

## CHAPTER 1

### OVERVIEW

#### 1.1 Profile of the State

The State of Jharkhand was created in November 2000 by dividing the State of Bihar. It has an area of 79,714 sq. km. It is the 16<sup>th</sup> largest State of the country in terms of geographical area, of which, 29.62 *per cent* area is covered by forest. The State has 24 Districts, of which, nine districts have coverage of forestland between 30 and 56 *per cent* of its geographical area.

The land of Jharkhand is endowed with varieties of mineral resources. The major mineral resources are like coal, iron ore, bauxite, limestone, copper, mica, graphite, china clay, and uranium. Jharkhand is the only state producing coking coal and uranium in the country. There are 373 mines of major minerals, 3,572 mines of minor minerals and seven mines of both major as well as minor minerals in the state as on 31st March 2020.

As indicated in **Appendix 1.1 Part-A** the State's population increased from 3.33 crore in 2011 to 3.82 crore in 2020, an increase of 14.71 *per cent* in 10 years. The Gross State Domestic Product (GSDP) in 2019-20, at current prices, was ₹ 3,28,598 crore. At current prices, the estimated per capita income of the State was ₹ 90,475 during 2019-20.

#### 1.2 Basis and Approach to State Finances Audit Report

The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG. Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS),
- GSDP data and other State related statistics; and

- Various audit reports of the CAG of India.

The analysis was also carried out in the context of recommendations of the Fourteenth Finance Commission (FFC), State Financial Responsibility and Budget Management Act, best practices and guidelines of the Government of India. A meeting was held with State Finance Department, wherein the audit approach was explained and the draft Report was forwarded to the State Government for comments. Replies of the Government, where received, were incorporated in this Report at appropriate places.

### 1.3 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

1. Consolidated Fund of the State (Article 266(1) of the Constitution of India)
2. Contingency Fund of the State (Article 267(2) of the Constitution of India)
3. Public Accounts of the State (Article 266(2) of the Constitution)

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

**Revenue receipts** consist of tax revenue, non-tax revenue, share of Union Taxes/ Duties, and grants from Government of India.

**Revenue expenditure** consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

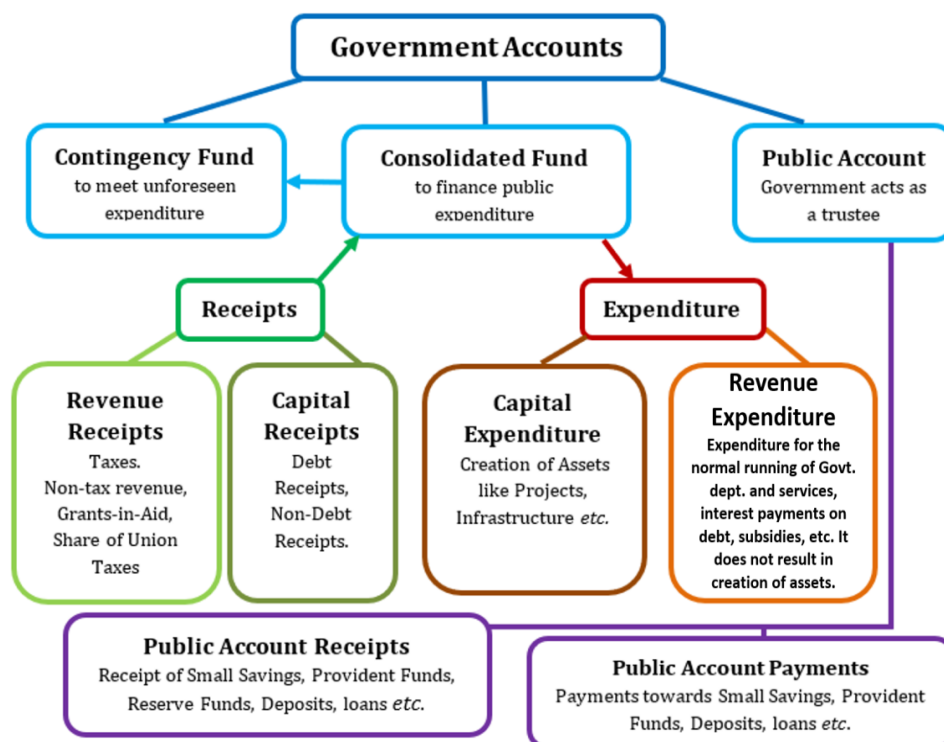
The **capital receipts** consist of:

**Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

**Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

**Chart 1.1: Structure of Government Accounts**



At present, we have an accounting classification system in government that is both functional and economic.

