CHAPTER I
FINANCES OF THE STATE GOVERNMENT

Profile of Jharkhand

Jharkhand, the 28th State of the Indian Union was carved out of the southern part of Bihar State on 15 November 2000 in terms of the Bihar Re-organisation Bill 2000, with 18 districts. The State is known for its vast forest resources and is the leading producer of mineral wealth having 40 *per cent* of the country's mineral reserves. As indicated in ***Appendix-1.1 Part A*** in the last ten years, the population density in Jharkhand has increased from 338 person per sq. km. to 414 person per sq. km. As such Jharkhand has higher density of population as compared to General Category States. The State has more population below poverty line (40.3 *per cent*) as compared to the General Category States (27.5 *per cent*). The infant mortality rate of the State was 44 (per 1000 live births) which was lower than the General Category States of 50. The inequality of income distribution in the case of rural areas as well as urban areas of Jharkhand was less than the General Category States. Jharkhand's Gross State Domestic Product (GSDP) has grown at a lower rate (13.34 *per cent*) in the past decade compared to the average GSDP growth of General Category States (14.68 *per cent*). During this period its population has grown by 22.34 *per cent* against 17.56 *per cent* in other General Category States. The per capita income growth in Jharkhand has been lower than that of the General Category States in the current decade.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the Jharkhand Government's fiscal position as on 31 March 2011. It provides a broad perspective of the finances of the Government of Jharkhand during the current year and analyses critical changes in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in ***Appendix 1.1 Part B*** and the layout of the Finance Accounts is depicted in ***Appendix 1.1 Part C.***

The methodology adopted for assessment of the fiscal position of the State is given in ***Appendix 1.2 Part A*** Time series data on State Government finances is given in ***Appendix 1.3.***

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) vis-à-vis the previous year while ***Appendix 1.4 Part A*** provide details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Transactions

(₹ *in crore*)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					**Non-plan**	**Plan**	**Total**
15118.47	Revenue Receipts	18781.12	15128.24	Revenue expenditure	19940.93	6003.81	17944.74
4500.12	Tax revenue	5716.63	6605.36	General Services	6862.24	128.56	6990.80
2254.15	Non-tax revenue	2802.89	5610.30	Social Services	3304.56	3402.74	6707.30
5547.57	Share of Union Taxes/ Duties	6154.35	2912.38	Economic Services	1773.96	2472.51	4246.47
2816.63	Grants from Government of India	4107.25	0.20	Grants-in-aid and Contributions	0.17	-	0.17
Section-B: Capital							
	Misc. Capital Receipts		2703.04	Capital Outlay	43.33	2620.97	2664.30
21.79	Recoveries of Loans and Advances	24.12	319.98	Loans and Advances disbursed	136.84	170.72	307.56
-	Inter State Settlement	1.39					
3369.44	Public debt receipts*	2446.51	1190.21	Repayment of Public Debt	-	-	1299.43
-	Transfers to Contingency Fund	-	-	Expenditure from Contingency Fund	-	-	-
8241.68	Public Account Receipts	7721.42	7290.30	Public Account Disbursements	-	-	7399.85
637.52	Opening Cash Balance	640.91#	757.13	Inter State Settlement	-	-	-
				Closing Cash Balance	-	-	(-)0.41
27388.90	**Total**	**29615.47**	**27388.90**	**Total**			**29615.47**

(Source: Finance Accounts for the years 2009-10 and 2010-11).

** Excluding net transactions under Ways and Means advances and overdraft.*
#₹ 116.22 crore invested from Calamity Relief Fund and included in opening balance had been transferred to State Disaster Response Fund. Hence, opening cash balance reduced to ₹ 640.91 crore.

The significant changes during 2010-11 as compared to the previous year are given below:

- Revenue receipts of the State increased by ₹ 3663 crore (24 *per cent*) over the previous year. The increase was due to increase in tax revenue by ₹ 1217 crore (27 *per cent*), non-tax receipts by ₹ 549 crore (24 *per cent*), State's share of Union taxes and duties by ₹ 607 crore (11 *per cent*) and grants-in-aid by ₹ 1290 crore (46 *per cent*).
- Against the normative assessment made by the Thirteen Finance Commission (TFC) the tax revenue of the State was less by ₹ 1306 crore (19 *per cent*), whereas, non-tax revenue was more by ₹ 569 crore (17 *per cent*).
- Revenue expenditure increased by ₹ 2817 crore (19 *per cent*) mainly due to increase in expenditure on General Services (₹ 386 crore), Social Services (₹ 1097crore) and Economic Services (₹ 1334 crore).
- Capital expenditure decreased by ₹ 39 crore over the previous year.
- Recovery of loans and advances increased by ₹ two crore (nine *per cent*) and disbursement decreased by ₹ 12 crore (four *per cent*) in 2010-11 over the previous year.
- Public Debt receipts decreased by ₹ 922 crore (27 *per cent*) while its repayment increased by ₹ 109 crore (nine *per cent*) over the previous year.

- Public Account receipts decreased by ₹ 521 crore (six *per cent*) while disbursements increased by ₹ 110 crore.
- The net impact of these transactions was a decrease of ₹ 757.54 crore in the cash balance at the end of 2010-11 over the previous year.

1.1.2 Review of the fiscal position

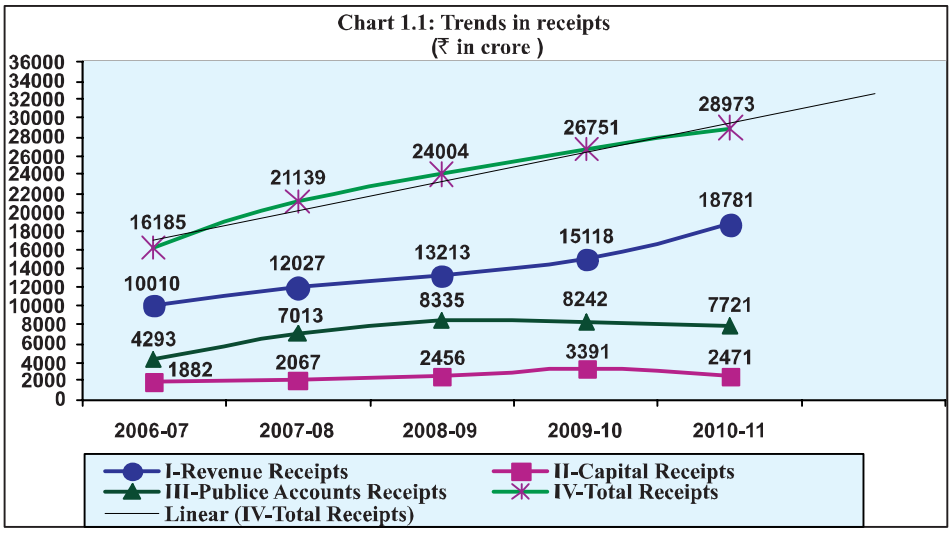
As per the Jharkhand Fiscal Responsibility and Budget Management (FRBM) Act, 2007 ***(Appendix 1.2 Part B)***, in line with the recommendation of the Twelve Finance Commission the State Government was to eliminate the revenue deficit by the end of March 2009 and restrict the fiscal deficit to not more than three per cent of the estimated Gross State Domestic Product (GSDP) by March 2009. However, the Thirteenth Finance Commission (TFC) recommended a new and Revised Road Map for Fiscal Consolidation thereby linking all grants and debt relief facilities. Accordingly, the State was required to revise its FRBM target by eliminating revenue deficit (RD) completely and achieve fiscal deficit of three *per cent* of GSDP by 2014-15.

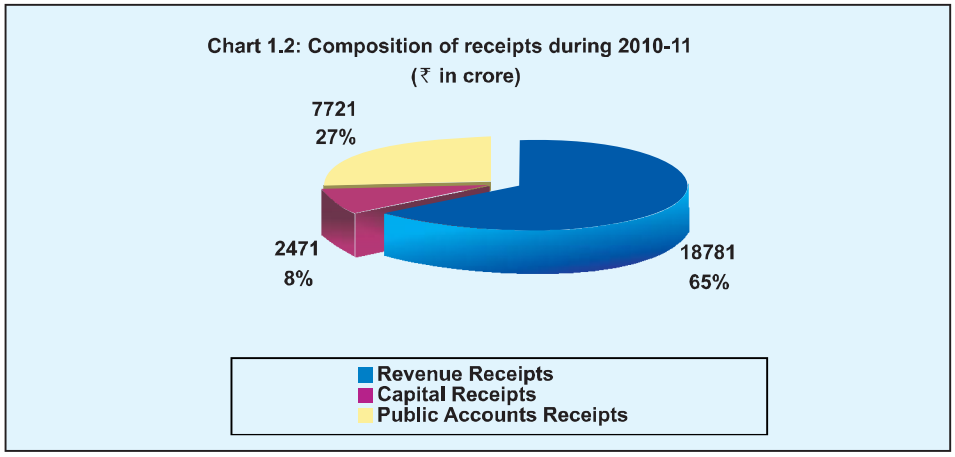
The State had achieved the target set in the FRBM Act by eliminating the revenue deficit in 2006-07 in turning the deficit into a huge revenue surplus (₹ 946 crore), which further improved to ₹ 1195 crore in 2007-08. However, the surge in revenue expenditure *vis-à-vis* revenue receipts which started in 2008-09 continued and the fiscal situation of revenue surplus could not be retained during 2009-10 as there was a revenue deficit of ₹ 10 crore, but again in 2010-11 the State had a revenue surplus of ₹ 836 crore.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. 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 dis-investments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks), loans and advances from GOI as well as accruals from the Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts and **Chart 1.1** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.2** depicts the composition of resources of the State during the current year.





