CHAPTER 1

CHAPTER 1 FINANCES OF THE STATE GOVERNMENT

1.1 Profile of Jharkhand

Jharkhand, the 28th State of the Indian Union, was carved out of Bihar on 15 November 2000. It covers an area of 79,714 square kilometre with a population of 3.30 crore. The State has vast forest and mineral resources and two thirds of its labour force depend on agriculture. A brief social and economic profile of the State is given in ***Appendix 1.1 Part A***. It would be seen that on the social development front Jharkhand was lagging behind the General Category States. Jharkhand had a lower literacy rate (67.63 *per cent*), higher maternal mortality rate (261 per lakh), lower infant mortality rate (41 per thousand live births) and more population below poverty line (40.4 *per cent*) when compared to the All India average. The population density in Jharkhand was 414 persons per square kilometre. The GSDP of the State has grown at a lower rate of 14.07 *per cent* in the last decade, as compared to the average GSDP growth (14.46 *per cent)* of General Category States.

1.1.1 Introduction

This Chapter provides a broad perspective of the finances of the Government of Jharkhand during the year 2011-12 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 analysis has been based on audit of the State Finance Accounts 2011-12 and information obtained from the State Government. 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 for last five years is given in ***Appendix 1.3.***

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year (2010-11) while ***Appendix 1.4 Part A*** provides an abstract of receipts and disbursements as well as the overall fiscal position during the year 2011-12.

Table 1.1: Summary of Current Year's Fiscal Transactions

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					**Non-plan**	**Plan**	**Total**
18781.12	Revenue Receipts	22419.45	17944.74	Revenue Expenditure	13345.30	7646.28	20991.58
5716.63	Tax revenue	6953.89	6990.80	General Services	7399.49	446.07	7845.56
2802.89	Non-Tax revenue	3038.22	6707.30	Social Services	3728.14	3558.89	7287.03
6154.35	Share of Union Taxes/ Duties	7169.93	4246.47	Economic Services	2217.67	3641.32	5858.99
4107.25	Grants from Government of India	5257.41	0.17	Grants-in-aid and Contributions	--	--	--
Section-B: Capital							
-	Misc. Capital Receipts	-	2664.30	Capital Outlay	47.88	3111.49	3159.37
24.12	Recoveries of Loans and Advances	23.42	307.56	Loans and Advances disbursed	31.21	185.89	217.10
1.39	Inter State Settlement						
2446.51	Public Debt Receipts *	2671.22	1299.43	Repayment of Public Debt	-	-	1639.01
-	Transfers to Contingency Fund	-	-	Expenditure from Contingency Fund	-	-	-
7721.42	Public Account Receipts	10813.40	7399.85	Public Account Disbursements			9727.77
640.91	Opening Cash Balance	(-)0.41	-	Inter State Settlement			75.40
			(-)0.41	Closing Cash Balance			116.85
29615.47	**Total**	**35927.08**	**29615.47**	**Total**	**13424.40**	**10943.66**	**35927.08**

Source: Finance Accounts for the years 2010-11 and 2011-12.
** Excluding net transactions under Ways and Means advances and overdraft.*

The significant changes during 2011-12 as compared to the previous year are as under:

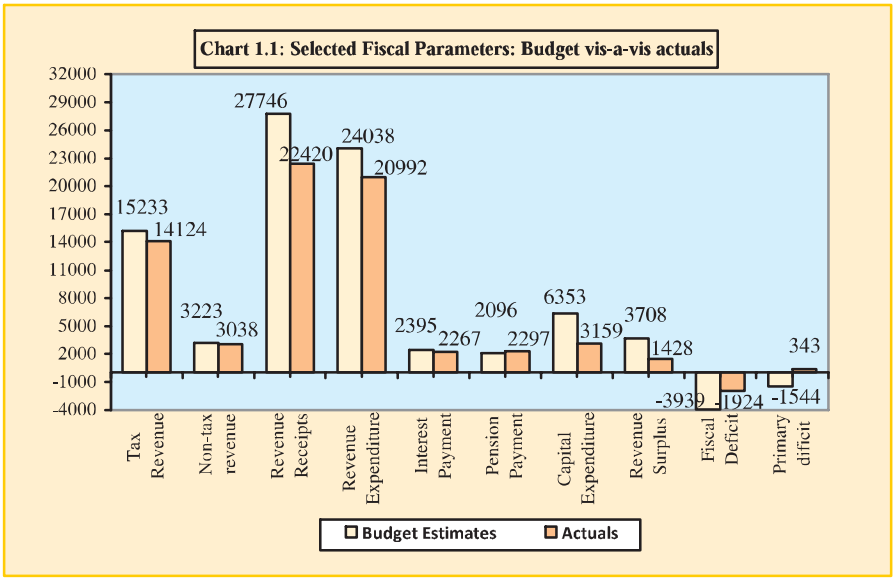
- Revenue Receipts of the State increased by ₹ 3,639 crore (19 *per cent*) over that of the previous year. The increase was due to increase in Tax Revenue by ₹ 1,237 crore (22 *per cent*), Non-Tax Revenue by ₹ 235 crore (eight *per cent*), State's Share of Union Taxes and Duties by ₹ 1,016 crore (17 *per cent*) and Grants-in-aid by ₹ 1,151 crore (28 *per cent*) over the previous year. However, Revenue Receipts were below the budget estimates of ₹ 27,746 crore.
- Against the normative assessment of Tax Revenue (₹ 8,176 crore) and Non-Tax Revenue (₹ 3,594 crore) made by the Thirteenth Finance Commission (TFC) the actual tax and non-tax receipts of the State were ₹ 6,954 crore (85 *per cent*) and ₹ 3,038 crore (85 *per cent*) respectively. Thus, on both counts it was below the normative projection made by the TFC.
- Revenue Expenditure increased by ₹ 3,047 crore (17 *per cent*) due to increase in expenditure on General Services (₹ 855 crore), Social Services (₹ 580 crore) and Economic Services (₹ 1,613 crore). However, it was lower than the budget estimates of ₹ 24,038 crore.
- Capital Expenditure increased by ₹ 495 crore (19 *per cent*) in 2011-12 over the previous year due to increased expenditure under Rural Development, Irrigation and Water Supply.

- Recovery of Loans and Advances remained almost at the same levels as in the previous year while the disbursement decreased by ₹ 91 crore (30 *per cent*) during 2011-12 over the previous year.
- Public Debt receipts increased by ₹ 224 crore (9 *per cent*) while its repayment increased by ₹ 340 crore (26 *per cent*) over the previous year.
- Public Account receipts increased by ₹ 3,092 crore (40 *per cent*) against increase in disbursements by ₹ 2,328 crore (31 *per cent*).
- The net impact of these transactions was an increase of ₹ 117.26 crore in the cash balance at the end of 2011-12 over the previous year.

1.2.1 Budget estimates vis-à-vis actuals

The budget presented by the Government provides estimated receipts and expenditure for a particular fiscal year. The importance of accuracy in estimation is widely accepted in the context of effective implementation of fiscal policy for overall economic management. Several reasons may account for the deviation of the actual realisation from the budget estimates. It could be on account of unanticipated and unforeseen events or under/over estimation of expenditure/revenue at the stage of budget preparation.

Chart 1.1 presents a comparative analysis of the budgeted and actual figures in respect of some important fiscal parameters.



The above chart shows that actual receipts and expenditures, except pension payments, were less than the budget estimates prepared by the State Government for 2011-12. The shortfall in actual Revenue Receipts (₹ 5,326 crore) was mainly due to shortfall in receipt of Grants-in-aid from Government of India (₹ 4,032 crore) against what was estimated in the State budget. The shortfall in actual Revenue Expenditure (₹ 3,046 crore) was due to shortfall in actual expenditure incurred on Social Services (₹ 2,237 crore) and Economic Services (₹ 787 crore) during 2011-12.

The Capital Expenditure of the State was less than the Budget Estimate due to less expenditure on Social Services (₹ 1,156 crore) and Economic Services (₹2,014 crore) against what was budgeted, which is a matter of concern for the State.

1.2.2 Implementation of Jharkhand Fiscal Responsibility and Budget Management Act

The Government of Jharkhand enacted the Jharkhand Fiscal Responsibility and Budget Management (FRBM) Act, 2007 (***Appendix 1.2 Part B*)**, for ensuring fiscal stability, debt sustainability and greater transparency in the fiscal operation of the Government. Under the Act, the State Government was to eliminate the Revenue Deficit by the end of March 2009 and restrict the Fiscal Deficit up to 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 to achievement of the targets.

Accordingly, the State revised some of its key fiscal targets in the FRBM (Amendment) Act, 2011 and 2012 as well as in its Mid Term Fiscal Plan (MTFP). The revised target laid down in FRBM Act, 2011 and 2012 of the State were (i) reducing its Revenue Deficit to 'nil' at the end of 31 March 2012 (ii) the Fiscal Deficit at three *per cent* of the GSDP by the end of March 2012 and (iii) Debt-GSDP ratio at 28.5 *per cent* in 2011-12.

The targets were further revised in the MTFP which are as given below:

Table 1.2: Fiscal Targets vis-à-vis achievement in MTFP

(In per cent)

Key Fiscal targets	Actual 2010-11	Target 2011-12	Actual 2011-12	Target 2012-13	Target 2013-14
Revenue Deficit (-)/Surplus (+) by GSDP	(-) 0.61	(+) 2.69	(+)1.15	(+) 3.32	(-) 1.00
Fiscal Deficit (-) /Surplus (+) by GSDP	(-)1.70	(-) 2.80	(-)1.54	(-) 2.15	(-) 2.50
Primary Deficit (-) /Surplus (+) by GSDP	(+)0.09	(-) 1.07	(+) 0.3	(-) 0.24	(-) 0.50
Debt/GSDP	23.35	25.00	24.70	25.00	25.00

- The State had achieved the targets set in the FRBM Act by eliminating the Revenue Deficit in 2006-07 by turning the deficit into a huge Revenue Surplus (₹ 946 crore), which further improved to ₹ 1,428 crore in 2011-12 with inter-year variations. However, the MTFP targets of Revenue Surplus to GSDP ratio (2.69 *per cent*) was not achieved in 2011-12.
- The percentage of Fiscal Deficit to GSDP was well within the limit (3 *per cent)* fixed under the FRBM Act during the years 2010-11 (1.90 *per cent*) and 2011-12 (1.54 *per cent*). The percentage was also within the limit fixed under MTFP (2.80 *per cent)*.
- The Debt-GSDP ratio of the State was 24.70 *per cent* during 2011-12, which was within the normative projection made by the TFC (28.5 *per cent)* and MTFP (25 *per cent*).

