

CHAPTER – I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the state government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the state government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the state government. Some of the terms used in this chapter are described in the **Appendix - I**.

1.2 Financial position of the State

1.2.1 In the government accounting system comprehensive accounting of the fixed assets like land and buildings, *etc.*, owned by the government is not done. However, the government accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred by the government. The table below gives an abstract of such liabilities and the assets as on 31 March 2001, compared with the corresponding position on 31 March 2000.

Table 1.1

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
343.50		Internal Debt	525.70
	129.16	Market Loans bearing interest	164.13
	--	Market Loans not bearing interest	--
	84.80	Loans from LIC	120.77
	103.16	Loans from other Institutions	116.69
	0.24	Loans from General Insurance Corporation of India	0.24
	16.89	Ways and Means Advances from RBI	28.00
	9.25	Overdraft from Reserve Bank of India	95.87
516.79		Loan and Advances from Central Government	493.36
	70.16	Non-Plan Loans	72.06
	235.81	Loans for State Plan Schemes	263.75
	2.78	Loans for Central Plan Schemes	3.43
	12.22	Loans for Centrally Sponsored Plan Schemes	12.41
	10.85	Loans for Special Schemes	10.30
	184.97	Ways and means advances towards expenditure, <i>etc.</i>	131.41

(Rupees in crore)				
As on 31.03.2000	Liabilities			As on 31.03.2001
0.10		Contingency Fund		0.10
252.90		Small Savings, Provident Funds, etc.		311.13
182.57		Deposits		163.21
4.97		Reserve Funds		3.55
-		Suspense and Miscellaneous		131.56
514.89		Surplus on Government Account		321.50
	--	(i) Current year surplus	--	
	545.97	(ii) Accumulated Surplus upto March 2001	514.89	
	31.08	Less Revenue Deficit of the current year	193.39	
1815.72		Total		1950.11
		Assets		
1508.36		Gross Capital Outlay on Fixed Assets		1672.05
	10.98	Investment in Shares on Companies, Corporation, etc.	11.59	
	1497.38	Other Capital Outlay	1660.46	
194.11		Loans and Advances		212.30
	131.51	Loans for Housing	153.40	
	26.96	Other Loans	27.16	
	35.64	Loans to government servants	31.74	
-		Reserve Fund Investment	--	--
2.06		Advances		2.06
73.26		Suspense and Miscellaneous Balances		--
175.04		Remittance Balances		154.33
(-) 137.11		Cash Balance		(-) 90.63
	--	Cash in Local Treasuries and Local Remittances	--	
	(-) 137.75	Deposits with Reserve Bank	(-) 91.13	
	0.64	Departmental Cash Balance	0.50	
	--	Permanent Advances		
	--	Cash Balance Investment		
1815.72		Total		1950.11

1.2.2 While the Liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the Assets comprise mainly the capital outlay, loans and advances given by the state government and the cash balances. It would be seen from above that while the liabilities had grown by 25 per cent, the growth in assets was 7 per cent, which was mainly due to deficit in revenue account.

1.3 Sources and applications of fund

1.3.1 The position of sources and applications of funds during the current and the preceding years is given in the table below:

Table 1.2

(Rupees in crore)

1999-2000		SOURCES		2000-2001
860.84		1. Revenue receipts		828.22
9.31		2. Recoveries of Loans and Advances		12.41
220.71		3. Decrease in Public debt		158.77
45.66		4. Net receipts from Public account		262.98
	32.24	-Increase in Small Savings	58.22	
	83.72	-Decrease in Deposits and Advances	(-) 19.36	
	1.56	-Increase in Reserve Funds	(-) 1.43	
	(-) 63.47	-Net effect of Suspense and Miscellaneous transactions	204.84	
	(-) 8.39	-Net effect of Remittance transactions	20.71	
	--	5. Net effect of Contingency Fund transactions		---
	--	6. Decrease in closing cash balance		---
1136.52		Total		1262.38
APPLICATION				
891.92		1. Revenue expenditure		1021.61
42.34		2. Lending for development and other purposes		30.60
149.73		3. Capital expenditure		163.69
---		4. Net effect of Contingency Fund transactions		---
52.53		5. Increase in closing cash balance		46.48
1136.52		Total		1262.38

1.3.2 The main sources of funds include the revenue receipts of the government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the state government. While their relative share went down from 75.74 *per cent* in 1999-2000 to 65.61 *per cent* during 2000-2001, the share of recoveries of loans and advances went up from 0.82 *per cent* in 1999-2000 to 0.98 *per cent* during 2000-2001. The net receipts from the Public Account, however, registered an increase from 4 *per cent* in 1999-2000 to 21 *per cent* in 2000-2001. This was mainly due to increase in Reserve Bank Suspense – Central Accounts Office from Rs.(-) 3.57 crore in 1999-2000 to Rs.239.92 crore in 2000-2001 under suspense and miscellaneous transactions. The receipts from the public debt, however, went down from 19.42 *per cent* in 1999-2000 to 12.57 *per cent* during 2000-2001.

1.3.3 The funds were mainly applied for revenue expenditure, whose share went up from 78.47 *per cent* in 1999-2000 to 80.92 *per cent* in 2000-2001. Nevertheless the capital expenditure went down from 13.17 *per cent* to 12.97 *per cent* and lending for development purposes went down from 3.73 *per cent* to 2.42 *per cent*.

