

CHAPTER I

Finances of the State Government

Summary

In West Bengal, both the Revenue and Fiscal Deficit increased in 2003-2004 by 6 *per cent* and 22 *per cent* respectively.

The ratio of revenue receipts to total expenditure stood at 56 *per cent* in 2003-2004. Overall revenue receipts of the State increased from Rs 10211 crore in 1999-2000 to Rs 16608 crore in 2003-2004 at an average trend rate of 12 *per cent* per annum. During the current year, however, the growth rate was 14 *per cent* compared to negative growth in 2002-2003. On an average around 57 *per cent* of revenue had come from State's own resources while central tax transfers and Grants-in-aid together contributed 43 *per cent* of the total revenue during 1999-2004.

Overall expenditure of the State increased from Rs 21914 crore in 1999-2000 to Rs 29569 crore in 2003-2004 at an average trend rate of 10 *per cent* per annum. The rate of growth which was at its peak at 33 *per cent* in 1999-2000 declined thereafter and stood at 17 *per cent* in 2003-2004. In fact, the major burden of curtailment in the growth of total expenditure resulted in a decline in the proportion of developmental expenditure to total expenditure. The proportion of developmental expenditure declined from 59 *per cent* in 1999-2000 to 45 *per cent* in 2003-2004. Interest payments increased steadily from Rs 4174 crore in 1999-2000 to Rs 9354 crore in 2003-2004 primarily due to continued reliance on borrowings for financing fiscal deficit. Interest payments were consuming an increasing portion of the revenue receipts and went up to 56 *per cent* in 2003-2004.

Fiscal liabilities of the State more than doubled from Rs 43227 crore in 1999-2000 to Rs 89359 crore in 2003-2004. State's fiscal imbalances were also increasing and a large part of the fiscal deficit was used for meeting current expenditure. Increasing ratios of fiscal liabilities to the Gross State Domestic Product, revenue receipts and own resources indicated that the debt stock was increasingly becoming unsustainable.

Balance from current revenue (BCR), which plays an important role in plan size, was not only consistently negative, its magnitude was also on the increase. The ratio of assets to liabilities had declined to 0.33 indicating that more than half of the State's fiscal liabilities did not have asset back up. All these adversely affected the plan size and reduced availability of fund for infrastructural development.

1.1 Introduction

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

Box 1.1

Layout of Finance Accounts

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

Statement No 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2003-2004.

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

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

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

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

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

Statement No.8 depicts the summary of balances under consolidated fund, contingency fund and public account as on 31 March 2004.

Statement No.9 shows the revenue and expenditure under different heads for the year 2003-2004 as a percentage of total revenue/expenditure.

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

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

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

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2003-2004.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2003-2004.

Statement No.15 depicts the capital and other expenditure to the end of 2003-2004 and the principal sources from which the funds were provided for that expenditure.

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

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

Statement No.18 provides the detailed account of loans and advances given by the Government of West Bengal, the amount of loan repaid during the year, the balance as on 31 March 2004, and the amount of interest received during the year.

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

1.2 Trend of finances with reference to previous year

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

2002-2003 (Rupees in crore)	Sl. No.	Major Aggregates	2003-2004 (Rupees in crore)
14525.45	1	Revenue Receipts (2+3+4+5)	16608.49
7046.40	2	Tax Revenue- own	8767.91
654.33	3	Non-Tax Revenue	605.84
4586.74	4	State Share of Union Taxes and Duties	5341.65
2237.98	5	Grants –in-aid from GOI	1893.09
213.35	6	Non-Debt Capital Receipts	91.03
213.35	7	<i>Of which</i> Recovery of Loans	91.03
14738.80	8	Total Receipts (1+6)	16699.52
22069.09	9	Non-Plan Expenditure	26252.16
21376.73	10	On Revenue Accounts	23836.06
7810.47	11	<i>Of which</i> , Interest Payments	9354.42
692.36	12	On Capital Accounts	2416.10
671.62	13	<i>Of which</i> Loans disbursed	2402.56
3238.81	14	Plan Expenditure (15+16)	3317.78
1784.04	15	On Revenue Account	1921.41
1454.77	16	On Capital Account	1396.37
691.16	17	<i>Of which</i> Loans disbursed	653.77
25307.90	18	Total Expenditure (9+14)	29569.94
10569.10	19	Fiscal Deficit (18-1-6)	12870.42
8635.32	20	Revenue Deficit (10+15-1)	9148.98
2758.63	21	Primary Deficit (19-11)	3516.00

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government for the year 2003-2004 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, public accounts receipts and disbursements and appropriation from Contingency fund made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-2004 (Rupees in crore)

2002-2003	Receipts	2003-2004	2002-2003	Disbursements	2003-2004		
					Non-Plan	Plan	Total
14525.45	I. Revenue Receipts	16608.49	23160.77	I. Revenue expenditure	23836.06	1921.41	25757.47
7046.40	Tax revenue	8767.91	12588.03	General services	14388.93	30.70	14419.63
654.33	Non-tax revenue	605.84	7599.03	Social Services	6861.55	1174.25	8035.80
4586.74	Share of Union Taxes/ Duties	5341.64	2742.00	Economic Services	2328.99	715.46	3044.45
2237.98	Grants from Government of India	1893.10	231.71	Grants-in-aid/ Contributions	256.59	1.00	257.59
Section-B: Capital							
Nil	II. Misc. Capital Receipts	Nil	784.35	II Capital Outlay	13.54	742.60	756.14
213.35	III. Recoveries of Loans and Advances	91.03	1362.78	III Loans and Advances disbursed	2402.56	653.77	3056.33
	IV. Public debt receipts¹			IV Repayment of Public Debt			
15576.31	Other than Overdraft	20676.92	2990.98	Other than Overdraft	8851.14	-	8851.14
	Overdraft		1355.86	Overdraft		-	-
24060.16	V. Public account receipts	29800.27	24605.22	V Public account disbursements	28902.67	-	28902.67
458.36	Opening Balance	573.44	573.44	Closing balance	425.76		425.76
54833.63	Total	67750.15	54833.40	Total	64431.73	3317.78	67749.51
-	Appropriations from Contingency Fund	0.22	0.23	Appropriations from Contingency Fund	0.86	-	0.86
54833.63	Grand Total	67750.37	54833.63	Grand Total	64432.59	3317.78	67750.37

¹ Includes net ways and means advances and overdraft also

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure from the statements of the Finance Accounts for the year 2003-2004 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the Box 1.2.

Box 1.2 Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics of the State Government have been used.</p> <p>For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP</p> <p>For most series a trend growth during 1999-2004 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in Appendix 1.</p>

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

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

1.5 State Finances by key Indicators

1.5.1 Resources by volumes and sources

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

Table 2 shows that the total receipts of the State Government for the year 2003-2004 were Rs 67176 crore. Of which, the revenue receipts of the State Government was Rs 16608 crore only, constituting 25 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2 – Resources of West Bengal

		(Rupees in crore)
I Revenue Receipts		16608
II Capital Receipts		20768
a	Miscellaneous Receipts	-
b	Recovery of Loans and Advances	91
c	Public Debt Receipts	20677
III Public Account Receipts		29800
a	Small Savings, Provident Fund, etc.	1067
b	Reserve Fund	328
c	Deposits and Advances	12477
d	Suspense and Miscellaneous	14181
e	Remittances	1747
Total Receipts		67176

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly 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 State's Gross Domestic Product (GSDP) and its buoyancy are indicated in **Table 3**.

