Chapter 1

Finances of the State Government

Profile of West Bengal

West Bengal is an agrarian State with diverse agricultural products. A brief social and economic profile of the State is given in ***Appendix1.1***, which would show that on the social development front the State had fared better than the general category States' average[1] . The Gross State Domestic Product (GSDP) in West Bengal has grown at a lower rate[2] of 13.74 *per cent* in the past decade compared to the average GSDP growth of General Category States (14.68 *per cent*). Over half of its GSDP accrues from the services sector.

1.1 Introduction

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 layout of Finance Accounts are shown in ***Appendix 1.2.*** The methodology adopted in analysing the trends of State Government finances has been discussed in ***Appendix 1.3.***

The State Government introduced the West Bengal Fiscal Responsibility and Budget Management (WBFRBM) Act in July 2010. As recommended by the Thirteenth Finance Commission, the Act was amended in April 2011 by introduction of WBFRBM (Amendment) Act, in which *inter alia* annual targets for the period 2010-15 were set as Medium Term Fiscal Policy for Debt Stock, revenue deficit and fiscal deficit.

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year 2010-11 vis-à-vis the previous year while ***Appendix1.4*** provides details of receipts and disbursements as well as overall fiscal position during the current year.

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[1] *Table 1.21 may also be referred to*

[2] *Compound Annual Growth Rate (CAGR)*

Table 1.1 Summary of Current Year's Fiscal Operations (Rupees in crore)

Receipts			Disbursements				
2009-10		2010-11	2009-10		2010-11		
					Non-Plan	Plan	Total
Section-A: Revenue							
36921.65	Revenue Receipts	47264.20	58499.88	Revenue Expenditure	52491.40	12046.76	64538.16
16899.98	Tax Revenue	21128.74	26356.79	General services	28569.06	111.35	28680.41
2438.11	Non-Tax revenue	2380.49	23995.96	Social Services	18753.81	8589.28	27343.09
11648.16	Share of Union Taxes/Duties	15954.95	7741.84	Economic Services	4764.88	3325.62	8090.50
5935.40	Grants from Government of India	7800.02	405.29	Grants-in-aid and Contributions	403.65	20.51	424.16
Section-B: Capital							
-	Misc. Capital Receipts	-	3011.06	Capital Outlay	(-)6.08	2231.83	2225.75
387.10	Recoveries of Loans and Advances	372.49	752.44	Loans and Advances disbursed	71.16	336.57	407.73
28507.53	Public Debt receipts*	24800.66	7672.07	Repayment of Public Debt*	6846.29	-	6846.29
1.43	Contingency Fund	2.70	2.70	Contingency Fund	0.03	-	0.03
69055.12	Public Account receipts	76696.07	65056.63	Public Account disbursements	74227.77	-	74227.77
4907.45	Opening Cash Balance	4785.50	4785.50	Closing Cash Balance	5675.89	-	5675.89
139780.28	Total	153921.62	139780.28	Total			153921.62

Source: Finance Accounts

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

1.2.1 Budget Estimates vis-à-vis Actuals

Budget Estimates (BE) are the detailed estimates of the receipts and expenditure included in the budget for a financial year, which show actuals for the past year, revised estimates for the current year and the budget estimates for the ensuing year. These estimates are expected to prove useful for the Legislature to assess/anticipate the financial position of the Government and serve the departments with financial frameworks under which they have to carry out their operations. The overall responsibility of preparation of budget lies with Finance Department, which is based on the estimates prepared by the Departmental Controlling Officers, after obtaining inputs from the lower level functionaries.

A comparative analysis between budget estimates and actual in respect of certain selected fiscal parameters is brought out in the following table:

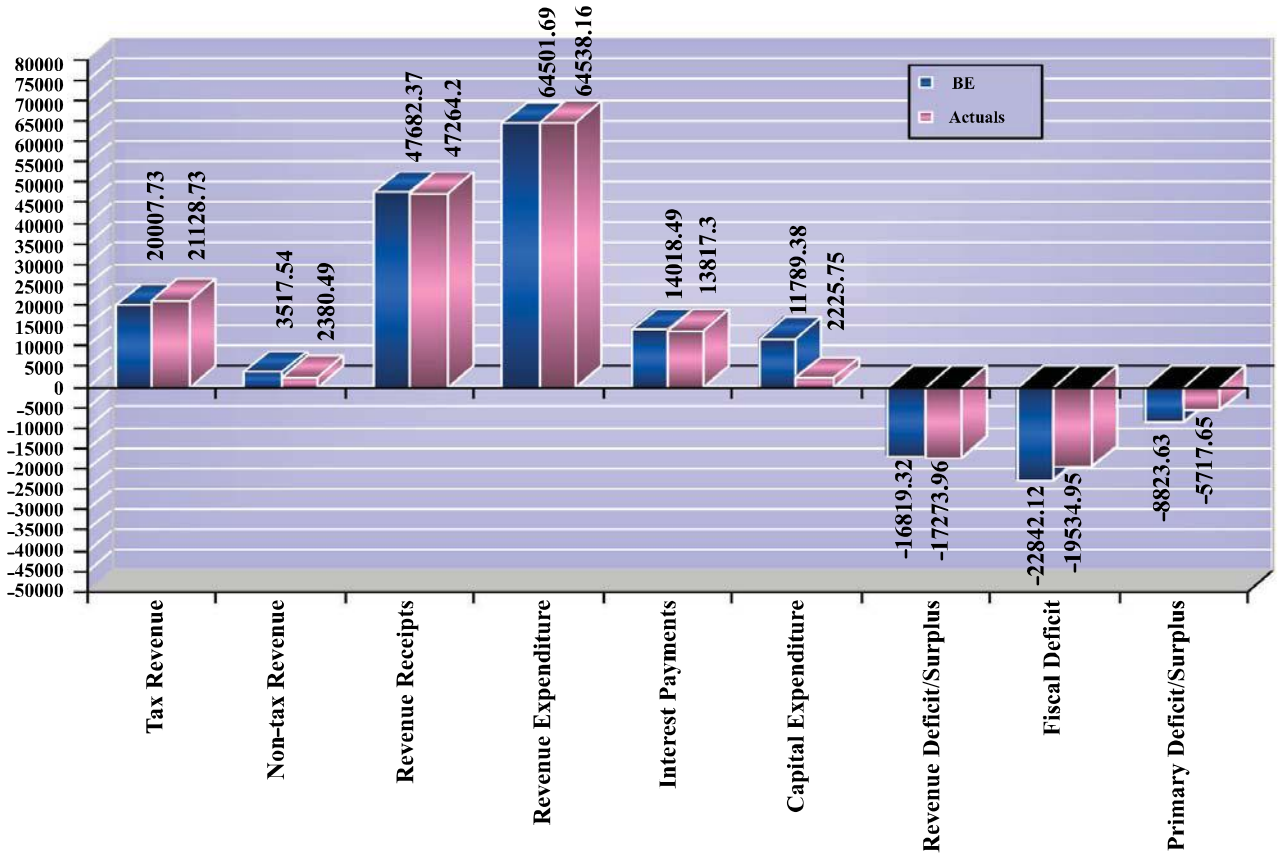
Table 1.2 : Budget Estimates vis-a-vis Actuals (Rupees in crore)

	Budget Estimates	Actual	Percentage variations
Tax Revenue	20007.73	21128.74	(+) 6
Non-Tax Revenue	3517.54	2380.49	(-) 33
Revenue Receipts	47682.37	47264.20	(-) 1
Revenue Expenditure	64501.69	64538.16	0
Interest Payment	14018.49	13817.30	(-) 1
Capital Expenditure	11789.38	2225.75	(-) 81
Revenue Deficit (-)/Surplus(+)	(-) 16819.32	(-) 17273.96	(+) 3
Fiscal Deficit(-)/Surplus(+)	(-) 22842.12	(-) 19534.95	(-) 14
Primary Deficit(-)/Surplus(+)	(-) 8823.63	(-) 5717.65	(-) 35

Source: Budget publications and Finance Accounts

The Position is depicted in the **Chart 1.1**

Chart 1.1 : Selected Fiscal Parameters : Budget Estimates vis-a-vis Actuals during 2010-11



From **Table 1.2** and **Chart 1.1** it can be seen that the actual Capital Expenditure fell drastically short (81 *per cent*) of estimate. The shortfall was mainly under capital outlay on Public Works, Irrigation & Waterways, Housing and Water Resources Investigation & Development. Thus, asset creation was not given as much priority as intended in the BE. Actual receipts under Tax Revenue was marginally higher (6 *per cent*) than that projected in the BE, mainly due to higher collection under Sales Tax. Similarly, Non-Tax Revenue also was 32 *per cent* lower than that projected in the BE, mainly because of less receipts under Interest Receipts and Food Storage & Warehousing compared to the BE. The State, however, managed to contain both Fiscal and Primary Deficits at much lower levels than what had been envisaged in Budget. *However, there is need for effective steps in strengthening tax base and tax realisation with simultaneous containment of Non-Plan Revenue Expenditure to improve the fiscal situation.*

1.2.2 Implementation of West Bengal Fiscal Responsibility and Budget Management (WBFRBM) Act

With a view to ensuring prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction of Fiscal Deficit, prudent debt management and greater transparency in fiscal operation of the State Government, West Bengal Fiscal Responsibility and Budget Management Act, 2010 was passed by the West Bengal State Legislature in July 2010. In compliance with the Act, WBFRBM Rules, 2011 was introduced by the Finance Department in February 2011. The Act was amended with effect from 7 February 2011 by passing

the WBFRBM (Amendment) Act 2011 in April 2011. Extract of the WBFRBM Act 2010 and the Amendment Act are shown in ***Appendix 1.5.***

As per the Act, the State Government was required to bring out the following fiscal documents in prescribed proforma and table the same before the Legislative Assembly along with the Budget:

- Medium-term fiscal policy statement;
- Fiscal policy strategy statement;
- Documents in the nature of Budget in brief, containing separate statements on indicators of fiscal situation, components of State Government's liabilities and interest cost of borrowing, guarantee given by the State, Guarantee Redemption Fund, Statement of Assets etc.

Besides, the State Finance Minister was also required to make a statement before the Assembly to explain the significant changes in the accounting standards, policies and practices affecting compliance with fiscal indicators.

Such documents were not presented before the Legislature along with the Vote on Accounts presented till date. The Finance Department intimated (August 2011) that detailed indicators and rolling plan including definite plan for additional resource mobilization, Revenue Deficit and Fiscal Deficit would be worked out as per FRBM Act and Rules within three months. This was indicative of the fact that the Government was not fully prepared to fulfill the requirements under WBFRBM Act after more than one year from the date of passing of the Act in the Legislature.

Table 1.3 captures the fiscal rolling targets for the year 2010-11, as envisaged in the amended Act and the actual achievement there against:

Table 1.3: Targets envisaged under FRBM Act and achievements thereagainst

Indicators	Medium term fiscal policy target	Target for 2010-11	Actual for 2010-11
Debt Stock	34.30*per cent* of GSDP within 2014-15	40.60 *per cent* of GSDP *i.e.* ₹ 186789crore	₹ 192868crore *i.e.* 41.92*per cent*
Revenue Deficit	To be eliminated within 2014-15	3.60*per cent* of GSDP *i.e.* ₹ 16563crore	₹ 17274crore *i.e.* 3.75*per cent*
Fiscal Deficit	To be reduced to three *per cent* of GSDP within a period of four years i.e. by 2013-14	3.50 *per cent* of GSDP *i.e.* ₹ 16102crore	₹ 19535crore *i.e.* 4.25*per cent*

It would appear from above that in terms of all three indicators, actuals for 2010-11 indicated that targets set under the FRBM Legislation were not achieved.

1.2.3 Compliance with the recommendations of Thirteenth Finance Commission (13th FC)

The overall task of the Finance Commission is to discharge the mandate consistent with the principles of federal finance, taking into account the current and likely future macro economic and fiscal scenarios, so as to secure fiscal stability and adequate resource availability for the Centre, the States and the local bodies.

The terms of reference assigned to the 13th Finance Commission a specific 'macro policy task' to review the state of the finances of the Union and the States and the operation of the States' Debt Consolidation and Relief Facility (DCRF) 2005-10 and suggest measures to maintain a stable fiscal environment, consonant with equitable growth. A subsequent addition to terms of reference mandated to review the road map for fiscal adjustment and suggest a suitable revised road map that would maintain the fiscal consolidation through 2010-15.

13th FC projections vis-à-vis actuals in key segments

A comparative study of 13th Finance Commission projections vis-à-vis actuals in respect of certain key indicators of the State during the current year is given in **table 1.4**.

Table 1.4: 13th FC projections vis-à-vis actuals during 2010-11

(Rupees in crore)

Key segments	13th FC Projections	Actual	Percentage variations
Own Tax Revenue	23484	21129	(-) 10
Non-Tax revenue	3098	2380	(-) 23
Own Revenue Receipts	26582	23509	(-) 12
Annual growth rate of GSDP *(per cent)*	13.31	14.86	(+) 1.55
Tax-GSDP ratio *(per cent)*	5.44	4.59	(-) 0.85
Non-Plan Revenue Expenditure	40941	52491	(+) 28
Interest Payment	13695	13817	(+) 1
Salary (including Salaries paid under Grants-in-aid)	7902	24954	(+) 216
Pension	5883	8078	(+) 37

It would be evident from Table 1.4 that though the GSDP grew at rate higher than the TFC projections, there was considerable scope for improvement in all the key segments as the actual receipts trailed behind Finance Commission projections whereas on the expenditure side, actual expenditure surpassed the Finance Commission projections.

Debt Consolidation and Relief Facility (DCRF)

The Thirteenth Finance Commission *inter alia* recommended the following

- All Central loans outstanding at the end of 2009-10 given to State Government for Centrally Sponsored Schemes / Central Plan Schemes through Ministries other than Ministry of Finance were to be written off. As per recommendation of the Report, ₹ 224 crore stood outstanding against West Bengal as on 31 March 2008.
- NSSF loan contracted till 2006 - 07 and outstanding at the end of 2009-10 was to be reset at a common interest rate of 9 *per cent* in place of 10.5 *per cent* or 9.5 *per cent*.
- The benefit of debt consolidation as recommended by the Twelfth Finance Commission was to accrue to the State during the award period of Thirteenth FC (2010-15), subject to enactment of FRBM Act.

The State Government has intimated that no facility of debt waiver was availed by

the State during 2010-11. Department of Expenditure, Ministry of Finance, GoI intimated (April 2011) that total benefit of debt consolidation pertaining to 2010-11 to be allowed to West Bengal stood at ₹ 948.93 crore, which would be adjusted in 2011-12.