1.4 Financial operations of the state government

1.4.1 Exhibit I (page 19) gives the details of the receipts and disbursements made by the state government. The Revenue expenditure (Rs.1021.61 crore)

during the year exceeded the revenue receipts (Rs.828.22 crore) resulting in revenue deficit of Rs.193.39 crore. The Revenue receipts comprise of tax revenue (Rs.14.43 crore), non-tax revenue (Rs.40.37 crore), State's share of union taxes and duties (Rs.87.45 crore) and grants-in-aid from the Central Government (Rs.685.97 crore). The main sources of tax revenue were sales tax (42 per cent), taxes on vehicles (14 per cent), land revenue (8 per cent), State excise (7 per cent) and other taxes (25 per cent). Non-tax revenue came mainly from Power (44 per cent), General Services (10 per cent), Water Supply and Sanitation (7 per cent) and Interest receipts (8 per cent).

1.4.2 The capital receipts comprised of Rs.12.41 crore from recoveries of loans and advances and Rs.230.82 crore from public debt. Against this, the expenditure was Rs.163.69 crore on capital outlay, Rs.30.60 crore on disbursement of loans and advances and Rs.72.05 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.848.18 crore, against which the disbursements made were Rs.585.20 crore. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs.(-)137.11 crore at the beginning of the year to Rs.(-)90.63 crore at the end of the year.

1.4.3 The financial operations of the state government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in **Exhibit I** and the time series data for the five years period from 1996-1997 to 2000-2001 detailed in the table below:

Table 1.3
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
(1)	(2)	(3)	(4)	(5)	(6)
Part A. Receipts					
I. Revenue Receipts	658.67	679.89	773.08	860.84	828.22
(i) Tax Revenue	6.67	7.87	9.20	10.73	14.43
Agricultural Income Tax	---	---	---	---	---
Sales Tax	1.99	2.51	2.87	3.61	6.06
State Excise	0.89	0.91	0.90	0.93	0.96
Taxes on Vehicles	0.93	1.33	1.53	1.83	2.02
Stamps and Registration fees	0.00	0.06	0.09	0.08	0.07
Land Revenue	0.80	0.68	1.04	1.26	1.16
Taxes on goods and passengers	0.31	0.33	0.34	0.39	0.51
Other Taxes	1.75	2.05	2.43	2.63	3.65
(ii) Non Tax Revenue	46.42	45.75	36.18	41.35	40.37
(iii) State's share of Union Taxes	181.78	208.81	316.98	325.04	87.45
(iv) Grants-in-aid from GOI	423.80	417.46	410.72	483.72	685.97
2. Misce. Capital Receipts	---	---	---	---	---
3. Total Revenue and Non-debt capital receipts (1+2)	658.67	679.89	773.08	860.84	828.22
4. Recoveries of Loans and Advances	4.62	5.66	7.18	9.31	12.41
5. Public Debt Receipts	202.52	146.23	250.80	341.97	230.82
Internal Debt (excluding Ways & Means Advances and Overdrafts)	35.04	39.53	75.09	91.84	91.17
Net transactions under Ways & Means Advances and Overdraft	111.18	---	64.01	---	97.73
Loans and advances from GOI [@]	56.30	106.70	111.70	250.13	41.92

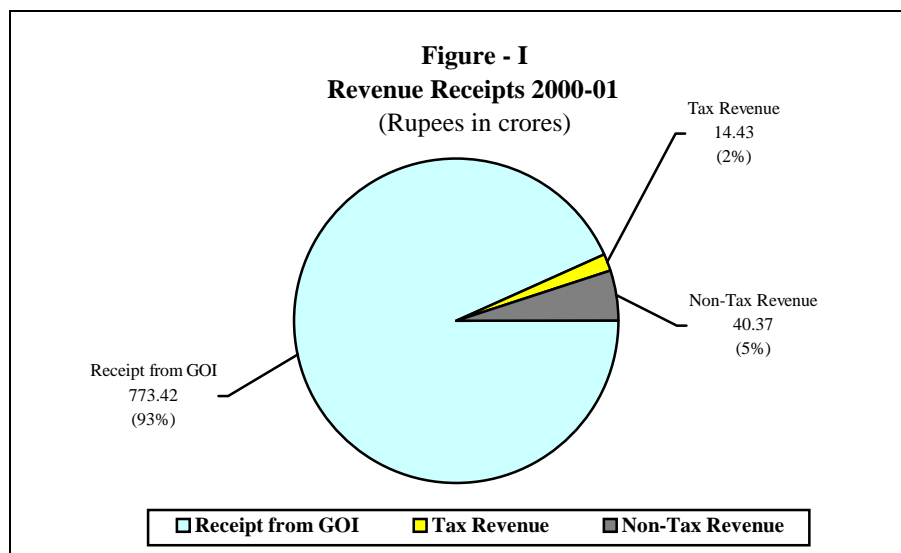
[@] Include Ways and Means Advances from GOI.

