

CHAPTER – 1V

FINANCIAL POSITION OF STATE BOARDS

This chapter is divided into six sections. Section I gives a brief introduction to the finances of the SPCBs. Section II looks into the receipts of the SPCBs and analyses its principal components. Section III brings out some of the serious anomalies in the spending pattern of the State Boards. Section IV attempts to combine the receipts and expenditure of the State Boards in a comparative framework. Section V briefly discusses the financial position of the SPCBs of the North East. Section VI sums up the whole discussion.

Receipts and Expenditure of the State Boards

4.2.1 The financial resources of a State Board can broadly be categorized into two: (1) own resources and (2) external assistance. The own resources of a State Board consist mainly of cess reimbursement, consent fee collections and interest received on investments. Other minor sources of own resources include receipts from consultancy and sponsored projects, sample testing fees, appellate fees, receipts from the sale of forms, fines and forfeitures, etc. The external sources of funds for a State Board is composed of funds received by the Board from the Government of India, the concerned State Government and the Central Pollution Control Board (for specific projects such as Global Environmental Monitoring System (GEMS), National Ambient Air Quality Monitoring (NAAQM), Monitoring of Indian National Aquatic Resources (MINARS), clean technology and preparation of zoning Atlas), grants-in-aid provided by the concerned State Governments and other grants.

4.2.2 The item 'cess reimbursement' stands for that part of the water cess, collected by the State Boards from specific industries and local bodies and later deposited with the Consolidated Fund of India, which is reimbursed to the State Boards. Consent fee collections include the fee collected by a State Board from industrial units, which apply to the State Board for (a) establishing the unit, (b) operating outlets for effluents and emissions, and (c) renewing the consent to operate. Board's interest income is formed by the interest received by the Board on investments made by it from its accumulated surpluses.

4.2.3 The expenditure incurred by a State Board may, for analytical purposes, be classified into revenue expenditure and capital expenditure. Revenue expenditure includes the amount spent on administration, maintenance and running of laboratories, vehicles, buildings, furniture and fixtures, scientific instruments, tools and plants, legal charges, fee to consultants and specialists, fees for audit depreciation and training of staff of the Board. Capital expenditure includes expenditure on fixed and other assets. The following flow diagram depicts the budgetary transactions of a State Board.

Receipts of the State Boards

4.3.1 The revenue position of the SPCBs during the 8th Five Year Plan exhibited some distinct patterns. This can be understood from Table 4.1.

Table 4.1: Components of receipts of the State Boards during the 8th Plan.

State Board	Total revenue(TR) during 8 th Plan (Rs.Lakhs)	Own Resources as % of T.R.	Funds for specific project as % of TR	Grants-in-aid as % of T.R.
1	2	3	4	5
Andhra Pradesh	2217.89	79.28	6.13	13.04
Arunachal Pradesh	1.99	0	100	0
Assam	537.17	53.6	6.65	39.74
Bihar	934.3	94.4	3.41	0
Goa	71.2	47.21	5.21	47.58
Gujarat	3414.29	59	2.64	19.28
Haryana	1260.68	90.92	6.6	0
Himachal Pradesh	734.54	40.32	56.92	0
J & K	176.62	10.13	3.19	86.67
Karnataka	2689.17	84.93	2.74	11.96
Kerala	1252.03	19.69	6.58	70.84
Madhya Pradesh	4055.83	65.25	18.38	15.57
Maharashtra	5811.21	79.98	3.36	16.35
Manipur	37.325	3.34	27.01	69.66
Meghalaya	156.23	6.67	24.76	59.11
Mizoram	43.5	0	54.7	45.3
Orissa	1024.34	84.26	4.9	9.63
Punjab	3008.59	94.61	4.46	0
Rajasthan	1363.36	48.35	4.07	47.31
Tamil Nadu	5889.02	94.23	1.18	3.47
Tripura	153.19	23.3	12.53	63.97
Uttar Pradesh	4562.74	85.25	15.75	0
West Bengal	1606.39	68.61	15.87	15.25

