CHAPTER 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of West Bengal during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The structure of Government Accounts and the lay out of Finance Accounts are shown in **Box 1.1** (page 2). The methodology adopted in analysing the trends of State Government finances has been discussed in ***Appendix 1.1.***

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while ***Appendix 1.3*** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
					Non Plan	Plan	Total
Section A: Revenue							
30167.38	Revenue Receipts	36904.40	38314.42	Revenue expenditure	43568.02	8045.29	51613.31
13126.34	Tax Revenue	14419.15	18866.58	General services	20700.51	74.93	20775.44
1473.09	Non Tax Revenue	4966.39	13463.00	Social Services	10823.92	5560.90	16384.82
10729.06	Share of Union Taxes/ Duties	11321.78	5553.81	Economic Services	11637.21	2388.20	14025.41
4838.89	Grants from Government of India	6197.08	431.03	Grants in aid and Contributions	406.38	21.26	427.64
Section B: Capital							
	Misc. Capital Receipts		2687.73	Capital Outlay	(-) 23.68	3728.98	3705.30
496.64	Recoveries of Loans and Advances	5615.83	1062.12	Loans and Advances disbursed	64.40	695.25	759.65
15332.62	Public debt receipts	15991.14	4579.80	Repayment of Public Debt*	4854.86	-	4854.86
7.16	Contingency Fund	6.34	7.28	Contingency Fund	0.47	-	0.47
50942.07	Public account receipts	58144.00	49076.77	Public account disbursements	54915.45	-	54915.45
2877.03	Opening Cash Balance	4094.78	4094.78	Closing cash balance	4907.45	-	4907.45
99822.90	**Total**	**120756.49**	**99822.90**	**Total**	**108286.97**	**12469.52**	**120756.49**

Source: *Finance Accounts*

**Excluding net transactions under ways and means advances and overdraft.*

Box 1.1 Structure and Form of Government Accounts

Part A: Structure and Form of Government Accounts

Structure of Government Accounts: The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund : All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund : Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature.

PART B: Layout of Finance Accounts

Statement No.	Subject
1.	Presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.
2.	Contains the summarised statement of capital outlay showing progressive expenditure to the end of 2008-09.
3.	Gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4.	Indicates the summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.
5.	Gives the summary of loans and advances given by the State Government during the year repayments made, recoveries in arrears etc.
6.	Gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.
7.	Gives the summary of cash balances and investments made out of such balances.
8.	Depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9.	Shows the revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10.	Indicates the distribution between the charged and voted expenditure incurred during the year.
11.	Indicates the detailed account of revenue receipts by minor heads.
12.	Provides accounts of revenue expenditure by minor heads under non–plan and plan separately and capital expenditure by major head wise.
13.	depicts the detailed capital expenditure incurred during and to the end of 2008-09.
14.	Shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc up to the end of 2008-09.
15.	Depicts the capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.

16.	Gives the detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17.	Presents detailed account of debt and other interest bearing obligations of the Government of West Bengal.
18.	Provides the detailed account of loans and advances given by the Government of West Bengal, the amount of loan repaid during the year, the balance as on 31 March 2009.
19.	Gives the details of earmarked balances of reserve funds.

Analysis of the **Table 1.1** discloses the following:

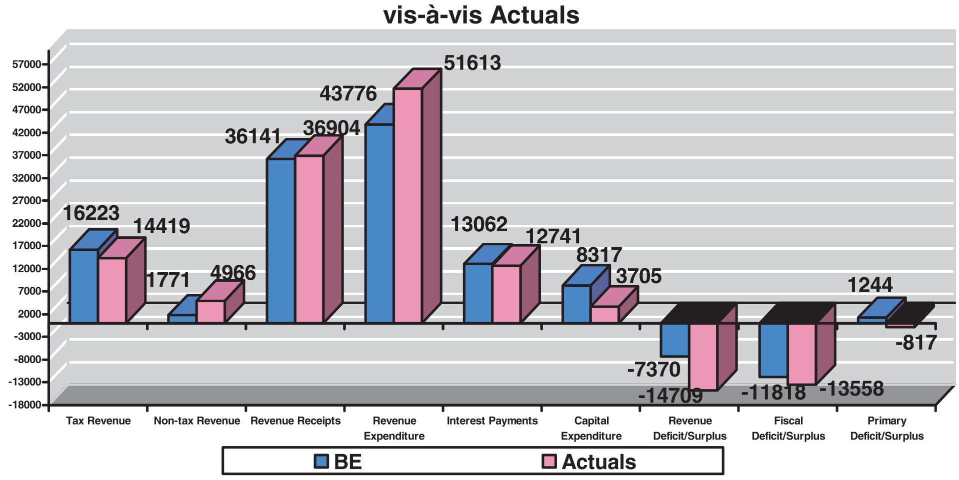
- Revenue receipts increased by Rs 6737.02 crore during 2008 09 from the level of Rs 30167.38 crore in 2007-08 registering a growth of about 22 per cent. The increase was accountable to increase in Tax Revenue (Rs 1292.81 crore); Non tax Revenue (Rs 3493.30 crore), share of Union Taxes and Duties (Rs 592.72 crore) and receipts under grants from GoI (Rs 1358.18 crore). Under the Tax Revenue, substantial increases were noticed in Taxes on Sales, Trade, etc.[1] (Rs 894.64 crore) and State Excise Tax (Rs 151.78 crore). An increase of Rs 894.64 crore and Rs 873.47 crore was attributable to receipts under State Sales Tax act. Of Non Tax Revenue, increase of Rs 3309.94 crore was mainly due to adjustment of interest (Rs 3245.50 crore) receivable from the erstwhile West Bengal State Electricity Board (WBSEB) in connection with waiver of State Government dues under 'West Bengal Power Sector Reforms Transfer Scheme, 2007'. Thus, the figure of Non-Tax revenue was inflated by Rs 3245.50 crore without actual inflow of revenue.
- *Tax Revenue of the State for 2008-09 (Rs 14419.15 crore) fell far short by almost 38 per cent (Rs 8862.45 crore) as compared to the normative projections of Rs 23281.60 crore made by Twelfth Finance Commission (State budget: Rs 16222.83 crore). Non Tax Revenue (Rs 4966.39 crore), on the other hand, was higher than both the TFC projections (Rs 3360.61 crore) and State Budget (Rs 1770.91 crore). However, actual realisation (Rs 1720.89 crore) without considering the above-mentioned book-adjustment of Rs 3245.50 crore) of Non-Tax Revenue was only 51 per cent of TFC projection.*
- Revenue expenditure during 2008-09 was Rs 51613.31 crore against Rs 38314.42 crore in 2007-08 registering an increase of Rs 13298.89 crore (35 per cent). Such steep increase was mainly attributable to increase in revenue expenditure in power sector on writing off State Government's dues (Rs 8377.75 crore) and increase in expenditure under Social Security and Welfare (Rs 853.45 crore). Under the Social Security and Welfare, increase was noticed under Child Welfare (Rs 118.81 crore); Pensions under Social Security Schemes (Rs 114.29 crore) and other Programmes (Rs 471.34 crore). There was also increase in expenditure under Interest Payments (Rs 685.43 crore) mainly due to interest on market loans (Rs 1289.03 crore) counter balanced by decrease under interest on Ways and Means advances from RBI (Rs 20.18 crore); Management of Debt (Rs 18.46 crore); Interest on Loans for State/UT Plan Schemes (Rs 159.30crore) and Interest on Loans for Non Plan Schemes (Rs 357.39 crore). Increase in expenditure under Urban Development was also noticed (Rs 669.03 crore).
- During 2008-09 Capital outlay (Rs 3705.30 crore) increased by 38 per cent (Rs 1017.57 crore) over that of previous year (Rs 2687.73 crore) which was mainly attributable to increase in expenditure under Water Supply, Sanitation, Housing and Urban Development (Rs 289 crore) and Energy sector (Rs 105 crore); Agriculture and Allied Activities (Rs 114 crore); Special Areas Programmes (Rs 46 crore); Irrigation and Flood Control (Rs 71 crore); and Transport (Rs 118 crore).

[1] *It includes receipts under Central Sales Tax act, State Sales Tax act, tax on sale of motor spirits and lubricants, surcharge on Sales Tax, receipts on Turn Over tax and other receipts*

- Recovery of Loans and Advances increased by Rs 5119 crore (1031 per cent) in 2008 09, whereas disbursements during the year fell (by 28 per cent) from Rs 1062.12 crore in 2007 08 to Rs 759.65 crore in 2008-09; Energy Sector alone accounted for recovery of Rs 5575.38 crore. This, however, included book adjustment of Rs 4874.50 crore written off in connection with waiver of dues receivable from the WBSEB.
- Receipts and repayments under the Public Debt increased by Rs 658.52 crore and Rs 275.05 crore respectively;
- Significant increase (by Rs 7201.93 crore i.e. 14 per cent) was also noticed in Public Account Receipts. This was mainly due to increase under State Provident Fund (Rs 172.79 crore), Sinking Fund (Rs 683.26 crore), treasury cheques (Rs 3227.82 crore), Public Works remittances Rs 1664.94 crore) and under Deposits and Advances (Rs 1401.83 crore).
- Public Account disbursements also registered an increase of Rs 5838.68 crore (Rs 54915.45 crore disbursed in 2008-09 against Rs 49076.77 crore in 2007-08);
- Closing cash balance as on 31 March 2009 was 20 per cent higher than that of last year.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters during 2008-09:

Chart 1.1 : Selected Fiscal Parameters: Budget Estimates vis-à-vis Actuals



It would be seen from above that actual revenue receipts was more than that budgeted. Actual Tax Revenue fell short of estimates, while actual Revenue Expenditure exceeded the budget estimates and actual Capital Expenditure was below the level of budget estimates. All the three deficits in actuals were above the budget estimates. If effective steps could be taken in strengthening tax base and its realisation and simultaneous containment of Non Plan Revenue Expenditure, the position of deficits would have been better.

Box 1.2: Impact of non enactment of the FRBM Act

With enactment of a Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003 at the Centre, the Twelfth Finance Commission (TFC) was mandated not only to recommend on the distribution of the divisible pool of net proceeds of taxes between the Union and the States and the allocation between the States of such proceeds, but also to suggest a plan by which the Governments collectively and severally may bring about a restructuring of public finances, restoring budgetary balances, achieving macro economic stability and debt restructuring along with equitable growth. While formulating approach to debt relief, the TFC recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation will be a necessary pre condition for availing of debt relief. ***In West Bengal, however, FRBM Act has not yet been enacted.***

It was recommended that the Central Loans to States contracted till 31 March 2004 and outstanding as on 31 March 2005 (amounting to Rs 128795 crore of which West Bengal's share was Rs 9700.29 crore) may be consolidated and re scheduled for a fresh term of 20 years resulting in repayment of 20 equal instalments and an interest of 7.5 per cent per annum be charged on them. Out of the outstanding balances of Rs 9700.29 crore of Central Loan, before consolidation and re schedulement total repayment due during 2005 10 amounted to Rs 3612.55 crore (i.e. an annual instalment of Rs 722.51 crore). The same would come down to Rs 2425.07 crore (i.e. Rs 485.01 crore annually) after re schedulement. The relief that would be admissible year wise towards interest payment during 2005 10 was calculated by the TFC as under:

Year	Amount of interest (Rupees in crore)
2005-06	398.77
2006-07	356.52
2007-08	309.18
2008-09	256.74
2009-10	226.60

Source: TFC Report

The State could not avail of total financial benefit of Rs 494.24 crore[2] during 2008-09 owing to non enactment of the FRBM Act.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-09. **Chart 1.3** depicts the composition of resources of the State during the current year.

