

CHAPTER I

Finances of the State Government

Summary

In West Bengal, both the Revenue and Fiscal Deficit decreased in 2005-2006 mainly due to larger growth in revenue receipts as compared to growth in revenue expenditure. The State registered a primary surplus (Rs 367 crore) this year.

The ratio of revenue receipts to total expenditure stood at 70 *per cent* in 2005-2006. Overall revenue receipts of the State increased from Rs 14538 crore in 2001-2002 to Rs 23726 crore in 2005-2006 at an average trend rate of 11 *per cent* per annum. During the current year, however, the growth rate was 19 *per cent* compared to 20 *per cent* in 2004-2005. Own taxes of the State increased from Rs 6534 crore (2001-2002) to Rs 10388 crore (2005-2006) at an average trend rate of 12 *per cent* while the average growth of GSDP was 11 *per cent*. On an average around 53 *per cent* of revenue had come from State's own resources while central tax transfers and Grants-in-aid together contributed 47 *per cent* of the total revenue during 2001-2006.

Overall expenditure of the State increased from Rs 26510 crore in 2001-2002 to Rs 33958 crore in 2005-2006 at an average trend rate of 6 *per cent* per annum. The rate of growth which was at its peak at 17 *per cent* in 2003-2004 stood drastically reduced to only 8 *per cent* in 2005-2006. In fact, the major burden of curtailment in the growth of total expenditure resulted in a decline in the proportion of developmental expenditure to total expenditure. The proportion of developmental expenditure declined from 53 *per cent* in 2001-2002 to 49 *per cent* in 2005-2006. Interest payments increased from Rs 6495 crore in 2001-2002 to Rs 9969 crore in 2005-2006 primarily due to continued reliance on borrowings for financing fiscal deficit. Interest payments were consuming a large portion of the revenue receipts and were 42 *per cent* during the year against 49 *per cent* in 2004-2005.

Fiscal liabilities of the State increased from Rs 65612 crore in 2001-2002 to Rs 113493 crore in 2005-2006. State's fiscal imbalances were also increasing and a large part of the fiscal deficit was used for meeting current expenditure. Increasing ratios of fiscal liabilities to the Gross State Domestic Product, revenue receipts and own resources endangers sustainability of debt stock while ratios of fiscal liabilities to GSDP and revenue receipts were lower during the year, the ratio of fiscal liabilities to own taxes was, however, higher in 2005-2006.

Balance from current revenue (BCR), which plays an important role in plan size, was consistently negative and its magnitude was also on the increase till 2003-2004. It has however shown a declining trend from 2004-2005. As in the previous years the ratio of assets to liabilities during the year (0.34) indicated that more than half of the State's fiscal liabilities did not have an asset back up. All these adversely affected the plan size and reduced availability of fund for infrastructural development.

1.1 Introduction

The Finance Accounts of the Government of West Bengal are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The layout of the Finance Accounts is depicted below :

Box 1.1

Layout of Finance Accounts

Statement No 1 presents the summary of transactions of the State Government –receipts and expenditure, revenue and capital, public debt receipts and disbursements etc in the consolidated fund, contingency fund and public account of the state.

Statement No 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2005-2006.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under consolidated fund, contingency fund and public account as on 31 March 2006.

Statement No.9 shows the revenue and expenditure under different heads for the year 2005-2006 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 shows revenue expenditure by minor heads under non plan, State plan and centrally sponsored schemes and capital expenditure by major heads.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2005-2006.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2005-2006.

Statement No.15 depicts the capital and other expenditure to the end of 2005-2006 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of West Bengal.

Statement No.18 provides the detailed account of loans and advances given by the Government of West Bengal, the amount of loan repaid during the year, the balance as on 31 March 2006, and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserve funds.

1.2 Trend of finances with reference to previous year

Finances of the State Government during the current year compared to previous year were as under:

2004-2005 (Rupees in crore)	Sl. No.	Major Aggregates	2005-2006 (Rupees in crore)
19918.19	1	Revenue Receipts (2+3+4+5)	23725.89
9924.46	2	Tax Revenue- own	10388.38
1345.66	3	Non-Tax Revenue	1018.81
6384.89	4	State's Share of Union Taxes and Duties	6668.33
2263.18	5	Grants –in-aid from GOI	5650.37
746.61	6	Non-Debt Capital Receipts	631.33
746.61	7	<i>Of which</i> Recovery of Loans	631.33
20664.80	8	Total Receipts (1+6)	24357.22
26931.06	9	Non-Plan Expenditure	27189.09
25510.97	10	On Revenue Accounts	26824.78
9767.25	11	<i>Of which</i> , Interest Payments	9968.76
1420.09	12	On Capital Accounts	364.31
414.80	13	<i>Of which</i> Loans disbursed	73.31
4386.94	14	Plan Expenditure (15+16)	6769.08
2635.15	15	On Revenue Account	4292.08
1751.79	16	On Capital Account	2477.00
922.56	17	<i>Of which</i> Loans disbursed	1115.28
31318.00	18	Total Expenditure (9+14)	33958.17
10653.20	19	Fiscal Deficit (18-16)	9600.95
8227.93	20	Revenue Deficit (10+15-1)	7390.97
885.95	21	Primary Deficit (19-11)/Surplus	(+) 367.81

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government for the year 2005-2006 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, public accounts receipts and disbursements and appropriation from Contingency fund made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2005-2006 (Rupees in crore)

2004-2005	Receipts	2005-2006	2004-2005	Disbursements	2005-2006		
					Non-Plan	Plan	Total
19918.19	I. Revenue Receipts	23725.89	28146.12	I. Revenue expenditure	26824.78	4292.08	31116.86
9924.46	Tax revenue	10388.38	15710.28	General services	16302.62	45.10	16347.72
1345.66	Non-tax revenue	1018.81	8626.98	Social Services	7619.94	2180.10	9800.04
6384.89	Share of Union Taxes/ Duties	6668.33	3556.66	Economic Services	2574.08	2060.90	4634.98
2263.18	Grants from Government of India	5650.37	252.20	Grants-in-aid/ Contributions	328.14	5.98	334.12
Section-B: Capital							
Nil	II. Misc. Capital Receipts		1834.52	II Capital Outlay	291.00	1361.72	1652.72
746.61	III. Recoveries of Loans and Advances	631.33	1337.36	III Loans and Advances disbursed	73.31	1115.28	1188.59
	IV. Public debt receipts¹			IV Repayment of Public Debt			
16124.23	Other than Overdraft	15505.81	3006.25	Other than Overdraft	6629.23	-	6629.23
Nil	Overdraft	Nil	Nil	Overdraft	Nil	-	Nil
30459.63	V. Public account receipts	32183.60	32179.10	V Public account disbursements	27865.90	-	27865.90
425.76	Opening Balance	1168.59	1168.59	Closing balance	4763.98	-	4763.98
67674.42	Total	73215.22	67671.94	Total	66448.20	-	-
-	Appropriations from Contingency Fund	4.01	2.48	Appropriations from Contingency Fund	1.95	-	1.95
67674.42	Grand Total	73219.23	67674.42	Grand Total	66450.15	6769.08	73219.23

¹ Includes net ways and means advances

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure from the statements of the Finance Accounts for the year 2005-2006 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the Box 1.2.

Box 1.2 Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. The New GSDP series at current prices as published by the Bureau of Economics and Statistics of the State Government have been used.</p> <p>For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>For most series a trend growth during 2001-2006 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in <i>Appendix 1.1</i>.</p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. These are defined below:

Box 1.3 State Government Funds and the Public Account	
<p>Consolidated Fund All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled 'The Consolidated Fund of the State' established under Article 266 (1) of the Constitution of India.</p>	<p>Contingency Fund Contingency Fund of the State established under Article 267 (2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p style="text-align: center;">Public Account</p> <p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266 (2) of the Constitution and the related disbursements are made from it.</p>	

1.5 State Finances by Key Indicators

1.5.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise of miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipt from internal sources viz. market loans, borrowings from financial institutions/commercial banks etc and loans and advances from Government of India as well as accruals from Public accounts.

Table 2 shows that the total receipts of the State Government for the year 2005-2006 were Rs 72051 crore. Of which, the revenue receipts of the State Government was Rs 23726 crore only, constituting 33 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2 – Resources of West Bengal

		(Rupees in crore)
I Revenue Receipts		23726
II Capital Receipts		16137
a	Miscellaneous Receipts	-
b	Recovery of Loans and Advances	631
c	Public Debt Receipts	15506
III Appropriation from Contingency Fund		4
IV Public Account Receipts		32184
a	Small Savings, Provident Fund, etc.	1130
b	Reserve Fund	1600
c	Deposits and Advances	9480
d	Suspense and Miscellaneous	17546
e	Remittances	2428
Total Receipts		72051

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Annual rate of growth of overall revenue receipts, own taxes, the ratio of revenue receipts to the State's Gross Domestic Product (GSDP), revenue buoyancy and buoyancy of own taxes are indicated in **Table 3**.