4.3.2 The first pattern, evidenced by the Bihar Board, is marked by helpless dependence on its own insufficient resources in the absence of any considerable external assistance. No payment has reportedly been made by the State Government of Bihar to its SPCB during the last 10 years. Despite the fact that Bihar Board's own resources contributed almost 95% of its total receipts (Table 4.2) during the 8th Five Year Plan, ratio of the number of its staff to the estimated number of polluting units in the State (the adequacy of which is a pre-requisite for effective monitoring of pollution) was not appreciable in comparison (Table 3.3). The Board laments that the problems in mobilizing external resources hinder the mobilization of own resources, because of which total activity in the current scenario gets restricted. The case appears to be more or less the similar with the State Board of Andhra Pradesh, when one compares its low per polluting unit staff ratio with the high ratio of

own resources to total resources (80%) during the 8th Plan period. The second pattern marks an unsustainable dependence on external funds owing to constraints in mobilising own resources. Most of the SPCBs of the North East and that of J&K fall in this category. The State Board of Kerala, with one of the lowest per unit staff ratios and with the ratio of own resources to total resources hovering around 20%, typified the case of desperate dependence on State grants. Contrariwise, there are some State Boards, like those of Uttar Pradesh, Tamil Nadu, Maharashtra and Karnataka, which claim to be not having any financial constraint in their operations.

Table 4.2. Own Resources of the State Boards during the 8th Plan.

State Board	Cess Reimbursement as % of T.R.	Consent Fee as % of T.R.	Interest on investments as % of T.R.	Sample testing fees as % of T.R.
1	2	3	4	5
Andhra Pradesh	24.59	49.58	4.8	0.07
Arunachal Pradesh	0	0	0	0
Assam	17.37	33.59	1.38	1.15
Bihar	40.64	25.73	0	0
Goa	27.68	14.31	2.92	0
Gujarat	14.42	7.57	5.27	7.05
Haryana	23.71	39.26	16.67	12.53
Himachal Pradesh	6.16	27.25	5.6	1.3
J & K	0	10.13	0	0
Karnataka	12.58	48.11	15.47	1.28
Kerala	8.89	5.88	4.15	0.21
Madhya Pradesh	19.75	30.43	13.88	1.14
Maharashtra	43.7	19.88	14.45	1.53
Manipur	0	3.17	0	0
Meghalaya	0	2.05	13.08	0.89
Mizoram	0	0	0	0
Orissa	37.26	14.5	2.22	0
Punjab	38.93	36.47	15.29	1.49
Rajasthan	34.91	8.08	5.36	0
Tamil Nadu	21.56	48.22	14.39	9.62
Tripura	0	2.92	20.13	0.26
Uttar Pradesh	63.67	12.72	7	0.29
West Bengal	41.84	22.06	2.85	1.06

Consent fee and other fees

4.3.3 Consent fee structure differs considerably across State Boards in the amount of consent fee charged and in the classification of industries for the purpose of charging consent fees. For instance, if an industrial unit falling in the investment limit between Rs. 50 lakhs and Rs. 100 lakhs applies for the consent of the Madhya Pradesh State Board, it is bound to pay Rs.7500/- as fees whereas if the same unit applied for the consent of the Kerala Board, the fee would only be Rs. 2000/-. Some State Boards, like Kerala Board, have taken an ideological stance against the

imposition of sample testing fees, while some other State Boards have, during 8th Plan period, earned a notable portion of their total receipts from such fees (Table 4.2). The Gujarat Board earned almost 21% of its total resources from the head, "Sale of Forms" during the 8th Plan while this has not been a considerable source of revenue to other State Boards. These varying patterns across State Boards would, at least, amount to inequitable horizontal treatment of industrial units.