(Rupees in crore)

(1)	(2)	(3)	(4)	(5)	(6)
6. Total receipts in Consolidated Fund (3+4+5)	865.81	831.78	1031.06	1212.12	1071.45
7. Contingency Fund Receipts	---	---	---	---	---
8. Public Account Receipts	482.04	606.77	494.40	525.14	848.18
9. Total Receipts of the State (6+7+8)	1347.85	1438.55	1525.46	1737.26	1919.63
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	621.91	660.67	695.05	891.92	1021.61
Plan	185.14	178.32	211.90	304.31	319.19
Non-Plan	436.77	482.35	483.15	587.61	702.42
General Services	183.94	216.53	224.83	294.07	334.84
Economic Services	208.67	206.42	211.15	261.56	315.74
Social Services	229.30	237.72	259.07	336.29	371.03
Grants-in-aid and Contributions	---	---	---	---	---
11. Capital Expenditure	159.50	165.09	145.74	149.73	163.69
Plan	149.00	166.22	126.99	165.23	164.96
Non-Plan	10.50	(-)1.13	18.75	(-)15.50	(-)1.27
General Services	3.36	6.24	4.36	8.01	5.98
Social Services	33.83	19.76	28.47	36.92	63.60
Economic Services	122.31	139.09	112.91	104.81	94.10
12. Loans and Advances given	17.38	22.37	38.28	42.34	30.60
13. Total (10+11+12)	798.79	848.13	879.07	1083.99	1215.90
14. Repayments of Public Debt	38.34	202.86	91.00	121.26	72.05
Internal Debt (excluding Ways and Means Advances and Overdrafts)	5.75	7.84	9.55	7.56	6.70
Net Transactions under Ways and Means Advances and Overdraft	---	119.59	---	56.84	---
Loans and Advances from GOI	32.59	75.43	81.45	56.86	65.35
15. Appropriation to Contingency Fund	---	---	---	---	---
16. Total disbursement out of Consolidated Fund (13+14+15)	837.13	1050.99	970.07	1205.25	1287.95
17. Contingency Fund Disbursement	---	---	---	---	---
18. Public Account Disbursement	470.22	458.32	559.32	479.48	585.20
19. Total disbursement by the State (16+17+18)	1307.35	1509.31	1529.39	1684.73	1873.15
Part C. Deficits					
20. Revenue Deficit (-)/Surplus (+) (1-10)	36.76	19.22	78.03	(-)31.08	(-)193.39
21. Fiscal Deficit (3+4-13)	135.50	162.58	98.81	213.84	375.27
22. Primary Deficit (21-23)	87.77	96.79	24.59	120.12	274.07
Part D. Other data					
23. Interest payments (included in the revenue expenditure)	47.73	65.79	74.22	93.72	101.20
24. Arrears of Revenue (Percentage of Tax and Non-tax Revenue Receipts)	NA	NA	NA	NA	NA
25. Financial Assistance to local bodies etc	19.01	44.88	33.28	41.36	50.67
26. Ways and Means Advances/Overdraft availed (days)	134	102	118	165	31
27. Interest on WMA/Overdraft	0.90	1.15	0.61	4.21	0.49
28. Gross State Domestic Product	1072.34	1123.19	1302.90	1459.25	---
29. Outstanding Debt (year end)	678	657	860	1113	1330.19
30. Outstanding guarantees(year end)	0.69	0.69	0.69	48.83	55.39
31. Maximum amount guaranteed (year end)	NA	NA	NA	55.08	1.06
32. Number of incomplete projects	NA	NA	24	17	18
33. Capital blocked in incomplete projects	NA	NA	2.11	123.46	3.47

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure I. The growth rate of revenue receipts decreased by 4 per cent in 2000-2001 over previous year (1999-2000) against 14 per cent increase in 1998-1999.



Tax Revenue

1.5.2 In spite of growth of tax revenue from Rs.6.67 crore (1996-1997) to Rs.14.43 crore (2000-2001), the share of tax revenue in revenue receipts was negligible and stood at 2 per cent.

Non-Tax Revenue

1.5.3 The non-tax revenue remained constant at 7 per cent of the revenue receipts during 1996-1997 and 1997-1998 and declined to 5 per cent during 1998-1999 to 2000-2001.

State's share of Union taxes and duties and grants-in-aid from the Central Government

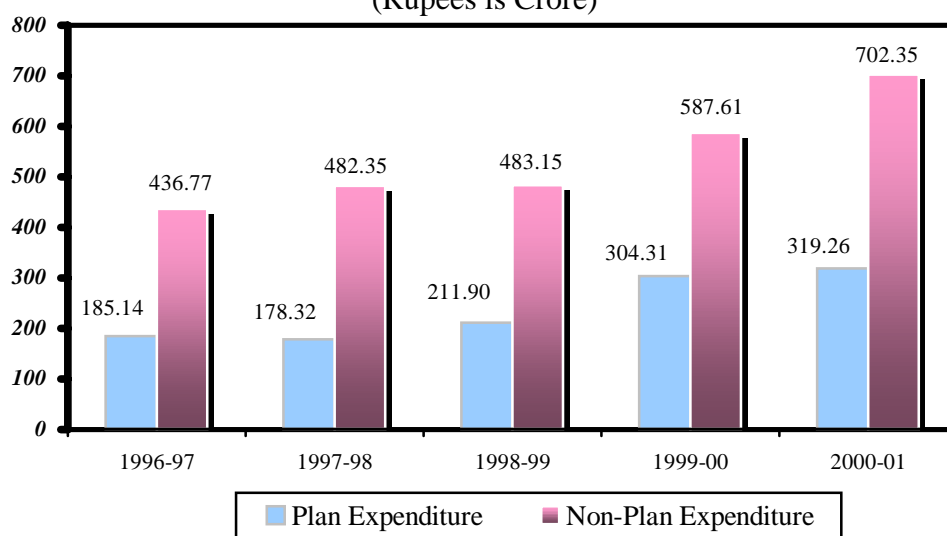
1.5.4 When compared to 1999-2000, the State's share of Union taxes (excise duties and income and corporation taxes) decreased by 73 per cent while the grants-in-aid from the Central Government increased by 42 per cent during the year.

