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 ***Appendix 1.1***. The population of the State as per 2011 Census was 9.13 crore with a density of 1029 person per sq km. The literacy rate as per 2011 Census was 77.08 *per cent* which was higher than All India average of 74 *per cent*. The Gross State Domestic Product (GSDP) in West Bengal has grown at an average rate of 16.02 *per cent* over the last five years. Over half of its GSDP accrues from the Service 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**.** The first Medium Term Fiscal Policy and Strategy Statement was presented before West Bengal Legislative Assembly (WBLA) in March 2012 while presenting the State Budget for 2012-13.

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 2011-12 *vis-à-vis* the previous year while ***Appendix 1.4*** provides details of receipts and disbursements as well as overall fiscal position during the current year.

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

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
					Non-Plan	Plan	Total
Section-A: Revenue							
Revenue Receipts	**47264.20**	**58755.04**	Revenue Expenditure	**64538.16**	**59197.11**	**14129.26**	**73326.37**
Tax Revenue	21128.74	24938.16	General Services	28680.41	32195.36	93.61	32288.97
Non-Tax revenue	2380.49	1340.25	Social Services	27343.09	21438.47	10125.30	31563.77
Share of Union Taxes/Duties	15954.95	18587.81	Economic Services	8090.50	5079.40	3889.72	8969.12
Grants from Government of India	7800.02	13888.82	Grants-in-aid and Contributions	424.16	483.88	20.63	504.51
Section-B: Capital							
Misc. Capital Receipts	-	-	Capital Outlay	**2225.75**	(-) 0.38	2764.13	**2763.75**
Recoveries of Loans and Advances	**372.49**	**78.17**	Loans and Advances disbursed	**407.73**	125.43	322.54	**447.97**
Public Debt receipts*	**24800.66**	**26555.07**	Repayment of Public Debt*	**6846.29**			**9299.19**
Contingency Fund	**2.70**	**0.03**	Contingency Fund	**0.03**			**0.53**
Public Account receipts	**76696.07**	**94384.24**	Public Account disbursements	**74227.77**			**91187.25**
Opening Cash Balance	**4785.50**	**5675.89**	Closing Cash Balance	**5675.89**			**8423.38**
Total	**153921.62**	**185448.44**	**Total**	**153921.62**			**185448.44**

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* Actual during 2011-12 **(Rupees in crore)**

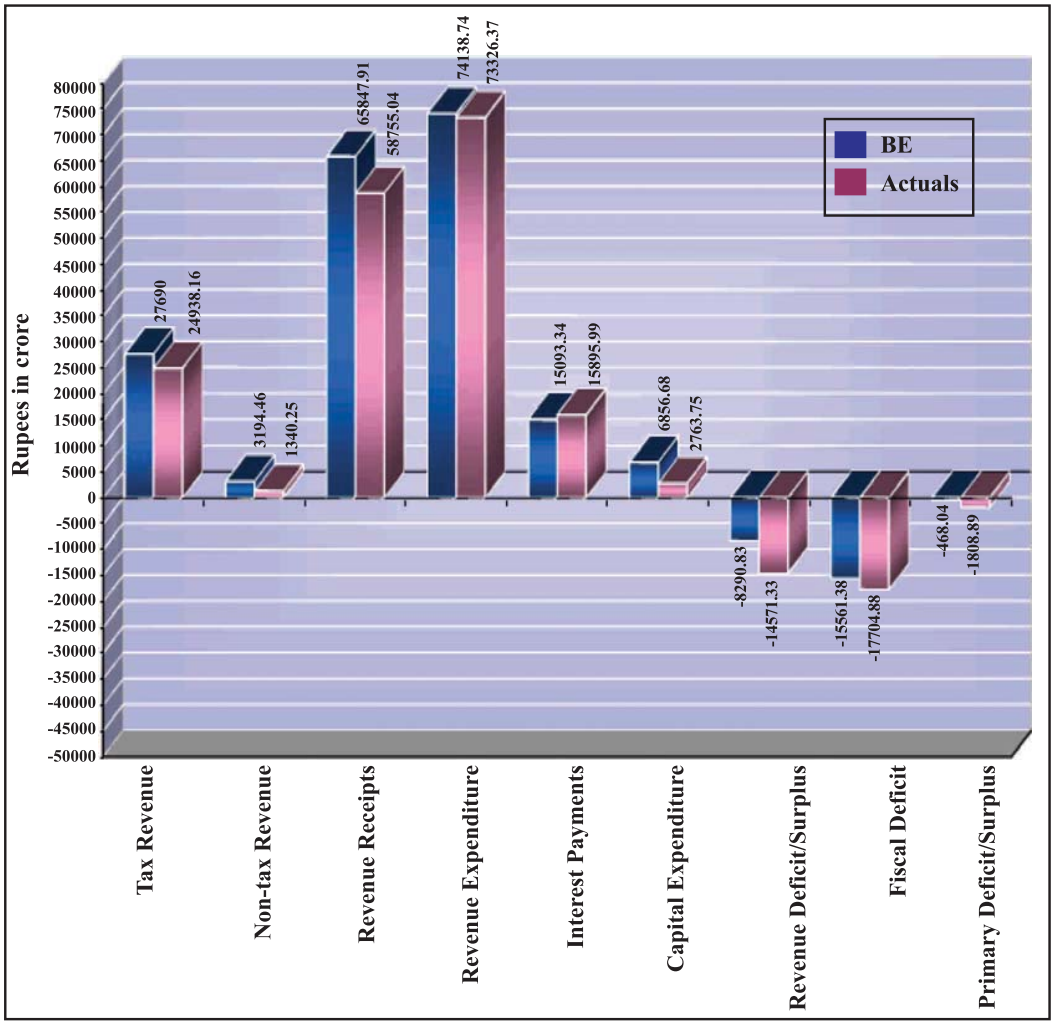
	Budget Estimates	Actual	Percentage variations
Tax Revenue	27690.00	24938.16	(-) 10
Non-Tax Revenue	3194.46	1340.25	(-) 58
Revenue Receipts	65847.91	58755.04	(-) 11
Revenue Expenditure	74138.74	73326.37	(-) 1
Interest Payment	15093.34	15895.99	(+) 5
Capital Expenditure	6856.68	2763.75	(-) 60
Revenue Deficit (-)/Surplus(+)	(-) 8290.83	(-) 14571.33	(+) 76
Fiscal Deficit(-)/Surplus(+)	(-) 15561.38	(-) 17704.88	(+) 14
Primary Deficit(-)/Surplus(+)	(-) 468.04	(-) 1808.89	(+) 286

Source: Budget publications and Finance Accounts

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

As may be observed from **Table 1.2** and **Chart 1.1** there were considerable variation between budget estimates and actuals in the case of several key parameters. Significant shortfalls in capital expenditure on Water Supply, Sanitation, Housing and Urban

Chart 1.1 : Selected Fiscal Parameters : Budget Estimates *vis-a-vis* Actuals during 2011-12



Development (₹ 638.97 crore, 74 *per cent*) and Education, Sports, Art and Culture (₹ 186.59 crore, 67 *per cent*) in Social sector and Irrigation and Flood Control (₹ 2329.65 crore, 85 *per cent*), Transport (₹ 291.66 crore, 28 *per cent*) and Agriculture and Allied Activities (₹ 242.61 crore, 61 *per cent*) in Economic sector, the Capital expenditure fell drastically short of the estimate (60 *per cent*). Thus, asset creation was not given as much priority as intended in the BE.

Actual receipts under Tax Revenue was lower (10 *per cent*) than that projected in the BE, mainly due to lower collections under Sales Tax (7 *per cent*), State Excise (12 *per cent*), Stamps and Registration Fees (9 *per cent*), Taxes on Vehicles (26 *per cent*), etc. Non-Tax Revenue was significantly lower (58 *per cent*) than that projected in the BE, mainly because of less receipts under Food Storage and Warehousing and Interest Receipts compared with BE. The actual revenue deficit was higher than the budgetary estimate by 76 *per cent* (₹ 6280.50 crore) due to significant shortfall in non-tax revenue as well as shortfall in tax revenue. Fiscal deficit and primary deficit surpassed the budgetary estimate by 14 *per cent* and 286 *per cent* respectively mainly due to increase in revenue deficit.

There is need for effective steps in enhancing the tax base and tax realisation with simultaneous containment of Non-Plan Revenue Expenditure to improve the fiscal situation. Besides, expenditure on capital sector needs to be ameliorated to improve the productive capacity of the State's economy.

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 *pro forma* and table the same before the Legislative Assembly along with the Budget:

- Medium-term fiscal policy statement (MTFPS);
- Fiscal policy strategy statement (FPSS);
- 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.

The first Medium-term fiscal policy statement and Fiscal policy strategy statement was presented before the Legislature along with the Budget for the year 2012-13.

Rolling targets for fiscal indicators envisaged in the Medium-term fiscal policy statement is presented in the table below :

Table 1.3: Rolling targets envisaged in the Medium-term fiscal policy statement

Item	Current Year Budget Estimate (BE)	Current Year Revised Estimates (RE)	Ensuing Year Budget Estimate (BE)	Targets for next two years	
	2011-12	2011-12	2012-13	2013-14	2014-15
Revenue deficit as percentage of GSDP	1.51	3.14	1.10	0.50	0
Fiscal deficit as percentage of GSDP	2.83	3.94	2.51	3.00	3.00
Total debt stock as percentage of GSDP	37.08	37.90	35.72	35.90	34.30

Source: Medium Term Fiscal Policy Statement

The above table shows that the State Government targets to progressively reduce the revenue deficit, fiscal deficit and debt stock in tune with the provisions of the WBFRBM Act. However, fiscal rolling targets for the year 2011-12, as envisaged in the amended Act and actual achievement there against indicated that targets set under the FRBM Legislation as well as in MTFPS were not achieved in respect of revenue deficit as detailed in the table below:

Table 1.4: Targets envisaged under FRBM Act and achievements thereagainst

Indicators	Medium term fiscal policy target	Target for 2011-12	Actual for 2011-12
Debt Stock	34.30 *per cent* of GSDP within 2014-15	39.10 *per cent* of GSDP *i.e.* ₹ 215002 crore	₹ 207702 crore *i.e.* 37.77 *per cent*
Revenue Deficit	To be eliminated within 2014-15	1.60 *per cent* of GSDP *i.e.* ₹ 8798 crore	₹ 14571 crore[1] *i.e.* 2.65 *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.* ₹ 19246 crore	₹ 17705 crore *i.e.* 3.22 *per cent*

In the FPSS, it has been stated that due to excessive financial burden on the State, the fiscal indicators have not been moved towards the targets prescribed in the WBFRBM Act.

According to WBFRBM Act 2010, the State Government at the time of presentation of the budget is required to disclose significant changes in the Accounting Standard, policies and practices affecting or likely to affect the compliance of the prescribed fiscal indicators. However, no disclosure has been made by the State Government in this regard. Similarly, no disclosure has been made regarding Major Works and Contracts, Committed liabilities in respect of land acquisition charges, Claims in respect of unpaid bills on works and supplies, and Statement of Assets and also in respect of weighted average interest rates on Government liabilities.

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.

[1] *In terms of the recommendations of the 13th Finance Commission, debt relief sanctioned by GoI, Ministry of Finance, Department of Expenditure in the form of write-off of Central Loans for an amount of ₹ 104.02 crore would not be considered for measuring fiscal performance of States in terms of Revenue/Fiscal Deficit. The Actual Revenue Deficit, therefore works out to ₹ 14675.35 crore instead of ₹ 14571.33 crore as shown above due to the impact of debt waiver. In such case, the revenue deficit is 2.67 per cent of GSDP. Correspondingly, the fiscal deficit should also increase to the same extent.*

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 1.5**.

Table 1.5: 13th FC projections *vis-à-vis* actuals during 2011-12

(Rupees in crore)

Key segments	13th FC Projections	Actual	Percentage variations
Own Tax Revenue	28375	24938	(-) 12
Non-Tax revenue	3325	1340	(-) 60
Own Revenue Receipts	31700	26278	(-) 17
Annual growth rate of GSDP *(per cent)*	13.96	16.03	(+) 15
Tax-GSDP ratio *(per cent)*	5.77	4.54	(-) 21
Non-Plan Revenue Expenditure	44387	59197	(+) 33
Interest Payment	14985	15896	(+) 6
Salary (it also includes salaries paid out of grants-in-aid) and Wages	8374	27031	(+) 223
Pension	6471	10066	(+) 56

Source: 13th Finance Commission Report and Finance Accounts

It would be evident from **Table 1.5** 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. Simultaneously, the Government should take adequate steps in reducing the burden of committed expenditure to improve the fiscal situation.

Debt Consolidation and Relief Facility (DCRF)

The Thirteenth Finance Commission *inter alia* recommended that 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, subject to the conditions prescribed. Department of Expenditure, Ministry of Finance, GoI, has communicated (February 2012) write-off of the said Central loans amounting to ₹ 110.55 crore. After reconciliation, an amount ₹ 104.02 crore of central loans was written off by the State Government.

Further, 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*. Scrutiny (July 2012) of Finance (Budget) department, however, revealed that the same was not done resulting in failure to avail interest relief of ₹ 477.70 crore during 2010-11 and ₹ 455.85 crore during 2011-12. In reply, Finance (Budget) department stated (August 2012) that GoI was in the process of giving this benefit to all the States including West Bengal for 2010-12. Accordingly, claims were sent by the department to GoI.