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

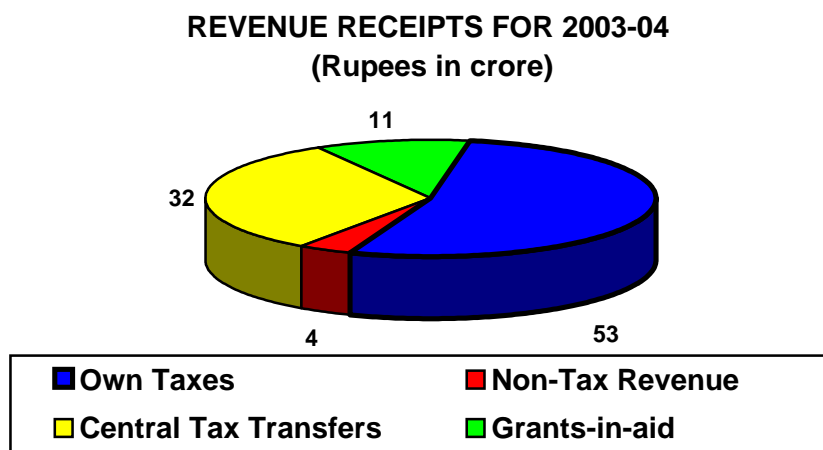
	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Revenue Receipts	10211	14522	14538	14525	16608
Own taxes *	49.96	40.94	44.95	48.51	52.79
Non-Tax Revenue *	5.75	8.36	5.33	4.50	3.65
Central Tax Transfers *	29.22	28.98	29.50	31.58	32.17
Grants-in-aid *	15.07	21.72	20.22	15.41	11.40
Rate of Growth of RR	8.78	42.22	0.11	(-) 0.09	14.34
GSDP Growth	29.657	10.330	11.951	6.505	11.467
Revenue Receipts/GSDP	8.73	11.26	10.07	9.45	9.69
Revenue Buoyancy	0.296	4.087	0.009	#	1.251

* As a percentage of Revenue Receipts

Rate of growth of Revenue Receipts was negative

Revenue receipts of the State increased from Rs 10211 crore in 1999-2000 to Rs 16608 crore in 2003-2004 at an average trend rate of 12 *per cent* per annum. There were, however, significant inter year variations in the growth rates. After a significant increase of 42 *per cent* in 2000-2001, the growth rate which plummeted to (-) 0.09 *per cent* in 2002-2003 again increased to 14 *per cent* in 2003-2004. The increase in revenue receipts was mainly attributable to larger collection of Sales Tax (Rs 639.07 crore); larger receipts from share of Union Taxes and Duties (Rs 754.91 crore); Land Revenue (Rs 334.98 crore); Taxes on Vehicles (Rs 285.97 crore) and Taxes on duties from electricity (Rs 250.74 crore) partly offset by less receipts under Grants-in-aid from GOI (Rs 344.88 crore).

While on an average around 57 *per cent* of revenue had come from the State's own resources comprising tax and non-Tax receipts, central tax transfers and grants-in-aid together contributed 43 *per cent* of the total revenue during 1999-2004.



1.5.3 Tax Administration

Budget for 2003-2004 aimed at netting Rs 825 crore as additional resource by re-introducing entry tax (Rs 500 crore), through enhancement of rate of land revenue (Rs 150 crore), by granting fresh excise licence (Rs 100 crore) and through strengthening enforcement drive to check evasion of motor vehicles tax (Rs 75 crore). Re-introduction of Entry Tax though expected to earn Rs 500 crore was not introduced and revenue realised fell short of what was anticipated. Tax and non-tax revenue collected was Rs 9374 crore against estimated Rs 9905 crore; shortfall being Rs 531 crore.

Sales tax was the major source of State's own tax revenue contributing 55 *per cent* of the tax revenue followed by Land Revenue (11 *per cent*), Stamps and Registration (9 *per cent*), etc. Non-tax revenue fell to Rs 605.84 crore in 2003-2004 from Rs 654.33 crore in 2002-2003. Compared to 1999-2000, the contribution of the State's own taxes in its total revenue receipts rose from 50 *per cent* to 53 *per cent* while Grants-in-aid from GOI fell

from 22 *per cent* in 2000-2001 to 11 *per cent* in 2003-2004 consequent upon the recommendations of the Eleventh Finance Commission, which recommended non-plan revenue deficit grants for 2001-2004 on a reducing basis. A reduction in these grants in 2003-2004, compared to the previous year, affected revenue growth of the State.

1.5.4 Arrears in Collection of Revenue

The arrears of revenue on 31 March 2004 in respect of some principal heads of revenue aggregated Rs 1489.21 crore. Of these, Rs 96.67 crore were outstanding for a period of more than 5 years. Arrears related to Sales Tax (Rs 1079.33 crore), Electricity Duty (Rs 341.97 crore), Taxes on Agricultural Income (Rs 30.66 crore), Amusement Tax (Rs 26.50 crore) and Excise Duty (Rs 10.75 crore).

The source of receipts under different heads and the GSDP during 1999-2004 are indicated in **Table 4**.

Table 4 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product ²
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-2000	10211	37	8350	22229	40827	116899
2000-2001	14522	93	10925	22749	48289	128975
2001-2002	14538	168	12205	26438	53349	144389 (P)
2002-2003	14525	213	15575	24060	54373	153781 (Q)
2003-2004	16608	91	20677	29800	67176	171415 (A)

A = Advance, P = Provisional, Q = Quick

1.6 Application of resources

1.6.1 Trend of Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased from Rs 21914 crore in 1999-2000 to Rs 29569 crore in 2003-2004 at an average trend rate of 10 *per cent* per annum.

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

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

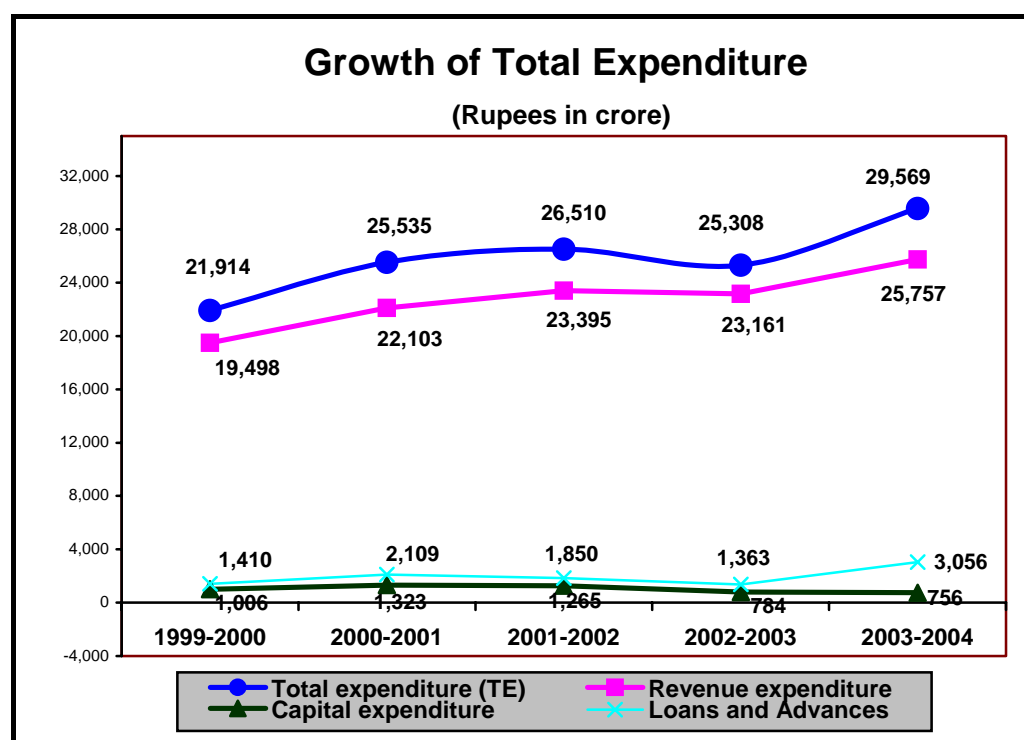
	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Total Expenditure	21914	25535	26510	25308	29569
Rate of Growth	32.52	16.52	3.82	(-) 4.53	16.84
TE/GSDP Ratio	18.75	19.80	18.36	16.46	17.25
Revenue Receipts /TE Ratio	46.60	56.87	54.84	57.39	56.17
<i>Buoyancy of total expenditure with</i>					
GSDP	1.097	1.600	0.319	#	1.468