1.5.5 The relative share of State share of Union Taxes to Revenue Receipts decreased from 28 per cent in 1996-1997 to 11 per cent in 2000-2001 while the grants-in-aid from GOI increased from 64 per cent in 1996-1997 to 83 per cent in 2000-2001.

1.6 Revenue expenditure

1.6.1 The revenue expenditure (86 per cent) accounted for most of the expenditure of the state government and increased by 15 per cent during 2000-2001 over 1999-2000. The share in non-plan expenditure during 2000-2001 was 69 per cent of revenue expenditure against 31 per cent under plan. The trend analysis showed that the growth under non-plan was faster than the plan side as shown in Figure II.

Figure - II
Growth of Plan and Non-plan Revenue Expenditure
(Rupees is Crore)



1.6.2 Sector wise analysis shows that while the expenditure on General Services increased by 82 per cent from Rs.183.94 crore in 1996-1997 to Rs.334.84 crore in 2000-2001, the corresponding increases in expenditure on Social Services and Economic Services were only 62 and 51 per cent respectively. As a proportion of revenue expenditure, the share of General Services increased from 30 per cent in 1996-1997 to 33 per cent in 2000-2001, whereas the shares of Social Services and Economic Service decreased from 37 per cent to 36 per cent and 34 per cent to 31 per cent respectively during the same period. Sector-wise analysis of non-plan revenue expenditure shows that the expenditure on General Services and Social Services increased by 77 per cent and 43 per cent respectively in 2000-2001 over 1996-1997.

Interest payments

1.6.3 Interest payments increased by 112 per cent from Rs.47.73 crore in 1996-1997 to Rs.101.20 crore in 2000-2001. This is further discussed in the section on financial indicators.

Financial assistance to local bodies and other institutions

1.6.4 The quantum of assistance in the form of grants provided to different

local bodies, etc., during the period of four years ending 2000-2001 was as follows:

Table 1.4

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Universities and Educational Institutions	---	12.03	33.12	---	---
District Councils	---	30.97	NIL	40.98	44.02
Other institutions	19.01	1.88	0.16	0.38	6.65
Total :	19.01	44.88	33.28	41.36	50.67
Percentage of growth over previous year		136	(-) 26	24	23
Assistance as a percentage of revenue expenditure	3	7	5	5	5

Loans and Advances by the state government

1.6.5 The government gives loans and advances to government companies, local bodies, autonomous bodies, cooperatives, non-government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that the repayment was very low which resulted in increase of closing balance by 87 per cent during 2000-2001 over 1996-1997.

Table 1.5

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Opening balance	100.53	113.28	129.99	161.09	194.11
Amount advanced during the year	17.38	22.37	38.28	42.34	30.60
Amount repaid during the year	4.62	5.66	7.18	9.31	12.41
Closing balance	113.28	129.99	161.09	194.11	212.30
Net addition	12.76	16.71	31.10	33.03	18.19
Interest received	0.43	0.38	0.50	0.70	0.88

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside government, i.e. public sector undertakings (PSUs), corporations, etc., and loans and advances. The capital expenditure showed declining trend since 1998-1999. The share of Capital expenditure to total expenditure has dropped from 20 per cent in 1996-1997 to 14 per cent in 2000-2001. Table 1.3 shows that most of the capital expenditure has been on Economic and Social Services and on the plan side. Sector-wise analysis of Plan Capital expenditure shows that the expenditure on General Services and Social Services increased by 78 per cent and 89 per cent respectively in 2000-2001 over 1996-1997.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

Table 1.6

	1996-97	1997-98	1998-99	1999-2000	2000-01
1. Plan expenditure as a percentage of:					
- Revenue expenditure	30	27	30	34	31
- Capital expenditure	93	101	78	110	195
2. Capital expenditure (percentage of both Capital and Revenue expenditure)	20	20	17	14	14
3. Percentage of expenditure on General Services to total expenditure:					
- Revenue	30	33	32	33	33
- Capital	2	4	3	5	4
4. Amount of wastage and diversion of funds detected during test audit	---	---	---	---	---
5. Non-remunerative expenditure on incomplete projects (Rupees in crore)	---	---	2.11	123.46	3.47

1.8.4 The expenditure on General Services had a marginal variation on both the revenue and capital sides during 1996-1997 to 2000-2001. As on 31 March 2001, Rs.3.47 crore was blocked in 18 incomplete Projects.

1.9 Financial Management

1.9.1 The issue of financial management in the government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the government, are discussed in this section.