- The total receipts of the State increased from ₹ 16185 crore in 2006-07 to ₹ 28973 crore in 2010-11. The growth rate of total receipts decreased from 11 *per cent* in 2009-10 to eight *per cent* in 2010-11 due to decrease in public debt receipts (27 *per cent*) and public accounts receipts (six *per cent*).
- Share of revenue receipts of the State to total receipts increased from 62 *per cent* in 2006-07 to 65 *per cent* in 2010-11. However, it was hovering around 56 *per cent* during 2007-10.
- The debt capital receipts (capital receipts minus recovery of loans and advances) decreased from ₹ 3369 crore in 2009-10 to ₹ 2447 crore in 2010-11. The debt capital receipts declined to minus 27 *per cent* in 2010-11 against 38 *per cent* growth rate in 2009-10.
- Public Account receipts increased steadily from ₹ 4293 crore (27 *per cent* of total receipts) in 2006-07 to ₹ 7721 crore (27 *per cent* of total receipts) in 2010-11.

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Central Government has been transferring sizeable amounts of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, the funds directly transferred to State implementing agencies are presented in **Table 1.2.**

Table 1.2: Funds transferred directly to State Implementing Agencies

(₹ *in crore*)

Programme/scheme	Implementing agency in the State	2009-10	2010-11
Mahatma Gandhi National Rural Employment Guarantee scheme, Swarnjayanty Gram Swarojgar Yojana Indira Awaas Yojana (New construction), Indira Awaas Yojana (Upgradation), District Rural Development Agency (Administration), Integrated Watershed Management Programme	District Rural Development Agency	1205.31	1667.96
Sarva Shiksha Abhiyan	Jharkhand Education Project Council	709.40	895.62
National Rural Health Mission, Human Resource for Health, Information, Education and Communications	(i) Jharkhand Rural Health Mission Society, Leprosy Control Society, TB Control Society and Blind Control Society; (ii) Jharkhand States AIDS Control Society;	175.88	297.52
National Rural Drinking Water Programme, Central Rural Sanitation Programme	Jharkhand State Water and Sanitation Mission	150.76	184.62
Member of Parliament Local Area Development scheme	District Magistrates	37.50	40.00
Scheme implemented by NGOs and other Societies	NGOs and other Societies	383.79	1125.36
Total		**2662.64***	**4211.08***

Source: Controller General of Accounts, Government of India. However, the data was not reconciled with the figures of implementing agencies.

**Excluded ₹ 100.96 crore and ₹ 118.40 crore respectively released for the years 2009-10 and 2010-11 to the organizations outside the purview of the Government of Jharkhand.*

During 2010-11, ₹ 4211.08 crore was transferred directly to State implementing agencies to execute specific Central programmes in the State, out of which, ₹ 1667.96 crore and ₹ 895.62 crore were transferred to the District Rural Development Agencies and the Jharkhand Education Project Council respectively.

Direct transfer of funds from the GOI to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure to the State Government and the Principal

[1] State implementing agency includes any organization/Institution including non-Governmental organizations which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA, State Health Mission for NRHM etc.

Accountant General (A&E), Jharkhand, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax revenue, non-tax revenues, Central tax transfers and grants-in-aid contribution from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in ***Appendix 1.3*** and also depicted in ***Charts 1.3 and 1.4*** respectively.

Chart 1.3: Trends in Revenue Receipts
(₹ in crore)

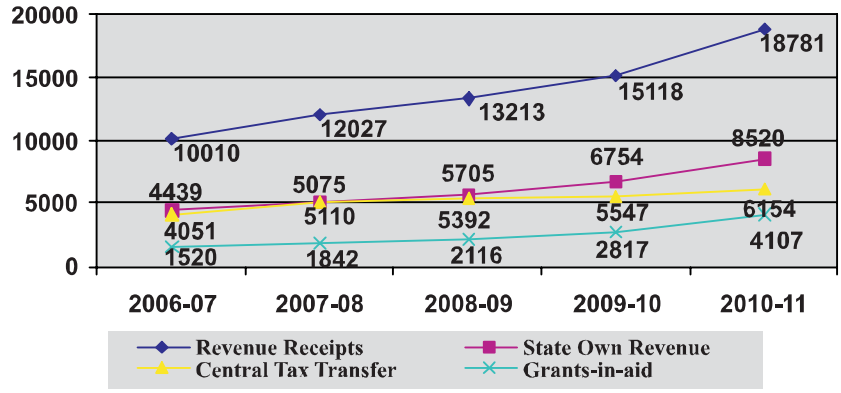
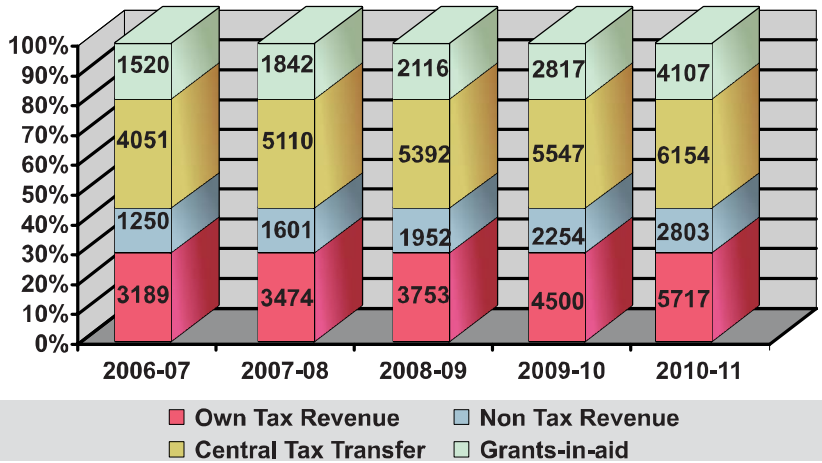


Chart 1.4: The composition of Revenue Receipts during 2006-11
(₹ in crore)



- The revenue receipts of the State steadily increased by 88 *per cent* from ₹ 10010 crore in 2006-07 to ₹ 18781 crore in 2010-11. On an average, while around 45 *per cent* of the revenue came from the State's own resources during 2006-11, Central tax transfers and grants-in-aid together contributed about 55 *per cent* of the total revenues during the period.

- During the year the total revenue receipts (₹ 18781 crore) comprised of States' own tax revenue ₹ 5717 crore (30 *per cent*), non-tax revenue ₹ 2803 crore (15 *per cent*), central tax transfer ₹ 6154 crore (33 *per cent*) and grants-in-aid ₹ 4107 crore (22 *per cent*) with a growth rate of 27 *per cent*, 24 *per cent*, 11 *per cent* and 46 *per cent* respectively over the previous year.
- The State received debt relief of ₹ 104.96 crore during 2010-11 against the consolidated loans bearing 7.5 *per cent* interest rate by reducing the stock of debt outstanding as on 31 March 2010.