Table 3: Revenue Receipts – Basic Parameters (Value in Rupees in crore and others in per cent)

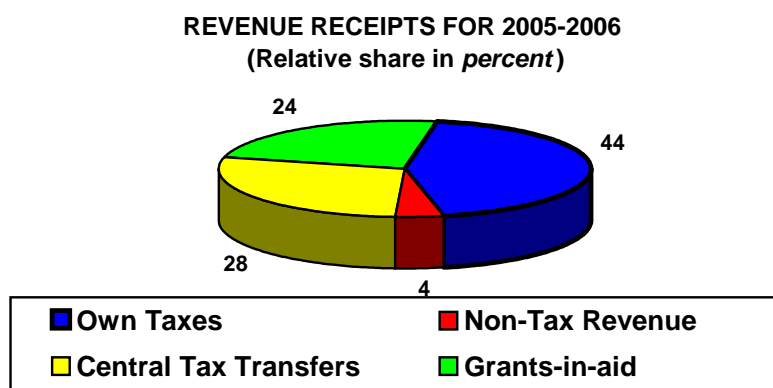
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Revenue Receipts	14538	14525	16608	19918	23726
Own taxes*	6534 (45)	7046 (48)	8768 (53)	9924 (50)	10388(44)
Non Tax Revenue*	776 (5)	654 (5)	606 (4)	1346 (7)	1019(4)
State's share of Union taxes and duties*	4289 (30)	4587 (32)	5341 (32)	6385 (32)	6668(28)
Grants-in-aid from GOI*	2939 (20)	2238 (15)	1893 (11)	2263 (11)	5650(24)
Rate of Growth of Revenue Receipts	0.11	(-) 0.09	14.35	19.92	19.12
Rate of Growth of own taxes	9.91	7.84	24.44	13.18	4.68
GSDP Growth	9.60	7.27	12.63	10.95	13.63
Revenue Receipts/GSDP	10.28	9.58	9.73	10.51	11.02
Revenue Buoyancy	0.011	#	1.136	1.819	1.402
Buoyancy of own taxes	1.032	1.033	1.722	1.014	0.343

* As a percentage of Revenue Receipts

Rate of growth of Revenue Receipts was negative

Revenue receipts of the State increased from Rs 14538 crore in 2001-2002 to Rs 23726 crore in 2005-2006 at an average trend rate of 11 per cent per annum. The growth rate, which plummeted to (-) 0.09 per cent in 2002-2003, increased to 14 per cent in 2003-2004 and was 19 per cent in 2005-2006. Own taxes of the State increased from Rs 6534 crore (2001-2002) to Rs 10388 crore (2005-2006) at an average trend rate of 12 per cent while the average growth of GSDP was 11 per cent.

While on an average around 53 per cent of revenue had come from the State's own resources comprising tax and non-tax receipts, central tax transfers and grants-in-aid from Government of India together contributed 47 per cent of the total revenue during 2001-2006. Shares of components of Revenue Receipts during 2005-2006 are given below:



Revenue receipts during the year stood at Rs 23725.89 crore as compared to Rs 19918.19 crore last year, i.e. an increase of Rs 3807.70 crore mainly due to (i) increase in Non-Plan Grants (Rs 2576.62 crore) of which Grants to cover Revenue Deficit was Rs 2438.90 crore and Rs 139.10 crore as compensation to States for revenue loss due to introduction of VAT, (ii) increase in grants for State Plan Schemes on Accelerated Power Development Reforms Programme (Rs 282.50 crore) and (iii) increase in grants for Centrally Sponsored Plan Schemes (Rs 597.34 crore) mainly due to payment of excess grants under Accelerated Rural Water Supply Programme (Rs 68.70 crore), Integrated Child Development Scheme (Rs 133.01 crore) and Rs 282.72 crore under National Programme of Nutritional Support to Primary Education.

Sales tax was the major source of State's own tax revenue contributing 59 per cent of the tax revenue followed by Land Revenue (9 per cent), Stamps and Registration (11 per cent), etc. Non-tax revenue, however, decreased from Rs 1345.66 crore in 2004-2005 to Rs 1018.81 crore in 2005-2006 mainly due to less receipts of interest (Rs 211.23 crore) and contribution and recoveries towards pension and other retirement benefits (Rs 60.54 crore). Interest receipts during 2004-2005 was higher mainly due to conversion of outstanding interest (Rs 446.72 crore) of four companies into equity. Compared to 2001-2002, the contribution of the State's own taxes in its total revenue receipts came down from 45 per cent to 44 per cent while Grants-in-aid from GOI rose from 20 per cent in 2001-2002 to 24 per cent in 2005-2006.

1.5.3 Arrears in Collection of Revenue

The arrears of revenue on 31 March 2006 in respect of some principal heads of revenue aggregated Rs 1936.82 crore. Of these, Rs 91.51 crore were outstanding for a period of more than 5 years. Arrears related to Sales Tax (Rs 1305.99 crore), Electricity Duty (Rs 547.52 crore), Taxes on Agricultural Income (Rs 30.17 crore), Amusement Tax (Rs 40.80 crore) and Excise Duty (Rs 12.34 crore).

The source of receipts under different heads and the GSDP during 2001-2006 are indicated in **Table 4**.

Table 4 – Sources of Receipts: Trends

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2001-2002	14538	168	12205	26438	53349	141357
2002-2003	14525	213	15575	24060	54373	151632
2003-2004	16608	91	20677	29800	67176	170782 (P)
2004-2005	19918	747	16124	30460	67249	189489 (Q)
2005-2006	23726	631	15506	32184	72047	215325 (A)

A = Advance, P = Provisional, Q = Quick

1.6 Application of resources

1.6.1 Trend of Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased from Rs 26510 crore in 2001-2002 to Rs 33958 crore in 2005-2006 at an average trend rate of 6 per cent per annum.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP are indicated in **Table 5** below:

Table 5: Total Expenditure- Basic Parameters (Value in Rupees in crore and others in per cent)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Total Expenditure	26510	25308	29569	31317	33958
Rate of Growth	3.82	(-) 4.53	16.84	5.91	8.44
TE/GSDP Ratio	18.75	16.69	17.31	16.53	15.77
Revenue Receipts /TE Ratio	54.84	57.39	56.17	63.60	69.87
<i>Buoyancy of total expenditure with</i>					
GSDP	0.398	#	1.333	0.540	0.619

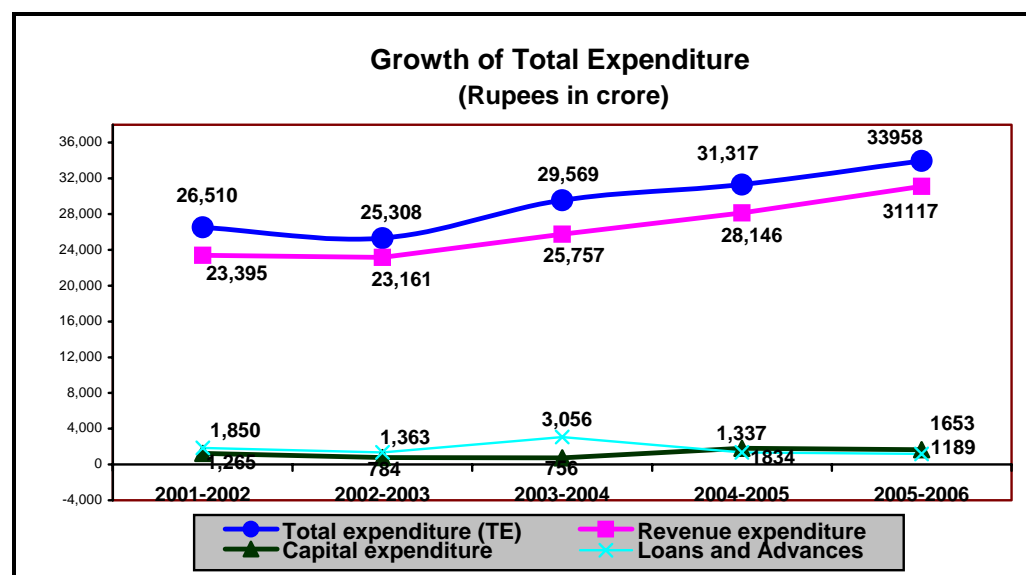
Rate of growth of Total Expenditure was negative

1.6.2 Expenditure Management

The expenditure on revenue account increased from Rs 28146.12 crore in 2004-2005 to Rs 31116.86 crore in 2005-2006. The increase of Rs 2970.74 crore was mainly attributable to General Education (Rs 503.47 crore), Power (Rs 344.85 crore), Pensions and Retirement benefits (Rs 305.65 crore), Urban Development (Rs 263.60 crore), Other Rural Development Programmes (Rs 261.08 crore), Industry (Rs 226.58 crore),

Medical and Public Health (Rs 139.21 crore), Interest Payment (Rs 129.51 crore), Rural Employment (Rs 101.85 crore), etc. Capital expenditure decreased from Rs 1834 crore in 2004-2005 to Rs 1653 crore in 2005-2006 mainly due to less capital outlay on Chemicals and Pharmaceutical Industries (Rs 455.40 crore) and capital outlay on Engineering Industries (Rs 385.99 crore) partly offset by more capital outlay on Power Projects (Rs 304.84 crore), Roads and Bridges (Rs 36.59 crore) and Road Transport (Rs 38.29 crore).

