Chapter 1

Finances of the State Government

Profile of West Bengal

Situated in the eastern part of the Gangetic basin, West Bengal is an agrarian State with fertile land and diverse agricultural products. On the economic front, the State is comparable to the larger states like Gujarat, Maharashtra, Karnataka and Tamilnadu in terms of Gross State Domestic Product (GSDP). However, the compound annual rate of growth (11.93 *per cent*) of its GSDP over the last decade lagged behind that of general category States' average (12.54 *per cent*). ***Appendix 1.1*** captures a brief social and economic profile of the State, which would also show that on the social development front the State had fared much better than the general category States' average. Though burdened by the highest population density of 903 persons per sq. kilometres (all India average being only 325), the State managed to contain infant mortality (only 35 per thousand against all India average of 53) and achieved higher percentage of literacy and life expectancy at birth. The percentage of population below poverty line was also lower than all India average. However, such social achievements notwithstanding, there are reasons for concern as regards to financial performance of the State, if viewed in terms of various fiscal parameters, as discussed in the succeeding paragraphs.

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 lay out 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***.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) 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)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
					Non-Plan	Plan	Total
Section-A: Revenue							
36904.40	Revenue Receipts	**36921.65**	**51613.31**	Revenue expenditure	**48530.11**	**9969.77**	**58499.88**
14419.15	Tax Revenue	16899.98	20775.44	General services	26251.04	105.75	26356.79
4966.39	Non-Tax Revenue	2438.11	16384.82	Social Services	17243.86	6752.10	23995.96
11321.78	Share of Union Taxes/Duties	11648.16	14025.41	Economic Services	4637.01	3104.83	7741.84
6197.08	Grants from Government of India	5935.40	427.64	Grants-in-aid and Contributions	398.20	7.09	405.29
Section-B: Capital							
	Misc. Capital Receipts	-	**3705.30**	Capital Outlay	128.22	2882.84	**3011.06**
5615.83	Recoveries of Loans and Advances	**387.10**	**759.65**	Loans and Advances disbursed	(-)320.80	1073.24	**752.44**
15991.14	Public debt receipts	**28507.53**	**4854.86**	Repayment of Public Debt*	7672.07	-	**7672.07**
6.34	Contingency Fund	**1.43**	**0.47**	Contingency Fund	2.70	-	**2.70**
58144.00	Public account receipts	**69055.12**	**54915.45**	Public account disbursements	65056.63	-	**65056.63**
4094.78	Opening Cash Balance	**4907.45**	**4907.45**	Closing cash balance	4785.50	-	**4785.50**
120756.49	**Total**	**139780.28**	**120756.49**	**Total**	**125854.43**	**13925.85**	**139780.28**

Source: Finance Accounts

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

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

- There was very little growth in the Revenue receipts as they increased marginally by ₹ 17.25 crore during 2009-10 from the level of ₹ 36904.40 crore in 2008-09. Though there was increase under Tax Revenue (₹ 2480.83 crore), share of Union Taxes and Duties (₹ 326.38 crore), decline was noticed under Non-Tax Revenue[1] (₹ 2528.28 crore) and Grants from Government of India (₹ 261.68 crore). On the capital side, Recoveries of Loans and Advances although witnessed a decrease of ₹ 5228.73 crore, Public Debt Receipts and Public Accounts Receipts increased by ₹ 12516.39 crore and ₹ 10911.12 crore respectively during the year. Under the Tax Revenue, substantial increase was noticed under Sales Tax (₹ 1554.55 crore) followed by State Excise Duty and Stamps and Registration fees which also witnessed increase of ₹ 360.87 crore and ₹ 304.73 crore respectively. Under State's share of Union Excise and Duties, increase of ₹ 1081.14 crore and ₹ 339 crore under Corporation Tax and Taxes on income other than Corporation Tax was counter

[1] *Decrease in the figures of Non-tax revenue and recoveries of loans and advances was attributable to the fact that in 2008-09, both of these figures were inflated by book adjustment of Rs 3245.50 crore and Rs 4874.50 crore respectively in connection with waiver of dues from erstwhile West Bengal State Electricity Board*

balanced by decrease under customs (₹ 534 crore) and Union Excise Duties (₹ 574 crore).

- Under Non-Tax Revenue, there was an increase of ₹ 952.80 crore in receipts under Food Storage and Warehousing. The same was offset by decrease in receipt to the tune of ₹ 3614.82 crore under Interest Receipts (0049-190-Int from P.S.-other undertakings). This was accountable to book adjustment per contra debit to the major heads due to waiver of Government Loan.

- *Like 2008-09,* ***Tax Revenue*** *of the State for 2009-10 (₹16899.98 crore) fell far short by 38* per cent *(₹10404.68 crore) as compared to the normative projections of ₹27304.66 crore made by* ***Twelfth Finance Commission*** *and by 13* per cent (₹ 2576.44 crore) *of amount assessed in State budget: (₹19476.42 crore). Non-Tax Revenue this year (₹2438.11 crore) fell short of both the TFC Projection (₹4000.61 crore) and State Budget (₹2729.07 crore).*

- **Revenue expenditure** during 2009-10 was ₹ 58499.88 crore against ₹ 51613.31 crore in 2008-09 registering an increase of ₹ 6886.57 crore (13 *per cent).* Increase was mainly attributable to increase in revenue expenditure under General Education (₹ 4061.57 crore), which was attributable to increase in expenditure under Assistance to Non-Government Primary Schools (₹ 824.86 crore), Sarba Siksha Abhiyan (₹ 183.83 crore), Assistance to Non-Government Secondary Schools (₹ 2181.35 crore), etc. Increase in Pensions and other retirement benefits (₹ 2077.78 crore) also contributed towards increase in revenue expenditure. Increase was due to increase in expenditure under superannuation and retirement allowances (₹ 458.74 crore), commuted value of pension (₹ 113.79 crore), Family Pensions (₹ 316.88 crore), Pension to employees of State-Aided Educational Institutions (₹ 992.29 crore)

- During 2009-10 **Capital outlay** (₹ 3011.06 crore) decreased by 19 *per cent* (₹ 694.24 crore) over that of previous year (₹ 3705.30 crore). Capital Account of Social and Economic Services together accounted for decrease of ₹ 707.87 crore. Increase in expenditure of Capital Account under Irrigation and Flood Control (₹ 108.05 crore), Industry and Minerals (₹ 133.36 crore) and Transport (₹ 259.21 crore) were offset by decrease in expenditure under Capital Account of Energy to the tune of ₹ 900.87 crore.
- **Recovery of Loans and Advances** decreased steeply by ₹ 5228.73 crore (93 *per cent*) in 2009-10. This may, however, be viewed with book adjustment of loan of ₹ 4874.50 crore done in 2008-09. Even after excluding the book adjustment figure, the recovery was still lower than last year's figure by 48 *per cent*.

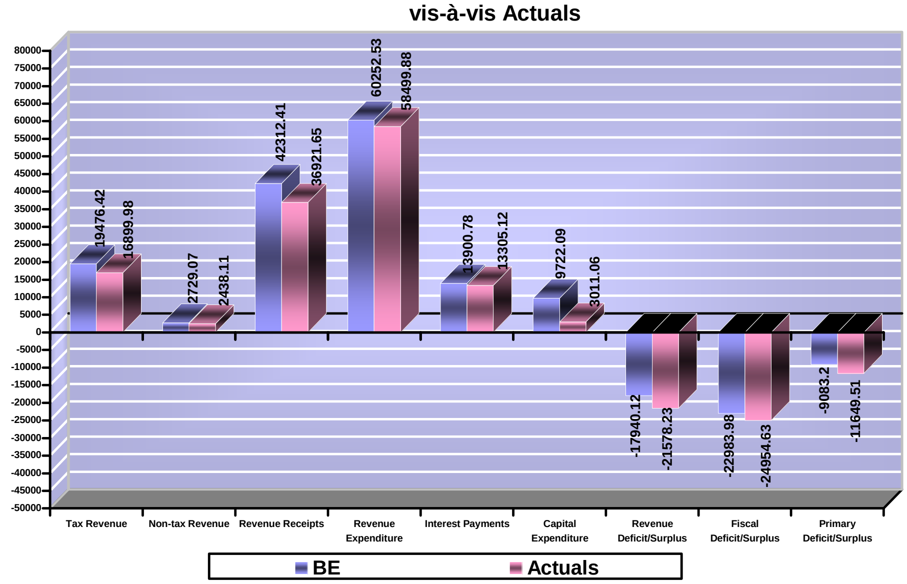
- **Receipts and repayments under the Public Debt** increased by ₹ 12516.39 crore and ₹ 2817.21 crore respectively. Of ₹ 12516.39 crore increase in receipts under Public Debt, ₹ 6337.89 crore was accountable to Special Securities issued to

National Small Savings Fund of the Central Government followed by increase of ₹ 4154.45 crore on account of Market Loans.

- Significant increase (by ₹ 10911.12 crore *i.e.* 19 *per cent*) was also noticed in **Public Account Receipts**. This was mainly due to increase under Suspense and Miscellaneous heads (₹ 12413.87 crore).
- **Public Account disbursements** also registered an increase of ₹ 10141.18 crore (₹ 65056.63 crore disbursed in 2009-10 against ₹ 54915.45 crore in 2008-09) i.e. a growth by 18 *per cent*.
- Closing **cash balance** which was ₹ 4907.45 crore as on 31 March 2009 came down to ₹ 4785.50 crore in 2009-10.

Chart 1.1 presents the budget estimates (BE) and actuals for some important fiscal parameters during 2009-10:

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



It would be seen from above that actual revenue receipts were less than that estimated in the budget. Actual Revenue Expenditure and Actual Capital Expenditure were also below the level of budget estimates. All the three deficits in actuals were far above the budget estimates. The situation urgently calls for effective steps in strengthening tax base and its realisation with simultaneous containment of Non-Plan Revenue Expenditure.

Box 1.1: Impact of non-enactment of the FRBM Act

With enactment of a **Fiscal Responsibility and Budget Management Act** (FRBMA) in 2003 at the Centre, the Twelfth Finance Commission (TFC) was mandated *inter alia* to suggest a plan by which the Governments collectively and severally may bring about a restructuring of public finances, restoring budgetary balances, achieving macro-economic stability and debt restructuring along with equitable growth. TFC also recommended a formula for extending **debt relief** to the States. Under this formula, outstanding central loans to the state as of 31 March 2004 were to be consolidated and rescheduled for a fresh term of 20 years and an interest of 7.5 *per cent* per *annum* be charged on them after taking into account the repayment made during 2004-2005 on these loans. However, enactment of fiscal responsibility legislation by the State Government was the necessary pre-condition for availing such waiver. The Government of West Bengal has enacted FRBM act only in July 2010. As such, the State could not avail of the benefit of the scheme during the award period of TFC.

Total repayment due during 2005-10, before consolidation and re-schedulement, stood at ₹ 3612.55 crore. Under the formula recommended by TFC it would have come down to ₹ 2425.07 crore, indicating a debt relief of ₹ 1187.48 crore. On the other hand, admissible relief on interest payment during 2005-10 was calculated by the Commission as ₹ 1547.81 crore.

Moreover, though the State registered reduction in revenue deficits during 2004-05 (as compared to average revenue deficit of ₹ 8956 crore during the years 2001-04) and 2005-06, it could not avail of further **debt waiver of ₹ 422.58 crore**, (linked to such fiscal performance) owing to non-enactment of FRBM act.

Thus, non-enactment of the legislation had cost the State Government total relief of ₹ 3157.87 crore (₹ 1187.48 crore *plus* ₹ 1547.81 crore *plus* ₹ 422.58 crore).

It is also pertinent to mention here that at the end of the award period of TFC, revenue deficit stood at ₹ 21578 crore (as of March 2010), which was evidently in variance with the objective of eliminating revenue deficit by 2008-09.

In addition, the State could not avail TFC grant of ₹ 359.21 crore (out of total ₹ 6639.73 crore recommended). Sector-wise analysis showed that such short receipt of TFC grants occurred mainly under General Education (₹ 195.92 crore), arsenic contamination of ground water (₹ 60 crore), maintenance of roads & bridges (₹ 51.62 crore), maintenance of public buildings (₹ 22.65 crore), erosion of Ganga-Padma river basin in Malda & Murshidabad (₹ 19 crore) etc. Short receipt of grants under these heads was attributable to non-fulfilment of conditions[2].

The TFC recommended creation of a permanent **State Finance Commission** (SFC) cell in the Finance Department as the collection and collation of data would need to be done constantly and data would need to be made available to the next SFC as and when it is constituted. However, the permanent SFC cell was not created in the Finance Department.

