

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1. This chapter analyses changes in major fiscal aggregates based on the audit of the Finance Accounts and an assessment of the Bihar Government’s fiscal position as on 31 March 2018. It provides an insight into deficit management of Government, trends in revenue and capital expenditure, contingent issues, committed and obligatory expenditure, subsidies, debt, investment and borrowing patterns.

The profile of the State is given in *Appendix 1.1*.

1.1 Gross State Domestic Product (GSDP)¹

The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are given in **table 1.1**.

Table 1.1: GDP of India and GSDP of Bihar

Year	2013-14	2014-15	2015-16	2016-17	2017-18
India’s GDP at current prices (₹ in crore)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (percentage) of India	12.97	10.99	10.40	10.82	9.96
State’s GSDP at current prices (₹ in crore)	3,17,101	3,42,951	3,69,469	4,25,888	4,87,628
Growth rate of GSDP (percentage) of the State at current prices	12.30	8.15	7.73	15.27	14.50
State’s GSDP at constant prices (₹ in crore)	2,69,650	2,79,482	2,95,622	3,24,778	3,61,504
Growth rate of GSDP (percentage) of the State at constant prices	4.98	3.65	5.77	9.86	11.31

(Source: GDP/GSDP figures issued by MoSPI dated 28.08.2018)

The structure of the Government Accounts is explained in *Part A* and the layout of the Finance Accounts in *Part B* of *Appendix 1.2*. Contribution of GSDP of Bihar to India’s GDP was 2.91 per cent in 2017-18. Growth rate of GSDP of Bihar was better than Jharkhand (eight per cent), Uttar Pradesh (10 per cent), Madhya Pradesh (11 per cent) and Chhattisgarh (11 per cent).

1.1.1 Summary of fiscal transactions

Table 1.2 and **1.3** presents a summary of fiscal transactions of the State Government during 2013-18. *Appendix 1.3* provides details of receipts and disbursements as well as the overall fiscal position during 2017-18.

¹ GDP and GSDP are the market value of all officially recognised final goods and services produced within the country and the State respectively in a given period of time and are an important indicator of the country’s and the State’s economy.

Table 1.2: Summary of Receipts during 2013-18*(₹ in crore)*

Receipts	2013-14	2014-15	2015-16	2016-17	2017-18
Section-A: Revenue					
Revenue Receipts	68,919	78,417	96,123	1,05,585	1,17,447
Tax Revenue	19,961	20,750	25,449	23,742	23,137
Non-Tax Revenue	1,545	1,558	2,186	2,403	3,507
Share of Union Taxes/Duties	34,829	36,963	48,923	58,881	65,083
Grants from GoI	12,584	19,146	19,565	20,559	25,720
Section-B: Capital & others					
Misc. Capital Receipts	0	0	0	0	0
Recoveries of Loans and Advances	15	1,493	19	23	22
Inter-State Settlement	0	0	0	0	0
Public Debt Receipts*	9,907	13,918	18,383	21,577	13,169
Contingency Fund	1,450	1,650	4,477	5,438	6,053
Public Account Receipts	33,458	40,251	49,106	61,730	57,107
Opening Cash Balance	3,716	6,156	6,337	11,717	17,062
Total	1,17,465	1,41,885	1,74,445	2,06,070	2,10,860

* No ways & means advances were drawn during the year.

(Source: Finance Accounts of the respective years)

Table 1.3: Summary of Expenditure during 2013-18*(₹ in crore)*

	2013-14	2014-15	2015-16	2016-17	2017-18
Section-A: Revenue					
Revenue Expenditure	62,477	72,570	83,616	94,765	1,02,624
General Services	22,018	26,408	27,972	30,607	33,374
Social Services	26,395	31,713	35,943	40,737	45,770
Economic Services	14,060	14,445	19,697	23,417	23,476
Grants-in-aid & Contributions	4	4	4	4	4
Section-B: Capital & Others					
Capital Expenditure	14,001	18,150	23,966	27,208	28,907
Loans and Advances Disbursed	807	369	621	114	243
Inter-State Settlement	0	0	0	0	0
Repayment of Public Debt	3,121	3,609	4,125	4,215	4,654
Contingency Fund	1,450	1,650	4,477	5,438	6,053
Public Account Disbursement	29,453	39,200	45,923	57,268	46,298
Closing Cash Balance	6,156	6,337	11,717	17,062	22,081
Total	1,17,465	1,41,885	1,74,445	2,06,070	2,10,860

(Source: Finance Accounts of the respective years)

The trends of Revenue Receipts (RR)/Revenue Expenditure (RE)/Capital Expenditure (CE) relative to GSDP at current prices as well as constant prices are presented in **table 1.4** below:

Table 1.4: Trends in RR/ RE/ CE relative to GSDP²

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts (RR) relative to GSDP					
RR at current prices (₹ in crore)	68,919	78,417	96,123	1,05,585	1,17,447
Rate of growth of RR at current prices (per cent)	15.70	13.78	22.58	9.84	11.23
RR at constant prices (₹ in crore)	58,406	63,754	76,898	80,599	86,998
Rate of growth of RR at constant prices (per cent)	7.79	9.16	20.62	4.81	7.94
RR / GSDP (in per cent)	21.73	22.87	26.02	24.79	24.09
Revenue Expenditure (RE) relative to GSDP					
RE at current prices (₹ in crore)	62,477	72,570	83,616	94,765	1,02,624
Rate of growth of RE at current prices (per cent)	14.71	16.15	15.22	13.33	8.29
RE at constant prices (₹ in crore)	52,947	59,000	66,893	72,340	76,018
Rate of growth of RE at constant prices (per cent)	2.93	11.43	13.38	8.14	5.08
RE/ GSDP (in per cent)	19.70	21.16	22.63	22.25	21.05
Capital Expenditure (CE) relative to GSDP					
CE at current prices (₹ in crore)	14,001	18,150	23,966	27,208	28,907
Rate of growth of CE at current prices (per cent)	46.08	29.64	32.04	13.53	6.24
CE at constant prices (₹ in crore)	11,865	14,756	19,173	20,769	21,413
Rate of growth of CE at constant prices (per cent)	36.56	24.37	29.93	8.32	3.10
CE/GSDP (in per cent)	4.42	5.29	6.49	6.39	5.93

(Source: Finance Accounts of the respective years)

As evident from the table above, while, revenue receipts, revenue expenditure and capital expenditure have increased in 2017-18 compared to 2013-14. After accounting for inflation (at constant price), their rate of growth reduced in 2017-18, as compared to that of 2016-17, except revenue receipts. The rate of growth of capital expenditure, in particular, was significantly lower than previous year.

1.1.2 Review of fiscal situation

The performance of the State during 2017-18 under major variables provided in the budget, recommendations of the 14th Finance Commission (XIV FC) and targeted in the Bihar Fiscal Responsibility and Budget Management (BFRBM) Act as per actuals and as worked out by Audit is given in **table 1.5**. Taking into account, the impact of incorrect accounting of expenditure and revenue resulting in overstatement of revenue surplus and understatement of fiscal deficit to the tune of ₹ 227.06 crore each. In other words, the actual revenue surplus is ₹ 14,595.95 crore and fiscal deficit is ₹ 14,531.89 crore. This is discussed in *Paragraph 3.14* and **table 3.7** at the end of the report.

² GSDP deflator = GSDP at current price/GSDP at constant price

Table 1.5: Performance of the state during 2017-18

Key fiscal indicators	Targets set by XIV FC	Targets as per BFRBM Act	Targets in Budget Estimates	Actuals	Actuals as worked out by Audit
(1)	(2)	(3)	(4)	(5)	(6)
Revenue Deficit(-)/ Surplus (+) (₹ in crore)	Zero deficit	Zero deficit	Surplus of ₹ 14,555.59	₹ 14,823.01	₹ 14,595.95
Fiscal Deficit/ GSDP at current prices (in per cent)	3.50	3.00	2.87	2.93	2.98
Ratio of total outstanding debt of the Government to GSDP at current prices (in per cent)	24.84	19.81	19.81	32.15	32.15

(Source: XIV FC, BFRBM Act and Budget figures of the year 2017-18)

The State has achieved the target of revenue surplus but not of ratio of outstanding debt to GSDP. The target of fiscal deficit as envisaged in XIV FC and BFRBM Act was achieved but not as envisaged in budget estimates.

1.1.2.1 Composition and financing of fiscal deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The financing pattern of Fiscal deficit is reflected in **table 1.6**.