Rate of growth of Total Expenditure was negative

² GSDP Figures have been changed on receipt of updated data

1.6.2 Expenditure Management

Revenue earnings of the government were lower than that estimated. Government's expenditure on revenue account was also lower than budget by Rs 1301 crore and on capital account by Rs 278 crore. This was mainly due to lower expenditure in areas like Interest Payment (Rs 72 crore), Pensions and Miscellaneous General Services (Rs 222 crore), Education, Sports, Art and Culture (Rs 251 crore), Transport (Rs 604 crore) and less payment of grants-in-aid and contribution (Rs 93 crore) on revenue account. Capital expenditure of the State Government was Rs 756 crore against estimated Rs 1034 crore on both plan and non-plan sectors. Loans and Advances made during the year was Rs 3056 crore against estimated Rs 2374 crore. Of Rs 3056 crore, Energy alone accounted for Rs 2976 crore. High incidence of loan to Energy Sector was mainly due to (i) loans (Rs 1851 crore) to West Bengal State Electricity Board for repayment of its dues to Central Public Sector Undertakings through floating of Power Bonds and (ii) loans (Rs 500 crore) to West Bengal Power Development Corporation Limited to enable it to repay its old dues by adjustment against coal cess receivable by State Government from Eastern Coal Fields Limited. These loans did not, however, help the Power Sector to build up any infrastructure but were meant to liquidate the old liabilities.

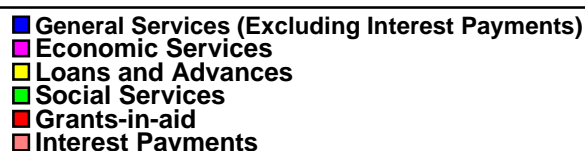
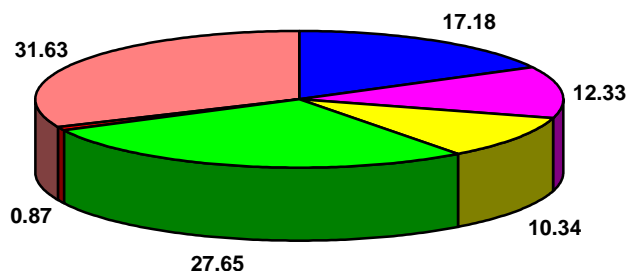


In terms of activities total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. The relative share of these components in total expenditure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

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
General Services (Excluding interest payments)	18.07	17.31	18.09	19.01	17.18
Interest Payments	19.05	20.90	24.50	30.86	31.63
Social Services	38.20	33.73	31.89	30.51	27.65
Economic Services	17.14	18.94	17.56	13.32	12.33
Grants-in-aid	1.11	0.86	0.98	0.91	0.87
Loans and Advances	6.43	8.26	6.98	5.39	10.34

The movements of the relative share of these components indicate that the share of general services excluding interest payment has more or less remained static while the share of social and economic services has declined over the years. Expenditure on general services (including interest payments) considered as non developmental, accounted for 49 per cent of total expenditure in 2003-2004 as compared to 37 per cent in 1999-2000.

**Allocative Priorities - Trend of Expenditure 2003-2004
(Relative share in per cent)**

1.6.3 Incidence of Revenue expenditure

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

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Revenue Expenditure	19498	22103	23395	23161	25757
Rate of Growth	36.90	13.36	5.85	(-) 1.00	11.21
RE/GSDP	16.68	17.14	16.20	15.06	15.03
RE as % of TE	88.98	86.56	88.25	91.52	87.11
RE as % to Revenue Receipt	190.95	152.20	160.92	159.46	155.09
<i>Buoyancy of Revenue Expenditure</i>					
GSDP	1.244	1.293	0.489	#	0.977

Revenue Expenditure had a negative growth

Revenue expenditure of the State increased from Rs 19498 crore in 1999-2000 to Rs 25757 crore in 2003-2004, at an average trend rate of 11 per cent. In the

current year, the revenue expenditure witnessed a rise of Rs 2596 crore mainly due to increase in expenditure under Interest Payments (Rs 1543.95 crore); Pension and other Retirement Benefits (Rs 202.46 crore); Urban Development – Assistance to local bodies (Rs 171.38 crore); Roads and Bridges (Rs 124.58 crore); General Education – Secondary Education (Rs 119.43 crore) and other Rural Development Programme – Panchayati Raj Development Works (Rs 111.36 crore).

The ratio of revenue expenditure to total expenditure witnessed a moderate deceleration from 89 *per cent* in 1999-2000 to 87 *per cent* in 2003-2004. As percentage to revenue receipts, revenue expenditure decreased from 191 *per cent* in 1999-2000 to 155 *per cent* in 2003-2004. However, dependency of the State on borrowings for meeting its current expenditure continued to persist. This was primarily due to the fact that Salaries (Rs 8730 crore)³, Interest Payments (Rs 9354 crore) and Pensions (Rs 2611 crore) together accounted for 125 *per cent* of total revenue receipts of the State during the year.