Cess Collection & Reimbursement

4.3.4 The Water (Prevention and Control of Pollution) Cess Act, 1977 provides for "the levy and collection of cess on water consumed by persons carrying on certain industries and by local authorities, with a view to augment the resources of the Central Board and the State Boards." The Act extends to the whole of India, except J&K. Schedule 1 of the Act has specified the industries from which the cess is to be collected. These industries include ferrous and non-ferrous metallurgical industry, mining, ore processing, petroleum, petro-chemicals, chemicals, ceramics, cement, textiles, paper, fertilizers, coal, power, processing of animal or vegetable products and engineering. Confining the imposition of water cess to these specific industries, which amounts to discriminating between water polluting industries and putting the States in which these specific industries are concentrated on an undue advantage, is questioned by many State Boards. It has been felt by many State Boards that restricting cess to these industries affect them adversely as there is not much presence of these industries in their States and hence their low levels of own resources. It is felt by them that this cess should be on all industrial units. The plight of certain State Boards is compounded by the non-payment of water cess by their local bodies, which are financially weak. The existing system provides that the defaulter is bound to pay a monthly interest of 2% on the amount due and that the recovery of interest and arrears is to be made in the same manner of the recovery of arrears of land revenue. However, some SPCBs have recorded considerable payment defaults over time resulting in a persistent gap between the amount of cess assessed and the amount realised.

4.3.5 The figures of reimbursement of water cess furnished by the MoEF differ from those furnished by the SPCBs. The differences in these figures for individual years may be explained in terms of accounting differences. However, the differences between the annual average of the cess reimbursement figures supplied by the MoEF for the five years of the 8th Plan period and the annual average of the corresponding figures supplied by the SPCBs are hardly explicable.

4.3.6 Though originally designed as a resource tax on water consuming units, water cess is capable of serving as an effluent tax as well. However, as M.N.Murthy (*'Environmental Regulation in the Developing World: The Case of India'* published in *'Review of European Community and International Environmental Law'*, 1995) emphasizes "recent research on water pollution abatement in India suggests that pollution tax on industrial water use should be several times higher than the current rate of water cess in order to achieve the prescribed water quality standards". Now, it suffices to say that the low rates of water cess prevent State Boards from mobilizing greater resources on their own.

4.3.7 The item 'interest on investments' is the return earned by the State Boards on investments made out of the accumulated surpluses run by them. It may be seen from Table 4.2 that this item is quite sizeable for many State Boards. Once surpluses are there, it is always desirable to earn some money out of them; however, questions may be asked about the very existence of surpluses in the current financial state of most of the State Boards (Section 4.3.2 & section 5.7).

Expenditure of the State Boards

4.4.1 Table 4.3 gives the division of the total expenditure of the State Boards into capital expenditure and the major components of its revenue expenditure.

Table 4.3: Expenditure of State Boards during the 8th Plan.

State	Total expenditure	Capital exp. as % of total exp	Admn. exp. as % of total exp.	Maintenance as % of total exp.	Project expenses as % of total exp.	Other expenses as % of total exp.	Surpluses as % of total revenue
1	2	3	4	5	6	7	8
Andhra Pradesh	2363.72	2.69	na	5.40	1.56	na	-6.57
Assam	543.18	13.10	72.86	4.11	0.00	0.00	-1.12
Bihar	813.32	11.61	72.86	13.26	1.35	0.00	12.95
Goa	51.9	10.58	79.85	3.24	5.66	0.00	27.11
Gujarat	1862.96	15.55	62.10	5.29	7.14	0.56	45.44
Haryana	884.39	11.63	62.66	12.16	0.12	4.53	29.85
Himachal Pradesh	456.78	17.55	51.36	11.08	12.85	6.31	37.81
Jammu&Kashmir	148.3	6.29	74.89	10.44	2.04	6.34	16.03
Karnataka	1656.74	15.19	44.97	7.85	0.00	26.05	38.39
Kerala	1082.45	8.98	52.26	8.43	8.80	13.80	13.54
Madhya Pradesh	2903.91	14.99	51.80	10.53	15.87	0.00	28.40
Maharashtra	2280.64	15.64	65.95	12.23	0.00	0.84	60.75
Meghalaya	139.43	20.51	68.69	9.99	0.5	0	10.75
Mizoram	22.26	23.36	48.02	28.62	0	0	48.29
Orrissa	784.29	22.48	59.22	10.93	0.03	5.37	23.43
Punjab	1471.01	14.70	57.66	4.77	17.14	0.00	59.09
Rajasthan	1119.62	15.19	74.05	3.77	0.00	5.85	17.88
Tamil Nadu	3894.28	22.49	50.62	8.71	0.00	8.61	44.89
Tripura	15.21	0	76.98	22.81	0	0	90.07
Uttar Pradesh	2548.38	13.85	49.50	5.52	17.33	4.45	44.15
West Bengal	762	9.87	55.11	13.54	16.16	0.00	52.56
Total	27194.6	13.66	56.62	7.73	5.94	5.35	

