

CHAPTER I
FINANCES OF THE STATE GOVERNMENT

1. Profile of Bihar

Bihar is a landlocked State, bounded by West Bengal in the east, Uttar Pradesh in the west, Jharkhand in the south and a long international border with Nepal in the north. It is the thirteenth largest State in India in terms of geographical size (94,163 sq. km.) and the third largest by population. The State of Bihar has 38 districts.

Economy of Bihar is primarily agrarian and the State does not possess any significant mineral wealth. As indicated in *Appendix 1.1*, the density of population has increased from 881 persons per sq. km. (2001) to 1106 persons per sq. km. (2011). Bihar has higher poverty levels as compared to the all-India average. However, the State has shown higher economic growth for the period 2006-07 to 2015-16 as the compound annual growth rate (CAGR) of its Gross State Domestic Product has been 16.99 *per cent* as compared to 15.75 *per cent* amongst the General Category States¹. During this period, its population also grew by 12.89 *per cent* against the average growth² of 12.24 *per cent* in General Category States. The per capita income CAGR for the period 2006-07 to 2015-16 in Bihar at 15.42 *per cent* has been higher than that of the General Category States at 14.27 *per cent*. The per capita income of the State stood at ₹ 36,964 (Quick) at the close of 2015-16

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of its economy as it indicates the standard of living of the State's population. The trends in annual growth of India's Gross Domestic Product (GDP) and State's GSDP at current prices (2011-12 base year) are given in **Table 1.1**.

Table 1.1: Gross State Domestic Product

Year	2011-12	2012-13	2013-14	2014-15	2015-16
India's GDP (₹ in crore)	8736039	9951344	11272764	12488205	13576086
Growth rate of GDP (percentage) of India		13.91	13.28	10.78	8.71
State's GSDP (₹ in crore)	247144	282368	317101	373920	413503
Growth rate of GSDP (percentage) of State		14.25	12.30	17.92	10.59

(Source: *Economics and Statistics Data of Central & State Government*)

It can be seen from the table that the growth rate of GSDP of the State is higher than the GDP of India.

¹ States other than 11 states termed as Special Category States (Arunachal Pradesh, Assam, Jammu & Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand).

² The all India average of General Category States has been calculated on the basis of figures provided by 16 General Category States (excluding Delhi, Goa and Puducherry).

1.1 Introduction

This chapter provides a broad perspective of the financial position of the Government of Bihar during the current year. It analyses the significant changes in the major fiscal aggregates relative 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 1.2 Part A** and the layout of the Finance Accounts is depicted in **Appendix 1.2 Part B**. This analysis has been made based on the Finance Accounts of the State and information obtained from the State Government. In order to comply with the recommendation of the Fourteenth Finance Commission (FFC), the State Government enacted the Bihar Fiscal Responsibility and Budget Management (Amendment) Act, 2010 (BFRBM) as given in **Appendix 1.3 Part A**. The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the BFRBM (Amendment) Act, 2010 are given in **Appendix 1.3 Part B**.

1.1.1 Summary of fiscal transactions

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2015-16) *vis-à-vis* the previous year (2014-15), while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal Operations in 2015-16

(₹ in crore)

Receipts	2014-15	2015-16	Disbursements	2014-15	2015-16		
Section-A: Revenue					Non-Plan	Plan	Total
Revenue Receipts	78,417.54	96,123.10	Revenue Expenditure	72,569.98	53,965.28	29,650.66	83,615.94
Tax revenue	20,750.23	25,449.18	General services	26,408.18	27,824.35	147.95	27,972.30
Non-tax revenue	1,557.98	2,185.64	Social services	31,712.71	13,386.74	22,556.30	35,943.04
Share of Union Taxes/Duties	36,963.07	48,922.68	Economic services	14,445.05	12,749.98	6,946.41	19,696.39
Grants from Government of India	19,146.26	19,565.60	Grants-in-aid and Contributions	4.04	4.21	0.00	4.21
Section-B: Capital & Others							
Misc. Capital Receipts	0.00	0.00	Capital outlay	18,150.41	36.27	23,929.75	23,966.02
Recoveries of Loans and Advances	1,493.06	18.50	Loans and Advances disbursed	368.71	469.43	151.80	621.23
Public debt receipts	13,917.53	18,383.01	Repayment of Public Debt	3,608.95			4,124.85
Inter State Settlement	0.00	0.00	Inter State Settlement	0.00			0.00
Contingency Fund	1,650.00	4,477.41	Contingency Fund	1,650.00			4,477.41
Public Account receipts	40,251.12	49,105.88	Public Account disbursements	39,200.48			45,922.84
Opening Cash Balance	6,156.39	6,337.11	Closing Cash Balance	6,337.11			11,716.72
Total	1,41,885.64	1,74,445.01	Total	1,41,885.64			1,74,445.01

(Source: Finance Accounts of the State for the year 2015-16)

The significant changes during 2015-16 over the previous year are given below:

- Revenue receipts during the year increased by 22.58 *per cent* (₹ 17,705.56 crore). The increase was mainly due to increase in State's share of Union taxes and duties by 32.36 *per cent* (₹ 11,959.61 crore) and own tax revenue by 22.65 *per cent* (₹ 4,698.95 crore).
- State's tax revenue (₹ 25,449.18 crore) was below the FFC assessment (₹ 31,881 crore) by 20.17 *per cent* (₹ 6,431.82 crore) and below the Budget estimate (₹ 30,875 crore) by 17.57 *per cent* (₹ 5,425.82 crore). The increase in tax revenue was mainly due to increase in Taxes on Sales, Trade etc. by 23.19 *per cent* (₹ 1,996.24 crore), Taxes on Goods and Passengers by 36.75 *per cent* (₹ 1,635.87 crore), Taxes on Stamps and Registration by 26.27 *per cent* (₹ 709.08 crore).
- Non-tax revenue (NTR) (₹ 2,185.64 crore) increased by 40.29 *per cent* (₹ 627.66 crore) over the previous year. The increase in non-tax revenue was mainly due to increase in Interest Receipts by ₹ 238.89 crore and owing to increase in Contributions and Recoveries towards Pension and Other Retirement Benefits by ₹ 175.16 crore. However, the Non-tax revenue was 35.64 *per cent* (₹ 1,210.22 crore) below the Budget estimate (₹ 3,395.86 crore) and 20.70 *per cent* (₹ 570.36 crore) below the assessment made by FFC (₹ 2,756 crore).
- Revenue expenditure (₹ 83,615.94 crore) during the year increased by 15.22 *per cent* (₹ 11,045.96 crore). The increase was mainly due to increase in expenditure on Economic Services by 36.35 *per cent* (₹ 5,251.34 crore), Social Services by 13.34 *per cent* (₹ 4,230.33 crore) and General Services by 5.92 *per cent* (₹ 1,564.12 crore). However, Revenue expenditure during the year was below by 8.32 *per cent* (₹ 7,592.17 crore) than the budget estimate (₹ 91,208.11 crore) for the year 2015-16.
- During the year the Non-Plan expenditure (revenue and capital) increased by 14.61 *per cent* (₹ 6,884.34 crore) and the Plan expenditure (revenue and capital) increased by 22.88 *per cent* (₹ 9,977.23 crore), when compared with the previous year.
- Recoveries of loans and advances decreased by 98.76 *per cent* (₹ 1,474.56 crore). However, disbursements of loans and advances increased by 68.49 *per cent* (₹ 252.52 crore).
- Capital expenditure increased by 32.04 *per cent* (₹ 5,815.61 crore) during the year.
- Public Account receipts increased by 22.00 *per cent* (₹ 8,854.76 crore) whereas disbursements increased by 17.15 *per cent* (₹ 6,722.36 crore).
- The receipts under Public Debt increased by 32.09 *per cent* (₹ 4,465.48 crore) whereas its repayment increased by 14.30 *per cent* (₹ 515.90 crore).
- The net impact of these transactions led to an increase by 84.89 *per cent* (₹ 5,379.61 crore) in the cash balance at the end of the year.

1.1.2 Review of the fiscal situation

The Government of Bihar had enacted the Fiscal Responsibility and Budget Management Act, 2006 (FRBM Act 2006) 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 2008-09 and restrict the Fiscal Deficit up to three *per cent* of the estimated Gross State Domestic Product (GSDP). The 14th FC recommended a new and revised road map for fiscal consolidation thereby linking all grants and debt relief facilities for achievement of the targets.

The state revised some of its key fiscal targets in the FRBM and named as Bihar Fiscal Responsibility and Budget Management (Amendment) Act, 2010(BFRBM). The revised targets laid down in amended BFRBM Act of the State were (i) the Fiscal Deficit at three *per cent* of the GSDP and (ii) Debt-GSDP ratio at less than or equal to 25 *per cent* in 2015-16.

Targets regarding major fiscal variables for the year 2015-16 as set in FRBM Act, 14th FC and in budget documents of the state are shown in **Table 1.3**.

Table 1.3: Review of the Fiscal Situation

Fiscal variables	2015-16				
	FFC targets for the State	Targets as prescribed in FRBM Act	Targets proposed in the Budget	Projections made in Five Year Fiscal plan/MTFP	Actuals
Revenue Deficit(-)/ Surplus (+) (₹ in crore)	0.00	0.00	11,980.95	11,980.95	12,507.16
Fiscal Deficit/ GSDP (in <i>per cent</i>)	3.50	3.00	2.98	2.98	2.92
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i>)	25.02	25.02	19.41	19.59	28.19

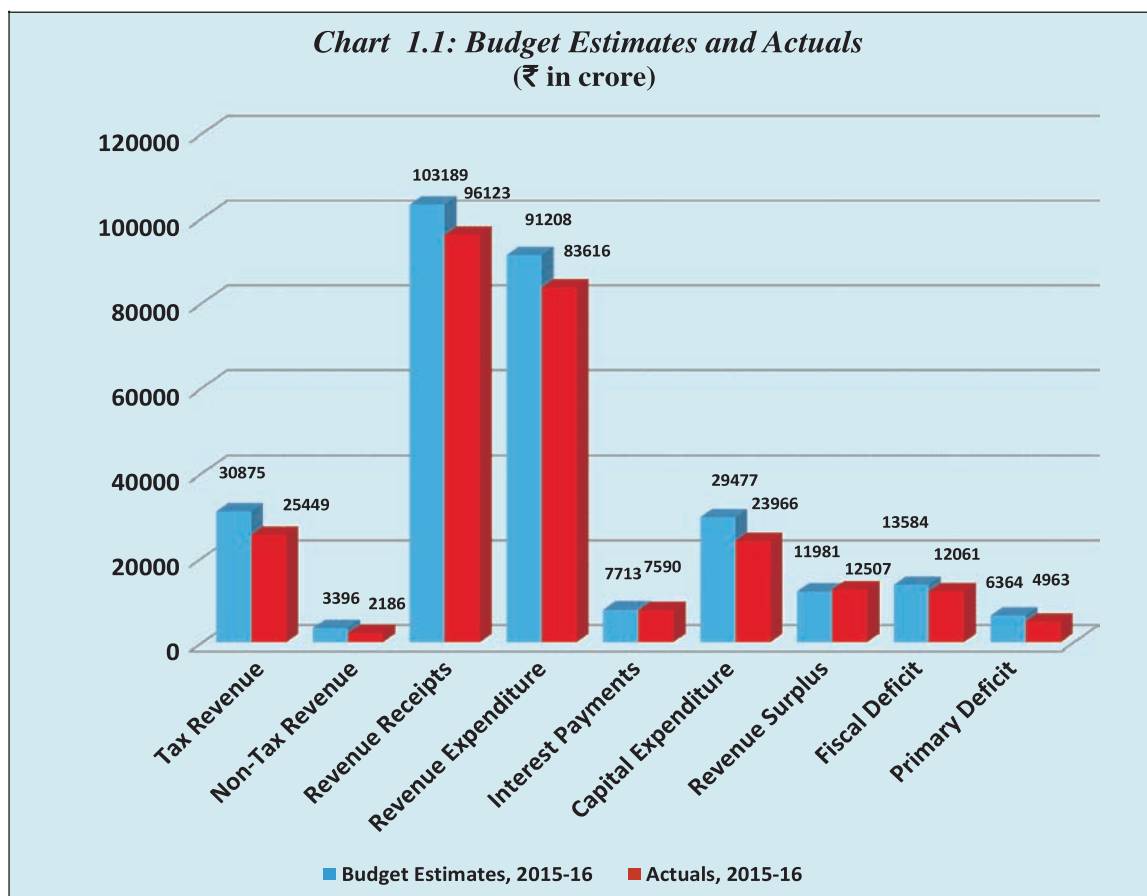
(Source: FFC, FRBM Act, Budget and MTFP figures for the year 2015-16)

The State Government had revenue surplus since 2009-10 to 2015-16. Surplus of ₹ 2,169.58 crore was also occurred in Consolidated Fund during the year in comparison to deficit of ₹ 869.92 crore in 2014-15. The fiscal deficit as a percentage of GSDP was well within the limit prescribed in the FRBM Act.

