

## Chapter-1

# Finances of the State Government

### Profile of West Bengal

West Bengal is located in the eastern part of the Gangetic basin. It is the 13<sup>th</sup> largest State in terms of geographical area (88,752 sq. km) and the fourth largest by population. As indicated in *Appendix 1.1*, the State's population increased from 801.76 lakh in 2001 to 913.48 lakh in 2011 recording a decadal growth of 13.93 *per cent*. The percentage of population below the poverty line was lower than the all-India average. The State's Gross State Domestic Product (GSDP) in 2016-17 at current prices was ₹ 12,51,067 crore. The State's literacy rate increased from 68.64 *per cent* (as per 2001 census) to 76.30 *per cent* (as per 2011 census). During 2016-17, the per capita income of the State stood at ₹ 1,33,043 at current prices. General data relating to the State are given in *Appendix 1.1*.

### Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a year. The growth of GSDP of the State is an important economic indicator of the State Economy. It depicts the increase in total value of production activities in the State. The trends in the annual growth of India's Gross Domestic Product (GDP) and that of the State's GSDP at current prices are indicated in Table 1.1 :

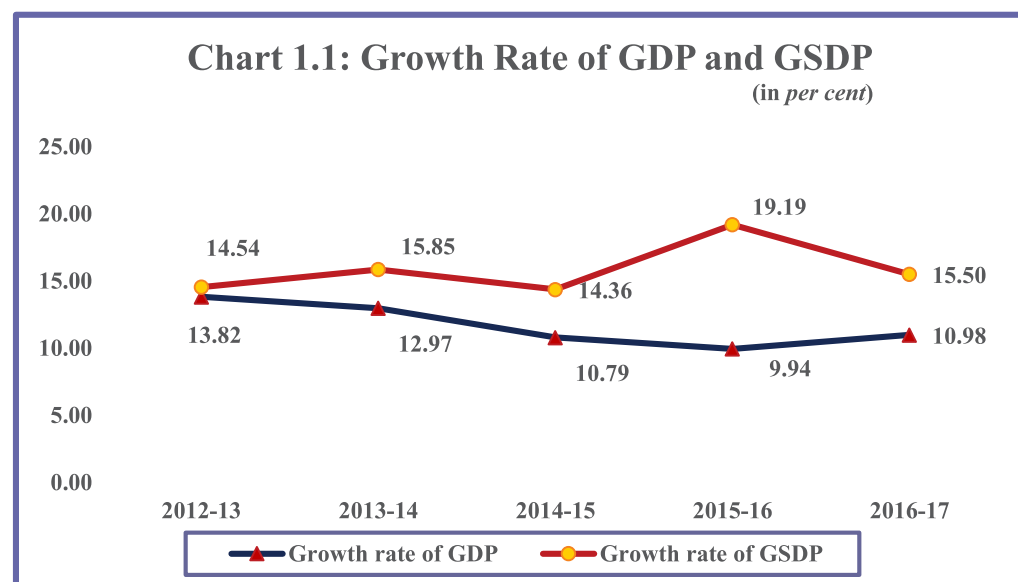
**Table 1.1: Annual growth rate of GDP and GSDP (at current prices)**

Year	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR <sup>1</sup> (in <i>per cent</i> )
India's GDP (₹ in crore)	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035	1,51,83,709	11.16
Growth rate of GDP (in percentage)	13.82	12.97	10.79	9.94	10.98	
State's GSDP (₹ in crore)	6,85,943	7,94,668	9,08,752	10,83,155	12,51,067	16.21
Growth rate of GSDP (in percentage)	14.54	15.85	14.36	19.19	15.50	

Source: For GDP, the information as available from Press Release by Ministry of Statistics and Programme Implementation, GoI on 1 August, 2017. For GSDP, the information as available from Economic Review (2016-17), Department of Planning, Statistics and Programme Monitoring, Government of West Bengal

<sup>1</sup> Compound Annual Growth Rate (CAGR)

The growth rates of GDP and GSDP calculated at current prices have been depicted in **Chart 1.1**.



GDP growth rate, steadily decreased from 2012-13 to 2015-16. In 2016-17, it increased to 10.98 *per cent* from the previous year's rate of 9.94 *per cent*.

The GSDP of the State at current prices increased to ₹ 12,51,067 crore during 2016-17 from ₹ 10,83,155 crore during 2015-16. This resulted in growth rate of 15.50 *per cent* over the previous year, whereas India's GDP registered a growth of 10.98 *per cent* over the previous year.

## 1.1 Introduction

This chapter is based on the audit of the Finance Accounts and makes an assessment of the State's fiscal position as on 31 March 2017. It provides a broad perspective of the finances of the State Government during 2016-17. It depicts changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of Finance Accounts are given in **Appendix 1.2**. The methodology adopted in analysing the trends of State Government finances has been discussed in **Appendix 1.3**.

### 1.1.1 Summary of Current Year's Fiscal Transactions

**Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2016-17) *vis-à-vis* the previous year. **Appendix 1.4** provides details of Receipts and Disbursements as well as overall fiscal position during the current year.

**Table 1.2: Summary of Current Year's Fiscal Operations**

(₹ in crore)

Receipts			Disbursements				
	2015-16	2016-17		2015-16	2016-17		
					Non-Plan	Plan	Total
<b>Section A: Revenue</b>							
<b>Revenue Receipts</b>	<b>1,09,732</b>	<b>1,17,832</b>	<b>Revenue Expenditure</b>	<b>1,18,827</b>	<b>97,064</b>	<b>36,854</b>	<b>1,33,918</b>
Tax Revenue	42,492	45,466	General Services	45,689	49,929	202	50,131
Non-Tax Revenue	1,862	2,950	Social Services	47,389	35,845	21,222	57,067
Share of Union Taxes/Duties	37,164	44,625	Economic Services	24,973	10,750	15,406	26,156
Grants from GoI	28,214	24,791	Grants-in-aid and Contributions	776	540	24	564
<b>Section-B: Capital</b>							
Misc. Capital Receipts	653	Nil	Capital Outlay	12,420	(-) <sup>2</sup>	11,338	11,336
Recoveries of Loans and Advances	832	3,233	Loans and Advances Disbursed	861	299	898	1,197
Public Debt Receipts*	34,608	36,316	Repayment of Public Debt*	9,040	-**	-**	11,096
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Account Receipts	1,49,608	1,69,633	Public Account Disbursements	1,49,400	-**	-**	1,62,817
Opening Cash Balance <sup>2</sup>	10,958	15,843	Closing Cash Balance <sup>2</sup>	15,843	-**	-**	22,493
<b>Total</b>	<b>3,06,391</b>	<b>3,42,857</b>	<b>Total</b>	<b>3,06,391</b>			<b>3,42,857</b>

Source: Finance Accounts of Government of West Bengal (2016-17)

\*Excluding net transactions under ways and means advances

\*\*Finance Accounts do not contain these figures.

The following significant changes occurred during 2016-17, compared to the previous year:

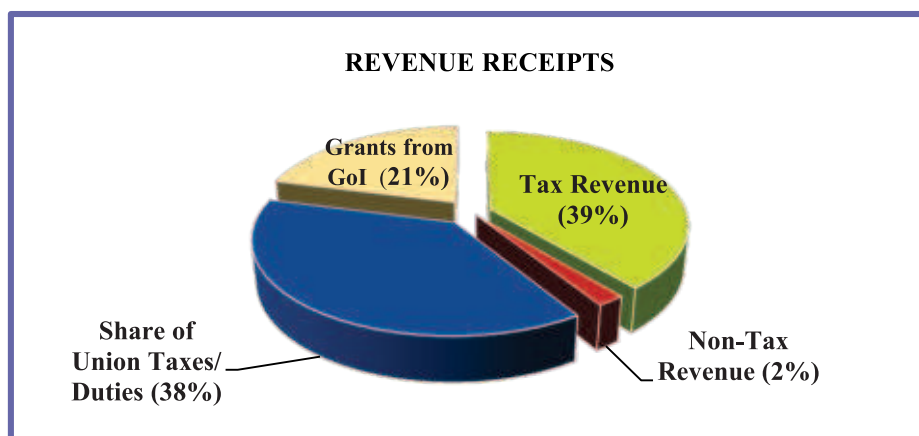
- Revenue Receipts of the State increased by ₹ 8,100 crore (7.38 per cent) over the previous year. This increase was mainly contributed by (i) State's share of Union Taxes/Duties (₹ 7,461 crore) and (ii) State's Own Tax and Non-Tax Revenue (₹ 4,062 crore). This was *offset* by decrease in Grants from GoI (₹ 3,423 crore). Short inflow of Post-Devolution Revenue Deficit Grant<sup>3</sup>, following the recommendation of the 14<sup>th</sup> FC, was the reason behind reduced grants from GoI.

Details of Revenue Receipts of the State during 2016-17 are shown in **Chart 1.2**.

<sup>2</sup>Cash balance includes i) Cash in Treasuries and Local Remittances, ii) Departmental Balances, iii) Permanent Imprest, iv) Cash Balance Investments, v) Deposit with RBI and vi) Investments from Earmarked Funds.

<sup>3</sup> Taking into account the expenditure requirements and to meet the deficits of the States, the 14<sup>th</sup> FC had recommended this grant.

**Chart 1.2: Details of Revenue Receipts of Government of West Bengal**

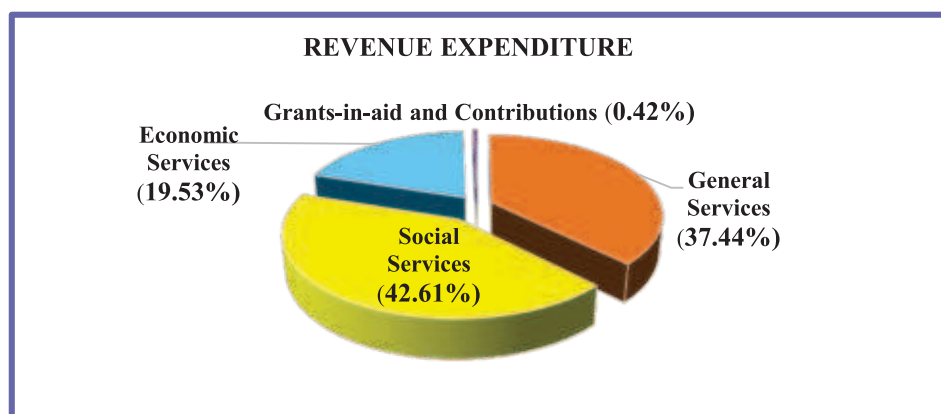


Source: Finance Accounts of Government of West Bengal (2016-17)

- Revenue Expenditure increased by ₹ 15,091 crore (12.70 per cent) during 2016-17 over the previous year. It was due to increase in expenditure in (i) Social Service Sector (₹ 9,678 crore), (ii) General Service Sector (₹ 4,442 crore) and (iii) Economic Service Sector (₹ 1,183 crore). This was partly *offset* by decrease in disbursement of Grants-in-Aid contributions (₹ 212 crore).

Details of Revenue Expenditure of the State during 2016-17 are shown in **Chart 1.3**.

**Chart 1.3: Details of Revenue Expenditure of Government of West Bengal**

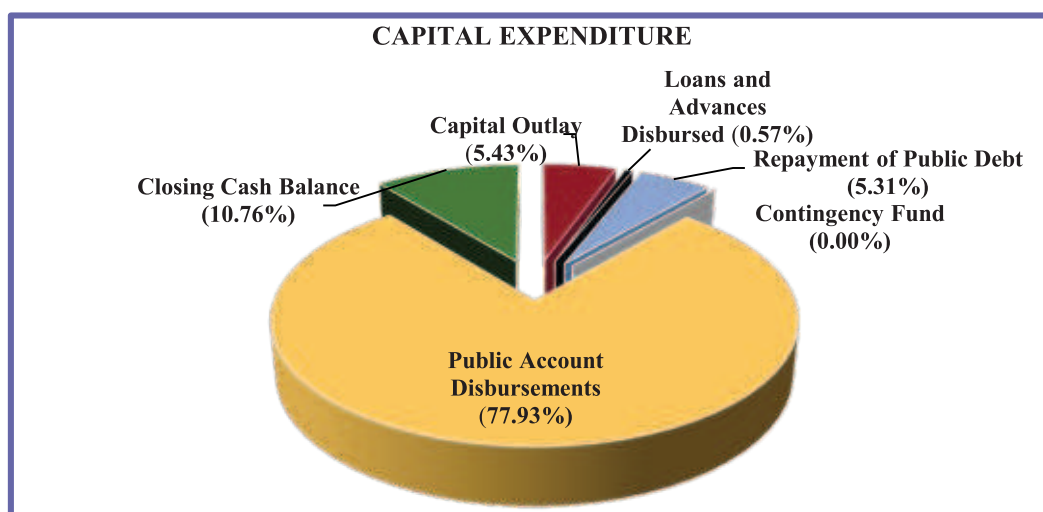


Source: Finance Accounts of Government of West Bengal (2016-17)



Details of Capital Expenditure and Public Account Disbursement of the State during 2016-17 are shown in **Chart 1.4**.

**Chart 1.4: Details of Capital Expenditure and Public Account Disbursement of Government of West Bengal**

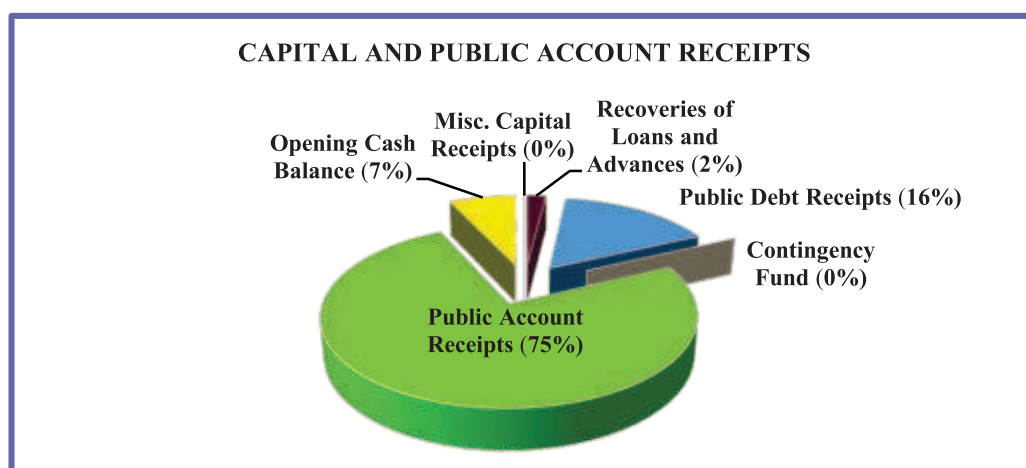


Source: Finance Accounts of Government of West Bengal (2016-17)

- Capital outlay decreased by ₹ 1,084 crore (8.73 *per cent*) over the previous year.
- Public Account disbursements (₹ 1,62,817 crore) increased by ₹ 13,417 crore (8.98 *per cent*) over the previous year.
- Debt repayments increased by ₹ 2,056 crore (22.74 *per cent*) over the previous year. This was largely due to increase in repayment of special securities issued to NSSF<sup>4</sup> of the GoI by ₹ 1,483 crore (33.64 *per cent*).

Details of Capital and Public Account Receipts of the State during 2016-17 are shown in **Chart 1.5**.

