

Executive Summary

Fiscal Situation of the State

Revenue Receipts (₹ 1,31,270 crore) of the Government constituting 12.86 per cent of the Gross State Domestic Product (GSDP) (₹ 10,20,858 crore), increased by 11.40 per cent over the previous year (₹ 1,17,832 crore). Revenue Expenditure (₹ 1,41,077 crore) was higher than the previous year's figures (₹ 1,33,918 crore) by 5.35 per cent. As a percentage to GSDP at current prices, Revenue Expenditure reduced to 13.82 per cent during 2017-18 from 15.23 per cent during 2016-17.

(Paragraphs 1.4.2 and 1.5.1)

The State registered a Revenue Deficit of ₹ 9,807 crore in 2017-18. The Revenue Deficit of the State during the years 2015-18 had not been eliminated despite the receipt of post-devolution Revenue Deficit Grants of ₹ 11,760 crore from GoI during the years 2015-17 as per the recommendations of 14th FC. **At 0.96 per cent of the GSDP it was, however, within the target of 1.11 per cent set out in the MTFPS under WBFRBM Act.**

Fiscal Deficit (₹ 28,930 crore), in 2017-18, increased by ₹ 3,544 crore (13.96 per cent) in comparison to preceding year (₹ 25,386 crore). Fiscal Deficit as a percentage to GSDP was 2.83 per cent which was within the target of 3.00 per cent fixed under the WBFRBM Act in the MTFPS and the ceiling fixed by 14th Finance Commission.

The Revenue Deficit and Fiscal Deficit, however, were understated by ₹ 5,106.68 crore and by ₹ 1,827.59 crore respectively on account of (i) Misclassification, (ii) Erroneous booking, (iii) Excess/ Short accounting and (iv) Non/ Short contribution to statutory funds. Effectively, therefore, there was a Revenue Deficit of ₹ 14,913.68 crore and Fiscal Deficit of ₹ 30,757.59 crore (3.01 per cent of GSDP).

Outstanding Public debt to Gross State Domestic Product ratio was 30.96 per cent. This was within the ceiling of 35.20 per cent fixed by the 14th Finance Commission.

The outstanding liabilities was 35.36 per cent of the GSDP, which was within the prescribed limit of 36.77 per cent as per Medium Term Fiscal Policy Statement (MTFPS) of the State Government.

Primary Deficit in 2017-18 was ₹ 856 crore while the State was Primary Surplus in 2016-17 (₹ 317 crore). With deficit increasing by 370.03 per cent over the preceding year, non-debt receipts in 2017-18 were insufficient to meet the Primary Expenditure.

(Paragraphs 1.2 and 1.3.1)

Mobilisation and application of Resources

Revenue Receipts (₹ 1,31,270 crore) in 2017-18 increased by ₹ 13,438 crore (11.40 per cent) over 2016-17. They were, however, lower than the budget estimates by ₹ 11,374 crore.

Own Tax Revenue during the year was ₹ 52,721 crore constituting 40.16 per cent of the actual Revenue Receipts (₹ 1,31,270 crore) and increased by 15.96 per cent over previous year (₹ 45,466 crore). Non-Tax Revenue during the year was ₹ 3,117 crore, constituting 2.37 per cent of Revenue Receipts and increased by 5.66 per cent over previous year (₹ 2,950 crore).

Revenue Expenditure (₹ 1,41,077 crore) increased by ₹ 7,159 crore (5.35 per cent) over 2016-17. It was, however, lower than the budget estimates by ₹ 1,567 crore.

Capital Expenditure (₹ 19,368 crore) increased by ₹ 8,032 crore (70.85 per cent) in comparison to 2016-17, and was higher than the budget estimates by ₹ 184 crore.

Recommendation: *The Finance Department may rationalise the budget preparation exercise, so that the gap between the budget estimates and actuals is bridged.*

(Paragraphs 1.3.2, 1.4.2 and 1.5.1)

Committed Expenditure

The burden of committed expenditure (₹ 92,142 crore) in 2017-18 measured as a percentage of Revenue Expenditure of the State (65.31 per cent), was steadily rising due to increase in interest payments (by 9.22 per cent over 2016-17) and expenditure on subsidy (by 21.80 per cent over 2016-17).

