

CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in The Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in Appendix 1.

1.2 Financial position of the State

In the Government accounting system comprehensive accounting of the fixed assets like land and buildings etc., owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Exhibit I gives an abstract of such liabilities and the assets as on 31 March 2001, along with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of monies owned by State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 25 per cent, the assets grew by only 19 per cent during 2000-2001, mainly as a result of a very high (30 per cent) growth in the deficit on the Government account. The assets also include large amount of loans advanced to the Municipalities and the Panchayati Raj Institutions, the possibility of recovery of which is remote due to their poor financial condition. Such assets of the Government on account of loans and advances to Municipalities and Panchayati Raj Institutions constituted doubtful assets. Further, these assets did not reflect the correct position as they include significant amount of old unrecoverable loans and investments in shares of companies which are perpetually loss making. Thus, much of these assets are not capable of generating any income. This shows an overall deterioration in the financial condition of the Government, as is brought out in the succeeding paragraphs.

EXHIBIT I
Summarised financial position of the State Government as on 31 March 2001

Amount as on 31 March 2000	Liabilities	Amount as on 31 March 2001	Amount as on 31 March 2000	A s s e t s	Amount as on 31 March 2001
(	R u p e e s	i	n	c r o r e)
11555.60	Internal debt including Ways and Means Advance (Market Loans, Loans from LIC and others)	20644.53	9912.28	Gross Capital outlay 3654.30 Investments in shares of Companies, Corporations	11235.08
	5032.24 Market loans bearing interest	5846.91		6257.98 Other Capital outlay	7367.13
	2.88 Market loans not bearing interest	6.01	7831.55	Loans and Advances	9847.64
	61.88 Loans from Life Insurance Corporation of India	56.96		543.10 Loans for Social Services	585.85
	971.91 Loans from other Institutions	4327.50		4213.34 Loans for Energy	5873.71
	1326.29 Ways and Means Advances including Overdraft	1351.12		2831.08 Loans for Economic Services excluding Energy	3095.31
	4160.40 ¹ Spl. Securities issued to NSS Fund of Central Government	9056.03		243.45 Loans to Government Servants	292.19
				Loans for 0.58 Miscellaneous purposes	0.58
22475.25	Loans and Advances from the Central Government	23106.04	28.72	Advances	28.96
	791.39 Pre 1984-85 Loans	690.28	396.37	Remittance Balance	335.38
	15095.94 Non-Plan Loans	14800.51	(-)873.02	Suspense and Miscellaneous	(-)870.32 ²
	6519.02 Loans for State Plan Schemes	7548.02	5.67	Investment in earmarked Funds	5.67
	62.22 Loans for Centrally sponsored Plan Schemes	60.72	508.43	Cash	538.77
	6.68 Loans for Central Plan Schemes	6.51		0.44 Cash in treasuries and local remittances	0.50
19.65	Contingency Fund	19.93		19.49 Departmental cash balance including permanent advance	17.16
3166.42	Small Savings, Provident Funds, etc.	3688.97	25464.85	35.52 Deposit with Reserve Bank of India	68.12
6005.86	Deposits	6648.91		452.98 Cash Balance	452.99
	Reserve Funds	58.92		Investment Account	
				Deficit on Government Account	33046.12
				16177.45 Accumulated deficit up to 31 March 1999	25464.85
				9287.34 Add: Deficit of Current year	7581.27
				25464.79	33046.12
				(-) 0.06 Less : Net Miscellaneous receipt	Nil
43274.85		54167.30	43274.85		54167.30

¹ Special Securities issued to National Small Savings Fund of Central Government. Head of account opened from 1 April 1999

² Minus balance is due to credits under Treasury cheques (Rs 1377.70 crore) awaiting clearance

EXHIBIT II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001¹

1999-2000	Receipt			2000-2001	1999-2000	Disbursements			2000-2001
	(R u p e e s i n c r o r e)								
							Non-Plan	Plan	Total
	Section A :								
	Revenue								
10211.10	I Revenue Receipts		14522.18	19498.44	I Revenue Expenditure		18981.90	3121.55	22103.45
				8040.85	General Services		9670.48	42.48	9712.96
5100.83	- Tax revenue	6001.43		8188.86	Social Services		6929.46	1485.90	8415.36
				4989.27	- Education, Sports, Arts and Culture		4396.57	167.72	4564.29
587.22	- Non-tax revenue	1214.53		1227.49	- Health and Family Welfare		1071.37	305.25	1376.62
					- Water Supply, Sanitation, Housing and Urban Development		596.48	625.45	1221.93
2984.41	- State's share of Union taxes and duties	4151.73		1169.76	- Information and Broadcasting		25.59	4.83	30.42
				30.67	- Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes		68.16	151.34	219.50
492.39	- Non-Plan grants	424.59		165.44	- Labour and Labour Welfare		56.36	0.26	56.62
				60.57	- Social Welfare and Nutrition		684.36	207.38	891.74
707.53	- Grants for State Plan Scheme	2206.24 ³		482.40	- Others		30.57	23.67	54.24
				63.26	Economic Services		2179.91	1574.72	3754.63
338.72	- Grants for Central and Centrally sponsored Plan Schemes	523.66		3025.94	- Agriculture and Allied Activities		706.72	209.32	916.04
				829.68	- Rural Development		317.58	450.43	768.01
				738.45	- Special Areas Programmes		155.44	204.28	359.72
				226.34	- Irrigation and Flood Control		446.39	271.91	718.30
				536.21	- Energy		-	149.79 ⁴	149.79
				53.18	- Industry and Minerals		77.75	91.91	169.66
				131.07	- Transport		373.75	185.11	558.46
				438.84	- Science, Technology and Environment		0.08	1.60	1.68
				0.09	- General Economic Services		102.60	10.37	112.97
				72.08	- Grants-in-aid and Contributions		202.05	18.45	220.50
				242.79					
9287.34	II Revenue deficit carried over to Section B		7581.27						
19498.44			22103.45	19498.44	Total				22103.45

¹ Differences of 0.01 due to rounding

³ Rupees 1444.61 crore relates to Non-plan grants to cover deficit in Revenue Account erroneously depicted under Plan grants in the Accounts

⁴ Includes Rs 50 crore of Non-plan expenditure due to misclassification in accounts

