

CHAPTER 1

Finances of the State Government

Punjab is an agrarian State, with relatively higher literacy, higher life expectancy at birth and lower infant mortality as compared to the All India average (*Appendix 1.1*). Punjab has also the advantage of relatively less population below poverty line. During the period 2000-01 to 2008-09, the compound annual growth rate of GSDP in Punjab was lower (10.48 *per cent*) than the average rate of the other general category States (12.54 *per cent*). However, population growth in Punjab during this period has been lower than that of other general category States, so there would not be any significant adverse impact on per capita income growth.

This chapter provides a broad perspective of the finances of the Government of Punjab during 2009-10 and analysis of the critical changes in major fiscal parameters relating to the previous year, keeping in view the overall trends during the last five years. The analysis has been made based on the State's Finance Accounts and information obtained from the State Government.

Some of the Acts and Rules which regulate the receipts of the State Government are the Punjab Value Added Tax Act, 2005; Punjab Motor Vehicles Taxation Act, 1924; Punjab Excise Act, 1914; Indian Stamp Act, 1899 and the Registration Act, 1908.

All receipts of the Punjab Government are accounted for in the Consolidated Fund of the State constituted under Article 266(1) of the Constitution of India. Expenditure therefrom is authorised by the State Legislature through Appropriation Act. Money so authorised by the Appropriation Act is spent as per provisions contained in the Punjab Financial Rules and the Departmental Financial Rules and instructions issued by the Finance Department from time to time. The Punjab Financial Rules contain the financial regulations of general nature issued by the Finance Department for the guidance of various offices and departments. The Departmental Financial Rules are the Rules relating to the Public Works and Forest Departments.

Apart from the above, in May 2003, the 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 given in *Appendix 1.2*. The structure of Government Accounts and the layout of Finance Accounts are shown in the *Box 1.1*.

Box 1.1

Structure of the Government Accounts

The accounts of the State Government are kept in three parts:

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.

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.

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.

Layout of the Finance Accounts

Statement No.	Subject
1	Statement of Financial Position
2	Statement of Receipts and Disbursements
3	Statement of Receipts in Consolidated Fund
4	Statement of Expenditure out of Consolidated Fund by function and nature
5	Statement of Progressive Capital expenditure
6	Statement of Borrowings and other Liabilities
7	Statement of Loans and Advances given by the Government
8	Statement of Grants-in-aid given by the Government
9	Statement of Guarantees given by the Government
10	Statement of Voted and Charged Expenditure
11	Detailed Statement of Revenue and Capital Receipts by minor heads
12	Detailed Statement of Revenue Expenditure by minor heads
13	Detailed Statement of Capital Expenditure
14	Detailed Statement of Investments of the Government
15	Detailed Statement of Borrowings and other Liabilities
16	Detailed Statement of Loans and Advances given by the Government
17	Detailed Statement of Sources and Application of funds for expenditure other than revenue account
18	Detailed Statement of Contingency Fund and other Public Account transactions
19	Detailed Statement of Investments of earmarked funds

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 (2009-10) vis-à-vis the previous year (2008-09). *Appendix 1.3* provides the details of receipts and disbursements as

well as the overall fiscal position of the Government of Punjab as on 31 March, 2010.

Table 1.1: Summary of the current year's fiscal operations

(₹ in crore)

Receipts	2008-09	2009-10	Disbursements	2008-09	2009-10		
Section A: Revenue			Section A: Revenue		Non-Plan	Plan	Total
Revenue receipts	20712.79	22156.58	Revenue expenditure	24568.99	25983.48	1424.46	27407.94
Tax revenue	11150.08	12039.48	General services	14032.13	15518.88	6.40	15525.28
Non-tax revenue	5783.91	5652.70	Social services	5482.68	5178.93	1038.20	6217.13
Share of Union taxes/ duties	2084.12	2144.10	Economic services	4744.49	4838.76	379.86	5218.62
Grants from Government of India	1694.68	2320.30	Grants-in-aid and Contributions	309.69	446.91	0.00	446.91
Section B: Capital			Section B: Capital				
Misc. Capital Receipts	1.12	0.50	Capital Outlay	2857.93	186.51	1979.90	2166.41
Recoveries of Loans and Advances	77.63	1276.02	Disbursement of Loans and Advances	55.07	28.84	0.00	28.84
Public Debt receipts*	5978.86	7082.62	Public Debt repayments*	1835.13	2283.14	0.00	2283.14
Contingency Fund	0.00	0.00	Contingency Fund	0.00	0.00	0.00	0.00
Public Account receipts	24306.24	22047.45	Public Account disbursements	22590.85	20721.04	0.00	20721.04
Opening Cash Balance	1101.30	269.97	Closing Cash Balance	269.97	225.77		225.77
TOTAL	52177.94	52833.14	TOTAL	52177.94	49428.78	3404.36	52833.14