**Chart 1.5: Details of Capital and Public Account Receipts of Government of West Bengal**

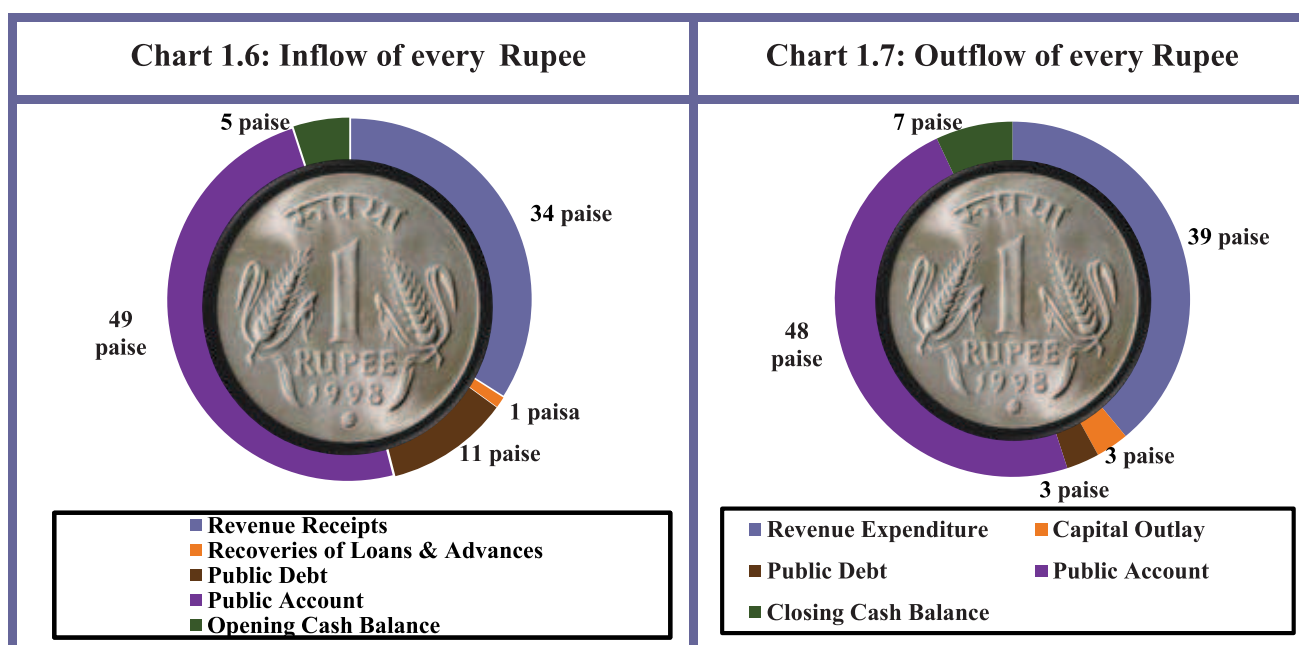


Source: Finance Accounts of Government of West Bengal (2016-17)

<sup>4</sup> National Small Savings Fund

- Public Debt receipts increased by ₹ 1,708 crore (4.94 *per cent*) while repayment of public debt increased by ₹ 2,056 crore (22.74 *per cent*).
- Market borrowings formed a significant portion of debt receipts. Its contribution to debt receipts increased to 94.81 *per cent* (₹ 34,431 crore) during 2016-17 from 69.34 *per cent* (₹ 24,000 crore) during 2015-16.
- Public Account Receipts (₹ 1,69,633 crore) increased by ₹ 20,025 crore (13.38 *per cent*) over the previous year (₹ 1,49,608 crore). This was mainly due to increase in (i) Deposits and Advances (₹ 4,487 crore), (ii) Reserve Funds (₹ 2,223 crore) and (iii) Small Savings and Provident Funds (₹ 856 crore).
- Recovery on loans and advances witnessed a progress of ₹ 2,401 crore (289 *per cent*) during 2016-17. This happened mainly due to higher repayment of loans by WBSEDCL<sup>5</sup> (₹ 1,735 crore).
- Cash balance position of the State increased by ₹ 6,650 crore (41.97 *per cent*) during the year. This was due to increase in year-end cash balance investment by ₹ 5,693 crore (83.07 *per cent*).

The inflow and outflow representing the receipts and disbursements during 2016-17 is exhibited below in terms of every Rupee in **Charts 1.6 and 1.7**.



Source: Finance Accounts of Government of West Bengal (2016-17)

N.B: Disbursement of Loans & Advances (0.3 paise) is not shown in Chart 1.7.

**Charts 1.6 and 1.7** show that for every one rupee:

- Revenue Expenditure was primarily met out of the Revenue Receipts with Public Debt also being a contributor;
- The deficit financing was compensated through borrowings by eight paise.

<sup>5</sup> West Bengal State Electricity Distribution Company Limited under West Bengal Power Sector Reforms Transfer Scheme, 2007

### 1.1.2 Review of the fiscal situation

The 14<sup>th</sup> Finance Commission (FC) had recommended that every State needed to amend the Fiscal Responsibility and Budget Management (FRBM) Act. Fourteenth FC recommended working out a fiscal reform path to make credible progress towards fiscal consolidation. **However, as of September 2017, no further amendment<sup>6</sup> was made to the Act in the State to factor in the recommendations of 14<sup>th</sup> FC.**

Major fiscal variables provided in the budget based on the recommendations of the 14<sup>th</sup> FC along with the actuals for 2016-17 are depicted in **Table 1.3**.

**Table 1.3: Targets for major fiscal variables**

Fiscal variables	2016-17			
	14th FC targets for the State	Targets proposed in the Budget	Projections made in Five Year Fiscal plan/MTFP**	Actuals for 2016-17
Revenue deficit (₹ in crore)	Nil	Nil	9,469	16,086
Fiscal deficit (₹ in crore)	NA*	19,355	25,336	25,386
Revenue deficit/GSDP (in per cent)	Nil	Nil	0.96	1.29
Fiscal Deficit/GSDP (in per cent)	3.00	1.96	2.56	2.03
Ratio of total Outstanding Debt of the Government to GSDP(in per cent)	36.24	33.72	33.71	26.99

Source : 14<sup>th</sup> FC report and MTFPS 2017-18

\*\*In the MTFPS, RE figures for 2016-17 were mentioned.

\*Actual figures not mentioned.

The fiscal targets and achievements in 2016-17 are as below:

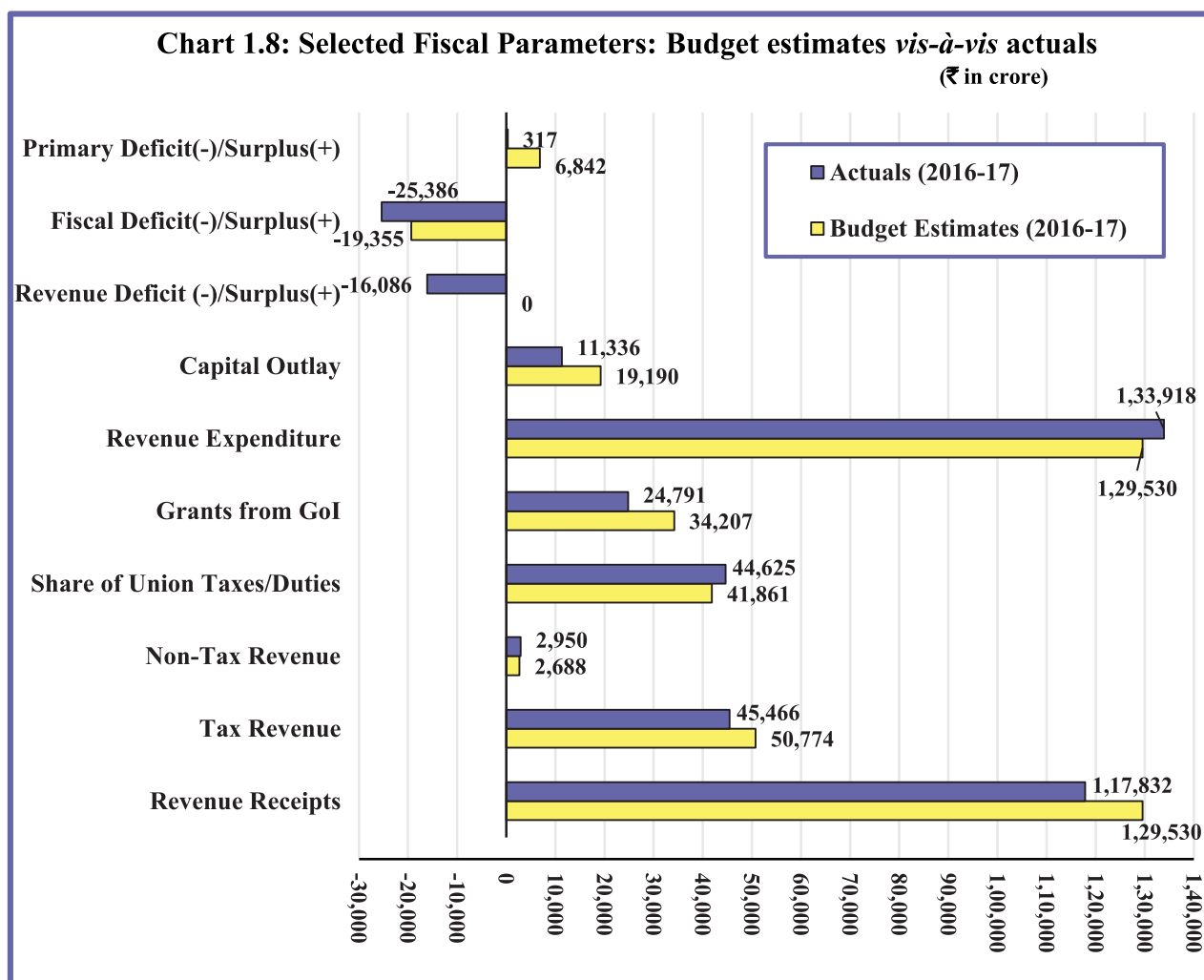
**On the basis of the recommendation of the 14<sup>th</sup> FC, Post-Devolution Revenue Deficit grant of ₹3,311 crore was given to West Bengal during 2016-17 to meet the deficit of the State. The Revenue Deficit of the State during the year was ₹16,086 crore, which was 1.29 per cent of GSDP. In respect of the ratio of Fiscal Deficit to GSDP, the target set (i) in the budget estimates was not achieved and (ii) by 14<sup>th</sup> FC and MTFPS was achieved. State achieved the target set in respect of the ratio of outstanding debt to GSDP (Table 1.3).**

Disclosures regarding major works and contracts, committed liabilities in respect of land acquisition charges, unpaid bills on works and supplies, statement of assets, etc., as prescribed in the WBFRBM Act, 2010, were not given in the MTFPS, thereby affecting the transparency in fiscal operations of the State Government.

### 1.1.3 Budget Estimates and Actuals

Budget papers presented by the State Government provide projections or estimations of receipts and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment of the desired fiscal objectives. Compared to the Budget Estimates for 2016-17, there was variation in actuals (**Appendix 1.5**) in the case of several key fiscal parameters. **Chart 1.8** presents the Budget Estimates and actuals for some important parameters.

<sup>6</sup> Last amendment in the WBFRBM Act, 2010 was done in April 2011



Source: Budget publications and Finance Accounts of Government of West Bengal (2016-17)

As may be observed from the **Chart 1.8**, as compared to Budget Estimates (i) State's actual Revenue Receipts were less by ₹ 11,698 crore (9.03 per cent), (ii) State's own Tax Revenue was less by ₹ 5,308 crore (10.45 per cent), (iii) Non-tax revenue was higher by ₹ 262 crore (9.75 per cent), (iv) Share of Union Taxes/Duties was higher by ₹ 2,764 crore (6.60 per cent), (v) Revenue Expenditure was higher by ₹ 4,388 crore (3.39 per cent) and (vi) Capital expenditure was less by ₹ 7,854 crore (40.93 per cent).

#### 1.1.4 Major policy initiatives/reforms in the budget

Major policy initiatives/reforms in the budget are given in **Table 1.4**:

**Table 1.4: Major policy announcement in the Budget**

Sl. No.	Policy announcement details
1	Enhancement of outlay for Swami Vivekananda Merit-cum-Means Scholarship under higher education for support to students belonging to economically weaker sections.
2	Introduction of two e-classrooms in the first phase in each of 732 government-aided Universities, Government colleges and 2,000 secondary and higher secondary schools.
3	Enhancing monetary limit (₹ 1 lakh or above) in filing appeal order for disputed amount of litigation under Value Added Tax (VAT) law to bring down administrative costs for collection of revenue.

4	Reducing time limit (from one year to six months) for disposal of appeal cases under VAT law.
5	Raising the exemption limit of profession tax (up to ₹ 10,000 per month from ₹ 8,500 per month), to provide relief to low salaried employees and wage earners.
6	Extending financial support to micro and small enterprises for another three years from 1 April 2016.
7	Relieving payment of rural employment and education cess to provide relief to the tea industry.
8	Abolishing Settlement Commission in view of disposal of outstanding VAT/sales tax liabilities through Fast Track Courts.

Source: Budget Statement 2016-17, Government of West Bengal

These initiatives/reforms required follow up in the budgetary forecast of the fiscal 2017-18 to assess the actual extent of implementation. However, the budget of the fiscal 2017-18 did not disclose any specific details about their implementation.

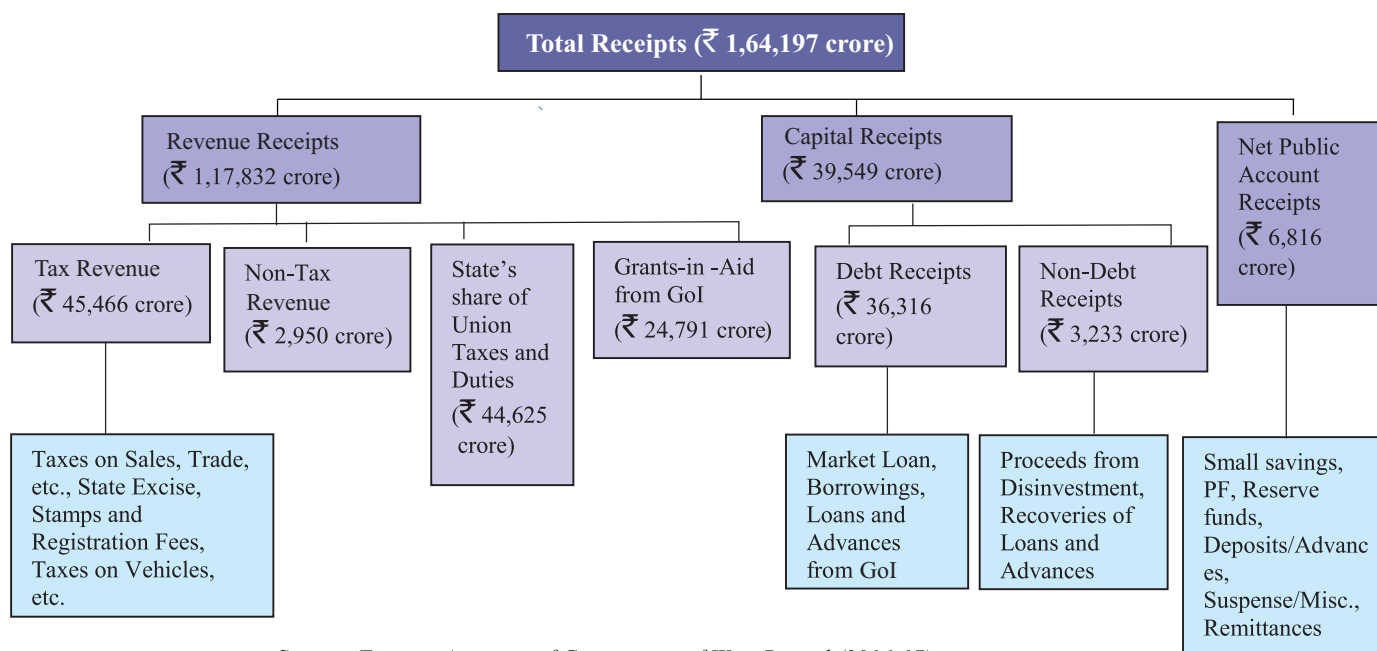
## 1.2 Resources of the State

### 1.2.1 Resources of the State as per Finance Accounts

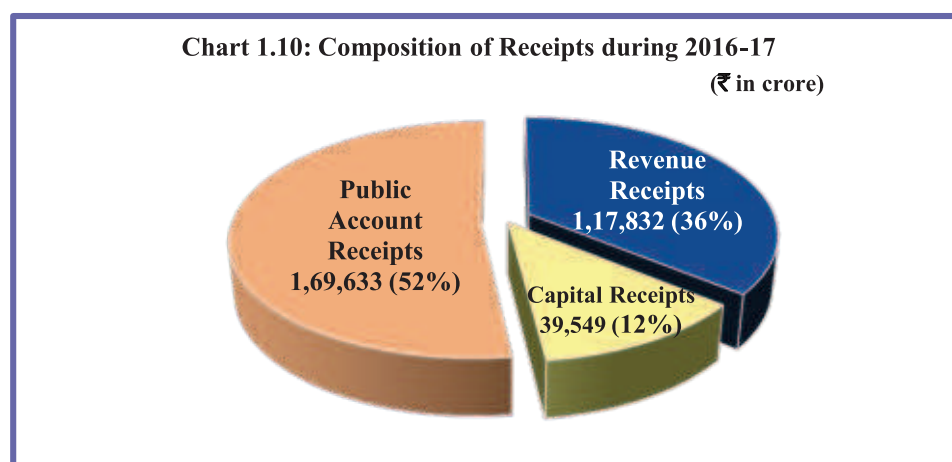
Revenue and Capital are the two streams of receipts that constitute the resources of the State Government.

**Charts 1.9** and **1.10** depict the composition of receipts of the State during the current year while **Chart 1.11** depicts the trends in various components of receipts during 2012-13 to 2016-17.