1.3 Resources of the State

1.3.1 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). The Capital receipts comprise Miscellaneous Capital receipts such as proceeds from disinvestments, recoveries of Loans and Advances, Debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks), 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 year 2011-12 as recorded in its Annual Finance Accounts and **Chart 1.2** depicts the trends in various components of the receipts of the State during 2007-12.

Chart 1.3 depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in receipts (₹ in crore)

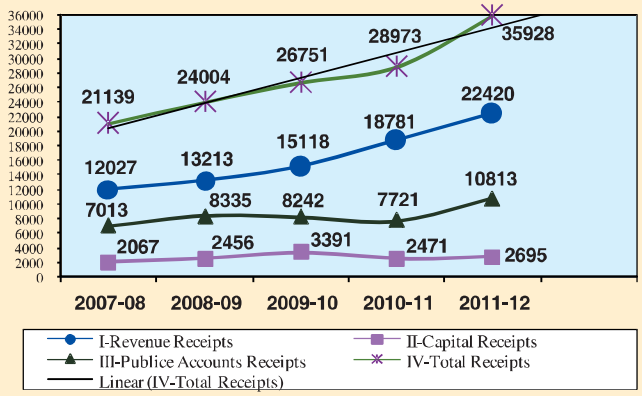
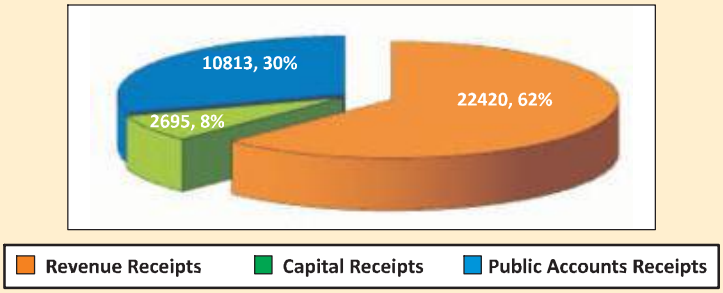


Chart 1.3: Composition of receipts during 2011-12 (₹ in crore)



- The Total Receipts of the State increased from ₹ 21,139 crore in 2007-08 to ₹ 35,928 crore in 2011-12. The growth rate of Total Receipts increased from 8 per cent in 2010-11 to 24 per cent in 2011-12 mainly due to increase in Revenue Receipts by ₹3,639 crore (19 *per cent*) and Public Account receipts by ₹3,092 crore (40 *per cent*).
- Share of Revenue Receipts to Total Receipts fluctuated between 55 *per cent* and 65 *per cent* during 2007-12. It decreased from 65 *per cent* in 2010-11 to 62 *per cent* in 2011-12 due to comparatively higher growth of Total Receipts.
- The Debt Capital receipts (Capital receipts minus recovery of Loans and Advances) increased from ₹2,447 crore in 2010-11 to ₹2,671 crore in 2011-12. The growth rate of Debt Capital receipts increased from (-) 27 *per cent* in 2010-11 to 9 *per cent* in 2011-12.
- Public Account receipts increased significantly from ₹ 7,721 crore (27 *per cent* of Total Receipts) in 2010-11 to ₹ 10,813 crore (30 *per cent* of Total Receipts) in 2011-12.

1.3.2 Grants recommended by Thirteenth Finance Commission under State Specific Needs

The allocation and release of Grants recommended by the Thirteenth Finance Commission under State Specific Needs for the State of Jharkhand are given in **Table 1.3**

Table-1.3: Grants under State Specific Needs for 2011-12

(₹ in crore)

Department/Scheme	Allocation	Release
Social Welfare, Women & Child Development- Construction of 10,000 Anganwadi Kendra	108.00	108.00
Welfare - Hostel for Tribal and Vocational Society	31.25	30.87
Home- Police Training	18.25	15.86
Home-Housing	56.25	56.25
Art, Culture, Sports & Youth Affairs-Heritage Gallery	25.00	22.00
Labour & Employment- Construction of 10 Industrial Training Institutes	50.00	50.00
Rural Development- Construction of Building at Block levels	67.50	67.50
Total	**356.25**	**350.48**

Source: Finance Department

Against the Thirteenth Finance Commission award of ₹ 356.25 crore to Jharkhand as State Specific Needs Grant for the year 2011-12 the State received ₹ 350.48 crore for various schemes in respect of different departments. Less release was under Welfare (₹ 0.38 crore), Police Training (₹ 2.39 crore) and Art and Culture (₹ 3 crore).

It was seen from the Detailed Appropriation Accounts for 2011-12 that the funds allocated by the TFC to Social Welfare, Women & Child Development Department (₹ 108 crore) and Art, Culture, Sports & Youth Affairs Department (₹ 25 crore), which were provided in the State budget could not be utilised and the entire funds were surrendered by the Departments.

1.3.3 Funds transferred to State implementing agencies outside the State Budget

The Central Government has been transferring sizeable amounts of funds directly to the State Implementing Agencies[1] for implementation of various schemes/programmes in Social and Economic sectors recognised 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 under-estimated. To present a holistic picture on availability of aggregate resources, the funds directly transferred to State implementing agencies are presented in **Table 1.4.**

Table 1.4: Funds released by Government of India directly to State Implementing Agencies

(₹in crore)

Programme/scheme (Centre: State share)	Implementing agency in the State	2010-11	2011-12
Mahatma Gandhi National Rural Employment Guarantee scheme	District Rural Development Agency	962.87	917.77
Indira Awaas Yojana	District Rural Development Agency	561.65	215.48
Swarnjayanty Gram Swarojgar Yojana District Rural Development Agency (Administration), Integrated Watershed Management Programme	District Rural Development Agency	143.44	84.67
Sarva Shiksha Abhiyan	Jharkhand Education Project Council	895.62	579.03
National Rural Health Mission, Human Resource for Health, Information, Education and Communications	(i) Jharkhand Rural Health Mission Society, TB Control Society and Blindness Control Society; (ii) Jharkhand AIDS Control Society.	300.07	609.65
National Rural Drinking Water Programme, Central Rural Sanitation Programme	Jharkhand State Water and Sanitation Mission	184.62	220.82
Member of Parliament Local Area Development scheme	District Magistrates	40.00	69.00
Schemes implemented by NGOs and other societies	NGOs and other Societies	1122.81	1498.00
Total		**4211.08**	**4194.42**
The data was not reconciled with the figures of implementing agencies. (Total amount of direct transfer of funds excludes ₹ 146.05 crore and ₹ 118.40 crore respectively released for the years 2011-12 and 2010-11 to the Central bodies and organisations outside the purview of the Government of Jharkhand).			

Source: Finance Accounts, Appendix-VII

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

[1] State Implementing Agencies include any organisation/institution including non-Governmental organisations which is authorised 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.

1.4 Revenue Receipts

The Revenue Receipts consist of the State's Own Tax Revenue, Non-Tax Revenues, Central Tax transfers and Grants-in-aid contribution from GOI. Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The trends and composition of Revenue Receipts over the period 2007-12 are presented in ***Appendix 1.3*** and also depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts (₹ in crore)

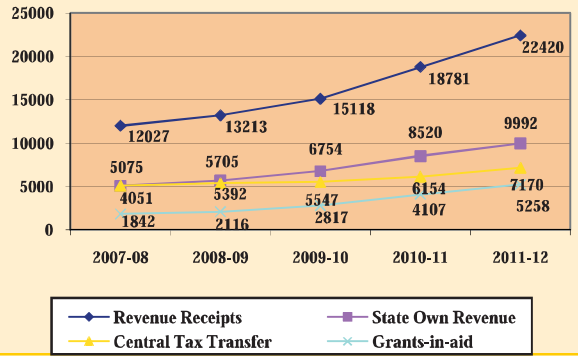
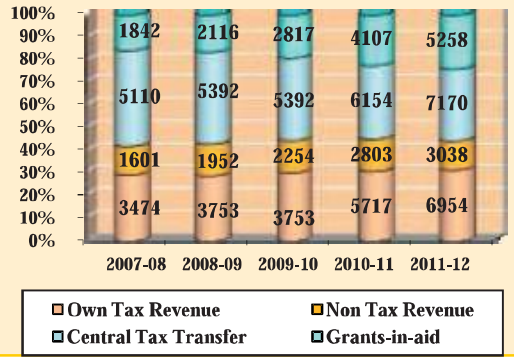


Chart 1.5: The composition of Revenue Receipts during 2007-12 (₹ in crore)



- The Revenue Receipts of the State increased from ₹ 12,027 crore in 2007-08 to ₹ 22,420 crore in 2011-12 at an average growth rate of 17.2 *per cent*. During 2011-12, the receipts grew at 19.4 *per cent* over the previous year. However, in comparison to the budget estimate, the Revenue Receipts of the State was less by ₹ 5,326 crore during 2011-12. On an average, while around 45 *per cent* of the revenue came from the State's own resources during 2007-12, Central Tax transfers and Grants-in-aid together contributed about 55 *per cent* of the total revenues during the period.
- During the year, total Revenue Receipts (₹ 22,420 crore) comprised of States' Own Tax Revenue ₹6,954 crore (31 *per cent*), Non-Tax Revenue ₹3,038 crore (14 *per cent*), Central Tax transfer ₹ 7,170 crore (32 *per cent*) and Grants-in-aid ₹5,258 crore (23 *per cent*). The receipts under

these heads grew at 21 *per cent*, eight *per cent*, 17 *per cent* and 28 *per cent* respectively over the previous year.

The trends of Revenue Receipts relative to GSDP are presented in **Table 1.5**.

