

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 layout 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 2007-08 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 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	Non-Plan	2007-08	Total
					Plan		
Section-A: Revenue							
25828.32	Revenue Receipts	30167.38	34161.27	Revenue expenditure	31562.85	6751.57	38314.42
11694.77	Tax Revenue	13126.34	17901.30	General services	18794.27	72.31	18866.58
1248.77	Non-Tax Revenue	1473.09	11379.98	Social Services	9409.30	4053.70	13463.00
8505.60	Share of Union Taxes and Duties	10729.06	4503.93	Economic Services	2947.45	2606.36	5553.81
4379.18	Grants from Government of India	4838.89	376.06	Grants-in-aid and Contributions	411.83	19.20	431.03
Section-B: Capital							
	Misc. Capital Receipts		2018.23	Capital Outlay	19.25	2668.48	2687.73
237.90	Recoveries of Loans and Advances	496.64	1317.26	Loans and Advances disbursed	46.98	1015.14	1062.12
11032.36	Public debt receipts ¹	15332.62	3706.38	Repayment of Public Debt	4579.80	-	4579.80
1.74	Contingency Fund	7.16	6.98	Contingency Fund	7.28	-	7.28
35408.25	Public account receipts	50942.07	33185.41	Public account disbursements	49076.77	-	49076.77
4763.99	Opening Cash Balance	2877.03	2877.03	Closing cash balance	4094.78	-	4094.78
77272.56	Total	99822.90	77272.56	Total	89387.71	10435.19	99822.90

Analysis of the **Table 1** discloses the following:

- Revenue receipts increased by Rs 4339 crore during 2007-08 from the level of Rs 25828.32 crore in 2006-07 registering a growth of nearly 17 per cent. The increase was accountable to increase in Tax Revenue (Rs 1431.57 crore); Non-tax Revenue (Rs 224.32 crore) and share of Union Taxes and Duties (Rs 2223.46 crore) and receipts under grants from GOI (Rs 459.71 crore);

¹ Excluding Ways and Means Advances and Overdraft

- Revenue expenditure during 2007-08 was Rs 38314.42 crore against Rs 34161.27 crore in 2006-07 registering an increase of Rs 4153.15 crore (12 *per cent*) over the previous year;
- During 2007-08 Capital outlay increased by 33 *per cent* (Rs 669.50 crore) over that of previous year which was mainly attributable to increase in expenditure under Water Supply, Sanitation, Housing and Urban Development (Rs 317 crore) and energy sector (Rs 194 crore);
- Recovery of Loans and Advances increased by 258.74 crore in 2007-08 while disbursements during the year fell from Rs 1317.26 crore in 2006-07 to Rs 1062.12 crore in 2007-08;
- Both receipts and repayments under the Public Debt increased by Rs 4300.26 crore and Rs 873.42 crore respectively;
- Other significant points noticed were increase in Public Account Receipts to the extent of Rs 15533.82 crore;
- Public Account disbursement was Rs 49076.77 crore in 2007-08 against Rs 33185.41 crore in 2006-07;
- Closing cash balance as on 31 March 2008 was 42 *per cent* higher than that of last year.

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

2006-07 (Rupees in crore)	Sl. No.	Major Aggregates	2007-08 (Rupees in crore)
25828.32	1	Revenue Receipts (2+3+4)	30167.38
11694.77	2	Tax Revenue (Net)	13126.34
1248.77	3	Non-Tax Revenue	1473.09
12884.78	4	Other Receipts	15567.95
237.90	5	Non-Debt Capital Receipts	496.64
237.90	6	<i>Of which</i> Recovery of Loans	496.64
26066.22	7	Total Receipts (1+5)	30664.02
29454.00	8	Non-Plan Expenditure	31629.08
29359.45	9	On Revenue Accounts	31562.85
11178.88	10	<i>Of which</i> , Interest Payments	11593.56
8.64	11	On Capital Accounts	19.25
85.91	12	On Loans disbursed	46.98
8042.76	13	Plan Expenditure (14+15+16)	10435.19
4801.82	14	On Revenue Account	6751.57
2009.59	15	On Capital Account	2668.48
1231.35	16	On Loans disbursed	1015.14
37496.76	17	Total Expenditure (13+8)	42064.27
(-) 8332.95	18	Revenue Deficit {1- (9+14)}	(-) 8147.04
(-) 11430.54	19	Fiscal Deficit {(1+5) - 17}	(-) 11400.25
(-) 251.66	20	Primary Deficit {(1+ 5) – (17- 10)} / Surplus (+)	(+) 193.31

During 2007-08, while revenue receipts increased by 17 *per cent* (Rs 4339 crore) over 2006-07, revenue expenditure rose by nearly 12 *per cent* (Rs 4153 crore) resulting in marginal decrease of Rs 186 crore in revenue deficit during the current year. Given the decrease of Rs 186 crore in revenue deficit along with an increase of Rs 259 crore in non-debt capital receipts, an

increase of Rs 670 crore in capital expenditure accompanied with a decrease of Rs 255 crore in disbursement of loans and advances disbursed resulted in decline of Rs 30 crore in fiscal deficit over the previous year. Further, increase of Rs 415 crore in interest payments resulted in a primary surplus of Rs 193 crore during 2007-08 as against primary deficit of Rs 252 crore in 2006-07.

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 behaviour. 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 Gross State Domestic Product (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 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	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP (Rupees in crore)	172540.17	188997.67	212453.07 (P)	246611.36 (Q)	279781.21 (A)
Rate of Growth of GSDP (per cent)	12.35	9.54	12.41	16.08	13.45

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

With enactment of a Fiscal Responsibility and Management Act (FRBM Act) in 2003 at the Centre, the TFC 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 TFC recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-09 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 West Bengal'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 instalments 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, before consolidation and re-schedulement total repayment due during 2005-10 amounted to Rs 3612.55 crore (i.e. an annual instalment of Rs 722.51 crore). The same would come down to Rs 2425.07 crore (i.e. Rs 485.01 crore annually) after re-schedulement. The relief that would be admissible year-wise towards interest payment during 2005-10 was calculated by the TFC as under:

Year	Amount of interest (Rupees in crore)
2005-06	398.77
2006-07	356.52
2007-08	309.18
2008-09	256.74
2009-10	226.60

Scrutiny showed that relief of Rs 237.50 crore (Rs 722.51 crore—Rs 485.01 crore) towards annual instalment and Rs 309.18 crore towards interest payment on Central Loans during 2007-08 could not be availed of by the State due to non-enactment of the FRBM Act.

Thus, the State could not avail of relief to the tune of Rs 546.68 crore (Rs 237.50 crore *plus* Rs 309.18 crore) due to non-enactment of the legislation.

1.2.2 Non-availability of TFC grants due to non-fulfilment of conditionalities

Scrutiny of records of the Finance Department in respect of receipt of TFC grants disclosed (August 2008) that the State Government could not avail of grants-in-aid of Rs 403.16 crore during 2005-08 owing to non-fulfilment of conditionalities for such grants or instalments thereof.

Conditionalities fixed by the TFC for release of second instalment of grants, Budget Estimates (BE) under Non-Plan Revenue Expenditure of relevant head should not be less than the projected “total NPPE” for 2007-08. The BE of Education Sector (major head: 2202) for 2007-08 under NPPE was Rs 5588.69 crore against the projected “total NPPE” (Rs 6107.92 crore) for 2007-08 which resulted in deprivation of the second instalment (Rs 38.87 crore) of TFC grant.

Similarly, the BE of Maintenance of Public Buildings Sector (major heads: 2059 and 2216) for 2007-08 under NPPE was Rs 376.98 crore against the projected “total NPPE” (Rs 380.25 crore) for 2007-08. As a result, the second instalment of Rs 22.65 crore for 2007-08 under this sector was not received.

Under the State Specific Needs sectors 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 for 2005-10 as grants-in-aid for West Bengal (Rs 445 crore for 2005-08). The grant was to be released by GOI on the basis of demands for each project as assessed by one State High Level Committee (HLC).

