

# Chapter I

## Finances of the State Government

This chapter provides an audit perspective on finances of the State Government during 2018-19 and analyses changes in major fiscal aggregates relative to 2017-18 keeping in view overall trends during the preceding five years.

The analysis is based on details contained in the Finance Accounts of the Government of West Bengal (GoWB). A profile of the State with demographic and other details is in *Appendix 1.1*. The structure of the Government Accounts is explained in *Part A* and the layout of the Finance Accounts in *Part B* of *Appendix 1.2*.

### 1.1 Gross State Domestic Product (GSDP)

The Gross State Domestic Product (GSDP)<sup>1</sup> of West Bengal in 2018-19 at current prices was ₹ 11,77,586 crore. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base Year: 2011-12) are in **Table 1.1**. Growth of West Bengal was higher than the all-India average during 2018-19 at both current prices and constant prices.

**Table 1.1: GDP of India and GSDP of the State**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Current Prices (Base year: 2011-12)</b>					
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate (in per cent)	10.99	10.46	11.55	11.28	11.20
State's GSDP (₹ in crore)	7,18,082	7,97,300	8,72,527	9,99,585	11,77,586
Growth rate (in per cent)	6.09	11.03	9.44	14.56	17.81
<b>Constant Prices (Base year: 2011-12)</b>					
India's GDP (₹ in crore)	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate (in per cent)	7.41	8.00	8.17	7.17	6.81
State's GSDP (₹ in crore)	5,74,364	6,09,545	6,53,416	7,11,408	8,00,913
Growth rate (in per cent)	2.84	6.13	7.20	8.88	12.58

Source: GDP/GSDP figures issued by Ministry of Statistics and Programme Implementation (MoSPI) dated 01 August 2019 (First Quarter Estimate)

### 1.2 Summary of Fiscal Transactions

**Table 1.2** presents the summary of fiscal transactions of State Government during 2018-19 *vis-à-vis* 2017-18 and 2016-17. *Appendix 1.3 (Part A)* provides details of Receipts and Disbursements as well as overall fiscal position during

<sup>1</sup> Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP) refer to the market value of all officially recognized final goods and services produced within the Country and the State respectively in a given period of time, accounted without duplication and are an important indicator of the Country and State's economy.

2017-18 and 2018-19. Time series data of State Government Finances for the years 2014-19 are given in *Appendix 1.4*.

**Table 1.2: Summary of Fiscal Transactions in 2018-19**

Receipts			Disbursements				
	2016-17	2017-18	2018-19		2016-17	2017-18	2018-19
	₹ in crore)				₹ in crore)		
<b>Section A: Revenue Account<sup>2</sup></b>							
<b>Revenue Receipts</b>	<b>1,17,832</b>	<b>1,31,270</b>	<b>1,45,975</b>	<b>Revenue Expenditure</b>	<b>1,33,918</b>	<b>1,41,077</b>	<b>1,56,374</b>
Tax Revenue	45,466	52,721	60,732	General Services	50,131	52,416	56,865
Non-Tax Revenue	2,950	3,117	3,657	Social Services	57,067	59,591	68,764
State's share of Union Taxes/Duties	44,625	49,321	55,776	Economic Services	26,156	28,582	30,256
Grants from GoI	24,791	26,111	25,810	Grants-in-Aid and Contributions	564	488	489
<b>Section B: Capital Account<sup>3</sup> and others</b>							
Misc. Receipts under Capital Section	Nil	Nil	692	Capital Expenditure	11,336	19,368	23,717
Recoveries of Loans and Advances	3,233	214	804	Loans and Advances Disbursed	1,197	-31	865
Public Debt Receipts*	37,524	45,743	70,197	Repayment of Public Debt*	12,304	25,011	45,786
Contingency Fund	-	-	-	Contingency Fund	-	1	1
Public Account Receipts	1,69,633	2,02,108	2,32,785	Public Account Disbursements	1,62,817	1,97,543	2,24,962
Opening Cash Balance <sup>4</sup>	15,843	22,493	18,859	Closing Cash Balance <sup>4</sup>	22,493	18,859	17,607
<b>Total</b>	<b>3,44,065</b>	<b>4,01,828</b>	<b>4,69,312</b>	<b>Total</b>	<b>3,44,065</b>	<b>4,01,828</b>	<b>4,69,312</b>

Source: Finance Accounts of Government of West Bengal (2016-17 to 2018-19)

\*Includes the Ways and Means advances of ₹ 1,208 crore in 2016-17, ₹ 5,395 crore in 2017-18 and ₹ 25,005 crore in 2018-19

Composition of resources and application of funds in the Consolidated Fund of the State in the year 2018-19 is in *Appendix 1.5*. The following significant changes occurred during 2018-19, compared to the previous year:

- Revenue Receipts of the State increased by ₹ 14,705 crore (11.20 per cent) over 2017-18. This increase was contributed by (i) State's Own Revenue (₹ 8,551

<sup>2</sup> Revenue Account is the account of the current income and expenditure of the State. The income is derived mainly from taxes and duties, fees for services rendered, fines and penalties, revenue from Government estates such as forests and other miscellaneous items.

<sup>3</sup> Capital Account is the account of expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects. Such expenditure is usually met from borrowed funds.

<sup>4</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.

crore; 9.94 *per cent*) and (ii) State's share of Union Taxes and duties and Grants in Aid from Government of India (₹ 6,154 crore; 8.16 *per cent*).

- Revenue Expenditure increased by ₹ 15,297 crore (10.84 *per cent*) over 2017-18. This was due to substantial increase of expenditure under Social Services (₹ 9,173 crore; 15.39 *per cent*) followed by General Services (₹ 4,449 crore; 8.49 *per cent*).
- Capital Expenditure increased by ₹ 4,349 crore (22.45 *per cent*) over 2017-18 due to substantial increase in Economic Services (₹ 4,707 crore; 43.75 *per cent*). This was counterbalanced by decrease in Social Services (₹ 282 crore; 3.71 *per cent*) and General Services (₹ 76 crore; 7.57 *per cent*).
- Recoveries of Loans and Advances increased by ₹ 590 crore (275.70 *per cent*) while that of the disbursements increased by ₹ 896 crore (2,890.32 *per cent*).
- Public Debt Receipts<sup>5</sup> increased by ₹ 24,454 crore (53.46 *per cent*) whereas the Repayment<sup>5</sup> of Public Debt increased by ₹ 20,775 crore (83.06 *per cent*).

The trends of Revenue Receipts (RR)/ Revenue Expenditure (RE)/ Capital Expenditure relative to GSDP at current as well as constant prices<sup>6</sup> are in **Table 1.3**.

**Table 1.3: Trends in RR/ RE/ CE relative to GSDP**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Gross State Domestic Product at current prices (₹ in crore)	7,18,082	7,97,300	8,72,527	9,99,585	11,77,586
Gross State Domestic Product at constant prices (₹ in crore)	5,74,364	6,09,545	6,53,416	7,11,408	8,00,913
<b>Revenue Receipts (RR) relative to GSDP</b>					
RR at current prices (₹ in crore)	86,514	1,09,732	1,17,832	1,31,270	1,45,975
Rate of growth of RR at current prices ( <i>per cent</i> )	18.70	26.84	7.38	11.40	11.20
RR at constant prices (₹ in crore)	69,199	83,891	88,242	93,425	99,282
Rate of growth of RR at constant prices ( <i>per cent</i> )	15.07	21.23	5.19	5.87	6.27
RR/GSDP (at current as well as constant prices) ( <i>per cent</i> )	12.05	13.76	13.50	13.13	12.40
<b>Revenue Expenditure (RE) relative to GSDP</b>					
RE at current prices (₹ in crore)	1,03,652	1,18,827	1,33,918	1,41,077	1,56,374
Rate of growth of RE at current prices ( <i>per cent</i> )	12.91	14.64	12.70	5.35	10.84
RE at constant prices (₹ in crore)	82,907	90,845	1,00,288	1,00,405	1,06,355
Rate of growth of RE at constant prices ( <i>per cent</i> )	9.68	9.57	10.40	0.12	5.93
RE/GSDP (at current as well as constant prices) ( <i>per cent</i> )	14.43	14.90	15.35	14.11	13.28

<sup>5</sup> Including the Ways and Means Advances

<sup>6</sup> Constant prices figures for Revenue Receipts, Revenue Expenditure and Capital Expenditure are arrived by using a deflator *i.e.*, ratio of GSDP at constant prices to GSDP at current prices for each year.

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Capital Expenditure (CE) relative to GSDP</b>					
<b>CE at current prices (₹ in crore)</b>	<b>9,879</b>	<b>12,420</b>	<b>11,336</b>	<b>19,368</b>	<b>23,717</b>
Rate of growth of CE at current prices (per cent)	42.62	25.72	-8.73	70.85	22.45
<b>CE at constant prices (₹ in crore)</b>	<b>7,902</b>	<b>9,495</b>	<b>8,489</b>	<b>13,784</b>	<b>16,131</b>
Rate of growth of CE at constant prices (per cent)	38.24	20.17	-10.59	62.37	17.02
CE/GSDP (at current as well as constant prices) (per cent)	1.38	1.56	1.30	1.94	2.01

*Source: Finance Accounts of Government of West Bengal and GDP/GSDP figures issued (dated 01 August 2019) by Ministry of Statistics and Programme Implementation (MoSPI) of respective years*

**Table 1.3** disclosed that:

- Revenue receipts as well as revenue expenditure had an upward trend during 2014-15 to 2018-19. However, both the revenue receipts and revenue expenditure as a *per cent* of GSDP had steadily dipped from 2017-18.
- The Capital Expenditure, excepting for 2016-17, showed an increasing trend even after accounting for inflation.

## 1.3 Review of Fiscal Situation

### 1.3.1 Fiscal Parameters

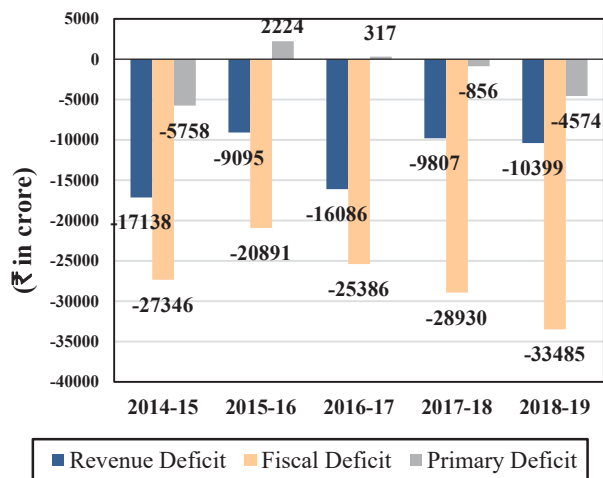
Three key fiscal parameters *viz.*, (i) Revenue Deficit<sup>7</sup>, (ii) Fiscal Deficit<sup>8</sup> and (iii) Primary Deficit<sup>9</sup> help in assessing the fiscal situation of the Government. The way these deficits are financed assists in assessing the fiscal health of the Government. Trends in fiscal parameters (**Chart 1.1** and **Chart 1.2**) as per Finance Accounts indicate an improvement in Revenue Deficit and Fiscal Deficit with respect to GSDP in State's performance during 2018-19 over the previous year. Trends in Debt Sustainability (Ratio between debt and GSDP in *per cent*) is shown in **Chart 1.3**.

<sup>7</sup> Revenue Deficit = Revenue Expenditure - Revenue Receipts

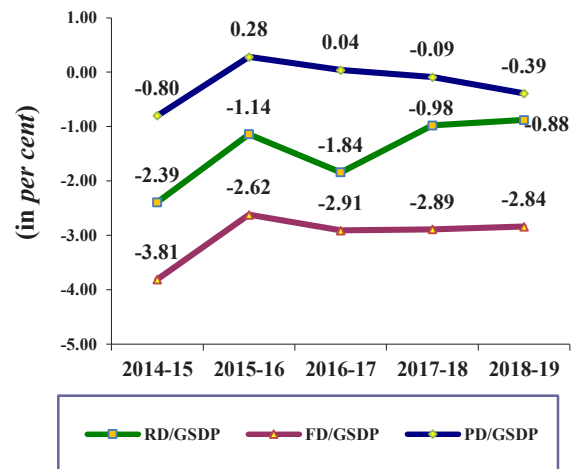
<sup>8</sup> Fiscal Deficit = Revenue Expenditure + Capital Expenditure + Net Loans and Advances (-) Revenue Receipts (-) Miscellaneous Capital Receipts

<sup>9</sup> Primary Deficit = Fiscal Deficit - Interest payments

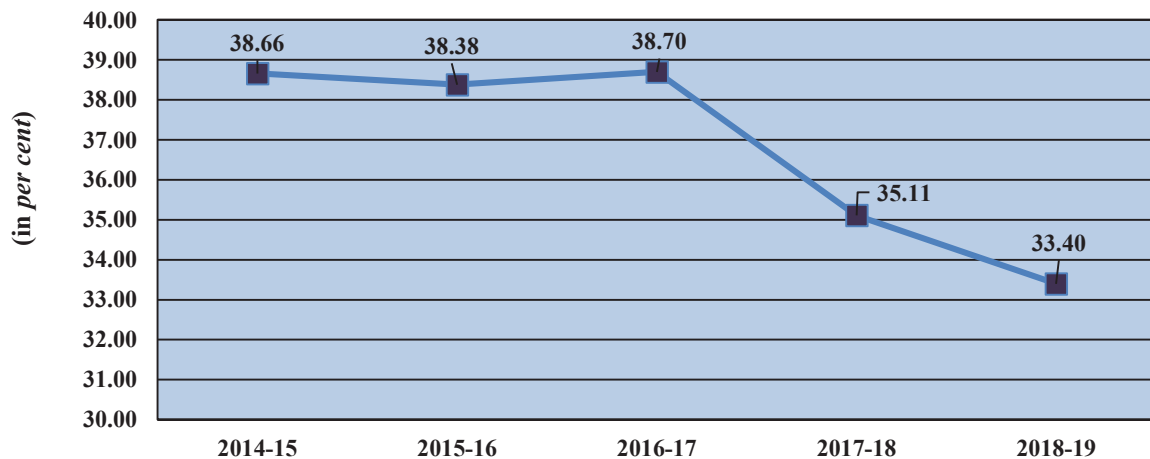
**Chart 1.1: Trend in Fiscal Parameters**



**Chart 1.2: Fiscal Parameters vis-à-vis GSDP**



**Chart 1.3: Debt Sustainability (i.e., Debt to GSDP ratio)**



Note: Debt includes Internal Debt, Loans and Advances from Government of India and Public Account Liabilities

Source: Finance Accounts of Government of West Bengal and GSDP figures issued by Ministry of Statistics and Programme Implementation (dated 1 August 2019)

- **Revenue Deficit**

Fourteenth Finance Commission assessed the Post-Devolution Revenue Deficit and accordingly sanctioned ₹ 11,760 crore of Revenue Deficit grant for the period 2015-17 in order to eliminate the Revenue Deficit.

The details of post-devolution Revenue Deficit Grant received and Revenue Deficit for the years from 2015-16 to 2018-19 are given in **Table 1.4**.

**Table 1.4: Revenue Deficit - Actuals vis-à-vis Targets for the years 2015-19**

Year	Projections of Revenue Deficit made in MTFPS	Post-devolution Revenue Deficit Grant received as per the recommendations of 14 <sup>th</sup> Finance Commission	Revenue Deficit (After receipt of Post- devolution Grant)
	(₹ in crore)		
2015-16	9,673	8,449	9,095
2016-17	9,469	3,311	16,086
2017-18	11,006	-	9,807
2018-19	Nil	-	10,399

Source: Finance Accounts of respective years, 14<sup>th</sup> FC Report; Medium Term Fiscal Policy Statement (MTFPS)

Despite the receipt of post-devolution Revenue Deficit Grants from GoI as per the recommendations of 14<sup>th</sup> FC, the Revenue Deficit of the State during the period 2015-19 had not been eliminated. At 0.88 *per cent* of the GSDP during 2018-19 it was beyond the target of Zero, set out in the MTFPS under WBFRBM Act. Ratio of Revenue Deficit to Revenue Receipts decreased to 7.12 *per cent* in 2018-19 from 7.47 *per cent* in 2017-18.

- Fiscal Deficit (₹ 33,485 crore) in 2018-19, increased by ₹ 4,555 crore in comparison to preceding year (₹ 28,930 crore). Fiscal Deficit as a percentage to GSDP was 2.84 *per cent* and was above the target of 2.27 *per cent* fixed under the WBFRBM Act in the MTFPS.
- Ratio of Revenue Deficit to Fiscal Deficit came down to 31.06 *per cent* during 2018-19 from 62.67 *per cent* during 2014-15.
- Primary Deficit in 2018-19 was ₹ 4,574 crore while that of the State during 2017-18 was ₹ 856 crore. With deficit increasing by 434.35 *per cent* over the preceding year, non-debt receipts (₹ 1,47,471 crore) in 2018-19 were insufficient to meet the Primary Expenditure (₹ 1,52,045 crore) of the State.
- In 2018-19, as per Medium Term Fiscal Policy Statement (MTFPS) of the State Government, the total outstanding debt were to be less than 37.63 *per cent* of the GSDP. In 2018-19, the total outstanding debt were 33.40 *per cent* of the GSDP, which was within the target. The outstanding debt (₹ 3,93,300 crore) grew by 8.96 *per cent* (₹ 32,339 crore) over the previous year (₹ 3,60,961 crore).