Seven departments incurred implicit subsidies of ₹ 977 crore during 2017-18. Though the expenditure incurred was in the nature of subsidies, they were, however, not reflected as subsidies and the committed expenditure was understated to that extent.

(Paragraph 1.5.2.1)

Adequacy of public expenditure

West Bengal fared favourably in its focus on Education (₹ 25,068 crore) and Health (₹ 8,857 crore) in comparison to other General Category States. The State, however, lagged behind in the area of Development Expenditure (₹ 1,06,505 crore) and Capital Expenditure (₹ 19,368 crore).

During 2017-18, of ₹ 1,531.96 crore collected on account of entry tax, ₹ 1,526.96 crore was credited to the Reserve Fund through four capital expenditure heads. This resulted in overstatement of capital expenditure by ₹ 1,526.96 crore with corresponding understatement of revenue expenditure and revenue deficit.

(Paragraph 1.5.4.1)

Investment and Returns in Public Sector Undertakings

As of 31 March 2018, the State Government's investment in Statutory Corporations, Government Companies, Joint Stock Companies and Co operative stood at ₹ 15,884 crore. The Return on Investment (RoI) from Corporations/ Companies was low at 0.25 per cent while the average rate of interest on Government borrowing was 8.04 per cent.

Government investments were highest in the power sector. Losses from the power sector (₹ 766.44 crore) accounted for 9.92 per cent of total losses (₹ 7,723.35 crore) incurred by the State Working PSUs as of 31 March 2018.

In spite of poor return from these investments to the State PSUs, the State Government extended budgetary support of ₹ 6,963.45 crore to these PSUs during 2017-18 which included ₹ 1,100.91 crore extended to 22 PSUs having negative net worth.

(Paragraph 1.6.2)

Loans and Advances given by the State Government

As of 31 March 2018, Loans and Advances given by the Government to Autonomous Bodies and Corporations were ₹ 12,718 crore. While the average rate of interest on Government borrowing was 8.04 *per cent*, the interest receipts as percentage of outstanding Loans and Advances was only 8.03 *per cent*.

Government loans to PSUs/ Co-operatives amounting to ₹ 182.17 crore in 2017-18 did not specify any terms and conditions, like schedule of repayment, rate of interest, number of instalments, etc. Government was providing loans to PSUs/ Autonomous Bodies, whose annual accounts were in arrears.

The current level of recovery of loans was low. In the Budget estimates, an amount of ₹ 804 crore was estimated to be recovered in 2017-18. The actual recovery (₹ 214 crore), however, was only 26.62 *per cent* of the estimated recovery.

Recommendation: *The State Government may ensure that future loans and advances to autonomous bodies are predicated on furnishing of audited accounts of the previous year.*

(Paragraph 1.6.3)

Reserve Funds

The aggregate shortfall of contribution to Consolidated Sinking Fund during the years 2013-18 was ₹ 5,965.39 crore (₹ 4,476.98 crore during 2013-17 and ₹ 1,488.41 crore in 2017-18). The State's liabilities during the same period rose by 43.24 *per cent* from ₹ 2,51,997 crore as of March 2014 to ₹ 3,60,961 crore in March 2018.

In spite of earning guarantee commission of ₹ 23.89 crore during 2014-18, no amount was transferred to Guarantee Redemption Fund.

There was a negative closing balance of ₹ 293 crore as on 31 March 2018 in West Bengal Compensatory Entry Tax Fund, indicating excess of disbursement over available balances.

Further, there were 23 Reserve Funds, which were not in operation for more than five years, with a balance of ₹ 20.48 crore as on 31 March 2018.