1.2.4 Trends and composition of GSDP

GSDP of the State which was ₹ 299482.75 crore in the year 2007-08 registered a growth of 84 *per cent* and stood at ₹ 549875.93 crore in 2011 12. Annual growth rate of GSDP ranged between 14 *per cent* and 19 *per cent*. Sector-wise composition of GSDP is depicted in the table:

Table 1.6: Decomposition of GSDP of West Bengal by Broad Sectors:

(Rupees in crore)

Sector	2007-08	2008-09	2009-10 (P)	2010-11 (Q)	2011-12 (A)
Primary[2]	72796.81(24)	79097.72(23)	97676.20(24)	110734.25(23)	131245.94(24)
Secondary[3]	60329.71(20)	65766.63(19)	73543.94(18)	84053.45(18)	95293.70(17)
Tertiary[4]	166356.23(56)	197078.13(58)	234327.01(58)	279102.41(59)	323336.29(59)
Total	**299482.75**	**341942.48**	**405547.15**	**473890.11**	**549875.93**

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

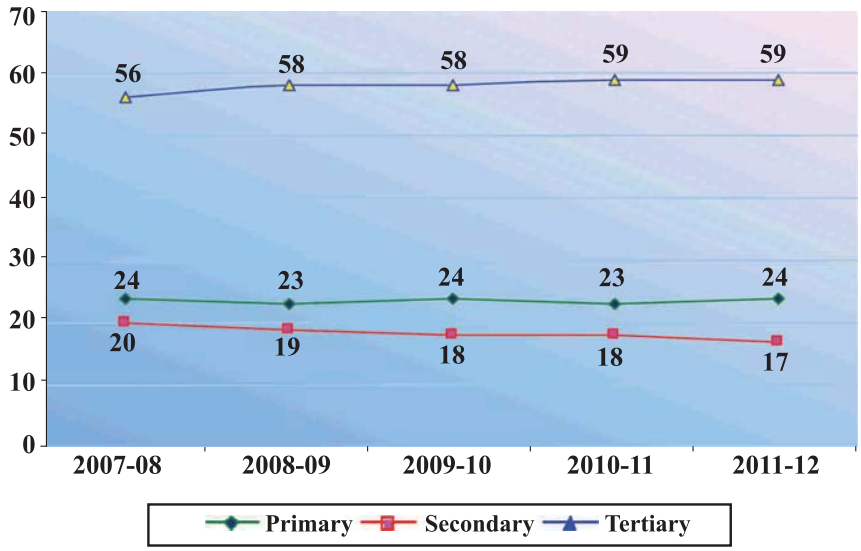


Table 1.6 would show that percentage share of primary sector remained constant, secondary sector declined, while contribution of tertiary sector in GSDP kept increasing during the five year period ending 2011-12. This indicated that the tertiary sector grew rapidly compared to other sectors. More attention is desirable in respect to secondary sector.

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

[2] *Primary Sector: Sector that depends on natural resources includes Agriculture, Forestry, Fishery, Mining and Quarrying.*
[3] *Secondary Sector: Sector that creates finished/usable products. This includes manufacturing, construction, etc.*
[4] *Tertiary Sector: Sector that creates services; this includes transport, trading, banking, public administration, etc.*

Chart 1.3: Trends in Receipts

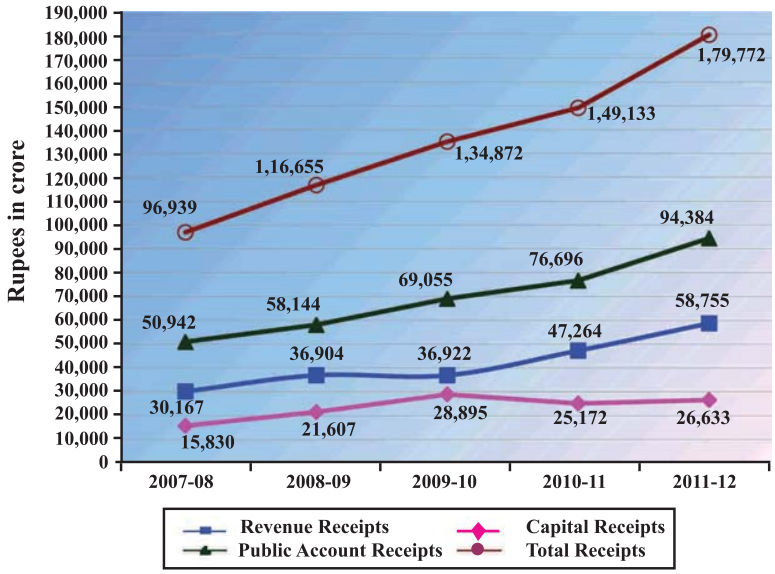
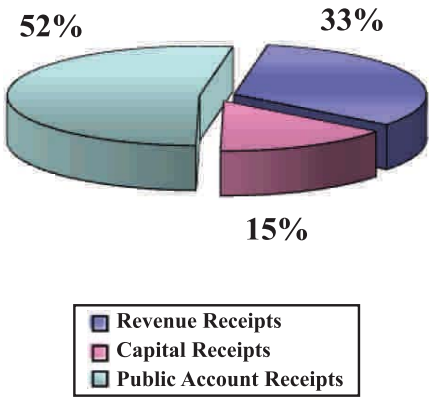


Chart 1.4 Composition of Receipts during 2011-12



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 2007-08 to 2011-12. **Chart 1.4** depicts the composition of resources of the State during the current year.

The total receipts of the State increased by 148 *per cent* over the last five years. During 2011-12, 52 *per cent* of the total receipts came from Public Account receipts, remaining was contributed by Revenue (33 *per cent*) and Capital Receipts (15 *per cent*). Again, of the total Revenue Receipts, Tax Revenue accounted for 42 *per cent*, Non-Tax revenue had a contribution of about two per cent, while State's Share of Union Taxes and Duties contributed 32 *per cent*. Remaining share of Revenue Receipts (24 *per cent*) came from Government of India grants. Of capital receipts, 99.7 *per cent* was contributed by Public Debt receipts and recoveries of Loans and Advances contributed 0.3 *per cent* which is negligible. In Public Accounts Receipts, Suspense and Miscellaneous accounted for 51 *per cent* and Deposits and Advances accounted for 38 *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 for development of the State. 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 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 2011-12, out of total ₹ 19429.22 crore transferred by the GoI under various categories of schemes, ₹ 9349.53 crore was received outside the State budget as shown under:

Table 1.7: 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 2011-12	Total Amount released during 2010-11
	(Rupees in crore)				
State PSUs	--	18.18	151.50	**169.68**	**94.15**
Statutory bodies	--	526.10	2.26	**528.36**	**646.59**
Local bodies	195.00	0.60	--	**195.60**	**106.62**
Government Autonomous bodies	--	933.57	7382.89	**8316.46**	**7732.55**
State Government institutions	--	3.98	16.05	**20.03**	**83.29**
NGOs	--	62.20	8.07	**70.27**	**64.09**
Others[5]	--	49.13	--	**49.13**	**79.55**
Total direct transfer	**195.00**	**1593.76**	**7560.77**	**9349.53**	**8806.84**

Source: Website of CGA

Thus 48 *per cent* of the plan funds released by GoI were received outside the State Budget. **Table 1.7** shows that there has been six *per cent* increase in direct transfer of funds in 2011-12 (₹ 9349.53 crore) as compared to previous year (₹ 8806.84 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.

Table 1.8: Funds released under major schemes by GoI outside State budget

Name of the scheme (Funding pattern Centre:State)	Implementing agency	Amount received directly from GoI (Rupees in crore)	
		2010-11	2011-12
Aajeevika (75:25)	District Rural Development Agencies (DRDA)	159.62	**130.28**
Mahatma Gandhi National Rural Employment Guarantee Scheme*(90:10) (MGNREGS)	State Employment Guarantee Funds (WB)	2117.61	**2597.03**
Member of Parliament Local Area Development Scheme (100:0)	Kolkata Municipal Corporation	106.00	**195.00**
National Food Security Mission (100:0)	State Food Security Agency	33.94	**39.50**
National Rural Drinking Water Programme (50:50)	State Water and Sanitation Mission, Kolkata	499.19	**342.51**
National Rural Health Mission* (85:15)	West Bengal State Health and Family Welfare Samiti	414.42	**649.92**
Pradhan Mantri Gram Sadak Yojana* (100:0)	State Rural Development Agency, Kolkata	824.19	**828.90**
Rural Housing - Indira Awas Yojana* (75:25)	District Rural Development Agencies	630.14	**678.63**
Sarva Shiksha Abhiyan* (50:50)	Paschim Banga Sarva Shiksha Mission	1747.03	**1776.53**
Swarna Jayanti Sahari Rojgar Yojana (75:25)	Urban Development Agency	21.69	**28.82**

Source: Finance Accounts ** Central Government Flagship Schemes*

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

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 2007-08 to 2011-12 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 2007-12

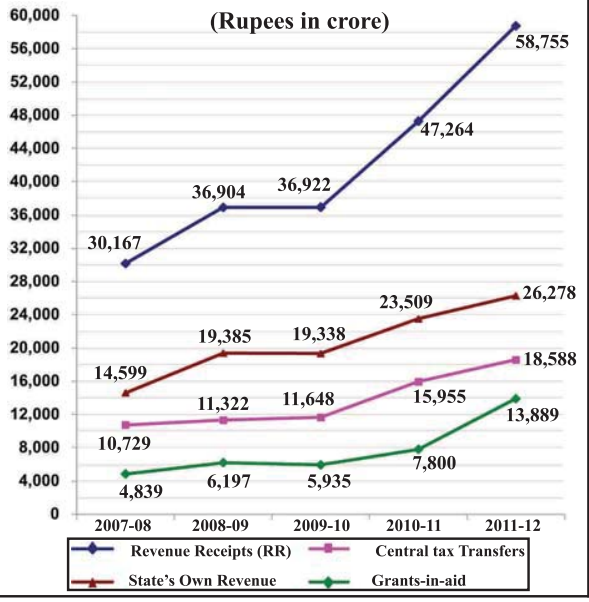
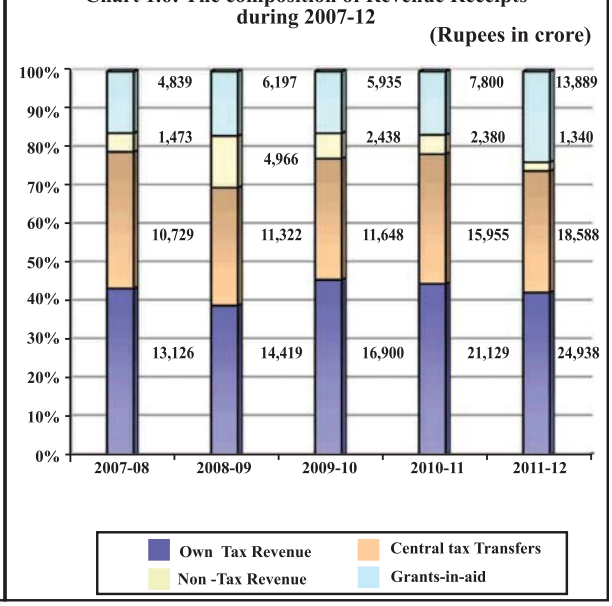


Chart 1.6: The composition of Revenue Receipts during 2007-12



Revenue Receipts during the year rose by ₹ 11490.84 crore (24 *per cent*) as against increase of ₹ 10342.55 crore (28 *per cent*) during the last year. The trends in Revenue Receipts relative to Gross State Domestic Product (GSDP) are as follows:

Table 1.9: Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (Rupees in crore)	**30167**	**36904**	**36922**	**47264**	**58755**
Rate of growth of RR (*per cent*)	16.80	22.33	0.05	28.01	24.31
GSDP (Rupees in crore)	299483	341942	405547(P)	473890(Q)	549876(A)
Rate of growth of GSDP (*per cent*)	14.45	14.18	18.60	16.85	16.03
RR/GSDP (*per cent*)	10.07	10.79	9.10	9.97	10.69
Buoyancy Ratios[6]					
Revenue Buoyancy w.r.t GSDP	1.163	1.575	0.003	1.662	1.517
State's Own Tax Buoyancy w.r.t GSDP	0.85	0.69	0.93	1.48	1.12

Source: Finance Accounts

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As GSDP grows, the ability of the Government to mobilise own tax revenue should also increase. In 2007-10, the growth in own tax resources as compared to growth in GSDP was lower than one but during 2010-11 and 2011-12, the situation improved and the buoyancy ratios were higher than one.

[6]*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 2011-12, revenue buoyancy at 1.517 implies that Revenue Receipts tend to increase by 1.517 percentage points, if the GSDP increases by one per cent.*

Revenue Receipts have shown progressive increase over the period 2007-08 to 2011-12 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 42 and 46 *per cent* during 2007-08 to 2011-12, except a dip (39 *per cent*) in 2008-09, which was attributable to Revenue Receipts figures being inflated owing to adjustment of loan waiver. During 2011-12, the corresponding share was 42 *per cent*.

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 two and 13 *per cent* over the five years period. The share of Non-tax revenue in Revenue Receipts was the lowest (two *per cent*) in 2011-12 mainly due to lower interest receipts and receipts under Food Storage and Warehousing. Relative share of Grants-in-aid in Revenue Receipts also remained almost static over the period 2007-11 except in 2011-12 when its share shot up to 24 *per cent*.

During 2011-12, while Tax Revenue registered a growth of 18 *per cent* over the previous year, Non-Tax revenue had a negative growth of 44 *per cent*. State's share of Union Taxes and Duties registered a growth of 17 *per cent* and grants from GoI increased by 78 *per cent*.

1.4.1 State's own resources

As the State's share in Central taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the component of non-tax receipts is given in ***Appendix-1.4***.

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.

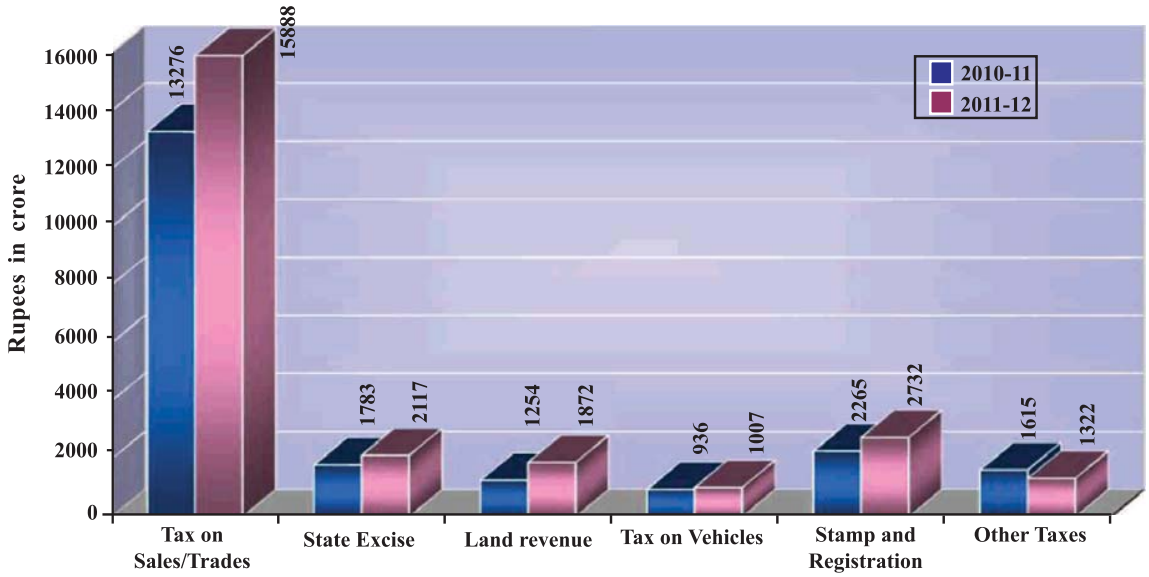
Tax Revenue: The Government of West Bengal enacted the West Bengal Value Added Tax (WBVAT) Act, 2003 with effect from April 2005. However, levy and collection of tax on sale of petrol, diesel, liquor, lottery tickets and aviation turbine fuel (ATF) continued to be governed under the WBST Act, 1994. During 2011-12, total Tax Revenue amounted to ₹ 24938 crore, registering an increase of ₹ 3809 crore (18 *per cent*) over the previous year.