The trends of revenue receipts relative to GSDP are presented in **Table 1.3.**

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	**10010**	**12027**	**13213**	**15118**	**18781**
Rate of growth of RR (*Per cent*)	18.3	20.1	9.9	14.4	24.2
R R/GSDP (*Per cent*)	14.9	14.3	15.0	15.5	17.3
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	1.85	0.79	2.06	1.33	2.16
State's Own Tax Buoyancy w.r.t GSDP	1.58	0.35	1.67	1.84	2.41

- The growth rate of revenue receipts increased significantly from 18.3 *per cent* in 2006-07 to 24.2 *per cent* in 2010-11. However, its growth rate was lowest during 2008-09 (9.9 *per cent*).
- The revenue receipts increased from ₹ 15118 crore in 2009-10 to ₹ 18781 crore in 2010-11 with a growth rate of 14 *per cent* and 24 *per cent* respectively.
- Revenue buoyancy with respect to GSDP showed wide fluctuations ranging between 0.79 and 2.16 during 2006-11. In 2010-11, it was highest (2.16 *per cent*) due to low growth rate of GSDP (11.2 *per cent*) and highest growth rate of revenue receipts (24.2 *per cent*), while during 2007-08 it was at the lowest point (0.79 *per cent*) due to highest growth rate of GSDP (25.4 *per cent*).
- The State's own tax with respect to GSDP buoyancies showed wide variations between 0.35 and 2.41 during 2006-11, due to wide fluctuation in the growth rate of both GSDP and own tax revenue. However, it increased sharply to 1.67 in 2008-09 against 0.35 in 2007-08 due to a sharp decrease in the growth rate of GSDP during the year.
- The growth rate of GSDP of the State recorded wide variation from 4.8 *per cent* to 25.4 *per cent* during 2006-11. Its growth rate increased significantly from 9.9 *per cent* in 2006-07 to 25.4 *per cent* in 2007-08 which decreased sharply to 4.8 *per cent* in 2008-09. However, during 2009-10 (10.8 *per cent*) and 2010-11 (11.2 *per cent*) it remained nearly constant.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central-tax

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

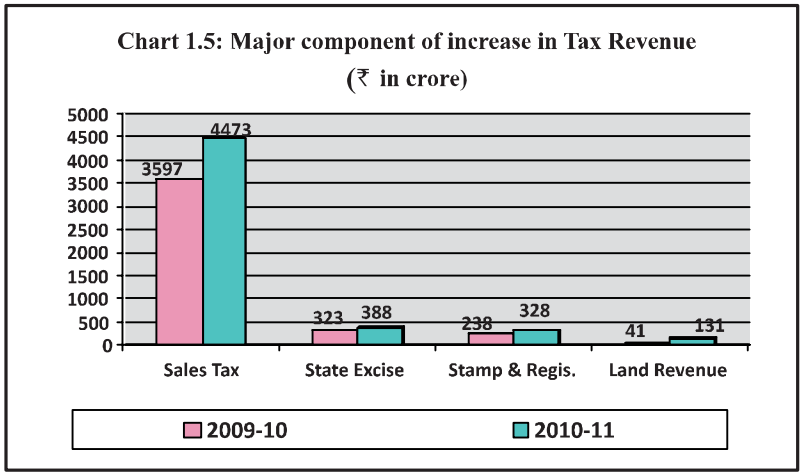
receipts and Central assistance for Plan schemes etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

The tax revenue of the State increased consistently from ₹ 3189 crore in 2006-07 to ₹ 5717 crore in 2010-11, but its growth rate showed wide fluctuations between eight *per cent* and 27 *per cent* during 2006-11. Out of the total tax revenue in 2010-11, sales tax contributed 78 *per cent* followed by State excise (seven *per cent*), stamp duty and registration (six *per cent*) and taxes on vehicles (six *per cent*). **Chart 1.5** presents major components which contributed in increase in Tax revenue during 2010-11 in comparison to the previous year.

Chart 1.5: Major component of increase in Tax Revenue

(₹ in crore)



During 2010-11, the collection of the States own tax revenue was ₹ 5717 crore against the Medium Term Fiscal Plan (MTFP) target of ₹ 5967 crore and the normative projection made by TFC of ₹ 7023 crore. The main reason for non-achievement of the MTFP and TFC targets was lesser collection of State Excise Tax than estimated (actual collection ₹ 388 crore against budget estimate ₹ 525 crore) during the year.

The own tax to GSDP ratio was only 5.3 *per cent* against the MTFP target of 7.94 *per cent* and TFC norms 6.26 *per cent* for the year 2010-11.

Non-tax Revenue

Non-tax revenue collected during 2010-11 was ₹ 2803 crore against MTFP projection of ₹ 3130 crore and normative projection of ₹ 3372 crore by the TFC for the year.

The share of non-tax revenue constituted 12 to 15 *per cent* of the revenue receipts during 2006-11. However, its share to revenue receipts remained same (15 *per cent*) during the last three years. The growth rate of non-tax revenue increased sharply from 15 *per cent* in 2009-10 to 24 *per cent* in 2010-11 mainly due to high growth rate of revenue under Miscellaneous General Services, Tourism, Other Social Services and Industries. Though the Non-ferrous Mining and Metallurgical Industries were the major contributor to the non-tax revenue its percentage decreased from 77 *per cent* in 2009-10 to 73 *per cent* in 2010-11.

1.3.2 Revenue Arrears

Each year a huge amount remains in shape of revenue arrears. At the end of 2009-10 it amounted to ₹ 2029 crore out of which ₹ 457.33 crore were outstanding for more than five years. During 2008-09 and 2009-10 the revenue arrears as percentage to the State's own resources was 36 *per cent* and 30 *per cent* respectively.

Information regarding revenue arrear at the end of 31 March 2010-11 was not available (September 2011).

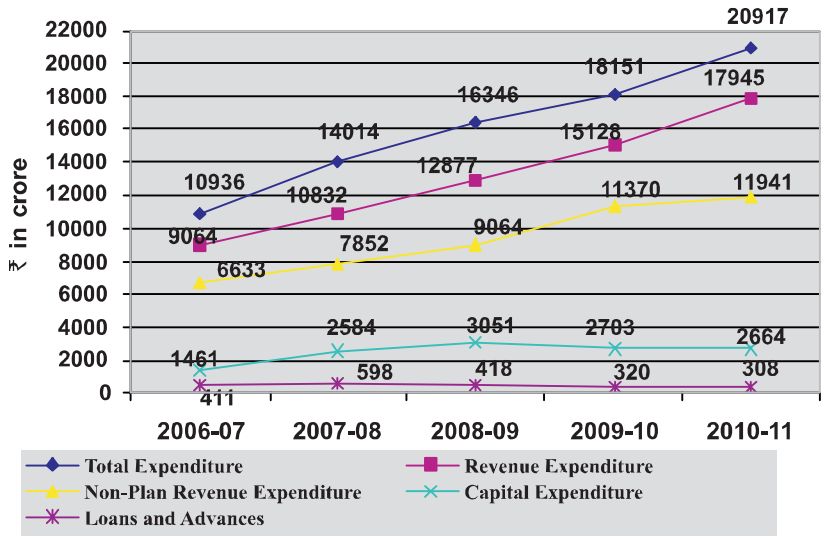
1.4 Application of resources

The analysis of the allocation of expenditure at the State Government level assumes significance as the responsibilities for major expenditure are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level should not be at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and composition of expenditure

Chart 1.6 presents the trends in total expenditure during 2006-07 to 2010-11. Its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8** respectively.

Chart 1.6 : Total Expenditure : Trends Compositions



- The total expenditure of the State increased from ₹ 18151 crore in 2009-10 to ₹ 20917 crore in 2010-11. The increase in total expenditure during 2010-11 was due to increase in revenue expenditure by ₹ 2817 crore

(19 *per cent*), which was partly offset by decrease in capital expenditure and loans and advances by ₹ 39 crore (one *per cent*) and ₹ 12 crore (four *per cent*) respectively over the previous year. Capital expenditure decreased mainly due to decrease in expenditure on Education, Sports, Art and Culture (₹ 44 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 286 crore) which was partly offset by increase in expenditure on Health and Family Welfare (₹ 58 crore) and Welfare of Scheduled Caste, Scheduled Tribe and Other Backward Classes (₹ 129 crore).

- The trend in total expenditure in the form of Non-Plan and Plan expenditure during 2010-11 revealed that Non-Plan expenditure and Plan expenditure constituted 58 and 42 *per cent* respectively as against 63 *per cent* and 37 *per cent* respectively in 2009-10. The increase of ₹ 2766 crore in total expenditure was mainly due to increase in Plan expenditure (₹ 2064 crore). The percentage of Non-Plan Revenue Expenditure (NPRE) to the total expenditure oscillated between 56 and 63 during 2006-11. The NPRE to total expenditure sharply increased from 56 *per cent* in 2008-09 to 63 *per cent* during 2009-10 which further decreased to 57 *per cent* in 2010-11.