[2] *Relief of Rs. 237.50 crore (Rs. 722.51 crore — Rs. 485.01 crore) on annual instalment on Central Loans **plus** Rs. 256.74 crore on tnterest*

Chart 1.2: Trends in Receipts
(Rupees in crore)

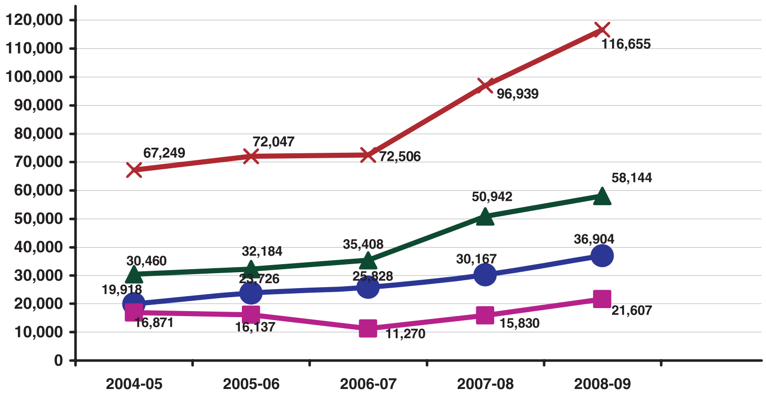
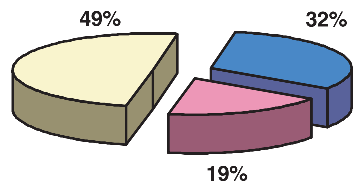


Chart 1.3: Composition of Receipts during 2008-09



While almost half of the total receipts came from Public Account receipts, remaining 51 per cent was contributed by revenue (32 per cent) and capital receipts (19 per cent). Again, of revenue receipts, tax revenue accounted for 39 per cent; non tax revenue had a contribution of about 13 per cent while State's share of union taxes and duties contributed 31 per cent. Remaining share of revenue receipts (17 per cent) came from Government of India grants. Tax revenue registered a growth of 10 per cent over previous year. Of other components of revenue receipts, State's share of Union taxes and duties registered a six per cent growth and there was growth of about 28 per cent so far as grants from GoI were concerned. Of capital receipts, nearly 26 per cent was on account of recoveries of loans and advances, while remaining 74 per cent came from public debt receipts. Recoveries of loans and advances registered a huge growth of 1031 per cent over the previous year. Loans and advances from Government of India was, however, lower by 42 per cent this year than that in the previous year.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Government of India (GoI) transfers a sizeable quantum of funds directly to the State level/ district level project implementing agencies for implementation of various schemes/ programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated.

During 2008-09, total 4445 sanctions were issued by various Ministries for total Rs 4575.70 crore in respect of various Central Plan/Centrally Sponsored schemes. Out of this, 4234 sanctions for Rs 2930.69 crore pertained to schemes outside the State budget. However, the quantum of actual release of funds made directly to implementing agencies through RBI, Nagpur / PAO of the Ministries is depicted in **Table 1.2 (A)**. Such releases were not reflected in the State budget, although these constituted a major part of the aggregate resources available with/handled by State functionaries.

Table-1.2 (A): Funds Transferred Directly to State Implementing Agencies during 2008-09

(Rs. in crore)

Particulars	Implementing agencies receiving funds from GOI					
	District Rural Development Cells/ Zilla Parishads	Urban Local Bodies	Sarva Shiksha Mission	Health Societies	NGOs / Other Societies	Total
1. Number of Sanctions issued by GOI	92	24	8	31	4079	4234
2. Amounts sanctioned (Rupees in crore)	327.42	41.29	651.78	387.85	1522.35	2930.69
3. Sanction released	50	18	8	26	2593	2695
4. Amount released (Rupees in crore)	173.88	35.29	651.78	226.71	1134.66	2222.32

Sources: List of sanctions shown in E Lekha portal of CGA's website.

Table 1.2 (B) shows amounts sanctioned under some major schemes by various Central Government Ministries during 2008-09 directly to State level/district level implementing agencies:

Table1.2 (B) : Some illustrative cases of direct transfers by Central Ministries to implementing agencies

Rs. in Crore

Name of the Scheme	Agency to which funds were sanctioned	Amount sanctioned
National Rural Employment Guarantee Scheme	District Rural Development Cells of Zilla Parishad	Rs 437.42
Indira Awaas Yojana	District Rural Development Cells of Zilla Parishad	Rs 200.73
Integrated Watershed Management Programme	District Rural Development Cells of Zilla Parishad	Rs 3.02
Sarva Shiksha Abhiyan	Paschim Banga Sarva Shiksha Mission, West Bengal State Literacy Mission	Rs 651.78
National Horticulture Mission	West Bengal State Horticulture Development Society	Rs 6.61
National Rural Health Mission	West Bengal State Health and Family Welfare Samity/ non Government institutions	Rs 387.85
Swaranjayanti Gram Swarojgar Yojana	District Rural Development Cell of Zilla Parishad	Rs 70.16
Assistance to States for Developing Export Infrastructure and Allied Activities	West Bengal Industrial Development Corporation, Falta Special Economic Zone	Rs 26.05
Member of Parliament Local Area Development	District Magistrate/ Zilla Parishad/ Urban Local Bodies	Rs 130

Sources : E-Lekha portal Controller General of Accounts.

Direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices accompanied by proper documentation and timely reporting of expenditure are followed by all these agencies, it would be difficult to monitor the end use of these direct transfers.

Further details on position of expenditure on Flagship programmes in West Bengal may be seen in para 1.5.3.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of the State's own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. Trends and composition of revenue receipts over the period 2004-09 are presented in ***Appendix 1.2*** and also depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

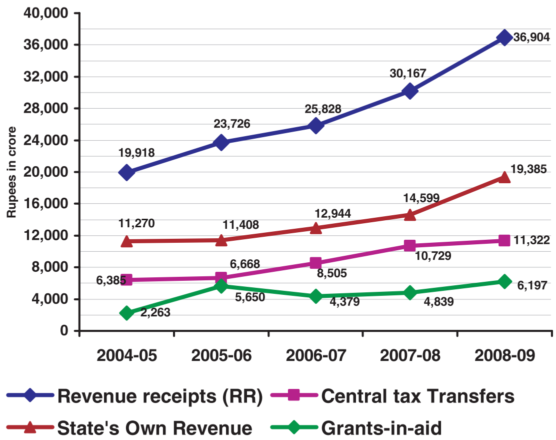
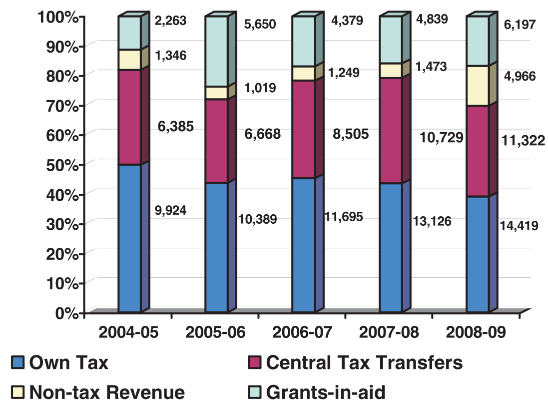


Chart 1.5: The composition of Revenue Receipts during 2004-09



The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are as follows:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	19918	23725	25828	30167	36904
Rate of growth of RR (per cent)	19.92	19.11	8.86	16.80	22.33
RR/GSDP (per cent)	10.47	11.40	10.73	10.97	11.93
Buoyancy Ratios[3]					
Revenue Buoyancy w.r.t GSDP	2.01	2.03	0.57	1.19	1.79
State's Own Tax Buoyancy w.r.t GSDP	1.33	0.50	0.80	0.86	0.79
Revenue Buoyancy with reference to State's own taxes	1.51	4.06	0.71	1.38	2.27

Source: Finance Accounts

While the revenue receipts have shown a progressive increase over the period 2004 09, share of own taxes has consistently decreased from 50 to 39 per cent.

State's own revenue registered growth of about 10 per cent over the previous year. There was growth of nearly six per cent in case of Central tax transfers in 2008-09 over the previous year. Grants in Aid from Government of India experienced a growth of about 28 per cent over previous year. A close scrutiny of changes in relative shares of various components of Revenue Receipts would reveal that share of State's own tax maintained a decreasing trend over the five year period and was at 39 per cent in the current year from 50 per cent in 2004-05. Non tax revenue, which had a share of seven per cent in Revenue Receipts of the State in 2004-05, contributed 13 per cent of the receipts in 2008-09. Such enhancement was, however, merely due to book adjustment of Rs 3245.50 crore of interest receivable from the WBSEB. Actual realisation of non-tax revenue was thus only Rs 1720.89 crore, constituting only six per cent of the Revenue Receipt[4]. Relative share of Grants in aid in revenue receipts of the State for the last three years were around 17 per cent.

[3] *Buoyancy ratio indicates the elasticity or degree of responsivness of a fiscal variable with respect to a given change in the base variable. for instance, for 2008-09, revenue buoyancy at 1.79 imnplies that revenue receipts tend to increse by 1.79 per cent points, it the GSDP increases by one percent.*

[4] *Excluding the said amount of book adjustment*

Tax Revenue: The Government of West Bengal enacted the West Bengal Value Added Tax (WBVAT) Act, 2003 with effect from April 2005. However, levy and collection of tax on sale of petrol, diesel, liquor, lottery tickets and aviation turbine fuel (ATF) were continued to be governed under the WBST Act, 1994.

Revenue from VAT and Sales Taxes contributed major share of tax revenue (62 per cent). Land Revenue (seven per cent), State Excise (seven per cent), Stamps and Registration fees (11 per cent), taxes on vehicles (four per cent) were the other contributors to the State's tax revenue.

There was no significant variation among relative shares of the major components of Tax Revenue, though contribution of Sales Tax in Tax Revenue has shown an upward trend (from 58 per cent in 2004-05 to 62 per cent in 2008 09). Sales Tax collection shot up by Rs 894.63 crore (11 per cent) in 2008-09 over the previous year. Collection from Stamps and Registration and State Excise increased by Rs 92.53 crore and Rs 147.47 crore respectively. Increase in receipts under 'Sales Tax Act' and decrease in surcharge in 'Sales Tax'; increase in receipts under 'Court fees realised in Stamps duty on Impressing of Documents', 'Fees for registering documents; increase in receipt under country spirits, foreign liquors and spirits, etc. were the main reasons for increase in Tax Revenue.

Non Tax Revenue: Non Tax Revenue (Rs 4966 crore) constituted 13 per cent of total revenue receipts and increased by Rs 3493 crore recording a growth of 237 per cent over previous year. Increases were observed mainly under Interest Receipts, Dividends and Projects (Rs 3309.77 crore). This was, however, merely due to book adjustment of outstanding interest of Rs 3245.50 crore written off.

Central Tax Transfers: Central Tax transfers increased by Rs 593 crore over the previous year and constituted 31 per cent of revenue receipts. The increase was mainly under Corporation Tax (Rs 307.46 crore), Custom Duties (Rs 136.24 crore), and Taxes on Income other than Corporation Tax (Rs 45.83 crore).