Table 1.5: Trends in Revenue Receipts relative to GSDP

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	**12027**	**13213**	**15118**	**18781**	**22420**
Rate of growth of RR (*Per cent*)	20.1	9.9	14.4	24.2	19.4
R R/GSDP (*Per cent*)	14.3	15.1	15.6	17.0	18.1
State's Own Tax / GSDP	4.1	4.3	4.6	5.2	5.6
Growth rate of GSDP	25.42	4.58	10.41	14.27	12.09
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	0.79	2.15	1.38	1.69	1.60
State's Own Tax Buoyancy w.r.t GSDP	0.35	1.74	1.91	1.89	1.79

- The growth rate of Revenue Receipts increased significantly from 9.9 *per cent* in 2008-09 to 24.2 *per cent* in 2010-11. However, it decreased to 19.4 *per cent* during 2011-12.
- Revenue buoyancy with respect to GSDP showed wide fluctuations ranging between 0.79 and 2.15 during 2007-12. In 2008-09, it was highest (2.15 *per cent*) due to low growth rate of GSDP (4.6 *per cent*) in comparison to the growth rate of Revenue Receipts (9.9 *per cent*), while during 2007-08 it was at the lowest point (0.79 *per cent*) due to highest growth rate of GSDP (24.2 *per cent*). During 2011-12, growth of Revenue Receipts decreased at a higher rate than that of GSDP which resulted in fall in revenue buoyancy from 1.69 in 2010-11 to 1.60 in 2011-12.
- The State's Own Tax (SOT) with respect to GSDP buoyancy showed wide variations between 0.35 and 1.91 during 2007-12, due to wide fluctuation in the growth rate of both GSDP and Own Tax Revenue. The buoyancy gradually declined from 1.91 in 2009-10 to 1.89 in 2010-11. It further declined to 1.79 in 2011-12, when growth of SOT decreased at a rate higher than that of GSDP.
- The growth rate of GSDP of the State recorded wide variation from 4.6 *per cent* to 25.4 *per cent* during the years 2007-08 to 2011-12. While the growth rate increased to 14.3 *per cent* in 2010-11, it decreased to 12.1 *per cent* in 2011-12, against the TFC norm of 14.14 *per cent*, mainly because of decline in growth rate under Manufacturing and Industry Sector.

1.4.1 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 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 Sales Tax, Excise Duty,

[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*.

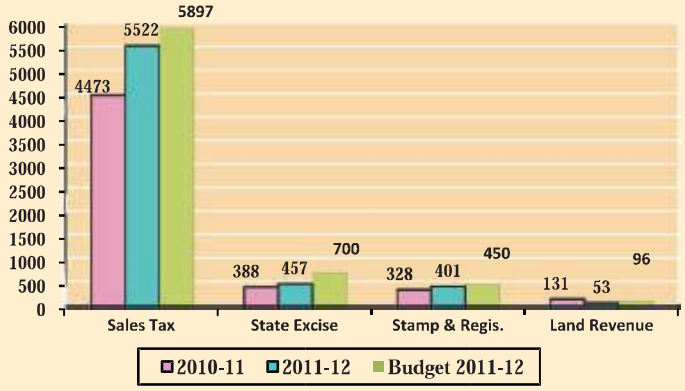
Stamp Duty, Registration Fees, Motor Vehicle Tax, Land Revenue, etc. and other Non-Tax sources.

Tax Revenue

The Tax Revenue of the State increased from ₹ 3,474 crore in 2007-08 to ₹6,954 crore in 2011-12. It increased from eight *per cent* during 2007-08 and 2008-09 to 27 *per cent* in 2010-11, which marginally decreased to 21 *per cent* in 2011-12. Out of the total Tax Revenue in 2011-12, Sales Tax contributed 79 *per cent* followed by State Excise (seven *per cent*), Stamp Duty and Registration (six *per cent*) and Taxes on vehicles (six *per cent*).

Chart 1.6 presents the major components, which contributed to increase in Tax Revenue during 2011-12 in comparison to the previous year.

Chart 1.6: Major components of increase in Tax Revenue (₹ in crore)



During 2011-12, the collection of State Own Tax Revenue was ₹ 6,954 crore against the normative projection made by TFC of ₹ 8,176 crore. The main reason for non-achievement of the MTFP and TFC targets was lesser collection of Sales Tax and State Excise than estimated. The actual collection under these heads was ₹ 5,522 crore and ₹ 457 crore against the budget estimate of ₹ 5,897 crore and ₹ 700 crore respectively during the year.

The Own Tax to GSDP ratio in 2011-12 (5.6 *per cent*) was higher than the MTFP target of 5.4 *per cent* while it was significantly less than the TFC norms of 6.38 *per cent* for the year.

Non-Tax Revenue

Non-Tax revenue collected during 2011-12 was ₹ 3,038 crore against the normative projection of ₹ 3,594 crore by the TFC for the year.

The Non-Tax Revenue (NTR) constituted 13 *per cent* to 15 *per cent* of the Revenue Receipts during 2007-08 to 2011-12. However, its share in Revenue Receipts decreased from 15 *per cent* in 2010-11 to 14 *per cent* in 2011-12. The growth rate of NTR decreased significantly from 24 *per cent* in 2010-11 to eight *per cent* in 2011-12 mainly due to less collection of revenue under Miscellaneous General Services, Other Social Services, Tourism and Industries, though collection under Non-ferrous Mining and Metallurgical Industries increased in 2011-12.

1.4.1.1 Cost of collection of Tax

The gross collection of major taxes and expenditure on collection along with All-India average during 2011-12 are given in **Table 1.6**.

Table 1.6: Cost of collection of Tax

(₹in crore)

Sl. No.	Head of accounts	Gross collection during 2011-12	Expenditure on collection	Percentage of expenditure to gross collection	All-India average of previous year
1	Taxes on Sales Trade etc.	5522	50.20	0.91	0.75
2	State Excise	457	15.95	3.49	3.05
3	Motor Vehicle Taxes	392	4.60	1.17	3.71
4	Stamp & Registration Fee	401	11.34	2.83	1.60

Source: Finance Accounts of Government of Jharkhand

It may be seen from the above Table that during 2011-12 the cost of collection of Sales Tax, State Excise and Stamps and Registration Fee was higher than the All-India average. The Government should improve the efficiency in tax collection in respect of these departments. However, collection cost of Taxes on Vehicles was much lower than the All-India average.

1.4.2 Central Tax transfer

During 2011-12, the Central Tax transfer (₹ 7,170 crore) increased by ₹1,016 crore (17 *per cent*) over the previous year and it constituted 32 *per cent* of Revenue Receipts of the State. The increase was mainly under Corporation Tax (₹ 617 crore), Taxes on Income other than Corporation Tax (₹ 162 crore), Customs Duty (₹ 167 crore) and Service Tax (₹ 242 crore).

1.4.3 Grants in-aid from Government of India

The trend of release of Grants-in-aid by GOI under Non-Plan, State Plan, Centrally Sponsored and Central Plan Schemes is shown in the following table:

Table 1.7: Component-wise grants released by the GOI

(₹in crore)

Year	Non-Plan	State Plan	Centrally Sponsored and Central Plan Scheme	Total	Percentage increase
2007-08	556.49	752.18	533.10	1841.77	21
2008-09	591.91	1054.18	469.79	2115.88	15
2009-10	1145.33	982.97	688.33	2816.63	33
2010-11	1281.40	1826.99	998.86	4107.25	46
2011-12	1550.77	2404.61	1302.03	5257.41	28

Source: Finance Accounts of Government of Jharkhand

- During 2011-12, Grants-in-aid from GOI stood at ₹5,257.41 crore with an increase of 28 *per cent* from ₹ 4,107.25 crore in 2010-11.
- Non-Plan grants, State Plan grants and grants for Centrally Sponsored and Central Plan Scheme increased by ₹ 269.36 crore (21 *per cent*), ₹ 577.62 crore (32 *per cent*) and ₹ 303.17 crore (30 *per cent*) in the current year.

- Increase in Non-Plan grants was mainly due to increase in grants on recommendation of Thirteenth Finance Commission (₹ 611.51 crore) and compensation to the State for revenue loss due to phasing out of the Central Sales Tax (₹ 243 crore).
- State Plan grants increased mainly under Backward Region Grant Fund (₹ 184 crore). Under Central Plan Scheme grants for Mid Day Meal programme in schools was increased by ₹ 199 crore.

1.5 Application of resources

The analysis of the allocation of expenditure by the State Government assumes significance since the responsibilities for effective management and application of the resources is to be wielded by 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 process of fiscal correction and consolidation duly takes into account the focus of social and developmental expenditure without ignoring the increasing trend of public expenditure financed by borrowings.

1.5.1 Growth and composition of Total Expenditure

Chart 1.7 presents the trends in Total Expenditure during the years 2007-08 to 2011-12. Its composition, both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.8 and 1.9** respectively.

Chart 1.7 : Total Expenditure : Trends and Compositions

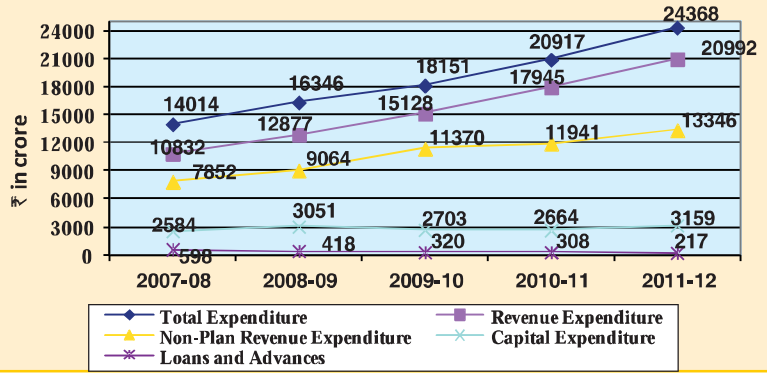
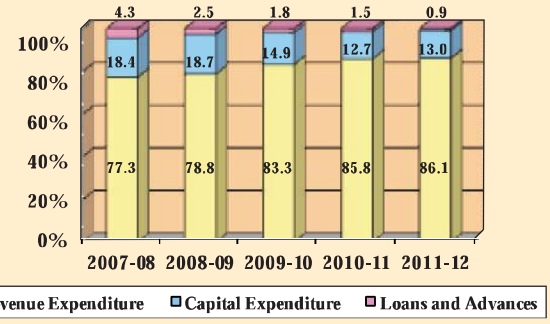


Chart 1.8 : Total Expenditure : Trends in Share of its components (Share in per cent)



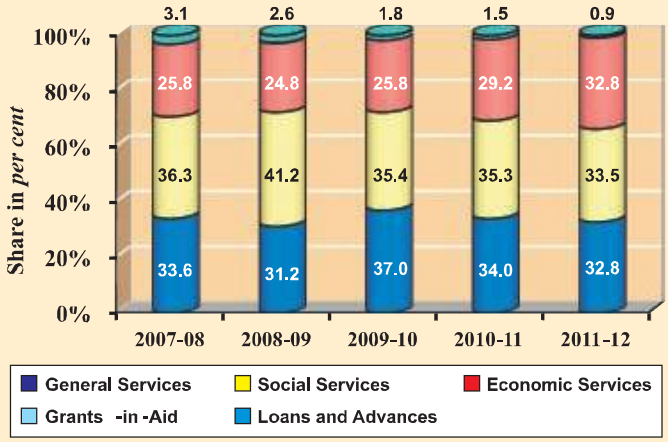
- Over the last five years, the Total Expenditure (TE) increased at an average growth rate of 15 *per cent.* During 2011-12, the growth rate was16 *per cent.*
- Of the TE, Revenue Expenditure constituted 86 *per cent* while Capital Expenditure constituted 13 *per cent.* Loans and Advances disbursed constituted only one *per cent* of the TE.
- The trend in Total Expenditure in the form of Non-Plan and Plan expenditure during 2011-12 revealed that Non-Plan expenditure and Plan expenditure constituted 55 and 45 *per cent* respectively as against 58 *per cent* and 42 *per cent* respectively in 2010-11. The increase of ₹3,451 crore in Total Expenditure was mainly due to increase in Plan expenditure (by ₹ 2,147 crore).