Table 1.6: Components and financing of fiscal deficit

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Fiscal Deficit (figures in brackets indicate per cent to GSDP)	8,351.92 (2.63)	11,178.50 (3.26)	12,061.59 (3.26)	16,479.15 (3.87)	14,304.83 (2.93)
1 Revenue Surplus	6,441.42	5,847.56	12,507.16	10,819.81	14,823.01
2 Capital Expenditure	14,001.00	18,150.41	23,966.02	27,208.40	28,906.95
3 Net Loans and Advances	792.35	1,124.35	602.73	90.56	220.90
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	5,346.77	6,666.51	10,233.12	16,804.96	8,908.00
2 Loans from GoI	(-)11.07	84.67	115.86	757.51	586.11
3 Special Securities issued to NSSF	631.52	3,150.22	2,024.86	(-)1,713.12	(-)1,768.75
4 Loans from Financial Institutions	820.31	407.18	1,884.33	1,512.84	790.51
5 Small Savings, PF etc.	(-) 297.90	(-) 182.77	(-)73.58	99.63	(-)80.25
6 Deposits and Advances	3,668.41	2,222.57	3,731.69	5,393.40	10,314.32
7 Suspense and Miscellaneous	(-) 2,007.59	(-) 1,231.88	(-) 5,245.97	(-)5,666.65	(-)3,813.95
8 Remittances	(-) 19.01	(-) 11.98	6.05	(-) 7.05	(-) 2.76
9 Reserve Fund	262.31	(-) 245.12	(-) 401.15	(-) 712.03	(-) 696.39
10 Inter State Settlement	-	-	-	-	-
11 Increase / decrease in cash balance#	(-) 41.82	319.10	(-) 213.62	9.66	68.00
12 Gross Fiscal Deficit	8,351.92	11,178.50	12,061.59	16,479.15	14,304.83
* All figures are net of disbursements/outflows during the year.					
# Cash Balance (Deposit with Reserve bank and remittance in treasury).					

(Source: Finance Accounts of the respective years)

1.1.2.2 Quality of deficit

Primary deficit is the measure of the current year's fiscal operations after excluding interest payments on borrowings undertaken in the past. The primary deficit of the State is shown in table 1.7.

Table 1.7: Primary deficit

(₹ in crore)

Year	Non-debt receipts ³	Primary ⁴ expenditure	Fiscal deficit	Interest payments	Primary deficit
1	2	3	4	5	6 (4-5)
2013-14	68,934	71,826	8,352	5,460	2,892
2014-15	79,910	84,960	11,179	6,129	5,050
2015-16	96,142	1,01,105	12,061	7,098	4,963
2016-17	1,05,608	1,13,896	16,479	8,191	8,288
2017-18	1,17,469	1,22,720	14,305	9,054	5,251

(Source: Finance Accounts of the respective years)

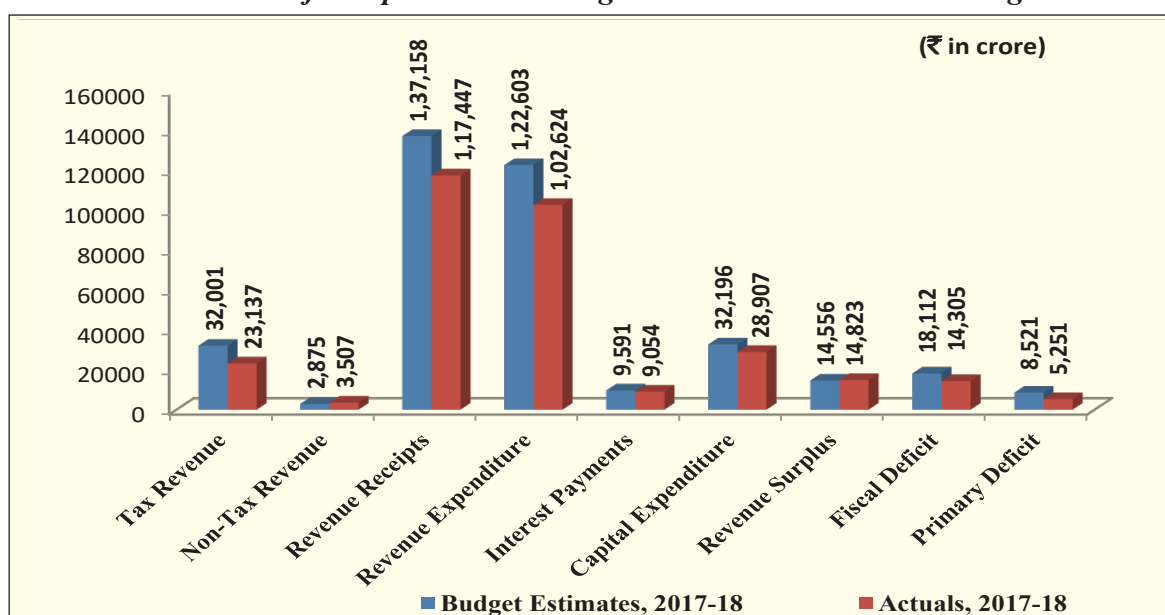
The primary deficit of the State has increased from ₹ 2,892 crore in 2013-14 to ₹ 5,251 crore in 2017-18 indicating that non-debt receipts were insufficient to meet the primary expenditure of the state. However, with respect to 2016-17, the fiscal deficit and primary deficit decreased by 13 per cent and 37 per cent respectively.

1.1.3 Budget estimates and actuals

Shortfalls of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives.

Actuals *vis-à-vis* budget estimates of selected fiscal parameters for 2017-18 are shown in Chart 1.1 and Appendix 1.4.

Chart 1.1: Selected fiscal parameters: budget estimates and actuals during 2017-18



(Source: Budget documents and Finance Accounts for the year 2017-18)

³ Non-debt receipts are the aggregate of Receipts and Recoveries of loans and advances.

⁴ Primary revenue expenditure (Revenue Expenditure – Interest Payment) + Capital Expenditure + Loans and Advances.

The chart indicates that during 2017-18 the following variations in the actuals against the budget estimates took place as discussed below:

Revenue receipts	Revenue receipts was less than the budget estimate by 14.37 <i>per cent</i> due to decrease in tax revenue by 27.70 <i>per cent</i> and Grants-in-aid from Central Government by 30.40 <i>per cent</i> .
Revenue expenditure	Revenue expenditure was less than the budget estimate by 16.30 <i>per cent</i> due to less expenditure under General Services by 19.78 <i>per cent</i> (Administrative Services less by 14.71 <i>per cent</i> and Pension and Miscellaneous General Services less by 29.92 <i>per cent</i>) and under Social Services by 14.14 <i>per cent</i> (Welfare of SC, ST and other BCs by 65.81 <i>per cent</i> and Water supply sanitation, Housing and Urban Development by 48.86 <i>per cent</i>).
Capital expenditure	Capital expenditure was less than the budget estimate by 10.22 <i>per cent</i> due to less expenditure under General Services by 17.87 <i>per cent</i> and under Economic Services by 7.44 <i>per cent</i> (Agriculture and Allied Services by 36.14 <i>per cent</i> and Rural Development by 28.19 <i>per cent</i>).
Revenue surplus	Revenue surplus was higher than the budget estimate by 1.84 <i>per cent</i> due to decrease in revenue expenditure by 16.30 <i>per cent</i> . However, decrease in revenue receipt by 14.37 <i>per cent</i> .
Fiscal deficit	Fiscal deficit was less than the budget estimate by 21.02 <i>per cent</i> due to decrease in revenue expenditure by 16.30 <i>per cent</i> and capital expenditure by 10.22 <i>per cent</i> .
Primary deficit	Primary deficit was less than the budget estimate by 38.37 <i>per cent</i> .

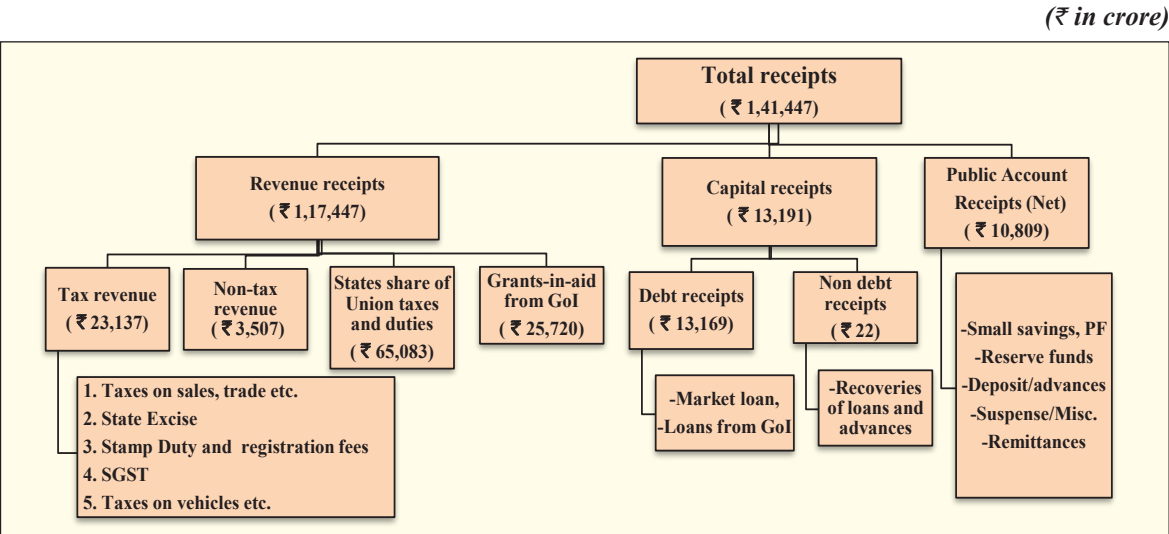
Recommendation: The finance department should rationalise the budget preparation exercise, so that the gap between budget estimates and actuals is bridged.