Investments and returns

1.9.2 Investments are made out of the capital outlay by the government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under :

Table 1.7

Sector	Number	(Rupees in crore)	
		Amount invested as on 31.03.2001	Amount invested during 2000-2001
(1) Government Companies	2	1.45	Nil
(2) Cooperative Institutions	423	10.15	0.62
Total	425	11.60	0.62

1.9.3 The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Table 1.8

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (per cent)
(Rupees in crore)				
1996-1997	8.86	0.07	0.79	13.75
1997-1998	9.08	0.07	0.77	13.50
1998-1999	9.74	0.14	1.44	12.15
1999-2000	10.98	Nil	0	12.25
2000-2001	11.60	Nil	0	12 and 12.52

1.9.4 Thus, while the government was raising high cost borrowings from the market, its investments in government companies, etc., fetched negligible returns between 0.77 per cent and 1.44 per cent during 1996-1999 and no returns during 1999-2000 and 2000-2001.

Incomplete Projects

1.9.5 As of 31 March 2001, there were 18 incomplete projects in which Rs.3.47 crore were blocked. This showed that the government was spreading its resources thinly.

Arrears of revenue

1.9.6 The position of arrears of revenue pending collection as on 31 March 2001 in respect of all the departments had not been furnished by the government although called for (June 2001). However, as intimated (July and September 2001) by the government, the arrears of revenue pending collection as on 31 March 2001 in respect of Taxation and Environment & Forest Departments were 5 per cent (Rs.73.29 lakh) and 39 per cent (Rs.55.90 lakh) respectively of the total revenue raised by the concerned department during the current year while there was no arrear of revenue in respect of Excise Department as of March 2001.

Ways and means advances and overdraft

1.9.7 Under an agreement with the Reserve Bank of India, the state government had to maintain with the Bank a minimum daily cash balance of Rs.0.20 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances (WMA)/Overdraft (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the government and reflects poorly on the financial management in government.

1.9.8 The extent to which the government maintained the minimum balance with the Bank during 1996-1997 to 2000-2001 is given below:

Table 1.9

	1996-97	1997-98	1998-99	1999-2000	2000-01
1. Number of days on which minimum balance was maintained					
(a) Without obtaining any advance	119	103	121	144	300
(b) By obtaining ways and means advance	134	102	118	165	31
2. Number of days on which overdraft was taken	112	157	126	57	34
3. Number of days on which there was shortfall from minimum balance after taking ways and means advances and no overdraft was taken	---	3	---	---	---

1.9.9 The position of ways and means advances/overdraft taken by the state government and interest paid thereon during 1996-1997 to 2000-2001 is detailed below:

Table 1.10

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Ways and Means Advances					
i) Taken during the year	179.11	191.16	207.23	263.95	123.77
ii) Outstanding at the end of the year	16.80	14.45	25.00	16.89	28.00
iii) Interest paid	0.90	1.15	0.61	3.85	0.33
Overdraft					
i) Taken during the year	282.07	280.94	317.79	258.00	129.74
ii) Outstanding at the end of the year	121.76	4.52	57.98	9.25	95.87
iii) Interest paid	0.47	0.63	1.18	0.36	0.16

1.9.10 Though cash management by the state government has improved in 2000-2001 as compared to the previous year, it still had to resort to Ways and Means Advances and Overdrafts totalling Rs.253.51 crore leading to a total interest payment of Rs.0.49 crore.

Deficit

1.9.11 Deficits in government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.12 The Revenue Deficit is the excess revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in government account.

Table 1.11

(Rupees in crore)

CONSOLIDATED FUND (CF) 2000-2001					
Receipt	Amount			Disbursement	Amount
Revenue	828.22	Revenue deficit	193.39	Revenue	1021.61
Misc. Capital receipts	---			Capital	163.69
Recovery of loans & advances	12.41			Loans & advances disbursement	30.60
Sub-total	840.63	Fiscal Deficit	375.27	Sub-total	1215.90
Public Debt ^ψ	35.36			Public debt repayment ^ψ	72.05
Total	875.99	A: Deficit in CF	411.96	Total	1287.95
PUBLIC ACCOUNT (PA) 2000-2001					
Small savings, PF etc.	89.48			Small savings, PF etc.	31.26
Deposits & advances	148.90			Deposits & advances	168.26
Reserve Funds	2.55			Reserve Funds	3.97
Suspense & Misc.	237.93			Suspense & Misc.	33.10
Remittances	369.32			Remittances	348.61
Total	848.18	B: Surplus in PA	262.98	Total	585.20
Increase in cash balance (A+B): Rs.148.98					

^ψ Includes overdraft obtained/repaid

1.9.13 The table shows that there was revenue deficit of Rs.193.39 crore and fiscal deficit of Rs.375.27 crore as of 31 March 2001. This fiscal deficit was financed by net proceeds of public debt. The table 1.3 shows that the fiscal deficit has shown increasing trend and when compared to 1998-1999 the fiscal deficit has increased by 280 per cent in 2000-2001.

Application of the borrowed funds (Fiscal Deficit)

1.9.14 The fiscal deficit represents total net borrowing of the government. These borrowings are applied for meeting the Revenue Deficit (RD)/Revenue Surplus (RS) for making the Capital Expenditure (CE) and for giving loans to various bodies for development and other purposes. The relative proportions of these applications would indicate the financial prudence of the state government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of Mizoram for the last five years :

Table 1.12

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RS or RD/FD	*	*	*	0.15	0.52
CE/FD	1.18	1.02	1.47	0.70	0.44
Net loans/FD	0.09	0.10	0.32	0.15	0.04
Total				1.00	1.00

1.9.15 It would be seen that borrowed funds were applied for meeting revenue expenditure during 2000-2001 and increasing the debt burden for maintaining its existing programmes instead of expanding its revenue base.

