

CHAPTER 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Punjab during the current year (2008-09) and analyses critical changes in the major fiscal aggregates as compared to the previous year (2007-08), keeping in view the overall trends during the last five years. The analysis has been made based on State's Finance Accounts and the information obtained from the State Government. The structure of Government Accounts and the lay out of Finance Accounts are shown in **Box 1.1** (Page 2).

1.1 Summary of the current year's fiscal transactions

Table 1.1 presents the summary of the Government of Punjab's fiscal transactions during the current year (2008-09) vis-à-vis the previous year (2007-08) and **Appendix 1.1** provides details of receipts and disbursements during 2008-09 as well as overall fiscal position of the Government of Punjab as on 31 March, 2009.

Table 1.1 Summary of the current year's fiscal operations
(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section A: Revenue					Non-Plan	Plan	Total
19237.62	Revenue receipts	20712.79	23060.86	Revenue expenditure	23146.55	1422.44	24568.99
9899.17	Tax revenue	11150.08	12891.90	General services	14027.72	4.41	14032.13
5253.97	Non-tax revenue	5783.91	4333.58	Social services	4427.75	1054.93	5482.68
1974.99	Share of Union taxes/ duties	2084.12	5478.59	Economic services	4381.39	363.10	4744.49
2109.49	Grants from Government of India	1694.68	356.79	Grants-in-aid and Contributions	309.69	--	309.69
Section B: Capital							
0.71	Misc. Capital Receipts	1.12	2191.60	Capital Outlay	255.25	2602.68	2857.93
1445.15	Recoveries of Loans and Advances	77.63	34.85	Loans and Advances disbursed	48.83	6.24	55.07
5662.21	Public Debt receipts*	5978.86	1719.22	Repayment of Public Debt*	1835.13	--	1835.13
0.00	Contingency Fund	0.00	0.00	Contingency Fund	0.00	0.00	0.00
19687.47	Public Account receipts	24306.23	18751.22	Public Account disbursements	22590.85	--	22590.85
825.87	Opening Cash Balance	1101.28	1101.28	Closing Cash Balance	269.94	--	269.94
46859.03	TOTAL	52177.91	46859.03	TOTAL	48146.55	4031.36	52177.91

*Excluding net transactions under ways and means advances (Rs 453.39 crore)

Box 1.1

Part A: Structure and Form of Government Accounts

Structure of Government Accounts	
<p>Structure of Government Accounts: The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.</p> <p>Part I: 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 entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.</p> <p>Part II: 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 the 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>Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature.</p>	
PART B: Layout of Finance Accounts	
Statement No.	Layout
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.
2	Contains the summarized statement of capital outlay showing progressive expenditure to the end of 2008-09.
3	Gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4	Indicates the summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.
5	Gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears etc.
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.
7	Gives the summary of cash balances and investments made out of such balances.
8	Depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9	Shows the revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10	Indicates the distribution between the charged and voted expenditure incurred during the year.
11	Indicates the detailed account of revenue receipts by minor heads.
12	Provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure by major head wise.
13	Depicts the details of capital expenditure incurred during and to the end of 2008-09.
14	Shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc up to the end of 2008-09.
15	Depicts the capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.
16	Gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17	Presents detailed account of debt and other interest bearing obligations of the Government of Punjab.
18	Provides the detailed account of loans and advances given by the Government of Punjab, the amount of loan repaid during the year, the balance as on 31 March 2009.
19	Gives the details of earmarked balances of reserve funds.

1.1.1 Significant changes

Following are the significant changes during 2008-09 over the previous year:

The **revenue receipts** increased by Rs 1,475 crore (7.67 *per cent*) in 2008-09 over the previous year mainly on account of increase in tax revenue (Rs 1,251 crore: 12.64 *per cent*) and non-tax revenue (Rs 530 crore: 10.09 *per cent*). The revenue receipts were more than what was targeted in the Fiscal Correction Path (FCP) by Rs 1,712 crore (nine *per cent*). **Grants-in-aid** from the Government of India (GOI) decreased by Rs 415 crore (19.67 *per cent*) during the current year over the previous year and when compared with the FCP, it was less by Rs 302 crore (15.12 *per cent*).

The **total expenditure** of the Government of Punjab increased by Rs 2,195 crore (8.68 *per cent*) during 2008-09 over the previous year, of which increase in revenue expenditure was Rs 1,508 crore (6.54 *per cent*) and capital expenditure was Rs 666 crore (30.40 *per cent*). The total expenditure increased by Rs 4,383 crore (18.97 *per cent*) when compared with the FCP. The main items of increase in total expenditure were Social Security and Welfare (Rs 512 crore: 23.33 *per cent*), Pension and Other Retirement benefits (Rs 397 crore: 18.09 *per cent*), Interest Payments (Rs 375 crore: 17.08 *per cent*), General Education (Rs 324 crore: 14.76 *per cent*) and Police (Rs 189 crore: 8.61 *per cent*).

The **recovery of loans and advances** exhibited a sharp decrease of Rs 1,368 crore (94.63 *per cent*) during the current year when compared with the previous year. The reason for huge recovery of loans and advances in the year 2007-08 was mainly on account of adjustment of Rs 1,362 crore towards repayment of loans and advances out of the subsidy of Rs 2,848 crore given to Power sector during the previous year. The recovery of loans and advances decreased by Rs 100 crore (56.41 *per cent*) when compared with the projections of FCP.

The **Public debt receipts** increased by Rs 317 crore (5.60 *per cent*) mainly on account of increase in internal debt of the Government of Punjab (Rs 534 crore: 9.50 *per cent*). Loans and advances from the GOI decreased by Rs 152 crore (35.35 *per cent*). The repayment of public debt also increased by Rs 116 crore (6.75 *per cent*) mainly on account of increase in repayment of internal debt of the Government of Punjab (Rs 366 crore: 20.93 *per cent*). Repayment of loans and advances to the GOI decreased by Rs 185 crore (51.68 *per cent*) in the current year as compared to the previous year.

The **Public Accounts receipts** increased by Rs 4,619 crore (23.46 *per cent*) during the current year over the previous year and the disbursements thereof also increased by Rs 3,840 crore (20.48 *per cent*) during the current year.

The net impact of the above fiscal transactions of the Government of Punjab was reflected in terms of a net decrease of Rs 831 crore (75.49 *per cent*) in cash balances as on 31 March 2009, which decreased from the opening balance of Rs 1,101.28 crore to the closing balance of Rs 269.94 crore.

1.1.2 Fiscal Responsibility and Budgetary Management Act

In May 2003, Government of Punjab enacted the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudential debt management. Subsequently, in January 2006, the Government of Punjab enacted the Punjab FRBM (Amendment) Act, 2005 and fixed the timeframe for achieving the fiscal targets set in May 2003. The salient features of the FRBM Act, 2003(as amended upto January 2008) and the Rules made thereunder are in **Box 1.2**.

Box 1.2

Fiscal Responsibility and Budgetary Management (FRBM) Act, 2003 (as amended upto January, 2008)

The State Government had enacted the Punjab Fiscal Responsibility and Budget Management Act, 2003 (amended upto January 2008) to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence, the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. The Act, as amended, prescribed the following fiscal targets for the State:

- a) reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three² *per cent* of GSDP by the year 2008-09;
- b) reduce the revenue deficit from the financial year 2005-06 so as to bring it down to zero by the year 2008-09 and generate revenue surplus thereafter;
- c) attempt to bring the ratio of debt including contingent liabilities to GSDP down to 28 *per cent* within a period of five years from 2005-06 to 2009-10;
- d) cap outstanding guarantees on long term debt to 80 *per cent* of revenue receipts of the previous year. Guarantees on short term debt to be given only for working capital or food credit in which case this must be fully backed by physical stocks.

² GOI has now allowed the States to reduce fiscal deficit to 3.5 *per cent* of GSDP by 2009-10. The FRBM Act to this effect has not yet been amended by the State Government.

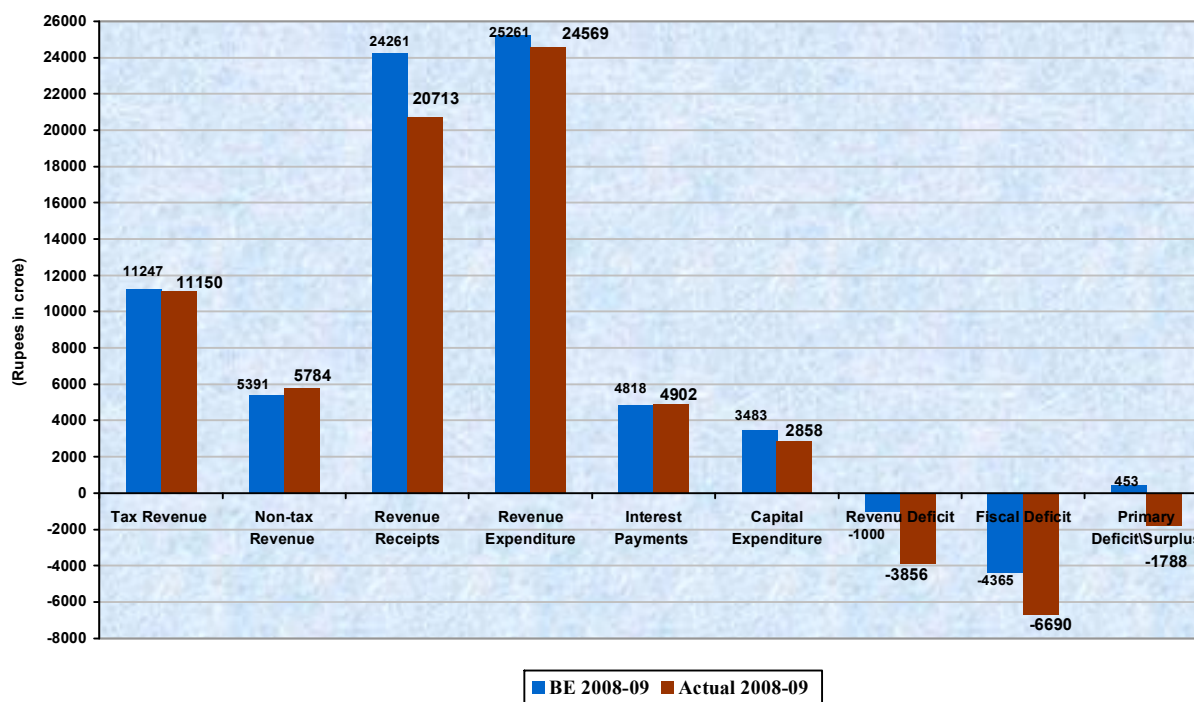
In exercise of the powers conferred by Section 7 of the Act, as amended, the State Government framed the Punjab Fiscal Responsibility and Budget Management Rules in December 2006 with a sole target to reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three *per cent* of GSDP by the year 2009-10 (amended as 2008-09 in December 2007).

The Government of Punjab has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators (*Appendix 1.2*) with target dates of implementation during the period from 2004-05 to 2009-10, keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder.