1.6.4 High expenditure on salary and pension payments

Salaries alone accounted for 53 *per cent* of the revenue receipts of the State. The expenditure on salaries, however, as a percentage of GSDP and Revenue Receipts, declined from 8 and 87 *per cent* in 1999-2000 to 5 and 53 *per cent* in 2003-2004 as indicated in the **Table 8** below:

Table 8

Heads	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
	(R u p e e s i n c r o r e)				
Salary expenditure	8867.50	8716.71	8612.39	8569.78	8729.81
As percentage of GSDP	7.59	6.76	5.96	5.57	5.09
As percentage of Revenue Receipts	86.84	60.02	59.24	59.00	52.56

Pension payments increased by 65 *per cent* from Rs 1582.29 crore in 1999-2000 to Rs 2610.61 crore in 2003-2004. Year-wise breakup of expenditure incurred on pension payments during the years 1999-2000 to 2003-2004 was as under:

Table 9

Year	Expenditure (Rupees in crore)	Percentage to total revenue
1999-2000	1582.29	15
2000-2001	1937.17	13
2001-2002	2253.79	15
2002-2003	2408.15	17
2003-2004	2610.61	16

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

³ Departmental figures

1.6.5 Interest payments

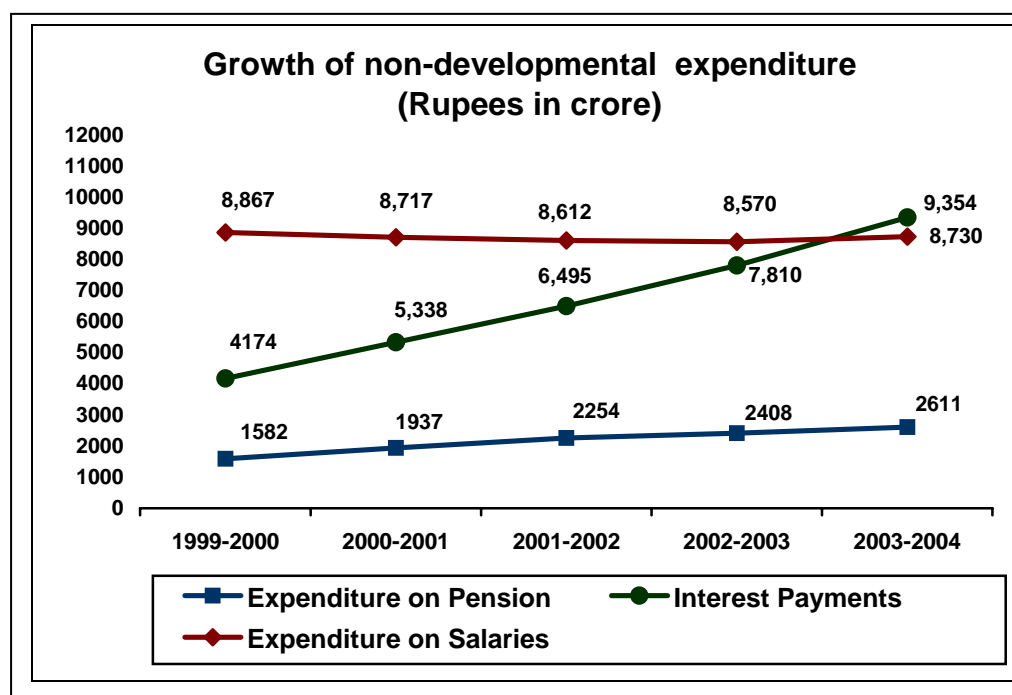
The Eleventh Finance Commission (August 2000) recommended that as a medium term objective, states should endeavour to keep interest payment revenue receipts ratio at 18 *per cent*. It was, however, observed that interest payments as percentage of revenue receipts reached an all time high of 56 *per cent* during 2003-2004.

Table 10

Year	Interest Payment (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	4174	41	21
2000-2001	5338	37	24
2001-2002	6495	45	28
2002-2003	7810	54	34
2003-2004	9354	56	36

In absolute terms, Interest payments increased steadily by 124 *per cent* from Rs 4174 crore in 1999-2000 to Rs 9354 crore in 2003-2004 primarily due to continued resource gap. Large interest payments, increasing year after year, due to continued reliance on borrowing for meeting the deficits, restricted expenditure on Social and Welfare schemes. The interest payments as a percentage of revenue receipts as compared to Bihar, Orissa, Tamilnadu, Kerala, and Andhra Pradesh were as below:

Year	Interest payments as a percentage of revenue receipts					
	West Bengal	Bihar	Orissa	Tamilnadu	Kerala	Andhra Pradesh
1999-2000	41	27	21	17	25	18
2000-2001	37	28	33	17	26	19
2001-2002	45	27	40	19	27	21
2002-2003	54	28	34	20	28	27
2003-2004	56	27	30	20	28	25



1.6.6 Subsidies by the Government

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

Table 11

(Rupees in crore)

Sl. No.	Particulars	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
1	Road Transport Corporations	164.55	181.05	223.14	214.65	215.88
2	West Bengal State Electricity Board	49.30	57.37	100.00	-	-
	Total	213.85	238.42	323.14	214.65	215.88
	Percentage Increases (+)/ Decreases (-) over previous years	24	11	36	(-) 33	0.57

Payment of subsidy to West Bengal State Electricity Board for 2002-2003 and 2003-2004 were yet to be decided by West Bengal Electricity Regulatory Commission. Outstanding subsidy of Rs 1251.23 crore was yet to be disbursed.

1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure. **Table 12** below gives the percentage share of these components of expenditure in State's total expenditure*.

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Plan Expenditure	15.60	18.71	16.69	10.64	10.05
Capital Expenditure	4.91	5.65	5.13	3.27	2.85
Developmental Expenditure	59.15	57.41	53.15	46.33	44.59

*Total expenditure does not include Loans and Advances

All the three components of expenditure indicated a decline and the ratios in 2003-2004 were significantly lower than their levels in 1999-2000. The share of plan expenditure sharply fell from 19 per cent in 2000-2001 to a mere 10 per cent over the years, indicating that a lower proportion of incremental expenditure got allocated to plan expenditure. In case of developmental expenditure, its ratio to total expenditure declined from 59 per cent in 1999-2000 to 45 per cent in 2003-2004.

The decrease in capital expenditure (Rs 28.21 crore) over 2002-2003 was mainly due to less investment under Industry and Minerals (Rs 24.82 crore), Irrigation and Flood Control (Rs 10.11 crore), Agriculture and allied activities (Rs 5.93 crore) partially offset by more investment under Health and Family Welfare (Rs 7.18 crore), Urban Development (Rs 5.39 crore), etc.

Out of the developmental expenditure (Rs 11821 crore), social services (Rs 8176 crore) accounted for nearly 69 *per cent* of the developmental expenditure during the year. General Education, Medical and Public Health and Water Supply and Sanitation consumed three-fourths (73 *per cent*) of the expenditure on social sector.

Table 13 :Expenditure under Social Sector

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
	(R u p e e s i n c r o r e)				
General Education	4859 (4.21)	4425 (3.09)	4395 (2.97)	4273 (2.69)	4390 (2.56)
Medical and Public Health	1149 (0.99)	1320 (0.92)	1243 (0.84)	1212 (0.76)	1240 (0.72)
Water Supply and Sanitation	323 (0.28)	406 (0.28)	407 (0.27)	302 (0.19)	353 (0.21)
Total	6331	6151	6081	5787	5983

Percentage of GSDP in brackets

Similarly, the expenditure on Economic Services (Rs 3645 crore) accounted for 31 *per cent* of the developmental expenditure. Of this, Rural Development (Rs 736 crore), Special Areas Programme (Rs 333 crore), Power (Rs 145 crore), Irrigation and Flood Control (Rs 598 crore) and Transport (Rs 826 crore) etc accounted for 72 *per cent* of the expenditure in economic sector.