*Excluding net transactions under ways and means advances (₹ 3,025.22 crore). *Source: Finance Accounts*

1.1.1 Significant changes during 2009-10

Following are the significant changes during 2009-10 over the previous year:

- The **revenue receipts** grew by ₹ 1,444 crore (6.97 per cent) in 2009-10 over the previous year. The increase was mainly in tax-revenue (₹ 890 crore: 7.98 per cent) and Grants-in-aid from Government of India (₹ 625 crore: 36.87 per cent). *The revenue receipts at ₹18,120 crore (net of lotteries) were less than that projected in the Fiscal Correction Path (FCP) (₹21,272 crore) for the year 2009-10.*
- The **revenue expenditure** increased by ₹ 2,839 crore (11.55 per cent) over the previous year. The increase was mainly under General education (₹ 619.26 crore: 21.25 per cent), Pension and other retirement benefits (₹ 527.59 crore: 18.64 per cent), Compensation and assignments to Local Bodies and Panchayati Raj Institutions (₹ 137.22 crore: 44.31 per cent) and Roads and Bridges (₹ 117.57 crore: 93.08 per cent), partly offset by decline under the heads Relief on account of Natural Calamities (₹ 139.18 crore: 42.08 per cent) and Industries (₹ 101.00 crore: 100 per cent). *The revenue expenditure net of lotteries exceeded the projections in FCP for the year 2009-10 by ₹3,441 crore (17.23 per cent).*
- The **capital expenditure** decreased by ₹ 692 crore (24.21 per cent) over the previous year. The decrease was mainly under capital outlay on Urban development (₹ 450.41 crore: 64.49 per cent), Civil aviation (₹ 150.26 crore: 91.43 per cent), Power projects (₹ 118.59 crore: 83.21 per cent), Police (₹ 60.05 crore: 51.72 per cent) and Other Rural Development programmes (₹ 59.09 crore: 38.82 per cent) partly offset

mainly by increase in capital outlay on Roads and Bridges (₹ 208.89 crore: 63.96 per cent).

- The **recovery of loans and advances** increased by ₹ 1,198 crore (1535.90 per cent) over the previous year. This was because of book adjustment of ₹ 1,192.81 crore of outstanding loans against the Punjab State Electricity Board as recovery of loans in lieu of subsidy paid by the Punjab Government to the Board during the year 2009-10.
- The **Public debt receipts** increased by ₹ 1,104 crore (18.46 per cent) and **repayment of public debt** increased by ₹ 448 crore (24.41 per cent) over the previous year. Thus, net receipts under the public debt increased during the year by ₹ 656 crore.
- The **Public Account receipts and disbursements** decreased by ₹ 2,259 crore (9.29 per cent) and ₹ 1,870 crore (8.28 per cent) respectively over the previous year. Thus, net receipts under the Public Account decreased by ₹ 389 crore during the current year.
- The net impact of the above mentioned fiscal transactions of the Punjab Government was reflected in terms of a net decrease of ₹ 44.20 crore in cash balances as on 31 March 2010, which decreased from the opening balance of ₹ 269.97 crore to the closing balance of ₹ 225.77 crore.

1.1.2 Assessment of the fiscal position

The norms/ceilings prescribed by the Twelfth Finance Commission (TFC) for selected fiscal variables and the commitments/projections made by the State Government in their FRBM Act and in other Statements required to be laid in the legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, the major fiscal aggregates like tax and non-tax revenue, capital and revenue expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for the relevant fiscal variables with reference to the base represented by GSDP have also been worked out to assess whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The trends in GSDP for the last five years are indicated in **Table 1.2** and the outcome indicators of the FCP are given in **Appendix 1.4**.

Table 1.2: Trends in Gross State Domestic Product (GSDP)

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product (₹ in crore)	108653	121209 (R)	144309 (P)	165804 (Q)	192364 (A)
Growth rate of GSDP	12.41	11.56	19.06	14.89	16.02