Chart 1.7 : Total Expenditure : Trends in Share of its components (Share in *per cent*)

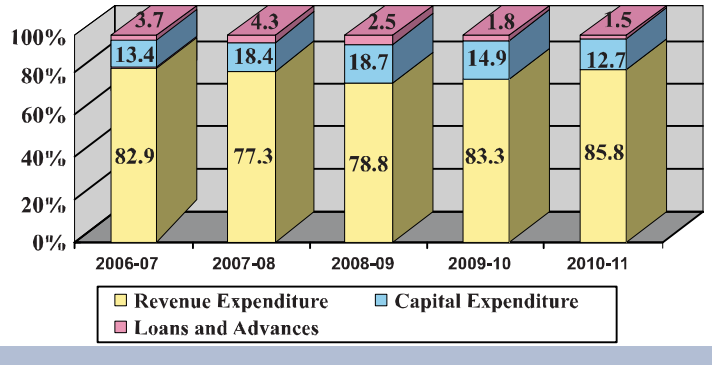
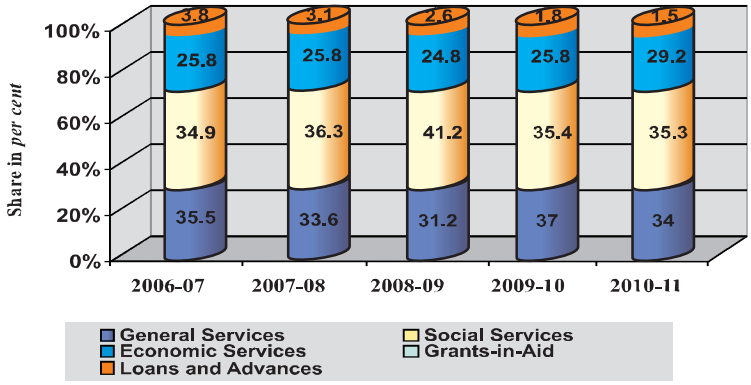


Chart 1.8: Total Expenditure:Trends by 'Activities'



- Revenue expenditure had a dominant share in total expenditure and accounted for 86 *per cent* of the total expenditure during 2010-11 against 83 *per cent* during 2009-10. The increase was mainly due to increase in expenditure on Social Services and Economic Services.
- Revenue expenditure increased from ₹ 9064 crore in 2006-07 to ₹ 17945 crore in 2010-11.
- Plan revenue expenditure increased from 25 *per cent* of the total revenue expenditure in 2009-10 to 33 *per cent* in 2010-11, while the rate of growth of Plan Revenue Expenditure (PRE) showed wide fluctuation between minus 1.4 *per cent* and 61 *per cent* during 2006-11. During 2010-11 growth rate of PRE increased significantly to 61 *per cent* against minus 1.4 *per cent* growth rate in 2009-10. The growth rate of NPRE decreased sharply from 25.4 *per cent* in 2009-10 to five *per cent* in 2010-11.
- The buoyancy of revenue expenditure with GSDP increased slightly from 1.62 to 1.66, while with respect to revenue receipt it decreased from 1.22 to 0.77 during 2010-11. The growth rate of revenue expenditure was 19 *per cent* against 11 *per cent* growth rate of GSDP during the year.
- Capital expenditure accounted for 13 to 19 *per cent* of the total expenditure during 2006-11. The percentage of capital expenditure to the total expenditure decreased from 15 *per cent* in 2009-10 to 13 *per cent* in 2010-11.
- The capital expenditure was 2.46 *per cent* of GSDP and was significantly low in comparison to the projection made in MTFP for 2010-11 (5.80 *per cent*).
- Loans and advances accounted for one to four *per cent* of the total expenditure during 2006-11. It decreased from ₹ 320 crore in 2009-10 to ₹ 308 crore in 2010-11, mainly due to decrease in loans to Water Supply and Sanitation (₹ 40 crore) during the current year.
- During 2006-11, expenditure on General Services was much higher (except 2008-09) than the expenditure on Social and Economic Services. This was indicative of more expenditure on non-developmental/less productive services.

1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Chart 1.9** and **Table 1.4** present the trend in the expenditure on these components during 2006-11.

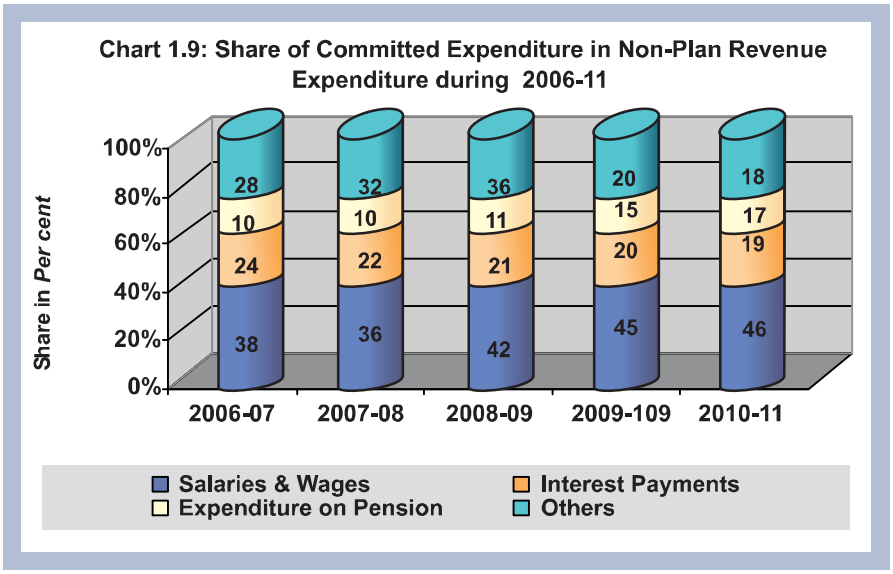


Table 1.4: Components of Committed Expenditure

(₹ *in crore*)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE#	Actuals
Salaries* & Wages , *Of which*	2744 (27)	2985 (25)	3948 (30)	5342 (35)	5774	5642 (30)
Non-Plan Head	2518 (25)	2802 (23)	3801 (29)	5154 (34)	5535	5434 (29)
Plan Head**	226 (2)	183 (2)	147 (1)	188 (1)	239	208 (1)
Interest Payments	1613 (16)	1758 (15)	1887 (14)	2307 (15)	2135	2228(12)
Expenditure on Pensions	679 (7)	818 (7)	988 (7)	1681 (11)	1401	2081(11)
Subsidies	211 (2)	77 (1)	37 (0.3)	41 (0.3)	¥	80
Total	**5247(52)**	**5638(47)**	**6860 (52)**	**9371(62)**		**10031(53)**

.Source: Finance Accounts of Government of Jharkhand
Figures in parentheses indicate percentage of Revenue Receipts
* It also includes salaries paid out of grants-in-aid.
**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.
B.E. are gross figures while the actuals are net figures.
¥ Budget not available

Salary and Wages

- Salary (₹ 5642 crore), interest (₹ 2228 crore) and pension (₹ 2081 crore) alone accounted for 48 *per cent* of the total expenditure and consumed 53 *per cent* of the revenue receipts during 2010-11. Expenditure on salary under the Non-Plan revenue head as a percentage of Non-Plan revenue expenditure was 47 *per cent* during 2010-11.
- The expenditure on salaries, pension and interest payment as a percentage of Non-Plan Revenue Expenditure was 83.33 *per cent* during 2010-11 against the target of 75 *per cent* as laid down in the MTFP.
- The expenditure on salaries and wages constituted 28 to 35 *per cent* of revenue expenditure and 25 to 35 *per cent* of revenue receipts during 2006-11. However, in 2010-11, it decreased to 31 *per cent* and 30 *per cent* respectively against 35 *per cent* each in 2009-10.

- The Non-plan salary expenditure during 2010-11 was exceeded by ₹ 861 crore against the normative projection of ₹ 4573 crore made by the TFC.
- The salary expenditure under the Non-Plan head and Plan head were less by ₹ 101 crore and ₹ 31 crore respectively against the budget provisions for the year.
- Expenditure on salaries under the Non-Plan heads during 2010-11 increased by ₹ 280 crore (five *per cent*) over the previous year, whereas the salary expenditure under Plan heads increased by ₹ 20 crore (11 *per cent*) over the previous year.

Pension

- The expenditure on pension increased by 206 *per cent* from ₹ 679 crore in 2006-07 to ₹ 2081 crore in 2010-11. It exceeded by ₹ 680 crore (49 *per cent*) of the budget estimate for 2010-11.
- Pension payment was ₹ 2081 crore against the normative projection of ₹ 1173 crore by the TFC. It increased by 24 *per cent* (₹ 400 crore) during 2010-11 against 70 *per cent* in 2009-10 over the previous year. However, a growth rate of 10 *per cent* was projected by the TFC. With the increase in the number of pensioners, the pension liability is likely to increase in future. However, the State had adopted Contributory Pension Scheme to reduce the future burden on pension and pensionery benefits.

Interest

- Interest payment during 2010-11 was ₹ 2228 crore against the normative projection of ₹ 2399 crore by the TFC. It decreased by ₹ 79 crore (three *per cent*) during 2010-11 against 22 *per cent* increase in 2009-10. As a percentage of revenue receipts, interest payments decreased from 15 *per cent* in 2009-10 to 12 *per cent* in 2010-11 which was less by three *per cent* against the target of 15 *per cent* laid down in the MTFP for 2010-11.