Guarantees given by the state government

1.9.16 Guarantees are given by the state government for due discharge of certain liabilities like repayment of loans, share capital, *etc.*, raised by the statutory corporations, government companies and cooperative institutions, *etc.*, and payment of interest and dividend by them. They constitute contingent liability of the state. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which government may give guarantees on the security of the Consolidated Fund of the State. The outstanding guarantee as on March 2001 was Rs.55.39 crore.

1.10 Public debt

1.10.1 The Constitution of India provides that a state may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the state. No law had been passed by the State Legislature laying down any

* In all the years there was revenue surplus

such limit. The details of the total liabilities of the state government as at the end of the last five years are given in the following table.

Table 1.13

Year	Internal debt	Loans and advances from Central Government	Total Public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1996-1997	274.41	262.00	536.41	208.18	744.59	0.69
1997-1998	186.51	293.27	479.78	299.93	779.71	0.69
1998-1999	316.06	323.52	639.58	322.93	962.51	0.74
1999-2000	343.50	516.79	860.29	252.91	1113.20	0.76
2000-2001	525.70	493.36	1019.06	311.13	1330.19	0.88

1.10.2 During the five year period, the total liabilities of the government had grown by 79 per cent. This was on account of 91 per cent growth in internal debt, 88 per cent growth in loans and advances from Government of India and 49 per cent growth in other liabilities.

1.10.3 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

Table 1.14

	(Rupees in crore)				
	1996-97	1997-98	1998-99	1999-2000	2000-01
Internal Debt					
- Receipt	496	512	600	613.80	344.68
- Repayment (Principal + Interest)	376	624	493	621.80	199.17
- Net funds available	120	(-)112	107	(-)8.00	145.51
(Per cent)	(24)		(18)		(42)
Loans and advances from GOI					
- Receipt during the year	56	107	112	250.13	41.92
- Repayment (Principal + Interest)	49	95	109	84.37	96.62
- Net funds available	7	12	3	165.76	(-)54.70
(Per cent)	(13)	(11)	(3)	(66)	
Other liabilities					
- Receipt during the year	120.52	179.45	144.32	225.48	229.06
- Repayment (Principal + Interest)	97.13	109.40	145.59	132.62	223.31
- Net funds available	23.39	70.05	(-)1.27	92.86	5.75
(Per cent)	(19)	(39)	(-)0.88	(41)	(3)

1.10.4 It would be seen that against the entire internal debt received during 2000-2001, 58 per cent were consumed in repayment and very little of the total borrowings are available for investment after meeting the repayment obligations. Considering that the outstanding debt has been increasing year after year, the net availability of funds through public borrowings is going to be reduced further.

1.11 Indicators of the financial performance

1.11.1 A government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity, it would be necessary to know how far the means of financing are sustainable. Similarly, if government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, government's increased vulnerability in the process. All the state governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents government maintaining the existing level of activity, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing government's vulnerability. In short, financial health of a government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows :

(i) Sustainability

Sustainability is the degree to which a government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in **Appendix – I Part-B**. Exhibit II indicates the behaviour of these indices/ratios over the period from 1996-1997 to 2000-2001. The implications of these indices/ratios for the state of the

financial health of the state government are discussed in the following paragraphs.

1.11.3 The behaviour of the indices/ratios is discussed below:

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the state government has surplus from its revenues for meeting plan expenditure. The Exhibit II shows that the state government had a negative BCR in all the five years, suggesting that government had to depend only on borrowings for meeting its plan expenditure.

(ii) Interest ratio

The higher the ratio the lesser the ability of the government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Mizoram, the ratio has increased from 0.07 in 1996-1997 to 0.12 in 2000-2001. A rising interest ratio has adverse implications on sustainability since it points out to the rising interest burden.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the state government. A rising trend would mean an improvement in the performance. In the case of Mizoram, the ratio declined from 1.40 in 1996-1997 to 0.95 in 2000-2001. The ratio being less than one in 2000-2001 indicated that capital receipts are being diverted partially for unproductive expenditure and not wholly available for investment.