Under Tax Revenue, remarkable increase was registered in collection from Taxes on Sales, Trade etc. (₹ 2612.64 crore). Substantial increases were also noticed under Land Revenue (₹ 618.57 crore), Stamps and Registration Fees (₹ 466.46 crore) and State Excise (₹ 333.70 crore). Increase in receipts under Sales Tax was attributable to more receipts on collection under Central Sales Tax Act and Value Added Tax (VAT) receipts. Increase in collection from Stamps and Registration was mainly due to increase in receipts on Sale of Non-Judicial Stamps, duty on impressing of documents, Registration Fees, etc. State Excise duty increased mainly

due to receipts of more Excise Duty from Country Spirits, Malt Liquors, Foreign Liquors and Medicinal and Toilet preparations. Increase in collection from land revenue was mainly due to more receipts from surcharge on Land Revenue under Rural Employment and Protection, Rural Employment Cess on Coal mines, Collection of Royalties from Mines and Minerals, etc.

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 2010-11 and 2011-12



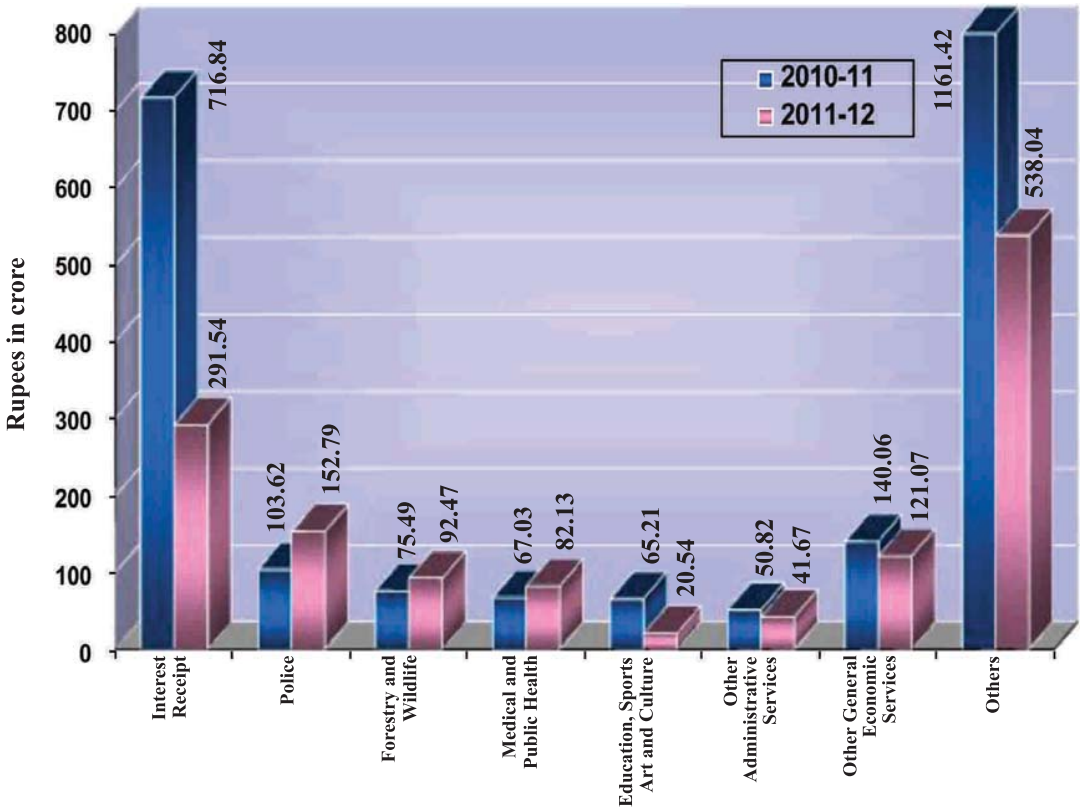
There was no significant variation among relative shares of the major components of Tax Revenue compared to the previous year. Contribution of Sales Tax maintained a steady trend ranging between 61 and 64 *per cent* over the five year period. During 2011-12, revenue from VAT and Sales Taxes contributed major share of Tax Revenue (64 *per cent*). Other significant contributors to the State's Tax Revenue included Stamp and Registration fees (11 *per cent*), Land Revenue (eight *per cent*), State Excise (eight *per cent*) and taxes on vehicles (four *per cent*).

Non-Tax Revenue: Non-Tax Revenue (₹ 1340 crore) constituted two *per cent* of total Revenue Receipts during 2011-12. Collection was less by ₹ 1040 crore than the previous year. Comparative study of various components of Non Tax Revenue during 2011-12 with those of 2010-11 is shown in **Chart 1.8.**

Such significant decrease in non-tax revenue was mainly attributable to lesser collections under Food Storage and Warehousing and Interest Receipts. The decrease of ₹ 875.76 crore under Food Storage and Warehousing was mainly due to decrease in receipts and subsiding on supply of rice to below/above poverty level family. Lesser collection of interest receipts was mainly due to less interest receipts from West Bengal State Electricity Distribution Company Limited.

The receipts under own tax revenue and non-tax revenue during 2011-12 fell short of the 13th FC projections by 12 *per cent* and 60 *per cent* respectively. The tax revenue as a percentage of GSDP also fell short of the normative assessment made by the 13th FC by 21 *per cent*.

Chart 1.8: Comparative study of various components of Non-Tax Revenue during 2010-11 and 2011-12



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 2011-12 is mentioned below:

Table 1.10: 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	17024.44	15888.41	(-)7
2	State Excise	2418.83	2117.04	(-)12
3	Stamp duty and registration fees	3002.92	2731.68	(-)9
4	Taxes on vehicles	1358.97	1007.23	(-)26
5	Taxes and duties on electricity	1040.95	408.19	(-)61
6	Land revenue	1694.37	1872.23	10
7	Other Taxes and Duties on Commodities and Services	569.27	477.39	(-)16
8	Other Taxes on Income and Expenditure – Taxes on Professions, Trades, Callings and Employment	566.25	426.68	(-)25
Non-Tax revenue				
1	Police	130.91	152.79	17
2	Forestry and wild life	84.86	92.47	9
3	Interest receipts	602.91	291.54	(-)52
4	Food storage and Warehousing	1320.80	1.55	(-)100

Source: Budget Publication and Finance Accounts

There was significant short-collection under Taxes and duties on electricity, taxes on vehicles, Interest Receipts, Food Storage and Ware Housing which calls for attention of the Government.

1.4.1.2 Cost of collection

The gross collection from major taxes and expenditure incurred on collection during the years 2009-10 to 2011-12 along with All India average are given in the following table:

Table 1.11: 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	2009-10	10509.64	150.01	1.43	0.96
	2010-11	13275.77	165.18	1.24	0.75
	2011-12	15888.41	174.52	1.10	
State excise	2009-10	1443.81	77.99	5.40	3.64
	2010-11	1783.34	92.43	5.18	3.05
	2011-12	2117.04	76.51	3.61	
Stamp duty & registration fees	2009-10	1814.22	88.46	4.88	2.47
	2010-11	2265.21	94.31	4.16	1.60
	2011-12	2731.68	96.62	3.54	
Taxes on vehicles	2009-10	774.34	17.88	2.31	3.07
	2010-11	936.01	19.64	2.10	3.71
	2011-12	1007.23	20.16	2.00	

Source: Finance Accounts

As depicted in **Table 1.11**, 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 ₹ 2633 crore (16.50 *per cent*) over the previous year and constituted 32 *per cent* of revenue receipts during the current year. The increase was mainly under Corporation Tax (₹ 1080.09 crore), Service Tax (₹ 627.67 crore), Custom Duties (₹ 432.87 crore) and Taxes on Income other than Corporation Tax (₹ 420.89 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 1.12: 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
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
2011-12	3536.79	6529.44	3822.59	13888.82

Source: Finance Accounts

During 2011-12, Grants-in aid from GoI stood at ₹ 13889 crore with significant increase of 78 *per cent* from ₹ 7800 crore in 2010-11. Non-Plan grants witnessed an increase of ₹ 1001.11 crore (39 *per cent*) this year, of which *inter alia* ₹ 422.94 crore came as 13th FC State Specific Grant, ₹ 416 crore came as Grants for upgradation-Elementary Education, ₹ 241.61 crore was received as 13th FC grant for Panchayati Raj Institutions and ₹ 240.05 crore came as contribution to State Disaster Response Fund. Grants under State Plan Schemes witnessed a significant rise of ₹ 3402.66 crore (109 *per cent*) of which ₹ 3173.18 crore came from Special Central Assistance under Backward Region Grant Fund. There was also an increase of ₹ 1685.03 crore (79 *per cent*) in receipts as grants for Central and Centrally Sponsored Plan Schemes. For Centrally Sponsored Plan Schemes, ₹ 1631.51 crore came as grants under Integrated Child Development Scheme and ₹ 648.71 crore for Mid-Day Meal for Children.

1.4.3.1 Grants-in-Aid recommended by 13th Finance Commission (13th FC)

Thirteenth Finance Commission recommended grants of ₹ 12639.01 crore[7] to GoWB during the award period 2010-15, of which ₹ 2251.74 crore[8] was to be availed in 2011-12, subject to fulfillment of preconditions. Test check of the records (July and August 2012) of Finance (Budget) department along with nine other departments[9] revealed the following:

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[7] *₹ 10936.01 crore as other than State specific grants and ₹ 1703.00 crore as State specific grants*

[8] *₹ 1825.99 crore other than State specific grants and ₹ 425.75 crore State specific grant*

[9] *Panchayat & Rural Development, Municipal Affairs, Irrigation and Waterways, Home (C&E), Home (Political), Judicial, Paschimbanga Sarva Siksha Mission under School Education, Fire & Emergency and Information & Cultural Affairs departments*

Failure to avail 13th FC grants

GoWB could not avail 13th FC grants (including State Specific grants) amounting to ₹ 64.28 crore during the award period 2011-12 due to non-compliance with the conditions / prerequisites imposed by 13th F.C and suitably adopted by GoI. Details are given in ***Appendix 1.7.***

Short receipt of 13th FC grants from GoI

GoWB could not avail 13th FC grants amounting to ₹ 208.65 crore pertaining to award period 2011-12 due to lack of preparedness of the departments of GoWB and other reasons as detailed in ***Appendix 1.7.***

Non release / Short release of 13th FC funds by Finance Department, GoWB

Finance department, GoWB could not release available 13th FC grants amounting to ₹ 254.55 crore received from GoI during 2010-12 due to inaction on the part of various departments of GoWB in fulfilling pre-conditions like submission of action plan, framing of policy, submission of UC for previously released grants, etc. The departments were, however, regularly reminded by the Finance (Budget) Department to comply with the conditionality of 13th FC grants.

Delay in release of 13th FC grants

Guidelines releasing grants for PRIs and ULBs categorically stated that States had to transfer the grants to local bodies within five days of receipt of funds from the Central Government in case of States with easily accessible banking infrastructure and ten days in case of States with inaccessible banking infrastructure. Any delay would require the State Government to release the instalment with interest, at RBI bank rate, for the number of days of delay.

Scrutiny revealed that GoWB had to pay interest amounting to ₹ 1.19 crore for delay in release of funds to PRIs and ULBs.

Lack of preparedness of the departments in availing 13th FC grants

Significant instances of lack of preparedness and attentiveness of the departments to utilise 13th FC grant are discussed below:

- 13th FC recommended grants of ₹ 208.40 crore to GoWB as **incentive for issuing Unique Identifications (UID)** to people living below poverty line (BPL) in five annual instalments, with two tranches per year. Scrutiny (August 2012) revealed that Home (C&E) department failed to utilise the first instalment of ₹ 20.84 crore released in 2010-11 and further failed to avail ₹ 62.52 crore upto 2011-12, as it had no data on BPL enrollee registering for Bio-metric UID operations. The department replied (August 2012) that it had obtained approval to utilise the fund in National Population Register (NPR), a flagship programme of GoI.
- With the objective of **improving justice delivery**, 13th FC recommended grant of ₹ 210.91 crore over its award period 2010-15, payable in 5 equal annual instalments. Finance (Budget) department failed to draw ₹ 21.09 crore from GOI

in 2011-12 as Judicial department could not utilise the available funds of ₹ 63.27 crore. Scrutiny revealed that SLSA[10], DLSAs[11] and CHCLSC[12] could not utilise fund of ₹ 11.93 crore meant for Lok Adalat, Legal Aid and Alternate Dispute Resolution (ADR) centre out of the released grant of ₹ 12.52 crore by Judicial department. Underutilisation was due to lack of preparedness and poor absorptive capacity. Judicial department stated (August 2012) that it could not requisition fund from Finance department as no action plan could be finalised by its sub-units.

- 13th FC recommended that all employees, pensioners and family pensioners who are eligible for a defined pension benefit from the Consolidated Fund, either directly or indirectly through grants, should be included in a database. A grant of ₹ 10 crore was provided to set up an employee and pensioners' database during the award period 2010-15. Accordingly, GoWB received (September 2010) ₹ 2.50 crore during 2010-11 without any precondition to commence work which was to be completed in three years. The balance would be released after creation of database and its functional integration with treasury; thereby enabling projection of salary and pension expenditure by 14th FC. Scrutiny of records of Finance (Budget) department, however, revealed that the fund of ₹ 2.50 crore was not utilised and no physical progress was made. No reply was furnished by Finance (Budget) department in this regard.