1.5.2 Total Expenditure in terms of activities

In terms of activities, the TE is composed of expenditure on General Services (including Interest Payments), Social Services, Economic Services, Grants-in-aid and Loans & Advances.

An analysis of the expenditure by activities (**Chart 1.9**) showed that expenditure on General Services considered as non-developmental, accounted for 32.8 *per cent* during 2011-12 which was the lowest among the last five years except for 2008-09 (31.2 *per cent*). On the other hand, developmental expenditure i.e. Social Services and Economic Services taken together constituted 66.2 *per cent* during 2011-12, against 61.1 *per cent* in 2009-10 and 64.5 *per cent* in 2010-11.

Chart 1.9 : Total Expenditure :Trends by 'Activities'



1.5.3 Revenue Expenditure (RE)

Revenue Expenditure accounted for 86 *per cent* of the Total Expenditure during 2010-11 and 2011-12. The RE increased (by 94 *per cent*) from ₹ 10,832 crore in 2007-08 to ₹ 20,992 crore in 2011-12, at an average growth rate of 18.7 *per cent.* During 2011-12, it grew at 17 *per cent* over the previous year.

- During 2011-12 growth rates of RE on Social Services and on Economic Services decreased significantly to 9 *per cent* and 38 *per cent* respectively against 20 *per cent* and 46 *per cent* in 2010-11 which was indicative of less expenditure on developmental/productive services.
- The buoyancy of Revenue Expenditure with GSDP and Revenue Receipt increased respectively from 1.30 and 0.77 in 2010-11 to 1.40 and 0.88 in 2011-12. The growth rate of Revenue Expenditure was 17 *per cent* against 12 *per cent* growth rate of GSDP during the year 2011-12.

1.5.3.1 Plan Revenue Expenditure (PRE)

The Plan Revenue Expenditure (PRE) increased from 33 *per cent* of the total RE in 2010-11 to 36 *per cent* in 2011-12, while the rate of growth of PRE showed wide fluctuation between (-) 1.4 *per cent* and 61 *per cent* during 2007-12. During 2011-12, the PRE at ₹ 7,646 crore increased by ₹ 1,642 crore (27 *per cent*) over the previous year mainly due to increase under Welfare of Scheduled Castes and Scheduled Tribes (₹ 174 crore) and Transport (₹ 507 crore).

1.5.3.2 Non-Plan Revenue Expenditure (NPRE)

During 2011-12, the NPRE was ₹ 13,346 crore as against the MTFP target of ₹ 13,724 crore. The growth rate of NPRE decreased sharply from 25.4 *per cent* in 2009-10 to 5 *per cent* in 2010-11 over the previous year. It, however, increased significantly to 12 *per cent* in 2011-12. The percentage of NPRE to the Total Expenditure oscillated between 55 and 63 during 2007-12. During 2011-12, the percentage of NPRE to Total Expenditure was 55 *per cent.* NPRE constituted 64 *per cent* of Revenue Expenditure during 2011-12.

1.5.4 Capital Expenditure

During 2007-12, the Capital Expenditure (CE) increased from ₹ 2,584 crore in 2007-08 to ₹ 3,159.37 crore in 2011-12.

- During 2011-12, the CE increased by ₹ 495.07 crore (19 *per cent*) over the previous year mainly due to increase in expenditure on Water Supply, Sanitation, Housing and Urban Development (by ₹ 126 crore), Rural Development (by ₹ 256 crore). However, it was much less than the budget estimate of ₹ 6,353 crore. Capital Expenditure accounted for 13 to 19 *per cent* of the Total Expenditure during 2007-12.
- The percentage of Capital Expenditure to the Total Expenditure remained same during 2010-11 and 2011-12 (13 *per cent*). The Capital Expenditure was 2.54 *per cent* of GSDP and was significantly low in comparison to the projection made in MTFP for 2011-12 (3.15 *per cent*).
- Loans and Advances accounted for one *per cent* (2007-08) to four *per cent* (2011-12) of the Total Expenditure during 2007-12. It decreased from ₹ 308 crore in 2010-11 to ₹ 217 crore in 2011-12, mainly due to decrease in loans for Energy (by ₹ 110 crore) during 2011-12. Loans and Advances was, however, low compared to the budget estimate of ₹ 2,731.22 crore for the year.

1.5.5 Expenditure on Salaries & Wages, Pensions, Subsidies and Interest Payments

Expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies, which are committed or obligatory in nature though Government has not expressed such expenditure as committed or obligatory.

Table 1.8 and **Chart 1.10** present the trend in the expenditure on these components during 2007-12.

Table 1.8: Components of Expenditure on Salaries & Wages, Subsidies, Pensions and Interest Payments

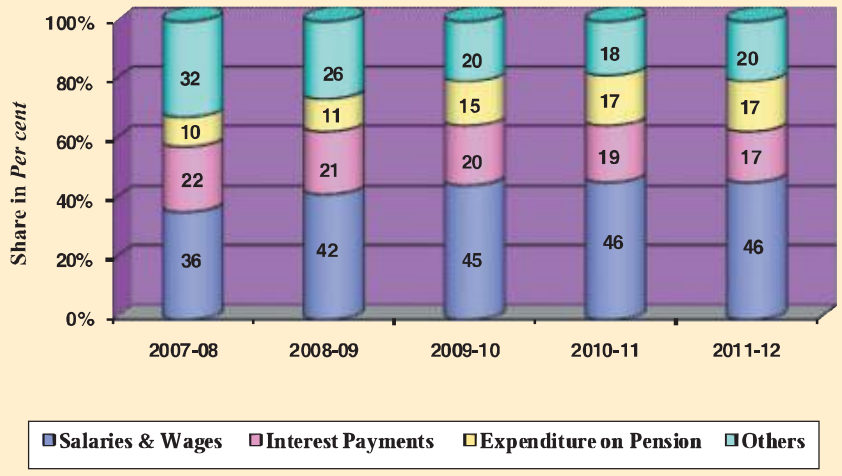
(₹ in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE#	Actuals
Salaries* & Wages , *Of which*	2985 (25)	3948 (30)	5342 (35)	5642(30)	7434	6352(28)
Non-Plan heads	2802 (23)	3801 (29)	5154 (34)	5434(29)	7053	6150(27)
Plan heads	183 (2)	147 (1)	188 (1)	208(1)	381	202(1)
Interest Payments	1758 (15)	1887 (14)	2307(15)	2228(12)	2395	2267(10)
Expenditure on Pensions	818 (7)	988 (7)	1681(11)	2081(11)	2096	2297(10)
Subsidies	77 (1)	37 (0.3)	41(0.3)	80	¥	286(2)
Total	**5638 (47)**	**6860 (52)**	**9371 (62)**	**10031 (53)**	**11925**	**11202(50)**

Figures in parentheses indicate percentage of Revenue Receipts
** It also includes salaries paid out of Grants-in-aid.*
 # B.E. are gross figures while the actuals are net figures.
¥ Budget not available.

Source: Finance Accounts of Government of Jharkhand

Chart 1.10: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2007-12



Salaries & Wages (₹ 6,352 crore), Interest Payments (₹ 2,267 crore) and Pension (₹ 2,297 crore) together accounted for 52 *per cent* of the Revenue Expenditure and consumed 49 *per cent* of the Revenue Receipts during 2011-12. The Total Expenditure on Salaries, Pension and Interest Payments was 80 *per cent* of NPRE during 2011-12 against the target of 75 *per cent* as laid down in the MTFP.

Salaries & Wages

- The expenditure on Salaries & Wages constituted 28 to 35 *per cent* of Revenue Expenditure and 25 to 35 *per cent* of Revenue Receipts during the years 2007-08 to 2011-12. The percentage of Salaries & Wages to Revenue Expenditure and Revenue Receipts decreased respectively from 31 *per cent* and 30 *per cent* in 2010-11 to 30 *per cent* and 28 *per cent* in 2011-12.
- Expenditure on Salaries under the Non-Plan heads during 2011-12 (₹ 6,150 crore) increased by ₹ 716 crore (13 *per cent*) over the previous year. The expenditure exceeded the normative projection of TFC (₹ 4,967 crore) by ₹ 1,183 crore.

Pension

- The expenditure on Pension increased from ₹ 818 crore in 2007-08 to ₹ 2,297 crore in 2011-12 at an average growth of 36 *per cent*. The growth during 2011-12 was only 10 *per cent* over the previous year, which was equal to the TFC norms. However, the amount of pension payments during 2011-12 was more than the normative projection of ₹ 1,291 crore by the TFC for the year. It also exceeded the budget estimate for 2011-12 by ₹ 201 crore (10 *per cent*).
- The State had adopted Contributory Pension Scheme from 01 January 2004 to reduce future burden on pension and pensionary benefits. The State Government entered into an agreement with New Pension System Trust on 20 March 2009 and during 2011-12 transferred ₹ 148.20 crore as Employee contribution and Government contribution (₹ 74.10 crore each)) and ₹ 0.74 crore as interest on legacy amount pertaining to the period March 2010 to November 2010 to the Central Record Keeping Agency (CRA).