The recommendations of the TFC envisaged setting up of a **Guarantee Redemption Fund** through earmarked guarantee fees including risk weighing of guarantees and subsequent decision on the quantum of contribution to the fund. Such fund was not created.

With an aim to restructuring public finances of both Centre and the States, TFC took note of certain key fiscal trends which were of serious concern. A

[2] *budget estimate (BE) under Non-Plan Revenue Expenditure (NPRE) of the relevant head should not be less than "total NPRE" projected by TwFC for that year and actual NPRE of the relevant head should not be less than the total of 'normal expenditure'* ***plus*** *the actual release of grant for that year.*

close look at those parameters enumerated in the following table both in terms of Finance Commission stipulation and actuals assists in assessing the performance of the State.

Table 1.2: Comparison of TFC targets and actual in respect of some indicators

	2005-06	2006-07	2007-08	2008-09	2009-10
Deficits					
Fiscal deficit (target)*	6225	7180	8336	9535	14705
Fiscal Deficit (actual)	9601 (5)	11430 (5)	11400 (4)	13558 (4)	24954 (7)
Revenue deficit (actual)	7391	8333	8147	14709	21578
Revenue deficit/GSDP (which should tend towards zero and be eliminated by 2008-09)	0.03	0.03	0.02	0.05	0.06
Revenue Receipts					
Own tax revenue (assessed by TFC)	14432	16926	19851	23282	27305
Own tax revenue-(actual) (Percentage of shortfall)	10388 (28)	11695 (31)	13126 (34)	14419 (38)	16900 (38)
Own non-tax revenue (assessed by TFC)	1826	2285	2793	3361	4001
Own non-tax revenue (actual) (Percentage of shortfall)	1019 (44)	1249 (45)	1473 (47)	4966 (-48)	2438 (39)
Committed Expenditures					
Interest payment (assessed by TFC)	8926	9506	10124	10782	11483
Interest Payment (actual) (percentage of excess)	**9753 (9)**	**10879 (14)**	**11384 (12)**	**12069 (12)**	**13305 (16)**
Interest payment (15 *per cent* of revenue receipt)	3559	3874	4525	5536	5538
Pension (assessed by TFC)	3205	3526	3878	4266	4693
Pension (actual) (percentage of excess)	**3642 (14)**	**3553 (1)**	**3995 (3)**	**4433 (4)**	**6511 (39)**
Salary (relative to revenue expenditure net of interest payment and pension)**	57	55	53	39***	57
Salary (actual)	**10161**	**10876**	**12205**	**13779**	**21903**

** TFC had targeted to bring down the Fiscal Deficit to three per cent of GSDP by 2008-09, However, in view of economic slowdown, Government of India had relaxed the target to four per cent of GSDP during 2009-10*

*** should not exceed 35 per cent*

**** Reduction in percentage was due to inflation of Revenue expenditure figures by ₹8247 crore on account of debt waiver; excluding the same the percentage would have been 51 per cent*

Thus, the State Government fell short of the targets fixed by the TFC throughout the award period in respect of all the above-mentioned parameters. During 2009-10, the Fiscal deficit (₹24954 crore) was far above the relaxed target (four *per cent* of GSDP) allowed by GoI in view of economic slow-down.

1.1.1 Trends and composition in GSDP

GSDP of the State which was 207495.08 in the year 2005-06 registered a growth of 77 *per cent* and stood at 367619.73 in 2009-10. Annual growth rate of GSDP, however, ranged between 14 *per cent* and 16 *per cent*. Sector-wise composition of GSDP is depicted in the table:

Table1.3: Decomposition of GSDP (NSDP) of West Bengal by Broad Sectors:

Sector	1999-00	2005-06	2006-07	2007-08 (P)	2008-09 (Q)	2009-10 (A)
Primary[3]	41063.33(33)	55061.01(27)	59557.93(25)	68387.78(25)	72945.85(23)	80894.02(22)
Secondary[4]	18350.81(15)	36254.15(17)	43736.89(18)	53625.87(19)	64924.71(20)	74644.17(20)
Tertiary[5]	65884.68(53)	116179.92(56)	136038.95(57)	155855.16(56)	179966.88(57)	212081.54(58)
Total	**125298.82**	**207495.08**	**239333.77**	**277868.81**	**317837.44**	**367619.73**

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

Table 1.3 would show that contribution of primary sector in GSDP of respective years declined steadily from 27 *per cent* in 2005-06 to 22 *per cent* in 2009-10. Contribution of secondary sector which was 17 *per cent* in 2005-06 marginally rose to 20 *per cent* in 2008-09 and remained the same in 2009-10. Share of tertiary sector in GSDP hovered around 56-58 *per cent* over the years. Relative share of above three sectors in GSDP of the State over the period of five years clearly suggests that although a positive shift in relative shares of sectors was in sight, there was ample scope left for secondary sector to share a larger portion of GSDP of the State.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2006-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

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

Chart 1.2: Trends in Receipts (Rupees in crore)

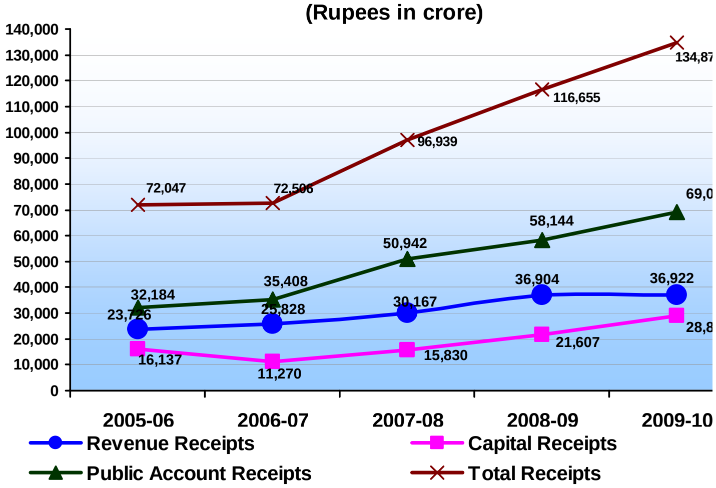
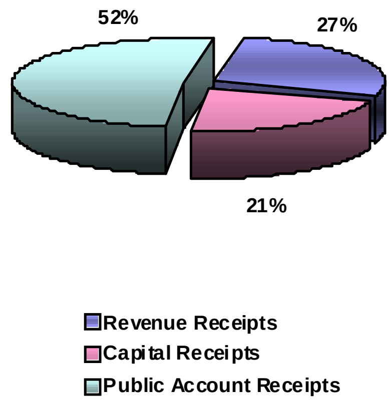


Chart 1.3: Composition of Receipts during 2009-10



Almost 51 *per cent* of the total receipts came from Public Account receipts, remaining was contributed by revenue (27 *per cent*) and capital receipts (22 *per cent*). Again, of revenue receipts, tax revenue accounted for 46 *per cent*, which was higher than 39 *per cent* as compared to previous year; non-tax revenue had a contribution of about seven *per cent* while State's share of union taxes and duties contributed 31 *per cent*. Remaining share of revenue receipts (16 *per cent*) came from Government of India grants. Tax revenue registered a growth of 17 *per cent* over previous year. Of other components of revenue receipts, State's share of Union taxes and duties registered only three *per cent* growth, where as grants from GoI came down to ₹ 5935.40 crore in 2009-10 from ₹ 6197.08 crore in 2008-09. Of capital receipts, while 99 *per cent* was contributed by public debt receipts, remaining one *per cent* came from recoveries of Loans and Advances. Recoveries of loans and advances was inflated by book adjustment of waiver of ₹ 4874.50 crore in 2008-09. Even after ignoring the book adjustment, actual recovery of loans in 2009-10 was 48 *per cent* lower than that of 2008-09 and came down to ₹ 387.10 crore in 2009-10. Loans and advances from Government of India was also lower by 25 *per cent* this year than that in the previous year.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

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

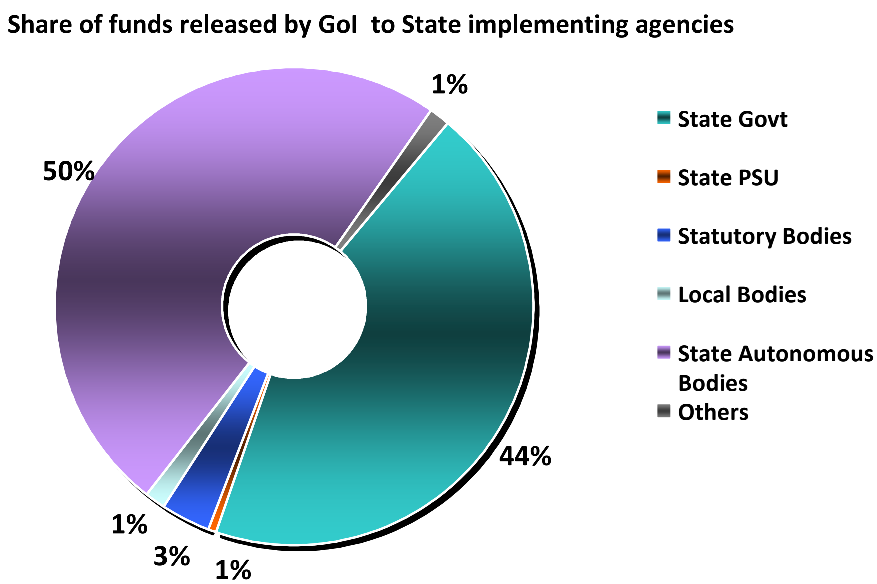
The funds transferred to the State Government and State Implementing Agencies by various GoI Ministries are shown in the website of Controller

General of Accounts (CGA). As per the website, ₹ 11557.99 crore was released during 2009-10 by the GoI under various categories of schemes as shown under:

Table 1.4: Overall position of release of funds by GoI Ministries

Type of Schemes	Assistance to State Plan	Central Sector	Centrally sponsored	State Plan	Total Amount released
	(Rupees in crore)				
State Government	845.04	110.58	1982.31	2173.53	**5111.47**
State PSUs	-	31.25	37.17	-	**68.42**
Statutory bodies	-	375.15	0.32	-	**375.47**
Local bodies	-	13.84	-	134.00	**147.84**
Government Autonomous bodies	-	709.00	4977.82	-	**5686.82**
State Government institutions	-	4.04	5.49	-	**9.53**
NGOs	-	38.51	14.85	-	**53.36**
Others[6]	-	99.79	5.24	0.04	**105.08**
Total	**845.04**	**1382.16**	**7023.20**	**2307.59**	**11557.99**

Source: Website of CGA



Thus, **more than half of the plan funds released by GoI were received outside the State Budget, indicating need for an institutionalised mechanism to monitor utilisation and accountal.** The Appendix VII of the Finance Accounts tries to capture the position of receipt of such funds (more than ₹ 10 crore in each case) by various State implementing agencies outside State budget. The following table shows the amounts so received under various major schemes during last two years.