It was observed that net effects on Revenue Deficit (RD) and Fiscal Deficit (FD) were understatement of ₹ 3,362.61 crore and ₹ 294.60 crore respectively, on account of (i) Misclassification, (ii) Erroneous booking, (iii) Non-contribution to statutory funds and (iv) Miscellaneous issues as detailed in **Table 1.5**.

Table 1.5: Impact of Revenue and Fiscal Deficits

Particulars	Impact on revenue deficit		Impact on fiscal deficit	
	Over-statement	Under-statement	Over-statement	Under-statement
(₹ in crore)				
<b>(i) Misclassification</b>				
Revenue expenditure booked under Capital expenditure (Paragraph 2(i) <sup>10</sup> of Notes to <b>Finance Accounts</b> )		3,107.49		
Capital expenditure booked under Revenue expenditure (Paragraph 2(i) <sup>10</sup> of Notes to <b>Finance Accounts</b> )	1.62			
Working capital loan booked as Grants-in-Aid (Paragraph 2(viii)(b) of Notes to <b>Finance Accounts</b> )	500.00			
<b>(ii) Erroneous booking</b>				
West Bengal Transport Infrastructure Development Fund (Paragraph 1.5.3.1(i))		357.78		
West Bengal Compensatory Entry Tax Fund (Paragraph 1.5.3.1(ii))		104.36		
<b>(iii) Non contribution to Statutory funds</b>				
Non accountal of interest payment on Reserve Funds and Deposits bearing interest (Paragraph 3(vi) B (b) of Notes to <b>Finance Accounts</b> )		3.18		3.18
Non-transfer of Guarantee Commission to GRF (Paragraph 1.7.1.3)		170.86		170.86
<b>(iv) Miscellaneous issues</b>				
Non-recoupment of Contingency Fund drawal (Paragraph 3(x) of Notes to <b>Finance Accounts</b> )		1.04		1.04
Short payment of interest to SASPFUW (Box 1.3 of Paragraph 1.7)		119.52		119.52
<b>Total</b>	<b>501.62</b>	<b>3,864.23</b>	<b>-</b>	<b>294.60</b>
<b>Net</b>	<b>3,362.61</b> <b>(Understatement)</b>		<b>294.60</b> <b>(Understatement)</b>	

Effectively, there was a Revenue Deficit of ₹ 13,761.61 crore and Fiscal Deficit was ₹ 33,779.60 crore (2.87 per cent of GSDP).

### 1.3.1.1 Composition and Financing of Fiscal Deficit

Fiscal Deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the Reserve Bank of India (RBI) and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The composition and financing of fiscal deficit is reflected in **Table 1.6**.

<sup>10</sup> Details are given in Annexure-B of Notes to Finance Accounts

**Table 1.6: Components of Fiscal Deficit and its Financing Pattern**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19		
		(₹ in crore)						
<b>Decomposition of Fiscal Deficit (1 to 3) (a)<sup>@</sup></b>		<b>27,346</b>	<b>20,891</b>	<b>25,386</b>	<b>28,930</b>	<b>33,485</b>		
		<b>(3.81)</b>	<b>(2.62)</b>	<b>(2.91)</b>	<b>(2.89)</b>	<b>(2.84)</b>		
1	Revenue Deficit	17,138	9,095	16,086	9,807	10,399		
		(2.39)	(1.14)	(1.84)	(0.98)	(0.88)		
2	Net Capital Outlay	9,879	11,767	11,336	19,368	23,025		
3	Net Loans and Advances	329	29	(-) 2,036	(-) 245	61		
<b>Financing Pattern of Fiscal Deficit (b)</b>		<b>Net disbursements/outflows</b>				<b>Receipts</b>	<b>Disbursement</b>	<b>Net</b>
<b>1</b>	<b>Net Borrowings</b>	<b>23,512</b>	<b>25,569</b>	<b>25,220</b>	<b>20,732</b>	<b>70,197</b>	<b>45,786</b>	<b>24,411</b>
a	Market Borrowings	18,518	20,824	31,230	25,304	42,828	12,397	30,431
b	Loans from GoI	680	(-) 158	(-) 457	1,024	1,178	1,053	125
c	Special Securities Issued to NSSF	4,473	4,329	(-) 5,893	(-) 5,976	0	6,125	-6,125
d	Loans from Financial Institutions and Bonds	(-) 159	574	340	380	1,186	1,206	(-) 20
e	Ways and Means	-	-	-	-	25,005	25,005	0
<b>2</b>	<b>Net Public Account</b>	<b>2,513</b>	<b>208</b>	<b>6,816</b>	<b>4,565</b>	<b>2,32,785</b>	<b>2,24,962</b>	<b>7,823</b>
a	Small Savings, PF, etc.	1,007	741	857	1,164	3,803	2,675	1,128
b	Reserve Fund	1,268	(-) 1,037	2,223	(-) 845	2,538	124	2,414
c	Deposits and Advances	1,173	3,416	4,488	2,607	84,835	79,123	5,712
d	Suspense and Miscellaneous	(-) 1,107	(-) 1,177	(-) 729	1,634	1,41,609	1,43,042	(-) 1,433
e	Remittances	172	(-) 1,735	(-) 23	5	0	(-) 2	2
<b>3</b>	<b>Contingency Fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(-) 1</b>	<b>0</b>	<b>1</b>	<b>(-) 1</b>
<b>4</b>	<b>Total (1 to 3)</b>	<b>26,025</b>	<b>25,777</b>	<b>32,036</b>	<b>25,296</b>	<b>3,02,982</b>	<b>2,70,749</b>	<b>32,233</b>
<b>5</b>	<b>Increase (-) / Decrease (+) in Cash Balance</b>	<b>1,321</b>	<b>(-) 4,886</b>	<b>(-) 6,650</b>	<b>3,634</b>			<b>1,252</b>
<b>6</b>	<b>Overall Surplus (-)/ Deficit (+) (4 +5)</b>	<b>27,346</b>	<b>20,891</b>	<b>25,386</b>	<b>28,930</b>			<b>33,485</b>

\*All these figures are net of disbursements/ outflows during the year.

@ Figures in brackets indicate percentage with respect to GSDP

Differences with Finance Accounts are due to rounding.

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Net Capital Outlay and Revenue Deficit which contributed to 68.76 and 31.06 per cent respectively of Fiscal Deficit (₹ 33,485 crore) during 2018-19, was financed by Net Borrowing (72.90 per cent), Net Public Account (23.36 per cent) and Cash Balance (3.74 per cent).

Market borrowings continued to be the main stimulator of borrowings during 2018-19. Net inflow from market borrowings was used to finance net Capital Expenditure by 75.66 per cent. As shown in **Table 1.6**, residual portion of net market borrowings used to finance Revenue Deficit by 71.22 per cent as against 60.53 per cent during the previous year.

Borrowed funds, used for meeting revenue expenditure, create liability for future years without creating any assets. It is evident that, substantial amount of



borrowings (42.60 per cent) was continued to be committed to finance the deficit on Revenue Account thereby impeding asset creation in the State. Borrowing to meet Revenue Deficit year after year would not augur well for the State finances in the long run.

### 1.3.1.2 Quality of Deficit/ Surplus

The ratio of Revenue Deficit to Fiscal Deficit and decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans and Advances) indicate the quality of deficit in the State's Finances. A persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State was shrinking and a part of borrowings (Total Outstanding Liabilities) did not have any asset backup. The bifurcation of Primary Deficit (**Table 1.7**) indicates the extent to which deficit has been on account of enhancement in capital expenditure, which may be desirable to improve productive capacity of the Government.

The decomposition of primary deficit into primary revenue deficit<sup>11</sup>/surplus, capital expenditure and loans and advances, as well as the ratio of revenue deficit to fiscal deficit, as given in **Table 1.7**, indicates the quality of deficit in the State's finances.

**Table 1.7: Primary Deficit/ Surplus**

Year	Non-debt Receipts	Primary Revenue Expenditure <sup>12</sup>	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit(-)/ Surplus(+)	Primary Deficit <sup>13</sup> (-) / Surplus (+)
(₹ in crore)							
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2014-15	86,690	82,064	9,879	505	92,448	4,626	(-)5,758
2015-16	1,11,217	95,712	12,420	861	1,08,993	15,505	2,224
2016-17	1,21,065	1,08,215	11,336	1,197	1,20,748	12,850	317
2017-18	1,31,484	1,13,003	19,368	(-) 31	1,32,340	18,481	(-)856
2018-19	1,47,471	1,27,463	23,717	865	1,52,045	20,008	(-)4,574

Source: Finance Accounts of Government of West Bengal of the respective years

The fact that Primary Deficit of the Government of West Bengal increased to ₹ 4,574 crore during 2018-19 from the Primary Deficit of ₹ 856 crore during 2017-18 indicates that the non-debt receipts were insufficient to meet the primary expenditure of the State.

### 1.3.2 Budget Estimates and Actuals

Shortfalls of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure

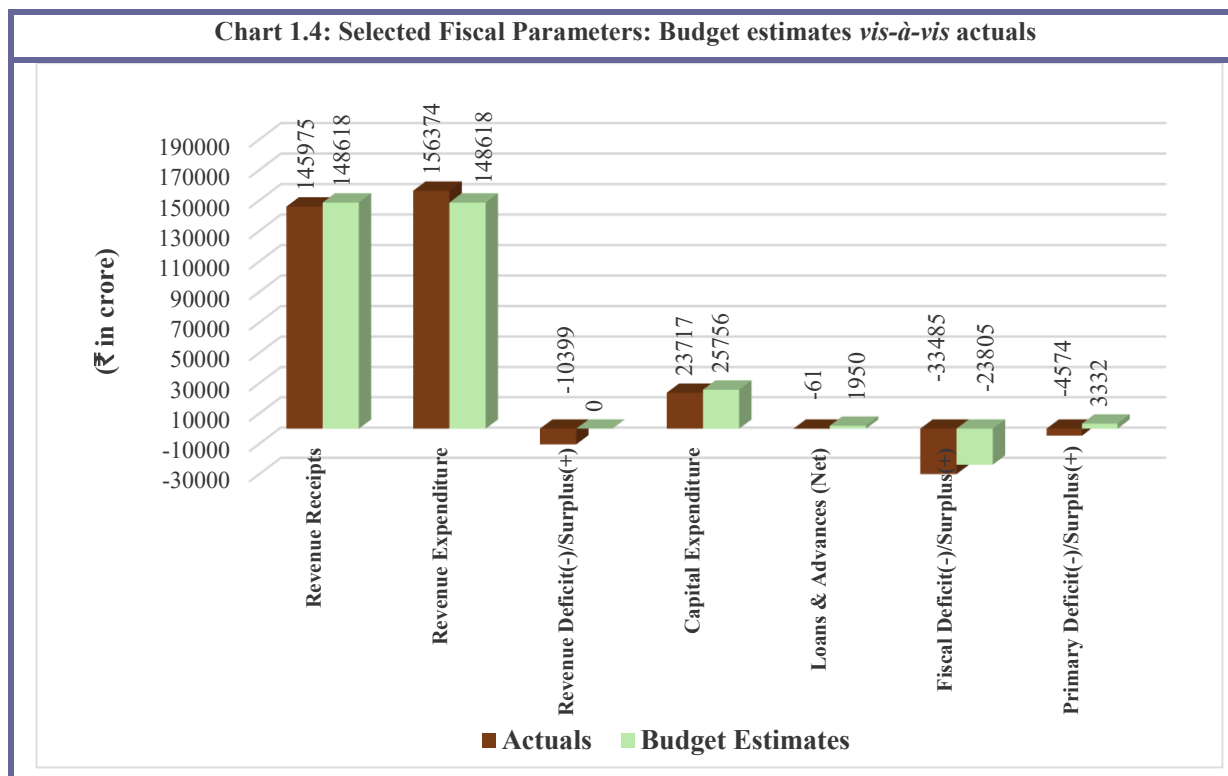
<sup>11</sup> Primary revenue deficit is the gap between non-interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts are sufficient to meet the primary expenditure incurred under revenue account.

<sup>12</sup> Revenue Expenditure less Interest Payments

<sup>13</sup> Primary deficit is fiscal deficit excluding interest payments.

or revenue at the stage of budget preparation, adversely impact the desired fiscal objectives.

Actuals *vis-à-vis* Budget Estimates of selected fiscal parameters for 2018-19 are shown in **Chart 1.4**.



Source: Budget publications and Finance Accounts of Government of West Bengal (2018-19)

From **Chart 1.4**, there were variations between budget estimates and actuals in the case of several key parameters.

- Revenue Receipts (₹ 1,45,975 crore) had a marginal shortfall (₹ 2,643 crore; 1.78 *per cent*) against Budget Estimates. The decrease in Revenue Receipts was the net result of decrease in Grants-in-Aid from Government of India by 21.10 *per cent*, counter-balanced by increase in Tax Revenue by 10.02 *per cent*.
- Revenue Expenditure (₹ 1,56,374 crore) increased by ₹ 7,756 crore (5.22 *per cent*) over the budget estimates, mainly because of excess expenditure under Social Services (8.57 *per cent*) and Economic Services (6.46 *per cent*). The increase as compared to budget estimates was largely under (i) Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (42.65 *per cent*), (ii) Social Security and Welfare (30.98 *per cent*) under Social Services and (iii) Power (177.61 *per cent*) under Economic Services.
- The actual Capital Expenditure was lower by ₹ 2,039 crore (7.92 *per cent*) against the original budget estimates of 2018-19. The decrease as compared to budget estimates was mainly under Social Services (30.43

*per cent*) counter-balanced by excess under Economic Services (11 *per cent*).

- Revenue Deficit registered ₹ 10,399 crore against the budget estimates of 'Zero' as Revenue Expenditure was higher by ₹ 7,756 crore and Revenue Receipt was lower by ₹ 2,643 crore over the budget estimates.
- Fiscal Deficit (₹ 33,485 crore) was higher than the assessment made in the budget estimates (₹ 23,805 crore) by 40.66 *per cent*, mainly due to increased Revenue Expenditure and reduced Revenue Receipts coupled with lower recovery of loans and advances.
- Primary Deficit was higher than the budget estimates by ₹ 7,906 crore, as the Fiscal Deficit surpassed the budget estimate by ₹ 9,680 crore.

**Recommendation 1:** *The Finance Department may rationalise the budget preparation exercise, so that the gap between the budget estimates and actuals is bridged.*

### 1.3.3 Buoyancy Ratio

Buoyancy Ratios indicate the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The value more than one indicates high degree of responsiveness of the fiscal variable to the base variable. As GSDP grows, the ability of the Government to mobilize revenue should also increase. The Buoyancy Ratios of Revenue Receipts and State's Own Tax Revenue are given in **Table 1.8**.

**Table 1.8: Buoyancy Ratios of Revenue Receipts and State's Own Tax Revenue in comparison to GSDP**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
GSDP at current prices (₹ in crore)	7,18,082	7,97,300	8,72,527	9,99,585	11,77,586
Rate of growth of GSDP at current prices (in <i>per cent</i> )	6.09	11.03	9.44	14.56	17.81
<b>Revenue Receipts (RR)</b>					
RR during the year (₹ in crore)	86,514	1,09,732	1,17,832	1,31,270	1,45,975
Rate of growth of RR (in <i>per cent</i> )	18.70	26.84	7.38	11.40	11.20
Buoyancy of RR with GSDP	3.07	2.43	0.78	0.78	0.63
<b>State's Own Tax Revenue (SOTR)</b>					
SOTR during the year (₹ in crore)	39,412	42,492	45,466	52,721	60,732
Rate of growth of SOTR (in <i>per cent</i> )	9.99	7.81	7.00	15.96	15.20
Buoyancy of SOTR with GSDP	1.64	0.71	0.74	1.10	0.85

Source: Finance Accounts of respective years

- Revenue buoyancy measures the percentage change in the revenue receipts to the percentage change in GSDP. As can be seen from the **Table 1.8** above, the Revenue buoyancy though it was higher than one during 2014-16 dipped to less than one during 2016-19 indicating Revenue Receipts remained less buoyant *vis-à-vis* GSDP.
- As GSDP grows, the ability of the State Government to mobilize its own tax

revenue should also increase. **Table 1.8** disclosed that Buoyancy of State's own Tax Revenues dipped to 0.85 during 2018-19 from 1.10 during 2017-18, indicating that the mobilisation of Tax Revenue during 2018-19 was less buoyant over the previous year.