Interest Payments

- Interest Payment during 2011-12 were ₹ 2,267 crore against the normative projection of ₹ 2,687 crore by the TFC. The growth rate of Interest Payments was two *per cent* over the previous year. As a percentage of Revenue Receipts, the Interest Payments were 10 *per cent* in 2011-12 against 12 *per cent* in 2010-11 and 15 *per cent* in 2009-10.
- Major components of Interest Payments during 2010-11 and 2011-12 are given in **Table 1.9** below:

Table 1.9: Major components of Interest Payments

(₹ in crore)

Interest paid for	2010-11	2011-12
Internal debt	1835.53	1941.20
Loans and Advances for GOI	215.15	165.81
State Provident fund	170.78	157.76
Total	**2221.46**	**2264.77**

Subsidy

- During 2011-12, Government of Jharkhand paid ₹ 286 crore[3] as subsidy mainly under the head 2401-Crop Husbandry (₹ 176.81 crore), 2425-Co-Operative (₹ 28.30 crore) and 2852-Industries (₹ 54.28 crore) which was specifically booked under the sub-head meant for subsidy. The amount was much more than the expenditure incurred during the year 2010-11 (₹ 80 crore).
- As Appendix III of the Finance Accounts for 2011-12, no subsidy was given for food, power and irrigation purposes. The Economic Survey Report (ESR) 2011-12 of the Government of Jharkhand estimated expenditure on food subsidy of ₹ 760 crore for the year 2011-12. We requested the Finance Department (October 2012) to intimate the actual expenditure on food subsidy and the relevant expenditure head of accounts. Their reply is awaited (November 2012).

1.5.6 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 2011-12 as compared to the last three years is presented in **Table 1.10.**

Table 1.10: Financial assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12
Panchayati Raj Institutions	-	-	875.69	581.06
Urban Local Bodies	735.64	485.14	246.15	25.34
Public Sector Undertakings	200.70	602.64	491.55	777.00
Autonomous Bodies	923.83	678.31	607.55	677.85
Non-Government Organisation	7.60	17.87	192.43	209.68
Others	498.08	548.98	708.34	2259.30[4]
	2365.85	**2332.94**	**3121.71**	**4530.23**

Source: Statement 8 of Finance Accounts

Financial assistance given to Local Bodies increased steadily from ₹ 2,365.85 crore in 2009-10 to ₹ 4,530.23 crore in 2011-12. The growth rate of this assistance increased from (-) one *per cent* in 2009-10 to 34 *per cent* in 2010-11 which further increased to 45 *per cent* in 2011-12.

[3] Appendix III of Finance Accounts

[4] Amount includes (i) Human Resource Development Department for private Schools (₹ 255.81 crore), District Administrations for Non-integrated and Integrated Action Plan (₹ 581.15 crore), Greater Ranchi Development Agency (₹ 149.46 crore), Tribal Welfare Committee for tribal development (₹ 147.46 crore) and Railway Projects (₹ 486.70 crore)

- The increase of ₹ 1,551 crore during 2011-12 was mainly due to fresh assistance paid (₹ 1,621 crore) to other institutions (mentioned in the footnote) which was partly offset by less assistance to Panchayati Raj Institutions (by ₹ 295 crore) and Urban Local Bodies (by ₹ 221 crore). The total assistance to these bodies during 2011-12 stood at 22 *per cent* of Revenue Expenditure against 17 *per cent* in the previous year.

1.5.7 Functioning of Urban Local Bodies and Panchayati Raj Institutions

Urban Local Bodies (ULBs)

The 74th Constitutional Amendment Act envisaged (1992) creation of Local Self-Government for urban areas wherein the Municipalities were provided with Constitutional status for governance. Accordingly, 18 functions such as town planning, land use regulation, water supply, etc. were to be assigned to the ULBs. Further, as per the recommendations of the Eleventh Finance Commission (EFC), the funds for the ULBs are to be allocated under the specific Minor Heads 191-Assistance to Municipal Corporation, 192-Assistance to Municipalities/Councils and 193-Assistance to Nagar Panchayats. The State Government, however, framed the Jharkhand Municipal Act, 2011 duly incorporating the 18 functions in the Act as indicated in ***Appendix 1.5*** only in February 2012. There are 39 ULBs(Nagar Nigam-3, Nagar Parishad-14, Nagar Panchayat-19, Nagar Palika-1 and Notified Area Committee-2) in the State.

It would be seen from **Table 1.11** that the State Government paid total grants of ₹ 1,492.27 crore to the ULBs during 2008-12. However, the trends showed significant decline in release of grants during the period 2008-12. During 2011-12, significant decrease was noticed in assistance to ULBs mainly due to non release of assistance for sewerage, drainage system, water supply, preparation of detailed project reports, civil facilities, construction of buildings, land acquisition etc. against release of ₹ 241.54 crore in 2010-11 for these works. Details of funds provided to ULBs are as follows:

Table 1.11: Funds available to Urban Local Bodies

(₹ in crore)

S. No.	Particulars	2008-09	2009-10	2010-11	2011-12
1	Revenue Receipt (RR)of the State	13213	15118	18781	22420
2	Revenue Expenditure (RE) of the State	12877	15128	17945	20992
3	Financial Assistance to ULBs	736	485	246	25
4	Financial Assistance as percentage to RR	5.58	3.21	1.31	0.11
5	Financial Assistance as percentage to RE	5.72	3.21	1.37	0.12
6	Own collection[5]	-	-	3.23	18.84

The Second State Finance Commission constituted in January 2009 has not made any recommendation in respect of devolution of funds to ULBs as of

[5] Information regarding funds collected by the ULBs from own sources has not been furnished by the Urban Development Department. However, information obtained during audit of various ULBs (2010-11 : Nagar Panchayats- Basukinath, Chas, Gumla, Khunti, Simdega and Municipal Council Lohardaga and 2011-12 Nagar Panchayats- Bisrampur, Chakulia, Koderma, Rajmahal, Municipality : Jugsalai and Ranchi Municipal Corporation) revealed that ₹ 22.07 crore was collected during this period.

September 2012. Further, information regarding transfer of functions and funds to the ULBs, was called for (September 2012) from the Urban Development Department. Their reply has not been received (November 2012).

In Jharkhand, Examiner of Local Accounts (ELA), an Indian Audit & Accounts Department Officer, has been entrusted with the audit functions of the ULBs and the PRIs by the State Government. As per directions of the Thirteenth Finance Commission, the State Government has enacted (March 2012) the Jharkhand Local Fund Audit (Amendment) Act, 2012 comprising the provision for audit by Director of Local Fund Audit (DLFA) at the State level to whom the Comptroller & Auditor General of India shall provide Technical Guidance and Supervision (T&GS). The audit of ULBs is, however, still being done by the ELA as appointment of DLFA has not been finalised by the State Government as of September 2012.

Panchayati Raj Institutions (PRI)

The State Government enacted the Jharkhand Panchayati Raj Act in 2001 to establish a three-tier PRI system i.e. Zila Panchayat (ZP) at district level, Panchayat Samiti at block level and Gram Panchayat at the village level. The rules were framed to enable PRIs to function as Institution of Local Self-Government. As recommended by the EFC the classification of the funds transferred to PRIs are made under the minor heads 196- Assistance to Zila Parishad, 197- Assistance to Block Panchayat and 198- Assistance to Gram Panchayat.

According to the Jharkhand Panchayati Raj Act, 2001, funds released by the Central and State Governments were to be utilised by the PRIs for execution of various development programmes relating to provision of civic amenities to rural people. At present, there are 4706 PRIs[∂] in the State. As shown in **Table 1.12**, Government paid no grants to the PRIs up to 2009-10. During 2010-12, a total amount of ₹1,456.75 crore was paid to the PRIs. Details of assistance to PRIs are as follows:

Table 1.12: Funds available to Panchayati Raj Institutions

(₹ in crore)

S. No.	Particulars	2008-09	2009-10	2010-11	2011-12
1	Revenue Receipt (RR)of the State	13213	15118	18781	22420
2	Revenue Expenditure (RE) of the State	12877	15128	17945	20992
3	Financial Assistance to PRIs*	-	-	876	581
4	Financial Assistance as percentage to RR	-	-	4.66	2.59
5	Financial Assistance as percentage to RE	-	-	4.88	2.77
6	Own collection	-	-	**	**

* Election of PRIs was held in December 2010.
** Recommendation has not been made by the State Finance Commission.

The Second State Finance Commission constituted in January 2009 has not made any recommendation in respect of devolution of funds to PRIs as of September 2012. The State Government has not identified the sources of revenues of PRIs (other than the grants/programme funds), as the rates of

∂ 24 Zila Parishad, 259 Panchayat Samities and 4423 Gram Panchayats

taxes, tolls and fees etc. to be imposed by the PRIs have not been decided and notified (September 2012).

As per the recommendations of the EFC, the Government notified (March 2011) the 'Jharkhand Panchayati Raj (Budget & Accounts) Regulation 2012' and the accounting in PRIs is done accordingly. However, audit of the PRIs are continued to be done by the ELA, as appointment of the DLFA has not been finalised by the Government so far (September 2012).

1.6 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically 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).

1.6.1 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 1.13 analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Sector Expenditure and Capital Expenditure during 2011-12, taking 2008-09 as the base year.

Table 1.13: Fiscal Priority of the State in 2008-09 and 2011-12

(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) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Jharkhand State's Average (Ratio) 2008-09	18.62	68.54	41.67	18.67	19.40	4.79
General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Jharkhand State's Average (Ratio) 2011-12	19.63	67.09	33.51	12.96	16.65	4.06

AE: Aggregate Expenditure (Total Expenditure) DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure
*As *per cent* to GSDP
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source: GSDP figures as furnished by the State's Directorate of Economics and Statistics.

The State of Jharkhand spent higher proportion of its GSDP on Aggregate Expenditure in 2008-09 and 2011-12 as compared to General Category States.

Development Expenditure as a proportion of Aggregate Expenditure in Jharkhand has also been higher than the General Category States' average during 2008-09 and 2011-12 as Jharkhand has spent more on this account as compared to General Category States.

Capital Expenditure as a proportion of Aggregate Expenditure was higher than the General Category States' average during 2008-09 but this has reduced in 2011-12, as the State has spent less proportion on this account as compared to General Category States. Decreased priority to capital formation will further decrease the growth prospects of the State.

The State has given less priority to both education and health sector as compared to the General Category States in the year 2011-12.

1.6.2 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 rationalisation measures and lay emphasis on provision of core public goods[6]. Apart from improving the allocation towards development expenditure[7], 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.

Table 1.14 presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during 2011-12 *vis-à-vis* the budgeted amounts and the expenditure during the previous years.