Subsidy

- The State kept its expenditure on subsidies low as ₹ 37 crore and ₹ 41 crore respectively during 2008-09 and 2009-10 which increased to double (₹ 80 crore) in 2010-11. No food subsidy and power subsidy was given during 2010-11.

1.4.3 Financial Assistance given by the State Government to local bodies and other institutions

The quantum of assistance given as grants and loans to local bodies and other institutions during the current year as compared to the last two years is presented in **Table 1.5.**

Table 1.5: Financial Assistance to Local Bodies etc.

(₹ *in crore*)

Financial Assistance to Institutions*	2008-09	2009-10	2010-11
1. Panchayati Raj Institutions	-	-	875.69
2. Urban Local Bodies	735.64	485.14	246.15
3. Public Sector Undertakings	200.70	602.64	491.55
4. Autonomous Bodies	923.83	678.31	607.55
5. Non-Government Organisation	7.60	17.87	192.43
6. Others	498.08	548.98	708.34
Total	**2365.85**	**2332.94**	**3121.71**

Prepared on the basis of New Statement 8 included in Finance Accounts.

Financial assistance given to local bodies increased steadily from ₹ 2365.85 crore in 2009-10 to ₹ 3121.71 crore in 2010-11. The increase in 2010-11 was mainly due to assistance to Panchayati Raj Institution by ₹ 875.69 crore and increase in grants to others by ₹ 159.36 crore which was partly offset by less assistance to Urban Local Bodies ₹ 238.99 crore and Public Sector Undertakings ₹ 111.09 crore. The total assistance to these bodies during 2010-11 stood at 17 *per cent* of revenue expenditure against 15 *per cent* in the previous year.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects the quality of its expenditure. The improvement in the quality of expenditure involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationship for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.6** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2010-11.

Table 1.6: Fiscal Priority of the State in 2007-08 and 2010-11

(*In per cent*)

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
Other General Category States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Jharkhand State's Average (Ratio) 2007-08	16.69	66.26	36.82	18.44	18.00	3.75
General Category States Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Jharkhand State's Average (Ratio) 2010-11	19.30	48.61	35.40	12.74	18.43	3.91

*As *per cent* to GSDP
AE: Aggregate Expenditure (total expenditure) DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source : For GSDP, the information was received from the State's Directorate of Economics and Statistics.

Table 1.6 depicts the fiscal priorities given to various categories of expenditure of the State in 2007-08 as base year in comparison to the current year i.e. 2010-11.

The Jharkhand State spent a smaller proportion of its GSDP on Aggregate Expenditure in 2007-08 as compared to General Category States but during 2010-11 the State has spent higher proportion of its GSDP as Aggregate Expenditure compared to General Category States.

Development Expenditure as a proportion of Aggregate Expenditure in Jharkhand has been marginally higher than the General Category States' average during 2007-08 but this has been reduced to 48.61 *per cent* in the current year, as Jharkhand has spent very less proportion on this account as compared to General Category States.

Capital Expenditure as a proportion of Aggregate Expenditure of the State has been marginally higher than the General Category States' average during 2007-08 but this has been slightly reduced in the current year, as the State has spent very less proportion on this account as compared to General Category States. Decreased priority to physical capital formation will further decrease the growth prospects of the State.

The State has given adequate priority to education sector while less priority to health sector as compared to General Category States during 2007-08 as well as in current year.

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[3]. Apart from improving the allocation towards development expenditure[4], particularly in view of the fiscal space being created on account of the decline in debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.7** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted amounts and expenditure during the previous years, **Table 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic services.

[3] Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[4] The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

Table 1.7: Development Expenditure

(₹ *in crore*)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE*	Actuals
Development Expenditure (a to c)						
a. Development Revenue Expenditure	5252 (48)	6224 (44)	7918 (48)	8523 (47)	10673	10954 (52)
b. Development Capital Expenditure	1389 (13)	2476 (18)	2875 (18)	2591 (14)	3583	2544(12)
c. Development Loans and Advances	397 (4)	586 (4)	411 (3)	308 (2)	403	296(1)
Figures in parentheses indicate percentage to aggregate expenditure (R.E. +C.E. +L&A)						
* Budget estimates are gross figures while actuals are net figures.						

(Source: Finance Accounts of Government of Jharkhand)

Table 1.8: Efficiency of Expenditure Use in Selected Social and Economic Services

(*Per cent*)

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M*		S&W	O &M
Social Services (SS)						
General Education	0.41	58.95	00	0.08	52.36	00
Health and Family Welfare	12.40	65.83	0.05	17.50	60.24	0.05
WS, Sanitation & HUD	66.48	28.23	17.49	39.60	25.34	4.88
Total (SS)	**12.82**	**45.47**	**0.95**	**8.46**	**51.00**	**0.45**
Economic Services (ES)						
Agri. & Allied Activities	0.94	41.61	0.01	2.71	33.62	0.04
Irrigation and Flood Control	43.80	95.82	1.27	50.38	96.97	00
Power & Energy	00	00	00	00	00	1.12
Transport	71.61	22.99	8.77	82.79	38.61	43.56
Total (ES)	**37.75**	**29.53**	**1.83**	**37.53**	**47.40**	**5.16**
Total (SS+ES)	**23.32**	**40.03**	**1.25**	**19.84**	**50.23**	**1.75**

TE: Total Expenditure of that sector; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance *.

* As per Finance Accounts it represents actual expenditure booked under detailed head -05- Maintenance and Repairs..

(Source: Finance Accounts of Government of Jharkhand)

The development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. Development revenue expenditure constituted the major share of this expenditure and ranged between 44 and 52 *per cent* of total expenditure during 2006-11. Capital expenditure had a lesser share and ranged from only 12 to 18 *per cent* of the total expenditure of the State during 2006-11. The loans and advances by the State ranged from one to four *per cent* of total expenditure during the aforesaid period. The growth rate of developmental revenue expenditure increased sharply from eight *per cent* in 2009-10 to 29 *per cent* in 2010-11, while the growth rate of developmental capital expenditure improved from minus 10 *per cent* in 2009-10 to minus 2 *per cent* in 2010-11. Developmental loans and advances recorded consistent decrease from ₹ 586 crore in 2007-08 to ₹ 296 crore in 2010-11. Moreover, as depicted in the above table, developmental capital expenditure and developmental loans and advances were much below the budgeted amounts while the developmental revenue expenditure was more than the budget estimate during 2010-11.

Expenditure on Social Services

- Expenditure on Social Services increased steadily by 91 *per cent* from ₹ 3878 crore in 2006-07 to ₹ 7404 crore in 2010-11. However, its percentage to total expenditure was hovering around 35 *per cent* during 2006-11, except 42 *per cent* in 2008-09. Expenditure on Social Services accounted for 54 *per cent* of total Developmental Expenditure (₹13794 crore) during 2010-11.
- During 2010-11, the expenditure on Social Services increased by 14 *per cent* (₹ 914 crore) over the previous year. Increase in expenditure of ₹ 914 crore on Social Services during 2010-11 was due to increase in revenue expenditure on all the social services which was partly offset by less capital expenditure.
- Out of the total expenditure on Social Services during 2006-11, 49 to 52 *per cent* was incurred on Education, Sports, Arts and Culture, 10 to 12 *per cent* on Health and Family Welfare and 10 to 15 *per cent* on Water Supply and Sanitation, Housing and Urban Development.

Expenditure on Economic Services

- The expenditure on Economic Services increased by 102 *per cent* from ₹ 3160 crore in 2006-07 to ₹ 6390 crore in 2010-11, ranging between 27 *per cent* and 31 *per cent* of the total expenditure in 2006-11. It constituted 46 *per cent* of the developmental expenditure during 2010-11.
- Out of the total expenditure on Economic Services, the percentage of expenditure on Agriculture and Allied Activities remained at 13 *per cent* in 2009-10 and 2010-11. Expenditure on Energy decreased from 14 *per cent* in 2009-10 to 13 *per cent* in 2010-11, while expenditure on Transport decreased significantly from 24 *per cent* in 2009-10 to 18 *per cent* in 2010-11.
- The percentage of sector-wise capital expenditure to sector-wise total expenditure on Social Services decreased during 2010-11, except on Health and Family Welfare, while expenditure on Economic Services increased over the previous year under all the sectors except Rural Development.
- During 2010-11, the State Government spent only ₹ 173.91 crore under the detailed head- "05- Maintenance and Repairs to maintain public assets". The share of operation and maintenance in revenue expenditure on Social Services decreased from 0.95 *per cent* in 2009-10 to 0.45 *per cent* in 2010-11 due to less expenditure on Water Supply, Sanitation, Housing and Urban Development. The share of operation and maintenance in revenue expenditure on Economic Services increased from 1.83 *per cent* in 2009-10 to 5.16 *per cent* in 2010-11 due to increase in revenue expenditure on Energy and Transport.