(iv) Total Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's Share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that government can tax more, and hence to flexibility, a higher ratio may not only point to the limits of these source of finance but also its inflexibility. Time series analysis shows that in case of Mizoram this ratio has declined from 0.23 in 1998-99 to 0.08 in 2000-2001. The ratio of state tax receipts to GSDP has increased from 0.0001 in 1997-1998 to 0.009 in 2000-2001, suggesting that the state government had the option to raise more resources through taxation.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table 1.8 presents the return on government's investments in statutory corporations, government companies, joint stock companies and co-operative institutions. In the case of Government of Mizoram the ratio has reduced to zero during 1999-2001 from 0.014 during 1998-1999 indicating that government investments were paying no returns.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Mizoram this ratio has increased from 0.26 in 1999-2000 to 0.52 in 2000-2001 indicating lesser availability of capital for investment.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the state government, which can be used to service debt. An increasing ratio of debt/GSDP would signify a reduction in the government's ability to meet its debt obligations and therefore, increasing risk for the lender. In the case of Mizoram the ratio has increased from 0.69 in 1996-1997 to 0.99 in 2000-2001, showing greater inability of the government to meet debt obligations.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, the higher the revenue deficit, the more vulnerable is the state. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the government are being used to finance non-productive revenue expenditure. Thus higher this ratio, the worse off is the state because its deficit burden is increasing without adding to the re-payment capacity of the state. The trend analysis showed that the ratio which ranged between (-) 0.79 and (-) 0.12 during 1996-1999 shot up to from 0.15 in 1999-2000 to 0.52 in 2000-2001 indicating worsening financial sustainability.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the lesser the value of the ratio, the lesser the availability of funds for Capital investment. This ratio has increased from 0.25 in 1998-1999 to 0.73 in 2000-2001 indicating more availability of borrowed funds for capital investment than previous year. In 2000-2001, the interest payments accounted for 27 per cent of the net borrowed funds, which were not available for capital investment.

(x) Outstanding Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the government, indicates the risk exposure of a state government and should therefore be compared with the ability of the government to pay *viz.*, its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the government would indicate the degree of vulnerability of the state government. In the case of Mizoram, this ratio has risen in 2000-2001 from 0.06 to 0.07 over 1999-2000, thus indicating greater vulnerability of the government.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the government. A ratio of more than 1 would indicate that the state government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. This ratio although all along has been more than 1 but has declined from 1.60 (1996-1997) to 1.20 (2000-2001).

(xii) Budget

There was no delay in submission of the budget and its approval.

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-à-vis* the final modified grant. Significant variations (excess/savings) between the final modified grant and actual expenditure were also persistent.

Conclusions

1.11.4 The ratio of primary deficit to fiscal deficit shows that interest payments have been substantial and have also increased as proportion of revenue receipts, as shown by the rising trend of the interest ratio. A negative BCR, declining capital outlay to capital receipt ratio and ROI had adverse implications for sustainability of the government.

EXHIBIT – I
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

1999-2000	Receipts	2000-2001	1999-2000	Disbursements	2000-2001
	Section – A: Revenue				
860.84	I. Revenue receipts	828.22	891.92	I. Revenue expenditure	1021.61*
10.73	Tax Revenue	14.43	294.07	General Services-	334.84
41.35	Non Tax Revenue	40.37	336.29	Social Services-	371.03
---	State's Share of net proceeds of Taxes on income other than corporations	---	160.19	-Education, Sports, Art and Culture	188.13
325.04	State's Share of Union Taxes and Duties	87.45	53.69	-Health and Family Welfare	53.85
18.73	Non-Plan grants	181.96	47.76	-Water Supply, Sanitation, Housing & Urban Development	56.25
375.72	Grants for State Plan Scheme	431.73	3.09	-Information and Broadcasting	2.90
77.02	Grants for Central and Centrally Sponsored Plan Schemes	66.21	40.98	-Welfare of Scheduled Castes, Scheduled tribes and Other Backward Classes	44.02
12.25	Grants for Special Plan Schemes	6.07	1.83	-Labour and Labour Welfare	2.20
			26.47	-Social Welfare and Nutrition	21.13
			2.28	-Others	2.55
			261.56	Economic Services-	315.74
			93.42	-Agriculture and Allied Activities	93.59
			36.07	-Rural Development	27.05
			8.09	-Special Areas Programmes	8.76
			3.88	-Irrigation and Flood Control	2.90
			44.53	-Energy	101.25
			22.98	-Industry and Minerals	20.81
			35.02	-Transport	41.91
			0.94	-Science, Technology and Environment	0.93
			16.63	-General Economic Services	18.54
31.08	II. Revenue deficit carried over to Section B	193.39		II. Revenue surplus carried over to Section B	-
891.92	Total :	1021.61	891.92	Total :	1021.61*
	Section – B				
(-189.64)	III. Opening Cash balance including Permanent Advances and Cash Balance investment	(-137.11)			
			149.73	III. Capital Outlay	163.69*
	IV. Miscellaneous Capital receipts	---	8.01	General Services-	5.98
			36.92	Social Services-	63.60
			0.94	-Education, Sports, Art and Culture	1.73
			5.22	-Health and Family Welfare	10.09
			26.57	-Water Supply, Sanitation	34.99
			4.05	-Housing and Urban Development	16.56
			---	-Welfare of Scheduled Castes Scheduled tribes and Other Backward Classes	---
			---	-Social Welfare and Nutrition	---
			---	-Others	---
			0.14	-Information and Broadcasting	0.23

* Revenue and Capital expenditure under Plan and Non-Plan during 2000-2001 is given in Appendix I-A.