Scrutiny disclosed that under the ‘State Specific Needs’ Sector the requirement of funds was accorded by High Level Committee (August 2006 to October 2007: Rs 380.65 crore and December 2007: Rs 12.79 crore). However, Action Plan of Rs 380.65 crore was communicated to Government of India only in November 2007. Nothing was on record to indicate whether the Action Plan of Rs 12.79 crore was at all communicated to Government of India. Against that requirement, GOI released only Rs 178.90 crore (2006-07: Nil and 2007-08: Rs 178.90 crore). State Government was thus deprived of Grants-in-aid of Rs 89.64 crore for 2006-07. There was also shortfall in receipt of Grants-in-aid of Rs 124.90 crore (Rs 303.80 crore – Rs 178.90 crore) during 2007-08.

For augmenting the Consolidated Fund of the States for supplementing the resources of Rural and Urban Local Bodies, the TFC recommended grants for local bodies (Panchayati Raj Institutions : Rs 1271 crore and Urban Local Bodies : Rs 393 crore) for the years 2005-10. The guidelines issued (June 2005) by Government of India emphasised that the State Government, for being eligible to receive grants on account of PRIs, should submit details about allocation of funds and give priority to schemes of Water Supply and Sanitation to be executed by the PRIs. Besides, Ministry of Panchayati Raj, Government of India stressed (June 2008) on submission of utilisation certificate, in respect of earlier instalment of grants, for being eligible to receive the second instalment of grants for 2007-08.

Scrutiny revealed that against grants of Rs 762.60 crore due for PRIs during 2005-08, Rs 635.50 crore were received as of March 2008. Against the same, position of overall utilisation certificate stood at Rs 386.61 crore (61 per cent) and grants utilised under O&M costs of Water Supply and Sanitation was Rs 49.51 crore (13 per cent) as of January 2008. Further position of allocation

of funds was not made available to GOI. As a result, Rs 127.10 crore being the second instalment for 2007-08 was not received 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 2007-08 were Rs 96939 crore. Of these, the revenue receipts were Rs 30167 crore, constituting 31 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

<i>(Rupees in crore)</i>					
Sources of State's Receipts	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	16608(25)	19918(30)	23726(33)	25828(36)	30167(31)
II Capital Receipts	20768(31)	16871(25)	16137(22)	11270(15)	15830(16)
Recovery of Loans and Advances	91	747	631	238	497
Public Debt Receipts	20677	16124	15506	11032	15333
Miscellaneous Capital Receipts	-	-	-	-	-
III Contingency Fund	-	-	-	-	-
IV Public Account Receipts	29800(44)	30460(45)	32184(45)	35408(49)	50942(53)
a. Small Savings, Provident Fund etc	1067	1142	1130	1195	1258
b. Reserve Fund	328	643	1600	951	1002
c. Deposits and Advances	12477	11446	9480	9412	21333
d. Suspense and Miscellaneous	14181	15364	17546	20479	23697
e. Remittances	1747	1865	2428	3371	3652
Total Receipts	67176	67249	72047	72506	96939

* Higher rounding adopted **Percentages of various components are indicated in brackets

Table 4 exhibits that Revenue Receipts during the year 2007-08 increased by 17 per cent over the previous year, while the average trend of growth was 15.86 per cent. Capital Receipts which was Rs 11270 crore in 2006-07 rose to Rs 15830 crore in 2007-08. Public Account Receipts rose by 44 per cent during the year mainly due to increase under Deposits and Advances (Rs 11921 crore) and Suspense and Miscellaneous (Rs 3218 crore).

The Table further indicates that the percentage of Revenue Receipt to Total Receipt showed an increasing trend (25 to 36 per cent) during 2003-07, but came down to 31 per cent in the current year. On the other hand, share of Capital Receipt, which stood at 31 per cent in 2003-04, gradually came down to only 16 per cent in 2007-08. The Public Account receipts, however, maintained a steady growth over the years from 44 to 53 per cent.

1.3.1 Revenue receipts

Statement-11 of the Finance Accounts detail 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**.

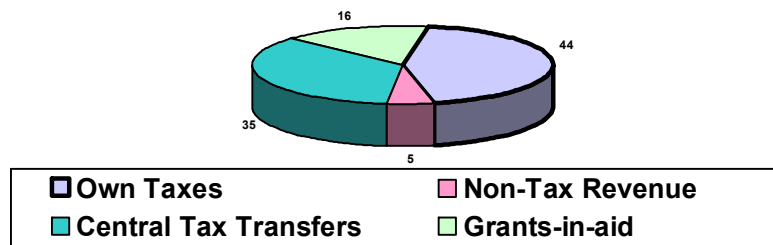
Table 5: Revenue Receipts – Basic Parameters

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (Rs in crore)	16608	19918	23726	25828	30167
Own taxes (<i>per cent</i>)	8768(53)	9924 (50)	10388(44)	11695(45)	13126(44)
Non Tax Revenue (<i>per cent</i>)	606 (4)	1346 (7)	1019(4)	1249(5)	1473 (5)
Central Tax Transfers (<i>per cent</i>)	5341(32)	6385(32)	6668(28)	8505(33)	10729(35)
Grants-in-aid from GOL (<i>per cent</i>)	1893(11)	2263(11)	5650(24)	4379(17)	4839(16)
Rate of growth of RR (<i>per cent</i>)	14.35	19.92	19.11	8.86	16.80
Revenue Receipts/GSDP (<i>per cent</i>)	9.63	10.54	11.17	10.47	10.78
Revenue Buoyancy	1.162	2.089	1.540	0.551	1.249
State's own taxes Buoyancy (ratio)	2.070	1.349	0.363	1.020	0.910
Revenue Buoyancy with reference to State's own taxes (ratio)	0.587	1.511	4.085	0.704	1.373
GSDP Growth (<i>per cent</i>)	12.35	9.54	12.41	16.08	13.45

**Percentages of various components are indicated in brackets

REVENUE RECEIPTS FOR 2007-2008
(Relative share in percent)



General Trends

The revenue receipts have shown a progressive increase over the period 2003-08 although its composition (the share of Own taxes, Non-tax revenue and Central transfers) exhibited that share of own taxes has consistently decreased from 53 *per cent* to 44 *per cent* over the period 2003-08 while other components indicated relative stability during the period with inter-year variations. It was observed that the revenue buoyancy of the State 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 declined from the level of the previous year, revenue buoyancy rose to 1.249 in 2007-08 from the level of 0.551 in 2006-07 on account of increase in both central tax transfers and grants-in-aid during the current year.

Tax Revenue: The Tax Revenue has increased by 12.24 *per cent* during the current year (Rs 13126 crore) over previous year (Rs 11695 crore). The revenue from Sales Taxes contributed major share of tax revenue (61 *per cent*). 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 2003-08.

Table 6: Tax Revenue

(Percentages of various components are indicated in brackets)

	2003-04	2004-05	2005-06	2006-07	2007-08
	(Rupees in crore)				
Land Revenue	993.26(11)	1132.55(11)	917.11(9)	952.69(8)	1039.58(8)
Stamps and Registration	794.52(9)	1006.54(10)	1177.59(11)	1258.57(11)	1416.96(11)
State Excise	619.96(7)	671.56(7)	743.46(7)	817.36(7)	935.47(7)
Sales Tax	4830.58(55)	5716.30(58)	6108.78(59)	7079.02(61)	8060.46(61)
Taxes on Vehicles	535.37(6)	527.66(5)	537.56(5)	508.97(4)	532.07(4)
Other Taxes *	994.22(12)	869.85(9)	903.88(9)	1078.16(9)	1141.80(9)
Total	8767.91	9924.46	10388.38	11694.77	13126.34

* Other Taxes: includes taxes on income and expenditure (Rs 292.87 crore), taxes on immovable property other than agricultural land (0.04 crore), taxes on goods and passengers (Rs 1.07 crore), taxes on duties and electricity (Rs 506.69 crore), other taxes on duties and commodities and services (Rs 340.77 crore).