1.6 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also to meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.6.1 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2011 is given in **Table 1.9.**

Table 1.9: Department-wise Profile of Incomplete Projects

(₹ *in crore*)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects*	Cost Over Runs	Cumulative actual expenditure as on 31.3.2011
Road Construction Department	63	1361.45	193.19	-	619.57
Drinking Water and Sanitation Department	9	18.46	-	-	6.10
Water Resources Department	89	1361.61	1822.44	-	861.26
Building Department	6	33.33	1.74	-	15.94
Total	**167**	**2774.85**	**2017.37**	**–**	**1502.87**

*** Indicates the Revised total cost of the projects as per the last revision by the State Government.**

(Source: Finance Accounts of Government of Jharkhand)

- The above 167 incomplete projects pertained to the Road Construction Department (63), Drinking Water and Sanitation Department (9), Water Resources Department (89) and Building Construction Department (6).
- The target dates for completion of the incomplete projects given in **Table 1.9** were from March 2006 to March 2011. Revised dates for completion of the projects had not been provided by the Government.
- The investment in total 167 incomplete projects as on 31.03.2011 amounted to ₹ 1502.87 crore against the estimated cost of ₹ 2774.85 crore.

1.6.2 Investment and returns

As of 31 March 2011, the Government had invested ₹ 135.18 crore in eight Government Companies (₹ 22.80 crore) and 16 Co-operatives, Banks and societies (₹ 112.38 crore) since inception of the State in November 2000 **(Table 1.10)**. The average return on this investment was reported to be 'nil' during the last five years, except 2010-11 when dividend of ₹ 40 lakh (0.3 *per cent*) was received, while the Government paid an average interest rate of 7.92 *per cent* on its borrowings during 2006-2011.

Table 1.10: Returns on investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	28.70	98.96	112.47	128.73	135.18
Return (₹ in crore)	Nil	Nil	Nil	Nil	0.40
Return *(per cent)*	Nil	Nil	Nil	Nil	0.3
Average rate of interest on Govt. borrowing *(per cent)*	8.20	7.97	7.42	8.03	7.98
Difference between interest rate and return *(per cent)*	8.20	7.97	7.42	8.03	7.68

(Source: Finance Accounts of Government of Jharkhand)

The investment of ₹ 6.45 crore (five *per cent*) made during 2010-11 was mainly in Government Companies (₹ 2.25 crore) and Integrated Child Development Programme, financed by the National Co-operative Development Corporation (₹ 2.70 crore). However, the return on investment during the year was only 0.3 *per cent* of total investment at the end of March 2011 and against the normative projection of five *per cent* of the total amount of investment as at the end of 2007-08 by the TFC. In the absence of up to date 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 had not been apportioned between the States of Bihar and Jharkhand.

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.11** presents the outstanding loans and advances as on 31 March 2011 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.11: Average Interest Received on Loans Advanced by the State Government.

(₹ *in crore*)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Opening Balance	5067	5462	6016	6415	6713
Amount advanced during the year	411	598	418	320	308
Amount repaid during the year	16	44	19	22	24
Repayment as percentage of outstanding Loans and Advances	0.3	0.8	0.3	0.3	0.4
Closing Balance	**5462**	**6016**	**6415**	**6713**	**7045**
Net addition	395	553	399	298	284
Interest Receipts	38	87	110	153	99
Interest Receipts as a percentage of outstanding Loans and Advances	0.72	1.52	1.77	2.33	1.44
Interest Payments as a percentage of outstanding fiscal liabilities of the State Government.	8.77	8.57	8.26	9.00	7.98
Difference between Interest Payments and Interest Receipts (*per cent*)	(-) 8.05	(-)7.05	(-)6.50	(-) 6.67	(-)6.54

(Source: Finance Accounts of Government of Jharkhand)

- The quantum of loans advanced to co-operative societies, companies etc. by the State decreased from ₹ 320 crore in 2009-10 to ₹ 308 crore in 2010-11. The decrease was mainly due to decrease in loans and advances under Social Services during 2009-10.
- Out of total interest receipts during 2010-11 major part was in the form of interest income which accrued to the Government on the cash balances held with the Reserve Bank of India (₹ 91.48 crore). Interest receipts on loans advanced by the Government to institutions/ organizations was 'nil' while the Government borrowed funds at the rate of 8.28 *per cent* during the current year. However, interest receipts of the State for the year 2010-11 include a dividend of ₹ 40 lakh received during the year. The interest receipts stood at only 1.44 *per cent* of the outstanding loans by the end of 2010-11.
- The repayment of outstanding loans and advances was very poor ranging between 0.3 *per cent* and 0.8 *per cent* of the total outstanding loans and advances during 2006-11. The Jharkhand State Electricity Board (JSEB) was the major defaulter in re-payment of debt-service obligations. Out of the total outstanding loans of ₹ 6996 crore at the end of March 2011,₹ 6419 crore (92 *per cent*) was outstanding against JSEB and ₹ 514 crore was outstanding against urban local bodies.
- Recoveries of Loans and Advances given by the Government amounting to ₹ 901.34 crore was over due as on 31 March 2011 of which ₹ 253.62 crore and ₹ 647.72 crore pertains to principal and interest respectively. Information regarding account of loans and advances maintained by the departmental officers was not made available.

1.6.4 Cash balances and investment of cash balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.12.**

Table-1.12: Cash Balances and Investment of Cash balances

(₹ *in crore*)

Particulars	As on 1st April 2010	As on 31st March 2011	Increase/ Decrease
Cash Balances			
Investments from Cash Balances (a to d)	1359.39	1141.58	217.81 (Decrease)
a. GOI Treasury Bills	1354.98	1137.17	217.81 (Decrease)
b. GOI Securities	-	-	-
c. Other Securities, if any specify	-	-	-
d. Other Investments	4.41	4.41	-
Fund-wise Break-up of Investment from Earmarked balances (a to c)	-	-	-
Interest Realised	145.55	85.70	59.85 (Decrease)

(Source: Finance Accounts of Government of Jharkhand)

During 2010-11, the major part of the cash balances ₹ 1137.17 crore (99.6 *per cent*) of ₹ 1141.58 crore was invested in GOI Treasury Bills at an interest rate of five *per cent*, which was lesser than the average interest 7.98 *per cent* paid by the

State, on its borrowings. However, the balance with the Reserve Bank of India was ₹ 992.45 crore as on 31 March 2011. The State Government maintained a minimum cash balance of ₹45 lakh with the Reserve Bank during 2010-11.

The cash balance as on 31 March 2011 worked out by the Principal Accountant General (A&E), Jharkhand, was ₹ 891.39 crore (credit). The cash balance reported by the Reserve Bank of India as on 31 March 2011 was ₹ 992.45 crore (debit). Thus, there was a difference of ₹ 101.06 crore (debit) between the two figures which was under reconciliation (July 2011).

Although, the State had a cash balance of ₹ 1141.58 crore at the end of March 2011 invested in GOI treasury bills and others, it borrowed ₹ 500 crore at an interest rate of 8.28 *per cent* during the year.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

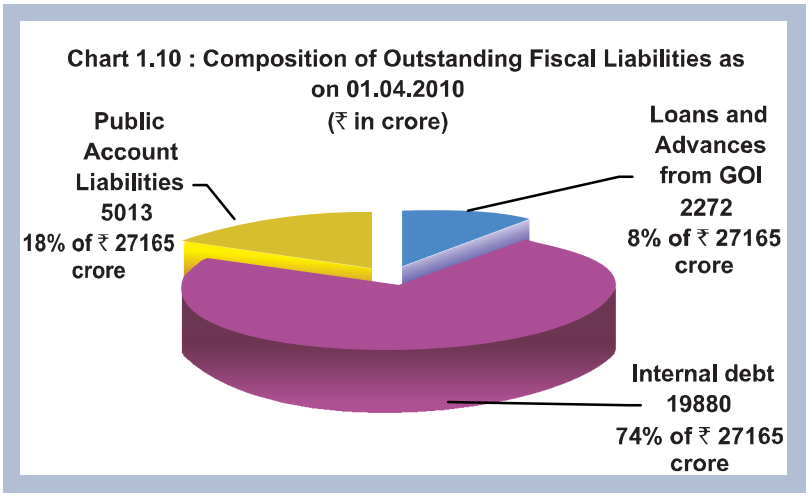
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.4 Part B*** gives an abstract of such liabilities and assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of capital outlay, loans and advances given by the State Government and cash balances.