1.2 Financial resources of the state

1.2.1 Resources of the state as per annual finance accounts

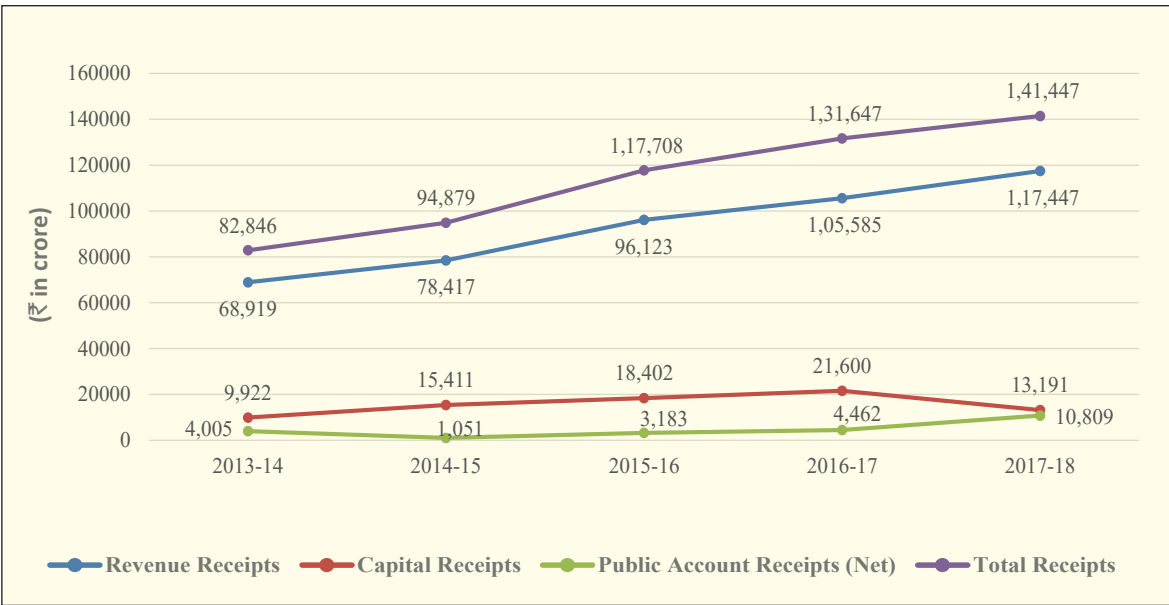
Charts 1.2, 1.3 and 1.4 below depicts the composition of aggregate receipts, the trends in various components of receipts during 2013-18 and the composition of resources during 2017-18 respectively.

Chart 1.2: Composition of aggregate receipts during 2017-18



(Source: Finance Accounts for the year 2017-18)

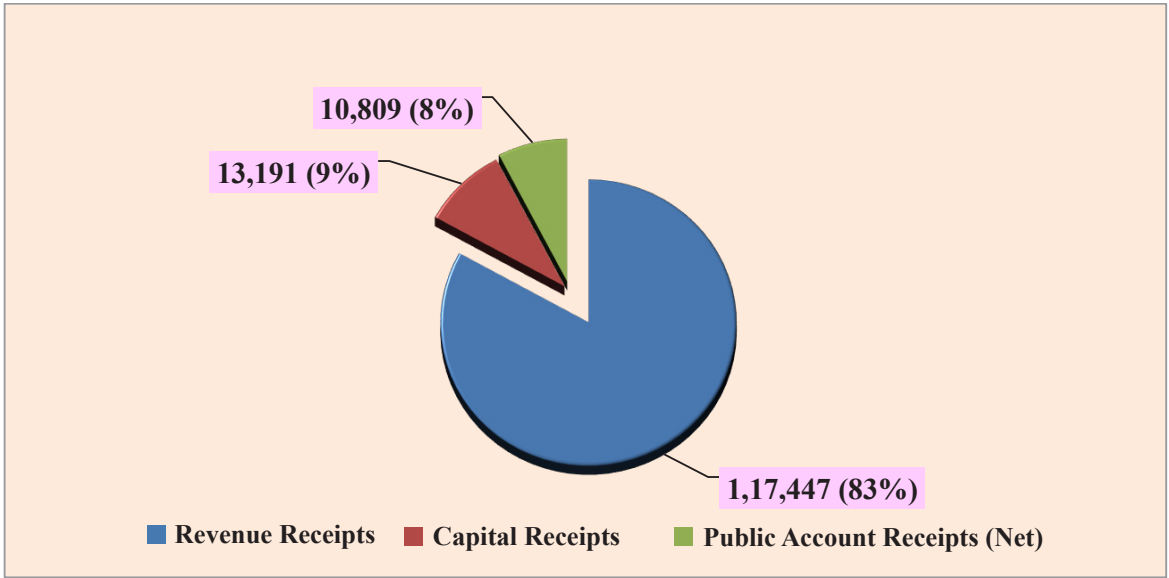
Chart 1.3: Trends of receipts of the State



(Source: Finance Accounts of the respective years)

Chart 1.4: Composition of total receipts during 2017-18

(₹ in crore)

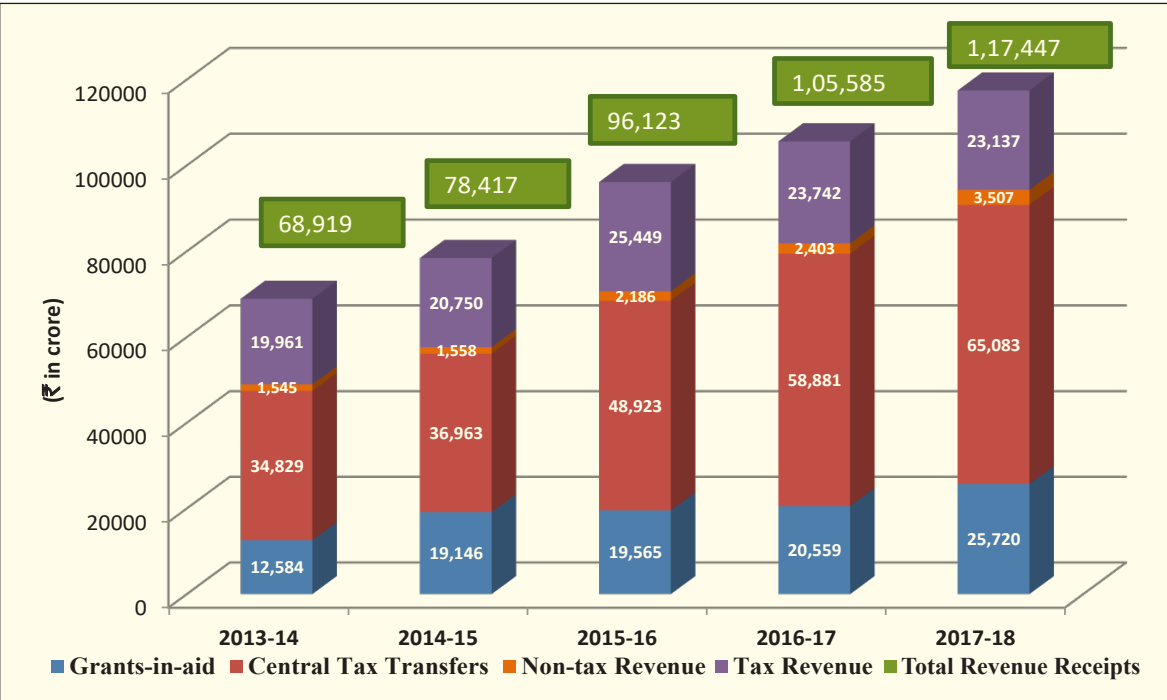


(Source: Finance Accounts for the year 2017-18)

1.2.2 Revenue receipts

Statement 14 of the Finance Accounts gives details of the revenue receipts of the Government. The trends and composition of revenue receipts during 2013-18 are presented in *Appendix 1.5* and also depicted in **Chart 1.5**.

Chart 1.5: Composition and trends of total revenue receipts during 2013-18



(Source: Finance Accounts of the respective years)

During 2013-18, the own revenue of the State constituted 23 per cent to 31 per cent of total Revenue Receipts. The major component of Revenue Receipts was Central Tax Transfers which ranged between 47 per cent to 56 per cent.

1.2.2.1 State’s own resources

The State’s performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue, not including the State’s share in central taxes and grants-in-aid which is based on the recommendations of the Finance Commission.