(Rupees in crore)

1999-2000	Receipts	2000-2001	1999-2000	Disbursements	2000-2001
			104.80	Economic Services-	94.11
			(-) 4.86	-Agriculture and Allied Activities	9.27
			1.98	-Rural Development	2.14
			12.33	-Special Areas Programmes	7.73
			6.62	-Irrigation & Flood Control	2.54
			40.05	-Energy	39.96
			1.59	-Industry and Minerals	1.96
			0.01	-Tourism	
			47.08	-Transport	30.51
9.31	V. Recoveries of Loans and Advances	12.41	42.34	IV. Loans and Advances disbursed	30.60
3.60	-From Housing	6.11	40.98	-For Housing	28.00
5.31	-From Government Servants	5.79	0.10	-To Government Servants	1.89
0.40	-From Others	0.51	1.26	-To Others	0.71
---	VI. Revenue surplus brought down	---	31.08	V. Revenue deficit brought down	193.39
341.97	VII. Public Debt Receipts	230.82	121.26	VI. Repayment of Public Debt	72.05
---	-External debt	---	---	-External debt	---
91.84	-Internal debt other than Ways and Means Advances & Overdraft	91.17	7.56	-Internal debt other than Ways & Means Advances & Overdraft	6.70
---	-Net transaction under Ways and Means Advances including Overdraft	97.73	56.84 [£]	-Net transaction under Ways and Means Advances including Overdraft	---
250.13	-Loans and Advances from Central Government	41.92	56.86	-Repayment of Loans and Advances to Central Government	65.35
---	VIII. Appropriation to Contingency Fund	---	---	VII. Appropriation to Contingency Fund	---
---	IX. Amount transferred to Contingency Fund	---	---	VIII. Expenditure from Contingency Fund	---
525.14	X. Public Account receipts	848.18	479.48	IX. Public Accounts disbursements	585.20
59.30	-Small Savings and Provident Fund	89.48	27.06	-Small Savings and Provident Fund	31.25
2.20	Reserve Funds	2.55	0.64	-Reserve Funds	3.98
(-)2.20	-Suspense and Miscellaneous	237.93	61.27	-Suspense and Miscellaneous	33.10
292.57	-Remittance	369.32	300.96	-Remittance	348.61
173.27	-Deposits and Advances	148.90	89.55	-Deposits and Advances	168.26
			(-) 137.11	X. Cash Balance at end of 31 March 2001	(-) 90.63
			---	-Cash in Treasuries and Local Remittances	
			(-) 137.75	-Deposits with Reserve Bank	(-) 91.13
			0.64	-Departmental Cash Balance including Permanent Advances	0.50
			---	-Cash Balance Investment	---
686.78	Total :	954.30	686.78	Total :	954.30

[£] Represents receipts Rs.521.96 crore and disbursement Rs.578.80 crore

Explanatory Notes

1. The abridged accounts in the foregoing statement have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the surplus on government account, as shown in the table in Paragraph 1.2 indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation in stock figure, *etc.*, do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and other pending settlement, *etc.*
4. There was a difference in cash balance of Rs.41.65 crore (net credit) between the figure reflected in the accounts (Rs.(-)34.26 crore) and that intimated by the RBI (Rs.(-)75.91 crore) under “Deposit with Reserve Bank”. The difference is due to the following factors :-

		(Rupees in lakh)
1.	Adjustment in respect of overdraft/shortfall	Dr. 91,34.39
2.	Misclassification by the Bank/Treasury	Dr. 1,12.54
3.	Non-receipt of details of adjustment made by the RBI	<u>Cr. 50,81.91</u>
	Total	<u>Dr. 41,65.02</u>

EXHIBIT – II

FINANCIAL INDICATORS FOR GOVERNMENT OF MIZORAM

	1996-97	1997-98	1998-99	1999-2000	2000-01
Sustainability					
BCR (Rupees in lakh)	(-) 68.82	(-)126.83	(-) 88.63	(-) 191.77	(-) 378.21
Primary Deficit (PD) (Rupees in crore)	88	97	25	120.12	274.01
Interest Ratio	0.07	0.10	0.10	0.11	0.12
Capital outlay/Capital receipts	1.40	1.27	0.77	0.63	0.95
Total tax receipts/GSDP	0.16	0.18	0.23	0.21	0.06
State Tax Receipts/ GSDP	0.001	0.0001	0.007	0.007	0.009
Return on Investment ratio	0.008	0.008	0.014	NIL	NIL
Flexibility					
BCR (Rupees in crore)	(-) 68.82	(-) 126.83	(-) 88.63	(-) 191.77	(-)378.21
Capital repayments/ Capital borrowings	0.56	1.04	0.77	0.26	0.52
State Tax Receipts/GSDP	0.001	0.0001	0.007	0.007	0.009
Debt/GSDP	0.69	0.69	0.74	0.89	0.99
Vulnerability					
Revenue Surplus (RS)/ Revenue Deficit (RD) (-) (Rupees in crore)	36.76	19.22	78.03	(-) 31.08	(-) 193.39
Fiscal Deficit (FD) (Rupees in crore)	135.50	162.58	98.81	213.84	375.28
Primary Deficit (PD) (Rupees in crore)	88	97	25	120	274.01
PD/FD	0.65	0.60	0.25	0.56	0.73
RD or RS/FD	(-) 0.27	(-) 0.12	(-) 0.79	0.15	0.52
Outstanding Guarantees/ revenue receipts	NA	NA	NA	0.06	0.07
Assets/Liabilities	1.60	1.57	1.57	1.40	1.20

- Note:**
1. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts - Non-loan capital receipts.
 2. In the ratio Capital outlay vs. capital receipts, the denominator has been taken as internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF, etc., + Repayments received from loans advanced by the state government – Loans advanced by state government.