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 2007-08 to 2011-12 are as follows:

Table 1.13: Total expenditure and its composition

(Rupees in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure	**42064**	**56078**	**62263**	**67172**	**76538**
Revenue Expenditure	38314	51613	58500	64538	73326
Non-plan Revenue Expenditure	31563	43568	48530	52491	59197
Capital Expenditure	2688	3705	3011	2226	2764
Loans and Advances	1062	760	752	408	448

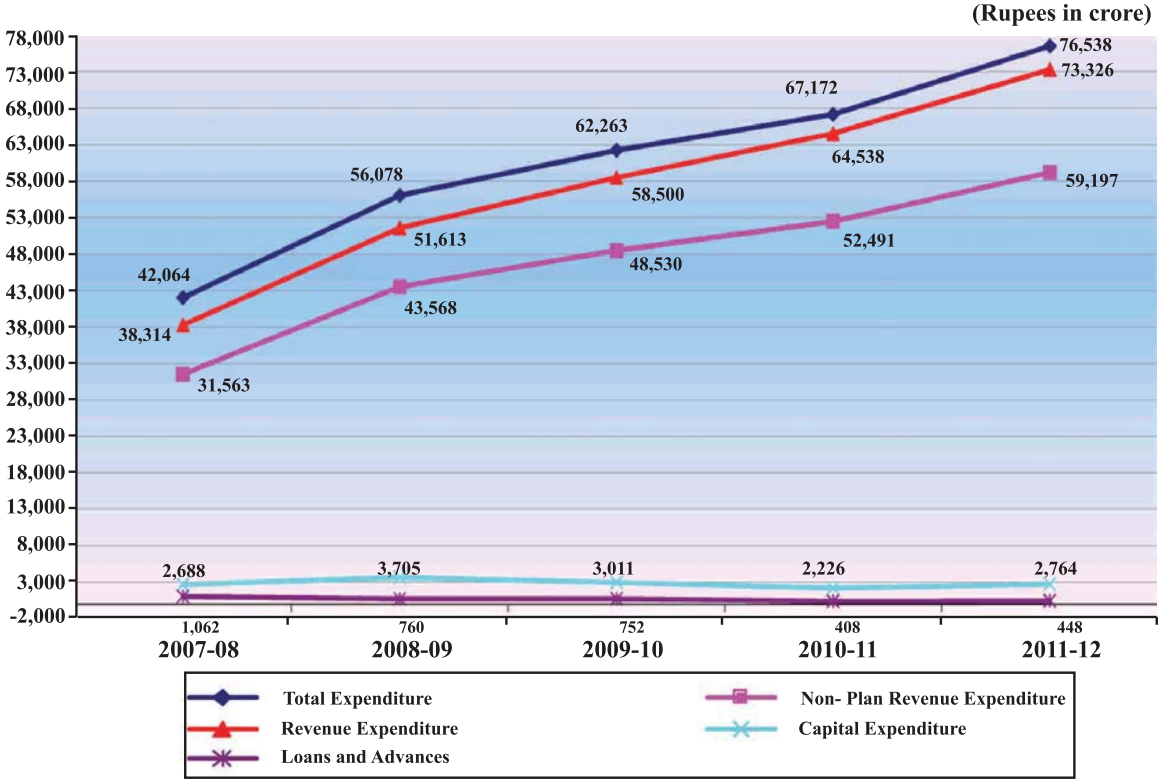
Source: Finance Accounts

[10] *State Legal Services Authority*
[11] *District Legal Services Authority*
[12] *Calcutta High Court Legal Services Committee*

Chart 1.9 presents the trends in total expenditure over a period of five years (2007-08 to 2011-12) 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

(Rupees in crore)



1.5.2 Total Expenditure

Total expenditure registered a growth of 14 *per cent* from 2010-11 to 2011-12. Over the last five years, it increased at an average growth rate of 16 *per cent*. The composition of total expenditure during 2011-12 indicates that Revenue Expenditure constituted 95.80 *per cent* (₹ 73326 crore) while Capital Expenditure and Loans and Advances disbursed constituted only 3.61 *per cent* (₹ 2764 crore) and 0.59 *per cent* (₹ 448 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 Gervices (including interest payments) considered as non developmental, accounted for 42 *per cent* of total expenditure this year against 45 *per cent* in 2007-08. On the other hand, Developmental expenditure *i.e.* Social services and Economic services taken together rose to 56 *per cent* in 2011-12 from 51 *per cent* in 2007-08. However, the share of Social Services and Economic Services under Capital Expenditure increased marginally by ₹ 21 crore in 2011-12 from ₹ 2621 crore in 2007-08.

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

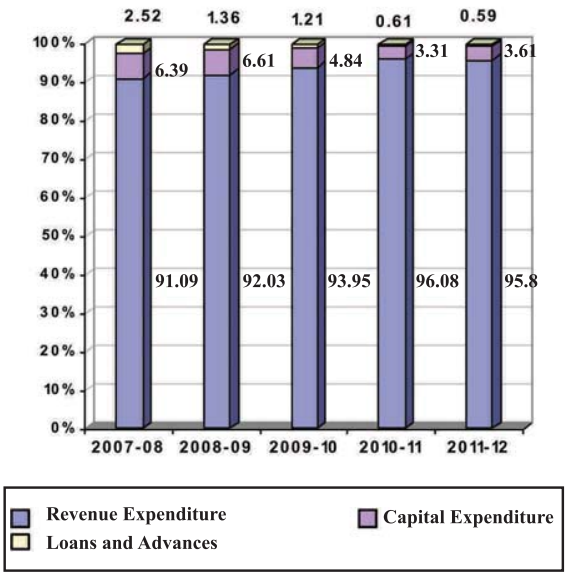
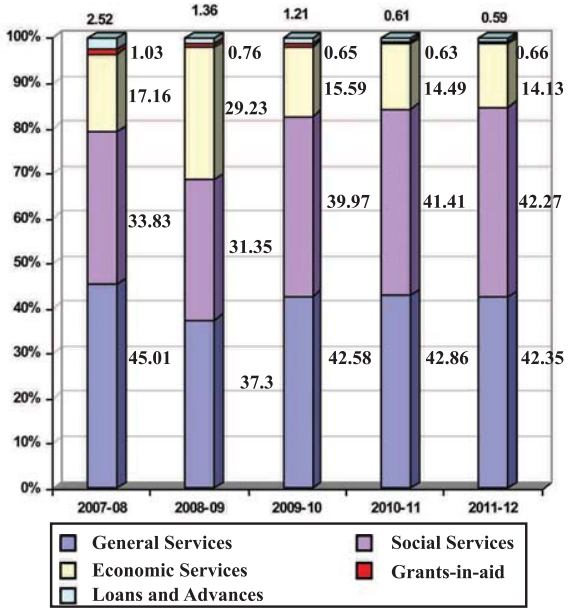


Chart 1.11: Total expenditure: trends by activities



1.5.3 Revenue Expenditure

Revenue Expenditure consistently increased from ₹ 38314 crore in 2007-08 to ₹ 73326 crore in 2011-12 at an average annual growth of 16.83 *per cent*. Compared to the previous year, Revenue Expenditure grew by 13.62 *per cent*. Non Plan Revenue Expenditure (₹ 59197 crore) constituted 81 *per cent* of the total Revenue Expenditure during 2011-12, while Plan Revenue Expenditure constituted only 19 *per cent* (₹ 14129 crore). *Non Plan Revenue Expenditure of the current year (₹ 59197crore) was substantially higher (by 33 per cent) than the normative projections of 13th Finance Commission (₹ 44387 crore) and was also higher (by five per cent) than Budget estimates of the Government (₹ 56413 crore).*

Plan Revenue Expenditure increased steadily during the period 2007-08 to 2011-12 from ₹ 6751 crore in 2007-08 to ₹ 14129 crore in 2011-12. During the current year, it increased by ₹ 2082 crore (by 17.28 *per cent*) over 2010-11. The increase was observed mainly under Education, Sports, Art and Culture (₹ 502.35 crore), Social Welfare and Nutrition (₹ 381.37 crore), and Water Supply, Sanitation, Housing and Urban Development (₹ 337.33 crore).

Non-Plan Revenue Expenditure not only constituted bulk of the Revenue Expenditure of the State, but also consistently increased during the period 2007-08 to 2011-12. During the current year it increased by ₹ 6706 crore (13 *per cent*) from the level of ₹ 52491 crore in 2010-11. This was mainly attributable to rise in expenditure under Social Welfare and Nutrition (₹ 1413.29 crore), Education, Sports, Art and Culture (₹ 1073.60 crore), Rural Development (₹ 277.42 crore) and Health and Family Welfare (₹ 176.99 crore).

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 1.14: Trends in Capital Expenditure and its components

Components of Capital Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
			(Rupees in crore)		
Total Expenditure	**42064**	**56078**	**62263**	**67172**	**76538**
Capital Expenditure (percentage to total expenditure)	**2688 (6)**	**3705 (7)**	**3011 (5)**	**2226(3)**	**2764(4)**
Plan Capital Expenditure	2669	3729	2883	2232	2764
Plan Capital Expenditure under Social sector (percentage to Plan Capital Expenditure)	767 (29)	1214 (33)	894 (31)	480(22)	793(29)
Plan Capital Expenditure under Economic sector (percentage to Plan Capital Expenditure)	1883 (69)	2388 (64)	1834 (64)	1645(74)	1849(67)
Decomposition of Plan Capital Expenditure on Economic Sector (percentage to Plan Capital Expenditure on Economic Sector)					
Agriculture, Allied Activities	38 (2)	167 (7)	115 (6)	149(9)	158 (9)
Rural Development	-	-	3 (--)	2 (--)	1(--)
Special Areas Programme	112 (6)	157 (7)	231 (13)	200(12)	299 (16)
Irrigation and Flood Control	312 (17)	383 (16)	494 (27)	546(33)	420 (23)
Energy	986 (52)	1090 (46)	190 (10)	45(3)	124 (7)
Industry & Minerals	47 (3)	101 (4)	92 (5)	66(4)	63 (3)
Transport	312 (17)	433 (18)	690 (38)	630(38)	767 (41)

Source: Finance Accounts

Though the quantum of Capital Expenditure increased up to 2008-09, it showed a downward trend for the next two years (2009-10 and 2010-11). In 2011-12 it increased by 24 *per cent* and accounted for a meagre four *per cent* of total expenditure. Over the five year period, while Irrigation and Flood Control and Transport consumed bulk of Capital Expenditure on Economic Services, services like Agriculture and allied activities, Rural Development, Special Areas programme lagged behind. While expenditure on energy consumed nearly half of the capital expenditure during 2007-08 and 2008-09, it decreased rapidly thereafter and consumed four *per cent* of aggregate planned capital expenditure in 2011-12. On the other hand, Irrigation and Flood Control sector which consumed 33 *per cent* of Plan Capital Expenditure on economic sector in 2010-11, consumed only 23 *per cent* in 2011-12. The share of Industry & Minerals in Plan Capital Expenditure remained almost the same during the period. Individually, Special Areas Programme which consumed six *per cent* of Plan Capital expenditure on economic sector in 2007-08 attained 16 *per cent* in 2011-12.

1.5.5 Expenditure on Social and Economic Services

A comparative analysis between expenditure (Budget *vis-à-vis* Actual) on Social and Economic Services for 2010-11 and 2011-12 is detailed below:

Table 1.15: Position of expenditure under Social and Economic services

	2011-2012		2010-2011
	BE	Actual	Actual
		(Rupees in crore)	
Education, Sports, Art & Culture	16453.94	15986.57 (97)	14395.80
Water Supply, Sanitation, Housing and Urban Development	6825.09	4278.55(63)	3945.11
Health & Family Welfare	4232.33	3992.96(94)	3502.32
Total Social Services	**35339.96**	**32457.16**	**27959.18**
Rural Development, Special Areas Programme	4778.87	4206.12(88)	3424.82
Agriculture and Allied Activities	2617.61	2175.80(83)	2110.61
Transport	2311.17	1848.25(80)	1728.61
Irrigation and Flood Control	3514.90	1273.52(36)	1374.31
Industry and Minerals	1062.23	728.84(69)	680.96
Energy	522.62	623.92(119)	399.40
Total Economic Services	**15620.18**	**11161.46**	**9998.85**

(Figures in brackets represent percentage with respect to budget estimates)
Source : Budget publications and Finance Accounts

Though actual expenditure on Social Services (₹ 32457.16 crore) during the current year was more than that incurred in 2010-11 (₹ 27959.18 crore), it was lower than the expenditure estimated in the budget (₹ 35339.96 crore). Expenditure on Economic Services also fell far short of estimated budget by ₹ 4458.72 crore (29 *per cent*). Excess expenditures over the budgetary estimates under Energy (₹ 101.30 crore) was offset by savings under Rural Development, Special Areas Programme (₹ 572.75 crore), Transport (₹ 462.92 crore), Agriculture and allied Activities (₹ 441.81 crore), Industry and Minerals (₹ 333.39 crore), etc. Abnormally high savings of ₹ 2241.38 crore (64 *per cent*) were noticed under Irrigation and Flood Control. 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 1.16** presents the trends in the expenditure on these components during 2007-08 to 2011-12.

Table-1.16: Components of Committed Expenditure (Rupees in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Salaries & Wages, Of which*	12205.04(40)	13778.65(37)	21902.53 (59)	24954.22(53)	26883.71	27031.33 (46)
Non-Plan Head	11617.64	12996.04	20848.28	23728.08		25537.31
Plan Head**	587.40	782.61	1054.25	1226.14		1494.02
Interest Payments	11383.56(38)	12068.99(33)	13305.12 (36)	13817.30(29)	15093.34	15895.99 (27)
Expenditure on Pensions	3995.40(13)	4432.79(12)	6510.57 (18)	8077.96(17)	6879.15	10065.74 (17)
Subsidies	732.93 (2)	1256.31(3)	2555.73 (7)	2093.42(4)	1306.34	2564.33 (4)
Total Committed Expenditure	**28316.93**	**31536.74**	**44273.95**	**48942.90**		**55557.39**
Components other than committed	**9997.49**	**20076.57**	**14225.93**	**15595.26**		**17768.98**
Total Revenue Expenditure	**38314.42**	**51613.31**	**58499.88**	**64538.16**		**73326.37**
Total Revenue Receipt	**30167.38**	**36904.40**	**36921.65**	**47264.20**		**58755.04**

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*

As depicted in **Table 1.16** percentage of expenditure in all the major components of committed expenditure in relation to Revenue Receipts has either declined or remained static in 2011-12, compared to 2009-10 and 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 2011-12 and the trends in committed expenditure during the years 2007-08 to 2011-12.