The State’s tax revenue and non-tax revenues vis-à-vis budget projections are shown in table 1.8 below:

Table 1.8: Projections and actual receipts for 2017-18

(₹ in crore)

	Budget Projections	Actuals
Tax revenue	32,001.12	23,136.49
Non-tax revenue	2,874.96	3,506.74

(Source: Finance Accounts and budget document for the year 2017-18)

Tax revenue

The tax revenues of the State decreased by 2.55 per cent from ₹ 23,742 crore in 2016-17 to ₹ 23,137 crore during 2017-18. Major components of increase/decrease are shown in table 1.9 below:

Table 1.9: Components of tax revenue**(₹ in crore)**

	2013-14	2014-15	2015-16	2016-17	2017-18	Variation (per cent) during 2017-18 over 2016-17
Taxes on Sales, Trade, etc.	8,453	8,607	10,603	11,873	8,298	(-) 30.11
State Goods and Service Tax	-	-	-	-	6,747	-
State Excise duty	3,168	3,217	3,142	30	(-) 3	(-) 110.00
Stamps and Registration fees	2,712	2,699	3,409	2,982	3,726	24.95
Taxes on vehicles	837	964	1,081	1,257	1,599	27.21
Land Revenue	202	277	695	971	779	(-) 19.77
Taxes on Goods and Passengers	4,349	4,451	6,087	6,245	1,645	(-) 73.66
Other Taxes	240	535	432	384	346	(-) 9.90
Total	19,961	20,750	25,449	23,742	23,137	(-) 2.55

(Source: Finance Accounts of the respective years)

The decrease in Taxes on Sales, Trade etc. and goods and passengers was due to implementation of Goods and Service Tax (GST) from July 2017. Decrease in state excise duty was due to prohibition imposed in the State from April 2016. The prohibition of liquor led to decrease in the share of tax revenue in Revenue Receipts from 26.47 *per cent* in 2015-16 to 22.49 *per cent* in 2016-17. The increase in total Revenue Receipts during 2016-17 was mainly on account of central tax transfer which increased from 51 *per cent* in 2015-16 to 56 *per cent* in 2016-17.

Own tax revenue relative to GSDP of the State was only 4.74 *per cent* as compared to Madhya Pradesh (6.34 *per cent*), Jharkhand (4.84 *per cent*), Uttar Pradesh (8.52 *per cent*) and Chhattisgarh (6.82 *per cent*).

Non-tax revenue

Details of receipts from non-tax revenues during 2013-18 are given in **table 1.10** below:

Table 1.10: Components of non-tax revenue**(₹ in crore)**

Non Tax Revenue	2013-14	2014-15	2015-16	2016-17	2017-18	Variation (per cent) during 2017-18 over 2016-17
Interest receipts	269.48	344.77	583.66	939.91	1,577.24	67.81
Non-ferrous mining and metallurgical industries	569.14	879.87	971.34	997.60	1,082.67	8.53
Other non-tax receipts	706.21	333.34	630.64	465.61	846.83	81.88
Total	1,544.83	1,557.98	2,185.64	2,403.12	3,506.74	45.92

(Source: Finance Accounts of the respective years)

The States' own resources has increased from ₹ 26,145.38 crore to ₹ 26,643.23 crore from 2016-17 to 2017-18.

1.2.2.2 Goods and Service Tax (GST)

State Government implemented the Goods and Services Tax (GST) Act which became effective from 1st July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure of taxes subsumed under GST was finalised under GST Act. In case of Bihar, the revenue was ₹ 12,620.56 crore during the base year (2015-16). The projected revenue for any year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) over the base year revenue of that State.

The projected revenue for the year 2017-18 (1st July 2017 to 31st March 2018) in accordance with the base year figure was ₹ 12,301.25 crore. Revenue figure under GST for the year 2017-18 has been depicted in Finance Accounts as per nature of receipts i.e. State Goods and Services Tax (SGST), Input Tax Credit cross utilization of SGST and IGST (Integrated Goods & Services Tax), Apportionment of IGST-transfer-in of Tax component of SGST and advance apportionment from IGST. Against the projected revenue of ₹ 12,301.25 crore, the revenue receipt of the State Government under GST during the year 2017-18 is given in **table 1.11**.

Table 1.11: Pre-GST and SGST collected, provisional apportionment of IGST and compensation of IGST received from Government of India against the projected revenue of the State for the period from July 2017 to March 2018

(₹ in crore)

Month	Revenue to be protected	Pre-GST taxes collected*	SGST collected	Provisional apportionment of IGST	Total amount received**	Compensation received***	Deficit/ Surplus	Remarks
	1	2	3	4	5= (2+3+4)	6	7= {1-(5+6)}	8
July and August 2017	2,733.61	1,401.70	375.64	-	1,777.34	-	(-) 956.27	₹ 552.00 crore has been received as advance apportionment of IGST which would be deducted in next financial year i.e., 2018-19.
September and October 2017	2,733.61	273.85	571.00	1,113.26	1,958.11	692.00	(-) 83.50	
November and December 2017	2,733.61	165.19	547.84	1,093.66	1,806.69	1,054.00	127.08	
January and February 2018	2,733.61	175.06	551.62	1,087.00	1,813.68	373.00	(-) 546.93	
March 2018	1,366.81	415.32	316.80	538.03	1,270.15	922.00	825.34	
Total	12,301.25	2431.12	2362.90	3,831.95	8,625.97	3,041.00	(-) 634.28	

* Includes VAT & CST (net of refund) and revenue from the taxes subsumed in GST by excluding VAT and CST on petroleum products and liquor.

** Audited figures.

*** Figures for compensation are provisional.

It can be seen from above table 1.11, the deficit on account of implementation of GST was ₹ 634.28 crore for the year 2017-18. However, ₹ 552.00 crore has been received as advance apportionment of IGST which would be adjusted in next financial year i.e. 2018-19.

Thus, ₹ 82.28 crore was aggregate deficit on account of implementation of GST. However, compensation of ₹ 99.00 crore (for the month of March 2018) has been received on May 2018 from GoI to meet this shortfall subject to recovery of the excess payment from future claims or by direct debit to the state Governments accounts as per the procedure.

1.2.2.3 Cost of collection

Details of collection and cost thereof in respect of major revenue receipts during 2017-18 are given in **table 1.12**:

Table 1.12: Gross collection and expenditure of revenue receipts

Sl. No.	Particulars	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average of previous year
		(₹ in crore)			
(1)	(2)	(3)	(4)	(5)	(6)
1	VAT/Sales Tax	8,298.10	72.30	0.87	0.69
2	State Excise Duty	(-)3.43	82.44	2,403.50	2.01
3	Taxes on Vehicles	1,599.51	61.62	3.85	2.61
4	Stamp and Registration fees	3,725.66	53.85	1.45	2.99
5	SGST	6,746.96	71.95	1.07	-
	Total	20,366.80	342.16	1.70	-

(Source: Finance Accounts for the year 2017-18)

As evident from the table above, the percentage of expenditure on collection of taxes on State Excise was higher than all India average. This was mainly attributed to the prohibition imposed in the State since April 2016.

Table 1.13: Cost of collection w.r.t. Gross collection

Year	VAT/Sales Tax		Taxes on Vehicle		Stamp and Registration		State Excise Duty	
	GoB	GoI	GoB	GoI	GoB	GoI	GoB	GoI
2013-14	0.83	0.88	3.55	6.25	2.03	3.37	1.44	1.81
2014-15	1.11	0.91	3.97	6.08	1.40	3.59	1.53	2.09
2015-16	0.53	0.66	3.68	4.99	1.62	2.87	1.58	3.21
2016-17	0.64	0.69	3.67	2.61	1.60	2.99	310.05	2.01
2017-18	0.87		3.85		1.45		2,403.50	

(Source: Finance Accounts of the respective years)

The cost of collection of taxes on VAT/Sales tax and taxes on vehicles was higher than the all India average of the preceding year.

1.2.2.4 Grants-in-aid from GoI

The State Government receives grants-in-aid and share of union taxes and duties, based on recommendations of the Finance Commissions. Details of GoI grants are given below in **table 1.14**.

Table 1.14: Grants-in-aid from Government of India**(₹ in crore)**

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Non-plan Grants	3,288.13	3271.21	3,434.43	4,505.51	(-) 5.00
Grants for state plan schemes	6,238.39	14,935.68	13,886.33	13,952.92	(-) 2.20
Grants for central and centrally sponsored plan schemes	136.65	117.49	2,083.98	1,422.91	(-) 1.00
Grants for centrally sponsored schemes	2,920.86	821.88	160.86	677.68	13,312.26
Finance commission Grant	-	-	-	-	4,525.06
Grants to states	-	-	-	-	7,891.01
Total	12,584.03	19,146.26	19,565.60	20,559.02	25,720.13
Percentage increase over previous year	22.44	52.15	2.19	5.08	25.10
Revenue receipts	68,919	78,417	96,123	1,05,585	1,17,447
Total Grants as a percentage of revenue receipts	18.26	24.42	20.35	19.47	21.90

(Source: Finance Accounts of the respective years)

The increase in grants-in-aid by ₹ 5,161.11 crore in 2017-18 over the previous year was mainly due to compensation given for loss of revenue arising out of implementation of GST (₹ 3,041 crore).