Table 14 : Expenditure under Economic Sector

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
	(R u p e e s i n c r o r e)				
Rural Development	738.81	768.02	916.42	611.57	736.26
Special Areas Programmes	251.22	382.79	378.72	349.51	332.89
Power	63.18	191.95	103.45	143.97	144.95
Irrigation and flood control	749.93	941.44	841.23	619.25	598.49
Transport	804.69	1174.49	1067.45	654.59	826.48
Total	2607.83	3458.69	3305.27	2378.89	2639.07

1.7.1 Financial assistance to local bodies and other institutions

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

The quantum of assistance provided to different local bodies during the period of five years ending 2003-2004 was as follows:

Table 15

Bodies/authorities, etc.	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
	(R u p e e s i n c r o r e)				
Universities and Educational Institutions	3918.70	3969.38	3972.04	3945.16	8171.14
Municipal Corporations and Municipalities	17.97	32.77	800.01	380.57	377.48
Zilla Parishads and Panchayati Raj Institutions	312.18	40.21	0.24	407.38	306.68
Development Agencies	200.76	458.49	174.80	1427.89	625.85
Hospitals and other Charitable Institutions	6.23	17.66	0.03	1.00	25.50
Other Institutions (including statutory bodies)	338.67	247.96	419.55	366.66	-
Total	4794.51	4766.47	5366.67	6528.66	9506.65
Percentage increase(+)/ decrease (-) over previous year	43.99	(-) 0.58	12.59	21.65	45.61
Assistance as a percentage of revenue receipts	46.96	32.82	36.92	44.95	57.24
Percentage of assistance to revenue expenditure	24.59	21.56	22.94	28.19	36.91

Delay in furnishing utilisation certificates

Out of grants aggregating Rs 11832.05 crore disbursed between 1998-1999 and 2003-2004, in respect of which utilisation certificates were required to be furnished, utilisation certificates for only Rs 9511.74 crore (9801 cases) were furnished as of June 2004, and certificates for the balance amount of Rs 2320.31 crore (10860 cases) were awaited. Of these, 175 certificates involving Rs 54.84 crore were pending for more than three years, the earliest pertaining to 1998-1999. The department-wise break-up of outstanding utilisation certificates is given in **Appendix 2**.

Delay in submission of accounts by Autonomous Bodies

The audited Reports in respect of ten⁴ autonomous bodies/authorities entrusted under the provisions of Section 19(2) and 19(3) of the Comptroller and Auditor General's (DPC) Act, 1971 were required to be laid before the State Legislature along with the annual accounts of the respective autonomous bodies/authorities concerned. However, the State Government failed to lay the Reports in respect of eight bodies/authorities before the Legislature as detailed in **Appendix 3**. As a result, the Legislature was deprived of access to the audited accounts of these bodies in which Rs 565.07 crore were spent during these years. Darjeeling Gorkha Autonomous Hill Council did not submit accounts for the period from 1988-1989 to 2003-2004. The detailed information regarding non-submission of accounts for the year upto 2003-2004 despite repeated reminders by audit is given in **Appendix 4**.

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

Audit arrangements

During the year 2003-2004, audit of 50 annual accounts of 59 bodies/authorities (excluding Panchayats/Rural Institutions/Urban Local Bodies) which attracted audit by Comptroller and Auditor General of India was conducted.

Five hundred five (505) annual accounts of different bodies/authorities for 2003-2004 and earlier years had not been received as of July 2004 by the Accountant General (Local Bodies Audit). The details are given in **Appendix 5**. It would reveal that accounts were due even for 24 years.

Unutilised grants

Grants aggregating Rs 122.74 crore, meant for development purposes, were lying unspent with 39 bodies (District Primary School Council/Fish Farmers' Development Agencies/District Library Authorities and others) whose accounts for varying periods between 1988-1989 and 2002-2003 were audited during 2002-2003. The details are given in **Appendix 6**. The concerned bodies did not furnish reasons for non-utilisation and non-refund of the Government grants. There was nothing on record to show any action having been taken to adjust/refund the unutilised grants.

1.7.2 Misappropriations, defalcations, etc.

State Government reported 687 cases of misappropriations, defalcations, etc. of Government money involving Rs 553.32 crore. These cases pertained to the period from 1949-1950 to the end of March 2004 on which final action was pending at the end of June 2004.

	Number of cases	Amount (Rupees in lakh)
Cases outstanding as on 31 March 2003	788	650.21
Cases reported during 2003-2004	22	55.81
Cases disposed of till March 2004	123	152.70
Cases outstanding as on 31 March 2004	687	553.32

Appendix 7 contains department-wise details of the outstanding cases. Of the 687 cases outstanding as of March 2004, 659 cases (amount involved : Rs 4.73 crore) were pending for more than two years. Fifty three *per cent* of these cases involving 8 *per cent* (Rs 39.71 crore) of the total amount related to the Land and Land Reforms Department.

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by Government. However, the Government accounts do capture the financial liabilities and assets created out of the expenditure incurred. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt Deposit and Remittance heads from which the liabilities and assets are worked out. **Appendix 8** presents an abstract of such liabilities and assets as on

31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this Statement consist of monies owed by the Government such as internal borrowings, loans and advances from Government of India, receipts from Public Account and Reserve Funds, the assets comprise mainly the cumulative capital expenditure and outstanding balances of its investment, loans and advances. The liabilities of Government of West Bengal depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired state employees, guarantees/letters of comforts etc issued by the State. **Appendix 8** shows that while the liabilities grew by 15 *per cent*, the assets increased by only 10 *per cent*. This shows a continuing deterioration of the financial conditions of the State.

Appendix 9 gives details of the receipts and disbursement of the State Government, **Appendix 10** gives sources and application of funds while **Appendix 11** depicts the time series data on State Government Finances for the period 1999-2000 to 2003-2004.

1.8.1 Financial results of irrigation works

The financial results of four major and four medium irrigation and three drainage projects with a capital outlay of Rs 1672.41 crore at the end of 31 March 2004 showed that the revenue of Rs 2.90 crore realised from these during 2003-2004 was insignificant in comparison to even the direct operating expenses. After considering the operation and maintenance expenses of Rs 43.52 crore and interest charges of Rs 29.26 crore, the schemes suffered a net loss of Rs 69.89 crore.

1.8.2 Incomplete projects

The amount blocked up in incomplete projects during 1999-2004, continued to rise from Rs 1006 crore in 1999-2000 to Rs 1552 crore in 2003-2004. The amount blocked in these projects was 13 *per cent* of the cumulative capital outlay of the State as on 31 March 2004. Details are given in **Appendix 12**.

1.8.3 Investments and returns

As on 31 March 2004, Government had invested Rs 4372.94 crore⁵ in its statutory corporations, rural banks, joint stock companies and cooperatives. Of which investment in Government Company viz. Durgapur Projects (Rs 99.99 crore), West Bengal Electronic Industry Development Corporation (Rs 136.04 crore), West Bengal Industrial Development Corporation (Rs 248.74 crore), West Bengal Power Development Corporation (Rs 2337.05 crore), Haldia Petro Chemicals (Rs 540.29 crore), West Bengal Power Development Corporation (Rs 141.84 crore) was Rs 3503.95 crore. Government's return on this investment was negligible in last five years as shown in **Table 16**. Since Government was investing in the interest-bearing borrowed funds, the difference between the rate of return on these investments and the average interest rate on its outstanding liabilities represented an

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

implicit subsidy. During 1999-2004, this implicit subsidy amounted to Rs 2219.59 crore.

