

CHAPTER I

Finances of the State Government

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). 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 Accounts of the State of West Bengal. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of West Bengal for the year 2006-2007 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1: Summary of receipts and disbursements for the year 2006-2007

(Rupees in crore)

2005-2006	Receipts	2006-2007	2005-2006	Disbursements	2006-2007		
					Non-Plan	Plan	Total
Section-A: Revenue							
23725.89	Revenue Receipts	25828.32	31116.86	Revenue expenditure	29359.45	4801.82	34161.27
10388.38	Tax Revenue	11694.77	16347.72	General services	17862.09	39.21	17901.30
1018.81	Non-Tax Revenue	1248.77	9800.04	Social Services	8178.11	3201.87	11379.98
6668.33	Share of Union Taxes and Duties	8505.60	4634.98	Economic Services	2950.10	1553.83	4503.93
5650.37	Grants from Government of India	4379.18	334.12	Grants-in-aid and Contributions	369.15	6.91	376.06
Section-B: Capital							
	Misc. Capital Receipts		1652.72	Capital Outlay	8.64	2009.59	2018.23
631.33	Recoveries of Loans and Advances	237.90	1188.59	Loans and Advances disbursed	85.91	1231.35	1317.26
15505.81	Public debt receipts ¹	11032.36	6629.23	Repayment of Public Debt	3706.38	-	3706.38
4.01	Contingency Fund	1.74	1.95	Contingency Fund	6.98	-	6.98
32183.60	Public account receipts	35408.25	27865.90	Public account disbursements	33185.41	-	33185.41
1168.59	Opening Cash Balance	4763.99	4763.98	Closing cash balance	2877.03	-	2877.03
73219.23	Total	77272.56	73219.23	Total	69229.80	8042.76	77272.56

¹ Excluding Ways and Means Advances and Overdraft

Table 1 reveals that revenue receipts have increased by Rs 2102 crore during 2006-2007 from the level of Rs 23725.89 crore in 2005-2006 registering a growth of nearly 9 per cent. The increase was accountable to increase in Tax Revenue (Rs 1306.39 crore); Non-tax Revenue (Rs 229.96 crore) and share of Union Taxes and Duties (Rs 1837.27 crore) partly counterbalanced by less receipts under grants from GOI (Rs 1271.19 crore). Revenue expenditure during 2006-2007 was Rs 34161.27 crore against Rs 31116.86 crore in 2005-2006 registering an increase of Rs 3044.41 crore over the previous year.

Other significant points noticed were increase in Public Account Receipts to the extent of Rs 3224.65 crore; Loans and Advances disbursed during the year rose from Rs 1188.59 crore in 2005-2006 to Rs 1317.26 crore in 2006-2007. Public Account disbursement was Rs 33185.41 crore in 2006-2007 against Rs 27865.90 crore in 2005-2006.

1.1.2 State's Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in

Table 2:

Table 2

2005-2006 (Rupees in crore)	Sl. No.	Major Aggregates	2006-2007 (Rupees in crore)
23725.89	1	Revenue Receipts (2+3+4)	25828.32
10388.38	2	Tax Revenue- (Net)	11694.77
1018.81	3	Non-Tax Revenue	1248.77
12318.70	4	Other Receipts	12884.78
631.33	5	Non-Debt Capital Receipts	237.90
631.33	6	<i>Of which</i> Recovery of Loans	237.90
24357.22	7	Total Receipts (1+5)	26066.22
27189.09	8	Non-Plan Expenditure	29454.00
26824.78	9	On Revenue Accounts	29359.45
9968.76	10	<i>Of which,</i> Interest Payments	11178.88
291.00	11	On Capital Accounts	8.64
73.31	12	On Loans disbursed	85.91
6769.08	13	Plan Expenditure (14+15+16)	8042.76
4292.08	14	On Revenue Account	4801.82
1361.72	15	On Capital Account	2009.59
1115.28	16	On Loans disbursed	1231.35
33958.17	17	Total Expenditure (13+8)	37496.76
(-) 7390.97	18	Revenue Deficit{1- (9+14)}	(-) 8332.95
(-) 9600.95	19	Fiscal Deficit {(1+5) - 17}	(-) 11430.54
(+) 367.81	20	Primary Deficit {(1+ 5) – (17- 10)} / Surplus (+)	(-) 251.66

During 2006-2007, while revenue receipts increased by 9 per cent (Rs 2102 crore) over 2005-2006, revenue expenditure during the same period rose by nearly 10 per cent (Rs 3044) resulting in an increase of Rs 942 crore in revenue deficit during the current year. Given the increase in capital expenditure (Rs 365 crore) and loans and advances disbursed (Rs 129 crore) and a decline of Rs 393 crore in non-debt capital receipts, the fiscal deficit has increased by Rs 1829 crore in

2006-2007 over the previous year. Despite an increase of Rs 1210 crore in interest payments, primary deficit has once again turned into a deficit of Rs 252 crore during 2006-2007 from the surplus of Rs 368 crore in 2005-2006.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analysed wherever necessary over the period of last five years and observations are made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts which was not enacted in the State till date. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The qualitative assessment of the trends and pattern of various fiscal variables would depend on the quality and correctness of the GSDP estimates. The trends in growth of GSDP² for last five years are presented in table below:

Table 3: Trends in Growth of GSDP

Estimates	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
GSDP (Rupees in crore)	154063.09	172246.65	189068.30 (P)	213426.70 (Q)	239726.51 (A)
Rate of Growth of GSDP (Per cent)	6.95	11.80	9.77	12.88	12.32

Source: Bureau of Applied Economics and Statistics, Development and Planning Department, Government of West Bengal
P- Provisional; Q Quick; A Advance

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (*Appendices 1.2 to 1.5*). The 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 definitions of some of the selected terms used in assessing the trends and patterns of fiscal aggregates are given in *Appendix 1.1 Part C*.

² The new GSDP series with 1999-2000 as base as published by the Bureau of Applied Economics and Statistics, Development and Planning Department, Government of West Bengal have been used in estimating these percentages and buoyancy ratios.

1.2.1 Impact of non-enactment of the FRBM Act and Partial Implementation of TFC 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 along with 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. In West Bengal, however, FRBM Act has not yet been enacted.

It was recommended that the Central Loans to States contracted till 31 March 2004 and outstanding as on 31 March 2005 (amounting to Rs 128795 crore of which State's Share was Rs 9700.29 crore) may be consolidated and re-scheduled for a fresh term of 20 years resulting in repayment of 20 equal installments and an interest of 7.5 per cent per annum be charged on them. Out of the outstanding balances of Rs 9700.29 crore of Central Loan, total repayment due during 2005-2010 amounted to Rs 3612.55 crore (before consolidation and re-schedulement) i.e. an annual installment of Rs 722.51 crore would come down to Rs 2425.05 crore i.e. 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 showed that relief of Rs 237.50 crore (Rs 722.51 crore– Rs 485.01 crore) towards annual installment and Rs 356.52 crore towards interest payment on Central Loans during 2006-2007 could not be availed of by the State due to non-enactment of the FRBM Act. Further, despite a reduction of Rs 836.96 crore (Rs 8227.93 crore – Rs 7390.97 crore) in Revenue Deficit in the year 2005-2006 in comparison to the year 2004-2005, the write off benefit of repayment of Central loans of Rs 225.98 crore (27 per cent of Rs 836.96 crore) could not also be availed of by the State from the instalment due for the year 2006-2007.

Thus, the State could not avail of relief to the tune of Rs 820 crore (Rs 237.50 crore + Rs 356.52 crore + Rs 225.98 crore) during the year 2006-2007 due to non enactment of the Legislation. During 2005-2006 the State could not avail the relief of Rs 832.84 crore on this account.

Conditionalities fixed by the Commission for release of grant under Education Sector during 2006-2007 were that the Budget Estimates under NPPE of the relevant head (2202) should not be less than the projected total NPPE for 2006-2007 (Rs 5578.02 crore) and 2005-2006 RE for NPPE of the relevant head should not be less than the total of “normal expenditure” plus the actual release of the grant for 2005-2006. The RE for NPPE during the year 2005-2006 under the head of account 2202 was Rs 4767.89 crore which fell short than the projected figure of Rs 5061.66 crore (Rs 5029.25 crore + Rs 32.41 crore) during that year. As a result the second installment of Rs 32.42 crore of the grants under Education Sector has not been received. Further, out of Rs 70.99 crore due as grants during 2006-2007 only Rs 35.49 crore was received resulting in further loss of Rs 35.50 crore.