**Chart 1.9: Components and sub-components of Resources**

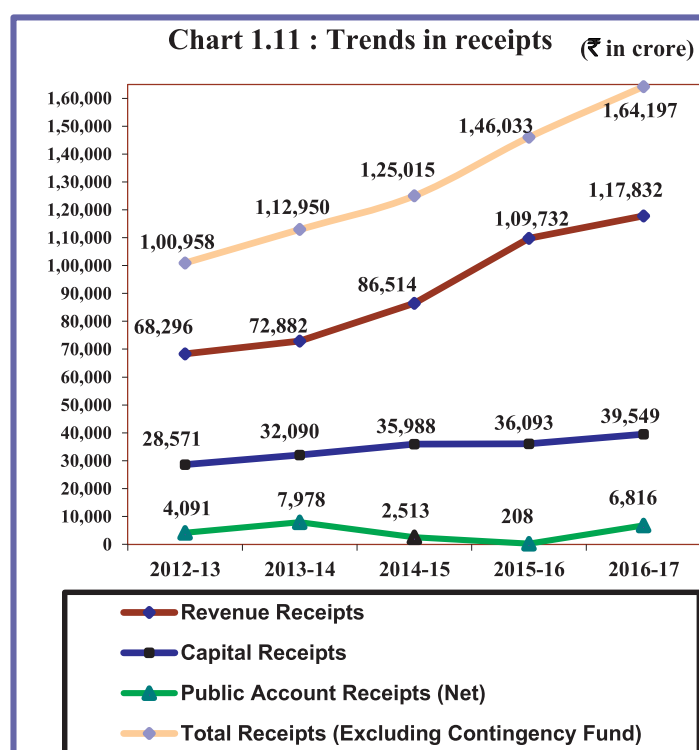


Source: Finance Accounts of Government of West Bengal (2016-17)



Source: Finance Accounts of Government of West Bengal (2016-17)

Total receipts increased (62.63 per cent) to ₹ 1,64,197 crore in 2016-17 from ₹ 1,00,958 crore in 2012-13. Revenue Receipts increased from ₹ 68,296 crore to ₹ 1,17,832 crore during the period. These were due to increase in (i) State's share of central tax transfers, (ii) Grants-in-Aid from Government of India and (iii) higher collection of State's own taxes as well as Non-Tax revenue. As a



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

result, the share of Revenue Receipts as percentage of total receipts increased from 68 per cent in 2012-13 to 72 per cent in 2016-17. However, the share of Capital Receipts decreased to 24 per cent in 2016-17 from 28 per cent in 2012-13. The share of net Public Account Receipts to the total receipts remained about four per cent during 2012-13 to 2016-17.

Revenue receipts grew at a CAGR of 14.61 per cent while capital receipts grew at a CAGR of 8.47 per cent during 2012-13 to 2016-17. The share of revenue receipts in total receipts varied between 64.53 per cent and 75.14 per cent during 2012-17. The share of capital receipts in total receipts fluctuated between 24.09 per cent and 28.79 per cent during the last five years.

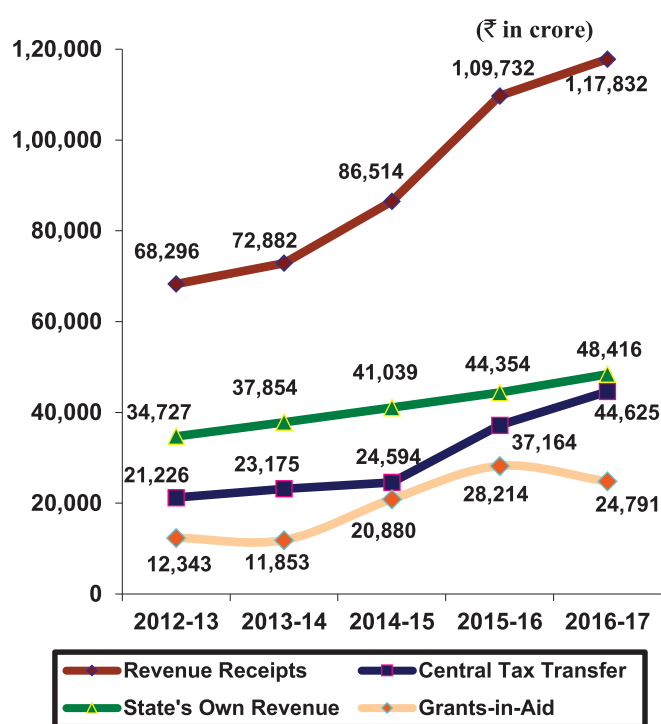
<sup>7</sup>Linear compounded annual growth rates have been used as a proxy for CAGR.



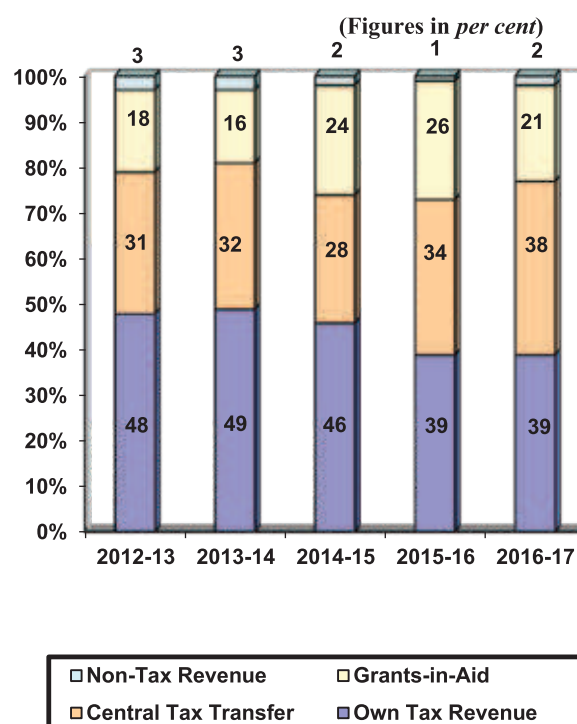
### 1.3 Revenue Receipts

The trends and composition of revenue receipts during the period 2012-13 to 2016-17 are shown in **Charts 1.12** and **1.13** respectively.

**Chart 1.12 : Trends in Revenue Receipts**



**Chart 1.13 : Composition of Revenue Receipts**



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Revenue Receipts showed progressive increase to ₹ 1,17,832 crore in 2016-17 from ₹ 68,296 crore in 2012-13 registering a growth of 72.53 *per cent*. State's own resources contributed to ₹ 48,416 crore (41 *per cent*). The balance came from GoI in the form of State's share of taxes and Grants-in-Aid. There was an increase of (i) ₹ 7,461 crore (20.08 *per cent*) in State's share in Union taxes and duties, (ii) ₹ 2,974 crore in State's own Tax Revenue (seven *per cent*) and (iii) ₹ 1,088 crore in Non-Tax Revenue (58.43 *per cent*). Increase in revenue receipts was partly *offset* by decrease in Grants from GoI by 12.13 *per cent* (₹ 3,423 crore). These factors resulted in an overall increase of ₹ 8,100 crore (seven *per cent*) in revenue receipts during 2016-17 over the previous year.

It was observed that in the last five years, the percentage of central transfer (including Grants-in-Aid) increased while the State's own share decreased. Trends of share of receipts from central transfer and state own receipt for the year 2012-13 to 2016-17 are depicted in **Chart 1.13**.

The trends in Revenue Receipts relative to GSDP are shown in **Table 1.5**.



**Table 1.5: Trends in Revenue Receipts relative to GSDP**

Years	2012-13	2013-14	2014-15	2015-16	2016-17
<b>GSDP (₹ in crore)</b>	<b>6,85,943</b>	<b>7,94,668</b>	<b>9,08,752</b>	<b>10,83,155</b>	<b>12,51,067</b>
<b>Rate of growth of GSDP (per cent)</b>	<b>14.54</b>	<b>15.85</b>	<b>14.36</b>	<b>19.19</b>	<b>15.50</b>
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>68,296</b>	<b>72,882</b>	<b>86,514</b>	<b>1,09,732</b>	<b>1,17,832</b>
Rate of growth of RR (per cent)	16.24	6.71	18.70	26.84	7.38
RR/GSDP(per cent)	9.96	9.17	9.52	10.13	9.42
<b>State's Own Tax Revenue (₹ in crore)</b>	<b>32,809</b>	<b>35,831</b>	<b>39,412</b>	<b>42,492</b>	<b>45,466</b>
Rate of growth of State's Own Tax Revenue (per cent)	31.56	9.21	9.99	7.81	7.00
<b>Buoyancy Ratios<sup>8</sup></b>					
Revenue Receipts Buoyancy w.r.t. GSDP	1.12	0.42	1.30	1.40	0.48
State's Own Tax Buoyancy w.r.t. GSDP	2.17	0.58	0.70	0.41	0.45
Revenue Receipts Buoyancy w.r.t. State's own taxes	0.51	0.73	1.87	3.43	1.05

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

During 2016-17, (i) Grants-in-Aid from GoI were reduced by 12.13 per cent and (ii) the growth of GSDP surpassed the growth of State Own Tax Revenue. These factors contributed to bring down the Revenue Receipts Buoyancy with respect to GSDP to 0.48 from 1.40 during the previous year.

### 1.3.1 State's Own Resources

The State's own resources comprised Revenue Receipts from its Own Tax and Non-Tax sources (**Appendix 1.6**). The actual receipts under State's tax and Non-Tax revenue *vis-à-vis* assessment made by the 14<sup>th</sup> FC, the State Government in Budget and MTFP are indicated in **Table 1.6**.

**Table 1.6: Actual Tax and Non-Tax Revenue *vis-à-vis* projections**

	14 <sup>th</sup> FC projection	Budget estimates	MTFP projection <sup>9</sup>	(₹ in crore) Actual
Own Tax Revenue	64,121	50,774	48,927	45,466
Non-Tax Revenue	4,149	2,688	2,038	2,950

Source: 14<sup>th</sup> FC Report, Budget Publication 2016-17, MTFPS and Finance Accounts of Government of West Bengal (2016-17)

**Table 1.6** shows that the actual realization of tax revenue was lower than (i) assessment of the 14<sup>th</sup> FC by 29.09 per cent, (ii) projections made in the Budget by 10.45 per cent and (iii) projections made in the MTFP by 7.07 per cent. The non-tax revenue of the Government fell short of the assessment of the 14<sup>th</sup> FC by 28.90 per cent. It, however, (i) exceeded the projection made in the budget by 9.75 per cent and (ii) exceeded MTFP projection by 44.75 per cent.

<sup>8</sup> 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, Revenue Receipts Buoyancy at 0.48 implies that Revenue Receipts tend to increase by 0.48 percentage points, if the GSDP increases by one per cent.

<sup>9</sup> In the MTFPS, Revised Estimates figures for 2016-17 were mentioned.

During 2016-17, State's own aggregate revenue (₹ 48,416 crore) was lower than projection of the 14<sup>th</sup> FC (₹ 68,270 crore), Budget estimation (₹ 53,462 crore) and MTFP projection (₹ 50,965 crore).

### 1.3.1.1 Tax Revenue

The head-wise components of Tax Revenue during 2012-13 to 2016-17 are shown in **Table 1.7**.

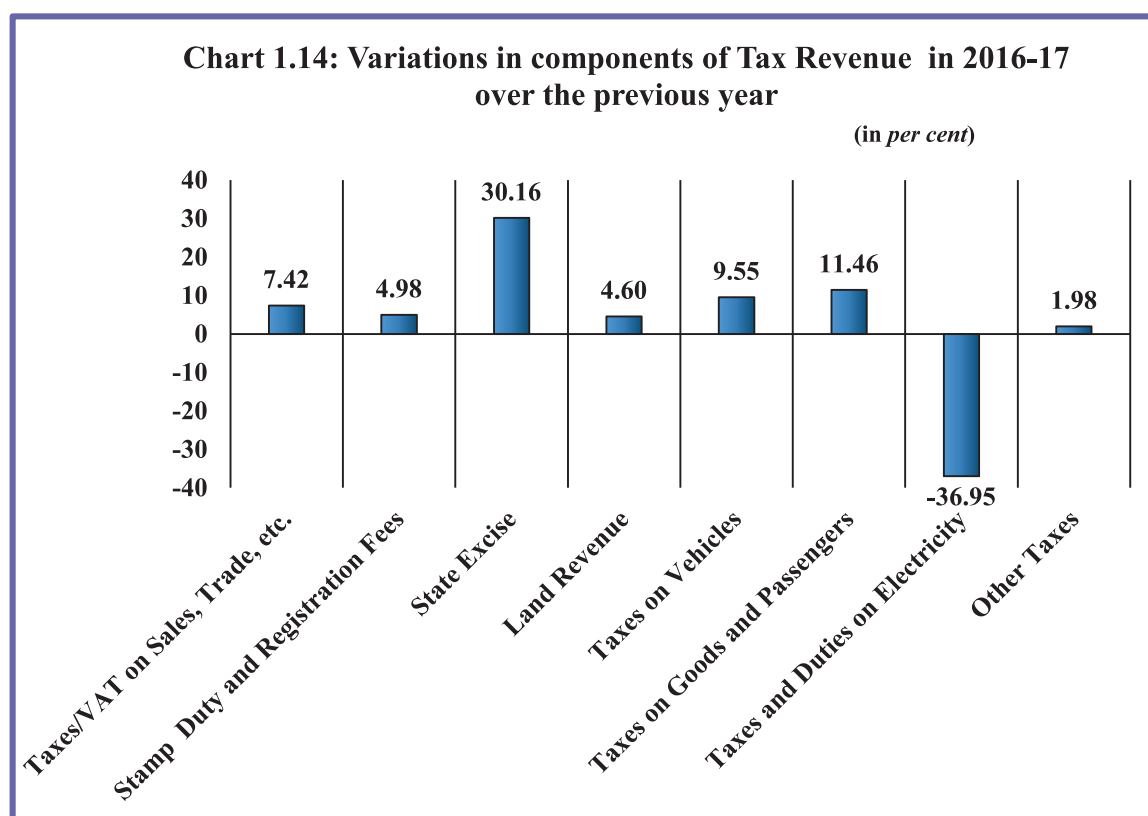
**Table 1.7: Head-wise components of State's Tax Revenue** (₹ in crore)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage Variations in 2016-17 over previous year	CAGR
Taxes/VAT on Sales, Trade, etc.	18,555	21,931	24,022	26,050	27,983	7.42	10.82
Stamp Duty and Registration fees	4,357	4,053	4,196	4,175	4,383	4.98	0.15
State Excise	2,621	3,018	3,587	4,015	5,226	30.16	18.83
Land Revenue	2,024	2,254	2,276	2,456	2,569	4.60	6.14
Taxes on Vehicles	1,222	1,351	1,505	1,707	1,870	9.55	11.22
Taxes on Goods and Passengers	1,284	1,000	859	838	934	11.46	(-)7.65
Taxes and Duties on Electricity	1,837	1,213	1,947	2,092	1,319	(-) 36.95	(-)7.95
Other taxes	909	1,011	1,020	1,159	1,182	1.98	6.79
<b>Total</b>	<b>32,809</b>	<b>35,831</b>	<b>39,412</b>	<b>42,492</b>	<b>45,466</b>	<b>7.00</b>	<b>8.50</b>

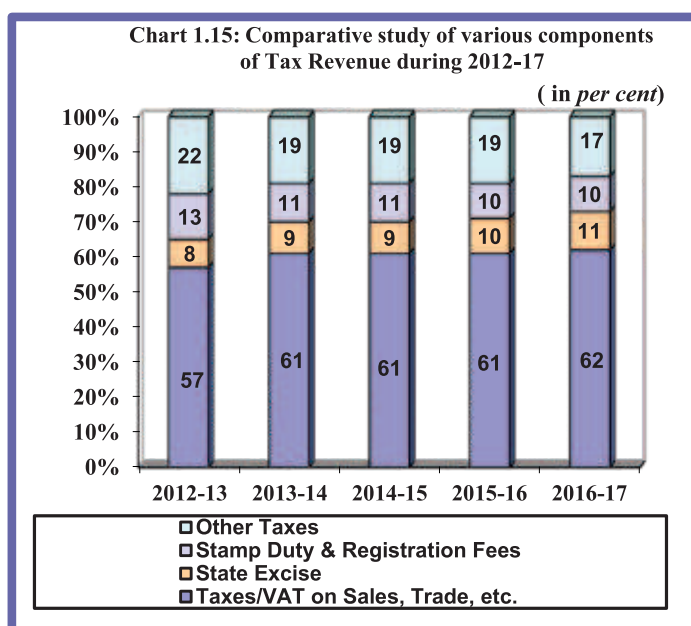
Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

**Table 1.7** shows that the State's Own tax revenue registered a growth of seven *per cent* in 2016-17 over the previous year due to increases in (i) State Excise (30.16 *per cent*), (ii) Taxes on Goods and Passengers (11.46 *per cent*), (iii) Taxes on Vehicles (9.55 *per cent*), (iv) Taxes/VAT on Sales, Trades, etc. (7.42 *per cent*), (v) Stamp Duty and Registration Fees (4.98 *per cent*) and (vi) Land Revenue (4.60 *per cent*). This was *offset* by decrease under Taxes and Duties on Electricity (36.95 *per cent*).

The percentage variation of components of State's Tax Revenue in 2016-17 over previous year has been depicted in **Chart 1.14**.



Source: Finance Accounts of Government of West Bengal (2016-17)



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Note-Other taxes also include Land Revenue, Taxes on Vehicles, Goods and Passengers and Taxes and Duties on Electricity

During the period 2012-17, Taxes/VAT on Sales, Trade, etc. accounted for major portion of State's Own Tax Revenue. Contribution of Sales Tax and State Excise to Tax Revenue increased by five *per cent* and three *per cent*, respectively from 2012-13 to 2016-17. The share of Stamp Duty/Registration fees and other taxes, however, decreased by three and five *per cent*, respectively during the aforesaid period (Chart 1.15).

### 1.3.1.2 Non-Tax Revenue

The components of Non-Tax Revenue during the period from 2012-13 to 2016-17 are shown **Table 1.8**.