1.1.3 Budget estimates and actuals

The budget papers presented by the State Government provides descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimate are indicative of abandonment and decline of the desired fiscal objectives.

A **Chart 1.1**: representing the Budget Estimates and Actuals for some important Fiscal Parameters for the year 2015-16 are depicted below. The details of Actuals *vis-à-vis* Budget Estimates are also given in **Appendix 1.5**.



(Source: Budget documents and State Finance Accounts for the year 2015-16)

The above chart indicates that during 2015-16 the following variations in the actuals against the BE took place as discussed below:

- Revenue receipts were lower than the projections made in the Budget Estimate by ₹ 7,066 crore (7 per cent) mainly as a result of decrease in Tax revenue by ₹ 5,426 crore (18 per cent) and non-tax revenue by ₹ 1,210 crore (36 per cent) as compared to Budget Estimate.
- Revenue expenditure and Capital Expenditure were less than the Budget Estimate by ₹ 7,592 crore (8 per cent) and ₹ 5,511 crore (19 per cent). The variation in revenue expenditure was due to less expenditure of ₹ 2,286 crore under General services, ₹ 2,141 crore under Social services and ₹ 3,165 crore under Economic services. The variation in Capital Expenditure was due to less expenditure of ₹ 1,304 crore under Social Services and ₹ 498 crore under General Services.
- Revenue surplus was higher than the Budget Estimate by ₹ 526 crore (4.39 per cent) mainly due to decrease of ₹ 7,592 crore in revenue expenditure over the projection made in the Budget Estimate. However, revenue receipts also decreased by ₹ 7,066 crore than the projections made in the Budget Estimate.
- Fiscal deficit was less by ₹ 1,523 crore over the projections made in the Budget Estimates (₹ 13,584 crore) but it was mainly due to decrease in revenue expenditure by ₹ 7,592 crore than that provisioned in the Budget Estimate.
- Primary deficit decreased by ₹ 1,401 crore over the projection made in the Budget Estimate.

1.1.4 Gender Budgeting

Gender Budgeting was introduced by the State Government in 2008-09. Gender Budget of the State discloses the expenditure proposed to be incurred on schemes which are designed to benefit women or upliftment of women status in society directly or indirectly.

The allocation in the gender budget document for the year 2015-16 and utilisation thereof is detailed in **Table 1.4**.

Table 1.4: Gender budgetary allocation and utilisation during 2015-16

(₹ in crore)

Year	Outlay under			Expenditure under			Percentage of utilisation
	Category 1	Category 2	Total	Category 1	Category 2	Total	
2015-16	3,996.38	9,625.88	13,622.26	2,996.06	8,130.90	11,126.96	81.68

(Source: Information furnished by the State Government for the year 2015-16)

(Category 1- Budgetary allocation for schemes designed to benefit women to the extent of 100 per cent of allocation.

Category 2- Budgetary allocation for schemes designed to benefit women to the extent of 30 per cent of allocation.)

It can be seen from the table that 82 per cent of the funds earmarked for the benefit of women were utilized during the period.

However, for the proper implementation, monitoring and evaluation of the schemes being carried out under gender budgeting, the State Government has not constituted any dedicated gender budgeting cell at the State level.

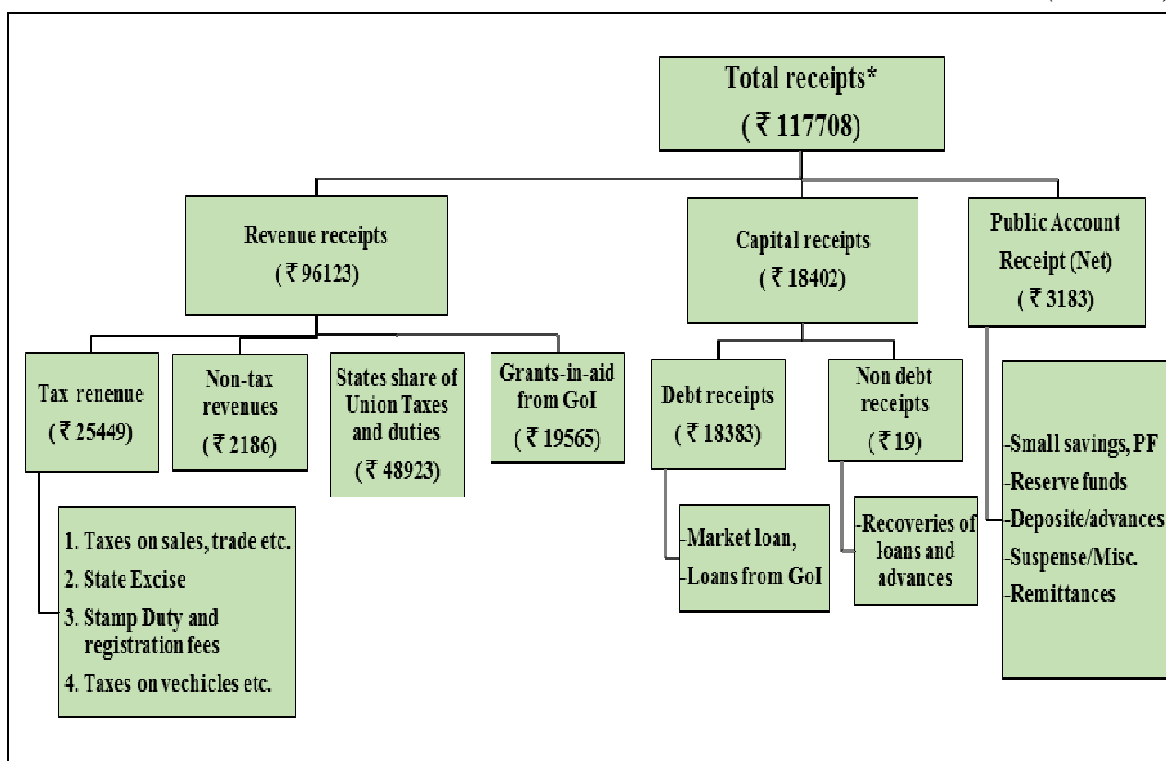
1.2 Resources of the State

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 disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GoI. Besides, the funds available in the Public Accounts after disbursement is also utilised by the Government to finance its deficit. **Table 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts various components of the receipts of the State during 2015-16.

Chart 1.2: Components and Sub-components of resources

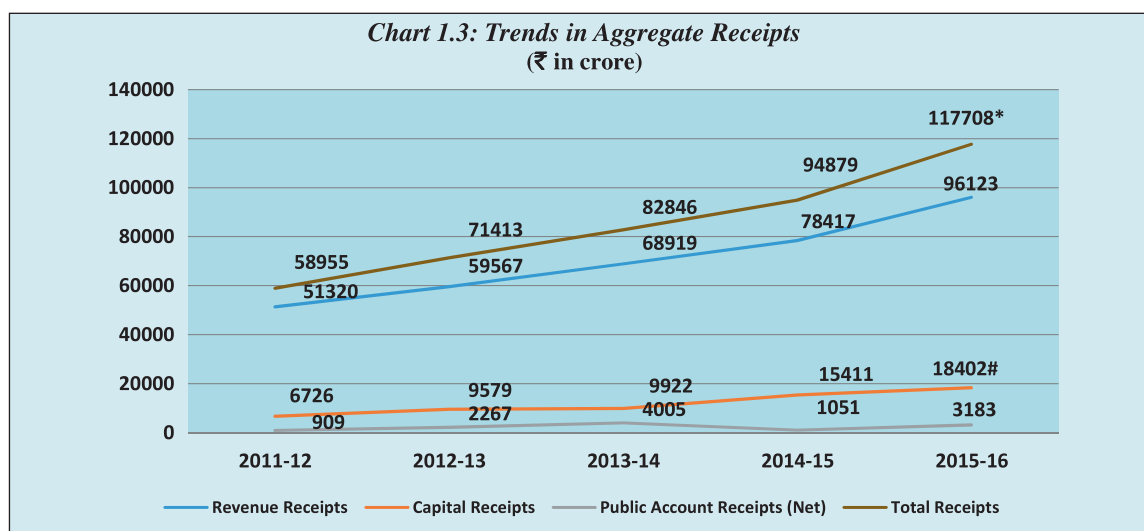
(₹ in crore)



* Total Receipts include Revenue Receipts, Capital Receipts and Public Account Receipts (net).

(Source: Finance Accounts of the State for the year 2015-16)

The **Chart-1.3** depicts the trend of receipts during 2011-16 and **Chart 1.4** indicates the composition of these receipts during 2015-16.



(Source: Finance Accounts of the State for the respective years)

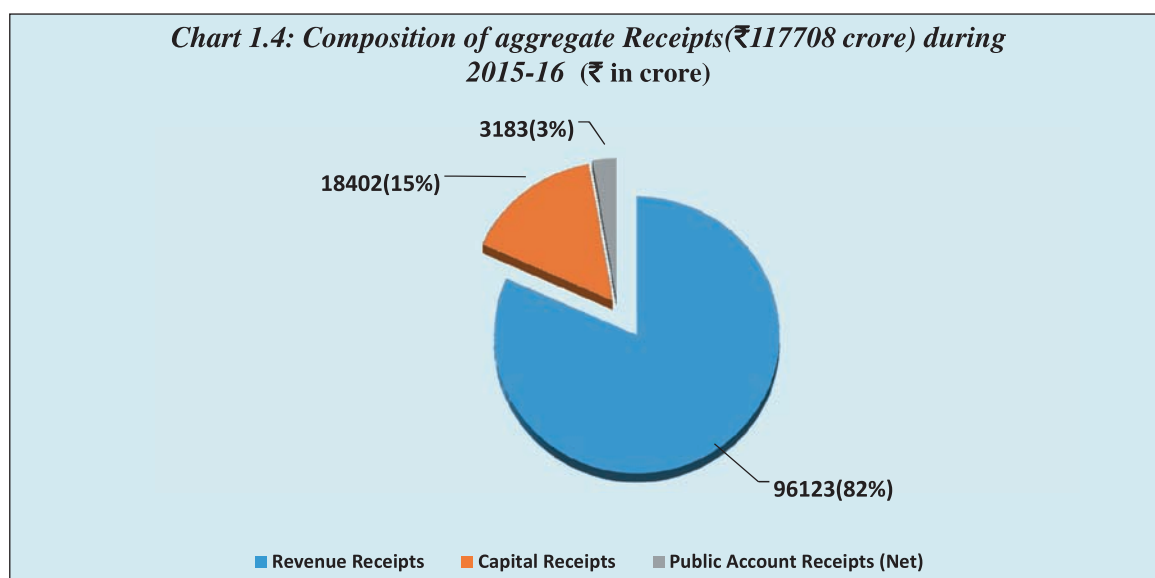
* Total Receipts include Revenue Receipts, Capital Receipts and Public Account Receipts (Net).

Capital receipts include Public Debt Receipts, Recovery of Loans and Advances and Inter State Settlement.

Total receipts increased by 100 per cent from ₹ 58,955 crore in 2011-12 to ₹ 1,17,708 crore in 2015-16. Further, there was an increase of receipts over the previous year by ₹ 22,829 crore (24 per cent).

The following chart depicts the composition of receipts during 2015-16 as a percentage to the total receipts (₹ 1,17,708 crore):

Chart 1.4: Composition of aggregate Receipts(₹117708 crore) during 2015-16 (₹ in crore)



(Source: Finance Accounts of the State for the year 2015-16)

The share of revenue receipts in total receipts during 2015-16 was at 82 per cent and it increased by 23 per cent from ₹ 78,417 crore in 2014-15 to ₹ 96,123 crore in 2015-16.

The share of capital receipts in total receipts during 2015-16 was 15 per cent and it increased by 19 per cent from ₹ 15,411 crore in 2014-15 to ₹ 18,402 crore in 2015-16.

Public Account Receipts represent the receipts for which the Government acts as banker/trustee for the public money. Public Account Receipts (Net) in total receipts during 2015-16 was at three per cent and it increased by 203 per cent from ₹ 1,051 crore in 2014-15 to ₹ 3,183 crore in 2015-16.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Government of India (GoI) has been transferring a sizeable quantum of funds directly to the State implementing agencies³ for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As in the present mechanism, these funds are neither routed through the State Budget/State Treasury System nor reflected in the accounts of the Government. As such, the Annual Finance Accounts of the State do not provide a complete picture of the resources under the control of the State Government. To present the holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Appendix 1.6**.