Loans and Advances made during the year was Rs 1189 crore against Rs 1337 crore last year. Reasons for reduction of Rs 148 crore was mainly attributable to less loan advanced to energy sector in 2005-2006 (Rs 1025 crore) as against Rs 1152 crore in 2004-2005.



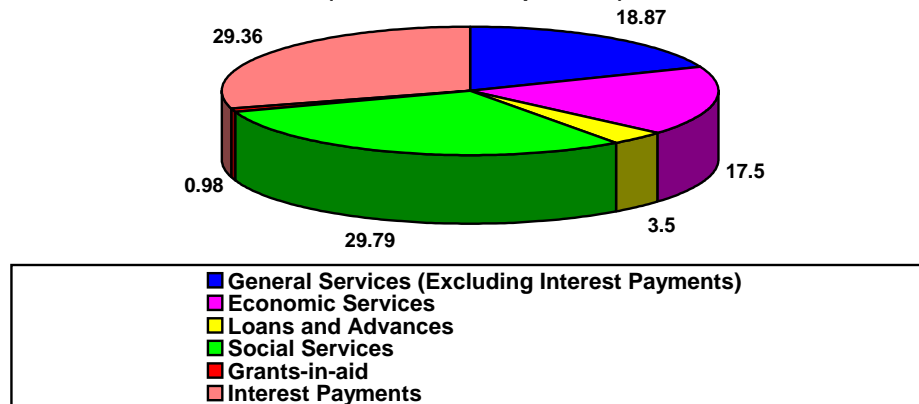
In terms of activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. The relative share of these components in total expenditure is indicated in *Table 6*.

Table 6: Components of Expenditure –Relative Share (in per cent)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
General Services (Excluding interest payments)	18.09	19.01	17.18	19.05	18.87
Interest Payments	24.50	30.86	31.63	31.19	29.36
Social Services	31.89	30.51	27.65	28.03	29.79
Economic Services	17.56	13.32	12.33	16.66	17.50
Grants-in-aid	0.98	0.91	0.87	0.80	0.98
Loans and Advances	6.98	5.39	10.34	4.27	3.50

The movements of the relative share of these components indicate that the share of general services excluding interest payment has more or less remained static while the share of social and economic services has declined over the years with slight improvement in sight during 2004-2005 and 2005-2006. Expenditure on general services (including interest payments) considered as non-developmental, accounted for 48 per cent of total expenditure in 2005-2006 as compared to 43 per cent in 2001-2002.

Allocative Priorities - Trend of Expenditure 2005-2006
(Relative share in per cent)



1.6.3 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure which is usually incurred to maintain the current level of assets and services. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with GSDP are indicated in *Table 7* below:

Table 7: Revenue Expenditure- Basic Parameters (Value in Rupees in crore and others in per cent)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Revenue Expenditure	23395	23161	25757	28146	31117
Rate of Growth	5.85	(-) 1.00	11.21	9.28	10.56
Plan Revenue Expenditure	2876	1784	1921	2635	4292
Rate of Growth	(-) 7.85	(-) 37.96	7.68	37.17	62.88
Non-Plan Revenue Expenditure	20519	21377	23836	25511	26825
Rate of Growth	8.09	4.18	11.50	7.03	5.15
RE/GSDP	16.55	15.27	15.08	14.85	14.45
RE as % of TE	88.25	91.52	87.11	89.87	91.63
RE as % to Revenue Receipt	160.92	159.46	155.08	141.31	131.15
<i>Buoyancy of Revenue Expenditure</i>					
GSDP	0.609	#	0.888	0.847	0.774

Revenue Expenditure had a negative growth

Revenue expenditure of the State increased from Rs 23395 crore in 2001-2002 to Rs 31117 crore in 2005-2006, at an average trend rate of 7 per cent. In the current year, the revenue expenditure witnessed a rise of Rs 2971 crore mainly due to increase in expenditure under Interest Payments (Rs 129.51 crore); Pension and other Retirement Benefits (Rs 305.65 crore); General Education – (Rs 503.47 crore); other Rural Development Programme – (Rs 261.08 crore); Power (Rs 344.85 crore); Urban Development (Rs 263.60 crore); Industries (Rs 226.58 crore) and Urban Health Services (Rs 139.21 crore).

The non-plan revenue expenditure during the year was Rs 26825 crore which was marginally higher than that assessed by the State (Rs 25150 crore) in their projections to the 12th Finance Commission.

The ratio of revenue expenditure to total expenditure witnessed a rise from 88 per cent in 2001-2002 to 92 per cent in 2005-2006. As percentage to revenue receipts, revenue expenditure decreased from 161 per cent in 2001-2002 to 131 per cent in 2005-2006. However, dependency of the State on borrowings for meeting its current expenditure continued to persist. This

was primarily due to the fact that Salaries (Rs 10161 crore), Interest Payments (Rs 9969 crore) and Pensions (Rs 3641 crore) together accounted for 100 per cent of the revenue receipts of the State during the year.

1.6.4 High expenditure on salary and pension payments

Salaries alone accounted for 43 per cent of the revenue receipts of the State. The expenditure on salaries, however, as a percentage of GSDP and Revenue Receipts, declined marginally from six and 59 per cent in 2001-2002 to five and 43 per cent in 2005-2006 as indicated in the **Table 8** below:

Table 8

Heads	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	(R u p e e s i n c r o r e)				
Salary expenditure	8612.39	9158.78	9336.04	9801.81	10160.98
As percentage of GSDP	6.09	6.02	5.38	4.99	4.72
As percentage of Revenue Receipts	59.24	63.06	56.21	49.21	42.83

The 12th Finance Commission had recommended that the State should follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 per cent. During 2005-2006, the salary, however, constituted 58 per cent.

Pension payments increased by 62 per cent from Rs 2253.79 crore in 2001-2002 to Rs 3641.50 crore in 2005-2006. Year-wise breakup of expenditure incurred on pension payments during the years 2001-2002 to 2005-2006 was as under:

Table 9

Year	Expenditure (Rupees in crore)	Percentage to total revenue
2001-2002	2253.79	15
2002-2003	2408.15	17
2003-2004	2610.61	16
2004-2005	3335.85 ²	17
2005-2006	3641.50	15

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes was not introduced as recommended by 12th Finance Commission. The expenditure on pension during the year was Rs 3641.50 crore, which was higher than the projection (Rs 3205.25 crore) made to 12th Finance Commission.

1.6.5 Interest payments

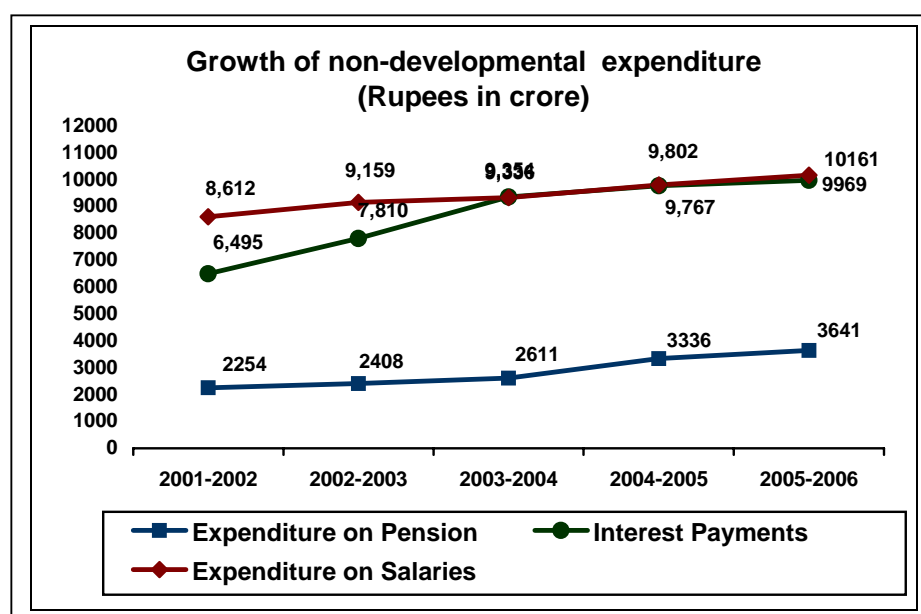
The Eleventh Finance Commission (August 2000) recommended that as a medium term objective, states should endeavour to keep interest payment revenue receipts ratio at 18 per cent. It was, however, observed that interest payments as percentage of revenue receipts which was 56 per cent in 2003-2004 declined to 42 per cent in 2005-2006.