A total amount of Rs 890 crore (Arsenic contamination of ground water: Rs 600 crore; Problems relating to erosion of Ganga-Padma river in Malda and Murshidabad districts: Rs 190 crore; and Development of Sundarban Region : Rs 100 crore) was recommended by TFC as grants-in-aid for West Bengal. The total amount was recommended in equal phasing during the year 2006-2010 with the option that the State may communicate their required phasing. Scrutiny disclosed that the State had not submitted it while the Action Plan for the year 2006-2007 had been approved by the competent authority only during March 2007. The first instalment due for the year 2006-2007 was slipped in the next financial year due to delay in submitting the phasing pattern by the State Government.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of 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 Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 4** shows that the total receipts of the State Government for the year 2006-2007 were Rs 72506 crore. Of these, the revenue receipts were Rs 25828 crore, constituting 36 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account (**Appendix 1.3**).

Table 4: Trends in Growth and Composition of Aggregate Receipts

Sources of State's Receipts	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(Rupees in crore)				
I Revenue Receipts	14525	16608	19918	23726	25828
II Capital Receipts	15788	20768	16871	16137	11270
Recovery of Loans and Advances	213	91	747	631	238
Public Debt Receipts	15575	20677	16124	15506	11032
Miscellaneous Capital Receipts	-	-	-	-	-
III Contingency Fund	-	-	-	-	-
IV Public Account Receipts	24060	29800	30460	32184	35408
a. Small Savings, Provident Fund etc	1077	1067	1142	1130	1195
b. Reserve Fund	82	328	643	1600	951
c. Deposits and Advances	9762	12477	11446	9480	9412
d. Suspense and Miscellaneous	11383	14181	15364	17546	20479
e. Remittances	1756	1747	1865	2428	3371
Total Receipts	54373	67176	67249	72047	72506

* Higher rounding adopted

Table 4 exhibits that Revenue Receipts during the year 2006-2007 increased by 8.86 per cent over the previous year, while the average trend of growth was 13.81 per cent. Capital Receipts which was Rs 16137 crore in 2005-2006 came down to Rs 11270 crore in 2006-2007. Public Account Receipts rose by 10 per cent during the year, the increase being mainly due to increase under Suspense and Miscellaneous (Rs 2933 crore).

1.3.1 Revenue receipts

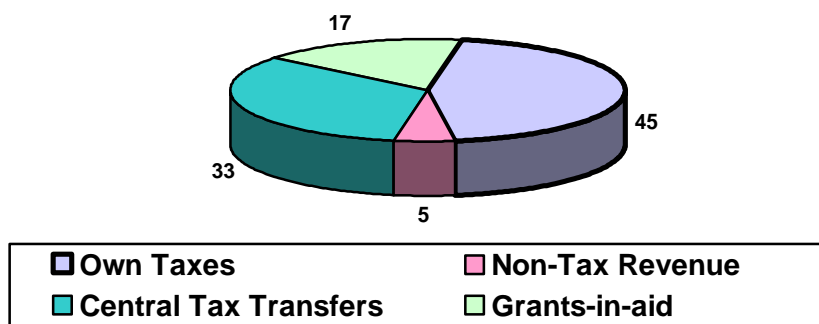
Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table 5**.

Table 5: Revenue Receipts – Basic Parameters

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenue Receipts	14525	16608	19918	23726	25828
Own taxes (per cent)	7046 (48)	8768(53)	9924 (50)	10388(44)	11695(45)
Non Tax Revenue (per cent)	654 (5)	606 (4)	1346 (7)	1019(4)	1249(5)
Central Tax Transfers (per cent)	4587 (32)	5341(32)	6385(32)	6668(28)	8505(33)
Grants-in-aid from GOI (per cent)	2238 (15)	1893(11)	2263(11)	5650(24)	4379(17)
Rate of growth of RR (per cent)	(-) 0.09	14.35	19.92	19.12	8.86
Revenue Receipts/GSDP (per cent)	9.43	9.64	10.53	11.12	10.77
Revenue Buoyancy	#	1.216	2.040	1.484	0.719
State's own taxes Buoyancy (ratio)	1.128	2.070	1.349	0.363	1.020
Revenue Buoyancy with reference to State's own taxes (ratio)	-0.011	0.587	1.511	4.085	0.704
GSDP Growth (per cent)	6.95	11.80	9.77	12.88	12.32

Rate of growth of Revenue Receipt was negative

REVENUE RECEIPTS FOR 2006-2007
(Relative share in percent)



General Trends

The revenue receipts have shown a progressive increase over the period 2002-2007 although its composition (the share of Own taxes, Non-tax revenue and Central transfers) exhibited marginal changes over the period 2002-2007 with inter year variations.

It was observed that the revenue buoyancy of the State with reference to GSDP was significantly higher than one in those years in which central transfers either in the form of state's share in central pool of taxes and duties or in grants-in-aid registered sharp increases over the previous year. During the current year although rate of growth of GSDP marginally declined from the level of the previous year but the revenue buoyancy has sharply declined to 0.719 in 2006-2007 from the level of 1.484 in 2005-2006 mainly on account of a sharp fall of Rs 1271 crore in grants-in-aid during the current year. Similar trends are exhibited in state's revenue buoyancy with reference to its own taxes.

Tax Revenue: The Tax Revenue has increased by 12.58 per cent during the current year (Rs 11695 crore) over previous year (Rs 10388 crore). The revenue from Sales Taxes contributed major share of tax revenue (61 per cent) and increased by 16 per cent over the previous year. Land Revenue, State Excise, Stamps and Registration fees, taxes on vehicles remained the other major contributors in the State's tax revenue. **Table 6** below shows the trend of Tax Revenue during 2002-2007.

Table 6: Tax Revenue

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(Rupees in crore)				
Land Revenue	658.29	993.26	1132.55	917.11	952.69
Stamps and Registration	720.41	794.52	1006.54	1177.59	1258.57
State Excise	566.85	619.96	671.56	743.46	817.36
Sales Tax	4191.51	4830.58	5716.30	6108.78	7079.02
Taxes on Vehicles	249.40	535.37	527.66	537.56	508.97
Other Taxes *	659.94	994.22	869.85	903.88	1078.16
Total	7046.40	8767.91	9924.46	10388.38	11694.77

* Other Taxes: includes taxes on income and expenditure, taxes on immovable property other than agricultural land, taxes on goods and passengers, taxes on duties and electricity, other taxes on duties and commodities and services.

Non Tax Revenue: The Non Tax Revenue (Rs 1249 crore) constituted 5 *per cent* of total revenue receipts and increased by Rs 230 crore recording a growth rate of 23 *per cent* over previous year. Increases were observed under Interest Receipts, Dividends and Profits (Rs 306.34 crore), Medical and Public Health (Rs 14.97 crore) which was offset by decrease under Food Storage and Warehousing (Rs 103.83 crore).

The assessments made by TFC, the Revised Estimates of the State Government for the year 2006-2007 and the actual Revenue Receipts of the State are given below:

(Rupees in Crore)

	Assessments made by TFC	Revised Estimates of the State Government	Actuals
Tax Revenue	16926.41	12535.14	11694.77
Non-Tax Revenue	2285.42	1207.17	1248.77

The actual Tax Revenue was much lower (by Rs 5231.64 crore) than normative assessments made by TFC and it also fell short of the State's Revised Estimates by Rs 840.37 crore. Non Tax Revenue was also significantly lower than that assessed by TFC but was marginally higher than the state's Revised Estimates.

Central Tax Transfers: The Central Tax transfers increased by Rs 1837.27 crore over the previous year and constituted 33 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 813.49 crore), customs duties (Rs 358.96 crore), service tax (Rs 324.27 crore) and Taxes on Income other than Corporation Tax (Rs 314.17 crore).