**Table 1.1: Classification system of Government Accounts**

	Attribute of transaction	Classification
Standardized in LMMH by CGA	Function- Education, Health, etc.	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads which is the primary unit of appropriation in the budget documents. For instance, generally object head “salary” is revenue expenditure and object head “construction” is capital expenditure. Details of Finance Accounts are given in **Appendix 1.1 Part B**.

**Budgetary Processes**

In terms of Article 202 of the Constitution of India, the Governor of State cause to be laid before the State Legislature, a statement of the estimated

receipts and expenditure of the State for the year 2019-20, in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

### 1.3.1 Gross State Domestic Product of Jharkhand

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP are also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

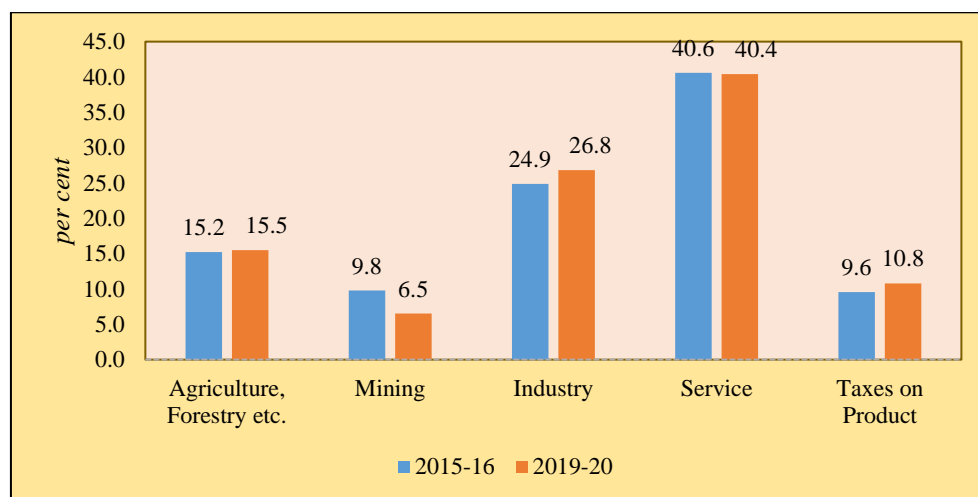
**Table 1.2: Trends in GSDP compared to the national GDP**

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP (2011-12 Series)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate of GDP over previous year (in per cent)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series)	2,06,613	2,36,250	2,69,816	2,97,204	3,28,598
Growth rate of GSDP over previous year (in per cent)	-5.45	14.34	14.21	10.15	10.56

(₹ in crore)

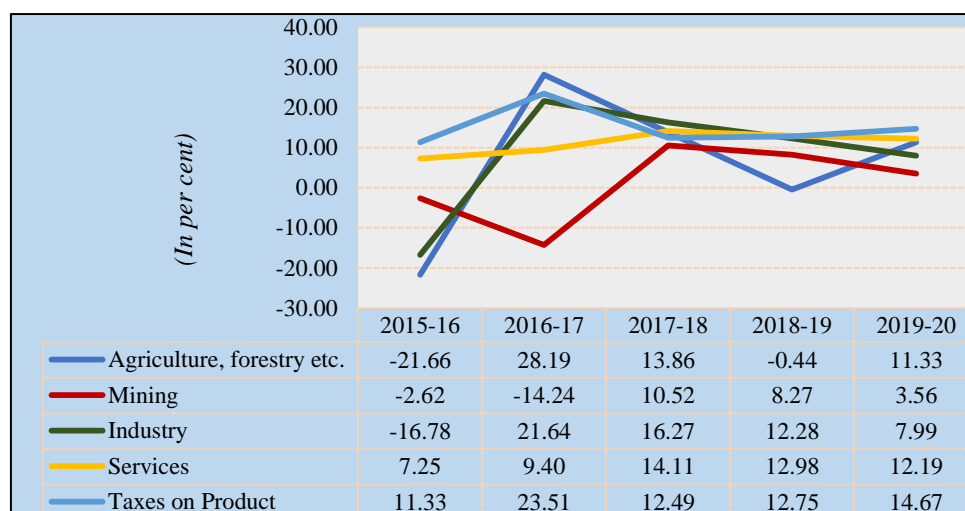
Source: MoSPI, GoI

**Chart 1.2: Change in sectoral contribution to GSDP (2015-16 to 2019-20)**



Source: MoSPI, GoI

Chart 1.3: Sectoral growth in GSDP



### 1.3.2 Snapshot of Finances

The following table provides the details of actual financial results *vis-a-vis* Budget Estimates for the year 2019-20 *vis-a-vis* actual of 2019-20.