² The increase in pension expenditure in 2004-2005 over that of 2003-2004 is attributable to (i) retirement of larger number of State Government employees and (ii) lifting of embargo and release of arrear payment of gratuity to the retired teaching and non-teaching staff of non-government educational institutions.

Table 10

Year	Interest Payment (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2001-2002	6495	45	28
2002-2003	7810	54	34
2003-2004	9354	56	36
2004-2005	9767	49	35
2005-2006	9969	42	32

In absolute terms, interest payments increased by 53 per cent from Rs 6495 crore in 2001-2002 to Rs 9969 crore in 2005-2006 primarily due to continued resource gap. By not enacting the FRBM Act, as recommended by 12th Finance Commission, the State had lost an interest relief of Rs 398.77 crore. The State, therefore, could not avail interest/debt restructuring relief under DCRF.



1.6.6 Subsidies by the Government

Though the finances of the State are under strain, State Government has been paying subsidies to the various Nigams, Corporations etc. During the last five years, State Government paid subsidies under various schemes as under:

Table 11

		(Rupees in crore)				
Sl No	Particulars	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
1	Road Transport Corporations	223.14	214.65	215.88	217.89	331.84
2	West Bengal State Electricity Board	100.00	-	-	-	-
3	Others	-	-	-	-	261.84
	Total	323.14	214.65	215.88	217.89	593.68
	Percentage Increases (+)/ Decreases (-) over previous years	36	(-) 33	0.57	0.93	172.47

1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of

Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure. **Table 12** below gives the percentage share of these components of expenditure in State's total expenditure*.

Table 12: Quality of Expenditure (per cent to total expenditure)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Plan Expenditure	16.69	10.64	10.05	11.55	17.25
Capital Expenditure	5.13	3.27	2.85	6.12	5.04
Developmental Expenditure	53.15	46.33	44.59	46.68	49.01

*Total expenditure does not include Loans and Advances

A close look at the table above would indicate that while share of plan and development expenditure rose in 2005-2006 as compared to 2004-2005, share of capital expenditure fell during the year. The increase in share of plan expenditure during 2005-2006 was mainly on account of more expenditure under general education, energy, rural development, industry and mineral and water supply and sanitation.

Out of the developmental expenditure (Rs 16060 crore), social services (Rs 10116 crore) accounted for nearly 63 per cent of the developmental expenditure during the year. General Education, Medical and Public Health and Water Supply and Sanitation consumed 71 per cent of the expenditure on social sector.

Table 13 : Expenditure under Social Sector

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
(R u p e e s i n c r o r e)					
General Education	4395 (59)	4273 (55)	4390 (54)	4840 (55)	5346 (53)
Medical and Public Health	1243 (15)	1212 (16)	1240 (15)	1244 (14)	1400 (14)
Water Supply and Sanitation	407 (6)	302 (4)	353 (4)	312 (4)	389 (4)
Others	2408 (20)	1935 (25)	2193 (27)	2381 (27)	2981 (29)
Total expenditure on social sector	8453	7722	8176	8777	10116

Percentage to Social Services in brackets

The expenditure under non-plan Social Services (Rs 7622 crore) during the year was, however, lower than that projected (Rs 8114.54 crore) by the State to the 12th Finance Commission.

Similarly, the expenditure on Economic Services (Rs 5944 crore) accounted for 37 per cent of the developmental expenditure during the current year. Of this, Rural Development (Rs 1226 crore), Special Areas Programme (Rs 460 crore), Power (Rs 1061 crore), Irrigation and Flood Control (Rs 733 crore) and Transport (Rs 1012 crore) etc accounted for 76 per cent of the expenditure in economic sector.

Table 14 : Expenditure under Economic Sector

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
(R u p e e s i n c r o r e)					
Rural Development	916 (20)	612 (18)	736 (20)	854 (16)	1226 (21)
Special Areas Programmes	379 (8)	350 (10)	333 (9)	390 (7)	460 (8)
Power	103 (2)	144 (4)	145 (4)	405 (8)	1061 (18)
Irrigation and flood control	841 (18)	619 (18)	598 (16)	641 (12)	733 (12)
Transport	1067 (23)	655 (19)	826 (23)	802 (15)	1012 (17)
Others	1349 (29)	991 (31)	1007 (28)	2125 (42)	1452 (24)
Total expenditure under Economic Sector	4655	3371	3645	5217	5944

Percentage to Economic Services in brackets

The expenditure under non-plan economic services (Rs 2857.29 crore) during the year was, however, higher than that projected (R 2252.54 crore) by the State to the 12th Finance Commission.

1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions of public utility services. These bodies/authorities receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State Co-operative Societies Act, Companies Act, 1956, etc. to implement various programmes of Government. The grants are given by Government mainly for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different local bodies during the period of five years ending 2005-2006 was as follows:

Table 15

Bodies/authorities, etc.	2001-2002	2002-2003	2003-2004 ³	2004-2005	2005-2006
	(R u p e e s i n c r o r e)				
Universities and Educational Institutions	3972.04	3945.16	4300.34	4748.74	5296.38
Municipal Corporations and Municipalities	800.01	380.57	876.06	853.57	1258.56
Zilla Parishads and Panchayati Raj Institutions	0.24	407.38	256.17	515.95	1419.43
Development Agencies	174.80	1427.89	817.89	814.98	634.85
Hospitals and other Charitable Institutions	0.03	1.00	48.60	55.80	134.45
Other Institutions (including statutory bodies)	419.55	366.66	30.83	23.91	373.08
Total	5366.67	6528.66	6329.89	7012.95	9116.75
Percentage increase(+)/ decrease (-) over previous year	12.59	21.65	(-) 3.04	10.79	30.00
Assistance as a percentage of revenue receipts	36.92	44.95	38.11	35.21	38.43
Percentage of assistance to revenue expenditure	22.94	28.19	24.57	24.92	29.30

Increase in quantum of assistance provided to local bodies under (i) Universities and Educational Institution was mainly due to salary (Rs 197.53 crore) and Mid-day-meal Scheme (Rs 345.56 crore); (ii) Municipal Corporation and Municipalities due to excess expenditure under development of municipal/ urban areas/employment generation (Rs 97.60 crore), improvement of environment (Rs 35.71 crore), grants to Urban Local Bodies as per recommendation of Second State Finance Commission (Rs 70.86 crore) and liberation of Scavengers (Rs 16.17 crore); (iii) Zilla Parishads and Panchayati Raj institutions mainly due to grants to Panchayat Bodies as per recommendations of Second State Finance Commission (Rs 270.60 crore), Special assistance to West Bengal State Electricity Board for implementation of APDRP Scheme (Rs 397.34 crore), State's share under Sampoorna Grameen Rojgar Yojana (Rs 122.59 crore), assistance to Panchayati Raj

³ The figures in this column, shown in the Audit Report (Civil) for the year ended 31 March 2004, have been amended.

Bodies as recommended by the Twelfth Finance Commission (Rs 35.35 crore) and DFID assisted schemes for Strengthening Rural Decentralisation (SRD) in West Bengal (Rs 13.50 crore) and (iv) Other Institutions mainly due to incentive to Industries in lieu of power tariff (Rs 89.89 crore) and grants to West Bengal Industrial Development Corporation / West Bengal Industrial Infrastructure Development Corporation (Rs 78.09 crore).

Delay in furnishing utilisation certificates

Out of grants aggregating Rs 6578.49 crore disbursed during 2002-2005, in respect of which utilisation certificates were required to be furnished, utilisation certificates for only Rs 11.85 crore (12 cases) were furnished as of June 2006, and certificates for the balance amount of Rs 6566.64 crore (29145 cases) were awaited. The department-wise break-up of outstanding utilisation certificates is given in ***Appendix 1.2***.