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

Table 1.5: Funds released under major schemes by GoI outside State budget (Rupees in crore)

Name of the scheme (Funding pattern Centre:State)	Implementing agency	Amount received directly from GoI (Rupees in crore)	
		2008-09	2009-10
Accelerated Rural Water Supply Scheme*	SWSM	1.23	250.43
Adult Education and Skill Development Scheme	West Bengal State Literacy Mission	2.44	14.16
Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE)	West Bengal Industrial Development Corporation Limited	95.23	16.84
Central Rural Sanitation Scheme	SWSM	9.85	26.67
Handlooms	Director of Handloom and Textiles	1.43	10.48
Rashtriya Swasthya Bima Yojana	Directorate of ESI (MB) Schme	2.55	20.08
Jute Technology Mission Textiles	Jute Manufacturers Development Council	85.89	68.00
Member of Parliament Local Area Development	District Magistrates	130.00	134.00
National Child Labour Project	Societies	21.27	10.15
National AIDS Control Programme	West Bengal State Aids Prevention and Control Society	23.91	37.02
National Food Security Mission	West Bengal State Food Security Agency	91.39	71.65
National Project for Cattle and Buffalo Breeding	Paschim Banga Go-Sampad Bikash Sanstha	-	13.00
National River Conservation Plan	KMDA	35.64	57.26
National Rural Employment Guarantee Scheme*	WB State Rural Development Agency	472.47	1787.29
National Rural Health Mission*	West Bengal State Health and Family Welfare Samiti	381.96	474.30
Pradhan Mantri Gram Sadak Yojana*	WB State Rural Development Agency	366.66	375.28
Infrastructure Development of Destinations and Circuits	West Bengal Tourism Development Corporation	36.00	375.28
Rashtriya Madhyamik Shiksha Abhiyan	West Bengal Society for Rashtriya Madhyamik Shiksha Mission	-	10.99
Renewable Energy for Rural Applications Remote Villages	West Bengal Renewable Energy Development Agency	-	13.61
Indira Awas Yojana*	DRDCs	200.73	627.08
Sarva Shiksha Mission*	Paschim Banga Sarva Shiksha Mission	651.69	1041.42
Swarna Jayanti Sahar Rojgaar Yojana	State Urban Development Agency	28.60	19.40
Swarna Jayanti Gram Swarojgar Yojana	DRDCs	65.99	120.21

Source: Finance Accounts ** Central Government Flagship Schemes*

Substantial increase in release of funds were noticed in 2009-10 as compared to 2008-09 under National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan, Indira Awas Yojana and Acclerated Rural Water Supply Programme. 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 is not possible.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of the State's Own Tax and Non-Tax Revenues, Central tax transfers and Grants-in-Aid from GoI. Trends and composition of revenue receipts over the period 2005-10 are presented in ***Appendix 1.5*** and also depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

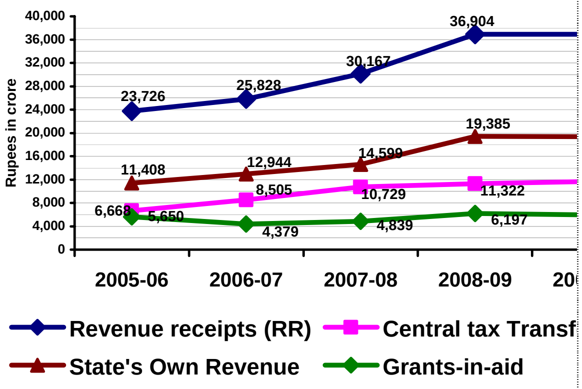
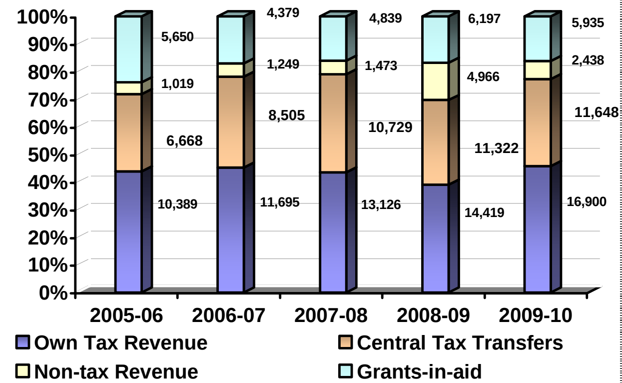


Chart 1.5: The composition of Revenue Receipts during 2005-10



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

Table 1.6: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (Rupees in crore)	**23725**	**25828**	**30167**	**36904**	**36922**
Rate of growth of RR (*per cent)*	19.11	8.86	16.80	22.33	0.05
RR/GSDP (*per cent)*	11.43	10.79	10.86	11.61	10.04
Buoyancy Ratios[7]					
Revenue Buoyancy w.r.t GSDP	2.108	0.578	1.043	1.553	0.003
State's Own Tax Buoyancy w.r.t GSDP	0.135	0.88	0.79	2.65	1.10

Source: Finance Accounts

While the **Revenue Receip**ts have shown a progressive increase over the period 2005-10, share of own taxes in revenue collection ranged between 94 and 46 *per cent* during 2005-10, excepting a dip (39 *per cent*) in 2008-09, which were due to inflation of revenue receipt figure owing to book adjustment of loan waiver.

State's own revenue registered growth of about 17 *per cent* over the previous year. There was nearly three *per cent* growth in **Central tax transfers** in 2009-10 over previous year. **Grants-in-Aid from Government of India** were slashed down to ₹ 5935 crore in 2009-10 from ₹ 6197 crore in 2008-09. A close scrutiny of relative shares of various other components of Revenue Receipts would reveal that Non-Tax Revenue, which had a share of four *per cent* in Revenue Receipts of the State in 2005-06, stood at seven *per cent* in 2009-10. Relative share of Grants-in-aid in revenue receipts of the State for the last four years were around 16 to 17 *per cent*.

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

[7] *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 2008-09, revenue buoyancy at 1.55 implies that revenue receipts tend to increase by 1.55 percentage points, if the GSDP increases by one per cent.*

Tickets and Aviation Turbine fuel (ATF) continued to be governed under the WBST Act, 1994.

Revenue from VAT and Sales Taxes contributed major share of tax revenue (62 *per cent*). Other contributors to the State's tax revenue included Land Revenue (five *per cent*), State Excise (nine *per cent*), Stamps and Registration fees (11 *per cent*), taxes on vehicles (five *per cent*).

There was **no significant variation among relative shares of the major components of Tax Revenue**, though contribution of Sales Tax in Tax Revenue has shown an upward trend (from 59 *per cent* in 2005-06 to 62 *per cent* in 2009-10). Sales Tax collection shot up by ₹ 1554.55 crore (17 *per cent*) in 2009-10 over the previous year. Collection from Stamps and Registration and State Excise increased by ₹ 304.73 crore and ₹ 380.87 crore respectively. Increase in receipts under 'Sales Tax Act' and decrease in surcharge in 'Sales Tax'; increase in sale of non-judicial Stamps, 'Duty on Impressing of Documents', 'Fees for registering documents; increase in receipt under country spirits, foreign liquors and spirits, etc. were the main reasons for increase in Tax Revenue.

Non Tax Revenue: Non Tax Revenue (₹ 2438 crore) constituted seven *per cent* of total revenue receipts during 2009-10 and less by ₹ 2528 crore than previous year. Rupees 3637.07 crore alone were received less under Interest Receipts. This was due to inflation of previous year's figure by book adjustment of waiver of interest.

Central Tax Transfers: Central Tax Transfers increased by ₹ 326 crore over the previous year and constituted 31 *per cent* of revenue receipts. The increase was mainly under Corporation Tax (₹ 1081.14 crore), Taxes on Income other than Corporation Tax (₹ 339 crore) counter balanced by decreased under Custom Duties (₹ 533.99 crore) and Union Excise Duties (₹ 574.35 crore).

Grants-in-aid: The Grants-in aid from GoI decreased by ₹ 262 crore from ₹ 6197 crore in 2008-09 to ₹ 5935 crore during the current year while Grants for State Plan schemes decreased to the extent of ₹ 282.46 crore, Centrally Sponsored Plan Schemes and Central Plan Schemes increased by ₹ 30.63 crore and ₹ 14.65 crore respectively.

Receipts under Non-Plan Grants witnessed a decline of ₹ 24.50 crore during the year.

1.3.1 State's own resources

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

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

1.3.2 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 2009-10 is mentioned below:

Table 1.7: 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	12046.85	10509.64	(-) 13
2	State Excise	1338.50	1443.81	8
3	Stamp duty and registration fees	1998.26	1814.22	(-) 9
4	Taxes on vehicles	774.08	774.34	-
5	Taxes and duties on electricity	800.51	664.57	(-) 17
6	Land revenue	1711.87	928.92	(-) 46
Non-Tax Revenue				
1	Non-ferrous mining and metallurgical industries	9.30	8.69	(-) 7
2	Forestry and wild life	66.14	64.17	(-) 3
3	Interest receipts	1292.20	362.83	(-) 72
4	Food storage and Warehousing	520.83	1292.97	148

The reason for variation between budget estimates and actuals in respect of State Excise (₹ 105.31 crore) was mainly due to increase in number of retail outlets and shift to *advalorem* duties structure for foreign liquor. The reason for decrease in actual receipts in respect of land revenue (₹ 782.95 crore) is attributed to crop failure due to Aila followed by drought situation in a number of districts of the State.

Other departments did not furnish any reason for variations between budget estimates and actual receipts.

Huge short-collection under land revenue and interest receipts was surely a matter of concern and calls for attention of the Government. The concerned departments did not furnish (January 2010) the reasons for the variation, despite being requested (between May and October 2009).

1.3.3 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade etc., during the year 2009-10 and corresponding figures for the preceding four years as furnished by the Finance (Commercial Taxes) Department is mentioned below:

Table 1.8 : Analysis of collection of VAT **(Rupees in crore)**

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per department	Net collection as per Finance Account	Percentage of column 3 to 8
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Taxes/ VAT on sales, trade etc	2005-06	5919.51	86.28	25.44	36.10	5995.13	6108.78	96.90
	2006-07	6993.04	94.57	31.03	39.62	7079.02	7079.02	98.79
	2007-08	8223.06	99.87	33.17	32.12	8323.98	8060.46	102.01
	2008-09	8857.15	98.53	36.12	24.40	8967.40	8955.09	98.91
	2009-10	10600.09	96.37	41.27	114.05	10623.68	10509.64	100.86

1.3.4 Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue, as furnished by the departments, amounted to ₹ 107.37 crore, of which ₹ 75.91 crore was outstanding for more than five years. Arrears related to taxes on Agricultural Income (₹ 11.66 crore), Entertainment Tax (₹ 12.40 crore) and Water Rates (₹ 51.85 crore). The position of arrears of revenue at the end of 2009-10 in respect of other Departments was not furnished.

1.3.5 Refunds

The number of refund cases pending at the beginning of the year 2009-10, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2010) as reported by the concerned Departments are mentioned below:

Table 1.9: Position of refunds of revenue **(Rupees in lakh)**

	Particulars	Sales Tax		Taxes on entry of goods into local areas		State excise		Entertainment tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	152	182	16010	680	-	-	2	1.08
2	Claims received during the year	1554	34115	-	-	-	-	1	0.05
3	Refunds made during the year	162	11405	128	2.21	-	-	2	1.03
4	Balance outstanding at the end of the year	1544	22892	15882	677.79	-	-	1	0.10

1.3.6 Cost of collection

The gross collection from major taxes and expenditure incurred on collection during the years 2007-08 to 2009-10 along with All India average are given in the following table:

Table 1.10: 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 for 2008-09
Taxes/VAT on sales	2007-08	8060.46	92.42	1.15	0.88
	2008-09	8955.09	100.34	1.12	
	2009-10	10509.64	150.01	1.42	
State excise	2007-08	935.47	49.59	5.30	3.66
	2008-09	1082.94	65.76	6.07	
	2009-10	1443.81	77.99	5.40	
Stamp duty & registration fees	2007-08	1416.96	60.10	4.24	2.93
	2008-09	1509.49	53.61	3.55	

	2009-10	1814.22	88.46	4.87	
Taxes on vehicles	2007-08	532.07	10.86	2.04	2.77
	2008-09	608.01	11.92	1.96	
	2009-10	774.34	17.88	2.30	

Source: Finance Accounts

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

Thus, costs of collection of all the major components of tax revenue, except for taxes on vehicles, were more than the all India average. The percentage of expenditure on collection of sales tax, stamp duty and registration fees and taxes on vehicles showed no remarkable change during the year.