Grants-in-aid: The Grants-in aid from GoI increased by Rs 1358 crore from Rs 4839 crore in 2007-08 to Rs 6197 crore in the current year. Grants for State Plan schemes and Centrally Sponsored Plan schemes increased by Rs 595.04 crore and Rs 311.40 crore respectively, while there was increase in receipt under Non-Plan grants (Rs 447.58 crore).

Increase under Non Plan Grants was mainly attributable to Twelfth Finance Commission Grants. Grants for Panchayati Raj Institutions were Rs 127.10 crore and for State Specific needs, Rs 315.39 crore. Under State Plan scheme, Grants under National Urban Renewal Mission increased by Rs 517.73 crore as compared to last year.

Grants under Centrally Sponsored schemes increased mainly under Integrated Child Development Scheme (Rs 121.90 crore) and Accelerated Rural Water Supply Programme (Rs 121.90 crore).

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Own Tax Revenue of the State consists of Sales Tax, Excise, Stamp Duty and Registration Fees, Motor Vehicle and Passenger tax and others.

The Government of West Bengal enacted the WBVAT Act, 2003 with the main objectives of generating more revenue by reduction of rate of tax, eliminating cascading effect of tax on goods both for exports and domestic sales and reducing evasion and avoidance of tax through revitalization of administrative machinery by introducing transparency.

Box 1.3: Major outcome of the review on Transition from Sales Tax to VAT

The comparative position of pre-VAT sales tax collection during 2002-05 with post-VAT tax collection during 2005-08 showed that the average growth rate of tax collection registered a decrease of 2.41 per cent. Detailed review on the transition from Sales Tax to VAT revealed a number of system and compliance deficiencies, which included

- Failure to update the database of the directorate before implementation of VAT,
- Non-maintenance of information regarding dubious dealers in the database
- Lack of connectivity of circles, charges, ranges and check posts leading to weak monitoring of the subordinate offices
- Registration without verification, absence of monitoring of returns etc.

(See C&AG's Audit Report (Revenue Receipts) on Government of West Bengal for the year 2008-09.)

1.3.2 Loss of Revenue due to Evasion of Taxes

Out of 228 cases pending as on 31 March 2008 and 41 cases detected during 2008-09, additional demands for Rs 18.57 crore were raised after finalising 34 cases only leaving 235 cases pending at the end of the current year.

Test-check during 2008-09 revealed underassessment/short levy/loss of revenue amounting to Rs 1526.46 crore relating to 720 audit observations of which the departments accepted Rs 561.88 crore in 289 cases and recovered Rs 9.36 crore in 65 cases at the instance of audit

1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue, as furnished by the Departments, amounted to Rs 152.72 crore, of which Rs 84.72 crore was outstanding for more than five years. Arrears related to taxes on Agricultural income (Rs 64.66 crore), Amusement Tax (Rs 13.97 crore) and Excise Duty (Rs 6.09 crore). The Department did not furnish the figures for arrears of Sales Tax on the ground that the scheme for settlement of disputes of sales tax was currently operational.

1.3.4 Cost of collection

The gross collection from major taxes and expenditure incurred on collection during the years 2006-07 to 2008-09 along with All India average are given in the following table:

Table 1.4: Gross collection vis-a-vis expenditure on collection

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	
		Rupees in crore		State's figure	All India average for 2007-08
Sales tax	2007-08	8,060.46	92.42	1.15	0.83
	2008-09	8955.09	100.34	1.12	
State excise	2007-08	935.47	49.59	5.30	3.27
	2008-09	1082.94	65.76	6.07	
Stamp duty & registration fees	2007-08	1416.96	60.10	4.24	2.58
	2008-09	1509.49	53.61	3.55	
Taxes on vehicles	2007-08	532.07	10.86	2.04	2.09
	2008-09	608.01	11.92	1.96	

Source: Finance Accounts

The percentage of expenditure on collection of sales tax, stamp duty and registration fees and taxes on vehicles inter se showed a declining trend. However, corresponding figures for state excise showed a rising trend.

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. It is therefore important to ensure that the expenditure directed towards development and social sectors is maximised within its limited resources.

1.4.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the year 2004-05 to 2008-09 are presented here:

Table 1.5: Total expenditure and its composition

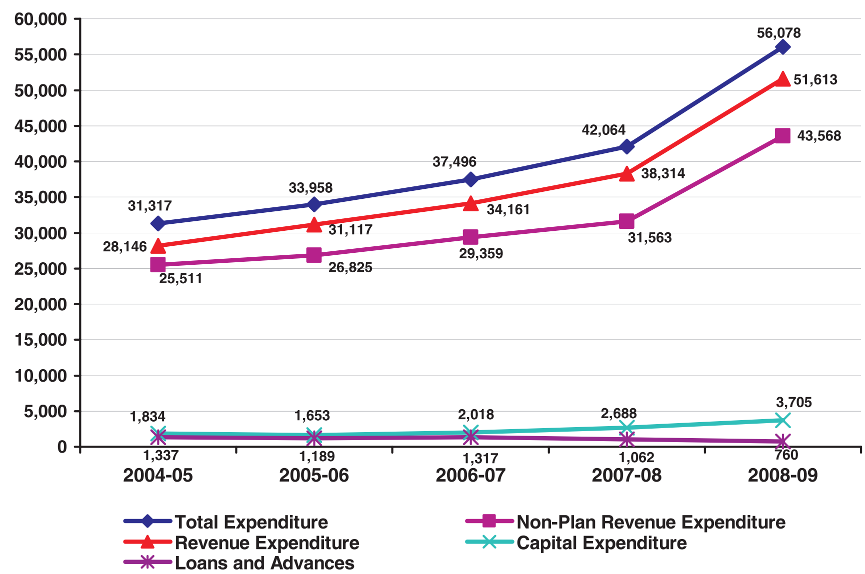
(Rs in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Total Expenditure	31317	33959	37496	42064	56078
Revenue Expenditure	28146	31117	34161	38314	51613
Non-plan Revenue Expenditure	25511	26825	29359	31563	43568
Capital Expenditure	1834	1653	2018	2688	3705
Loans and Advances	1337	1189	1317	1062	760

Source: Finance Accounts

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**

Chart 1.6 : Total expenditure : Trends and Composition



It would appear that total expenditure, which was Rs 42064 crore in 2007-08 rose to Rs 56078 crore in 2008-09 i.e. a growth of 33 per cent. Over the last five years, it increased at an average growth rate of 12.70 per cent. The composition of total expenditure during 2008-09 indicates that Non Plan Expenditure accounted for 78 per cent (Rs 43544 crore) while Plan Expenditure constituted remaining 21 per cent (Rs 11774 crore). Further break-up of the total expenditure incurred during 2008-09 under various heads of revenue and capital accounts reveals that revenue expenditure constituted bulk of expenditure of the State (92 per cent: Rs 51613 crore) while the shares of capital expenditure and loans and advances disbursed were only seven per cent (Rs 3705 crore) and one per cent (Rs 760 crore) respectively.

In terms of activities, total expenditure is composed of expenditure on general services (including interest payments), social and economic services, grants in aid and loans and advances.

The movements of the relative share of these components indicate some significant change over previous year **(Chart 1.8)**. Expenditure on general services (including interest payments) considered as non developmental, accounted for 37 per cent of total expenditure this year against 50 per cent in 2004-05. On the other hand, Social services and Economic services taken together (Developmental expenditure), however, steadily increased from 45 per cent in 2004-05 to 61 per cent in 2008-09.

Chart 1.7: Total expenditure: Trends in share of its components

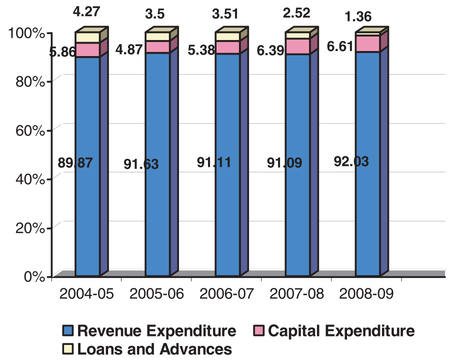
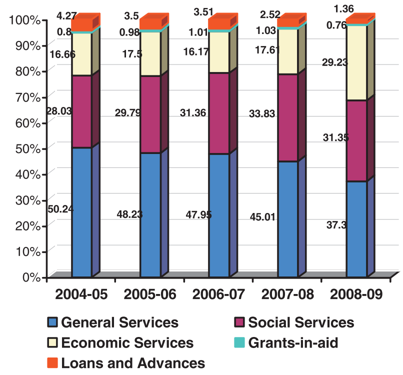


Chart 1.8: Total expenditure: Trends by Activities



a) *Trends in Revenue expenditure*

Revenue expenditure is incurred to maintain the current level of services and payment, past obligations and as such does not result in any addition to the State infrastructure and service network.

Revenue expenditure consistently increased from Rs 28146 crore in 2004-05 to Rs 51613 crore in 2008-09 at an average annual rate of growth of 13.70 per cent during the period. Of the total Revenue expenditure, Non Plan Revenue expenditure continued to enjoy the majority share, which was 84 per cent (Rs 43568 crore) during 2008-09 while Plan Revenue expenditure constituted only 16 per cent (Rs 8045 crore). *Non Plan Revenue expenditure of the current year was substantially higher than both the normative projections of TFC (Rs 32322 crore) and Budget estimates of the Government (Rs 34918 crore) by 35 and 25 per cent respectively.*

Non Plan Revenue expenditure not only constituted bulk of the revenue expenditure of the State, but it consistently increased during the period 2004-09. During the current year it increased by Rs 12005 crore (38 per cent) from the level of Rs 31563 crore in 2007-08 mainly due to increase under Energy (Rs 8340 crore[5]). Increase in expenditure was also noticed under Health and Family Welfare (Rs 159 crore); Education, Sports, Art and Culture (Rs 544 crore); Water supply, Sanitation and Urban Development (Rs 124 crore); Agriculture and Allied Activities (Rs 85 crore); Rural Development (Rs 94 crore); Social Welfare and Nutrition (Rs 546 crore); etc.

Although Plan Revenue expenditure also increased consistently during the period 2004 09, it exhibited inter year fluctuations. During the current year, it increased by Rs 1294 crore from the level of Rs 6751 crore in 2007-08. The increase was observed mainly under Water Supply, Sanitation, Housing and Urban Development (Rs 538 crore); Welfare of SC, ST and OBC (Rs 129 crore); Education, Sports, Art and Culture (Rs 348 crore); Social Welfare and Nutrition, (Rs 384 crore) and Health and Family Welfare (Rs 87 crore), counter balanced by decrease under Rural Development (Rs 225 crore).

b) *Trends in Capital expenditure*

The following table depicts the trends of capital expenditure of the State during the five year period:

Table 1.6: Trends in Capital expenditure and its components

Components of Capital expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
	(Rupees in crore)				
Capital expenditure (percentage to total expenditure)	**1834 (6)**	**1653 (5)**	**2018 (5)**	**2688 (6)**	**3705 (7)**
Plan Capital expenditure (percentage to Capital expenditure)	829 (45)	1362 (82)	2009 (100)	2669 (99)	3729 (100)
Plan Capital expenditure under Social sector (percentage to Plan Capital expenditure)	142 (17)	314 (23)	380 (19)	767 (29)	214 (33)
Plan Capital expenditure under Economic sector (percentage to Plan Capital expenditure)	666 (80)	1026 (75)	1556 (77)	1883 (69)	2378 (64)

Source: Finance Accounts

[5] *This increse can be attributable to booking of waiver of dues of Rs. 8247 crore receivable from WBSEB as non-plan expenditure.*

A scrutiny of Capital expenditure of the State during past five years disclosed that though the quantum of Capital Expenditure increased from Rs 1834 crore to Rs 3705 crore (i.e. increase by 102 per cent), it accounted for a meagre five to seven per cent of aggregate expenditure. Plan Capital Expenditure on Economic sector, when viewed with relation to areas of expenditures, showed that Energy and Transport sectors together consumed bulk (62 to 71 per cent) of the expenditure.