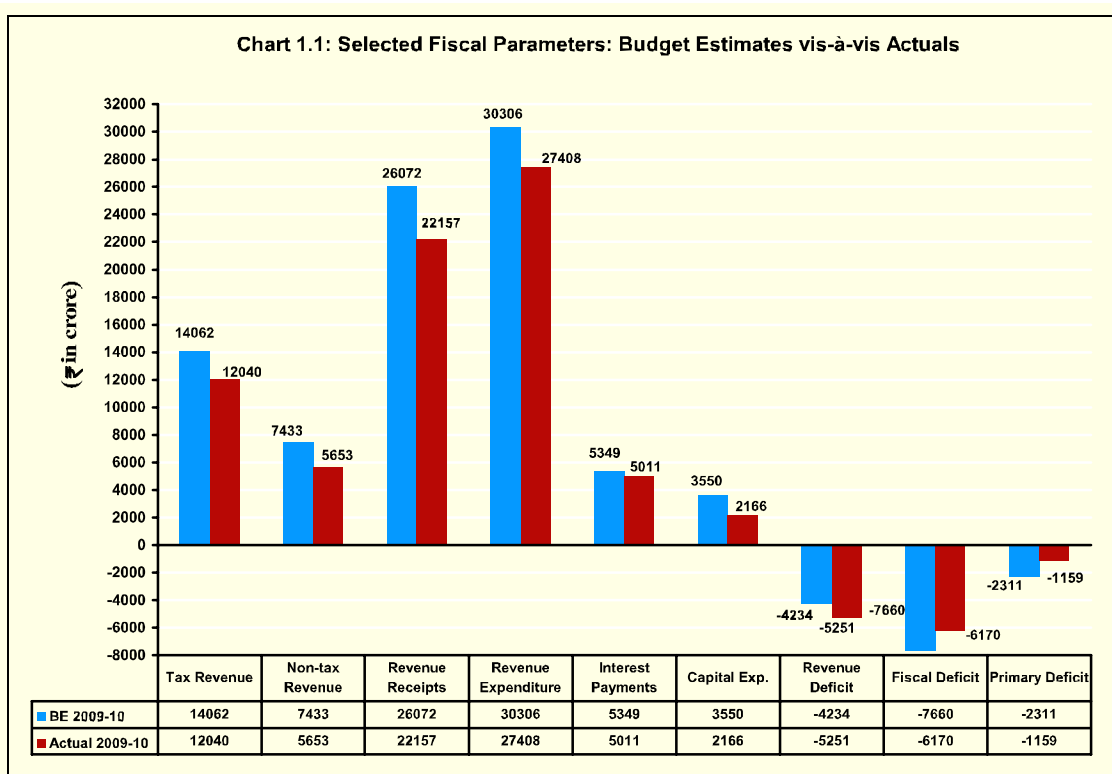
Source:- Figures of GSDP as furnished by the Economic Adviser to Government of Punjab.

R= Revised, P= Provisional, Q= Quick and A= Advance estimates.

1.1.3 Budget estimates and actuals

The budgeted and actual figures under the various receipts and expenditure heads are given in **Chart 1.1 and Appendix 1.5**.

The actual revenue receipts during the year 2009-10 decreased by ₹ 3,915 crore (15.02 per cent) over the budget estimates, while the actual revenue expenditure decreased by ₹ 2,898 crore (9.56 per cent). The capital expenditure and interest payments decreased by ₹ 1,384 crore (38.99 per cent) and ₹ 338 crore (6.32 per cent) respectively over the budget estimates.



The targeted revenue deficit of ₹ 4,234 crore increased to the level of ₹ 5,251 crore. However, the fiscal and the primary deficits remained within the budget estimates. The asset creation was not given as much priority as intended in the budget estimates as is evident from 38.99 per cent shortfall in capital expenditure over the budget estimates. Variations in some of the tax and non-tax revenue heads are given in **Table 1.3**.

Table 1.3: Variation between the budget estimates and actuals

(₹ in crore)

S.No.	Revenue head	Budget estimates	Actual receipts	Variations increase (+) shortfall (-)	Percentage
	Tax revenue				
1	Taxes/VAT on sales, trade etc.	8320.00	7577.49	-742.51	-8.92
2	State excise	2000.83	2100.92	100.09	5.00
3	Stamp duty and registration fees	2200.00	1550.94	-649.06	-29.50
4	Taxes on vehicles	610.56	554.74	-55.82	-9.14
5	Taxes and duties on electricity	900.03	230.13	-669.90	-74.43
6	Land revenue	19.97	15.31	-4.66	-23.34
7	Other taxes and duties on commodities and services including entertainment tax	11.00	9.95	-1.05	-9.55
	Non-tax revenue				
1	Road transport	151.40	114.55	-36.85	-24.34
2	Forestry and wild life	16.00	26.47	10.47	65.44
3	Interest receipts	137.76	164.69	26.93	19.55
4	Medium irrigation	0.00	1.45	1.45	0.00
5	Major irrigation	29.58	33.17	3.59	12.14
6	Crop husbandry	10.77	9.44	-1.33	-12.35
7	Miscellaneous General Services	6587.13	4780.12	-1807.01	-27.43
8	Police	52.10	51.88	-0.22	-0.42
9	Public works	22.80	22.60	-0.20	-0.88

The actual receipts were lower than the estimates by 20 *per cent* or more in the case of stamp duty, taxes on electricity, land revenue, receipts from road transport and Miscellaneous General services.

