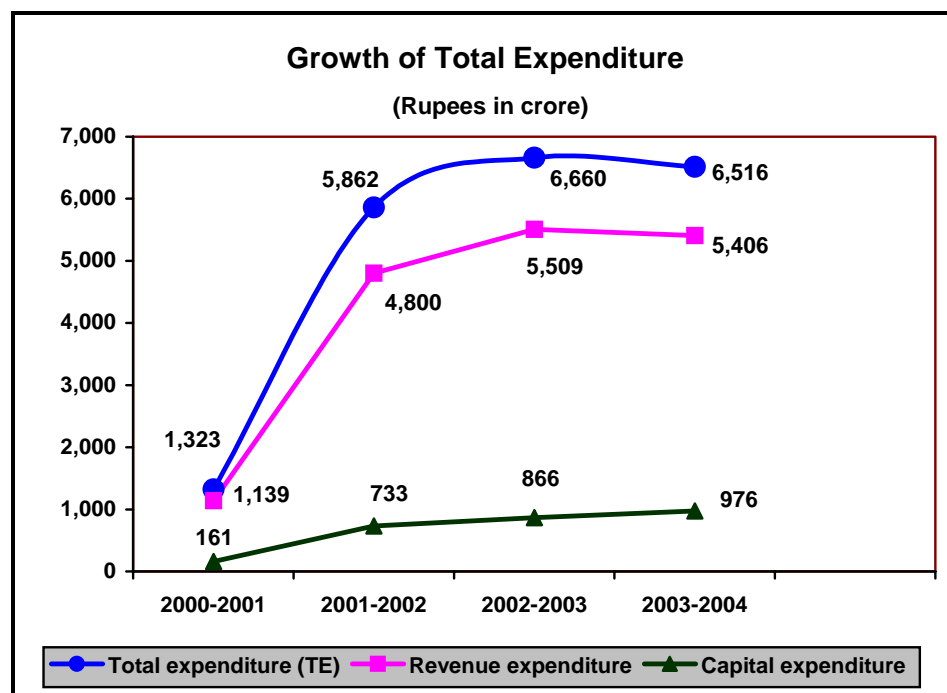
	2000-01**	2001-02	2002-03	2003-04
Total Expenditure # (Rupees in crore)	1323	5862	6660	6516
Rate of Growth (<i>per cent</i>)	--	--	13.6	(-) 2.2
TE/GSDP (<i>per cent</i>)	12.2	19.0	19.8	17.3
Revenue Receipts/TE (<i>per cent</i>)	New State	76.7	74.1	86.5
Buoyancy of Total Expenditure with reference to				
GSDP (ratio)	--	--	1.45	*
Revenue Receipts (ratio)	--	--	1.38	*

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

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

* Total expenditure had a negative growth.

The ratio of revenue receipts to total expenditure in 2003-04 indicated that 87 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowing.