1.2.4 Trends and composition of GSDP

GSDP[3] of the State which was ₹ 262290.80 crore in the year 2006 - 07 registered a growth of 75 *per cent* and stood at ₹ 460071.47 in 2010 11. Annual growth rate of GSDP, however, ranged between 14 *per cent* and 18 *per cent*. Sector wise composition of GSDP is depicted in the table:

Table 1.5: Decomposition of GSDP of West Bengal by Broad Sectors:

(Rupees in crore)

Sector	2004-2005 (Base year)	2006-07	2007-08	2008-09 (P)	2009-10 (Q)	2010-11 (A)
Primary[4]	52778.43(25)	62816.40(24)	72569.42(24)	78907.03(23)	95974.70(24)	103244.34(23)
Secondary[5]	42163.15 (20)	52915.98(20)	59746.12(20)	67228.85(20)	72898.44(18)	84454.16(18)
Tertiary[6]	113915.00 (55)	146558.42(56)	166250.54(56)	194407.98(57)	231687.52(58)	272372.97(59)
Total	**208856.58**	**262290.80**	**298566.08**	**340543.86**	**400560.66**	**460071.47**

Source: Data furnished by Bureau of Applied Economics and Statistics, Development and Planning Department, Government of West Bengal
(Sectoral contribution to GSDP in parenthesis)

P: Provisional, Q: Quick, A: Advance

Chart 1.2: Trend in sectoral composition of GSDP

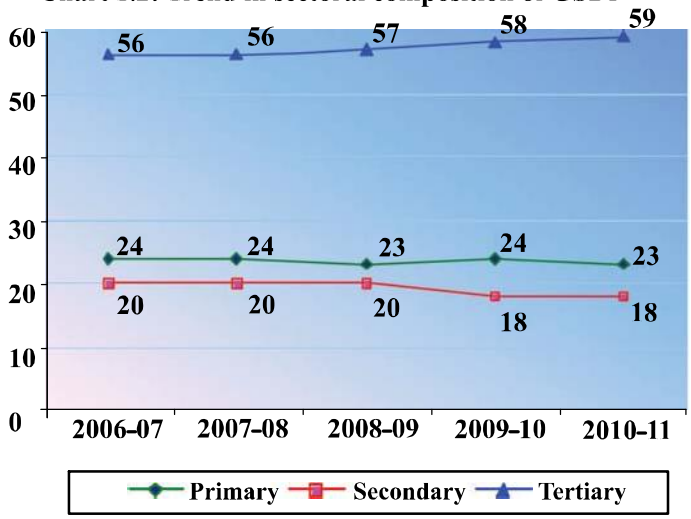


Table 1.5 would show that percentage share of primary and secondary sectors in GSDP declined over the period, while contribution of tertiary sector kept increasing during the five year period ending 2010-11. This indicated that financial health of the State was not seemingly secure and well-founded.

1.3 Resources of the State

1.3.1 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

[3] *GSDP figures for the years 2006-07 to 2010-11 have been taken from the Economic Review 2010-11 published by the Bureau of Applied Economics and Statistics under Development and Planning Department,*
[4] *Primary Sector: Sector that depends on natural resources includes Agriculture, Forestry, Fishery, Mining and Quarrying.*
[5] *Secondary Sector: Sector that creates finished/usable products. This includes manufacturing, construction, etc.*
[6] *Tertiary Sector: Sector that creates services; this includes transport, trading, banking, public administration, etc.*

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 1.3** depicts the trends in various components of the receipts of the State during the years 2006-07 to 2010-11. **Chart 1.4** depicts the composition of resources of the State during the current year.

Chart 1.3: Trends in Receipts

(Rupees in crore)

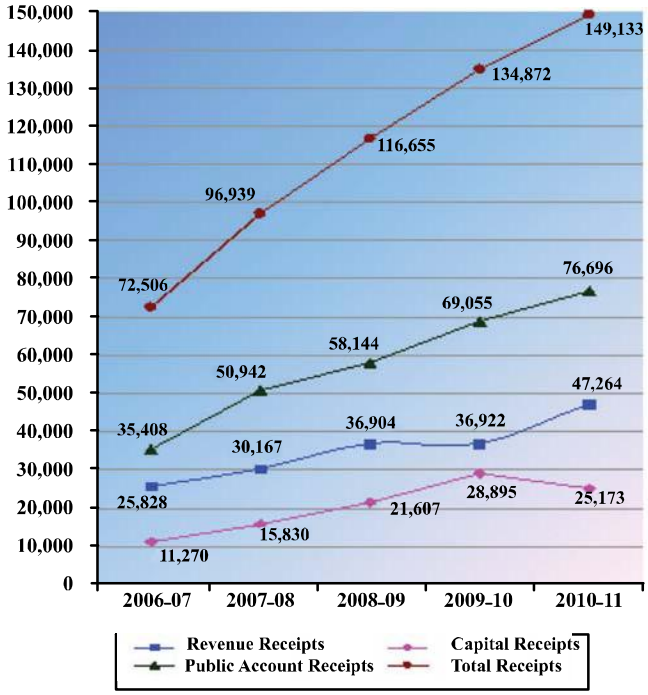


Chart 1.4 Composition of Receipts during 2010-11

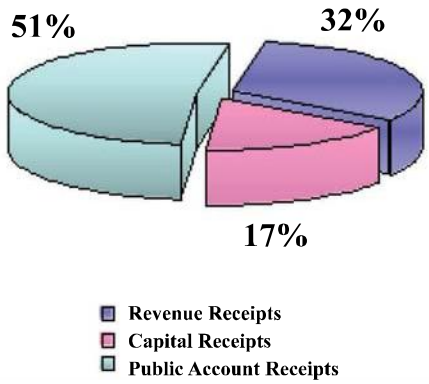


Chart 1.3 shows that the total receipts of the State increased by 132 *per cent* over the last five years. During 2010-11, almost 46 *per cent* of the total receipts came from Public Account receipts, remaining was contributed by Revenue (28 *per cent*) and Capital Receipts (26 *per cent*). Again, of the total Revenue Receipts, Tax Revenue accounted for 45 *per cent*, Non-Tax revenue had a contribution of about five *per cent*, while State's Share of Union Taxes and Duties contributed 34 *per cent*. Remaining share of Revenue Receipts (16 *per cent*) came from Government of India grants. Of capital receipts, more than 99 *per cent* was contributed by Public Debt receipts and recoveries of Loans and Advances contributed less than one *per cent*. In Public Accounts Receipts, Deposits and Advances accounted for 32 *per cent* and Suspense and Miscellaneous accounted for 57 *per cent.*

1.3.2 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 recognised as critical. Though these funds form a part of the total kitty of the State Government, Annual Finance Accounts do not capture the flow of these funds, as they are not routed through the State Budget / State Treasury System. Such transfers (only cases exceeding ₹ 10 crore) are shown in ***Appendix VII*** of the Finance Accounts. As such, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated to that extent.

The funds transferred directly to the State Implementing Agencies by various GoI Ministries outside the State budget are captured in the Central Plan Scheme Monitoring System (CPSMS) portal of the website of Controller General of Accounts (CGA). During 2010-11, out of total ₹ 14717.58 crore transferred by the GoI under various categories of schemes, ₹ 8806.84 crore was received outside the State budget as shown under:

Table 1.6: Overall position of release of funds by GoI Ministries

Type of Schemes / Recipient agency	Assistance to State Plan	Central Sector	Centrally sponsored	Total Amount released during 2010-11	Total Amount released during 2009-10
	(Rupees in crore)				
State PSUs	--	27.20	66.95	**94.15**	**68.42**
Statutory bodies	--	644.49	2.10	**646.59**	**375.47**
Local bodies	106.00	0.62	--	**106.62**	**147.84**
Government Autonomous bodies	--	856.25	6876.30	**7732.55**	**5686.82**
State Government institutions	--	3.84	79.45	**83.29**	**9.53**
NGOs	--	53.52	10.57	**64.09**	**53.36**
Other[7]	--	79.55	--	**79.55**	**105.08**
Total direct transfer	**106.00**	**1665.47**	**7035.37**	**8806.84**	**6446.52**

Source: Website of CGA

Thus, more than half of the plan funds released by GoI were received outside the State Budget. **Table 1.6** shows that there has been 37 *per cent* increase in direct transfer of funds in 2010-11 (₹ 8806.84 crore) as compared to previous year (₹ 6446.52 crore). *There is a need for an institutionalised mechanism to monitor utilisation and accountal of these funds, as direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, meaningful monitoring over their end use will be difficult.*

The following table shows an illustrative list of schemes under which substantial amounts were received by various State implementing agencies directly from the Central Government during last two years.

Table 1.7: Funds released under major schemes by GoI outside State budget (Rupees in crore)

Name of the scheme (Funding pattern Centre:State)	Implementing agency	Amount received directly from GoI (Rupees in crore)	
		2009-10	2010-11
Accelerated Rural Water Supply Scheme*(50:50)	State Water and Sanitation Mission	250.43	**499.19**
Rashtriya Swasthya Bima Yojana (75:25)	Directorate of ESI (MB) Scheme	20.08	**50.63**
Member of Parliament Local Area Development (Fully funded by GoI)	District Magistrates	134.00	**106.00**
National River Conservation Plan (70:30)	Kolkata Metropolitan Development authority	57.26	**194.36**
Mahatma Gandhi National Rural Employment Guarantee Scheme*(90:10) (MGNREGS)	WB State Rural Development Agency	1787.29	**2117.61**
National Rural Health Mission* (85:15)	West Bengal State Health and Family Welfare Samiti	474.30	**414.42**
Pradhan Mantri Gram Sadak Yojana* (Fully funded by GoI)	WB State Rural Development Agency	375.28	**824.19**
Indira Awas Yojana* (75:25)	District Rural Development Cells	627.08	**630.14**
Sarva Shiksha Mission* (55:45 in 2010-11 and 60:40 in 2009-10)	Paschim Banga Sarva Shiksha Mission	1041.42	**1747.03**
Swarna Jayanti Gram Swarojgar Yojana (75:25)	District Rural Development Cells	120.21	**159.62**

Source: Finance Accounts * *Central Government Flagship Schemes*

[7] *Others include private sector companies, trusts, individuals and Central Government organisations*

Scrutiny of records of Paschim Banga Sarva Shiksha Mission (PBSSM), the agency for implementation of Sarva Shiksha Abhiyan (SSA) scheme (a comprehensive scheme to attain Universal Elementary Education in the country) in West Bengal revealed that as of March 2010, SSA funds of ₹ 262.55 crore were retained by PBSSM against ₹ 1925.91 crore available during the year. Accounts for 2010-11 were not yet finalized. Scrutiny revealed that ₹ 483.47 crore remained parked at the level of Cluster Resource Centre as of March 2011. Further, Chartered Accountant's reports published in Annual Reports of 2008-09 and 2009-10 indicated that in all the districts, funds transferred to the circles/clusters were booked as expenditure instead of advance, while the clusters/circles were not reconciling their balances with the bank balances. Besides, monitoring of actual utilisation of funds by theses clusters/circles was inadequate.

Further in West Bengal, the State Employment Guarantee Fund for implementation of MGNREGS (which guarantees 100 days wage employment in a year to rural households) is administered by the Panchayats and Rural Development Department, which releases the funds to the district level authorities for onward transmission to the end user, the Gram Panchayats. As of March 2011, ₹ 35.37 crore remained unspent in the State Employment Gurantee Fund.

Scrutiny of MGNREGS fund monitoring mechanism followed by the P&RD Department revealed that entire funds allotted by the department to first level functionaries during 2009-10 and 2010-11 were booked as expenditure. Further scrutiny showed that ₹ 382.19 crore, ₹ 263.39 crore and ₹ 236.33 crore remained parked in the bank account at the District level as of March 2009, March 2010 and March 2011 (provisional) respectively

1.4 Revenue Receipts

Revenue Receipts, which consist of the State's Own Tax and Non-Tax Revenues, Central tax transfers and Grants-in-aid from GoI, are shown in detail in Statement 11 of Finance Accounts. Trends and composition of Revenue Receipts over the period 2006-07 to 2010-11 are presented in ***Appendix 1.6*** and also depicted in **Charts 1.5** and **1.6** respectively.

Chart 1.5: Trends in Revenue Receipts during 2006-11

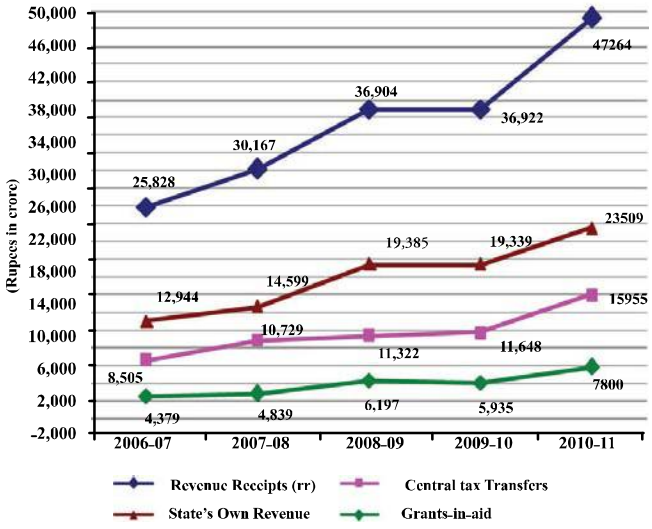
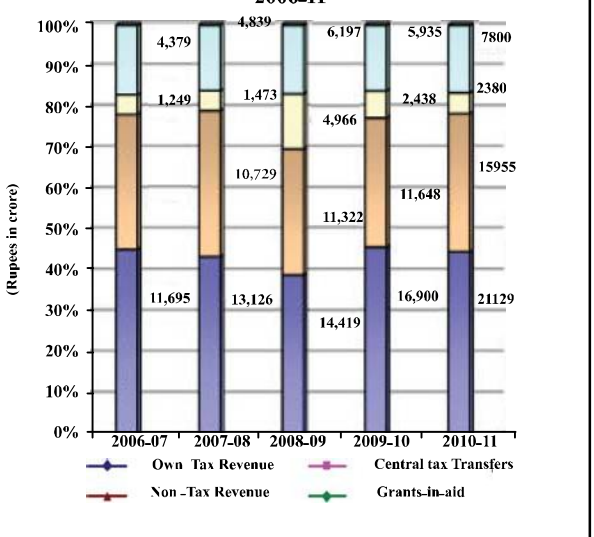


Chart 1.6: The composition of Revenue Receipts during 2006-11



Revenue Receipts during the year rose by ₹ 10342.55 crore (28 *per cent*) as against marginal increase of ₹ 17.25 crore during the last year. The trends in Revenue Receipts relative to Gross State Domestic Product (GSDP) are as follows:

Table 1.8: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (Rupees in crore)	**25828**	**30167**	**36904**	**36922**	**47264**
Rate of growth of RR (*per cent*)	8.86	16.80	22.33	0.05	28.01
GSDP (Rupees in crore)	262291	298566	340544 (P)	400561(Q)	460071 (A)
Rate of growth of GSDP (*per cent*)	13.72	13.83	14.06	17.62	14.86
RR/GSDP (*per cent*)	9.85	10.10	10.84	9.22	10.27
Buoyancy Ratios[8]					
Revenue Buoyancy w.r.t GSDP	0.646	1.215	1.588	0.003	1.885
State's Own Tax Buoyancy w.r.t GSDP	0.92	0.89	0.70	0.98	1.68

Source: Finance Accounts

Revenue Receipts have shown progressive increase over the period 2006-07 to 2010 11 and the growth was highest (28 *per cent*) in 2010 11 over the previous year. The share of own taxes in Revenue Receipts ranged between 44 and 46 *per cent* during 2006-07 to 2010-11, except a dip (39 *per cent*) in 2008-09, which was attributable to Revenue Receipts figures being inflated owing to adjustment of loan waiver.