Delay in submission of accounts by Autonomous Bodies

The audited Reports in respect of ten⁴ autonomous bodies/authorities entrusted under the provisions of Section 19(2) and 19(3) of the Comptroller and Auditor General's (DPC) Act, 1971 were required to be laid before the State Legislature along with the annual accounts of the respective autonomous bodies/authorities concerned. However, the State Government failed to lay the Reports in respect of eight bodies/authorities before the Legislature as detailed in ***Appendix 1.3***. As a result, the Legislature was deprived of access to the audited accounts of these bodies in which Rs 753.53 crore were spent during these years. Darjeeling Gorkha Autonomous Hill Council did not submit accounts for the period from 1988-1989 to 2005-2006. The detailed information regarding non-submission of accounts for the year upto 2005-2006 despite repeated reminders by audit is given in ***Appendix 1.4***.

Audit arrangements

During the year 2005-2006, audit of 126 annual accounts and 19 transaction audits in respect of 69 bodies/authorities (excluding Panchayats/Rural Institutions/Urban Local Bodies) which attracted audit by Comptroller and Auditor General of India was conducted.

One hundred seven (107) annual accounts of different bodies/authorities for 2005-2006 and earlier years had not been received as of July 2006 by the Examiner of Local Accounts under the Accountant General (Receipt, Works and Local Bodies Audit), West Bengal. The details are given in ***Appendix 1.5***. It would reveal that accounts were due even for 11 years.

⁴ 1. Commissioners for Rabindra Setu, 2. West Bengal Comprehensive Area Development Corporation 3. Hooghly River Bridge Commissioners 4. Kolkata Metropolitan Development Authority 5. West Bengal Housing Board 6. Darjeeling Gorkha Autonomous Hill Council 7. West Bengal Commission for Women 8. West Bengal University of Animal and Fishery Sciences 9. West Bengal Human Rights Commission 10. West Bengal State Legal Services Authority.

Unutilised grants

Grants aggregating Rs 334.41 crore, meant for development purposes, were lying unspent with the 58 bodies (District Primary School Council/Zilla Parishads/Municipal Corporations/Municipalities) whose accounts for varying periods between 2001-2002 and 2004-2005 were audited during 2005-2006. The details are given in **Appendix 1.6**. The concerned bodies did not furnish reasons for non-utilisation and non-refund of the Government grants. There was nothing on record to show any action having been taken to adjust/refund the unutilised grants.

1.7.2 Misappropriations, defalcations, etc.

State Government reported 690 cases of misappropriations, defalcations, etc. of Government money involving Rs 5.57 crore. These cases pertained to the period from 1949-1950 to the end of March 2006 on which final action was pending at the end of August 2006.

	Number of cases	Amount (Rupees in lakh)
Cases outstanding as on 31 March 2005	689	554.73
Cases reported during 2005-2006	1	2.38
Cases disposed of till March 2006	-	-
Cases outstanding as on 31 March 2006	690	557.11

Appendix 1.7 contains department-wise details of the outstanding cases. Of the 690 cases outstanding as of March 2006, 686 cases (amount involved : Rs 5.53 crore) were pending for more than two years. Fifty one *per cent* of these cases involving eight *per cent* (Rs 43.94 lakh) of the total amount related to the Land and Land Reforms Department.

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by Government. However, the Government accounts do capture the financial liabilities and assets created out of the expenditure incurred. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt Deposit and Remittance heads from which the liabilities and assets are worked out. **Appendix 1.8** presents an abstract of such liabilities and assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this Statement consist of monies owed by the Government such as internal borrowings, loans and advances from Government of India, receipts from Public Account and Reserve Funds, the assets comprise mainly the cumulative capital expenditure and outstanding balances of its investment, loans and advances. The liabilities of Government of West Bengal depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired state employees, guarantees/letters of comforts etc issued by the State.

Appendix 1.9 gives details of the receipts and disbursement of the State Government, **Appendix 1.10** gives sources and application of funds while

Appendix 1.11 depicts the time series data on State Government Finances for the period 2001-2002 to 2005-2006.

1.8.1 Financial results of irrigation works

The financial results of five major and four medium irrigation and three drainage projects with a capital outlay of Rs 1801.65 crore at the end of 31 March 2006 showed that the revenue of Rs 3.18 crore realised from these during 2005-2006 was insignificant in comparison to even the direct operating expenses. After considering the operation and maintenance expenses of Rs 74.30 crore and interest charges of Rs 36.76 crore, the schemes suffered a net loss of Rs 107.88 crore.

1.8.2 Incomplete projects

The amount blocked up in incomplete projects during 2001-2006, continued to rise from Rs 1477 crore in 2001-2002 to Rs 1606 crore in 2005-2006. The amount blocked in these projects was 9 per cent of the cumulative capital outlay of the State as on 31 March 2006. Details are given in **Appendix 1.12**.

1.8.3 Investments and returns

As on 31 March 2006, Government had invested Rs 6643.61 crore⁵ in its statutory corporations, rural banks, joint stock companies and cooperatives. Of which investment in Government Companies during 2005-2006 was Rs 591.98 crore mainly in Durgapur Projects (Rs 200 crore) and West Bengal Power Development Corporation (Rs 336.68 crore). Government's return on this investment was negligible in last five years as shown in **Table 16**. The difference between the rate of return on Government investments and the average interest rate on the outstanding liabilities represented an implicit subsidy. During 2001-2006, this implicit subsidy amounted to Rs 2596.33 crore. Details of major government companies/statutory corporation wherein Rs 5523.34 crore were invested by the Government and their financial results as per latest account finalised are given in **Appendix 1.13**.

Table 16 : Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest paid by Government (%)
2001-2002	4143.73	3.77	0.09	10.85
2002-2003	4203.70	1.38	0.03	10.91
2003-2004	4372.94	0.50	0.01	11.21
2004-2005	5905.99	0.43	0.01	10.08
2005-2006	6643.61	1.58	0.02	9.15

1.8.4 Loans and advances by State Government

The position of loans and advances given by the State Government during 2001-2002 to 2005-2006 as detailed below shows that though sanctioning of loan during the current financial year (2005-2006) had been geared down, the closing balance of recoverable loans increased significantly during the last five years due to poor rate of recovery.

⁵ Differs from those furnished by Government Companies etc. which is under reconciliation

Table 17: Average Interest Received on Loans Advanced by the State Government

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	(R u p e e s i n c r o r e)				
Opening Balance	9847.64	11530.08	12679.51	15644.81	16235.57
Paid	1850.39	1362.78	3056.33	1337.36	1188.59
Repaid	167.95	213.35	91.03	746.60	631.33
Closing Balance	11530.08	12679.51	15644.81	16235.57	16792.83
Net addition	1682.44	1149.43	2965.30	590.76	557.26
Interest Received	25.81	8.86	12.92	461.81	248.03
Interest Received as <i>per cent</i> of loans	0.24	0.07	0.08	2.84	1.48
Average interest rate paid by the State	10.85	10.91	11.21	10.08	9.15
Difference in rate (interest paid and received)	10.61	10.84	11.13	7.24	7.67

The interest receipt during 2004-2005 was higher due to conversion of interest receivable from PSUs into equity as a part of finance restructuring package.

1.8.5 Commercial activities

Lack of accountability in the use of public funds by departmentally run commercial undertakings

Activities of quasi-commercial nature are performed by the departmentally run units of certain Government departments. These units are to prepare annual *pro forma* accounts showing their financial operations to enable the Government to assess their performance. The Head of Departments in Government are to ensure submission of each year's *proforma* accounts to the Principal Accountant General for audit. Out of 23 such units, seven had not prepared their accounts since inception, as detailed in **Appendix 1.14**. Among the remaining 16 units, 13 had arrears in preparation of accounts ranging from three to 23 years as of June 2006.

As per latest accounts received from 16 units (Rs 1775.66 crore were invested by the State Government), 15 had incurred continuous losses aggregating Rs 1321.84 crore against total capital investment of Rs 1387.88 crore. Reasons for such huge losses as analysed in audit were failure to fulfil production targets, under-utilisation of plant capacity, capacity mismatch, shortage of raw materials, high production cost, excess process/ distribution loss, low selling prices, inadequate market demand, etc. The remaining scheme viz. scheme for Public Distribution of Foodgrains reflected accumulated profit of Rs 26.67 crore as of 31 March 2001. The profit was mainly due to charging the bulk of the administrative expenses of the scheme to the consolidated fund of the State instead of debiting it to the *pro forma* profit and loss account of the scheme.

The Comptroller and Auditor General had repeatedly commented in the Audit Reports of the State on the failure of the Heads of Departments and the management of undertakings in timely preparation of *pro forma* accounts. Principal Accountant General (Audit) had also been periodically reminding Principal Secretary (Finance) and the Secretaries of the concerned departments in this matter. During the period from July 2005 to June 2006, nine undertakings finalised 26 *pro forma* accounts for the year 2004-2005 and for earlier years, as against 14 *pro forma* accounts finalised during July 2004 to June 2005. Consequently, there were no accountability of the Management

and Government in respect of public funds spent by these undertakings. Details are given in *Appendix 1.15*.