1.1.3 Budget estimates and actuals

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1: Selected Fiscal Parameters: Budget Estimates vis-à-vis Actuals



The Budget estimates (BE) for tax revenue was Rs 11,247 crore against which the actual receipts was Rs 11,150 crore. The reduction was mainly on account of receipt of Rs 140 crore (7.49 *per cent*) less in Stamps and Registration and Rs 52 crore (9.03 *per cent*) in taxes on vehicles. The BE for non-tax revenue was Rs 5,391 crore against which the actual receipt was Rs 5,784 crore. The increase was mainly on account of increase of Rs 187 crore (4.27 *per cent*) in receipts of the Miscellaneous General Services.

The actual **total revenue receipts** were Rs 20,713 crore against the BE of Rs 24,261 crore. The decrease in revenue receipts when compared with the

BE was mainly on account of decrease in grants-in-aid from the GOI and share of union taxes/duties to the tune of Rs 2,602 crore: 60.55 *per cent* (BE: Rs 4,297 crore - Actuals: Rs 1,695 crore) and Rs 241 crore: 10.37 *per cent* (BE: Rs 2,325 crore - Actuals: Rs 2,084 crore) respectively. This shows that the BE for revenue receipts (from GOI) was unrealistic.

The **capital expenditure** incurred was Rs 2,858 crore against the BE of Rs 3,483 crore. The decrease in capital expenditure was due to decrease in capital expenditure on Roads and Bridges by Rs 916 crore (73.69 *per cent*) (BE: Rs 1,243 crore - Actuals: Rs 327 crore).

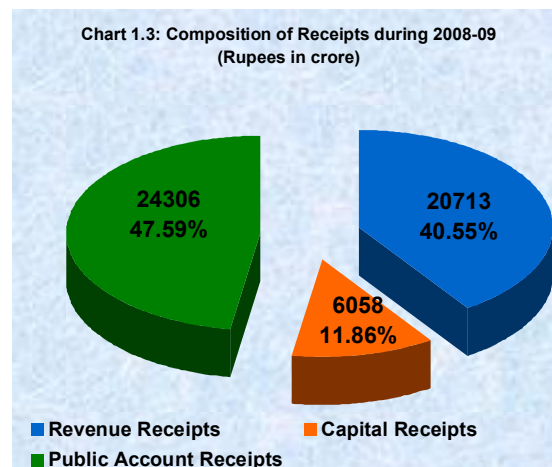
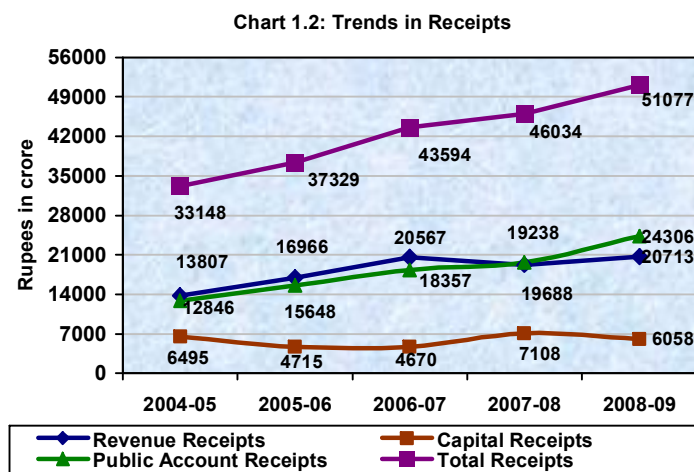
The fiscal position of the Government of Punjab during the current year deteriorated in terms of key fiscal indicators. There was a revenue deficit of Rs 3,856 crore as against the surplus of Rs 1.97 crore projected in the State's FCP and the revenue deficit was also significantly higher than the projection in the BE of Rs 1,000 crore. Similarly, the fiscal deficit (Rs 6,690 crore) was higher than that projected in the FCP (Rs 3,920 crore) and the BE (Rs 4,365 crore). There was a primary deficit of Rs 1,788 crore in 2008-09 as against the projection of surplus made in the FCP (Rs 662 crore) and in the BE (Rs 453 crore).

1.2 Resources of the Government of Punjab

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. The revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GOI. The capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals in the Public Account.

Table 1.1 presents the receipts and disbursements of the Government of Punjab during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the Government of Punjab during 2004-09. **Chart 1.3** depicts the composition of resources of the Government of Punjab during the current year.



The revenue receipts of the Government of Punjab increased from Rs 13,807 crore in 2004-05 to Rs 20,713 crore in 2008-09. The average growth in revenue receipt during the period was 10 *per cent* per annum. In fact, the revenue receipts in 2008-09 (Rs 20,713 crore) were more or less equal to the receipts in 2006-07 (Rs 20,567 crore) implying no significant growth in revenue receipts in the Government of Punjab since 2006-07. The capital receipts decreased from Rs 6,495 crore in the year 2004-05 to Rs 6,058 crore in the year 2008-09 with inter year variations. The Public Account receipts increased consistently from Rs 12,846 crore in 2004-05 to Rs 24,306 crore in 2008-09. The overall impact was increase in total receipts of the Government of Punjab from Rs 33,148 crore in 2004-05 to Rs 51,077 crore in 2008-09, an average increase of 10.82 *per cent* per year.

Chart 1.3 shows that the total receipts of the Government of Punjab in the year 2008-09 were Rs 51,077 crore. Of these, the Public Account receipts (Rs 24,306 crore) contributed 47.59 *per cent* followed by revenue receipts (Rs 20,713 crore) which contributed 40.55 *per cent* and capital receipts including the public debt receipts which contributed 11.86 *per cent* (Rs 6,058 crore) during 2008-09. Thus, the revenue receipts showed marginal growth rate and accounted for only 40.55 *per cent* of the total receipts in 2008-09.

1.2.2 Funds transferred to the State implementing agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes in social and economic sectors recognized as critical. The detail of funds transferred directly to various State implementing agencies for the designated schemes are given in **Table 1.2**.

Table 1.2: Funds transferred directly to the State implementing agencies
(Rupees in crore)

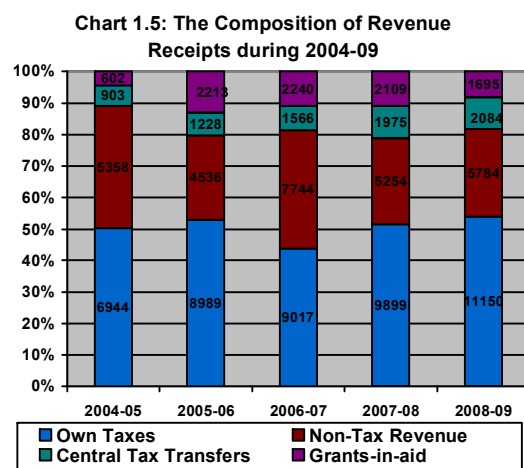
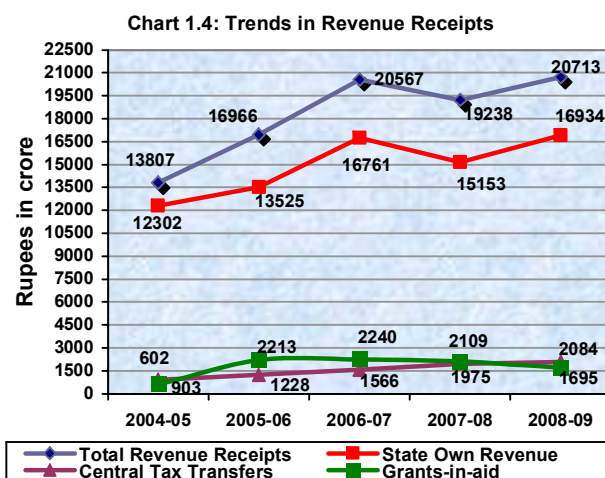
Programme/Scheme (Centre: State share)	Implementing Agency	2008-09
		Central Share
NREGA (90:10)	Joint Development Commissioner Rural Development Department	66.60
SGSY (75:25)		11.08
IAY (New Construction)		46.43
IAY (Up-gradation)		12.34
DRDA Administration (75:25)		7.82
SJSRY (75:25)	Deputy Director Local Bodies	0.50
MPLAD (100)		4.30
NRHM-RCH-II	Mission Director, NRHM	44.06
NRHM-Additionalities		22.32
National programme for control of Blindness (100)	Programme Officer, Health and Family Welfare	0.93
National Leprosy eradication programme (100)		2.42
National TB control Programme (50:50)		6.43
SSA (65:35)	Director SSA	209.93
PMGSY (100)	Director Roads and Bridges Development Board	273.04
TOTAL		708.20

Source: Information as collected from the implementing agencies

During 2008-09, the Government of India directly transferred Rs 708.20 crore to the State implementing agencies. As these funds are not routed through the budget of State Government, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the receipts and expenditure of the State as well as other fiscal variables/parameters derived from them are underestimated. Unless there is proper documentation and timely reporting of expenditure by the implementing agencies, it will be difficult to monitor the end use of these direct transfers.

1.3 Revenue receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government of Punjab. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** and **1.5**.



As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Though the **revenue receipts** have shown an increasing trend over the period 2004-09, the share of its own tax revenue varied within a narrow range of 50-54 *per cent* of the revenue receipts except in 2006-07 when it dipped to 44 *per cent*. The State's own tax revenue during the current year was Rs 11,150 crore which was less by Rs 1,222 crore (9.88 *per cent*) against Rs 12,372 crore recommended by TFC and by Rs 1,350 crore (10.80 *per cent*) against Rs 12,500 crore projected in the FCP. The share of non-tax revenue marginally increased by one *per cent* (from 27 to 28 *per cent*) during the current year over the previous year. Thus, the State's own resources accounted for 82 *per cent* of the total revenue receipts in 2008-09, as compared to 89 *per cent* in 2004-05. The share of Central transfers increased from 7 to 10 *per cent* during the period 2004-09. The grants-in-aid from GOI declined from 13 *per cent* (Rs 2,213 crore) in 2005-06 to eight *per cent* (Rs 1,695 crore) in 2008-09.

The **State's non-tax revenue** during the current year was Rs 5,784 crore which was more by Rs 3,466 crore (149.53 *per cent*) against Rs 2,318 crore recommended by TFC. The non-tax revenue which constituted 27.92 *per cent* of the total revenue receipts in 2008-09 increased by Rs 530 crore (10.08 *per cent*) over the previous year. The increase in non-tax revenue was mainly due to an increase of Rs 378 crore under the Major Head 0075–Miscellaneous General Services which includes Rs 153.39 crore on account of debt relief received under Debt Consolidation and Relief Facility (DCRF). However, interest receipts decreased by Rs 166 crore (47.76 *per cent*) in the current year when compared with the previous year due to less receipts under "Interest from public sector and other undertakings".

The component wise analysis of non-tax receipts during the period 2005-09 revealed that except in 2006-07 (when a credit entry of one time waiver of special term loan was included as receipts), gross receipts from State lotteries contributed on an average of 66.33 *per cent* of the total non-tax receipts during the period 2005-09. Netting the receipts from lotteries against the expenditure incurred revealed only marginal net receipts to the State Government varying from Rs 40 crore to Rs 128 crore during 2005-09.

The trends in revenue receipts vis-à-vis Gross State Domestic Product (GSDP) are presented in **Table 1.3**.