1.2.2.5 Arrears of revenue

Details of arrears of revenue are detailed in **table 1.15** below:

Table 1.15: Arrears of revenue**(₹ in crore)**

Sl. No.	Head of revenue	Name of department	Total amount outstanding as on 31 March 2018	Amount outstanding for more than five years
1.	Taxes on sales, trade etc.	Commercial tax department	2,945.25	625.30
2.	Taxes on goods and passengers		1,332.34	12.97
3.	Taxes and duties on electricity		22.99	2.25
4.	Other taxes and duties on commodities and services		10.58	8.22
5.	Taxes on vehicles	Transport department	1.89	N.A.
6.	Land revenue	Revenue and land reforms department	143.26	N.A.
7.	State excise	Prohibition, excise and registration department	49.40	22.23
8.	Mines and geology	Mines and geology department	287.51	287.51
Total			4,793.22	958.48

(Source: Concerned departments)

Recommendation: The Finance Department should devise a mechanism to ensure that arrears of revenue are expeditiously collected so that the burden of the state on fiscal deficit may be mitigated.

1.2.3 Receipts under capital section

Trends of receipts under the capital section during 2013-18 are given in **table 1.16**.

Table 1.16: Trends in receipts under the capital section

(₹ in crore)

Sources of State's Receipts	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts under the capital section	9,922	15,411	18,402	21,600	13,191
Recovery of loans and advances	15	1,493	19	23	22
Public debt receipts	9,907	13,918	18,383	21,577	13,169
Rate of growth of public debt receipts (per cent)	04	40	32	18	(-)39
Rate of growth of receipts under the capital section (per cent)	04	55	19	17	(-)39

(Source: Finance Accounts of the respective years)

It can be seen from above, receipts under capital section decrease from ₹ 21,600 crore in 2016-17 to ₹ 13,191 crore in 2017-18, the decrease was mainly under public debt receipt ₹ 21,577 crore in 2016-17 to ₹ 13,169 crore in 2017-18 (₹ 8,408 crore).

The decrease in receipts under capital section was mainly due to increase in revenue surplus by ₹ 4,003.20 crore.

1.2.3.1 Debt receipts from internal sources

Details of debt receipts from internal sources during 2013-14 to 2017-18 are given in **table 1.17**.

Table 1.17: Debt receipts from internal sources

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Market borrowings	6,500	8,100	11,500	17,700	10,000
Loans from financial institutions	1,471	1,154	1,204	1,588	1,771
Others ⁵	1,386	3,946	4,861	777	0

(Source: Finance Accounts of the respective years)

The impact of borrowings at higher rates of interest than received from investments by the State is discussed in **Para 1.4.3**.

1.2.3.2 Loans and advances from GoI

Details of loans and advances received by the State Government from GoI during 2013-18 are given in **table 1.18**.

Table 1.18: Loans and advances from GoI

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Loans and advances from GoI	550	718	818	1,512	1,398

(Source: Finance Accounts of the respective years)

⁵Bonds, Ways and Means Advances from RBI and special securities issued to National Small Savings Fund.

Loans and advances from Government of India decreased by ₹ 114 crore from previous year mainly due to increase in revenue surplus by ₹ 4,003.20 crore.

1.2.3.3 Public account receipts (Net)

Receipts and disbursements under small savings, provident funds and reserve funds etc., which do not form part of the Consolidated Fund, are kept in Public accounts set up under Article 266(2) of the Constitution of India and are not subject to vote by the legislature. Here, the Government acts as a banker or trustee. The status of receipts and disbursements under public accounts are shown in statement 21 of the Finance Accounts and the details of public accounts receipts (net) are given in **table 1.19**.

Table 1.19: Status of public account receipts (net)

(₹ in crore)

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
Public account receipts (net)	4,005.21	1,050.64	3,183.04	4,462.44	10,808.32
A. Small savings, provident funds etc.	(-) 297.90	(-) 182.77	(-) 73.58	99.63	(-)80.25
B. Reserve funds	698.58	730.13	90.69	(-) 129.15	(-)2.79
C. Deposits and advances	3,668.40	2,222.58	3,731.69	5,393.40	10,314.32
D. Suspense and miscellaneous	(-) 44.86	(-) 1,707.32	(-) 571.81	(-) 894.39	579.80
E. Remittances	(-) 19.01	(-) 11.98	6.05	(-) 7.05	(-)2.76

(Source: Finance Accounts of the respective years)

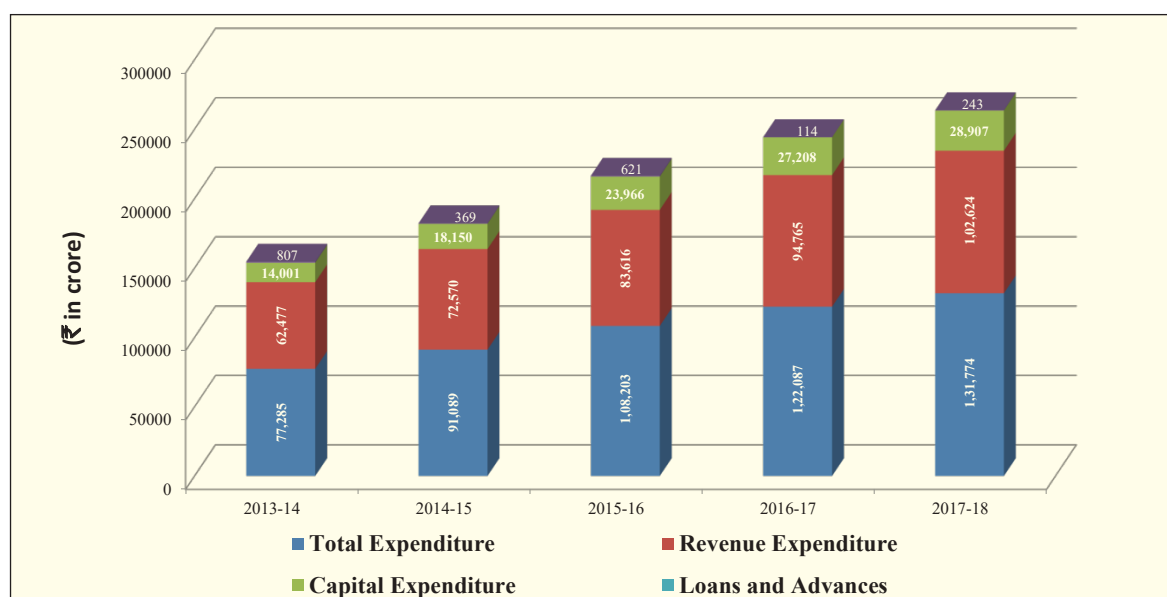
The impact of transactions under reserve funds is discussed in **Para 1.5.2**.

1.3 Application of resources

1.3.1 Growth and composition of expenditure

Chart 1.6 presents the trends and composition of total expenditure during 2013-18.

Chart 1.6: Total Expenditure: Trends and composition



(Source: Finance Accounts of the respective years)

1.3.2 Revenue expenditure

Details of scheme and establishment and committed revenue expenditure are given in **table 1.20**

Table 1.20: Scheme and establishment and committed revenue expenditure
(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total revenue expenditure	62,477	72,570	83,616	94,765	1,02,624
Establishment and committed revenue expenditure	43,381	47,059	53,965	61,189	66,673
Scheme revenue expenditure	19,096	25,511	29,651	33,576	35,951
Rate of growth of establishment and committed revenue expenditure (in per cent)	15.45	8.48	14.68	13.39	8.96
Rate of growth of scheme revenue expenditure (in per cent)	13.05	33.59	16.23	13.24	7.07

(Source: Finance Accounts of the respective years)

1.3.3 Capital expenditure

Details of capital expenditure are given in **table 1.21**.

Table 1.21: Scheme and establishment and committed capital expenditure
(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total expenditure	77,285	91,089	1,08,203	1,22,087	1,31,774
Capital expenditure	14,001	18,150	23,966	27,208	28,907
Establishment and committed capital expenditure	97	58	36	16	41
Scheme capital expenditure	13,904	18,092	23,930	27,192	28,866
Loans & Advances	807	369	621	114	243
Rate of growth of capital expenditure (in per cent)	46.07	29.63	32.04	13.53	6.24
Rate of growth of establishment and committed capital expenditure (in per cent)	4.30	(-) 40.21	(-) 37.93	(-) 55.56	156.25
Rate of growth of scheme capital expenditure (in per cent)	46.48	30.12	32.27	13.63	6.16
Capital expenditure as a percentage of GSDP at current prices (in per cent)	4.42	5.29	6.49	6.39	5.93

(Source: Finance Accounts of the respective years)

Out of total capital expenditure of ₹ 28,907 crore during 2017-18, State Government made an investment of ₹ 7,120.82 crore in Public Sector Undertakings (PSUs) and Co-operative Societies, of which ₹ 6,931.11 crore was invested in project of Bihar State Power (Holding) Company Limited. Other major areas included a spending of ₹ 6,388 crore on rural development programmes, ₹ 5,373 crore on roads and bridges, ₹ 1,764 crore on water supply and sanitation, ₹ 1,665 crore on public works and ₹ 1,519 crore on education, sports, art and culture.