1.4 Application of resources

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

1.4.1 Growth and composition of expenditure

The total expenditure and its compositions during the year 2005-06 to 2009-10 is as follows:

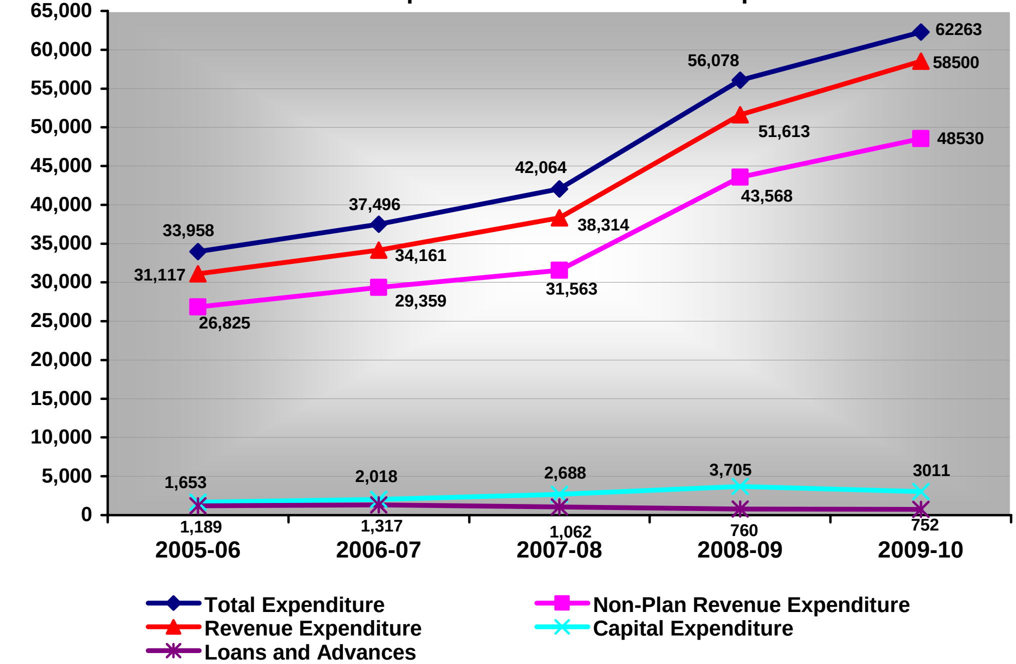
Table 1.11: Total expenditure and its composition **(Rupees in crore)**

	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure	**33959**	**37496**	**42064**	**56078**	**62263**
Revenue Expenditure	31117	34161	38314	51613	58500
Non-plan Revenue Expenditure	26825	29359	31563	43568	48530
Capital Expenditure	1653	2018	2688	3705	3011
Loans and Advances	1189	1317	1062	760	752

Source: Finance Accounts

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively**.**

Chart 1.6 : Total Expenditure : Trends and Composition



It would appear from the above that total expenditure, which was ₹ 56078 crore in 2008-09 rose to ₹ 62263 crore in 2009-10 i.e. a growth of 11 *per cent*. Over the last five years, it increased at an average growth rate of 15.54 *per cent*. The composition of total expenditure during 2009-10 indicates that Non Plan Expenditure accounted for 78 *per cent* (₹ 48658 crore) while Plan Expenditure constituted remaining 22 *per cent* (₹ 12853 crore). Further break-up of the total expenditure incurred during 2009-10 under various heads of revenue and capital accounts reveals that revenue expenditure constituted bulk of expenditure of the State (94 *per cent*: ₹ 58500 crore) while the shares of capital expenditure and loans and advances disbursed were only five *per cent* (₹ 3011 crore) and one *per cent* (₹ 752 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 indicate some significant change over previous year **(Chart 1.8).** Expenditure on general services (including interest payments) considered as non-developmental, accounted for 43 *per cent* of total expenditure this year against 48 *per cent* in 2005-06. On the other hand, Social services and Economic services taken together (Developmental expenditure), which was 47 *per cent* in 2005-06, rose to 56 *per cent* in 2009-10.

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

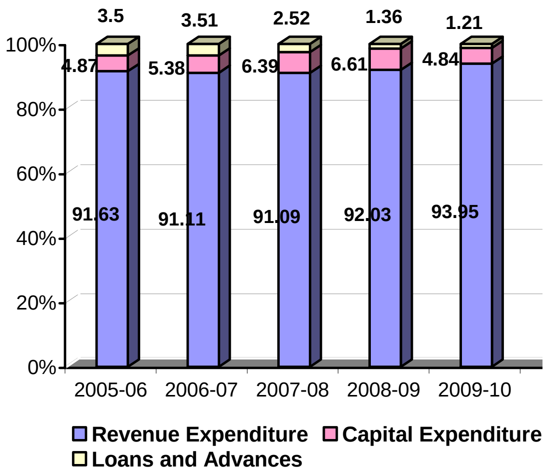
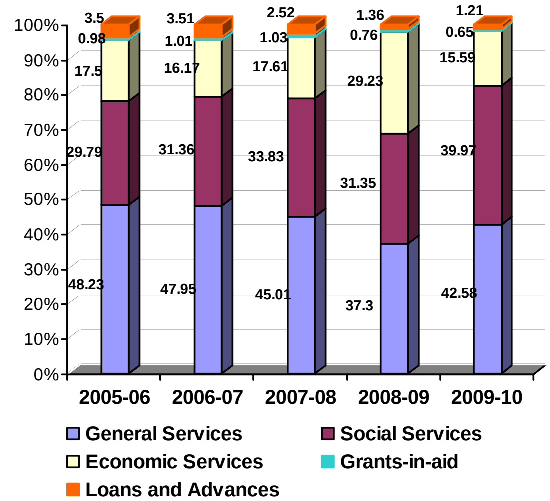


Chart 1.8: Total expenditure: Trends by Activities



a) Trends in Revenue expenditure

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

Revenue expenditure consistently increased from ₹ 31117 crore in 2005-06 to ₹ 58500 crore in 2009-10 at an average annual rate of growth of 16.32 *per cent* during the period. Of the total Revenue expenditure, Non-Plan Revenue expenditure continued to enjoy the majority share, which was 83 *per cent* (₹ 48530 crore) during 2009-10 while Plan Revenue expenditure constituted only 17 *per cent* (₹ 9970 crore). *Non-Plan Revenue expenditure of the current year was substantially higher (by 39 per cent) than the normative projections of TFC (₹34932 crore) but was slightly lower than Budget estimates of the Government (₹48762 crore).*

Non-Plan Revenue expenditure not only constituted bulk of the revenue expenditure of the State, but it consistently increased during the period 2005-10. During the current year it increased by ₹ 4962 crore (11 *per cent*) from the level of ₹ 43568 crore in 2008-09. This was mainly attributable to rise in expenditure under Education, Sports, Art and Culture (₹ 3683.07 crore), Health and Family Welfare (₹ 837.47 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 413.46 crore).

Although Plan Revenue expenditure increased consistently during the period 2005-10, it exhibited inter-year fluctuations. During the current year, it increased by ₹ 1925 crore from the level of ₹ 8045 crore in 2008-09. The increase was observed mainly under Education, Sports, Art and Culture (₹ 378.51 crore), Health and Family Welfare (₹ 167.36 crore) and Social Welfare and Nutrition (₹ 682.88 crore).

b) Trends in Capital expenditure

The following table depicts the trends of capital expenditure of the State during the last five years:

Table 1.12: Trends in Capital expenditure and its components

Components of Capital expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
		(Rupees in crore)			
Total Expenditure	**33959**	**37496**	**42064**	**56078**	**62263**
Capital expenditure (percentage to total expenditure)	**1653 (5)**	**2018 (5)**	**2688 (6)**	**3705 (7)**	**3011 (5)**
Plan Capital expenditure (percentage to Capital expenditure)	1362 (82)	2009 (100)	2669 (99)	3729 (100)*	2883 (96)
Plan Capital expenditure under Social sector (percentage to Plan Capital expenditure)	314 (23)	380 (19)	767 (29)	1214 (33)	894 (31)
Plan Capital expenditure under Economic sector (percentage to Plan Capital expenditure)	1026 (75)	1556 (77)	1883 (69)	2388 (64)	1834 (64)
Decomposition of Plan Capital Expenditure on Economic Sector					
Agriculture, Allied Activities	44	42	38	167	115 (4)
Rural Development	-	-	-	-	3 (0.10)
Special Areas Programme	57	73	112	157	231 (8)
Irrigation and Flood Control (percentage to Plan Capital expenditure)	196 (14)	208 (10)	312 (12)	383 (10)	494 (17)
Energy (percentage to Plan Capital expenditure)	352 (26)	792 (39)	986 (37)	1090 (29)	190 (7)
Industry & Minerals (percentage to Plan Capital expenditure)	46 (3)	120 (6)	47 (2)	101 (3)	92 (3)
Transport (percentage to Plan Capital expenditure)	319 (23)	296 (15)	312 (12)	433 (12)	690 (24)

Source: Finance Accounts
**Non-plan capital expenditure was in the negative*

A scrutiny of Capital expenditure of the State during the period under review revealed that though the quantum of Capital Expenditure increased from ₹ 1653 crore to ₹ 3011 crore (*i.e.* increase by 82 *per cent*), it accounted for a meagre five to seven *per cent* of aggregate expenditure, which was far below the level of Capital expenditure incurred by other general category states on an average *(vide para 1.5.1*). It would appear that over the five years period, while Irrigation and Flood Control, Energy and Transport consumed bulk of the Capital Expenditure on Economic Services, services like Agriculture and allied activities, Rural Development, Special Areas programme lagged behind. During the year Irrigation and Flood Control, Energy, Industry and Minerals and Transport together consumed 51 *per cent* (₹ 1466 crore) of Plan Capital Expenditure as against 54 *per cent* (₹ 2007 crore) in the previous year. Individually, sector like Irrigation and Flood Control which consumed 14 *per cent* of Plan Capital Expenditure in 2005-06 attained 17 *per cent* in 2009-10. Like-wise, sectors like industry and Minerals and Transport, which consumed three and 23 *per cent* respectively of Plan Capital Expenditure in 2005-06 remained more or less the same in 2009-10 at 3 and 24 *per cent* respectively. In contrast, Energy sector which consumed 26 *per cent* of Plan Capital Expenditure in 2005-06 came down to mere seven *per cent* in 2009-10.

c) Trends in expenditure on Social and Economic Services

A comparative analysis between expenditure (Budget vis-à-vis Actual) on Social and Economic Services for 2008-09 and 2009-10 is detailed below:

Table 1.13: Position of expenditure under Social and Economic services

	2009-2010		2008-2009
	BE	Actual	Actual
		(Rupees in crore)	
Education, Sports, Art & Culture	12374.32.	12081.47 (98)	8007.09
Health & Family Welfare	3178.46	3237.81 (102)	2173.95
Water Supply, Sanitation, Housing and Urban Development	5729.44	3635.80 (63)	3655.66
Total social services	**26052.81**	**31737.80**	**17578.40**
Agriculture and Allied Activities	1938.57	1942.89 (100)	1451.95
Rural Development, Special Areas Programme	3147.64	3524.40 (112)	2274.63
Irrigation and Flood Control	1641.18	1309.40 (78)	1020.29
Energy	915.51	398.69 (44)	9527.91
Industry and Minerals	950.70	656.25 (69)	657.44
Transport	1751.56	1673.01 (96)	1264.13
Total Economic Services	**10574.88**	**9705.55**	**16393.46**

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

It would appear from above that actual expenditure on Social Services (₹ 31737.80 crore) during the year was more than that in 2008-09 (₹ 17578.40 crore) and that (₹ 26052.81 crore) estimated in the budget for 2009-10. However, expenditure on both Education, Sports, Art and Culture and Water Supply, Sanitation, Housing and Urban Development fell short by ₹ 292.85 crore and ₹ 2093.74 crore respectively than estimation in the budget. In the case of expenditure on Economic Services, it was less by ₹ 6683.91 crore as compared to that in 2008-09. It was also less by ₹869.33 crore (eight *per cent*) than that estimated in the budget for 2009-10. Though there was increase of ₹ 376.76 crore in expenditure on Rural Development and Special Areas Programme, expenditure on spheres like Irrigation and Flood Control, Energy, Industry and Minerals and Transport fell short of the budget estimates. All these are indicative of aspirations reflected in the budget speech remaining unfulfilled.

1.4.2 Committed Expenditure

Committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Such expenditure, as charged first on the Government's resources, renders the expenditure management process less flexible. Table 1.14 and Chart 1.9 present the trends in the expenditure on these components during 2005-10.

Table-1.14: Components of Committed Expenditure **(Rupees in crore)**

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries* & Wages, *Of which*	10160.98 (43)	10875.73(42)	12205.04(40)	13778.65(37)	21013.48	21902.53 (59)
Non-Plan Head	9754.36	10350.45	11617.64	12996.04		20848.28
Plan Head**	406.62	525.28	587.40	782.61		1054.25
Interest Payments	9752.76 (41)	10878.88 (42)	11383.56(38)	12068.99 (33)	13168.78	13305.12 (36)
Expenditure on Pensions	3641.50(15)	3552.69(14)	3995.40(13)	4432.79(12)	8991.24	6510.57 (18)
Subsidies	593.68 (3)	459.55 (2)	732.93 (2)	1256.31(3)		2555.73 (7)
Other Components	-	-	-	792.02[8]		774.72
Total Committed Expenditure	24148.92	25766.85	28316.93	32328.76		45048.67
Components other than committed	6967.94	8394.42	9997.49	19284.55		13451.21
Total Revenue Expenditure	31116.86	34161.27	38314.42	51613.31	60252.53	58499.88
Total Revenue Receipt	23725.89	25828.32	30167.38	36904.40	42312.41	36921.65

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

Despite declining trends noticed during 2005-09 in percentage of expenditure in all the major components of committed category in relation to Revenue Receipts, an upswing was again observed during the current year. During 2009-10, total committed expenditure accounted for 77 *per cent* of total revenue expenditure allowing the State lesser flexibility in managing its resources.

Expenditure on salaries:

Expenditure on salaries, which was ₹ 10160.98 crore in 2005-06, stood at ₹ 21902.53 crore in 2009-10 registering a growth of nearly 116 *per cent*. Especially during the current year the salary expenditure shot up steeply by about 59 *per cent* over that of previous year. Of the total expenditure increase on salaries (₹ 8123.88 crore) during 2009-10, increase under non-plan heads accounted for 97 *per cent*. Such massive increase is attributable to implementation of recommendations of the Fifth State Pay Commission and payment of salary at revised rate as well as payment of arrear salary (in three annual instalments starting from 2009-10). The same had also been hinted by Honourable Finance Minister in his budget speech.