4.4.2 It may be seen that the different components of revenue expenditure have, during the 8th Plan, shown a reasonable degree of dispersion across State Boards. It may be seen that, on an average, almost 83% of the administrative expenditure is constituted by expenditure on salaries. Differences in the ratio of expenditure on administration to total expenditure are suggestive of differentials in the staffing pattern and resource positions of the State Boards.

Surpluses and Capital Expenditure

4.4.3 Most of the SPCBs of large States have, over time, developed wide networks for monitoring industrial pollution. However, many of them seem to have satiated their requirements for pollution control infrastructure (seen in section 5.8).

4.4.4 The ratio of capital expenditure to total expenditure aggregated for all State Boards during the 8th Plan period stood at 13.66 percent (Table 4.4). Tamil Nadu and Orissa Boards had the highest ratio of 22.5% each and the Andhra Board recorded the lowest ratio of 2.7%. The rest of the values range between 10-15%. Considering the requirements of pollution control infrastructure vis-a-vis the pollution potentials of the States, this level is far below the optimum. Given this, it is not justified to run even meagre long-run revenue surpluses, and, not to speak of mega surpluses to the extent of 90% of the total receipts maintained by the Tripura Board during the 8th Plan, 61% by the Maharashtra Board, 53% by the West Bengal Board and 44% by the Tamil Nadu and U.P. Boards (Table 4.3). It is here that the surpluses run by a State Board come to be a poor indicator of its financial soundness.

4.4.5 Many Boards (e.g. Maharashtra Board, U.P. Board and Tamil Nadu Board) are reported to be in the process of initiating additional capital investments. This is a welcome trend, though bit delayed. The delay could partially be explained by the prohibitive spending restrictions imposed by the State Governments on the respective SPCBs. The U.P. Board explains away Rs. 2977 lakhs worth unspent funds maintained by it by the end of 1997-98 in terms of (a) savings on salary payouts accumulated because of large number of vacancies (which, the Board officials say, is largely due to the holding of the power to create and approve posts by the State Government), (b) the money set aside for proposed capital investments and (c) the requirement to obtain the clearance of the Government of India to spend a portion of funds. The Maharashtra SPCB, too, must obtain the permission of the State Govt. to undertake any capital investment. The West Bengal Board, which echoes funds constraint as its most binding constraint even while maintaining an enormous revenue surplus (Table 4.3), pines for greater financial autonomy. The Kerala SPCB also attributes its revenue surpluses to the spending restrictions imposed by the State Government on expenditure on fixed assets. The budgetary transactions of the SPCBs of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim and Tripura are almost exogenously determined. To conclude, it is highly objectionable to pre-empt a State Board, especially one, which claims to be financially self-reliant, from making reasonable and discretionary capital investments.

Financial Position-A Comparison

4.5.1 Relative positions in resources and expenditure are seemingly the best indicators of the financial soundness of a State Board. Since the extent and spread of industrial pollution differ across States, the absolute levels of expenditure and resources of a State Board do not facilitate direct comparison with other State Boards. Considering the vulnerable financial positions of most of the State Governments in terms of their balance from current revenue (BCR) and States' own resources (SOR), their grants to the SPCBs do not seem sustainable. Hence, own resources of a State Board seem to be a more pertinent variable than its total

resources for assessing the financial strength of a State Board. Combining the expenditure of the Boards with their own resources, after deflating both by the task at the hands of the SPCBs, enables us to comment on the extent and sustainability of their activities.