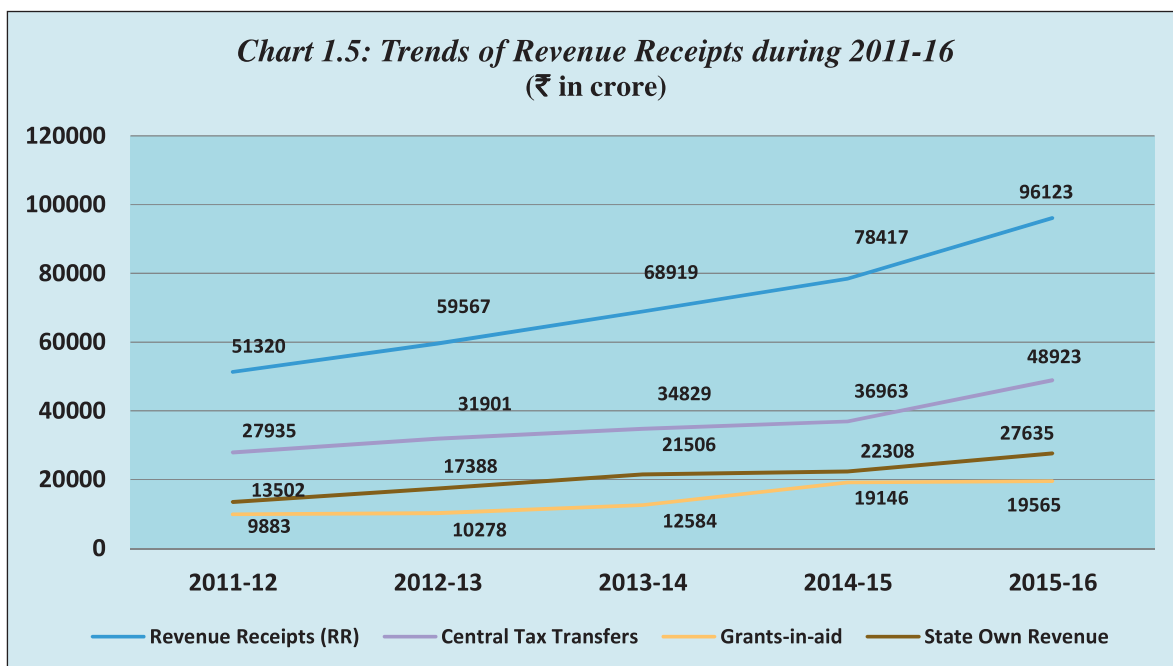
During the year 2015-16 the Government of India directly transferred ₹ 792.71 crore to the State implementing agencies which was higher than the previous year by 21.63 per cent. The major recipients were District Planning Officer (Local Bodies) (₹ 217.50 crore i.e. 27.44 per cent), Indian Institute of Technology, Patna (Govt. Autonomous Bodies) (₹ 100.31 crore i.e. 12.65 per cent) and All India Institute of Medical Sciences (Govt. Autonomous Bodies) (₹ 199 crore i.e. 25.10 per cent).

1.3 Revenue Receipts

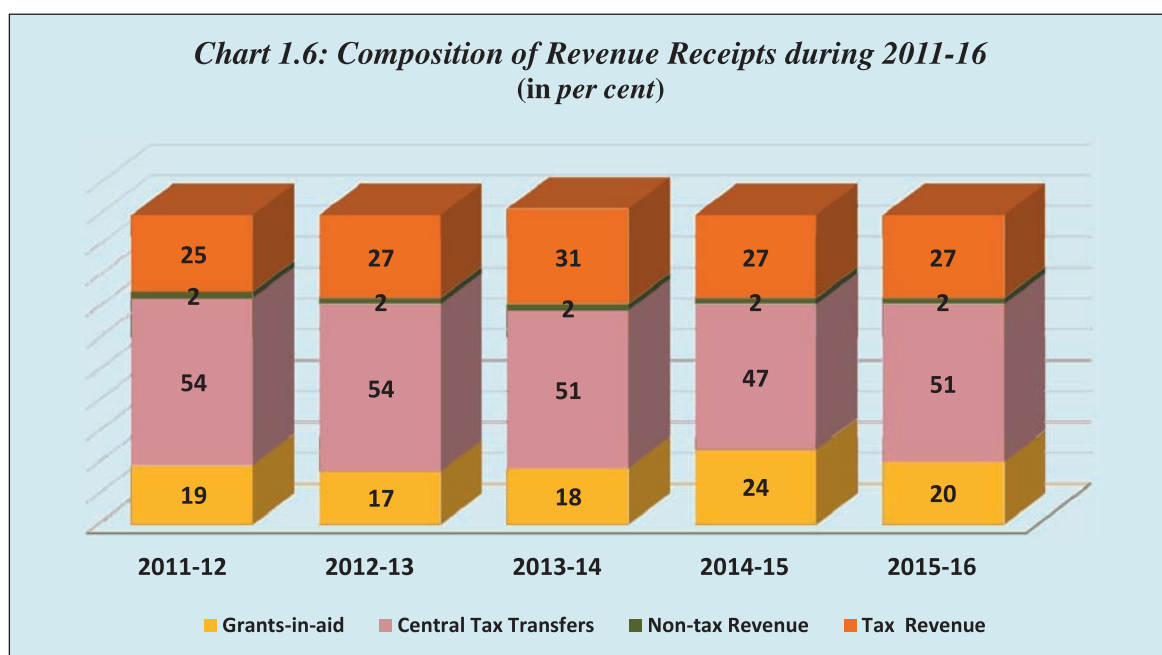
Statement-14 of the Finance Accounts presents details of the revenue receipts of the Government. The State's revenue receipts consist of its own tax and non-tax revenue, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue

³ State implementing agencies include any organization/institution including Non-Governmental organisation which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

receipts over the period 2011-16 are presented in *Appendix 1.7* and also depicted in **Charts 1.5** and **1.6** respectively.



(Source: Finance Accounts of the State for the respective years)



(Source: Finance Accounts of the State for the respective years)

The **Charts 1.5** and **1.6** indicate the following:

- Revenue receipts showed progressive increase from ₹ 51,320 crore in 2011-12 to ₹ 96,123 crore in 2015-16. The share of Grants-in-aid (GIA) from the Government of India increased from 19 per cent in 2011-12 to 20 per cent in 2015-16, however, it was decreased from 24 per cent to 20 per cent in 2015-16 with respect to the previous year.
- State's own resources consist of tax revenue and non-tax revenue. The share of Tax Revenue in revenue receipt ranged between 25 to 31 per cent during 2011-16. The

share of State Central Tax Transfer in revenue receipt ranged between 47 to 54 *per cent* during 2011-16. The share of State Non-tax Revenue in revenue receipt was constant at two *per cent* during 2011-16.

The trends of revenue receipts relative to GSDP are presented in **Table 1.5**.

Table 1.5: Trends in Revenue Receipts relative to GSDP

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR) (₹ in crore)	51,320	59,567	68,919	78,417	96,123
Rate of growth of RR (<i>per cent</i>)	15.24	16.07	15.70	13.78	22.58
State's own tax	12,612	16,253	19,961	20,750	25,449
Rate of growth of State's own tax (<i>per cent</i>)	27.78	28.87	22.81	3.95	22.65
GSDP (₹ in crore)	2,47,144	2,82,368	3,17,101	3,73,920	4,13,503
Rate of growth of GSDP (<i>per cent</i>)		14.25	12.30	17.92	10.59
R R/GSDP (<i>per cent</i>)	20.77	21.10	21.73	20.97	23.25
Buoyancy Ratios⁴					
Revenue Buoyancy w.r.t. GSDP	0.71	1.13	1.28	0.77	2.13
State's own tax buoyancy w.r.t. GSDP	1.30	2.03	1.85	0.22	2.14

(Source: Finance Accounts of the State for the respective years)

The growth rate of revenue receipts of the State was in double digits during the period 2011-16. It increased from 15.24 *per cent* in 2011-12 to 22.58 *per cent* in 2015-16.

The State's own-tax buoyancy ratio with reference to GSDP ranged between 0.22 *per cent* to 2.14 *per cent* during the year 2011-12 to 2015-16.

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, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax revenues (NTR) *vis-a-vis* assessment made by Finance Commissions and State Government Budget projections are given in **Table 1.6** below:

**Table 1.6: Projections and Actual receipts
For the year 2014-15**

	ThFC Projection	Budget projections	Actuals
Tax revenue	13,510.40	25,662.95	20,750.23
Non-tax revenue	2,466.86	3,081.68	1,557.98

(Source: State Finance Accounts, Budget and ThFC figures)

For the year 2015-16

	FFC Projection	Budget projections	Actuals
Tax revenue	31,881	30,875.00	25,449.18
Non-tax revenue	2,756	3,395.86	2,185.64

(Source: State Finance Accounts, Budget and FFC figures)

⁴ 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.

The State's tax revenue during 2014-15 exceeded the ThFC projections by ₹ 7,240 crore whereas during 2015-16 was less than the FFC projections by ₹ 6,432 crore. The non-tax revenue during 2014-15 and 2015-16 was less than the ThFC and the FFC projections by ₹ 909 crore and ₹ 570 crore respectively and State's budget projections were also less than by ₹ 1,524 crore and ₹ 1,210 crore respectively which indicates unrealistic budget projections by the State.

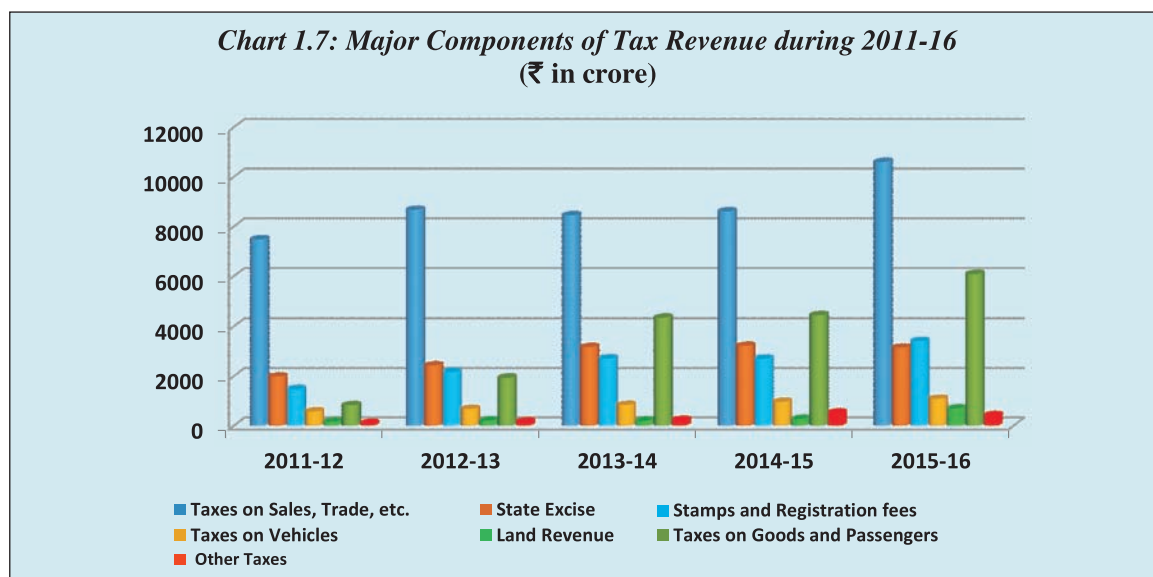
1.3.1.1 Tax Revenue

The tax revenues of the State increased by 101.78 per cent from ₹ 12,612 crore in 2011-12 to ₹ 25,449 crore during 2015-16. Major components of increase are shown in **Table 1.7** and **Chart 1.7**.

Table 1.7: Components of State's Own Tax Resources during 2011-16

	2011-12	2012-13	2013-14	2014-15	2015-16	Percentage of increase over previous year
Taxes on Sales, Trade, etc.	7,476	8,671	8,453	8,607	10,603	23.19
State Excise	1,981	2,430	3,168	3,217	3,142	(-)2.33
Stamps and Registration fees	1,480	2,173	2,712	2,699	3,409	26.31
Taxes on Vehicles	569	673	837	964	1,081	12.14
Land Revenue	168	205	202	277	695	150.90
Taxes on Goods and Passengers	828	1,932	4,349	4,451	6,087	36.76
Other Taxes	110	169	240	535	432	(-)19.25
Total	12,612	16,253	19,961	20,750	25,449	22.65

(Source: Finance Accounts of the State for the respective years)



(Source: Finance Accounts of the State for the respective years)

Appendix 1.7 presents the time series data on the State Government finances during 2011-16. A perusal of the components of tax revenue in the **Appendix** reveals that:

- The revenue from taxes on sales, trade etc comprised the major share of tax revenue and was decreased from 59 per cent in 2011-12 to 42 per cent 2015-16.
- The share of State Excise decreased from 16 per cent in 2011-12 to 12 per cent in 2015-16.
- The share of Stamps and Registration fees increased from 12 per cent in 2011-12 to 13 per cent in 2015-16.

- The share of Taxes on Vehicles slightly decreased from 4.51 *per cent* in 2011-12 to 4.25 *per cent* in 2015-16.
- The share of Land Revenue increased from one *per cent* in 2011-12 to three *per cent* in 2015-16.
- The share of Taxes on Goods and Passengers increased from 7 *per cent* in 2011-12 to 24 *per cent* in 2015-16.
- The share of Other Taxes increased from one *per cent* in 2011-12 to two *per cent* in 2015-16.