A scrutiny of relative shares of various other components of Revenue Receipts would reveal that share of Non-Tax Revenue in Revenue Receipts of the State hovered between five and seven *per cent* over the five years period, except for 2008-09. Relative share of Grants in aid in Revenue Receipts also remained almost static over the period 2006-11.

During 2010-11, while Tax Revenue registered a growth of 25 *per cent* over previous year, Non-Tax revenue had a negative growth of two *per cent*. State's share of Union Taxes and Duties registered a growth of 37 *per cent* and grants from GoI increased by 31 *per cent*.

1.4.1 State's own resources

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

The Government of West Bengal enacted the WBVAT Act, 2003 with the 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.

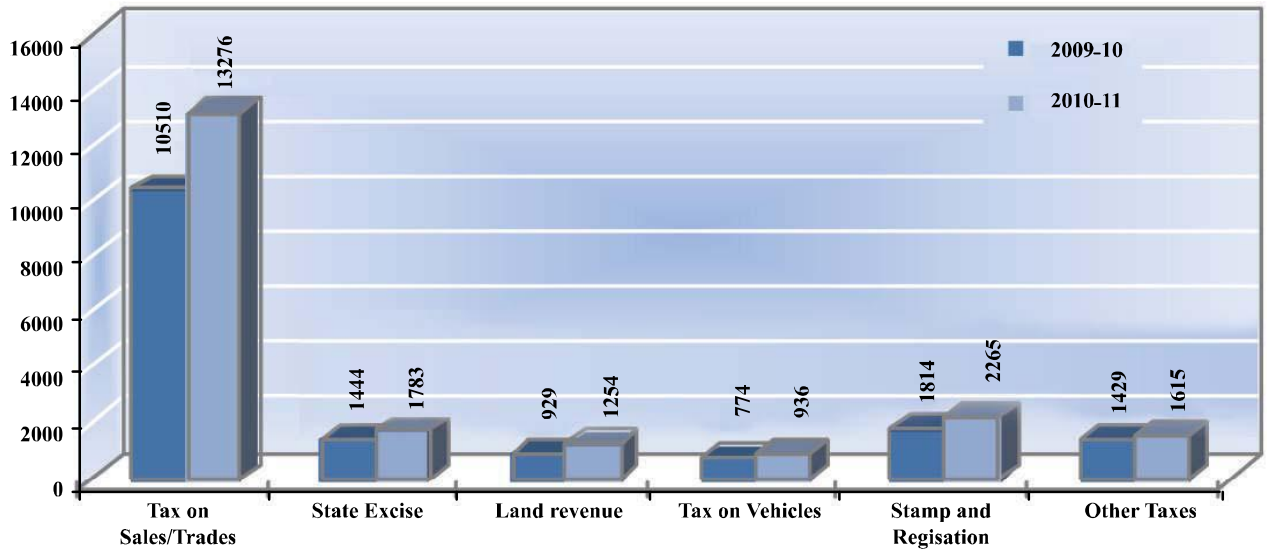
Tax Revenue: The Government of West Bengal enacted the West Bengal Value Added Tax (WBVAT) Act, 2003 with effect from April 2005. However, levy and collection of tax on sale of petrol, diesel, liquor, lottery tickets and aviation turbine fuel (ATF) continued to be governed under the WBST Act, 1994. During 2010-11, total Tax Revenue amounted to ₹ 21129 crore, registering an increase of ₹ 4229 crore (25 *per cent*) over the previous year.

[8]*Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, for 2010-11, revenue buoyancy at 1.885 implies that Revenue Receipts tend to increase by 1.885 percentage points, if the GSDP increases by one per cent.*

Under Tax Revenue, remarkable increase was registered in collection from Taxes on Sales Trade etc. (₹ 2766.13 crore), which was accountable to more receipts under Central Sales Tax. Substantial increases were also noticed under Land Revenue (₹ 324.73 crore), Stamps and Registration Fees (₹ 450.99 crore) and State Excise (₹ 339.53 crore).

The components of Tax Revenue during the current year vis-a-vis previous year are given in **Chart 1.7**

Chart 1.7: Comparative study of various components of Tax Revenue during 2009-10 and 2010-11 (Rupees in crore)

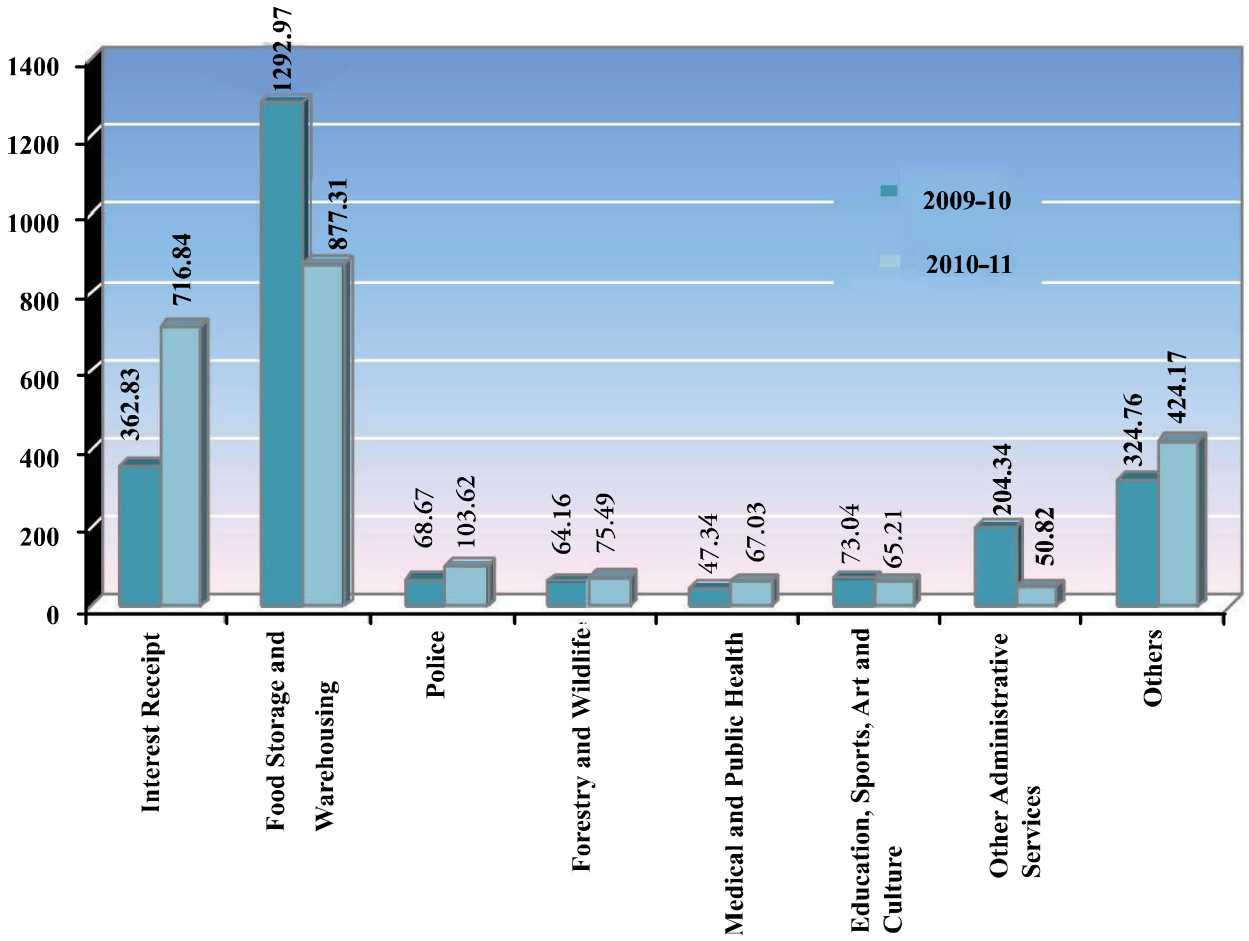


Thus, all the components of Tax Revenue registered increase in collection over those of the previous year.

Revenue from VAT and Sales Taxes contributed major share of Tax Revenue (63 *per cent*). Other significant contributors to the State's Tax Revenue included Land Revenue (six *per cent*), State Excise (eight *per cent*), Stamps and Registration fees (11 *per cent*) and taxes on vehicles (four *per cent*).

There was no significant variation among relative shares of the major components of Tax Revenue compared to the previous year. Contribution of Sales Tax maintained a steady trend ranging between 61 and 63 *per cent* over the five year period. Sales Tax collection shot up by ₹ 2766 crore (26 *per cent*) in 2010-11 over the previous year. This year, collection from Stamps and Registration and State Excise increased by ₹ 451 crore and ₹ 340 crore respectively. Increase in receipts under Sales Tax was attributable to increase in rate of tax on sales of foreign liquor, mobile phones, goods specified in schedule CA to WB VAT Act, 2003, consequential changes in the rate of tax applicable on taxable contractual transfer price. Increase in collection from Stamps and Registration was mainly due to increase in receipts on Registration Fees, Sale of other Non-Judicial Stamps and Duty on impressing of documents and State Excise duty increased mainly due to receipts of more Excise Duty from Country Spirits, Foreign Liquor and Spirits and from Fines and Confiscation.

Chart 1.8: Comparative study of various components of Non-Tax Revenue during 2009-10 and 2010-11 **(Rupees in crore)**



Non-Tax Revenue: Non-Tax Revenue (₹ 2380 crore) constituted five *per cent* of total Revenue Receipts during 2010-11. Collection was less by ₹ 58 crore than the previous year. Comparative study of various components of Non Tax Revenue during 2010-11 with those of 2009-10 is shown in **Chart 1.8.**

Thus, as compared to higher collections during 2010-11 under Food Storage and Warehousing and Other Administrative Services were offset by lesser collections under other sectors, especially interest receipts.

1.4.1.1 Variation between the budget estimates and actuals

Variation between budget estimates of Revenue Receipts and actual receipts under the principal heads of Tax and Non-Tax Revenue for the year 2010-11 is mentioned below:

Table 1.9: Actual collection vis-à-vis budget estimates (Rupees in crore)

	Revenue head	Budget estimates	Actual receipts	Percentage variation
Tax Revenue				
1	Taxes/VAT on sales, trade etc	12257.73	13275.77	8
2	State Excise	1759.78	1783.34	1
3	Stamp duty and registration fees	2358.57	2265.21	(-)4
4	Taxes on vehicles	890.13	936.01	5
5	Taxes and duties on electricity	710.90	769.09	8
6	Land revenue	1190.93	1253.66	5
7	Other Taxes and Duties on Commodities and Services	444.26	441.18	(-)1
8	Other Taxes on Income and Expenditure – Taxes on Professions, Trades, Callings and Employment	389.13	388.54	-
Non-Tax revenue				
1	Police	112.73	103.62	(-)8
2	Forestry and wild life	59.96	75.49	26
3	Interest receipts	987.07	716.84	(-)27
4	Food storage and Warehousing	1400.58	877.31	(-)37

There was significant short-collection under Stamp Duty and Registration, Interest Receipts, Food Storage and Ware Housing which calls for attention of the Government. Despite requisition (between May and October 2010), the concerned departments did not furnish (January 2011) the reasons for the variation.

1.4.1.2 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade etc., during the year 2010-11 and corresponding figures for the preceding four years as furnished by the Finance (Commercial Taxes) Department is mentioned below:

Table 1.10 : Analysis of collection of VAT (Rupees in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per department	Net collection as per Finance Account	Percentage of column 3 to 8
1	2	3	4	5	6	7	8	9
Taxes/ VAT on sales, trade etc	2006-07	6993.04	94.57	31.03	39.62	7079.02	7079.03	98.78
	2007-08	8223.06	99.87	33.17	32.12	8323.98	8060.46	102.01
	2008-09	8857.15	98.53	36.12	24.40	8967.40	8955.09	98.91
	2009-10	10600.09	96.37	41.27	114.05	10623.68	10509.64	100.86
	2010-11	13292.42	95.09	47.82	48.82	13386.51	13275.77	100.12

1.4.1.3 Revenue arrears

The arrears of revenue as on 31 March 2011 in respect of some principal heads of revenue, as furnished by the departments, amounted to ₹ 94.80 crore, of which

₹ 16.94 crore was outstanding for more than five years. Arrears related to taxes on Agricultural Income (₹ 13.97 crore), Entertainment Tax (₹ 13.12 crore), State Excise (₹ 10.12 crore) and Water Rates (₹ 57.59 crore). The position of arrears of revenue at the end of 2010-11 in respect of other departments was not furnished.

1.4.1.4 Refunds

The number of refund cases pending at the beginning of the year 2010-11, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2011) as reported by the concerned Departments are mentioned below:

Table 1.11: Position of refunds of revenue during 2010-11

(Rupees in lakh)

	Particulars	Sales Tax		Agriculture Income Tax		State excise		Entertainment Tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	1,544	22,892.00	1	33.28	Nil	Nil	1	0.70
2	Claims received during the year	262	4,882.00	4	3.97	1	2.01	1	502.80
3	Refunds made during the year	287	8,261.00	2	34.18	1	2.01	1	502.80
4	Balance outstanding at the end of the year	1519	19513.00	3	3.07	Nil	Nil	1	0.70

1.4.1.5 Cost of collection

The gross collection from major taxes and expenditure incurred on collection during the years 2008-09 to 2010-11 along with All India average are given in the following table:

Table 1.12: Gross collection vis a vis expenditure on collection

	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	
		Rupees in crore		State's figure	All India Average
Taxes/VAT on sales	2008-09	8955.09	100.34	1.12	0.88
	2009-10	10509.64	150.01	1.42	0.96
	2010-11	13275.77	165.18	1.24	–
State excise	2008-09	1082.94	65.76	6.07	3.66
	2009-10	1443.81	77.99	5.40	3.64
	2010-11	1783.34	92.43	5.18	–
Stamp duty & registration fees	2008-09	1509.49	53.61	3.55	2.77
	2009-10	1814.22	88.46	4.87	2.47
	2010-11	2265.21	94.31	4.16	–
Taxes on vehicles	2008-09	608.01	11.92	1.96	2.93
	2009-10	774.34	17.88	2.30	3.07
	2010-11	936.01	19.64	2.09	–

Source: Finance Accounts

The *percentage* of expenditure on collection of Sales Tax/VAT, State Excise and Stamp Duty and Registration Fees was well above the All India Average. Government should improve the efficiency of tax collection in respect of these departments. However, in respect of Taxes on Motor Vehicles, the *percentage* of expenditure on collection was lower than the All India Average.

1.4.2 Central Tax Transfers

Central Tax Transfers increased by ₹ 4307 crore over the previous year and constituted 34 *per cent* of Revenue Receipts. The increase was mainly under Corporation Tax (₹ 1442.53 crore), Taxes on Income other than Corporation Tax (₹ 625.20 crore), Custom Duties (₹ 1159.67crore) and Union Excise Duties (₹ 716.39 crore).