Grants-in-aid: The Grants-in aid from Government of India (GOI) decreased by Rs 1271 crore from Rs 5650 crore in 2005-2006 to Rs 4379 crore in the current year. The higher level of grants in 2005-2006 was mainly on account of grants of Rs 2439 crore recommended by TFC for the State to cover deficit on revenue account during the year which was reduced to Rs 606 crore in 2006-2007 resulting in a sharp decline of Rs 1271 crore in total grants-in-aid to the State during the current year over the previous year. The decrease was partly offset by increase in receipt of grants for additional Central Assistance in respect of Externally Aided Projects (Rs 135 crore), National Social Assistance Programme including Annapurna Scheme (Rs 72 crore). Details of Grants-in-aid from GOI are given in **Table 7**.

Table No 7: Grants-in-aid from GOI

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(Rupees in crore)				
Grants for State plan schemes	746.58	826.65	1239.82	1462.07	1735.87
Non Plan grants	951.27	382.12	466.21	3042.84	1492.32
Grants for Central Schemes	88.62	49.05	73.60	64.57	51.23
Grants for Central and Centrally Sponsored Schemes	451.51	635.28	483.55	1080.89	1099.76
Total	2237.98	1893.10	2263.18	5650.37	4379.18
Percentage of increase/decrease over previous year	(-) 23.84	(-) 15.41	19.55	149.67	(-) 22.50

1.4 Application of resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services as well as to extend the network of these services and to discharge their debt service obligations. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-8**.

Table 8: Total Expenditure- Basic Parameters

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Total Expenditure (TE) (Rupees in crore)*	25308	29569	31317	33958	37496
Rate of Growth (<i>per cent</i>)	(-) 4.53	16.84	5.91	8.44	10.42
TE/GSDP Ratio (<i>per cent</i>)	16.43	17.17	16.56	15.91	15.64
RR/TE Ratio (<i>per cent</i>)	57.39	56.17	63.60	69.87	68.88
Buoyancy of total expenditure with reference to					
GSDP	- ♣	1.426	0.605	0.655	0.845
RR (ratio)	- ♣	1.173	0.297	0.441	1.176

* Total expenditure includes revenue expenditure, capital expenditure and loans and advances

♣ Rate of growth of TE being negative, buoyancy ratios cannot be estimated

Table 8 reveals that total expenditure which was Rs 25308 crore in 2002-2003 rose to Rs 37496 crore in 2006-2007 at an average trend rate of growth of 7.94 *per cent*. The composition of the total expenditure during 2006-2007 indicates Non Plan Expenditure shared 79 *per cent* (Rs 29454 crore) while the Plan Expenditure constituted remaining 21 *per cent* (Rs 8043 crore). The further break-up of the total expenditure incurred during 2006-2007 under various heads of revenue and capital accounts reveals that the revenue expenditure shared the bulk of the expenditure of the State (91.1 *per cent*: Rs 34161 crore) while the shares of capital expenditure and loans and advances disbursed were only 5.4 *per cent* (Rs 2018 crore) and 3.5 *per cent* (Rs 1317 crore).

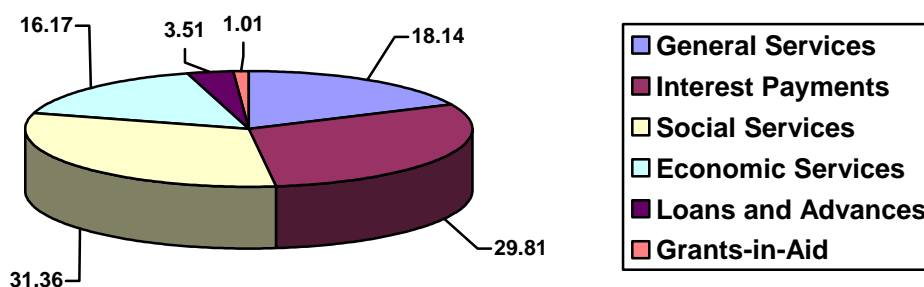
The buoyancy ratios of total expenditure with reference to both GSDP and revenue receipts remained on an average less than one during the last three years from 2004-2005 to 2006-2007 as compared to their being more than one during 2003-2004. In fact, the spurt in total expenditure during 2003-2004 was mainly due to high incidence of loans to Energy Sector (Rs 1851 crore to West Bengal State Electricity Board for repayment of its dues to Central Public Sector Undertakings; Rs 500 crore to West Bengal Power Development Corporation to enable it to repay its old dues).

Trends in total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-9**.

Table 9: Components of Expenditure –Relative Share (in per cent)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
General Services (excluding Interest Payments)	19.01	17.18	19.05	18.87	18.14
Interest payments	30.86	31.63	31.19	29.36	29.81
Social Services	30.51	27.65	28.03	29.79	31.36
Economic Services	13.32	12.33	16.66	17.50	16.17
Grants-in-aid	0.91	0.87	0.80	0.98	1.01
Loans and Advances	5.39	10.34	4.27	3.50	3.51

Components of Expenditure



The movements of the relative share of these components indicate that the share of general services excluding interest payment, social services and economic services remained almost static. Expenditure on general services (including interest payments) considered as non-developmental, accounted for 48 per cent of total expenditure in 2006-2007.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment, the past obligations and as such does not result in any addition to the State infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-10**.

Table 10: Revenue Expenditure- Basic Parameters (Rupees in crore)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenue Expenditure of which	23161	25757	28146	31117	34161
Non-Plan Revenue Expenditure (NPRE)	21377	23836	25511	26825	29359
Plan Revenue Expenditure (PRE)	1784	1921	2635	4292	4802
Rate of Growth (per cent)					
NPRE	4.18	11.50	7.03	5.15	9.44
PRE	(-) 37.96	7.68	37.17	62.88	11.88
RE/TE	91.52	87.11	89.87	91.63	91.11
NPRE as per cent of TE	84.47	80.61	81.46	78.99	78.30
NPRE as per cent of RR	147.17	143.52	128.08	113.06	113.67
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	#	0.95	0.95	0.82	0.79
Revenue Receipts (ratio)	#	0.78	0.47	0.55	1.10

Rate of growth was negative

Revenue expenditure not only continued to have the predominant share in the total expenditure hovering around 90 *per cent* during the period 2002-2007 but it consistently increased from Rs 23161 crore in 2002-2003 to Rs 34161 crore in 2006-2007 at an average annual rate of growth of 9.5 *per cent* during the period. Of the total Revenue Expenditure, the Non-Plan Revenue Expenditure continued to share its major proportion which was 86 *per cent* (Rs 29359 crore) during 2006-2007 while Plan Revenue Expenditure constituted only 14 *per cent* (Rs 4802 crore). The Non-Plan Revenue Expenditure of Rs 29359 crore during the current year, though higher than the normative projections of TFC (Rs 27206 crore), was contained marginally below the Revised Estimates of the Government (Rs 30227 crore).

The Non-Plan Revenue Expenditure not only shared bulk of the revenue expenditure of the State but it consistently increased during the period 2002-2007. During the current year it increased by Rs 2534 crore from the level of Rs 26825 crore in 2005-2006 mainly due to increase under Interest Payments (Rs 1210 crore); Administrative Services (Rs 339 crore); Education, Sports, Art and Culture (Rs 312 crore); Water Supply, Sanitation, Housing and Urban Development (Rs 232 crore); Agriculture and Allied Activities (Rs 53 crore); Rural Development (Rs 155 crore); Irrigation and Flood Control (Rs 73 crore).

Plan Revenue Expenditure although increased consistently during the period 2002-2007 but it exhibited inter year fluctuations. During the current year, it only marginally increased by Rs 510 crore from the level of Rs 4292 crore in 2005-2006 and the increase was observed mainly under Health and Family Welfare (Rs 33 crore); Water Supply, Sanitation, Housing and Urban Development (Rs 233 crore); Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (Rs 20 crore); Agriculture and Allied Activities (Rs 18 crore); Special Areas Programme (Rs 42 crore).

The Buoyancy of Revenue Expenditure with GSDP although showed a declining trend during the period 2002-2007 while its buoyancy with revenue receipts exhibited large inter year variations mainly correspond to the variations of either states share in central pool of taxes and duties or grants-in-aid from the Government of India.