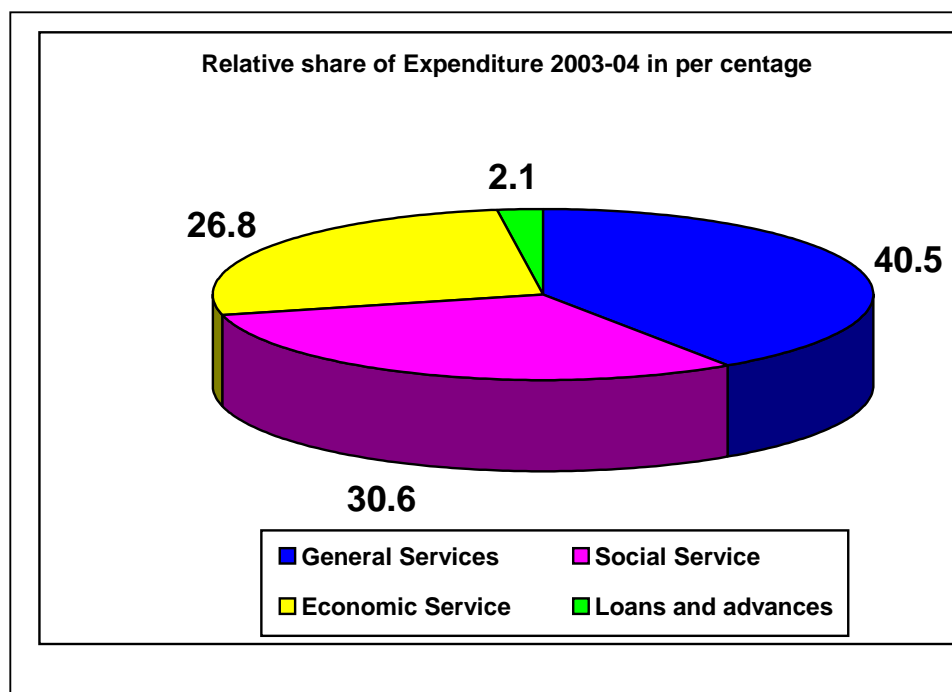
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative shares of these components in total expenditure are indicated in Table 6.

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

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

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

The movement of relative shares of these components of expenditure indicated that while the share of general services (including interest) and social services in total expenditure declined from 41.8 per cent and 31.5 per cent in 2002-2003 to 40.5 per cent and 30.6 per cent respectively in 2003-2004, the relative share of economic services increased from 22.4 in 2002-2003 to 26.8 in 2003-2004.



1.6.2 Incidence of Revenue expenditure

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

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

Table 7: Revenue Expenditure–Basic Parameters

	2000-01**	2001-02	2002-03	2003-04
Revenue Expenditure (Rupees in crore)	1139	4800	5509	5406
Rate of Growth (<i>per cent</i>)	New State	New State	14.8	(-) 1.9
RE/ GSDP (<i>per cent</i>)	10.5	15.6	16.4	14.4
RE as <i>per cent</i> of TE	86.1	81.9	82.7	83.0
RE as <i>per cent</i> to Revenue Receipts	58.0	106.8	111.6	95.9
Buoyancy of Revenue Expenditure with				
GSDP (ratio)	New State	-	1.57	*
Revenue Receipts (ratio)	New State	-	1.50	*

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

* Revenue expenditure had a negative growth.

Revenue expenditure of the State decreased from Rs 5509 crore in 2002-03 to Rs 5406 crore in 2003-2004. The decrease in the revenue expenditure during the year was mainly due to less expenditure on Interest payment (Rs 237 crore), General Education (Rs 44 crore), Technical Education (Rs 28 crore), Rural Employment (Rs 25 crore) etc. offset by excess expenditure under Police (Rs 61 crore), Other Transport Services (Rs 50 crore), Pension and

Other Retirement Benefits (Rs 41 crore), Industries (Rs 39 crore) etc. in comparison to previous year.

Revenue expenditure accounted for 83 *per cent* of total expenditure during 2003-2004. This was lower than the share of revenue receipts (87 *per cent* of total expenditure) of the State Government, which has led to revenue surplus. The ratio of revenue expenditure to revenue receipts has decreased from 112 *per cent* in 2002-03 to 96 *per cent* in 2003-04. The expenditure on Salaries (Rs 1932 crore), Interest payments (Rs 1182 crore) and Pensions (Rs 560 crore) alone accounted for 68 *per cent* of total revenue expenditure and consumed 65 *per cent* of total revenue receipts of the State during the year.

1.7 Committed expenditure

1.7.1 High salary expenditure and Pension payment

Salaries and pension alone accounted for nearly 44 *per cent* of the revenue receipts of the State. The expenditure on salaries and pension increased from Rs 1763 crore in 2002-03 to Rs 2492 crore in 2003-04 at an average trend rate of 41.35 *per cent*. Further the segregation of pension liabilities between Bihar and Jharkhand as a result of the division of the erstwhile composite state with effect from 15th November 2000 has not been finalised (December 2004). Consequently, there was a saving of Rs 345 crore under Pension during 2003-04.