Table 1.14: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE*	Actuals
Development Expenditure (a to c)						
a. Development Revenue Expenditure	6224 (44)	7918 (48)	8523(47)	10954(52)	16171	13146(54)
b. Development Capital Expenditure	2476 (18)	2875 (18)	2591(14)	2544(12)	6173	3003(12)
c. Development Loans and Advances	586 (4)	411 (3)	308(2)	296(1)	1316	199(1)
Total	9286	11204	11422	13794	23660	16348
Figures in parentheses indicate percentage to aggregate expenditure (RE + CE + L&A)						
* Budget estimates are gross figures while actuals are net figures.						

Source: Finance Accounts of Government of Jharkhand and budget publication

- The Development Expenditure of the State comprised Revenue Expenditure and Capital Expenditure including Loans and Advances on Social Services and Economic Services. Total Development Expenditure increased during 2007-12 at an average annual growth rate of 15 *per cent*. During 2011-12, the growth was 18.5 *per cent* over the previous year.

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[6] *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 subsidised 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 subsidised 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.

[7] *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 categorised 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.*

- During 2007-12, Development Revenue Expenditure constituted the major part of the Total Expenditure and ranged between 44 *per cent* (2007-08) and 54 *per cent* (2011-12).
- The share of Development Capital Expenditure (including Loans and Advances) in Total Expenditure gradually decreased from 22 *per cent* in 2007-08 to 13 *per cent* in 2010-11 as well as in 2011-12. Further, as depicted in **Table 1.14**, Development Revenue Expenditure, Development Capital Expenditure and Development Loans and Advances were much below the budget estimate during 2011-12.
- Expenditure on Social Services (₹ 8,165 crore) and on Economic Services (₹ 8,183 crore) constituted 50 *per cent* of the total Development Expenditure. During 2007-12, expenditure on Economic Services increased by 98 *per cent* while the growth was 58 *per cent* in case of Social Services.

Expenditure use in selected Social and Economic Services

Table 1.15 provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of selected Social and Economic services.

Table 1.15: Efficiency of Expenditure use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2010-11			2011-12		
	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	0.08	52.36	00	0.45	54.43	0.00
Health and Family Welfare	17.50	60.24	0.05	16.57	54.96	0.10
WS, Sanitation, & HUD	39.60	25.34	4.88	48.12	25.80	2.43
Total (SS)	**8.46**	**51.00**	**0.45**	**10.75**	**40.91**	**0.29**
Economic Services (ES)						
Agriculture & Allied Activities	2.71	33.62	0.04	7.10	30.99	0.38
Irrigation and Flood Control	50.38	96.97	00	58.59	98.23	0.00
Power & Energy	00	00	1.12	16.10	00	00
Transport	82.79	38.61	43.56	49.08	10.72	11.41
Total (ES)	**37.53**	**47.40**	**5.16**	**28.40**	**17.05**	**2.92**
Total (SS+ES)	**19.84**	**50.23**	**1.75**	**19.59**	**30.28**	**3.21**

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

- Development Capital Expenditure as a percentage of total Development Expenditure decreased slightly from 19.84 *per cent* in 2010-11 to 19.59 *per cent* in 2011-12.
- Salary component in Social Services and Economic Services decreased from 51 *per cent* and 47.40 *per cent* in 2010-11 to 40.91 *per cent* and 17.05 *per cent* in 2011-12 respectively.

- During 2011-12, the State Government spent only ₹ 298.06 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 0.45 *per cent* in 2010-11 to 0.29 *per cent* in 2011-12 due to less expenditure on Water Supply, Sanitation, Housing and Urban Development.
- The share of operation and maintenance in Revenue Expenditure on Economic Services decreased from 5.16 *per cent* in 2010-11 to 2.92 *per cent* in 2011-12 due to decrease in Revenue Expenditure on Energy and Transport.

1.7 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 level 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.

1.7.1 Financial results of completed Irrigation projects

The financial results of irrigation projects of the State are presented in Appendix IX (i) of the Finance Accounts, based on information furnished by the State Government. As per the Appendix in the Finance Accounts for the year 2011-12, there is no commercial irrigation project in the State.

1.7.2 Incomplete Projects

Funds blocked up on incomplete projects impinge negatively on expenditure. As of March 2012, there were 182 incomplete capital works each costing more than ₹ one crore. A total of ₹ 572.67 crore was blocked in these projects. Department-wise information pertaining to incomplete projects as on 31 March 2012 is given in **Table 1.16.**

Table 1.16: Department-wise profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Budgeted Cost	Expenditure during current year	Cost Over Runs	Cumulative actual expenditure as on 31.3.2012
Road Construction	104	451.29	103.84	-	149.53
Drinking Water and Sanitation	7	54.65	6.95	-	40.02
Water Resources	13	267.25	6.79	-	160.42
Building Construction	58	339.81	79.84	-	222.70
Total	**182**	**1113.00**	**197.42**	--	**572.67**

*Projects costing more than ₹ one crore

Source: Finance Accounts of Government of Jharkhand

- At the end of 2011-12, the number of incomplete works/projects was 182 as compared to 167 as of March 2011. The increase was under Road Construction Department (41 projects) and Building Construction Department (52 projects) offset by decrease under Water Resources Department (76 projects).
- The target dates fixed for completion of the incomplete projects given in **Table 1.16** were from October 2005 to March 2012. The revised dates for completion of the projects had not been provided by the Government. Considering the estimated cost (original) of ₹1,113 crore, expenditure incurred during 2011-12 (₹ 197.42 crore) was very low.

1.7.3 Investment and returns

As of 31 March 2012, the Government had invested ₹ 182.57 crore in nine Government Companies[8] (₹ 29.05 crore) and 20 Co-operatives, Corporations, Banks and Societies (₹ 153.52 crore) since inception of the State in November 2000 **(Table 1.17)**. The return was ₹ 40 lakh (0.3 *per cent*) in 2010-11 and ₹ 1.17 crore (0.64 *per cent*) during 2011-12. However, Government paid interest at an average rate of 7.42 *per cent* to 8.03 *per cent* on its borrowings during the years 2007-08 to 2011-12. The average return on investments was negligible.

Table 1.17: Returns on investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	98.96	112.47	128.73	135.18	182.57
Returns (₹ in crore)	Nil	Nil	Nil	0.40	1.17
Returns *(per cent)*	Nil	Nil	Nil	0.3	0.64
Average rate of interest on Govt. borrowing *(per cent)*	7.97	7.42	8.03	7.98	7.64
Difference between interest rate and return *(per cent)*	7.97	7.42	8.03	7.68	7.00

Source: Finance Accounts of Government of Jharkhand-Statement 14

The investment of ₹ 47.39 crore (26 *per cent*) made during 2011-12 was in Regional Rural Banks (₹ 14.70 crore), Government Companies (₹ 6.25 crore) and Integrated Co-operative Development Project (₹ 26.44 crore). However, return on investment (0.64 *per cent*) was much less than the normative projection of five *per cent* of the total investment as at the end of 2007-08 made by the TFC.

Further, 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.

1.7.4 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 1.18** presents the outstanding

[8] The details of investments made, accumulated profit/loss etc. in respect of Government Companies are featured in the Audit Report (Public Sector undertakings) for the year 2011-12.

Loans and Advances as on 31 March 2012 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.18: Average Interest received on Loans advanced by the State Government

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Opening Balance of Loans (₹ in crore)	5462	6016	6415	6713	6997
Amount advanced during the year (₹ in crore)	598	418	320	308	217
Amount recovered during the year (₹ in crore)	44	19	22	24	24
Recovery as percentage of outstanding Loans and Advances	0.8	0.3	0.3	0.4	0.3
Closing Balance	**6016**	**6415**	**6713**	**6997**	**7190**
Net addition (₹ in crore)	553	399	298	284	193
Total Interest Receipts (₹ in crore)	87	110	153	99	44
Interest Receipts as a percentage of outstanding Loans and Advances	1.52	1.77	2.33	1.44	0.62
Interest Payments as a percentage of outstanding fiscal liabilities of the State Government.	8.57	8.26	9.00	7.98	7.64
Difference between Interest Payments and Interest Receipts (*per cent*)	(-)7.05	(-) 6.5	(-)6.67	(-)6.54	(-)7.02

Source: Finance Accounts of Government of Jharkhand

- The quantum of loans advanced to Co-operative Societies, Companies etc. by the State gradually decreased from ₹ 598 crore in 2007-08 to ₹ 308 crore in 2010-11 and ₹ 217 crore in 2011-12. During 2011-12, the decrease in Loans and Advances was mainly under power projects (₹ 110.48 crore).
- The outstanding Loans and Advances increased during 2011-12 by three *per cent* over the previous year. Major outstanding amounts at the end of March 2012 were against the Jharkhand State Electricity Board (₹6,584 crore) and Urban Local Bodies (₹ 526 crore).
- Out of total interest receipts of ₹ 44 crore during 2011-12, a major part was in the form of interest income (₹ 42.04 crore) which accrued to the Government on cash balances held with the Reserve Bank of India and other receipts (₹ 2.12 crore).
- Recoveries of Loans and Advances amounting to ₹ 1,035.74 crore (Principal ₹ 310.24 crore and Interest ₹ 725.50 crore) was overdue as on 31 March 2012.

1.7.5 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 1.19.**

Table-1.19: Cash balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1st April 2011	As on 31st March 2012	Increase/ Decrease
Cash Balances	(-)0.41	116.85	117.26 (increase)
Investments from Cash Balances (a to c)	879.19	4.41	874.78(decrease)
a. GOI Treasury Bills	874.78	nil	874.78(decrease)
b. GOI Securities	Nil	nil	nil
c. Other Investments	4.41	4.41	nil
Interest realised	85.70	42.02	43.68(decrease)

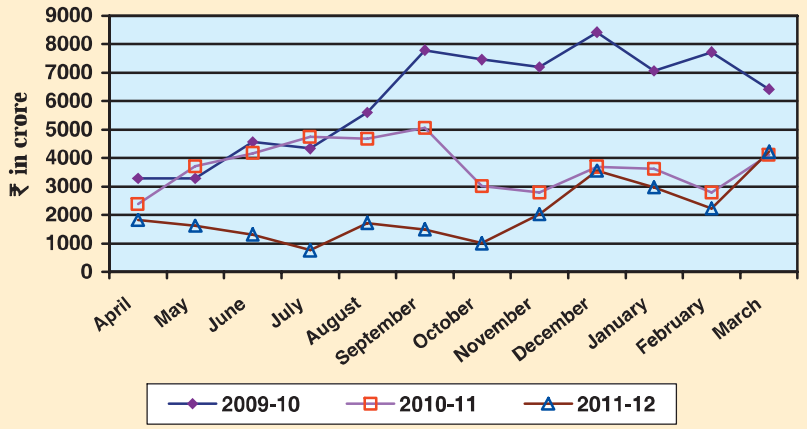
Source: Finance Accounts of Government of Jharkhand

The cash balance of the State at the end of 31 March 2012 was ₹ 116.85 crore against the cash balance of ₹ 0.41 crore in the previous year.