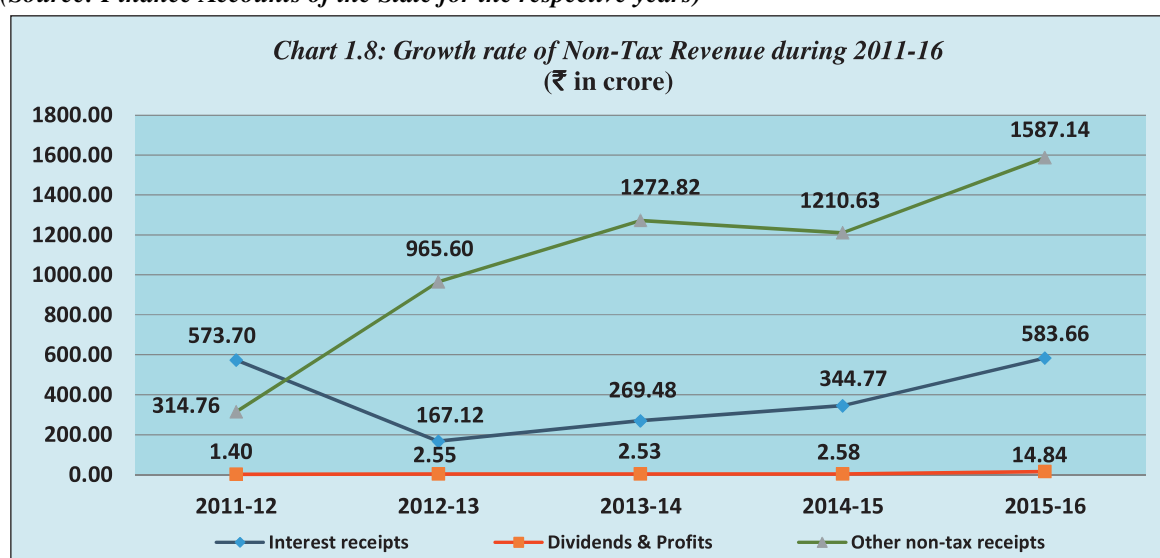
1.3.1.2 Non-Tax Revenue

Non-Tax Revenue (₹ 2,185.64 crore) constituted 2.27 *per cent* of total revenue receipts during 2015-16. NTR collection was higher by ₹ 627.66 crore than the previous year. Comparative study of various component of non-tax revenue from 2011-12 to 2015-16 is shown in **Table 1.8** and **Chart 1.8**.

Table 1.8: Growth rate of Non-Tax Revenue

Revenue Head (NTR)	(₹ in crore)					Percentage increase over previous year
	2011-12	2012-13	2013-14	2014-15	2015-16	
Interest receipts	573.70	167.12	269.48	344.77	583.66	69.29
Dividends & Profits	1.40	2.55	2.53	2.58	14.84	475.19
Other non-tax receipts	314.76	965.60	1272.82	1,210.63	1,587.14	31.10
Total	889.86	1,135.27	1,544.83	1,557.98	2,185.64	40.29

(Source: Finance Accounts of the State for the respective years)



(Source: Finance Accounts of the State for the respective years)

1.3.1.3 Cost of Tax Collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the year 2015-16 along with the all India average for the relevant previous year is mentioned in **Table 1.9**.

Table 1.9: Cost of Collection

						(₹ in crore)
Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India percentage for the previous year(2014-15)
1	VAT/Sales Tax	2015-16	17,122.49	91.02	0.53	0.91
2	State Excise	2015-16	3,141.75	49.63	1.58	2.09
3	Taxes on Vehicles	2015-16	1,081.22	39.77	3.68	6.08
4	Stamp and Registration fee	2015-16	3,408.57	55.33	1.62	3.59

(Source: Finance Accounts of the State for the year 2015-16)

It can be seen from the above table that the percentage of cost of collection in respect of VAT/Sales Tax, State Excise, Stamp and Registration fee and Taxes on Vehicles during 2015-16 in the state was below the all India average cost of collection (2014-15).

1.3.2 Grants-in-aid from GoI

Grants-in-aid from GoI increased from ₹ 9,882.98 crore in 2011-12 to ₹ 19,565.60 crore in 2015-16 as shown in Table 1.10.

Table 1.10: Grants-in-aid from GoI

						(₹ in crore)
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	
Non-Plan Grants	2,562.62	2,412.58	3,288.13	3271.21	3,434.43	
Grants for State Plan Schemes	5,065.39	5,051.97	6,238.39	14,935.68	13,886.33	
Grants for Central Plan Schemes	95.78	35.69	136.65	117.49	2,083.98	
Grants for Centrally Sponsored Schemes	2,159.19	2,777.68	2,920.86	821.88	160.86	
Grants for Special Plan Schemes	0.00	0.00	0.00	0.00	0.00	
Total	9,882.98	10,277.92	12,584.03	19,146.26	19,565.60	
Percentage of increase over previous year	1.90	4.00	22.44	52.15	2.19	
Revenue Receipts	51,320	59,567	68,919	78,417	96,123	
Total grants as a percentage of Revenue Receipts	19.26	17.25	18.26	24.42	20.35	

(Source: Finance Accounts of the State for the respective years)

The increase in Grants-in-aid by ₹ 419.34 crore in 2015-16 over the previous year was due to increase in Grants for Central Plan Schemes (₹ 1,966.49 crore) and Non-Plan Grants (₹ 163.22 crore). However, Grants-in-aid was less than the previous year in Grants for State Plan Schemes by ₹ 1,049.35 crore and Grants for Centrally Sponsored Schemes by ₹ 661.02 crore.

1.3.3 Debt waiver under the debt consolidation and relief facilities.

The ThFC had framed a scheme of debt relief of central loans called the debt consolidation and relief facilities based on the fiscal performance of the State linked to the reduction of deficits in the States. The FFC has extended this facilities to few States. Under this scheme, Government of Bihar availed no debt consolidation and relief facilities during 2015-16.

1.3.4 Central Tax transfers

The FFC has recommended the State's share of Central Taxes to be increased to 42 per cent from 32 per cent as recommended by Thirteenth finance commission and the

State's share in the net proceeds of Central Tax (excluding Service Tax) and net proceeds of Service Tax has been fixed at 9.67 and 9.79 *per cent* respectively. The share of Union Taxes/Duties received during 2015-16 (₹ 48,922.68) was less (by ₹ 1,824.90 crore) than the estimate (₹ 50,747.58 crore). However, there was an increase in State's share of Union Taxes/Duties by ₹ 11,959.61 crore over previous year mainly under Corporation Tax (₹ 2,469.68 crore), Service Tax (₹ 2,981.08 crore), Customs (₹ 1,871.44 crore), Union Excise Duties (₹ 3,201.53 crore), and decrease in Taxes on Wealth (₹ 30.53 crore).

1.3.5 Optimisation of the FFC Grants

The FFC had recommended ₹ 2,995.01 crore as transfer to the State during 2015-16. The actual release of fund and utilisation of the funds to the State on the recommendation of the FFC are summarised in the **Table 1.11**.

Table 1.11: Position of the transfer and expenditure

(₹ in crore)					
Sl. No.	Transfers	Recommendation of FFC	Actual release	Expenditure	Unutilized Grants
1.	Basic Grant (ULBs)	256.83	255.01	255.01	0.00
2.	Performance Grants (ULBs)	0.00	0.00	0.00	0.00
3.	Basic Grant (PRIs)	2,269.18	2,269.18	2,269.18	0.00
4.	Performance Grant (PRIs)	0.00	0.00	0.00	0.00
5.	Roads & Bridges	0.00	0.00	0.00	0.00
6.	Elementary education	0.00	0.00	0.00	0.00
7.	Disaster relief	469.00	469.00	1,286.59	(-817.59*
8.	Environment (Forest) related grant	0.00	0.00	0.00	0.00
9.	Reduction in the Infant Mortality Rate	0.00	0.00	0.00	0.00
Total		2,995.01	2,993.19	3,810.78	(-817.59

(Source: Information furnished by Government of Bihar)

*817.59 crore was unspent balance of 2014-15.

Analysis of above information pertaining to releases made by GoI in pursuance of FFC recommendations during 2015-16 and its utilisation under the respective heads of accounts by the State Government showed that against release of ₹ 2,993.19 crore, ₹ 3,810.78 crore (127.32 *per cent*) was expended during 2015-16. The excess expenditure of ₹ 817.59 crore incurred in 2015-16 has been met from unspent balance of 2014-15.

1.4 Capital Receipts

Capital Receipts increased from ₹ 6,726 crore in 2011-12 to ₹ 18,402 crore (174 *per cent*) in 2015-16. The trends in growth and composition of Capital Receipts are given in **Table 1.12**.

Table 1.12: Trends in growth and composition of receipts

(₹ in crore)					
Sources of State's Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Capital Receipts (CR)	6,726	9,579	9,922	15,411	18,402
Miscellaneous Capital Receipts	Nil	Nil	Nil	Nil	Nil
Loans and advances from GoI	826.56	508.02	549.66	718.25	817.97
Recovery of Loans and Advances	23	25	15	1493	18.50
Public Debt Receipts	6,628	9,554	9,907	13,918	18,383
Rate of growth of public debt receipts	10	44	04	40	32
Rate of growth of non-debt capital receipts	-	-	-	-	-
GSDP	2,47,144	2,82,368	3,17,101	3,73,920	4,13,503
Rate of growth of GSDP		14.25	12.30	17.92	10.59
Rate of growth of CR (<i>per cent</i>)	11	42	04	55	19

(Source: Finance Accounts of the State for the respective years)

1.4.1 Recoveries of loans and advances

Recovery of loans and advances decreased from ₹ 1,493.06 crore in 2014-15 to ₹ 18.50 crore (98.76 per cent) in 2015-16. It consists of loans for Co-operative Societies/ Co-operatives Corporation/Banks ₹ 3.58 crore, Statutory Corporations ₹ 0.07 crore, and Loans to Government servant ₹ 14.85 crore. The decrease was mainly due to less recovery from Statutory Corporation by ₹ 1,474.99 crore against the previous year 2014-15.

1.4.2 Debt Receipts from internal sources

Public debt receipts increased from ₹ 13,918 crore in 2014-15 to ₹ 18,383 crore (32.08 per cent) in 2015-16 which mainly consists of Market Loan ₹ 11,500 crore, Loans from National Bank for Agricultural and Rural Development ₹ 1,200 crore and Special Securities issued to National Small Saving Fund of the Central Government ₹ 3,307 crore.

Ujjwal Discom Assurance Yojana (UDAY):

The State Government has taken steps towards improving the financial health of the Discoms by signing the MOU under UDAY and agreeing to take over the debt of the Discoms in February 2016. The State Govt. liability of DISCOM under UDAY Scheme up to 30.09.2015 is ₹ 3109.05 crore out of which State Govt. issued Non-SLR Bonds for the year 2015-16 amounting to ₹ 1554.42 crore. Further, Govt. of India permitted to issue Non-SLR Bonds amounting to ₹ 772.26 crore for the year 2016-17, thus, totaling ₹ 2331.78 crore which is 75 per cent of the total liabilities of DISCOM.

1.5 Public Account Receipts (Net)

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursement is the fund available with the Government for use. **Table 1.13** below depicts the components of public account receipts (Net) during the period 2011-16.

Table 1.13: Components of Public Account Receipts (Net)

	(₹ in crore)				
Resources under various heads	2011-12	2012-13	2013-14	2014-15	2015-16
Public Account Receipts (Net)					
a. Small Savings, Provident Fund etc.	(-) 2.13	(-) 215.64	(-) 297.90	(-) 182.77	(-)73.58
b. Reserve Fund	572.36	530.89	698.58	730.13	90.69
c. Deposits and Advances	932.91	2,199.05	3,668.40	2,222.58	3,731.69
d. Suspense and Miscellaneous	(-) 556.93	(-) 266.52	(-) 44.86	(-) 1707.32	(-)571.81
e. Remittances	(-) 36.82	19.52	(-) 19.01	(-) 11.98	6.05
Total	909.39	2,267.39	4,005.21	1,050.64	3,183.04

(Source: Finance Accounts of the State for the respective years)

Public Account Receipts (Net) increased from ₹ 909.39 crore in 2011-12 to ₹ 3,183.04 crore in 2015-16. Major increase in Public Account Receipts was due to increase in Deposit and Advances by ₹ 2,798.78 crore and ₹ 42.87 crore in Remittances during 2011-12 to 2015-16.