Table 8: Salary and pension

(Rupees in crore)

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

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

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

1.7.2 Interest payments

The Eleventh Finance Commission has recommended (August 2000) that as a medium term objective, interest payment as a ratio to revenue receipts should not exceed 18 *per cent*. Though interest payment as a *percentage* of revenue receipts has fallen to 21 *per cent* during 2003-04 as against 29 *per cent* during 2002-03, it was still above the ratio fixed by the Eleventh Finance Commission.

As indicated in Table 9, though the interest payments decreased by about 17 *per cent* *i.e.* from Rs 1419 crore in 2002-03 to Rs 1182 crore in 2003-04, the large interest payments, due to continued reliance on borrowings for meeting

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

Table 9: Interest Payment

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

1.7.3 Ad hoc adjustment of interest on Provident Fund

The Provident Fund Organisation of the State Government is responsible for maintenance of detailed accounts of provident funds of the employees. The State Government did not intimate the amount of interest required to be adjusted on State Provident Fund balances to the Accountant General (A & E). In its absence, the Accountant General (A & E) had been adjusting the amount of interest on ad hoc basis on the basis of concurrence of the State Government as done prior to the reorganisation of the State. This is because maintenance of Provident Fund accounts was in arrears and apportionment of the Provident Fund balances between the two States had not been done.

The Provident Fund accounts need to be closed in time so that adjustment for the actual amount credited to subscribers' accounts is done to reflect correct picture in the accounts.

1.8 Expenditure by Allocative Priorities

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

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

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

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

Plan, Capital and Developmental expenditure showed a relative increase during 2003-04. Plan expenditure increased from 29.7 *per cent* of total expenditure in 2002-03 to 32.4 *per cent* in 2003-04. The increase in capital expenditure from 13.6 *per cent* in 2002-03 to 15.3 *per cent* in 2003-2004 was due to increase in capital outlay on Medical and Public Health, major and medium irrigation and minor irrigation.

Out of the developmental expenditure (Rs 3740 crore), social services (Rs 1995 crore) accounted for 53 *per cent* during 2003-04. General Education, Health and Family Welfare and Water Supply, Sanitation, Housing & Urban Development consumed nearly three-fourths (74 *per cent*) of the expenditure on social sector.

Table 11: Social Sector Expenditure (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04
Education, Sports, Art and Culture	286 (2.6*)	1035 (3.4)	1088 (3.2)	1023 (2.7)
Health and Family Welfare	62 (0.6)	272 (0.9)	245 (0.7)	238 (0.6)
Water Supply Sanitation, Housing and Urban Development	21 (0.2)	216 (0.7)	267 (0.8)	213 (0.6)
Total	369	1523	1600	1474

* Percentage of GSDP in brackets

Similarly, the expenditure on Economic Services (Rs 1745 crore) accounted for 47 *per cent* of the developmental expenditure during the year. Of this, Power (Rs 98 crore), Irrigation and Flood Control (Rs 359 crore) and Transport (Rs 274 crore) accounted for 42 *per cent* of the expenditure on Economic sector. The expenditure on Transport included Rs 50 crore given by the State Government during the year to Indian Railway for execution of various railways projects in the state.

Table 12: Economic Sector Expenditure (Rupees in crore)

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

1.9 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions and public utility services. These bodies and authorities receive substantial financial assistance from 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 Government. The grants are given by Government mainly for maintenance of educational institutions, hospitals, charitable

institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different bodies etc., during the period 2000-2004 was as follows:

Table 13

(Rupees in crore)

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

1.10 Assets & Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-II* presents an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this appendix consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital outlay, loans and advances given by the State Government and cash balances.