Table 16 : Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowings (%)
1999-2000	3654.30	1.23	0.03	11.10
2000-2001	3867.95	3.18	0.08	10.97
2001-2002	4143.73	3.77	0.09	10.85
2002-2003	4203.70	1.38	0.03	10.92
2003-2004	4372.94	0.50	0.01	11.22

1.8.4 Loans and advances by State Government

In addition to its investment, Government has also been providing loans and advances to many of these bodies. Total outstanding balances of the loans advanced as on 31 March 2004 was Rs 15644.81 crore. Interest received on such loans had varied from 0.07 *per cent* to 6.41 *per cent* during 1999-2004 (**Table 17**). Government in most cases only acted as an intermediary and provided interest-bearing borrowed funds to these entities. The difference in interest received and the average interest on its liabilities was an implicit subsidy to these entities. Total implicit subsidy during 1999-2004, on arranging such loans was Rs 5653.21 crore. In addition to the implicit subsidy involved in these investments and loans, these assets in themselves had become non-performing ones. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions of these loans.

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
	(R u p e e s i n c r o r e)				
Opening Balance	6458.97	7831.55	9847.64	11530.08	12679.51
Amount advanced during the year	1409.82	2109.33	1850.39	1362.78	3056.33
Amount repaid during the year	37.24	93.24	167.95	213.35	91.03
Closing Balance	7831.55	9847.64	11530.08	12679.51	15644.81
Net addition	1372.58	2016.09	1682.44	1149.43	2965.30
Interest Received	6.61	567.04	25.81	8.86	12.92
Interest Received as <i>per cent</i> of loans	0.09	6.41	0.24	0.07	0.08
Average Interest rate paid by the State	11.10	10.97	10.85	10.92	11.22
Difference in rate (interest paid and received)	11.01	4.56	10.61	10.85	11.14

Test-check of records of the Power and Transport departments revealed that these departments did not take any effective step for settlement of terms and conditions of loans amounting to Rs 811.42 crore (Transport : Rs 285.57 crore; Power : Rs 525.85 crore) sanctioned between 1965 and 1999. Government also failed to ensure recovery of overdue loans of Rs 1014.48 crore (Transport : Rs 190.89 crore; Power : Rs 823.59 crore) and interest of Rs 2186.22 crore (Transport : Rs 357.99 crore; Power : Rs 1828.23 crore). The total loan outstanding against the two departments as of March 2004 was Rs 12275.07 crore.

The following points also emerged during test-check of departments.

Transport Department

No repayment was made by loanees during 1999-2000 to 2003-2004.

Margin money loan to North Bengal State Transport Corporation amounting to Rs 1.5 crore sanctioned (March 2003) for purchase of 100 buses (with loan from West Bengal State Co-operative Bank) was diverted for other work. Nevertheless a further loan of Rs 1.5 crore for the same purpose was sanctioned in February 2004.

Power Department

The department converted (during 1999-2004) loan of Rs 326.68 crore (Rs 284.68 crore sanctioned to West Bengal Power Development Corporation Limited (WBPDC) and Rs 42 crore to Durgapur Project Limited (DPL)) for different purposes into equity. This tantamounted to waiver of loan and window dressing of accounts of those two State Government undertakings.

Further, Rs 1878.74 crore representing Government revenue towards outstanding coal cess receivable from Eastern Coal Field Limited against dues of the following units was adjusted by sanctioning loans during 2000-2004.

Name of unit	2000-2001	2001-2002	2002-2003	2003-2004	Total
	(R u p e e s i n c r o r e)				
WBPDC	267.98	-	297.69	500.00	1065.67
WBSEB	-	600.00	-	-	600.00
DPL	-	-	213.07	-	213.07
Total	267.98	600.00	510.76	500.00	1878.74

The department sanctioned (2000-2001) loan and grant of Rs 492.54 crore and Rs 6.43 crore to WBSEB and DPL respectively against adjustment of accrued interest of State Government loan as on March 2001 and 2000 respectively. It would thus be evident that all the transactions were mere paper transactions without any inflow or outflow to or from the State exchequer.

1.8.5 Commercial activities

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

Activities of quasi-commercial nature are performed by departmentally run units of certain Government departments. These units are to prepare annual *pro forma* accounts in the prescribed format showing their financial operations to enable the Government to assess their performance. The heads of departments in Government are to ensure that the undertakings, which are funded by budgetary release, prepare the accounts on timely basis for submission to the Principal Accountant General for audit. As of June 2004, out of 25 such units, eight had not prepared their accounts since inception, as detailed at **Appendix 13**. As of June 2004, three units had not prepared their

accounts for more than 10 years, 10 for more than five years, three from one to 5 years. Details are given in *Appendix 14*.

Thus, there was no accountability of the Management and Government in respect of public funds spent by these undertakings.

1.8.6 Management of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. In case of West Bengal the limit of ordinary ways and means advance was Rs 420 crore during the year. The State has used this mechanism for 361 days although it raised borrowings of Rs 5729.16 crore from the market on seven occasions. Resort to overdraft (OD), which is over and above the WMA limits, is all the more undesirable. The State used the OD facilities for 146 days on 15 occasions during the year as against 260 days last year.

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Ways and Means Advances					
Taken in the Year	5297.20	6536.12	1914.26	2435.62	7098.78
Outstanding	594.73	680.32	742.46	162.33	830.50
Interest Paid	20.69	37.44	17.03	51.07	46.03
Overdraft					
Taken in the Year	3524.89	4720.82	11665.32	12399.77	6840.49
Outstanding	731.59	670.80	1358.34	-	-
Interest Paid	0.97	6.78	46.20	25.38	15.04
Number of Days State was in Overdraft	109	156	253	260	146

1.9 Undischarged Liabilities

1.9.1 Fiscal liabilities – public debt and guarantees

Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its legislature. In July 2001, Government introduced the West Bengal ceiling on Government Guarantees Act 2001 in terms of which total outstanding guarantee (other than guarantee given to West Bengal Infrastructure Development Finance Corporation Limited) as on the first day of April of any year shall not exceed 90 *per cent* of the State Revenue receipts of the second preceding year of such year. Statement 4, read with statements 16 and 17 of Finance Accounts, shows the year-end balances under Debt Deposit and Remittance heads from which the liabilities are worked out.

It would be observed that the overall fiscal liabilities of the State increased from Rs 43227 crore in 1999-2000 to Rs 89359 crore in 2003-2004 at an average rate of 23 *per cent* during 1999-2004. The ratio of these liabilities to GSDP also increased from 37 *per cent* in 1999-2000 to 52 *per cent* in 2003-2004, and stood at 5.37 times of its revenue receipts and 9.51 times of its own resources comprising own tax and non-tax revenue.