TFC had recommended that States should follow recruitment and wage policy in such a manner that the total salary bill relative to revenue expenditure net of interest payments and pension does not exceed 35 per cent. This percentage though came down from 54 in 2007-08 to 40 in 2008-09 but alarmingly shot up again to 57 per cent *in 2009-10, which is a matter of concern. Given the future annual commitment for payment of one third of arrear pay and allowances annually over next two years, the prospect of improvement in the scenario seems remote in the years to come.*

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

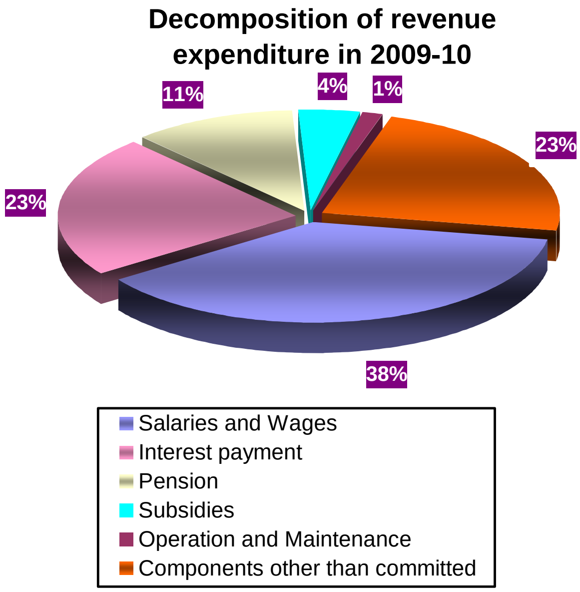
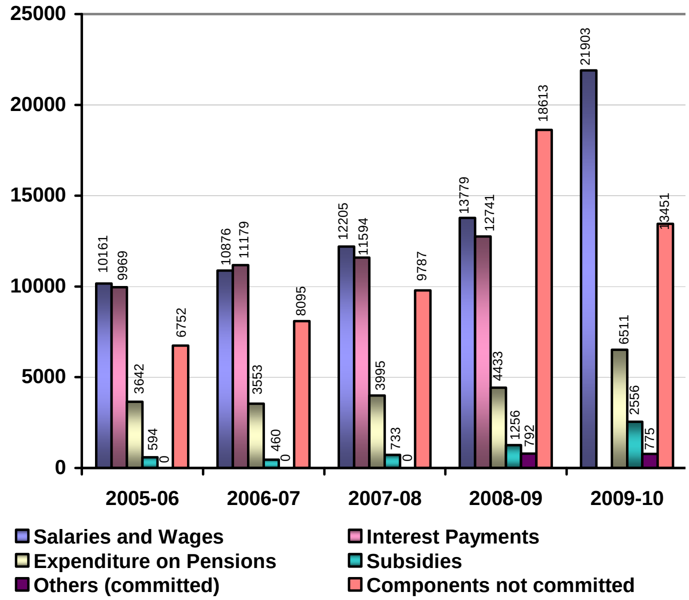


Chart 1.9: Trend of Committed Expenditure during 2005-10



Pension payments:

Expenditure on Pensions increased by ₹ 2077.78 crore (almost 47 *per cent*) over the last year's expenditure. Sector-wise analysis revealed that substantial increases were noticed under 'Pensions to Employees of State Aided Educational Institutions' (₹ 992.29 crore), superannuation and retirement allowances (₹ 458.74 crore), family pension (₹ 316.88 crore), on commuted value of pension (₹ 113.79 crore) and gratuities (₹ 102.51 crore). Payment of arrear pension and gratuity in compliance with the recommendations of the Fifth Pay Commission was the main reason behind such increase.

The expenditure on pension (₹6510.57 crore) surpassed the TFC projection (₹4692.80 crore) by almost 39 per cent in the current year.

Interest payments:

Expenditure on Interest Payments rose to ₹ 13305.12 crore in 2009-10 from ₹ 9752.76 crore in 2005-06 *i.e.* a growth of over 36 *per cent*. Rate of growth in 2009-10 was 10 *per cent* over the previous year.

TFC had projected that ₹11482.93 crore would be paid as interest in the current year. The actual expenditure incurred on this account was 16 per cent higher than the projection and stood at ₹13305.12 crore in 2009-10.

Payments of subsidies:

Subsidies paid by the Government of West Bengal during 2009-10 (₹ 2555.73 crore) was more than double the amount (₹ 1256.31 crore) paid in the previous year. Of this subsidy paid under Social Security and Welfare sector alone accounted for ₹ 1260.94 crore. Further analysis showed that there was substantial increase under Antyodaya Anna Yojana (₹ 772 crore) and State subsidy for supply of rice to the APL/BPL families under Targeted Public Distribution System (TPDS) (₹ 400 crore). This was in consonance with the commitment made by the Finance Minister during the presentation of the budget where providing relief to poorer population in the context of recession was one of the aim of the Government.

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

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

Table 1.15: Financial Assistance to Local Bodies/Institutions etc

Financial Assistance to Local Bodies/Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
	(Rupees in crore)				
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	5296.38	5420.44	6790.49	7811.01	11634.00
Municipal Corporations and Municipalities	1258.56	963.02	1279.17	1802.54	946.60
Zilla Parishads and Other Panchayati Raj Institutions	1419.43	1148.06	3085.27	2998.77	1327.98
Development Agencies	634.85	235.27	122.14	340.33	4204.66
Hospitals and Other Charitable Institutions	134.45	137.59	149.40	226.84	393.12
Other Institutions (To be specified)	373.08	811.06	927.77	802.74	1084.36
Total	**9116.75**	**8715.44**	**12354.24**	**13982.23**	**19590.72**
Assistance as per percentage of RE	29.30	25.51	32.24	27.09	33.49

Source: Figures generated through VLC

The table above indicates that as compared to last year, assistance provided to Local Bodies this year rose by ₹ 5608.49 crore i.e. nearly about 40 *per cent*. Increase in assistance were noticed under Educational Institutions (₹ 3822.99 crore), Development Agencies (₹ 3864.33 crore), Other Institutions (₹ 281.62 crore) and Hospitals and Charitable Institutions (₹ 166.28 crore) counterbalanced by decrease in assistance provided to Zilla Parishads and other Panchayati Raj Institutions (₹ 1670.79 crore), Municipal Corporations and Municipalities (₹ 855.94 crore). Funds were released as capital grants for buildings, salary grants, deficit grants, development schemes under District Rural Development Cell, Small Farmer Development Agency (SFDA), Command Area Development Authority (CADA), Kolkata Metropolitan Development Authority (KMDA) etc.

1.5 Quality of Expenditure

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

1.5.1 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. Percentage of the expenditure incurred by a State in a certain sector with respect to aggregate expenditure and comparing the same with the all States' average gives an indicator of the priority level it assigns to that sector. Low fiscal priority is attached to a particular sector if it is below the respective national average. **Table 1.16** 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 expenditures under Education[9] and Health[10] Sector during 2005-06 (the first year of the award period of Twelfth Finance Commission) and 2009-10 .

Table-1.16 : Fiscal priority of the State for 2005-06 and 2009-10:

		AE/GSDP	DE/AE	SSE/AE	CE/AE	Expenditure on Education /AE	Expenditure on Health /AE
2005-06	**General category* States' Average (Percentage)**	**17.75**	**61.76**	**30.76**	**13.97**	**14.95**	**4.05**
	West Bengal's figure (Percentage)	16.37	50.79	30.26	4.87	16.38	4.66
2009-10	**General category States' Average(Percentage)**	**18.24**	**66.05**	**35.76**	**14.85**	**16.21**	**4.28**
	West Bengal's figure (Percentage)	16.94	56.76	40.44	4.84	19.40	5.20

**All Indian States excluding North Eastern States, Himachal Pradesh and Jammu and Kashmir*
Source: Ratios relating to West Bengal were arrived at on the basis of Finance Accounts figures
AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure

- The above table shows that during both the years, the **ratio of aggregate expenditure to the GSDP** for West Bengal was lower when compared to what the other general category States are spending on an average. This indicated that the State is spending lower proportion of its GSDP as compared to other general category states.

- Expenditure incurred on Social and Economic sectors taken together is considered as **developmental expenditure**. Low prioritisation in development expenditure was apparent from lower proportion of those expenditures as compared to corresponding all states' average.

- However, on the **social sector**, though the level of expenditure was just below the average all general category states' expenditure level five years back, it has since reached a level higher than that average during current year. The State also incurred higher percentage of expenditure on Health and Education sectors, as compared to what the other general category states were spending.

- Though the State is spending higher proportion of money on Social sector, Development expenditure remains low, which was due to low priority being accorded to economic sector. It is desirable that level of

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

Development expenditure be raised by enhancement of expenditure in Economic sector, without compromising Social sector. Otherwise, not only the financial growth of the State would be jeopardised, but it would also not be possible for the State to sustain the current level of expenditure under the Social sector.

- However, what appeared to be a real matter of concern was remarkably low proportion of capital expenditure (only 4.87 and 4.84 *per cent* as compared to general category states' average of 13.97 and 14.85 *per cent* during 2005-06 and 2009-10 respectively) in aggregate expenditure.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[11]. Apart from improving the allocation towards development expenditure[12], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.17** and **Chart 1.10** 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 1.18** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table-1.17: Development Expenditure **(Rupees in crore)**

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	17249	19139	22733	34732	36631	35284
a. Development Revenue Expenditure	14435(43)	15884(42)	19017(45)	30410(54)	31723(45)	31738(51)
b. Development Capital Expenditure	1625(5)	1938(5)	2621(6)	3562(6)	3996 (6)	2854 (5)
c. Development Loans and Advances	1189(3)	1317(4)	1062(3)	760(1)	912 (1)	752 (1)

Source: Finance Accounts and Budget Publications

Figures in parentheses indicate percentage to aggregate expenditure

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

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

It would be seen from above that development revenue expenditure which stood at ₹ 14435 crore during 2005-06 rose to ₹ 31738 crore in 2009-10 i.e. a growth of nearly 120 *per cent*. Rate of growth in 2009-10 as compared to 2008-09 was merely four *per cent*. While percentage of development revenue expenditure with respect to aggregate expenditure rose steadily from 43 *per cent* to 51 *per cent* over the last five years, with a peak of 54 *per cent* in 2008-09, development capital expenditure exhibited almost no change and remained five *per cent* in 2009-10.

Chart 1.10: Trend in Development Expenditure during 2005-06 to 2009-10

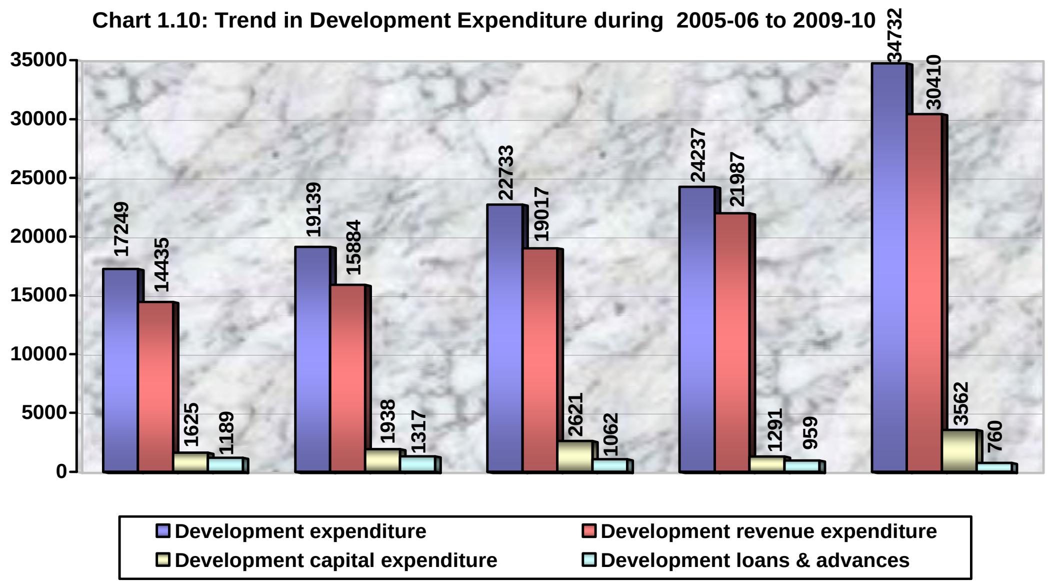


Table 1.18 –Efficiency of Expenditure Use in Selected Social and Economic Services

Social/Economic Infrastructure	2008-09			2009-10		
	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	0.74	6321	1.86	0.59	10110	1.02
Health and Family Welfare	7.08	1438	14.51	6.57	2281	13.40
WS, Sanitation, & HUD	23.96	704	145.59	14.72	1121	165.23
Total (SS)	**6.79**	**8949**	**540**	**3.58**	**13512**	
Economic Services (ES)						
Agriculture & Allied Activities	10.95	698	0.14	5.48	1065	8.52
Irrigation and Flood Control	37.55	369	88.59	37.48	559	105.09
Power & Energy	11.44	1	-	47.53	1	-
Transport	34.02	85	0.12	41.22	145	313.17
Total (ES)	**14.54**	**1950**	**255**	**20.23**	**1770**	**434**
Total (SS+ES)	**10.49**	**10899**	**795**	**8.25**	**15282**	**775**

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

Source: Finance Accounts and VLC

Under Social Services, fall in percentage of CE with respect to TE was noticed in all the three spheres of General Education, Health and Family Welfare and

Water Supply and Sanitation. Similar trend was noticed in Housing and Urban Development under Economic Services, while percentage of CE with respect to TE witnessed rise in Power and Transport. There was fall noticed in Agriculture and Allied Activities, while Irrigation and Flood Control remained almost stable.