Chart 1.12: Decomposition of revenue expenditure in 2011-12

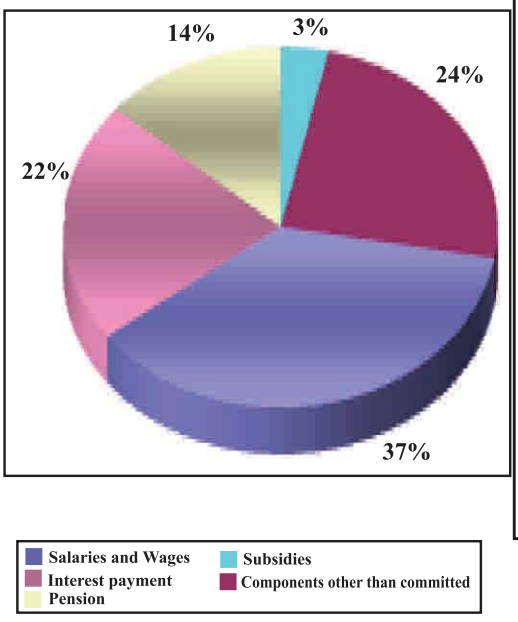
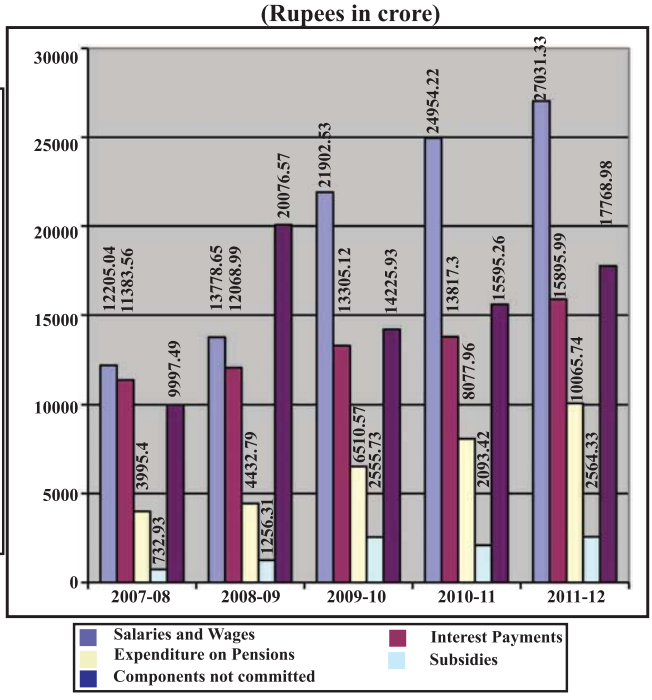


Chart 1.13: Trends in Committed expenditure during 2007-2012 (Rupees in crore)



Expenditure on salaries and wages:

Expenditure on salaries, which was ₹ 12205.04 crore in 2007-08, stood at ₹ 27031.33 crore in 2011-12, registering a growth of nearly 121 *per cent* during this period. Rate of increase in Salary expenditure, however, was eight *per cent* during the current year as compared to 14 *per cent* in the previous year.

Compared to the projection of salary expenditure by 13th Finance Commission at ₹ 8374 crore for 2011-12, the actual salary expenditure exceeded by 223 per cent which is a matter of concern. During 2010-11, salary expenditure relative to Revenue Expenditure net of interest payment and pension was 59 per cent which further decreased to 57 per cent during 2011-12.

Pension payments:

Expenditure on Pensions, which was ₹ 3995.40 crore in 2007-08, stood at ₹ 10065.74 crore in 2011-12, registering a growth of nearly 152 *per cent* during this period. Rate of increase in pension expenditure, however, was 25 *per cent* during the current year as compared to 24 *per cent* in the previous year. Sector-wise analysis revealed that substantial increases were noticed under 'Pensions to Employees of State Aided Educational Institutions' (₹ 724.50 crore), Superannuation and Retirement Allowances (₹ 478.40 crore), Gratuity (₹ 271.45 crore) and Commuted Value of Pension (₹ 219.56 crore).

The expenditure on pension (₹ 10065.75 crore) surpassed the 13th Finance Commission projection (₹ 6471 crore) by 56 per cent in the current year.

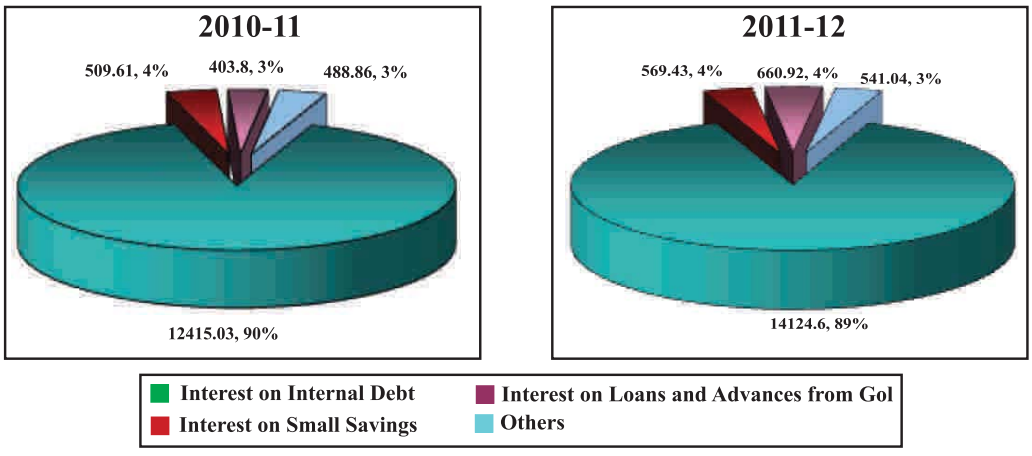
Interest payments:

Expenditure on Interest Payments which was ₹ 11383.56 crore in 2007-08 stood at ₹ 15895.99 crore in 2011-12 registering a growth of nearly 40 *per cent* in five years. Rate of growth was 15 *per cent* during the current year as compared to four *per cent* in the previous year. *Against the 13th Finance Commission projection of ₹ 14985 crore during 2011-12 actual expenditure incurred on interest payment was higher by six per cent.*

The position of the major of interest payment during 2010-11 and 2011-12 is shown in the following charts:

Chart 1.14: Major components of interest payments during 2010-11 and 2011-12

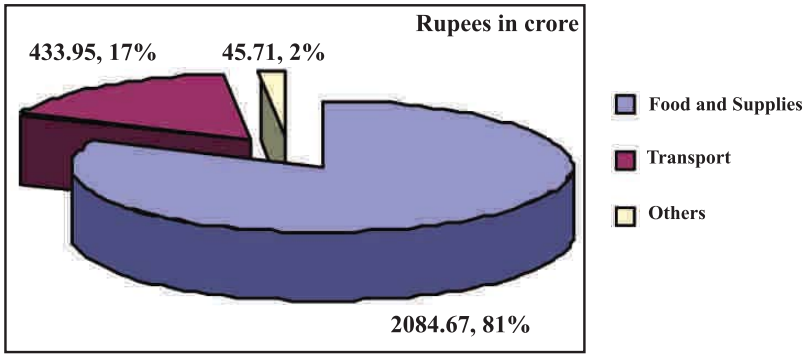
Rupees in crore



Payment of subsidies

Subsidies paid by the Government of West Bengal are given in Appendix III of the Finance Accounts. Expenditure on subsidies which was ₹ 732.93 crore in 2007-08 stood at ₹ 2564.33 crore in 2011-12 registering a growth of nearly 250 *per cent* in five years. Rate of growth was 22 *per cent* during the current year. The Sectoral segregation of subsidies paid during 2011-12 revealed that 81 *per cent* (₹ 2084.67 crore) of the subsidy paid related to Food and Supplies and 17 *per cent* (₹ 433.95 crore) of the subsidy paid related to Transport as shown in the following chart:

Chart 1.15: Sectoral break-up of subsidy during 2011-12



However, over and above these amounts audit scrutiny revealed that an amount of ₹ 9.79 crore had been booked as subsidy under the object heads (31-Grants in Aid/50-Other Charges) in respect of eight major heads during 2011-12.

1.5.7 Financial assistance by State Government to local bodies and other institutions

Introduction to Local Bodies

The West Bengal Panchayat Act, 1973 was enacted, *inter alia* to reorganise Panchayats in rural areas of West Bengal. The Act depicted the broad aspects of duties, powers and functions of three tier Panchayati Raj Institutions (PRIs) in West Bengal viz. 3351 Gram Panchayats (GPs) at the village level, 341 Panchayat Samitis (PSs) at intermediate level between the district and village level, 17 Zilla Parishads (ZPs) and one Mahakuma Parishad (MP) for Siliguri Sub-Division at District level.

Municipal Bodies have been accorded constitutional status in the 74th Constitutional Amendment Act of 1992 and raised to the status of 'Government' at the local level. There are 128 Urban Local Bodies[13] (ULBs) in West Bengal governed by the West Bengal Municipal Act, 1993. With effect from November 2008, all municipal corporations (except Kolkata and Howrah) have been brought under the West Bengal Municipal Corporation Act, 2006. The municipalities were classified into five groups on the basis of population. Each municipality is divided into a number of wards. An elected Councillor represents each ward.

[13] *Municipal Corporation : 6, Municipality :119, Notified Area Authority : 2, Industrial Township : 1.*

Functions and Organisational Structure

The Constitution of India entrusts the PRIs with the responsibilities of preparation of plan and implementation of schemes by the PRIs for economic development and social justice of the rural people of the State. The Panchayat Act envisages that the PRIs shall function through functional Standing Committees called *Sthayee Samitis* (for ZPs and PSs) and *Upa-Samitis* (for GPs) having elected representatives and officials concerned as members.

For an ULB, the Chairman / Mayor, elected by the majority of the Board of Councillors, is the executive head and presides over the meetings. The executive power of a ULB is exercised by the Council. Every ULB having a population of three lakh or more, groups the wards into boroughs. The Councillors of the respective wards are the members of the Borough Committee of each Borough and elect the Chairman from amongst them. The Borough Committee discharges such functions, as the ULB assigns. At ward level, the ULB constitutes Ward Committee under the Chairmanship of the Ward Councillor.

Some obligatory functions of the ULBs encompass supply of water for public and private purposes, construction and maintenance of sewage and drainage system, collection and disposal of solid waste, construction and maintenance of streets, bridges, fly-overs, etc.

Funds and accounting

Funds released by Central and State Government through budget and funds directly released by the Central Government for implementation of schemes comprise the major sources of funds for the PRIs and ULBs. The State Government provides financial support to PRIs and ULBs for meeting their administrative expenditure. While property tax on land and building comprises the principal source of tax revenue, plan-sanction fees, mutation fees and water charges form the major part of the non-tax revenue of an ULB. In addition, the loans raised from different sources with prior approval of the State Government are utilised for execution of various projects / schemes.

Audit and Reporting arrangements of Local Bodies

In exercise of the powers conferred by the Panchayat Act and Municipal Acts of the State, the Examiner of Local Accounts (ELA), West Bengal was appointed as Auditor to audit the PRIs and ULBs. The Municipal Acts further envisage that the Auditor shall prepare a report on the accounts examined and send it to the Chairman / Mayor and a copy thereof to the Director of Local Bodies or such other officers as the State Government may direct. For examining Audit Reports on ULBs, a State Level Audit Committee[14] (SLAC) was constituted in February 2006.

[14] *Comprising the Chief Secretary (Chairman), Principal Secretary / Secretary of the Panchayats & Rural Development Department (Member), Principal Secretary / Secretary of the Municipal Affairs Department (Member), Principal Secretary of the Finance Department (Member), Pr. Accountant General, West Bengal (Member) and Principal Secretary of the Finance (IA) Department (Member-Secretary)- Notification No. 4010-F.B. dated 23 February 2006 of the Finance Department, Government of West Bengal.*

The Panchayat Act stipulates that the report of the ELA on PRIs shall be laid before the State Legislature and in terms of the Rules of Procedure and Conduct of Business in the WBLA, matters relating to scrutinising the Report have been entrusted to the Standing Committee on Panchayats and Rural Development, Land & Land Reforms and Sundarban Development, WBLA.

Financial Assistance to Local Bodies and others

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 1.17: Financial Assistance to Local Bodies/Institutions etc

Financial Assistance to Local Bodies/Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
	(Rupees in crore)				
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6790.49	7811.01	11634.00	14882.58	14655.09
Municipal Corporations and Municipalities	1279.17	1802.54	946.60	2445.51	2310.80
Zilla Parishads and Other Panchayati Raj Institutions	3085.27	2998.77	1327.98	3022.82	3181.82
Development Agencies/Autonomous Bodies	122.14	340.33	4204.66	2306.72	3821.59
Hospitals and Other Charitable Institutions	149.40	226.84	393.12	588.50	452.46
Other Institutions #	927.77	802.74	1084.36	409.96	2346.00
Total	**12354.24**	**13982.23**	**19590.72**	**23656.09**	**26767.76**
Assistance as per percentage of Revenue Expenditure	32.24	27.09	33.49	36.65	36.50

Source: Figures generated through VLC

 # Includes Co-operative Societies (Grant amount ₹ 28.21 crore in 2011-12)

The table above indicates that as compared to last year, substantial increase was noticed in assistance provided to Development Agencies / Autonomous Bodies (₹ 1514.87 crore). Further, assistance to Zilla Parishads and Other Panchayati Raj Institutions also witnessed an increase of ₹ 159 crore.

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 1.18** 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[15] and Health[16] Sector during 2008-09 and 2011-12.

[15] *Education, Sports, Art and Culture sector*

[16] *Health and Family Welfare sector*

Table-1.18: Fiscal priority of the State for 2008-09 and 2011-12:

		AE/GSDP	DE#/AE	SSE/AE	CE/AE	Expenditure on Education /AE	Expenditure on Health /AE
2008-09	***General category States' Average (Percentage)**	**17.00**	**67.09**	**34.28**	**16.47**	**15.41**	**3.97**
	West Bengal's figure (Percentage)	16.40	61.93	31.62	6.61	14.28	3.88
2011-12	**General category States' Average(Percentage)**	**16.09**	**66.44**	**36.57**	**13.25**	**17.18**	**4.30**
	West Bengal's figure (Percentage)	13.92	56.99	42.41	3.61	20.89	5.22

** States other than 11 states termed as Special Category States (Arunachal Pradesh, Assam, Jammu and Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand). All India average of General Category States has been calculated on the basis of figures provided by 16 General Category States excluding Delhi, Goa and Puducherry.*

#Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed

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

Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics.