The Table shows no significant variations among relative shares of the major components of the Tax Revenue, though contribution of Sales Tax in Tax Revenue has shown an upward trend (from 55 per cent in 2003-04 to 61 per cent in 2007-08). In fact, the Sales Tax collection shot up by Rs 981.44 crore (13.86 per cent) in 2007-08 over previous year. Collection from Stamps and Registration and State Excise increased by Rs 158.39 crore and Rs 118.11 crore respectively. Imposition of an additional Stamp Duty on high value flat / house, linking Excise Duty to maximum retail price, imposition of VAT on tobacco and tobacco products, installation of weigh bridges at suitable locations to check driving of overloaded vehicles etc. were the reasons for increase in Tax Revenue.

Non Tax Revenue: The Non Tax Revenue (Rs 1473 crore) constituted 5 per cent of total revenue receipts and increased by Rs 224 crore recording a growth of 18 per cent over previous year. Increases were observed mainly under Food Storage and Warehousing (Rs 160.03 crore) and Urban Development (Rs 14.54 crore under Other Urban Development Schemes).

The assessments made by TFC, the Revised Estimates of the State Government for the year 2007-08 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	19851.29	13774.21	13126.34
Non-Tax Revenue	2793.37	1573.31	1473.09

The actual Tax Revenue was much lower (by Rs 6724.95 crore) than normative assessments made by TFC and it also fell short of the State's Revised Estimates by Rs 647.87 crore. Non Tax Revenue was also significantly lower than that assessed by TFC and also less than the State's Revised Estimates.

Central Tax Transfers: The Central Tax transfers increased by Rs 2223.46 crore over the previous year and constituted 35 per cent of revenue receipts. The increase was mainly under Corporation Tax (Rs 750.46 crore), Customs Duties (Rs 369.02 crore), Service Tax (Rs 255.35 crore) and Taxes on Income other than Corporation Tax (Rs 673.42 crore).

Grants-in-aid: The Grants-in aid from GOI increased by Rs 460 crore from Rs 4379 crore in 2006-07 to Rs 4839 crore in the current year. Grants for State Plan schemes and Central Plan schemes increased by Rs 685.03 crore and Rs 295.10 crore respectively and was counter-balanced by less receipt under Non-Plan grants (Rs 520.42 crore). Details of Grants-in-aid from GOI are given in **Table 7**.

Table No 7: Grants-in-aid from GOI

	2003-04	2004-05	2005-06	2006-07	2007-08
	(Rupees in crore)				
Grants for State plan schemes	826.65	1239.82	1462.07	1735.87	2420.90
Non Plan grants	382.12	466.21	3042.84	1492.32	971.90
Grants for Central Plan Schemes	49.05	73.60	64.57	51.23	70.30
Grants for Central and Centrally Sponsored Schemes	635.28	483.55	1080.89	1099.76	1375.79
Total	1893.10	2263.18	5650.37	4379.18	4838.89
Percentage of increase/decrease over previous year	(-) 15.41	19.55	149.67	(-) 22.50	10.50

The steep fall in Non-Plan grants was attributable to non-receipt of grants to cover deficit on revenue account (Rs 605.82 crore was paid on that count in 2006-07). Under the State Plan schemes, increase in Grants in aid was noticed under Additional Central Assistance in respect of externally aided projects (Rs 144 crore), Accelerated Power Development Reforms Programme (Rs 109 crore), Grants for normal Central Assistance under State Plan Schemes (Rs 58 crore), Border Area Development Programme (Rs 44 crore) and Special Central Assistance under Backward Region Grant Fund (Rs 205 crore).

On the other hand, grants under Centrally Sponsored scheme increased mainly under Integrated Child Development Scheme (Rs 149 crore), National Programme for Nutritional Support to Primary Education (Rs 77 crore), Rural Family Welfare Programme (Rs 43 crore) and Arsenic Pollution Control of Water (Rs 53 crore).

1.4 Application of resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicted 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

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure* (TE) (Rupees in crore)	29569	31317	33958	37496	42064
Rate of Growth (per cent)	16.84	5.91	8.44	10.42	12.18
TE/GSDP Ratio (per cent)	17.14	16.57	15.98	15.20	15.03
RR/TE Ratio (per cent)	56.17	63.60	69.86	68.88	71.72
Buoyancy of total expenditure with reference to					
GSDP	1.364	0.620	0.680	0.648	0.906
RR (ratio)	1.173	0.297	0.441	1.175	0.725

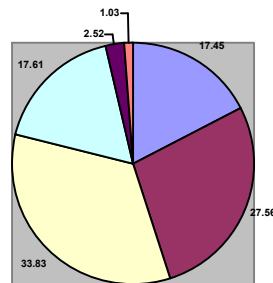
* Total expenditure includes revenue expenditure, capital expenditure and loans and advances

Table 8 reveals that total expenditure which was Rs 29569 crore in 2003-04 rose to Rs 42064 crore in 2007-08 at an average growth rate of 9.99 per cent. The composition of the total expenditure during 2007-08 indicates that the Non Plan Expenditure shared 75 per cent (Rs 31629 crore) while the Plan Expenditure constituted remaining 25 per cent (Rs 10435 crore). The further break-up of the total expenditure incurred during 2007-08 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 38314 crore) while the shares of capital expenditure and loans and advances disbursed were only 6.4 per cent (Rs 2688 crore) and 2.5 per cent (Rs 1062 crore).

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 shares of these components in total expenditure are indicated in **Table-9**.

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

	2003-04	2004-05	2005-06	2006-07	2007-08
General Services (excluding Interest Payments)	17.18	19.05	18.87	18.14	17.45
Interest payments	31.63	31.19	29.36	29.81	27.56
Social Services	27.65	28.03	29.79	31.36	33.83
Economic Services	12.33	16.66	17.50	16.17	17.61
Grants-in-aid	0.87	0.80	0.98	1.01	1.03
Loans and Advances	10.34	4.27	3.50	3.51	2.52



Components of Expenditure

■	General Services (Excluding interest payments)
■	Interest Payments
■	Social Services
■	Economic Services
■	Loans and Advances
■	Grants-in-Aid

The movements of the relative share of these components indicate no significant change over previous year. Expenditure on general services (including interest payments) considered as non-developmental, accounted for 45 per cent of total expenditure in 2007-08, as against 48 per cent in 2006-07. On the other hand, Social services and Economic services taken together (Developmental expenditure), however, steadily increased from 40 per cent in 2003-04 to 51 per cent in 2007-08.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment, 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)

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure of which	25757	28146	31117	34161	38314
Non-Plan Revenue Expenditure (NPRE)	23836	25511	26825	29359	31563
Plan Revenue Expenditure (PRE)	1921	2635	4292	4802	6751
Rate of Growth (<i>per cent</i>)					
NPRE	11.50	7.03	5.15	9.44	7.51
PRE	7.68	37.17	62.88	11.88	40.59
RE/TE (<i>per cent</i>)	87.11	89.87	91.63	91.11	91.09
NPRE as <i>per cent</i> of TE	80.61	81.46	78.99	78.30	75.04
NPRE as <i>per cent</i> of RR	143.52	128.08	113.06	113.67	104.63
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.91	0.97	0.85	0.61	0.90
Revenue Receipts (ratio)	0.78	0.47	0.55	1.10	0.72

Revenue expenditure not only continued to have the predominant share in the total expenditure hovering around 90 *per cent* during the period 2003-08 but it consistently increased from Rs 25757 crore in 2003-04 to Rs 38314 crore in 2007-08 at an average annual rate of growth of 10.4 *per cent* during the period. Of the total Revenue Expenditure, the Non-Plan Revenue Expenditure continued to share its major proportion which was 82 *per cent* (Rs 31563 crore) during 2007-08 while Plan Revenue Expenditure constituted only 18 *per cent* (Rs 6751 crore). The Non-Plan Revenue Expenditure of Rs 31563 crore during the current year was higher than the normative projections of TFC (Rs 29954 crore), but could be contained marginally below the Revised Estimates of the Government (Rs 32235 crore).