Table 1.3: Trends in Revenue receipts

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	13807	16966	20567	19238	20713
Rate of growth of RR (<i>per cent</i>)	13.74	22.88	21.22	(-) 6.46	7.67
R R/GSDP (<i>per cent</i>)	14.28	15.61	16.97	13.89	13.03
Buoyancy Ratios³					
Revenue buoyancy w.r.t GSDP	1.88	1.84	1.84	(-) 0.45	0.52
State's own tax buoyancy w.r.t GSDP	1.78	2.37	0.03	0.69	0.85
Revenue buoyancy w.r.t. State's own taxes	1.05	0.77	68.45	(-) 0.66	0.61

The revenue receipts increased from Rs 13,807 crore in 2004-05 to Rs 20,713 crore in 2008-09. The revenue receipts growing at the rate of about 21 *per cent* in 2006-07 became negative in 2007-08 (-6.46 *per cent*) and the growth rate in 2008-09 was only 7.67 *per cent*. The revenue receipts to GSDP ratio during the year was 13.03 *per cent*, a decrease of 0.86 *per cent* over the previous year. The revenue buoyancy with reference to GSDP decreased from 1.88 in 2004-05 to (-) 0.45 in 2007-08 and marginally increased to 0.52 in 2008-09. It implied that the revenue receipts increased by only 0.52 *per cent* in 2008-09 for one *per cent* increase in GSDP. The State's own tax buoyancy with reference to GSDP decreased from 1.78 in 2004-05 to 0.69 in 2007-08 and rose to 0.85 in 2008-09. The revenue buoyancy with reference to State's own taxes decreased from 1.05 in 2004-05 to (-) 0.66 in 2007-08 except 68.45 in 2006-07, when Rs 3,772 crore granted by Government of India under Debt consolidation and Relief Facility scheme sharply increased the revenue receipts. It again rose marginally to 0.61 during the year 2008-09 over the previous year.

1.3.1 Loss of revenue due to evasion of taxes, write off/waivers and refunds

The number of cases of evasion of taxes/duties detected/decided and demand raised etc. and cases of write off or waiver of revenue and refunds as reported by different departments during the year 2008-09 is given in Table 1.4

Table 1.4: Evasion of taxes, write off/waivers and refunds

(Rupees in crore)

Sr. No.	Nature of tax	Evasion of taxes					Amount written off/ waived (No. of cases)	Refunds allowed (No. of cases)
		Cases pending as on 31 March 2008	No. of cases detected during 2008-09	Total no. of cases	No. of cases decided during 2008-09	Total amount of cases decided during 2008-09		
1	Sales tax/ VAT	3307	1725	5032	2706	17.84	14.96 (315)	373.80 (8666)
2	Taxes on vehicles	182	79	261	42	0.86	--	--
3	State excise	1	-	1	1	0.01	2.28 (126)	1.76 (31)
	TOTAL	3490	1804	5294	2749	18.71	17.24 (441)	375.56 (8697)

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

1.3.2 Revenue arrears

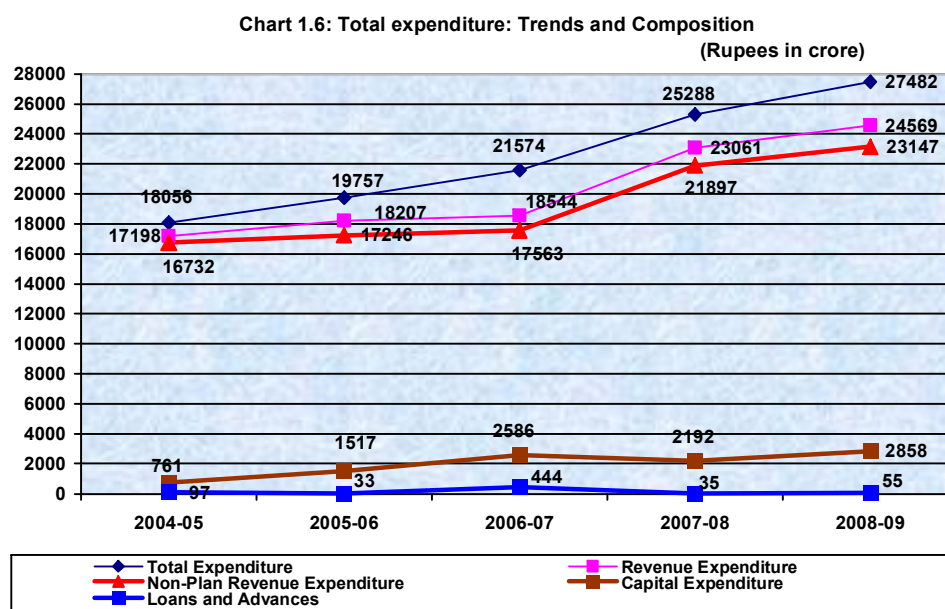
The arrears of revenue in respect of eight principal heads of revenue as on 31 March 2009 was Rs 1,357.06 crore as compared to Rs 2513.14 crore as of 31 March 2008. Of the total arrears, Rs 618.97 crore (45.61 *per cent*) were outstanding for more than five years. The decrease in arrears of revenue during the year 2008-09 was mainly because of decrease in arrears under sales tax (Rs 1,174.52 crore). The arrears in 2008-09 pertained mainly to sales tax (Rs 860.10 crore), taxes & duties on electricity (Rs 148.43 crore), receipts from irrigation (Rs 135.87 crore), taxes on vehicles (Rs 109.20 crore) and interest receipts (Rs 77.73 crore) from two State owned corporations. Out of the total arrears of Rs 1,357.06 crore, an amount of Rs 356.20 crore (26.25 *per cent*) was in arrear on account of cases pending in Courts, while arrears of Rs 489.51 crore (36.07 *per cent*) were under different stages of departmental process of recovery. No reasons were furnished by the departments for Rs 392.93 crore.

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising the public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and composition of expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09). Its composition in terms of 'economic classification' and 'expenditure by activities' are depicted in **Charts 1.7 and 1.8** respectively.



Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The Government raise resources to perform their sovereign functions, to maintain their existing nature of delivery in social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 18,056 crore in 2004-05 to Rs 27,482 crore in 2008-09, showing an average increase of 10.44 *per cent* per annum.

The increase in **total expenditure** during the current year was Rs 2,195 crore (8.68 *per cent*) over the previous year. The break-up of the total expenditure under revenue and capital heads revealed that revenue expenditure and capital expenditure increased by Rs 1,508 crore (6.54 *per cent*) and Rs 666 crore (30.40 *per cent*) respectively, whereas loans and advances and non-plan revenue expenditure increased by Rs 20 crore (57.14 *per cent*) and Rs 1,250 crore (5.71 *per cent*) respectively during the current year when compared with the previous year. The buoyancy of total expenditure with reference to GSDP increased from 0.75 to 1.21 percentage points during the period 2004-08, however, it dipped to 0.59 percentage points in 2008-09. The buoyancy of total expenditure with reference to revenue receipts increased from 0.40 to 0.43 percentage points during the period 2004-07. It dipped to (-) 2.66 percentage points during 2007-08 and again rose to 1.13 percentage points in 2008-09.

Chart 1.7: Total Expenditure: Trends in share of its components

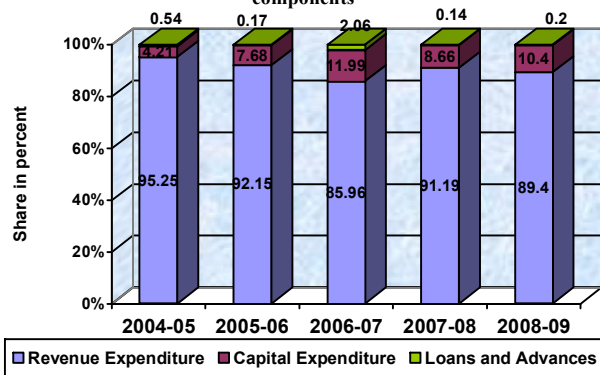
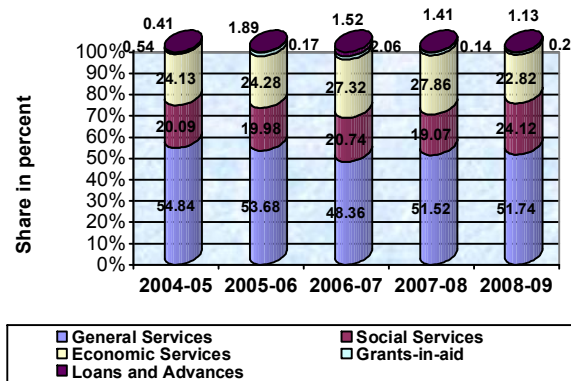


Chart 1.8: Total Expenditure: Trends by 'Activities'



The **revenue expenditure** continued to constitute a dominant proportion (86 to 95 *per cent*) of total expenditure during the period 2004-09. The capital expenditure which was 4.21 *per cent* of total expenditure in 2004-05 increased to 11.99 *per cent* in 2006-07, but remained at 8.66 *per cent* and 10.40 *per cent* in 2007-08 and 2008-09 respectively. The plan revenue expenditure contributed just three to six *per cent* of the total revenue expenditure, whereas the non-plan revenue expenditure contributed 94 to 97 *per cent* during the period 2004-09.

The **Non-plan revenue expenditure** at Rs 23,147 crore in 2008-09 was significantly higher than the normative assessment made by TFC (Rs 16,198 crore) and the projections made by the Government of Punjab in its own FCP (Rs 17,016 crore).

The **plan revenue expenditure** increased from Rs 466 crore in 2004-05 to Rs 1,422 crore in 2008-09. It increased by Rs 258 crore (22.16 *per cent*) during the current year over the previous year. The increase in plan revenue expenditure was mainly on account of increase in expenditure of Rs 481 crore (705.93 *per cent*) on Social Security and Welfare, Rs 217 crore (297.26 *per cent*) on Education, Sports, Art and Culture and Rs 107 crore on Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes.

1.4.2 Activity wise expenditure

The relative share of the various components of total expenditure indicated that the share of General Services including interest payments during the period 2004-09 remained high at 48 to 55 *per cent*.

The **expenditure on Social services** (both Plan and Non-Plan) increased from 20.09 *per cent* in 2004-05 to 24.12 *per cent* in 2008-09 with inter-year variations. The expenditure on Social Services, however, increased by five *per cent* during the current year over the previous year. The increase in expenditure during the current year was mainly on account of increase in expenditure on Social Security and Welfare (Rs 512 crore), General Education (Rs 324 crore) and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (Rs 104 crore).

The **expenditure on Economic services** which consistently increased during 2004-08 (from 24.13 to 27.86 *per cent*), however, decreased to 22.82 *per cent* during the current year. The decrease in expenditure on Economic Services was on account of substantial decrease of Rs 620 crore under 'Planning Commission-Planning Board'-Office Expenses and Rent, Rates and Taxes under the Major Head 3451-Secretariat-Economic Services and Rs 249 crore under the Major Head 2801-Power -'Other Expenditure'-Subsidy under Rural Electrification to Punjab Electricity Board.

1.4.3 Committed expenditure

The committed expenditure of the Government of Punjab on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** presents the trends in expenditure on these components during 2004-09.