1999-2000	Receipt			2000-2001	1999-2000	Disbursements			2000-2001
	(R u p e e s i n c o r e)								
316.85	Section B			508.43	Nil				
	III Opening Cash Balance including Permanent Advances and Cash Balance Investment					III Opening Overdraft from RBI			729.09
Nil	IV Miscellaneous Capital receipts			Nil	1006.43	IV Capital Outlay	59.71	1263.09	1322.80
					93.59	<u>General Services</u>	0.25	43.55	43.80
					182.90	<u>Social Services</u>	4.80	191.83	196.63
					22.36	- Education, Sports, Arts And Culture	-	17.33	17.33
					82.69	- Health and Family Welfare	-	129.38	129.38
						- Water Supply, Sanitation, Housing and Urban	4.80	33.52	38.32
					58.12	Development			
					0.55	- Information and Broadcasting	-	1.13	1.13
						- Welfare of Scheduled Castes, Scheduled Tribes and Other	-	1.71	1.71
					7.84	Backward Classes			
					Nil	- Labour and Labour Welfare	Nil	Nil	Nil
					8.13	- Social Welfare and Nutrition	-	7.72	7.72
					3.21	- Other Social Services	-	1.04	1.04
					729.94	<u>Economic Services</u>	54.66	1027.71	1082.37
					21.16	- Agriculture and Allied			
					0.36	Activities	9.01	9.18	18.19
						- Rural	Nil	Nil	Nil
					24.88	Development			
						- Special Areas Programmes	-	23.07	23.07
					213.72	- Irrigation and Flood Control	0.72	222.42	223.14
					10.00	- Energy	42.15	Nil	42.15
					81.00	- Industry and Minerals	1.84	156.01	157.85
					365.85	- Transport	0.44	615.59	616.03
						- Science, Technology and Environment	Nil	Nil	Nil
					12.97	- General	0.50	1.44	1.94
						Economic Services			
						Total	59.71	1263.09	1322.80
37.24	V Recoveries of Loans and Advances			93.24	1409.82	V Loans and Advances disbursed	227.23	1882.10	2109.33
					985.87	- For Power Projects	2.00	1700.37	1702.37
2.00	- From Power Projects	42.00		97.71	97.71	- To Government Servants	88.17	Nil	88.17
31.55	- From Government Servants	39.43		326.24	326.24	- To Others	137.06	181.73	318.79
3.69	- From Others	11.81							

1999-2000	Receipt			2000-2001	Disbursements			2000-2001							
(	R	u	p	e	e	s	i	n	c	r	o	r	e	)	Total
							9287.34	VI Revenue deficit brought down							7581.27
8350.14	VII Public debt receipts			10985.69	762.76	VII Repayment of Public Debt									1205.20
5553.91	-	Internal debt other than	9361.33		175.29	-	Internal debt other than	297.22							
		Ways and Means Advances and Overdraft					Ways and Means Advances and Overdraft								
597.21 ⁵	-	Ways and Means Advances	85.59		Nil	-	Ways and Means Advances	Nil							
		- Loans and Advances from					- Repayment of Loans and								
1469.93		Central Government	1538.77		587.47		Advances to Central Government	907.98							
0.10	VIII Amount transferred to Contingency Fund			0.35		VIII Expenditure from Contingency Fund									0.07
					0.28										
22229.28	IX Public Account receipts			22748.64	17958.55	IX Public Account disbursements									21518.14
		- Small Savings and Provident Funds	964.46		266.55	-	Small Savings and Provident Funds	441.92							
1069.26		- Reserve Funds	112.30		128.37	-	Reserve Funds	105.45							
82.46		- Suspense and Miscellaneous	11393.29		9942.81	-	Suspense and Miscellaneous	11395.99							
10515.85		- Remittances	2506.33		2008.75	-	Remittances	2445.34							
2026.21		- Deposits and Advances	7772.26		5612.01	-	Deposits and Advances	7129.44							
8535.50					0.06	-	Miscellaneous Government Account	Nil							
729.09	X	Closing Overdraft from Reserve Bank of India	668.32	508.43	508.43	X	Cash balance at end								538.77
					0.44	-	Cash in Treasuries and Local								
					35.52	-	Remittances	0.50							
						-	Deposits with Reserve Bank	68.12							
						-	Departmental Cash Balance including Permanent								
					19.49	-	Advances	17.16							
					452.98	-	Cash Balance Investment	452.99							
30933.61	Total			35004.67	30933.61	Total									35004.67

⁵ Represents net of receipts of Rs 11256.94 crore and disbursements of Rs 11232.12 crore

EXHIBIT III SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

Sources		1999-2000	2000-2001
10211.10	1.	Revenue receipts	14522.18
37.24	2.	Recoveries of Loans and Advances	93.24
7587.38	3.	Increase in Public debt other than overdraft	9719.72
	4.	Net receipts from Public account	
802.71		Increase in Small Savings	522.55
2923.49		Increase in Deposits and Advances	642.82
573.04		Net effect of suspense and Miscellaneous transactions	.-
17.46		Net effect of Remittance transactions	60.99
.	5.	Net effect of Contingency Fund transactions	0.28
.	6.	Increase in Reserve Funds	6.85
22152.42		Total	25568.63
Applications		1999-2000	2000-2001
19498.44	1.	Revenue expenditure	22103.45
1409.82	2.	Lending for development and other purposes	2109.33
1006.43	3.	Capital expenditure	1322.80
0.18	4.	Net effect of Contingency Fund transactions	-
0.06	5.	Net effect of Miscellaneous Government Account	-
191.58	6.	Increase in closing cash balance	30.35
45.91	7.	Decrease in Reserve funds	-
-	8.	Net effect of Suspense and Miscellaneous	2.70
22152.42		Total	25.568.63

Explanatory Notes for Exhibit I, II and III

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc. do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlement etc.
4. There was an unreconciled difference of Rs 457.63 crore (net debit) between the figures reflected in the accounts and that intimated by the RBI under "Deposit with Reserve Bank". The difference was under reconciliation (August 2001).