1.4.2 Committed Expenditure

Committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.7: Components of Committed Expenditure

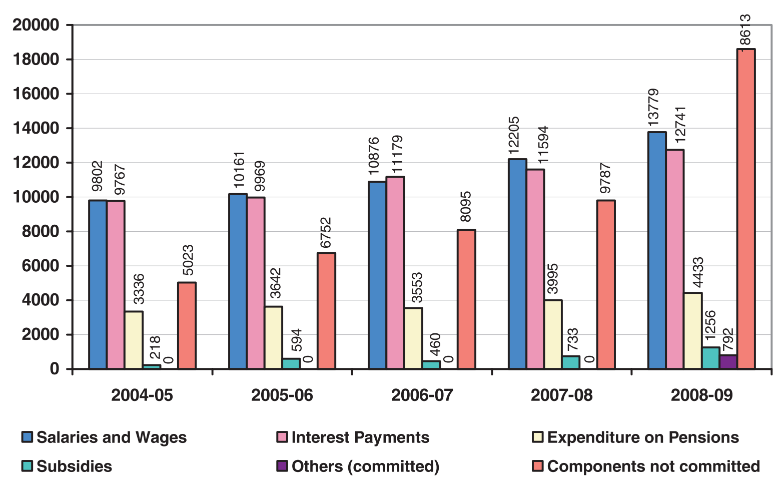
(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries* & Wages , Of which	9801.81(49)	10160.98 (43)	10875.73(42)	12205.04(40)	13820.68	13778.65(37)
Non-Plan Head	9425.97	9754.36	10350.45	11617.64		12996.04
Plan Head**	375.84	406.62	525.28	587.40		782.61
Interest Payments	9767.25 (49)	9968.76 (42)	11178.68(43)	11593.56(38)	12389.53	12740.99(35)
Expenditure on Pensions	3335.85(17)	3641.50(15)	3552.69(14)	3995.40(13)	4301.60	4432.79(12)
Subsidies	217.89 (1)	593.68 (3)	459.55 (2)	732.93 (2)	405.38	1256.31(3)
Other Components	-	-	-	-		792.02[6]
Total Committed Expenditure	23122.80	24364.92	26066.65	28526.93	30917.19	33000.76
Components other than committed	5023.32	6751.94	8094.62	9787.49	12519.01	18612.55
Total Revenue Expenditure	28146.12	31116.86	34161.27	38314.42	43436.20	51613.31
Total Revenue Receipt	19918.19	23725.89	25828.32	30167.38	36066.03	36904.40

Source: Finance Accounts, Voucher Level Computerisation (VLC) done by AG (A&E) and Budget Publications
Figures in the parentheses indicate percentage to Revenue Receipts,
* It also includes the salaries paid out of grants-in-aid,
**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes

Expenditure on salaries which were Rs 9801.81 crore in 2004-05 rose to Rs 13778.65 crore in 2008-09 i.e. a growth of nearly 41 per cent. Rate of growth over last year was near about 13 per cent. In 2008-09, of the total expenditure increase on salaries, non plan head expenditure constituted 94 per cent while only six per cent was on account of plan head.

Chart 1.9: Trend of Committed Expenditure during 2004-09



[6] Operation and Maintenance expenditure; the same is shown separately in the Finance Accounts starting from the year 2008-09 only.

Expenditure on Interest Payments went up to Rs 12740.99 crore in 2008-09 from Rs 9767.25 crore in 2004-05 i.e. a growth of over 30 per cent. Rate of growth in 2008-09 was 10 per cent over the previous year. Increase in expenditure on Pensions over last year's was nearly 11 per cent, while it was 71 per cent in respect of subsidies. Increase of Rs 437.39 crore in expenditure on Pension was due to increase in expenditure under Superannuation and retirement allowances (Rs 317.57 crore) and 'Pensions to Employees of State Aided Educational Institutions' (Rs 219.98 crore) counter balanced by decrease under value of Pensions' (Rs 36.84 crore). On the other hand out of steep increase in expenditure towards subsidy (Rs 523.38 crore), Rs 467.26 crore was on account of Social Welfare and Nutrition, which may be attributable to increase in expenditures on Child Welfare, pensions under Social Security Schemes, Special Nutritional Programmes and Gratuitous Relief.

Despite declining trends in percentage of expenditure in all the major components of committed category in relation to Revenue Receipts, actual expenditure both on Pension and Interest Payments were far above that projected by the TFC. Against Rs 10782.09 crore and Rs 4266.18 crore of expenditure on Interest Payments and Pensions projected by the TFC, actual expenditure incurred on these accounts stood at Rs 12740.99 crore (118 per cent) and Rs 4432.79 crore(104 per cent) respectively. TFC recommended that States should follow recruitment and wage policy in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pension does not exceed 35 per cent. This percentage came down from 54 in 2007-08 to 40 in 2008-09.

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years as presented below:

Table 1.8: Financial Assistance to Local Bodies etc

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
	(Rupees in crore)				
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	4748.74	5296.38	5420.44	6790.49	7811.01
Municipal Corporations and Municipalities	853.57	1258.56	963.02	1279.17	1802.54
Zilla Parishads and Other Panchayati Raj Institutions	515.95	1419.43	1148.06	3085.27	2998.77
Development Agencies	814.98	634.85	235.27	122.14	340.33
Hospitals and Other Charitable Institutions	55.80	134.45	137.59	149.40	226.84
Other Institutions (To be specified)	23.91	373.08	811.06	927.77	802.74
Total	**7012.95**	**9116.75**	**8715.44**	**12354.24**	**13982.23**
Assistance as per percentage of RE	24.92	29.30	25.51	32.24	27.09

Source: Figures generated through VLC

The table above indicates that as compared to last year, assistance provided to Local Bodies this year rose by Rs 1627.99 crore i.e. nearly about 13 per cent. Increase in assistance were noticed under Educational Institutions (Rs 1021 crore[7]), Municipal Corporations and Municipalities (Rs 523 crore[8]); Development Agencies (Rs 218 crore[9]) counterbalanced by decrease in assistance provided to Zilla Parishads and other Panchayati Raj Institutions (Rs 87 crore); Other Institutions (Rs 125 crore).

[7] Increase of Rs 982.34 crore was attributable to reasons like establishment of new university of Barasat, cooking cost, construction of kitchen shed of mid day meal, development of non government merit cum means scholarship, incentives to non Government colleges under State Level Assessment Scheme, Other grants under National Services Scheme, Development of institutions for education of handicapped, etc.

[8] Increase of Rs 407.34 crore was attributable to reasons like development of municipal areas' water supply facilities including spot survey, Italian Government aided Liquid and Solid Waste Management in West Bengal, Kolkata Environmental Improvement project (ADB).

[9] Increase of Rs 195.19 crore was attributable to reasons like grant extended to KMDA for urban infrastructural Governance Schedules under JNNURM.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure in that category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having fiscal priority that is more than or equal to the national average. **Table 1.9(A)** and **1.9(B)** analyses fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2005-06 (the first year of the award period of Twelfth Finance Commission) and 2008-09.

Table-1.9 (A): Fiscal priority of the State for 2005-06 and 2008-09:

Fiscal Priority of the State		AE/GSDP	DE/AE	SSE/AE	CE/AE
2005-06	All States' Average*(Percentage)	19.50	61.44	30.41	14.13
	West Bengal's Average* (Percentage)	15.77	50.80	29.79	4.87
2008-09	All States' Average*(Percentage)	19.16	67.68	33.90	16.87
	West Bengal's Average* (Percentage)	18.13	61.93	31.35	6.61

As per cent to GSDP

AE: Aggregate Expenditure; **DE:** Development Expenditure; **SSE:** Social Sector Expenditure; **CE:** Capital Expenditure

Table-1.9 (B): Fiscal capacity of the State for 2005-06 and 2008-09:

Fiscal capacity of the State		DE	SSE	CE
2005-06	**All States' average per capita expenditure (in Rupees)**	**3010**	**1490**	**692**
	Per capita expenditure of West Bengal (in Rupees)	2036	1194	195
	Per capita adjusted expenditure in West Bengal (in Rupees)**	3046	1508	701
2008-09	**All States' average per capita expenditure (in Rupees)**	**5030**	**2520**	**1254**
	Per capita expenditure of West Bengal (in Rupees)	3974	2011	424
	Per capita adjusted expenditure in West Bengal (in Rupees)**	4588	2299	1144

Source: Ratios relating to West Bengal were arrived at on the basis of Finance Accounts figures

*** Calculated as per the methodology explained in the **Box 1.4***

***AE:** Aggregate Expenditure; **DE:** Development Expenditure; **SSE:** Social Sector Expenditure; **CE:** Capital Expenditure*

The above table shows that during both the years, the ratio of aggregate expenditure to the GSDP for West Bengal was lower than the all states' average. This indicated that the State is spending lower proportion of its GSDP as compared to other states. The fact that the state assigned lower priority in development expenditure (DE) as well as social sector expenditure (SSE) was also apparent from lower proportion of those expenditures as compared to corresponding all states' averages. However, what appeared to be a real matter of concern was remarkably low proportion of capital expenditure (only 4.87 and 6.61 per cent as compared to all states' average of 14.13 and 16.87 per cent during 2005-06 and 2008-09 respectively) in aggregate expenditure.

Even if the levels of fiscal priority under the above-mentioned categories (i.e. DE, SSE and CE) are enhanced to the all India level by using an adjustment factor as explained in

Box 1.4, the quantum of per capita expenditure incurred by the State during the current year under these categories would still be lower than all states' average. It was in contrast to the position prevailing in 2005-06, when the West Bengal had been above the all states' average in terms of adjusted per capita expenditure under these categories. It signifies deterioration in the absorptive capacity[10] of West Bengal in all three categories and there is a need for higher outlays on developmental and capital expenditure on the one hand and better delivery mechanism on the other.

Box 1.4 Methodology for estimating the Fiscal Capacity

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.
Step 1: Calculate the national average of AE-GSDP and CE/DE/ SSE–AE.
Step 2: Based on the national average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE-GSDP less than the national average, i.e., if
AE/GSDP = x
AE = x * GSDP ....(1)
where x is the national average of AE-GSDP ratio.
Wherever the States are having AE-GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.
Step 3: Based on the national average of DE-AE, SSE-AE and COAE, derive the respective DE, SSE and CO, so that no State is having these ratios less than national average, i.e., if
DE/AE = y
DE = y * AE ....(2)
where y is the national average of DE-AE ratio
Substituting (1) in (2), we get
DE = y * x * GSDP ....(3)
Wherever the States are having DE-AE, SSE-AE and CO-AE ratio higher than national average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the national average.
Step 4: Based on the derived DE, SSE and CO as per equation (3), respective per capita expenditure was calculated, i.e.,
PCDE = DE/P ....(4)
where PCDE is the per capita development expenditure and P is the population.
Substituting (3) in (4), we get
PDE = (y * x * GSDP)/P ....(5)
Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[11]. Apart from improving the allocation towards development expenditure[12], particularly in view of the fiscal space

[10] *Absorptive capacity in this case refers to the ability of a state to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the design of the scheme are well planned with careful risk mitigation strategy in place, administrative costs are low, monitoring and control mechanisms are in place etc. so that the state is able to effectively achieve targeted outcomes.*

[11] *Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.*

[12] *The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.*

being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.10** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis that budgeted and of the previous years, **Table 1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table-1.10: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	15331	17249	19139	22733	24237	34732
a. Development Revenue Expenditure	12184(39)	14435(43)	15884(42)	19017(45)	21987	30410(54)
b. Development Capital Expenditure	1810(6)	1625(5)	1938(5)	2621(6)	1291	3562(6)
c. Development Loans and Advances	1337(4)	1189(3)	1317(4)	1062(3)	959	760(1)

Source: Finance Accounts and Budget Publications

Figures in parentheses indicate percentage to aggregate expenditure

It would be seen from above that development revenue expenditure which stood at Rs 12184 crore during 2004-05 rose to Rs 30410 crore in 2008-09 i.e. a growth of nearly 150 per cent. Rate of growth in 2008-09 as compared to 2007-08 was about 60 per cent. While percentage of development revenue expenditure with respect to aggregate expenditure rose steadily from 39 per cent in 2004-05 to 54 per cent in 2008-09, development capital expenditure exhibited almost no change and mostly remained constant at six per cent (during 2005-09).