Table 1.5: Components of committed expenditure

Sr.No	Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	(Rupees in crore) 2008-09	
						BE	Actuals
1	Salaries & Wages, <i>of which</i>	5193* (38)	5389 (32)	5726 (28)	6379 (33)	7323	6835 (33)
	<i>Non-Plan Head</i>	--	5240	5574	6244	7126	6677
	<i>Plan Head**</i>	--	149	152	135	197	158
2	Interest Payments	3981 (29)	3715 (22)	4152 (20)	4527 (24)	4818	4902 (24)
3	Expenditure on Pensions	1514 (11)	1656 (10)	1905 (09)	2433 (13)	2112	2830 (14)
4	Subsidies	2183 (16)	1574 (09)	1553 (08)	3021 (16)	3077	2806 (14)
5	Other Components***	4327 (31)	5873 (35)	5208 (25)	6701 (35)	7931	7196 (35)
	TOTAL	17198	18207	18544	23061	25261	24569
	Revenue Receipts	13807	16966	20567	19238		20713

Figures in the parentheses indicate percentage to Revenue Receipts
 * Expenditure on wages for the year 2004-05 was not available.
 ** Plan Head includes Centrally sponsored schemes.
 *** Other component means Revenue Expenditure-(Expenditure on salaries and wages + interest payments + pensions + subsidies).

Table 1.5 showed an increasing trend in expenditure on salaries and wages during 2004-09. The relative ratio of expenditure on salaries and wages with revenue receipts decreased during 2004-07 from 38 *per cent* to 28 *per cent*. It was 33 *per cent* during 2007-08 and 2008-09.

Table 1.6: Committed expenditure vis-à-vis targets during 2008-09

Item	TFC	FCP	Budget estimates	(Rupees in crore) Actual
Salary and wages	-	7006	7323	6835
<i>Non plan salary</i>	5893 ⁴	-	6984	6566
Interest payments	4602	4582	4818	4902
Pension	2033	1953	2112	2830
Subsidies <i>of which</i>	-	1674	3077	2806
<i>Power Subsidies</i>		1662	2602	2602

Tables 1.5 and 1.6 showed that although the **salary and wages** at Rs 6,835 crore, increased by Rs 456 crore (7.15 *per cent*) during 2008-09 over the previous year, it remained less than the BE (Rs 7,323 crore) and the FCP (Rs 7,006 crore). The expenditure on non-plan salaries was 39 *per cent* of the revenue expenditure (net of interest payments and pension) exceeding the norm of 35 *per cent* envisaged by TFC.

The **interest payments** increased by 8.28 *per cent* from Rs 4,527 crore in 2007-08 to Rs 4,902 crore in 2008-09. An increase of Rs 375 crore in interest payments in 2008-09 was mainly due to increase in payment of interest on market loans (Rs 297 crore: 34.94 *per cent*) and interest on State Provident Funds (Rs 50 crore: 8.04 *per cent*). It was observed that interest payments as a percentage of revenue receipts had decreased from 29 *per cent* in 2004-05 to

⁴ Revenue expenditure (Rs 24569 crore) – Interest payments (Rs 4902 crore) – Pensions (Rs 2830 crore) = Rs 16837 crore x 35 *per cent* = Rs 5892.95 crore

24 per cent in 2008-09. However, it was far beyond the medium term target of 15 per cent of the revenue receipts by 2009-10 envisaged by TFC. Further, interest payments at Rs 4,902 crore during 2008-09 were higher than the projection made by the Government in its FCP (Rs 4,582 crore) and increased marginally over its BE (Rs 4,818 crore) for the year 2008-09.

The **Pension payments** during the current year increased by Rs 397 crore (16.32 per cent) over the previous year. The increase was mainly due to more expenditure under 'Superannuation and Retirement Allowances' and 'Gratuities' as the number of pensioners increased from 234127 (2007-08) to 246083⁵ (2008-09). The expenditure on actual pension payments at Rs 2,830 crore during 2008-09 was higher than the projection made by the Government in its FCP (Rs 1,953 crore), envisaged by TFC (Rs 2,033 crore) and the BE (Rs 2,112 crore).

Though the **subsidies** are a drain on the State finances, the Government of Punjab has been extending subsidies in a big way to the Power and Energy Sector. The subsidies during the current year decreased by Rs 215 crore (7.12 per cent) over the previous year mainly due to decrease in subsidy to Power and Energy sector by Rs 246 crore (8.64 per cent). The subsidy was less by Rs 271 crore (8.81 per cent) when compared with the BE. The subsidy to Power and Energy sector at Rs 2,602 crore as well as the general subsidy (subsidies other than Power and Energy Sector) at Rs 204 crore was more than the projection of Rs 1,662 crore and Rs 12 crore respectively made in the State's own FCP. The general subsidies are inclusive of the food subsidy of Rs 70 crore against the recommended level of Rs 24.29 crore by the TFC for the year 2008-09.

1.4.4 Financial assistance by the State Government to local bodies/other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year and the previous years is presented in **Table 1.7**.

Table 1.7: Financial assistance to local bodies etc

(Rupees in crore)

Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	245.81	230.33	195.88	454.93	429.65	452.12
Municipal Corporations and Municipalities	--	73.77	69.99	28.75	246.38	1.93
Zilla Parishads and Other Panchayati Raj Institutions	--	--	162.15	145.11	70.30	73.34
Development Agencies	--	--	102.93	2.77	107.61	28.21
Hospitals and Other Charitable Institutions	--	--	62.91	62.19	18.00	55.00
Other Institutions	106.18	91.14	0.01	--	--	--
TOTAL	351.99	395.24	593.87	693.75	871.94	610.60
Assistance as per percentage of Revenue Expenditure	2	2	3	3	3	2.50

⁵ Source: Finance Accounts (Footnote at Page 98)

The grants extended to local bodies and other institutions decreased by Rs 83.15 crore (11.99 *per cent*) during the current year as compared to the previous year. When compared with the Budget Estimates, the grants given to the local bodies and other institutions decreased by Rs 261 crore (29.97 *per cent*).

Assistance to the educational institutions gradually decreased during 2004-07 and it showed increasing trend during 2007-09, due to increased assistance to non-government colleges, Universities and Elementary Teacher Training for teachers in rural areas etc.

Assistance to Municipal Corporations and Municipalities decreased consistently during 2005-09. The assistance declined from Rs 28.75 crore in 2007-08 to Rs 1.93 crore in 2008-09. When compared with the BE, the assistance to Municipal Corporations and Municipalities decreased by Rs 244.45 crore (99.22 *per cent*). Assistance to Zila Parishads and Panchayati Raj Institutions (PRIs) also decreased from Rs 162.15 crore in 2006-07 to Rs 145.11 crore in 2007-08 and further decreased to Rs 73.34 crore in 2008-09. Financial assistance to development agencies decreased sharply from Rs 102.93 crore in 2006-07 to Rs 2.77 crore in 2007-08 and rose to Rs 28.21 crore in the current year. Financial assistance to hospitals and other charitable institutions also decreased from Rs 62.91 crore in 2006-07 to Rs 55.00 crore in 2008-09.

Thus, the overall quantum of financial assistance to the local bodies and other institutions remained at two to three *per cent* of the revenue expenditure during 2004-09.

1.5 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure and its effectiveness.

1.5.1 Adequacy of public expenditure

The responsibilities to incur expenditure on social sector and economic infrastructure are largely assigned to the State Governments. Enhancing the levels of human development requires the States to step up their expenditure on key social services like, education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The fiscal priority (ratio of expenditure on a particular category to the aggregate expenditure) to a particular sector is considered low, if it is below the respective national average. The low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.8** analyses the fiscal priority and fiscal capacity of the State

Government with regard to developmental expenditure, expenditure on social sector and capital expenditure during the current year.

Table 1.8: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Punjab's Average (Ratio) 2005-06	17.46	44.42	19.97	7.68
All States Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Punjab's Average (Ratio) 2008-09	17.29	47.05	24.12	10.40
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average per capita expenditure 2005-06#	3010	1490	692	
Punjab's per Capita Expenditure (Amount in Rs) 2005-06	3388	1524	586	
Adjusted Per Capita** Expenditure (Amount in Rs) 2005-06	5236	2592	1204	
All States Average per capita expenditure 2008-09	5030	2520	1254	
Punjab's per Capita Expenditure (Amount in Rs) 2008-09	4806	2464	1062	
Adjusted Per Capita** Expenditure (Amount in Rs) 2008-09	7663	3839	1911	
*As per cent to GDP				
**Calculated as per the methodology explained in the Appendix 1.4				
AE= Aggregate Expenditure, DE= Developmental Expenditure, SSE= Social Sector Expenditure and CE= Capital Expenditure				
Population of Punjab: 2.59 crore in 2005-06 and 2.69 crore in 2008-09				
# Development expenditure includes Development Revenue expenditure, Development Capital expenditure and Loans and Advances disbursed.				
Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: http://www.censusindia.gov.in) Population = Average of projected population for 2005-06.				
Note: Data for Arunachal Pradesh has not been included in all States Average.				

In **Table 1.8**, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of Punjab in 2005-06 (the first year of the award period of the Twelfth Finance Commission) and the current year 2008-09.

In both the years under consideration, the Punjab Government had a lower Aggregate Expenditure as a percentage of GSDP (17.46 *per cent* and 17.29 *per cent*) compared to the All India average of 19.50 *per cent* and 19.16 *per cent* respectively. Moreover, fiscal priority given to DE, SSE and CE in both the years were lower than the all States average since the DE/AE, SSE/AE and CE/AE ratios were lower in the case of Punjab than the all States average ratios. Despite the relatively low fiscal priority, the per capita expenditure in Punjab on DE and SSE categories was higher in 2005-06 than the all States average, but it was less in the case of CE.

The position reversed however in the current year when the State's per capita expenditure on all three categories was lower than the all States averages. If an adjustment factor is applied as explained in **Appendix 1.4**, the adjusted per capita expenditure increases significantly indicating that the State needs to spend more on these categories of expenditure in order to provide the residents of Punjab at least as much benefit as is being enjoyed by the average citizen in the country.

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development items, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision for core public and merit goods⁶. Apart from improving the allocation towards development expenditure⁷, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure.

The Finance Minister, Punjab in his budget speech for the year 2008-09 had mentioned creation of a 'Punjab State Development Fund' under the chairmanship of Hon'ble Chief Minister to facilitate smooth flow of funds for activities in the field of education, health and social welfare. The corpus of the fund was to consist of five *per cent* of the amount realized from the bidders by way of sale proceeds of all immovable properties auctioned by the Urban Development Authorities, Punjab State Industrial Export Corporation, Department of Colonisation and any other Government Instrumentality as may be specified by the Government. The fund was to be operated and managed by the Department of Finance.

As per information furnished by the Finance Department, Government of Punjab, an amount of Rs 76.47 crore was deposited under the Punjab State Development Fund during the year 2008-09, but no expenditure was incurred by the Government of Punjab resulting in denial of the intended benefits envisaged under the fund.