Capital expenditure relative to GSDP of the State was higher at 5.93 *per cent* as compared to the neighboring states of Madhya Pradesh (4.37 *per cent*), Uttar Pradesh (2.84 *per cent*) Jharkhand (4.68 *per cent*) and Chhattisgarh (3.43 *per cent*).

1.3.4 Committed expenditure

Committed expenditure of the Government under revenue head mainly consists of expenditure on salaries and wages (₹ 17,778.74 crore), pensions (₹ 14,293.48 crore), interest payments (₹ 9,053.78 crore) and subsidies (₹ 5,023.06 crore). Total committed expenditure (₹ 46,149.06 crore) constitutes a major component of revenue expenditure and consumed 69.22 *per cent* of the establishment and committed revenue expenditure (₹ 66, 673 crore). **Table 1.22** presents the trends under the committed expenditure during 2013-18.

Table 1.22: Trends in components of committed expenditure

(₹ in crore)

Sl. No.	Components of committed expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	
						BE	Actuals
1	Salaries and wages of which	14,036.67 (20.37)	14,607.44 (18.63)	14,923.73 (15.52)	15,784.04 (14.95)	18,656.93	17,778.74 (15.14)
1(a)	Establishment and committed	13,315.36	13,910.31	14,307.22	15,106.13	18,009.89	16,948.39
1(b)	Scheme	721.31	697.13	616.51	677.91	647.04	830.35
2	Interest payments	5,459.04 (7.92)	6,128.75 (7.82)	7,097.69 (7.38)	8,190.70 (7.76)	9,591.35	9,053.78 (7.71)
3	Expenditure on pensions	9,481.73 (13.76)	11,344.50 (14.47)	11,830.46 (12.31)	12,514.52 (11.85)	19,877.63	14,293.48 (12.17)
4	Subsidies	1,464.38 (2.12)	4,628.36 (5.90)	9,010.45 (9.37)	8,757.44 (8.29)	6,628.75	5,023.06 (4.27)
5	Total committed expenditure	30,441.82 (44.17)	36,709.05 (46.81)	42,862.33 (44.59)	45,246.70 (42.85)	54,754.66	46,149.06 (39.29)

Figures in the parentheses indicate percentage of actual expenditure to revenue receipts.

(Source: Finance Accounts of the respective years and Budget Document for the year 2017-18)

1.3.4.1 National Pension System

State Government employees recruited on or after 1 September 2005 are covered under the National Pension System (NPS) which is a defined contributory pension scheme. In terms of the scheme, the employee contributes 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank. Records and accounts of the NPS to be maintained by the Government of Bihar (GoB) till regular arrangement of Centralized Record Keeping and Accounting Agency (CRA) and Pension Fund Manager (PFM) i.e. 31 March 2010. NSDL-CRA is managing the NPS Accounts in respect of the employees of Bihar w.e.f. 1 April 2010.

Scrutiny of VLC data revealed that during 2017-18, the contribution toward NPS was ₹ 934.94 crore and the Government deposited ₹ 937.34 crore to NSDL which includes

₹ 2.34 crore of the previous year. Against the total contribution of ₹ 3,891.21 crore for the period 2005-06 to 2017-18, only ₹ 3,762.93 crore was transferred to NSDL, leaving balance of ₹ 128.28 crore (₹ 41.32 crore and ₹ 86.96 crore under the Major heads 8011 and 8342 respectively). Thus, the current liability stands deferred to future years.

The NPS accounts of State Government employees are related to two periods, first from 01.09.2005 to 31.03.2010 and second from 01.04.2010 onwards. During first period, the NPS accounts of the employees were not opened with NSDL rather the State Government enforced Contributory Pension Scheme (CPS) in which the accounts of employees were to be maintained by Provident Fund Directorate (PFD), Bihar (a unit of Finance Department). During second period i.e. from 01.04.2010 onwards, the NPS accounts of the employees (joined service from 01.09.2005 onwards) were opened by the State Government in NSDL and apart from regular subscription from 01.04.2010, legacy data and amount related to first period were also to be transferred to NSDL. Further, though the Finance Department has stated (December 2018) that legacy fund related to first period has been transferred wholly to NSDL, yet, on being asked the same thing from PFD, which was responsible for maintenance of those accounts, it was replied (March 2019) that mapping for transfer of CPS amounts (laying in treasuries) into NPS accounts would take two months and final reply in this regard would be provided by 31.08.2019. As such, reply given by the department (December 2018) in this regard was not acceptable.

As per GoB order no. 16 dated 06.01.2016, interest should be paid by GoB on total contributions at the GPF rate till the amount is transferred to NSDL or 31 March 2016, whichever is earlier. Scrutiny of records of Finance department revealed that interest on contributions hasn't been computed by the GoB till August 2017. The notional liabilities of ₹ 34.24 crore has been created by the Government due to non-transfer of fund of ₹ 70.01 crore for the period 01.09.2005 to 31.03.2010. Besides, as per finance accounts, interest under the relevant head 2049-03-117-0001 hasn't been paid by the GoB till the end of the year 2017-18. Non-computation of interest on accumulated fund of NPS have resulted in non-payment of interest denying Government employees of their right to appreciation of their NPS fund.

Under above circumstances, whether NPS accounts in respect of all employees who joined service on or after 01.09.2005 were opened and whether the amount deducted on this account from their salaries were properly transferred into individual NPS accounts were yet to be replied properly by the State Government. As such, there was no mechanism to capture details in the NPS system during 1 September 2005 to 31 March 2010. Thus, the State Government has incorrectly used the funds that belongs to its employees, leading to a possible uncertainty in the rate of return to the employees/avoidable financial liability to the Government and thus, failure of the scheme itself.

Recommendation: *The State Government should initiate action immediately to ensure that employees recruited on or after 1 September 2005 are fully covered under the National Pension System from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL in a timely manner.*

1.3.5 Quality of expenditure

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 effectiveness (assessment of outlay-outcome relationships for services).

1.3.5.1 Adequacy of public expenditure

The fiscal priorities of the State Government with regard to development expenditure, social services expenditure and capital expenditure during 2017-18 are analysed in **table 1.23**.

Table 1.23: Fiscal priority of the state during 2013-14 and 2017-18

(in per cent)

Fiscal priority (percentage of GSDP)	AE/ GSDP	DE#/ AE	ESE/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General category states average 2013-14	14.70	66.50	28.9	37.60	13.60	17.20	4.50
Bihar's Average 2013-14	24.37	69.77	33.2	36.56	18.12	19.47	3.33
General category state average 2017-18	16.10	67.90	29.6	36.70	14.40	15.50	4.90
Bihar's average 2017-18	27.02	72.56	34.6	37.97	21.94	18.85	4.69
AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Service Expenditure, ESE: Economic Service Expenditure CE: Capital Expenditure # DE includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.							

(Source: Finance Accounts of the respective years)

As evident from the table, the ratio of development expenditure, social services expenditure, capital expenditure and education services to aggregate expenditure was higher than the average for the General Category States. However, the share of education in aggregate expenditure dropped in 2017-18 over the four year period, while the share of health to aggregate expenditure is less than the average for General category states.

1.3.5.2 Efficiency of expenditure

Details of Capital and Revenue expenditure on maintenance of social and economic services are given in **table 1.24** below:

Table 1.24: Efficiency of expenditure in selected social and economic services

(in per cent)

Social/Economic infrastructure	2016-17		2017-18	
	Ratio of CE to TE	Share of S and W ⁶ in RE	Ratio of CE to TE	Share of S and W in RE
General Education	3.38	22.59	4.99	22.00
Health and Family Welfare	15.85	48.34	9.14	46.86
Water Supply, Sanitation, Housing and Urban Development	15.05	3.12	25.40	4.55
Total (SS)	8.42	21.75	9.74	22.00
Agriculture and Allied Activities	5.30	22.71	5.18	16.27
Irrigation and Flood Control	63.14	56.91	67.20	51.20
Power and Energy	42.71	0.00	61.69	0.00
Transport	75.81	12.98	79.40	19.05
Total (ES)	50.85	10.51	58.83	14.32
Total (SS+ES)	26.87	18.46	29.59	20.18

(Source: Finance Accounts of the respective years)

⁶ Salaries and Wages

1.4 Government expenditure and investments

1.4.1 Financial results of irrigation works

The 13th and 14th Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The status of irrigation projects in the State for the period 2013-18 is depicted in **table 1.25**.

Table 1.25: Cost recovery position of irrigation projects

Year	Revenue expenditure	Revenue receipts	Cost recovery assessment of 13 th FC (2010-15)/14 th FC (2015-20)	Revenue receipts to revenue expenditure	Gap in cost recovery
	(₹ in crore)		(in per cent)		
2013-14	724.69	23.52	60	3	57
2014-15	680.96	21.34	75	3	72
2015-16	846.14	31.11	35	4	31
2016-17	680.98	28.23	35	4	31
2017-18	792.06	44.70	35	6	29

(Source: Finance Accounts of the respective years and Reports of Thirteenth and Fourteenth Finance Commission)

The gap in cost recovery (29 *per cent*) is more than that of neighboring States Madhya Pradesh (-47 *per cent*), Uttar Pradesh (21 *per cent*) and Chhattisgarh (-76 *per cent*) indicating that the State has a long way to go.