Chart 1.10 : Trend in Development Expenditure during 2004-05 to 2008-09

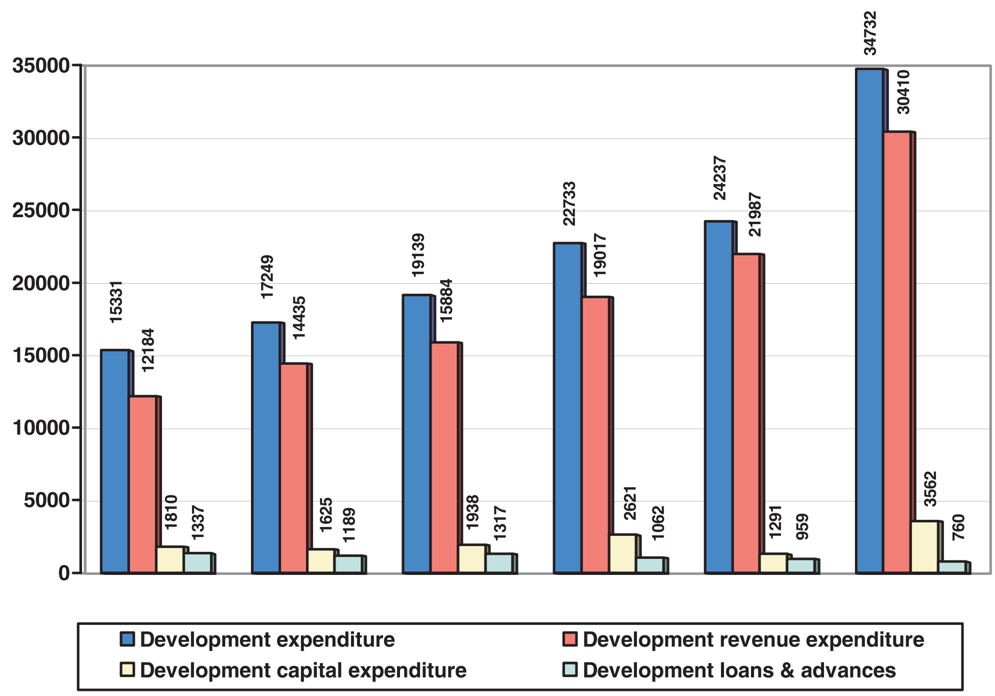


Table 1.11 –Efficiency of Expenditure Use in Selected Social and Economic Services

Social/Economic Infrastructure	Ratio of CE to TE	2007-08		Ratio of CE to TE	2008-09	
		In RE, the share of			In RE, the share of	
	In per cent	S &W	O&M*	In per cent	S&W	O &M**
		Rupees in crore			Rupees in crore	
Social Services (SS)						
General Education	0.44	5665	-	0.74	6321	1.86
Health and Family Welfare	5.99	1302	-	7.08	1438	14.51
WS, Sanitation, & HUD	21.70	621	-	23.96	704	145.59
Total (SS)	5.38	7946	-	6.79	8949	540
Economic Services (ES)						
Agri & Allied Activities	3.87	640	-	10.95	698	0.14
Irrigation and Flood Control	34.71	322	-	37.55	369	88.59
Power & Energy	94.45	1	-	11.44	1	-
Transport	27.06	91	-	34.02	85	0.12
Total (ES)	**25.03**	**1785**	**-**	**14.54**	**1950**	**255**
Total (SS+ES)	**12.11**	**9731**	**-**	**10.49**	**10899**	**795**

*TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance * O&M expenditure for the year 2007-08 could not be segregated. ** As could be identified, may not reflect the complete picture*

Source: Finance Accounts and VLC

Steep fall in the percentage of CE with respect to TE under the Power and Energy sector was due to increase in TE owing to waiver of Rs 8377.75 crore receivable from WBSEB as revenue expenditure under this sector.

In the absence of FRBM Act, prioritization of capital expenditure or any other expenditure policy was not easy to ascertain. A comparative study of various components of expenditure on social and economic services with particular focus on the trends in salary and wage for 2007-08 and 2008-09 would reveal that share of salary and wage in most of the components has gone up in 2008-09 as compared to 2007-08. Twelfth Finance Commission considered provision for education and health to be integral to any plan for restructuring public finances. Salary and Wage component in NPRE on education which stood at Rs 5592.38 crore in 2007-08 increased to Rs 6217.79 crore in 2008-09 i.e. a rise of R 625.41 crore (11 per cent). Likewise shares on health which was Rs 1079.81 crore in 2007-08, rose to Rs 1193.84 crore in 2008- 09 i.e. a rise of Rs 114.03 crore (11 per cent).

TFC recommended that annual rate of growth of non-plan salary expenditure under education and health and family welfare should be restricted within five to six per cent. However, during 2008-09 trends in expenditure (taking expenditure on both plan and non-plan heads) showed that the salary and wage component under education and health and family welfare sectors increased by 12 and 10 per cent respectively.

TFC had also desired that rate of growth under non-salary component in those two sectors should be 30 per cent per annum during the award period. However, during the current year, non-salary components under education and health and family welfare increased by 17 and 23 per cent respectively.

1.5.3 Flagship schemes: Position of expenditure

The Government of India has identified 27 Central Sector and Additional Central assistance linked schemes as flagship schemes depending on their expected impact on the social and economic development of the nation. Among these schemes, the following funds were released by the Central Government Ministries to the Government of West Bengal, its functionaries and various implementing agencies /NGOs.

Table 1.12: Expenditure vis-à-vis availability of funds under the flagship schemes implemented in West Bengal during 2008-09

Sl. No.	Name of the Scheme	Funds received			Expen-diture	Percen-tage of expen-diture to available funds
		From GoI	State share	Total including opening balance and funds received from other sources		
		Rupees in crore				
	ACA Linked Schemes under the Administrative Control of States					
1	Accelerated Irrigation Benefits Programme	45.24	72.50	117.74	85.59	72.69
2	Jawaharlal Nehru National Urban Renewal Mission	684.21	400.18	1229.36	1023.38	82.24
3	Accelerated Power Development and Reform Programme	16.01	nil	102.33	86.32	84.35
4	Backward Regions Grant Fund	146.13	nil	333.01	184.97	55.54
5	National e-Governance Action Plan (NEGP)	nil	1.23	51.30 (upto February 2009)	11.77	22.94
6	National Social Assistance Programme (NSAP)	218.33	194.50	498.89	360.25	72.21
	Central sector Scheme: Education Sector					
7	Sarva Shiksha Abhiyan	642.72	346.08	1418.15	1234.47	87.05
8	Mid Day Meal (MDM)	491.76	231.80	821.08	762.50	92.87
	Central sector Scheme: Health related Sector					
9	National Rural Health Mission (NRHM)	282.35	33.91	630.12	293.55	46.59
10	Integrated Child Development Services	513.90	146.54	694.65	542.78	78.14
11	Total Sanitation Campaign	23.19	18.51	161.82	15.04	9.29
	Central sector Scheme: Agriculture related Sector					
12	National Horticulture Mission	7.65	0.95	44.44	26.15	58.84
13	Macro Management of Agriculture	38.11	4.30	42.94	42.94	100
14	National Agricultural Insurance Scheme	15.91	16.43	49.64	49.12	98.95
15	Dry Land Farming System (Agri-Extension Scheme)	nil	1.00	1.00	0.99	99
16	Agriculture Extension	24.55	6.38	30.93	28.90	93.44
17	Integrated Scheme on Oilseeds, Pulses and Maize	6.49	2.17	8.66	8.66	100
18	Integrated Watershed Management Programmes	14.21	1.81	34.55	8.56	24.78
	Central sector Scheme: Bharat Nirman Programme					
19	Pradhan Mantri Gram Sadak Yojana (PMGSY)	623.44	nil	872.38	583.20	66.85
20	Rajiv Gandhi Grameen VidyutikaranYojana (RGGVY)	nil	nil	3.15	2.71	86.03
21	Indira Awas Yojana (IAY)	571.17	130.80	861.52	453.40	52.63
22	Rural Drinking Water – Accelerated Rural Water Supply Programme (ARWSP)	389.39	54.21	609.55	553.68	90.83
23	National Rural Employment Guarantee Act	932.75	64.08	1350.65	940.38	69.62

Source: Information collected by the office of the Accountant General (A&E) from various State Government Departments and implementing agencies

Table 1.12 shows that utilisation of available funds under National e-Governence Action Plan, Total Sanitation Campaign and Integrated Watershed Management Programme varied between 9.29 and 24.78 per cent.

Besides stepping up the expenditure on key social and economic services, improvement in human development index requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of Government expenditure.

1.5.4 Effectiveness of Expenditure, i.e. Outlay-Outcome Relationship

To assess the effectiveness of expenditures incurred on such schemes in the State, performance reviews were conducted on some of these flagship schemes under selected social and economic services considered critical. The results were included in the Civil Audit Reports of recent years on Government of West Bengal. The Civil Audit Report 2007-08 contained reviews on Mid-Day Meal scheme (3.2) and Accelerated Rural water Supply Programme (3.3). Observations on implementation of Sarva Shiksha Abhiyan and Integrated Child Development Services in West Bengal were included in the State Audit Report of 2005-06 and 2004-05 respectively.

Similarly, a performance review on National Rural Health Mission, a health sector flagship programme, was undertaken in the current year to ascertain effectiveness of expenditure in terms of outputs/outcomes vis-à-vis targets,. The crucial points arising out of the review are outlined below:

Box 1.5: Review on National Rural Health Mission

Government of India launched National Rural Health Mission (NRHM) in April 2005 with a view to provide accessible, affordable, accountable, effective and reliable health care facilities in the rural areas, especially to poor and vulnerable sections of the population. The primary objectives of NRHM are to:

- involve the community in planning and monitoring;
- reduce infant mortality rate, maternal mortality rate and total fertility rate for population stabilisation; and
- prevent and control communicable and non-communicable diseases, including locally endemic diseases.

The Mission envisaged inter alia an increase in public spending on health from 0.9 per cent to two to three per cent of GSDP. The expected outcome of such a policy was not only increase in Central Government budgetary outlay on health, but also matching increase in State budget (including the contribution to the NRHM) by at least 10 per cent annually.