EXHIBIT-IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(R u p e e s i n C r o r e)				
Part A. Receipts					
1. Revenue Receipts	8227	9028	9387	10211	14522
(i) Tax Revenue	4259(52)	4517(50)	4774(51)	5101(50)	6001(41)
Taxes on Agricultural Income	2	7	16	8	3
Taxes on Sales, Trade, etc.	2704(64)	2844(63)	3118 (65)	3429(67)	3671(61)
State Excise	327(8)	359(8)	400(9)	443(9)	462(8)
Taxes on Vehicles	134(3)	148(3)	158(3)	186(4)	283(5)
Stamps and Registration fees	310(7)	336(7)	372(8)	412(8)	474(8)
Land Revenue	468(11)	439(10)	325(7)	148(3)	511(8)
Other taxes	314(7)	384(9)	385(8)	475(9)	597(10)
(ii) Non Tax Revenue	417(5)	449(5)	385(4)	587(6)	1215(8)
(iii) State's share of Union taxes and duties	2420(29)	3048(34)	2692(29)	2984(29)	4152(29)
(iv) Grants in aid from GOI	1131(14)	1014(11)	1536(16)	1539(15)	3154(22)
2. Misc. Capital Receipts	Nil	Nil	Nil	Nil	Nil
3. Total revenue and Non debt capital receipts (1+2)	8227	9028	9387	10211	14522
4. Recoveries of Loans and Advances	981	60	39	37	93
5. Public Debt Receipts	3072	4239	6306	8350	10986
Internal Debt (excluding Ways and Means Advances and Overdrafts)	583(19)	632(15)	903(14)	5554(66)	9361(85)
Net transactions under Ways and Means Advances and Overdrafts	Nil	Nil	Nil	1326(16)	86(1)
Loans and Advances from Government of India ⁶	2489(81)	3607(85)	5403(86)	1470(18)	1539(14)
6. Total receipts in the Consolidated Fund (3+4+5)	11397	13327	15732	18598	25601
7. Contingency Fund Receipts	0.42	0.28	0.26	0.10	0.35
8. Public Account receipts	11887	13305	16078	22229	22749
9. Total receipts of the State (6+7+8)	23284.42	26632.28	31810.26	40827.10	48350.35
Part B. Expenditure / Disbursement					
10. Revenue Expenditure	10362(82)	11322(86)	14243(86)	19498(89)	22103(87)
Plan	1649(16)	1460(13)	1864(13)	2214(11)	3121(14)
Non-Plan	8713(84)	9862(87)	12379(87)	17284(89)	18982(86)
General Services (including Interests Payments)	3914(38)	4673(41)	5874(41)	8041(41)	9713(44)
Social Services	4068(39)	4391(39)	5640(40)	8189(42)	8415(38)
Economic Services	2202(21)	2054(18)	2524(18)	3026(16)	3755(17)
Grants-in-aid and Contribution	178(2)	204(2)	205(1)	242(1)	220(1)
11. Capital Expenditure	1445(12)	634(5)	715(4)	1006(5)	1323(5)
Plan	606(42)	600(95)	691(97)	985(98)	1263(95)
Non-Plan	839(58)	34(5)	24(3)	21(2)	60(5)
General Services	37(3)	39(6)	59(8)	93(9)	44(3)
Social Services	59(4)	66(10)	102(14)	183(18)	197(15)
Economic Services	1349(93)	529(84)	554(78)	730(73)	1082(82)
12. Disbursement of Loans and Advances	798(6)	1140(9)	1578(10)	1410(6)	2109(8)
13. Total (10+11+12)	12605	13096	16536	21914	25535
14. Repayments of Public Debt	489	461	618	762	1266
Internal Debt (excluding Ways and Means Advances and Overdrafts)	18	45	119	175	297
Net transactions under Ways and Means Advances and Overdrafts	63	Nil	Nil	Nil	61
Loans and Advances from Government of India ⁶	408	416	499	587	908
15. Appropriation to Contingency Fund	Nil	Nil	Nil	Nil	Nil
16. Total disbursement out of Consolidated Fund (13+14+15)	13094	13557	17154	22676	26801
17. Contingency Fund disbursements	0.30	0.21	0.17	0.28	0.07
18. Public Account disbursements	11019	12962	14715	17959	21518
19. Total disbursement by the state (16+17+18)	24113.30	26519.21	31869.17	40635.28	48319.07
Part C Deficits					
20. Revenue Deficit (1-10)	2135	2294	4856	9287	7581
21 Fiscal Deficit (3+4-13)	3397	4008	7109	11666	10920
22. Primary Deficit (21-23)	1457	1598	4159	7492	5582
Part D Other data					
23. Interest Payments (included in revenue exp.)	1940	2410	2950	4174	5338
24. Arrears of Revenue (Percentage of Tax & non-tax Revenue Receipts)	508(11)	661(13)	648(13)	558(10)	305(4)
25. Financial Assistance to local bodies etc.	2724	2967	3449	5022	5099
26. Ways and Means Advances/Overdraft availed (days)	253	164	80	336	360
27. Interest on WMA/Overdraft	14	6	1	22	37
28. Gross State Domestic Product (GSDP)	71566(P) ⁷	80665(P)	90160(A)	115543(A)	143411(A)
29. Outstanding Debt (year end)	16979	20756	26443	34031	43751
30. Outstanding guarantees (year end)	2380	2978	3379	3907	6960
31. Maximum amount guaranteed(year end)	4416	5863	6099	5606	9677
32. Number of incomplete projects	19	19	19	19	19
33. Capital blocked in incomplete projects ⁸	766	886	949	1006	1083

⁶ Includes Ways and Means Advances from GOI

Note : Figures in brackets represent percentage (rounded)

⁷ P = Provisional, A = Advance⁸ Represents progressive amount blocked in incomplete projects at the end of the year based on figures collected from departmental heads (Details in Appendix 2)

1.3 Sources and application of fund

1.3.1 Exhibit III gives the position of sources and applications of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for development purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government. Their relative share in total receipts rose from 46 *per cent* in 1999-2000 to 57 *per cent* during 2000-2001. The share of receipts from the Public Accounts to total receipts however, decreased from 19 *per cent* in 1999-2000 to 5 *per cent* in 2000-2001. The share of receipts from public debt however increased from 34 *per cent* in 1999-2000 to 38 *per cent* in 2000-2001 mainly due to raising of more loans under 6003-Internal Debt of the State Government. During the year loans of Rs 2655 crore was received from West Bengal Infrastructure Development Finance Corporation (WBIDFC) and Rs 618.89 crore was received from HUDCO through West Bengal Infrastructure Development Finance Corporation. Though the funds were raised with the approval of GOI under Article 293 (3) of the Constitution of India for plan expenditure/flood relief and restoration works, these remained parked in the Deposit Account during the year and helped to offset the adverse ways and means position. The transfer of these funds from Deposit to loan account was effected after closure of the financial year only in June 2001 by means of correction memo of Kolkata PAO in the Accounts.

1.3.2 The application of the funds was mainly on revenue expenditure whose share marginally declined from 88.02 *per cent* to 86.45 *per cent* and remained significantly higher than the share of the revenue receipts (57 *per cent*) in the total receipts of the State Government. This led to a very high (Rs 7581 crore) Revenue Deficit. On the other hand, the percentage of capital expenditure had marginally increased from 4.55 *per cent* to 5.17 *per cent*. The allocation on lending for development purposes increased from 6.36 *per cent* to 8.25 *per cent* of the total expenditure.

1.4 Financial operations of the State Government

1.4.1 Exhibit II gives the details of the receipts and disbursements made by the State Government. The Revenue expenditure (Rs 22103 crore) during the year significantly exceeded the revenue receipts (Rs 14522 crore) resulting in very high revenue deficit of Rs 7581 crore although it was lower compared to the previous year. The Revenue receipts comprised tax revenue (Rs 6001 crore), non-tax revenue (Rs 1215 crore), State's share of Union taxes and duties (Rs 4152 crore) and grants-in-aid from the Central Government (Rs 3154 crore). The main sources of tax revenue were sales tax (61 *per cent*), state excise (8 *per cent*), land revenue (8 *per cent*) and stamps and registration fees (8 *per cent*). Non-tax revenue came mainly from interest receipts (56 *per cent*), economic services (21 *per cent*), general services (17 *per cent*) and social services