- 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 of development expenditure was apparent from lower proportion of expenditure in these sectors as compared to corresponding all general category States' average.
- The State incurred higher percentage of expenditure on Health and Education sectors, as compared to what the General Category States were spending on an average during 2011-12. Consequently, in the **Social Sector**, level of expenditure has been higher than the average of all General Category States' expenditure in 2011-12.
- Though the expenditure in the social sector increased, development expenditure remained low, which was due to low priority being accorded to the economic sector. Without compromising social sector, expenditure in economic sector needs to be commensurately enhanced. 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.
- Proportion of capital expenditure (6.61 and 3.61 *per cent* as compared to General Category States' average of 16.47 and 13.25 *per cent* during 2008-09 and 2011-12 respectively) in aggregate expenditure was abysmally low which 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[17]. Apart from improving the allocation towards development expenditure[18], 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 1.19** 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 1.19** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of selected social and economic services.

Table-1.19: Development Expenditure **(Rupees in crore)**

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Development Expenditure (a to c)	**22700 (54)**	**34732 (61)**	**35284 (57)**	**37958 (57)**	**50961**	**43618 (57)**
a. Development Revenue Expenditure	19017(45)	30410(54)	31738(51)	35434(53)	43827	40533 (53)
b. Development Capital Expenditure	2621(6)	3562(6)	2854 (5)	2119(3)	6564	2641 (3)
c. Development Loans and Advances	1062(3)	760(1)	752 (1)	406(1)	570	444 (1)

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

During 2011-12, the share of Development Expenditure in aggregate expenditure remained same as in 2010-11. Further, shares of development revenue expenditure, development capital expenditure and development loans and advances in aggregate expenditure also remained static as in 2010-11. It would also be seen from above that Development Revenue Expenditure which stood at ₹ 19017 crore during 2007-08, was ₹ 40533 crore in 2011-12 registering a growth of 113.14 *per cent*. In terms of percentage to aggregate expenditure, development Revenue Expenditure rose from 45 *per cent* in 2007-08 to 53 *per cent* in 2011-12. The Development Capital Expenditure, after hovering between five and six *per cent* of aggregate expenditure during 2007-2010, went down to three *per cent* in 2011-12.

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[17] *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 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.*

[18] *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.*

In all the three spheres of development expenditure, the actual expenditure fell short of the budgetary estimates. In respect of development capital expenditure, the shortfall was 60 *per cent* mainly due to significantly low capital expenditure on Education, Sports, Art and Culture and Water Supply, Sanitation, Housing and Urban Development in Social sector and Irrigation and Flood Control, Agriculture and Allied Activities, and Transport in Economic sector.

Chart 1.16: Trend in Development Expenditure during 2007-2012

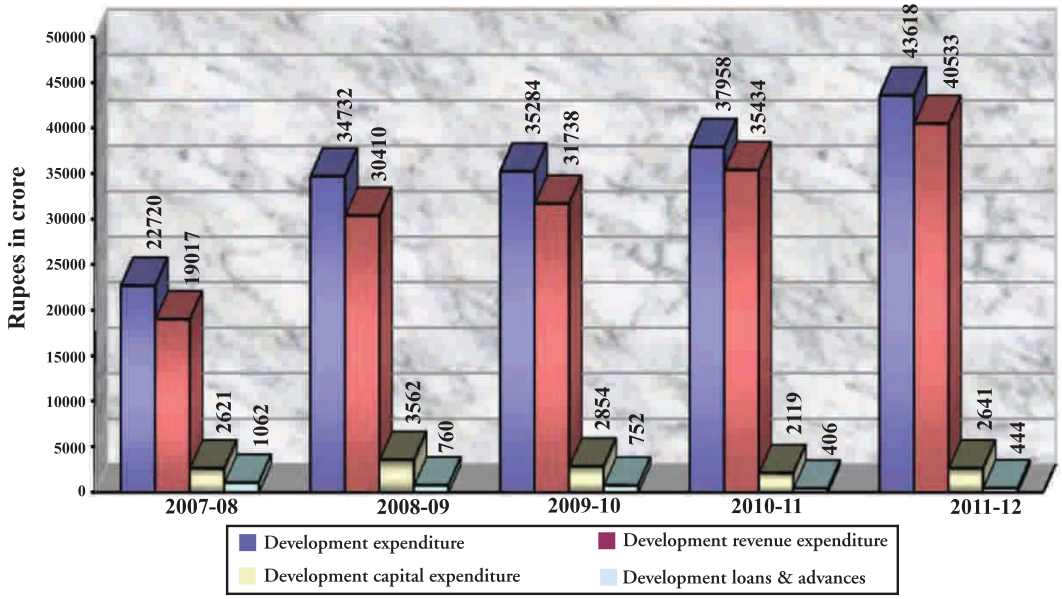


Table 1.20 -Efficiency of Expenditure Use in Selected Social and Economic Services

Social/Economic Infrastructure	2010-11			2011-12		
	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	0.52	11695.64	1.97	0.56	13160.72	25.65
Health and Family Welfare	5.34	2554.33	11.43	9.86	2689.54	12.02
WS, Sanitation, & HUD	4.35	1240.28	118.19	5.31	1289.04	112.22
Total (SS)	**1.71**	**16573.15**	**135.44**	**2.45**	**18479.31**	**154.51**
Economic Services (ES)						
Agriculture & Allied Activities	7.04	1162.42	8.56	7.51	1163.23	10.26
Irrigation and Flood Control	39.70	585.45	88.76	32.97	584.60	127.53
Power & Energy	13.72	1.16	-	24.56	1.27	-
Transport	38.56	153.67	197.84	42.91	153.13	308.69
Total (ES)	**16.88**	**3342.11**	**296.54**	**17.09**	**3358.25**	**448.36**
Total (SS+ES)	**5.64**	**19915.26**	**431.98**	**6.12**	**21837.56**	**602.87**

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

The trends presented in **Table 1.20** reveal that development capital expenditure as percentage of total expenditure increased in all three spheres of Social Services

during 2011-12. Under Economic Services, percentage of CE with respect to TE witnessed rise in Agriculture and Allied Activities and Power and Transport, which was counter-balanced by lower percentage of CE to TE under Irrigation and Flood Control.

A comparative study of various components of expenditure on Social and Economic Services with particular focus on the trends in salary and wages for 2010-11 and 2011-12 reveal that share of salary and wages in all the components has gone up in 2011-12 except in cases of Irrigation and Flood Control and Transport where there have been marginal decreases of ₹ 0.85 crore and ₹ 0.54 crore respectively. The share of operations and maintenance in revenue expenditure on Social Services increased from ₹ 135.44 crore in 2010-11 to ₹ 154.51 crore in 2011-12. The corresponding share on Economic Services increased from ₹ 296.54 crore in 2010-11 to ₹ 448.36 crore in 2011-12. Significant increases were seen under General Education in Social Sector and under Irrigation and Flood Control and Transport in Economic Sector.

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, MGNREGS, 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 1.21** below shows the receipt and expenditure of funds under some other flagship schemes, which were transacted through the State budget.

Table 1.21: Expenditure *vis-à-vis* availability of funds under the flagship schemes implemented in West Bengal during 2011-12 (funds routed through the State budget)

	Funds received from GoI	State budget provision (inclusive of GoI share)	Expenditure	Under-Utilisation (percentage of under utilisation)	Expenditure during 2010-11	Increase in expenditure w.r.t 2010-11	Variation with respect to previous year
	Rupees in crore						
Mid Day Meal	750.76	2031.37	1158.46	872.91 (43)	925.47	232.99	25
Integrated Child Development Services (ICDS)	1631.51	623.12	667.84	(-) 44.72 (7)	424.38	243.46	57
Macro Management of Agriculture	18.14	71.70	59.64	12.06 (17)	26.68	32.96	124
Pre-Matric Scholarship for Minorities	117.76	101.38	110.04	(-) 8.66 (9)	75.09	34.95	47
Integrated Scheme on Oilseeds, Pulses and Maize (ISOPOM)	1.00	11.69	5.73	5.96 (51)	3.79	1.94	51
National Rural Health Mission (NRHM)	334.96	270.00	202.50	67.50 (25)	108.87	93.63	86
Post-Matric Scholarship and Book Banks of Schedule Castes' Students	207.38	207.38	173.28	31.10 (16)	22.01	151.27	687

Source: Finance Accounts

Substantial under utilisation of funds was noticed under Mid-Day Meal, NRHM, ISOPOM, Macro Management of Agriculture, etc. Under-utilisation of plan scheme funds under the Economic Sector (namely, ISOPOM, Macro Management of Agriculture, etc.) may be viewed with little increase in the expenditure under Economic Services.

However, substantial increase in expenditure was noticed in 2011-12 under Mid-Day Meal, ICDS, NRHM and Post-Matric Scholarship and Book Banks of Scheduled Castes' Students as compared to 2010-11.

1.7 Financial Analysis of Government Expenditure and Investments

In the post-WBFRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.7.1 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. There was no productive work in the State at the end of 2011-12. Revenue realised from 15 schemes during 2011-12 was only ₹ 6.64 crore (nearly 0.30 *per cent* of the capital outlay of ₹ 2178.57 crore). After meeting working expenses and interest charges, the schemes suffered a net loss of ₹ 201.04 crore. The major loss making projects were Damodar Valley Project (₹ 59.11 crore), Kangsabati Reservoir Project (₹ 53.33 crore), Teesta Barrage Project (₹ 43.67 crore) and Mayurakshi Reservoir Project (₹ 29.25 crore).

1.7.2 Incomplete projects

As of March 2012, there were 332 incomplete capital works[19]. A total of ₹ 4601.24 crore was invested in these projects by the Government.

Table 1.22: Work-wise Profile of Incomplete Projects **(Rupees in lakh)**

Types of Works	Number	Estimated cost of works	Expenditure up to March 2012	Cases for which revised estimates were available		
				Number	Original estimates	Revised estimates
Buildings	10	3683.19	2684.09	1	2313.52	2641.02
Roads	181	104105.95	44255.71	9	12753.16	17403.06
Irrigation	20	64377.83	35380.13	-		
Power	101	1381205.00	375175.00	34	401095.00	402640.00
Others	20	11686.14	2629.37	-		
Total	**332**	**1565058.11**	**460124.30**	**44**	**416161.68**	**422684.08**

Source: Finance Accounts and departmental information

There have been cost over-runs, since initial budgeted costs have been scaled up in the cases of time over-run. In 44 out of 332 cases, for which original as well as revised estimates were available, there were escalation of ₹ 65.22 crore over the estimated cost.

[19] *Works costing ₹ one crore and above (except in Power sector) have only been included. Works with incomplete information, works which have not been commenced and works clubbed under broad scheme names were excluded*

1.7.3 Investment and returns

As on 31 March 2012, Government had invested ₹ 11156.43 crore in statutory corporations, banks, Government companies, joint stock companies and co-operatives **(Table 1.23)**. The average return on this investment was negligible while the Government paid an average interest rate of 8.41 *per cent* on its borrowings during 2007-08 to 2011-12.

Table-1.23: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (Rupees in crore)	8847.89	10163.21	10675.98	10850.42	11156.43
Return (Rupees in crore)	6.22	6.05	0.48	1.07	1.33
Return (*per cent*)	0.08	0.06	–	0.01	0.01
Average rate of interest on Government borrowing (*per cent*)	8.99	8.70	8.51	7.78	8.05
Difference between interest rate and return (*per cent*)	8.91	8.64	8.51	7.77	8.04

Source: Finance Accounts
Change in figures of previous years is due to change in Fiscal Liabilities figures

Government investment, which was ₹ 10850.42 crore in 2010-11, rose to ₹ 11156.43 crore in 2011-12, *i.e.* a rise of ₹ 306.01 crore (nearly three *per cent*). This was mainly on account of investment in Government companies and Joint Stock companies, which rose together by ₹ 273.71 crore and ₹ 32.30 crore in Co-operative Banks and Societies. The return on investment was less than 0.1 *per cent,* while Government paid interest at the average rate of 7.78 to 8.99 *per cent* on its borrowings during 2007-08 to 2011-12. The difference between the rate of return on Government investment and the average interest rate on the outstanding liabilities represented implicit subsidy of ₹ 4163.58 crore during the period 2007-08 to 2011-12.

Further scrutiny showed that in many cases the companies having Government investment have suffered substantial losses leading to reduction of net worth to negative. ***Appendix 1.8*** shows an illustrative list of some such companies.

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

1.7.4 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 profit/loss as well as return on capital invested in these undertakings are given in ***Appendix 1.9*** read with ***Appendix 3.7.*** Scrutiny reveals the following:

- An amount of ₹ 2072.96 crore (*vide* ***Appendix 3.7***) had been invested by the State Government in 11 undertakings at the end of financial year up to which their accounts were finalised.
- All these undertakings incurred continuous losses aggregating to ₹ 2006.38 crore (*vide* ***Appendix 3.7***) against their total capital investment of ₹ 2072.96 crore. Accumulated loss incurred by these 11 undertakings as per last year's audit report was ₹ 1896.31 crore. Thus losses in the past one year exacerbated by ₹ 110.07 crore.

- Of these loss making undertakings, five undertakings have turned into non-performing ones. (*vide* ***Appendix 3.7***).
- Main reasons for such huge losses as analysed in audit were failure to fulfill production targets, under-utilisation of plant capacity, shortage of raw materials, high production cost, excess process/ distribution loss, low selling prices, inadequate market demand, etc.

In view of the heavy losses of some of the undertakings, Government should review their working so as to clean their balance sheets in the short run and to make them self-sustaining in the medium to long term.

1.7.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government also provided loans and advances to many of these institutions/ organisations. **Table 1.24** presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last five years.