After the launch of NRHM, State Government had increased spending on health sector which had a positive impact on providing health care in rural areas. However, in 2007-08, total amount of expenditure under the health sector was only 0.95 per cent and the prospect of spending up to two to three per cent of GSDP on the health sector seemed remote.

Appendix 1.4 provides the summarised position of expenditure under NRHM and physical progress in terms of selected indicators of the scheme.

Despite increase in spending on health sector in the State, implementation of the scheme was adversely affected by the absence of reliable baseline data, as household and facilities surveys were not conducted. Rogi Kalyan Samitis are yet to adequately fulfil their role in monitoring and supervising the functioning of health care centres. Staffing of the health care centres, at different levels, continues to remain a cause for concern, since the stipulated complement of specialist medical and nursing staff was not available in most of the test-checked centres. Deficiencies of physical infrastructure also persisted, as construction of many health centre buildings and staff quarters either remained incomplete or were not started.

1.6 Financial Analysis of Government Expenditure and Investments

This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial Results of Irrigation Works

Works in Irrigation Department are classified as productive or unproductive according to the net revenue (gross revenue less working expenses) derived from each work on the expiry of ten years from the date of closure of the construction and whether it covers or does not cover the prescribed annual interest charges on capital invested. If a work, classified as productive fails to yield the prescribed return for three successive years, it is transferred to the unproductive class. Similarly, if a work classified as unproductive succeeds in yielding prescribed return for three successive years, it becomes a productive one. There was, however, no productive work in the State at the end of 2008-09. Revenue realised from fourteen schemes during 2008-09 was only Rs 3.64 crore (nearly 0.18 per cent of the capital outlay of Rs 2009.76 crore). None of these schemes succeeded in earning revenue receipts so as to cover even direct working expenses. After meeting working expenses and interest charges, fourteen schemes suffered a net loss of Rs 156.30 crore (Damodar Valley Project: Rs 55.34 crore, Kangsabati Reservoir Project: Rs 48.37 crore, Mayurakshi Reservoir Project: Rs 20.97 crore and Teesta Barrage Project: Rs 21.86 crore).

1.6.2 Incomplete projects

The department-wise list of some major incomplete projects as on 31 March 2009, as intimated by the Departments as well as observed in course of Audit is given in **Table 1.13**. Projects for which the scheduled dates of completion are already over as well as the projects which commenced more than two years ago and the target dates of completion have been postponed in view of slow progress of work are included in the list:

Table 1.13: Department-wise Profile of Incomplete Projects

Depart-ment	Name of the incomplete Projects	Commence-ment date	Target date of completion	Initial Budgeted cost	Revised cost	Cumulative expenditure upto 2008-09
				(Rupees in lakh)		
Irrigation	Teesta Barrage Project	1975-76	1990	6972.00	298861.00	123173.00
	Goalmarajore Irrigation Scheme	1976-77	1980 81	51.93	301.00	NA
	Beko Irrigation Scheme	1976-77	1980 81	64.28	469.00	NA
	Moutotejee Irrigation Scheme	1975-76	1979 80	40.29	189.66	NA
	Patloi Irrigation Scheme	1976-77	1980 81	89.98	941.00	990.18
	Tatko Irrigation Scheme	1976-77	1980 81	97.85	1256.54	NA
	Khariberia Irrigation Scheme	1982-83	1986-87	110.00	352.00	NA
	Extension of Bandhu Irrigation Scheme	1982-83	1986-87	101.00	610.00	NA
	Futiary Irrigation Scheme	1980-81	1984 85	56.27	1704.00	NA
	Construction of Minor Fishing Harbour at Petuaghat	2005-06	March 2010*	3180.00	4985.00	2412.06
Total	**10 Schemes**			**10763.60**	**309669.20**	**126575.24**

Depart-ment	Name of the incomplete Projects	Commence-ment date	Target date of completion	Initial Budgeted cost	Revised cost	Cumulative expenditure upto 2008-09
				(Rupees in lakh)		
Housing	Construction of 208 numbers of RHE flats (C I 80, D I-128) under RHS at Shampa Mirza nagar, 24 Parganas (S), Ph III	1999-2000	March 2010*	462.00	668.08	447.10
	Construction of 160 numbers of RHE flats under RHS at Becharam Chatterjee Road, Kolkata, Phase II	1998-99	March 2009*	254.92	483.63	381.22
	Construction of 152 numbers of RHE flats under RHS at Gumarmath, Budge Budge	1997-98	March 2011*	432.00	545.42	417.01
	Land acquisition of 2.49 acres at mouzas – Kushapata under PS Ghatal for Construction of RHE flats at Ghatal	2006-07	March 2009*	231.40	299.30	299.30
Total	**4 Schemes**			**1380.32**	**1996.43**	**1544.63**
Public Works Department	Construction of 122 seats Working Women Hostel – Phase II at Salt Lake	2006-07	March 2010*	177.30	177.30	157.55
	Development of South 24 Parganas district Headquarters at Baruipur. Acquisition of 143 acres of land.	2005-06	February 2006	949.00	NA	949.00
Total	**2 schemes**			**1126.30**	**177.30**	**1106.55**
Grand Total	**16 Schemes**			**13270.22**	**311842.93**	**129226.42**

Source: Finance Accounts as well as figures collected from Departments

* Target dates were revised periodically in view of slow progress of work

Thus, Rs 1292.26 crore remained blocked up in various incomplete schemes. Besides, there have been cost over-runs, since initial budgeted costs have been scaled up in almost all cases of time over-runs.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs 10163.21 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.14)**. The average return on this investment was 0.05 per cent in the last three years while the Government paid an average interest rate of 9.18 per cent on its borrowings during 2007-2009.

Table-1.14: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	5905.99	6643.61	7641.58	8847.89	10163.21
Return (Rupees in crore)	0.43	1.58	2.34	6.22	6.05
Return (per cent)	0.01	0.02	0.03	0.07	0.06
Average rate of interest on Government borrowing (per cent)	10.08	9.15	9.48	9.03	9.02
Difference between interest rate and return (per cent)	10.07	9.13	9.45	8.96	8.96

Source: Finance Accounts

Government investment which was Rs 8847.89 crore in 2007-08 rose to Rs 10163.21 crore in 2008-09, i.e. a rise of Rs 1315.32 crore. This was on account of investment in Government companies and joint stock companies which rose to the extent of Rs 998.44 crore (Rs 716.41 crore in West Bengal State Electricity Distribution Company Ltd. and Rs 196.33 crore in West Bengal Electronic Industry Development Corporation Ltd.) and Rs 231.89 crore respectively in the current year (i.e. about 94 per cent of the rise in investment). Of Rs 10163.21 crore invested, Rs 63.34 crore of loans were converted into equity, though information from some units was yet to be received. The return on investment varied between 0.01 and 0.07 per cent while Government paid interest at the average rate of 9.02 to 10.08 per cent on its borrowings during 2004-09. The difference between the rate of return on Government investment and the average interest rate on the outstanding liabilities represented implicit subsidy of Rs 3632.91 crore.

1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government Departments. Department-wise position of investment made by the Government up to the year for which pro forma accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in ***Appendix 1.5***. It is observed (***Appendix 3.4*** may please be referred to) that:

- An amount of Rs 2371.81 crore had been invested by the State Government in these 15 undertakings at the end of financial year up to which their accounts were finalised.
- Of the total undertakings (20), only one undertaking viz. Scheme of Public Distribution of Foodgrains, could earn net profit amounting to Rs 0.31 crore as of 31 March 2005 (accounts are due from 2005-06) against the capital investment of Rs 495.97 crore thereby yielding the rate of return of 0.06 per cent.
- Of the loss making undertakings, 14 incurred losses continuously for more than five years and five undertakings have turned into non-performing ones. Directorate of Cinchona and other Medicinal Plants (Rs 395.32 crore), Greater Calcutta Milk Supply Scheme (Rs 1117.66 crore) and Directorate of Mechanised Brick Production (Rs 66.80 crore) were the main losing units. Failure to achieve production targets, low productivity of plantation labour, under utilisation of plant capacity, high production cost, low selling price, inadequate demand and under utilisation of chilling plants and processing capacity, inability to procure adequate raw milk, higher loss of fat and Solid not Fat, transportation loss, etc. were attributable reasons.
- The Accumulated losses of these departmental undertakings were Rs 1799.07 crore as against the total investment of Rs 2371.81 crore.

Audit of two units (Central Dairy and Haringhata Dairy) of Greater Calcutta Milk Supply Scheme showed that performance suffered from poor capacity utilisation and annual production in both the units was inadequate.

The **Table 1.15** below indicates the status of capacity utilisation and annual production achieved in the said units during 2006 07 to 2008-09.

Table 1.15: Status of Capacity vis-a vis production

Particular	2006-07		2007-08		2008-09	
	CD	HD	CD	HD	CD	HD
	(Thousand Kg per day)					
Installed Capacity	200.00	40.00	200.00	40.00	200.00	40.00
Actual Production	45.21	3.05	78.40	4.42	78.70	3.62
Percentage of capacity utilisation	22.61	7.63	39.20	11.05	39.35	9.05

Sources: Figures supplied by the dairies *CD: Central Dairy; HD: Haringhata Dairy*

Despite de rating capacity of both the dairies, annual production remained very low in all the three years under consideration. The management attributed shrinkage in demand vis-à-vis collection of milk, poor marketing capabilities and old age of plant and machinery for low production.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government also provided loans and advances to many of these institutions/ organisations. **Table 1.16** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last five years.

Table-1.16: Average Interest Received on Loans given by the State

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Opening Balance	15644.81	16235.57	16792.83	17872.19		18437.67
Amount advanced during the year	1337.36	1188.59	1317.26	1062.12	958.93	759.65
Amount repaid during the year	746.60	631.33	237.90	496.64	63.34	5615.83
Closing Balance	**16235.57**	**16792.83**	**17872.19**	**18437.67**		**13581.49**
Of which Outstanding balance for which terms and conditions have not been settled	922.66	1007.47	1186.96	1239.71		1050.09
Net addition	590.76	557.26	1079.36	565.48		(-) 4856.18
Interest Receipts	461.81	248.03	549.14	558.51		3865.93[13]
Interest receipts as per cent to outstanding Loans and advances	2.84	1.48	3.07	3.03		28.46
Interest payments as per cent to outstanding fiscal liabilities of the State Government.	10.08	9.15	9.48	9.03		9.02
Difference between interest payments and interest receipts (per cent)	7.24	7.67	6.41	6.00		19.44

Source: Finance Accounts

The amount of loan advanced during the current year decreased by Rs 302.47 crore (28.48 per cent) from the level of Rs 1062.12 crore in 2007-08 to Rs 759.65 crore in 2008-09. Energy sector received less loan to the tune of Rs 381.88 crore counter balanced by increase in loan amount of Rs 65.42 crore advanced to water supply, sanitation, housing and Urban Development. Number of loans for which terms and conditions had not been settled were 1739 involving Rs 1050.09 crore. *The earliest of such loans, the terms and conditions for which remain unsettled, pertain to 1969-70.* **Table 1.16** reveals a reversal in the current year so far as amount of loan advanced and that of loan recovered are concerned. During the year, recovery of loans shot up to Rs 5615.83 crore as compared to Rs 496.64 crore realised in the previous year. Of this, Rs 5575.38 crore alone was repaid by the Energy Sector. Such a huge rise was, however, attributable to contra credit of Rs 4874.50 crore in the loan head, in connection with waiver of dues (Rs 8247 crore including interest of Rs 3245.50 crore and guarantee fee of Rs 127 crore) receivable from WBSEB. Similarly, interest receipt of Rs 3865.93 crore includes book adjustment of Rs 3245.50 crore. Test check of records of Finance and four other departments (Power, Transport, Urban Development and Micro and Small Scale Enterprises and Textiles) revealed that the departments did not maintain records of loan, repayment schedule, actual repayment made and amount overdue for repayment.