Table: 1.3 Actual Financial Results vis-à-vis Budget estimates

Sl. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimate)	2019-20 (Actuals)	Percentage of Actual to B.E. (2019-20)	Percentage of Actuals to GSDP (2019-20)
(₹ in crore)						
1	Tax Revenue	14,752	24,319	16,771	68.96	5.10
2	Non-Tax Revenue	8,258	11,771	8,750	74.34	2.67
3	Share of Union taxes/duties	23,903	21,399	20,593	96.23	6.27
4	Grants-in-aid and Contributions	9,236	15,370	12,303	80.05	3.74
5	<b>Revenue Receipts (1+2+3+4)</b>	<b>56,152</b>	<b>72,859</b>	<b>58,417</b>	<b>80.18</b>	<b>17.78</b>
6	Recovery of Loans and Advances	47	55	49	89.09	0.02
7	Other Receipts	0	0	0	0	0.00
8	Public debt	7,803	12,000	9,593	79.94	2.92
9	<b>Capital Receipts (6+7+8)</b>	<b>7,850</b>	<b>12,055</b>	<b>9,642</b>	<b>79.98</b>	<b>2.93</b>
10	<b>Total Receipts (5+9)</b>	<b>64,002</b>	<b>84,914</b>	<b>68,059</b>	<b>80.15</b>	<b>20.71</b>
11	<b>Revenue Expenditure</b>	<b>50,631</b>	<b>66,317</b>	<b>56,457</b>	<b>85.13</b>	<b>17.18</b>
12	Interest payments	4,852	5,187	5,308	102.33	1.62
13	Grants in aid for creation of capital assets	8,447	8,169	7,079	86.66	2.15
14	<b>Capital Expenditure</b>	<b>12,197</b>	<b>14,419</b>	<b>10,044</b>	<b>69.66</b>	<b>3.06</b>
15	Capital outlay	10,712	12,864	9,879	76.80	3.01
16	Loan and advances	1,485	1,555	165	10.61	0.05
17	<b>Total Expenditure (11+14)</b>	<b>62,828</b>	<b>80,736</b>	<b>66,501</b>	<b>82.37</b>	<b>20.24</b>
18	<b>Revenue Surplus (5-11)</b>	<b>5,521</b>	<b>6,542</b>	<b>1,960</b>	<b>29.96</b>	<b>0.60</b>
19	<b>Effective Revenue Deficit (18-13)</b>	<b>-2,926</b>	<b>-1,627</b>	<b>-5,119</b>	<b>314.63</b>	<b>-1.56</b>
20	<b>Fiscal Deficit {17-(5+6+7)}</b>	<b>6,629</b>	<b>7,822</b>	<b>8,035</b>	<b>102.72</b>	<b>2.45</b>
21	<b>Primary Deficit (20-12)</b>	<b>1,777</b>	<b>2,635</b>	<b>2,727</b>	<b>103.49</b>	<b>0.83</b>

#### 1.4 Fiscal Balance: Achievement of deficit and total debt targets

The State Government has passed Fiscal Responsibility and Budget Management Act (FRBM), 2007 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