1.4.3 Grants-in-aid from Government of India

The trend of release of Grants-in-aid by GoI under Non-Plan, State Plan and Centrally Sponsored and Central Plan schemes is shown in the following table:

Table 1.13: Component-wise grants released by the Central Government (Rupees in crore)

	Grants released by Central Government			
	Non-Plan	State Plan	Central Plan and Centrally Sponsored	Total
2006-07	1492.32	1735.87	1150.99	4379.18
2007-08	971.90	2420.91	1446.09	4838.90
2008-09	1419.47	3015.94	1761.66	6197.07
2009-10	1394.98	2733.48	1806.94	5935.40
2010-11	2535.68	3126.78	2137.56	7800.02

Source: Finance Accounts

During 2010-11, Grants-in aid from GoI stood at ₹ 7800 crore with an increase of 31 *per cent* from ₹ 5935 crore in 2009-10. Non-Plan grants witnessed an increase of ₹ 1140.70 crore (82 *per cent*) this year, of which ₹ 735.54 crore came as contribution to State Disaster Response Fund, ₹ 355 crore came as Grants for upgradation-Elementary Education and ₹ 42.18 crore was received as 13th Finance Commission grant for improvement in justice delivery. Grants under State Plan Schemes also witnessed a rise of ₹ 393.30 crore (14 *per cent*) of which ₹ 216.30 crore came from Central Assistance under Accelerated Irrigation Benefit Programme, ₹166.48 crore from Additional Central Assistance under Stream II of Rashtriya Krishi Bikash Yojana, ₹ 120.58 crore from Special Central Assistance under Backward Region Grant Fund. There was also an increase of ₹ 330.61 crore (18 *per cent*) in receipts as grants for Central and Centrally Sponsored Plan Schemes.

1.5 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 resources.

1.5.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2006-07 to 2010-11 were as follows:

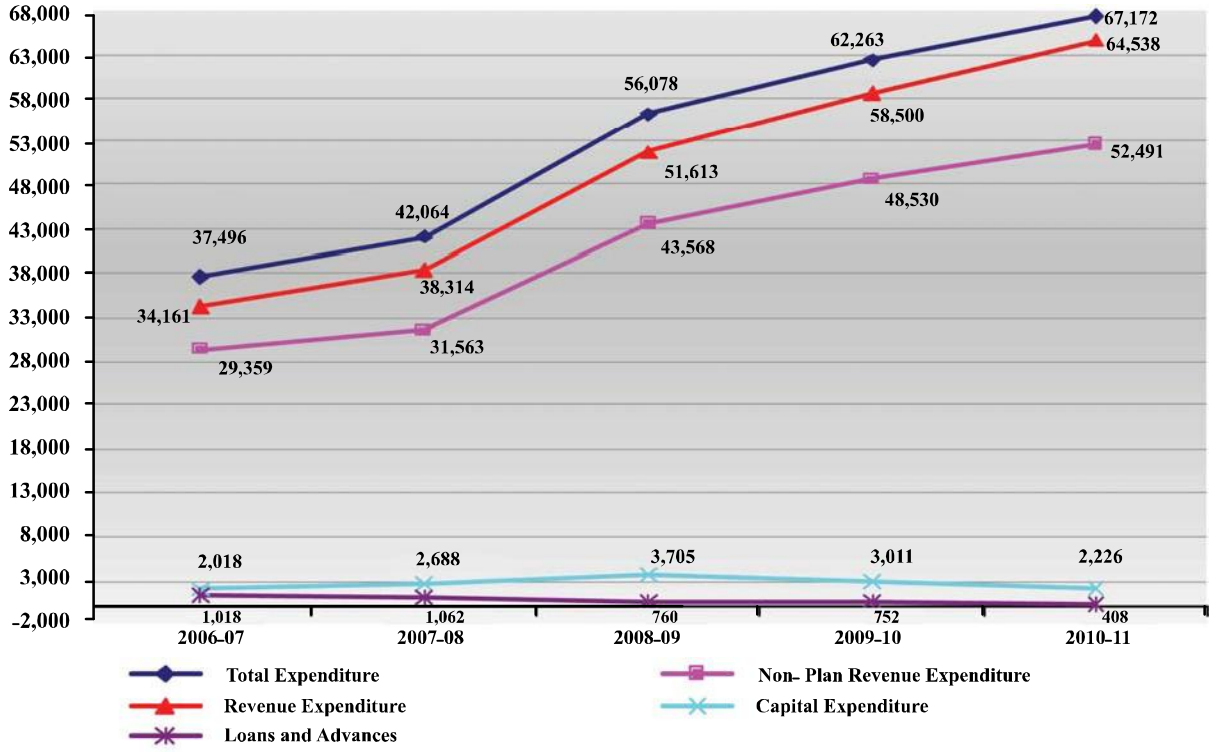
Table 1.14: Total expenditure and its composition **(Rupees in crore)**

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure	**37496**	**42064**	**56078**	**62263**	**67172**
Revenue Expenditure	34161	38314	51613	58500	64538
Non-plan Revenue Expenditure	29359	31563	43568	48530	52491
Capital Expenditure	2018	2688	3705	3011	2226
Loans and Advances	1317	1062	760	752	408

Source: Finance Accounts

Chart 1.9 presents the trends in total expenditure over a period of five years (2006-07 to 2010-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.10 and 1.11** respectively.

Chart 1.9: Total Expenditure : Trends and Composition



1.5.2 Total Expenditure

Total expenditure registered a moderate growth of eight *per cent* from 2009-10 to 2010 11. Over the last five years, it increased at an average growth rate of 16 *per cent*. The composition of total expenditure during 2010-11 indicates that Revenue Expenditure constituted 96 *per cent* (₹ 64538 crore) while Capital Expenditure and Loans and Advances disbursed constituted only three *per cent* (₹ 2226 crore) and one *per cent* (₹ 408 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 movement of the relative shares of these components indicates some significant change over the previous year **(Chart 1.11)**. Expenditure on general services (including interest payments) considered as non developmental, accounted for 43 *per cent* of total expenditure this year against 48 *per cent* in 2006-07. On the other hand, Developmental expenditure i.e. Social services and Economic services taken together rose to 56 *per cent* in 2010-11 from 48 *per cent* in 2006-07. However, the share of Social Services and Economic Services under Capital Expenditure decreased by ₹ 735 crore (26 *per cent*) over the previous year.

Chart 1.10: Total expenditure: trends in share of its components

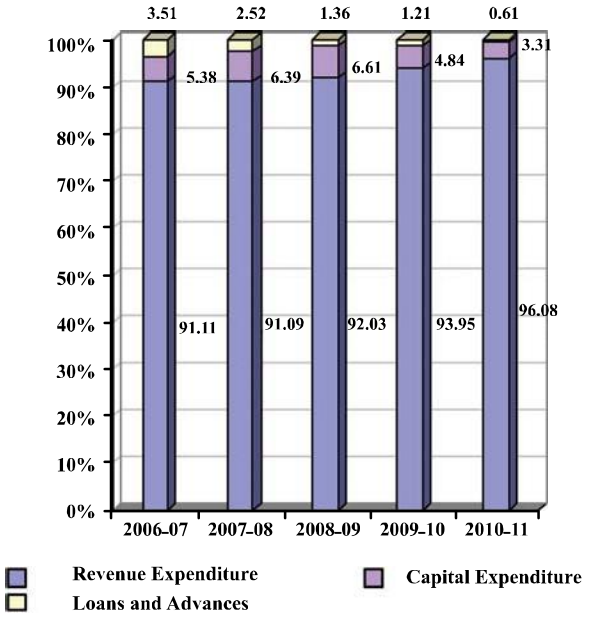
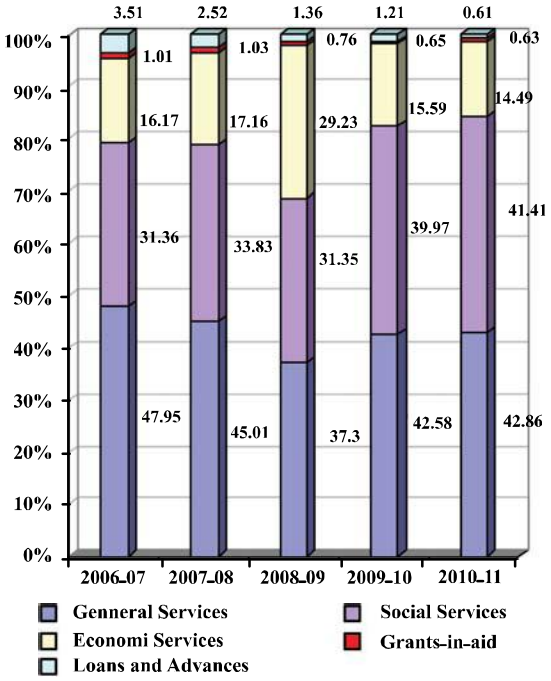


Chart 1.11: Total expenditure: trends in share of its components



1.5.3 Revenue Expenditure

Revenue Expenditure consistently increased from ₹ 34161 crore in 2006-07 to ₹ 64538 crore in 2010-11 at an average annual growth of 17.21 *per cent*. Compared to the previous year, Revenue Expenditure grew by 10.32 *per cent*. Non Plan Revenue Expenditure (₹ 52491 crore) constituted 81 *per cent* of the total Revenue Expenditure during 2010-11, while Plan Revenue Expenditure constituted only 19 *per cent* (₹ 12047 crore). *Non Plan Revenue Expenditure of the current year (₹ 52491crore) was substantially higher (by 28 per cent) than the normative projections of 13th Finance Commission (₹ 40941crore) and was marginally higher than Budget estimates of the Government (₹ 51061crore).*

Plan Revenue Expenditure increased during the period 2006-07 to 2010-11 both in terms of volume and percentage to total Revenue Expenditure, with some fluctuations in 2007-08. During the current year, it increased to ₹ 12047 crore (by 21 *per cent*) from ₹ 9970 crore in 2009-10. The increase was observed mainly under Education, Sports, Art and Culture (₹ 924.14 crore), Social Welfare and Nutrition (₹ 581.99 crore), and Water Supply, Sanitation Housing and Urban Development (₹ 377.20 crore).

Non Plan Revenue Expenditure not only constituted bulk of the Revenue Expenditure of the State, but it consistently increased during the period 2006 07 to 2010-11. During the current year it increased by ₹ 3961 crore (eight *per cent*) from the level of ₹ 48530 crore in 2009-10. This was mainly attributable to rise in expenditure under Education, Sports, Art and Culture (₹ 1386.49 crore), Health and Family Welfare (₹ 323.16 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 164.08 crore). However, declining trend was noticed (86 to 81 *per cent*) in terms of percentage of NPRE in total Revenue Expenditure.

1.5.4 Capital Expenditure

Terms of reference of 13th Finance Commission requires the State to consider the objective of not only balancing the revenue account but also generating surplus for Capital investment. The following table depicts the trends of Capital Expenditure of the State during the last five years:

Table 1.15: Trends in Capital Expenditure and its components

Components of Capital Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
			(Rupees in crore)		
Total Expenditure	**37496**	**42064**	**56078**	**62263**	**67172**
Capital Expenditure (percentage to total expenditure)	**2018 (5)**	**2688 (6)**	**3705 (7)**	**3011 (5)**	**2226(3)**
Plan Capital Expenditure	2009	2669	3729	2883	2232
Plan Capital Expenditure under Social sector (percentage to Plan Capital Expenditure)	380 (19)	767 (29)	1214 (33)	894 (31)	480(22)
Plan Capital Expenditure under Economic sector (percentage to Plan Capital Expenditure)	1556 (77)	1883 (69)	2388 (64)	1834 (64)	1645(74)
Decomposition of Plan Capital Expenditure on Economic Sector (percentage to Plan Capital Expenditure on Economic Sector)					
Agriculture, Allied Activities	42 (3)	38 (2)	167 (7)	115 (6)	149(9)
Rural Development	-	-	-	3 (--)	2 (--)
Special Areas Programme	73 (5)	112 (6)	157 (7)	231 (13)	200(12)
Irrigation and Flood Control	208 (13)	312 (17)	383 (16)	494 (27)	546(33)
Energy	792 (51)	986 (52)	1090 (46)	190 (10)	45(3)
Industry & Minerals	120 (8)	47 (3)	101 (4)	92 (5)	66(4)
Transport	296 (19)	312 (17)	433 (18)	690 (38)	630(38)

Source: Finance Accounts

Though the quantum of Capital Expenditure increased up to 2008-09, it showed a downward trend thereafter. In 2010 11 it dipped by 26 *per cent* and accounted for a meagre three *per cent* of total expenditure. This was far below the level of Capital Expenditure incurred by General Category States on an average (*vide* para 1.6.1). Over the five year period, while Irrigation and Flood Control, Energy and Transport consumed bulk of Capital Expenditure on Economic Services, services like Agriculture and allied activities, Rural Development, Special Areas programme lagged behind. During the current year Irrigation and Flood Control, Energy, Industry and Minerals and Transport together consumed 58 *per cent* (₹ 1287 crore) of Plan Capital Expenditure as against 70 *per cent* (₹ 1416 crore) in 2006-07. Individually, Irrigation and Flood Control, which consumed 10 per cent of Plan Capital Expenditure in 2006 07, attained 24 *per cent* in 2010 11. Transport sector, which consumed 15 per cent of Plan Capital Expenditure in 2006-07 ended up in 2010-11 with 28 *per cent*. On the other hand, Energy sector which consumed 39 *per cent* of Plan Capital Expenditure in 2006-07, consumed only two *per cent* in 2010-11. The share of Industry & Minerals in Plan Capital Expenditure remained almost the same during the period.

1.5.5 Expenditure on Social and Economic Services

A comparative analysis between expenditure (Budget *vis-à-vis* Actual) on Social and Economic Services (both revenue and capital) for 2009-10 and 2010-11 is detailed below:

Table 1.16: Position of expenditure under Social and Economic services

	2010-2011		2009-2010
	BE	Actual	Actual
		(Rupees in crore)	
Education, Sports, Art & Culture	13872.09	14395.80(104)	12081.47
Health & Family Welfare	3442.10	3502.32(102)	3237.81
Water Supply, Sanitation, Housing and Urban Development	6202.74	3807.46(61)	3635.80
Total Social Services	**29851.13**	**27819.36**	**24886.01**
Agriculture and Allied Activities	2528.67	2099.87(83)	1942.89
Rural Development, Special Areas Programme	3862.60	3421.87 (89)	3524.40
Irrigation and Flood Control	2846.13	1374.31(48)	1309.40
Energy	1393.51	328.08(24)	398.69
Industry and Minerals	1069.86	599.79(56)	656.25
Transport	1826.40	1634.02(89)	1673.01
Total Economic Services	**13818.97**	**9733.12**	**9705.55**

(Figures in brackets represent percentage with respect to budget estimates)

Though actual expenditure on Social Services (₹ 27819.36 crore) during the current year was more than that incurred in 2009-10 (₹ 24886.01 crore), it was lower than the expenditure estimated in the budget (₹ 29851.13 crore). Excess expenditures under Education, Sports, Art and Culture and Health and Family Welfare than budget estimates were surpassed by savings (₹ 2395.28) under Water Supply, Sanitation, Housing and Urban Development. Expenditure on Economic Services also fell far short of estimated budget. Abnormally high savings were noticed under the sectors like Energy (76 *per cent*), Irrigation and Flood Control (52 *per cent*), Industry and Minerals (44 *per cent*) etc. These are indicative of aspirations reflected in the budget remaining unfulfilled.