Table 1.9 and Chart 1.9 present the trends in development expenditure as compared to the aggregate expenditure of the State during the current year and the previous years. **Table 1.10** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

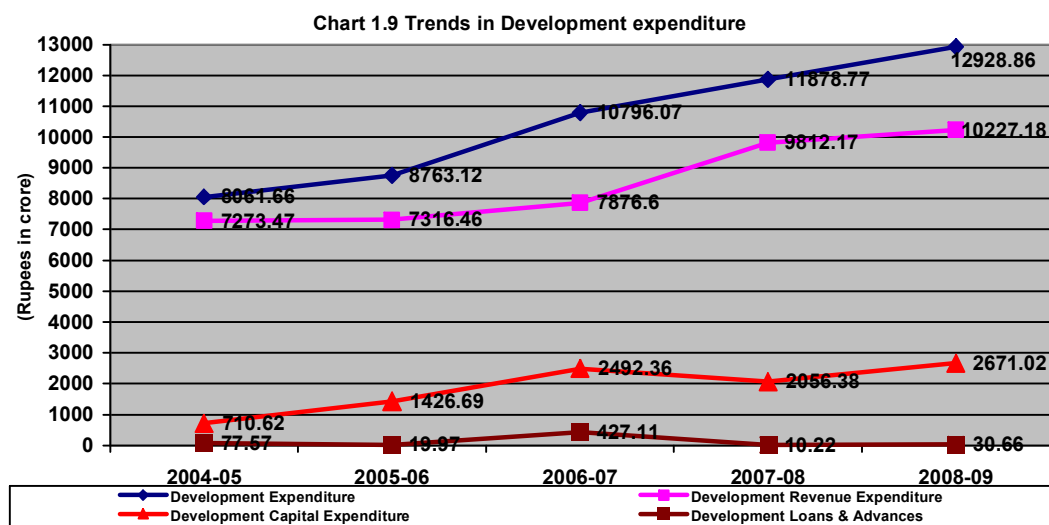
Table 1.9: Development expenditure

Components of Development expenditure	2004-05	2005-06	2006-07	2007-08	(Rupees in crore) 2008-09	
					BE	Actuals
Total Development expenditure	8061.66 (45)	8763.12 (44)	10796.07 (50)	11878.77 (47)	14638.58 (51)	12928.86 (47)
a. Development Revenue expenditure	7273.47 (40)	7316.46 (37)	7876.60 (36)	9812.17 (39)	11043.05 (38)	10227.18 (37)
b. Development Capital expenditure	710.62 (4)	1426.69 (7)	2492.36 (12)	2056.38 (8)	3588.83 (13)	2671.02 (10)
c. Development Loans and Advances	77.57 (1)	19.97 (--)	427.11 (2)	10.22 (--)	6.70 (--)	30.66 (--)

Figures in parentheses indicate percentage to aggregate expenditure

⁶ Please see the glossary (Appendix 4.1)

⁷ Please see the glossary (Appendix 4.1)



It may be noticed from the **Table 1.9** that development expenditure as a percentage of the total expenditure was between 44 and 50 *per cent* during 2004-09. It, however, decreased from 50 *per cent* in 2006-07 to 47 *per cent* in 2008-09.

The **development expenditure on revenue account** increased consistently from Rs 7273.47 crore in 2004-05 to Rs 10,227.18 crore in 2008-09. The development revenue expenditure increased by Rs 415 crore (4.23 *per cent*) during the current year over the previous year, whereas it was less by Rs 815.87 crore (7.39 *per cent*) when compared with the BE of the Government of Punjab.

The **development expenditure on capital account** also increased from Rs 710.62 crore in 2004-05 to Rs 2,671.02 crore in 2008-09 except for the year 2007-08 when it decreased to Rs 2,056.38 crore from Rs 2,492.36 crore in 2006-07. The development capital expenditure increased by Rs 614.64 crore (29.89 *per cent*) during the current year over the previous year. However, it was less by Rs 917.81 crore (25.57 *per cent*) when compared with the BE of the Government of Punjab.

The **development loans and advances** decreased from Rs 77.57 crore in 2004-05 to Rs 30.66 crore in 2008-09 with inter year variations. However, it rose steeply in 2006-07 to Rs 427.11 crore which was due to the fact that loans and advances to the tune of Rs 300 crore were given to Energy sector. The expenditure increased by Rs 20.44 crore (200 *per cent*) during the current year over the previous year. The expenditure increased by Rs 23.96 crore (357.61 *per cent*) when compared with the BE due to the increase in development loans and advances given to Agriculture and Allied activities.

During 2004-09, the development expenditure remained between 44 and 50 *per cent* of the total expenditure and bulk of the development expenditure (79.10 *per cent* in 2008-09) was on revenue account.

Table 1.10 –Efficiency of expenditure in selected Social and Economic Services
(In per cent)

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	1.66	80.79	NIL	5.47	76.02	NIL
Health and Family Welfare	0.63	88.95	NIL	2.82	86.56	NIL
WS, Sanitation, HUD	58.22	49.44	35.81	76.38	57.05	47.17
TOTAL (SS)	10.16	72.36	2.54	17.27	61.11	2.43
Economic Services (ES)						
Agri and Allied Activities	0.75	51.23	NIL	2.78	47.48	NIL
Irrigation & Flood Control	41.98	87.44	8.55	46.95	85.01	9.54
Power and Energy	1.52	0.02	NIL	5.19	0.02	NIL
Transport	71.28	37.24	11.65	60.85	42.09	20.42
TOTAL (ES)	22.23	20.30	1.66	24.34	24.48	2.64
TOTAL (SS+ES)	17.33	43.29	2.05	20.71	44.12	2.53
WS: Water Supply, HUD: Housing and Urban Development; CE: Capital Expenditure; TE: Total Expenditure; RE: Revenue Expenditure; S&W: Salary and Wages, O&M: Operations and Maintenance.						

Table 1.10 shows that in 2008-09 the ratio of capital expenditure (CE) to total expenditure (TE) on Social Services and Economic Services increased by 7.11 and 2.11 respectively over the previous year.

The ratio of salary and wages component to revenue expenditure on Social Services decreased by 11.25 from 72.36 to 61.11 over the previous year. However, under Economic Services an increase of 4.18 point was observed during the current year.

The ratio of operations and maintenance to revenue expenditure on Economic Services increased by about one point over the previous year and it remained almost same in the case of Social Services.

Recognizing the need to improve the quality of Education and Health Services, TFC recommended that the non-plan salary expenditure under Education and Health and Family Welfare should be increased only by five to six *per cent* while non-salary expenditure under non-plan heads should be increased by 30 *per cent* per annum during 2005-06 to 2009-10. Trends in expenditure (taking expenditure under both plan and non-plan heads) revealed that in 2008-09 the salary component under education sector increased by 5.90 *per cent* over 2007-08, while non-salary component increased by 39.94 *per cent*. Under Health and Family Welfare sector, the salary and the non-salary components increased by 6.67 *per cent* and 33.10 *per cent* respectively over the previous year. The expenditure pattern in non-salary component under General Education needs correction in the ensuing years to achieve the norms of the TFC. The expenditure actually incurred on General Education (Rs 2,914.20 crore) and Health and Family Welfare (Rs 829.23 crore) was less than the TFC recommendations of Rs 3,202 crore and Rs 1,010 crore respectively.

1.6 Analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial results of Irrigation works

The financial results of nine major irrigation projects involving a capital expenditure of Rs 435.21 crore at the end of March 2009 showed that revenue realised from these projects during 2008-09 (Rs 7.73 crore) was only 1.78 *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (Rs 161.36 crore) and interest charges (Rs 21.43 crore), the projects suffered a net loss of Rs 175.06 crore.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in the **Table 1.11**.

Table 1.11: Department-wise profile of incomplete projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Overrun
Irrigation and Power Department	4	1907.28	3777.27	1869.99
	4	62.18	Not available	Not available
Public Works Department (Buildings & Roads)	1	2.14	6.72	4.58
	4	12.32	Not available	Not available
TOTAL	13	1983.92	3783.99	1874.57

In four irrigation projects where the costs has been revised, the revision resulted in an increase of Rs 1869.99 crore out of which Rs 961.63 crore (72.62 *per cent*) relates to Shahpur Kandi Dam Project; Rs 425.25 crore (241.62 *per cent*) to SYL Canal Project; Rs 491 crore (134.15 *per cent*) to Shri Dashmesh Irrigation Project and revision in one case (119 Alt. Tubewell under Punjab Nirman Programme) resulted in decrease by Rs 7.89 crore (19.20 *per cent*). The case of Shri Dashmesh Irrigation Project was pending with Central Water Commission for technical clearance and the work of SYL Canal project was standstill due to water dispute with Haryana State; Shahpur Kandi Dam Project was lagging due to non-availability of funds and shortage of engineering staff. In the case of remaining five irrigation projects, three are likely to be completed by March 2010 and for the other two projects, the

works have been delayed due to delay in creating infrastructure or late revision of budget estimates.

Out of the five Public Works Department's (Buildings & Roads) projects, cost of one project (Judicial Court Complex at Moonak) with July 2007 as target date of completion was revised to Rs 6.72 crore from the initial cost of Rs 2.14 crore, an increase of Rs 4.58 crore (214 *per cent*). An expenditure of Rs 4.45 crore has already been incurred on the project upto March 2009 and the work was lying incomplete for want of funds. The work of 'Construction of Dental College Block 'C', Patiala' was also lying incomplete due to non-receipt of funds which was scheduled to be completed by August 2007. The remaining three projects, which were to be completed between August 2008 and March 2009, have also not been completed due to non-receipt of funds.

1.6.3 Investment and returns

As of 31 March 2009, Government of Punjab had invested Rs 3,841 crore in Statutory Corporations/Boards (Rs 3,133.38 crore), Government Companies (Rs 489.30 crore), Joint Stock Companies (Rs 1.39 crore) and Co-operative Banks and Societies (Rs 217.29 crore) (**Table 1.12**). The return on this investment was 0.01 *per cent* to 0.05 *per cent* only during 2004-09, while the Government of Punjab paid interest at the average rate of 7.52 *per cent* to 8.79 *per cent* on its borrowings during 2004-09.

Table 1.12: Return on investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	3544.81	3718.60	3761.74	3835.65	3841.36
Return (Rs in crore)	0.59	1.07	1.96	0.40	0.78
Return (<i>per cent</i>)	0.02	0.03	0.05	0.01	0.02
Average rate of interest on Govt borrowing (<i>per cent</i>)	8.79	7.52	8.11	8.46	8.32
Difference between interest rate and return (<i>per cent</i>)	8.77	7.49	8.06	8.45	8.30

Within the group of Statutory Corporations/Boards, 99.21 *per cent* of the Government investment was made in four corporations, i.e. Punjab State Electricity Board (Rs 2,966 crore), Pepsu Road Transport Corporation (PRTC) (Rs 87 crore), Punjab Financial Corporation (Rs 29 crore) and Punjab Scheduled Castes Land Development and Finance Corporation (Rs 26 crore). Out of these four major Statutory Corporations, first three Corporations are incurring losses and their accumulated loss amounted to Rs 7,991 crore (upto the year 2006-07 and 2007-08 for which their accounts are finalised) of which the losses amounting to Rs 7,370 crore (92.23 *per cent*) pertain to PSEB alone. The Punjab Scheduled Castes Land Development and Finance Corporation, however, earned profits of Rs 17 crore upto 2006-07 for which their accounts have been finalized.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are performed by Punjab Roadways, a departmental undertaking (Transport Department). Position of the investment made by the Government of Punjab, net profit/loss as well as return on capital invested are given in **Table 1.13**. It is observed that an amount of

Rs 41.87 crore had been invested by the Government of Punjab in Punjab Roadways at the end of 1999-2000 upto which its accounts were finalized. Punjab Roadways had been incurring losses continuously for more than five years and its accumulated losses were Rs 650.06 crore as against the total investment of Rs 41.87 crore upto 1999-2000.