The liabilities of Government of Jharkhand depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comforts issued by the State Government. The ratios of assets to liabilities of the State during the years 2001-02 to 2003-04 were 34 *per cent*, 33 *per cent* and 44 *per cent* respectively, as shown in Table 19. The low ratio of assets to liabilities is partly due to the fact that while the state inherited Public Debt liability amounting to Rs 5991 crore from composite Bihar, apportionment of assets has not been done so far (December 2004).

1.10.1 Investments and Returns

As of 31 March 2004, Government had invested Rs 16.60 crore in Government Companies and Co-operatives since inception of the new state. Government's return on this investment was nil. Investments in these institutions as well as Statutory Corporations and Joint Stock Companies upto 14 November 2000 by the composite Bihar State have not been apportioned between the successor States of Bihar and Jharkhand.

Table 14: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing
	(Rupees in crore)			(per cent)
2000-2001	-	-	-	-
2001-2002	13.99	Nil	Nil	8 to 10.82
2002-2003	15.55	Nil	Nil	6.75 to 7.80
2003-2004	16.60	Nil	Nil	5.85 to 6.40

1.10.2 Loans and advances by State Government

In addition to its investment in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans advanced was Rs 760.79 crore (excluding the amount to be allocated from erstwhile composite Bihar) as on 31 March 2004 (Table 15). Interest received against these advances was 6.70 per cent during 2003-04 as against 19.59 in the previous year. In most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

Table 15: Average Interest Received on Loans Advanced by the State Government

	<i>(Rupees in crore)</i>			
	2000-01	2001-02	2002-03	2003-04
Opening Balance	Nil	22.82	349.51	631.20
Amount advanced during the year	23.46	329.18	284.92	133.53
Amount repaid during the year	0.64	2.49	3.23	3.94
Closing Balance	22.82	349.51	631.20	760.79
Net Addition (+) / Reduction (-)	Nil	326.69	281.69	129.59
Interest Received (Rupees in crore)	0.01	61.06	96.08	46.65
Interest received as per cent to Loans advanced	Nil	# 32.80	19.59	6.70
Average interest paid by the State (per cent)	NA*	8.09	16.97	12.13
Difference between interest paid and received (per cent)	NA*	24.71	2.62	(-) 5.43

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

* NA - Not Available.

1.10.3 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. Jharkhand had the WMA limit of Rs 51 crore. During the year, the State Government availed of this source of finance on 31 days.

1.11 Undischarged Liabilities

Fiscal liabilities – public debt and guarantees

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 an Act of its Legislature. However, no such law was passed by the State.

Statement 4 read with Statements 16 and 17 of the Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out. It would be observed that the fiscal liability of the state has grown much faster as compared to its rate of growth of GSDP. The overall fiscal liabilities of the State increased from Rs 6238 crore in 2000-01 to Rs 10569 crore in 2003-2004. During 2003-04 the growth rate of fiscal liability was 18.5 per cent. The ratio of fiscal liability to GSDP increased from 26.5 per cent in 2002-03 to 28.1 per cent in 2003-2004 and stood at 1.87 times of its revenue receipts and 3.42 times of its own resources. Table 16 gives the fiscal Liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 16: Fiscal Imbalances–Basic Parameters

	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities* (Rupees in crore)	6238	7804	8923	10,569
Rate of growth (per cent)	New State	--	14.3	18.5
Ratio of Fiscal Liabilities to				
GSDP (per cent)	**	25.4	26.5	28.1
Revenue Receipts (per cent)	**	173.6	180.7	187.5
Own Resources (per cent)	**	320.1	326.0	341.8
Buoyancy of Fiscal Liabilities to				
GSDP (ratio)	New State	#	1.52	1.59
Revenue Receipts (ratio)	New State	#	1.46	1.30
Own Resources (ratio)	New State	#	1.16	1.42