The Non-Plan Revenue Expenditure not only shared bulk of the revenue expenditure of the State but it consistently increased during the period 2003-08. During the current year it increased by Rs 2204 crore from the level of Rs 29359 crore in 2006-07 mainly due to increase under Interest Payments (Rs 414 crore); Health and Family Welfare (Rs 132 crore); Education, Sports, Art and Culture (Rs 665 crore); Agriculture and Allied Activities (Rs 64 crore); Welfare of SC, ST and OBC (Rs 42 crore); Rural Development (Rs 40 crore); Social Welfare and Nutrition (Rs 359 crore); Special Areas Programme (Rs 22 crore), etc. Some of the schemes which registered substantial increase under NPRE were Assistance to non Government Secondary Schools (Rs 317 crore), Primary Schools (Rs 166 crore), Universities (Rs 45 crore), Colleges and Institutes (Rs 40 crore), Gratuitous Relief for Flood and Cyclone etc. (Rs 90 crore), Other Programmes under Social Welfare and Nutritional Support (Rs 315 crore).

Plan Revenue Expenditure, though increased consistently during the period 2003-08, exhibited inter-year fluctuations. During the current year, it increased by Rs 1949 crore from the level of Rs 4802 crore in 2006-07. The increase was observed mainly under Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Boards under State Capital Development Schemes (Rs 228 crore) and Other Urban Development Schemes (Rs 240 crore), Other State Plan Expenditure under Other Rural Development Programme (Rs 185 crore), Special Component Plan for SC under Integrated Rural Development (Rs 133 crore), National Rural Employment Generation

Programme State Plan (Rs 72 crore) etc. Besides, Health and Family Welfare (Rs 31 crore); Education, Sports, Art and Culture (Rs 136 crore); Social Welfare and Nutrition, (Rs 311 crore); Agriculture and Allied Activities (Rs 224 crore); Transport (Rs 109 crore), etc. also registered substantial increase in Plan Revenue Expenditure.

The Buoyancy of Revenue Expenditure with GSDP, which showed a declining trend during the period 2004-07, rose in the current year. On the other hand, the buoyancy with revenue receipts, however, exhibited inter-year fluctuations and became lower in the current year as compared to previous year.

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	2003-04	2004-05	2005-06	2006-07	2007-08
	(R u p e e s i n c r o r e)				
Expenditure on Salaries & Wages of which	9453.39	9801.81	10160.98	10875.73	12205.04
Non-Plan Head	9090.18	9425.97	9754.36	10350.45	11617.64
Plan Head	363.21	375.84	406.62	525.28	587.40
As percentage of GSDP	5.48	5.19	4.78	4.41	4.36
As percentage of Revenue Receipts	56.91	49.21	42.83	42.11	40.46

The expenditure on salaries and wages presented in **Table 11** indicates increasing trend during the period 2003-08 and in 2007-08 it was Rs 12205 crore against Rs 10867 crore in 2006-07. During the current year, expenditure on salaries and wages increased by 12 *per cent*. The salary both under Plan and Non Plan heads registered growth at 12 *per cent* during 2007-08. 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 54 *per cent* during 2007-08, i.e. much above the norm prescribed by TFC.

Pension Payments

Table 12: Expenditure on Pensions

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
	(R u p e e s i n c r o r e)				
Expenditure on Pensions	2610.61	3335.85	3641.50	3552.69	3995.40
As per cent of GSDP	1.51	1.77	1.71	1.44	1.43
As per cent of RR	15.72	16.75	15.35	13.76	13.24

Table 12 reveals that the expenditure on pensions rose from Rs 3552.69 crore in 2006-07 to Rs 3995.40 crore in 2007-08 and was slightly higher from both the TFC assessments (Rs 3878.35 crore) and Revised Estimates of the State Government (Rs 3919.48 crore). 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
2003-04	16608	9354	56	36
2004-05	19918	9767	49	35
2005-06	23726	9969	42	32
2006-07	25828	11179	43	33
2007-08	30167	11593	38	30

Interest Payments which were Rs 11179 crore in 2006-07 increased by Rs 414 crore during 2007-08 and stood at Rs 11593 crore as against the normative projection of TFC (Rs 10124 crore) as well as the state's own Revised Estimates (Rs 11445.52 crore). Interest payments, which as percentage of revenue receipts were 43 *per cent* in 2006-07, came down to 38 *per cent* in 2007-08. Increase in interest payment was mainly due to increase in interest (Rs 505 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 2009-10.

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
2003-04	215.88	0.57	0.73
2004-05	217.89	0.93	0.70
2005-06	593.68	172.47	1.75
2006-07	459.55	(-) 22.60	1.22
2007-08	732.93	59.49	1.74

Further analysis disclosed that subsidies increased by Rs 284 crore under Social Security and Welfare Programmes and Rs 20 crore under Energy sector (which had not received any subsidy last year). These enhancements were counter-balanced by decrease in subsidy under Transport (Rs 332 crore in 2007-08 as against Rs 340.55 crore in 2006-07) and Agriculture and Allied Sector (Rs 16 crore in 2007-08 against Rs 40 crore in 2006-07).

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. The higher the ratios of

these components to total expenditure and GSDP, better the quality of expenditure. **Table 15** gives these ratios during 2003-2008.

Table 15: Indicators of Quality of Expenditure

	2003-04	2004-05	2005-06	2006-07	2007-08
	(R u p e e s i n c r o r e)				
Capital Expenditure	756	1834	1653	2018	2688
Revenue Expenditure, Of which	25757	28146	31117	34161	38314
Social and Economic Services	11080	12184	14435	15884	19017
<i>Of which</i>					
(i) Salary and Wage Component	7497	7766	8105	8658	9731
(ii) Non-Salary and Wage Component	3583	4418	6330	7226	9286
Capital Expenditure as per cent of					
Total Expenditure	2.56	5.86	4.87	5.38	6.39
GSDP	0.44	0.97	0.78	0.82	0.96
Share of Revenue Expenditure spent on Social & Economic Services (per cent)	43.02	43.29	46.39	46.50	49.63
Share of Non-salary and Wage Component in Revenue Expenditure incurred on social and economic services (per cent)	32.34	36.26	43.85	45.49	48.83

The trends in **Table 15** indicate that the level of capital expenditure was stepped up by almost 2.5 times in 2004-05 over the level of previous year and State Government has been able to take it over three times the level of 2003-04 in 2007-08. It is observed that major proportion of the total capital expenditure is shared by the plan capital expenditure during the period. During 2007-08, for instance, about 99 per cent of the total capital expenditure was plan capital expenditure (Rs 2668.48 crore). The plan capital expenditure in 2007-08 increased by Rs 658.89 crore from the level of Rs 2009.59 crore in 2006-07, of which major increase was under Water Supply, Sanitation, Housing and Urban Development (Rs 317 crore); energy sector (Rs 194 crore). The non plan capital expenditure also rose by Rs 10.61 crore resulting in a total increase of Rs 669.50 crore in the capital expenditure during 2007-08. The schemes registering major increase in Plan Capital Expenditure were Accelerated Rural Water Supply Programme (Rs 83 crore), Arsenic Sub-Mission (Rs 91 crore), Eradication of Arsenic Contamination of Ground Water as per recommendation of TFC (Rs 31 crore) etc. The detailed analysis further disclose that the sharp increase in Capital Expenditure during 2004-05 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. This year also, Rs 194.76 crore of outstanding loan relating to Power Department was converted into equity (relating to West Bengal State Electricity Distribution Corporation Limited).

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** summarises the expenditure

incurred by the State Government in expanding and strengthening of social services in the State during 2003-2008.