Table 1.13: Summarized financial position of Punjab roadways

(Rupees in crore)

Name of the Under-taking	Period of accounts	Govt capital	Block assets at depreciated cost	Depreciation provided during the Year	Turn over	Net profit/ Loss(-)	Interest on Capital paid	Total return (8+9)	Percentage Return on capital
Punjab Roadways	1999-2000	41.87	12.18	6.11	210.32	(-)98.42	4.50	(-)93.92	Nil

1.6.5 Loans and advances by Government of Punjab

In addition to investments in Co-operative Societies, Corporations and Companies, the Government of Punjab has also been providing loans and advances to many other institutions/organizations. **Table 1.14** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table 1.14: Average interest received on loans advanced by the Government of Punjab

(Rupees in crore)

Quantum of Loans/Interest receipts/Cost of borrowings	2006-07	2007-08	2008-09	
			BE	Actual
Opening Balance of loan	5484	5533		4123
Amount advanced during the year	444	35	37	55
Amount recovered during the year	395	1445	155	78
Closing Balance of loan	5533	4123		4100
Interest receipts	526	230		46
Interest receipts as <i>per cent</i> to outstanding Loans and advances	9.55	4.76		1.12
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the Government of Punjab.	8.11	8.46		8.32
Difference between interest payments and interest receipts (<i>per cent</i>)	(+) 1.44	(-) 3.70		(-) 7.20

During 2008-09, Rs 55 crore was advanced as loans against the BE of Rs 37 crore. Further, recovery of loans amounting to Rs 78 crore was made against the BE of Rs 155 crore, which was Rs 77 crore (49.68 *per cent*) less than the BE during the year 2008-09. This reflects the unrealistic BEs. The loans and advances at the close of the year declined from Rs 5,533 crore (2006-07) to Rs 4,100 crore (2008-09). The decrease in interest received during the current year was 80 *per cent* (Rs 184 crore) over the last year and was mainly attributable to decrease of Rs 194 crore relating to loans given to the Electricity Board. While the interest payment made by the Government during 2008-09 was 8.32 *per cent* of its outstanding fiscal liabilities, interest received was only 1.12 *per cent* of the outstanding loans and advances given by the Government of Punjab.

1.6.6 Cash balances and investment of cash balances

Table 1.15 depicts the cash balances and investments made by the Government of Punjab out of the cash balances during the year.

Table 1.15: Cash balances and investment of cash balances

(Rupees in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase/ Decrease
Cash Balances	1101.28	269.94	(-) 831.34
Investments from Cash balances (a to d)	824.69	197.12	(-) 627.57
a. GOI Treasury Bills	722.67	95.10	(-) 627.57
b. GOI Securities	101.98	101.98	--
c. Punjab State Electricity Board Bonds	0.04	0.04	--
d. Kapurthala Cooperative Bank–Fixed Deposits ⁸	--	--	--
Funds-wise break-up of investment from earmarked balances	0.68	0.68	--
a. Reserve Funds bearing interest	--	--	--
b. Reserve Funds not bearing interest	0.68	0.68	--
Interest realized	15.84	28.78	(+) 12.94

The cash balances at the close of the current year amounting to Rs 269.94 crore decreased from Rs 1,101.28 crore of the previous year. The major portion of the cash balance was invested in Government of India Treasury bills (Rs 95.10 crore), in Securities of Government of India (Rs 101.98 crore) and in Punjab State Electricity Board Bonds (Rs 0.04 crore) and Government of Punjab earned interest of Rs 28.78 crore during the year.

The efficiency of handling the cash balances by the Government of Punjab can also be assessed by monitoring the trends in daily average cash balances held by the Government of Punjab to meet its normal banking transactions in each month. **Table 1.16** presents the trends in daily average cash balances in each month and investments in 14 days Treasury Bills for the last three years (2006-09).

Table 1.16: Trends in daily average cash balances and the investments in Treasury bills

(Rupees in crore)

Month	Daily Average Cash Balances			Investment in 14 days Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	299.17	35.05	413.20	3068.69	--	1429.21
May	(-)48.95	232.25	73.38	--	683.34	2002.29
June	49.72	207.63	24.81	4216.01	1487.64	778.30
July	(-) 4.23	367.44	24.39	4884.12	702.03	1505.35
August	1.76	(-) 69.45	149.21	3403.43	1600.46	1140.91
September	9.36	30.97	204.01	2337.19	1005.61	936.91
October	163.11	136.63	60.03	1395.65	1424.18	1021.14
November	253.90	202.07	198.59	1469.91	646.76	878.70
December	(-) 13.36	(-) 10.11	20.50	3604.56	1582.50	2012.12
January	179.38	123.83	18.17	2016.10	1665.45	1596.33
February	(-) 73.79	42.20	(-)184.53	1817.71	2214.09	1295.01
March	(-)235.81	72.88	(-)301.18	1852.00	2511.21	1098.07

⁸ Rs 0.10 lakh

Under an agreement with the Reserve Bank of India, Government of Punjab has to maintain with the bank a minimum balance of Rs 1.56 crore on all days. If the balance falls below the agreed minimum on a day, the deficiency is made good by taking ways and means advances/overdraft from the Reserve Bank.

At the end of the previous year, no amount was outstanding as ways and means advance. During 2008-09, Government of Punjab obtained Rs 453.39 crore as ways and means advances on twenty-three occasions. Rs 453.39 crore were paid during the year leaving a nil balance. Rupees 0.76 crore was paid as interest on these advances.

At the end of the previous year, no amount was outstanding as shortfall/overdraft. During 2008-09, Government of Punjab had not availed any overdraft and no amount was paid as interest on shortfall/ overdraft.

1.7 Assets and liabilities

1.7.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities⁹ of the Government and the assets created out of the expenditure incurred. **Appendix 1.1 Part B** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position as on 31 March 2008. The liabilities consist of mainly internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms, during 2008-09, the assets grew by Rs 2,001 crore (8.04 *per cent*) whereas the liabilities increased by Rs 5,857 crore (10.44 *per cent*) over the previous year. Thus, the liabilities grew more than the assets in the year. During 2004-09, the ratio of Financial Assets to Liabilities remained at 44, implying that only 44 *per cent* of the liabilities were backed up by assets. The assets on account of loan to Government servants (Rs 154.44 crore) include Rs 2.57 crore written off by the State Government in respect of the deceased employees.

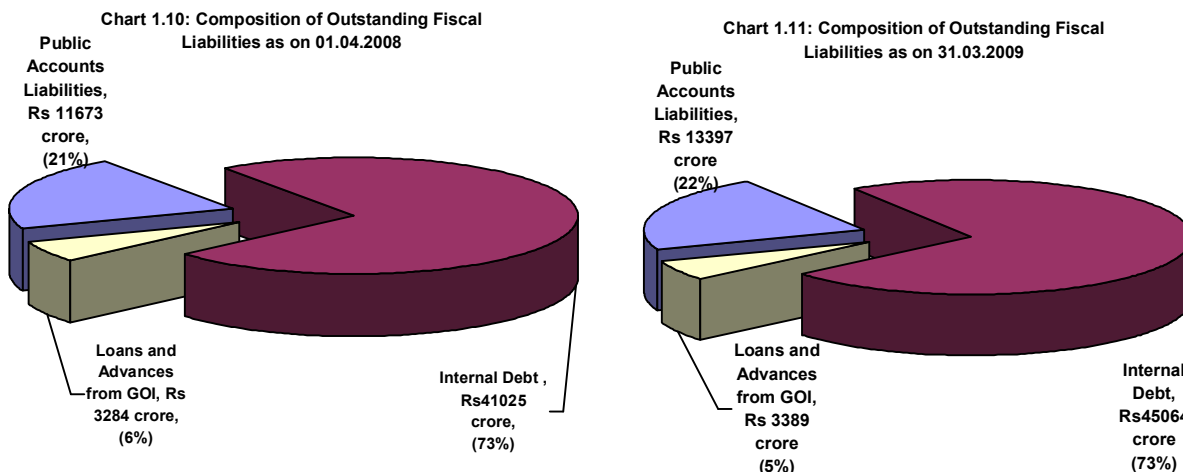
1.7.2 Fiscal liabilities

There are two sets of liabilities namely, public debt and other liabilities. The Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the consolidated fund. The debt includes market loans, special securities issued by RBI and loans and advances from the Central Government. The constitution of India provides that a State may borrow, within the territory of India, upon the security of its consolidated fund, within such limits, as may from time to time, be fixed by the Act of its

⁹ **Financial liabilities of the Government means the total liabilities under the Consolidated Fund of the State and the Public Account of the State referred to in article 266 of the Constitution of India.**

Legislature and give guarantees within such limits as may be fixed. The “Other liabilities”, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. The trends in outstanding fiscal liabilities, ratio of these liabilities to GSDP, to revenue receipts of the State during the period 2004-09 are presented in **Appendix 1.3**.

The composition of fiscal liabilities at the end of the current year vis-à-vis the previous year are presented in **Chart 1.10** and **1.11**.



The overall fiscal liabilities of Government of Punjab had been on the rise and it increased from Rs 47,403 crore in 2004-05 to Rs 61,850 crore in 2008-09 at an annual average growth rate of six *per cent*. The fiscal liabilities of Government of Punjab comprised consolidated fund liabilities and Public Account Liabilities. The Consolidated Fund liabilities (Rs 48,453 crore) comprised of Internal Debt (Rs 45,064 crore) and Loans from GOI (Rs 3,389 crore). The Public Account liabilities (Rs 13,397 crore) comprises of Small Savings, Provident Fund (Rs 9,334 crore) and interest bearing obligations and non-interest bearing obligations like deposits and other earmarked funds (Rs 4,063 crore). The fiscal liabilities of Government of Punjab have increased by Rs 5,868 crore during 2008-09 over the previous year mainly due to increase of Rs 4,039 crore (9.85 *per cent*) in the market loan. **Table 1.17** gives the fiscal liabilities of State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.17: Fiscal Liabilities – Basic Parameters

	2004-05	2005-06	2006-07	2007-08	2008-09
Fiscal Liabilities ¹⁰ (Rupees in crore)	47403	51364	51035	55982	61850
Rate of Growth (<i>per cent</i>)	9.74	8.36	(-) 0.64	9.69	10.48
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	49.04	47.27	42.11	40.43	38.91
Revenue Receipts (<i>per cent</i>)	343.33	302.75	248.14	291.00	298.61
Own Resources (<i>per cent</i>)	385.30	379.77	304.47	369.44	365.24
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.34	0.67	(-)0.06	0.68	0.71
Revenue Receipts (ratio)	0.71	0.37	(-)0.03	(-)1.50	1.37
Own Resources (ratio)	0.71	0.84	(-)0.03	(-) 1.01	0.89

¹⁰ Please see glossary (Appendix 4.1)

Though the ratio of fiscal liabilities to GSDP had been declining from 49.04 in 2004-05 to 38.91 in 2008-09, it was on the higher side in view of the target of bringing the ratio to 28 by 2009-10 as prescribed in the Punjab FRBM Act 2003 as amended in 2005. The ratio of fiscal liabilities to revenue receipts ranged between 248.14 to 343.33 during 2004-09 and it was 298.61 in 2008-09.