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

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Fiscal Liabilities	43227	54119	65583	77515	89359
Rate of Growth	35.28	25.20	21.18	18.19	15.27
<i>Ratio of Fiscal Liabilities to</i>					
GSDP	36.98	41.96	45.42	50.41	52.02
Revenue Receipt	423.34	372.67	451.11	533.67	536.89
Own Resources	759.97	755.85	897.17	1006.69	951.22
<i>Buoyancy of Fiscal Liabilities to</i>					
GSDP	1.190	2.439	1.772	2.797	1.311

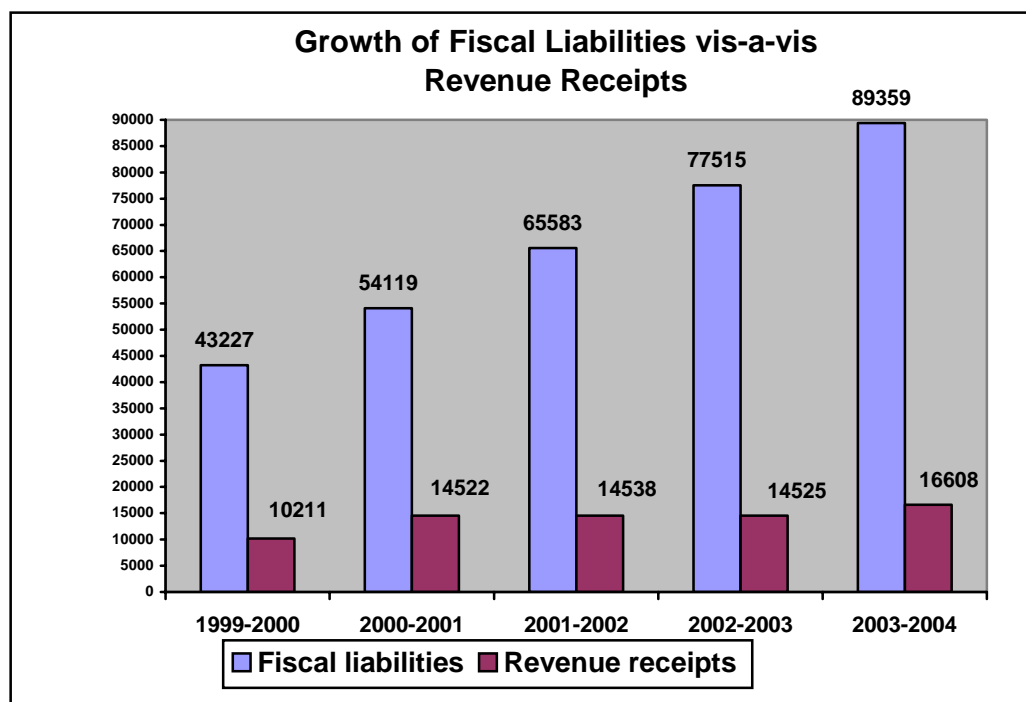
In addition to these liabilities, Government had guaranteed loans of its various corporations and others, which in 2003-2004 stood at Rs 11044 crore⁶ (76 per cent of revenue receipt of 2001-2002). Guarantees to the loans, which are in the nature of contingent liabilities of the State, are generally not risk weighted and do not constitute part of the fiscal liabilities as per existing accounting practice. Nevertheless, these liabilities pose fiscal risk as they could be activated depending on occurrence of defaults by the principal borrowers. Currently, the fiscal liabilities including the contingent liabilities exceed five times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP. For each one per cent increase in GSDP, the direct fiscal liabilities of the State have gone up by 1.311 per cent during 2003-2004.

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

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Weighted Interest Rate	11.10	10.97	10.85	10.92	11.22
GSDP Growth	29.66	10.33	11.95	6.50	11.47
Interest spread	18.56	(-) 0.64	1.10	(-) 4.42	0.25

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



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

Table 21 below gives the position of receipt and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined remarkably from 38 *per cent* to 15 *per cent* during 1999-2004.

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Internal Debt					
Receipt	5554	9361	9783	13007	18638
Repayment(Principal + Interest)	877	2074	3220	4572	7067
Net funds available	4677	7287	6563	8435	11571
Net funds available (<i>per cent</i>)	84	78	67	65	62
Loans and Advances from Government of India					
Receipt	1470	1539	1672	2568	1371
Repayment(Principal + Interest)	3450	3890	4133	4811	9932
Net funds available	(-) 1980	(-) 2351	(-) 2461	(-) 2243	(-) 8561
Net funds available (<i>per cent</i>)	(-) 135	(-) 153	(-) 147	(-) 87	(-) 624
Total Public Debt					
Receipts	7024	10900	11455	15575	20009
Repayment (Principal + Interest)	4327	5964	7353	9383	16999
Net Receipts	2697	4936	4102	6192	3010
Net Funds Available as % to total Receipts	38	45	36	40	15

* Internal debt excluding ways and means advances

The State Government raised market loans of Rs 5729 crore during the year. The weighted average rate of interest of market borrowing (Rs 5729 crore) during the year was 6.13 *per cent* whereas the State Government borrowed Rs 10424.97 crore from National Small Savings Funds (Rs 9054.10 crore) and Government of India (Rs 1370.87 crore) at the rate of 10.50 *per cent* per annum.

As on 31 March 2004, 38 *per cent* of the existing market borrowings of the State Government carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that 26 *per cent* of the total market loans are re-payable within the next five years while the remaining loans are required to be repaid within the next six to thirteen years.

Debt Swap

Under the debt-swap scheme, the State swapped a part of its high-cost liabilities (on account of GOI loans against small savings collection) with fresh low cost market borrowings and current liabilities on account of small savings. This would help the State to reduce interest cost of debt in future. During 2003-2004, Rs 5507.22 crore stood adjusted towards debt swap scheme.

1.10 Issue and Management of guarantees

The position of the guarantees given by the State Government during 1999-2004 stood as follows:

Guarantee position as on	Maximum amount guaranteed	Guaranteed loan outstanding	Percentage of outstanding guaranteed to maximum guarantee
	(R u p e e s i n c r o r e)		
31 March 2000	5606.40	3907.07	69.69
31 March 2001	9676.52	6959.67	71.92
31 March 2002	12912.36	7642.86	59.19
31 March 2003	17648.64	11193.94	63.43
31 March 2004	17255.57	11043.77	64.00

The total guarantee of the Government increased from Rs 5606.40 crore in 2000 to Rs 17255.57 crore in 2004 (208 *per cent* increase) whereas the outstanding guaranteed loan amount increased from Rs 3907.07 crore in 2000 to Rs 11043.77 crore in 2004 (183 *per cent* increase).

Position of guarantee in respect of test-checked departments viz. Finance (IF), Transport, Power and Co-operation during 2000 to 2004 was as follows:

Guarantee position as on	Finance (IF)		Transport		Power		Co-operation	
	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding	Maximum amount guaranteed	Amount outstanding
	(R u p e e s i n c r o r e)							
31.3.2000	1598.39	1595.34	87.18	47.05	2706.43	1543.45	735.60	489.96
31.3.2001	4435.59	4219.01	140.28	35.30	2557.41	1575.34	730.60	464.82
31.3.2002	8111.37	4961.26	111.86	30.11	3047.81	1702.31	708.60	401.95
31.3.2003	10815.85	7666.88	110.09	32.29	3349.68	1767.73	720.25	380.05
31.3.2004	11831.61	8619.76	203.77	21.34	3416.03	1563.42	750.08	302.73

Power department gave guarantees to WBSEB and Durgapur Projects Limited (DPL) for repayment of principal and interest of the market bonds floated by them. As liquidity position of the units were very poor, Government had to give further loans of Rs 422.66 crore to these Government undertakings to enable them to repay principal and interest of market bonds during 1999 to 2004.

The loanees were to pay guarantee fee/commission at the rate of one *per cent* on the sums guaranteed by the Government with effect from August 2001 which were, however, not realised. The amount due for recovery was Rs 28.58 crore as on 31 March 2004.