The reasons for the variation as furnished by some of the departments are given below:-

The Department of Revenue and Rehabilitation replied that the income from Registration fee/Stamp duty on account of the market value of the properties could not be anticipated with exactness. The shortfall in income from Stamp duty and Registration fee was due to the reasons that less number of documents had been presented for registration in the districts as compared to the last year.

The Chief Electrical Inspector replied that the main reason for shortfall of 74.43 *per cent* during the year 2009-10 was due to the adjustment of subsidy against electricity duty (₹ 270.22 crore) and refund of interest (₹ 269.78 crore) due from the Punjab Government to the Punjab Power Corporation Limited.

The other departments did not intimate (October 2010) the reasons for variations in receipts when compared to the budget estimates.

The huge variations under many heads indicate that the budget estimates were not prepared with due care and/or the collection of revenue was not monitored closely. There is a necessity to review and streamline formulation of the budgets for receipts so that the estimates and the actuals do not differ widely.

1.2 Resources of the State

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 State 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 State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

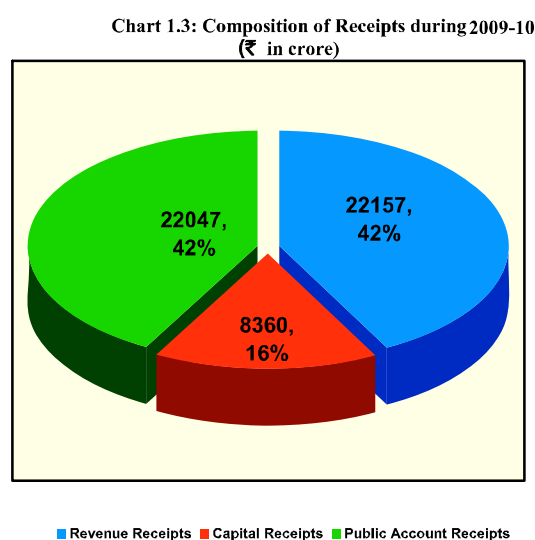
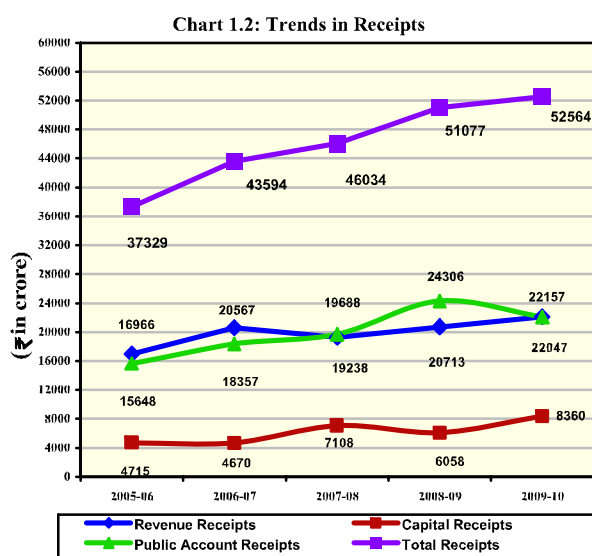


Chart 1.2 shows that out of the total receipts of ₹ 52,564 crore in the year 2009-10, the revenue receipts were ₹ 22,157 crore, constituting 42.15 *per cent* of the total receipts. The balance came from capital receipts and Public Account receipts. The total receipts of the State increased by 40.81 *per cent* from ₹ 37,329 crore in 2005-06 to ₹ 52,564 crore in 2009-10. The Public debt receipts (₹ 7,083 crore) constituted 84.72 *per cent* of the capital receipts during 2009-10. The major share of the Public debt (₹ 7,011 crore: 98.98 *per cent*) was from internal debt.

Chart 1.3 shows that out of the total receipts of ₹ 52,564 crore, the Revenue receipts were ₹ 22,157 crore (42.15 *per cent*), Public Account receipts were ₹ 22,047 crore (41.94 *per cent*) and the Capital receipts of ₹ 8,360 crore

accounted for 15.91 *per cent*. The share of revenue receipts in the total receipts showed a marginal growth of 1.60 *per cent* in 2009-10 as compared to the previous year.

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 various schemes/programmes in social and economic sectors recognised as critical. During 2009-10, the Government of India transferred an amount of ₹ 1,161.73 crore directly to the agencies (detailed in *Appendix 1.6*). Significant amounts given to the major programmes/schemes are presented in **Table 1.4**.