[13] Of Rs 3865.93 crore, Rs 3245.50 crore was book adjustment as detailed in sub para 1.6.5. With its exclusion from amount of interest received, percentage (28.46) of interest receipt to outstanding loans and advances would come down to 4.57.

Of the closing balance of Rs 13581.49 crore, Rs 13559.06 crore (99.83 per cent) related to Power Department. The actual repayment of loans against the amount overdue in respect of Power Department is given below:

Table 1.17 Repayment of loans and advances under the Power Department

Year	Total outstanding	Instalment Overdue	Repayment	Loan converted into Equity	Actual recovery	Percentage of recovery to overdue loans
(1)	(2)	(3)	(4) = (5+6)	(5)	(6)	(7)
(Rupees in crore)						
2004-05	12063.17	1247.17	294.40	291.84	2.56	0.21
2005-06	12504.35	1894.87	583.82	486.68	97.14	5.13
2006-07	13436.60	2245.90	159.71	141.83	17.88	0.80
2007-08	13763.92	2245.90	439.91	194.76	245.15	10.92
2008-09	13559.06	2321.69	515.20	-	-	-

Source: Figures collected from Power Department

It may be observed that over the years, portions of loans have been converted to equity. Despite that, the recovery remains very low.

1.6.6 Cash balances and investment of cash balances

Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank daily a minimum balance of Rs 2.48 crore with effect from 1 May 2000. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking special or normal ways and means advance/overdraft from the bank. During the year 2008-09, the State Government had to resort to special and normal ways and means advances and overdrafts for 127, 35 and four days respectively (total 166 days) indicating increasing mismatch between State's flow of resources and its expenditure obligations. During this year quantum of such advances (repaid fully within the year) was Rs 9263.91 crore (which includes overdraft of Rs 432.72 crore) while Rs 12.82 crore had to be borne by the State towards interest thereon.

Table 1.18 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.18: Cash Balances and Investment of Cash balances

(Rs in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase/ Decrease
Cash Balances	4094.78	4907.45	(+) 812.67
Investments from Cash Balances (a to d)	**2382.24**	**1976.81**	**(-) 405.43**
a. GoI Treasury Bills	2382.24	1976.81	(-) 405.43
b. GoI Securities	-	-	-
c. Other Securities	-	-	-
d. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (a and b)	**1928.59**	**3034.41**	**(+) 1105.82**
a. Sinking Funds	1928.00	3033.82	(+) 1105.82
b. Development of Welfare Fund	0.59	0.59	-
Interest Realised	63.31	64.84	(+) 1.53

Source: Finance Accounts

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and assets created out of the expenditure incurred. ***Appendix 1.3*** gives an abstract of such Assets Liabilities as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. During 2004-08, assets-liability ratio hovered around 0.32 to 0.35, which further eroded to 0.28 during the current year. Such glaring mismatch indicated that only 28 per cent of the liabilities had the asset back-up which calls for immediate rectification.

1.7.2 Fiscal Liabilities

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are part of public account, include deposits under small savings scheme, provident funds and other deposits.

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.2.*** However, the compositions of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Charts 1.11** and **1.12.**

Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 1.4.2008 (Rupees in crore)

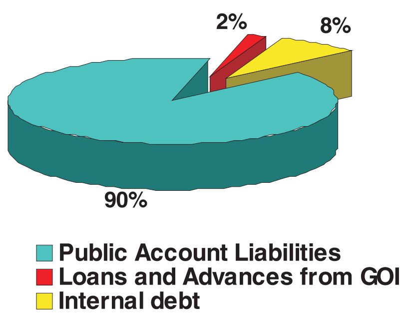
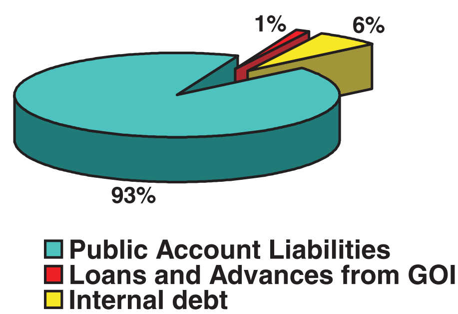


Chart 1.12: Composition of Outstanding Fiscal Liabilities as on 31.3.2009 (Rupees in crore)



Overall fiscal liabilities of the State increased from Rs 134402 crore in 2007-08 to Rs 148110 crore in 2008-09. The growth rate was 10.20 per cent during 2008-09 over previous year. The ratio of fiscal liabilities to GSDP marginally decreased from 48.89 per cent in 2007-08 to 47.89 per cent in 2008-09. These liabilities stood at about four times of the revenue receipts and about eight times the State's own resources as at the end of 2008-09. Rate of growth of fiscal liabilities was greater (at about 17 per cent) as compared to growth of GSDP at about 10 per cent in 2004-05. Rate of growth of fiscal liabilities, however, became moderate thereafter.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per the West Bengal Ceiling on Government Guarantees Act 2001 there is a provision that the total outstanding Government guarantees as on the first day of April of any year shall not exceed 90 per cent of the State Revenue Receipts of the second preceding year of such year as they stood in the books of the Accountant General (A & E), West Bengal.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table1.19.**

Table-1.19: Guarantees given by the Government of West Bengal

(Rupees in crore)

Guarantees	1 April 2005	1 April 2006	1 April 2007	1 April 2008	1 April 2009
Maximum amount guaranteed	21487.60	22378.72	21826.39	23117.70	19974.48
Outstanding amount of guarantees	14870.54	14084.92	13136.64	13683.86	11972.75
Percentage of outstanding amount guaranteed to revenue receipts of second preceding year	102	85	66	58	46
Ceiling fixed by State Government act (90 per cent of revenue receipt of the second preceding year)	13073	14947	17926	21353	27150

Source: Finance Accounts

The total guarantee of the Government decreased from Rs 23117.70 crore in 2007-08 to Rs 19974.48 crore in 2008-09. Outstanding guaranteed loan amount also decreased from Rs 13683.86 crore in 2007-08 to Rs 11972.75 crore in 2008-09. Outstanding amount of Government guarantee with respect to the State's Revenue Receipts of the corresponding second preceding year were within the permissible ceiling of 90 per cent as prescribed under the relevant Act from 2005-09. *The Twelfth Finance Commission envisaged setting up of a guarantee redemption fund through earmarked guarantee fees. This also required risk weighting of guarantees and subsequent decision on the quantum of contribution to the fund. However, no such fund has been created by the State Government as yet.*

Loanees, for whom the State Government provided guarantees to financial institutions, require to pay guarantee fee at the rate of 0.5 or one per cent of the total guaranteed amount for 2008-09, loanees did not pay any guarantee fee and the State Government waived guarantee fee of Rs 127 crore payable by the West Bengal State Electricity Board. Outstanding guarantee fee accumulated in respect of four Departments amounted to Rs 135.16 crore (Power: Rs 107.10 crore; Urban Development : Rs 22.20 crore; Transport : Rs 4.63 crore and Micro and Small Scale Enterprises and Textiles : Rs 1.23 crore).

1.8 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt GSDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt GSDP ratio would be constant or sustainable. On the other hand, if it is negative, debt GSDP ratio would rise and if it turns positive, it would fall.

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine debt sustainability[14] of the State. This section assesses sustainability of debt of the State Government in terms of debt stabilisation[15]; sufficiency of non-debt receipts[16] ; net availability of borrowed funds[17]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.20** analyses debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.20: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-) 1047 (-) 161+(-) 886	637 271+366	6785 7036+(-) 251	6485 6291+194	3860 4677+(-) 817
Debt-GSDP ratio	0.548	0.545	0.508	0.489	0.479
Sufficiency of Non-debt Receipts (Resource Gap)	2216	1051	(-) 1828	30	(-) 2158
Net Availability of Borrowed Funds	6454	9228	(-) 1798	2074	1783
Burden of Interest Payments (IP/RR Ratio)	0.49	0.42	0.43	0.38	0.35

Source: Figures from Finance Accounts

It would be evident from Table 1.20 that quantum spread together with primary deficit was negative during 2004-05. It, however, turned positive in 2005-06 and continued to remain positive till 2008-09. The debt-GSDP ratio, which was 0.548 in 2004-05, steadily came down to 0.479 in 2008-09. Despite this improving trend, incremental non-debt receipts were not adequate to cover the incremental interest burden together with incremental primary expenditure threatening debt-sustainability in 2008-09. Again, net availability of borrowed funds would indicate that debt receipts were mostly used in debt redemption and quantum of borrowed funds available to the state for operational purposes were reducing over the years. TFC recommended that in case of all the states the level of interest payments relative to revenue receipts should fall to about 15 per cent by 2009-10. In case of West Bengal, the same was 35 per cent in 2008-09. Moreover, with incremental interest payment becoming higher, debt-GSDP ratio failed to remain constant over the years and thereby rendering debt position of the state unsustainable.

With this backdrop, a look at the maturity profile (vide **Table 1.21**) would also reveal that quantum of annual liability towards redemption of State debt will be increasing steadily in the years to come.

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

[15] *A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would rise and in case it is positive, debt-GSDP ratio would eventually fall.*

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

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

Chart 1.13: Maturity profile of State Debt

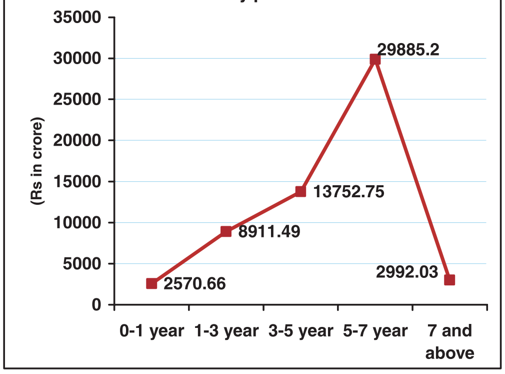


Table 1.21 Maturity profile of State Debt
(percentage in respect of total are shown in brackets)

Within the period of	Amount to be matured
One year	Rs 2265.21 crore (4)
One to three years	Rs 8911.49 crore (15)
Three to five years	Rs 13752.75 crore (24)
Five to seven years	Rs 29885.20 crore (51)
Seven years and more	Rs 2992.03 crore (6)
Total redeemable debt	Rs 58040.99 crore

Source: Finance Accounts

Table 1.21 indicates that 51 per cent of the debt liability will have to be settled in five to seven years. This bunching of debt repayments calls for a careful strategy to redeem the debt without either resorting to very high borrowings or cutting down operational expenditure.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.14 and **1.15** present trends in deficit indicators over the period 2004-09.