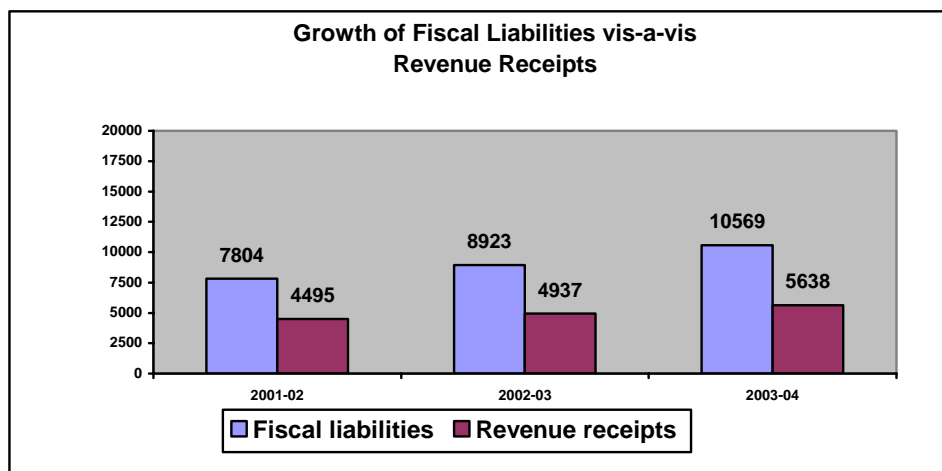
* The figures shown here excludes the liabilities in respect of balances of Provident Funds etc, Reserve Funds and Deposits of Composite Bihar as on 14 November 2000 pending their apportionment between the successor States Bihar and Jharkhand.

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

Not comparable.

Apportionment of such liabilities of the Composite State of Bihar between the successor States of Bihar and Jharkhand has not been done so far (December 2004). Information about the guarantee, if any, given by the Government of Jharkhand has not been furnished by the Government.

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



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

Table 17 below gives the position of the receipts and repayment of internal debt over the last four years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined from 57 *per cent* to 19 *per cent* during 2000-2004 primarily due to debt swap of high cost borrowing from Government of India.

Table 17: Net availability of Borrowed Funds

(Rupees in crore)

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

Availability of fund was negative.

* Internal debt excluding ways and means advances.

The State Government did not use the option of raising the market borrowing at competitive rates through auctions. As on 31 March 2004, 55 per cent of the existing market loans of the State Government carried interest rate exceeding 10 per cent. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicates that nearly 34 per cent of the total market loans are repayable within the next five years while the remaining 66 per cent of loans are required to be repaid within 6 to 13 years.

1.12 Management of deficits

Fiscal imbalances

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

It would be observed that there was revenue surplus of Rs 232 crore in 2003-04 which is the excess of revenue receipts over revenue expenditure as against revenue deficit of Rs 572 crore in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 1720 crore in 2002-03 to Rs 874 in 2003-04. State also had a primary deficit decreasing from Rs 301 crore in 2002-03 to primary surplus of Rs 308 crore in 2003-04 as indicated in Table 18.

Table 18: Fiscal imbalance-Basic Parameters

	2000-01	2001-02	2002-03	2003-04
Revenue deficit (-)/Surplus (+) (Rupees in crore)	(+) 825	(-) 305	(-) 572	(+)232
Fiscal deficit (-)/Surplus (+) (Rupees in crore)	(+) 642	(-) 1365	(-) 1720	(-)874
Primary Deficit (-)/Surplus(+) (Rupees in crore)	(+) 561	(-) 797	(-) 301	(+)308
RD/GSDP (<i>Per cent</i>)	(+) 7.6	(-) 1.0	(-) 1.7	(+)0.6
FD/GSDP (<i>Per cent</i>)	(+) 5.9	(-) 4.4	(-) 5.1	(-)2.3
PD/GSDP (<i>Per cent</i>)	(+) 5.2	(-) 2.6	(-) 0.9	(+)0.8
RD/FD (<i>Per cent</i>)	(-) 128.5	22.3	33.3	(-)26.5

1.13 Fiscal ratios

The finances of the State should be sustainable, flexible and non-vulnerable. Table 19 below presents a summarized position of Government Finances over 2003-04 with reference to certain key indicators. These help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of Revenue

Receipt to GSDP has increased from 14.7 *per cent* in 2002-03 to 15 *per cent* in 2003-04 and the ratio of own tax to GSDP increased marginally from 5.2 *per cent* in 2002-03 to 5.3 *per cent* in 2003-04.