**Table 1.4: Compliance with provisions in MTFP of State under FRBM Act**

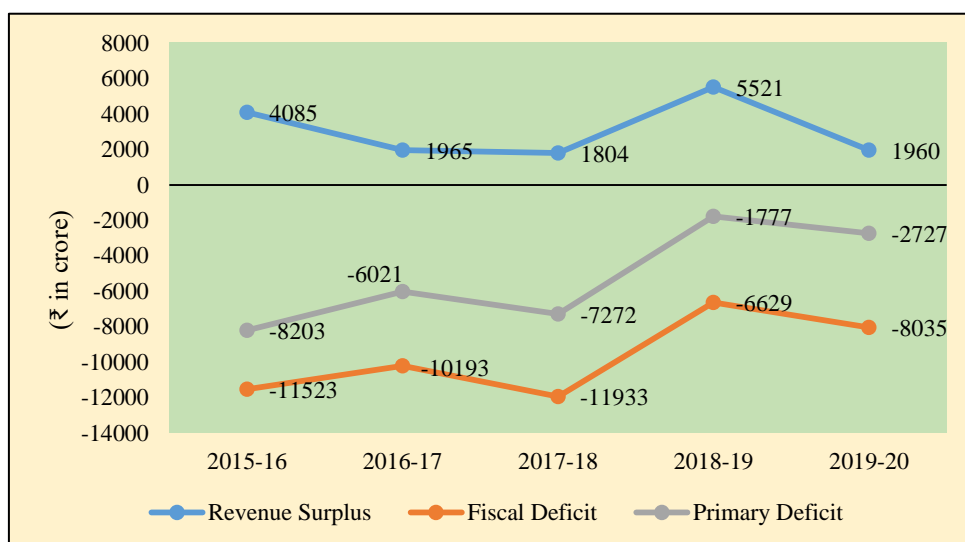
Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Surplus	Revenue Surplus	4,085	1,965	1,804	5,521	1,960
		✓	✓	✓	✓	✓
Fiscal Deficit (as percentage of GSDP)	Three per cent	11,523 <sup>1</sup> (5.58)	10,193 (4.31)	11,933 (4.42)	6,629 (2.23)	8,035 (2.45)
		✓	✗	✗	✓	✓
Ratio of total outstanding debt to GSDP (in per cent)	Ranging between 27.1 and 28.3 per cent	27.4	28.3	27.9	27.2	27.1
		27.36	28.29	28.57	28.19	28.73
	Actuals	✓	✓	✗	✗	✗

**Table 1.5: Actuals vis-à-vis projection in MTFP for 2019-20**

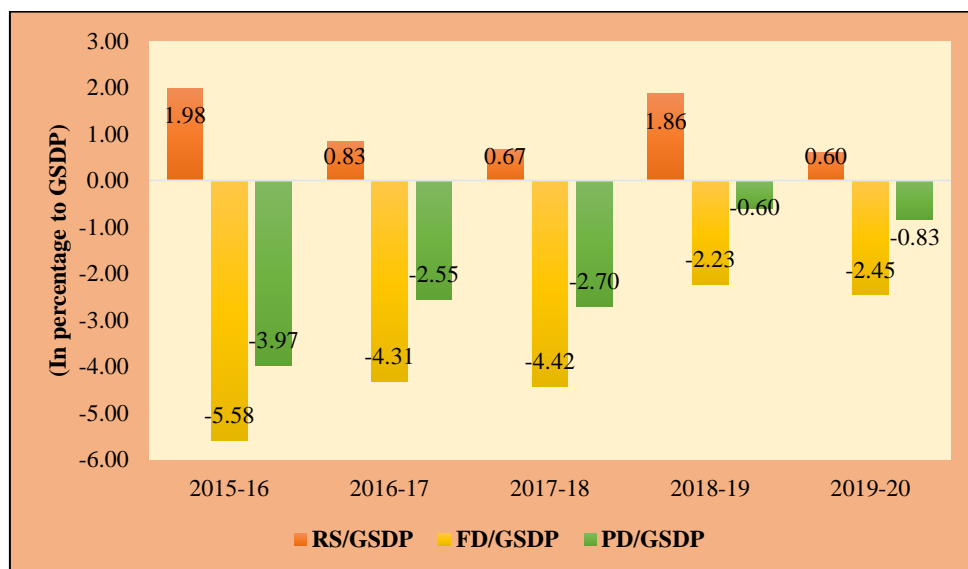
(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in per cent)
1	Own Tax Revenue	20,850	16,771	(-)19.56
2	Non-Tax Revenue	10,674	8,750	(-)18.03
3	Share of Central Taxes	29,000	20,593	(-)28.99
4	Grants-in-aid from GoI	13,834	12,303	(-)11.07
5	Revenue Receipts (1+2+3+4)	74,358	58,417	(-)21.44
6	Revenue Expenditure	65,803	56,457	(-)14.20
7	Revenue Deficit (-)/ Surplus (+) (5-6)	(+) 8,555	(+) 1,960	(-)77.09
8	Fiscal Deficit (-)/ Surplus (+)	(-) 7,155.63	(-) 8,035	12.29
9	Debt-GSDP ratio (per cent)	27.10	28.73	1.63
10	GSDP growth rate at current prices (per cent)	7.20	10.56	3.36

<sup>1</sup> Increased due to borrowings on UDAY bonds.