1.4.3 Committed Expenditure

Expenditure on Salaries and Wages

The trends of expenditure on salaries both under plan and non-plan heads are presented in the **Table 11** below:

Table 11: Expenditure on Salaries

Heads	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Expenditure on Salaries & Wages of which	9264.40	9453.39	9801.81	10160.98	10875.73
Non-Plan Head	8939.44	9090.18	9425.97	9754.36	10350.45
Plan Head	324.96	363.21	375.84	406.62	525.28
As percentage of GSDP	6.01	5.49	5.18	4.76	4.54
As percentage of Revenue Receipts	63.78	56.91	49.21	42.83	42.11

The expenditure on salaries and wages presented in Table 11 indicates increasing trend during the period 2002-2007 and in 2006-2007 it was Rs 10876 crore against Rs 10161 crore in 2005-2006. Though expenditure on salaries and wages as percentage of GSDP and Revenue Receipts steadily declined over the years from 2002-2003, salary bill of the State alone accounted for 32 per cent of revenue expenditure of the State during 2006-2007. Furthermore, TFC recommended that States should follow 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, however, it was 55.97 per cent during 2006-2007, i.e. much above the norm prescribed by TFC.

Pension Payments

Table 12: Expenditure on Pensions

Heads	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Expenditure on Pensions	2408.15	2610.61	3335.85	3641.50	3552.69
As per cent of GSDP	6.02	5.38	4.99	4.72	1.48
As per cent of RR	63.06	56.21	49.21	42.83	13.76

Table 12 reveals that although the expenditure on pensions which was Rs 3641.50 crore in 2005-2006 came down to Rs 3552.69 crore in 2006-2007 but was slightly higher from both the TFC assessments (Rs 3525.77 crore) and Revised Estimates of the State Government (Rs 3441.32 crore). Expenditure on pension was higher during last year due to lifting of embargo and release of arrear payment of gratuity to the retired teaching and non-teaching staff of non-government educational institutions. The Government has not yet formulated any new pension policy or other effective measures to meet the increasing pension liabilities.

Interest Payments

Table 13: Interest Payments

Year	Revenue Receipts	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)		Revenue Receipts	Revenue Expenditure
2002-2003	14525	7810	54	34
2003-2004	16608	9354	56	36
2004-2005	19918	9767	49	35
2005-2006	23726	9969	42	32
2006-2007	25828	11179	43	33

Interest Payments which were Rs 9969 crore in 2005-2006 increased by Rs 1210 crore during 2006-2007 and stood at Rs 11179 crore as against the normative projection of TFC (Rs 9506 crore) as well as the state's own Revised Estimates (Rs 10985.77 crore). Interest payments as percentage of revenue receipts which was 42 per cent in 2005-2006 again rose to 43 per cent in 2006-2007. Increase in interest payment was mainly due to increase in interest (Rs 1011 crore) on Special Securities issued to NSSF of the Central Government by the State Government. The level of Interest Payments relative to Revenue Receipts should have fallen to attain the TFC norm of 15 per cent to be achieved by 2009-2010.

Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table-14**.

Table-14: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-2003	214.65	(-)33.00	0.85
2003-2004	215.88	0.57	0.73
2004-2005	217.89	0.93	0.70
2005-2006	593.68	172.47	1.75
2006-2007	459.55	(-) 22.60	1.22

Subsidies during the current year were lower by Rs 134.13 crore than the previous year. The major sectors receiving subsidies were: Transport (Rs 340.55 crore); Social Welfare and Nutrition (Rs 78.17 crore); Agriculture and Allied Activities (Rs 39.63 crore).

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 15** gives these ratios during 2002-2007.

Table 15: Indicators of Quality of Expenditure

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Capital Expenditure	784	756	1834	1653	2018
Revenue Expenditure, Of which	23161	25757	28146	31117	34161
Social and Economic Services	10341	11080	12184	14435	15884
<i>Of which</i>					
(i) Salary and Wage Component	7358	7497	7766	8105	8658
(ii) Non-Salary and Wage Component	2983	3583	4418	6330	7226
Capital Expenditure as per cent of					
Total Expenditure	3.09	2.56	5.86	4.87	5.38
GSDP	0.51	0.44	0.97	0.77	0.84
Share of Revenue Expenditure spent on Social & Economic Services (per cent)	44.65	43.02	43.29	46.39	46.50
Share of Non-salary and Wage Component in Revenue Expenditure incurred on social and economic services (per cent)	28.85	32.34	36.26	43.85	45.49

The trends in **Table 15** indicate that the level of capital expenditure was stepped up by almost 2.5 times in 2004-2005 over the level of previous year and State

Government is striving hard to maintain this level of capital expenditure thereafter. It is observed that major proportion of the total capital expenditure is shared by the plan capital expenditure during the period. During 2006-2007, for instance, about 99.6 per cent of the total capital expenditure was plan capital expenditure (Rs 2009.59 crore). The plan capital expenditure in 2006-2007 increased by Rs 647.87 crore from the level of Rs 1361.72 crore in 2005-2006, of which major increase was in energy sector (Rs 440 crore). The increase in plan capital expenditure was counterbalanced by a decline of Rs 282.36 crore in non plan capital expenditure resulting in a net increase of Rs 365.51 crore in the capital expenditure during 2006-2007.

The detailed analysis further disclose that even the sharp increase in Capital Expenditure during 2004-2005 was mainly due to conversion of outstanding loans and interest of Rs 991.74 crore into equity in respect of four companies as a part of restructuring package and therefore the steep increase in expenditure can not be said to be incurred on the expansion of social and economic services in the state during that year. Similar type of expenditure under capital account were also observed in subsequent years although they were not of similar magnitude as observed in 2004-2005.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 16** summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-2007.

Table 16: Expenditure on Social Services

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Education, Sports, Art and Culture	4406	4522	4983	5564	6264
Revenue Expenditure	4401	4519	4977	5555	6254
<i>Of which</i>					
<i>(a) Salary and Wage Component</i>	4074	4223	4384	4587	5040
<i>(b) Non-Salary & Wage Component</i>	327	296	593	968	1214
Capital Expenditure	5	3	6	9	10
Health and Family Welfare	1371	1404	1416	1585	1678
Revenue Expenditure	1329	1355	1352	1505	1611
<i>Of which</i>					
<i>(a) Salary and Wage Component</i>	991	999	1026	1084	1168
<i>(b) Non-Salary & Wage Component</i>	338	356	326	421	443
Capital Expenditure	42	49	64	80	67
Water Supply, Sanitation, Housing and Urban Development	926	1135	1061	1405	2043
Revenue Expenditure	855	1059	1006	1209	1773
<i>Of which</i>					
<i>(a) Salary and Wage Component</i>	490	488	513	545	551
<i>(b) Non-Salary & Wage Component</i>	365	571	493	664	1222
Capital Expenditure	71	76	55	196	270

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Other Social Services	1019	1115	1317	1562	1774
Revenue Expenditure	1014	1103	1292	1531	1742
<i>Of which</i>					
(a) Salary and Wage Component	288	289	318	339	292
(b) Non-Salary & Wage Component	726	814	974	1192	1450
Capital Expenditure	5	12	25	31	32
Total (Social Services)	7722	8176	8777	10116	11759
Revenue Expenditure	7599	8036	8627	9800	11380
<i>Of which</i>					
(a) Salary and Wage Component	5843	5999	6241	6555	7051
(b) Non-Salary & Wage Component	1756	2037	2386	3245	4329
Capital Expenditure	123	140	150	316	379

The allocation to social sector increased from Rs 7722 crore in 2002-2003 to Rs 11759 crore in 2006-2007 indicating the Government's commitment to improve social well being of the society. Expenditure on social sector under revenue during the current year (Rs 11380 crore) accounted for 30 *per cent* of total expenditure and 64 *per cent* of developmental expenditure³. Expenditure in social sector has increased by Rs 1580 crore over the previous year mainly due to increased expenditure under Education, Sports Art and Culture (Rs 699 crore), Health and Family Welfare (Rs 106 crore), Water Supply, Sanitation, Housing and Urban Development (Rs 564 crore). Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure on the both plan and non-plan heads) showed that the salary and wage component under education sector increased by 10 *per cent* over 2005-2006 while non-salary and wage component increased by 25 *per cent*. Similarly, under health and family welfare sector the salary and wage component increased by eight *per cent* while non-salary and wage component increased by five *per cent*. The expenditure pattern both in education and health services does not seem to be as per the norms of the TFC which needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 6062.78 crore) accounted for 16 *per cent* of the total expenditure and 34 *per cent* of developmental expenditure (Table 17). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 61 *per cent* of the expenditure of Economic Services.