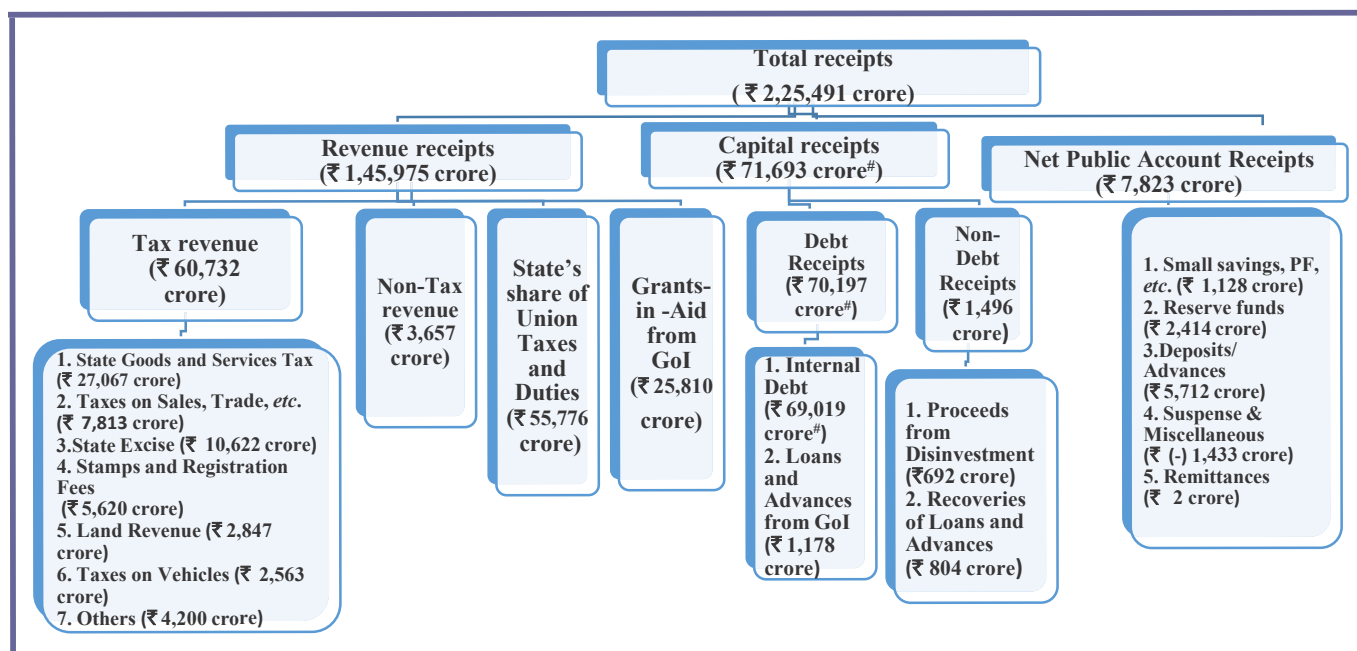
## 1.4 Financial Resources of the State

### 1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State in the Consolidated Fund apart from the net receipts of Public Account. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from Government of India (GoI). Receipts under Capital Section comprise miscellaneous receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market borrowings, borrowings from financial institutions) and loans and advances from GoI. The net of Public Account comprises the balance after disbursements in small savings, provident funds, reserve funds, deposits, suspense and remittances, etc. The balance, after disbursements in the Public Account is the fund available with the Government for use.

The overall composition of the State's resources (₹ 2,25,491 crore) in 2018-19 is in **Chart 1.5**.

Chart 1.5: Composition of Resources in 2018-19



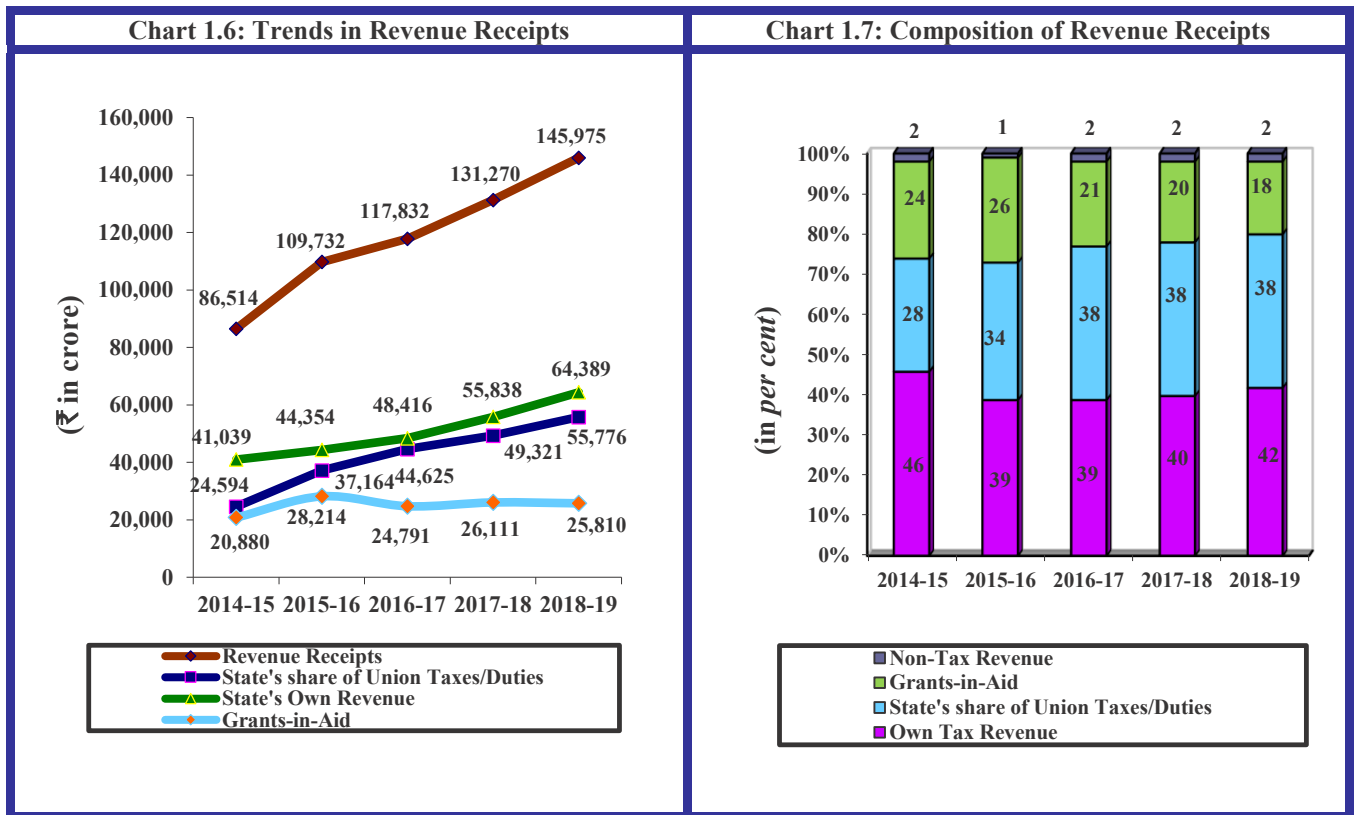
Source: Finance Accounts of Government of West Bengal (2018-19)

<sup>#</sup> includes Ways and Means Advances of ₹ 25,005 crore

### 1.4.2 Revenue Receipts

Statement 14 of the Finance Accounts gives details of the revenue receipts of the Government. Revenue Receipts (₹ 1,45,975 crore) of the Government constituting 12.40 per cent of the Gross State Domestic Product (GSDP)

(₹ 11,77,586 crore), increased by 11.20 *per cent* over the previous year (₹ 1,31,270 crore). The trends and composition of revenue receipts during the period 2014-19 are presented in **Charts 1.6** and **1.7** respectively.



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

As can be seen from **Chart 1.6** that excepting Grants-in-Aid from Government of India, all components of Revenue Receipts have been increasing. **Chart 1.7** shows that 44 *per cent* of the revenue came from the State's own resources during 2018-19 and the balance came from GoI as the State's share of Union Taxes and Duties and Grants-in-Aid.

The increase (₹ 14,705 crore; 11.20 *per cent*) in revenue receipts during 2018-19 was mainly due to (i) increased net proceeds assigned to the State by GoI (13.09 *per cent*), more collection on (ii) Taxes and Duties on Electricity (14.61 *per cent*), (iii) State Excise (13.73 *per cent*) and (iv) Taxes on Vehicles (10.62 *per cent*). This was partly counterbalanced by short receipt from GoI for (i) Swachh Bharat Mission (67.20 *per cent*), (ii) National Health Mission (13.49 *per cent*) and (iii) Pradhan Mantri Awas Yojana (10.14 *per cent*).

The rate of growth of Revenue Receipts during 2018-19 (11.20 *per cent*) over 2017-18 was lower than the General Category States' (GCS) average growth (12.77 *per cent*).

#### 1.4.2.1 State's Own Resources

The State's performance in mobilisation of resources is assessed in terms of Tax Revenue and Non-Tax Revenue, not including the State's share of Union Taxes

and Duties and Grants-in-Aid which is based on the recommendations of the Finance Commission.

### State's Own Tax Revenue

Components of State's own Tax Revenue are given in Table 1.9.

**Table 1.9: Components of Tax Revenue**

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19		Variation during 2018-19 over 2017-18
					Budget Estimates	Actuals	
(₹ in crore)							(in per cent)
State Goods and Services Tax (SGST)	-	-	-	14,964	23,060	27,067	80.88
Taxes/VAT on Sales, Trade, etc.	24,022	26,050	27,983	12,999	7,014	7,813	(-)39.90
Stamp Duty and Registration Fees	4,196	4,175	4,383	5,261	5,167	5,620	6.82
State Excise	3,587	4,015	5,226	9,340	10,503	10,622	13.73
Land Revenue	2,276	2,456	2,569	2,875	2,836	2,847	(-)0.97
Taxes on Vehicles	1,505	1,707	1,870	2,317	2,508	2,563	10.62
Taxes on Goods and Passengers	859	838	934	1,532	-	435	(-)71.61
Taxes and Duties on Electricity	1,947	2,092	1,319	2,334	3,000	2,675	14.61
Other taxes	1,020	1,159	1,182	1,099	1,113	1,090	(-)0.82
<b>Total</b>	<b>39,412</b>	<b>42,492</b>	<b>45,466</b>	<b>52,721</b>	<b>55,201</b>	<b>60,732</b>	<b>15.20</b>

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

State's Own Tax Revenue (SOTR) in 2018-19 was ₹ 60,732 crore and constituted 41.60 per cent of total Revenue Receipts. Tax Revenue grew by 15.20 per cent almost in tandem with increase (17.81 per cent) in GSDP.

GST rolling out from July 1, 2017 had a ripple effect for higher collection of SGST (by ₹ 12,103 crore; 80.88 per cent) and lower collection of Taxes/ VAT on sales, trades (by ₹ 5,186 crore; 39.90 per cent). Collection from Foreign liquors and Spirits amounting to ₹ 6,268 crore during 2018-19 compared to ₹ 5,359 crore during 2017-18, attributed to rise in collection of State Excise by 13.73 per cent (₹ 1,282 crore) during 2018-19.

To assess the adequacy of own tax revenue of the State, the same was compared with the projections made by the Finance Commissions and it was observed that during the entire period of 2014-15 to 2018-19, the actual revenue realisation fell short by 16 to 31 per cent.

Tax to GSDP ratio is a useful indicator, effective in tax policy making; for studying the efficiency of taxes, systems and addressing the problem of budget deficits. To evaluate the worthiness of the tax to GSDP (at current prices) ratio for the State of West Bengal, a comparison of the indicator was made with the projection of the Finance Commissions for the State of West Bengal and also with that of neighbouring States of Odisha, Jharkhand and Bihar, as shown in Table 1.10.

**Table 1.10: Own Tax Revenue to GSDP****(in per cent)**

Year	13 <sup>th</sup> and 14 <sup>th</sup> projections for the State of West Bengal	West Bengal	Odisha	Jharkhand	Bihar
2014-15	6.75	5.49	6.31	4.74	6.05
2015-16	6.36	5.33	6.81	5.56	6.89
2016-17	6.72	5.21	6.06	5.65	5.57
2017-18	7.09	5.27	6.71	4.84	4.74
2018-19	7.49	5.16	6.25	12.57	5.28

Source: Finance Accounts of the respective State Governments and 13<sup>th</sup> & 14<sup>th</sup> FC Report

The above table indicated that the State of West Bengal could not achieve the projections of Finance Commissions and largely remained below the levels of neighbouring States.

This scenario indicated that there was an urgent need to put in place a well-planned strategy to ensure that the growth in GSDP duly translates to the augmentation of own tax revenue. This assumes significance as an increase in tax-GSDP ratio will open up space for the Government to spend more on development schemes without borrowing heavily from the market and thereby affecting the fiscal deficit favourably.

#### 1.4.2.2 Efficiency in Tax Collection

From 2018-19, cost of collection under SGST is being worked out separately from the Head of Account '2043' desisting from the methodology adopted during the previous year<sup>14</sup>. Considering the collection charges of this component with Taxes/ VAT on sales, the cost of collection with reference to gross revenue reduced to 0.67 per cent during 2018-19 from 0.81 per cent during 2017-18, indicating higher efficiency in aggregate collection of SGST and VAT (Table 1.11).

**Table 1.11: Tax Collected and Cost of Collection**

Tax items	Particulars	2016-17	2017-18	2018-19
<b>SGST</b>	Gross Revenue collection (₹ in crore)			27,067
	Cost of Collection (₹ in crore)			169
	Percentage to Gross collection			0.62
<b>Taxes/VAT on sales</b>	Gross Revenue collection (₹ in crore)	27,983	27,963*	7,813
	Cost of Collection (₹ in crore)	203	226	64
	Percentage to Gross collection	0.73	0.81	0.82
<b>State Excise</b>	Gross Revenue collection (₹ in crore)	5,226	9,340	10,622
	Cost of Collection (₹ in crore)	109	118	123
	Percentage to Gross collection	2.09	1.26	1.16
<b>Stamp Duty and Registration Fees</b>	Gross Revenue collection (₹ in crore)	4,383	5,261	5,620
	Cost of Collection (₹ in crore)	130	137	149
	Percentage to Gross collection	2.97	2.60	2.65
<b>Taxes on Vehicles</b>	Gross Revenue collection (₹ in crore)	1,870	2,317	2,563
	Cost of Collection (₹ in crore)	25	26	30
	Percentage to Gross collection	1.34	1.12	1.17

\*Includes collection on SGST; Source: Finance Accounts of Government of West Bengal

<sup>14</sup> During 2017-18, cost of collection under SGST and Taxes/VAT on sales was operated under the Head of Account '2040'.

### 1.4.2.3 GST Compensation

The West Bengal Goods and Services Tax Act, 2017 was made effective from 1 July, 2017 in the State through an ordinance issued on 15 June, 2017 which was notified as an Act passed by the legislature on 10 August, 2017. GST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products<sup>15</sup>) and its components are shared by the Centre (CGST) and the State (SGST). Further, IGST is levied and collected by the Central Government on inter-State supply of goods and services. The IGST so collected is apportioned between the Centre and the connected State where the goods and services are consumed.

The GoI enacted the Goods and Services Tax (Compensation to States) Act, 2017 to compensate the States, should the share of a State falls short of the revenue earned in the pre-GST regime for taxes subsumed<sup>16</sup> under GST. According to GST (Compensation to States) Act 2017, the Central Government will compensate the States for loss of revenue on account of implementation of GST for a period of five years. The amount of compensation to be paid is calculated on the basis of protected revenue<sup>17</sup> by taking into account revenue collected from taxes subsumed into GST in 2015-16, the base year. The provisional compensation was to be calculated every two months and the final compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. For the State of West Bengal, the revenue collected during the Base Year (2015-16) was ₹ 20,097.72 crore. The protected revenue of State during the period from April 2018 to March 2019 worked out to ₹ 29,775.66 crore<sup>18</sup>.

Details of SGST, pre-GST taxes and compensation received by the State during 2018-19 are given in the **Table 1.12**.

**Table 1.12: Details of SGST, pre-GST taxes and compensation received by the State during April 2018 to March 2019**

Particulars	Amount (₹ in crore)
Revenue to be protected (A)	29,775.66
State Goods & Services Tax (including IGST advance apportionment of ₹ 3,265.23 crore during 2018-19 and recovery of ₹ 175.80 crore on account of IGST advance apportionment during 2017-18) (B)	27,067.20
Collection of pre-GST Taxes (April 2018 to March 2019) (C)	724.94
Total Collection (D) = (B+C)	27,792.14
Compensation received	1,977.00

Source: Finance Accounts and Director of Commercial Taxes, GoWB

<sup>15</sup> Petroleum products: Crude oil, high speed diesel, petrol, aviation turbine fuel and natural gas

<sup>16</sup> Taxes that have subsumed under GST i.e., Value Added Tax, Central Sales Tax, Entertainment Tax, Luxury Tax, Entry Tax, Cesses & Surcharges, Duties on Excise on medicinal and toilet preparations excluding VAT and CST on alcohol for human consumption and five specified petroleum products.

<sup>17</sup> Protected revenue is calculated/ arrived at by taking into consideration the revenue collected during the base year (2015-16) plus 14 per cent cumulative increase for each following year.

<sup>18</sup> Base year revenue of ₹ 20,097.72 crore escalated at compound rate 14 per cent annually for three years (2016-17, 2017-18 and 2018-19) worked out to ₹ 29,775.66 crore for 2018-19.



With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to the all GST transactions has come in the way of comprehensively auditing the GST receipts. The Accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

### Non-Tax Revenue

The components of Non-Tax Revenue during the period from 2014-15 to 2018-19 are shown in Table 1.13.

**Table 1.13: Components of Non-Tax Revenue**

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	Variation ( <i>per cent</i> ) during 2018-19 over 2017-18
	(₹ in crore)					
Interest receipts	277 (17.02)	335 (17.99)	1,201 (40.71)	1,396 (44.79)	806 (22.04)	(-) 42.26
Dividends and Profit	6 (0.37)	12 (0.65)	1 (0.03)	37 (1.19)	47 (1.29)	27.03
Other non-tax receipts	1,344 (82.61)	1,515 (81.36)	1,748 (59.26)	1,684 (54.02)	2,804 (76.67)	66.51
<b>Total</b>	<b>1,627</b>	<b>1,862</b>	<b>2,950</b>	<b>3,117</b>	<b>3,657</b>	<b>17.32</b>

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Figures in brackets indicate the share of the components.