The State had a cash balance investment of ₹ 4.41 crore at the end of March 2012 against cash balance investment of ₹ 879.19 crore at the end of March 2011.

The cash balance with the Reserve Bank of India (RBI) as on 31 March 2012 worked out by the Accountant General (A&E), Jharkhand, was ₹ 93.85 crore (debit). However, the cash balance reported by the RBI as on 31 March 2012 was ₹ 120.58 crore (debit). Difference of ₹ 214.43 crore as on 31 March 2012 was under reconciliation. As on 30 September 2012, the unreconciled balance was ₹ 1.61 crore.

Chart 1.11: Trends in monthly cash balances



The Government of Jharkhand is required to maintain at any point of time a minimum balance of ₹ 0.45 crore in RBI. If the balance falls below the limit on any day, the deficiency is made good by taking special or normal ways and means advances or overdraft from RBI. As depicted in **Chart 1.11** the daily cash balances were handled properly and only the required balances were kept to meet normal banking transactions. During 2011-12 the State Government had to take special ways and means advance for five days and normal ways and means advance for one day to maintain the minimum balance in RBI.

1.8 Assets and Liabilities

1.8.1 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 2012, compared with the corresponding position on 31 March 2011. 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 the 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 Account balances of Small Savings, Reserve Funds, Deposits, etc.

Fiscal Liabilities

The trends of outstanding fiscal liabilities of the State are presented in ***Appendix 1.3.*** However, the composition of fiscal liabilities during the years 2010-11 and 2011-12 is presented in **Chart 1.12** and **Chart 1.13** respectively.

Chart 1.12 : Composition of Outstanding Fiscal Liabilities as on 01.04.2011 (₹ 28655 crore) (₹ in crore)

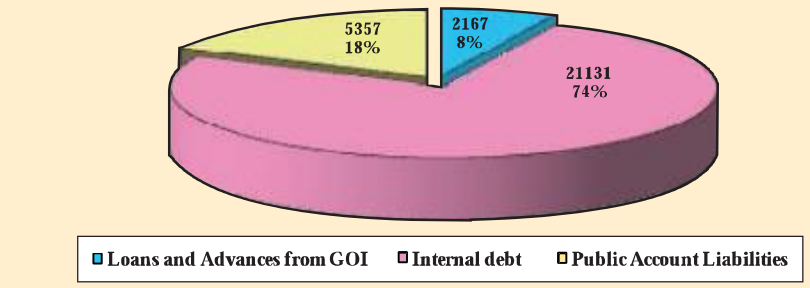


Chart 1.13: Composition of Outstanding Fiscal Liabilities as on 31.03.2012 (₹ 30664 crore) (₹ in crore)

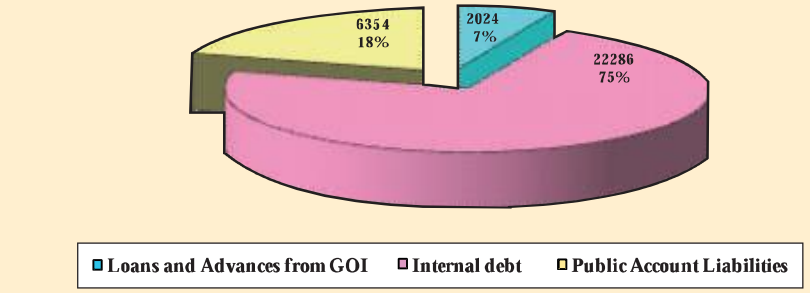


Table 1.20: Trends in Fiscal Liabilities: basic parameters

(₹ in crore)

Components	2007-08	2008-09	2009-10	2010-11	2011-12
Internal Debt	15859	17568	19880	21131	22286
Loans and Advances from GOI	2540	2404	2272	2167	2024
Public Accounts Liabilities	3216	4112	5013	5357	6354
Total	**21615**	**24084**	**27165**	**28655**	**30664**
Fiscal Liability by GSDP	25.7	27.4	28.0	25.9	24.7

- The overall Fiscal Liabilities of the State increased by 42 *per cent* from ₹ 21,615 crore in 2007-08 to ₹ 30,664 crore in 2011-12. The growth rate of Fiscal Liabilities was seven *per cent* during 2011-12 against six *per cent* in 2010-11.

- Fiscal Liabilities of the State comprises of ₹ 443.09 crore in shape of Reserve Fund (₹ 439.62 crore as State Disaster Response Fund, and ₹ 3.47 crore as General Reserve Funds of Government Commercial Departments/Undertakings).

- Increasing liabilities raises the issue of sustainability of State Government finances. Its growth rate decreased from 13 *per cent* in 2009-10 to six *per cent* during 2010-11 and marginally increased to seven *per cent* in 2011-12. However, the ratio of Fiscal Liabilities to GSDP decreased gradually from 28 *per cent* in 2009-10 to 24.7 *per cent* in 2011-12 which was less than the TFC recommendation of 28.5 *per cent* for the year. In comparison to Revenue Receipts and State's own resources, these liabilities decreased respectively from 1.53 times and 3.36 times in 2010-11 to 1.37 times and 3.07 times in 2011-12. Thus, the sustainability of debt position of the State improved during the current year.

- The Twelfth Finance Commission had recommended setting up of a Sinking Fund, to be maintained outside the Consolidated Fund of the State and the Public Account, for amortisation of all loans including loans from banks, liabilities on account of NSSF etc. However, no such Fund had been set up as of September 2012.

- Apportionment of Fiscal Liabilities of undivided Bihar between the successor States of Bihar and Jharkhand had not been done so far (September 2012).

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case 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 of Jharkhand 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 2011-12 and even earlier. However, it was stated by the Finance Department that no guarantee was given by the State during 2011-12.

1.8.3 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[9] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[10]; sufficiency of non-debt receipts[11]; net availability of borrowed funds[12]; burden of interest payments (measured by interest payments to Revenue Receipts ratio) and the maturity profile of State Government securities.

Table 1.21 analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2007-08.

Table 1.21: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + PD)	3087	(-)2022	(-)364	1825	1618
Sufficiency of Non-debt Receipts (Resource Gap)	(-)1033	(-)1171	103	899	188
Net Availability of Borrowed Funds	439	583	773	(-)737	(-)238
Debt GSDP ratio	25.7	27.4	28.0	25.9	24.7
Burden of Interest Payments (IP/RR Ratio)	15	14	15	12	10
Maturity Profile of State Debt (In Years)					
0 – 1	5	775(4)	1183(5)	1868(8)	1449(6)
1 – 3	1850(10)	2508(13)	2885(13)	2977(13)	3080(13)
3 – 5	2689(15)	2829(14)	3263(15)	2872(12)	2623(11)
5 – 7	2771(15)	2635(13)	2569(12)	3284(14)	4302(17)
7 and above	11084(60)	11225(56)	12252(55)	12298(53)	12856(53)
Total	**18399**	**19972**	**22152**	**23299**	**24310**

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 (-) ₹ 2,022 crore and ₹3,087 crore during 2007-12 due to wide fluctuation in the growth rate of GSDP and primary deficit. The trend during 2009-12 indicated fall in debt-GSDP ratio and led the State to debt sustainable position. However, the quantum spread together with the effect of primary surplus slightly decreased during 2011-12 (₹ 1,618 crore) due to fall in GSDP growth rate which was a matter of concern.
- During 2011-12, the Debt-GSDP ratio at 24.7 *per cent* was nearly at par with the FRBM Act/MTFP target of 25 *per cent*. It was also less than the TFC norm of 28.5 *per cent*. The ratio decreased in 2011-12 in comparison to that during 2010-11(25.9 *per cent*).

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[9] Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP 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.

[10] 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-GSDP 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 stabilise 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.

[11] 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.

[12] 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.

- As far as the resource gap is concerned, against a resource gap of (-) ₹1,033 crore in 2007-08, the resource gap of the State increased to ₹ 899 crore during 2010-11 which was indicative of improving fiscal position of the State. However, it sharply decreased to ₹ 188 crore in 2011-12 over previous year.
- Net availability of borrowed funds increased from ₹ 439 crore in 2007-08 to ₹ 773 crore in 2009-10 which decreased to (-) ₹ 737 crore in 2010-11. However, in 2011-12 it stood at (-) ₹ 238 crore.
- The ratio of Interest Payments to Revenue Receipts showed significant improvement as it declined from 15 *per cent* in 2007-08 to 10 *per cent* in 2011-12. Also, when compared with the previous year it showed improvement as the ratio decreased from 12 *per cent* to 10 *per cent* in 2011-12.
- The maturity profile of the State debt shows that the debt liability was increasing for every block period, except during three to five block year 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.

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 Deficit and Fiscal Deficits *vis-à-vis* the targets set under the FRBM Act and Rules for the financial year 2011-12.

1.9.1 Trends in deficits

Chart 1.14 and **1.15** present the trends of deficit indicators over the period 2007-12.