1.8.6 Management of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. In case of West Bengal the limit of ordinary ways and means advance was Rs 495 crore during the year. The State had not used this mechanism for a single day this year. It had only resorted to Special Ways and Means Advances for only three days during the year. The State raised borrowings of Rs 1714.79 crore from the market on three occasions. Resort to overdraft (OD), which is over and above the WMA limits, is all the more undesirable and the State managed not to resort to this mechanism even for a single day.

Table 18: Ways and Means and Overdrafts of the State and Interest paid thereon (Rupees in crore)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Ways and Means Advances					
Taken in the Year	1914.26	2435.62	7098.78	8853.43	269.56
Outstanding	742.46	162.33	830.50	-	-
Interest Paid	17.03	51.07	46.03	37.03	0.09
Overdraft					
Taken in the Year	11665.32	12399.77	6840.49	4045.08	-
Outstanding	1358.34	-	-	-	-
Interest Paid	46.20	25.38	15.04	5.11	-
Number of Days State was in Overdraft	253	260	146	114	-

1.9 Undischarged Liabilities

1.9.1 Fiscal liabilities – public debt and guarantees

It would be observed that the overall fiscal liabilities of the State increased from Rs 65612 crore in 2001-2002 to Rs 113493 crore in 2005-2006 at an average rate of 15 per cent during 2001-2006. The ratio of these liabilities to GSDP also increased from 46 per cent in 2001-2002 to 53 per cent in 2005-2006, and stood at 4.78 times of its revenue receipts and 9.95 times of its own resources comprising own tax and non-tax revenue.

Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 19: Fiscal Imbalances- Basic Parameters (Rupees in crore and ratios in per cent)

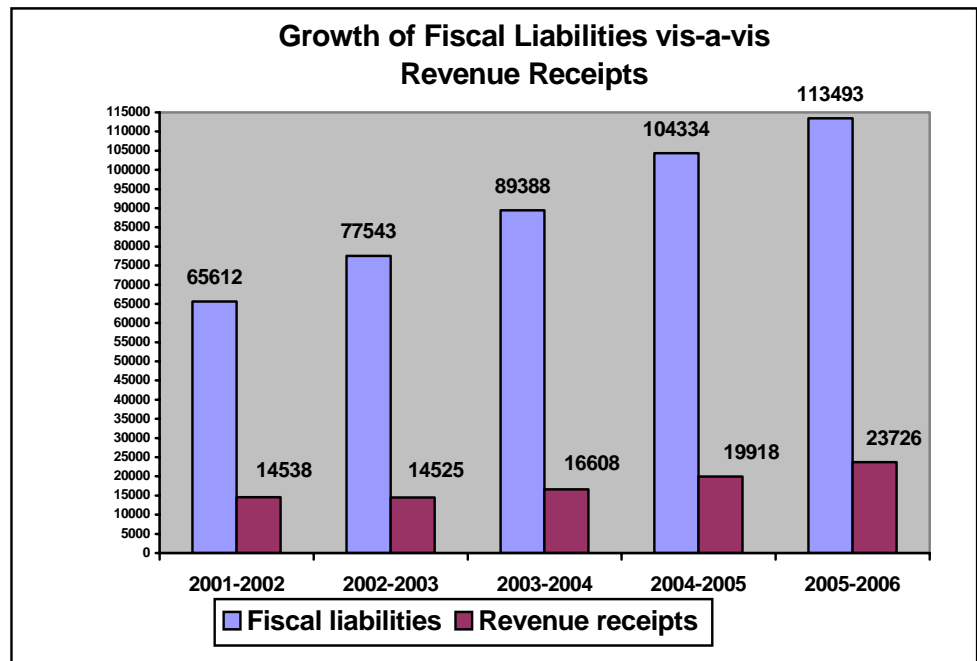
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Fiscal Liabilities	65612	77543	89388	104334	113493
Rate of Growth	21.19	18.18	15.28	16.72	8.78
<i>Ratio of Fiscal Liabilities to</i>					
GSDP	46.42	51.14	52.34	55.06	52.71
Revenue Receipt	451.31	533.86	538.19	523.82	478.35
Own Resources	897.56	1007.05	953.57	925.77	994.94
<i>Buoyancy of Fiscal Liabilities to</i>					
GSDP	2.207	2.502	1.210	1.526	0.644

In addition to these liabilities, Government had guaranteed loans of its various corporations and others, which in 2005-2006 stood at Rs 14085 crore⁶. Guarantees to the loans, which are in the nature of contingent liabilities of the State, are generally not risk weighted and do not constitute part of the fiscal liabilities as per existing accounting practice. Nevertheless, these liabilities pose fiscal risk as they could be activated depending on occurrence of defaults by the principal borrowers. Currently, the fiscal liabilities including the contingent liabilities is around five times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP. For each one *per cent* increase in GSDP, the direct fiscal liabilities of the State which was 1.526 *per cent* during 2004-2005, has however come down to 0.644 *per cent* during 2005-2006.

Increasing liabilities had raised the issue of sustainability of the State Government finances. Fiscal liabilities are not only required to be stable in relation to the GSDP, average interest paid on these liabilities should also be less than the rate of growth of its GSDP. Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread are indicated in *Table 20*.

Table 20: Debt Sustainability- Interest Rate and GSDP Growth (in *per cent*)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Weighted Interest Rate	10.85	10.91	11.21	10.08	9.15
GSDP Growth	9.60	7.27	12.63	10.95	13.63
Interest spread	(-) 1.25	(-) 3.64	1.42	0.87	4.48



Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal on account of earlier contracted liabilities and interest.

⁶ Differs from those furnished by Government Companies etc. which is under reconciliation

Table 21 below gives the position of receipt and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments was merely one *per cent* during 2005-2006.

Table 21: Net Availability of Borrowed Funds (Rupees in crore)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Internal Debt					
Receipt	9783	13007	18638	14485	14922
Repayment(Principal + Interest)	3220	4572	7067	6848	8788
Net funds available	6563	8435	11571	7637	6134
Net funds available (<i>per cent</i>)	67	65	62	53	41
Loans and Advances from Government of India					
Receipt	1672	2568	1371	1639	584
Repayment(Principal + Interest)	4133	4811	9932	3662	6501
Net funds available	(-) 2461	(-) 2243	(-) 8561	(-) 2023	(-) 5917
Net funds available (<i>per cent</i>)	(-) 147	(-) 87	(-) 624	(-) 123	(-) 1013
Total Public Debt					
Receipts	11455	15575	20009	16124	15506
Repayment (Principal + Interest)	7353	9383	16999	10510	15289
Net Receipts	4102	6192	3010	5614	217
Net Funds Available as % to total Receipts	36	40	15	35	1

* Internal debt excluding ways and means advances

The increase in repayment of GOI loans was mainly due to larger repayments under share of small savings collection.

The State Government raised market loans of Rs 1715 crore during the year. The average rate of interest of market borrowing (Rs 1715 crore) during the year was 7.56 *per cent* whereas the State Government borrowed Rs 11309.46 crore from Special Securities issued to National Small Savings Fund (Rs 10725.50 crore) and Government of India (Rs 583.96 crore) at the rate of 9 *per cent* per annum.

As on 31 March 2006, 26 *per cent* of the existing market borrowings of the State Government carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that 28 *per cent* of the total market loans are re-payable within the next five years while the remaining loans are required to be repaid within the next six to 11 years.

1.9.2 Issue and Management of guarantees

Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its legislature. In July 2001, Government introduced the West Bengal ceiling on Government Guarantees Act 2001 in terms of which total outstanding guarantee (other than guarantee given to West Bengal Infrastructure Development Finance Corporation

Limited) 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 of such year. Statement 4, read with statements 16 and 17 of Finance Accounts, shows the year-end balances under Debt Deposit and Remittance heads from which the liabilities are worked out.

The position of the guarantees given by the State Government during 2001-2006 stood as follows:

Guarantee position as on	Maximum amount guaranteed	Guaranteed loan outstanding	Percentage of outstanding guarantee to maximum guarantee
	(R u p e e s i n c r o r e)		
31 March 2002	12912.36	7642.86	59.19
31 March 2003	17648.64	11193.94	63.43
31 March 2004	17255.57	11043.77	64.00
31 March 2005	21487.60	14870.54	69.21
31 March 2006	22378.72	14084.92	62.94

The total guarantee of the Government increased from Rs 12912.36 crore in 2001-2002 to Rs 22378.72 crore in 2005-2006 (73 per cent increase) whereas the outstanding guaranteed loan amount increased from Rs 7642.86 crore in 2002 to Rs 14084.92 crore in 2006 (73 per cent increase).