Table 4.4 : Levels and growth rates of expenditures & own resources of SPCBs During the 8th Plan

State	Growth rate of exp. (grY)	Growth rate of own resources (grR)	Own resources/ number of polluting units (R/N)	Exp./number of polluting units (Y/N)	Rank in grY	Rank in grR	Rank in R/N	Rank in Y/N	Index
1	2	3	4	5	6	7	8	9	10
Andhra.P	12.5	3.5	0.23	0.31	6	16	15	12	11.47
Assam	2	18.1	0.32	0.598	14	9	10	4	8.43
Bihar	5.9	7.7	0.52	0.49	10	14	8	6	9.05
Goa	30.3	26.6	0.14	0.21	1	2	16	16	4.76
Gujarat	8.5	22.1	0.27	0.25	8	5	14	13	9.24
Haryana	4.7	14.1	0.55	0.42	12	10	7	8	9.05
Karnataka	19.6	19.5	0.7	0.51	2	7	4	5	4.09
Kerala	1.5	9.5	0.29	1.28	15	13	12	1	6.96
M.P	11	9.7	0.98	1.08	7	12	1	2	3.60
Maharashtra	14.5	20.9	0.51	0.25	4	6	9	13	7.28
Orissa	12.9	5.4	0.83	0.75	5	15	2	3	4.61
Punjab	0.7	22.3	0.77	0.4	16	4	3	9	6.45
Rajasthan	2.6	19.2	0.29	0.49	13	8	12	6	9.30
T.N	8.5	13.9	0.68	0.4	8	11	5	9	7.93
U.P	5	23.9	0.6	0.4	11	3	6	9	6.50
W.B	17.4	33	0.32	0.22	3	1	10	15	4.61

4.5.2 The R/N ratio presented in Table 4.4 divides the own resources of a State Board (R) for the year 1994-95 by the estimated number of the red and orange categories of industrial units (N) in the registered manufacturing sector for the same year, to get the normalized levels of sustainable (own) resources of State Boards. Similarly, Y/N ratio (Table 4.4), where Y is the total expenditure incurred by a State Board during 1994-95, gives an approximation of accomplishments in pollution control expenditure, normalized for different levels of industrial pollution across States.

4.5.3 The exponential real growth rates* of expenditure and own resources of the

* The real values of expenditure and own resources of State Boards are arrived at by deflating the corresponding current price figures with the price index. The exponential growth rate of a variable is calculated by fitting the equation $Y = e^{a+bt}$ where 'Y' is the variable concerned, 'e' is the base for natural logarithm and 't' is the time trend. In its logarithmic format, the equation becomes $\log Y = a+bt$, and, the estimate of the slope coefficient, 'b' multiplied by 100 gives the exponential growth rate of the variable.

State Boards, calculated for the period 1992-93 to 1997-98, are presented in tandem with the above said ratios in Table 4.4. An index has been arrived at for each State Board by first ranking it with regard to four variables – R/N, Y/N, the exponential real growth rate of own resources (grR) and the exponential real growth rate of expenditure (grY) – and then taking the geometric mean of the ranks obtained by the Board in these four variables. The index (I) will have the limiting values of 1 and 16 ($1 \leq I_i \leq 16$), where the index value of 1 represents the best among the available positions and 16 stands for the worst. (It is nevertheless apparent that most of the State Boards have not fully satisfied their infrastructure requirements for pollution abatement. This may be seen in sections 3.3 and 5.8). However, the lowest attained value of index would indicate that the Board, which corresponds to that value, stands in a better financial position compared to that of other Boards.