In the absence of FRBM Act, prioritisation of capital expenditure or any other expenditure policy was not easy to ascertain. A comparative study of various components of expenditure on social and economic services with particular focus on the trends in salary and wage for 2008-09 and 2009-10 reveal that share of salary and wage in all the components has gone up in 2009-10 as compared to 2008-09. Twelfth Finance Commission considered provision for education and health to be integral to any plan for restructuring public finances. Salary and Wage component in NPRE on education which stood at ₹ 6217.79 crore in 2008-09 increased to ₹ 10015.90 crore in 2009-10 i.e. a rise of ₹ 3798.11 crore (61 *per cent*). Likewise shares on health which was ₹ 1193.84 crore in 2008-09, rose to ₹ 1968.43 crore in 2009-10 indicating a rise of ₹ 774.59 crore (65 *per cent*).

TFC recommended that annual rate of growth of non-plan salary expenditure under education and health and family welfare should be restricted within five to six per cent. However, during 2009-10 trends in expenditure (taking expenditure on both plan and non-plan heads) ***showed that the salary and wage component both under education and health and family welfare sectors increased enormously.***

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

1.5.3 Plan schemes: Position of allotment and expenditure

The Finance Accounts 2009-10 captures the position of expenditure under various State Plan schemes as well as Central Plan schemes, for which Central funds are received through State Budget. As regards the Central Plan Schemes (including Central Flagship Schemes like SSA, NREGA, PMGSY, etc.) for which funds were not routed through the State budget, the position of allotment and expenditure has been shown under para 1.2.2. **Table 1.19** below shows the picture of receipt and expenditure of funds under some other flagship schemes, which were transacted through the State budget.

Table 1.19: Expenditure vis-à-vis availability of funds under the flagship schemes implemented in West Bengal during 2009-10 (funds routed through the State budget)

	Name of the scheme	Funds received from GoI	State budget provision	Expenditure during 2009-10	Expenditure during 2008-09
		(Rupees in crore)			
1	Mid Day Meal	566.59	1023.92	759.05	737.82
2	National Social Assistance Programme including Annapurna	373.84	614.70	696.52	490.93
3	Integrated Child Development Project	505.94	328.86	405.51	336.73

	Name of the scheme	Funds received from GoI	State budget provision	Expenditure during 2009-10	Expenditure during 2008-09
		(Rupees in crore)			
4	Rashtriya Krishi Vikash Yojana	147.38	65.05	143.44	79.38
5	Macro Management of Agriculture	50.78	69.69	54.34	42.02
6	Accelerated Irrigation Benefit Programme	238.31	138.30	34.13	66.73
7	Pre-Matric Scholarship for Minorities	19.72	7.65	19.98	5.11
8	Integrated Scheme on Oilseeds, Pulses and Maize	7.55	10.01	9.82	7.82
9	Jute Technology Mission	1.95	7.30	2.04	4.79

Source: Finance Accounts

It would be seen from the above table that except for AIBP, there have been increases in expenditure under flagship schemes in 2009-10 as compared to 2008-09. ***Appendix 1.6*** depicts the position of allocation and expenditure on major State Plan Schemes and other Central Plan Schemes (not declared as flagship).

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

1.6 Financial Analysis of Government Expenditure and Investments

1.6.1 Financial Results of Irrigation Works

Works in Irrigation Department are classified as productive or unproductive according to the net revenue (gross revenue less working expenses) derived from each work on the expiry of ten years from the date of closure of the construction and 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, however, no productive work in the State at the end of 2009-10. Revenue realised from fourteen schemes during 2009-10 was only ₹ 3.09 crore (nearly 0.15 *per cent* of the capital outlay of ₹ 2055.16 crore). None of these schemes succeeded in earning revenue receipts so as to cover even direct working expenses. After meeting working expenses and interest charges, fourteen schemes suffered a net loss of ₹ 215.28 crore (of which, the major loss making projects being Damodar Valley Project: ₹ 71.39 crore, Kangsabati Reservoir Project: ₹ 55.97 crore, Mayurakshi Reservoir Project: ₹ 27.89 crore and Teesta Barrage Project: ₹ 44.80 crore).

1.6.2 Incomplete projects

The department-wise list of some major incomplete projects as on 31 March 2010, as intimated by the Departments as well as observed in course of Audit is given in **Table 1.20**. Projects for which the scheduled dates of completion are already over as well as the projects which commenced more than two years ago and the target dates of completion have been postponed in view of slow progress of work are included in the list:

Table 1.20: Department-wise Profile of Incomplete Projects

Department	Name of the incomplete Projects	Commencement date	Target date of completion	Initial Budgeted cost	Revised cost	Cumulative expenditure upto 2009-10
				(Rupees in crore)		
Irrigation and Waterways	Teesta Barrage Project	1975-76	1990	69.72	2988.61	1263.29
	Goalmarajore Irrigation Scheme	1976-77	1980-81	0.52	3.92	3.94
	Beko Irrigation Scheme	1976-77	1980-81	0.64	5.90	4.88
	Patloi Irrigation Scheme	1976-77	1980-81	0.90	17.28	10.92
	Tatko Irrigation Scheme	1976-77	1980-81	0.98	19.76	9.42
	Extension of Bandhu Irrigation Scheme	1982-83	1986-87	1.01	6.70	5.96
	Futiary Irrigation Scheme	1980-81	1984-85	0.56	23.28	11.60
Total	**Seven schemes**			**74.33**	**3065.45**	**1310.01**
Housing	Construction of 152 numbers of RHE flats at Gumarmath, Phase-II, Budge Budge, South 24 Parganas, Housing Division-VI	1997-98	2002	4.32	5.42	4.03
	Construction of 208 numbers of RHE flats in 13 Blocks building under RHS Sampa Mirza Nagar at South 24 Parganas, Housing Division-VI	2000-01	2002-03	4.62	6.68	4.79
Total	**Two schemes**			**8.94**	**12.10**	**8.82**
Public Works	Six laning of B T Road from 11.72 to 17 km, 95-A/PW dated 7.3.2008, North Suburban	2008-09	2009-10	17.50	23.44	13.50
	Construction of State Guest House at 2 Circular Road, New Delhi, City Division	2008-09	2009-10	10.28	15.24	7.85
	W/S of Memari-Chakdighi-Tarakeswar Road 0-30.16Km, Bardhaman Division	2008-09	2009-10	12.56	-	7.55
Total	**Three schemes**			**40.34**		**28.90**
Public Works (Roads)	Construction of bridge over Katakhali at Hasnabad, Barasat HW Division I	2005-06	2008-09	26.53	-	12.60
	Construction of bridge over river Dwarka at 11th Km (at Gantla ghat) on Jibanti shenpur Road, Murshidabad, HW Division II	2005-06	2008-09	13.71	-	9.17
Total	**Two schemes**			**40.24**	**-**	**21.77**
Sundarban Affairs	Construction of Bituminuous road from Madartala to Basra Ferry ghat in Block and PS Haroa and Minakhan (length-11.100 Km)	2006-07	2007-08	6.86	-	6.25
Total	**One scheme**			**6.86**	**-**	**6.25**
Public Health Engineering	Raghunathganj-I Surface Water (16), Murshidabad	2005-06	2008-09	51.08	-	38.13
	Murshidabad (Central Sector)/17, Murshidabad	2005-06	2008-09	290.72	-	224.13
	Darjeeling Pumping Scheme (5), Darjeeling	2005-06	2008-09	49.16	-	8.31
Total	**Three schemes**			**390.96**		**270.57**
Grand Total	**18 Schemes**			**561.67**	**3116.23**	**1646.32**

Source: Finance Accounts as well as figures collected from Departments
** Target dates were revised periodically in view of slow progress of work*

Thus, ₹ 1646.32 crore remained blocked in 18 incomplete schemes. Besides, there were 113 other incomplete schemes pertaining to departments mentioned above wherein ₹ 163.23 crore remained blocked. Moreover, there have been cost over-runs, since initial budgeted costs have been scaled up in almost all cases of time over-runs.

1.6.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 10675.98 crore in statutory corporations, rural banks, joint stock companies and co-operatives **(Table 1.21)**. The average return on this investment was negligible while the Government paid an average interest rate of 8.90 *per cent* on its borrowings during 2005-10.

Table-1.21: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (Rupees in crore)	6643.61	7641.58	8847.89	10163.21	10675.98
Return (Rupees in crore)	1.58	2.34	6.22	6.05	0.48
Return *(per cent)*	0.02	0.03	0.07	0.06	-
Average rate of interest on Government borrowing *(per cent)*	9.15	9.48	9.03	8.54	8.32
Difference between interest rate and return *(per cent)*	9.13	9.45	8.96	8.48	8.32

Source: Finance Accounts

Government investment, which was ₹ 10163.21 crore in 2008-09, rose to ₹ 10675.98 crore in 2009-10, *i.e.* a rise of ₹ 512.77 crore (five *per cent*). This was mainly on account of investment in Government companies and joint stock companies, which rose together by ₹ 459.95 crore and ₹ 25.80 crore in Statutory Corporations. The return on investment varied between zero and 0.07 *per cent*, while Government paid interest at the average rate of 8.32 to 9.48 *per cent* on its borrowings during 2005-10. The difference between the rate of return on Government investment and the average interest rate on the outstanding liabilities represented implicit subsidy of ₹ 3871.54 crore.

1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government Departments. Department-wise position of investment made by the Government up to the year for which *pro forma* accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in ***Appendix 1.7.*** Scrutiny reveals that:

- An amount of ₹ 2463.93 crore had been invested by the State Government in these 15 undertakings at the end of financial year up to which their accounts were finalised.
- Of all undertakings (20), only one undertaking viz. Scheme of Public Distribution of Foodgrains, could earn net profit amounting to ₹ 0.31 crore as of 31 March 2005 (accounts are due from 2005-06) against the capital investment of ₹ 495.97 crore thereby yielding the rate of return of 0.06 *per cent*.