State's Non-tax revenue during 2018-19 was ₹ 3,657 crore and constituted 2.51 *per cent* of total Revenue Receipts. Non-tax Revenue grew by 17.32 *per cent* (₹ 540 crore) almost in tandem with increase (17.81 *per cent*) in GSDP. The increase in collection of State Lotteries (₹ 987 crore; 836 *per cent*) owing to introduction of seven weekly draws with effect from May 2018, was the main attributable reason. The increase in Non-tax revenue was partially set off by lower collection of interest receipts from Public Sector and other Undertakings (₹ 757 crore; 78 *per cent*).

The rate of growth of State's Non-tax Revenue during 2018-19 (17.36 *per cent*) over 2017-18 was lower than the average growth of GCS (19.78 *per cent*).

The following was observed in audit.

- **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.

GoWB levied Motor Transport Workers' Welfare Cess as per the West Bengal Motor Transport Workers' Welfare Cess Act, 2010<sup>19</sup>. The Act did not contain any accounting procedure to be followed. GoWB also did not give cognizance to the directives stated in the Manual and changed the accounting procedures

<sup>19</sup> The Act did not prescribe the accounting procedure to be followed as per the prevalent accounting principle.

through administrative orders<sup>20</sup>. The Finance Department did not comply with the conditions stated in the WBBM.

The cess (₹ 36.08 crore) collected during 2018-19 was, however, directly booked under the Public Account instead of 'Non-Tax receipts'. Consequently, Non-Tax receipts were understated by ₹ 36.08 crore.

• **Inflated Non-Tax Receipts**

According to General Direction contained in Paragraph 3.10 of List of Major and Minor Heads of Accounts, recoveries of overpayments during the financial year in which such overpayments were made, should be recorded as reduction of expenditure under the concerned expenditure head.

Audit noticed that due to deficient budget provisions by Government of West Bengal during 2018-19, under six head of accounts<sup>21</sup>, an amount of ₹ 2.83 crore were booked as 'revenue receipts' instead of 'reduction of expenditure'. Consequently, Non-Tax Receipts were overstated by ₹ 2.83 crore.

**1.4.2.4 State's Share of Union Taxes**

The devolution of different components of State's share of Union Taxes during 2015-16 to 2018-19 is given in Table 1.14.

**Table 1.14: Devolution of different components of State's share of Union Taxes**

Components of State's share of Union taxes	14th FC award period				Difference in 2018-19 over previous year	Percentage variation in 2018-19 over previous year
	2015-16	2016-17	2017-18	2018-19		
	(₹ in crore)					
Corporation Tax	11,702	14,314	15,107	19,397	4,290	28.40
Customs	5,951	6,157	4,979	3,954	(-)1,025	(-)20.59
Income Tax	81,29	9,948	12,757	14,285	1,528	11.98
Other taxes and duties on commodities and services	27	-	-	130	130	
Service Tax	6,394	7,142	5,594	511	(-)5,083	(-)90.87
Wealth Tax	3	33	-	7	7	
Union Excise Duties	4,958	7,031	5,204	2,627	(-)2,577	(-)49.52
CGST	NA	NA	701	13,766	13,065	1,863.77
IGST	NA	NA	4,980	1,099	(-)3,881	(-)77.93
<b>Grand total</b>	<b>37,164</b>	<b>44,625</b>	<b>49,321</b>	<b>55,776</b>	<b>6,455</b>	<b>13.09</b>
<b>Devolution as percentage of Revenue Receipts of the State</b>	<b>33.87</b>	<b>37.87</b>	<b>37.57</b>	<b>38.21</b>		

Source: Finance Accounts of Government of West Bengal (2015-16 to 2018-19)

It is observed that State's share of Union Taxes increased by ₹ 6,455 crore (13.09 per cent) over the previous year. The State's share of Union Taxes were primarily aimed at meeting the revenue expenditure needs of the State. However, in spite of increased central funding, the State failed to eliminate the Revenue Deficit which stood at ₹ 10,399 crore (0.88 per cent of GSDP) during 2018-19.

<sup>20</sup> Issued by the Finance Department in June 2014 and September 2016

<sup>21</sup> ₹ 8.46 lakh under '0070'; ₹ 190.34 lakh under '0071'; ₹ 40.85 lakh under '0210'; ₹ 5.22 lakh under '0401'; ₹ 0.18 lakh under '0425' and ₹ 37.48 lakh under '1054'

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

The details of Grants-in-Aid (GIA) and its composition during the years 2014-19 are given in **Table 1.15**.

**Table 1.15: Components of Grants-in-Aid**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
	(₹ in crore)				
Non-Plan Grants	3,271	11,753	10,217	-	-
Grants for State Plan Schemes	17,250	14,997	14,443	-	-
Grants for Central Plan Schemes	365	1,464	131	-	-
Grants for Centrally Sponsored Schemes	(-) 6	-	-	15,734	15,688*
Finance Commission Transfers	-	-	-	5,283	4,189
Other Transfer/ Grants to States/ Union Territories with Legislature	-	-	-	5,094	5,933
<b>Total grants</b>	<b>20,880</b>	<b>28,214</b>	<b>24,791</b>	<b>26,111</b>	<b>25,810</b>
Total grants as a percentage of Revenue Receipts	24.13	25.71	21.04	19.89	17.68

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

\* Includes transaction of ₹1.62 crore, initiated in Treasury wrongly, the matter of which has been taken up with the State Government

Budget Estimate for GIA from Government of India was ₹ 32,714 crore. It is observed that GIA decreased by 1.15 per cent (₹ 301 crore) over the previous year. This was mainly due to decrease in Grants-in-Aid to Swachh Bharat Mission by ₹ 489 crore, Pradhan Mantri Awas Yojana by ₹ 385 crore and National Health Mission by ₹ 207 crore. However, central share was increased in schemes such as Pradhan Mantri Gram Sadak Yojana (by ₹ 369 crore), AMRUT<sup>22</sup> (by ₹ 236 crore) and Anganwadi Services (by ₹ 204 crore).

### Allocation of the 14th FC Grants

The status of release of 14<sup>th</sup> FC grants *vis-à-vis* allocation is depicted in **Table 1.16**.

**Table 1.16: Release of 14<sup>th</sup> FC Grants *vis-à-vis* Allocation**

Sl. No.	Transfer	Recommendation of the FC (Allocations up to 2018-19)	Actual release by GoI	Shortfall
		(₹ in crore)		
(A)	(B)	(C)	(D)	(C-D)
(I)	Local Bodies	14,499.84	12,799.91	1,699.93
(a)	Grants to PRIs	9,891.77	8,900.20	991.57
(b)	Grants to ULBs	4,608.07	3,899.71	708.36
(II)	Grants for Disaster Relief	1,758.20	1,668.50	89.70
	<b>Total</b>	<b>16,258.04</b>	<b>14,468.41</b>	<b>1,789.63</b>

Source: 14<sup>th</sup> FC Report and departmental figures

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

### ***Shortfall in receipt of grants for Local Bodies***

There was a shortfall in receipt of Local Bodies grants of ₹ 1,699.94 crore (*Appendix 1.6*) of which the share of basic grants and performance grants were ₹ 388.69 crore and ₹ 1,311.25 crore, respectively during 2015-19.

Finance Department replied (July 2019) that delayed submission of UCs and non-fulfilment of conditions<sup>23</sup> for basic and performance grants respectively, were the likely attributable reasons for the shortfall.

### ***Shortfall in receipt of grants for Disaster Relief***

Pursuant to SDRF<sup>24</sup> guidelines (July 2015), GoI contribution on disaster relief for West Bengal during the award period (2015-20) of 14<sup>th</sup> FC was fixed at 75 per cent of the total allocation<sup>25</sup>. From the year 2018-19, GoI share, however, was enhanced to 90 per cent.

Audit noticed that during 2018-19, despite the change of sharing pattern, GoWB received ₹ 448.50 crore (75 per cent of the allocation) against the receivable of ₹ 538.20 crore<sup>26</sup>. No record/ reason was furnished by the Finance Department, GoWB to explain this shortfall.

### ***Avoidable payment of interest***

Fourteenth FC recommended that State should release the grants to the gram panchayats and municipalities within 15 days of its being credited to State Government's account by the Union Government. Again, as per SDRF guidelines the State along with its own share was to transfer the Union share of SDRF in the Public Account within 15 days of its receipt. Any delay in release of the above two types of grants would attract penal interest at the bank rate of RBI.

Audit observed that 14th FC grants of ₹ 6,595.25 crore (Local Bodies grants of ₹ 4,877.42 crore<sup>27</sup> plus SDRF of ₹ 1,717.83 crore) were released with delays ranging between one and 398 days beyond the stipulated time frame (*Appendix 1.7*). Due to this delay, GoWB had to pay interest of ₹ 48.87 crore upto 2018-19. Payment of interest for 2018-19 was ₹ 3.12 crore.

Finance Department replied (July 2019) that the release of grants to local bodies had been delayed on a few occasions due to involvement of different intermediary steps. However, the payment of penal interest did not go to Government of India but to Local Bodies and is being utilised for development purpose. While audit appreciates the reply, the fact remains that the extra expenditure could have been avoided had the funds been transferred in time.

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<sup>23</sup> (i) Submission of audited accounts for two preceding years, (ii) Increase in own tax revenue by the panchayats and municipalities and (iii) Publication of service level benchmark by the municipalities

<sup>24</sup> State Disaster Response Fund

<sup>25</sup> For 2015-16: ₹ 516 crore; 2016-17: ₹ 542 crore; 2017-18: ₹ 569 crore and 2018-19: ₹ 598 crore as per recommendation of the 14<sup>th</sup> FC

<sup>26</sup> Calculated considering 90 per cent of ₹ 598 crore

<sup>27</sup> 38 per cent of GoI release.

### 1.4.3 Receipts under capital section

Trends of capital receipts under the capital section during 2014-19 are given in **Table 1.17**.

**Table 1.17: Trends in growth and composition of capital receipts**

Sources of State's Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Capital Receipts (CR)</b>	<b>55,369</b>	<b>47,232</b>	<b>40,757</b>	<b>45,957</b>	<b>71,693</b>
Misc. Capital Receipts (₹ in crore)	Nil	653	Nil	Nil	692
Recovery of Loans and Advances (₹ in crore)	176	832	3,233	214	804
Rate of growth of non-debt receipts under the capital section (in per cent)	(-84.80)	743.75	117.71	(-93.38)	599.07
Public Debt Receipts*(₹ in crore)	<b>55,193</b>	<b>45,747</b>	<b>37,524</b>	<b>45,743</b>	<b>70,197</b>
Rate of growth of Debt Receipts (in per cent)	8.33	(-17.11)	(-17.97)	21.90	53.46

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

\* Includes Ways and Means Advances of ₹ 19,381 crore in 2014-15, ₹ 11,139 crore in 2015-16, ₹ 1,208 crore in 2016-17, ₹ 5,395 crore in 2017-18 and ₹ 25,005 crore in 2018-19

Public debt receipts constituted major component of Capital Receipts (97.91 per cent). Out of the Public Debt Receipts of ₹ 70,197 crore, internal debt of the State Government was ₹ 69,019 crore and loans and advances from the GoI was ₹ 1,178 crore.

#### 1.4.3.1 Public Account Receipts

Receipts and disbursements under small savings, provident funds, reserve funds, etc. which do not form part of the Consolidated Fund, are kept in Public Account set up under Article 266(2) of the Constitution. These are not subject to vote by the State Legislature. Government acts as a banker or trustee. The balance after disbursements is the fund available with the Government for its own use. Composition of Public Account (net) is shown in **Table 1.18**.

**Table 1.18: Composition of Public Account Receipts and Disbursements**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	
	Actuals	Actuals	Actuals	Actuals	Budget	Actuals
(₹ in crore)						
<b>A. Public Account Receipts</b>						
Small Savings, Provident Fund, etc.	3,441	3,216	3,268	3,728	3,672	3,803
Reserve Fund	2,951	2,051	3,831	2,997	3,242	2,538
Deposits and Advances	43,035	49,747	60,273	75,112	74,280	84,835
Suspense and Miscellaneous*	72,744	94,597	1,02,260	1,20,272	3,88,570	1,41,609
Remittances	9,694	(-3)	1	(-1)	11	-
<b>Total (A)</b>	<b>1,31,865</b>	<b>1,49,608</b>	<b>1,69,633</b>	<b>2,02,108</b>	<b>4,69,775</b>	<b>2,32,785</b>

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	
	Actuals	Actuals	Actuals	Actuals	Budget	Actuals
(₹ in crore)						
<b>B. Public Account Disbursements</b>						
Small Savings, Provident Fund, etc.	2,434	2,475	2,411	2,564	2,604	2,675
Reserve Fund	1,683	3,087	1,608	3,842	3,173	124
Deposits and Advances	41,862	46,331	55,785	72,505	71,012	79,123
Suspense and Miscellaneous*	73,851	95,775	1,02,989	1,18,638	3,88,570	1,43,042
Remittances	9,522	1,732	24	(-6)	29	(-2)
<b>Total (B)</b>	<b>1,29,352</b>	<b>1,49,400</b>	<b>1,62,817</b>	<b>1,97,543</b>	<b>4,65,388</b>	<b>2,24,962</b>
<b>Public Account Net (A)-(B)</b>	<b>2,513</b>	<b>208</b>	<b>6,816</b>	<b>4,565</b>	<b>4,387</b>	<b>7,823</b>

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19);

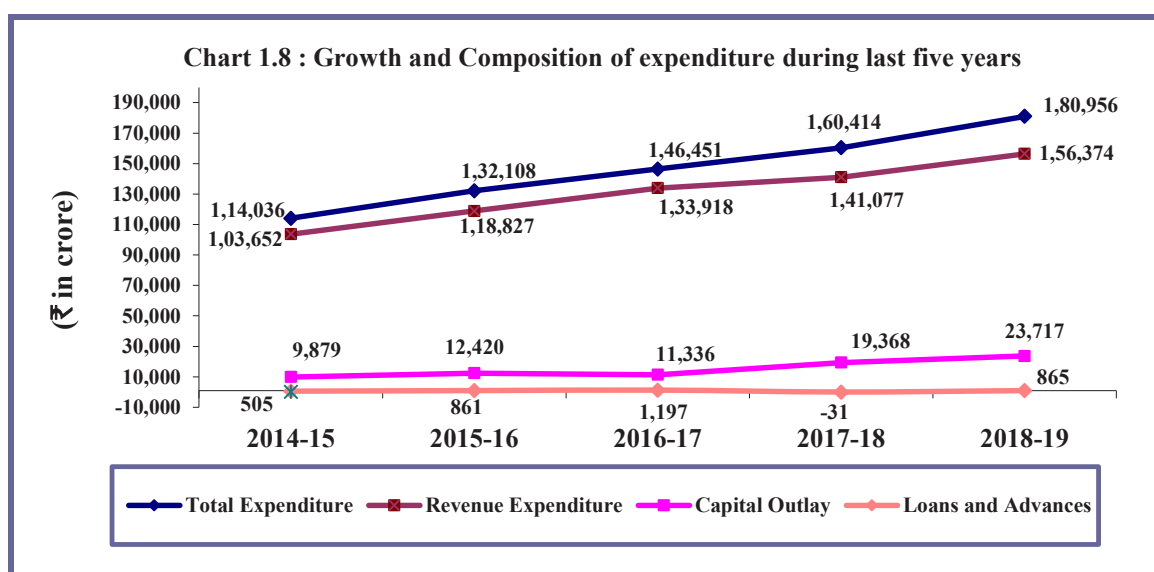
\*Excluding balances in the Head of Accounts '8671', '8672' and '8673' since these are included in the Cash Balances

Net Public Accounts Receipts increased by ₹ 3,258 crore over 2017-18 owing to net increase in the balances of Reserve Funds (₹ 3,259 crore) and deposits and advances (₹ 3,105 crore). This was partly counterbalanced by net decrease in the balances on Suspense and Miscellaneous heads (₹ 3,067 crore). The impact of transactions under Reserve Funds are discussed in Paragraph 1.7.1.

## 1.5 Application of Resources

### 1.5.1 Growth and composition of expenditure

The total expenditure (TE) in 2018-19 was ₹ 1,80,956 crore. The rate of growth of TE during 2018-19 (12.81 per cent) over 2017-18 was slightly higher than the average growth of GCS (12.73 per cent). Chart 1.8 presents the trends and composition of TE during 2014 to 2019.



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Around 86.42 *per cent* of the total expenditure in 2018-19 was Revenue Expenditure as compared to 87.95 *per cent* during 2017-18. Social Services<sup>28</sup> expenditure took precedence with 42.25 *per cent* over General (31.94 *per cent*) and Economic Services (25.54 *per cent*) in the total expenditure. Capital Expenditure, targeted towards creation of assets, constituted 13.11 *per cent* of the total expenditure, with the Economic Services<sup>29</sup> (65.21 *per cent*) receiving priority.

Component-wise major expenditure in Revenue and Capital sections incurred in 2017-18 and 2018-19 is shown in **Table 1.19**.