1.7.3 Status of Government guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower to whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the amount for which guarantees had been given by the Government of Punjab and the outstanding guarantees for the last three years is given in **Table 1.18**.

Punjab FRBM Act, 2003 as amended in 2005 provides that the Punjab Government shall cap the outstanding guarantees on long term debt to 80 *per cent* of the revenue receipts of the previous year and guarantees on short term debt be given only for working capital or food credit in which case this must be fully backed by physical stock. According to the information furnished by concerned authorities, the Government of Punjab had given guarantees during 2006-09 for repayment of loans etc. raised by statutory corporations/boards, local bodies, co-operative banks/societies and others. **Table 1.18** shows the maximum amount guaranteed by the State and the outstanding amount of guarantees for the last three years.

Table 1.18: Guarantees given by the Government of Punjab

Guarantees	2006-07	2007-08	2008-09 (Rupees in crore)	
			BE	Actual
Maximum amount guaranteed	25697	26094	20729	46815
Outstanding amount of guarantees	13919	11014	11875	25868
Percentage of outstanding guarantees to total revenue receipts of previous year	82	54	62	134
Criteria as per FRBM Act (per cent of guarantee to revenue receipts)	80	80	80	80

The maximum amount guaranteed for Rs 46,815 crore in 2008-09 was against the budget estimates of Rs 20,729 crore, which was Rs 26,086 crore (125.84 *per cent*) excess over the budget estimates. Similarly, the outstanding guarantees of Rs 25,868 crore were higher by Rs 13,993 crore (117.84 *per cent*) against the budget estimates of Rs 11,875 crore during the year 2008-09 showing unrealistic budget estimates.

The amount of outstanding guarantees (Rs 25,868 crore) as of March 2009 was 134.46 *per cent* of the revenue receipts of the previous year (2007-08). This was 54.46 *per cent* excess over the limit of 80 *per cent* prescribed in the FRBM Act. In consideration of the guarantees given by the State, the Government has been charging guarantee fees up to two *per cent*. The total amount of guarantee fees received decreased from Rs 49.93 crore in 2007-08 to Rs 36.37 crore in 2008-09. Information regarding the guarantee fees in

arrears and guarantee fees waived of was not furnished (June 2009) by the concerned departments.

The Joint Controller (F&A), Finance Department, Government of Punjab stated that the Government has not set up a Guarantee Redemption Fund (GRF) so far despite the recommendations of TFC. Further, scrutiny of the Finance Accounts revealed that no provision has been made by the Government of Punjab during the current year for the said Fund.

1.8 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability¹¹ of the State. This section assesses the sustainability of debt of the Government of Punjab in terms of debt stabilization¹²; sufficiency of non-debt receipts¹³; net availability of borrowed funds¹⁴; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the Government of Punjab debt. **Table 1.19** analyzes the debt sustainability of the Government of Punjab according to the above mentioned indicators for the years 2004-05 to 2008-09.

Table 1.19: Debt sustainability

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 259	(+) 3469	(+) 5769	(+) 1434	(+) 1845
Sufficiency of Non-debt receipts (Resource Gap)	(+) 765	(+) 1461	(+) 2042	(-) 3992	(-) 2087
Net availability of borrowed funds	1053	725	(-) 4238	3810	971
Burden of Interest Payments (IP/RR Ratio)	29	22	20	24	24
Maturity Profile of State Debt (In Years)					
0 – 1	N.A.	N.A.	N.A.	1229.38	1604.95
1 – 3	N.A.	N.A.	N.A.	3250.00	3551.54
3 – 5	N.A.	N.A.	N.A.	4611.68	6440.89
5 – 7	N.A.	N.A.	N.A.	6834.74	6156.51
7 and above	N.A.	N.A.	N.A.	28383.82	30699.45

A necessary condition for debt stabilisation is a constant debt-GSDP ratio over a period of time. The debt stabilisation (sum of quantum spread and primary deficit) was negative during 2004-05 indicating rising debt-GSDP ratio and it turned into positive since 2005-06 reflecting the decreasing tendency of debt-GSDP ratio.

The negative resource gap (the difference between non debt receipts of the State and the interest liabilities plus primary expenditure) indicates the non-sustainability of debt, while the positive resource gap indicates the capacity to sustain the debt. The positive resource gap between incremental non-debt receipts and the corresponding incremental total expenditure of the State during 2004-07 indicates enhancement in the capacity of the

¹¹ Please see glossary (Appendix 4.1)

¹² Please see glossary (Appendix 4.1)

¹³ Please see glossary (Appendix 4.1).

¹⁴ Please see glossary (Appendix 4.1).

Government of Punjab to sustain the debt. However, the Government of Punjab experienced huge negative resource gap in 2007-08 and 2008-09 and if it persists in the ensuing years, the State's capacity to sustain the additional debt liabilities would tend to deteriorate. Thus, during 2007-08 and 2008-09, the non-debt receipt of the Government of Punjab was not sufficient to meet the incremental debt.

The **net funds available** from the internal debt and loans and advances from GOI and other sources after providing for the interest payments and repayments of the principal decreased from Rs 3,810 crore in 2007-08 to Rs 971 crore in 2008-09. During 2008-09 the Government of Punjab raised the internal debt amounting to Rs 6,155 crore, loan of Rs 278 crore from GOI and collected Rs 6,531 crore from small savings deposits etc., against which the Government repaid Rs 5,807 crore, Rs 428 crore and Rs 5,758 crore respectively. These transactions resulted in net availability of funds of Rs 971 crore (Rs 348 crore of internal debt + Rs 773 crore of receipt from small savings deposits etc.– Rs 150 crore of Government of India loan) during the year 2008-09. The expenditure pattern of the Government of Punjab during the current year indicated that the borrowed funds were mostly used for redemption of past debts leaving only small fund for other purposes.

It was observed that burden of interest payments (Interest payments/revenue receipts) increased from 20 *per cent* in 2006-07 to 24 *per cent* in 2008-09. It was far beyond the medium term target of 15 *per cent* of the revenue receipts by 2009-10 envisaged by TFC.

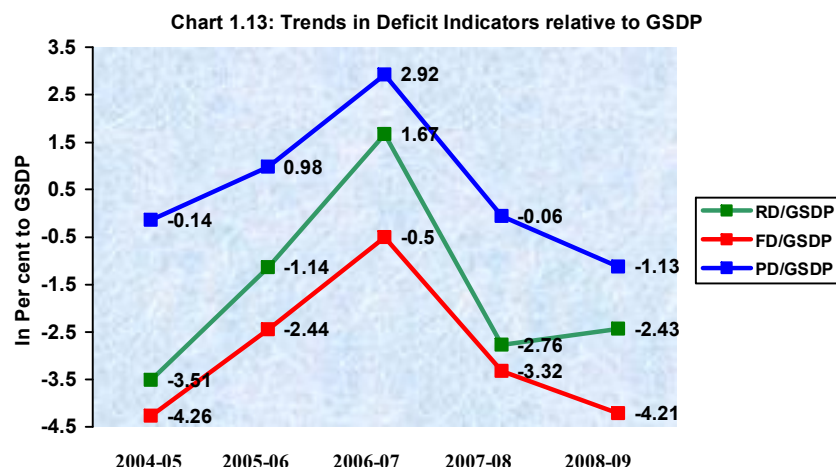
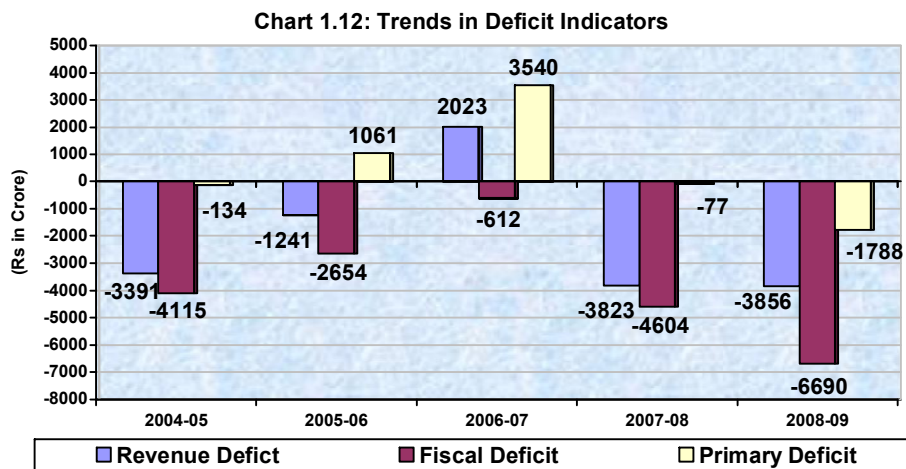
Maturity profile of the Government of Punjab debt during the current year indicated increasing trend of the State debt from zero to seven years and above as compared to the position in 2007-08.

1.9 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in deficits

Chart 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09



The **revenue deficit** which indicates the excess of its revenue expenditure over the revenue receipts, decreased from Rs 3,391 crore in 2004-05 to Rs 1,241 crore in 2005-06. It turned into a surplus of Rs 2,023 crore in 2006-07. It however, again turned into a huge deficit of Rs 3,823 crore during 2007-08 and Rs 3,856 crore during the current year.

The **fiscal deficit**, which represents the total borrowing of the Government of Punjab and its total resource gap, decreased from Rs 4,115 crore in 2004-05 to Rs 612 crore in 2006-07 but increased sharply to Rs 4,604 crore in 2007-08 and to Rs 6,690 crore in 2008-09.

The **primary deficit** of Rs 134 crore during 2004-05 turned into a surplus of Rs 1,061 crore in 2005-06 and surplus of Rs 3,540 crore in 2006-07 which again turned into a deficit of Rs 77 crore in 2007-08 and deficit of Rs 1788 crore in 2008-09.

The **ratio of fiscal deficit to GSDP** reduced from (-) 4.26 *per cent* in 2004-05 to (-) 0.50 *per cent* in 2006-07 and again increased to (-) 3.32 *per cent* in 2007-08 and (-) 4.21 *per cent* in 2008-09. The ratio of fiscal deficit to GSDP at (-) 4.21 *per cent* during the current year was higher than the targets of three per cent of GSDP by the year 2009-10 as envisaged in FRBM Act. The ratio of revenue deficit to GSDP turned from (-) 3.51 *per cent* in 2004-05 to (+) 1.67 *per cent* in 2006-07 and again to (-) 2.76 *per cent* in 2007-08 and (-) 2.43 *per cent* in 2008-09. The target fixed by FRBM (Amendment) Act, 2005 to bring down the revenue deficit to zero by 2008-09 was not achieved.

The major portion of revenue expenditure (59.29 *per cent*) consists of Salaries & Wages (27.82 *per cent*), Interest Payments (19.95 *per cent*) and Pensions (11.52 *per cent*) which needs to be curtailed in the ensuing years besides increasing the State's own resources so as to bring down the revenue deficit to zero as envisaged in the FRBM Act.

1.9.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.20**.