Table-1.24: Average interest received on loans given by the State

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Opening Balance	17872.19	18437.67	13581.49	13946.83		13982.07
Amount advanced during the year	1062.12	759.65	752.44	407.73	577.21	447.97
Amount repaid during the year	496.64	5615.83	387.10*	372.49	163.34	78.17
Closing Balance	**18437.67**	**13581.49**	**13946.83**	**13982.07**		**14351.87**
Of which Outstanding balance for which terms and conditions have not been settled	1239.71	1050.09	1435.42	1300.30		1302.53
Net addition	565.48	(-) 4856.18	365.34	35.24		369.80
Interest Receipts	558.51	3865.93[20]	234.20	580.47	602.91	162.90
Interest receipts as *per cent* to outstanding Loans and advances	3.08	24.15	1.70	4.16		1.15
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.[#]	**8.99**	**8.70**	**8.51**	**7.78**		**8.05**
Difference between interest payments and interest receipts *(per cent)*	5.91	(-) 15.45	6.81	3.62		6.90

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

[#] Change in figures of previous years is due to change in Fiscal Liabilities figures

As depicted in **Table 1.24**, the total outstanding loans and advances as on 31 March 2012 was ₹ 14351.87 crore. The amount of loans disbursed during the year increased from ₹ 407.73 crore in 2010-11 to ₹ 447.97 crore in 2011-12. Out of the total amount of loans and advances paid during the year, ₹ 100.82 crore went to social services and ₹ 343.42 crore went to economic services. Under the Economic Services, major portion of the loan went to Government companies (₹193.83 crore) while under Social Services, major portion went to Municipalities/Municipal Councils/Municipal Corporations (₹ 91.76 crore). Recovery of loans and advances decreased significantly from ₹ 372.48 crore in 2010-11 to ₹ 78.17crore in 2011-12, mainly on account of low recoveries from Government Companies. Similarly, interest receipts against these loans decreased substantially from ₹ 580.47 crore in 2010-11 to ₹ 162.90 crore in 2011-12, mainly due to less interest receipts under energy sector. An amount of ₹ 3931.36 crore on account of Principal and ₹ 6341.40 crore on account of interest remained due for realisation, as of 31 March 2012.

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

Out of 168 loanees, only 18 loanees accepted the loan balances of 2010-11. As of March 2012 verification and acceptance of loan balances in respect of loans for ₹ 11767.36 crore were not available. In absence of the said confirmation, the quality of accounts could not be vouchsafed.

Of the total outstanding loans of ₹ 14351.87 crore, terms and conditions had not been settled in respect of 1729 loans for ₹ 1302.53 crore.

Scrutiny revealed that loans amounting to ₹ 867.78 crore relating to 19 departments remained unaltered for long period. Sixteen of these departments had such loans worth more than ₹ one crore, as shown in the following table:

Table-1.25: Cases of old loans without any recovery **(Rupees in crore)**

	Name of the Department	Loans with no recovery	Period of drawal
		Amount	
1	Agriculture	27.50	1984-85 to 1992-93
2	Commerce and Industries	122.55	1974-75 to 2004-05
3	Cottage and Small Scale Industries	3.33	1972-73 to 1990-91
4	Development and Planning	1.82	1974-75 to 1977-78
5	Fisheries	1.73	1977-78 to 1993-94
6	Food Processing Industries and Horticulture	2.21	1988-89 to 1998-99
7	Industrial Reconstruction	248.06	1976-77 to 2005-06
8	Micro & Small Scale Enterprises and Textiles	14.46	1974-75 to 1998-99
9	Municipal Affairs	2.22	1965-66 to 1969-70
10	Panchayat and Rural Development	2.14	Upto 1968-69
11	Public Enterprise	144.91	1976-77 to 2005-06
12	Public Health Engineering	2.44	1983-84 to 1997-98
13	Tourism	1.11	1975-76 to 1992-93
14	Transport	8.91	1982-83 to 1989-90
15	Urban Development	18.48	1980-81 to 1994-95
16	Water Resources Investigation and Development department	15.23	1984-85 to 1990-91
	Total	**617.10**	

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

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

- No repayment of loan was made by Asansol Durgapur Development Authority (ADDA) and Haldia Development Authority (HDA) during the last five years ending 31 March 2012.

  In reply to audit queries, ADDA and HDA stated (April and May 2012) that no administrative decision was taken for repayment of loan.

- Ignoring non-payment of earlier loans by HDA, fresh loan amounting to ₹ 7.50 crore was released by Urban Development department to HDA during 2011-12. Further scrutiny of records revealed that neither ADDA nor HDA made any provision for repayment of the loan in their final accounts. The department stated (May 2012) that keeping an eye on the development of the State, loans were given to the development authorities for different development projects without giving much stress on their repayment capacity.

  The reply was, however, not acceptable as the loans were sanctioned with provision for payment of interest as well as rebate on interest on early repayment of loans.

- As of March 2012, the UD department sanctioned 15 loans in favour of four development authorities[21] for which terms and condition of loan was not settled. The department stated (May 2012) that the same would be framed soon.
- Though outstanding loan of ADDA as of 01 April 2007 amounted to ₹ 36.60 crore, UD department reflected the same as ₹ 36.20 crore; thus understating the loan amount by ₹ 0.40 crore. Moreover, as per UD department, outstanding balance of loan of HDA as on 01 April 2007 amounted to ₹ 85.90 crore; HDA, however, recorded the same as ₹ 85.72 crore. These differences were not reconciled.

  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.

1.7.6 Cash balances and investment of cash balances

Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank 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 2011-12, the State Government had to resort to special and normal ways and means advances and overdrafts for 127, 31 and 28 days respectively (total 186 days) indicating increasing mismatch between State's flow of resources and its expenditure obligations. During this year quantum of such advances was ₹ 20005.41 crore (Repayment during the year was ₹ 20611.50 crore). The State had to bear ₹ 37.24 crore as interest on ways and mean advances and overdrafts: Treasury bills amounting to ₹ 21304.71 crore and ₹ 18236.28 crore respectively were purchased and sold during the period 2011-12. An amount of ₹ 54.48 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 2012 are given in the following table.

Table-1.26: Cash Balances and Investment of Cash balances (Rupees in crore)

	As on 1 April 2011	As on 31 March 2012	Increase/ Decrease
Cash balance	**5675.89**	**8423.38**	**(+) 2747.49**
Cash in Treasuries	0.47	0.39	(-) 0.08
Deposits with Reserve Bank of India	168.77	(-) 791.88	(-) 960.65
Local remittances	-	-	-
Departmental cash balances	24.75	27.84	3.09
Permanent imprest	1.63	1.65	-
Investments from Cash Balances (a to d)			
a. Securities of Government of India	-	-	-
b. GoI Treasury Bills	(-) 0.69	3067.74	3068.43
c. Other Securities	-	-	-
d. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (a and b)	**5480.96**	**6117.64**	**636.68**
a. Sinking Funds	5480.36	6117.04	636.68
b. Development of Welfare Fund	0.60	0.60	-
Interest Realised	63.96	54.48	(-) 9.48

Source: Finance Accounts

[21] *Kolkata Improvement Trust (1 loan of ₹ 1.50 crore), Kolkata Metropolitan Development Authority (7 loans of ₹ 5.22 crore), Haldia Development Authority (2 loans of ₹ 25 crore) and Howrah Improvement Trust (5 loans of ₹ 1.05 crore)*

The cash balance of the State as at the end of 2011-12 stood at ₹ 8423.38 crore registering an increase of 48 *per cent* over the previous year.

1.8 Assets and Liabilities

1.8.1 Growth and composition of Assets and Liabilities

In the existing cash-based 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 2012, compared with the corresponding position on 31 March 2011. 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 2007-08 to 2011-12, assets-liability ratio hovered around 0.26 to 0.33 and during the current year, the ratio remained static at 0.26 from the previous year.

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.*** The composition of fiscal liabilities during the current year *vis-à-vis* the previous year remained the same as depicted in **Charts 1.17** and **1.18**

Chart-1.17: Composition of Outstanding Fiscal Liabilities as on 31.3.2011

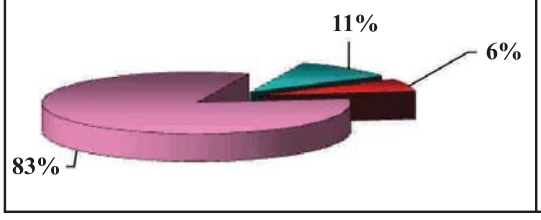
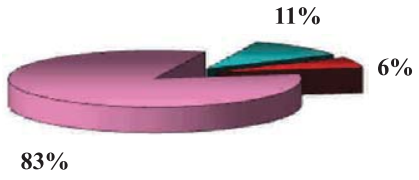
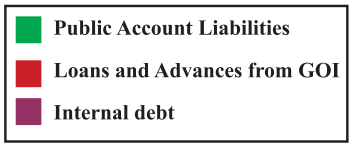


Chart-1.18: Composition of Outstanding Fiscal Liabilities as on 31.3.2012





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 1.27:**

Table-1.27: Trend in Fiscal Liabilities of the State

(Rupees in crore and ratios in percentage)

	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities #	132473	145075	167682	187387	207702
Rate of growth	9.58	9.51	15.58	11.75	10.84
Ratio of Fiscal Liabilities to					
GSDP	44.23	42.43	41.35	39.54	37.77
Revenue Receipts	439.12	393.11	454.15	396.47	353.51
Own resources	907.41	748.39	867.11	797.09	790.40

Source: Finance Accounts

#Change in figures of previous years is due to non-inclusion of reserve fund investment in fiscal liabilities.

Overall fiscal liabilities of the State increased from ₹ 187387 crore in 2010-11 to ₹ 207702 crore in 2011-12 with a growth rate of 10.84 *per cent*. The ratio of fiscal liabilities to GSDP which was 39.54 *per cent* in 2010-11 declined to 37.77 *per cent* in 2011-12. The same was well within the targets stipulated in WBFRBM (Amendment) Act, 2011 (39.10 *per cent*). These liabilities stood at more than 3.5 times of the Revenue Receipts and 7.9 times the State's own resources as at the end of 2011-12. The rate of growth of GSDP, which was 16.85 *per cent* in 2010-11 over previous year, came down to 16.03 *per cent* this year; whereas, that of fiscal liabilities, which was 11.75 *per cent* last year, declined to 10.84 *per cent* this year. Thus the buoyancy of fiscal liabilities to GSDP during 2011-12 was 0.676 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.676 *per cent*.

1.8.3 Reserve Funds

There were 31 Reserve Funds, out of which eight funds were active and 23 inactive. As of 31 March 2012, the total accumulated balance in these funds was ₹ 6750.06 crore (₹ 6729.58 crore in active funds and ₹ 20.48 crore in dormant funds). Investment out of this balance was only ₹ 6117.64 crore. During the year, an amount of ₹ 2250.70 crore was transferred as annual contribution in various Reserve Funds. The Reserve Funds of the State increased by ₹ 1295.89 crore over the previous year. The position of the closing balances of some major Reserve Funds as of March 2012 and amount contributed therein during 2011-12 was as under:

Table 1.28: Closing balances and contribution in respect of some major reserve funds

(Rupees in lakh)

Name of the Fund (reference of Major-Minor Head)	Closing Balance as on 31 March 2012	Contribution made during 2011-12
State Disaster Response Fund (8121-122)	40678.80 (Cr)	99091.45
Consolidated Sinking Fund (8222-01-101)	611704.37 (Cr)	63667.73
State Roads and Bridges Fund (8225-02-101)	18103.40 (Cr)	36398.67
Calamity Relief Fund (8235-111)	1568.92 (Cr)	Nil

Source: Finance Accounts

According to the guidelines for administration of State Disaster Response Fund (SDRF) issued (September 2011) by the State Government, the accumulation[22] in SDRF were to be invested in Central Government dated Securities and/ or Auctioned Treasury Bills and/ or Interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made during 2011-12. Instead, the interest of ₹ 55.10 crore paid to the fund was met out of State Budget, though the guidelines were silent on transfer of interest to the fund being made out of budgetary outlay.

The State Government had set up a Consolidated Sinking Fund from the financial year 2008-09. The fund was to be utilised as an Amortisation Fund for redemption of the outstanding liabilities of the Government commencing from the financial year 2013-14. The corpus of the fund was to consist of periodic contributions as well as income accruing to the fund. Only the interest accrued and accumulated in the fund was to be utilised for redemption of the outstanding liabilities of the Government. The contributions to the fund were to remain intact, until a substantial amount is built up. The rate of contribution to the fund was to be on a modest scale of at least 0.5 *per cent* of the outstanding liabilities (Internal Debt and Public Account liabilities) as at the end of the previous year. Accordingly, the State Government was to contribute ₹ 936.94 crore (Outstanding liabilities as at the end of the year 2010-11 was ₹ 187387 crore) during 2011-12. However, there was no actual contribution to the fund, though a budget provision of ₹ 930.00 crore was made in the State Budget resulting in shortfall of contribution of ₹ 936.94 crore during the year.

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 1.29.**

Table-1.29: Guarantees given by the Government of West Bengal **(Rupees in crore)**

	1 April 2008	1 April 2009	1 April 2010	1 April 2011	1 April 2012
Maximum amount guaranteed	23117.70	19974.48	20298.38	19860.49	20105.85
Outstanding amount of guarantees	13683.86	11972.75	10354.63	11943.44	10192.46
Ceiling fixed by State Government Act (90 *per cent* of Revenue Receipt of the second preceding year)	21353	23245	27150	33214	33230
Percentage of outstanding amount guaranteed to Revenue Receipts of second preceding year	58	46	34	32	28

Source: Finance Accounts

The total guarantee of the Government increased from ₹ 19860.49 crore in 2010-11 to ₹ 20105.85 crore in 2011-12. Outstanding guaranteed loan amount, however, decreased from ₹ 11943.44 crore in 2010-11 to ₹ 10192.46 crore in 2011-12. Out of a total of 631 guarantees outstanding as on 31 March 2012, Power sector alone accounted for 410 guarantees. No guarantees, however, have been invoked during 2011-12.

[22] *Accretion as per Central Guidelines issued in September 2010*

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 guarantee commission at the rate of one *per cent* (minimum) on the total amount guaranteed. However, ₹ 153.83 crore towards guarantee commission or fee was outstanding as on 31 March 2012, of which power sector alone accounted for ₹ 114.94 crore (75 *per cent*). During 2011-12, the State Government has received ₹ 5.22 crore towards guarantee fee.

The State Government was silent about the mechanism available for recovery of the outstanding guarantee fees and keeping the guarantees alive, though called for (August 2012).

Sums paid by the Government in the event of invocation of guarantees are charged to the Consolidated Fund of the State under the concerned loan head and irrecoverable sums are adjusted under the concerned revenue expenditure heads, where the Guarantee Redemption Fund does not exist and to the Guarantee Redemption Fund, where it exists. In the Medium Term Fiscal Policy Statement presented before the WBLA in March 2012, it was stated that GoWB has not set up "Guarantee Redemption Fund", instead the Government has increased its contribution to Consolidated Sinking Fund for the last few years. It was further stated that the Government may introduce a policy regarding Government Guarantee that new guarantee will be given subject to vacation of guarantee.

