Arvind Kejriwal inherits sound fiscal, liabilities limited

Arvind Kejriwal can start his innings on a sound fiscal note as the Delhi state finances provide him with an immediate headroom of Rs 3,050 crore from FY14.

Few state governments of India have had the luck of beginning their innings on such positive note. For instance the Mamata Banerjee administration in West Bengal, started off with a deficit of Rs 22,000 crore instead.

But the headroom could remain difficult to use since unlike other states, Delhi government has limited freedom to run up costs for which it will need clearances from the Central government.

The space that Kejriwal will find includes a plan surplus of Rs 1,723 crore. As per the Gadgil-Mukherjee formula, Delhi was entitled to build a plan corpus of Rs 18,349 crore for FY14 but it satisfied itself with a lower plan budget. The plan size was kept lower as the outgoing Delhi government found itself short of schemes to work the funds.

In addition an assessment by the Central government of the borrowing capacity of Delhi too notes that it “has a substantial borrowing capacity which has not been leveraged so far”. The net budgetary borrowings projected for the annual plan for FY14 is in negative zone — in other words the state has repaid

Rs 1,327 crore instead of taking on fresh loans.

Plus a projected revenue surplus of Rs 9,712 crore for FY14 puts the AAP government in a sweet spot as it gets down to prepare the budget for FY15 that has to be presented by April 2014. In short there is easy money to underwrite their election promise of cutting down on power and water bills if it comes to offering subsidy from the state treasury.

But for the next year it will immediately worsen the debt profile of the state. This will mean bad news for state public sector entities like DSIDC and DTTDC accustomed to raise money at easy rates. The fund advantage has incidentally got built in despite the limited borrowing space for the state as former chief minister Sheila Dikshit ran a tight fiscal ship.

The new chief minister has another window to exploit. Delhi until now has been getting no share of the Central divisible pool of taxes from the successive Finance Commissions. Instead it has got a flat annual sum of just Rs 325 crore from the Centre as discretionary grants in-lieu of its share in central taxes. The sum is unchanged for the past 12 years and this is something that Kejriwal’s team will certainly want to revisit.

Kejriwal’ problems will lie elsewhere; in the management of expenditure. The Delhi fiscal rules allows for little financial engineering to take on additional expenditure. For example if he wants to transfer the back log of liabilities of the discoms by transferring them to say, the state owned Delhi Transco that will not be possible as the state laws do not allow it to stand guarantee for a loan raised by any of its public sector undertakings or local bodies working under its domain.

This also precludes the ability of the Delhi Jal Board to take on heavy loans to finance new investment to ramp up water supply capacity. The alternative of floating a special purpose vehicle is also limited as the state budget has no provisions to provide any support to such bodies.

Even worse affected will be its plans for adding to the employee strength. Because of Delhi's surplus balance sheet, it gets no Central assistance to finance the non-plan gap in its resources. For plan schemes for instance the state government generates the funds in lieu of Central assistance.

AAP's plans to convert contract employees to regular ones will be deadly in this context. The total number of Delhi government employees as per its own statistics is 85,267 as on March 2011. The budget for a 70 per cent addition to the rolls will balloon the salary bill from the current Rs 5,365 crore by over Rs 2,100 crore.

As of now, the Delhi government spends more than 70 per cent of its plan funds for capital outlay. Its annual addition to state salary bill at less than 13 per cent year on year is one of the lowest among all states. This will shoot up by over 50 per cent if this project goes through in FY15.

Since the Delhi govern does not have any powers to borrow from the open market and can only borrow from the central government, the consequent effect on the aggregate fiscal deficit will be close to 0.5 per cent.

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