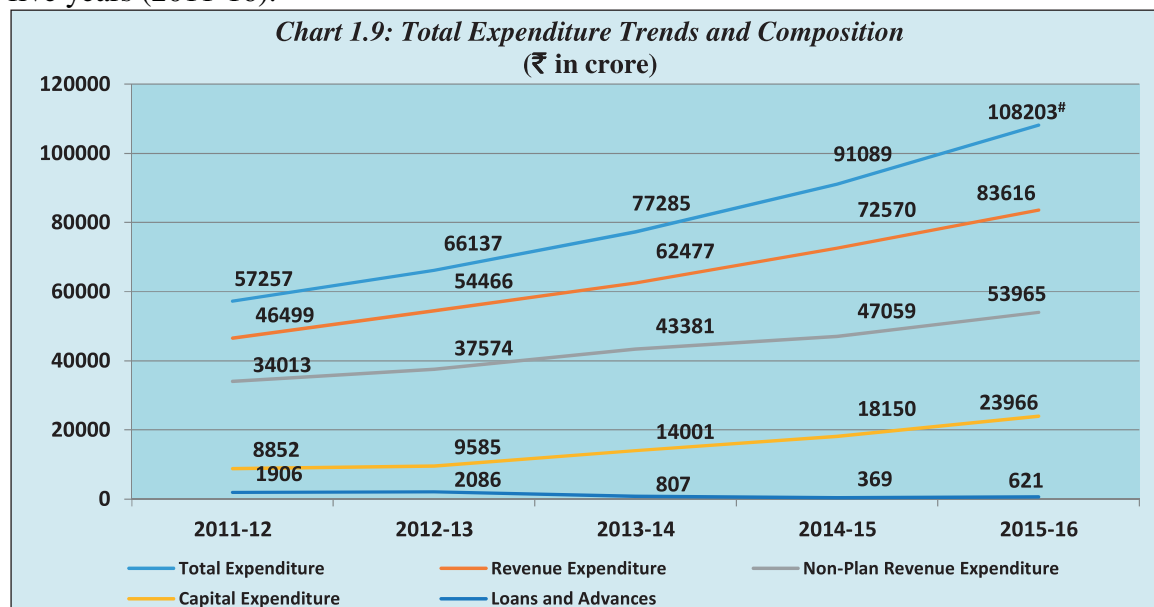
1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities 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 corrections and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development and social sectors.

1.6.1 Growth and Composition of Expenditure

Chart 1.9 presents the trends in total expenditure over a period of five years (2011-16).



(Source: Finance Accounts of the State for the respective years)

Total expenditure does not include public debt repayment.

- The total expenditure comprising revenue expenditure, capital expenditure and loans and advances, increased from ₹ 57,257 crore in 2011-12 to ₹ 1,08,203 crore in 2015-16.
- The increase of ₹ 17,114 crore in total expenditure in 2015-16 over the previous year was mainly due to increase of ₹ 11,046 crore (15 per cent) in revenue expenditure, ₹ 5,816 crore (32 per cent) in capital expenditure and ₹ 252 crore (68 per cent) in loans and advances.
- Major Capital expenditure increased on Other Rural Development Programme from ₹ 4,647.84 crore in 2014-15 to ₹ 8,012.63 crore in 2015-16 (72.39 per cent), on Other Administrative Services from ₹ 523.19 crore in 2014-15 to ₹ 2,233.73 crore in 2015-16 (326.94 per cent) and on Medical and Public Health ₹ 315.77 crore in 2014-15 to ₹ 1,090.75 crore (245.43 per cent) in 2015-16.
- Major revenue expenditure increased in Power from ₹ 3,752.94 crore in 2014-15 to ₹ 6,047.95 crore (61.15 per cent) in 2015-16, Welfare of Scheduled Caste, Scheduled Tribes and Other Backward Classes from ₹ 2,304.50 crore in 2014-15 to ₹ 4,055.63 crore (75.99 per cent) in 2015-16 and on Road and Bridges from ₹ 990.58 crore in 2014-15 to ₹ 1,709.07 crore (72.53 per cent) in 2015-16.

1.6.2 Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network. Trends in Revenue expenditure-basic parameters are given below **Table 1.14**.

Table 1.14: Revenue expenditure-basic parameters

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue expenditure (RE), of which (₹ in crore)	46,499	54,466	62,477	72,570	83,616
Non-Plan revenue expenditure (NPRE)	34,012	37,574	43,381	47,059	53,965
Plan revenue expenditure (PRE)	12,487	16,892	19,096	25,511	29,651
Rate of Growth of					
RE (<i>per cent</i>)	21.67	17.13	14.71	16.15	15.22
NPRE (<i>per cent</i>)	24.51	10.47	15.45	8.48	14.68
PRE (<i>per cent</i>)	14.56	35.28	13.05	33.59	16.23
Revenue expenditure as percentage of TE	81.21	82.35	80.84	79.67	77.28
NPRE/GSDP (<i>per cent</i>)	13.76	13.31	13.68	12.59	13.05
NPRE as percentage of TE	59.40	56.81	56.13	51.66	49.87
NPRE as percentage of RR	66.27	63.08	62.94	60.01	56.14
Buoyancy of revenue expenditure with					
GSDP (ratio)	1.01	1.20	1.20	0.90	1.44
Revenue receipts (ratio)	1.42	1.07	0.94	1.17	0.67

(Source: Finance Accounts of the State for the respective years)

Revenue Expenditure

It would be seen from the above table that the Revenue expenditure increased during 2015-16 by ₹ 11,046 crore (15.22 *per cent*) over the previous year and was 77.28 *per cent* of the total expenditure⁵.

Non-plan revenue expenditure

The non-plan revenue expenditure (NPRE) during 2015-16 increased by ₹ 6,906 crore (14.68 *per cent*) mainly due to increase in the expenditure under Energy by ₹ 2,338.46 crore (62.31 *per cent*), Rural Development by ₹ 764.40 crore (36.23 *per cent*) and Transport by ₹ 722.13 crore (79.61 *per cent*) as detailed in **Appendix 1.4**.

Plan revenue expenditure

The plan revenue expenditure (PRE) during 2015-16 increased by ₹ 4,140 crore (16.23 *per cent*) mainly due to increase in the expenditure under Education by ₹ 1,765.68 crore (22.57 *per cent*), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes by ₹ 1,727.12 crore (80.26 *per cent*) and Industry and Minerals by ₹ 643.35 crore (130.14 *per cent*) as detailed in **Appendix 1.4**.

1.6.3 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 **Table 1.15** and **Chart 1.10** present the trends in the expenditure on these components during 2011-16.

⁵ It includes Revenue Expenditure, Capital Expenditure and Disbursement of Loans and Advances

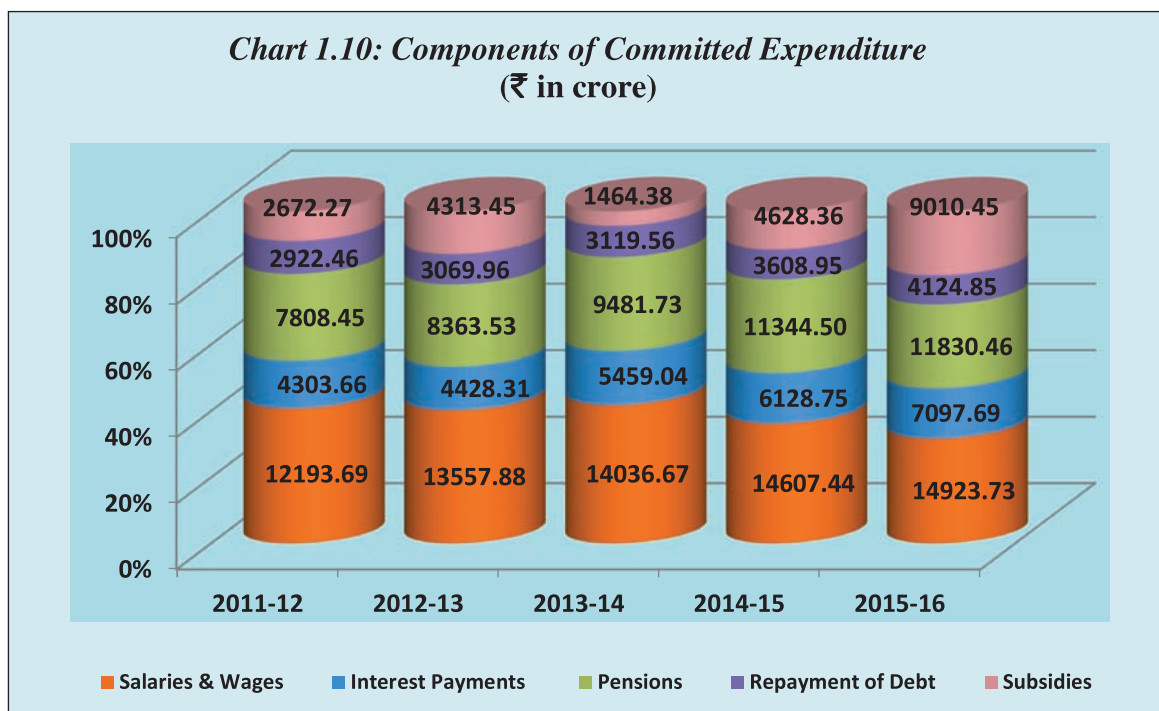
Table 1.15: Components of committed expenditure during 2011-16

(₹ in crore)

Sl. No.	Components of Committed Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16	
						BE	Actual Expenditure
1	Salaries & wages of which	12,193.69 (23.76)	13,557.88 (22.76)	14,036.67 (20.37)	14,607.44 (18.63)	18,534.75	14,923.73 (15.52)
I(a)	Non-Plan head	11,494.50 (22.40)	12,865.06 (21.60)	13,315.36 (19.32)	13,910.31 (17.74)	17,757.90	14,307.22 (14.88)
I(b)	Plan head	699.19 (1.36)	692.82 (1.16)	721.31 (1.05)	697.13 (0.89)	776.85	616.51 (0.64)
2	Interest Payments	4,303.66 (8.39)	4,428.31 (7.43)	5,459.04 (7.92)	6,128.75 (7.82)	7,220.77	7,097.69 (7.38)
3	Expenditure on Pensions	7,808.45 (15.22)	8,363.53 (14.04)	9,481.73 (13.76)	11,344.50 (14.47)	12,979.67	11,830.46 (12.31)
4	Repayment of Debt	2,922.46 (23.97)	3,069.96 (5.15)	3,119.56 (4.53)	3,608.95 (4.60)	3,895.28	4,124.85 (4.29)
5	Subsidies	2,672.27 (5.21)	4,313.45 (7.24)	1,464.38 (2.12)	4,628.36 (5.90)	0.00	9,010.45 (9.37)
6	Total (1+2+3+4+5)	29,900.53 (58.26)	33,733.13 (56.63)	33,561.38 (48.70)	40,318.00 (51.42)	42,630.47	46,987.18 (48.87)
7	Other Components (8-6)	16,598.96 (32.34)	20,733.02 (34.81)	28,915.85 (41.96)	32,251.98 (44.44)	48,577.64	36,628.76 (38.11)
8	Revenue Expenditure	46,499.49	54,466.15	62,477.23	72,569.98	91,208.11	83,615.94
9	Revenue Receipts	51,320.17	59,566.66	68,918.65	78,417.54	10,3189.06	96,123.10

Figures in the parentheses indicate percentage of Actual Expenditure to Revenue Receipts

Chart 1.10: Components of Committed Expenditure (₹ in crore)



(Source: Finance Accounts of the State for the respective years)

Expenditure on Salaries

Expenditure on salaries as a percentage of revenue receipts decreased from 18.63 per cent in 2014-15 to 15.52 per cent in 2015-16. The expenditure of ₹ 14,923.73 crore on salaries was lower than the budget estimates (₹ 18,534.75 crore) by ₹ 3,611.02 crore.

Expenditure on Pension Payment

Expenditure on Pension payment grew up from ₹ 7,808.45 crore in 2011-12 to ₹ 11,830.46 crore in 2015-16 i.e. an increase of ₹ 4,022.01 crore (51.51 per cent), pension payments alone accounted for 12.31 per cent of revenue receipts of the State during the year and increased by ₹ 485.96 crore (4.28 per cent) over the previous year.

Expenditure on Interest Payment

Expenditure on interest payment (₹ 7,097.69 crore) was 15.81 per cent higher than the previous year. The percentage of interest payment to revenue receipts decreased from 8.39 per cent in 2011-12 to 7.38 per cent in 2015-16. Interest payment (₹ 7,097.69 crore) during 2015-16 was higher than the assessment made by FFC (₹ 6,359 crore) by ₹ 738.69 crore. However, It was below than the budget estimates (₹ 7,220.77 crore) by ₹ 123.08 crore.

Expenditure on Repayment of Debt

Expenditure on Repayment of Debt as a percentage of revenue receipts decreased from 23.97 per cent in 2011-12 to 4.29 per cent in 2015-16. This expenditure marginally higher than the budget estimates (₹ 3,895.28 crore) by ₹ 229.57 crore (5.89 per cent).

Subsidies

In any welfare State, it is common to provide subsidies/subventions to disadvantaged sections of the society, Subsidies are dispensed not only explicitly but also implicitly by providing subsidized public services to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

The total subsidies during the current year was ₹ 9,010.45 crore which was 94.68 per cent higher than previous year and constituted 9.37 per cent of revenue receipts. Out of this, ₹ 6,047.95 crore was provided to Energy Department, ₹ 1,330.67 crore to Food and Consumer Protection Department and ₹ 824.89 crore to Industries Department.