Table 1.4: Funds transferred directly to the State implementing agencies
(₹ in crore)

Programme/Scheme	Implementing Agency	2009-10
NREGA	DRDA	143.18
SGSY	DRDA & SIRD, Punjab	13.35
Rural Housing - IAY	DRDA	64.63
MPLAD	Deputy Commissioner	43.00
NRHM	State Health Society, Punjab	150.50
Sant Longowal Institute of Engineering and Technology	SLIET, Sangrur, Punjab	15.00
National Institute of Pharmaceutical Education & Research	NIPER, SAS Nagar	24.65
National Institute of Technology	Dr. Ambedkar NIT, Jalandhar	46.00
Sarva Shiksha Abhiyan (SSA)	SSA Authority, Punjab	200.44
National Food Security Mission	SADA, Punjab	61.22
PMGSY	Punjab R & B Development Board	122.10
Upgradation of 1396 Government ITIs through PPP	IMC Society of ITI, Fatehgarh Churian	55.00
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	RMSA Authority, Punjab	23.25
Scheme for setting up of 6000 Model Schools at Block level as bench mark of excellence		23.78
Setting up of new IITs	IIT, Punjab	20.00
TOTAL		1006.10

Source: Information collected from the CGA's website

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 State. 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 2005-10 are presented in *Appendix 1.7* and also depicted in **Charts 1.4** and **1.5**.

Chart 1.4: Trends in Revenue Receipts

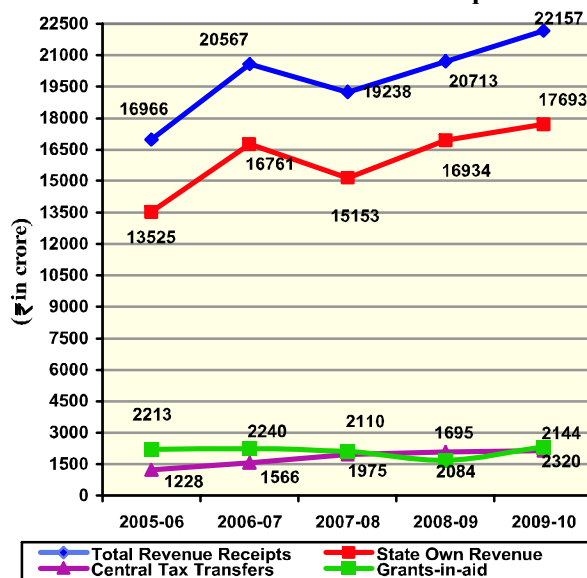
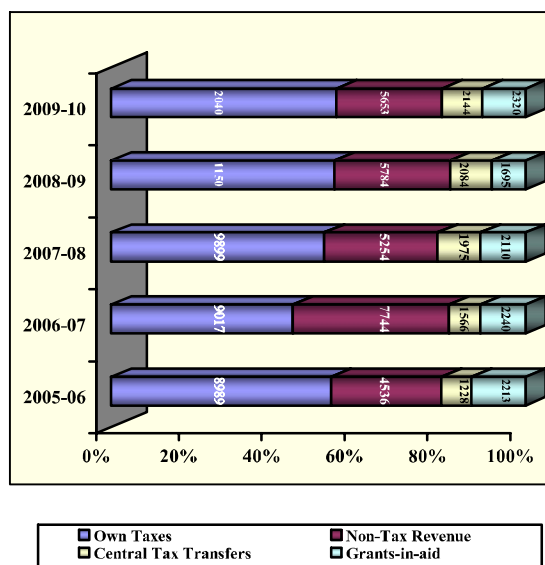


Chart 1.5: The composition of Revenue Receipts during 2005-10 (₹ in crore)



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 the plan schemes etc. and the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

The **State's own tax revenue** during the current year was ₹ 12,040 crore, which was less by ₹ 2,170 crore (15.27 *per cent*) compared to ₹ 14,210 crore fixed by TFC and less by ₹ 2,087 crore (14.77 *per cent*) against ₹ 14,127 crore projected in the FCP. The share of **non-tax revenue** decreased by two *per cent* (from 28 to 26 *per cent*) during the current year over the previous year. The share of **Central transfers** increased from seven to 10 *per cent* during the period 2006-08 and then remained stagnant at 10 *per cent* during 2008-10. The share of **grants-in-aid** from GoI declined from 13 *per cent* (₹ 2,213 crore) in 2005-06 to eight *per cent* (₹ 1,695 crore) in 2008-09 and increased to 10 *per cent* (₹ 2,320 crore) in the current year.

The **State's non-tax revenue** during the current year was ₹ 5,653 crore, which was more by ₹ 3,078 crore (119.53 *per cent*) against ₹ 2,575 crore fixed by TFC. The non-tax revenue decreased by ₹ 131 crore (2.26 *per cent*) over the previous year. The decrease in non-tax revenue was mainly due to decrease of ₹ 230.72 crore under the Major Head 1053-Civil Aviation – Other Receipts and ₹ 81.83 crore under 0070-Other Administrative Services partly offset by an increase of ₹ 212.32 crore under 0075-Miscellaneous General Services.