**Table 1.8: Components of Non-Tax Revenue** (₹ in crore)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage Variations over previous year
Interest receipts	934 (48.70)	986 (48.74)	277 (17.02)	335 (17.99)	1,201 (40.71)	258.51
Dividends and Profit	2 (0.10)	8(0.40)	6(0.37)	12(0.65)	1(0.03)	(-) 91.67
Other non-tax receipts	982 (51.20)	1,029 (50.86)	1,344 (82.61)	1,515 (81.36)	1,748 (59.26)	15.38
<b>Total</b>	<b>1,918</b>	<b>2,023</b>	<b>1,627</b>	<b>1,862</b>	<b>2,950</b>	

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Figures in brackets indicate the share of the components.

Non-tax revenue was 2.50 *per cent* of the revenue receipts during 2016-17. As indicated in **Table 1.8**, Non-Tax Revenue grew by ₹ 1,088 crore (58.43 *per cent*) over the previous year. This was mainly due to increase in (i) collection of interest from Public Sector Undertakings by ₹ 700 crore, (ii) contribution of interest from investment of surplus cash balances under treasury bills by ₹ 133 crore, (iii) receipts from elementary education by ₹ 121 crore and (iv) mineral concession fees, rents and royalties by ₹ 107 crore. This was partly *offset* by decrease in collection on account of contributions and recoveries towards pension and other retirement benefits by ₹ 46 crore.

#### Short accounting of Non-tax receipts

As per West Bengal Budget Manual (WBBM), the income derived from cess imposed by law was to be credited to the Consolidated Fund.

Government of West Bengal did not give cognizance to the directive stated in the West Bengal Motor Transport Workers' Welfare Cess Act, 2010<sup>10</sup>. They also did not give cognizance to the directives stated in the Manual and changed the accounting procedures through Administrative orders<sup>11</sup>. The Finance Department did not comply with the conditions stated in the WBBM. Thus cess (₹ 44 crore) collected during 2014-17 was directly booked under the Public Account instead of Consolidated Fund. Consequently, revenue receipts were understated by ₹ 44 crore with corresponding overstatement of revenue deficit to the same extent.

#### Inflated Non-tax receipts

As per Indian Government Accounting Standard (IGAS)-4, Departmental Commercial Undertakings (DCU) means an entity whose receipts and payments flow into and out of Consolidated Funds or the Public Account.

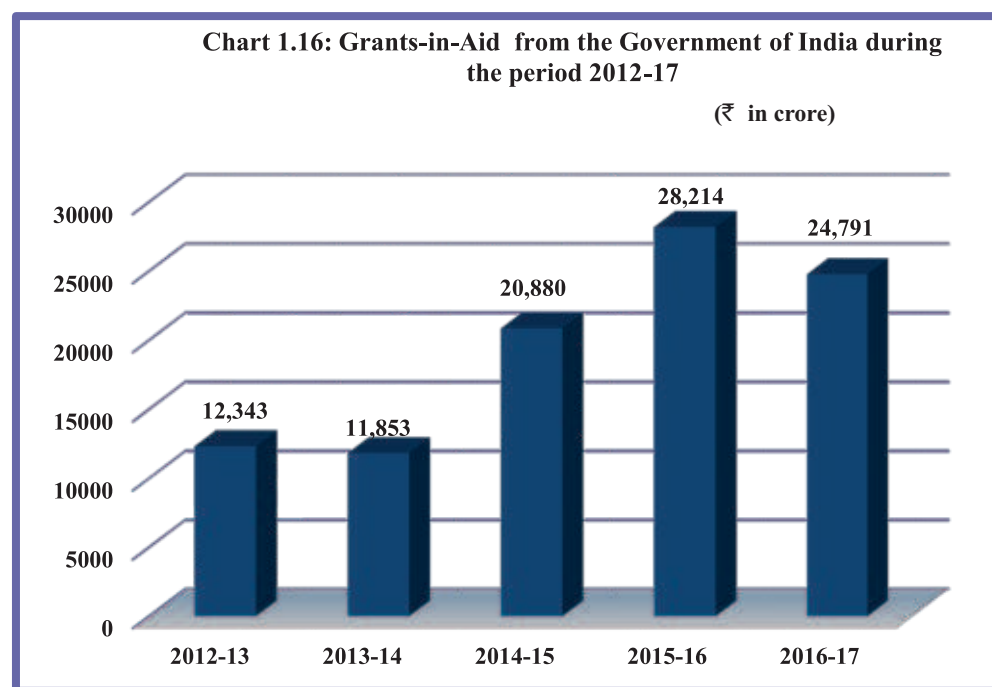
<sup>10</sup> The Act did not prescribe the accounting procedure to be followed as per the prevalent accounting principle

<sup>11</sup> Issued by the Finance department in June 2014 followed by September 2016

Irrigation, Navigation and Multipurpose river projects are not considered as DCU since those projects did not met the criteria as per IGAS-4. Also, those projects had not been declared as DCU by the State. There was book adjustment of ₹ 94 crore between the heads of Interest Receipts and Interest Payments. As this transaction did not flow from Consolidated Fund or Public Account, the book adjustment was not in order. Booking of interest of ₹ 94 crore under these projects through adjustment thus inflated the interest receipts.

### 1.3.2 Grants-in-Aid from Government of India

The trends of release of Grants-in-Aid by GoI during 2012-17 are shown in **Chart 1.16**.



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

The trends of release of Grants-in-Aid by GoI under non-plan, State plan, centrally sponsored and central plan schemes during 2012-17 are shown in **Table 1.9**.

**Table 1.9: Components of Grants-in-Aid**

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan Grants	4,032	3,790	3,271	11,753	10,217
Grants for State Plan Schemes	5,004	4,149	17,250	14,997	14,443
Grants for Central Plan Schemes	150	187	365	1,464	131
Grants for Centrally Sponsored Schemes	3,157	3,727	(-) 6	-	-
<b>Total</b>	<b>12,343</b>	<b>11,853</b>	<b>20,880</b>	<b>28,214</b>	<b>24,791</b>
Percentage of increase over previous year	(-) 11.13	(-) 3.96	76.16	35.12	(-) 12.13
Total grants as a percentage of Revenue Receipts	18.07	16.26	24.13	25.71	21.04

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

During 2016-17, Grants-in-Aid from GoI decreased by ₹ 3,423 crore over the previous year. The decrease was in non-plan grants (₹ 1,536 crore), central plan grants (₹ 1,333 crore) and grants for CASP<sup>12</sup> (₹ 554 crore). Decrease under non-

<sup>12</sup> Central Assistance to State Plan

plan grants was mainly due to short release of Post-Devolution Revenue Deficit Grants (₹ 5,138 crore). This was partly *offset* by contribution towards distribution of rice under TPDS<sup>13</sup> to BPL families (₹ 2,442 crore) and increased release in grants for Local Bodies (₹ 1,915 crore).

Out of 28 schemes, (i) six schemes were categorised as Core of the Core<sup>14</sup>, (ii) 20 as Core<sup>15</sup>, and (iii) two as Optional. In the Core of the Core scheme ‘MGNREGA<sup>16</sup>’, central share reduced by ₹ 666 crore. Central share in some of the core schemes had reduced significantly. These included (i) PMGSY<sup>17</sup> (₹ 608 crore), (ii) NHM<sup>18</sup> (₹ 222 crore) and (iii) ICDS<sup>19</sup> (₹ 125 crore). However, in core schemes, such as, PMAY<sup>20</sup> and MDM<sup>21</sup>, central shares increased by ₹ 1,750 crore and ₹ 313 crore, respectively over the previous year.

### ***Misclassification of grants-in-Aid from Government of India***

Minor head ‘315’ (Revenue nature) relates to ‘Assistance to Local Bodies’.

Government of India had launched centrally sponsored scheme, AMRUT<sup>22</sup> in June 2015 to augment robust sewage networks, water supply and other infrastructure through implementation of urban renewal projects. Government of West Bengal was to provide budget provision under the revenue head.

During 2016-17, Government of West Bengal, made a budget provision of ₹ 225 crore under the Capital Outlay for accommodating the “Central Share”. A total of ₹ 153 crore was incurred for the scheme and booked under capital head instead of revenue head. This resulted in misclassification of expenditure by ₹ 153 crore. Consequently, Revenue deficit was understated by ₹ 153 crore.

### ***1.3.3 Central Tax Transfers***

Under the recommendations of the 14<sup>th</sup> FC, share of all States in the divisible pool of central taxes and duties was increased to 42 *per cent* with effect from 2015-16 from 32 *per cent* recommended by the 13<sup>th</sup> FC. The larger devolution was due to increased flow of untied fiscal resources in place of tied resources.

There was an increase (20.08 *per cent*) in central tax transfers to ₹ 44,625 crore in 2016-17. The increase in the first year of the 14<sup>th</sup> FC (2015-16) was 51.10 *per cent* over the previous year. The jump was mainly on account of increase in share of net proceeds under (i) corporation tax by 22.32 *per cent* (₹ 2,612 crore), (ii) Service Tax by 11.70 *per cent* (₹ 748 crore), (iii) Union Excise Duties by 41.81 *per cent* (₹ 2,073 crore), (iv) Taxes on Income other than Corporation Tax by 22.39 *per cent* (₹ 1,820 crore) and (v) Customs Duty by 3.47 *per cent* (₹ 207 crore).

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<sup>13</sup> Targeted Public Distribution System

<sup>14</sup> Schemes which are for social protection and social inclusion

<sup>15</sup> Schemes which form part of the National Development Agenda

<sup>16</sup> Mahatma Gandhi National Rural Employment Guarantee Act

<sup>17</sup> Pradhan Mantri Gram Sadak Yojana

<sup>18</sup> National Health Mission

<sup>19</sup> Integrated Child Development Services

<sup>20</sup> Pradhan Mantri Awas Yojana

<sup>21</sup> Mid-Day Meal

<sup>22</sup> Atal Mission for Rejuvenation and Urban Transformation



During the year, the central tax transfer increased by ₹ 7,461 crore (20.08 per cent) and capital expenditure, decreased by ₹ 1,084 crore (8.73 per cent) over previous year.

*The central tax transfers were primarily aimed at meeting the revenue expenditure needs of the State. To support such funding, the State could have enhanced its spending on capital outlay out of its own resources. This approach would have established a path of utilisation of financial resources in an appropriate manner. Such reduction in capital expenditure despite augmentation of central tax transfers, however, undermined the appropriateness of use of financial resources.*

## 1.4 Capital Receipts

The trends in growth and composition of capital receipts for the period 2012-17 are depicted in **Table 1.10**.

**Table 1.10: Trends in growth and composition of capital receipts**

	(₹ in crore)				
Sources of State's Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts (CR)	28,571	32,090	35,988	36,093	39,549
Misc. Capital Receipts	Nil	Nil	Nil	653	Nil
Recovery of Loans and Advances	280	1,158	176	832	3,233
Public Debt Receipts <sup>23</sup>	28,291	30,932	35,812	34,608	36,316
<i>of which Market Loans</i>	23,006	24,676	25,192	23,697	34,431
Rate of growth of Public Debt Receipts	6.54	9.34	15.78	(-) 3.36	4.94

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

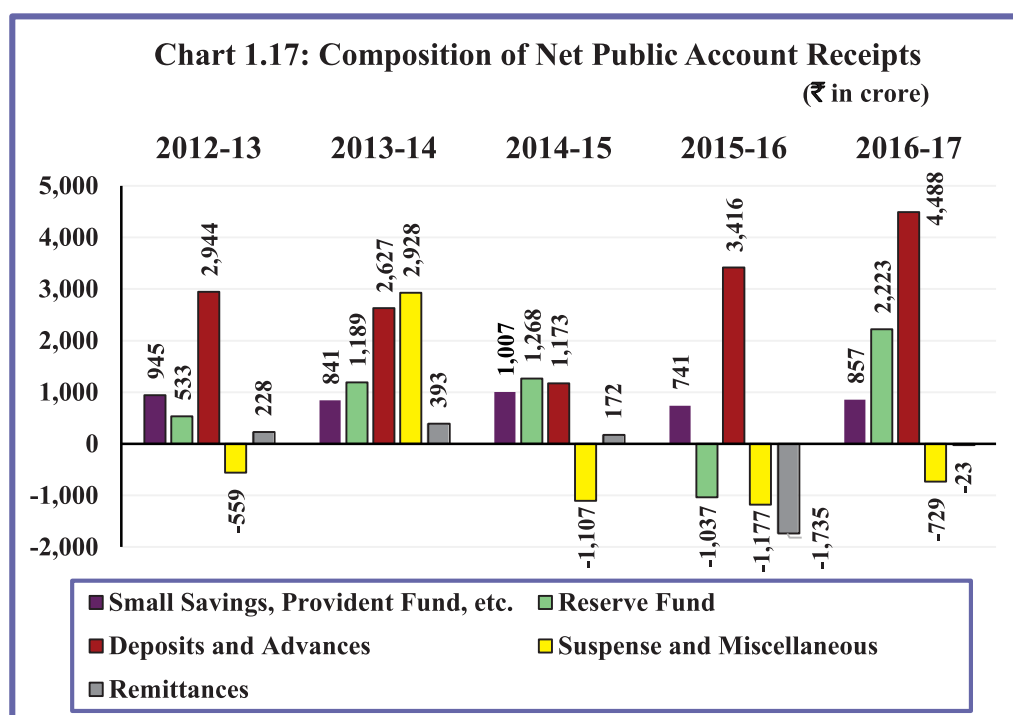
During 2016-17, capital receipts increased by 9.58 per cent over the previous year. This was mainly on account of increase in market loans by ₹ 10,734 crore, and recovery of loans and advances by ₹ 2,401 crore over the previous year. This was partly *offset* by discontinuation of loans from NSSF at the instance of the 14<sup>th</sup> FC and short receipt of loans from Government of India by ₹ 140 crore.

## 1.5 Net Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund of the State, are kept in Public Account set up under Article 266(2) of the Constitution of India and are not subject to vote by the State Legislature. Here the Government acts as a banker. The balance, after disbursements, is the amount of funds available with the Government for its use. The trends and composition of net Public Account receipts for the period 2012-13 to 2016-17 are depicted in **Chart 1.17**.

<sup>23</sup>Excluding Ways and Means advances from RBI





Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

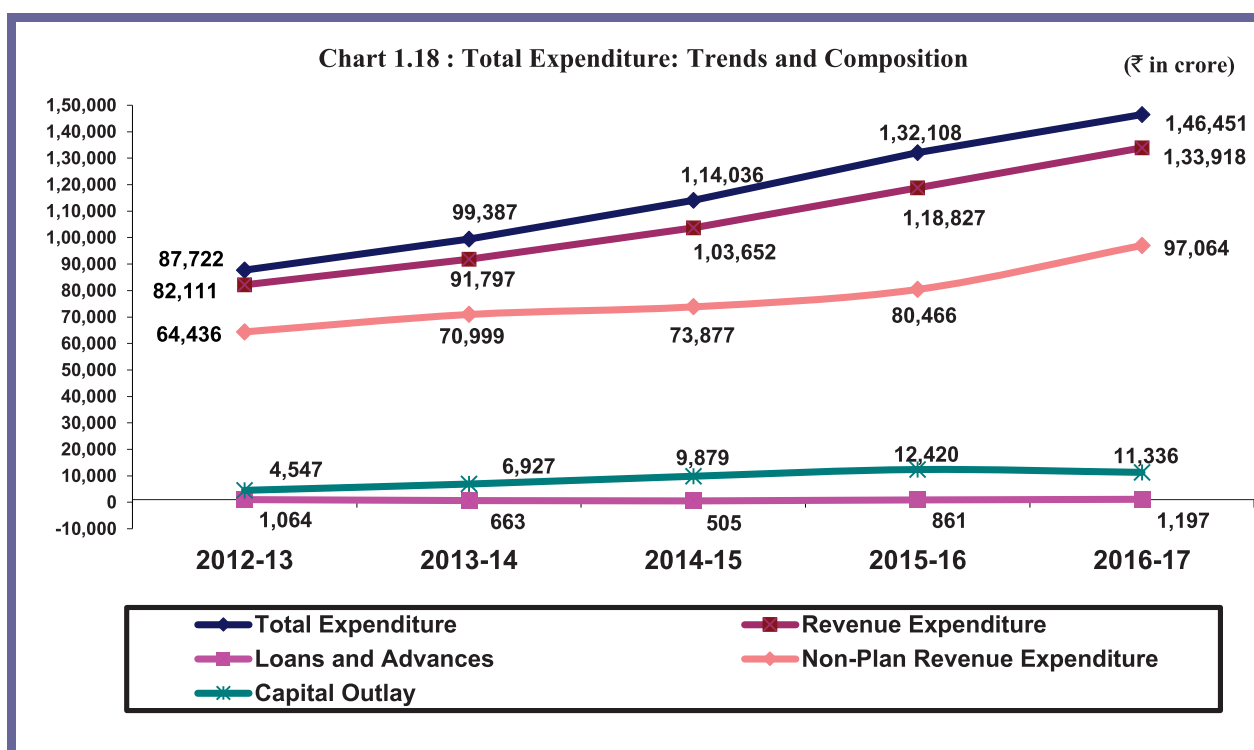
The above Chart indicates that during 2016-17, Net Public Account Receipts increased by ₹ 6,608 crore over the previous year. It was mainly due to net increase in reserve fund (₹ 3,260 crore) and deposits and advances (₹ 1,072 crore).