1.4.2 Incomplete projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The details of incomplete projects as given in the Finance Accounts are summarised below in **table 1.26**.

Table 1.26: Department-wise profile of incomplete projects as on 31 March 2018
(₹ in crore)

Department	No. of incomplete projects	Estimated cost	Progressive expenditure upto March 2018
Water resources	13	59.51	10.86
Public health engineering	62	533.01	326.72
Road construction	25	781.76	334.21
Building construction	15	385.69	178.18
Local area engineering organisation	7	9.87	6.29
Rural work	2	3.26	1.38
National highways	3	46.54	34.57
Total	127	1,819.64	892.21

(Source: Finance Accounts of the year 2017-18)

Out of the above 127 projects due for completion during 2011-12 to 2017-18, costs were revised (overall increase by 73.33 *per cent*) for three projects⁷ only. The details are presented in *Appendix IX* of Finance Accounts Vol-II. Since the details of the remaining 124 projects with estimated cost of ₹ 1,798.64 crore were not furnished by the departments, their revised cost was not exhibited in the Finance Accounts and was thus not ascertainable.

⁷ One in Water Resources Department, one in Public Health Engineering Department and one in Road Construction Department.

Recommendation: The Finance Department and the concerned departments may evolve a mechanism to ensure timely completion of projects. The revised estimates of all the incomplete projects should be prepared and approved on priority so as to have a realistic assessment of the funds required to complete these projects.

1.4.3 Returns on investments

The position of return on investments⁸ during 2013-18 is given in **table 1.27**

Table 1.27: Returns on investment

Investment/Return/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (₹ in crore)	2,867.18	7,068.79	9,940.24	15,916.47	23,037.29
Dividend/Interest received (₹ in crore)	2.53	2.58	14.84	3.73	1.34
Dividend/Interest received (<i>per cent</i>)	0.09	0.04	0.15	0.02	0.01
Average rate of interest ⁹ on Government borrowing (<i>per cent</i>)	6.68	6.59	6.58	6.42	6.13
Difference between interest rate on market borrowings and rate of return on investments (<i>per cent</i>)	6.19	6.15	5.94	5.88	5.82
Notional loss due to difference between interest rate of market borrowings and rate of return on investments (₹ in crore)	177.48	434.73	590.45	935.89	1,340.77

(Source: Finance Accounts of the respective years)

Over the past five years, the State Government has incurred a notional loss of ₹ 3,479.32 crore on return on investment in various entities on account of difference between the Government's borrowing cost and the return on investment.

It is of specific interest to observe that in spite of the poor return on investments, the Finance Department has regularly provided budgetary support to these entities, by way of infusion of equity, loans, grants-in-aid/ subsidies, which had not even finalised their accounts as per the provisions of the Companies Act. It was noticed that the State Government had extended budgetary support of ₹ 7,120.82 crore in the form of equity to three PSUs and co-operative institutions during 2017-18 as given in **table 1.28**.

Table 1.28: Investment made by the state government during 2017-18

(₹ in crore)

Sl. No.	Name of Concern	Amount invested during the year	Remarks
1.	Bihar state minority finance corporation limited	100.00	The accounts were finalised up to 2012-13.
2.	Bihar state power (holding) company limited	6,931.11	The accounts were finalised up to 2016-17.
3.	Bihar state mining corporation limited	20.00	Not available
4.	Other co-operatives	69.71	Not available.
Total		7,120.82	

(Source: Finance Accounts of the year 2017-18)

⁸ In Statutory Corporations, Government Companies, Co-operative Societies and Banks.

⁹ Average rate of interest= Interest Payment/[(Amount of previous year's fiscal liabilities + current year's fiscal liabilities)/2]*100.

State Government has not formulated any Dividend policy of PSUs as on 31 March 2018. As per Finance Accounts, only two companies have contributed dividend i.e., Bihar Rajya Pul Nirman Nigam Limited (₹ 1.05 crore) and Credit Co-operatives (₹ 0.29 crore).

Since the possibility of returns on equity or loans are non-existent and gives an incorrect representation of the assets of the State Government, such budgetary support to government companies/PSUs/Co-operatives should be entirely by way of grants-in-aid.

Recommendation: *The Finance Department and the concerned administrative departments should review investment in entities whose financial performance does not even meet the borrowing cost of capital. In any event, no investment should be made or loans extended to entities whose accounts were in arrears.*

1.4.4 Loans and advances by the state government

In addition to investments in co-operative societies, corporations and companies, government has also been providing loans and advances to many of these institutions/organisations. Details are given in **table 1.29**.

Table 1.29: Outstanding loans and advances and interest in arrears during 2013-18
(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Opening balance of loans and advances	20,587.01	21,379.35	20,255.00	20,857.73	20,948.29
Amounts advanced during the year	807.38	368.71	621.23	113.87	242.78
Amounts repaid during the year	15.03	1,493.06	18.50	23.31	21.89
Closing balance of loans and advances	21,379.36	20,255.00	20,857.73	20,948.29	21,169.18
Interest in arrears	3,017.55	3,017.55	5,478.14	6,652.60	7,823.47
Interest in arrears as <i>per cent</i> of outstanding loans and advances	14.11	14.90	26.26	31.76	36.96

(Source: Finance Accounts of the respective years)

- (i) The interest in arrears on these loans and advances has increased over the years and was ₹ 7,823.47 crore as of 31 March 2018.

Details of loans and advances made by the government are given in Section 1 and details of entities that had arrears in repayments of loans are given in Section 2 of Statement 18 of the Finance Accounts.

- (ii) No repayments of the outstanding loans and advances were made or interest received from various entities for the past several years as detailed in **table 1.30**.

Table 1.30: Summary of repayments in arrears from loanee entities**(₹ in crore)**

Loanee Entity	Amount of arrears as on 31 March 2018*			Earliest period to which arrears relate*	Total loans outstanding against the entity on 31 March 2018
	Principal	Interest	Total		
Municipalities/Municipal councils/Municipal corporations	19.54	63.40	82.94	2001-02	386.85
Government companies	2,650.83	2,376.87	5,027.70	2001-02	5,411.64
Co-operative societies/ Co-operative corporations/ Banks	672.12	547.03	1,219.15	2001-02	1,102.72
Panchayati raj institutions	17.47	23.54	41.01	2001-02	57.63
Statutory corporations	3,525.95	4,394.99	7,920.94	2001-02	13,376.82
Others	208.50	417.64	626.14	2001-02	615.00
Total	7,094.41	7,823.47	14,917.88		20,950.66

*An amount of ₹ 3446.27 crore (principal ₹ 1522.50 crore and interest ₹ 1923.77 crore) relating to arrears upto 2000-01 has not been included as details of the same is not available

(Source: Finance Accounts of the year 2017-18)

Recommendation: The Finance Department and the concerned administrative departments should consider initiating action to restructure loans and advances made to entities that have not repaid the principal or even paid interest for the past several years.

1.5 Assets and liabilities

1.5.1 Growth and composition of assets and liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. **Appendix 1.6** gives an abstract of such liabilities and assets, as on 31 March 2018, compared with the corresponding position as on 31 March 2017. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from public accounts and reserve funds, the assets comprise mainly of capital outlay and loans and advances given by the State Government and the cash balances.

1.5.2 Transactions under reserve funds

As per the finance accounts, the state government has six reserve funds¹⁰ as shown in **table 1.31** below:

¹⁰ State disaster response fund, sinking fund, famine relief fund, development and welfare funds, general and other reserve funds and depreciation/renewal reserve funds.

Table 1.31: Details of transactions under reserve funds**(₹ in crore)**

Sl. No.	Head of Accounts	Opening balance as on 1 April 2017	Receipts during 2017-18	Disbursements during 2017-18	Closing balance as on 31 March 2018
(a) Reserve funds bearing interest					
1	8121-General and other reserve funds (SDRF)	696.39	721.32	1,417.71	0.00
(b) Reserve funds not bearing interest					
1	8222-Sinking fund	0.00	693.61	693.61	0.00 ¹¹
Total		696.39	1,414.93	2,111.32	0.00

(Source: Finance Accounts of the year 2017-18)

There were no transactions under four reserve funds viz., depreciation/ renewal reserve funds, famine relief fund, development and welfare funds, general and other reserve funds for the past 17 to 18 years.

Recommendation: *The Finance Department and the concerned administrative departments should review and close all Reserve funds which have had no transactions for the past several years.*

The receipts and disbursement from the other two Reserve Funds are discussed below:-

1.5.2.1 Sinking Fund

The 12th Finance Commission had recommended that States should set up Sinking Funds for amortisation of all loans including loans from banks, liabilities on account on National Small Savings Fund, etc., and that these funds should not be used for any other purpose, except for redemption of loans. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 per cent of outstanding liabilities at the beginning of the year. The State government set up a consolidated sinking fund in 2008-09 which was only for amortisation of market loans, however, from 2014-15, it was to be utilised for redemption of the outstanding liabilities of the government. The closing balance of the fund as on 31 March 2018 was ₹ 4,111.24 crore.