1.8.5 Adverse balances under DDR Heads

Adverse balances are negative balances appearing under those heads of account, where there should not be a negative balance. For instance, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced.

As of 31 March 2012, there were four cases of adverse balances amounting to ₹ 173.08 crore under the Debt, Deposit and Remittances heads.

1.9 Debt Sustainability

Debt sustainability[23] is defined as the ability to maintain a constant debt-GSDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt *rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if it is negative, debt-GSDP ratio would rise and if it turns

[23] *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.*

positive, it would fall. **Table 1.30** analyses debt sustainability of the State according to these indicators for the period of five years beginning from 2007-08.

Table 1.30: Debt Sustainability: Indicators and Trends (Rupees in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	6901 {6917+ (-)16}	6116 {7605+ (-)1489}	4130 {15779+ (-)11649}	10384 {16102+ (-)5718}	13955 {15764+ (-)1809}
Debt-GSDP ratio	0.442	0.424	0.413	0.395	0.378
Sufficiency of Non-debt Receipts (Resource Gap)	(+) 30	(-)2158	(-)11396	(+)5418	(+) 1831
Net Availability of Borrowed Funds	(+) 198.17	(+) 533	(+) 9302	(+) 5888	(+) 4419
Debt redemption/Debt receipt	1.00	0.99	0.85	0.92	0.95
Burden of Interest Payments (IP/RR Ratio)	0.38	0.35	0.36	0.29	0.27

Source: Figures from Finance Accounts
Changes in figures of previous years are due to changes in fiscal liabilities and GSDP figures

Debt Stabilisation[24] **:** Debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would rise and in case it is positive, debt-GSDP ratio would eventually fall. The sum of quantum spread and primary deficit was positive during all five years resulting in declining trend in debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilization.

WBFRBM Act 2010 envisaged that during 2011-12, the Debt-GSDP ratio should be 39.10 *per cent* (medium term target being 34.30 *per cent* within 2014-15). The target was achieved as the Debt-GSDP ratio stood at 37.77 *per cent* during the current year. The ratio was marginally more than that envisaged in MTFPSS (37.08 *per cent*).

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. Though the Resource Gap remained positive during 2011-12, there was noticeable decline in terms of sufficiency in non-debt receipts. The noticeable decline in resource gap was mainly attributable to significant increase (₹ 2079 crore) in interest payment over the last year.

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 2009-10 to ₹ 5888 crore in 2010-11 and further down to ₹ 4419 crore this year.

[24] *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 27* per cent *in 2011-12. Interest payment by the State during 2011-12 stood at* ₹ *15896 crore which was six* per cent *higher than Thirteenth Finance Commission projection of* ₹ *14985 crore.*

Maturity profile of the State Debt:

Maturity profile of State debt is depicted in **Table 1.31** and **Chart 1.19** below :

Chart 1.19: Maturity Profile of State Debt

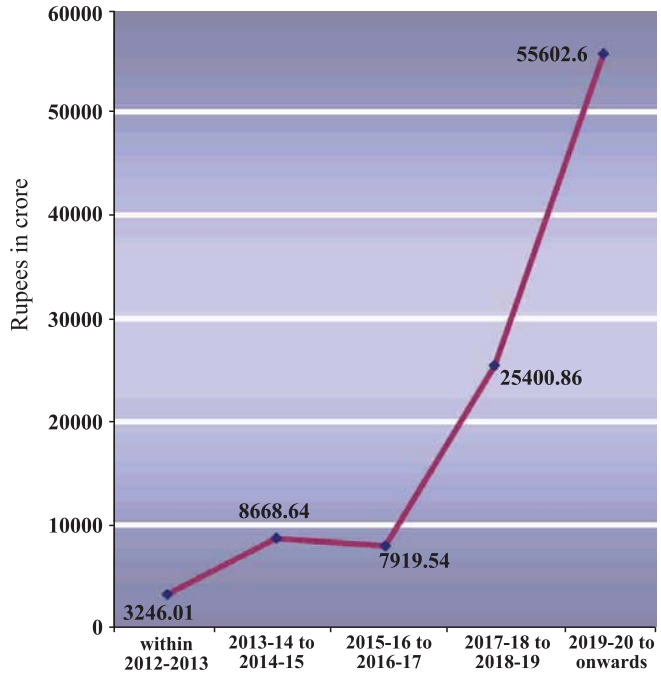


Table 1.31: Maturity Profile of State Debt

Period	Amount to be matured
Details of Maturity year not available	₹ 83860.32 crore
Within 2012-13	₹ 3246.01 crore
2013-14 to 2014-15	₹ 8668.64 crore
2015-16 to 2016-17	₹ 7919.54 crore
2017-18 to 2018-19	₹ 25400.86 crore
2019-20 onwards	₹ 55602.60 crore
Total redeemable debt	**₹ 184697.97 crore**

Source: Finance Accounts

The maturity profile of the State debt as per **Table 1.31** and **Chart 1.19** indicates that nearly 10.74 *per cent* of the total State debt is repayable within the next five years while 43.86 *per cent* is repayable in more than five years. It further indicates that the liability of the State to repay the debt would be on the rise in coming years and shall amount to ₹ 25400.86 crore during the period 2017-19 and ₹ 55602.60 crore from 2019-20 onwards which would put a strain on the Government during those periods. The State may have to borrow further to repay those loans. A well thought-out debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years, are made.

Non-availability of maturity profile of ₹ 83860.32 crore (45.40 *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 2011-12.

Chart 1.20: Trends in Deficit Indicators

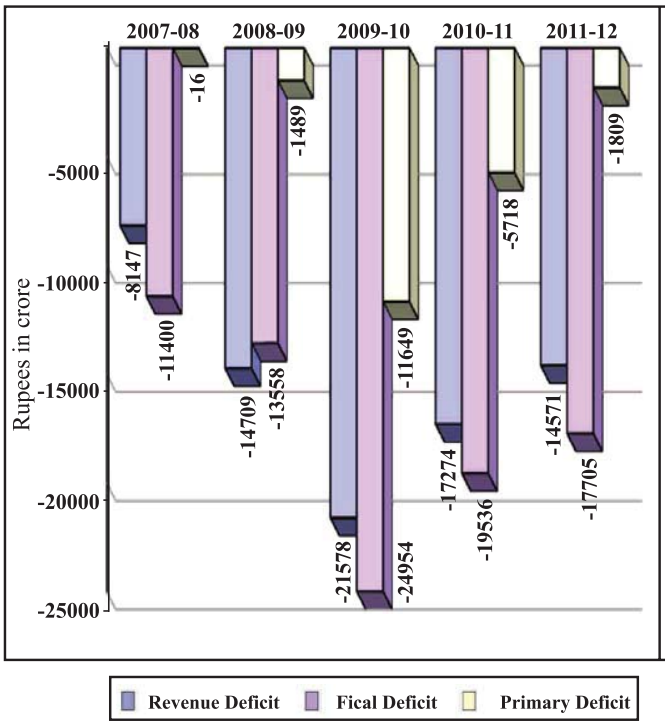
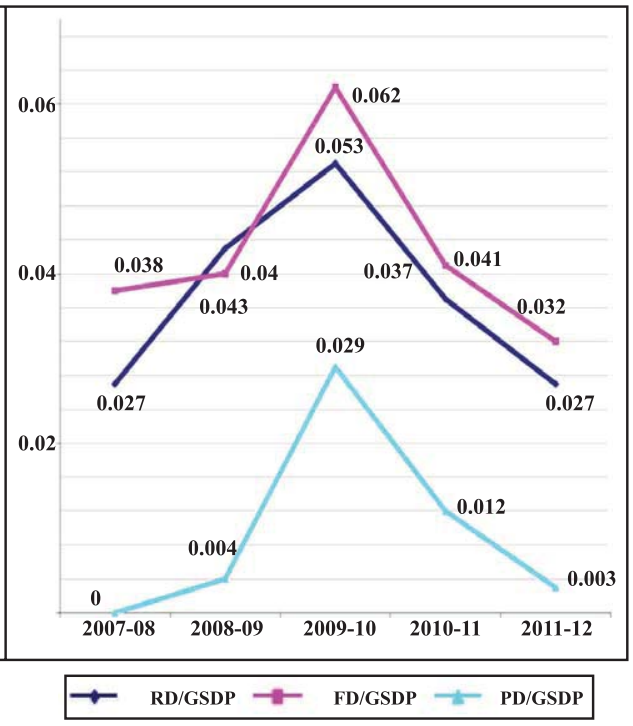


Chart 1.21: Trends in Deficit indicatots relative to GSDP



1.10.1 Trends in Deficits

Charts 1.20 and **1.21** present trends in deficit indicators over the period 2007-08 to 2011-12.

Revenue Deficit which was ₹ 8147 crore in 2007-08 shot up steeply to ₹ 21578 crore in 2009-10. Thereafter, it steadily came down to ₹ 17274 crore in 2010-11 and ₹ 14571 crore in 2011-12. The decrease in revenue deficit in 2011-12 was attributable to 24 *per cent* increase in Revenue Receipts led by significant augmentation of Grants-in-aid from GoI coupled with increases in tax revenue and State's share of Union taxes and duties. Revenue deficit, however, registered a growth of about 79 *per cent* over the five year period.

Fiscal Deficit which was ₹ 11400 crore in 2007-08 increased sharply to ₹ 24954 crore in 2009-10. It however, came down to ₹ 17705 crore in 2011-12. The WBFRBM Amendment Act 2011 envisaged containment of Fiscal Deficit within 3.5 *per cent* of GSDP. The target was achieved by the State as the Fiscal Deficit stood at 3.22 *per cent* of GSDP during 2011-12.

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 1.32**.

Table 1.32: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	Net disbursements/outflows				2011-12		
		2007-08	2008-09	2009-10	2010-11			
Decomposition of Fiscal Deficit (1 to 3) (a)		**11400(3.81)**	**13558(3.96)**	**24954 (6.15)**	**19536(4.12)**			**17705(3.22)**
1	Revenue Deficit	8147 (2.72)	14709 (4.30)	21578 (5.32)	17274 (3.65)			14571(2.65)
2	Net Capital Expenditure	2688	3705	3011	2226			2764
3	Net Loans and Advances	565	(-) 4856	365	36			370
Financing Pattern of Fiscal Deficit (b)						**Receipts**	**Disbursement**	**Net**
1	Market Borrowings	10740	11543	15605	8445	23591	2791	20800
2	Loans from GoI	(-) 623	(-) 585	(-)1009	(-) 249	443	533	(-)90
3	Special Securities Issued to NSSF	936	520	6431	10088	1659	2648	(-)989
4	Loans from Financial Institutions	(-)300	(-) 341	(-)191	(-) 936	863	2722	(-)1859
5	Ways and Means	-	-	-	606	20006	20612	(-)606
6	Small Savings, PF etc	319	355	738	1129	2715	1683	1032
7	Reserve Fund	144	985	676	1192	2250	955	1295
8	Deposits and Advances	789	1231	1364	870	35640	34273	1367
9	Suspense and Miscellaneous	480	383	1162	(-)458	48241	49064	(-)823
10	Remittances	133	274	58	(-) 264	5537	5212	325
11	Contingency Fund	-	6	(-)1	3	-	-	-
12	Appropriation to/from Contingency Fund	-	-	-	-	-	-	-
13	**Total (1 to 12)**	**12618**	**14371**	**24833**	**20426**	**140945**	**120493**	**20452**
14	Increase (-)/Decrease (+) in Cash Balance	(-) 1218	(-)813	(+) 121	(-) 890			(-) 2747
15	**Overall Surplus/Deficit (13 + 14)**	**11400**	**13558**	**24954**	**19536**			**17705**

Figures in brackets indicate the per cent *to GSDP*
Differences with Finance Accounts due to rounding
Source : Finance Accounts

Fiscal deficit is the total borrowing requirement of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

It is evident from **Table 1.32** that market borrowings by the State Government continued to finance a major portion of the fiscal deficit. Market borrowing increased by ₹ 12355 crore (146 *per cent*) in 2011-12 over the previous year, thereby increasing the interest burden in future. As regards cost of borrowing, the rates of interest on Market borrowings prevailing in 2011-12 were 8.36 to 9.36 *per cent.*

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 1.33)** 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 1.33: 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)
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
2011-12	58833	57430	2764	448	60642	(+)1403	(-)1809

Source: Finance Accounts

Further, proportion of capital expenditure with respect to total expenditure worked out only 3.61 *per cent* during 2011-12 which was marginally higher than 3.31 *per cent* in 2010-11. Primary Deficit decreased sharply from ₹ 5719 crore in 2010-11 to ₹ 1809 crore in 2011-12 as the non-debt receipts increased significantly during the year. Ideally, incremental non-debt receipts 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 2011-12, non-debt receipts could not meet the primary expenditure.

The capital expenditure as percentage to primary expenditure decreased from 8.76 *per cent* in 2007-08 to 4.17 *per cent* in 2010-11. It however increased marginally to 4.56 *per cent* in 2011-12. Thus enhancement of capital expenditure which is desirable to improve the productive capacity of the State's economy was not assigned priority by the State.

1.11 Conclusion and Recommendations

Fiscal position of the State: The State Government has improved its fiscal situation during 2011-12. Revenue Receipts grew at a healthy rate of 24 *per cent*, while the growth of Revenue Expenditure contained to 14 *per cent*. As a result, there was reduction in both Revenue and Fiscal Deficits. Revenue deficit and fiscal deficit during 2011-12 stood at 2.65 *per cent* and 3.22 *per cent* of GSDP against FRBM Act target of 1.6 *per cent* and 3.5 *per cent* respectively.

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. The Medium Term Fiscal Policy and Strategy Statement detailing the fiscal indicators and rolling plan for additional resource mobilisation was presented before the West Bengal Legislative Assembly in March 2012.

Prioritisation of Capital expenditure: Capital Expenditure as well as expenditure under Economic Sector are the major indicators of development activity. In both the cases, not only was the actual expenditure far below the budget estimate, Capital Expenditure was remarkably low at only 3.61 *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.

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 0.06 *per cent*, while Government had to pay interest at the average rate of 7.78 to 8.99 *per cent* on its borrowings during 2007-08 to 2011-12 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.