Position of guarantee in respect of test-checked departments viz. Finance (IF), Power, Urban Development, Cottage and Small Scale Industries and Public Enterprises during 2002 to 2006 was as follows:

Guarantee position as on	Finance (IF)		Power		Urban Development		Cottage and Small Scale Industries		Public Enterprises	
	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding
(R u p e e s i n c r o r e)										
31-03-2002	8111.37	4961.26	3047.81	1702.31	404.12	267.75	115.47	44.48	22.48	14.30
31-03-2003	10815.85	7666.88	3349.68	1767.73	416.22	193.83	184.01	61.41	22.48	13.30
31-03-2004	11831.61	8619.76	3416.03	1563.42	423.01	163.51	176.98	62.10	33.25	23.88
31-03-2005	14176.47	11353.04	3436.47	1512.42	473.01	210.32	178.69	60.01	34.30	22.67
31-03-2006	14246.97	10435.33	4212.08	1580.22	407.22	210.32	177.28	89.63	33.09	22.12

Power Department gave guarantees to West Bengal State Electricity Board (WBSEB) and Durgapur Projects Limited (DPL) for repayment of principal and interest of the market bonds floated by them. As liquidity position of the units were very poor, Government had to give further loans of Rs 317.86 crore to these Government undertakings to enable them to repay principal and interest on market bonds during 2001-2006.

Guarantees were given without considering the financial solvency/credit worthiness of the loanee units. The department also had no control/monitoring mechanism to ensure timely and regular repayment of loan. This invited legal action on the part of the financial institutions towards recovery of the overdue loans. The Power Department had to provide further guarantee of Rs 11.40 crore on loans taken by WBSEB "towards out-of-court settlement" with State Bank of Hyderabad (Rs 5.39 crore, October 2002) and Bank of Baroda (Rs 6.01 crore, March 2006) to prevent invocation of guarantees.

On the basis of guarantees given by the C&SSI Department, the West Bengal State Handloom Weavers' Co-operative Bank Limited released loan in favour of West Bengal State Handloom Weavers' Co-operative Society Limited (Tantuja) and West Bengal Handloom and Powerloom Development Corporation Limited (Tantushree) but both of them failed to repay even the interest accrued on loan. C&SSI Department released Rs 5.82 crore during 2005-2006 (Tantuja Rs 5.50 crore) and Tantushree (Rs 0.32 crore) in the form of equity participation towards payment of interest of the Bank.

The loanees were to pay guarantee fee/commission at the rate of one *per cent* on the sums guaranteed by the Government. The accumulated guarantee fees due for recovery from the four departments (Power, Urban Development, Cottage and Small Scale Industries and Public Enterprises) was Rs 109.64 crore as of March 2006.

Further, Closed and Sick Industries Department (renamed as Industrial Reconstruction Department), extended (1976) guarantee to loans of Rs 1.01 crore raised by two ailing industries (Inchek Tyres – Rs 66 lakh and National Rubber Manufacturing Limited – Rs 35 lakh) from the State Bank of India(SBI), Kolkata. The loans were not repaid by the units. With deterioration in the performance, the management of two industrial units were taken over by Government of India in December 1977. The two units were nationalised by the GOI in February 1984 and merged into a newly formed company (M/s Tyre Corporation of India). GOI intimated (February 1985) the State Government its decision to assume the undisbursed liabilities of outstanding loans taken by those units from banks and financial institutions before nationalisation alongwith interest accrued thereon. Though the Commissioner of Payment, appointed by GOI for meeting undischarged liabilities of the Company, admitted the aforesaid dues, no fund was released by GOI for settlement of SBI dues. Being aggrieved SBI filed a suit (1983) in Honourable High Court, Kolkata which was transferred (1994) to Debt Recovery Tribunal (DBT). A decree was passed in July 1996 for repayment of Rs 2.32 crore by Government of West Bengal to SBI.

The matter remained pending with the tribunal and Government of West Bengal on the basis of the request of SBI decided (February 2006) for out of Court settlement. The amount was paid to SBI (March 2006) without entering into any terms of settlement and till August 2006 neither any certificate of withdrawal of pending cases nor any 'no due' declaration has been received from SBI.

The department in its reply stated (August 2006) that the continuous guarantee was extended to the loan in order to allow the two sick industrial units to survive with the loan assistance which is not tenable in audit as the two companies in the meantime had been taken over by the GOI.

Thus, the Industrial Reconstruction Department not only incurred an avoidable expenditure of Rs 2.32 crore (towards invocation of guarantee) liability of which had been admitted by the GOI, but also failed to protect the interest of the State Government by not obtaining 'no due' certificate or certificate of withdrawal of pending cases.

1.10 Management of deficits

1.10.1 Fiscal imbalances

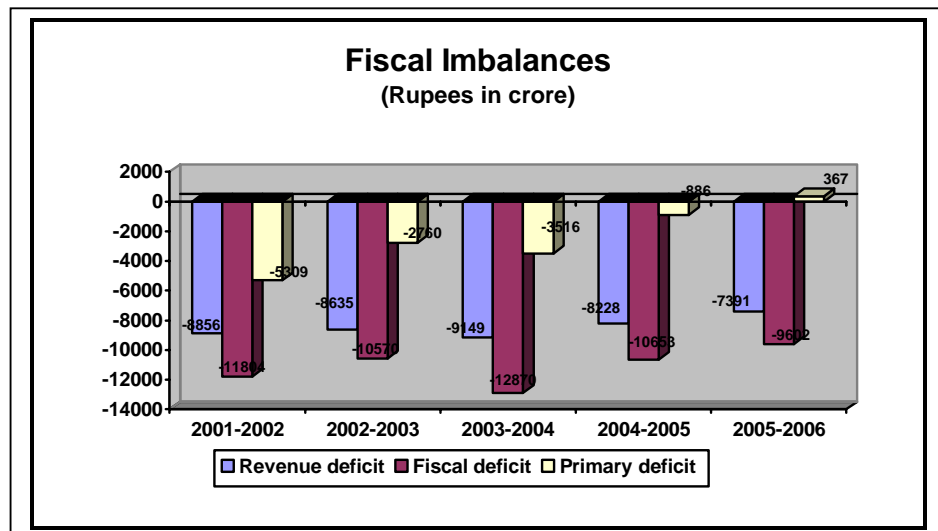
The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied, are important pointers to the fiscal health.

Revenue and Fiscal deficits though persisted, they remained lower during 2005-2006 as compared to 2004-2005. There was, however, primary surplus during the year. The revenue deficit (Statement 1 of Finance Accounts) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs 8856 crore in 2001-2002 to Rs 7391 crore in 2005-2006 (*Table 22*). The fiscal deficit which represents the total borrowings of the Government and its total resource gap also decreased from Rs 11804 crore in 2001-2002 to Rs 9602 crore in 2005-2006. The decrease was mainly due to curtailment of capital expenditure by Rs 181.80 crore from Rs 1834.52 crore in 2004-2005 to Rs 1652.72 crore, less loans advanced (Rs 148.77 crore) and lesser revenue deficit (Rs 837 crore). Primary deficit of the State remarkably decreased from Rs 5309 crore in 2001-2002 to Rs 886 crore in 2004-2005 and there was surplus (Rs 367 crore) in 2005-2006.

Because of reduction of Fiscal Deficit (Rs 1051 crore) and increase in interest payments (Rs 202 crore), the primary deficit of Rs 886 crore in 2004-2005 turned into primary surplus of Rs 367 crore during the year.

Table 22: Fiscal Imbalances- Basic Parameters (Value in Rupees in crore and Ratios in per cent)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Revenue deficit	8856	8635	9149	8228	7391
Fiscal deficit	11804	10570	12870	10653	9602
Primary Deficit/Surplus	5309	2760	3516	886	(+) 367
RD/GSDP	6.27	5.70	5.36	4.34	3.43
FD/GSDP	8.35	6.97	7.54	5.62	4.46
PD/GSDP	3.76	1.82	2.06	0.47	(+) 0.17
RD/FD	75.03	81.70	71.09	77.24	76.97



Persistent revenue deficit indicated that revenue receipts of the State were not sufficient to meet its revenue expenditure and Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit which was 75 per cent in 2001-2002 rose to 77 per cent in 2005-2006 indicating that nearly 77 per cent of the net incremental borrowings of the State were used for the current consumption. In proportion to GSDP, revenue deficit was 3 per cent in 2005-2006 while fiscal deficit was 4 per cent. However, this year the State came out with a primary surplus, indicating the State's increasing capability in repayment of its outstanding debts.