The component wise analysis of non-tax receipts during the period 2007-10 revealed that gross receipts from State lotteries contributed on an average of

66.60 *per cent* of the total non-tax receipts. Netting the receipts from lotteries against the expenditure incurred revealed only marginal net receipts from lotteries to the State Government which varied from ₹ 39.88 crore to ₹ 46.20 crore during 2007-10.

The trends in revenue receipts vis-à-vis Gross State Domestic Product (GSDP) are presented in **Table 1.5**.

Table 1.5: Trends in Revenue receipts

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	16966	20567	19238	20713	22157
Own Taxes	8989	9017	9899	11150	12040
Non-Tax Revenue	4536	7744	5254	5784	5653
Rate of growth of RR (<i>per cent</i>)	22.88	21.22	-6.46	7.67	6.97
Rate of growth of Own taxes (<i>per cent</i>)	29.45	0.31	9.78	12.64	7.98
RR/GSDP (<i>per cent</i>)	15.61	16.97	13.33	12.49	11.52
Buoyancy Ratios ¹					
Revenue buoyancy w.r.t GSDP	1.84	1.84	-0.34	0.51	0.44
State's own tax buoyancy w.r.t GSDP	2.37	0.03	0.51	0.85	0.50
GSDP Growth rate (In percent)	12.41	11.56	19.06	14.89	16.02

Source: Finance Accounts

The revenue receipts increased from ₹ 16,966 crore in 2005-06 to ₹ 22,157 crore in 2009-10. 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 2009-10 was only 6.97 *per cent*. The ratio of revenue receipts to GSDP during the current year (11.52 *per cent*) decreased by almost one *per cent* when compared to the previous year. The revenue buoyancy with reference to GSDP decreased from 1.84 in 2005-06 to 0.51 in 2008-09 and it further decreased to 0.44 in 2009-10. It implied that the revenue receipts increased by only 0.44 *per cent* in 2009-10 for one point increase in GSDP. The State's own tax buoyancy with reference to GSDP decreased from 2.37 in 2005-06 to 0.50 in 2009-10.

1.3.1 Revenue arrears

The arrears of revenue in respect of two principal heads of revenue viz. Sales Tax/Value Added Tax and Taxes on vehicles were ₹ 483.84 crore as on 31 March 2010.

In the case of Sales Tax/Value Added Tax, the arrears of revenue were ₹ 375.98 crore. Out of this, ₹ 169.09 crore (45 *per cent*) were outstanding for more than five years.

In the case of Taxes on vehicles, the arrears of revenue were ₹ 107.86 crore. Out of this, ₹ 48.17 crore (45 *per cent*) were outstanding for more than five

¹ 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 0.60 implies that revenue receipts tend to increase by 0.60 percentage points, if the GSDP increases by one *per cent*.

years. The arrears of ₹ 107.86 crore outstanding as on 31 March 2010 were due to High Court/Appellate authorities stay of the recovery proceedings for ₹ 0.40 crore, pending revenue recovery ₹ 3.01 crore, and arrears of ₹ 0.13 crore proposed for write off. The reasons for the balance arrears of ₹ 104.32 crore were not specified by the Department.

While analyzing the receipts of the State Government, it was observed that the Government can increase its receipts by taking some of the following actions:

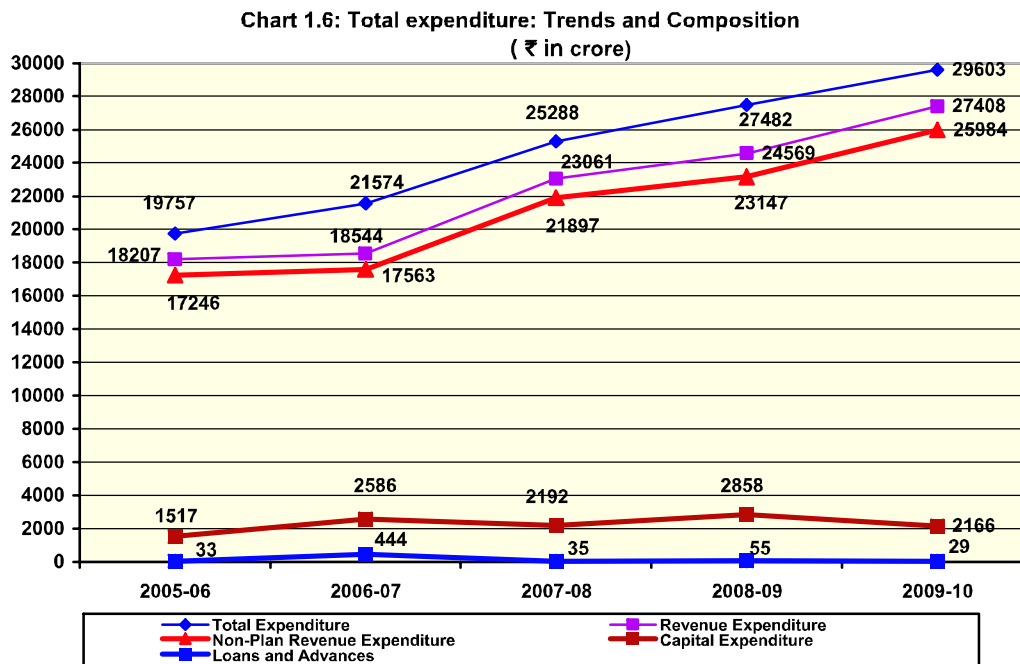
- *As the state has been witnessing very high growth in GSDP in the last three years, there is probably a potential to increase the tax base and revise the user charges.*
- *Part of arrears of revenue can be collected by making extra and timely efforts.*
- *Recovery of receivable on account of guarantee fees from the Public Sector Undertakings should be enforced as discussed in para 1.7.9.*
- *Recovery of the outstanding loans and advances of ₹2,853 crore alongwith interest needs to be expedited (paragraph 1.6.5).*
- *Large investments in various Government companies/corporations etc., as discussed in para 1.6.3, need to be reviewed so as to improve the return on Government investment.*