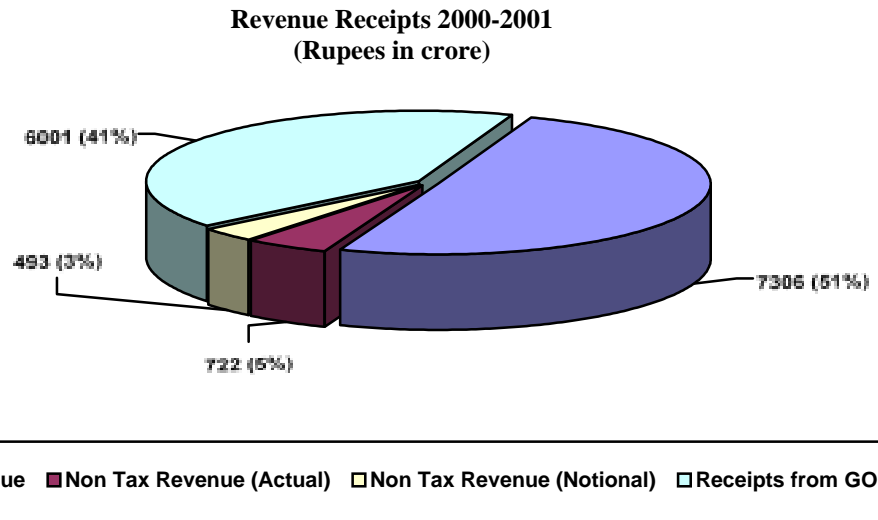
(6 per cent). The interest receipts was the major contributing factor in the non-tax revenue portion mainly due to large receipts of interest from Public Sector and other undertaking (Rs 499.80 crore), which included Rs 492.54 crore of interest realised from WBSEB by adjustment from loans paid to the WBSEB. This has been further discussed in paragraphs 1.5.3 and 1.7.2.

1.4.2 The capital receipts comprised Rs 93 crore from recoveries of loans and advances and Rs 10986 crore from public debt. Against this, the expenditure was Rs 1323 crore on capital outlay, Rs 2109 crore on disbursement of loans and advances and Rs 1266 crore (12 per cent) on repayment of public debt. The receipts in the Public Account amounted to Rs 22749 crore, against which Rs 21518 crore were disbursed. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs 508 crore at the beginning of the year to Rs 539 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the time series data for the five year's period from 1996-97 to 2000-2001, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts grew at an average annual rate of 15.30 per cent during 1996-97 to 2000-2001.



Tax revenue

1.5.2 These constituted 41 per cent of the revenue receipts. However, the rate of growth of tax revenue increased from 3 per cent in 1996-97 to 18 per cent in 2000-2001 although the contribution of tax receipts to total receipts had gone down from 52 per cent to 41 per cent during 1996-2001. This was mainly

attributable to decline in growth rate of sales tax from 64 *per cent* in 1996-97 to 61 *per cent* in 2000-2001 and substantial decline in land revenue, the relative contribution of which came down from 11 *per cent* in 1996-97 to 8 *per cent* in 2000-2001. The relative share of the other three major constituents of the tax revenue viz. taxes on vehicles increased in real terms by Rs 97 crore from Rs 186 crore in 1999-2000 to Rs 283 crore in 2000-2001 while contributions from State Excise and stamps and registration fees have remained more or less stagnant.

Non-tax revenue

1.5.3 The non-tax revenue constituted 8 *per cent* of the revenue receipts of the Government. Apparently though the share in the revenue receipts rose from 6 *per cent* in 1999-2000 to 8 *per cent* in 2000-2001, in actual terms it was only 5 *per cent* since the increase in interest of Rs 492.54 crore shown as realised from West Bengal State Electricity Board by contra debit to the loans given to WBSEB did not result in real cash inflow of the Government. This had thus inflated the non-tax revenue/revenue receipts of the Government without actual cash inflow and therefore was notional. This has been further commented upon in para 1.7.2 of this Chapter.

State's share of Union taxes and duties and grants-in-aid from the Central Government

1.5.4 The State's share of Union taxes and duties (excise duties, corporation tax, customs and taxes on income other than corporation tax) increased by 39 *per cent* during the year, owing to additional assignment of customs duty (Rs 1085.86 crore) to States while the grants-in-aid from the Central government increased by 105 *per cent* mainly due to larger grants under proviso to Article 275 (1) of the Constitution (Rs 1439.05 crore). As a percentage of revenue receipts they (both taken together) increased from 43 *per cent* in 1996-97 to 51 *per cent* in 2000-2001.

1.6 Revenue expenditure

1.6.1 During the last 5 years revenue expenditure has grown by 113 *per cent* while revenue receipts has grown by 77 *per cent*, leading to a huge gap in the resource position of the State. The increase during 2000-2001 being 13 *per cent*. The increase in revenue expenditure was however, mainly on the non-plan side. A comparison shows that the rate of growth in non-plan component (118 *per cent*) of revenue expenditure far surpassed the plan expenditure (89 *per cent*) during the five year period 1996-2001.

1.6.2 Sector wise analysis shows that while the expenditure on General Services increased by 148 *per cent*, mostly on non-plan account, from Rs 3914 crore (1996-97) to Rs 9713 crore in 2000-2001, expenditure on Social Services and economic Services increased only by 107 *per cent* and 71 *per cent* respectively.

As a proportion of revenue expenditure the share of General Services increased from 38 *per cent* in 1996-97 to 44 *per cent* in 2000-2001, whereas the share of Economic Services decreased from 21 *per cent* to 17 *per cent* and that of Social Services decreased marginally from 39 *per cent* to 38 *per cent*.

The increase in expenditure on General Service was mainly due to increase in expenditure on i) Pension and Other Retirement Benefits (Rs 354.88 crore); ii) Interest payment (Rs 1080.51 crore)-larger payment of interest on GOI loans (Rs 119.27 crore), Special Securities (Rs 561.65 crore), Other Internal Debt (Rs 435.70 crore) and iii) Police (Rs 78.50 crore) due to larger expenditure on district police.

The increase in expenditure on Social Services was mainly due to increased expenditure under i) Health and Family Welfare (Rs 124.79 crore) due to increase in expenditure on ESI Schemes and other medical programme, ii) Relief on Account of Natural Calamities (Rs 334.99 crore) and iii) Water Supply and Sanitation (Rs 82.96 crore) counter balanced by less expenditure under General Education (Rs 429.20 crore).

The increase in expenditure on Economic Services was mainly due to increased expenditure under i) Other Rural Development Programme (Rs 91.08 crore), ii) Other Special Areas Programme (Rs 93.67 crore), iii) Power (Rs 96.53 crore), iv) Flood Control and Drainage (Rs 89.33 crore), v) Roads and Bridges (Rs 79.38 crore) and vi) Minor Irrigation (Rs 73.40 crore).

Interest payments

1.6.3 Interest payments increased steadily by 175 *per cent* from Rs 1940 crore in 1996-97 to Rs 5338 crore in 2000-2001. The main components of the increase in interest payments was the payment of interest on loans and advances from GOI which had risen from Rs 1367.45 crore in 1996-97 to Rs 2981.86 crore in 2000-2001, the increase being 48 *per cent* of the overall increase of interest and payment of interest on Internal Debt which had risen from Rs 396 crore in 1996-97 to Rs 1814.60 crore in 2000-2001, the increase being 42 *per cent* of the overall increase of interest. This is further discussed in the section on financial indicators in paragraph 1.11.3 (ii).