## 1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

### 1.6.1 Growth and composition of expenditure

**Chart 1.18** presents the trends in total expenditure over the period 2012-17.



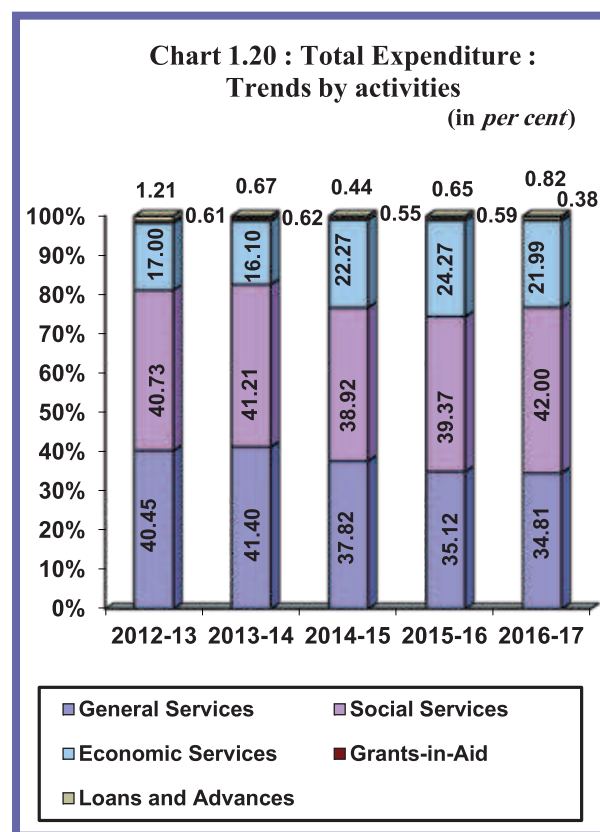
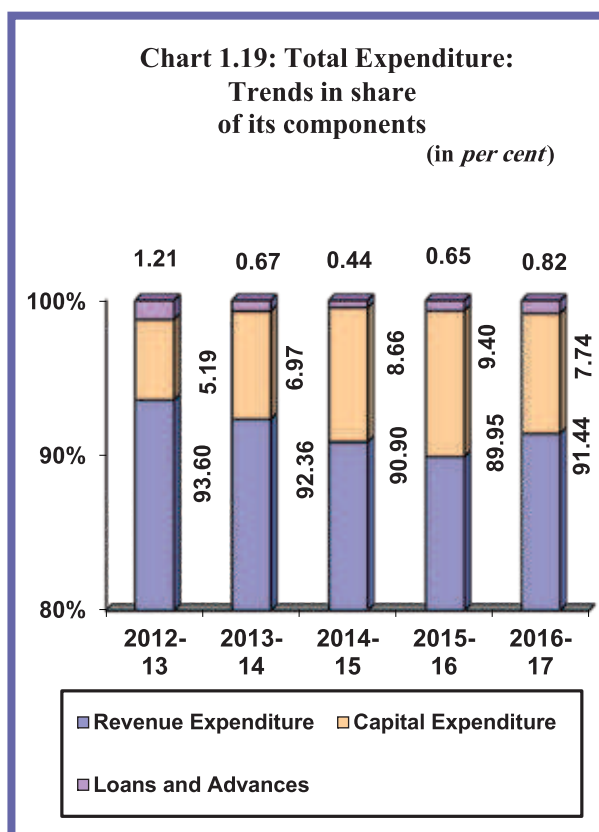
Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

### 1.6.2 Total Expenditure

Total Expenditure (TE) consisted of expenditure on (i) General Services including Interest Payments, (ii) Social Services, and (iii) Economic Services, (iv) Grants-in-Aid and (v) disbursement of Loans and Advances. The movement of relative share of the components of expenditure is indicated in **Chart 1.19**. TE of the State increased by 67 *per cent* to ₹ 1,46,451 crore in 2016-17 from ₹ 87,722 crore in 2012-13. It was due to increase in Revenue Expenditure (₹ 51,807 crore), Capital Outlay (₹ 6,789 crore) and disbursement of loans and advances (₹ 133 crore). The share of Revenue Expenditure in TE decreased to 91 *per cent* in 2016-17 from 94 *per cent* during 2012-13. The share of Capital Expenditure increased to eight *per cent* in 2016-17 from five *per cent* in 2012-13.

The increase of ₹ 14,343 crore in TE during 2016-17 over the previous year was due to increase in non-plan revenue expenditure by ₹ 16,598 crore (20.63 *per cent*). This was partly *offset* by decrease in (i) plan revenue expenditure by ₹ 1,507 crore (3.93 *per cent*) and (ii) capital outlay by ₹ 1,084 crore (8.73 *per cent*).

The compositions of total and sectorial expenditure are depicted in **Charts 1.19** and **1.20** respectively.



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

### 1.6.3 Capital Expenditure

**Capital Expenditure (CE) of the State as proportion of Total Expenditure, increased to 7.74 per cent (₹11,336 crore) in 2016-17 from 5.19 per cent (₹ 4,547 crore) in 2012-13.** However, CE (₹ 11,336 crore) decreased (8.73 per cent) over the previous year (₹ 12,420 crore), mainly due to less expenditure on (i) infrastructure in Power projects (₹ 1,070 crore), (ii) Medical and Public Health (₹ 597 crore), (iii) Education, Sports, Art and Culture (₹ 222 crore). This was partly *offset* by increases under capital outlay on (i) Urban Development (₹ 609 crore), (ii) Public Works (₹ 129 crore) and (iii) Social Security and Welfare (₹ 93 crore).

### 1.6.4 Revenue Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the past obligation and, as such, does not result in any addition to the State's infrastructure and service network. During the period 2012-13 to 2016-17, revenue expenditure increased at a CAGR of 13.01 per cent. Revenue Expenditure was substantially higher during 2016-17 (10.99 per cent) than the normative projections of the 14<sup>th</sup> FC (₹ 1,20,663 crore). Major areas of increased expenditure are discussed in the succeeding paragraphs.

### 1.6.4.1 Committed Expenditure

Committed Expenditure of the State Government on Revenue account mainly consists of (i) expenditure on salaries and wages, (ii) pensions, (iii) interest payments and (iv) subsidies. **Table 1.11** presents the trends in expenditure on these components during 2012-17.

**Table 1.11: Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actuals
Salaries* & Wages, Of which	28,342 (41)	29,309 (40)	30,984 (36)	31,931 (29)	36,190	34,688 (29)
Non-Plan Head	26,685	27,678	29,325	30,235	NA	32,919
Plan Head**	1,657	1,631	1,659	1,696	NA	1,769
Interest Payments	17,571 (26)	20,757 (28)	21,588 (25)	23,115 (21)	26,197	25,703 (22)
Expenditure on Pensions	11,036 (16)	11,638 (16)	12,128 (14)	12,860 (12)	14,417	13,945 (12)
Subsidies	4,404 (6)	3,437 (5)	1,909 (2)	5,098 (5)	6,781	9,587 (8)
<b>Total</b>	<b>61,353</b>	<b>65,141</b>	<b>66,609</b>	<b>73,004</b>	<b>83,585</b>	<b>83,923</b>

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17),

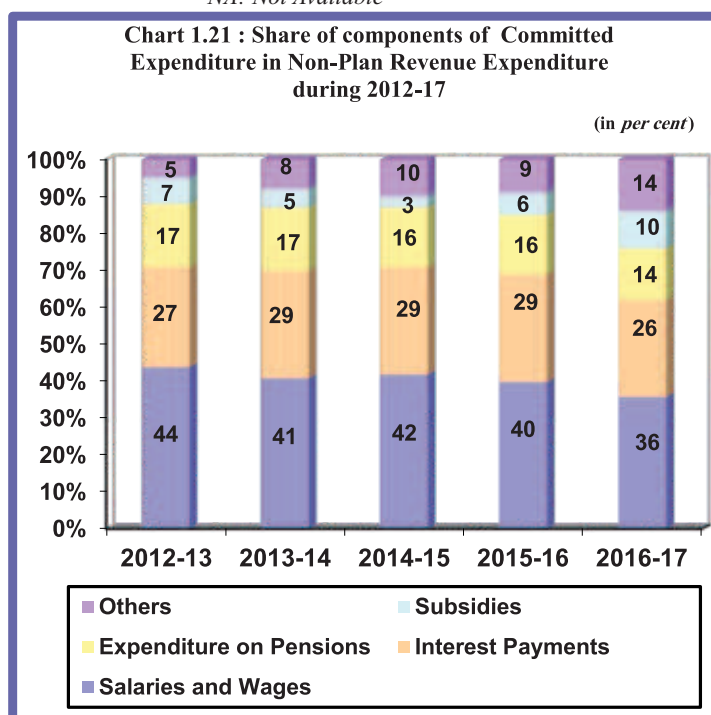
Voucher Level Computerisation by A.G. (A&E) and Budget Publications

Figures in brackets 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;

NA: Not Available



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

#### (i) Salaries and Wages

Expenditure on salaries and wages (₹ 34,688 crore) grew at a CAGR of 5.18 per cent during 2012-17 and constituted 29.44 per cent of the Revenue Receipts during the current year. During 2016-17, it was less than the budget estimates by ₹ 1,502 crore (4.15 per cent). **Expenditure on salaries grew by**

**8.63 per cent (₹ 2,757 crore) over the previous year.** This was mainly due to 9.55 per cent growth (₹ 1,692 crore) in salaries for personnel of Local Bodies/Institutions and 18.59 per cent growth (₹ 375 crore) in wages.

**(ii) Pensions**

Expenditure on Pensions (₹ 13,945 crore) grew at a CAGR of 6.02 per cent during 2012-17. It was, however, less than the budget estimates by ₹ 472 crore (3.27 per cent) in 2016-17. Expenditure on pensions constituted 11.83 per cent of the revenue receipts and 10.41 per cent of the revenue expenditure during the current year. The State did not introduce the New Pension Scheme despite recommendation of both the 13<sup>th</sup> and the 14<sup>th</sup> FCs.

**The expenditure on pension during 2016-17 was less than the 14<sup>th</sup> FC projection (₹ 16,418 crore) by 15.06 per cent.**

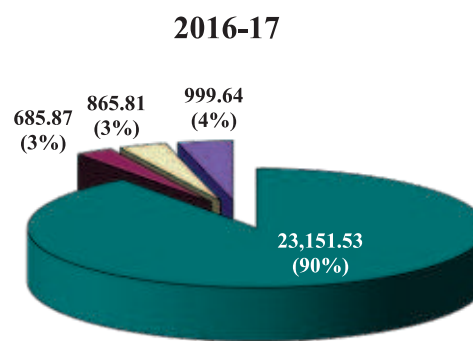
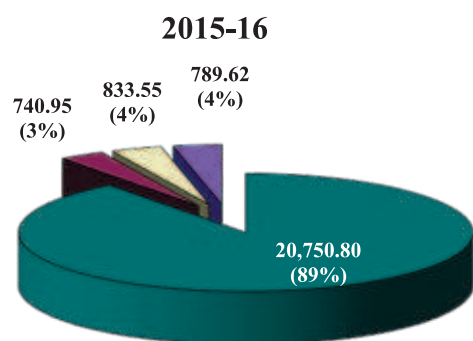
**(iii) Interest payments**

Expenditure on Interest Payments (₹ 25,703 crore) grew at a CAGR of 9.98 per cent during 2012-17. It constituted 56.53 per cent of the Tax Revenue during 2016-17 and its proportion in the revenue expenditure decreased to 19.19 per cent from 21.40 per cent during 2012-13. As depicted in **Chart 1.22**, interest on internal debt accounted for the major share (90 per cent) of interest payments in 2016-17. **Interest on market loans and interest on special securities issued to NSSF constituted 55.06 per cent and 32.82 per cent respectively, of the interest payments during 2016-17.**

**Against the 14<sup>th</sup> FC projection of ₹ 25,507 crore during 2016-17, actual expenditure incurred on interest payments was higher by 0.77 per cent. Interest payment constituted 21.81 per cent of Revenue Receipts and was slightly higher than the 14<sup>th</sup> FC projection (21.65 per cent).**

**Chart 1.22: Major components of interest payments during 2015-16 and 2016-17**

(₹ in crore)



Source: Finance Accounts of Government of West Bengal (2016-17)

"Others" include interest on Loans from the Government of Japan, Asian Development Bank and interest on Deposits

Interest payment on market loans as percentage of revenue receipts is depicted in **Table 1.12**:

**Table 1.12: Interest payment as percentage of Revenue Receipts**

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Interest payment on market loans (₹ in crore)	7,455	10,345	10,826	12,347	14,152
Percentage of Revenue Receipts	11	14	13	11	12

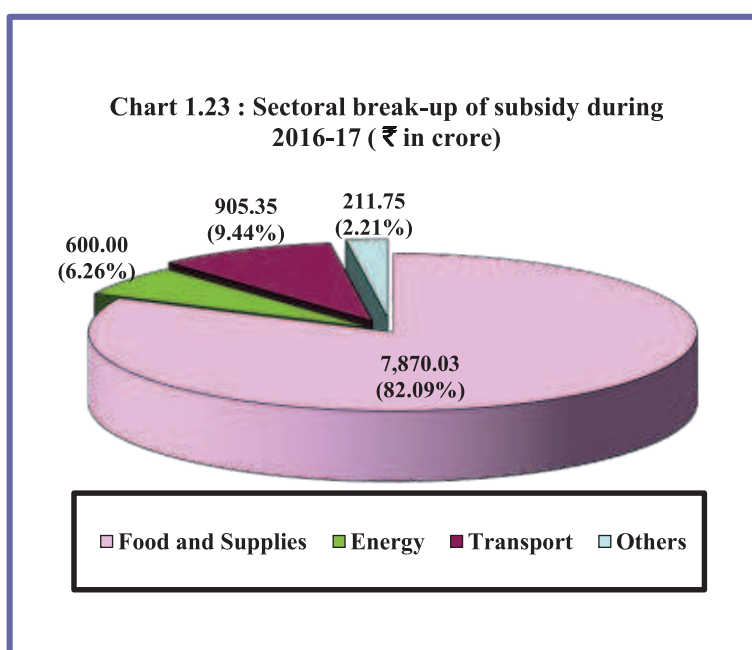
Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Payment of interest on market loans grew at a CAGR of 17.38 *per cent* during 2012-17. Interest payment on market loans increased by 14.05 *per cent* (₹ 1,521 crore) during 2015-16 and by 14.62 *per cent* (₹ 1,805 crore) during 2016-17 over the respective previous years.

**(iv) Payment of subsidies**

Expenditure (₹ 9,587 crore) on subsidies in 2016-17 grew at a CAGR of 21.47 *per cent* during the period 2012-17. The sectoral allocation of subsidies is depicted in **Chart 1.23**.

Payment of subsidy significantly increased by ₹ 4,489 crore (88.05 *per cent*) over



Source: Finance Accounts of Government of West Bengal (2016-17)

the previous year. Food & Supplies segment registered the highest increase by ₹ 4,210 crore (115.03 *per cent*) due to enhancement mainly in subsidy for supply of rice to the APL/BPL<sup>24</sup> families in the TPDS (₹ 4,133 crore). In Transport Sector, subsidy increased by ₹ 205 crore (29.33 *per cent*) over the previous year mainly on account of higher subsidy to (i) Calcutta State Transport Corporation (₹ 79 crore) and (ii) Calcutta Tramways Company Limited (₹ 59 crore).

**Implicit subsidy**

State Government incurred an expenditure of ₹ 1,651 crore on

implicit subsidy, which was booked as Grants-in-aid/Other charges. This includes:

- Procurement and distribution of bi-cycles to General Category Students (₹ 318 crore);

<sup>24</sup> APL: Above Poverty Line and BPL: Below Poverty Line



- Grant to Calcutta Municipal Corporation/Howrah Municipal Corporation for adjustment of Energy Bills of Calcutta Electric Supply Corporation Limited (₹ 476 crore);
- Grant to other Urban Local Bodies<sup>25</sup> for adjustment of Energy charges/dues payable to WBSEDCL<sup>26</sup>/CESC Limited (₹ 328 crore);
- Incentive for encouraging the setting up of new enterprises and expansion of existing enterprises (₹ 148 crore) and
- Financial Assistance to bereaved family members of deceased person who are in extreme financial necessity under *Somobyathi* (₹ 49 crore).

#### 1.6.5 Financial assistance by State Government to Local Bodies and other Institutions

The quantum of assistance provided by way of grants to local bodies and others during the current year relative to the previous years is presented in **Table 1.13**.