- Of the loss making undertakings, 14 incurred losses (aggregating ₹ 1895.97 crore) against total capital investment of ₹ 1968.36 crore continuously for more than five years and five undertakings have turned into non-performing ones. Directorate of Cinchona and other Medicinal Plants (with a Government investment of ₹ 421.08 crore), Greater Calcutta Milk Supply Scheme (₹ 1176.12 crore), Durgapur Milk Supply Scheme (₹ 89.71 crore) and Directorate of Mechanised Brick Production (₹ 66.80 crore) were the main loss-making units. Failure to achieve production targets, under utilisation of plant capacity, capacity mismatch, shortage of raw materials, high production cost, low selling price, inadequate market demand, excess process/distribution loss etc. were attributable reasons.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government also provided loans and advances to many of these institutions/ organisations. **Table 1.22** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last five years**.**

Table-1.22: Average Interest Received on Loans given by the State **(Rupees in crore)**

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Opening Balance	16235.57	16792.83	17872.19	18437.67		13581.49
Amount advanced during the year	1188.59	1317.26	1062.12	759.65	911.60	752.44
Amount repaid during the year	631.33	237.90	496.64	5615.83		387.10*
Closing Balance	16792.83	17872.19	18437.67	**13581.49**		**13946.83**
Of which Outstanding balance for which terms and conditions have not been settled	1007.47	1186.96	1239.71	1050.09		1435.42
Net addition	557.26	1079.36	565.48	(-) 4856.18		365.34
Interest Receipts	248.03	549.14	558.51	3865.93[13]		234.20
Interest receipts as *per cent* to outstanding Loans and advances	1.48	3.07	3.03	28.46		1.67
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	9.15	9.48	9.03	9.02		
Difference between interest payments and interest receipts (*per cent*)	7.67	6.41	6.00	19.44		

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

The amount of loan advanced during the current year decreased marginally by ₹ 7.21 crore (One *per cent*) from the level of ₹ 759.65 crore in 2008-09 to ₹ 752.44 crore in 2009-10. Of the total outstanding loans, terms and conditions had not been settled in respect of 1750 loans for ₹ 1435.42 crore. *The earliest of such loans, the terms and conditions for which remain unsettled, pertained to 1966-67*. **Table 1.22** reveals that as compared to ₹ 752.44 crore advanced as loan during 2009-10, the amount of recovery of earlier loan stand at ₹ 387.10 crore during the year 2009-10. The recovery included overdue Government loan of ₹ 4.02 crore[14] written off as irrecoverable loans by sanction of equivalent amount of grants-in-aid. Sectoral analysis of the closing

[13] *Of ₹3865.93 crore, ₹3245.50 crore was book adjustment. With its exclusion from amount of interest received, percentage (28.46) of interest receipt to outstanding loans and advances would come down to 4.57.*

[14] *Loan given by Development and Planning Department to West Bengal Development Corporation Limited*

balance of ₹ 13946.83 crore of loan showed that Energy sector accounted for 63 *per cent* (₹ 8797.71 crore) followed by Industry and Minerals and Transport sectors with balances of ₹ 1910.49 crore (14 *per cent*) and ₹ 1452.61 crore (10 *per cent*) respectively.

In respect of the following loans given to various institutions/organistions, there have been no progress till March 2010:

Table 1.23: Cases of old loans without any recovery **Rupees in crore**

	Name of the Department	Loans with no recovery		Period of sanction
		Number	Amount	
1	Industrial Reconstruction	210	157.84	1978-79 to 2005-06
2	Public Health Engineering	23	2.47	1972-73 to 1997-98
3	Municipal Affairs	20	1.61	1965-66 to 1969-70
4	Heath and Family Welfare	24	18.48	198081 to 1994-95
5	Housing	30	0.40	1060-61 to 1968-69
6	Agriculture	11	29.50	1984-85 to 1992-93
7	Fisheries	6	1.73	1977-78 to 1993-94
8	Commerce and Industries	58	4.42	1975-76 to 2003-04
9	Micro & Small Scale Enterprises and Textiles	325	53.49	1967-68 to 2007-08
10	Public Undertaking	59	2.58	1976-77 to 1985-86
11	Public Enterprise	1234	150.73	1977-78 to 2007-08
12	Food Processing Industries and Horticulture	97	2.21	1988-89 to 1998-99
		2097	**425.46**	

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

For assessing the effectiveness of the internal mechanism and practices followed by the Government in various departments, records of four departments (namely, Power, Co-operation, Urban Development and Micro and Small Scale Enterprises) as well as Finance department were test checked (May-June 2010) and various control deficiencies were noticed, as discussed under succeeding paragraphs:

- None of the test-checked departments maintained records of loan, repayment schedule, actual repayment made and amount overdue for repayment. In absence of these records it was not possible for the department to monitor and pursue recovery of loans.

- Scrutiny also revealed that Urban Development, Power and Micro and Small Scale Enterprises and Textiles departments released fresh loans of ₹ 40.36 crore during 2009-10 to eight organisations, ignoring the fact that the said organisations had not repaid any part of earlier loans of ₹ 637.17 crore up to March 2009.

- Three development authorities (Jaigaon Development Authority, Siliguri Jalpaiguri Development Authority and Haldia Development Authority) have moved Urban Development Department for waiver/conversion of outstanding loan of ₹ 133.02 crore and interest of ₹ 145.23 crore. Similar waiver was sought for by three closed units under Micro and Small Scale Enterprise and Textiles (M&SSET) Department in respect of loans of ₹ 26.93 crore. The concerned departments acceded to the proposals (waiver/conversion of ₹ 305.18 crore), but approval of Finance Department towards waiver/conversion was awaited as of March 2010.

- It was also observed that loans were often disbursed only to sustain the business of the loanee organisations. Micro & Small Scale Enterprises and Textiles Department released loan of ₹ 25.85 crore during 2009-10 for working capital towards payment of salary, wages, spares, consumables, stock, repayment of bank loans and interest etc. Power Department released one interest free loan of ₹ 320 crore (March 2010) to West Bengal Power Development Corporation Limited (WBPDL) for meeting shortfall in cash flow. A part of such loan was utilised by WBPDCL, in pursuance of order of the State Government to pay back ₹ 267 crore (Principal-Rs 186.38 crore and interest-Rs 80.62 crore) of outstanding Government loan.

Thus, absence of any centralised loan management mechanism and fruitful pursuance coupled with disbursement of loans merely to sustain the business of the loanee organisation ignoring repayment credentials resulted in poor recovery of Government loans.

1.6.6 Cash Balances and Investment of Cash balances

Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank 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 2009-10, the State Government had to resort to special and normal ways and means advances and overdrafts for 80, seven and eight days respectively (total 95 days) indicating increasing mismatch between State's flow of resources and its expenditure obligations. During this year quantum of such advances (repaid fully within the year) was ₹ 9319.59 crore (which includes overdraft of ₹ 194.74 crore) while ₹ 7.47 crore had to be borne by the State towards interest thereon. Treasury bills amounting to ₹ 64982.88 crore and ₹ 67185.18 crore respectively were purchased and sold during the period 2009-10. An amount of ₹ 57.86 crore was received as interest on investment under treasury bills during the year. The investment made out of general cash balance and earmarked funds upto end of March 2010 are given in the following table.

Table-1.24: Cash Balances and Investment of Cash balances **(Rupees in crore)**

	As on 1st April 2009	As on 31st March 2010	Increase/ Decrease
Cash in Treasuries	0.34	0.35	(+) 0.01
Deposits with Reserve Bank of India	(-) 222.20	101.25	(+) 323.45
Local remittances	-	-	-
Departmental cash balances	116.73	38.84	(-) 77.89
Permanent imprest	1.36	1.63	(+) 0.27
Investments from Cash Balances (a to d)			
a. Securities of Government of India	-	-	
b. GoI Treasury Bills	1976.81	603.31	(-) 1373.50
c. Other Securities	-	-	
d. Other Investments	-	-	
Funds-wise Break-up of Investment from	3034.41	**4040.12**	**(+) 1005.71**

Earmarked balances (a and b)			
a. Sinking Funds	3033.82	4039.52	57.86
b. Development of Welfare Fund	0.59	0.60	(+) 0.01
Interest Realised	64.84	-	

Source: Finance Accounts

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and assets created out of the expenditure incurred. ***Appendix 1.4*** gives an abstract of such Assets and Liabilities as on 31 March 2010, compared with the corresponding position on 31 March 2009. 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 2005-10, Assets-Liability ratio hovered around 0.27 to 0.34. Such glaring mismatch indicated that only 27 *per cent* of the liabilities had the asset back-up which needs attention of the Government.

1.7.2 Fiscal Liabilities

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

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.4.*** However, the compositions of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Charts 1.11** and **1.12.**

Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 31.3.2009 (Rupees in crore)

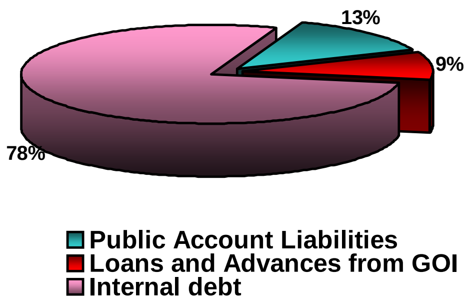
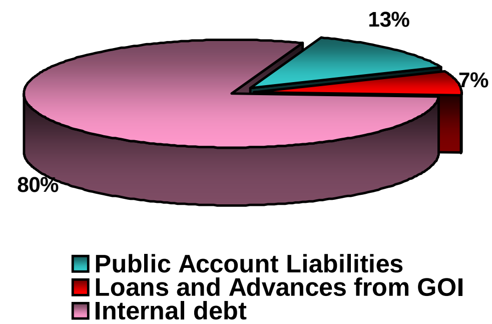


Chart 1.12: Composition of Outstanding Fiscal Liabilities as on 31.3.2010 (Rupees in crore)



Overall fiscal liabilities of the State increased from ₹ 148110 crore in 2008-09 to ₹ 171693 crore in 2009-10 with a growth rate of 15.92 *per cent*. The ratio of fiscal liabilities to GSDP marginally increased from 46.60 *per cent* in 2008-09 to 46.70 *per cent* in 2009-10. These liabilities stood at almost five times of the revenue receipts and nine times the State's own resources as at the end of 2009-10. No remarkable difference was noticed in the current year in rate of growth of fiscal liabilities (15.92) and that of GSDP (15.66) over previous year.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. 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 1.25.**

Table-1.25: Guarantees given by the Government of West Bengal **(Rupees in crore)**

	1 April 2006	1 April 2007	1 April 2008	1 April 2009	1 April 2010
Maximum amount guaranteed	22378.72	21826.39	23117.70	19974.48	20298.38
Outstanding amount of guarantees	14084.92	13136.64	13683.86	11972.75	10354.63
Ceiling fixed by State Government act (90 *per cent* of revenue receipt of the second preceding year)	17926	21353	23245	27150	33214
Percentage of outstanding amount guaranteed to revenue receipts of second preceding year	71	55	53	40	28

Source: Finance Accounts

The total guarantee of the Government increased from ₹ 19974.48 crore in 2008-09 to ₹ 20298.38 crore in 2009-10. Outstanding guaranteed loan amount, however, decreased from ₹ 11972.75 crore in 2008-09 to ₹ 10354.63 crore in 2009-10. Over the last five years outstanding amount of Government guarantee was consistently well within the ceiling permissible under the relevant Act.

The Twelfth Finance Commission envisaged setting up of a ***guarantee redemption fund*** *through earmarked guarantee fees. This also required risk weighting of guarantees and subsequent decision on the quantum of contribution to the fund. No such fund has been created by the State Government as of March 2010.* ***However, Government has created Consolidated Sinking Fund towards redemption of the outstanding liabilities*** *with contribution to the fund on a modest scale of at least 0.5 per cent of outstanding liabilities at the end of the previous year beginning from 2008-09 as per Rule 5 of the Revised Scheme for Constitution and Administration of the CSF of the Government of West Bengal.*

Test-check of the records of Finance department alongwith four other departments (Co-operation, Power, Micro & Small Scale Enterprise & Textiles (M&SSET) and Urban Development) revealed that ₹ 123.46 crore stood recoverable as guarantee fees, while the Government had to shoulder burdens of loans guaranteed to State level apex co-operative societies, as discussed in the succeeding paragraphs:

- The loanees for whom the State Government provided guarantee to the financial institutions, are required to pay the guarantee fee at the rate of 0.5 *per cent* to one *per cent* on the total amount guaranteed. The accummulated amount of unrealised guarantee fees stood at ₹ 123.46 crore (Power: ₹ 99.83 crore, Urban Development: ₹ 22.20 crore, M & SSE & T: ₹ 1.43 crore) as of March 2010.

- M&SSET department provided guarantee to the ₹ 100 crore loan given by National Bank for Agriculture and Rural Development (NABARD) to West Bengal State Co-operative Bank Ltd (WBSCB) for the period of three years with effect from April 2001 under the Reserve Bank of India Scheme for financing the handloom weavers' co-operative societies. Under the said scheme WBSCB extended two cash credits of ₹ 24.74 crore and ₹ 8.22 crore in September 2003 apart from an overdraft facility of ₹ 2 crore to West Bengal State Handloom Weavers' Co-operative Society Limited (TANTUJA). However, TANTUJA failed to service the cash credit and overdraft facility so availed. As of June 2006, ₹ 34.96 crore, along with interest of ₹ 81.65 lakh, remained outstanding. The department decided (October 2006) to repay dues aggregating ₹ 43.35 crore (Principal: ₹ 34.96 crore plus Interest: ₹ 8.39 crore upto June 2013) in fourteen half yearly installments of ₹ 2.50 crore each and upto 2009-10 released ₹ 6.27 crore to WBSCB through TANTUJA.