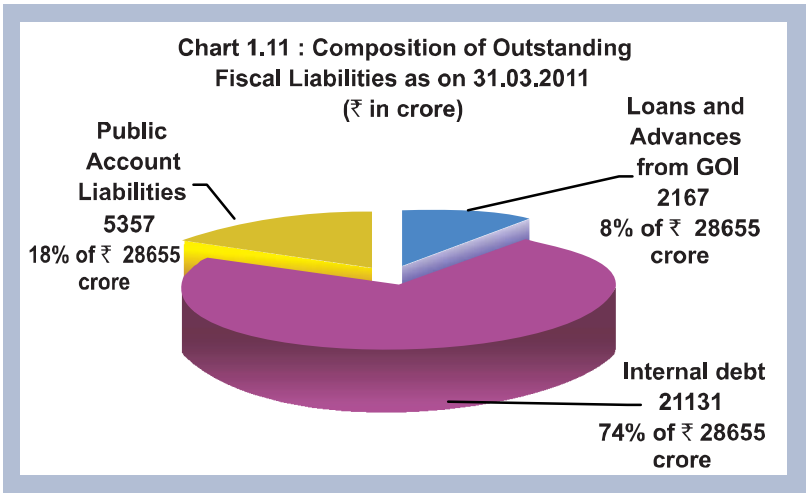
The Jharkhand FRBM Act 2007 defines the total liabilities of the State as the liabilities under the Consolidated Fund of the State and the Public Account of the State, which includes loans and advances from the Central Government, open market borrowings, loans from financial institutions, public fund balances of Government employees, Reserve funds, Deposits etc.

Adverse balances noticed in (i) Deposit work done for public bodies or private individuals (₹ 21 lakh), (ii) State Transport Corporation Fund (₹ three lakh), (iii) Jharkhand Area Autonomous Council Fund (₹ seven lakh), (iv) Forest Advances (₹ 13.04 crore) and (v) Other Departmental Advances (₹1.51 crore) was the result of non-apportionment of assets and liabilities between Bihar and Jharkhand.

Fiscal Liabilities

The trends of outstanding fiscal liabilities of the State are presented in ***Appendix 1.3.*** However, the compositions of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.10** and **1.11.**





- The overall fiscal liabilities of the State increased by 48 *per cent* from ₹ 19417 crore in 2006-07 to ₹ 28655 crore in 2010-11. The growth rate of fiscal liability was only five *per cent* during 2010-11 against 13 *per cent* in 2009-10.
- Fiscal liabilities of the State comprises of ₹ 548.22 crore in shape of Reserve Fund (₹ 544.75 crore as State Disaster Response Fund, and ₹ 3.47 crore as General reserve Funds of Government Commercial Departments/Undertakings). During 2010-11, ₹ 31 lakh was the receipt under the Reserve Fund, which was the net effect of Credit of ₹ 259.45 crore of Central and State share in the State Disaster Response Fund during the year minus reimbursement while disbursement from the fund was ₹ 223.50 crore during the year. The balance under Calamity Relief Fund and its Investment Account were transferred to State Disaster Response Fund during 2010-11 on the recommendation of TFC.
- Increasing liabilities raises the issue of sustainability of State Government finances. The ratio of fiscal liabilities to GSDP decreased steadily from 29 *per cent* in 2006-07 to 26 *per cent* in 2010-11. The TFC has recommended that Jharkhand should keep its fiscal liabilities to

29 *per cent* of GSDP in 2010-11. In comparison to revenue receipt and State's own resources these liabilities decreased from 1.8 times and 4.02 times in 2009-10 to 1.53 times and 3.36 times in 2010-11 respectively.

- Apportionment of fiscal liabilities of undivided Bihar between the successor States of Bihar and Jharkhand had not been done so far (September 2011).

1.7.2 Status of Guarantees - Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees are extended.

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 Legislature and no limit was fixed for guarantees given on the security of the Consolidated Fund of the State.

In Statement 9 of the Finance Accounts, no data has been given as no information in this regard was provided by the Government during 2010-11 and even earlier. No further details were made available.

The Twelve Finance Commission had recommended the setting up of a Sinking Fund, 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. However, no such fund had been set up till date.

No off-budget borrowings under Article 293 of the Constitution of India were made by the State during the last five years.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability[5] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[6] ; sufficiency of non-debt receipts[7] ; net availability of borrowed funds[8] ; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.13** analyses the debt sustainability of the State according to these indicators for the period of four years beginning from 2006-07.

[5] Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time. It 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 a balance between costs of additional borrowings and returns from such borrowings. It means that a rise in fiscal deficit should match the increase in capacity to service the debt.

[6] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the cost of public borrowings, the debt-GDP ratio is likely to be stable provided the 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), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

[7] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[8] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table 1.13: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	899	3087	(-)1966	(-)270	980
Sufficiency of Non- debt Receipts (Resource Gap)	4693	(-)1033	(-)1171	103	(+)899
Net Availability of Borrowed Funds	444	439	583	773	(-)737
Burden of Interest Payments (IP/RR Ratio)	16	15	14	15	12
Maturity Profile of State Debt (In Years)					
0 – 1	*	5	775(4)	1183(5)	1868(8)
1 – 3	*	1850(10)	2508(13)	2885(13)	2977(13)
3 – 5	*	2689(15)	2829(14)	3263(15)	2872(12)
5 – 7	*	2771(15)	2635(13)	2569(12)	3284(14)
7 and above	*	11084(60)	11225(56)	12252(55)	12298(53)
Total	*	**18399**	**19972**	**22152**	**23299**

** Figures not available.*
Percentage to total are shown in brackets.

- As may be seen from the above table, the quantum spread together with the primary deficit recorded wide fluctuation between minus ₹ 1966 crore and ₹ 3087 crore during 2006-11 due to wide fluctuation in the growth rate of GSDP. From positive ₹ 3087 crore during 2007-08 it decreased to negative ₹ 1966 crore in 2008-09 which slightly improved during 2009-10 (minus ₹ 270 crore) and again turned to positive ₹ 980 crore during 2010-11 leading the State to a debt sustainable position.
- During 2010-11 the quantum spread was positive (₹ 864 crore) along with primary surplus (₹ 116 crore) resulted in improvement in debt-GSDP ratio in the year.
- As far as the resource gap is concerned, against a positive resource gap of ₹ 4693 crore in 2006-07, the resource gap of the State decreased to ₹ 899 crore during 2010-11. The resource gap improved during 2009-10 and stood at ₹ 103 crore against minus ₹ 1171 crore in 2008-09 which further increased during 2010-11 indicative of fluctuating fiscal position of the State.
- The ratio of interest payments to revenue receipts showed significant improvement as it declined from 16 *per cent* in 2006-07 to 12 *per cent* in 2010-11. Also, if compared with the previous year it showed improvement and decreased from 15 *per cent* to 12 *per cent* in 2010-11.
- The maturity profile of the State debt shows that the debt liability was increasing for every block period which is indicative of increasing debt liabilities in future. Further borrowings should be made in such a way that there is no bunching of debt repayments in any year as that will cause undue stress on the budget.
- The State needs to improve the position in the ensuing years by strictly adhering to the policies adopted in the FRBM Act.

1.9 Fiscal imbalances

Three key fiscal parameters - revenue deficit, fiscal deficit and primary deficit - indicate the extent of the overall fiscal imbalances in the finances of the State during a specified period. 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 resources raised are applied, are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing of these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under the FRBM Act/Rules for the financial year 2010-11.

1.9.1 Trends in deficits

Charts 1.12 and **1.13** present the trends of deficit indicators over the period 2006-11.