**Table 1.13: Financial Assistance to Local Bodies/Institutions, etc.**

Financial Assistance to Local Bodies/Institutions	2012-13	2013-14	2014-15	2015-16	2016-17
	( ₹ i n c r o r e )				
Panchayati Raj Institutions (PRIs)	5,623	5,672	12,775	15,153	14,347
Urban Local Bodies (ULBs)	2,500	2,808	3,960	3,562	3,825
Public Sector Undertakings (PSUs)	89	97	64	72	4,872
Autonomous Bodies (ABs)	2,310	2,772	1,594	1,787	4,260
Others	17,611	21,817	25,487	28,886	25,371
<b>Total</b>	<b>28,133</b>	<b>33,166</b>	<b>43,880</b>	<b>49,460</b>	<b>52,675</b>
Assistance as per percentage of Revenue Expenditure	34	36	42	42	39

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Grants extended to local bodies and other institutions have increased by ₹ 3,215 crore (6.50 per cent) to ₹ 52,675 crore in 2016-17 from ₹ 49,460 crore in 2015-16. The increase over previous year was due to increase in assistance to (i) PSUs (4,800 crore), (ii) Autonomous Bodies (₹ 2,473 crore) and (iii) Urban Local Bodies (₹ 263 crore). This was partly set off by decrease in assistance to Other Institutions (₹ 3,515 crore) and Panchayati Raj Institutions (₹ 806 crore).

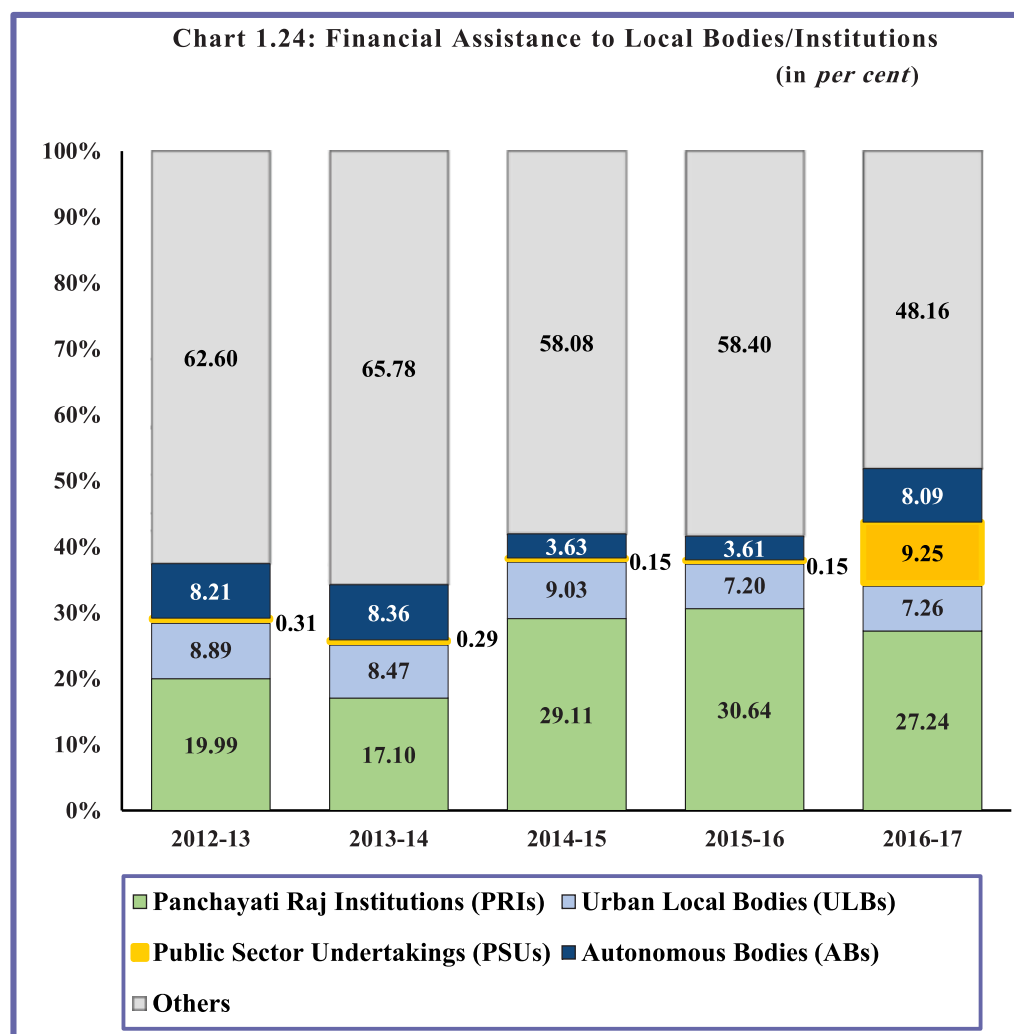
Grants amounting to ₹ 5,245 crore were paid during 2016-17 for creation of capital assets to Local Bodies, Autonomous Bodies and other institutions against ₹ 3,998 crore during 2015-16.

The financial assistance to Local Bodies and other institutions is given in the **Chart 1.24**.

<sup>25</sup> Except Calcutta Municipal Corporation/Howrah Municipal Corporation

<sup>26</sup> West Bengal State Electricity Distribution Company Limited





Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

### **Misclassification of Budget Provision**

As per list of Major and Minor Heads of Account, Major Head “3604” denotes “Compensation and Assignments to Local Bodies and Panchayati Raj Institutions”.

During 2016-17, Grants-in-Aid of ₹ 97 crore was made to Kolkata Metropolitan Development Authority (KMDA) under the head of account “3604”. KMDA is neither a Local Body nor a Panchayati Raj Institution. This misclassification in budget provision led to excess exhibition of financial assistance to Local Bodies/Institutions by the same extent.

## **1.7 Quality of Expenditure**

Availability of better infrastructure in the social, educational and health sector in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure basically involves three aspects. These are (i) adequacy of expenditure (i.e. adequate provisions for providing public services), (ii) efficiency of expenditure use (assessment of input-output relationship in terms of time, etc.) and (iii) the effectiveness (assessment of outlay-outcome relationships for selected services).

### 1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels require the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.14** depicts the fiscal priority of the State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure during 2016-17.

**Table 1.14: Fiscal priority of the State for 2012-13 and 2016-17**

(in per cent)

		AE/GSDP	DE <sup>#</sup> /AE	SSE/AE	CE/AE	Education/AE	Health/AE
2012-13	<b>*General category States' Average (Ratio)</b>	14.80	70.00	38.20	13.70	17.70	4.60
	West Bengal's figure (Ratio)	12.79	58.94	40.85	5.18	19.72	4.59
2016-17	<b>*General category States' Average (Ratio)</b>	16.70	70.90	32.20	19.70	15.20	4.80
	West Bengal's figure (Ratio)	11.71	64.80	42.06	7.74	16.29	5.64

\* Barring 11 Special Category States (Arunachal Pradesh, Assam, Jammu and Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand), other states are termed as General Category States. Combined average of General Category States has been calculated on the basis of figures provided by 16 General Category States.

<sup>#</sup>Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Development Loans and Advances disbursed.

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

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

From the above table, it may be seen that

- The ratios of the AE to GSDP in 2012-13 and 2016-17 (14.80 per cent and 16.70 per cent respectively) were lower in West Bengal as compared to General Category States (GCS).
- Developmental Expenditure as a proportion of Aggregate Expenditure in West Bengal was also lower compared to the corresponding averages of all GCS during 2012-13 as well as in 2016-17. Development expenditure consists of both Economic Services expenditure and Social Sector Expenditure.
- Capital Expenditure as a proportion in Aggregate Expenditure in West Bengal was lower as compared to the average of GCS during 2012-13 and 2016-17.
- Fiscal priority given to Health Sector in West Bengal was higher during 2016-17. However, in 2012-13, it was slightly lower than the average of GCS.
- Overall, the expenditure on Social Sector in West Bengal was higher than the average of the GCS in both these years.

**Table 1.15** shows the trends in Development Expenditure relative to the Aggregate Expenditure of the State during the current year *vis-à-vis* budget and the previous years.

**Table 1.15: Development Expenditure** (₹ in crore)

Components of Development Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actuals
<b>Revenue Expenditure</b>	<b>82,111 (94)</b>	<b>91,797 (92)</b>	<b>1,03,652 (91)</b>	<b>1,18,827 (90)</b>	<b>1,29,530</b>	<b>1,33,918 (91)</b>
Development Revenue Expenditure	46,255 (53)	50,345 (51)	60,313 (54)	72,362 (55)	78,141	83,223
<b>Capital Expenditure</b>	<b>4,547 (5)</b>	<b>6,927 (7)</b>	<b>9,879 (9)</b>	<b>12,420 (9)</b>	<b>19,190</b>	<b>11,336 (8)</b>
Development Capital Expenditure	4,385 (5)	6,619 (7)	9,459 (8)	11,715 (9)	18,235	10,483
<b>Loans and Advances</b>	<b>1,064 (1)</b>	<b>663 (1)</b>	<b>505</b>	<b>861 (1)</b>	<b>652</b>	<b>1,197 (1)</b>
Development Loans and Advances	1,061 (1)	662 (1)	503	859 (1)	648	1,194
<b>Development Expenditure</b>	<b>51,701 (59)</b>	<b>57,626 (58)</b>	<b>70,275 (62)</b>	<b>84,936 (64)</b>	<b>97,024</b>	<b>94,900 (65)</b>
<b>Aggregate Expenditure</b>	<b>87,722</b>	<b>99,387</b>	<b>1,14,036</b>	<b>1,32,108</b>	<b>1,49,372</b>	<b>1,46,451</b>
Planned Expenditure	22,491	28,160	39,895	51,467	58,069	49,091
Non-planned Expenditure	65,231	71,227	74,141	80,641	91,303	97,360

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17) and Budget Publications (2016-17)

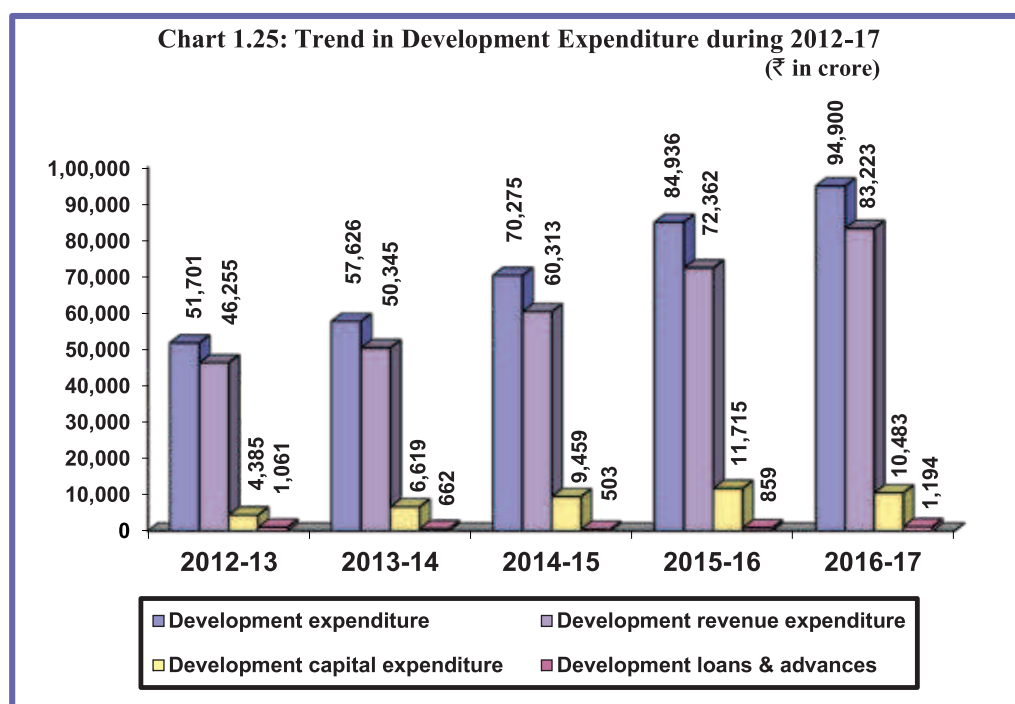
Figures in brackets indicate percentage to aggregate expenditure.

Development expenditure comprising Revenue Expenditure, Capital Expenditure and expenditure on Loans and Advances on socio-economic services increased to ₹ 94,900 crore in 2016-17 from ₹ 51,701 crore in 2012-13. As a percentage of total expenditure, it increased to 65 *per cent* in 2016-17 from 59 *per cent* in 2012-13.

Development Revenue Expenditure increased to ₹ 83,223 crore in 2016-17 from ₹ 46,255 crore in 2012-13, registering a growth of nearly 80 *per cent*.

During 2016-17, Development Revenue Expenditure increased by ₹10,861 crore (15 *per cent*) in absolute terms whereas the Development Capital Expenditure decreased by ₹1,232 crore (10 *per cent*) over the previous year.

Trends in Development Expenditure during 2012-13 to 2016-17 are shown in Chart 1.25.



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

The increase in Development Revenue Expenditure during 2016-17 over the previous year was mainly due to increase under (i) Education, Sports, Art and Culture (₹ 2,555 crore), (ii) Health & Family Welfare (₹ 1,001 crore), (iii) Water Supplies and Sanitation (₹ 758 crore), (iv) Social Welfare and Nutrition (₹ 5,590 crore). The decrease in Development Capital Expenditure during 2016-17 over the previous year was mainly due to decrease under (i) Infrastructure in Power Projects (₹ 1,070 crore) and (ii) Medical and Public Health (₹ 597 crore). This was partly *offset* by increases under capital outlay on (i) Urban Development (₹ 609 crore) and (ii) Public Works (₹ 129 crore).

### 1.7.2 Efficiency of Expenditure Use

Table 1.16 presents the efficiency of expenditure in selected social and economic services.

**Table 1.16: Efficiency of expenditure use in selected Social and Economic Services**

Social/Economic Infrastructure	2015-16			2016-17		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O&M		S&W	O &M
	in <i>per cent</i>					
Social Services (SS)						
Education, Sports, Art and Culture	2.83	74.41	0.03	1.63	73.06	0.02
Health and Family Welfare	23.39	51.40	0.24	15.03	48.76	0.28
Water Supply, Sanitation, Housing and Urban Development	19.79	21.28	4.92	22.57	20.16	4.48
Total (SS)	8.88	45.58	0.77	7.21	41.40	0.66

Economic Services (ES)						
Agriculture and Allied Activities	17.01	35.03	0.29	14.81	39.78	0.35
Irrigation and Flood Control	62.89	130.65	13.96	62.34	58.28	12.25
Power and Energy	56.24	0.09	0.00	12.68	0.00	0.00
Transport	57.90	11.64	17.31	50.70	9.55	16.43
<b>Total (ES)</b>	<b>21.58</b>	<b>14.69</b>	<b>1.46</b>	<b>18.15</b>	<b>14.89</b>	<b>1.51</b>
<b>Total (SS+ES)</b>	<b>13.79</b>	<b>34.92</b>	<b>1.01</b>	<b>11.05</b>	<b>33.07</b>	<b>0.92</b>

Source: Finance Accounts of Government of West Bengal (2016-17) and Voucher Level Computerisation data  
TE: Total Expenditure; CE: Capital Expenditure (excluding loans and advances); RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance

Access to basic education, health services, drinking water and sanitation facilities are strong indicators of socio-economic progress. Expenditure on economic services includes all such services productive capacity within the State by improving the quality of human resources. **Table 1.16** summarises percentage of expenditure (i) under different components of social and economic services sectors incurred by the State Government and (ii) in expanding and maintaining social and economic services in the State during 2015-16 and 2016-17.

Expenditure on social services during 2016-17 (₹ 61,505 crore), constituted 42 *per cent* of total expenditure (₹ 1,46,451 crore) (**Appendix 1.6**). That expenditure in 2016-17, increased by 18 *per cent* over the previous year's expenditure (₹ 52,017 crore). Development expenditure (₹ 94,900 crore) was 65 *per cent* of total expenditure, which was a decrease of 12 *per cent* over the previous year (₹ 84,936 crore). Revenue Expenditure on salaries continued to share a dominant proportion (45.58 *per cent*) of Revenue Expenditure on Social Services.

Expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2016-17, total expenditure under economic services (₹ 32,201 crore) decreased by three *per cent* over the previous year. The expenditure on economic services accounted for 22 *per cent* of total expenditure and 34 *per cent* of development expenditure respectively.

## 1.8 Financial Analysis of Government Expenditure and Investments

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

### 1.8.1 Financial Results of Irrigation Works

The Capital Expenditure on 15 irrigation projects<sup>27</sup> was ₹ 2,321 crore as of March 2017. The financial results of these projects showed that an amount of ₹ 4.20 crore was realised from these projects during 2016-17. After meeting the working expenses and interest charges of ₹ 238 crore, the schemes suffered a net loss of ₹ 234 crore during current year as compared to net loss of ₹ 233 crore during the previous year. The major loss making projects in 2016-17 were

<sup>27</sup> Three drainage projects, five major projects and seven medium projects

Kangsabati Reservoir Project (₹ 64.41 crore), Teesta Barrage Project (₹ 47.44 crore) and Mayurakshi Reservoir Project (₹ 32.22 crore).

### 1.8.2 Incomplete projects

As of March 2017, there were 684 incomplete capital works<sup>28</sup>. A total of ₹ 3,708 crore was incurred on these projects by the Government. The work-wise profile of incomplete projects is shown in **Table 1.17**.