1.5.6 Committed Expenditure

Committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Such expenditure, as charged first on the Government's resources, renders the expenditure management process less flexible. **Table 1.17** presents the trends in the expenditure on these components during 2006-2007 to 2010-11.

Table-1.17: Components of Committed Expenditure (Rupees in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries & Wages, Of which*	10875.73(42)	12205.04(40)	13778.65(37)	21902.53 (59)	23212.81	24954.22(53)
Non-Plan Head	10350.45	11617.64	12996.04	20848.28		23728.08
Plan Head**	525.28	587.40	782.61	1054.25		1226.14
Interest Payments	10878.88 (42)	11383.56(38)	12068.99(33)	13305.12 (36)	14018.49	13817.30(29)
Expenditure on Pensions	3552.69(14)	3995.40(13)	4432.79(12)	6510.57 (18)	6253.77	8077.96(17)
Subsidies	459.55 (2)	732.93 (2)	1256.31(3)	2555.73 (7)	1022.27	2093.42(4)
Total Committed Expenditure	**25766.85**	**28316.93**	**31536.74**	**44273.95**		**48942.90**
Components other than committed	**8394.42**	**9997.49**	**20076.57**	**14225.93**		**15595.26**
Total Revenue Expenditure	**34161.27**	**38314.42**	**51613.31**	**58499.88**		**64538.16**
Total Revenue Receipt	**25828.32**	**30167.38**	**36904.40**	**36921.65**		**47264.20**

Source: Finance Accounts, Voucher Level Computerisation (VLC) done by PAG (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*

Despite declining trends noticed during 2006-07 to 2008-09 in percentage of expenditure in all the major components of committed expenditure in relation to Revenue Receipts, an upswing was observed during 2009-10, which was somewhat rationalised in 2010-11. Proportion of committed expenditure with respect to Revenue Expenditure remained almost static at 76 *per cent*, indicating little improvement in terms of flexibility enjoyed by the State in managing the resources.

Charts 1.12 and 1.13 show the percentage of various components of the committed expenditure in Revenue Expenditure during 2010-11 and the trends in committed expenditure during the years 2006-07 to 2010-11.

Chart 1.12: Decomposition of revenue expenditure in 2010-11

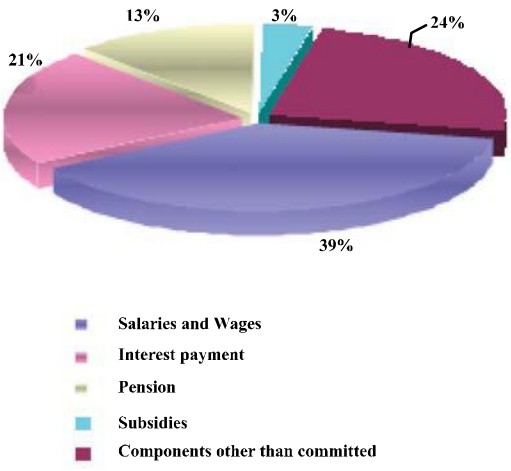
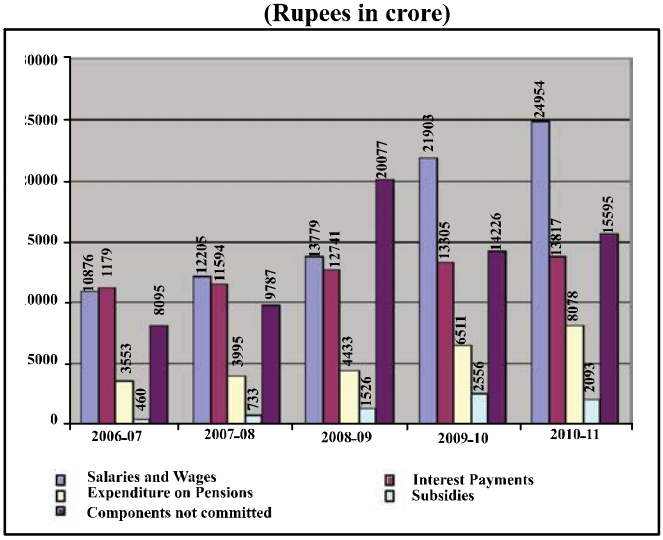


Chart 1.13: Trends in Committed expenditure during 2006-2011 (Rupees in crore)



Expenditure on salaries and wages:

Expenditure on salaries, which was ₹ 10875.73 crore in 2006-07, stood at ₹ 24954.22 crore in 2010-11, registering a growth of nearly 129 *per cent* during this period. Rate of increase in Salary expenditure, however, was 14 *per cent* during the current year as compared to 59 *per cent* in the previous year.

Compared to the projection of salary expenditure by 13th Finance Commission at ₹ 7901.59 crore for 2010-11, the actual salary expenditure exceeded by 216 per cent. During 2009-10, salary expenditure relative to Revenue Expenditure net of interest payment and pension was 57 per cent (as against 35 per cent recommended by the 12th Finance Commission), which further increased to 59 per cent during 2010-11.

Pension payments:

Expenditure on Pensions during 2010-11 increased by ₹ 1567.39 crore (24 *per cent*) over the last year. Sector-wise analysis revealed that substantial increases were noticed under Pensions to Employees of State Aided Educational Institutions' (₹ 418.68 crore), Superannuation and Retirement Allowances (₹ 404.61 crore), Leave Encashment (₹ 152.54 crore) and Commuted Value of Pension (₹ 318.36 crore). Payment of arrear Pension and Gratuity in compliance with the recommendations of the Fifth Pay Commission was the main reason behind such increase.

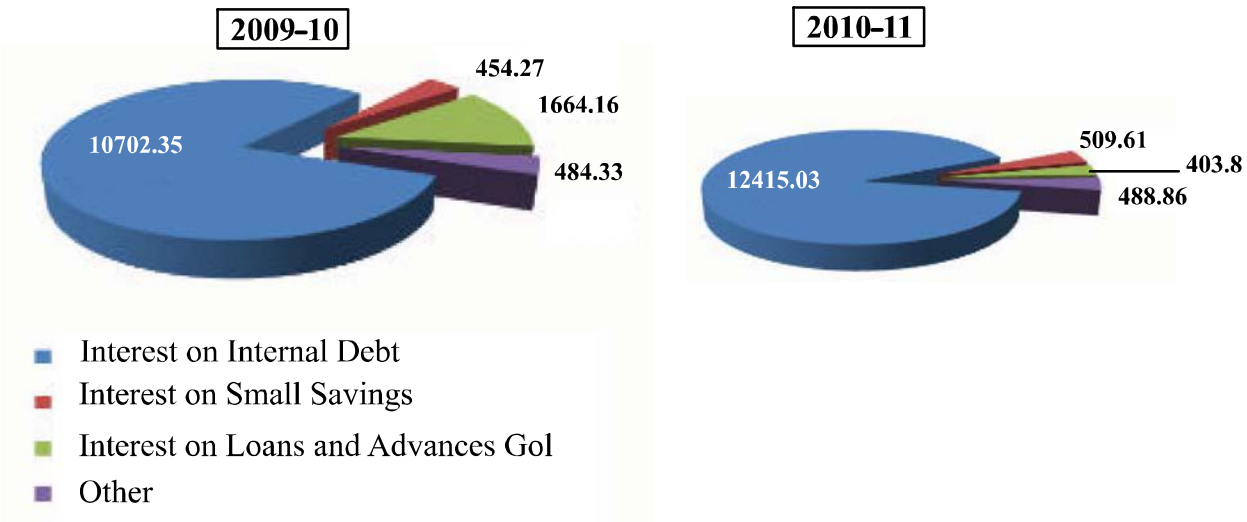
The expenditure on pension (₹ 8077.96 crore) surpassed the 13th Finance Commission projection (₹ 5883.07 crore) by 37 per cent in the current year.

Interest payments:

Expenditure on Interest Payments rose to ₹ 13817.30 crore in 2010-11 from ₹ 10878.88 crore in 2006-07 *i.e.* a growth of over 27 *per cent* in five years. Rate of growth in 2010-11 was four *per cent* over the previous year. *Against the 13th Finance Commission projection of ₹ 13694.95 crore during 2010-11 actual expenditure incurred on interest payment was higher by one per cent.*

The position of the major of interest payment during 2009-10 and 2010-11 is shown in the following charts:

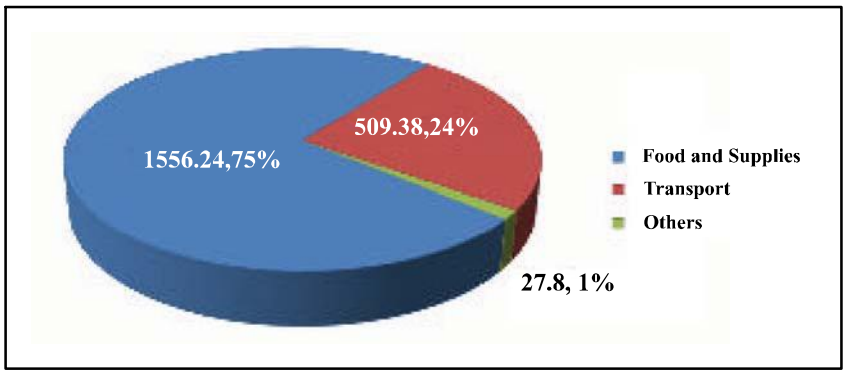
Chart 1.14: Major components of interest payments during 2009-10 and 2010-11



Payment of subsidies:

Subsidies paid by the Government of West Bengal are given in Appendix III of the Finance Accounts. During 2010-11, the Government paid ₹ 2093.42 crore as subsidy, which were explicitly booked under sub-heads meant for subsidy. The same was lower by ₹ 462.31 crore than the amount (₹ 2555.73 crore) paid in the previous year. The Sectoral segregation of subsidies paid during 2010-11 revealed that almost 74 *per cent* (₹ 1556.24 crore) of the subsidy paid during 2010-11 related to Food and Supplies as shown in the following chart:

Chart 1.15: Sectoral break-up of subsidy during 2010-11



However, over and above these amounts audit scrutiny revealed more cases of subsidies camouflaged under other heads during 2010-11. A few instances are discussed below:

- Subsidy to Small Farmers for Construction and Improvement of Storage Structure amounting to ₹ 48.75 lakh was booked under 2408-Food, Storage and Warehousing (under minor heads 800-other expenses and 796-Tribal Area Sub Plan- 50 office expenses).
- Rupees 12.60 crore was released as Subsidy for agricultural inputs to small and marginal farmers and agricultural labourers (under the head 2245-Relief under Natural Calamities-01-drought-101-Gratuitous Relief).
- Rupees 37.50 lakh was released as Supply of Inputs and Incentives / Subsidies to the Farmers under 2403-Animal Husbandry- 102-Cattle and Buffalo Development.
- Under 2425-Co-operation, ₹ 5.40 crore was released as Subsidies for interest liabilities in respect of Share Croppers, Small Farmers and Self-employed Persons under the minor head 107-Assistance to Credit Co-operatives; Under the same major and minor heads ₹ 11.34 crore was released as Interest Subvention to Co-operative Banks relating to Financing of Crop Loans to Farmers .

1.5.7 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 are presented below:

Table 1.18: Financial Assistance to Local Bodies/Institutions etc

Financial Assistance to Local Bodies/Institutions	2006-07	2007-08	2008-09	2009-10	2010-11*
	(Rupees in crore)				
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	5420.44	6790.49	7811.01	11634.00	14882.58
Municipal Corporations and Municipalities	963.02	1279.17	1802.54	946.60	2445.51
Zilla Parishads and Other Panchayati Raj Institutions	1148.06	3085.27	2998.77	1327.98	3022.82
Development Agencies	235.27	122.14	340.33	4204.66	2306.72
Hospitals and Other Charitable Institutions	137.59	149.40	226.84	393.12	588.50
Other Institutions	811.06	927.77	802.74	1084.36	409.96
Total	8715.44	12354.24	13982.23	19590.72	23656.09
Assistance as per percentage of RE	25.51	32.24	27.09	33.49	36.65

Source: Figures generated through VLC

**Figures of 2010-11 include grants for creation of capital assets which increased the figures under Municipal corporations and Municipalities and Zilla Parishad and PRIs*

The table above indicates that as compared to last year, assistance provided to Local Bodies this year rose by ₹ 4065.37 crore i.e. approximately 21 *per cent*. Substantial increase in assistance was noticed under Educational Institutions (₹ 3248.58 crore), Municipal Corporations and Municipalities (₹ 1498.91 crore), Zilla Parishads and other Panchayati Raj Institutions (₹ 1694.84 crore), counterbalanced by decrease in assistance provided to Development Agencies (₹ 1897.88 crore) and Other Institutions (₹ 674.40 crore). Funds were released as capital grants for buildings, salary grants, deficit grants, development schemes under District Rural Development Cell, Small Farmer Development Agency (SFDA), Command Area Development Authority (CADA), Kolkata Metropolitan Development Authority (KMDA) etc.

1.6 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 selected services).

1.6.1 Adequacy of Public Expenditure

Expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. The percentage of the expenditure incurred by a State in a certain sector with respect to aggregate expenditure and comparing the same with the all comparable States' average gives an indicator of the priority level it assigns to that sector. Low fiscal priority is attached to a particular sector in the State if it is below the respective General Category States' average. **Table 1.19** analyses fiscal priority and per capita expenditure of the State Government with regard to Development Expenditure (DE), Social Sector Expenditure (SSE), Capital Expenditure (CE) and expenditure under Education[9] and Health[10] Sector during 2007-08 and 2010-11.

[9] *Education, Sports, Art and Culture sector*
[10] *Health and Family Welfare sector*

Table-1.19: Fiscal priority of the State for 2007-08 and 2010-11:

		AE/GSDP	DE/AE	SSE/AE	CE/AE	Expenditure on Education /AE	Expenditure on Health /AE
2007-08	**General category* States' Average (Percentage)**	**16.85**	**64.28**	**32.54**	**16.14**	**14.64**	**3.98**
	West Bengal's figure (Percentage)	14.09	53.96	34.03	6.39	16.85	4.49
2010-11	**General category States' Average(Percentage)**	**16.65**	**64.42**	**36.75**	**13.27**	**17.42**	**4.35**
	West Bengal's figure (Percentage)	14.60	56.51	41.62	3.31	21.43	5.21

**All Indian States excluding the North Eastern States, Himachal Pradesh, Uttarakhand and Jammu and Kashmir which are under special category*

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

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 when compared to that of General Category States.
- Expenditure incurred on Social and Economic Sectors taken together is considered as **Developmental Expenditure**. Low prioritisation in Development Expenditure was apparent from lower proportion of those expenditures as compared to corresponding all General Category States' average.
- On the **Social Sector**, level of expenditure has been higher than the average of all General Category States' expenditure in both the years. The State also incurred higher percentage of expenditure on Health and Education sectors, as compared to what the General Category States were spending on an average.
- Though the State is spending higher proportion of money on Social Sector, Development Expenditure remains low, which was due to low priority being accorded to the Economic Sector. It is desirable that level of Development Expenditure be raised by enhancement of expenditure in Economic sector, without compromising Social Sector. Otherwise, not only the financial growth of the State would be jeopardised, but it would also not be possible for the State to sustain the current level of expenditure under the Social Sector.
- Low proportion of Capital Expenditure (only 6.39 and 3.31 *per cent* as compared to General Category States' average of 16.14 and 13.27 *per cent* during 2007-08 and 2010-11 respectively) in aggregate expenditure is a matter of concern.