**Table 1.19: Major expenditure components under Revenue and Capital**

Revenue				Capital			
Component	Sector	2017-18	2018-19	Component	Sector	2017-18	2018-19
		₹ in crore)				₹ in crore)	
Education, Sports, Art and Culture	Social	24,614	28,365	Transport	Economic	3,766	5,266
				Water supply, Sanitation, Housing and Urban Development	Social	5,405	3,964
Social Welfare and Nutrition	Social	16,658	20,690	Rural Development	Economic	1,776	2,576
Rural Development	Economic	18,162	15,301	Special Areas Programmes	Economic	1,228	1,868
				Irrigation and Flood Control	Economic	1,562	1,798
				Energy	Economic	827	1,752
				Industry and Minerals	Economic	974	1,471
				Health and Family Welfare	Social	931	1,237
Health and Family Welfare	Social	7,925	8,440	Social Welfare and Nutrition	Social	700	988
Agriculture and allied activities	Economic	3,730	7,911				
Water supply, Sanitation, Housing and Urban Development	Social	7,482	7,891				
Welfare of SCs, STs, Minorities and OBCs	Social	2,200	2,397				
Energy	Economic	2,158	1,991				
Transport	Economic	1,714	1,776				

Source: Finance Accounts of Government of West Bengal (2017-18 and 2018-19)

<sup>28</sup> Refers to welfare activities of the Government and includes (i) Education, Sports, Art and Culture, (ii) Health and Family Welfare, (iii) Water Supply, Sanitation, Housing and Urban Development, (iv) Information and Broadcasting, (v) Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes, (vi) Labour and Labour Welfare, (vii) Social Welfare and Nutrition and (viii) Others.

<sup>29</sup> Refers to economic development activity sectors of the Government and includes (i) Agriculture and allied services, (ii) Irrigation and Flood Control, (iii) Energy, (iv) Industry and Minerals, (v) Transport, (vi) Science Technology and Environment, (vii) Rural Development and (viii) General Economic Services.

- Revenue Expenditure (₹ 1,56,374 crore) was higher than the previous year's figure (₹ 1,41,077 crore) by 10.84 per cent. The increase over the previous year was mainly due to (i) financial support of ₹ 4,000 crore for *Krishak Bandhu* scheme<sup>30</sup>, (ii) higher outgo in Supply of rice to the APL/ BPL families in the TPDS<sup>31</sup> (₹ 1,980 crore) and Women's and Child's Welfare (₹ 849 crore), (iii) payment of interest on market loans<sup>32</sup> (₹ 1,541 crore) and (iv) higher assistance to Non-Government Secondary Schools<sup>33</sup> (₹ 1,063 crore). This was offset by decreases mainly under Rural Development (₹ 2,861 crore) due to lower assistance to Gram Panchayats (by ₹ 1,884 crore) and lower expenditure on Jawahar Gram Samridhi Yojana (by ₹ 351 crore).

### Box 1.1

#### Case Study: Implementation of *Krishak Bandhu* scheme

For implementation of *Krishak Bandhu* (Assured Income) scheme, Agriculture Department released (January 2019) ₹ 4,000 crore to the West Bengal State Seed Corporation Limited (WBSSCL), which was entrusted to act as the State Level Agency and to oversee the financial assistance provided for this scheme.

Scrutiny revealed that pursuant to the order (February 2019) of Agriculture Department, with the concurrence of Finance Department, the entire amount was transferred to a Bank Account<sup>34</sup> maintained by WBSSCL. As of March 2019, of the amount referred *ibid*, ₹ 3,500 crore was parked in Term Deposit<sup>35</sup> with the approval of the Finance Department, while ₹ 379.47 crore remained in four current accounts, maintained by WBSSCL. Thus, the fund released in January 2019 by the State Government to WBSSCL left little scope to implement the scheme during the year.

- During 2018-19, Capital expenditure (₹ 23,717 crore) constituted 13.11 per cent of the total expenditure (**Chart 1.8**) and increased by 22.45 per cent (₹ 4,349 crore) over 2017-18. The increase was mainly on account of increase in capital expenditure under improvement of Roads and Bridges (₹ 1,531 crore), Power Projects (₹ 925 crore), Rural Development Programs (₹ 800 crore) and Special Areas Programs (₹ 640 crore) set off by decrease of capital expenditure under Housing (₹ 839 crore) and Urban Development Programs (₹ 459 crore) under Social services.

## 1.5.2 Revenue Expenditure

### 1.5.2.1 Committed Expenditure

Committed Expenditure of Government consists of expenditure on Salaries and Wages (₹ 41,541 crore), Interest payments (₹ 28,911 crore), Pensions (₹ 16,063 crore) and Subsidies (₹ 13,403 crore). The committed expenditure in 2018-19

<sup>30</sup> A direct benefit scheme aimed to give annual assistance of ₹ 5,000 to farmers having one or more acre of land and one time lump sum assistance of ₹ 2 lakh to farm family, in the event of death of farmer.

<sup>31</sup> Targeted Public Distribution System

<sup>32</sup> Payment of Interest on Market Loans during the year was ₹ 18,119.58 crore.

<sup>33</sup> Expenditure during the year was ₹ 11,566.12 crore.

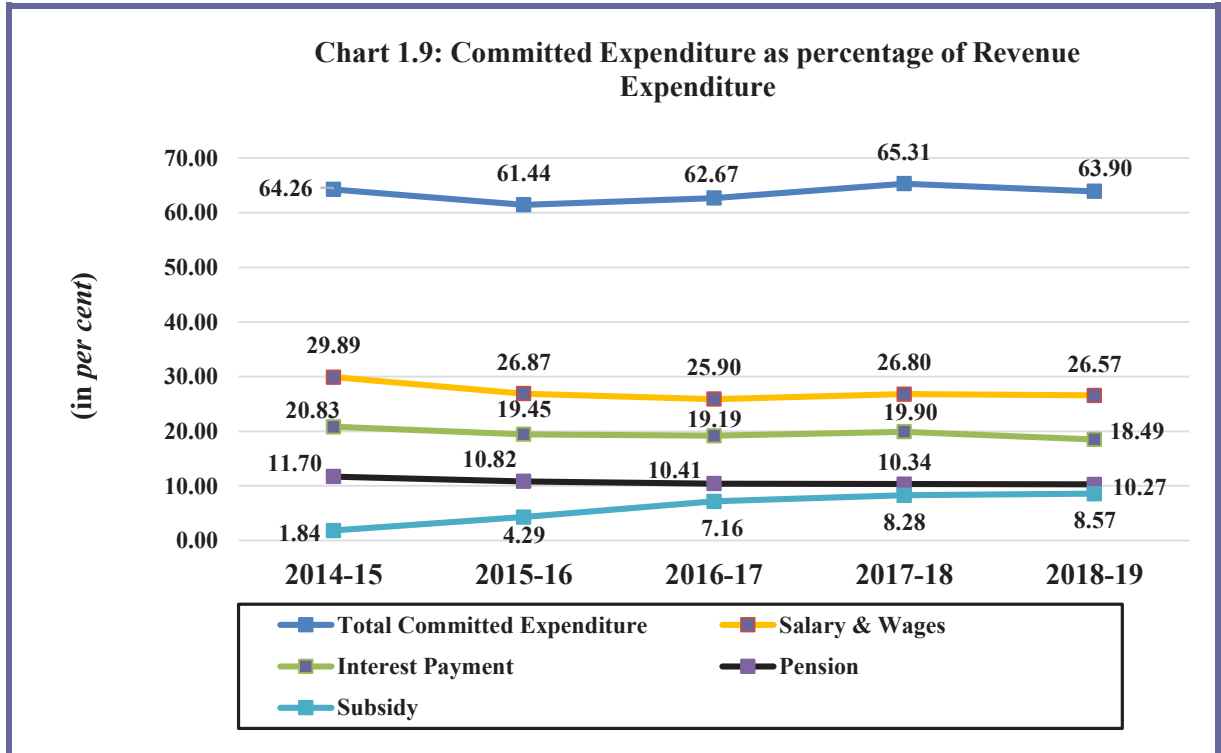
<sup>34</sup> In the West Bengal State Co-operative Bank Limited

<sup>35</sup> For 91 days, @ 7.95 per cent per annum



was ₹ 99,918 crore and consumed around 63.90 *per cent* of Revenue Expenditure.

The burden of committed expenditure measured as a percentage of Revenue Expenditure of the State is decreasing (**Chart 1.9**).



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

The following observations were noted in Audit:

- The share of Salaries and Wages remained almost 27 *per cent* of Revenue Expenditure. The rate of growth of Salaries and Wages during 2018-19 (9.89 *per cent*) over 2017-18 was lower than the average growth of GCS (11.03 *per cent*).
- The rate of growth of expenditure on pension during 2018-19 (10.11 *per cent*) over 2017-18 was lower than the average growth of GCS (14.31 *per cent*).
- The share of subsidy increased to 8.57 *per cent* from 8.28 *per cent* during 2017-18. Expenditure on subsidy increased by ₹ 1,726 crore (14.78 *per cent*) over 2017-18. Subsidies on Food & Supplies (₹ 10,584 crore) which accounts for 79 *per cent* of the total subsidies, increased by 18 *per cent* owing to enhancement of State subsidy for supply of rice to the APL/ BPL families in the TPDS (₹ 882 crore). In Agriculture, subsidy increased by ₹ 139 crore due to enhanced subsidy in Crop Insurance Scheme (₹ 122 crore).

Apart from the above, four departments incurred expenditure in the nature of subsidies of ₹ 883.47 crore during 2018-19 (**Table 1.20**).

**Table 1.20: Details of expenditure in the nature of subsidies**

Sl. No.	Schemes/Subsidy	Name of Department	Amount (₹ in crore)
1.	Grants to Kolkata Municipal Corporation/Howrah Municipal Corporation/Urban Local Bodies for adjustment of Energy Bills of Calcutta Electric Supply Corporation Limited	Urban Development & Municipal Affairs	854.34
2.	State subsidy for supply of rice to the APL/BPL families in the TPDS	Food and Supplies	23.35
3.	Subsidies for interest liabilities in respect of share croppers, small farmers and self-employed persons	Cooperation	4.78
4.	Subsidised distribution of seed planting materials	Food Processing Industries & Horticulture	1.00
<b>Total</b>			<b>883.47</b>

Source: Appropriation Accounts of Government of West Bengal (2018-19)

Though, these are in the nature of subsidies, they are however, not reflected as subsidies and the subsidies shown in the accounts are understated to that extent.

- Expenditure on Interest Payments grew by 2.98 per cent (₹ 837 crore) over the previous year (₹ 28,074 crore). It accounted for 19.81 per cent of Revenue Receipts during 2018-19, which is slightly higher than the ceiling of 19.12 per cent fixed by 14th Finance Commission. Interest on market loans and interest on special securities issued to NSSF constituted 62.67 and 25.21 per cent respectively, of the interest payments during 2018-19. Payment of interest on Ways and Means Advances from RBI stood at ₹ 20.75 crore as against ₹ 1.05 crore paid during the previous year.

### 1.5.2.2 Financial assistance to Local Bodies and Other Institutions

Financial assistance to the tune of ₹ 57,589 crore was provided by the State Government to local bodies and other institutions by way of grants in 2018-19 (Table 1.21). There was an increase in the overall quantum of assistance by ₹ 2,624 crore (4.77 per cent) in comparison to previous year (₹ 54,965 crore) though assistance as a percentage of Revenue Expenditure dipped by 2.14 per cent over the previous year.

**Table 1.21: Financial Assistance to Local Bodies and Other Institutions**

Financial Assistance to Local Bodies/ Institutions	2014-15	2015-16	2016-17	2017-18	2018-19
	(₹ in crore)				
Panchayati Raj Institutions (PRIs)	12,775	15,153	14,347	15,180	11,678
Educational Institutions (Universities)	1,105	1,125	1,530	1,419	1,345
Urban Local Bodies (ULBs)	3,960	3,562	3,825	4,786	4,787
Development Authorities	473	556	382	320	295
Other Autonomous Bodies	0.00	86	2,137	2,008	1,403
Cooperative Institutions	16	20	211	305	214
Public Sector Undertakings (PSUs)	64	72	4,872	1,893	1,117
Non-Government Organisations	349	367	15,941	21,123	19,461
Others*	25,138	28,519	9,430	7,931	17,289
<b>Total</b>	<b>43,880</b>	<b>49,460</b>	<b>52,675</b>	<b>54,965</b>	<b>57,589</b>
<b>Assistance as percentage of Revenue Expenditure</b>	<b>42</b>	<b>42</b>	<b>39</b>	<b>39</b>	<b>37</b>

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

\*Others include Grants for National Old Age Pension Scheme (State Share), Implementation of Annapurna Scheme for Welfare of Aged, Infirm and Destitute and Scheme for financial assistance to the workers in locked-out Industrial units, etc.

It is pertinent to note that ULBs (Municipal Corporations/ Municipalities), Development Authorities, Universities and Other Autonomous Bodies had arrear of accounts as of March 2019 as discussed in details in **Paragraphs 3.5** and **3.6**. Release of financial assistance without insisting on rendering timely accounts was detrimental to public accountability and indicated poor financial management.

### **1.5.2.3 National Pension System**

State Government employees recruited on or after 1 January 2004 are required to be covered under the National Pension System (NPS), which is a defined contributory pension scheme. It is mandatory for employees to contribute 10 *per cent* of basic pay and dearness allowance every month. The State Government has to make equal contribution. Audit analysis showed the following:

- 14<sup>th</sup> Finance Commission recommended that the States which have not adopted the NPS so far to immediately consider doing so for their new recruits in order to reduce their future burden.

The State did not adopt the NPS for its own employees recruited on or after 1 January 2004. However, the scheme was implemented only for the All India Service Officers and other Central/ State Government employees on deputation to the State recruited on or after 1 January 2004.

- The Annual Review on Working of the Treasuries-2018-19<sup>36</sup> indicated that, in respect of seven out of 71 treasuries, there was a mismatch<sup>37</sup> between Government contribution and Employee's contribution under NPS which was not reconciled by seven Treasuries/ PAOs. Discrepancies in remittances made under NPS are violation of Government order (February 2012).

### **1.5.3 Capital Expenditure**

During 2009-10 to 2017-18, the CAGR of Capital Expenditure (26.20 *per cent*) was higher than the GCS (13.53 *per cent*). The growth of capital expenditure (₹ 23,717 crore) during the current year over the previous year was 22.45 *per cent* and was also higher than the growth of GCS (11.93 *per cent*). However, the veracity of these figures was questionable as ₹ 3,107.49 crore representing expenditure of revenue nature was misclassified as Capital expenditure. Also, ₹ 1.62 crore of capital nature was misclassified as Revenue Expenditure. As a result, Revenue Deficit of ₹ 3,105.87 crore stood understated to that extent. Apart from this, capital expenditure shown in the accounts remained overstated

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<sup>36</sup> The Report is brought out by the Office of the Principal Accountant General (A&E), West Bengal

<sup>37</sup> Of ₹1.84 lakh

by ₹ 478.63 crore since the amount was utilised for setting of loan liabilities of two PSUs<sup>38</sup>.

Fourteenth Finance Commission had opined that any fall in capital expenditure to Gross Domestic Product (GDP) could be indicative of the need to address the state-specific issue of resource constraint, policy inertia, *etc.* In this backdrop, the Capital Expenditure to Gross State Domestic Product (GSDP) of the State of West Bengal was assessed *vis-à-vis* that of the neighbouring States to comprehend its worthiness. **Table 1.22** shown below, disclosed that in regard to Capital Expenditure to GSDP (at current prices) during 2014-19, the State of West Bengal stood at the lowest compared with that of the neighbouring States of Odisha, Jharkhand and Bihar.

**Table 1.22: Capital Expenditure to GSDP (in per cent)**

Name of the State	2014-15	2015-16	2016-17	2017-18	2018-19
West Bengal	1.38	1.56	1.29	1.90	2.01
Odisha	3.52	5.17	4.90	5.07	4.80
Jharkhand	2.54	3.95	4.61	4.68	3.48
Bihar	5.29	6.49	6.39	5.93	3.78

Source: Finance Accounts of the respective states (2014-15 to 2018-19)

This scenario indicated that there was a need to review the fiscal strategy to assess the aptness of utilisation of the fiscal space through capital expenditure, which in turn, would help to accelerate growth and promote equitable growth.

### 1.5.3.1 Inflated Capital Outlay

(i) WBTIDF<sup>39</sup> was constituted (March 2004) for creation, development, maintenance and improvement of transport infrastructure out of collection of cess imposed on sale of motor spirits used for commercial and industrial purposes. In terms of the accounting procedure prescribed (March 2004) by the State Government for maintenance of proper accounts and administration of WBTIDF, the receipts by way of collection of cess were to be transferred to WBTIDF through Revenue Expenditure heads. During 2018-19, pursuant to orders of Finance Department (June 2018), ₹ 357.78 crore<sup>40</sup> was contributed through capital outlay heads instead of the revenue heads of account.

To that extent, capital outlay remained overstated with corresponding understatement of revenue expenditure and revenue deficit (Refer **Table 1.5**).

(ii) WBCETF<sup>41</sup> was established (July 2012) to develop and facilitate trade, commerce and industry by constructing roads, transport, electricity infrastructure, *etc.* in the State and providing finance, grants and subsidies to

<sup>38</sup> National Iron and Steel Co. Limited (₹ 345.21 crore) and Neo Pipe & Tube Co. Limited (₹ 133.42 crore)

<sup>39</sup> West Bengal Transport Infrastructure Development Fund

<sup>40</sup> ₹ 257.85 crore under the H/A: 5054-80-797 and ₹ 99.93 crore under the H/A: 5055-00-797

<sup>41</sup> West Bengal Compensatory Entry Tax Fund

the local bodies/ government agencies for the specified purpose. Entry tax collected in the State was credited to the fund and actual expenditure initially accounted for under various heads in Consolidated Fund booked in WBCETF in reduction of expenditure in respective head of accounts where it was booked initially.