Table 16: Expenditure on Social Services

	2003-04	2004-05	2005-06	2006-07	2007-08
	(R u p e e s i n c r o r e)				
Education, Sports, Art and Culture	4522	4983	5564	6264	7087
Revenue Expenditure	4519	4977	5555	6254	7056
<i>Of which</i>					
(a) Salary and Wage Component	4223	4384	4587	5040	5665
(b) Non-Salary & Wage Component	296	593	968	1214	1391
Capital Expenditure	3	6	9	10	31
Health and Family Welfare	1404	1416	1585	1678	1887
Revenue Expenditure	1355	1352	1505	1611	1774
<i>Of which</i>					
(a) Salary and Wage Component	999	1026	1084	1168	1302
(b) Non-Salary & Wage Component	356	326	421	443	472
Capital Expenditure	49	64	80	67	113
Water Supply, Sanitation, Housing and Urban Development	1135	1061	1405	2043	2705
Revenue Expenditure	1059	1006	1209	1773	2118
<i>Of which</i>					
(a) Salary and Wage Component	488	513	545	551	621
(b) Non-Salary & Wage Component	571	493	664	1222	1497
Capital Expenditure	76	55	196	270	587
Other Social Services	1115	1317	1562	1774	2550
Revenue Expenditure	1103	1292	1531	1742	2515
<i>Of which</i>					
(a) Salary and Wage Component	289	318	339	292	358
(b) Non-Salary & Wage Component	814	974	1192	1450	2157
Capital Expenditure	12	25	31	32	35
Total (Social Services)	8176	8777	10116	11759	14229
Revenue Expenditure	8036	8627	9800	11380	13463
<i>Of which</i>					
(a) Salary and Wage Component	5999	6241	6555	7051	7946
(b) Non-Salary & Wage Component	2037	2386	3245	4329	5517
Capital Expenditure	140	150	316	379	766

The allocation to social sector increased from Rs 8176 crore in 2003-04 to Rs 14229 crore in 2007-08 indicating the Government's commitment to improve social well-being of the society. Expenditure on social sector under revenue during the current year (Rs 13463 crore) accounted for 32 per cent of total expenditure and 62 per cent of developmental expenditure³. Expenditure in social sector has increased by Rs 2470 crore over the previous year mainly due to increased expenditure under Education, Sports Art and Culture (Rs 822 crore), Health and Family Welfare (Rs 209 crore), Water Supply, Sanitation, Housing and Urban Development (Rs 663 crore) and Social Welfare and Nutrition (Rs 677 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 12 per cent over 2006-07, while non-salary and wage component increased by 14.58 per cent. Similarly, under health and family welfare sector the salary and wage component increased by

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

11.47 per cent while non-salary and wage component increased by 6.55 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 7408.09 crore) accounted for 18 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 58 per cent of the expenditure of Economic Services.

Table 17: Expenditure on Economic Services

	2003-04	2004-05	2005-06	2006-07	2007-08
	(R u p e e s i n c r o r e)				
Agriculture, Allied Activities	746	766	826	895	1188
Revenue Expenditure	734	748	784	855	1143
<i>Of which</i>					
(a) Salary and Wage Component	539	544	552	571	640
(b) Non-Salary & Wage Component	195	204	232	281	503
Capital Expenditure	12	18	42	40	45
Irrigation and Flood Control	599	642	734	826	899
Revenue Expenditure	444	478	538	618	587
<i>Of which</i>					
(a) Salary and Wage Component	302	307	318	299	322
(b) Non-Salary & Wage Component	142	171	220	319	265
Capital Expenditure	155	164	196	208	312
Energy	145	409	1062	808	1044
Revenue Expenditure	3	77	425	16	58
<i>Of which</i>					
(a) Salary and Wage Component	1	-	-	1	1
(b) Non-Salary & Wage Component	2	77	425	15	57
Capital Expenditure	142	332	637	792	986
Transport	826	1033	1013	1140	1153
Revenue Expenditure	578	797	694	840	841
<i>Of which</i>					
(a) Salary and Wage Component	85	83	85	86	91
(b) Non-Salary & Wage Component	493	714	609	754	750
Capital Expenditure	248	236	319	300	312
Other Economic Services	1329	2367	2309	2394	3124
Revenue Expenditure	1285	1457	2194	2175	2925
<i>Of which</i>					
(a) Salary and Wage Component	571	591	595	651	731
(b) Non-Salary & Wage Component	714	866	1599	1524	2194
Capital Expenditure	44	910	115	219	199
Total (Economic Services)	3645	5217	5944	6063	7408
Revenue Expenditure	3044	3557	4635	4504	5554
<i>Of which</i>					
(a) Salary and Wage Component	1498	1525	1550	1608	1785
(b) Non-Salary & Wage Component	1546	2032	3085	2896	3769
Capital Expenditure	601	1660	1309	1559	1854

The trends in Table 17 indicate that expenditure on economic services has consistently increased from Rs 3645 crore in 2003-04 to Rs 7408 crore in 2007-08 at an average annual rate of 21 per cent during the period. As compared to 2003-04 significant increases in 2007-08 were observed in Energy (620 per cent), Industry and Minerals (238 per cent), Rural Development (140 per cent), Agriculture and Allied Activities (59 per cent) and Irrigation and Flood Control (50 per cent).

Although the revenue expenditure incurred on economic services has consistently increased during the period 2003-08 but the share of salary and wage component has declined from 49 per cent in 2003-04 to 32 per cent in 2007-08 with inter-year variations. The non-salary component consistently increased from Rs 1546 crore in 2003-04 to Rs 3769 crore in 2007-08. Relative to revenue expenditure, the non-salary component increased from 51 per cent in 2003-04 to 68 per cent in 2007-08. The Capital Expenditure on other hand also increased from Rs 601 crore in 2003-04 to Rs 1854 crore in 2007-08 with inter-year variations.

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 2003-08 is presented in **Table 18**.

Table 18: Financial Assistance

	2003-04	2004-05	2005-06	2006-07	2007-08
	(Rupees in crore)				
Educational Institutions (Aided Schools and Colleges, Universities, etc.)	4300.34	4748.74	5296.38	5420.44	6790.49
Municipal Corporations and Municipalities	876.06	853.57	1258.56	963.02	1279.17
Zilla Parishads and Other Panchayati Raj Institutions	256.17	515.95	1419.43	1148.06	3085.27
Development Agencies	817.89	814.98	634.85	235.27	122.14
Hospitals and other Charitable Institutions	48.60	55.80	134.45	137.59	149.40
Other Institutions ⁴	30.83	23.91	373.08	811.06	927.77
Total	6329.89	7012.95	9116.75	8715.44	12354.24
Assistance as percentage of revenue expenditure	24.57	24.92	29.30	25.51	32.24

The table above indicates that as compared to last year, assistance provided to Local Bodies this year was more by Rs 3638.80 crore. There was increase in receipt of grants in Municipal Corporations and Municipalities (Rs 316.15 crore), Zilla Parishads and Panchayati Raj Institutions (Rs 1937.21 crore). The increase, apart from the normal increase, in assistance to Universities and Educational Institutions (Rs 1370.05 crore) was mainly due to treatment of 50 per cent of dearness allowance as dearness Pay.

1.5.5 Delay in furnishing utilisation certificates

Of the 56109 utilisation certificates (UC) due in respect of grants aggregating Rs 11860.53 crore paid upto 2007-08, 56052 UCs for an aggregate amount of Rs 11843.20 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 11⁵ autonomous bodies/authorities entrusted under the provisions of Section 19(2) and 19(3) of the Comptroller and

⁴ Cooperative societies, Animal Resources Development Agencies, Cottage and small scale centres, etc.

⁵ 1. West Bengal Comprehensive Area Development Corporation, 2. Darjeeling Gorkha Autonomous Hill Council 3. West Bengal Commission for Women 4. West Bengal University of Animal and Fishery Sciences 5. West Bengal Human Rights Commission 6. West Bengal State Legal Services Authority 7. West Bengal Heritage Commission, 8. Hooghly River Bridge Commissioners 9. Commissioners of Rabindra Setu, 10. Kolkata Metropolitan Development Authority and 11. West Bengal Housing Board

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 bodies/authorities before the Legislature as detailed in **Appendix 1.7**. Darjeeling Gorkha Autonomous Hill Council did not submit accounts for the period from 1991-92 to 2007-08. As a result, the Legislature was deprived of access to the audited accounts of these bodies in which Rs 69.25 crore were spent during these years. The detailed information regarding non-submission of accounts for the year up to 2007-08 despite repeated reminders by audit is given in **Appendix 1.8**.