1.5.2.2 State Disaster Response Fund (SDRF)

As per recommendations of the 13th Finance Commission, the state government commenced operation of the state disaster response fund in 2010-11. The scheme also stipulates that accretions to the Fund together with the income earned on investment of the fund should be invested in central government dated securities, auctioned treasury bills, interest earning deposits and certificates of deposits with scheduled commercial banks and interest earning deposits with co-operative banks.

The opening balance of the fund as on 1 April 2017 was ₹ 696.39 crore. During the year, ₹ 721.32 crore (Centre: ₹ 592.07 crore and State: ₹ 129.25 crore) was received and an expenditure of

¹¹Balances in the fund are invested as shown in statement 22 of the finance accounts. The closing balance of the sinking fund investment account as on 31 March 2018 was ₹ 4,111.24 crore.

₹ 1,417.71 crore was incurred on natural calamities leaving a balance of six thousand in the fund as on 31 March 2018. Further, the interest of ₹ 57.45 crore for the year 2017-18 (at the rate applicable to overdrafts as per RBI guidelines) had not been paid by the State Government. Consequently, the revenue surplus of the state government has been overstated and the fiscal deficit has been understated to this extent as discussed in *Paragraph 3.14*.

Recommendation: *The Finance Department should have invested the balances of the SDRF in interest earning deposits as envisaged in the guidelines.*

1.5.3 Guarantees

Guarantee redemption fund

The state government has not created a guarantee redemption fund in terms of the recommendations of the 12th Finance Commission or framed any rules for fixing a ceiling on guarantees. The state government failed to make minimum annual contributions of ₹ 24.33 crore (0.5 per cent of outstanding guarantees of ₹ 4,865.07 crore at the beginning of the year 2017-18) in terms of the guidelines.

The status of guarantees for the last five years, as depicted in Statement 9 of the Finance Accounts, is given in **table 1.32**.

Table 1.32: Guarantees given by the government

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Maximum amount guaranteed	2,586.84	5,314.84	9,396.62	13,053.04	20,234.10
Total revenue receipts	68,919	78,417	96,123	1,05,585	1,17,446.74
Outstanding amount (principal) of guarantees at the end of the year	1,090.23	2,000.90	4,720.78	4,459.58	5,174.49
Percentage of maximum amount guaranteed to total revenue receipts	3.75	6.78	9.78	12.36	17.23

(Source: Finance Accounts of the respective years)

The composition of the maximum amount guaranteed was towards: power (₹ 12,166.91 crore), co-operatives (₹ 1,268.84 crore), road and transport (₹ 2,000.00 crore), state financial corporation (₹ 183.57 crore), urban development and housing (₹ 90.00 crore), other infrastructure (₹ 33.76 crore), irrigation (₹ 4.93 crore) and others (₹ 4,486.09 crore).

In order to enable PSUs to obtain financial assistance from banks and financial institutions, state government gives guarantee subject to limits prescribed by the Constitution of India for which a guarantee fee is charged. As per the resolution of government of Bihar 7498 dated 5th of July, 1974 the PSUs are liable to pay the guarantee fee at 1/8 per cent annually on the guarantee amount of more than ₹ 10 lakh. There was no clause in the guarantee deed for recovery of Guarantee fee. The government of Bihar also did not claim guarantee fee from the PSUs. There were eight PSUs against which accumulated/outstanding guarantee was ₹ 7,030.00 crore as on 31 March 2018. Seven PSUs¹² did not pay any guarantee fee in respect of outstanding guarantee as on 31.03.2018. However, guarantee fee amounting to ₹ 2.38 crore (out of ₹ 3.13 crore) was received from only one company (Bihar state food and civil supplies corporation) in 2017-18.

¹² Bihar State Backward Classes Finance and Development Corporation, Bihar State Minorities Finance Corporation Ltd., Bihar State Power Generation Company Ltd., Bihar State Power Transmission Company Ltd., North Bihar Power Distribution Company Ltd., South Bihar Power Distribution Company Ltd. and Bihar State Warehousing Corporation

1.6 Debt management

1.6.1 Net funds available on account of public debt and public account liabilities

Details of net funds available on account of public debt and public account liabilities during 2013-18 are given in **table 1.33**.

Table 1.33: Net funds available on account of public debt and public account liabilities
(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts under public debt and public account liabilities ¹³	30,249	41,188	56,030	72,845	59,412
Repayments (principal and interest) under public debt and other liabilities	25,272	35,200	45,606	58,892	50,411
Net funds ¹⁴ available	4,977	5,988	10,424	13,953	9,001
Percentage of net funds available to receipts under public debt	16.45	14.54	18.60	19.15	15.15

(Source: Finance Accounts for the respective years)

Since 80 to 85 *per cent* of the borrowed funds were utilised for repayment of borrowings and interest thereon which implies that the State was spending less on developmental activities. The percentage of net funds available to receipts under public debts during 2017-18 was 15.15 *per cent* compared to 17.27 *per cent* in Uttar Pradesh, 13.37 *per cent* in Madhya Pradesh, 22.24 *per cent* in Jharkhand and 35.01 *per cent* in Chhattisgarh.

1.6.2 Debt sustainability

Debt sustainability indicates the ability of the State to service its debts in future. **Table 1.34** presents indicators of debt sustainability for the period of five years beginning from 2013-14.

Table 1.34: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Net availability of borrowed funds	4,977	5,988	10,424	13,953	9001.49
Burden of interest payments (interest payment/revenue receipt ratio)	10	10	8	8	8
Revenue receipts	68,919	78,417	96,123	1,05,585	1,17,447
Outstanding debt*	86,939	99,056	1,16,578	1,38,722	1,56,777
Rate of growth of outstanding debt (in <i>per cent</i>)	13.64	13.94	17.69	19.00	13.02
Outstanding debt (fiscal liabilities)/ GSDP (in <i>per cent</i>)	27.42	28.88	31.55	32.57	32.15
Interest payments	5,459	6,129	7,098	8,191	9,054
Average interest rate of outstanding debt#	6.68	6.59	6.58	6.42	6.13

* including UDAY (₹ 2,331.78 crore)

Formula in Appendix 1.7

(Source: Finance Accounts of the respective years)

¹³ Small Savings, Provident Fund etc. (₹ 1,844.09 cr), Reserve Funds bearing interest (₹ 721.32 cr), Reserve Funds not-bearing interest (₹ 693.61 cr), Deposits bearing interest (₹ 934.94 cr) and Deposits not-bearing interest (₹ 42,049.07 cr)

¹⁴ Net availability of borrowed funds=Total receipts under Public Debt and other liabilities-(repayment of Public Debt and other liabilities +interest payments under Non-plan MH2049)

1.6.3 Ujjwal Discom Assurance Yojana (UDAY)

UDAY, launched by GoI in November 2015, was the revival package for power distribution companies (DISCOMs) and seeks to make DISCOMs financially and operationally viable, so they can supply adequate power at affordable rates.

Under the Scheme, State was to take over 75 *per cent* of the DISCOM debt (₹ 3,109.05 crore) as on 30 September, 2015 (50 *per cent* in FY 2015-16 and 25 *per cent* in FY 2016-17) by issuing Non-SLR Bonds¹⁵ to take over debt and transfer the proceeds to DISCOMs in the form of grants, loans and equity. The liability of the State Government under the package was ₹ 2,331.78 crore¹⁶.

Provisional accounts of DISCOMs for the year 2017-18 revealed that the return on capital employed of both the DISCOMs was yielding negative return and the same was (-) 24.06 *per cent* (SBPDCL) and (-) 8.41 *per cent* (NBPDCCL). Further, as on 31 March 2018, ₹ 96.38 crore of loan was outstanding on both the DISCOMs (SBPDCL ₹ 56.56 crore and NBPDCCL ₹ 39.82 crore). Despite all tariff subsidies and loan obligation being met by the State Government. The DISCOMs companies are still having operational losses.

The break-up of the financial package to the DISCOMs is shown in **table 1.35**.

Table 1.35: Financial package to DISCOMs

(₹ in crore)

Sl. No.	Nature of Assistance	Amount
1.	Subsidy to South Bihar Power Distribution Company Ltd.	1,369.89
2.	Subsidy to North Bihar Power Distribution Company Ltd.	961.89
Total		2,331.78

The State Government has paid an interest of ₹ 191.36 crore in 2017-18 on the bonds issued under UDAY scheme.

Recommendation: The government should focus to constrain its interest payment to make achieving the budgeted fiscal deficit target.

¹⁵ Statutory liquidity ratio (SLR) denotes the reserves that commercial banks are required to maintain in the form of cash, gold reserves and government approved securities before providing credit to the customers.

¹⁶ ₹1,554.52 crore (50 *per cent*) in 2015-16 and ₹ 777.26 crore (25 *per cent*) in 2016-17.