1.8 Debt Sustainability

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

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine debt sustainability[15] of the State. This section assesses sustainability of debt of the State Government in terms of debt stabilisation[16]; sufficiency of non-debt receipts[17]; net availability of borrowed funds[18]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.26** analyses debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

Table 1.26: Debt Sustainability: Indicators and Trends **(Rupees in crore)**

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilisation indicator (Quantum Spread + Primary Deficit)	422 271+151	6485 7036+(-) 551	6275 6291+(-) 16	3188 4677+(-) 1489	-10562 1087+(-) 11649
Debt-GSDP ratio	0.547	0.511	0.484	0.466	0.467
Sufficiency of Non-debt Receipts (Resource Gap)	1051	(-) 1828	30	(-) 541	(-) 11396
Net Availability of Borrowed Funds	(-) 858	(-) 3447	(-) 13176	(-) 9696	(-) 920
Debt redemption/Debt receipt	1.05	1.28	1.79	1.56	1.03
Burden of Interest Payments (IP/RR Ratio)	0.42	0.43	0.38	0.35	0.36

Source: Figures from Finance Accounts

Thus, during the period 2005-09 total debt redemption (principal plus interest) surpassed the debt receipt indicating that quantum spread together with primary deficit, which was positive till 2008-09, showed a downturn and went into negative at 10562 in 2009-10. The debt-GSDP ratio, which was 0.547 in 2005-06, however, steadily came down to 0.467 in 2009-10. Despite this improving trend, there has been a fall in non-debt receipts by ₹ 5211 crore over that of 2008-09. This was compounded by increase in interest burden by ₹ 1236 crore and increase in primary expenditure by ₹ 4949 crore which threatened the debt sustainability of the State in 2009-10. This indicated an absolute reversal of the positive trend experienced by the State in 2008-09. The ratio of net availability of borrowed funds was always more than one, indicating that the quantum of debt redemption always surpassed debt receipt and debt liabilities are even eating away State's own resources. Again, the ratio of net availability of borrowed funds were already negative. *TFC recommended that in case of all the states the level of interest payments relative to revenue receipts should fall to about 15 per cent by 2009-10. In case of West Bengal, the same was 36 per cent in 2009-10.* With incremental interest payment, debt-GSDP ratio failed to remain constant over the years and thereby rendering debt position of the state unsustainable.

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

*[16] A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), 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.*

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

[18] 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.

In this backdrop, a look at the maturity profile (*vide* **Table 1.27**) would also reveal that quantum of annual liability towards redemption of State debt will increase steadily in the years to come.

Chart 1.13: Maturity profile of State Debt

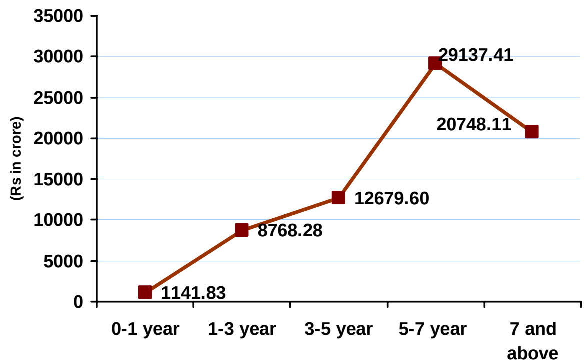


Table 1.27 Maturity profile of State Debt
(percentage in respect of total are shown in brackets)

Within the period of	Amount to be matured
One year	Rs 1141.83 crore (2)
One to three years	Rs 8768.28 crore (12)
Three to five years	Rs 12679.60 crore (17)
Five to seven years	Rs 29137.41 crore (40)
Seven years and more	Rs 20748.11 crore (29)
Total redeemable debt	Rs 72475.23 crore

Source: Finance Accounts

Table 1.27 indicates that 69 *per cent* of the debt liability will have to be settled within two to seven years. This bunching of debt repayments calls for a careful strategy to redeem the debt without either resorting to very high borrowings or cutting down operational expenditure.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal 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 2009-10.

1.9.1 Trends in Deficits

Charts 1.14 and **1.15** present trends in deficit indicators over the period 2005-10.

Chart 1.14 : Trends in Deficit Indicators

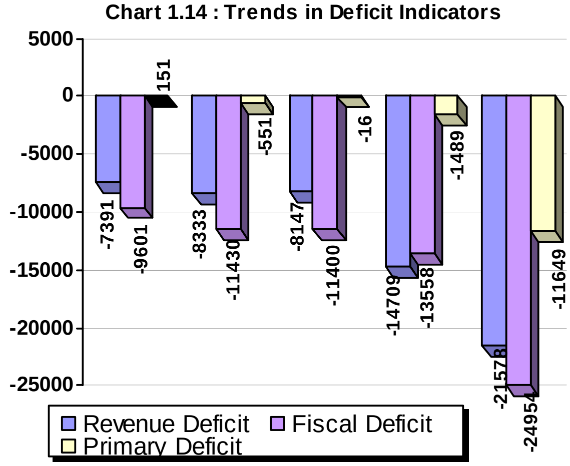
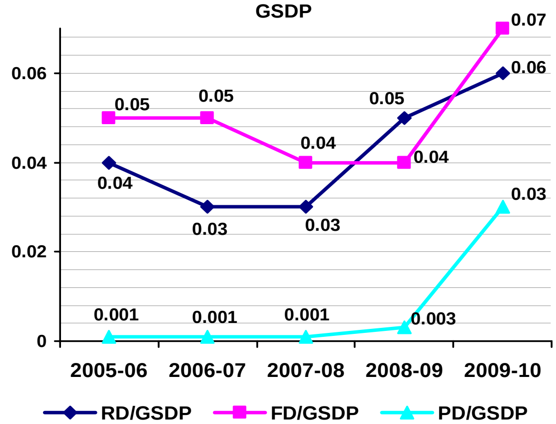


Chart 1.15: Trends in Deficit indicators relative to GSDP



Revenue deficit, which was ₹ 7392 crore in 2005-06, shot up steeply to ₹ 14709 crore in 2008-09 and even went higher to touch ₹ 21578 crore in 2009-10, *i.e* a growth of about 47 *per cent* over previous year. The gap between resources and expenditure on revenue account along with capital expenditure incurred and loans and advances disbursed led to higher magnitude of fiscal deficit. Fiscal deficit which was ₹ 9603 crore in 2005-06 touched ₹ 13558 crore in 2008-09; thereafter it jumped by 84 *per cent* to ₹ 24954 crore in 2009-10.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

Financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.28.**

Table1 1.28: Components of Fiscal Deficit and its Financing Pattern *(₹in crore)*

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		**9603(4.61)**	**11430(4.75)**	**11400(4.15)**	**13558(4.38)**	**24954 (6.78)**
1	Revenue Deficit	7392(3.55)	8333 (3.46)	8147(2.96)	14709 (4.76)	21578 (5.87)
2	Net Capital Expenditure	1653	2018	2688	3705	3011
3	Net Loans and Advances	558	1079	565	(-) 4856	365
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1268	843	10740	11543	15605
2	Loans from GoI	(-) 4311	(-) 658	(-) 623	(-) 585	(-)1009
3	Special Securities Issued to NSSF	10726	8245	936	520	6431
4	Loans from Financial Institutions	(-) 1198	(-) 1104	(-) 293	(-) 335	(-)191
5	Small Savings, PF etc	288	314	319	355	738
6	Deposits and Advances	(-) 1242	893	789	1231	1364
7	Suspense and Miscellaneous	1772	2628	501	712	2614
8	Remittances	(-) 5	244	133	274	58
9	Others	-	-	-	-	-
10	Overall Surplus/Deficit	(-) 2305	(-) 18	(+) 1102	(+) 157	(+) 656

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

In financing this high magnitude of deficit, Government had to resort to market borrowings which stood at ₹ 1268 crore in 2005-06 and jumped to ₹ 15605 crore in 2009-10. It constituted 63 *per cent* of the fiscal deficit and grew by 35 *per cent* compared to the previous year. Another major source was special securities issued to NSSF which assumed a greater role in financing deficits. It shot up to ₹ 6431 crore from ₹ 520 crore last year. Market borrowings and special securities together took the burden of 88 *per cent* of Fiscal deficit. Other sources, on which Government had to fall back upon, were Small Savings, Deposits and Advances, suspense and Miscellaneous, remittances etc.

1.9.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) did not have asset backup. The bifurcation of primary deficit **(Table 1.29)** 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 1.29: 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)**
2005-06	24357	21364	1653	1189	24206	(+) 2993	(+) 151
2006-07	26066	23282	2018	1317	26617	(+) 2784	(-) 551
2007-08	30664	26930	2688	1062	30680	(+) 3734	(-) 16
2008-09	42520	39544	3705	760	44009	(+) 2976	(-) 1489
2009-10	37309	45195	3011	752	48958	(-) 7886	(-) 11649

Source: Finance Accounts

Though, there was primary deficit during 2009-10, proportion of Capital expenditure with respect to total expenditure worked out only five *per cent* which was even lower than seven *per cent* last year.

1.10 Conclusion and Recommendations

As the award period of Twelfth Finance Commission comes to an end, the scenario of revenue collection *vis-à-vis* expenditure level does not seem to be encouraging. The Twelfth Finance Commission had suggested that the States should enact their fiscal responsibility legislations, bringing down the revenue deficit to zero and fiscal deficit to sustainable level by 2008-09. The State Government, however, enacted the same only in July 2010, which had cost the State Government total relief of ₹ 3157.87 crore. Owing to non-enactment of this legislation during the award period of the TFC, there were no statutory bindings or commitment on the Government to fix and achieve fiscal targets.

FRBM act having been enacted in the State in July 2010, tighter integration would be desirable between the multi year framework provided by Medium Term Fiscal Plan and the annual budget exercise as has been recommended by the 13th Finance Commission.

On revenue side of the receipts, there was almost no addition in the kitty in the present year. On the other hand, dependence on borrowing for meeting Revenue Expenditure was also on the rise. While Revenue expenditure constituted 94 *per cent* of the total expenditure, committed components accounted for 77 *per cent* of revenue expenditure leaving little flexibility for the Government to utilise its resources for service providing sectors. The situation even worsened with recommendations of Fifth State Pay Commission. Prospect of containment of the trend seems to be remote as Government will continue to bear the expenses on arrear salary during next two years.

The State should take some effective steps in increasing its tax base to earn more revenue and consider enforcement of economy measures for restricting avoidable expenditure of non-plan nature.

Though the State has spent higher proportion of money on Social sector as compared to other general states, low prioritisation on Economic sector might affect the economic growth, which in the long run may even jeopardize the availability of funds for social sector. Capital expenditure continued to be another area calling for attention of the Government, as the Capital Expenditure is reeling at only five *per cent* of total expenditure, which was far less than all the general category states' average. The scenario, if viewed with increase in internal debt receipt this year, indicated that high cost borrowing is being utilised only to meet running expenditure and servicing debts, rather than creating assets.

The State may consider enhancing the priority it assigns to economic sector and capital expenditure.

Given the increasing trend of transfer of GoI funds directly to State implementing agencies outside the State's budget, another governance issue which merits concern is monitoring over funds transferred directly from Government of India to state implementing agencies**.** As these funds remain outside the State budget, there is no single agency monitoring fruitful utilisation. Resultantly, consolidated data is not available as to the quantum of total such funds actually available/spent in relation to centrally sponsored schemes.

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

Government is getting only a miniscule return from its capital outlay in Irrigation works. On the investment front, return on investment in Statutory Corporations, Rural banks etc. varied between zero and 0.07 *per cent*, while Government had to pay interest at the average rate of 8.32 to 9.48 *per cent* on its borrowings during 2005-10, leading to huge implicit subsidy.

It would be desirable that the State Government ensure better value for money in investments and prioritise projects with high socio-economic return. Efforts are needed to implement the recommendations of the Thirteenth Finance Commission (2010-2015) on clearance of arrear accounts of all PSUs, closure of non-working PSUs as well as divestment and privatisation of non-viable PSUs.

The significant increase in the three indicators of fiscal imbalance i.e. revenue deficit, fiscal deficit and primary deficit is a cause for concern. Revenue deficit, which was to be eliminated by 2008-09, stood at a whopping ₹ 21578 crore, while fiscal deficit, which was to be contained within four *per cent* of GSDP in 2009-10 (₹ 14705 crore as per this yardstick), stood at ₹ 24954 crore. Debt-GSDP ratio, which should have been 28 *per cent*, was 47 *per cent* during 2009-10.

With phenomenal growth in committed expenditure and inability in adjusting expenditure downwards, State Government should endeavour to maintain debt-GSDP ratio in such a manner that incremental non-debt receipts become adequate to cover incremental interest burden. Otherwise, debt receipts would continue to be used mostly in debt redemption with reduced quantum of borrowed fund left for operational purposes including less expenditure being incurred on creation of capital assets.