Chart 1.12: Trends in Deficit Indicators

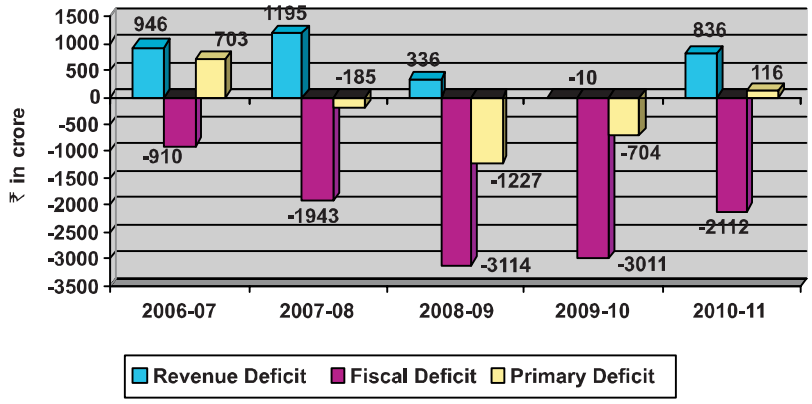
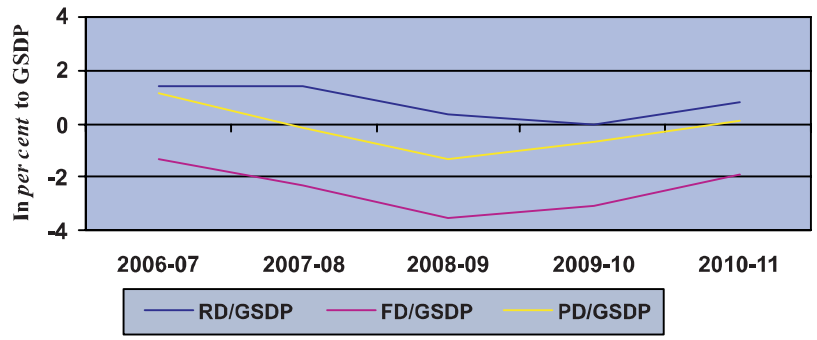


Chart 1.13: Trends in Deficit indicators Relative to GSDP



- The State had a revenue surplus during 2006-11, except a deficit of ₹ 10 crore only in 2009-10. The amount of revenue surplus, though, decreased from ₹ 1195 crore in 2007-08 to ₹ 336 crore in 2008-09 it improved to ₹ 836 crore during 2010-11. The State had achieved the target of reducing the revenue deficit to 'nil' by the end of 2009 as given in FRBM Act of the State and the TFC. However, the State failed to achieve the revenue surplus of ₹ 3551 crore estimated for 2010-11 in its MTFP. Revenue surplus-GSDP percentage as estimated in the MTFP had also not been achieved as it was only 0.77 *per cent* during 2010-11 against the estimate of 3.92 *per cent*.

- The fiscal deficit of the State increased from ₹ 910 crore in 2006-07 to ₹ 3114 crore in 2008-09 which slightly decreased to ₹ 2112 crore during 2010-11. The percentage of fiscal deficit to GSDP showed improvement as it decreased from 3.1 *per cent* at the end of March 2010 to 1.95 *per cent* at the end of March 2011 which was within the MTFP estimate of 2.40 *per cent*. Also it was within the Thirteenth Finance Commission (TFC) recommendation to limit the FD/GSDP percentage to three by the end of 2014-15.

- Primary deficit showed wide fluctuation during 2006-11. Against a primary surplus of ₹ 703 crore in 2006-07 it turned to a primary deficit of ₹ 1227 crore in 2008-09. However, during 2009-10, it showed an improvement and the primary deficit decreased to ₹ 704 crore which further improved and resulted as a primary surplus of ₹ 116 crore in 2010-11. Against the primary deficit-GSDP ratio of 0.7 *per cent* in 2009-10 there was a primary surplus-GSDP ratio of 0.1 *per cent* recorded during 2010-11 which was slightly higher than MTFP projection of 0.05 *per cent*.

1.9.2 Components of Fiscal Deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1. 14.**

Table 1.14: Components of Fiscal Deficit and its Financing Pattern

(₹ *in crore*)

S.N.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11		
	Decomposition of Fiscal Deficit							
1	Revenue Deficit/Surplus	946	1195	336	(-)10	836		
2	Net Capital Expenditure	1461	2584	3051	2703	2664		
3	Net Loans and Advances	395	554	399	298	284		
	Financing Pattern of Fiscal Deficit*					**Receipt**	**Disbursement**	**Net**
1	Market Borrowings	262	921	1238	1674	500	302	198
2	Loans from GOI	(-)145	(-)161	(-)136	(-)133	132	236	(-)104
3	Special Securities issued to NSSF	1214	125	54	670	1228	271	957
4	Loans from Financial Institutions	143	602	1348	180	587	490	97
5	Small Savings, PF etc	229	162	200	272	572	467	105
6	Deposits and Advances	396	625	799	273	3670	3206	464
7	Suspense and Miscellaneous	(-)722	(-)447	709	(-)258	45751	45278	473
8	Remittances	(-)85	(-)146	(-)11	(-)39	3298	3292	6
9	Others	(-)382	262	(-)1087	372	-	84	(-)84
10	Overall Surplus/Deficit	(-)910	(-)1943	(-)3114	(-)3011	55738	53626	(-)2112

*All these figures are net of disbursements/outflows during the year.

(Source: Finance Accounts of Government of Jharkhand)

During 2010-11, the fiscal deficit of ₹ 2112 crore was mainly met from NSSF (₹ 957 crore), Deposits and Advances (₹ 464 crore), Loans from other institutions (₹ 97 crore), Market Borrowings (₹ 198 crore) and Small Savings, Provident Fund (₹ 105 crore), thereby increasing the interest burden in the future.

1.9.3 Quality of Deficit and Surplus

The ratio of revenue deficit to fiscal deficit 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 States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, a persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.15**) indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable for improving the productive capacity of the State's economy.

Table 1.15: Primary deficit/surplus – bifurcation of factors

(₹ *in crore*)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	10026	7451	1461	411	9323	(+)2575	(+) 703
2007-08	12071	9074	2584	598	12256	(+)2997	(-) 185
2008-09	13232	10990	3051	418	14459	(+)2242	(-) 1227
2009-10	15140	12821	2703	320	15844	(+)2319	(-)704
2010-11	18805	15717	2664	308	18689	(+)3088	(+)116

(Source: Finance Accounts of Government of Jharkhand

- During 2006-07 to 2010-11, the non-debt receipts of the State increased from ₹10026 crore to ₹ 18805 crore against a corresponding higher increase in primary revenue expenditure and primary expenditure. The capital expenditure showed fluctuations during 2006-11.
- The surplus receipts were not enough to meet the expenditure requirement under the capital account, resulting in primary deficits during the period 2007-10.
- These trends indicate that the primary deficit occurred on account of enhancement of revenue expenditure which should be curtailed in future to increase capital expenditure to enhance the productive capacity of the State.

1.10 Conclusion

The implementing agencies received ₹ 4211.08 crore during 2010-11 directly from the Government of India which was not reflected in the State Budget. This inhibits the Fiscal Responsibility and Budget Management requirement of transparency in fiscal operations and thus bypasses accountability. Non-Plan Revenue Expenditure constituted 57 *per cent* of the total expenditure. The

expenditure on salaries, pension and interest payment as a percentage of Non-Plan Revenue Expenditure was 83.33 *per cent* during 2010-11 against the target of 75 *per cent* as laid down in the Mid Term Fiscal Plan. Pension payments increased by 24 *per cent* (₹ 400 crore) during 2010-11 against 70 *per cent* in 2009-10 over the previous year. Subsidy increased from ₹ 41 crore in 2009-10 to ₹ 80 crore in 2010-11. The State has given less priority to physical capital formation as the percentage of Capital Expenditure with respect to the Aggregate Expenditure of the State was very less (16.65 *per cent*) in compare to the expenditure on this account by the General Category States (19.30 *per cent*).

Although the State had a cash balance of ₹1141.58 crore at the end of March 2011 invested in Government of India treasury bills at the rate of 5 *per cent* , it borrowed ₹500 crore at an interest rate of 8.28 *per cent* during the year. The State achieved the target of reducing its revenue deficit to zero, much before the time line given in Fiscal Responsibility Budget Management Act but it failed to achieve the target of revenue surplus of ₹ 3551 crore during 2010-11 laid down in the Mid Term Fiscal Plan of the State. The primary deficit of ₹ 704 crore in 2009-10 turned into a primary surplus of ₹ 116 crore in 2010-11. However, the State achieved the target set for fiscal deficit as the fiscal deficit of the State was 1.95 *per cent* of the Gross State Domestic Product at the end of March 2011 against the Mid Term Fiscal Plan target of 2.40 *per cent* by the end of March 2011 and also the Thirteenth Finance Commission norms for the same.

1.11 Recommendations

The Government may:

- strictly adhere to the provisions of Fiscal Responsibility Budget Management Act to achieve the financial target in the light of Finance Commission's recommendation.
- ensure proper accounting of the funds transferred to State implementing agencies and updated information should be validated by the State Government as well as Principal Accountant General (A&E), Jharkhand.
- initiate suitable measures to compress Non-Plan Revenue Expenditure and to mobilize additional resources, both through tax and non-tax sources and to collect the arrears of revenue.
- convert the financial outlays on capital expenditure into physical assets in a timely manner so that the intended outcomes of those expenditures are actually realised.
- seek better value for money in investments to save this situation of unsustainable debt from increasing fiscal liabilities accompanied by negligible rates of return on investments.