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since responsibilities for incurring major expenditure 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 those 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 (2005-10). Its composition in terms of 'economic classification' and 'expenditure by activities' are depicted in **Charts 1.7 and 1.8** respectively.



The Government raises resources to perform their sovereign functions, to maintain the 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 by 49.84 per cent from ₹ 19,757 crore in 2005-06 to ₹ 29,603 crore in 2009-10. The total expenditure during the current year increased by ₹ 2,121 crore (7.72 per cent) over the previous year. The revenue expenditure increased by ₹ 2,839 crore (11.55 per cent), whereas the capital expenditure decreased by ₹ 692 crore (24.21 per cent) and repayment of loans and advances decreased by ₹ 26 crore (47.27 per cent) during the current year.

Similarly, the **non-plan revenue expenditure (NPRE)** at ₹ 25,984 crore in 2009-10 increased by ₹ 2,836 crore (12.25 per cent) as compared to the previous year. The NPRE also exceeded the normative assessment made by TFC (₹ 17,404 crore) by 49.30 per cent and the projections made by the State Government in its own FCP (₹ 17,932 crore) by 44.90 per cent. Thus, there was poor control of NPRE during 2009-10.

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

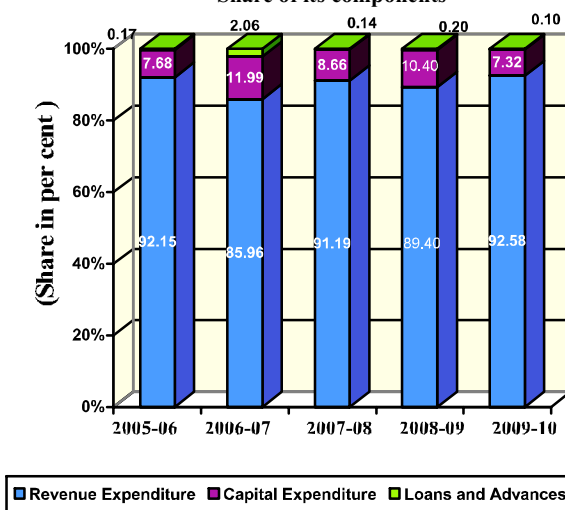
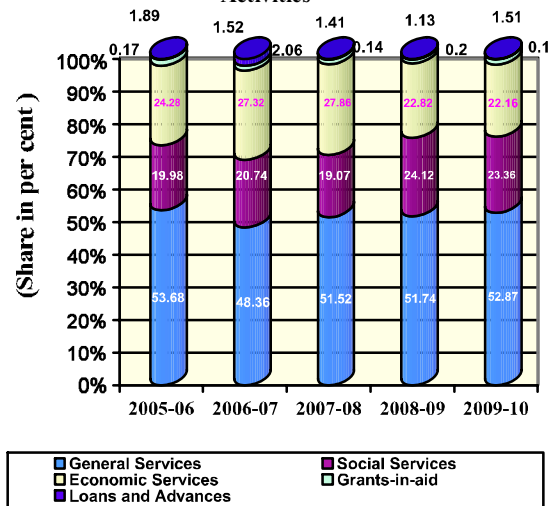


Chart 1.8: Total Expenditure: Trends by 'Activities'