Financial assistance to local bodies and others

1.6.4 The quantum of assistance provided to different local bodies, etc., during the period of five years ending 2000-2001 was as follows:

		1996-97	1997-98	1998-99	1999-2000	2000-2001
		(Rupees in crore)				
I	Assistance to non-Government Primary and Secondary Schools, Colleges and Institutes, Universities for Technical Education	2068	2202	2608	3881	3922
II	Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Bodies	463	534	641	886	907
III	Assistance to Co-operative Societies	8	10	17	19	12
IV	Assistance to Electricity Board	55	90	49	49	57
V	Assistance to Public Sector and other undertakings	130	131	134	187	201
	Total	2724	2967	3449	5022	5099
VI	Percentage of assistance to revenue expenditure	26	26	24	26	23

Financial assistance to local bodies, etc. increased by 87 *per cent* from Rs 2724 crore in 1996-97 to Rs 5099 crore in 2000-2001 and comprised mainly of grants given to educational institutions (74 to 77 *per cent*).

Further, assistance provided to Local Bodies like Municipal Bodies, Non-Government Educational Institutions and Panchayati Raj Institutions, were deposited in Government Treasury under the head 8448-Deposit of Local Fund. Position of unutilised balances as of 31 March each year during 1996-97 to 2000-2001 was as under :

8448-Deposit of Local Funds	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crore)				
102-Municipal Funds	81.91	101.41	134.74	112.18	228.81
109-anchayat Bodies	433.40	371.34	457.08	945.69	1579.68
110-Education Funds	247.10	283.37	362.54	581.05	332.61
Total	762.41	756.12	954.36	1638.92	2141.10

It would thus be seen that the balance had increased by 181 *per cent* from Rs 762.41 crore in 1996-97 to Rs 2141.10 crore in 2000-2001 indicating transfer of large amount of scheme funds meant for developmental work to Deposit Account which remained unutilised although such amounts were exhibited in the Accounts as final expenditure. These balances under Deposit head helped the Government to improve their Ways and Means position at the cost of social welfare.

Loans and Advances made by the State Government

1.6.5 The Government gives loans and advances to Government companies, corporations, local bodies, co-operatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that while amounts advanced significantly increased repayments declined steadily and became insignificant in recent years as a result of which the closing balance of recoverable loans increased by about 156 *per cent*.

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(R u p e e s i n c r o r e)				
Opening balance	4024.04	3840.76	4920.64	6458.97	7831.55
Amount advanced during the year	798.13	1139.87	1577.79	1409.82	2109.33
Amount repaid during the year	981.41 ⁹	59.99	39.46	37.24	93.24 ¹⁰
Closing balance	3840.76	4920.64	6458.97	7831.55	9847.64
Net addition	(-) 183.28	1079.88	1538.33	1372.58	2016.09
Interest received	65.76	9.20	8.61	6.61	567.04

Out of Rs 2109.33 crore advanced during the year 2000-2001 Rs 1882.10 crore was advanced for plan schemes the main recipients being West Bengal State Electricity Board (Rs 862.20 crore); The West Bengal Power Development Corporation Limited (Rs 705.81 crore); West Bengal Rural Energy Development Corporation Limited (Rs 100 crore); West Bengal Industrial Infrastructure Development Corporation (Rs 59.45 crore) and The Durgapur Projects Limited (Rs 34.36 crore). Analysis of repayments of these loans indicated that the repayment were insignificant and actually declined from 24.39 *per cent* to 1.19 *per cent* of outstanding balances on the 1 April of 1996 and 1 April of 2000 respectively. Poor recovery of loans is a contributory factor to the worsening financial condition of the government. Up to 2000-2001 the terms and conditions of repayment were not settled for loans of Rs 1882.05 crore paid to Municipal Corporations, Panchayati Raj Institutions, Universities, Government Companies, Joint Stock Companies, etc in 1563 cases and hence no repayment were made. Some of these cases were lying unpaid since 1956-57. Due to ageing, large amount of these loans have little prospect of recovery.

As the Government continued to give loans without settling terms and conditions for repayment it was evidently encouraging non-recovery of its loans as is seen from the insignificant recovery.

In respect of 6285 cases where terms and conditions are settled for loans aggregating Rs 7273.21 crore, amount overdue for recovery was Rs 2553.38 crore (principal : Rs 1066.37 crore and interest : Rs 1487.01 crore).

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e., public sector undertakings (PSUs), corporations, etc. and loans and advances. There has been a steep decline in the capital expenditure and its share in total expenditure had fallen from 12 *per cent* in 1996-97 to 5 *per cent* in 1997-98 and remained stagnant thereafter. Exhibit IV shows that most of the capital expenditure has been on economic and social services and on the plan side.

⁹ The increase is due to conversion of loans of SEB into equity shares (Rs 821.03 crore) which was only a paper transaction and did not result in cash receipts.

¹⁰ The increase is due to conversion of loans of Durgapur Projects into equity shares (Rs 42 crore) which was only a paper transaction and did not result in any cash receipts

1.7.2 During 2000-2001, Rs 492.54 crore was sanctioned as loan to West Bengal State Electricity Board mainly to enable it to pay its outstanding interest accrued up to March 2001 on loans advanced by the State Government. This was done by contra crediting the loan sanctioned to interest receipts without any cash inflow. In another case Rs 42 crore were invested in Durgapur Projects Limited by converting part of its outstanding loans to equity to put the company outside the purview of BIFR. While this has helped the Government to project higher capital expenditure as well as show notional recoveries from loans advanced by it, none of these involved any cash inflow/outflow.

1.8 Quality of expenditure

Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into plan and non-plan and revenue and capital. While the Plan and Capital expenditure are usually associated with asset creation, the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, the funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services. The following table lists out the trend in these indicators:

		1996-97	1997-98	1998-99	1999-2000	2000-2001
1	Plan expenditure as a percentage of					
	- Revenue Expenditure	16	13	13	11	14
	- Capital expenditure	42	95	97	98	95
2	Capital expenditure (%)	12	5	5	5	5
3	Expenditure on General services (%)					
	- Revenue	38	41	41	41	44
	- Capital	3	6	8	9	3
4	Amount of wastages and diversion of funds as reported in Audit Reports (Rupees in crore)	300.73	107.14	219.90	620.64	NA
5	Non-remunerative expenditure on incomplete projects (Rupees in crore ¹¹)	766	886	949	1006	1083
6	Unspent balances under deposit heads, booked as expenditure at the time of their transfer to the deposit head (Rupees in crore)	1390.41	1218.35	1384.14	3353.23	3370.72