³ Developmental expenditure is defined as the total expenditure made on social and economic services

Table 17: Expenditure on Economic Sector

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Agriculture, Allied Activities	770	746	766	826	895
Revenue Expenditure	752	734	748	784	855
<i>Of which</i>					
(a) Salary and Wage Component	554	539	544	552	571
(b) Non-Salary & Wage Component	198	195	204	232	284
Capital Expenditure	18	12	18	42	40
Irrigation and Flood Control	619	599	642	734	826
Revenue Expenditure	454	444	478	538	618
<i>Of which</i>					
(a) Salary and Wage Component	309	302	307	318	299
(b) Non-Salary & Wage Component	145	142	171	220	319
Capital Expenditure	165	155	164	196	208
Energy	144	145	409	1062	808
Revenue Expenditure	2	3	77	425	16
<i>Of which</i>					
(a) Salary and Wage Component	1	1	-	-	1
(b) Non-Salary & Wage Component	1	2	77	425	15
Capital Expenditure	142	142	332	637	792
Transport	655	826	1033	1013	1140
Revenue Expenditure	412	578	797	694	840
<i>Of which</i>					
(a) Salary and Wage Component	81	85	83	85	86
(b) Non-Salary & Wage Component	331	493	714	609	754
Capital Expenditure	243	248	236	319	300
Other Economic Services	1183	1329	2367	2309	2394
Revenue Expenditure	1122	1285	1457	2194	2175
<i>Of which</i>					
(a) Salary and Wage Component	570	571	591	595	651
(b) Non-Salary & Wage Component	552	714	866	1599	1524
Capital Expenditure	61	44	910	115	219
Total (Economic Services)	3371	3645	5217	5944	6063
Revenue Expenditure	2742	3044	3557	4635	4504
<i>Of which</i>					
(a) Salary and Wage Component	1515	1498	1525	1550	1608
(b) Non-Salary & Wage Component	1227	1546	2032	3085	2896
Capital Expenditure	629	601	1660	1309	1559

The trends in Table 17 indicate that expenditure on economic services has consistently increased from Rs 3371 crore in 2002-2003 to Rs 6063 crore in 2006-2007 at an average annual rate of 16 per cent during the period. As compared to 2002-2003 significant increases in 2006-2007 were observed in Energy (461 per cent), Transport (74 per cent) and Irrigation and Flood Control (33 per cent).

Although the revenue expenditure incurred on economic services has consistently increased during the period 2002-2007 but the share of salary and wage component has declined from 55 per cent in 2002-2003 to 36 per cent in 2006-2007 with inter year variations. The non-salary component consistently increased from Rs 1227 crore in 2002-2003 to Rs 3085 crore in 2005-2006 and then dipped to Rs 2896 crore in 2006-2007. Relative to revenue expenditure, the non-salary component increased from 45 per cent in 2002-2003 to 64 per cent in 2006-2007. The Capital Expenditure on other hand also increased from Rs 629 crore in 2002-2003 to Rs 1559 crore in 2006-2007 with inter year variations. These trends apparently reflect the better quality of services.

1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2002-2007 is presented in **Table 18**.

Table 18: Financial Assistance

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3945.16	4300.34	4748.74	5296.38	5420.44
Municipal Corporations and Municipalities	380.57	876.06	853.57	1258.56	963.02
Zilla Parishads and Other Panchayati Raj Institutions	407.38	256.17	515.95	1419.43	1148.06
Development Agencies	1427.89	817.89	814.98	634.85	235.27
Hospitals and other Charitable Institutions	1.00	48.60	55.80	134.45	137.59
Other Institutions	366.66	30.83	23.91	373.08	811.06
Total	6528.66	6329.89	7012.95	9116.75	8715.44
Assistance as percentage of revenue expenditure	28.19	24.57	24.92	29.30	25.51

The table above indicates that as compared to last year, assistance provided to Local Bodies this year was less by Rs 401.31 crore. There was less receipt of grants in Municipal Corporations and Municipalities (Rs 295.54 crore), Zilla Parishads and Panchayati Raj Institutions (Rs 271.37 crore), Development Agencies (Rs 399.58 crore), counter balanced by increase in assistance provided to Universities and Educational Institutions (Rs 124.06 crore) and other Institutions (Rs 437.98 crore).

1.5.5 Delay in furnishing utilisation certificates

Of the 42167 utilisation certificates (UC) due in respect of grants aggregating Rs 8931.40 crore paid upto 2006-2007, 42147 UCs for an aggregate amount of Rs 8917.16 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.6**.

1.5.6 Delay in submission of accounts by Autonomous Bodies

The audited Reports in respect of 11⁴ 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 nine bodies/authorities before the Legislature as detailed in **Appendix 1.7**. As a result, the Legislature was deprived of access to the audited accounts of these bodies in which Rs 560.94 crore were spent during these years. Audit of Accounts

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 11. West Bengal Heritage Commission

(upto the year 1990-1991) of Darjeeling Gorkha Autonomous Hill Council has been completed. The detailed information regarding non-submission of accounts for the year upto 2006-2007 despite repeated reminders by audit is given in **Appendix 1.8**.

1.5.7 Audit arrangements

During the year 2006-2007, audit of 107 annual accounts and 31 transaction audits in respect of 63 bodies/authorities (excluding Panchayats/Rural Institutions/Urban Local Bodies), which attracted audit by Comptroller and Auditor General of India, were conducted.

Thirty six (36) annual accounts of different bodies/authorities for 2005-2006 and earlier years had not been received as of August 2007 by the Examiner of Local Accounts under the Accountant General (Receipt, Works and Local Bodies Audit), West Bengal. The details are given in **Appendix 1.9**. It would reveal that accounts were due even for six years.

1.5.8 Unutilised grants

Grants aggregating Rs 213.43 crore, meant for development purposes, were lying unspent with the 53 bodies (Zilla Parishads and Municipal Corporations/Municipalities) whose accounts for varying periods between 2001-2002 and 2005-2006 were audited during 2006-2007. The details are given in **Appendix 1.10**. 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.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 675 cases of misappropriation, defalcation etc. involving Government money amounting to Rs 5.53 crore upto the period August 2007 on which final action was pending. The department-wise break-up of pending cases is given in **Appendix 1.11**.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.2** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. **Appendix 1.5** depicts the time series data on State Government finances for the period 2002-2007.

1.7.1 Departmental 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 Heads of Departments in Government are to ensure submission of each year's *pro forma* accounts to the Principal Accountant General for audit. Out of 20 such units, five had not prepared their accounts since inception, as detailed in **Appendix 1.12**. While Greater Calcutta Milk Supply Scheme had prepared accounts till 2005-2006, for the remaining 14 units, arrears in preparation of accounts ranged from two to 23 years as of June 2007 (**Appendix 1.13**).

As per latest accounts received from 15⁵ units, Rs 1825.11 crore were invested by the State Government in such units which employed 13896 staff and officers. Out of the 15 undertakings, 14 had incurred continuous losses aggregating to Rs 1465.31 crore against their total capital investment of Rs 1549.01 crore while the remaining scheme *viz.* Scheme for Public Distribution of Food grains reflected accumulated profit of Rs 23.49 crore as of 31 March 2002.

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 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 July 2006 to June 2007, 6 undertakings finalised 23 *pro forma* accounts for the year 2005-2006 and for earlier years, as against 26 *pro forma* accounts finalised during July 2005 to June 2006. Consequently, there were no accountability by the Management and Government in respect of public funds spent by these undertakings.

1.7.2 Investments and returns

As on 31 March 2007, Government had invested Rs 7641.58 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 19**). The return on this investment varied between 0.1 to 0.3 *per cent* while the Government paid interest at the average rate of 9.15 to 11.21 *per cent* on its borrowings during 2002-2007.