1.5.7 Audit arrangements

During the year 2007-08, audit of 124 annual accounts and 53 transaction audits in respect of 93 bodies/authorities (excluding Panchayats/Rural Institutions/Urban Local Bodies), which attracted audit by Comptroller and Auditor General of India, were conducted.

Fifty three (53) annual accounts of different bodies/authorities for 2006-07 and earlier years had not been received as of June 2008 by the Examiner of Local Fund 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 (in case of Uttar Banga Krishi Viswavidyalaya).

1.5.8 Unutilised grants

Grants aggregating Rs 587.30 crore, meant for development purposes, were lying unspent with the 79 bodies (University, Zilla Parishads, Municipal Corporations/Municipalities and Local Library Authority) whose accounts for varying periods between 2000 and 2007 were audited during 2006-08. 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 661 cases of misappropriation, defalcation etc. involving Government money amounting to Rs 5.40 crore upto the period August 2008 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

The existing Government accounting system does not capture comprehensive accounting of fixed assets like land and buildings owned by Government. 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 2008, compared with the corresponding position on 31 March 2007.

Appendix 1.5 depicts the time series data on State Government finances for the period 2003-2008.

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 2006-07, for the remaining 14 units, arrears in preparation of accounts ranged from one to 24 years as of June 2008 (**Appendix 1.13**).

As per latest accounts received from 15 units, Rs 2143.95 crore were invested by the State Government in such units which employed 10591 staff and officers. Out of the 15 undertakings, 14 had incurred continuous losses aggregating Rs 1605.42 crore against their total capital investment of Rs 1665.35 crore, while the remaining scheme *viz.* Public Distribution System of Food grains reflected accumulated profit of Rs 0.30 crore as of 31 March 2004.

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 2007 to June 2008, eight undertakings finalised 16 *pro forma* accounts for the year 2005-06 and for earlier years, as against 23 *pro forma* accounts finalised during July 2006 to June 2007. Consequently, there was hardly any accountability of the Management and Government in respect of public funds spent by these undertakings.

1.7.2 Investments and returns

As on 31 March 2008, Government had invested Rs 8847.89 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 19**). The return on this investment varied between 0.01 and 0.07 *per cent* while the Government paid interest at the average rate of 9.03 to 11.21 *per cent* on its borrowings during 2003-2008.

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)	
2003-04	4372.94	0.50	0.01	11.21	11.20
2004-05	5905.99	0.43	0.01	10.08	10.07
2005-06	6643.61	1.58	0.02	9.15	9.13
2006-07	7641.58	2.34	0.03	9.48	9.45
2007-08	8847.89	6.22	0.07	9.03	8.96

The increase of Rs 1206.31 crore during the year was mainly due to investment in Durgapur Projects Limited (Rs 113 crore), Metro Railway (Rs 50 crore), West Bengal State Electricity Board (Rs 195 crore), Sagardighi Thermal Power Project (Rs 445 crore), Santaldih Thermal Power Project (Rs 229 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 2003-2008, this subsidy amounted to Rs 3205.96 crore. Details of major Government companies/Statutory Corporations wherein Rs 5587.61 crore were invested by the Government and their financial results as per latest account finalised are given in *Appendix 1.14*. It was observed that according to Accounts finalised up to September 2008 of various periods from 2004-05 to 2006-07, 11 Government Companies and one Statutory Corporation incurred accumulated losses of Rs 2273.75 crore and Rs 115.33 crore respectively.

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 2008, was Rs 18437.67 crore (**Table 20**). Interest received against these loans and advances was 3.03 *per cent* during 2007-08 as against 3.07 *per cent* in previous year.

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

	2003-04	2004-05	2005-06	2006-07	2007-08
	(Rupees in crore)				
Opening Balance	12679.51	15644.81	16235.57	16792.83	17872.19
Amount advanced during the year	3056.33	1337.36	1188.59	1317.26	1062.12
Amount repaid during the year	91.03	746.60	631.33	237.90	496.64
Closing Balance	15644.81	16235.57	16792.83	17872.19	18437.67
Net addition	2965.30	590.76	557.26	1079.36	565.48
Interest Received	12.92	461.81	248.03	549.14	558.51
Interest Received as <i>per cent</i> to outstanding loans and advances	0.08	2.84	1.48	3.07	3.03
Average interest rate ⁶ (in <i>per cent</i>) paid on borrowings	11.21	10.08	9.15	9.48	9.03
Difference between weighted interest paid and received (<i>per cent</i>)	11.13	7.24	7.67	6.41	6.00

The amount of loans advanced during the current year decreased by Rs 255 crore (19.37 *per cent*) from the level of Rs 1317.26 crore in 2006-07. The major sector receiving less loans during the year was energy (Rs 304 crore) counter balanced by increase under water supply, sanitation, housing and urban development (Rs 15 crore), agriculture and allied activities (Rs 28 crore).

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

Test-check of records of the Finance and four other departments (Power, Transport, Urban Development and Co-operation) disclosed that out of the total closing loan balance of Rs 18437.67 crore as of March 2008, Rs 13763.92 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:

Table 21: Re-payment of loans and advances by the Power Department

Year	Total outstanding	Installment overdue	Repayment	Loan converted into equity	Actual recovery	Percentage of recovery of overdue loan
(Rupees in crore)						
2003-04	11205.62	1108.43	141.84	141.84	-	-
2004-05	12063.17	1247.17	294.40	291.84	2.56	0.21
2005-06	12504.35	1894.87	583.82	486.68	97.14	5.13
2006-07	13436.61	2245.90	159.71	141.83	17.88	0.80
2007-08	13763.92	2245.90	439.91	194.76	245.15	10.92

Table 21 discloses the fact that only Rs 1619.68 crore were repaid by the Power Department during the period 2003-2008. Of these, Rs 1256.95 crore (78 per cent) were on account of conversion of loan into equity showing that actual recovery was only to the tune of Rs 362.73 crore which was only four per cent of the total amount due for re-payment for the period 2003-2008.

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 years 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 2007-08, ways and means advances to the tune of Rs 2452.85 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 2003-2008 is detailed in Table below:

Table 22: Ways and Means and Overdrafts of the State (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances					
Availed in the Year	7098.78	8853.43	269.56	207.98	2452.85
Outstanding WMAs, if any	830.50	-	-	-	-
Interest Paid	46.03	37.03	0.09	-	23.73
Number of days				-	122
Overdraft-					
Availed in the Year	6840.49	4045.08	-	-	6058.40
Number of Days	146	114	-	-	65
Interest Paid	15.04	5.11	-	-	9.27

It would appear that except for 2003-04, there was no outstanding Ways and Means advance; declining trend in the quantum of such advance was also noticeable during last couple of years, which, however, again shot up to some extent during 2007-08. Interest paid on this score also showed a declining trend except for the current year. The State, however, succeeded in not resorting to Overdraft during 2003-07. During the current year, it had to avail of this facility and bear interest burden of Rs 9.27 crore.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities – Public Debt and Guarantees

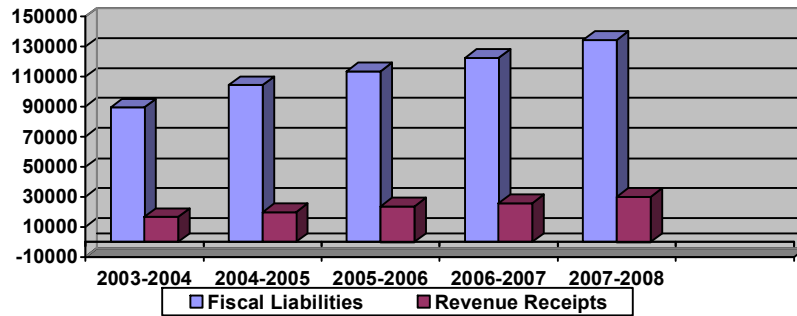
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances 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 23 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 23: Fiscal Liabilities- Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rupees in crore)	89388	104334	113493	122398	134402
Rate of Growth (<i>per cent</i>)	15.28	16.72	8.78	7.85	9.81
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	51.81	55.20	53.42	49.63	48.04
Revenue Receipts (<i>per cent</i>)	538.19	523.82	478.37	473.90	445.53
Own Resources (<i>per cent</i>)	953.57	925.77	994.94	945.60	920.62
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.237	1.753	0.707	0.488	0.729
Revenue Receipts (ratio)	1.065	0.839	0.459	0.885	0.584
Own Resources (ratio)	0.703	0.827	7.221	0.582	0.767

Growth of Fiscal Liabilities vis-a-vis Revenue Receipts



Overall fiscal liabilities of the State increased from Rs 89388 crore in 2003-04 to Rs 134402 crore in 2007-08. The growth rate was 9.81 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP decreased from 49.63 *per cent* in 2006-07 to 48.04 *per cent* in 2007-08. These liabilities stood at 4.46 times the revenue receipts and 9.21 times of the States own resources as at the end of 2007-08. The fiscal liabilities had grown faster than the State's GSDP up to the year 2004-05. 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, however, greater than the previous year and was 0.729 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.729 *per cent*.