It would be seen from the above that the share of both the plan revenue expenditure (up to 1999-2000) and capital expenditure has been going down. The expenditure on General services, at the same time, has been on increase on the revenue side. The plan size for the year 2000-2001 as approved by the Planning Commission was Rs 5657.86 crore which was revised to Rs 4026.59 crore against

¹¹ Represents progressive amounts blocked in incomplete projects at the end of the year (Details given in Appendix 2)

which the State spent Rs 5705.15 crore (Revenue: Rs 2569.09 crore; Capital: Rs 1253.96 crore and Loan: Rs 1882.10 crore). Government of India provided special treatment to the State Government despite their poor performance. The special treatments were accorded through (i) special loan from HUDCO for infrastructure development and (ii) additional plan assistance for State Plan Schemes. Substantial amounts (Rs 2912.87 crore) of these expenditure were transfers to deposits and shown as expenditure in the accounts. These reflect poorly on the quality of expenditure. During 2000-2001 the unspent balance under these deposit heads was Rs 3370.72 crore. Noticeably the amount of unspent balance increased substantially from 1999-2000.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under :

	Sector	Number of concerns	Amount invested (Rupees in crore)	
			As on 31.03.2001	During 2000-2001
1	Statutory Corporations	3	109.20	34.00
2	Government Companies	63	3066.29	98.88
3	Joint Stock Companies	21	442.52	68.50
4	Co-operative institutions	1906	227.10	12.20
5	Banks	10	22.84	0.07
	Total	2003	3867.95	213.65

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows :

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowings
	(R u p e e s i n c r o r e)			
1995-96	2268.23	0.40	0.02	14
1996-97	3260.76	0.53	0.02	13.85 and 13.75
1997-98	3408.14	1.85	0.05	13.05
1998-99	3531.68	0.44	0.01	12.15 and 12.50
1999-2000	3654.30	1.23	0.03	11.85 and 12.25
2000-2001	3867.95	3.18	0.08	10.52, 11.80, 12 and 10.50

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies etc., fetched insignificant returns. As on 31 March 2001, of the 51 loss making companies, 37 companies, in which

Government had invested Rs 1765.62 crore, had accumulated losses aggregating Rs 2102.72 crore which exceeded their aggregate paid up capital of Rs 351.99 crore by six times (approximately) as per their latest available accounts.

1.9.2 Financial results of irrigation works

The financial results of 3 major and 4 medium irrigation and 2 drainage projects with a capital outlay of Rs 501.85 crore at the end of March 2001 showed that revenue realised from these during 2000-2001 (Rs 2.08 crore) was insignificant in comparison to even the direct working expenses (Rs 58.43 crore). After considering the working and maintenance expenditure (Rs 59.01 crore) and interest charges (Rs 33.70 crore) the schemes suffered a net loss of Rs 90.64 crore.

1.9.3 Incomplete Projects

The amount blocked in 19 incomplete projects during the five year period 1996-2001 continued to rise from Rs 765.90 crore in 1996-97 to Rs 1083.20 crore in 2000-2001 registering an increase of 41 per cent.

1.9.4 Arrears of revenue

Arrears under principal heads of revenue as furnished by some of the departments for the last five years have been shown in Exhibit-IV. Even at the end of October 2001, only 3 departments¹² could furnish the figure of arrears of collection at the end of March 2001, although the matter was brought to the notice of the departments as early as March 2001 and followed up by reminders (August 2001). During 2000-2001 the arrears of revenue accounted for Rs 305 crore, bulk of which related to Sales Tax (Rs 206 crore), Rural Employment Cess (Rs 34 crore) and Agriculture Income Tax (Rs 27 crore). Besides, under Sales Tax Rs 1541 crore were locked up in appeal/revision cases as of March 2001 despite the completion of "Settlement Dispute" scheme. If the arrears of these departments are reckoned the extent of arrears are bound to go up.

1.9.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 2.48 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government.

¹² Finance, Housing and Excise

At the end of 1999-2000, ways and means advances/overdraft of Rs 1326.30 crore was outstanding. During 2000-2001, ways and means advances (including shortfall) of Rs 6586.26 crore (209 days) and overdraft of Rs 4670.68 crore (151 days) were obtained on which the Government paid interest of Rs 37.44 crore. At the end of the year ways and means advances (including shortfall) of Rs 682.80 crore and overdraft of Rs 668.32 crore was outstanding. The huge outstanding ways and means advance and over draft (Rs 1351.12 crore) and the number of days (360) on which the State had to resort to such recourse indicates precarious financial condition and resort to extraordinary measures prevented collapse of its fiscal fortunes as discussed below.

During 2000-2001, West Bengal Infrastructure Development Finance Corporation Limited (WBIDFC) raised funds aggregating Rs 2972.62 crore through bonds and loans from Housing and Urban Development Corporation and Commercial Banks. Scrutiny (September 2001) in audit revealed that out of Rs 2972.62 crore, Rs 2546.07 crore were parked in Deposit Account with PAO, Kolkata. Further, out of total amount of Rs 4540.55 crore raised by WBIDFC during 1999-2001 for the purpose of infrastructure development of the State, only Rs 291.54 crore (6.4 *per cent*) had been utilised as of March 2001 for infrastructure development while the rest of the fund was lying parked in the Deposit Account. However, PAO, Kolkata transferred (June 2001) a sum of Rs 3273.89 crore from Deposit Account to Internal Debt – loans from WBIDFC. This raises serious doubt about the genuineness of the purpose of raising these loans. The State obviously created the WBIDFC as a new vehicle of borrowing to fill in its depleted coffers.

As of March 2001, even while Rs 3370.72 crore were shown as available in the Deposit Account, there was no Cash Balance in the Treasuries considering the outstanding overdraft. Thus, the funds raised through loans/bonds were in fact used for funding the normal activities of the Government.

Had the Government not taken recourse to such funds, outstanding Ways and Means Advance (including Overdraft) of the State would have further increased by Rs 3370.72 crore to Rs 4721.84 crore.

1.9.6 Deficit

1.9.6.1 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the financial management process in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz. revenue deficit, fiscal deficit and primary deficit

1.9.6.2 The revenue deficit is the excess of revenue expenditure over revenue receipts. The fiscal deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including

grants-in-aid received). Primary deficit is fiscal deficit less interest payments. The following table gives a break-up of the deficit in Government account.

(Rupees in crore)

CONSOLIDATED FUND(CF)				
Receipt	Amount		Disbursement	Amount
Revenue	14522	Revenue deficit : 7581	Revenue	22103
Miscellaneous capital receipts	Nil		Capital	1323
Recovery of loans and advances	93		Loans and advances disbursement	2109
Sub Total	14615	Gross fiscal deficit: 10920		25535
Public debt	10986	¹¹	Public debt repayment	1266
Total	25601	A : Deficit in CF: 1200		26801
PUBLIC ACCOUNT				
Small savings, PF etc.	964		Small savings, PF etc.	442
Deposits and advances	7772		Deposits and advances	7129
Reserve funds	112		Reserve funds	105
Suspense and misc.	11393		Suspense and misc.	11396
Remittances	2506		Remittances	2445
Total Public Account	22747	B : Deficit in CF financed by Public Account : 1230 ¹³		21517
Increase in cash balance (B-A) : 30				

1.9.6.3 The Revenue Deficit of the current year though apparently less by Rs 1706 crore compared to that of previous year should be viewed considering notional adjustment of interest receipts (Rs 493 crore), additional assignment of share of net proceeds of Union Taxes (Rs 1168 crore) and higher receipts of grants-in-aid from Government of India (Rs 1615 crore).