Table 1.20: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Composition of Fiscal Deficit (1+2+3)		4115 (4.26)	2654 (2.44)	612 (0.50)	4604 (3.32)	6690 (4.21)
1	Revenue Deficit/Surplus(-)	3391 (3.51)	1241 (1.14)	(-) 2023 [#] (- 1.67)	3823 (2.76)	3856 (2.43)
2	Net Capital Expenditure	761 (0.79)	1517 (1.40)	2586 (2.13)	2191 (1.58)	2857 (1.80)
3	Net Loans and Advances	(-) 37 (- 0.04)	(-) 104 (- 0.09)	49 (0.04)	(-) 1410 (- 1.02)	(-) 23 (- 0.01)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1659	978	738	3794	4645
2	Loans from GOI	(-) 2020	(-) 178	(-) 4008	71	105
3	Special Securities Issued to NSSF	3641	3316	2801	463	(-) 213
4	Loans from Financial Institutions	(-) 130	(-) 650	(-) 427	(-) 385	(-) 393
5	Small Savings, PF etc	420	389	402	636	720
6	Deposits and Advances	209	(-) 84	(-) 102	66	645
7	Suspense and Miscellaneous	(-) 5	10	40	38	2
8	Remittances	2	(-) 11	(-) 15	12	(-) 11
9	Others (Reserve Fund)	427	191	241	184	359
10.	Increase/Decrease in cash balance	(-) 88	(-) 1307	942	(-) 275	831
11.	Overall Deficit	4115	2654	612	4604	6690
Figures in brackets indicate the <i>percent</i> to GSDP.						
*All these figures are net of disbursements/outflows during the year.						
# Minus figure represents that Revenue receipts are more than Revenue expenditure which means revenue surplus.						

The fiscal deficit of the State increased from Rs 4,115 crore in 2004-05 to Rs 6,690 crore in 2008-09 with inter year variations. The factors contributing to the increase in fiscal deficit were the increase in revenue deficit, which increased from Rs 3,391 crore in 2004-05 to Rs 3,856 crore in 2008-09 and capital expenditure which increased from Rs 761 crore in 2004-05 to Rs 2,857 crore in 2008-09.

1.9.3 Quality of deficit/surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit¹⁵ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.21**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of RD to FD reduced from 82.41 *per cent* in 2004-05 to 57.64 *per cent* in 2008-09, due to increase in fiscal deficit, with inter year variations. (*Appendix 1.3 Part E III*)

Table 1.21: Primary deficit/surplus

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue expenditure	Capital expenditure	Loans and advances disbursed	Primary expenditure	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-6)
2004-05	13941	13217	761	97	14075	(-) 134
2005-06	17103	14492	1517	33	16042	(+) 1061
2006-07	20962	14392	2586	444	17422	(+) 3540
2007-08	20684	18534	2192	35	20761	(-) 77
2008-09	20792	19667	2858	55	22580	(-) 1788

The bifurcation of the factors resulting into primary deficit or surplus of the Government of Punjab during the period 2004-09 reveals (**Table 1.21**) that, the primary deficit during this period was on account of rise in capital expenditure besides stagnation in non-debt receipts. In other words, non-debt receipts of the State were just enough to meet the primary expenditure¹⁶ requirements in the revenue account, rather it left some receipts to meet the expenditure under the capital account and loans and advances during 2005-06 and 2006-07. But the surplus non-debt receipts were not enough to meet the expenditure under capital account resulting in primary deficit during 2004-05, 2007-08 and 2008-09. This indicates the extent to which the primary deficit has been increasing on account of increase in capital expenditure, which may be desirable to improve the productive capacity of the Punjab's economy.

1.9.4 State's own revenue and deficit correction

It is worthwhile to observe the extent to which the deficit correction was achieved by the State on account of improvement in its own resources which is an indicator of durability of the correction in deficit indicators. **Table 1.22**

¹⁵ Primary revenue deficit is defined as gap between non-interest revenue expenditure of the State and its non-debt receipts. It indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

¹⁶ Please see glossary (Appendix 4.1)

presents the change in revenue receipts of the Government of Punjab and the correction of the deficit during the last three years.

Table 1.22: Change in revenue receipts and correction of deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue receipts (a to d)	16.97	13.89	14.63	13.03
a. State's Own tax revenue	7.44	7.15	7.08	7.01
b. State's Own non- tax revenue	6.39	3.79	3.39	3.64
c. State's Share in Central taxes and duties	1.29	1.43	1.46	1.31
d. Grants-in-Aid	1.85	1.52	2.70	1.07
Revenue expenditure	15.30	16.65	15.89	15.45
Revenue deficit (-)/surplus	1.67	(-) 2.76	(-) 0.63	(-) 2.42
Fiscal deficit (-)/surplus	(-) 0.50	(-) 3.32	(-) 2.75	(-) 4.21

The percentage of revenue receipts to GSDP decreased from 16.97 *per cent* in 2006-07 to 13.03 *per cent* in 2008-09 which was less than the budget estimates of 15.26 *per cent*. On the other hand, percentage of revenue expenditure to GSDP increased from 15.30 *per cent* in 2006-07 to 16.65 *per cent* in 2007-08 which again decreased to 15.45 *per cent* in 2008-09 which was less than the budget estimates of 15.89 *per cent*. The percentage of revenue surplus to GSDP of 1.67 in 2006-07 turned into deficit of 2.76 *per cent* and 2.42 *per cent* in 2007-08 and 2008-09 respectively which was more than the budget estimates of 2008-09 (0.63 *per cent*). The percentage of fiscal deficit to GSDP grew from 0.50 in 2006-07 to 4.21 *per cent* in 2008-09 which was higher than the budget estimates of 2.75 *per cent* for the year 2008-09. Thus, there was no improvement either to mobilise more resources or to restrict the revenue expenditure which resulted in no impact on deficit correction.

1.10 Conclusions and recommendations

Inadequate mobilization of revenue receipts: The revenue receipts during 2008-09 showed a growth rate of only 7.67 *per cent* over the previous year. The share of the States own tax revenue was 54 *per cent* of the total revenue receipts. The non-tax revenue accounted for 28 *per cent*. Thus, the States own sources of receipts in 2008-09 accounted for 82 *per cent* of the total revenue receipts showing decline of seven *per cent* from 89 *per cent* in 2004-05. Concerted efforts to increase the own tax revenue wherever feasible could improve the State's finances.

Funds transferred directly to the State implementing agencies: The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes in social and economic sectors recognized as critical. During 2008-09, the Government of India directly transferred Rs 708.20 crore to the State implementing agencies. As these funds are not routed through the budget of State Government, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the receipts and expenditure of the State as well as other fiscal variables/ parameters derived from them are underestimated. Unless there is proper documentation and timely reporting of

expenditure by the implementing agencies, it will be difficult to monitor the end use of these direct transfers. Government need to ensure proper documentation and timely reporting of expenditure by the implementation agencies.

High share of revenue expenditure in total expenditure: The expenditure pattern of the State revealed that the revenue expenditure continued to constitute the dominant share of 86 to 95 *per cent* of the total expenditure during 2004-09. Out of 89 *per cent* of the revenue expenditure to the total expenditure in 2008-09, 71 *per cent* was consumed by committed expenditure and again of which 39 *per cent* was spent on salary and wages. This indicates that not only the revenue expenditure was on the higher side, but was also incurred on already committed expenditure leaving only a small share for current operations. Action needs to be taken to compress the unproductive non plan revenue expenditure.

Increasing trend of subsidies: Though the subsidies are a drain on the State finances, the Government of Punjab is extending subsidies in a big way to Power and Energy Sector. Against the projections of Rs 1,662 crore for subsidy to Power and Energy sector and Rs 12 crore for general subsidy (subsidy other than Power and Energy Sector) in FCP, the Government of Punjab had given subsidy of Rs 2,602 crore to Power and Energy sector and Rs 204 crore to the general subsidy. Since the current level of subsidies are almost 68 *per cent* higher than what was projected in the FCP, the state may discourage extending of subsidies to improve the fiscal position of the State.

Lower priority to capital expenditure: The Capital expenditure increased by Rs 666 crore (30.40 *per cent*) over the previous year, but relative to the GSDP, it remained at 1.80 *per cent*, far below the target of three *per cent* to be achieved by the Government of Punjab by 2008-09. Hence, the target of ratio of CE to GSDP was not achieved. Moreover, as observed in Para 1.5.1, in 2005-06, Punjab's per capita expenditure on CE (Rs 586) was lower than the national per capita expenditure of Rs 692. Similarly, in 2008-09 Punjab's per capita expenditure on CE (Rs 1,062) was also lower than the national average of Rs 1,254. Thus, the Government of Punjab was giving low fiscal priority to CE. The state may consider enhancing the priority to capital expenditure as the proportion of Capital expenditure to Aggregate expenditure is very low in Punjab as compared to the national average.

Low return on investment: As of March 2009, the Government had invested Rs 3,841 crore in statutory corporations (81.57 *per cent*), Government companies (12.74 *per cent*), cooperative banks and societies (5.66 *per cent*). The return on these investments was negligible (0.01 to 0.05 *per cent*). On the other hand, the cost of borrowed funds was higher (7.52 to 8.79 *per cent*) which resulted in straining of the financial position of the Government of Punjab. It would be advisable for the State Government to ensure better value for investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial returns.

Low backup of liabilities by assets: The ratio of assets to liabilities remained at an average of 44 *per cent* during 2004-09 implying that only 44 *per cent* of

the liabilities were backed up by assets. Greater emphasis on capital asset creation could help in improving this position.

Higher ratio of fiscal liabilities with reference to GSDP: The fiscal liabilities stood at 39 *per cent* of GSDP during 2008-09 against the norm of 28 *per cent* to be achieved by 2009-10 as per Punjab FRBM Act, 2003. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from the revenue receipts.

Increase in outstanding guarantees: The outstanding guarantees of Rs 25,868 crore (as of March 2009) given by the Government of Punjab were 134 *per cent* of the revenue receipts of 2007-08, against the norm of 80 *per cent* prescribed in the FRBM Act, 2003. Reduction of the contingent liabilities may be given due priority by the State Government.

Low debt sustainability: Debt sustainability deteriorated as the non-debt receipts of Government of Punjab were not sufficient to meet the incremental debt, net availability of borrowed funds for deploying on items other than debt redemption had decreased and the burden of interest payments was 24 *per cent* of the revenue receipts, which was far higher than the target of 15 *per cent* fixed by the TFC. Government need to restrict the borrowings and increase its own tax/non-tax resources so as to avoid deterioration of debt sustainability.

Increasing deficits: The revenue deficit of the Government of Punjab ranged between Rs 1,241 crore to Rs 3,856 crore during 2004-09, which was far higher than the target to wipe out the revenue deficit by 2008-09. The fiscal deficit, which represents the total borrowing of the Government and its total revenue gap, increased from Rs 4,115 crore in 2004-05 to Rs 6,690 crore in 2008-09. The primary deficit indicates the deficit arising out of financial transactions during a year. The primary surplus of Rs 3,540 crore in 2006-07 in the Government of Punjab turned into deficit of Rs 1,788 crore in 2008-09 implying declining financial position of the Punjab Government. Punjab can achieve the targets set out in the FRBM Act provided an effort is made to increase tax mobilisation, make efforts to collect revenue arrears and prune unproductive expenditure.