Recommendation: *The State Government may ensure that the contributions to Reserve Funds are made annually as stipulated, to enable a firm funding stream to meet the defined purposes of the funds.*

(Paragraph 1.7.1)

Guarantees

Guarantees (₹ 8,545 crore) given by the Government to the end of 2017-18 stood at 7.79 *per cent* of total Revenue Receipts of the second preceding year (₹ 1,09,732 crore) and was within the ceiling of 90 *per cent*.

As per West Bengal Finance Act 2002, the loanees for whom the State Government had provided guarantees to the financial institutions, were required to pay guarantee commission at the rate of one *per cent* (minimum) on the total amounts guaranteed. The State Government, during 2017-18, received ₹ 12.39 crore as guarantee commission against the receivable of ₹ 85.45 crore.

Recommendation: *The State Government may comply with its own orders to ensure optimum receipt of guarantee commission.*

(Paragraph 1.7.2)

Debt Management

Outstanding Public debt (₹ 3,16,011 crore) increased by 7.02 *per cent* in 2017-18 over the preceding year, at a slower pace than the growth of GSDP (16.12 *per cent*).

The Net availability ((-)₹ 7,342 crore) of borrowed funds (₹ 40,348 crore) after providing for interest payments (₹ 28,074 crore) and repayment of borrowings (₹ 19,616 crore), was negative (18.20 *per cent*), indicating non-availability of borrowed funds for purposes other than debt repayment significantly limiting the scope for development activities.

The interest payments relative to revenue receipts were much higher at 21.39 *per cent* against the target of 20.34 *per cent* fixed by 14th Finance Commission.

The maturity profile of outstanding public debt as of March 2018 showed that 40.61 *per cent* (₹ 1,28,307 crore) of total outstanding debt is to be repaid over the next seven years. The debt maturity position during the forthcoming years could be more alarming given the fact that maturity details of around 28.41 *per cent* of the outstanding borrowings was not available.

(Paragraph 1.7.3)

Fiscal Reform Path

The State Government, in compliance with the recommendations of the Twelfth Finance Commission (12th FC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2010 (amended in 2011). Important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commission's recommendations. Government of West Bengal, however, is yet to amend its FRBM Act in accordance with the recommendations of the 14th FC.

FRBM Act, 2010 also requires the State Government to make disclosures and statements under Section 5 of FRBM Act, 2010 together with Rule 7 of Fiscal Responsibility and Budget Management Rules, 2011. The State Government, however, did not make three out of eight disclosures required to be made.

(Paragraph 1.8)

Excess Expenditure

Excess expenditure of ₹ 2,618 crore was incurred in 10 grants and two appropriations. Majority of the excess expenditure in 2017-18 occurred in Panchayat & Rural Development Department mainly on account of assistance to Zilla Parishads for repair/maintenance of roads, etc. (₹ 711 crore). A total expenditure of ₹ 2,870 crore was incurred at sub-head level without any budget provision in 60 cases. Persistent excess expenditure occurred in the grants related to Backward Classes Welfare, Health & Family Welfare and Power & Non-Conventional Energy Sources.

Recommendation: *The State Government may analyse the reasons for persistent excess expenditure on priority basis. The Finance Department should ensure that no departmental controlling officers, including the Finance Department itself, resort to excess expenditure over the regular allocations approved by the State Legislature.*

(Paragraph 2.2.2.1)

Excess Expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant / appropriation regularised by the State Legislature. State Government did not get the excess expenditure of ₹ 24,075 crore, over and above the allocation pertaining to the years 2009-10 to 2016-17 regularised.

Recommendation: *All the existing cases of excess expenditure need to be regularised at the earliest and in future, such un-voted expenditure may be completely stopped, with the exception of cases of dire and extreme emergency, the cost of which cannot be met from the Contingency Fund.*

(Paragraph 2.2.2.2)

Savings

In the year 2017-18, the total savings were ₹ 49,828 crore. Of which, ₹ 45,046.33 crore (90.40 per cent) pertain to 21 grants with savings of more than ₹ 100 crore each and by more than 20 per cent of the total provision. In addition, during the years 2013-18, there were cases of persistent savings of more than ₹ 100 crore.