During 2017-18, there was an excess adjustment of ₹ 999.16 crore from WBCETF. Finance Department, to set right the anomaly, issued (July 2019) an adjustment order, favouring three departments<sup>42</sup>. Amongst these adjustments, ₹ 104.36 crore was booked under the Capital Outlay head of MSMET<sup>43</sup> department instead of its Revenue Expenditure head under which excess expenditure was actually incurred during 2017-18.

This resulted in overstatement of capital outlay by ₹ 104.36 crore with corresponding understatement of revenue expenditure and revenue deficit (Refer Table 1.5).

#### 1.5.4 Quality of Expenditure

Quality of expenditure basically involves three aspects *viz.*, adequacy of the expenditure (*i.e.*, adequate provisions for providing public services); efficiency of expenditure use, and effectiveness (assessment of outlay-outcome relationships for services).

##### 1.5.4.1 Adequacy of Public Expenditure

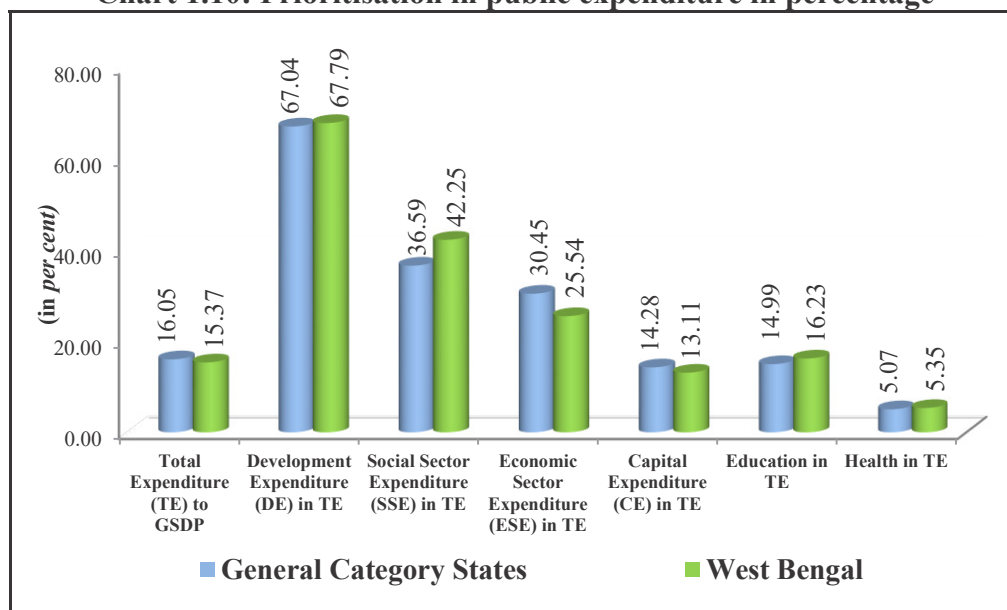
A comparison of fiscal priority of West Bengal with other General Category States<sup>44</sup> (Chart 1.10) revealed that in ratios of TE to GSDP, ESE to TE and CE to TE, the State of West Bengal had compared unfavourably in comparison to the General Category States' (GCS) average. In DE to TE ratio, the State managed to stay above the average of GCS marginally whereas in the SSE to TE ratio, the State's performance was significantly higher than the average of GCS. However, as the fiscal deficit over the period has increased by ₹ 4,555 crore (nearly 15.74 *per cent*), the future of Social Sector spending could be a cause of concern.

<sup>42</sup> MSMET: ₹ 193.42 crore; PWD: ₹ 684.43 crore; NBDD: ₹ 121.31 crore

<sup>43</sup> Micro, Small & Medium Enterprises and Textiles

<sup>44</sup> Undivided Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal

Chart 1.10: Prioritisation in public expenditure in percentage



Source: Finance Accounts of Government of West Bengal (2018-19)

The following is noticed from the above chart.

- West Bengal laid emphasis on Social Sector spending. As a percentage of Total Expenditure, spending on this account was higher than combined average of General Category States (GCS) by 5.66 per cent. Apart from Bihar (42.62 per cent), West Bengal's spending was much higher than the other two neighbouring states of Odisha (37.31 per cent) and Jharkhand (32.51 per cent).
- In Economic Sector Expenditure, West Bengal's performance was lower than the average spending of GCS by 4.91 per cent. All three neighbouring states (Odisha: 38.15 per cent, Jharkhand: 38.06 per cent and Bihar: 28.87 per cent) surpassed the spending of West Bengal.
- West Bengal fared favourably in its focus on Education (₹ 29,362 crore) in comparison to other GCS. As a percentage to Total Expenditure, the State's performance (16.23 per cent) was lower than that of Bihar (19.38 per cent) but higher than Jharkhand (13.05 per cent) and Odisha (15.50 per cent).
- Also in Health (₹ 9,678 crore) sector, the State's performance was slightly higher than the average spending of GCS. The State's expenditure on this count (5.35 per cent) was almost same to the neighbouring states (Bihar: 4.96 per cent, Odisha: 5.19 per cent and Jharkhand: 5.41 per cent).
- The State, lagged behind in the area of Capital Expenditure (₹ 23,717 crore) but fared favourably in Development Expenditure (₹ 1,22,674 crore) in comparison to GCS.

#### 1.5.4.2 Per capita expenditure in some major socio economic sectors

The per capita expenditure for 2018-19 of West Bengal in some major socio economic sectors and its comparison with the previous year 2017-18 is given in the **Table 1.23** below.

Table 1.23: Per capita expenditure in some selected Social and Economic sectors

Sector	2017-18			2018-19			Percentage variation in 2018-19 over 2017-18
	Expenditure (₹ in crore)	Population of the state (in crore)	Per capita expenditure (in ₹)	Expenditure (₹ in crore)	Population of the state (in crore)	Per capita expenditure (In ₹)	
Health and Family Welfare	8,857	9.63	920	9,678	9.69	999	8.59
Education, Sports, Arts & Culture	25,068		2,587	29,362		3,030	17.12
Agriculture	4,313		448	8,543		882	96.88
Rural Development	19,938		2,070	17,877		1,845	(-)10.87
Transport	5,064		526	7,069		730	38.78

Source: Finance Accounts of Government of West Bengal (2017-18 and 2018-19) and Report of the Technical Group on Population Projections (November 2019), National Commission on Population, Ministry of Health and Family Welfare

From **Table 1.23**, it is seen that excepting Rural Development there was an improvement in the per capita expenditure of Agriculture, Transport, Education and Health sectors over the previous year.

#### 1.5.4.3 Efficiency of Expenditure Use

Details of capital and revenue expenditure on maintenance of social and economic services are given in **Table 1.24** below.

Table 1.24: Efficiency of Expenditure Use in selected Social and Economic Services

Social/ Economic Infrastructure	2017-18			2018-19		
	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 per cent)						
<b>Social Services (SS)</b>						
Education, Sports, Art and Culture	1.81	77.70	0.00	3.40	73.97	0.03
Health and Family Welfare	10.51	47.54	0.27	12.79	49.32	0.34
Water Supply, Sanitation, Housing and Urban Development	41.38	20.69	4.94	32.41	22.08	4.90
<b>(Total SS)</b>	<b>11.29</b>	<b>43.82</b>	<b>0.67</b>	<b>9.58</b>	<b>41.91</b>	<b>0.63</b>
<b>Economic Services (ES)</b>						
Agriculture and Allied Activities	13.21	36.69	0.31	7.36	18.63	0.12
Irrigation and Flood Control	59.68	55.37	13.92	59.84	51.12	8.37
Power and Energy	27.38	0.05	0.00	41.14	0.06	0.00
Transport	74.36	9.27	14.86	74.49	9.39	15.62
<b>Total (ES)</b>	<b>27.50</b>	<b>14.44</b>	<b>1.45</b>	<b>33.47</b>	<b>14.33</b>	<b>1.29</b>
<b>Total (SS+ES)</b>	<b>17.24</b>	<b>34.29</b>	<b>0.92</b>	<b>18.58</b>	<b>33.49</b>	<b>0.83</b>

Source: Finance Accounts of Government of West Bengal (2018-19) 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

The ratio of Capital Expenditure to Total Expenditure in Water Supply, Sanitation, Housing and Urban Development under Social Sector has decreased while the expenditure on Power and Energy under Economic Sector has increased, indicating the focus of the Government on asset creation under this sector.

In respect of Revenue Expenditure, the share of Operations and Maintenance (O&M) in respect of Transport under Economic Sector has grown considerably over the preceding year indicating increasing burden of O&M. The share of salaries and wages in respect of Health and Family Welfare has increased whereas the share of salaries and wages in respect of General Education has decreased over the preceding year.

## 1.6 Composition of Assets and Liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. *Appendix 1.3 (Part B)* gives an abstract of liabilities and assets, as on 31 March 2019, compared with the corresponding position on 31 March 2018.

### 1.6.1 Government Assets

Government assets mainly comprise Capital Outlay, Investments, Loans and Advances given by the State Government and cash balances.

#### *Financial results of irrigation works*

The Capital Expenditure on 15 irrigation projects<sup>45</sup> was ₹ 2,491 crore as of March 2019. The financial results of these projects showed that an amount of ₹ 6.34 crore (0.24 per cent) was realised from these projects during 2018-19. After meeting the working expenses and interest charges of ₹ 194 crore, the schemes suffered a net loss<sup>46</sup> of ₹ 188 crore during the current year as compared to net loss of ₹ 207 crore during the previous year. The major loss making projects in 2018-19 were *Kangsabati* Reservoir Project (₹ 42 crore), *Teesta* Barrage Project (₹ 40 crore) and *Mayurakshi* Reservoir Project (₹ 33 crore). The profit making projects in 2018-19 were *Damodar* Canal (₹ 1 crore) and *Medinipur* Canal (₹ 4 lakh).

### 1.6.2 Investment and Returns in Public Sector Undertakings

As of 31 March 2019, the State Government's investment stood at ₹ 17,427 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Total investment during 2018-19 was ₹ 1,543 crore. In 2018-19, Government of West Bengal invested mainly in DPL<sup>47</sup> (₹ 514

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<sup>45</sup> Three drainage projects, five major projects and seven medium projects

<sup>46</sup> During 2018-19, total working expenses and maintenance (₹ 194.31 crore) exceeded the Total Revenue Receipts (₹ 6.31 crore)

<sup>47</sup> Durgapur Projects Limited



crore), WBHDCL<sup>48</sup> (₹ 308 crore), WBIDCL<sup>49</sup> (₹ 294 crore) and WBPDCCL<sup>50</sup> (₹ 175 crore). The average return on this investment remained negligible. The position of return on investments<sup>51</sup> during 2014-19 is given in **Table 1.25**.

**Table 1.25: Return on Investments**

Sl. No.	Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Investment at the end of the year (₹ in crore)	12,653	13,390	14,015	15,884	17,427
2.	Return in the form of Dividend (₹ in crore)	6	12	1	37	47
3.	Rate of Return ( <i>per cent</i> )	0.05	0.09	0.01	0.25	0.28
4.	Average rate of interest on Government borrowings <sup>52</sup> ( <i>per cent</i> )	8.15	7.92	7.99	8.04	7.67
5.	Difference between rate of return and interest rate (3-4) ( <i>per cent</i> )	(-)8.10	(-)7.83	(-)7.98	(-)7.79	(-)7.39

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

The Government earned a meagre return of ₹ 47 crore in 2018-19 on its investments of ₹ 17,427 crore in various Corporations/ Companies. The return on investment was negligible at 0.28 *per cent* during 2018-19, far lower than the average rate of interest (7.67 *per cent*), the Government paid on its borrowings.

In spite of poor return from its investment to the State PSUs, the State Government extended budgetary support of ₹ 9,193.21 crore<sup>53</sup> to them. The budgetary support included ₹ 1,744.14 crore extended to 27 PSUs (including eight inactive PSUs) having negative net worth of ₹ 12,791.72 crore<sup>54</sup>, as per their latest available accounts. Further, 29 Government companies (Working companies – 16 and Inactive companies – 13) had not even finalized their accounts, as required under Section 394 and 395 of Companies Act, 2013 and the delay ranged between one year to 13 years. Even in the absence of accounts to assess the demands for financial support from these Companies, the State Government had regularly extended budgetary support to these Companies.

While analyzing the investments made during 2018-19, Audit noticed that –

- Out of ₹ 294 crore invested in the WBIDCL, loans converted to equity and interest on loans converted to equity stood at ₹ 174 crore and ₹ 11 crore respectively, leading to fresh investment of ₹ 109 crore;
- Investment of ₹ 22 crore to the Durgapur Chemicals Limited included payment towards electricity bills of ₹ 10 crore, resulting to fresh investment of ₹ 12 crore.

<sup>48</sup> West Bengal Highway Development Corporation Limited

<sup>49</sup> West Bengal Industrial Development Corporation Limited

<sup>50</sup> West Bengal Power Development Corporation Limited

<sup>51</sup> In Statutory Corporations, Government Companies, Co-operative Societies and Banks

<sup>52</sup> Interest Payments/[(Amount of previous year's outstanding liabilities + current year's outstanding liabilities)/2]\*100

<sup>53</sup> Equity: ₹ 1,559.98 crore; Loans: ₹ 758.56 crore; Grants: ₹ 4,997.31 crore; Subsidy: ₹ 1,877.36 crore

<sup>54</sup> Calculated on the basis of provisional accounts figures submitted by PSUs

### 1.6.2.1 Investment in WBIDCL

Government of West Bengal (GoWB) sanctioned ₹ 108.56 crore to WBIDCL in July 2018 for investments through equity infusion in BAPL<sup>55</sup>. WBIDCL as an investor was allotted 1,08,56,141 crore preference shares of ₹ 100 each of BAPL. As per the Finance Accounts this was booked as the investment of Government of West Bengal in WBIDCL. The increase in shareholding of GoWB as a result of this investment was however not reflected in the annual accounts (2018-19) of WBIDCL.

### 1.6.2.2 Non-realisation of disinvestment proceeds

Disinvestment proceeds amounting to ₹ 147 crore could not be realised despite completion of the legal procedure for transfer of equity shares of Kolkata Metro Rail Corporation Limited (KMRCL) in favour of Ministry of Railways (in November 2012 and February 2013) by GoWB.

### 1.6.3 Loans and Advances given by the State Government

In addition to investments in co-operative societies, corporations and companies, Government also provided loans and advances to many of these institutions/ organisations. Details are given in Table 1.26.

**Table 1.26: Details of loans and advances by State Government**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Opening Balance of loans and advances (A) (₹ in crore)</b>	<b>14,641</b>	<b>14,970</b>	<b>14,999</b>	<b>12,963</b>	<b>12,718</b>
Amount advanced during the year (B) (₹ in crore)	505	861	1,197	(-) 31 <sup>56</sup>	865
Amount repaid during the year (C) (₹ in crore)	176	832	3,233 <sup>57</sup>	214	804
<b>Closing Balance of loans and advances (D=A+B-C) (₹ in crore)</b>	<b>14,970</b>	<b>14,999</b>	<b>12,963</b>	<b>12,718</b>	<b>12,779</b>
Net addition of loans and advances (B-C) (₹ in crore)	329	29	(-) 2,036	(-) 245	61
Interest receipts(₹ in crore)	126	95	833	1031	548
Interest receipts as <i>per cent</i> to outstanding loans and advances <sup>58</sup> (E)	0.85	0.63	5.96	8.03	4.30

Source: Finance Accounts of Government of West Bengal of the respective years  
Difference of ₹ 1 crore with Finance Accounts is due to rounding

- As of 31 March 2019, Loans and Advances of ₹ 12,779 crore were given by the Government mainly to Government Companies (₹ 7,439 crore), Municipalities / Municipal Corporations (₹ 1,457 crore) and Statutory Corporations (₹ 386 crore).

<sup>55</sup> Bengal Aerotropolis Projects Limited, a Non-Government Company, registered under Companies Act, 1956

<sup>56</sup> Outstanding loans converted to equity in respect of West Bengal Highway Development Corporation Limited (₹ 700 crore) surpassed the loans disbursed during the year.

<sup>57</sup> The high recovery of loans and advances in 2016-17 was due to higher repayment of loans from WBSEDCL under West Bengal Power Sector Reforms Transfer Scheme, 2007

<sup>58</sup> Interest received [(opening balance + closing balance of loans and advance) / 2] \* 100

- Interest receipts decreased to ₹ 548 crore in 2018-19 from ₹ 1,031 crore in 2017-18 mainly due to decrease in interest receipts on loans for the thermal power generation from ₹ 859 crore to ₹ 59 crore.

### Box 1.2

#### Case Study: Working Capital loan booked as Grants-in-Aid

Power and Non-Conventional Energy Sources Department released (November 2018) working capital loan (₹ 500 crore) to West Bengal State Electricity Distribution Company Limited (WBSEDCL). The expenditure was booked as 'Grants-in aid' under head '2801' instead of 'Working Capital loan' under the head of account '6801 - Loans for the Power Projects'.

Disbursement of loans under revenue expenditure overstated the Revenue Deficit to that extent.