**Table 1.17: Work-wise Profile of Incomplete Projects**

(₹ in crore)

Types of Works	Number	Estimated cost of works	Expenditure up to March 2017	Cases for which revised estimates were available		
				Number	Original estimates	Revised estimates
Public Health	467	9,182.66	2,341.09	5	200.45	221.70
Roads	154	2,204.55	1,280.25	30	998.34	1,077.06
Sundarban Development Board	63	303.16	86.76	-	-	-
Total	684	11,690.37	3,708.10	35	1,198.79	1,298.76

Source: Finance Accounts of Government of West Bengal (2016-17)

There had been cost over-runs, since initial budgeted costs had been scaled up in cases of time over-run. As indicated in **Table 1.17**, in 35 out of 684 cases, for which original as well as revised estimates were available, there was escalation of ₹ 100 crore (8.34 per cent) over the estimated cost.

Government attributed delays to problems associated with land and labour, pendency in energisation/approval of revised estimates, encroachment, non-allocation of fund, etc.

### 1.8.3 Investment and returns

As on 31 March 2017, Government invested ₹ 14,015 crore in Statutory Corporations, banks, Government companies, joint stock companies and co-operatives (**Table 1.18**). The average return on this investment remained negligible.

**Table 1.18: Return on Investment**

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	11,521	12,358	12,653	13,390	14,015
Return (₹ in crore)	2	9	6	12	1
Return (per cent)	0.02	0.07	0.05	0.09	0.01
Average rate of interest on Government borrowings (per cent)	8.03	8.62	8.15	7.92	7.99
Difference between interest rate and return (per cent)	8.01	8.55	8.10	7.83	7.98

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

**Investments increased from ₹11,521 crore in 2012-13 to ₹14,015 crore in 2016-17. However, the return on investment decreased from ₹2 crore in 2012-13 to ₹1 crore in 2016-17, indicating non-performing investments. No dividend**

<sup>28</sup> Works costing ₹ one crore and above have only been included. Works with incomplete information, works which had not been commenced and works clubbed under broad scheme names were excluded.



*was received from Banks and Statutory Corporations during 2016-17.* Further scrutiny showed that in many cases the companies with Government investment had suffered substantial losses leading to erosion of their net worth. In test-checked 23 Government companies, accumulated losses amounted to ₹ 8,564 crore as per the latest accounts received. The negative net worth of these companies being to ₹ 7,120 crore. **Appendix 1.7** shows a list of such companies.

### ***Overstatement of investment***

- Accounting Standard 13 of ICAI<sup>29</sup> defines investments as assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise. Indian Government Accounting Standard-9 stipulates recognition of investment in equity as an asset from the date on which investment details are entered in the books of the entity issuing such equity shares.

Government of West Bengal sanctioned ₹ 60 crore to WBIDCL<sup>30</sup> between August and November 2016 for investments through equity infusion in BAPL<sup>31</sup>. WBIDCL as an investor was allotted 1,85,42,856 equity shares of BAPL. The allotment of equity shares of BAPL in favour of WBIDCL clearly indicated that Government of West Bengal was not the bonafide investor in BAPL. Such release of funds (₹ 60 crore) to WBIDCL for equity infusion in BAPL could not be classified as investments under Capital expenditure of the Government of West Bengal.

This resulted in overstatement of investments as well as capital outlay by ₹ 60 crore.

- Rule 8 of Delegation of Financial Power Rules stipulated that expenditure in the nature of “Major Works” and “Investment” should be accounted under object head “53” and “54” respectively.

During 2016-17, ₹ 100 crore was spent for construction of State Convention Centre at New Town, Kolkata by the Urban Development Department. As the expenditure was of capital nature, it should have been booked under object head “53-Major Works, Lands and Buildings” instead of “54-Investment”. The incorrect booking led to overstatement of investment by ₹ 100 crore with corresponding understatement of capital outlay to the same extent.

### ***1.8.4 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 other institutions/organizations. **Table 1.19** presents the outstanding loans and advances and interest receipts during the last five years.

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<sup>29</sup> The Institute of Chartered Accountants of India

<sup>30</sup> West Bengal Industrial Development Corporation Limited

<sup>31</sup> Bengal Aerotropolis Projects Limited, a Non-Government Company, registered under Companies Act, 1956



**Table 1.19: Outstanding loans and advances and interest receipts**

(₹ in crore)

Quantum of Loans/Interest Receipts	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actual
Opening Balance	14,352	15,136	14,641	14,970	-	14,999
Amount advanced during the year	1,064	663	505	861	652	1,197
Amount repaid during the year	280	1,158 <sup>32</sup>	176	832	487	3,233
Closing Balance	15,136	14,641	14,970	14,999	-	12,963
<i>Of which</i>						
Outstanding balance for which terms and conditions have not been settled	1,302	1,347	1,528	1,593	-	6,451
Net addition to outstanding loans and advances during the year	784	(-) 495	329	29	-	(-) 2,036
Interest receipts from loans and advances	516	274	126	95	-	833

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17) and Budget Publication

During 2016-17, out of total loans of ₹ 1,197 crore, (i) ₹ 1,109 crore was disbursed for economic services, (ii) ₹ 85 crore for social services and (iii) ₹ 3 crore to Government Servants. Under economic services, major portion of the loan went to Transport services<sup>33</sup> (₹ 386 crore) and Power Projects<sup>34</sup> (₹ 376 crore). Under social services, major portion went to Kolkata Municipal Corporation (₹ 82 crore). Loan repayment increased to ₹ 3,233 crore during 2016-17 from ₹ 832 crore over the previous year. This was due to repayment of loans (₹ 1,735 crore) from WBSEDCL under West Bengal Power Sector Reforms Transfer Scheme, 2007.

### ***Arrears of Principal and Interest***

At the end of the year, arrears of ₹ 8,060 crore on account of principal and ₹ 9,051 crore on account of interest were overdue for realisation. None of the unrecoverable loans were, however, written off during the year.

### ***Cases of old loans without recovery***

Scrutiny showed that loans amounting to ₹ 898 crore relating to 17 departments remained unaltered for long periods, the oldest item being 50 years old. Fifteen of these departments had outstanding loans worth more than ₹ 1 crore, as shown in **Table 1.20**. In addition, Government loans aggregating to ₹ 11,752 crore were sanctioned to 30 Autonomous Bodies/Authorities, etc. by 10 departments by the end of 2016-17. However, no repayments were received in respect of loans disbursed during the period 1967-68 to 1994-95, from these organizations.

<sup>32</sup>The high recovery of loans and advances in 2013-14 was due to conversion of outstanding Externally Aided Project loans into equity in favour of WBPDCCL for implementation of Sagardighi Thermal Power Project.

<sup>33</sup> Include loans to West Bengal highway Development Corporation Limited: ₹182 crore; Calcutta Trum Company: ₹45 crore; Calcutta State Transport Corporation: ₹29 crore; South Bengal State Transport Corporation: ₹39 crore; North Bengal State Transport Corporation: ₹34 crore; West Bengal Surface Transport Corporation : ₹15 crore

<sup>34</sup> Include loans to West Bengal Power Development Corporation Limited: ₹255 crore and West Bengal State Electricity Distribution Company Limited : ₹111 crore

**Table 1.20: Cases of old loans without any recovery**

Sl. No.	Name of the Department	Loans without recovery	Period of drawal
		Amount (₹ in crore)	
1	Industrial Reconstruction	260.45	1976-77 to 2005-06
2	Public Enterprise	192.50	1975-76 to 2005-06
3	Power and Non-Conventional Energy Sources	150.51	1995-96 to 2004-05
4	Commerce and Industries	122.55	1974-75 to 2004-05
5	Urban Development	69.26	1966-67 to 1994-95
6	Micro and Small Enterprises & Textile	37.90	1974-75 to 1998-99
7	Agriculture	27.50	1984-85 to 1992-93
8	Water Resources Investigation & Development	15.23	1984-85 to 1990-91
9	Transport	8.91	1982-83 to 1989-90
10	Public Health Engineering	2.44	1983-84 to 1997-98
11	Municipal Affairs	2.23	1966-67 to 1969-70
12	Food Processing Industries and Horticulture	2.21	1988-89 to 1998-99
13	Panchayat and Rural Development	2.14	1968-69
14	Fisheries	1.73	1977-78 to 1993-94
15	Tourism	1.11	1975-76 to 1992-93
16	Housing	0.47	1965-66 to 1976-77
17	Animal Resources Development	0.43	1974-75 to 1978-79
<b>Total</b>		<b>897.57</b>	

Source: Finance Accounts of Government of West Bengal (2016-17)

### 1.8.5 Cash Balances and investment of Cash Balances

**Table 1.21** depicts the cash balances and investments made by the State Government out of cash balances during 2016-17. Total investment out of cash balances during 2016-17 were ₹ 12,546 crore.

**Table 1.21: Cash Balances and Investment of Cash Balances**

(₹ in crore)

	As on 31 March 2016	As on 31 March 2017	Increase/Decrease
<b>(a) General Cash Balance</b>			
Cash in Treasuries	0.39	0.29	(-) 0.10
Deposits with Reserve Bank of India	205.45	15.50	(-) 189.95
<b>Total</b>	<b>205.84</b>	<b>15.79</b>	<b>(-) 190.05</b>
<b>Investments held in Cash Balance investment account</b>	<b>6,853.14</b>	<b>12,546.46</b>	<b>5,693.32</b>
<b>Total (a)</b>	<b>7,058.98</b>	<b>12,562.25</b>	<b>5,503.27</b>
<b>(b) Other Cash Balances and Investments</b>			
Cash with departmental officers viz. Public Works, Department Officers, Forest Department Officers, District Collectors	(-) 0.36	(-) 0.36	-
Permanent advances for contingent expenditure with departmental officers	2.37	2.46	0.09
Investment of earmarked funds	8,781.75	9,928.49	1,146.74
<b>Total (b)</b>	<b>8,783.76</b>	<b>9,930.59</b>	<b>1,146.83</b>
<b>Grand total (a) + (b)</b>	<b>15,842.74</b>	<b>22,492.84</b>	<b>6,650.10</b>

Source: Finance Accounts of Government of West Bengal (2016-17)

Under an agreement with the Reserve Bank of India, the State Government has to maintain a daily minimum balance of ₹ 2.48 crore with effect from 1 May 2000. If the balance falls below this agreed minimum limit on any day, the deficiency is made good by taking normal ways and means advance/ overdraft from the bank or drawing from the Special Drawing Facility of RBI.

During the year 2016-17, the State Government had to resort to special ways and means advances for three days. During 2016-17, the quantum of such advances was ₹ 1,208 crore. The State had to pay ₹ 0.29 crore as interest on ways and means advances. Treasury bills amounting to ₹ 1,54,886 crore and ₹ 1,49,193 crore respectively, were purchased and sold during the period 2016-17. An amount of ₹ 239 crore was received as interest on investment under treasury bills during the year. Investment held in cash balance and earmarked funds increased by ₹ 6,840 crore during 2016-17 and stood at ₹ 22,475 crore as of March 2017.

## 1.9 Assets and Liabilities

### 1.9.1 Growth and composition of Assets and Liabilities

Under 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 the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2017, compared with the corresponding position as on 31 March 2016. The liabilities consist of internal borrowings, loans and advances from the Government of India and receipts from the Public Account. The Assets mainly consist of the capital outlay and loans and advances given by the State Government and instruments in which surplus cash is invested.

### 1.9.2 Fiscal Liabilities

Trends in outstanding fiscal liabilities of the State are shown in **Appendix 1.6**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the last five years are shown in **Table 1.22** and **Chart 1.26**.

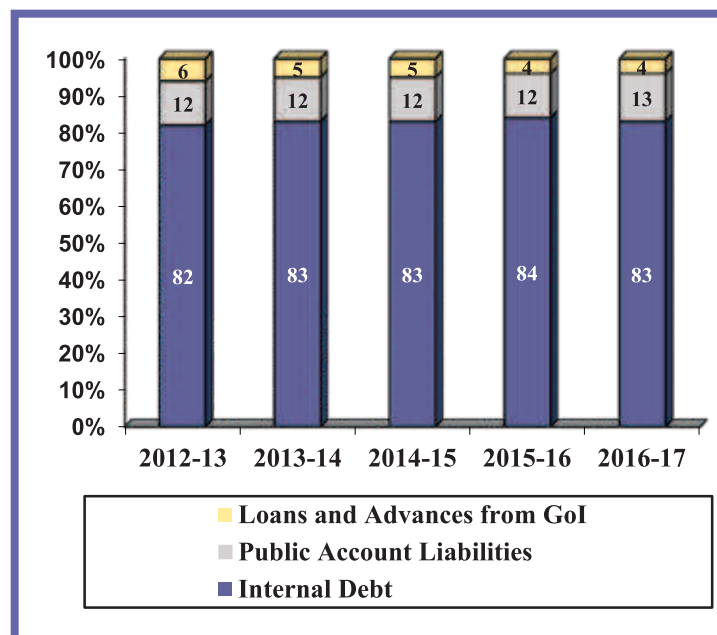
**Table 1.22: Trends in Fiscal Liabilities of the State**

	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Liabilities (₹ in crore)	2,29,779	2,51,997	2,77,579	3,06,043	3,37,682
Rate of growth (in per cent)	10.63	9.67	10.15	10.25	10.34
<b>Ratio of Fiscal Liabilities to</b>					
GSDP (in per cent)	33.50	31.71	30.55	28.25	26.99
Revenue Receipts (in per cent)	336.45	345.76	320.85	278.90	286.58
Own resources (in per cent)	661.67	665.71	676.38	690.00	697.46

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

The overall fiscal liabilities of the State show an increasing trend, growing at a CAGR of 10.10 per cent during the period 2012-13 to 2016-17. The ratio of fiscal liabilities to GSDP was below the target mentioned in the 14<sup>th</sup> FC (36.24 per cent) and MTFP (33.71 per cent).

**Chart 1.26 : Composition of Outstanding Fiscal Liabilities (in per cent)**



The trends in outstanding fiscal liabilities of the State are presented in **Chart 1.26**. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year almost remained the same.

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Apart from the above, there were cases where the Government did not account for outstanding liabilities amounting to ₹ 2,105 crore as of March 2017 on account of the following:

- Outstanding liability of ₹ 1,752.52 crore of the State Government to Ministry of Home Affairs, Government of India. This was in respect of the cost of deployment for CRPF/RAF personnel in the state of West Bengal;
- State's interest contribution of ₹ 352.48 crore remained due in the SASPFUW<sup>35</sup> under the Labour Department.

### 1.9.3 Status of Guarantees- Contingent liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended by the State Government. WBCGA<sup>36</sup> 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. Finance department acts as the tracking authority in respect of guarantees.

The maximum amount for which guarantees were given by the State and outstanding guarantees as per the Finance Accounts for the last five years are given in **Table 1.23**.

<sup>35</sup>State Assisted Scheme of Provident Fund for Un-organized Workers

<sup>36</sup> West Bengal Ceiling on Government Guarantees Act

**Table 1.23: Guarantees given by the Government of West Bengal**

(₹ in crore)

Guarantees	1 April 2013	1 April 2014	1 April 2015	1 April 2016	1 April 2017
Maximum amount guaranteed	18,981	14,818	15,184	14,625	15,613
Outstanding amount of guarantees	8,821	4,550	9,322	8,788	7,801
Ceiling fixed by State Government Act (90 per cent of Revenue Receipt of the second preceding year)	52,880	61,466	65,594	77,863	98,759
Percentage of outstanding amount guaranteed to Revenue Receipts of the second preceding year	15	7	14	10	7

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

The outstanding Government guarantees during 2013-17 were within the limits prescribed under the WBCGA, 2001. Out of total 477 guarantees outstanding as on 31 March 2017, Power sector alone accounted for 389 guarantees (81.55 per cent). No guarantee, had been invoked during 2016-17.

Further, in terms of Section 10 of West Bengal Finance Act 2002, the loanees for whom the State Government had provided guarantees to the financial institutions, were required to pay guarantee fees at the rate of one per cent (minimum) on the total amounts guaranteed. Accordingly, during 2016-17, the State Government was to receive guarantee fees of ₹ 78 crore against which only ₹ 5 crore was received. Short receipt of ₹ 73 crore overstated the Fiscal Deficit to that extent.

#### 1.9.4 Transactions under Reserve Funds

There were 41 Reserve Funds earmarked for specific purposes, out of which 18 funds were active and 23 were inactive for more than five years. As of 31 March 2017, the total accumulated credit balance in these funds was ₹ 10,925 crore<sup>37</sup>. Investment out of this balance was ₹ 9,928 crore. During the year, an amount of ₹ 3,831 crore was transferred as annual contribution to various reserve funds, details for which have discussed in succeeding paragraphs.

**(i) Consolidated Sinking Fund (CSF):** From the financial year 2008-09, the State had set up a revised model scheme for CSF. As per reports of the 12<sup>th</sup> FC and Reports of the Technical Group (RBI) on borrowings by States, the fund is to be utilised as an amortization fund. The corpus of the fund is built up from periodic contributions as well as income accruing to the fund from its investments. The contribution is to be made at the rate of at least 0.5 per cent of the outstanding liabilities<sup>38</sup> as at the end of the previous year. Accordingly, the State Government was to contribute ₹ 1,530 crore<sup>39</sup> during 2016-17.

During 2016-17, there was a contribution of only ₹ 350 crore to the fund leading to understatement of fiscal deficit by ₹ 1,180 crore. The balance in the fund as of March 2017 stood at ₹ 9,554 crore.