⁵ Greater Calcutta Milk Supply Scheme had no arrear in accounts

Table 19 : Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest rate and return
	(Rupees in crore)			(figures in per cent)	
2002-2003	4203.70	1.38	0.03	10.91	10.88
2003-2004	4372.94	0.50	0.01	11.21	11.20
2004-2005	5905.99	0.43	0.01	10.08	10.07
2005-2006	6643.61	1.58	0.02	9.15	9.13
2006-2007	7641.58	2.34	0.03	9.48	9.45

The increase of Rs 997.97 crore during the year was mainly due to investment in Durgapur Projects Limited (Rs 200 crore), Metro Railway (Rs 56 crore), West Bengal Electronic Industry Development Corporation (Rs 50 crore), West Bengal Power Development Corporation (Rs 141 crore), Sagardighi Thermal Power Project (Rs 300 crore), Santaldih Thermal Power Project (Rs 150 crore) and West Bengal Infrastructure Development Financial Corporation (Rs 35 crore). The difference between the rate of return on Government investments and the average interest rate on the outstanding liabilities represented an implicit subsidy. During 2002-2007, this subsidy amounted to Rs 2870.55 crore. Details of major Government companies/Statutory Corporations wherein Rs 6126.21 crore were invested by the Government and their financial results as per latest account finalised are given in *Appendix 1.14*.

1.7.3 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007, was Rs 17872.19 crore (**Table 20**). Interest received against these loans and advances was 3.07 *per cent* during 2006-2007 as against 1.48 *per cent* in previous year.

Table 20: Average Interest Received on Loans Advanced by the State Government

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	(R u p e e s i n c r o r e)				
Opening Balance	11530.08	12679.51	15644.81	16235.57	16792.83
Amount advanced during the year	1362.78	3056.33	1337.36	1188.59	1317.26
Amount repaid during the year	213.35	91.03	746.60	631.33	237.90
Closing Balance	12679.51	15644.81	16235.57	16792.83	17872.19
Net addition	1149.43	2965.30	590.76	557.26	1079.36
Interest Received	8.86	12.92	461.81	248.03	549.14
Interest Received as <i>per cent</i> to outstanding loans and advances	0.07	0.08	2.84	1.48	3.07
Average interest rate ⁶ (in <i>per cent</i>) paid on borrowings by State Government	10.91	11.21	10.08	9.15	9.48
Difference between weighted interest paid and received (<i>per cent</i>)	10.84	11.13	7.24	7.67	6.31

The amount of loans advanced during the current year increased by Rs 129 crore (10.83 *per cent*) from the level of Rs 1188.59 crore in 2005-2006. The major sectors receiving the government loans during the year include water supply,

⁶ Interest Payment/[(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100

sanitation, housing and urban development (Rs 42 crore), energy (Rs 67 crore) and transport sector (Rs 16 crore).

Test-check of records of the Finance and four other departments (Power, Transport, Housing and Fisheries) disclosed that out of the total closing loan balance of Rs 17872.19 crore as of March 2007, Rs 13436.61 crore (75 per cent) related to Power Department only. The actual repayment of loans against the amount overdue in respect of Power Department is given below:

Year	Total outstanding	Installment overdue	Repayment	Loan converted into equity	Actual recovery	Percentage of recovery of overdue loan
(Rupees in crore)						
2002-2003	8371.84	823.59	141.84	141.84	-	-
2003-2004	11205.62	1108.43	141.84	141.84	-	-
2004-2005	12063.17	1247.17	294.40	291.84	2.56	0.21
2005-2006	12504.35	1894.87	583.82	486.68	97.14	5.13
2006-2007	13436.61	2245.90	159.71	141.83	17.88	0.80

The Table discloses the fact that only Rs 1321.61 crore were repaid by the Power Department during the period 2002-2007. Of these, Rs 1204.03 crore (91 per cent) were on account of conversion of loan into equity showing that actual recovery was only to the tune of Rs 117.58 crore which was only 5 per cent of the total amount due for re-payment at the end of 2006-2007.

1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank daily a minimum balance of Rs 2.48 crore with effect from 1 May 2000. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ways and means advance/overdraft from the bank. During the year 2006-2007, ways and means advances to the tune of Rs 207.98 crore were taken from the bank, which was repaid in full within the year.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State for the five year period 2002-2007 is detailed in Table below:

Ways and Means and Overdrafts of the State (Rupees in crore)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Ways and Means Advances					
Availed in the Year	2435.62	7098.78	8853.43	269.56	207.98
Number of occasions					-
Outstanding WMAs, if any	162.33	830.50	-	-	-
Interest Paid	51.07	46.03	37.03	0.09	⁷
Number of days					-
Overdraft-					
Availed in the Year	12399.77	6840.49	4045.08	-	-
Number of occasions					-
Number of Days	260	146	114	-	-
Interest Paid	25.38	15.04	5.11	-	-

1.8 Undischarged Liabilities

1.8.1 Fiscal liabilities – Public Debt and Guarantees

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

Table 21 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

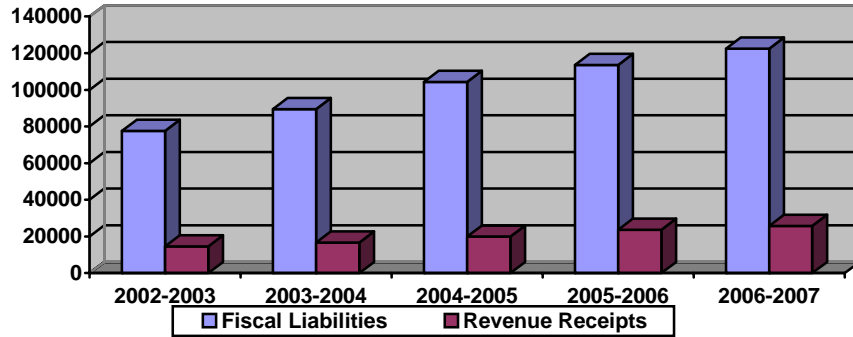
Table 21: Fiscal Liabilities- Basic Parameters

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Fiscal Liabilities (Rupees in crore)	77543	89388	104334	113493	122398
Rate of Growth (<i>per cent</i>)	18.18	15.28	16.72	8.78	7.85
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	50.33	51.90	55.18	53.18	51.06
Revenue Receipts (<i>per cent</i>)	533.86	538.19	523.82	478.35	473.90
Own Resources (<i>per cent</i>)	-	953.57	925.77	994.94	945.60
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	2.618	1.294	1.712	0.681	0.637
Revenue Receipts (ratio)	- #	1.065	0.839	0.459	0.886
Own Resources (ratio)	3.408	0.703	0.827	7.221	0.582

Rate of growth of Revenue was negative

⁷ No interest was paid during this year. Interest of Rs 0.14 crore was deducted on this account by RBI in April 2007

Growth of Fiscal Liabilities vis-a-vis Revenue Receipts



Overall fiscal liabilities of the State increased from Rs 77543 crore in 2002-2003 to Rs 122398 crore in 2006-2007. The growth rate was 7.85 per cent during 2006-2007 over previous year. The ratio of fiscal liabilities to GSDP decreased from 53.18 per cent in 2005-2006 to 51.06 per cent in 2006-2007. These liabilities stood at 4.74 times the revenue receipts and 9.46 times of the States own resources as at the end of 2006-2007. The fiscal liabilities had grown faster than the State's GSDP up to the year 2004-2005. The scenario, however, changed thereafter and rate of growth of debt started trailing behind that of GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 0.637 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 0.637 per cent.

In pursuance to the recommendations of the TFC, State Governments were to set up the Consolidated Sinking Fund, (the scheme which was accordingly revised by the GOI in 2006 to incorporate the recommendations of TFC) relating to all loans and not just market borrowings. The Government of West Bengal is yet to set up the CSF to meet the increasing fiscal liabilities.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per the West Bengal ceiling on Government Guarantees Act 2001 there is a provision 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 of such year as they stood in the books of the Accountant General (A & E), West Bengal.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-2003 is given in **Table 22**.

Table-22: Guarantees given by the Government of West Bengal

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
	(R u p e e s i n c r o r e)		
2002-2003	17648.64	11193.94	63.43
2003-2004	17255.57	11043.77	64.00
2004-2005	21487.60	14870.54	69.21
2005-2006	22378.72	14084.92	62.94
2006-2007	21826.39	13136.64	84.51

The total guarantee of the Government increased from Rs 17648.64 crore in 2002-2003 to Rs 21826.39 crore in 2006-2007 (24 per cent) whereas the outstanding guaranteed loan amount increased from Rs 11193.94 crore in 2003 to Rs 13136.64 crore in 2007 (17 per cent increase). This was, however, less than the ceiling permissible under the relevant Act.