The table shows that the Revenue Deficit of Rs 7581 crore was met by borrowings. The Fiscal Deficit of Rs 10920 crore was financed by net proceeds of the public debt (Rs 9720 crore) including overdraft and ways and means advances and the entire surplus of Public Account (Rs 1230 crore) leaving a surplus of Rs 30 crore which increased the Cash Balance. Exhibit IV shows that both the revenue and fiscal deficits have increased manifold (255 per cent and 221 per cent respectively) over the last 5 years, indicating persistent fiscal deterioration of the State.

1.9.6.4 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing to meet revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of West Bengal for the last five years.

¹³ The deficit in Consolidated Fund was in fact Rs 4474 crore met from surplus in Public Account but for transfer of Rs 3273.89 crore from Deposit head to Internal debt of the State during the year

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RD/FD	0.63	0.57	0.68	0.80	0.69
CE/FD	0.42	0.16	0.10	0.08	0.12
Net loans/FD	(-) 0.05	0.27	0.22	0.12	0.19
Total	1.00	1.00	1.00	1.00	1.00

1.9.6.5 It would be seen that 69 per cent of the borrowed funds was applied during the year 2000-2001 for meeting the revenue expenditure. This had reduced substantially the availability of funds for capital expenditure which was very low being only 12 per cent in 2000-2001, compared to 42 per cent in 1996-97. This has adverse implications for the future as the repayment obligations would increase without any addition to the repayment capacity.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions etc., and payment of interest and minimum dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit IV shows that the amount of guarantees given by the Government have increased substantially from Rs 5606 crore in 1999-2000 to Rs 9677 crore in 2000-2001. The guarantees given during 2000-2001 included Rs 4277 crore guaranteed against loans obtained by WBIDFC (Rs 2812 crore), WBKV & IB (Rs 871 crore) and WBPDCCL (Rs 594 crore). The amount of guarantees outstanding at the end of each year have also increased significantly during 1996-2001. While Rs 0.06 lakh were received as guarantee commission during 2000-2001, Rs 131.16 crore of guarantee commission were outstanding¹⁴ for recovery as on 31 March 2001. This has been further discussed in paragraph 3.10 of this Report.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table.

¹⁴ Computed on the basis of information as furnished by some of the departments.

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities ¹⁵	Total liabilities	Ratio of debt to GDP
(R u p e e s i n c r o r e)						
1996-97	3480	13498	16978	4130	21108	0.29
1997-98	4067	16689	20756	4270	25026	0.31
1998-99	4851	21593	26444	5510	31954	0.35
1999-2000	11556	22475	34031	9196	43227	0.37
2000-2001	20645	23106	43751	10368	54119	0.38

During the five year period, the total liabilities of the Government had grown by 156 per cent. This was on account of 493 per cent increase in internal debt, 71 per cent increase in loans and advances from Government of India and 151 per cent increase in other liabilities. During 2000-2001, Government borrowed Rs 877.37 crore in the open market at interest rates of 10.52; 11.80; 12 and 10.50 per cent per annum.

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table :

		1996-97	1997-98	1998-99	1999-2000	2000-2001
(R u p e e s i n c r o r e)						
Internal debt						
-	Receipt	4203	3455	3132	14376	20618
-	Repayment (Principal + Interest.)	4098	3344	2874	8394	13344
-	Net funds available (%)	105(2)	111(3)	258(8)	5982 (42)	7274 (35)
Loans and advances from GOI						
-	Receipt during the year	2489	3607	5403	1470	1539
-	Repayment (Principal + Interest)	1776	2144	2665	3450	3890
-	Net funds available (%)	713(29)	1463(41)	2738(51)	(-)1980 (135)	(-)2351 (153)
Other liabilities						
-	Receipt during the year	5061	5351	6473	9687	8849
-	Repayment (Principal + Interest)	4438	5418	5491	6585	8126
-	Net funds available (%)	623(12)	(-) 67(1)	982(15)	3102 (32)	723 (8)
	Overall Position	1441	1507	3978	7104	5646

1.10.3 It would be seen that prior to 1999-2000 very little of the market borrowings were available for investment and other expenditure after meeting the repayment obligations. During 1999-2001 the net availability from these sources (Rs 12750 crore) was much higher due to receipt of Special Securities issued to National Small Savings Fund of the Central Government (Rs 9056 crore) and receipt of more loans from West Bengal Infrastructural Development Finance Corporation (Rs 2655 crore). Considering that the outstanding debt has been increasing year after year the net availability of funds through public borrowings is likely to reduce further.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would

¹⁵ Other liabilities consist of Small Savings, PF, reserve funds and deposits.

be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity¹⁶, while plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows :

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flush out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Appendix 1. Exhibit V indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001.

¹⁶ There are exceptions to these, notably transfer of Plans to the Non-Plan at the end of Plan period

1.11.3 The implications of the indices/ratios given in Exhibit V for the financial health of the State Government are discussed in the following paragraphs.

EXHIBIT V

Financial indicators for Government of West Bengal

Government of West Bengal	1996-97	1997-98	1998-99	1999-2000	2000-2001
SUSTAINABILITY					
BCR (Rupees in crore)	(-) 1385	(-) 1705	(-) 4178	(-) 8120	(-) 7190
Primary Deficit (PD) (Rupees in crore)	1457	1598	4159	7492	5582
Interest ratio	0.23	0.26	0.31	0.40	0.34
Capital Outlay/Capital Receipts	0.43	0.19	0.13	0.16	0.14
Total Tax Receipts/SDP	0.09	0.09	0.08	0.07	0.07
State Tax Receipts/SDP	0.06	0.06	0.05	0.04	0.04
Return to Investment ratio (ROI)	0.0002	0.0005	0.0001	0.0003	0.0008
FLEXIBILITY					
BCR (Rupees in crore)	(-) 1385	(-) 1705	(-) 4178	(-) 8120	(-) 7190
Capital repayments/ Capital borrowings	0.14	0.11	0.10	0.11	0.11
State Tax Receipts/SDP	0.06	0.06	0.05	0.04	0.04
Debt/SDP	0.30	0.32	0.35	0.37	0.38
VULNERABILITY					
Revenue Deficit (RD) (Rupees in crore)	2135	2294	4856	9287	7581
Fiscal Deficit (FD) (Rupees in crore)	3397	4008	7109	11666	10920
Primary Deficit (PD) (Rupees in crore)	1457	1598	4159	7492	5582
Primary Deficit/Fiscal Deficit	0.43	0.40	0.59	0.64	0.51
Revenue Deficit/Fiscal Deficit	0.63	0.57	0.68	0.80	0.69
Outstanding guarantee/Revenue Receipts	0.29	0.33	0.36	0.38	0.48
Assets/liabilities	0.57	0.55	0.49	0.41	0.39

BCR – Balance from Current Revenues, SDP – State Domestic Product

(i) **Balance from current revenues (BCR)**

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had no surplus from current revenues in the last five years and the negative balance has increased steeply. Thus Government not only had no balance from its own revenues for meeting its plan expenditure, most of its non-plan expenditure had also to be met from the outside sources. The position of high and ever increasing negative BCR indicated unsustainable financial condition.