Chart 1.14 : Trends in Deficit Indicators

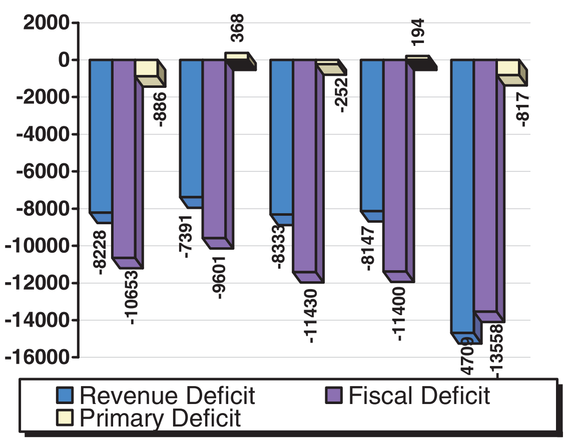
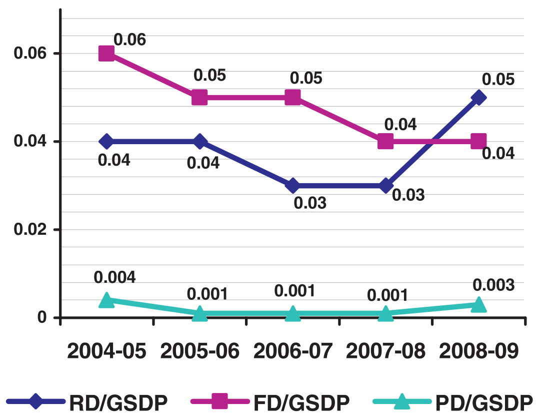


Chart 1.15: Trends in Deficit indicators relative to GSDP



Revenue deficit, which hovered between Rs 7392 crore and Rs 8333 crore during 2004-08, shot up steeply to Rs 14709 crore[18] in 2008-09, i.e a growth of about 81 per cent as compared to the previous year. The gap between resources and expenditure on revenue account along with capital expenditure incurred and loans and advances disbursed led to higher magnitude of fiscal deficit. Fiscal deficit which was Rs 10652 crore in 2004-05 touched Rs 13558 crore in 2008-09 registering a growth of 27 per cent. As compared to the previous year (Rs 11400 crore), the rate of growth was 19 per cent.

[18] *Writing off of Rs. 8247 crore receivable from the WBSEB and booking the same as Revenue expenditure was the main reason.*

1.9.2 Components of Fiscal Deficit and its Financing Pattern

Financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1. 22.**

Table1.22: Components of Fiscal Deficit and its Financing Pattern

(Rs in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit	**10652(5.6)**	**9603(4.61)**	**11430(4.75)**	**11400(4.15)**	**13558(4.38)**
1. Revenue Deficit	8228 (4.32)	7392(3.55)	8333 (3.46)	8147(2.96)	14709 (4.76)
2. Net Capital Expenditure	1834	1653	2018	2688	3705
3. Net Loans and Advances	590	558	1079	565	(-) 4856
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	4019	1268	843	10740	11543
2. Loans from GoI	417	4311	(-) 658	10753	(-) 585
3. Special Securities Issued to NSSF	10228	10726	8245	936	520
4. Loans from Financial Institutions	(-) 705	1204	(-) 1097	(-) 293	(-) 335
5. Small Savings, PF etc	276	288	314	319	355
6. Deposits and Advances	1194	(-) 1242	893	789	1231
7. Suspense and Miscellaneous	(-) 4546	1772	2628	501	712
8. Remittances	67	(-) 5	244	133	274
9. Others	-	-	-	-	-
10. Overall Surplus/Deficit	(+) 298	(+) 8719	(-) 18	(+) 12478	(+) 157

Figures in brackets indicate the per cent to GSDP.
**All these figures are net of disbursements/outflows during the year*

Source: Finance Accounts

In financing this high magnitude of deficit, Government had to resort to market borrowings which stood at Rs 4019 crore in 2004-05 and jumped to Rs 10740 crore in 2007-08 registering a growth of 167 per cent. It further increased by seven per cent in 2008-09 as compared to the previous year and was Rs 11543 crore, which was 85 per cent of the Fiscal deficit. Another major source was loans from GoI, which also shot up to Rs 10753 crore in 2007-08 from the level of Rs 417 crore in 2004-05. Special securities issued to NSSF also assumed a greater role till 2006-07 in financing deficits. However, amounts received on this score came down thereafter and was only Rs 520 crore this year. Other sources, on which Government had to fall back upon, were Small Savings, Deposits and Advances, suspense and Miscellaneous, remittances etc.

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) did not have asset backup. The bifurcation of primary deficit (**Table 1.23**) indicates the extent to which deficit has been on account of enhancement in capital expenditure which is desirable for improvement of the productive capacity of the State's economy.

Table 1.23: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	20665	18379	1835	1337	21551	(+) 2286	(-) 886
2005-06	24357	21148	1653	1189	23990	(+) 3209	(+) 367
2006-07	26066	22982	2018	1317	26317	(+) 3084	(-) 251
2007-08	30664	26721	2688	1062	30471	(+) 3943	(+) 193
2008-09	42520	38872	3705	760	43337	(+) 3648	(-) 817

Source: Finance Accounts

Though, there was primary deficit during 2008-09, proportion of Capital expenditure with respect to total expenditure remained as low as seven per cent.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of deficit correction. **Table 1.24** presents the change in revenue receipts of the State and the deficit correction during the last three years.

Table-1.24: Change in revenue Receipts and Correction of Deficit

Rupees in crore (Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	**25828(10.73)**	**30167(10.97)**	**36066**	**36904(11.93)**
a. State's Own Tax Revenue	11695 (4.86)	13126 (4.77)	16223	14419 (4.66)
b. State's Own Non- tax Revenue	1249 (0.52)	1473 (0.54)	1771	4966 (1.61)
c. State's Share in Central Taxes and Duties	8505 (3.53)	10729 (3.90)	12633	11322 (3.66)
d. Grants-in-Aid	4379 (1.82)	4839 (1.76)	5439	6197 (2)
Revenue Expenditure	34161(14.19)	38314(13.94)	43776	51613(16.69)
Revenue Deficit/Surplus	-8333 (3.46)	-8147 (2.96)	-7710	-14709(4.76)
Fiscal Deficit/Surplus	-11430(4.75)	-11400(4.15)	-11818	-13558(4.38)

Source: Finance Accounts

The table above brings out that Revenue Receipt grew by 22 per cent in 2008-09 over that of 2007-08. State's own Tax Revenue which was Rs 13126 crore in 2007-08 rose to Rs 14419 crore in 2008-09 (10 per cent growth). Similarly, Central transfer, which was Rs 10729 crore in 2007-08, rose to Rs 11322 crore (six per cent growth) in 2008-09. Grants in aid during the same period rose from Rs 4839 crore in 2007-08 to Rs 6197 crore in 2008-09 (i.e. 28 per cent increase). Revenue Expenditure, on the other hand, was Rs 38314 crore in 2007-08 and grew by 35 per cent to Rs 51613 crore in 2008-09.

It would be seen that actual revenue expenditure was 18 per cent above budget estimate. Revenue deficit was 91 per cent higher than the budget estimate, while fiscal deficit remained 15 per cent higher than that estimated in budget.

Increase in revenue receipt of Rs 6737 crore in 2008-09 over 2007-08 was not sufficient to cover interest payment (Rs 12741 crore). The scenario was the same in earlier two years also and resulted in growing revenue deficits. Fiscal deficits also increased from Rs 11400 crore in 2007-08 to Rs 13558 crore in 2008-09. Increasing trend in committed expenditure like salary, Pension and interest payments over the years led to resources being committed to revenue expenditure which could otherwise have been utilised for capital expenditure. As a result, Government debt which is the outcome of accumulation of borrowing and is used to finance fiscal deficits can become unsustainable.

1.10 Conclusions

The Twelfth Finance Commission suggested that the States should enact their fiscal responsibility legislations, bringing down the revenue deficit to zero and fiscal deficit to sustainable level by 2008-09. Owing to non-enactment of this legislation, there were no statutory bindings or commitment to achieve fiscal targets by Government of West Bengal. Due to non enactment of the fiscal responsibility legislation, the State Government had foregone relief on interest payments of GoI loans.

Though the Revenue receipts registered a growth of about 22 per cent over the previous year, it was basically the result of book adjustment of outstanding interest receivable by the Government, which had inflated the non-tax revenue figure without any actual inflow of revenue. In fact, Tax Revenue of the State for 2008-09 fell far short by almost 38 per cent as compared to the normative projections made by Twelfth Finance Commission.

While Revenue expenditure constituted 92 per cent of the total expenditure, Non Plan Revenue expenditure continued to be a matter of concern as it accounted for 78 per cent of total expenditure and was substantially higher than both the normative projections of Budget estimates of the Government by 35 and 25 per cent respectively. Committed expenditure like, salaries, interest payments and subsidies together accounted for 84 per cent of revenue receipts. Total salary bills relative to revenue expenditure net of interest payments and pension stood at 40 per cent in 2008-09 against 35 per cent prescribed by TFC.

Although capital expenditure of the State increased by 102 per cent over last five years, it accounted for a meagre five to seven per cent of aggregate expenditure, which was much lower than the all States' average (16.87 per cent). The State also fell short of national average in terms of prioritisation on development expenditure and social sector expenditure.

The cash balance position of the State was also not healthy, as it had to resort to overdraft of Rs 432.72 crore, which should have been avoided.

The State managed to realise only Rs 3.64 crore against the capital outlay of Rs 2009.76 crore on irrigation works. On the investment front again Government could earn only Rs 6.05 crore against Rs 10163.21 crore invested in statutory corporations, rural banks etc. The return on investment varied between 0.01 and 0.07 per cent while Government paid interest at the average rate of 9.02 to 10.08 per cent on its borrowings during 2004-09, leading to an implicit subsidy of Rs 3632.91 crore. There was also striking mismatch between assets and liabilities of the State, as only 28 per cent of State liabilities had asset back-up.

Revenue Deficit, which was to be eliminated by 2008-09, stood at Rs 14709 crore. TFC had also recommended reducing fiscal deficit to three per cent of GSDP. Fiscal deficit was, however, Rs 13558 crore as against the normative target of Rs 9278 crore as per this yardstick. Debt GSDP ratio, which should have been 28 per cent, was 48 per cent during 2008-09. As in the earlier years, continued prevalence of Revenue and Fiscal Deficits indicates increasing reliance on borrowed funds, a substantial part of which is being used to meet current expenditure requirements of the State Government. Increasing Fiscal Liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non plan Revenue Expenditure and to mobilise additional resources both through tax and non tax sources in the years to come.

1.11 Recommendations

- ***Greater prioritization for Capital expenditure:*** *The State may consider enhancing the priority it assigns to capital expenditure. During last five years, as a proportion of aggregate expenditure, capital expenditure was a meagre five to seven per cent, which was substantially lower as compared to the all states' average (para 1.5.1)*
- ***Review of State Government Investments:*** *The average return on West Bengal Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.01 and 0.07 per cent while Government paid interest at the average rate of 9.02 to 10.08 per cent on its borrowings during 2004-09. It would be desirable that the State Government ensures better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Only those projects, which are justified on account of low financial but high socio-economic return, may be identified and prioritized.*
- ***Monitoring over funds transferred directly from the Government of India to the state implementing agencies:*** *As these funds remain outside the State budget, there is no single agency monitoring its use. Resultantly, no consolidated data is available as to the quantum of total such funds actually available/spent in centrally sponsored schemes directly funded by the Central Government. A system has to be in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the O/o Accountant General.*
- ***Debt sustainability:*** *State Government should endeavour to maintain debt GSDP ratio in such a manner that incremental non debt receipts becomes adequate to cover the incremental interest burden. Otherwise, debt receipt would continue to be used mostly in debt redemption with quantum of borrowed fund reduced for operational purposes including less expenditure being incurred on creation of capital assets. As revealed from the maturity profile of outstanding debt (table 1.21), 90 per cent of the debt liability will have to be settled in two to seven years. This calls for a careful strategy to redeem the debt without either resorting to very high borrowings or cutting down operational expenditure.*