Position of guarantee was test-checked in five departments viz. Finance (IF), Transport, Power, Housing and Fisheries during 2002 to 2007 of which Finance (IF) and Power Departments constituted 73 and 17 per cent respectively of the guaranteed amount outstanding which was as follows :

Guarantee position as on	Finance (IF)		Power	
	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding
(R u p e e s i n c r o r e)				
31.3.2003	10815.85	7666.88	3349.68	1767.73
31.3.2004	11831.61	8619.76	3416.08	1563.42
31.3.2005	14176.47	11353.05	3436.47	1512.42
31.3.2006	14246.97	10435.33	4212.08	1580.22
31.3.2007	15108.14	9606.87	4308.08	2176.06

Power Department gave guarantees to the West Bengal State Electricity Board and Durgapur Projects Limited for repayment of principal and interest on the market bonds floated by them. As liquidity position of the units were very poor, Government had to give further loans of Rs 224.83 crore to WBSEB (Rs 214.83 crore) and DPL (Rs 10 crore) during 2002-2003 to 2004-2005.

Repayment of HUDCO Loan taken by West Bengal Housing Board

Loan for an amount of Rs 12 crore was taken by West Bengal Housing Board (WBHB) from Housing and Urban Development Corporation (HUDCO) in the year 1989-90 and 1990-1991 for implementation of EWS Cash Loan Scheme for cyclone affected people of North and South 24 Parganas at the rate Rs 6000 each for 20000 beneficiaries. The loan was taken at the instance of State Government guarantee. As per terms and conditions of the loan agreement concerned Zilla Parishads would repay the loan in installments to West Bengal Housing Board for onward disbursement to HUDCO. In case of failure on the part of Zilla Parishads in repayment, State Government would take up the said loan so as to avoid financial loss of the Board.

Up to June 1998 repayment was made by WBHB for an amount of Rs 7.87 crore against which reimbursement was made by Zilla Parishads for an amount of Rs 0.85 crore only. Balance due to HUDCO as on July 1998 was Rs 8.60 crore.

WBHB stopped repayment to HUDCO from September 1998. Between November 2000 and August 2005, a total amount of Rs 8.94 crore was released by Government towards repayment against HUDCO loan. Thereafter one-time settlement of the case was reached (October 2006) by making repayment by the State Government for an amount of Rs 4.50 crore (Principal Rs 4.28 + Interest, including penal interest, Rs 0.22 crore).

As the loans remained mostly unrecovered Government had to bear huge financial burden of Rs 13.44 crore for making repayment of the loan along with interest.

1.9 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if it is negative, debt-GSDP ratio would be rising and if it turns to be positive, it would be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 23**.

Table 23: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Average Interest Rate	10.91	11.21	10.08	9.15	9.48
GSDP Growth	6.95	11.80	9.77	12.88	12.32
Interest spread	(-) 3.96	0.59	(-) 0.31	3.73	2.84
Quantum Spread (Rupees in Crore)	(-) 2598	457	(-) 277	3892	3223
Primary Deficit (Rupees in Crore)/Surplus	(-) 2760	(-) 3516	(-) 886	(+) 367	(-) 252

Table 23 reveals that quantum spread together with primary deficit has been consistently negative from 2002-2003 to 2004-2005 indicating rising debt-GSDP ratios during the period. Debt-GSDP has increased steadily from 50.3 per cent in 2002-2003 to 55.2 per cent in 2004-2005. It was only from 2005-2006 the quantum spread together with primary deficit turned positive resulting in decline in debt/GSDP ratio to 51 per cent in 2006-2007. These trends indicate the State is moving towards the debt stabilisation which in turn improves the debt sustainability position of the State.

1.9.1 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest

liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 24** indicates the resource gap as defined for the period 2002-2007.

Table 24: Incremental revenue receipts and Revenue Expenditure

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
(R u p e e s i n c r o r e)					
2002-2003	33	(-) 1549	1315	(-) 234	(+) 267
2003-2004	1961	2718	1544	4262	(-) 2301
2004-2005	3965	1336	413	1739	(+) 2226
2005-2006	3692	2439	202	2641	(+) 1051
2006-2007	1709	2327	1210	3537	(-) 1828

The negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The trends in resource gaps indicate oscillations between positive and negative magnitudes, i.e. it remained positive during 2002-2003 and 2004-2006 but was negative in 2003-2004 and 2006-2007 as incremental non-debt receipts in these two years were far below total expenditure. The negative resource gap in the current year was mainly due to steep increase in the interest payments on the one hand and a sharp fall in non-debt capital receipts (recovery of loans) relative to the previous year.

1.9.2 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue.

Table 25 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table 25: Net Availability of Borrowed Funds (Rupees in crore)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Internal Debt					
Receipt	13007	18638	14485	14922	10411
Repayment(Principal + Interest)	4572	7067	6848	8788	10552
Net funds available	8435	11571	7637	6134	(-) 141
Net funds available (<i>per cent</i>)	65	62	53	41	(-) 1

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Loans and Advances from Government of India					
Receipt	2568	1371	1639	584	621
Repayment(Principal + Interest)	4811	9932	3662	6501	3090
Net funds available	(-) 2243	(-) 8561	(-) 2023	(-) 5917	(-) 2469
Net funds available (<i>per cent</i>)	(-) 87	(-) 624	(-) 123	(-) 1013	(-) 398
Other obligations					
Receipt	10921	13872	13230	12210	11558
Repayment(Principal + Interest)	1515	14514	12390	3199	10746
Net funds available	9406	(-) 642	840	9011	812
Net funds available (<i>per cent</i>)	86	(-) 5	6	74	7
Total liabilities					
Receipts	26496	33881	29354	27716	22590
Repayment (Principal + Interest)	10898	31513	22900	18488	24388
Net Receipts	15598	2368	6454	9228	(-) 1798
Net Funds Available as % to total Receipts	59	7	22	33	(-) 8

The net funds available on account of the internal debt and loans and advances from Government of India and other obligation after providing for the interest and repayments varied from 7 *per cent* (2003-2004) to 59 *per cent* (2002-2003) during 2002-2006. During the current year the Government repaid internal debt of Rs 10552 crore, Government of India loans of Rs 3090 crore and also discharged other obligation of Rs 10746 crore along with interest thereupon as a result of which no borrowed funds were available as it was negative viz. (-)Rs 1798 crore. During the last two years, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

1.10 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of 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.

1.10.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 26**. The Table reveals that the revenue account experienced a situation of huge deficit during the period 2002-2007 which in four out of five years exceeded Rs 8000 crore. Contrary to the general trends, the deficit has sharply increased by Rs 942 crore in the current year from the level of Rs 7391 crore in 2005-2006. The adverse situation in revenue account during the current year was on account of the fact that revenue receipts increased by 9 *per cent* (Rs 2102 crore) over 2005-2006 while the revenue expenditure during the same period rose by nearly 10 *per cent* (Rs 3044 crore) resulting in an increase of Rs 942 crore in revenue deficit during the current year.

The finance accounts reveal that revenue deficit was slightly overestimated by Rs 30 crore during the current year due to misclassification of expenditure by the Education Department for the year 2006-2007. The department misclassified Rs 30 crore for works like extension of school buildings, construction of additional rooms, reading rooms for library for upgraded Government and Non-Government High and Higher Secondary Schools as revenue expenditure instead of capital resulting in slight overestimation of revenue deficit but it is unlikely to affect the overall fiscal position of the State during the year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, continued to remain at relatively higher level and increased from Rs 10570 crore in 2002-2003 to Rs 11430 crore in 2006-2007 with slight inter year variations. During the current year, given increase in revenue deficit at Rs 942 crore, the increase in capital expenditure (Rs 365 crore) and loans and advances disbursed (Rs 129 crore) and a decline of Rs 393 crore in non-debt capital receipts, the fiscal deficit has increased by Rs 1829 crore in 2006-2007 over the previous year.

Despite an increase of Rs 1210 crore in interest payments, primary deficit has once again turned into a deficit of Rs 252 crore during 2006-2007 from the surplus of Rs 368 crore in 2005-2006 mainly on account of an increase of Rs 1829 crore in fiscal deficit during the current year.