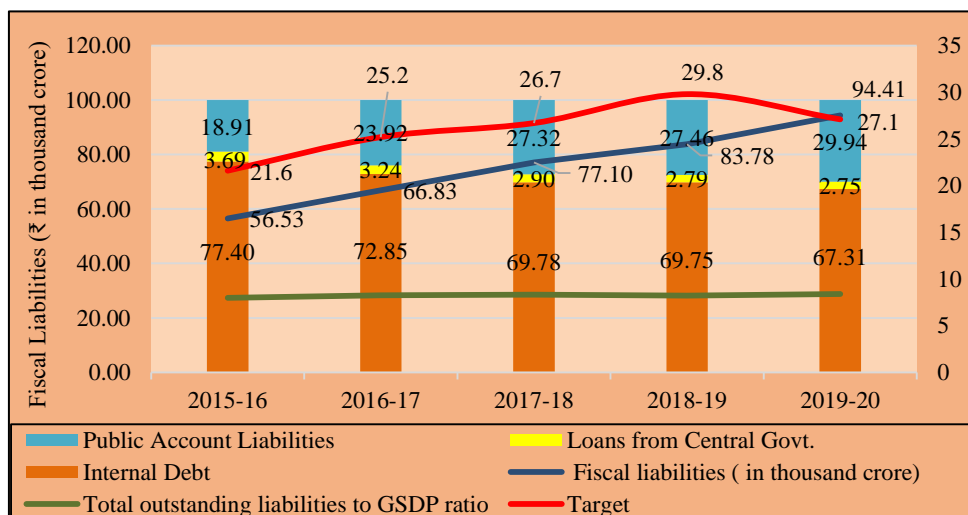
**Chart 1.4: Trends in surplus/deficit parameters**



**Chart 1.5: Trends in Surplus/Deficit relative to GSDP**



**Chart 1.6: Trends in Fiscal Liabilities and GSDP**



**1.5 Deficits and Total Debt after examination in audit****1.5.1 Post audit - Deficits**

Misclassification of revenue expenditure as capital and off budget fiscal operations gives distorted picture of finances of the state. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, sinking and redemption funds, etc. also impacts liabilities, revenue and fiscal deficit figures. In order to arrive at actual figures, the impact of such irregularities needs to be reversed.

**Table 1.6: Revenue and Fiscal Deficit as per findings of Audit**

Particulars	Impact on Revenue Deficit (Understated (+)/overstated(-) (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)	Para Reference
Non/ Short transfer of Cess to dedicated Funds in Public Account	550.18	550.18	4.1
Non-contribution to Consolidated Sinking Fund	280.16	280.16	2.5.3
Major works budgeted/ booked under Revenue section instead of Capital	0.40	0.00	3.3.3
Non discharge of Interest liabilities on SDRF	689.61	689.61	2.5.2
<b>Total</b>	<b>1,520.35</b>	<b>1,519.95</b>	

Source: Finance Accounts and audit analysis

It may be seen that the revenue surplus is overstated by ₹ 1,520.35 crore and fiscal deficit is understated by ₹ 1,519.95 crore. Thus revenue surplus and fiscal deficit stated ₹ 1,960.51 crore and ₹ 8,034.44 crore in the Finance Accounts would actually be ₹ 440.16 crore and ₹ 9,554.39 crore respectively. It is also evident from the above table that the liabilities of the State was understated to the extent of ₹ 1,519.95 crore.

**Table 1.7: Pre and post audit major fiscal variables for 2019-20**

(in per cent)

Fiscal variables	2019-20				Actuals after post audit
	FFC projection for the State	Target as prescribed in MTFP Statement	Targets as per Budget estimates	Actuals	
Revenue deficit (-) /surplus (+) w.r.t GSDP	Positive	(+)2.49	(+) 1.91	(+)0.60	(+)0.13
Fiscal deficit w.r.t. GSDP	3.25	2.09	2.28	2.45	2.91
Ratio of total outstanding debt of the Government to GSDP	26.80	27.10	-	28.73	29.19



The State achieved the targets provided in the FRBM Act, 2007 by turning the deficit into revenue surplus except during 2014-15<sup>2</sup> but in terms of percentage of GSDP it was lower than the budget estimate and of MTFP estimate. However, after taking into account the undischarged liability shown in **Table 1.7** a change of 0.47 *per cent* was noticed.

During 2019-20, the fiscal deficit to GSDP ratio was well within the FFC recommended ceiling of 3.25 *per cent*, whereas, it was higher than the target given in MTFP. The debt-GSDP ratio of the State was higher than the FFC projection and MTFP estimate.

Total debt/ liabilities of the State including public debt and public account have been discussed in details in Chapter-2 of this report. As per information provided to this office no off budget borrowings were made by the state public sector companies, corporations, SPVs etc. during the year 2019-20.

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<sup>2</sup> Revenue deficit of ₹230 crore