#### *Arrears of Principal and Interest*

Against the estimation of ₹ 2,823 crore in the budget to be recovered in 2018-19, the actual recovery of loans was only ₹ 804 crore (28.48 per cent). This may be attributed to the fact that estimated recovery of loans in the budget inflated abruptly in 2018-19 since in 2017-18 the actual recovery was only ₹ 214 crore (26.62 per cent) against the budget estimate of ₹ 804 crore. Low recovery led to arrears of ₹ 5,536 crore on account of principal (mainly on Government Companies: ₹ 3,317 crore) and ₹ 8,547 crore on account of interest (mainly on Government Companies: ₹ 5,983 crore and Statutory Corporations: ₹ 807 crore) overdue for realization as of 31 March 2019. None of the unrecoverable loans were, however, written off during the year.

Government loans to 13 Government Companies/ Statutory Corporations/ Cooperatives amounting to ₹ 627.72 crore in 2018-19 did not specify any terms and conditions, like schedule of repayment, rate of interest, number of instalments, etc. Government was providing loans to Government Companies/ Statutory Corporations and Autonomous Bodies, whose annual accounts were in arrears (Refer Paragraphs 3.5 and 3.6).

**Recommendation 2:** *The Finance Department and the concerned administrative departments should consider initiating action to restructure loans and advances made to entities that have neither repaid the principal nor even paid interest for the past several years.*

#### 1.6.4 Cash Balance

The cash balance position of the State Government has been shown in **Table 1.27**.

**Table 1.27: Year-end Cash Balances**

Sl. No.	Particulars	At the end of March 2018	At the end of March 2019
		(₹ in crore)	
1.	General Cash Balances	(-)20.58	(-)5.45
2.	Investment held in Cash Balance Investment Account	8,570.10	5,976.95
3.	Other Cash Balances	2.14	2.24
4.	Investments of Earmarked Funds	10,307.52	11,633.37
<b>Total</b>		<b>18,859.18</b>	<b>17,607.11</b>

Source: Finance Accounts of Government of West Bengal (2017-18 and 2018-19)

**Table 1.27** disclosed that cash balance position has been reduced by ₹ 1,252 crore during 2018-19 owing to fall in cash balance investment by ₹ 2,593 crore, reasons for which have been discussed in the succeeding paragraphs. This was, however, offset by increase in investment of Earmarked Funds, which rose to ₹ 11,633 crore<sup>59</sup> from ₹ 10,308 crore.

During 2018-19, State Government maintained the mandatory minimum daily cash balance of ₹ 2.48 crore with the Reserve Bank of India (RBI) for 283 days without taking the ways and means advances (WMA) while during previous year it was 343 days. The State Government depended on Special WMA for 82 days including 47 days on normal WMA from the RBI for maintaining the minimum balance; though during 2017-18 dependency on special WMA was for 22 days. In monetary terms, WMA increased by ₹ 19,610 crore (363.48 per cent) in 2018-19 (₹ 25,005 crore) over 2017-18 (₹ 5,395 crore). The interest payment on WMA during 2018-19 was ₹ 20.75 crore as against ₹ 1.05 crore in 2017-18.

On the other side, Treasury bills amounting to ₹ 1,03,994 crore and ₹ 1,06,587 crore, respectively, were purchased and sold during the period 2018-19. Whereas, during the period of 2017-18, purchase and sell of Treasury Bills were ₹ 2,13,165 crore and ₹ 2,17,470 crore, respectively. An amount of ₹ 165 crore was received as interest on investment under treasury bills in 2018-19 as compared to ₹ 412 crore in 2017-18.

Above scenario may be viewed in the light that there is an increased dependency on WMA and decreased holding of investment on cash balances through Treasury bills over the previous year.

## 1.7 Government Liabilities

Liabilities of the Government consist mainly of internal borrowings, loans and advances from GoI and balances in the Public Account. The total liabilities of the State as on 31 March 2019 were ₹ 3,93,300 crore; its composition is shown in **Chart 1.11**.

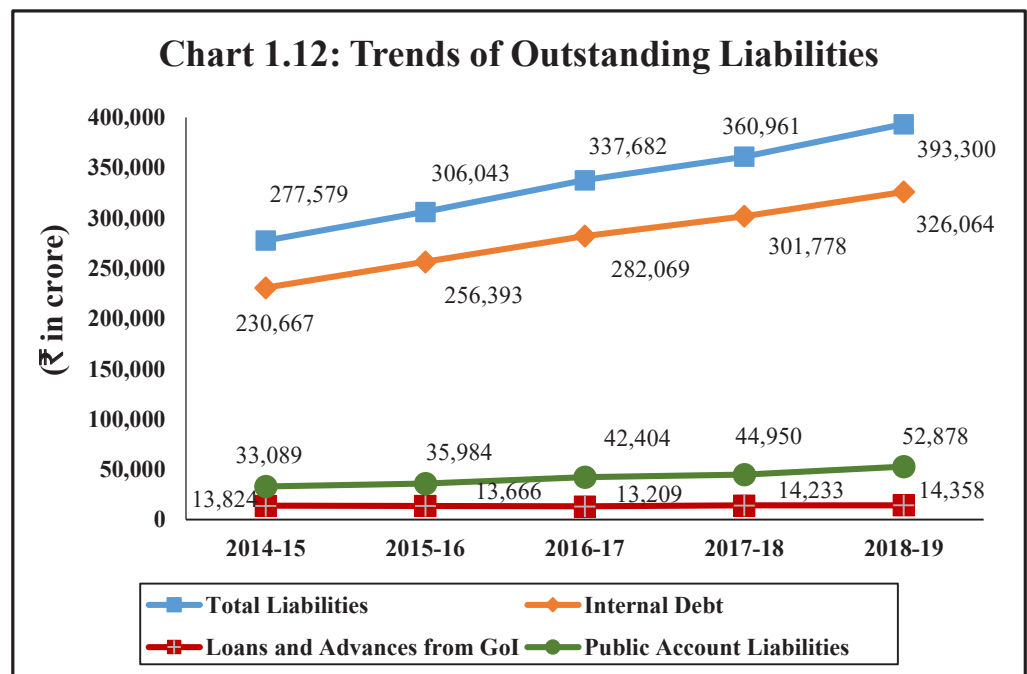
<sup>59</sup> Include investment in (i) Consolidated Sinking Fund (₹ 10,938.76 crore) (ii) Guarantee Redemption Fund (₹ 510.98 crore) and (iii) State Disaster Response Fund (₹ 183.63 crore)

Chart 1.11: Composition of Liabilities

Total Liabilities (₹ 3,93,300 crore)		
<b>Internal Debt from Market, financial institutions, etc. (₹ 3,26,064 crore)</b>	<b>Loans and Advances from Government of India (₹ 14,358 crore)</b>	<b>Public Account Liabilities where Government acts as a banker (₹ 52,878 crore)</b>
Market Loans (₹ 2,49,373 crore)	Loans for Plan Schemes (₹ 14,477 crore)	Small Savings, Provident Fund, etc. (₹ 15,637 crore)
Bonds (₹ 2 crore)	Non Plan Loans (₹ (-)124 crore)	Reserve Fund bearing interest (₹ 265 crore)
Loans from Financial Institutions (₹ 7,013 crore)	Pre-1984-85 Loans (₹ 5 crore)	Reserve Fund not bearing interest (₹ 595 crore)
Special Securities issued to NSSF (₹ 69,676 crore)		Deposits bearing interest (₹ 16,839 crore)
		Deposits not bearing interest (₹ 19,542 crore)

Source: Finance Accounts of Government of West Bengal (2018-19)

Audit analysis showed that the liabilities are on an ascending trend (**Chart 1.12**) over the last five years. The total liabilities of the Government as of 31<sup>st</sup> March 2019 were ₹ 3,93,300 crore and were 2.69 times of its Revenue Receipts. They constitute 33.40 *per cent* of the Gross State Domestic Product (GSDP), which, however, is within the limit of 37.63 *per cent* prescribed by Medium Term Fiscal Policy Statement (MTFPS).



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Increase in outstanding market loans (₹ 2,18,943 crore) from 2017-18 to ₹ 2,49,373 crore during 2018-19 attributed to increase in Outstanding Liabilities by 8.96 *per cent* (₹ 32,339 crore) during 2018-19 over the previous year.

**Box 1.3**

**Case Study: Outstanding liability apart from amount shown in Government Accounts**

GoWB introduced (February 2001) the State Assisted Scheme of Provident Fund for Unorganized Workers (SASPFUW) to provide scope of Provident Fund to the workers in the Unorganised Sector. Each subscriber has to contribute to this fund and the State Government will contribute an equal matching amount. Interest on the balance at credit of the subscribers will also be paid by the State Government annually at the rate at which interest is allowed on deposit under the General Provident Fund by the Government.

It was seen that during 2018-19, GoWB paid interest of only ₹ 8.00 crore against ₹ 127.52 crore<sup>60</sup> due to this Provident Fund. As a result, Revenue Deficit and Fiscal Deficit stood understated by ₹ 119.52 crore (Refer **Table 1.5**). Since inception till March 2019, the total outstanding interest amounted to ₹ 547.29 crore.

**1.7.1 Reserve Funds**

Reserve Funds are created for specific and defined purposes. These are funded by contributions/grants from the Consolidated Fund of the India/ State. Against the gross accumulated balance of ₹ 12,493.39 crore lying in these funds as on 31 March 2019, an amount of ₹ 12,228.39 crore was under non-interest bearing Reserve Fund and ₹ 264.70 crore as Interest bearing Reserve Fund. As per the order of the State Government, 23 Reserve funds, being inoperative for more than five years with a balance of ₹ 21.08 crore (credit) and ₹ 0.60 crore (debit) had been closed during 2018-19 and the balances transferred to the Revenue head. The transactions relating to following reserve funds during 2018-19 were analysed.

**1.7.1.1 Consolidated Sinking Fund (CSF)**

As per recommendation of the 12<sup>th</sup> Finance Commission, the State had set up the Consolidated Sinking Fund (CSF) guidelines for amortization of loans. According to the guidelines, State may contribute 0.5 *per cent* of the outstanding liabilities at the end of the previous year. During 2018-19, GoWB contributed ₹ 1,203.85 crore (Government contribution: ₹ 400 crore and Interest earned on investment from CSF: ₹ 803.85 crore). This however fell short of the prescribed contribution of ₹ 1,804.80 crore<sup>61</sup>. The closing balance of ₹ 10,938.76 crore at the end of 31 March 2019 was invested.

**1.7.1.2 State Disaster Response Fund (SDRF)**

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. The guidelines of SDRF stipulated the following.

- The fund should be operated under the category “Reserve Fund bearing interest” below major head ‘8121- General and other Reserve Fund’.

<sup>60</sup> Worked out by the West Bengal Unorganised Sector Workers’ Welfare Board, Government of West Bengal

<sup>61</sup> Based on 0.5 *per cent* of outstanding liabilities of ₹ 3,60,961 crore at the end of March 2018

- The State Government shall pay interest on a half-yearly basis to the SDRF at the rate applicable to RBI overdrafts.

It was observed that the GoWB operates its SDRF under the category 'Reserve funds bearing interest-8121' from June 2011. The old balance (₹ 15.69 crore) of the calamity relief fund under 'Reserve funds not bearing interest-8235' was transferred to 'Reserve funds bearing interest-8121' during 2018-19.

The closing balance of ₹ 81.07 crore under the fund remained un-invested and merely continued to be depicted as a book balance in the accounts. Such non-investment not only goes against the spirit of the SDRF but also the principle of cash basis of accounting which forms the cornerstone of Government Accounting. As per SDRF Guideline, GoWB was to pay interest on the un-invested amount. However, Government did not pay interest of ₹ 3.12 crore during 2018-19.

### 1.7.1.3 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. State Government had constituted the GRF in January 2015 and the closing balance as of March 2019 stood at ₹ 510.98 crore. During 2018-19, State Government contributed ₹ 100 crore which was within the prescribed ceiling of 0.5 per cent of the outstanding guarantees (₹ 8,545.28 crore) as on 31 March 2018. The guidelines of GRF *inter alia* stipulated that guarantee commission collected was to be transferred to the fund.

During 2014-19, in spite of earning guarantee commission<sup>62</sup> of ₹ 194.76 crore, no amount was transferred to the GRF. The involvement for 2018-19 was ₹ 170.86 crore.

Non-transfer of guarantee commission resulted in understatement of revenue deficit and fiscal deficit by ₹ 170.86 crore (Refer **Table 1.5**).

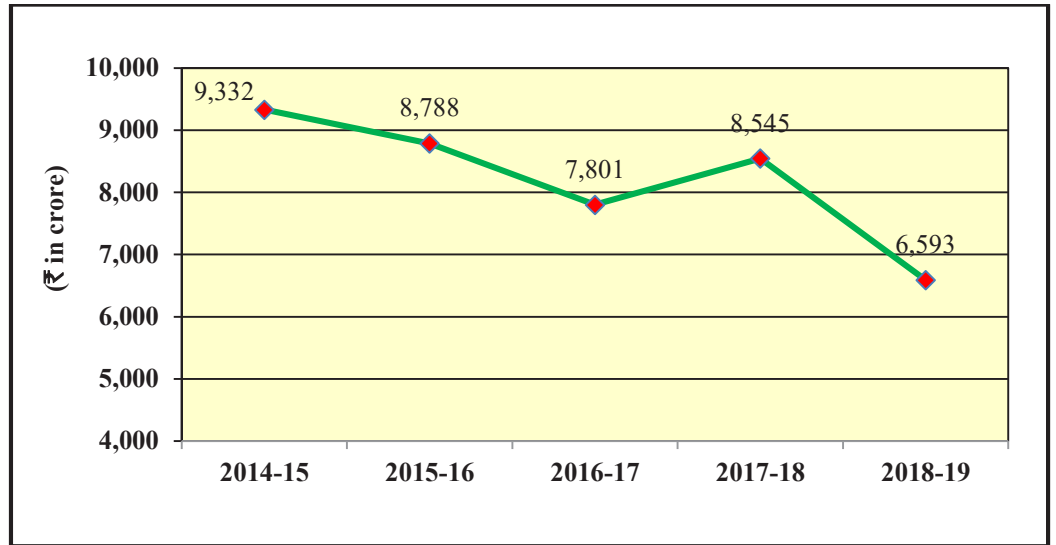
### 1.7.2 Guarantees

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>63</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 outstanding guarantees (₹ 8,545 crore) (**Chart 1.13**) at the beginning of 2018-19 stood at 7.25 per cent of the total Revenue Receipts of the second preceding year (₹ 1,17,832 crore) and was thus within the ceiling of the WBCGA.

<sup>62</sup> Booked under '0075-Miscellaneous General Service-108-Guarantee Fees'

<sup>63</sup> West Bengal Ceiling on Government Guarantees Act

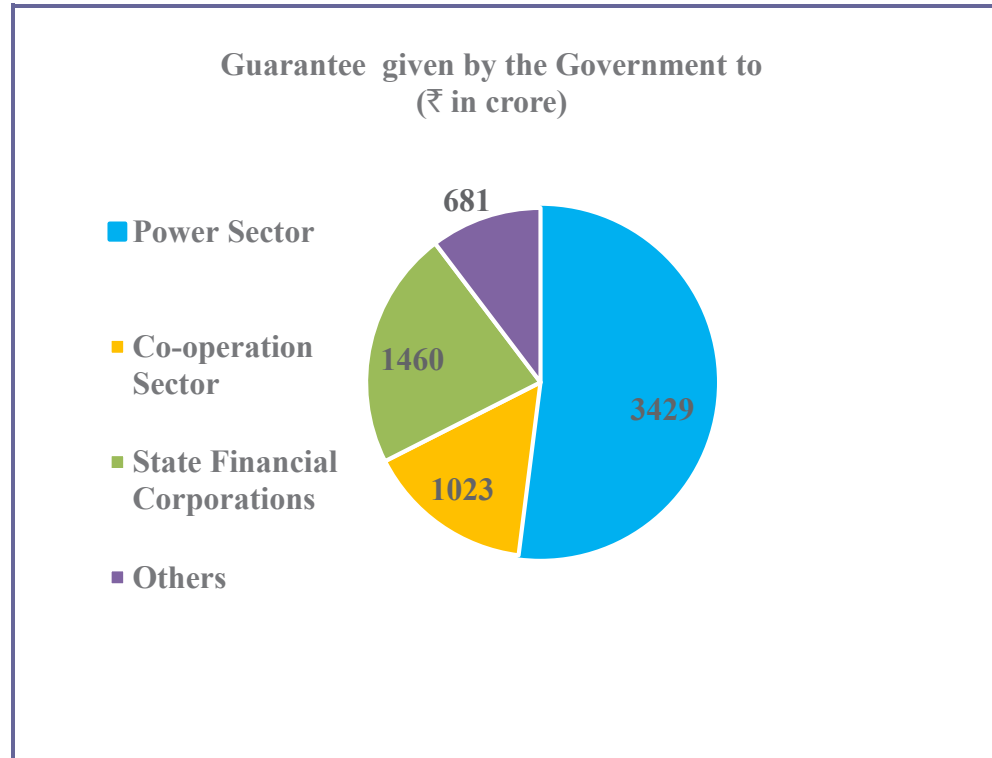
**Chart 1.13: Status of Outstanding Guarantees at the end of the year**



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Out of total outstanding guarantees as on 31 March 2019, share of Power Sector, State Financial Corporation and Co-operation Sector stood at ₹ 3,429 crore (52 per cent), ₹ 1,460 crore (22 per cent) and ₹ 1,023 crore (16 per cent), respectively (Chart 1.14).