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 marginally increased to 83 *per cent* in 2003-04 from 82.7 in 2002-03; the developmental expenditure as *percentage* to total expenditure has also increased to 58.6 in 2003-04 from 56.3 *per cent* in 2002-03. Both revenue and total expenditure when compared to its revenue receipts have shown comparatively lower buoyancy. All these indicate that the State is not dependent on borrowings for meeting its revenue expenditure, whereas low ratio of revenue receipt to total expenditure indicates State's dependence on borrowings for meeting its capital expenditure on expansion of its development activities.

Table 19: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04
Resources Mobilization				
Revenue Receipts/GSDP	18.1	14.6	14.7	15.0
Revenue Buoyancy	--	--	1.04	1.22
Own Tax/GSDP	6.5	5.2	5.2	5.3
Expenditure Management				
Total expenditure /GSDP	12.2	19.0	19.8	17.3
Revenue Receipts/ Total Expenditure/	148.5	76.7	74.1	86.5
Revenue expenditure /Total Expenditure	86.1	81.9	82.7	83.0
Capital expenditure /Total expenditure (RE + CE)	12.4	13.3	13.6	15.3
Developmental Expenditure/ Total Expenditure (RE+CE)	62.5	66.6	56.3	58.6
Buoyancy of TE with RR	--	2.66	1.38	(-) 0.15
Buoyancy of RE with RR	--	2.49	1.50	(-) 0.13
Management of Fiscal Imbalances				
Revenue deficit(-)/Surplus(+) (Rs in crore)	(+) 825	(-) 305	(-) 572	(+) 232
Fiscal Deficit(-)/Surplus(+) (Rs in crore)	(+) 642	(-) 1365	(-) 1720	(-) 874
Primary Deficit (-)/Surplus(+) (Rs in crore)	(+) 561	(-) 797	(-) 301	(+) 308
Revenue Deficit/Fiscal Deficit	(-) 128.5	22.3	33.3	(-) 26.5
Management of Fiscal Liabilities				
Fiscal Liabilities / GSDP	57.5	25.4	26.5	28.1
Fiscal Liabilities/RR	317.6	173.6	180.7	187.5
Buoyancy of FL with RR	--	19.47	1.46	1.30
Buoyancy of FL with OR	New state	19.83	1.16	1.42
Interest Spread	--	-	(-) 7.54	(-) 0.53
Net Fund Available on account of Public Debt	57	52	(-) 11	19
Other Fiscal Health Indicators				
BCR (Rs in crore)	--	599	(-) 2	847
Financial Assets/Liabilities (in per cent)	--	34	33	44

1.14 Conclusions

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large fiscal deficit year after year, together with low or no return on investments gradually affects the State's financial sustainability. Investments in loss making companies are also not sustainable. The low ratio of assets to liabilities is partly due to the fact that while the state inherited Public Debt liability amounting to Rs 5991 crore from composite Bihar,

apportionment of assets has not been done so far (December 2004). The debt swap of high cost loans by market borrowings at lower rate of interest is a step in the right direction. The State has to either generate more revenue out of its existing assets or provide from its current revenues for servicing its debts obligations. The state should also endeavour to pass a fiscal responsibility bill on the pattern of Central Government and many other progressive states to ensure greater transparency in fiscal operations and macro-economic fiscal stability in a medium term framework.