Implicit Subsidies

The State Government incurred expenditure on implicit subsidies which are enumerated in the **Table 1.16** below:

Table 1.16: Implicit Subsidies given in 2015-16

(₹ in crore)		
Sl. No.	Name of the Departments	Expenditure
1.	Education Department	1,487.50
2.	Industry Department	834.71
3.	Agriculture Department	585.91
4.	Sugar Industry Department	130.60
5.	Energy Department	47.23
Total		3,085.95

(Source: Information furnished by Various Departments of Government of Bihar)

It would be seen from the **Table 1.16** that during 2015-16, the State Government incurred an expenditure of ₹ 1,487.50 crore under Education Department for providing uniform, bicycle and sanitary napkins to the students etc., ₹ 834.71 crore under Industry Department for rebate on electricity consumption of power loom, implementation of different schemes for food processing sector, ₹ 585.91 crore under Agriculture Department for promoting of agriculture machanisation upgradation of Bio-Agriculture etc., ₹ 130.60 crore under Sugar Industry Department for economical assistance to State Plan and ₹ 47.23 crore to Bihar Renewable Energy Development Agency under Energy Department for solar power plant etc..

1.6.4 Financial Assistance by State Government to Local Bodies and Other Institutions

Assistance provided by the Government by way of grants-in-aid to Local bodies and other institutions during the period 2011-16 is presented in the **Table 1.17** below:

Table 1.17: Financial Assistance to Local Bodies and Other Institutions

(₹ in crore)					
Financial Assistance to Institutions	2011-12	2012-13	2013-14	2014-15	2015-16
Educational Institutions (Aided Schools, Aided Colleges, Universities)	5,581.07	8,331.34	8,420.44	11,477.94	5,345.89
Municipal Corporations and Municipalities	557.30	873.56	1,009.88	626.46	1,826.29
Zila Parishad and other Panchayati Raj Institutions	2,534.41	2,595.15	3,506.69	2,425.69	3,178.20
Development Agencies	3,029.74	3,079.26	5,683.72	6,938.67	10,972.07
Hospitals and Other Charitable Institutions	25.00	-	67.12	101.05	1,403.26
Other Institutions	2,716.16	2,574.43	247.16	789.48	3,700.50
Total	14,443.68	17,453.74	18,935.01	22,359.29	26,426.21
Assistance as per percentage of RE	31.06	32.05	30.31	30.81	31.60

(Source: Finance Accounts of the State for the respective years)

An analysis of the above table reveals that the financial assistance during 2015-16 increased to ₹ 26,426.21 crore from ₹ 22,359.29 crore in 2014-15. The increase of ₹ 4,066.92 crore (18.19 per cent) over the previous year was primarily due to increase in assistance to Development Agencies (₹ 4,033.40 crore), Hospitals and Other Charitable Institutions (₹ 1,302.21 crore), Municipal Corporations and Municipalities (₹ 1,199.83 crore), Zila Parishad and other Panchayati Raj Institutions (₹ 752.51 crore) and Other Institutions (₹ 2,911.02 crore). The assistance to Educational Institutions, however, decreased by ₹ 6,132.05 crore.

1.7 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 expenditure (i.e. adequate provisions for providing Public Services); efficiency on expenditure incurred and effectiveness (assessment of outlay-outcome relationship for selected services).

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely State's subject. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc.

Table 1.18 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2015-16.

Table 1.18: Fiscal Priority and Fiscal capacity of the State in 2012-13 and 2015-16

(In per cent)						
Fiscal Priority by the State	AE/ GSD P	DE [#] / AE	SSE/ AE	CE/ AE	Edn/ AE	Health/ AE
General Category States Average (Ratio) 2012-13*	14.14	70.03	38.47	13.70	17.72	4.72
Bihar's Average (Ratio) 2012-13	23.42	70.69	36.95	14.49	21.84	3.63
General Category State Average (Ratio) 2015-16	16.05	70.63	36.29	14.89	15.63	4.45
Bihar's Average (Ratio) 2015-16	26.17	70.78	35.75	22.15	17.70	4.22

* As per cent of GSDP
 AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure,
 CE: Capital Expenditure, Edn: Education
 # DE includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

(Source: State Finance Accounts of respective years, Directorate of Economics and Statistics, Government of Bihar for GSDP).

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads⁶ for 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 and merit goods⁷. Apart from improving the allocation towards development expenditure⁸, particularly in view of the fiscal space being created on account of the decline in the expenditure debt servicing in the recent years, the efficiency of expenditure use is also reflected in the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on the operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure, the better would be quality of expenditure.

The status of efficiency of expenditure and its use in selected services is depicted in the **Table 1.19**.

Table 1.19: Efficiency of Expenditure and its use in selected Services

(Percentage)

Sector	2014-15		2015-16	
	Ratio of CE to TE	In RE share of S&W	Ratio of CE to TE	In RE share of S&W
Social Services (SS)				
General Education	1.47	28.49	2.77	23.77
Health and Family Welfare	8.76	50.99	23.86	52.57
Water Supply, Sanitation, & Housing and Urban Development	19.88	6.63	18.23	6.28
Total (SS)	5.96	28.25	8.70	25.16
Economic Services (ES)				
Agriculture & Allied Activities	5.11	14.37	14.68	14.64
Irrigation and Flood Control	58.26	58.00	59.40	56.96
Power & Energy	52.53	0.00	31.23	0.00
Transport	80.83	22.81	72.06	13.94
Total (ES)	51.99	14.23	43.13	11.25
Total (SS+ES)	26.18	24.24	23.84	20.59

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.

(Source: Finance Accounts of the State for the respective years)

Analysis on the sector wise expenditure and its relation to developmental indices indicates that capital expenditure of these selected socio-economic services as a percentage of the total expenditure on these heads decreased from 26.18 per cent in 2014-15 to 23.84 per cent in 2015-16. Share of salaries and wages in revenue expenditure of these heads also decreased from 24.24 per cent in 2014-15 to 20.59 per cent in 2015-16, which indicated a positive shift in the State finances.

⁶ Development heads include Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

⁷ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a goods leads to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of 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 to 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.

⁸ 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.

In the selected services, the percentage of capital expenditure on Social Services to total expenditure increased from 5.96 *per cent* in 2014-15 to 8.70 *per cent* in 2015-16. However, the percentage of capital expenditure on the selected Economic Services to total expenditure decreased from 51.99 *per cent* in 2014-15 to 43.13 *per cent* in 2015-16. The increase was observed mainly under Health and Family Welfare in Social Services and Agriculture and Allied Activities and Irrigation and Flood Control in Economic Services.

The share of salary and wages in revenue expenditure on the selected social services decreased from 28.25 *per cent* in 2014-15 to 25.16 *per cent* in 2015-16. The decrease was observed mainly under General Education (4.72 *per cent*) and Water Supply, Sanitation & Housing and Urban Development (0.35 *per cent*).

Similarly, the share of salary and wages in revenue expenditure on the selected Economic Services decreased from 14.23 *per cent* in 2014-15 to 11.25 *per cent* in 2015-16. The decrease was observed mainly under Irrigation and Flood Control (1.04 *per cent*) and Transport (8.87 *per cent*).

1.8 Financial Analysis of Government Expenditure and Investments

1.8.1 Incomplete projects

The blocking of funds on incomplete works (including works stopped due to litigation) impinges negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as on 31 March 2016 is given in **Table 1.20**. Altogether, 144 schemes/projects (estimated cost ₹ 1,728.18 crore) were due for completion up to March 2016, but remained incomplete resulting in blocking of ₹ 731.56 crore. The physical progress of incomplete works ranged between zero to 98 *per cent* as of March 2016⁹.

Table 1.20: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department/Project	No. of Incomplete Projects	Estimated cost	Progressive expenditure upto March 2016
Water Resources	58	1,260.42	477.18
Public Health Engineering	40	224.93	126.15
Road Construction	4	37.80	17.25
Building Construction	21	131.75	71.84
Local Area Engg. Organisation	13	21.89	11.55
Rural Work	5	4.10	1.63
National Highways	3	47.29	25.96
Total	144	1,728.18	731.56

(Source: Finance Accounts of the State for the year 2015-16)

Delay in completion of works invites the risk of cost escalation. Besides, due to delay in completion of the projects, the intended benefits from the projects could not be achieved. Thus, works need to be completed on time to avoid time and cost overruns.

1.8.2 Investments and returns

As of 31 March 2016, the State Government had invested ₹ 9,940.24 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Institutions as indicated in **Table 1.21**.

⁹ Appendix-IX of the Finance Accounts of GoI for the year 2015-16.

Table 1.21: Returns on Investments

Investment/Return/Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Investment at the end of the year (₹ in crore)	920.82	941.17	2,867.18	7,068.79	9,940.24
Return (₹ in crore)	1.40	2.55	2.53	2.58	14.84
Return (<i>per cent</i>)	0.15	0.27	0.09	0.04	0.15
Average rate of interest ¹⁰ on Government borrowing (<i>per cent</i>)	6.35	5.79	6.28	6.19	6.09
Difference between interest rate and return (<i>per cent</i>)	6.20	5.52	6.19	6.15	5.94

(Source: Finance Accounts of the State for the respective years)

There was return of ₹ 14.84 crore only against the investments made by the Government of ₹ 9,940.24 crore during 2015-16.

It can be seen from **Table 1.21** above, the average return on these investments was 0.14 *per cent* during last five years while the Government paid average interest rate of 6.14 *per cent* on its borrowings during 2011-16. Gap between the interest rate on borrowings and the rate of return on investment has progressively shown a decreasing trend since 2013-14 to 2015-16.

Out of ₹ 9,940.24 crore invested by the State Government in the share capital of different entities, ₹ 9,366.84 crore in 53 Government Companies, ₹ 433.90 crore in 16 Co-operative Institutions and Local Bodies, ₹ 105.63 crore in three Statutory Corporations, ₹ 30.19 crore in one Rural Bank and ₹ 3.68 crore in nine Other Joint Stock Companies and Partnerships was invested.

1.8.3 Loans and advances by the State Government

In addition to the investments in Co-operative Institutions, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations.

Table 1.22 presents the outstanding loans and advances as on 31 March 2016 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.22: Average Interest received on Loans Advanced by the State Government

	(₹ in crore)				
Amount of Loans/Interest Receipts/ Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Balance	16,642.19	18,525.76	20,587.01	21,379.35	20,255.00
Amount advanced during the year	1,906.08	2,085.95	807.38	368.71	621.23
Amount repaid during the year	22.51	24.70	15.03	1,493.06	18.50
Closing Balance	18,525.76	20,587.01	21,379.36	20,255.00	20,857.73
Net addition	1,883.57	2,061.25	792.35	(-) 1,124.35	602.73
Interest Receipts	573.70	167.12	269.48	344.77	583.66
Interest receipts as percentage of outstanding Loans and advances	3.10	0.81	1.26	1.70	2.80
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	6.35	5.79	6.28	6.19	6.09
Difference between interest payments and interest receipts (<i>per cent</i>)	(-)3.25	(-) 4.98	(-) 5.02	(-) 4.49	(-)3.29

(Source: Finance Accounts of the State for the respective years)

¹⁰ Average rate of interest = Interest Payment*100/Fiscal Liabilities.

The quantum of loans advanced increased from ₹ 368.71 crore in 2014-15 to ₹ 621.23 crore in 2015-16. Repayments decreased from ₹ 1,493.06 crore in 2014-15 to ₹ 18.50 crore in 2015-16. The closing balance of total repayments in arrears was ₹ 20,857.73 crore during 2015-16. The difference between the interest payments and interest receipts decreased from 4.49 *per cent* in 2014-15 to 3.29 *per cent* in 2015-16 due to higher recovery of interest receipts.

1.8.4 Cash Balances and Investment of Cash balances

Table 1.23 depicts the cash balances and investments made by the State Government during the year.

Table 1.23: Cash Balances and Investment of Cash balances

Particulars	(₹ in crore)		
	As on 1st April 2015	As on 31st March 2016	Increase/Decrease
Cash Balances	6,337.11	11,716.72	5,379.61
Investments from Cash Balances (a to d)	3,528.80	8,199.24	4,670.44
a. GoI Treasury Bills	0.00	0.00	0.00
b. GoI Securities	3,524.15	8,194.59	4,670.44
c. Securities of other State Government	4.65	4.65	0.00
d. Other Investments	0.00	0.00	0.00
Fund-wise break-up of Investment in Earmarked balances (a and b)	2,343.00	2,834.84	491.84
a. Famine Relief Fund	0.10*	0.10*	0.00
b. Sinking Fund	2,342.90	2,834.74	491.84
Interest Realised	311.77	453.33	141.56
*No increase, figures adopted by rounding of 0.0961			

(Source: Finance Accounts of the State for the respective years)

Cash balances increased from ₹ 6,337.11 crore to ₹ 11,716.72 crore during the year. Further, the State Government's investments in GoI securities increased from ₹ 3,524.15 crore to ₹ 8,194.59 crore as on 31 March 2016. The investment in earmarked balances has been increased by ₹ 491.84 crore as on 31 March 2016. Interest of ₹ 453.33 crore realised on the investments during 2015-16 was higher by ₹ 141.56 crore than the interest realised (₹ 311.77 crore) during 2014-15.