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 2003-04 is given in **Table 24**.

Table-24: Guarantees given by the Government of West Bengal

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of outstanding amount guarantees with respect to revenue receipt of second preceding year
	(R u p e e s i n c r o r e)		
2003-04	17255.57	11043.77	76
2004-05	21487.60	14870.54	102
2005-06	22378.72	14084.92	85
2006-07	21826.39	13136.64	66
2007-08	23117.70	13683.86	58

The total guarantee of the Government increased from Rs 17255.57 crore in 2003-04 to Rs 23117.70 crore in 2007-08 (34 *per cent*) whereas the

outstanding guaranteed loan amount increased from Rs 11043.77 crore in 2003-04 to Rs 13683.86 crore in 2007-08 (24 per cent increase). It would appear that, except for the year 2004-05, outstanding amounts of Government Guarantee with respect to the State's Revenue Receipts of the corresponding second preceding years were within the permissible ceiling of 90 per cent as prescribed under the relevant Act.

The Twelfth Finance Commission envisaged setting up of a guarantee redemption Fund through earmarked Guarantee Fees. This also required risk weighting of guarantees and subsequent decision on the quantum of contribution to the fund. However, no such fund has been created by the State Government till date.

Position of guarantee was test-checked in five departments viz. Finance, Transport, Power, Co-operation and Urban Development during 2003 to 2008 of which Finance and Power Departments constituted 75 and 15 per cent respectively of the guaranteed amount outstanding which was as follows:

Table 25: Position of outstanding guarantees given by Government Departments

Guarantee position as on	Finance		Power	
	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding
	(R u p e e s i n c r o r e)			
31.3.2004	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
31.3.2008	16001.15	10326.20	4662.88	2117.57

West Bengal Infrastructure Development Finance Corporation (WBIDFC) sanctioned loans to various Government and non-Government agencies against unconditional and irrevocable guarantee given by the State Government to those loans along with the interest. The loanee agencies failed to repay the loans to WBIDFC. The total outstanding amount for which guarantee was provided was Rs 404.27 crore (outstanding principal Rs 275.75 crore and unpaid interest Rs 128.52 crore).

On being moved by the WBIDFC (December 2006), the Government repaid (March 2007) such guaranteed loans of those defaulting agencies to WBIDFC by taking a fresh loan of equivalent amount from WBIDFC itself without any cash transaction. To effect this transaction the Finance Department first debited (on 29 March 2007) the principal (Rs 275.75 crore) and interest (Rs 128.52 crore) to the Internal Debt account and Interest Payment account respectively by contra-crediting the entire amount (Rs 404.27 crore) to the Deposit Account of the WBIDFC. On 31 March 2007 Government once again transferred the sum of Rs 404.27 crore from the Deposit Account of WBIDFC to the Internal Debt Account of the Government. While sanctioning the same, the Finance Department, in support of its decision, quoted the approval of the Planning Commission of India for borrowing of Rs 500 crore from WBIDFC for partial financing of its Annual Plan for the year 2006-07 for implementation of different developmental schemes under the State Plan. The

State Government quoted the Planning Commission's approval which was in fact for financing its Annual Plan rather than using it as an instrument for changing its contingent liability to loan liability to bail out the situation arising from non-repayment of loans by various Government undertakings.

1.9 Debt sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GSDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if it is negative, debt-GSDP ratio would 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 26**.

Table 26: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)

	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	11.21	10.08	9.15	9.48	9.03
GSDP Growth	12.35	9.54	12.41	16.08	13.45
Interest spread	1.14	(-) 0.54	3.26	6.60	4.42
Quantum Spread (Rupees in Crore)	884	(-) 483	3401	7491	5410
Primary Deficit (Rupees in Crore)/Surplus	(-) 3516	(-) 886	(+) 367	(-) 252	(+) 193

Table 26 reveals that quantum spread together with primary deficit has been negative from 2003-04 to 2004-05 indicating rising debt-GSDP ratios during the period. Debt-GSDP has increased steadily from 51.8 per cent in 2003-04 to 55.2 per cent in 2004-05. It was only from 2005-06 the quantum spread together with primary deficit/surplus turned positive resulting in steady decline in debt/ GSDP ratio to 48 per cent in 2007-08. These trends indicate the State is moving towards the debt stabilisation which in turn might improve 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 27** indicates the resource gap as defined for the period 2003-2008.

Table 27: 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)					
2003-04	1961	2718	1544	4262	(-) 2301
2004-05	3965	1336	413	1749	(+) 2216
2005-06	3692	2439	202	2641	(+) 1051
2006-07	1709	2327	1210	3537	(-) 1828
2007-08	4598	4153	415	4568	(+) 30

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 2004-06 but was negative in 2003-04 and 2006-07 as incremental non-debt receipts in these two years were far below total expenditure. The situation, however, again turned positive in the current year, indicating State's capacity to sustain the debt.

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's 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 28 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 28: Net Availability of Borrowed Funds (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Internal Debt					
Receipt	18638	14485	14922	10411	14639
Repayment(Principal + Interest)	7067	6848	8788	10552	11977
Net funds available	11571	7637	6134	(-) 141	2662
Net funds available (<i>per cent</i>)	62	53	41	(-) 1	18
Loans and Advances from Government of India					
Receipt	1371	1639	584	621	694
Repayment(Principal + Interest)	9932	3662	6501	3090	3028
Net funds available	(-) 8561	(-) 2023	(-) 5917	(-) 2469	(-) 2334
Net funds available (<i>per cent</i>)	(-) 624	(-) 123	(-) 1013	(-) 398	(-) 336
Other obligations					
Receipt	13872	13230	12210	11558	23592
Repayment(Principal + Interest)	14514	12390	3199	10746	21846
Net funds available	(-) 642	840	9011	812	1746
Net funds available (<i>per cent</i>)	(-) 5	6	74	7	7
Total liabilities					
Receipts	33881	29354	27716	22590	38925
Repayment (Principal + Interest)	31513	22900	18488	24388	36851
Net Receipts	2368	6454	9228	(-) 1798	2074
Net Funds Available as % to total Receipts	7	22	33	(-) 8	5

The net funds available on account of internal debt and loans and advances from Government of India and other obligation after providing for interest and repayments which increased from seven *per cent* (2003-04) to 33 *per cent* (2005-06) became negative during 2006-07. It turned positive in 2007-08. During the current year the Government repaid internal debt of Rs 11977crore, Government of India loans of Rs 3028 crore and also discharged other obligations of Rs 21846 crore including interest thereupon. During the last two

years, 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 29**. The Table reveals that the revenue account experienced a situation of huge deficit during the period 2003-08 which in four out of five years exceeded Rs 8000 crore. Contrary to the general trends, the deficit which sharply increased by Rs 942 crore in 2006-07, as compared to 2005-06, witnessed a decrease of Rs 186 crore in the current year. During the current year revenue receipts increased by 17 *per cent* (Rs 4339 crore) over 2006-07 while the revenue expenditure during the same period rose by nearly 12 *per cent* (Rs 4153 crore) resulting in a decrease of Rs 186 crore in revenue deficit during the current year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap also decreased marginally from Rs 11430 crore in 2006-07 to Rs 11400 crore in 2007-08. During the current year, with decrease in revenue deficit by Rs 186 crore, the increase in capital expenditure (Rs 670 crore) and decline in loans and advances disbursed (Rs 255 crore) and additional income of Rs 259 crore towards recoveries of loans and advances, the fiscal deficit has decreased by Rs 30 crore in 2007-08 over the previous year.