1.6.2 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 State Governments to take appropriate expenditure rationalisation 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 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 1.20** and **Chart 1.16** present 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 1.20** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of selected social and economic services.

Table-1.20: Development Expenditure **(Rupees in crore)**

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)	**19139 (51)**	**22700 (54)**	**34732 (61)**	**35284 (57)**	**42135**	**37958 (57)**
a. Development Revenue Expenditure	15884(42)	19017(45)	30410(54)	31738(51)	36413	35434(53)
b. Development Capital Expenditure	1938(5)	2621(6)	3562(6)	2854 (5)	5186	2119(3)
c. Development Loans and Advances	1317(4)	1062(3)	760(1)	752 (1)	536	406(1)

Source: Finance Accounts and Budget Publications
Figures in parentheses indicate percentage to aggregate expenditure

During 2010-11, the level of Development Expenditure remained same as in 2009-10, as increase under Revenue Section was counter-balanced by fall in Capital Section. It would also be seen from above that the growth of Development Revenue Expenditure which stood at ₹ 15884 crore during 2006-07, was 123 *per cent*; rate of growth in the current year being 12 *per cent*. In terms of percentage to aggregate expenditure, development Revenue Expenditure rose steadily from 42 *per cent* in 2006-07 to 53 *per cent* in 2010-11. The Development Capital Expenditure, after hovering between five and six *per cent* during 2006-2010, went down to three *per cent* in 2010-11.

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[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 subsidised 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 subsidised 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 categorised 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.*

Chart 1.16: Trend in Development Expenditure during 2006-2011

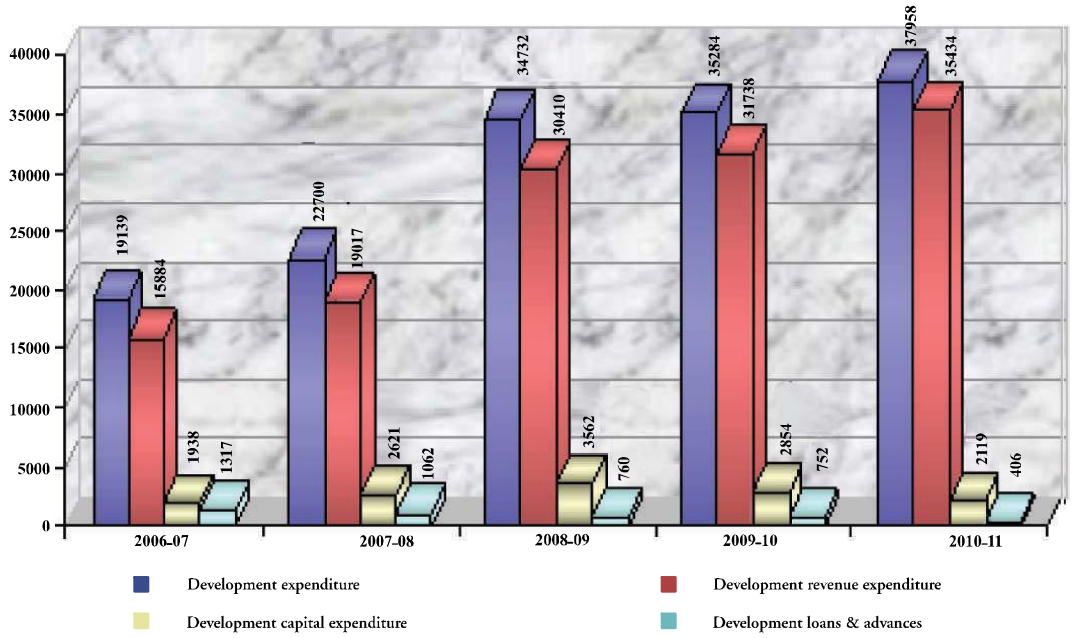


Table 1.21 -Efficiency of Expenditure Use in Selected Social and Economic Services

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	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	0.59	10110.00	1.02	0.52	11695.64	1.97
Health and Family Welfare	6.57	2281.00	13.40	5.34	2554.33	11.43
WS, Sanitation, & HUD	14.72	1121.00	165.23	4.35	1240.28	118.19
Total (SS)	3.58	14387.29	183.51	1.71	16573.15	135.44
Economic Services (ES)						
Agriculture & Allied Activities	5.48	1065.00	8.52	7.04	1162.42	8.56
Irrigation and Flood Control	37.48	559.00	105.09	39.70	585.45	88.76
Power & Energy	47.53	1.00	-	13.72	1.16	-
Transport	41.22	145.00	313.17	38.56	153.67	197.84
Total (ES)	**20.23**	**2978.80**	**428.64**	**16.88**	**3342.11**	**296.54**
Total (SS+ES)	**8.25**	**17366.09**	**612.15**	**5.64**	**19915.26**	**431.98**

*TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance ** As could be identified, may not reflect the complete picture*

Source: Finance Accounts and VLC

In conformity with the overall trend, fall in percentage of CE with respect to TE was noticed during 2010 11 in all three spheres of Social Services. Under Economic Services, percentage of CE with respect to TE witnessed rise in Agriculture and Allied Activities and Irrigation and Flood Control, which was counter-balanced by lower percentage of CE under Power and Transport.

A comparative study of various components of expenditure on Social and Economic Services with particular focus on the trends in salary and wage for 2009-10 and

2010-11 reveal that share of salary and wage in all the components has gone up in 2010-11. 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 ₹ 10015.90 crore in 2009-10 increased to ₹ 11604.04 crore in 2010-11 *i.e.* a rise of ₹ 1588.14 crore (16 *per cent*). Likewise shares on Health which was ₹ 1968.43 crore in 2009 10, rose to ₹ 2241.59 crore in 2010-11 indicating a rise of ₹ 273.16 crore (14 *per cent*).

During the current year, though non-salary components under education increased by a commendable 37 per cent *over that in previous year, non-salary expenditure under Health and Family Welfare was lower by one per cent from that of previous year which is a matter of concern.*

1.6.3 Plan schemes: Position of allotment and expenditure

The Finance Accounts indicates the position of expenditure under various State Plan schemes as well as Central Plan schemes, for which Central funds are received through State Budget. As regards the Central Plan Schemes (including Central Flagship Schemes like SSA, NREGA, PMGSY, etc.) for which funds are not routed through the State budget, the position of allotment has been shown under para 1.3.2 *supra.* **Table 1.22** below shows the receipt and expenditure of funds under some other flagship schemes, which were transacted through the State budget.

Table 1.22: Expenditure *vis-à-vis* availability of funds under the flagship schemes implemented in West Bengal during 2010-11 (funds routed through the State budget)

	Funds received from GoI	State budget provision (inclusive of GoI share)	Expenditure	Under-Utilisation (percentage of under utilization)	Expenditure during 2009-10	Reduction of expenditure w.r.t 2009-10	Variation with respect to previous year
Mid Day Meal	786.10	937.00	709.08 (-7)	227.92 (24)	759.05	(-) 49.97	(-) 7
National Social Assistance Programme (NSAP) including Annapurna	-	623.95	774.41 (11)	(-) 150.46	696.52	77.89	11
Integrated Child Development Project	659.91	389.58	424.37 (5)	(-) 34.79	405.51	18.86	5
Rashtriya Krishi Vikash Yojana (RKVY)	-	427.07	322.51 (125)	104.56 (24)	143.44	179.07	125
Macro Management of Agriculture	38.45	61.89	26.68 (-51)	35.21 (57)	54.34	(-) 27.66	(-) 51
Accelerated Irrigation Benefit Programme		157.99	13.56 (-60)	144.43 (91)	34.13	(-) 20.57	(-) 60
Pre-Matric Scholarship for Minorities	76.54	34.00	75.09 (276)	(-) 41.09	19.98	55.11	276
Integrated Scheme on Oilseeds, Pulses and Maize	6.14	5.12	3.79 (-61)	1.33 (26)	9.82	(-) 6.03	(-) 61
Jute Technology Mission	1.33	6.80	1.17 (-43)	5.63 (83)	2.04	(-) 0.87	(-) 43

Source: Finance Accounts

Substantial under-utilisation of funds was noticed under Mid-Day Meal, RKVY, Macro Management of Agriculture, AIBP etc. Under-utilisation of plan scheme funds under the economic sector (namely, RKVY, AIBP, Macro Management of Agriculture etc.) may be viewed with marginal increase in the expenditure under Economic services.

However, substantial increase in expenditure was noticed in 2010-11 under NSAP, RKVY and Pre-Matric Scholarship for Minorities as compared to 2009-10.

1.7 Financial Analysis of Government Expenditure and Investments

1.7.1 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 from the fact 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 category. Similarly, if a work classified as unproductive, succeeds in yielding prescribed return for three successive years, it becomes a productive one. Revenue realised from 15 schemes during 2010 11 was only ₹ 4.61 crore (nearly 0.22 *per cent* of the capital outlay of ₹ 2073.88 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, 15 schemes suffered a net loss of ₹ 207.18 crore. The major loss making projects were Damodar Valley Project: (₹ 61.05 crore), Kangsabati Reservoir Project: (₹ 56.48 crore), Mayurakshi Reservoir Project (₹ 29.56 crore) and Teesta Barrage Project (₹ 44.34 crore).

1.7.2 Incomplete projects

As of March 2011, there were 305 incomplete capital works[13] each costing more than ₹ 1 crore. A total of ₹ 349.34 crore was invested in these projects by the Government.

Table 1.23: Work-wise Profile of Incomplete Projects (Rupees in lakh)

Types of Works	Number	Estimated cost of works	Expenditure up to March 2011*	Cases for which revised estimates were available		
				Number	Original estimates	Revised estimates
Buildings	13	5669.96	1967.00	9	3636.90	5516.48
Roads	217	139297.27	18599.79	6	23146.02	22582.17
Canal	19	8472.25	1716.50	–	–	–
Irrigation	33	34490.87	6858.74	2	23059.61	204472.17
Others	23	14815.05	5792.25	2	6160.80	7862.27
Total	**305**	**202745.40**	**34934.28**	**19**	**56003.33**	**240433.09**

Source: Finance Accounts

** Progressive expenditure up to March 2011 was not available in many cases*

Thus, there have been cost over-runs, since initial budgeted costs have been scaled up in the cases of time over-run. In 19 out of 305 cases, for which original as well as revised estimates were available, there were escalation of ₹ 1844.30 crore (329 *per cent*) over the estimated cost.

1.7.3 Investment and returns

As on 31 March 2011, Government had invested ₹ 10850.42 crore in statutory corporations, rural banks, joint stock companies and co operatives (**Table 1.24**). The average return on this investment was negligible while the Government paid an average interest rate of 8.59 *per cent* on its borrowings during 2006-11.

[13] *works costing ₹ one crore and above have been included. Works with incomplete information, works which have not been commenced and works clubbed under broad scheme names were excluded*

Table-1.24: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (Rupees in crore)	7641.58	8847.89	10163.21	10675.98	10850.42
Return (Rupees in crore)	2.34	6.22	6.05	0.48	1.07
Return (*per cent*)	0.03	0.08	0.06	–	0.01
Average rate of interest on Government return (*per cent*)	9.22	8.87	8.54	8.32	7.58
Difference between interest rate and borrowing (*per cent*)	9.19	8.79	8.48	8.32	7.57

Source: Finance Accounts

Government investment, which was ₹ 10675.98 crore in 2009-10, rose to ₹ 10850.42 crore in 2010-11, *i.e.* a rise of ₹ 174.44 crore (two *per cent*). This was mainly on account of investment in Government companies and Joint Stock companies, which rose together by ₹ 139.25 crore and ₹ 35.19 crore in Banks & Co-operatives Societies, etc. The return on investment was less than 0.1 *per cent*, while Government paid interest at the average rate of 7.58 to 9.22 *per cent* on its borrowings during 2006-07 to 2010-11. The difference between the rate of return on Government investment and the average interest rate on the outstanding liabilities represented implicit subsidy of ₹ 3869 crore during the period 2006-07 to 2010-11.

Further scrutiny showed that in many cases the companies having Government's investment have suffered substantial losses leading to reduction of net worth to negative. **Table 1.25** shows an illustrative list of some such companies.

Table 1.25: Government investment in Companies / Corporations with negative net-worth **(Rupees in crore)**

		Period of accounts	Paid up Capital	Accumulated profit (+) / Loss (-)	Negative Net Worth	Government Investment up to 2010-11
1	2	3	4	5	6	7
1	West Bengal Tea Development Corporation Limited	2010-11	37.98	- 175.02	- 137.04	37.98
2	West Bengal Agro Industries Corporation Limited	2010-11	8.40	- 74.70	- 66.30	8.41
3	West Bengal Fisheries Development Corporation Limited	2010-11	2.70	-33.76	- 31.06	2.70
4	West Bengal Handicraft Development Corporation Limited	2008-09	15.30	- 20.43	- 5.13	16.45
5	The West Bengal Small Industries Development Corporation Limited (WBSIDC Limited)	2009-10	24.48	- 30.84	- 6.36	35.52
6	Greater Calcutta Gas Supply Corporation Limited	2010-11	41.15	- 274.77	- 233.62	41.15
7	The Kalyani Spinning Mills Limited	2009-10	12.63	- 443.38	- 430.75	14.63
8	North Bengal State Transport Corporation	2008-09	10.70	- 480.39	- 469.69	3.63
9	South Bengal State Transport Corporation	2009-10	11.01	- 352.90	- 341.89	10.06
	Total				**-1715.84**	**177.53**

Source: Accounts of the Companies

The Possibility of any return out of Government investments made in these companies is remote.