1.9 Assets and Liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, accounting of fixed assets like lands and buildings owned by the Government is not done in a comprehensive manner. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of expenditure incurred. **Appendix 1.8** gives an abstract of such liabilities and assets as on 31 March 2016 compared with the corresponding position as on 31 March 2015.

Total liabilities are the liabilities under the Consolidated Fund and Public Accounts of the State. Consolidated fund liabilities consist of internal debt and loans and advances from GoI. It also includes borrowings by Public Sector Undertakings and special purpose vehicles and other equivalent instruments where liability for repayment rests with the State Government.

1.9.2 Fiscal Liabilities

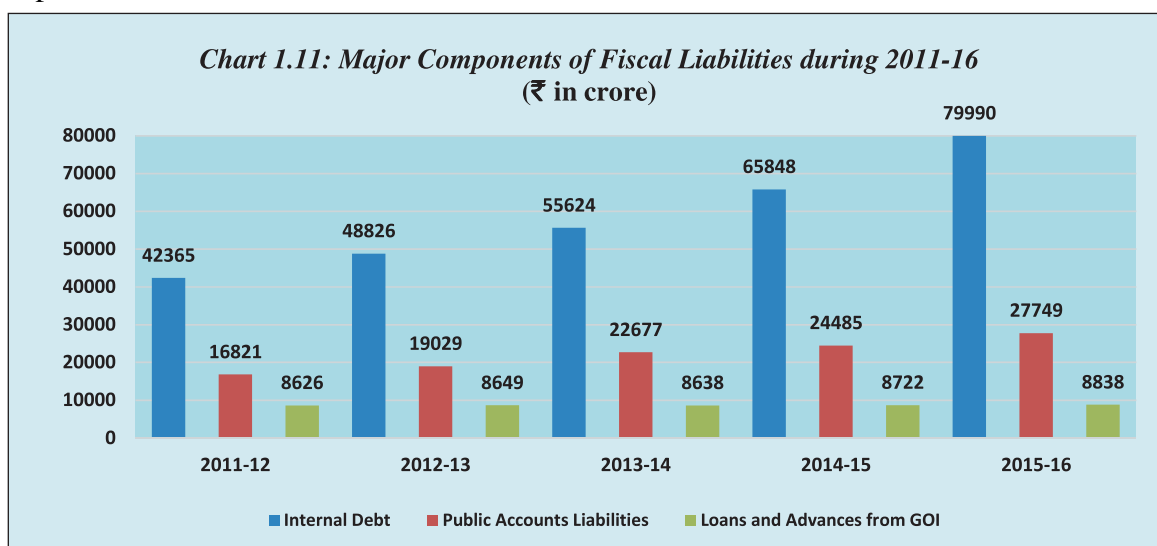
The trends in outstanding Fiscal liabilities of the State are presented in **Table 1.24**.

Table 1.24: Outstanding Fiscal Liabilities¹¹

Year	2011-12	2012-13	2013-14	2014-15	2015-16
Amount (₹ in crore)	67,811.84	76,503.07	86,939.10	99,055.82	1,16,577.61
Growth Rate	7.88	12.82	13.64	13.94	17.69
Ratio of fiscal liabilities to					
GSDP	0.27	0.27	0.27	0.27	0.28
Revenue receipts	1.32	1.28	1.26	1.26	1.21
Own resources	5.02	4.40	4.04	4.44	4.22
Buoyancy ratio of fiscal liabilities to					
GSDP	0.37	0.90	1.11	0.78	1.67
Revenue receipts	0.52	0.80	0.87	1.01	0.78
Own resources	0.32	0.45	0.58	3.74	0.74

(Source: Finance Accounts of the State for the respective years)

The composition of the fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.11**.



(Source: Finance Accounts of the State for the respective years)

As can be seen from **Table 1.24**, the overall fiscal liabilities of the State increased from ₹ 67,811.84 crore in 2011-12 to ₹ 1,16,577.61 crore in 2015-16. The growth rate of fiscal liabilities increased from 7.88 per cent in 2011-12 to 17.69 per cent in 2015-16. However, the ratio of fiscal liabilities to GSDP increased from 27.40 per cent in 2011-12 to 28.20 per cent during 2015-16 and was higher than norms as recommended by FFC and the FRBM target of 25.02 per cent for the current year. The liabilities stood at 1.21 times the revenue receipts and 4.22 times the State's own resources at the end of 2015-16. The buoyancy of these liabilities with respect to GSDP during the year was 1.67 as compared to 0.78 during preceding year.

1.9.3 Transaction under Reserve Fund

Reserve Funds are created for specific and well defined purposes under the sector 'J' in the accounts of the State Government (Public Accounts). These funds are fed by contributions or grants from the consolidated fund of India or State or from outside agencies. The funds may be further classified as "Fund bearing interest" and 'Funds not bearing interest'. Generally the reserve funds are classified under the following three categories based on the sources from which they are fed.

¹¹ Market loan, Loans and advances from GoI, Loans from Small Savings, PF, etc and other obligation

- Funds accumulated from grants made by another Government and at times aided by public subscriptions, example: Fund formed from subventions from the Central Road Fund.
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes e.g. Depreciation Fund.
- Funds accumulated from the contributions made by outside agencies to the State Government.

As per Finance Accounts, six Reserve funds¹² have been created and maintained in the accounts of the State Government.

State Disaster Response Fund

Opening balance of this fund as on 1 April 2015 was ₹ 1,809.57 crore. During the year an amount of ₹ 1,269.00 crore was received and ₹ 1,670.15 crore was disbursed from the State Disaster Response Fund leaving a balance of ₹ 1,408.42 crore as on 31 March 2016.

Sinking Fund

Opening balance as on 1 April 2015 was ₹ 2,342.90 crore and during the year a sum of ₹ 491.84 crore was invested in Sinking Fund-Investment Account. The closing balance in Sinking Fund as on 31 March 2016 was ₹ 2,834.74 crore.

1.9.4 Contingent liabilities

• **Status of Guarantees**

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. No law under Article 293 of the Constitution has been passed by the State legislature laying down the limit within which the Government may give guarantees on the security of the Consolidated Fund of the State. The position of guarantees given by the State Government for the last five years is shown in **Table 1.25**.

Table 1.25: Guarantees given by the Government

	(₹ in crore)				
Guarantees	2011-12	2012-13	2013-14	2014-15	2015-16
Maximum amount guaranteed	2,049.03	2,046.44	2,586.84	5,314.84	9,396.62
Outstanding amount (Principal) of guarantees	1,092.34	1,089.23	1,090.23	2,000.90	4,720.78
Percentage of maximum amount guaranteed to total revenue receipts	3.99 (51,320)	3.44 (59,567)	3.75 (68,919)	6.78 (78,417)	9.78 (96,123)
(Figures in brackets indicate revenue receipts)					

(Source: Finance Accounts of the State for the respective years)

From the scrutiny of statement No. 9 of Finance Account it was observed that the Government did not furnish the status/information about the guarantees given by the State Government during the year 2015-16 and maximum amount guaranteed at the end of March 2016 has increased by ₹ 4,081.78 crore from the of previous year. The outstanding amount of ₹ 4,720.78 crore of guarantees as on 31 March 2016 was in respect of Power (₹ 3,496.87 crore), Co-operative (₹ 456.05 crore), Road and Transport (₹ 43.00 crore), State Financial Corporation (₹ 127.47 crore), Urban Development and Housing

¹² State Disaster Response Fund, Sinking Fund, Famine Relief Fund, Development and Welfare Funds, General and other Reserve Fund & Depreciation/Renewal Reserve Funds.

(₹ 17.21 crore), Other Infrastructure (₹ 16.06 crore), and any other (₹ 564.12 crore). Further, the State Government had not yet established a guarantee redemption fund by charging guarantee fees for the discharge of any liability as was recommended by Twelfth FC.

• *Off-Budget Borrowings*

Government companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of many of these concerns may sometimes turn out to be the liabilities of the State Government termed as ‘off-budget borrowings’. The State Government did not furnish any information regarding off budget borrowings during 2015-16.

1.9.5 *Analysis of Borrowings of Government including Market Borrowings*

The cash balances and the borrowings made by the State during 2011-16 are given in **Table 1.26**.

Table 1.26: Details of borrowings and cash balances

Year	Fiscal Deficit	Total Borrowings (including market borrowings)	(₹ in crore)	
			Excess of borrowings over fiscal deficit	Cash Balance of March
2011-12	5,914	7,660	1,746	1,509
2012-13	6,545	10,850	4,305	3,716
2013-14	8,351	30,249	21,898	6,156
2014-15	11,179	41,188	30,009	6,337
2015-16	12,061	56,030	43,969	11,717

(Source: *Finance Accounts of the State for the respective years*)

It would be seen from the above that borrowings exceeded the fiscal deficit by ₹ 1,746 crore, ₹ 4,305 crore, ₹ 21,898 crore, ₹ 30,009 crore and ₹ 43,969 crore during the years 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16 respectively. The cash balance which ranged between ₹ 1,509 crore to ₹ 11,717 crore during 2011-16 could be attributed to the borrowings made in excess to the level of the fiscal deficits, as indicated in **Table 1.26**.

1.10 Debt Management

Fiscal deficit is usually financed by way of borrowings by the State. The rate of growth of debt, the debt repayment liability, Public debt repayment, reliance on debt for financing current expenditure (not capital expenditure) the debt liability on account of loans raised by the Special Purpose Vehicle on the strength of Government guarantee and the commitments on account of debt servicing are depicted as under:

• *Debt Profile*

A time series analysis of previous five years showing the per capita debt is given below **Table 1.27**.

Table 1.27: Debt Profile: Indicators and Trends

Indicators of Debt Profile	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Net Availability of borrowed funds ¹³	651	4,263	4,977	5,988	10,424
Burden of Interest Payments (IP/RR Ratio)	0.10	0.10	0.10	0.10	0.08

(Source: *Finance Accounts of the State for the respective years*)

¹³ Net availability of borrowed funds = Total receipts under Public Debt and Other Liabilities - (Repayment of Public Debt and Other Liabilities + Interest Payment under Non-plan MH2049)

Net availability of borrowed funds increased from ₹ 5,988 crore in 2014-15 to ₹ 10,424 crore in 2015-16.

As per Statement No.6 of Finance Accounts for the year 2015-16, the Government raised Internal Debt of ₹ 17,565.04 crore, Loans and Advances from GoI ₹ 817.97 crore, Other Liabilities ₹ 37,647.21 crore and repaid Internal Debts of ₹ 3,422.74 crore, Loans and Advances to GoI ₹ 702.11 crore, discharged Other Liabilities worth ₹ 34,383.58 crore and also repaid interest on Internal Debt worth ₹ 5,899.63 crore, interest on Loans and Advances from Central Government ₹ 377.54 crore and interest on Small Saving, Provident Fund etc. worth ₹ 801 crore.

• Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹⁵; sufficiency of non-debt receipts¹⁶; Non-availability of borrowed funds¹⁷, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities.

Table 1.28 analyses the debt sustainability of the state according to these indicators for the period 2011-16.

Table 1.28: Debt Sustainability: Indicators and Trends

(₹ in crore)					
Indicators of Debt Sustainability	2011-12	2012-13	2013-14	2014-15	2015-16
Public Debt and Other Liabilities	67,811.84	76,503.07	86,939.10	99,055.82	1,16,577.61
Public Debt and Other Liabilities/GSDP Ratio	27.44	27.09	27.42	26.49	28.19
Average interest rate of outstanding debt	6.59	6.14	6.68	6.59	6.58
Sufficiency of non-debt receipts (Resource Gap)	(-) 1,485.07	282.02	1,331.24	(-) 46,710.98	(-)39,291.86
Net Availability of borrowed funds	651	4263	4977	5988	10424
Burden of Interest Payments (IP/RR Ratio)	0.10	0.10	0.10	0.10	0.08
Maturity Profile of State Debt (in years)*					
Zero to one year (2016)					4,031.40 (4.34)
One to three years (2017-2019)					15,530.56 (16.72)
Three to five years (2020-2021)					12,431.17 (13.38)
Five to seven years (2022-2023)					17,248.54 (18.57)
More than seven years (2024 and thereafter)					43,653.70 (46.99)
Total					92,895.37 (100.00)[#]
* The table contains maturity profile of market loans only for which year of maturity was available in Finance Accounts for the year 2015-16.					
[#] Figures in bracket indicate per cent of repayment due.					

(Source: Finance Accounts of the State for the respective years)

¹⁴ The Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with return from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

¹⁵ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided balances are either zero or positive or are moderately negative.

¹⁶ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and incremental expenditure.

¹⁷ Defined as the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

After debt maturity profile of State as given in **Table 1.28** indicates that the State Government has to repay 16.72 *per cent* (₹ 15,530.56 crore) of its debt between 1-3 years, 13.38 *per cent* (₹ 12,431.17 crore) between 3-5 years and 18.57 *per cent* (₹ 17,248.54 crore) between 5-7 years. It signifies that State has to repay about 47 *per cent* of its debt (₹ 43,653.70 crore) after the next seven years.