1.11 Management of deficits

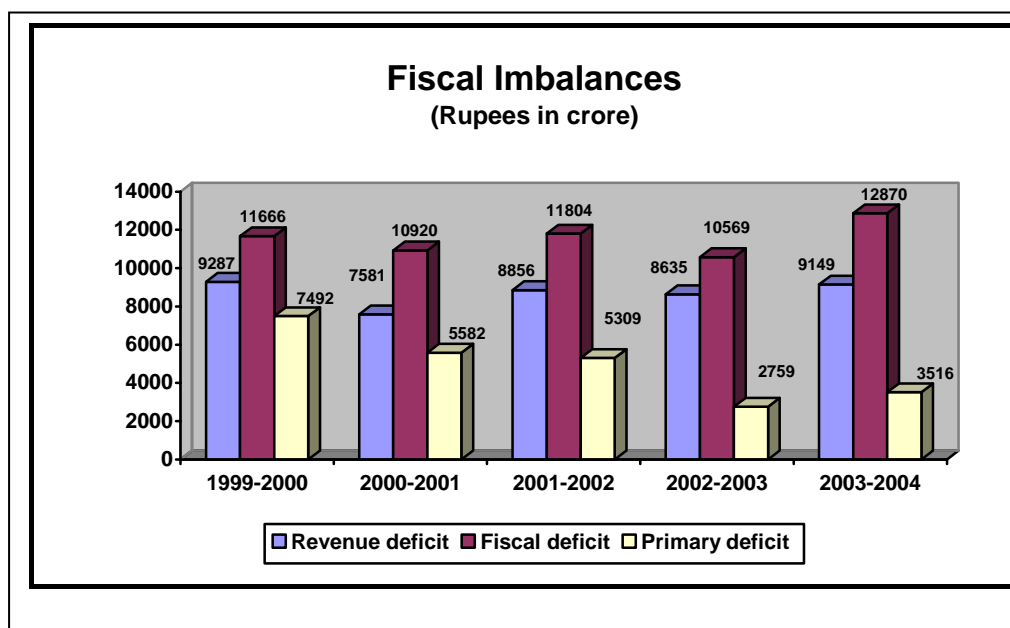
1.11.1 Fiscal imbalances

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

The revenue deficit (Statement 1 of Finance Accounts) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs 9287 crore in 1999-2000 to Rs 9149 crore in 2003-2004 (*Table 22*). The fiscal deficit which represents the total borrowings of the Government and its total resource gap, increased from Rs 11666 crore in 1999-2000 to Rs 12870 crore in 2003-2004. However, the primary deficit of the State had decreased from Rs 7492 crore in 1999-2000 to Rs 3516 crore in 2003-2004.

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

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Revenue deficit	9287	7581	8856	8635	9149
Fiscal deficit	11666	10920	11804	10569	12870
Primary Deficit	7492	5582	5309	2759	3516
RD/GSDP	7.94	5.88	6.13	5.62	5.34
FD/GSDP	9.98	8.47	8.18	6.87	7.51
PD/GSDP	6.41	4.33	3.68	1.80	2.05
RD/FD	79.61	69.42	75.03	81.70	71.09



Persistent revenue deficit indicated that revenue receipts of the State were not sufficient to meet its revenue expenditure because of poor tax administration and Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit with inter-year variations had however decreased from 80 *per cent* in 1999-2000 to 71 *per cent* in 2003-2004 indicating that nearly 71 *per cent* of the net incremental borrowings of the State were used for the current consumption. In proportion to GSDP, revenue deficit was 5 *per cent* in 2003-2004 while fiscal deficit was 8 *per cent*.

1.12 Fiscal Ratios

Finances of the State should be sustainable, flexible and non-vulnerable. **Table 23** below presents a summarized position of Government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. All the three resource mobilization ratios after showing declining trend since 2000-2001 seemed somewhat resilient in 2003-2004.

Various ratios concerning expenditure management indicate quality of expenditure and sustainability of these in relation to resource mobilisation. All these ratios show a deteriorating trend. The ratios of capital expenditure and developmental expenditure, which indicate the quality aspect of the expenditure, had lower values in 2003-2004 compared to 1999-2000. Medium term tendency of these ratios was also of deceleration. Both its total expenditure and revenue expenditure when compared to its revenue

expenditure and revenue receipts have shown a comparatively higher buoyancy upto 2002-2003 which was remarkably less indicating a favourable swing in sight during 2003-2004. All these indicate State's somewhat decreasing dependence on borrowings for meeting its revenue expenditure although expansion of its developmental activities was inadequate.

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

Fiscal Indicators	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Resource Mobilisation					
Revenue Receipt/GSDP	8.73	11.26	10.07	9.45	9.69
Revenue Buoyancy	0.296	4.087	0.009	- 0.014	1.251
Own tax/GSDP	4.364	4.609	4.525	4.582	5.115
Expenditure Management					
Total Expenditure/GSDP	18.75	19.80	18.36	16.46	17.25
Revenue Receipts / Total Exp.	46.60	56.87	54.84	57.39	56.17
Revenue Expenditure/ Total Exp.	88.98	86.56	88.25	91.52	87.11
Plan Expenditure/Total Exp.	15.60	18.71	16.69	10.64	10.05
Capital Expenditure / Total Exp.	4.91	5.65	5.13	3.27	2.85
Development Expenditure/ Total Exp.	59.15	57.41	53.15	46.33	44.59
Buoyancy of TE with RR	3.705	0.391	34.656	50.706	1.174
Buoyancy of RE with RR	4.203	0.316	53.054	11.185	0.782
Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	-9287	-7581	-8856	- 8635	-9149
Fiscal deficit (Rs in crore)	-11666	-10920	-11804	- 10569	-12870
Primary Deficit (Rs in crore)	-7492	-5582	-5309	- 2759	-3516
Revenue Deficit/Fiscal Deficit	79.61	69.42	75.03	81.70	71.09
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	36.98	41.96	45.42	50.41	52.02
Fiscal Liabilities/RR	423.34	372.67	451.11	533.67	536.89
Buoyancy of FL with RR	4.019	0.597	192.262	- 203.462	1.048
Buoyancy of FL with OR	3.441	0.974	10.044	3.410	0.691
Interest spread	18.56	- 0.64	1.10	- 4.42	0.25
Net Fund Available	27.82	18.21	13.53	13.25	9.61
Other Fiscal Health Indicators					
Return on Investment	0.03	0.08	0.09	0.03	0.01
BCR (Rs in crore)	-8115	-7102	-7222	- 7994	- 8595
Financial Assets/Liabilities	0.41	0.39	0.36	0.35	0.33

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large revenue and fiscal deficit year after year, together with low or no return on investments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to revenue

receipts indicate its increasing unsustainability. Revenue receipts not being enough to meet committed expenditure towards payment of interests, salaries and pensions made the fiscal position of the State vulnerable. The unfavourable fiscal position, in turn, leaves little for developmental expenditure. There has been a decline in the net availability of funds for infrastructural development from borrowings as a larger portion of these funds were being used for debt servicing and on establishment expenditure. The State's continuous declining low return on investment and use of high cost borrowing for such investments, which yields very little to it, indicated an implicit subsidy. The ratio of State's total financial assets to liabilities has also deteriorated indicating that a greater part of liabilities are without asset back-up. This indicates that either the State has to generate more revenue out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance of current revenue of the State continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