Fiscal Imbalances (Rupees in crore)

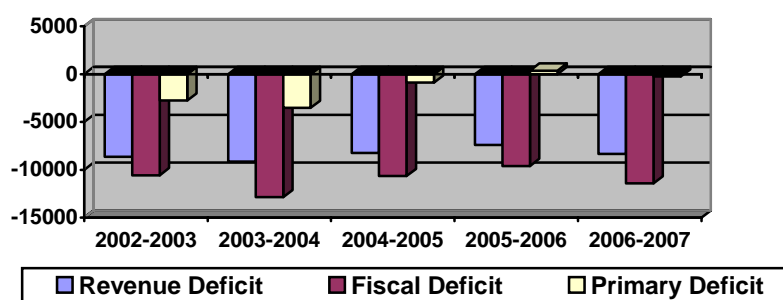


Table 26: Fiscal Imbalances- Basic Parameters

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenue deficit (Rupees in crore)	(-) 8635	(-) 9149	(-) 8228	(-) 7391	(-) 8333
Fiscal deficit (Rupees in crore)	(-) 10570	(-) 12870	(-) 10653	(-) 9601	(-) 11430
Primary Deficit/Surplus (Rupees in crore)	(-) 2760	(-) 3516	(-) 886	(+) 368	(-) 252
RD/GSDP (per cent)	5.61	5.31	4.35	3.46	3.48
FD/GSDP (per cent)	6.86	7.47	5.63	4.50	4.77
PD/GSDP (per cent)	(-) 1.79	(-) 2.04	(-) 0.47	(+) 0.17	(-) 0.10
RD/FD	81.70	71.09	77.24	76.97	72.90

The revenue and fiscal deficits relative to GSDP of the State although exhibited the declining trends from 2002-2003 to 2005-2006 but in the current year due to increase in both revenue and fiscal deficits, these ratios have shown deterioration

indicating slight reversal of trend in 2006-2007. As proportion to GSDP, the revenue deficit had reached 3.48 *per cent* and fiscal deficit had reached 4.77 *per cent* and primary deficit had reached (-) 0.10 *per cent* in 2006-2007 - all these proportions reflecting adverse trends over the previous year.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit⁸ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which declined during 2003-2004 as compared to 2002-2003 again rose in 2004-2005. The same, however, declined moderately in the remaining two years period. The ratio of revenue deficit to fiscal deficit was 73 during 2006-2007 indicating that nearly 73 *per cent* of the borrowed funds were used for current consumption. Persistently, high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a part of borrowings (fiscal liabilities) were not having any asset back up.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-2007 shows (**Table 27**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State government. In other words, non-debt receipts of the State were enough to meet the primary expenditure⁹ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 27: Primary deficit / surplus - Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary Revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-2003	14739	15350	784	1363	17497	(-) 611	(-) 2758
2003-2004	16700	16403	756	3056	20215	(+) 297	(-) 3515
2004-2005	20665	18379	1835	1337	21551	(+) 2286	(-) 886
2005-2006	24357	21148	1653	1189	23990	(+) 3209	(+) 367
2006-2007	26066	22982	2018	1317	26317	(+) 3084	(-) 252

⁸ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

⁹ Primary expenditure of the State is defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

The bifurcation of the factors resulting into primary deficit/surplus of the State during 2002-2006 would show that barring 2002-2003 the primary deficit was mostly on account of capital expenditure incurred and loans and advances disbursed by the State Government. There was primary surplus both with reference to revenue and capital expenditure only in 2005-2006.

1.11 Fiscal Ratios

Finances of the State should be sustainable, flexible and non-vulnerable. **Table 28** below presents a summarised position of Government finances over 2002-2007, with reference to certain key indicators that help assess the adequacy, effectiveness of available resources, their applications, highlight areas of concern and capture its important facets.

Table 28: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
I Resource Mobilisation					
Revenue Receipt/GSDP	9.43	9.64	10.53	11.12	10.77
Revenue Buoyancy	- 0.013	1.216	2.040	1.484	0.719
Own tax/GSDP	4.573	5.090	5.249	4.867	4.878
II Expenditure Management					
Total Expenditure/GSDP	16.43	17.17	16.56	15.91	15.64
Revenue Receipts/Total Expenditure	57.39	56.17	63.60	69.87	68.88
Revenue Expenditure/Total Expenditure	91.52	87.11	89.87	91.63	91.11
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	31.77	29.11	27.59	26.05	38.40
Non-Salary and Wage expenditure on Social and Economic Services/ Revenue Expenditure	12.88	13.91	15.70	20.34	19.86
Capital Expenditure/Total Expenditure	3.27	2.85	6.12	5.04	5.58
Capital Expenditure on Social and Economic Services/Total Expenditure	2.57	2.51	5.78	4.79	5.17
Buoyancy of TE with RR	50.706	1.173	0.297	0.441	1.176
Buoyancy of RE with RR	11.185	0.781	0.466	0.552	1.104
III Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	- 8636	-9148	- 8228	- 7391	- 8333
Fiscal deficit (Rs in crore)	- 10570	-12870	- 10653	- 9601	- 11430
Primary Deficit /Surplus (Rs in crore)	- 2760	-3516	- 886	+ 367	- 252
Revenue Deficit/Fiscal Deficit	81.70	71.09	77.24	76.97	72.90
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	50.33	51.90	55.18	53.18	51.06
Fiscal Liabilities/RR	533.86	538.19	523.82	478.35	473.90
Buoyancy of FL with RR	- 203.355	1.065	0.839	0.459	0.886
Buoyancy of FL with Own Receipt	3.408	0.703	0.827	7.221	0.582
Primary deficit vis-a-vis quantum spread (in bracket)	(-) 2760 (- 2598)	(-) 3516 (457)	(-) 886 (- 277)	(+) 367 (3892)	(-) 252 (3223)
Net Funds Available	15598	2368	6454	9228	(-) 1798
V Other Fiscal Health Indicators					
Return on Investment	0.03	0.01	0.01	0.02	0.03
Balance from Current Revenue (Rupees in crore)	- 7994	- 8595	- 7245	- 5490	- 6118
Financial Assets/Liabilities	0.35	0.33	0.35	0.34	0.32

Revenue Buoyancy was negative

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. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP marginally improved and crossed 10 *per cent* mark in 2004-2005 and thereafter remained almost stable with slight inter year variations. The ratio of own taxes to GSDP had also marginally improved during the period and has stabilised at 4.8 *per cent* during 2005-2006 and 2006-2007. Tax collections being significantly lower than the normative assessment of TFC indicates the scope and potential of improvement in this ratio in ensuing years.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a *percentage* to total expenditure remained stable around 90 per cent during the period indicating need for changing allocative priorities. The capital expenditure relative to both the total expenditure and GSDP has exhibited an increasing trend but level of capital expenditure keeping in view the size of the State is relatively low and its quality contents also need improvement. The buoyancy ratios of both total and revenue expenditure with revenue receipts indicate relatively low buoyancies except in the current year in which the steep fall in growth rate of revenue receipts has shown improvements. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 69 *per cent* during 2006-2007 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts.

The increase in both revenue and fiscal deficits during 2006-2007 indicates deterioration in fiscal position of the State. The consistent negative Balance from Current Revenue (BCR) and deterioration in 2006-2007 over previous year discloses that adequate domestic resources are not available for creation of assets and to meet state plan schemes. During the period (2002-2007), only 32 to 35 *per cent* fiscal liabilities of the State have the asset back up reflecting relatively poor assets liabilities ratio in the State.

1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has shown slight deterioration in 2006-2007 over the previous year. In the absence of FRBM Act which is yet to be enacted by the State, the State Government does not seem to have any statutory binding or commitment to achieve the fiscal targets as recommended by the TFC during its award period. Moreover, due to non-enactment of the fiscal responsibility legislation, the state government has foregone the relief in interest payments on Government of India loans as well as debt relief and other benefits such as debt waiver linked to the fiscal performance of the State during 2005-2006 and 2006-2007.

The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure hovered around 90 *per cent* during the period 2002-2007 leaving inadequate resources for expansion of services and creation of assets as a result of which only 32 *per cent* of fiscal liabilities of the State has asset backup up during 2006-2007. Moreover, within the revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 76 per cent of the revenue expenditure during 2006-2007. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of revenue, fiscal and primary deficits in the finance accounts of the State indicates the increasing reliance on the borrowed funds, a substantial part of which is being used to meet the current expenditure requirements of the State government. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilise the additional resources both through the tax and non tax sources in ensuing years.