The State has to work out a well thought debt management strategy to ensure debt stability. This involves containing additional borrowing and stepping up resource mobilisation efforts. Unless serious efforts are made to ensure debt stability, the State will have serious problem in debt servicing and leading to situation of debt trap.

1.10.1 Debt consolidation and relief facility

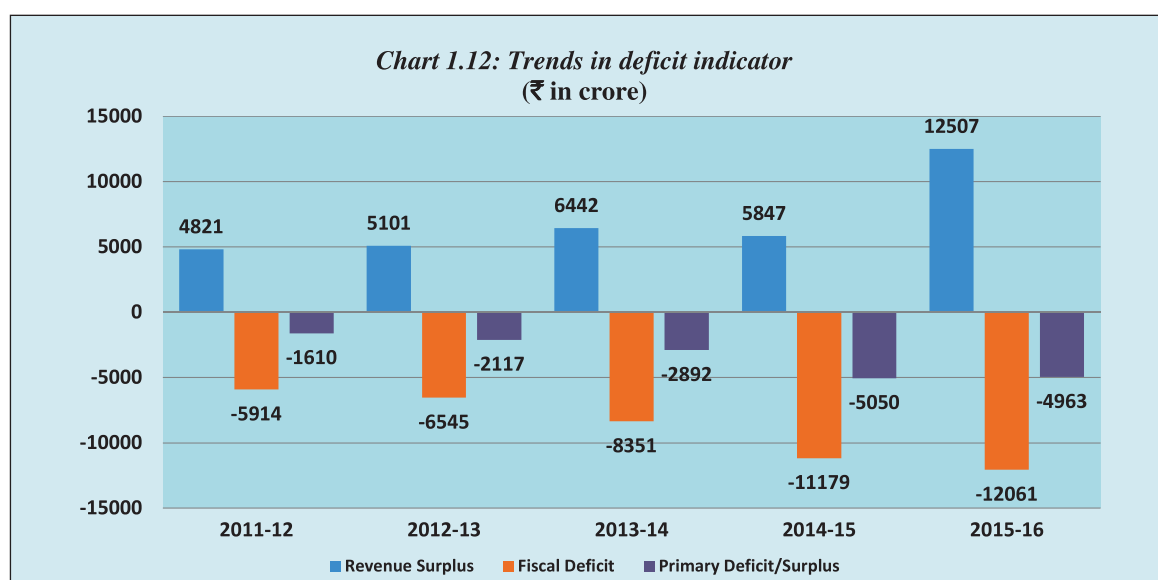
As per the Fourteenth Finance Commission recommendations, the State Governments be excluded from the operations of National Small Savings Fund (NSSF), with effect from 1 April, 2015. As for the fiscal burden incurred in the course of operations of the NSSF, prior to 1 April, 2015, since the scheme has been administered almost in its entirety by the Union Government, no part of this fiscal burden should be passed on the states and involvement of the states in the NSSF scheme with effect from 1 April, 2015 may be limited solely to discharging the debt obligations already incurred by them. Government of Bihar availed no Debt consolidation and relief facilities during 2015-16.

1.11 Fiscal Imbalances

Three key fiscal parameters—revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section represents the trend, nature, magnitude and the manner of financing of these deficits and the assessment of the actual levels of revenue and fiscal deficits *vis-a-vis* targets set for the financial year 2015-16 under FRBM Act/Rules.

1.11.1 Trends of Deficits

The State achieved revenue surplus in 2009-10 and remained in revenue surplus thereafter. **Chart 1.12** indicates that the actual surplus increased by ₹ 6,660 crore in 2015-16 compared to the previous year. The revenue surplus of ₹ 12,507 crore during 2015-16 was significantly higher than the States' Budget projection of ₹ 11,981 crore.



(Source: Finance Accounts of the State for the respective years)

Table 1.29: Trends in deficit indicators over the period 2011-16

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue surplus/GSDP	1.95	1.81	2.03	1.56	3.02
Fiscal deficit/GSDP	(-) 2.39	(-) 2.32	(-) 2.63	(-) 2.99	(-) 2.92
Primary surplus/GSDP	(-) 0.65	(-) 0.75	(-) 0.91	(-) 1.35	(-) 1.20

(Source: Finance Accounts of the State for the respective years)

It would be seen from the **Chart 1.12 & Table 1.29** that during the year, the revenue surplus increased by ₹ 6,660 crore whereas fiscal deficit increased from ₹ 11,179 crore in 2014-15 to ₹ 12,061 crore in 2015-16. The ratio of fiscal deficit to GSDP (2.92) was, however, well within three *per cent* as laid down in its FRBM Act and projections recommended by the FFC's for the year 2015-16.

Further, the primary deficits of ₹ 5,050 crore (2014-15) decreased to ₹ 4,963 crore (2015-16).

1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.30**.

Table 1.30: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2011-12	2012-13	2013-14	2014-15	2015-16
Composition of Fiscal Deficit		(-) 5,914.90	(-) 6,545.26	(-) 8,351.92	(-) 11,178.50	(-) 12,061.59
1	Revenue Deficit/ Revenue Surplus	4,820.68	5,100.51	6,441.42	5,847.56	12,507.16
2	Net Capital Expenditure	(-) 8,852.01	(-) 9,584.52	(-) 14,001.00	(-) 18,150.41	(-) 23,966.02
3	Net Loans and Advances	(-) 1,883.57	(-) 2,061.25	(-) 792.35	(-) 1,124.35	(-) 602.73
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	2,593.90	5,763.88	5,346.77	6,666.51	10,233.12
2	Loans from GoI	361.08	23.30	(-) 11.07	84.67	115.86
3	Special Securities Issued to NSSF	505.56	292.87	631.52	3,150.22	2,024.86
4	Loans from Financial Institutions	244.96	403.96	820.31	407.18	1,884.33
5	Small Savings, PF etc.	(-) 2.13	(-) 215.55	(-) 297.90	(-) 182.77	(-) 73.58
6	Deposits and Advances	932.91	2,199.05	3,668.41	2,222.57	3,731.69
7	Suspense and Miscellaneous	1,238.71	(-) 1,936.34	(-) 2,007.59	(-) 1,231.88	(-) 5,245.97
8	Remittances	(-) 36.82	19.51	(-) 19.01	(-) 11.98	6.05

9	Reserve Fund	335.93	275.94	262.31	(-) 245.12	(-)401.15
10	Inter State Settlement	74.02	-	-	-	-
11	Overall Surplus/Deficit	6,248.12	6,826.62	8,393.74	10,859.40	12,275.21
12	Increase / decrease in cash balance#	333.22	281.36	41.82	319.10	(-)213.62
13	Gross Fiscal Deficit	5,914.90	6,545.26	8,351.92	11,178.50	12,061.59

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

Cash balance (Deposit with Reserve bank and remittance in treasury).

(Source: Finance Accounts of the State for the respective years)

Table 1.31: Receipts and Disbursements financing the fiscal deficit during 2015-16

(₹ in crore)

Sl. No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	11,500.00	1,266.88	10,233.12
2	Loans from GoI	817.97	702.11	115.86
3	Special Securities Issued to National Small Savings Fund	3,306.54	1,281.68	2,024.86
4	Loans from Financial Institutions	2,758.49	874.16	1,884.33
5	Small Savings, PF etc.	1,203.48	1,277.06	(-)73.58
6	Deposits and Advances	34,894.03	31,162.34	3,731.69
7	Suspense and Miscellaneous	2,35,533.87	2,40,779.84	(-)5,245.97
8	Remittances	10,619.24	10,613.19	6.05
9	Reserve Funds	1,760.84	2,161.99	(-)401.15
10	Inter State Settlement	-	-	-
11	Overall surplus (-) deficit (+)			12,275.21
12	Increase / decrease in cash balance			(-)213.62
13	Gross Fiscal Deficit			12,061.59

(Source: Finance Accounts of the State for the year 2014-15)

The fiscal deficit, which represents the borrowing of the Government and its resource gap increased from ₹ 11,178.50 crore in 2014-15 to ₹ 12,061.59 crore in 2015-16 but was less than that projected in the Budget estimate (₹ 13,584.46 crore). During 2014-15 fiscal deficit was 61.59 per cent of Capital Expenditure but it decreased to 50.33 per cent during 2015-16. There was decrease in Special Securities issued to NSSF, Small Savings, PF etc., and Remittances over previous year. However there was increase in Market borrowings, loans from GoI, loans from Financial Institutions.

1.11.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹⁸ and capital expenditure (including loans and advances) 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, 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 borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.32**) indicates the extent to which the deficit was on account of enhancement in capital expenditure which might be desirable to improve the productive capacity of the State's economy.

¹⁸ Primary revenue deficit is defined as the gap between non-interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts are able to meet the primary expenditure incurred under revenue account.

Table 1.32: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts ¹⁹	Primary Revenue Exp- enditure ²⁰	Capital Exp- enditure	Loans and Advances	Primary Exp- enditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2011-12	51,343	42,195	8,852	1,906	52,953	9,148	(-) 1,610
2012-13	59,592	50,038	9,585	2,086	61,709	9,554	(-) 2,117
2013-14	68,934	57,018	14,001	807	71,826	11,916	(-) 2,892
2014-15	79,910	66,441	18,150	369	84,960	13,469	(-) 5,050
2015-16	96,142	76,518	23,966	621	1,01,105	19,624	(-) 4,963

(Source: Finance Accounts of the State for the respective years)

Table above indicates that the Government had a primary revenue surplus of ₹ 9,148 crore in 2011-12 which increased to ₹ 19,624 crore in 2015-16. This was due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 52,953 crore in 2011-12 to ₹ 1,01,105 crore in 2015-16. The details indicate that non-debt receipts were enough to meet the primary revenue expenditure and part of these receipts were utilized to meet capital expenditure. Though the primary deficit of the State has been increased from ₹ 1,610 crore in 2011-12 to ₹ 4,963 crore in 2015-16.

1.12 Follow up

The Report on State Finance is being placed in the State Legislature from 2008-09 onwards. A discussion in the Public Accounts Committee on this report is being carried out.

Recommendation was made on Para No. 3.4 for the year 2010-11 of Rural Works Department by the Public Accounts Committee.

1.13 Conclusion and Recommendations

Fiscal situation

- During 2015-16, the State had a Revenue Surplus of ₹ 12,507.16 crore which was more than the previous year by ₹ 6,660 crore and more than the Budget Estimate by ₹ 526 crore mainly due to decrease in Revenue expenditure.
- Fiscal Deficit of the State increased from ₹ 11,179 crore to ₹ 12,061 crore in 2015-16 mainly due to increase in Market borrowings, loans from GoI, etc. However, it was less than the Budget Estimate (₹ 13,584 crore) by ₹ 1523 crore. This was 2.92 per cent of GSDP, well within the ceiling (3.5 per cent) recommended by the Fourteenth Finance Commission (FFC).

Resource mobilisation

- Revenue Receipts (₹ 96,123 crore) of the State grew at 22.58 per cent (₹ 17,706 crore) during 2015-16 over the previous year, mainly due to increase in State's share of Union taxes and duties (₹ 11,959.61 crore) and own tax revenue (₹ 4,698.95 crore).

¹⁹ Non-debt receipts is the aggregate to Receipts and recovery of loans and advances.

²⁰ Primary revenue expenditure is the difference between revenue expenditure and interest payment.

- Revenue Buoyancy with reference to GSDP increased from 0.77 (2014-15) to 2.13 (2015-16) due to increase in Revenue Receipts by 22.58 per cent.

The Government should make efforts to achieve its own target of receipts given in the Budget document.

Transfer of funds to State Implementing Agencies

- During 2015-16, GoI directly transferred ₹ 792.71 crore to the State implementing agencies which was higher than the previous year by 21.63 per cent.

A system should be put in place to ensure proper accounting and monitoring of the use of funds directly transferred by Government of India to State Implementing Agencies.

Quality of expenditure

- Capital Expenditure increased to ₹ 23,966 crore in 2015-16 from ₹ 18,150 crore in 2014-15 mainly due to increase in Rural Development Programme from ₹ 4,647.84 crore in 2014-15 to ₹ 8,012.63 crore in 2015-16. The percentage of Capital Expenditure on the selected Economic Services to total expenditure decreased from 51.99 per cent in 2014-15 to 43.13 per cent in 2015-16. The percentage of capital expenditure on Social Services to total expenditure increased from 5.96 per cent in 2014-15 to 8.70 per cent in 2015-16.

The State Government should give more priority to Socio-economic sectors.

- The recovery of loans given by the Government to different institutions/organisations of the State was negligible leading to huge balance in repayments (₹ 20,857.73 crore) at the end of March 2016. Repayment of loans reduced substantially from ₹ 1,493.06 crore in 2014-15 to ₹ 18.50 crore in 2015-16.

Fiscal Liabilities

- Fiscal liabilities of the State increased from ₹ 99,056 crore in 2014-15 to ₹ 1,16,578 crore in 2015-16 mainly due to increase in Internal Debt.