(ii) **Interest ratio**

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of West

Bengal the ratio has steadily increased by nearly 48 *per cent* from 0.23 in 1996-97 to 0.34 in 2000-2001. This ratio would be even higher if the loans, etc. raised through the Public Sector Companies are reckoned.

As the Government was running very high revenue deficits and was therefore obliged to borrow even at higher levels, the interest burden is likely to increase further. As increasing interest burden was pushing up revenue expenditure (in the current year 24 *per cent* of revenue expenditure was accounted for by interest payments) fewer resources were available for programme spending affecting in the process, the sustainability of its operations.

(iii) Capital outlay/capital receipts

This ratio would indicate the extent to which the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of West Bengal, the ratio has been less than even 0.50 during the last five years and came down drastically from 0.43 in 1996-97 to 0.14 in 2000-2001 indicating that almost the entire capital receipts were spent either on revenue expenditure or on repayment of debt. As there is no return from such application of capital receipts, the sustainability of operations of government are weakened considerably.

(iv) Tax receipts vs State Domestic Product (SDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to SDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of West Bengal this ratio has shown a continuous decline and has come down from 0.09 in 1996-97 to 0.07 in 2000-2001. Similarly, the ratio of State tax receipts has also come down from 0.06 in 1996-97 to 0.04 in 2000-2001 suggesting a marked deterioration in the tax compliance. As discussed in Para 1.9.4 the arrears, even reckoned on limited basis accounted for Rs 305 crore during 2000-2001, as many departments are not assessing their arrears, indicating poor tax compliance. Even if Government could maintain State tax collection as a percentage of SDP at the same level as in 1996-97, its financial position would have been vastly different. The current level of tax SDP ratio is contra indicator to sustainability and restricts government's flexibility to meet the ever-expanding revenue expenditure.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and cooperative institutions. It shows that the ROI in case of Government of West Bengal has been negligible and has moved very narrowly in the range of 0.01 per cent to 0.08 per cent.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher the availability of capital for investment. In case of West Bengal Government this ratio has been in the range of 10 to 14 per cent and has remained almost static around 10 per cent for the last four years.

(vii) Debt vs State Domestic Product (SDP)

The SDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/SDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. Exhibit V shows that in the case of West Bengal, this ratio has risen sharply from 0.30 in 1996-97 to 0.38 in 2000-2001 due to increasing level of indebtedness of the government suggesting increasing strain on its resource base.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus the higher the ratio the worse off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. In the current year 69 per cent of the borrowings were applied to revenue expenditure as compared to 63 per cent in 1996-97. This is a significantly unfavourable condition and indicates the highly vulnerable financial condition due to government's dependence on outside resources to finance large part of its revenue expenditure.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio the less the availability of funds for capital investment and other expenditure. In case of Government of West Bengal, the ratio has decreased drastically from 0.64 in 1999-2000 to 0.51 in 2000-2001 indicating

lesser availability of funds for capital investment and other expenditure and the share of capital expenditure from out of borrowings has come down from 42 *per cent* in 1996-97 to only 12 *per cent* in 2000-2001 (para 1.9.6.4). Evidently, the State was in a financially vulnerable condition as even most of its borrowed funds are now required for interest payments.

(x) *Guarantees vs Revenue receipts*

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk of exposure of a State Government and should therefore be compared with the ability of the Government to pay viz. its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In case of West Bengal this ratio has increased to 0.48 in 2000-2001 from 0.29 in 1996-97, indicating an adverse trend.

(xi) *Assets vs Liabilities*

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. As has already been said in para 1.2, the system of accounting in Government does not capture all the assets and liabilities and is confined basically to the financial assets and liabilities. Even in this case also the ratio has shown a secular decline, from 0.57 in 1996-97 to 0.39 in 2000-2001, which points to the sustained deterioration of the fiscal management. Even these assets include very old and nearly unrecoverable loans as discussed in Para 1.2.

(xii) *Budget*

There was no delay in submission of the budget and their approval. The details are given in the following table :

Preparation	Month of submission	Month of approval
Budget	March 2000	July 2000
Supplementary	February 2001	February 2001

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumptions (surrenders) of significant amounts every year vis-a-vis the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent.

(xiii) Accounts

A large number of accounting units (Treasury, Public Works and Forests) did not render accounts on due dates resulting in their exclusion from the monthly accounts. The exclusion ranged between 56 in July 2000 and 313 in September 2000. As a result the monthly accounts did not contain reliable figures and thus their usefulness for budgetary and expenditure control was limited. All the accounts were, however, included in the March (Final) Account.

There was lack of transparency in the accounts as the amount of loans raised by WBIDFC, a Government Company was transferred to Internal Debt of the State Government. Besides, assistance of Rs 150 crore to energy sector has been classified under Plan expenditure.

1.11.4 Conclusion

Government showed lower revenue deficit compared to previous years but the reduction was mainly attributable to increased grants from the Central Government despite poor plan performance while there was no reduction in the revenue expenditure. The assets of the State Government include large amounts of loans and advances to Municipal bodies and other local self-government bodies. These bodies are mainly dependent on the State Government for their sustenance and there is little possibility of recovery of these loans from such bodies. This is also evident from the poor recovery of loans. Therefore these assets are of little value. On the liability side, loans raised through a Government Company were included in the Government's Internal Debt. Thus the poor financial condition of the State Government is not properly reflected in the accounts of the Government.

Persistent lack of balance from current revenues, galloping deficits, mounting interest payments, declining tax compliance indicated continued poor financial condition of the Government. The declining Tax to GSDP ratio showed that the State Government preferred the option of borrowing to that of widening its tax base to finance Government's expenditure. Consequently the interest payment liability remained high. Capital expenditure as a percentage of total expenditure decreased from 12 *per cent* in 1996-97 to 5 *per cent* in 2000-2001. This would have been still lower but for conversion of loan to State Electricity Board into equity (Rs 42 crore) without any cash outflow. Funds raised for infrastructure development were parked in deposit accounts by the State Government for shoring up its ways and means position. Due to its precarious ways and means position the State Government had to resort to huge ways and means advances and overdrafts throughout the year.

The matter was referred to Government in November 2001; reply had not been received (January 2002).