Chart 1.14: Trends in Deficit Indicators

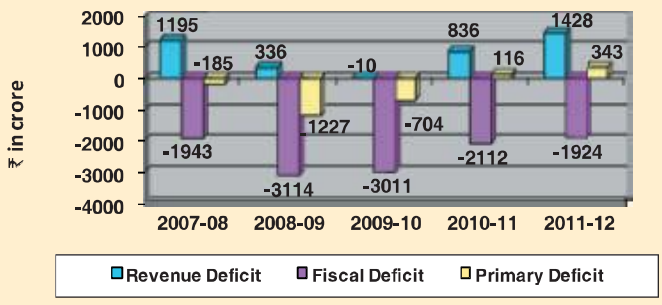
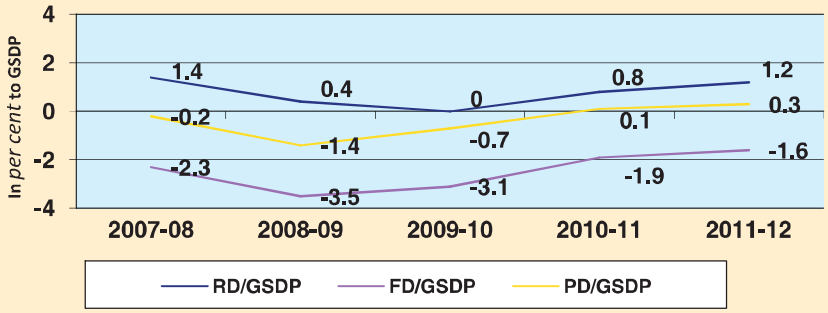


Chart 1.15: Trends in Deficit indicators Relative to GSDP



- The State had a Revenue Surplus during the period 2007-12, except a Revenue Deficit of ₹ 10 crore only in 2009-10. The amount of Revenue Surplus of ₹ 1,195 crore in 2007-08 turned to Revenue Deficit of ₹ 10 crore in 2009-10 which further turned to Revenue Surplus of ₹ 836 crore in 2010-11 and ₹1,428 crore in 2011-12. The State had achieved the target of reducing the Revenue Deficit to 'zero' by the end of 2008-09 as targeted in FRBM Act of the State and the TFC. However, the State could not achieve the MTFP target of Revenue Surplus of ₹ 5,379.11 crore for 2011-12.
- The Fiscal Deficit of the State increased from ₹ 1,943 crore in 2007-08 to ₹ 3,114 crore in 2008-09 which decreased to ₹2,112 crore in 2010-11 and ₹ 1,924 crore in 2011-12. During 2011-12, the Fiscal Deficit was significantly less than the budget estimate of ₹ 3,390.49 crore due to increase in Revenue Surplus as well as less Capital Expenditure and Loans and Advances given against the budget estimates.
- The percentage of Fiscal Deficit to GSDP showed improvement as it decreased from 3.1 *per cent* at the end of March 2010 to 1.9 *per cent* at the end of March 2011 which further decreased to 1.54 *per cent* at the end of March 2012. The percentage of Fiscal Deficit to GSDP was within the estimate of 2.38 *per cent* for 2010-11 and 2.80 *per cent* for 2011-12. Also, it was within the TFC recommendation of three *per cent* for the years 2010-11 and 2011-12.
- Primary Deficit showed wide fluctuation during 2007-12 mainly because of fluctuation in Revenue Deficit/Surplus. The Primary Deficit of ₹ 185 crore in 2007-08 increased to ₹ 1,227 crore in 2008-09 which turned into a Primary Surplus of ₹ 116 crore in 2010-11. Further, the Primary Surplus increased to ₹ 343 crore in 2011-12 against budget estimate of Primary Deficit of ₹ 935.19 crore for the period.

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 1.22.**

Table 1.22: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12		
Decomposition of Fiscal Deficit								
1	Revenue Deficit/Surplus	1195	336	(-)10	836	1428		
2	Net Capital Expenditure	2584	3051	2703	2664	3159		
3	Net Loans and Advances	554	399	298	284	193		
Financing Pattern of Fiscal Deficit*						**Receipt**	**Disbursement**	**Net**
1	Market Borrowings	921	1238	1674	198	1253	469	784
2	Loans from GOI	(-)161	(-)136	(-)133	(-)104	33	155	(-)122
3	Special Securities issued to NSSF	125	54	670	957	281	354	(-)73
4	Loans from Financial Institutions	602	1348	180	309	1104	661	443
5	Small Savings, PF etc	162	200	272	105	613	544	69
6	Deposits and Advances	625	799	273	464	5236	4206	1030
7	Suspense and Miscellaneous	(-)447	709	(-)258	473	23916	22974	942
8	Remittances	(-)146	(-)11	(-)39	6	4520	4503	17
9	Others	262	(-)1087	372	(-)296	-	5014	(-)5014
10	Overall Surplus/Deficit	(-)1943	(-)3114	(-)3011	(-)2112	36956	38880	(-)1924
*All these figures are net of disbursements/outflows during the year except of 2011-12								

Source: Finance Accounts of Government of Jharkhand

During 2011-12, the Fiscal Deficit of ₹ 1,924 crore was mainly met from Loans from Financial Institutions (₹ 443 crore), Deposits and Advances (₹ 1,030 crore), Suspense and Miscellaneous (₹ 942 crore) which was offset by less borrowing in market loans and Government of India loans.

Quality of Deficit and Surplus

Ideally, the Revenue Receipts should cover the Revenue Expenditure (including interest payments) of the State. While Revenue Deficit is made up from the borrowings (Fiscal Deficit), the Revenue Surplus can be used for Capital Expenditure thereby reducing the borrowings. Further, if the Non-Debt receipts can meet the Primary Expenditure[13], there will be no Primary Deficit, to be financed by borrowings. Thus, a necessary condition for stability in finances of the State is that Non-Debt receipts should be adequate enough to cover the incremental primary expenditure and incremental interest payments. The bifurcation of the Primary Deficit 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 1.23: Primary Deficit/Surplus in the State- 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)
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
2011-12	22444	18725	3159	217	22101	(+)3719	(+)343

Source: Finance Accounts of Government of Jharkhand

[13] Expenditure on Revenue, Capital and Loans and Advances, but not interest payments

- During 2007-08 to 2011-12, the Non-Debt Receipts of the State increased from ₹ 12,071 crore to ₹ 22,444 crore against a corresponding higher increase in Primary Revenue Expenditure and Primary Expenditure. The Capital Expenditure fluctuated during 2007-12.
- Despite sufficient Primary Surplus receipts during 2010-11 and 2011-12, the proportion of Capital Expenditure to Total Expenditure was low at 13 *per cent* as compared to 19 *per cent* during 2007-09 and 15 *per cent* in 2009-10, when there was primary deficit.
- During 2010-12, the Primary Surplus occurred because of Non-Debt Receipts could cover the Primary Expenditure which should be maintained in future so that the Capital Expenditure could be increased to enhance the productive capacity of the State.

1.10 Conclusion and recommendations

Fiscal discipline: The State Government has succeeded in improving the fiscal situation during 2011-12. The Revenue Receipts (₹ 22,420 crore) grew at 19.4 *per cent* while the Revenue Expenditure (₹ 20,992 crore) grew at 17 *per cent* over the previous year. As a result, the Revenue Surplus increased to ₹ 1,428 crore during 2011-12. However, the Revenue Surplus was low compared to MTFP target of ₹ 5,379 crore. Fiscal Deficit (₹ 1,924 crore) was also contained to 1.54 *per cent* of GSDP during 2011-12, which was well within the TFC recommendation (3 *per cent*). The growth of GSDP during 2011-12 was, however, 12.1 *per cent,* against the TFC norm of 14.14 *per cent.*

During 2011-12, the actual receipts were less by ₹ 5,326 crore in comparison to the Budget Estimate. State's Own Tax and Non-Tax Revenue comprised 45 *per cent*, while Central Tax transfer and Grants-in-aid from GOI constituted 55 *per cent*. Grants-in-aid from GOI increased by 28 *per cent* over the previous year.

During 2011-12, the Revenue Expenditure constituted 86 *per cent* of Total Expenditure. Its growth was much higher than the growth rate of GSDP. Of the Revenue Expenditure, Plan Revenue Expenditure (PRE) and Non-Plan Revenue Expenditure (NPRE) constituted 36 *per cent* and 64 *per cent* respectively. The PRE increased by 27 *per cent* and NPRE increased by 12 *per cent* over the previous year. During 2011-12, financial assistance to Local Bodies and other institutions stood at 22 *per cent* of Revenue Expenditure.

Government may ensure achievement of its own fiscal targets.

Capital expenditure: During 2011-12, Capital Expenditure (₹ 3,159 crore) increased by ₹ 495 crore over 2010-11. However, its percentage to Total Expenditure remained static at 13 *per cent* during 2010-12, compared to 15 *per cent* during 2009-10, despite having Revenue and Primary Surpluses during the year. The percentage of Capital Expenditure to Gross State Domestic Product (GSDP) stood at 2.54 *per cent* against the MTFP projection of 3.15 *per cent.*

Government may consider assigning greater priority to Capital Expenditure, as share of Capital Expenditure in Aggregate Expenditure was much lower than that of the average of General Category States.

Thrust to Development Expenditure: Total Development Expenditure increased during the last five years at an average annual growth rate of 15 *per cent*. During the year 2011-12, the share of Development Revenue Expenditure in Total Expenditure was 54 *per cent,* while it was only 13 *per cent* in case of Development Capital Expenditure.

Considering the lower literacy rate and more BPL population compared to All-India average, Government should consider re-prioritising its Development Expenditure.

Review of Government investments: The return from Government investment (₹ 182.57 crore as of 31 March 2012) in Government Companies, Co-operatives, Banks and Societies was less than one *per cent* during the last five years, while the cost of Government borrowings during 2007-2012 was much higher (ranged between 7.42 *per cent* and 8.03 *per cent*).

Government should ensure better value for money in investments and prioritise projects with high socio-economic returns.

Transfer of funds to State Implementing Agencies: During 2011-12, Government of India directly transferred ₹ 4,194.42 crore to the State Implementing Agencies, outside the State Budget. As Annual Finance Accounts do not capture the flow of such funds, the State's receipts and expenditure are understated to that extent. Besides, direct transfer of funds to the Agencies ran the risk of improper utilisation of funds by these agencies, unless uniform accounting practices are followed.

A system should be put in place to ensure proper accounting of these funds and monitoring the end use of these direct transfers.

Fiscal Liabilities: Fiscal Liabilities of the State (₹ 30,664 crore) grew at seven *per cent* over the previous year. The Fiscal Liabilities were 24.7 *per cent* of GSDP (against the TFC recommendation of 28.5 *per cent* for the year) which gradually decreased from 28 *per cent* in 2009-10.

The State should continue to maintain the Fiscal Liability to GSDP ratio.

Debt sustainability: During 2007-12, the quantum spread together with the Primary Deficit/Surplus recorded wide fluctuation between (-) ₹ 2,022 crore and ₹3,087 crore due to fluctuation in the growth rate of GSDP. From ₹ 1,825 crore in 2010-11, it slightly decreased during 2011-12 (₹ 1,618 crore) leading the State to a debt sustainable position. The debt-GSDP ratio during 2011-12 was 24.7 *per cent*, against the MTFP target of 25 *per cent*.

Government should maintain the existing Primary Surplus and sufficiency of non-debt receipts to cover the incremental interest liability and incremental Primary Expenditure.