4.5.4 These four ratios placed together tend to suggest that none of the State Boards can, with certainty, be said to be comfortably placed in respect of the levels of the relevant financial parameters. West Bengal Board, despite its high-ranking growth rates in expenditure and own resources, has low normalized values for both expenditure and own resources (Table 4.4) and less than adequate per polluting unit ratio of scientific and engineering staff (Table 3.3). (Per polluting unit availability of scientific and engineering staff is brought in here to understand the adequacy of overhead expenditure made by the State Boards). Punjab Board has comparatively higher normalized values of expenditure and own resources, but it has also shown the lowest growth rate in expenditure (Table 4.4) and a low per polluting unit staff ratio (Table 3.3). Though Kerala Board's normalized level of expenditure is the highest among the available, yet, it fails badly in mobilizing its own resources and has comparatively lower growth rates in both expenditure and own resources (Table 4.4). Goa Board's high growth rates in expenditure and own resources are only indications of their taking off from very low base levels. The trade-off between normalized levels of expenditure and own resources, their growth rates and the per polluting unit staff ratio can be verified for other State Boards also.

4.5.5 Despite mobilizing comparatively higher levels of own resources, the claim of the State Boards of Tamil Nadu, Maharashtra and Uttar Pradesh to be financially self-reliant can be endorsed only after realistically assessing the financial requirements of these Boards with reference to the additional pollution control infrastructure to be created by them vis-à-vis the pollution potentials of these States. The ratios and the overall index strongly suggest this.

Financial Position of SPCBs of the North East

4.6.1 With a large portion of area under forests and with not many large industries around, the potential for generating own resources is very limited for North Eastern States (except Assam). During 1992-93, none of them derived any revenue from cess collections. While the State Boards of Arunachal Pradesh, Mizoram and Sikkim could not at all collect any consent fee, the Boards of Manipur, Meghalaya and Tripura collected very insignificantly. The State Boards of Tripura, Mizoram and Arunachal Pradesh have not inventorised any polluting unit while inventorization is extremely poor in other States too. Manpower constraint, (caused allegedly by scarcity of resources) has led to low inventorization, which, in turn results in

negligible mobilization of own resources. It is true that these Boards are met with alarming fund scarcity. Paradoxically, most of these Boards are running considerable revenue surpluses, even to the extent of 90% and 48% of the total revenue in the case of the State Boards of Tripura and Mizoram respectively. All this reflects the gross lack of spending powers, which forms part of a more fundamental problem of the lack of distinct identity and functional autonomy to these State Boards.

4.6.2 The Government of Sikkim is reluctant to impose water cess on industries. All expenses of the Sikkim Land Use and Environment Board (SLUEB) are borne by the Forest Department of the Government of Sikkim and all the employees of SLUEB are but employees of the same Department. Interestingly, the accounts of the Department do not include a separate head showing the budgetary transactions of the SLUEB. Arunachal Board does not have any separate staff, nor does it get any budgetary support from the State Government. In Manipur, water cess is collected by the State PHED, while no portion of the proceeds of cess collection is given out to the State Board. Though the Meghalaya Board does not face any resource crunch with its existing staff strength, limited sources of revenue collection and the present level of unstable budgetary allocations circumscribe its expansion and strengthening. The absence of the required executive order of the State Government prevents the Mizoram Board from imposing any fee or cess.

Summing Up

4.7.1 On the financial front, SPCBs have achieved mixed and varied levels of accomplishments. Some of them are heavily dependent on Government grants, while some have perforce to be content with their own insufficient resources. Some of them claim to be financially self-reliant while some complain about their being starved of funds. However, the preliminary analysis attempted in this Chapter suggests that it is not justified to take these claims and complaints for granted without realistically assessing their achievements and requirements. Some State Boards run huge long-run surpluses in their budgets. This should be viewed against the levels of pollution control infrastructure created by them. Many of the State Boards are forced to settle at a below-optimal level of expenditure because of the prohibitive spending restrictions imposed by their respective State Governments. At the extreme, most of the State Boards of the North East are vested with such insignificant financial powers that some of them even lack their distinct identity.