Persistent savings under Animal Resources Development, School Education, Agriculture, Public Works, Irrigation & Waterways and Water Resources Investigation & Development indicate that the schemes under these departments did not receive the required priority by the Government and there was inefficiency in implementation by the departments concerned/ implementing agencies.

(Paragraph 2.2.2.3)

Re-appropriation

Re-appropriations are meant for transfer of saving from one scheme/ unit to another within the same grant and under the same section (i.e. Capital, Revenue or Loans). Finance Department, however, issued re-appropriation orders to mainly withdraw the budget provisions, on the last day of the financial year. There were savings of ₹ 2,477.61 crore in 91 sub-heads (₹ 5 crore and above) under 32 grants and excesses of ₹ 849.67 crore in 26 sub-heads (₹ 5 crore and above) under 15 grants due to re-appropriation. There were three cases (final savings of ₹ 1 crore and above) of savings (₹ 74.43 crore) even after re-appropriation on the last working day of the financial year.

Recommendation: *Leveraging advancements in Information Technology, the State Government may issue re-appropriations on the basis of real-time data on committed expenses and actual receipts.*

(Paragraph 2.2.4)

Personal Deposit Accounts

Article 202 of the Constitution of India provides for legislative financial control over public expenditure through the annual financial statement/ Budget. Not transferring the unspent balances lying in PD Accounts to the Consolidated Fund before the closure of the financial year violates legislative intent, which is to ensure that funds approved by it for the financial year are spent during the financial year itself. Such a practice also entails the risk of misuse of public funds, fraud and misappropriation.

Despite West Bengal Treasury Rule 6.09 which states ‘Personal Deposit Account created by debit to the Consolidated Fund of the State shall be closed at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated Fund of the State’ it is noted that there is a balance of ₹ 4,281.98 crore in 157 PD Accounts as on 31 March 2018.

Test check of 71 Treasuries out of 88, conducted in 2017-18 showed 98 inoperative schemes under PD Accounts of 16 Administrators amounting to ₹ 26.02 crore yet to be closed at the end of 2017-18. Amounts lying in PD Accounts resulted in overstatement of expenditure to that extent. Moreover, in eight Treasuries out of 71 test-checked Treasuries, the Administrators had not reconciled and verified their balances with the Treasury figures as of 31 March 2018. Non-reconciliation of PD Accounts periodically and non transferring of the unspent balances lying in PD Accounts to Consolidated Fund was in violation of principles of budgetary and financial control and entails the risk of misuse of public funds.

Recommendation: *The Finance Department is required to review all PD Accounts and ensure that all amounts unnecessarily lying in these accounts are immediately remitted to the Consolidated Fund. Transferring money to PD Accounts from the Consolidated Fund of the State at the fag end to avoid lapse of funds should be avoided.*

(Paragraph 3.1)

Non-submission of Annual Accounts by Autonomous Bodies/ Local Bodies

In respect of 64 ABs which were to render annual accounts to CAG, there were delays in submission of accounts. As of September 2018, 596 annual accounts of 140 bodies/ authorities due up to 2017-18, had not been received by the ELA, West Bengal. Therefore, utilisation of funds for the intended purposes could not be verified in regard to these bodies/ authorities.

(Paragraphs 3.5 and 3.7)

Non-submission of Detailed Contingent Bills

Detailed Contingent bills (11,082) of funds drawn for items of contingent nature were not submitted for ₹ 3,640.33 crore, in the absence of which there was no assurance that the money was spent for purpose they were drawn. Out of the above, 7,323 bills worth ₹ 3,294 crore pertain to only eight Departments. Further, there were 8,409 AC bills amounting to ₹ 1,935.60 crore pertaining to the period upto 2015-16 were also still pending.

Recommendation: *Finance Department may ensure that all Controlling Officers submit the required DC bills to adjust all pending AC bills in a time bound manner.*

(Paragraph 3.9)