1.7.4 Investment in Public Private Partnership projects

With the aim to create durable and high quality infrastructure and to give quality services to the public, State Government has been undertaking projects under Public Private Partnership (PPP). PPPs, while bringing in private capital and expertise, involve transfer of valuable assets as well as foregoing of future revenues in the form of concessions. No comprehensive list of PPP projects was furnished by the Departments, except the Development and Planning Department, which had furnished (May 2011) a list of urban infrastructure projects under Urban development Department. As per information furnished, the following was the position of PPP projects:

Table 1.26: List of PPP projects under UD Department (Rupees in crore)

Types of projects	Number of projects	Cost
Completed projects		
Residential complexes	6	81.50
Shopping complex	1	5.20
Real Estate Projects	3	314.00
Others	5	110.80
Total completed	15	511.50
Projects under Implementation		
Residential complexes	8	1558.00 (assessed)
Shopping complex	4	563.00 (assessed)
Real Estate Projects	4	3543.65 (assessed)
Others	15	2890.50 (assessed)
Total under implementation	**31**	**8555.15 (assessed)**
Projects under planning/pipeline		
Road	1	96.94 (assessed)
Others	8	246.50* (assessed)
Total under implementation	**Nine**	**343.44 (assessed)**

Source: Information furnished by Development and & Planning Department
** Estimated cost of only three projects has been ascertained by the Department.*

The Health and Family Welfare Department intimated (June 2011) that it had formulated a policy for PPP projects in 2006 to make available basic medical facilities to common people at cheaper price by establishing CT scan/ MRI/Audio-vestibular laboratory, night shelters and toilet complexes, ambulance services, diagnostic centres, mobile health care services and establishment of Medical Colleges and Hospitals. It was further intimated that many PPP schemes under H&FW Department were service oriented and not on project mode and no financial investment of Government except some infrastructural support was involved.

1.7.5 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government Departments. The department-wise position of investment made by the Government up to the year for which *pro forma* accounts were finalised, net profits/loss as well as return on capital invested in these undertakings are given

in ***Appendix 1.7*** read with ***Appendix 3.5.*** Scrutiny reveals the following:

- An amount of ₹ 2459.71 crore (*vide* ***Appendix 3.5***) had been invested by the State Government in 19 undertakings at the end of financial year up to which their accounts were finalised.
- Of all undertakings (19), only one undertaking viz. Scheme for Public Distribution of Foodgrains, could earn net profit amounting to ₹ 2.62 crore as of March 2006 (accounts are due from 2006-07) against the capital investment of ₹ 420.26 crore (*vide* ***Appendix 3.5***) thereby yielding the rate of return of 0.62 *per cent*.
- Of the loss making undertakings, 13 incurred losses (aggregating ₹ 1970.16 crore) against total capital investment of ₹ 2039.45 crore continuously for more than five years and five undertakings have turned into non-performing ones (*vide* ***Appendix 3.5***).
- Failure to achieve production targets, under utilisation of plant capacity, capacity mismatch, shortage of raw material, high production cost due to higher administrative cost, low selling price, inadequate market demand, excess process/distribution loss etc. were the attributable reasons.

1.7.6 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 1.27** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last five years.

Table-1.27: Average interest received on loans given by the State

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Opening Balance	16792.83	17872.19	18437.67	13581.49		13946.83
Amount advanced during the year	1317.26	1062.12	759.65	752.44	536.35	407.73
Amount repaid during the year	237.90	496.64	5615.83	387.10*		372.49
Closing Balance	**17872.19**	**18437.67**	**13581.49**	**13946.83**		**13982.07**
Of which Outstanding balance for which terms and conditions have not been settled	1186.96	1239.71	1050.09	1435.42		1300.30
Net addition	1079.36	565.48	(-) 4856.18	365.34		35.24
Interest Receipts	549.14	558.51	3865.93[14]	234.20		580.47
Interest receipts as *per cent* to outstanding Loans and advances	3.17	3.08	24.15	1.70		4.16
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	**9.22**	**8.87**	**8.54**	**8.32**		**7.58**
Difference between interest payments and interest receipts (per cent)	6.05	5.79	(-) 15.61	6.62		3.42

Source: Finance Accounts ** including ₹ 4.02 crore written off*

Out of 168 loanees, only 14 loanees accepted the loan balances of 2009-10. As of March 2011 verification and acceptance of loan balances in respect of loans for ₹ 12560.74 crore were not available. In absence of the said confirmation, the quality of accounts could not be vouchsafed.

Of the total outstanding loans of ₹ 13982.07 crore, terms and conditions had not been settled in respect of 1725 loans for ₹ 1300.30 crore. *The earliest of such loans, the terms and conditions for which remain unsettled, pertained to 1966-67.*

[14] *Of ₹ 3865.93 crore, ₹ 3245.50 crore was book adjustment.*

Scrutiny revealed that loans amounting to ₹ 869.05 crore relating to 15 departments remained unaltered for long period. Thirteen of these departments had such loans worth more than ₹ 1 crore, shown in the following table:

Table 1.28: Cases of old loans without any recovery **(Rupees in crore)**

	Name of the Department	Loans with no recovery	Period of sanction
		Amount	
1	Industrial Reconstruction	152.58	1977-78 to 2005-06
2	Public Health Engineering	2.44	1983-84 to 1997-98
3	Municipal Affairs	1.61	1965-66 to 1969-70
4	Heath and Family Welfare	18.48	198081 to 1994-95
5	Agriculture	27.50	1984-85 to 1992-93
6	Fisheries	1.73	1977-78 to 1993-94
7	Commerce and Industries	58.17	1975-76 to 2003-04
8	Micro & Small Scale Enterprises and Textiles	39.27	1974-75 to 2007-08
9	Public Undertaking	2.55	1976-77 to 1985-86
10	Public Enterprise	185.39	1975-76 to 2006-07
11	Food Processing Industries and Horticulture	2.21	1988-89 to 1998-99
12	Home (Transport)	8.89	1982-83 to 1989-90
13	Water Resources & Investigation Department	15.23	1984-85 to 1990-91
	Total	**516.05**	

Source: Compiled by Pr. Accountant General (Accounts and Entitlement)

Some instances of deficient loan management noticed in audit are discussed as under:

- Between March 1981 and March 2009, Siliguri Jalpaiguri Development Authority (SJDA), an autonomous body under Urban Development Department, drew State Government loans aggregating ₹ 58.42 crore. SJDA neither paid interest nor repaid principal to Government till March 2011, when the overdue installments of loan and interest stood at ₹ 120.06 crore (principal: ₹ 53.62 crore and interest ₹ 66.44 crore). The Department did not take any action for recovery of dues. Similarly, overdue amounts in respect of Asansol Durgapur Development Authority as of March 2011 stood at ₹ 30.67 crore (principal) and ₹ 32.49 crore (interest) respectively. Ignoring non-repayment of earlier loans by SJDA and ADDA, fresh loans of ₹ 1.57 crore and ₹ 2.05 crore were released by the Urban Development Department to these authorities respectively during 2010-11.
- Transport Department sanctioned loan amounting to ₹ 1 crore to North Bengal State Transport Corporation (NBSTC) for repayment of medium term loan taken from West Bengal State Co-operative Bank. NBSTC diverted (the actual purpose of utilization of the said amount was neither on record nor furnished by the department) the amount instead of repaying its loan liability to WBSCB. Subsequently, the Department again released additional funds for the same purpose and the loan was repaid therefrom.
- M/s Adhesive and Chemicals (A&C), a sick small scale industrial unit under private ownership, with negative net worth, had total liabilities of ₹ 5.47 crore and fixed assets worth ₹ 0.44 crore. Those assets had already been mortgaged with Allahabad Bank. In April 2001, A&C approached Industrial Reconstruction Department with a revival scheme under 'West Bengal Industrial Renewal Scheme, 2001' (WBIRS). The revival plan, however, envisaged receipt of bank loans for sustaining business. Though Allahabad Bank had informed (September 2000) that it would not further increase its exposure to A&C, the

Department sanctioned (October 2001) a soft loan of ₹ 1.10 crore without any collateral security. A&C, however, failed to achieve the performance level envisaged in the revival plan owing to non-availability of need based working capital loan from Bank and finally closed down in November 2006, thereby hardly leaving any scope for realisation of the dues of the Government with interest thereon. *(The issue has been discussed in details in Report No 2 (Civil) for the year ended March 2011 under the category "Expenditure without justification").*

Thus, sanction of loan without assessing the loan repayment capacity of the loanee coupled with poor monitoring resulted in huge accumulation of unpaid loan for years together which has resulted in adverse fund position of the State Government.

1.7.7 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 a daily minimum balance of ₹ 2.48 crore with effect from 1 May 2000. If the balance falls below the agreed minimum limit on any day, the deficiency is made good by taking special or normal ways and means advance/overdraft from the bank. During the year 2010-11, the State Government had to resort to special and normal ways and means advances and overdrafts for 79, 53 and 62 days respectively (total 194 days) indicating increasing mismatch between State's flow of resources and its expenditure obligations. During this year quantum of such advances was ₹ 19979.88 crore (of which ₹ 19373.79 was repaid within the year), including overdraft of ₹ 5303.50 crore. The State had to bear ₹ 27.79 crore as interest on ways and mean advances (₹ 23.92 crore) and overdrafts: (₹ 3.87 crore). Treasury bills amounting to ₹ 19762.11 crore and ₹ 20366.12 crore respectively were purchased and sold during the period 2010-11. An amount of ₹ 63.96 crore was received as interest on investment under treasury bills during the year. The investment made out of general cash balance and earmarked funds up to end of March 2011 are given in the following table.

Table-1.29: Cash Balances and Investment of Cash balances (Rupees in crore)

	As on 1 April 2010	As on 31 March 2011	Increase/ Decrease
Cash balance	**4785.49**	**5675.89**	**(+) 890.40**
Cash in Treasuries	0.35	0.47	(+) 0.12
Deposits with Reserve Bank of India	101.25	168.77	(+) 67.52
Local remittances	-	-	-
Departmental cash balances	38.84	24.75	(-) 14.09
Permanent imprest		1.63	1.63
Investments from Cash Balances (a to d)			
a. Securities of Government of India-	-	-	-
b. GoI Treasury Bills	603.31	(-) 0.69	(-) 602.62
c. Other Securities	-	-	-
d. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (a and b)	**4040.12**	**5480.96**	**1440.84**
a. Sinking Funds	4039.52	5480.36	1440.84
b. Development of Welfare Fund	0.60	0.60	-
Interest Realised	57.86	63.96	6.10

Source: Finance Accounts

The cash balance of the State as at the end of 2010-11 stood at ₹ 5675.89 crore registering an increase of 19 *per cent* over the previous year. Cash balances were

wholly invested in GoI securities. Treasury Bills amounting to ₹ 19762.11 crore and ₹ 20366.12 crore were purchased and sold respectively during the current year. An amount of ₹ 63.96 crore was received as interest on investment under Treasury bills during the year.

1.8 Assets and Liabilities

1.8.1 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 1.4*** gives an abstract of such Assets and Liabilities as on 31 March 2011, compared with the corresponding position on 31 March 2010. 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 2006-07 to 2010-11, assets-liability ratio hovered around 0.26 to 0.33 and during the current year, the ratio came down to 0.26 from 0.27 in the previous year. This indicated that only 26 *per cent* of the liabilities had the asset back-up which needs to be addressed.

1.8.2 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 1.6***. However, the compositions of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.17** and **1.18.**

Chart 1.17: Composition of Outstanding Fiscal Liabilities as on 31.3.2011 (Rupees in core)

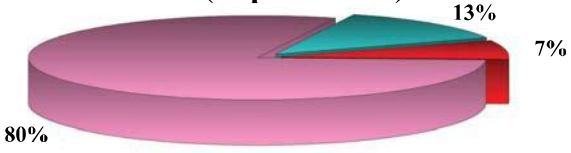


Chart 1.18: Composition of Outstanding Fiscal Liabilities as on 31.3.2011 (Rupees in core)



Fiscal Liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, Revenue Receipts and own resources are brought out in **Table 1.30:**

Table-1.30: Trend in Fiscal Liabilities of the State

(Rupees in crore and ratios in percentage)

	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal Liabilities	122398	134402	148110	171693	192868
Rate of growth		9.81	10.20	15.92	12.33
Ratio of Fiscal Liabilities to					
GSDP	46.66	45.02	43.49	42.86	41.92
Revenue Receipts	473.90	445.53	401.34	465.02	408.07
Own resources	945.60	920.62	764.04	887.85	820.40

Source: Finance Accounts

Overall fiscal liabilities of the State increased from ₹ 171693 crore in 2009-10 to ₹ 192868 crore in 2010-11 with a growth rate of 12.33 *per cent*. The ratio of fiscal liabilities to GSDP which was 42.86 *per cent* in 2009-10, though declined to 41.92 *per cent* in 2010-11, was higher than that prescribed by 13th Finance Commission (40.6 *per cent*). These liabilities stood at more than four times of the Revenue Receipts and eight times the State's own resources as at the end of 2010-11. The rate of growth of GSDP, which was 17.62 *per cent* in 2009-10 over previous year, came down to 14.86 *per cent* this year; whereas, that of fiscal liabilities, which was 15.92 *per cent* last year, declined to 12.33 *per cent* this year.

1.8.3 Reserve Funds

As on 31 March 2011, there was an aggregate closing balance of ₹ 5454.18 crore in 17 Reserve Funds. Out of ₹ 5454.18 crore, Government had invested ₹ 5480.96 crore in earmarked funds as of the end of the year. During the year, an amount of ₹ 2119.63 crore was transferred as annual contribution in various Reserve Funds. The Reserve Funds of the State decreased by ₹ 1192.08 crore over the previous year. The position of the closing balances of some major Reserve Funds as of March 2011 and amount contributed therein during 2010-11 was as under:

Table 1.31: Closing balances and contribution in respect of some major reserve fund

(Rupees in lakh)

Name of the Fund (reference of Major-Minor Head)	Closing Balance as on 31 March 2011	Contribution made during 2010-11
State Disaster Response Fund (8121-123)	(-) 25597.23 (Cr)	32837.82
Consolidated Sinking Fund (8222-01-101)	548036.64 (Cr)	144084.25
State Roads and Bridges Fund (8225-101)	17448.86 (Cr)	34002.03
Calamity Relief Fund (8235-111)	1568.92 (Cr)	Nil

Source: Finance Accounts

Further, it was seen that 10 Reserve Funds with aggregate closing balance of ₹ 5.98 crore as of March 2011 have been lying in-operative since 2004-05.

1.8.4 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. The West Bengal Ceiling on Government Guarantees Act, 2001 stipulated 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.

As per Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.32.**

Table-1.32: Guarantees given by the Government of West Bengal

(Rupees in crore)

	1 April 2007	1 April 2008	1 April 2009	1 April 2010	1 April 2011
Maximum amount guaranteed	21826.39	23117.70	19974.48	20298.38	19860.49
Outstanding amount of guarantees	13136.64	13683.86	11972.75	10354.63	11943.44
Ceiling fixed by State Government Act (90 *per cent* of Revenue Receipt of the second preceding year)	17926	21353	23245	27150	33214
Percentage of outstanding amount guaranteed to Revenue Receipts of second preceding year	66	58	46	34	32

Source: Finance Accounts

The total guarantee of the Government decreased from ₹ 20298.38 crore in 2009-10 to ₹ 19860.49 crore in 2010-11. Outstanding guaranteed loan amount, however, increased from ₹ 10354.63 crore in 2009-10 to ₹ 11943.44 crore in 2010-11. Over the last five years outstanding amount of Government guarantee was consistently well within the ceiling permissible under the relevant Act.

Further, in terms of Section 10 of West Bengal Act I of 2002 the loanee for whom the State Government provided guarantee to the financial institutions, was required to pay the guarantee commission at the rate of one *per cent* (minimum) on the total amount guaranteed. However, ₹ 142.32 crore towards guarantee commission in respect of three test-checked departments remained outstanding as on 31 March 2011(Power: ₹ 103.12 crore, Urban Development: ₹ 22.20 crore, Finance (IF): ₹ 17 crore). Nothing was on records to show whether any action was initiated by the Departments to recover outstanding guarantee fees.