**Chart 1.14: Sectors in receipt of guarantees at the end of 31 March 2019**



Source: Finance Accounts of Government of West Bengal (2018-19)

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 commission at the rate of



one *per cent* (minimum) on the total amounts guaranteed. Upto 2018-19, shortfall in receipt of guarantee commission was ₹ 141.47 crore as against the required fees of ₹ 374.08 crore, State Government received ₹ 232.61 crore.

Short receipt of guarantee commission understated the revenue receipts by ₹ 141.47 crore.

### 1.7.3 Debt Management

Outstanding Debt (comprising Internal Debt, Loans & Advances from GoI and Public Account Liabilities) of the State Government as of 31 March 2019 stood at ₹ 3,93,300 crore. The increase during 2018-19 (₹ 32,339 crore; 8.96 *per cent*) was much higher than the corresponding increase during 2017-18 (₹ 23,279 crore; 6.89 *per cent*). This was attributable due to outstanding market borrowing, the major contributor of debt increased to ₹ 2,49,373 crore in 2018-19 from ₹ 2,18,943 crore in 2017-18. Out of the Outstanding Debt, ₹ 20,136 crore carried no interest obligations (Deposits not bearing interest: ₹ 19,542 crore and Reserve Funds not bearing interest: ₹ 594 crore).

#### 1.7.3.1 Net availability of borrowed funds

Net availability of borrowed funds is defined as the ratio of the debt redemption (Debt Repayments + Interest Payments) to total Debt Receipts and indicates the extent to which the Debt Receipts are used for redemption of old debt.

The net availability (₹ 3,428 crore) of borrowed funds (₹ 1,36,378 crore) after providing for interest payments (₹ 28,911 crore) and repayment of borrowings (₹ 1,04,039 crore), was positive (2.51 *per cent*) in 2018-19. However, net availability of borrowed funds was insufficient for developmental purposes. It is seen from **Table 1.27** that the net availability of borrowed funds turned negative in 2017-18 as repayment of borrowings significantly increased by 29.90 *per cent* over 2016-17.

#### 1.7.3.2 Debt Sustainability

The Debt sustainability is defined as the ability of the State to service its debt in future. **Table 1.28** and **Charts 1.15, 1.16** and **1.17** analyse the debt sustainability of the State during the five year period 2014-19.

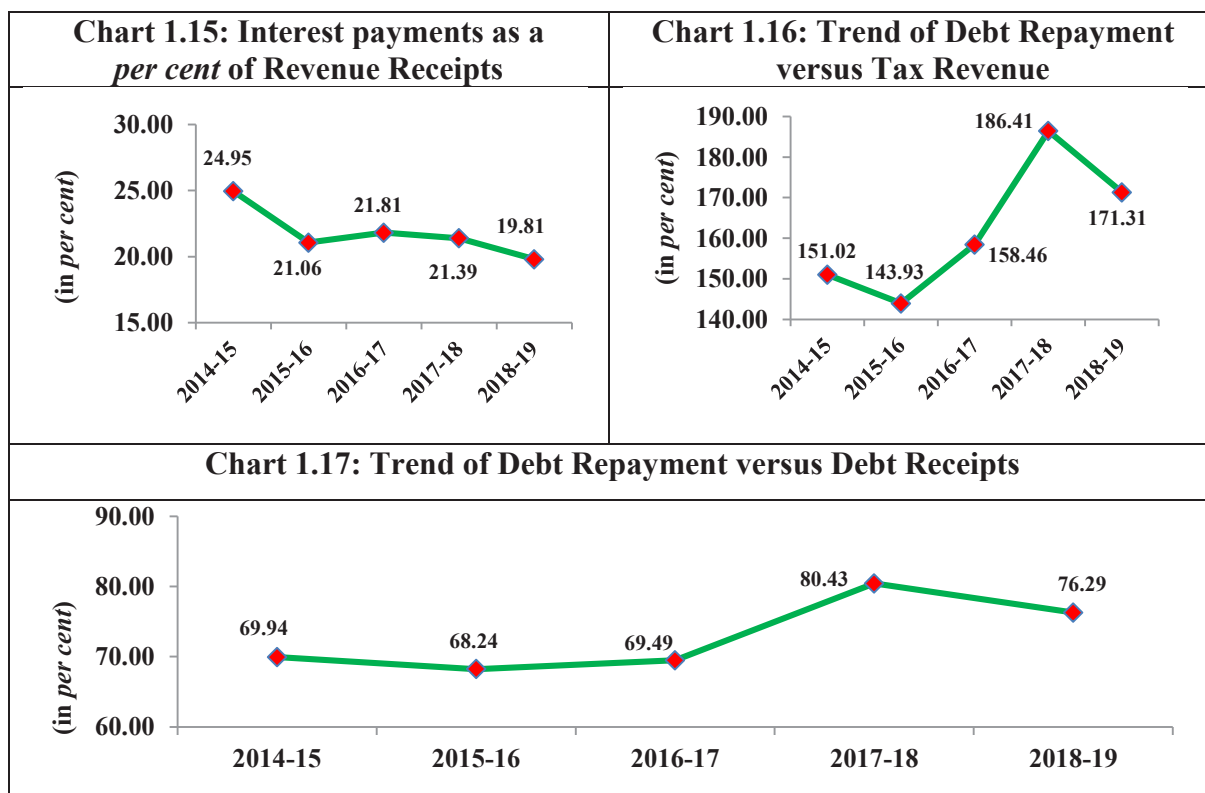
Table 1.28: Debt Sustainability: Indicators during 2014-19

Indicators of Debt* Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Debt (₹ in crore)	2,77,579	3,06,043	3,37,682	3,60,961	3,93,300
Rate of growth of Outstanding Debt (in per cent)	10.15	10.25	10.34	6.89	8.96
GSDP (at current prices) (₹ in crore)	7,18,082	7,97,300	8,72,527	9,99,585	11,77,586
Rate of growth of GSDP (in per cent)	6.09	11.03	9.44	14.56	17.81
Debt/ GSDP ratio (in per cent)	38.66	38.38	38.70	36.11	33.40
Debt Receipts# (₹ in crore)	85,102	89,622	1,03,687	1,22,185	1,36,378
Debt Repayments# (₹ in crore)	59,520	61,159	72,047	98,276	1,04,039
Interest Payment(₹ in crore)	21,588	23,115	25,703	28,074	28,911
Net Availability of debt (₹ in crore) (in per cent)	3,994 (4.69)	5,348 (5.97)	5,937 (5.73)	(-) 4,795 (-3.92)	3,428 (2.51)
Tax Revenue (₹ in crore)	39,412	42,492	45,466	52,721	60,732

Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

\*Internal Debt, Loans from GoI and Public Account Liabilities

# Excluding Ways and Means Advances

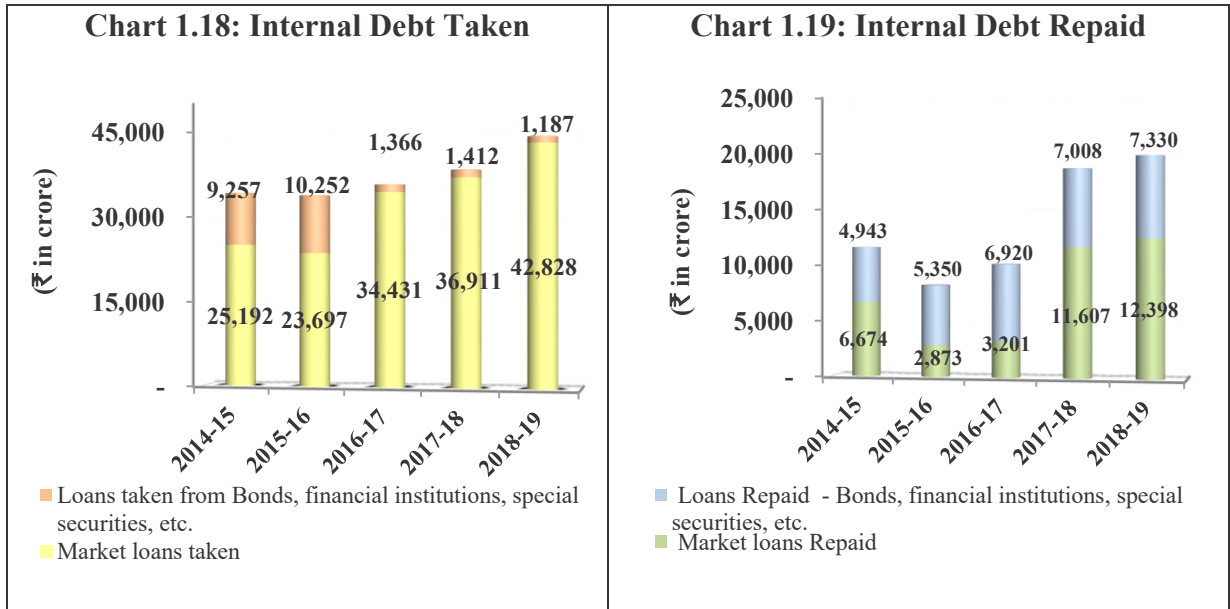


Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

Interest payments relative Revenue Receipts was 19.81 per cent, which is higher than the target of 18.49 per cent set out in the Fiscal Policy Strategy Statement presented with the budget as per the FRBM Act. Debt Repayment as a percentage of Tax Revenue has decreased from 186.41 per cent in 2017-18 to 171.31 per cent in 2018-19. Debt Repayment as a percentage of Debt Receipts

also decreased from 80.43 per cent in 2017-18 to 76.29 per cent in 2018-19. The above three conditions corroborates that in debt sustainability West Bengal performed better than the previous year (2017-18).

Charts 1.18 and 1.19 represent the internal debt taken and internal debt repaid during the five years period 2014-19.



Source: Finance Accounts of Government of West Bengal (2014-15 to 2018-19)

### Debt Sustainability on Domar Model

Fiscal Deficit of the State as a proportion of GSDP has declined from 3.81 in 2014-15 to 2.84 in 2018-19. The State registered Revenue Deficit during last five years and Primary Deficit during 2014-15 and 2017-19.

There are various approaches at assessing the debt sustainability, one such approach is Domar model<sup>64</sup>.

An analysis on debt sustainability was carried out using this approach. The details are shown in Table 1.29:

Table 1.29: Debt Sustainability indicators

g-r (g: real economic growth rate; r: real interest rate) called Domar gap	s<0 (Primary Deficit)	s>0 (Primary Surplus)
g-r>0 (strong economic growth)	Public Debt as percentage of GSDP should converge to a stable level greater than zero	Public Debt as percentage of GSDP should converge to a stable level less than zero leading to public savings
g-r<0 (slow economic growth)	Public Debt as percentage of GSDP should increase indefinitely, without converging to a stable level	undefined situation

The results of applying the analysis to West Bengal is shown in Table 1.30.

<sup>64</sup> E.D Domar, 1914-1997

**Table 1.30: Domar Model – Debt Sustainability**

Year	Real Growth (g)	Real Interest (r)	g – r (Domar gap)	Primary Deficit (-)/ Surplus (+) (s) (₹ in crore)	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
2014-15	2.84	5.40	(-) 2.56	(-) 5,758	As $g-r < 0$ and $s < 0$ ; Public Debt as percentage of GSDP should increase indefinitely, without converging to a stable level
2015-16	6.13	2.73	3.40	2,224	As $g-r > 0$ and $s > 0$ ; Public Debt as percentage of GSDP should converge to a stable level less than zero leading to public savings
2016-17	7.20	5.12	2.08	317	
2017-18	8.88	0.61	8.27	(-) 856	As $g-r > 0$ and $s < 0$ ; Public Debt as percentage of GSDP should converge to a stable level
2018-19	12.58	5.08	7.50	(-) 4,574	

Note: Real Growth rate calculated for Real GSDP

Real Interest rate calculated as interest rate minus inflation

Further, debt-GSDP ratio stood at 33.40 *per cent* and Fiscal Deficit to GSDP ratio at 2.84 *per cent* in 2018-19. The corresponding 14<sup>th</sup> Finance Commission fiscal target of debt relief was 34.28 *per cent* and Fiscal Deficit ceiling was 3 *per cent* of GSDP. The Capital Expenditure of the State has hovered between nine and 13 *per cent* during 2014-19.

In the initial years of the subject period *i.e.*, 2014-15, there was a primary deficit which later got converted to primary surplus in the years 2015-17 and again changed to primary deficit in the years 2017-19. However, it is seen that excluding the year 2014-15,  $g-r$  (Domar Gap) is positive during the period 2015-16 to 2018-19. Therefore, as per the Domar model, the public debt is stated to be stable in the years 2015-19. It is, however, noteworthy that the  $g-r$  (Domar Gap) has not been registering a steadily rising trend. Moreover, other factors such as public account liabilities and force majeure events<sup>65</sup> and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/ stability of the State<sup>66</sup>.

### 1.7.3.3 Maturity Profile of Public Debt

Fiscal Responsibility and Budget Management (FRBM) Act, 2010 *inter-alia* stipulates that the Government of West Bengal (GoWB) is responsible to ensure judiciousness in fiscal management and fiscal stability through prudent debt management.

The maturity profile of Public Debt outstanding as on 31 March 2019 is shown in **Table 1.31**.

<sup>65</sup> Like current Corona virus crisis and its effect on GSDP

<sup>66</sup> As these cannot be anticipated or determined statistically; they have not been factored in the analysis

Table 1.31: Maturity Profile of Public Debt

Maturity Profile	Internal Debt	Loans and Advances from GoI	Total	Per cent (w.r.t. total)
	(₹ in crore)			
Details of Maturity year not available	76,691	5,594	82,285	24.17
0-1 year	16,113	672	16,785	4.93
1-3 years	31,691	1,344	33,035	9.70
3-5 years	41,500	1,344	42,844	12.59
5-7 years	45,900	1,249	47,149	13.85
7-10 years	1,14,169	1,526	1,15,695	33.99
10 years and above	-	2,629	2,629	0.77
<b>Total</b>	<b>3,26,064</b>	<b>14,358</b>	<b>3,40,422</b>	<b>100</b>

Source: Finance Accounts of Government of West Bengal (2018-19)

As can be seen from the table, the liability of the State would steeply rise from 2019-20 onwards and put a strain on the State finances in forthcoming years. The table further showed that 41 to 75 per cent of the maturity would take place between seven and ten years. This meant that the state was to mobilise required resources for repayment of debt commitments of ₹ 1,39,813 crore to ₹ 2,55,508 crore. The maturity position during the forthcoming years could be more alarming given the fact that maturity details of around 24 per cent of the public debt was not available.

This scenario indicated that there was an urgent need to put in place a debt management strategy to ensure that the State does not head towards a debt stress. This could also rule out the prospect of shrinkage of resources available for development purposes. For this purpose, the Medium Term Fiscal Policy Statement (MTFPS) and the Fiscal Policy Strategy Statement (FPSS) for 2018-19 were consulted to assess the extent of compliance to the principles of FRBM Act referred *ibid*. It emerged that no debt management strategy was included therein to factor in the modalities for mitigating such impending quantum of debt.

**Recommendation 3:** The State Government may undertake a study, supported by future projections, to measure its total fiscal commitments and the ability to meet them. Such study can inform the risk assessment on its future borrowings.

## 1.8 Fiscal Reform Path

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

fiscal indicators of the State Government viz., Revenue Deficit to GSDP, Fiscal Deficit to GSDP and Debt to GSDP.

### **1.8.1 Disclosures not made**

Fiscal Responsibility and Budget Management (FRBM) Act, 2010 (amended in 2011) places an onus on the State Government to monitor and control the fiscal deficit. It also requires the State Government to make disclosures and statements under Section 5 of FRBM Act, 2010 together with Rule 7 of Fiscal Responsibility and Budget Management Rules, 2011.

The State Government, however, did not make the following three out of eight disclosures required to be made:

- Significant changes in the Accounting Standards, policies and practices affecting or likely to affect the compliance of the prescribed fiscal indicators;
- Major works and contracts, committed liabilities in respect of land acquisition charges, claims in respect of unpaid bills on works and supplies; and
- Statement of Assets in respect of weighted average interest rates on Government liabilities.

### **1.8.2 Fourteenth Finance Commission Ceiling and Achievements**

Achievement of Government in key indicators in terms of targets prescribed by the 14<sup>th</sup> FC with regards to fiscal reform path is as below:

- Revenue deficit was to be eliminated as per recommendation of the 14<sup>th</sup> FC. The State failed to achieve the target since it stood at ₹ 10,399 crore (0.88 *per cent* of GSDP).
- The ceiling limit prescribed by the 14<sup>th</sup> FC for Fiscal deficit was 3 *per cent* of the GSDP. The achievement in 2018-19 (₹ 33,485 crore) was 2.84 *per cent*, which is within the permissible limit.
- The outstanding Debt to GSDP (in *per cent*) was to be less than 34.28 *per cent* for the year 2018-19. The achievement of the Government was 33.40 *per cent*, which is within the permissible limit.
- Interest Payment relative to Revenue Receipts were higher at 19.81 *per cent* as compared to the ceiling prescribed by 14<sup>th</sup> FC (19.12 *per cent*).
- As against the 14<sup>th</sup> FC's assessed Tax Revenue and Non-Tax Revenue of ₹ 90,533 crore and ₹ 5,231 crore respectively, the actuals were ₹ 60,737 crore and ₹ 3,657 crore. This means that the State Government still needs to improve its revenue collection in terms of the assessment.