Non-implementation of Twelfth Finance Commission's recommendations

With enactment of a Fiscal Responsibility and Management Act (FRBMA) in 2003 at the Centre, the Twelfth Finance Commission was mandated not only to recommend on the distribution of the divisible pool of net proceeds of taxes between the Union and the States and the allocation between the States of such proceeds, but also to suggest a plan by which the Governments collectively and severally may bring about a restructuring of public finances, restoring budgetary balances, achieving macro-economic stability and debt restructuring alongwith equitable growth. While formulating approach to debt relief, the Twelfth Finance Commission recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-2009 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation will be a necessary pre-condition for availing of debt relief.

It was recommended, the outstanding central loans to the state as of 31 March 2004 would be consolidated and rescheduled for a fresh term of 20 years (resulting in re-payment in 20 equal instalments) and an interest of 7.5 per cent per annum be charged on them after taking into account the repayment made during 2004-2005 on these loans. Out of the outstanding balance of Rs 9700.29 crore as of 31 March 2005 of Central loan, total repayment due during 2005-2010 amounted to Rs 3612.55 crore (before consolidation and re-schedulement) i.e. an annual instalment of Rs 722.51 crore would come down to Rs 485.01 crore after re-schedulement. The relief that would be admissible (year-wise) towards interest payment during 2005-2010 was calculated by the Commission as under:

Year	Amount of interest (Rupees in crore)
2005-2006	398.77
2006-2007	356.52
2007-2008	309.18
2008-2009	256.74
2009-2010	226.60

Scrutiny revealed that debt relief of Rs 237.50 crore (Rs 722.51 crore minus Rs 485.01 crore) towards annual instalment and Rs 398.77 crore towards interest payment on Central loan could not be availed of by the State due to non-enactment of the fiscal responsibility legislation.

Further, despite a reduction of Rs 728.07 crore (Rs 8956 crore minus Rs 8227.93 crore) in revenue deficit in the year 2004-2005 in comparison to average revenue deficit of Rs 8956 crore from 2001-2002 to 2003-2004, the write off benefit of Rs 196.58 crore (27 per cent on Rs 728.07 crore) could not also be availed of by the State from the instalment due for the year 2005-2006.

Thus, the State could not avail of debt relief to the tune of Rs 832.84 crore (Rs 237.50 crore plus Rs 398.77 crore plus Rs 196.58 crore) due to non-enactment of the legislation.

In addition to debt relief scheme under restructuring of public finance, the twelfth Finance Commission also recommended Rs 6639.73 crore as grants-in-aid under different heads/sectors for West Bengal during the award period (i.e. 2005-2010). Scrutiny revealed that the second instalment of grant of Rs 32.42 crore for education sector was not released during 2005-2006 as non-plan revenue expenditure of Rs 4767.90 crore under the major head '2202' for education sector failed to reach the projected expenditure of Rs 5094.08 crore as envisaged by TFC with an average increase of 9.5 per cent per annum to attain the goal of Sarba Sikhsha Abhijan (SSK). The State Government though created 31244 posts of full time teachers (10244 at primary and 21000 at secondary level), failed to recruit those teachers in the financial year 2005-2006. Thus, due to non-fulfillment of conditionalities, the State Government was deprived of Central grant of Rs 32.42 crore.

As per guidelines on local body grants, the State Government has to release grants to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) within 15 days of receipt of the same from GOI. Scrutiny revealed that first instalment of PRI and ULB grants received by State Government on 6 October 2005 and 24 October 2005 respectively were released on 17 November 2005 (PRIs), 25 November 2005 and 27 December 2005 (ULBs). Thus, due to delay in release of fund to the extent of 42 days for PRIs and 32 to 64 days for ULBs, the State Government had to pay a total amount of Rs 1.11 crore (PRIs : Rs 87.75 lakh and ULBs : Rs 23.06 lakh) towards interest. Had those grants been released in time, payment of Rs 1.11 crore as penalty could have been avoided.

Twelfth Finance Commission favoured setting up of a permanent State Finance Commission cell as the collection and collation of data would need to be made available to the State Finance Commission as and when it is constituted. In the case of West Bengal no such cell was set up.

1.11 Fiscal Ratios

Finances of the State should be sustainable, flexible and non-vulnerable. **Table 23** below presents a summarised position of Government finances over 2001-2006, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. All the three resource mobilisation ratios seemed somewhat resilient in 2005-2006 as compared to 2001-2002.

Various ratios concerning expenditure management indicate quality of expenditure and sustainability of these in relation to resource mobilisation. All these ratios show variation in trend. The ratios of capital expenditure and developmental expenditure indicate the quality aspect of the expenditure. While ratio of capital expenditure to total expenditure fell (from 6.12 to 5.04) in 2005-2006 as compared to 2004-2005 that of developmental expenditure, however, rose to 49.01 in 2005-2006 from 46.68 in 2004-2005. Medium term tendency of these ratios was of deceleration. Both its total expenditure and revenue expenditure when compared to its revenue expenditure and revenue receipts have shown a comparatively higher buoyancy upto 2002-2003 and was remarkably less indicating a favourable swing in sight from 2003-2004 onwards. All these indicate State's somewhat decreasing dependence on borrowings for meeting its revenue expenditure although expansion of its developmental activities was inadequate.

Table 23: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Resource Mobilisation					
Revenue Receipt/GSDP	10.28	9.58	9.73	10.51	11.02
Revenue Buoyancy	0.011	#	1.136	1.819	1.402
Own tax/GSDP	4.622	4.647	5.134	5.237	4.824
Expenditure Management					
Total Expenditure/GSDP	18.75	16.69	17.31	16.53	15.77
Revenue Receipts / Total Exp.	54.84	57.39	56.17	63.60	69.87
Revenue Expenditure/ Total Exp.	88.25	91.52	87.11	89.87	91.63
Plan Expenditure/Total Exp.	16.69	10.64	10.05	11.55	17.25
Capital Expenditure / Total Exp.	5.13	3.27	2.85	6.12	5.04
Development Expenditure/ Total Exp.	53.15	46.33	44.59	46.68	49.01
Buoyancy of TE with RR	34.656	50.706	1.173	0.297	0.441
Buoyancy of RE with RR	53.054	11.185	0.781	0.466	0.552
Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	-8857	- 8636	-9148	- 8228	- 7391
Fiscal deficit (Rs in crore)	-11804	- 10570	-12869	- 10652	- 9601
Primary Deficit (Rs in crore)	-5309	- 2760	-3516	- 886	367
Revenue Deficit/Fiscal Deficit	75.03	81.70	71.09	77.24	76.97
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	46.42	51.14	52.34	55.06	52.71
Fiscal Liabilities/RR	451.31	533.86	538.19	523.82	478.35
Buoyancy of FL with RR	192.281	- 203.355	1.065	0.839	0.459
Buoyancy of FL with OR	10.112	3.408	0.703	0.827	7.221
Interest spread	-1.25	- 3.64	1.42	0.87	4.48
Other Fiscal Health Indicators					
Return on Investment	0.09	0.03	0.01	0.01	0.02
BCR (Rs in crore)	-7222	- 7994	- 8595	- 7245	- 5490
Financial Assets/Liabilities	0.36	0.35	0.33	0.35	0.34

Revenue Buoyancy was negative

1.12 Conclusion

Both the Revenue and Fiscal Deficit decreased in 2005-2006 by 10 *per cent* mainly due to larger growth in revenue receipts as compared to growth in revenue expenditure. Overall revenue receipts of the State increased from Rs 14538 crore in 2001-2002 to Rs 23726 crore in 2005-2006 at an average trend rate of 11 *per cent* per annum. During the current year the growth rate was 19 *per cent* compared to 20 *per cent* in 2004-2005.

Overall expenditure of the State increased from Rs 26510 crore in 2001-2002 to Rs 33958 crore in 2005-2006 at an average trend rate of 6 *per cent* per annum. The rate of growth which was at its peak at 17 *per cent* in 2003-2004 stood at only 8 *per cent* in 2005-2006. In fact, the major burden of curtailment in the growth of total expenditure resulted in a decline in the proportion of developmental expenditure to total expenditure. Interest payments increased steadily from Rs 6495 crore in 2001-2002 to Rs 9969 crore in 2005-2006 primarily due to continued reliance on borrowings for financing fiscal deficit.

State's fiscal imbalances were improving though a large part of the fiscal deficit was used for meeting current expenditure. Regime relating to ratios of fiscal liabilities to the Gross State Domestic Product, revenue receipts and own resources should improve in such a manner which ensures sustainability of the fiscal health. Balance from current revenue (BCR), which plays an important role in plan size, was consistently negative; its magnitude, however, was lower during the last two years. The ratio of assets to liabilities during the year (0.34) indicated that more than half of the State's fiscal liabilities did not have an asset back up.