<sup>37</sup> ₹ 10,905 crore (credit) in active funds; ₹ 21 crore (credit) and ₹ 1 crore (debit) in the inoperative funds

<sup>38</sup> Sum of internal debt and public account liabilities

<sup>39</sup> 0.5 per cent of the outstanding liabilities (₹ 3,06,042.58 crore) at the end of the year 2015-16

**(ii) Guarantee Redemption Fund (GRF) :** Twelfth Finance Commission had recommended opening of the GRF for discharging the liability of the Government towards invocation of the guarantees extended by it. As per the guidelines of the RBI, State Government was required to make minimum annual contributions to the Fund at the rate of one *per cent* of the outstanding guarantees in the first year, thereafter at the rate of 0.5 *per cent* of the outstanding guarantees at the end of the previous year.

State Government had constituted the fund in January 2015 and contributed ₹ 100 crore during 2016-17. As per the guidelines, the contribution to GRF was to be routed through the Consolidated Fund (Major Head of Account -2075). Till March 2017, State Government contributed ₹ 196 crore in GRF at the prescribed rate of the scheme. The fund remained invested in GoI dated securities through RBI-CAS, Nagpur.

During 2014-17, in spite of earning guarantee fees of ₹ 11.50 crore, no amount was transferred to GRF. This led to non-investment of fund as well as loss of interest of ₹ 0.63 crore.

Non-transfer of guarantee fees (₹ 11.50 crore) resulted in understatement of revenue expenditure and revenue deficit.

**(iii) West Bengal Compensatory Entry Tax Fund (WBCETF) :** WBCETF was established (July 2012) to develop and facilitate trade, commerce and industry. This fund was created for (i) constructing roads, transport, electricity infrastructure etc. in the state and (ii) providing finance, grants and subsidies to the local bodies/ government agencies for the specified purpose. Entry tax collected in the state was credited to the fund.

According to West Bengal Tax on Entry of Goods into Local Areas Act, 2012, the State Government may credit the fund by way of grants or loans, such sums or money as the State Government may consider necessary.

The transactions in WBCETF during 2013-14 to 2016-17 are shown in **Table 1.24**

**Table 1.24: Transactions in WBCETF**

(₹ in crore)				
Year	Opening balance	Receipt	Payment	Closing balance
2013-14	0	989	336	653
2014-15	653	856	969	540
2015-16	540	838	1,666	(-) 288
2016-17	(-) 288	934	713	(-) 67

*Source: Finance Accounts of Government of West Bengal (2013-14 to 2016-17)*

Government of West Bengal did not make any contribution during 2016-17 to set right the negative balance.

<sup>40</sup> The administering authority of the fund



### 1.9.5 Analysis of Borrowings of Government

As in the previous years, market loans comprised the major sources of borrowings by the State Government during 2016-17. During the year, the State Government raised an amount of ₹ 34,431 crore as market loans bearing interest rates ranging between 6.88 *per cent* and 8.09 *per cent*. During 2016-17, market loans bearing interest amounting to ₹ 3,201 crore were repaid leaving an outstanding balance of ₹ 1,93,639 crore. The total outstanding borrowings of the State Government stood at ₹ 2,95,278 crore, which increased by 9.34 *per cent* over the previous year. Besides, ways and means advances for ₹ 1,208 crore was taken from the RBI which were repaid in full during the year with an interest of ₹ 0.29 crore. The State also borrowed ₹ 1,367 crore from Financial Institutions and ₹ 519 crore from GoI.

### 1.10 Debt Sustainability

Apart from the magnitude of the debt of the Government, it is important to analyse the various indicators that determine the debt sustainability<sup>41</sup> of the State. This section assesses (i) the sustainability of debt of the State Government in terms of net debt available<sup>42</sup>, (ii) burden of interest payments on public debt<sup>43</sup> and (iii) maturity profile of State Government securities. **Table 1.25** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2012-13.

**Table 1.25: Debt Sustainability**

Sustainability Indicators of Debt*	2012-13	2013-14	2014-15	2015-16	2016-17
Rate of growth of outstanding debt (in <i>per cent</i> )	9.83	8.94	10.64	10.46	9.34
Rate of growth of GSDP (in <i>per cent</i> )	14.54	15.85	14.36	19.19	15.50
Repayment of Public Debt (₹ in crore)	10,141	12,802	12,300	9,040	11,096
Tax Revenue (₹ in crore)	32,809	35,831	39,412	42,492	45,466
Repayment of Public Debt / Tax Revenue (in <i>per cent</i> )	30.91	35.73	31.21	21.27	24.41
Average interest rate of outstanding debt (in <i>per cent</i> )	8.38	9.05	8.48	8.35	8.43
Interest <sup>^</sup> /Revenue Receipt (in <i>per cent</i> )	23.78	26.31	22.81	19.59	20.23
Debt Repayment/Debt Receipts (in <i>per cent</i> )	35.85	41.39	34.35	26.12	30.55
Net debt available to the State <sup>#</sup> (₹ in crore)	1128	(-)547	3450	4047	3419

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

\*Debt indicates Public Debt

<sup>^</sup>Interest indicates interest on public debt

<sup>#</sup>Excess of Public debt receipt and Loans & Advances receipt over Public debt repayment, Loans & Advances disbursement and Interest payment on Public Debt

<sup>41</sup> See glossary

<sup>42</sup> See glossary

<sup>43</sup> Measured by the ratio of interest payments on public debt to Revenue Receipts

Rate of growth of outstanding debt remained less than rate of growth of GSDP during the five year period, as shown in **Table 1.25**. During 2016-17, buoyancy ratio of outstanding debt in relation to GSDP had increased to 0.60 from 0.55. This indicated that the State Government's debt level may not be sustainable. During 2016-17, debt repayment as a percentage of debt receipts increased by 4.43 per cent over the previous year. This indicated increasing trend of debt repayment over receipt of borrowed funds. The net debt available to state also decreased by ₹ 628 crore (15.52 per cent) over the previous year. This indicated use of borrowed funds for purpose of debt repayments rather than developmental works. Interest payments on debt with respect to revenue receipt remained almost same during 2016-17 compared to 2015-16.

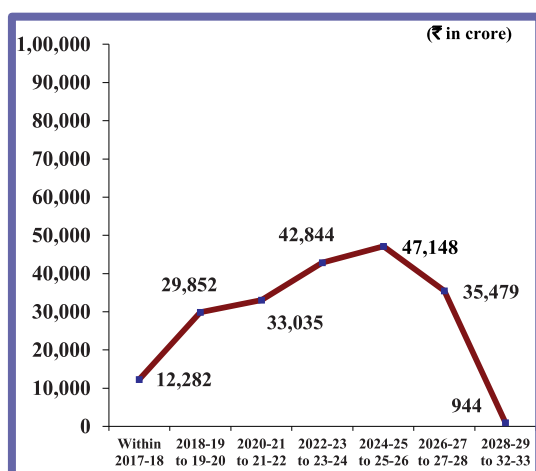
*The ratio of debt repayment to debt receipts during the year indicated that Government had utilised 30.55 per cent of borrowed funds for repayment of its existing debt, which has increased by 4.43 per cent over previous year. The repayment of Debt as percentage of tax revenue increased from 21.27 during 2015-16 to 24.41 during 2016-17.*

#### Maturity profile of the State Debt

The maturity profile of the State debt, as shown in **Table 1.26** and **Chart 1.27** indicates that the liability of the State would steeply rise from 2017-18 onwards which would put a strain on the State finances beyond 2017-18. Chart showed that more than 50 per cent of the maturity would take place within seven years, indicating that the state is heading towards debt stress.

The State will have to put in place a mechanism for (i) augmentation of resources, (ii) exploring new sources of revenue and (iii) prioritizing expenditure. This would ensure that debt which matures in these critical years (i) are met through an appropriate debt repayment strategy and (ii) fresh borrowings are channelized for development expenditure only.

**Chart 1.27 : Maturity Profile of State Debt**



Source: Finance Accounts of Government of West Bengal (2016-17)

**Table 1.26: Maturity Profile of State Debt**

Period	Maturity amount of State debt (₹ in crore)	Maturity amount of Market loans (₹ in crore)	Maturity amount as % of total outstanding market loans
Details of Maturity year not available	93,694	Nil	-
Less than 1 year	12,282	11,610	6.00
1 to 2 years	29,852	28,507	14.72
3 to 4 years	33,035	31,691	16.37
5 to 6 years	42,844	41,500	21.43
7 to 8 years	47,148	45,900	23.70
9 to 10 years	35,479	34,431	17.78
11 to 16 years	944	Nil	-
Total redeemable debt	2,95,278	1,93,639	-

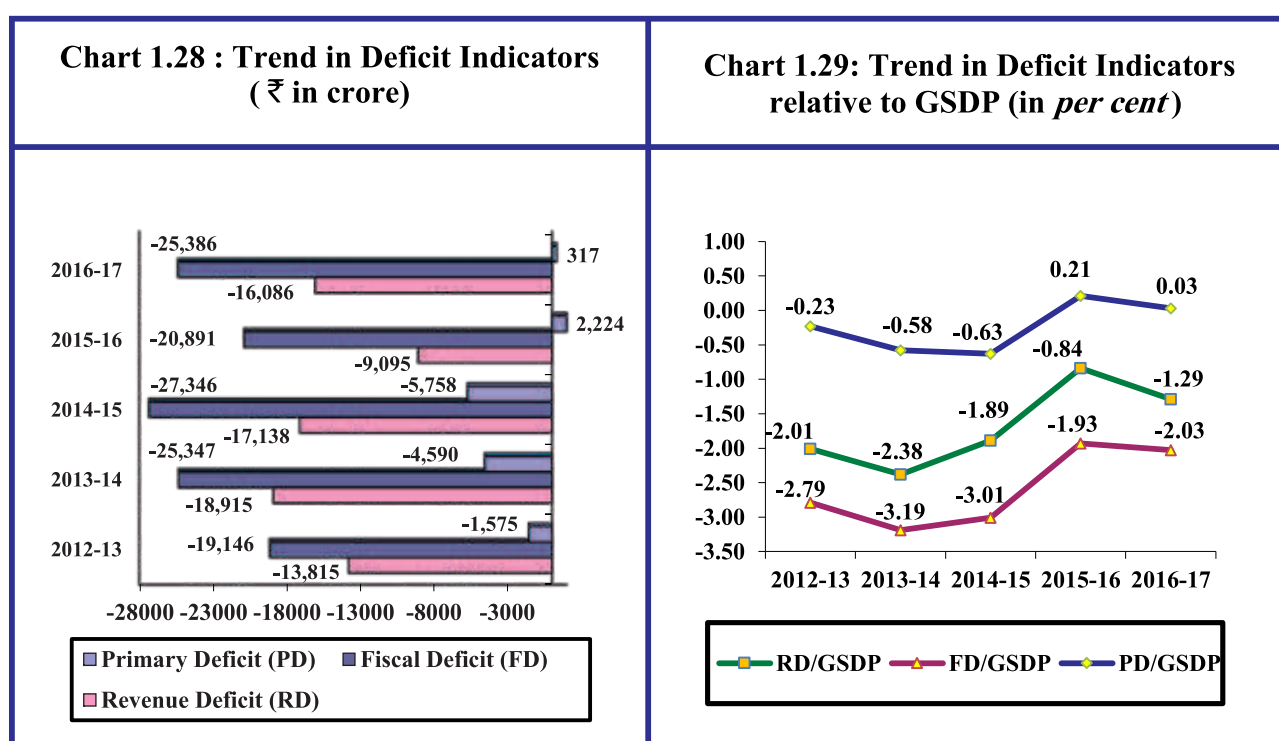
Source: Finance Accounts of Government of West Bengal (2016-17)

## 1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalance in Government finances. Deficit in the Government Account represents the gap between expenditure and receipts. This section shows (i) trends, nature, magnitude and the manner of financing of these deficits and (ii) assessment of actual levels of revenues and fiscal deficits for the financial year 2016-17.

### 1.11.1 Trends in Deficits

**Charts 1.28 and 1.29** show trends in deficit indicators over the period 2012-13 to 2016-17.



Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17). For GSDP, the information as available from Economic Review (2016-17), Department of Planning, Statistics and Programme Monitoring, Government of West Bengal

**Revenue deficit with respect to GSDP and Fiscal deficit with respect to GSDP were at 1.29 per cent and 2.03 per cent, respectively in 2016-17. These were attributable to 12.70 per cent (₹ 15,091 crore) increase in revenue expenditure compared to 7.38 per cent (₹ 8,100 crore) increase in revenue receipts over the previous year.**

### 1.11.2 Components of Fiscal Deficit and its financing pattern

The financing/investing pattern of fiscal deficit/surplus underwent a compositional shift as reflected in the **Table 1.27**.

**Table 1.27: Components of Fiscal Deficit and its Financing Pattern**

						(₹ in crore)		
Particulars		2012-13	2013-14	2014-15	2015-16	2016-17		
Decomposition of Fiscal Deficit (1 to 3) (a)		19,146 (2.79)	25,347 (3.19)	27,346 (3.01)	20,891 (1.93)	25,386 (2.03)		
1	Revenue Deficit	13,815 (2.01)	18,915 (2.38)	17,138 (1.89)	9,095 (0.84)	16,086 (1.29)		
2	Net Capital Outlay	4,547	6,927	9,879	11,767	11,336		
3	Net Loans and Advances	784	(-) 495	329	29	(-) 2,036		
Financing Pattern of Fiscal Deficit (b)		Net disbursements/outflows				Receipts	Disbursement	Net
1	Market Borrowings	17,993	17,098	18,518	20,824	34,431	3,201	31,230
2	Loans from GoI	858	59	680	(-) 158	519	976	(-) 457
3	Special Securities Issued to NSSF	(-) 49	1,151	4,473	4,328	0	5,893	(-) 5,893
4	Loans from Financial Institutions and Bonds	(-) 653	(-) 179	(-) 159	574	1,367	1,027	340
5	Ways and Means	-	-	-	-	1,208	1,208	0
6	Small Savings, PF, etc.	945	841	1,007	741	3,268	2,411	857
7	Reserve Fund	533	1,189	1,268	(-) 1,037	3,831	1,608	2,223
8	Deposits and Advances	2,944	2,627	1,173	3,416	60,273	55,785	4,488
9	Suspense and Miscellaneous	(-) 559	2,928	(-) 1,107	(-) 1,177	1,02,260	1,02,989	(-) 729
10	Remittances	228	393	172	(-) 1,735	1	24	(-) 23
11	Contingency Fund	1	-	-	-	-	-	-
12	<b>Total (1 to 11)</b>	<b>22,241</b>	<b>26,107</b>	<b>26,025</b>	<b>25,777</b>			<b>32,036</b>
13	Increase (-)/ Decrease (+) in Cash Balance	(-) 3,095	(-) 760	1,321	(-) 4,886			(-) 6,650
14	<b>Overall Surplus/ Deficit (12 +13)</b>	<b>19,146</b>	<b>25,347</b>	<b>27,346</b>	<b>20,891</b>			<b>25,386</b>

Figures in brackets indicate the per cent to GSDP

Differences with Finance Accounts are due to rounding

Source: Finance Accounts of Government of West Bengal (2012-13 to 2016-17)

Revenue deficit with respect to GSDP was 2.01 per cent in 2012-13. It increased to 2.38 per cent in 2013-14 and declined to 1.89 per cent in 2014-15. Subsequently, the revenue deficit declined sharply to 0.84 per cent in 2015-16. However, in the current year it increased to 1.29 per cent.

Fiscal deficit increased by 21.52 per cent during 2016-17 over the previous year.

It is seen from **Table 1.27** that during 2016-17, market borrowings financed the major portion of the fiscal deficit. Net outflow on Market borrowings increased by ₹ 10,406 crore (49.97 per cent) over the previous year.

*However, revenue expenditure increased by ₹ 15,091 crore (12.70 per cent) during 2016-17. Revenue expenditure also formed 91 per cent of the total expenditure ( ₹ 1,46,451 crore). As compared to this, capital expenditure decreased by ₹ 1,084 crore (8.73 per cent) over previous year. Increase in fiscal deficit combined with decrease in capital expenditure is unhealthy for State Finances.*

### 1.12 Significant Findings

- The State did not amend the FRBM Act as required by the 14<sup>th</sup> Finance Commission (**Paragraph 1.1.2**).
- The Government is yet to implement the New Pension Scheme for its employees despite recommendations of both the 13<sup>th</sup> and 14<sup>th</sup> FCs (**Paragraph 1.6.4.1**).
- There was a decrease of 8.73 *per cent* in the capital outlay of the current year. Its ratio to Aggregate expenditure was 7.74 *per cent* against the combined average of General Category States of 19.70 *per cent* (**Paragraphs 1.6.3 and 1.7.1**).
- There was overstatement of fiscal deficit by ₹ 73 crore owing to short receipt of guarantee fees (**Paragraph 1.9.3**).
- The maturity profile of the State debt indicates that the liability of the State would steeply rise from 2017-18 onwards which would put a strain on the State finances beyond 2017-18. More than 50 *per cent* of the maturity would take place within seven years, indicating that the state is heading towards debt stress (**Paragraph 1.10**).