1.9 Debt Sustainability

Debt sustainability[15] 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

[15] *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.*

if it turns positive, it would fall. **Table 1.33** analyses debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

Table 1.33: Debt Sustainability: Indicators and Trends (Rupees in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	4757 {5308+(-)551}	6353 {6369+(-)16}	6308 {7797+ (-)1489}	3222 {14871+ (-)11649}	7551 {13270+ (-)5719}
Debt-GSDP ratio	0.467	0.450	0.435	0.429	0.419
Sufficiency of Non-debt Receipts (Resource Gap)	(-)1829	(+)30	(-)2158	(-)11396	(+)5418
Net Availability of Borrowed Funds	(-)2372.92	(+) 198.17	(+) 533	(+) 9302	(+) 5888
Debt redemption/Debt receipt	1.11	1.00	0.99	0.85	0.92
Burden of Interest Payments (IP/RR Ratio)	0.43	0.38	0.35	0.36	0.29

Source: Finance Accounts

Debt Stabilisation[16] **:** debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise 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. The sum of quantum spread with primary deficit was positive during all five years.

WBFRBM Act 2010 envisaged that during 2010-11 the Debt-GSDP ratio should be 40.60 *per cent* (medium term target being 34.30 *per cent* within 2014-15). Against the target, the same stood at 41.92 *per cent* during the current year.

Sufficiency of non-debt receipts: For debt sustainability the incremental non-debt receipts of the State should be adequate to cover incremental interest liabilities and incremental primary expenditures. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. During 2010-11 there was noticeable improvement in terms of sufficiency in non-debt receipts, as Resource Gap turned positive with substantial magnitude as compared to the last year, indicating growing capacity of the State to sustain the debt. There has also been an increase of non-debt receipts by ₹ 10327 crore during the current year, which had its positive impact on the States financial health. The debt-GSDP ratio, which was 0.467 in 2006-07, came down to 0.429 in 2009-10 and 0.419 in 2010-11.

Net availability of borrowed funds: This is 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. Though availability of borrowed funds remained positive during last four years, quantum of the same came down from ₹ 9302 crore in the previous year to ₹ 5888 crore this year.

[16] *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).*

Burden of interest payments: This is measured by interest payments to Revenue Receipts ratio. *The Twelfth Finance Commission 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, this was 36 per cent in 2009-10, which came down to 29 per cent in 2010-11. Interest payment of the State at ₹13817.30 crore was marginally higher than the projections of the Thirteenth Finance Commission at ₹13694.95 crore.*

Maturity profile of the State Debt: A look at the maturity profile (*vide* **Table 1.34**) of State Government's debt (both market loan as well as GoI loans) would reveal that annual liability towards redemption of State debt would be on the rise in coming years.

Chart 1.19: Maturity Profile of State Debt

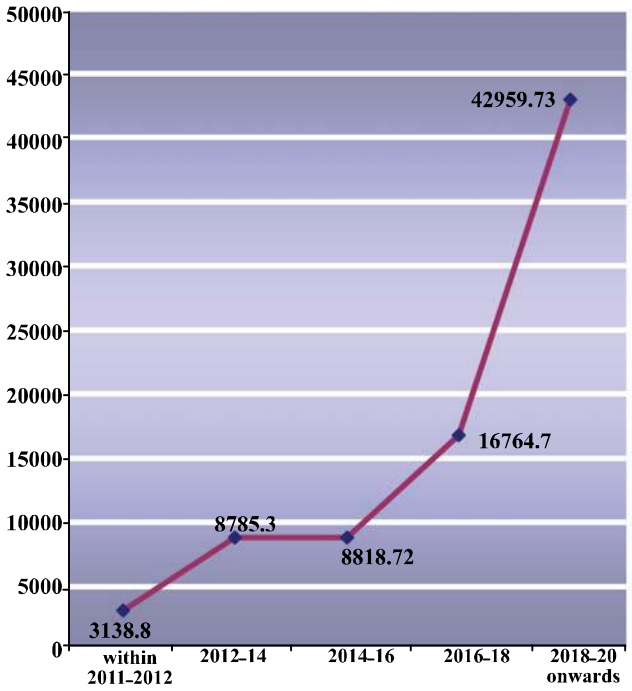


Table 1.34: Maturity Profile of State Debt

Period	Amount to be matured
Details of Maturity year not available	₹ 86974.86crore
Within 2011-12	₹ 3138.80crore
2012-13 to 2013-14rs	₹ 8785.30crore
2014-15 to 2015-16	₹ 8818.72crore
2016-17 to 2017-18	₹ 16764.70crore
2018-19 onwards	₹ 42959.73crore
Total redeemable debt	**₹ 167442.11crore**

Source: Finance Accounts

Non-availability of maturity profile of ₹ 86974.86 crore (52 *per cent*) of the State debt would seriously affect the planning and preparedness of the State in repaying its debt, as 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

1.10 Fiscal Imbalances

Three key fiscal parameters - Revenue, Fiscal and Primary Deficits - indicate the extent of overall fiscal imbalance in Government finances. Deficit in Government accounts represents the gap between receipts and expenditure. 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 2010-11.

1.10.1 Trends in Deficits

Charts 1.20 and **1.21** present trends in deficit indicators over the period 2006-07 to 2010-11.

Chart 1.20: Trends in Deficit Indicator

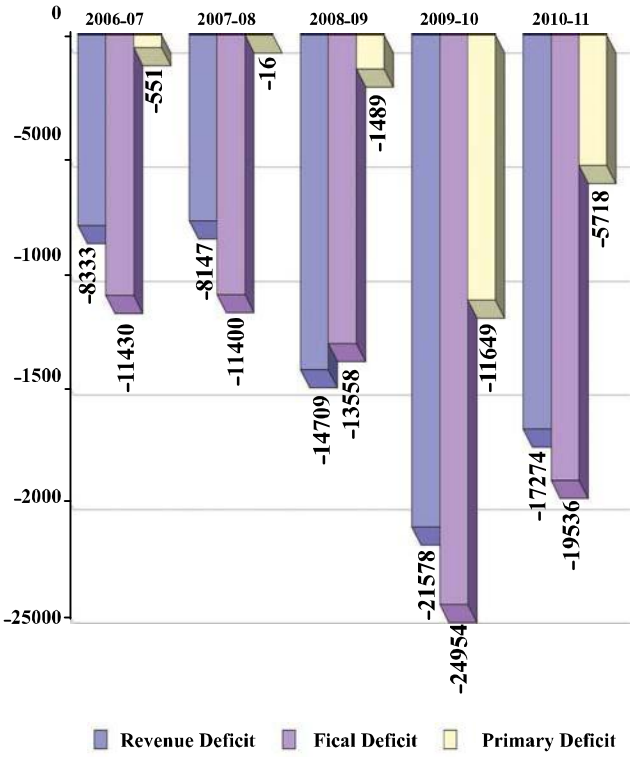
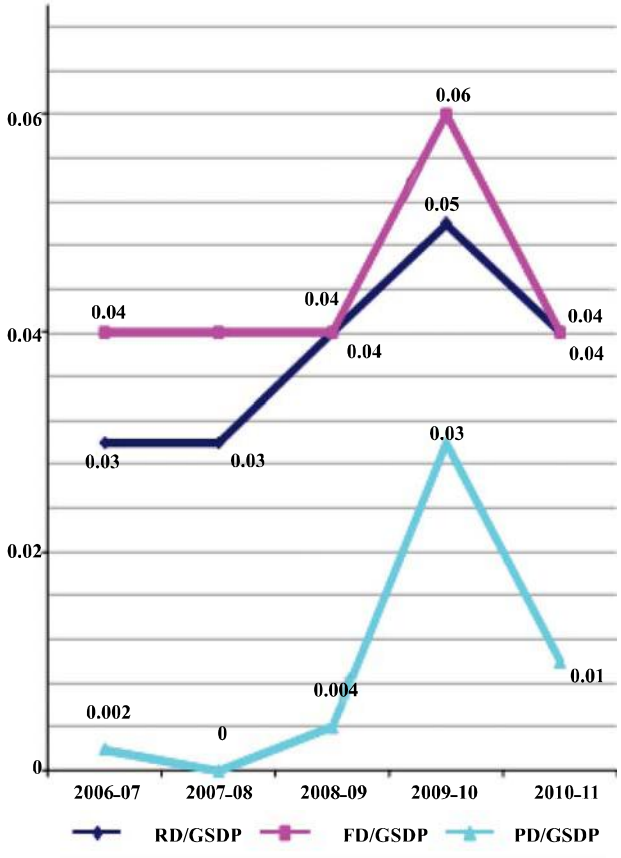


Chart 1.21: Trends in Deficit Indicator indicatots relative GSDP



Revenue Deficit, which was ₹ 8333 crore in 2006-07, shot up steeply to ₹ 14709 crore in 2008-09 and went higher to ₹ 21578 crore in 2009-10. It however, came down to ₹ 17274 crore in 2010-11. Thus, there was a growth of about 107 *per cent* over the five year period. Fiscal Deficit which was ₹ 11430 crore in 2006-07 increased sharply to ₹ 24954 crore in 2009-10. It however, came down to ₹ 19536 crore 2010-11. The WBFRBM Amendment Act 2011 envisaged containment of Fiscal Deficit within 3.5 *per cent* of GSDP. Against this target, the Fiscal Deficit stood at 4.25 *per cent* during 2010-11.

1.10.2 Components of Fiscal Deficit and its financing pattern

Financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.35**.

Table 1.35: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11		
Decomposition of Fiscal Deficit		**11430(4.35)**	**11400(3.82)**	**13558(3.98)**	**24954 (6.23)**			**19536(4.25)**
1	Revenue Deficit	8333 (3.18)	8147 (2.73)	14709 (4.32)	21578 (5.39)			17274(3.75)
2	Net Capital Expenditure	2018	2688	3705	3011			2226
3	Net Loans and Advances	1079	565	(-) 4856	365			36
4	Fiscal deficit	(-) 11430	(-) 11400	(-) 13558	(-) 24954			(-) 19536
Financing Pattern of Fiscal Deficit						**Receipts**	**Disbursement**	**Net**
1	Market Borrowings	843	10740	11543	15605	10556	2111	8445
2	Loans from GoI	(-)658	(-) 623	(-) 585	(-)1009	296	544	(-) 248
3	Special Securities Issued to NSSF	8245	936	520	6431	12189	2101	10088
4	Loans from Financial Institutions	(-)1104	(-)293	(-) 335	(-)191	21133	21464	(-) 331
5	Small Savings, PF etc	314	319	355	738	2385	1256	1129
6	Deposits and Advances	893	789	1231	1364	23444	22574	870
7	Suspense and Miscellaneous	2628	501	712	2614	63895	63735	160
8	Remittances	244	133	274	58	5270	5535	(-) 265
						139168	**119320**	**19848**
9	**Overall Surplus/Deficit**	**(-) 18**	**(+)1102**	**(+)157**	**(+)656**			**(+) 312**

Source: Finance Accounts

It is evident that in financing this high magnitude of deficit, Government had to resort to market borrowings and Special Securities Issued to National Small Savings Fund. As regards cost of these borrowings of the two main sources of funds it was noticed that the rates of interest on Market borrowings and Special Securities issued to NSSF, as prevailing in 2010-11 were 8.11 to 8.58 per cent and nine per cent respectively.

The State Government was yet to repay matured market loan of ₹ 4.63 crore, as of March 2011.

1.10.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans and Advances) indicate the quality of deficit. 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 1.36)** 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 1.36: Primary deficit/Surplus – Bifurcation of factors (Rupees in crore)

	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)
2006-07	26066	23282	2018	1317	26617	(+)2784	(-) 551
2007-08	30664	26930	2688	1062	30680	(+)3734	(-) 16
2008-09	42520	39544	3705	760	44009	(+)2976	(-) 1489
2009-10	37309	45195	3011	752	48958	(-)7886	(-) 11649
2010-11	47636	50721	2226	408	53355	(-)3085	(-)5719

Source: Finance Accounts

Further, proportion of Capital Expenditure with respect to total expenditure worked out only three *per cent* which was lowest in last five years. During 2010-11, Primary Deficit decreased to ₹ 5719 crore from ₹ 11649 crore in 2009-10 as the Non Debt Receipt increased significantly during the year. Ideally, incremental Non-Debt Receipt every year should cover not only Primary Expenditure, but also incremental interest burden. It would be seen from the table above that during the years 2008-09 to 2010-11, Non-Debt Receipt could not meet the Primary Expenditure.

1.11 Conclusion and Recommendations

Fiscal position of the State: The State Government has improved its fiscal situation during 2010-11. Revenue Receipts grew at a healthy rate of 28 *per cent*, while the growth of Revenue Expenditure contained to 10.32 *per cent*. As a result, there was reduction in both Revenue and Fiscal Deficits. However, the Fiscal Deficit during 2010-11 was 4.25 *per cent* of GSDP as against the FRBM Act target of 3.50 *per cent.*

Enactment of Fiscal Responsibility Legislations: The State introduced the FRBM Legislation in July 2010 and amended it in February 2011 fixing the rolling fiscal targets for 2010-15. However, detailed indicators and rolling plan for additional resource mobilization were not yet prepared.

Preparation of all the requisite fiscal documents connected to implementation of FRBM should be expedited.

Prioritisation of Capital expenditure: Capital Expenditure as well as expenditure under Economic Sector is the major indicators of development activity. In both the cases, not only was the actual expenditure far below budget estimate, Capital Expenditure was remarkably low at only three *per cent* of total expenditure. Thus, most of the high cost borrowed funds were utilised to meet Revenue Expenditure.

The State should consider assigning greater priority to expenditure on Economic Sector and Capital Expenditure. Terms of reference of 13th Finance Commission requires the State to consider the objective of not only balancing the revenue account but also generating surplus for Capital investment.

Transfer of fund to State implementing agency: During 2010-11, GoI directly transferred ₹ 8806.84 crore to the State implementing agencies compared to ₹ 6446.54 crore in 2009-10. A Major portion went to Government Autonomous Bodies (₹ 7733 crore). Such direct transfer of funds runs the risk of improper utilisation of funds by these agencies. As these funds remain outside the State budget, there is no single agency monitoring fruitful utilisation. Resultantly, consolidated data is not available as to the quantum of total such funds actually available/spent in relation to Centrally sponsored schemes.

A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Office of the Accountant General.

Review of Government investment : Government is getting very little return from its capital outlay on Irrigation works. Return on investment in Statutory Corporations, rural banks etc. depicted a grim picture, varying between zero and 0.07 *per cent*, while Government had to pay interest at the average rate of 7.58 to 9.22 *per cent* on its borrowings during 2006-07 to 2010-11 leading to substantial implicit subsidy.

State Government should ensure better value for money in investments and prioritise projects with high socio-economic returns. Efforts are needed to implement the recommendations of the Thirteenth Finance Commission on clearance of arrear accounts of all PSUs, closure of non-working PSUs as well as divestment of non-viable PSUs.