Further, due to increase of Rs 415 crore in interest payments, there was a primary surplus of Rs 193 crore during 2007-08 as against a primary deficit in 2006-07.

Fiscal Imbalances (Rupees in crore)

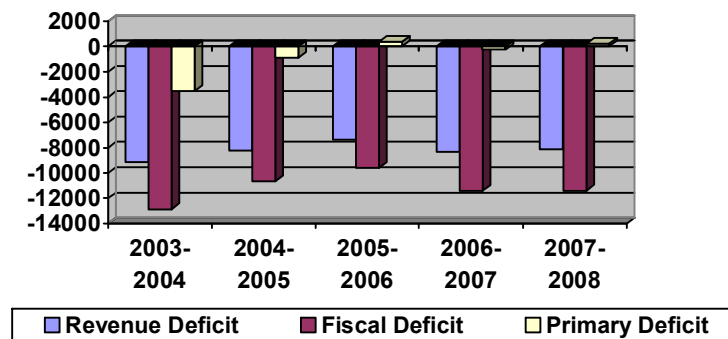


Table 29: Fiscal Imbalances- Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (Rupees in crore)	(-) 9149	(-) 8228	(-) 7391	(-) 8333	(-) 8147
Fiscal deficit (Rupees in crore)	(-) 12870	(-) 10653	(-) 9601	(-) 11430	(-) 11400
Primary Deficit/Surplus (Rupees in crore)	(-) 3516	(-) 886	(+) 368	(-) 252	(+) 193
RD/GSDP (per cent)	(-) 5.30	(-) 4.35	(-) 3.48	(-) 3.38	(-) 2.91
FD/GSDP (per cent)	(-) 7.46	(-) 5.64	(-) 4.52	(-) 4.63	(-) 4.07
PD/GSDP (per cent)	(-) 2.04	(-) 0.47	(+) 0.17	(-) 0.10	0.07
RD/FD	71.09	77.24	76.98	72.90	71.46

The revenue and fiscal deficits relative to GSDP of the State exhibited the declining trends from 2003-04 to 2007-08. As proportion to GSDP, the revenue deficit had reached 2.91 *per cent* and fiscal deficit had reached 4.07 *per cent* in 2007-08. All these proportions reflect somewhat favourable 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 deficit⁷ 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 rose in 2004-05 as compared to 2003-04 started declining thereafter and stood at 71.46 in 2007-08 indicating that nearly 71 *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 2003-2008 shows (Table 30) 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 expenditure⁸ 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 and for disbursement of Loans and Advances 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.

⁷ Primary revenue deficit is defined as gap between non interest revenue expenditure and non-debt receipts indicating the extent to which the non-debt receipts are able to meet the primary expenditure under revenue account.

⁸ Primary expenditure is defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Table 30: 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)
2003-04	16700	16403	756	3056	20215	(+) 297	(-) 3515
2004-05	20665	18379	1835	1337	21551	(+) 2286	(-) 886
2005-06	24357	21148	1653	1189	23990	(+) 3209	(+) 367
2006-07	26066	22982	2018	1317	26317	(+) 3084	(-) 252
2007-08	30664	26721	2688	1062	30471	(+) 3943	(+) 193

1.11 Fiscal ratios

Finances of the State should be sustainable, flexible and non-vulnerable. **Table 31** below presents a summarised position of Government finances over 2003-08, 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 31: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
I Resource Mobilisation					
Revenue Receipt/GSDP	9.63	10.54	11.17	10.47	10.78
Revenue Buoyancy	1.162	2.089	1.540	0.551	1.249
Own tax/GSDP	5.082	5.251	4.890	4.742	4.692
II Expenditure Management					
Total Expenditure/GSDP	17.14	16.57	15.98	15.20	15.03
Revenue Receipts/Total Expenditure	56.17	63.60	69.86	68.88	71.72
Revenue Expenditure/Total Expenditure	87.11	89.87	91.63	91.11	91.09
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	29.11	27.59	26.05	25.35	25.40
Non-Salary and Wage expenditure on Social and Economic Services/ Revenue Expenditure	13.91	15.70	20.34	21.15	24.24
Capital Expenditure/Total Expenditure	2.56	5.86	4.87	5.38	6.39
Capital Expenditure on Social and Economic Services/Total Expenditure	2.51	5.78	4.79	5.17	6.23
Buoyancy of TE with RR	1.173	0.297	0.441	1.175	0.725
Buoyancy of RE with RR	0.781	0.466	0.552	1.104	0.724
III Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	-9148	- 8228	- 7392	- 8333	- 8147
Fiscal deficit (Rs in crore)	-12869	- 10652	- 9603	- 11430	- 11400
Primary Deficit /Surplus (Rs in crore)	-3515	- 885	+ 366	- 251	+ 193
Revenue Deficit/Fiscal Deficit	71.09	77.24	76.98	72.90	71.46
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	51.81	55.20	53.42	49.63	48.04
Fiscal Liabilities/RR	538.19	523.82	478.37	473.90	445.53
Buoyancy of FL with RR	1.065	0.839	0.459	0.885	0.584
Buoyancy of FL with Own Receipt	0.703	0.827	7.221	0.582	0.767
Primary deficit vis-a-vis quantum spread (in bracket)	(-) 3516 (884)	(-) 886 (- 483)	(+) 367 (3401)	(-) 252 (7491)	(+) 193 (5410)
Net Funds Available	2368	6454	9228	(-) 1798	2074
V Other Fiscal Health Indicators					
Return on Investment	0.01	0.01	0.02	0.03	0.07
Balance from Current Revenue (Rupees in crore)	- 8595	- 7245	- 5490	- 6118	- 5052
Financial Assets/Liabilities	0.33	0.35	0.34	0.32	0.33

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, which was 9.63 in 2003-04, crossed 10 *per cent* mark in 2004-05 and remained almost stable thereafter with slight inter year variations. The ratio of own taxes to GSDP has stabilised at 4.7 *per cent* during 2007-08. 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 mobilization efforts. The revenue expenditure as a *percentage* to total expenditure remained stable around 90 *per cent* during the last four years period indicating need for changing allocative priorities. The capital expenditure relative to both the total expenditure and GSDP has exhibited an increasing trend but the capital expenditure relative to GSDP at 0.96 *per cent* is far below the norm of 3 per cent prescribed by TFC in restructuring plan by the terminal year of its award period (2009-10). The buoyancy ratios of both total and revenue expenditure with revenue receipts indicate relatively low buoyancies. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 72 *per cent* during 2007-08 indicates decreasing dependence on borrowed funds from 44 per cent of total expenditure in 2003-04 to 28 *per cent* in 2007-08. This is also reflected by the decreasing ratio of fiscal liabilities to revenue receipts.

The decrease in both revenue and fiscal deficits during 2007-08 indicates some improvement in fiscal position of the State. The consistent negative Balance from Current Revenue (BCR) discloses that adequate domestic resources are not available for creation of assets and to meet state plan schemes. The situation, however, improved in current year as compared to previous year. During the period (2003-2008), 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 in terms of the key fiscal parameters – revenue, fiscal and primary deficit – showed only a marginal improvement in 2007-08 over the previous year. In the absence of FRBM Act which was yet to be enacted by the State, the State Government did 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 had foregone the relief in interest payments on Government of India loans as well as debt relief and other benefits linked to the fiscal performance of the State during 2005-2008.

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 2004-2008 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 back-up during 2007-08. The NPRE component of revenue expenditure at Rs 31563 crore during 2007-08 although was within the BE for the year (Rs 32235 crore) but exceeded the normative projection of the TFC for the State (Rs 29954 crore) for the year. Moreover, within the non plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 90 *per cent* of the non-plan revenue expenditure during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of revenue and fiscal 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.