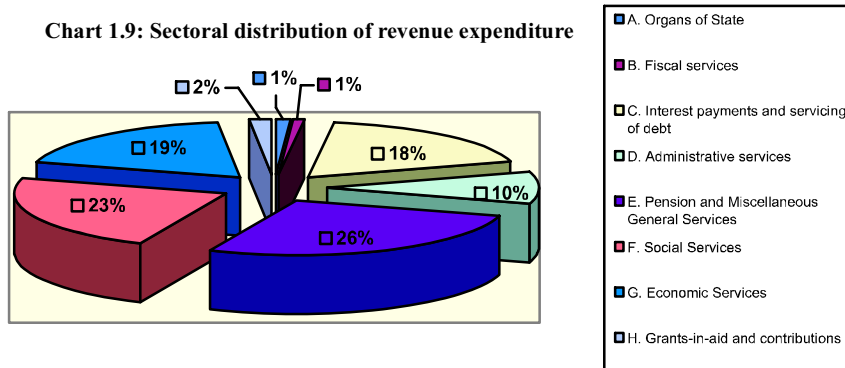
The movement of relative share of various components of expenditure (**Chart 1.8 & Table 1.6**) indicates that while the share of General Services in total expenditure declined marginally from 53.68 in 2005-06 to 52.87 *per cent* in 2009-10, the relative share of Social Services increased from 19.98 to 23.36 *per cent* and the share of Economic Services decreased from 24.28 to 22.16 *per cent* during the same period. The development expenditure i.e. 'expenditure on social and economic services' together remained stagnant between 46 and 47 *per cent* during the period 2007-10 as shown in **Table 1.6**.

Table 1.6: Components of Expenditure – Relative Share

	(in per cent)				
	2005-06	2006-07	2007-08	2008-09	2009-10
General Services	53.68	48.36	51.52	51.74	52.87
<i>Of which Interest payments</i>	18.80	19.25	17.90	17.84	16.93
Social Services	19.98	20.74	19.07	24.12	23.36
Economic Services	24.28	27.32	27.86	22.82	22.16
Grants-in-aid	1.89	1.52	1.41	1.13	1.51
Loans and Advances	0.17	2.06	0.14	0.20	0.10

The **revenue expenditure** continued to constitute a dominant proportion (86 to 93 *per cent*) of the total expenditure during the period 2005-10. The plan revenue expenditure contributed just five to six *per cent* of the total revenue expenditure, whereas the non-plan revenue expenditure was 94 to 95 *per cent* during the period 2005-10.

The sector-wise distribution of revenue expenditure is shown in **Chart 1.9** below:



The **Capital Expenditure (CE)** which was 11.99 *per cent* of the total expenditure in 2006-07 decreased to 7.32 *per cent* in 2009-10. The CE decreased by ₹ 692 crore (24.21 *per cent*) over the previous year and it remained at 1.13 *per cent* of the GSDP, far below the target of three *per cent* to be achieved by 2009-10. The CE during the current year at ₹ 2,166 crore was 51.87 *per cent* lower than that projected in FCP (₹ 4,500 crore). This shows that due priority was not given to CE.

1.4.2 Committed expenditure

The committed expenditure of the Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** presents the trends in expenditure on these components during 2005-10.

Table 1.7: Components of committed expenditure

		(₹ in crore)					
Sr.No	Components of committed expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
						BE	Actuals
1	Salaries and Wages, of which	5389 (32)	5726 (28)	6379 (33)	6835 (33)	8305 (32)	8225 [§] (37)
	Under Non-Plan Head	5240	5574	6244	6677	8060	8034
	Under Plan Head*	149	152	135	158	245	191
2	Interest Payments	3715 (22)	4152 (20)	4527 (24)	4902 (24)	5349 (21)	5011 (23)
3	Expenditure on Pensions	1656 (10)	1905 (9)	2433 (13)	2830 (14)	3651 (14)	3357 (15)
4	Subsidies	1574 (9)	1553 (8)	3021 (16)	2806 (14)	3630 (14)	2919 (13)
	Total Revenue expenditure[#]	18207	18544	23061	24569	30306	27408
	Revenue Receipts	16966	20567	19238	20713	26072	22157

Figures in the parentheses indicate percentage to Revenue Receipts

* Plan Head includes Centrally sponsored schemes

[§] Salaries: Rs 8095.43 crore + Wages: Rs 129.08 crore

[#] includes expenditure other than committed expenditure

Source: Finance Accounts

Table 1.7 shows that the expenditure on **salaries and wages** increased from 32 *per cent* of revenue receipts in 2005-06 to 37 *per cent* in 2009-10 and it increased by ₹ 1,390 crore (20.34 *per cent*) in 2009-10 over the previous year. **Tables 1.7 and 1.8** show that although the salaries and wages increased during the current year over the previous year, it remained less than the BE (₹ 8,305 crore) and was higher than the FCP (₹ 7,426 crore). The expenditure on salaries was 42.52 *per cent* of the revenue expenditure *net of interest payments and pensions* exceeding the norm of 35 *per cent* envisaged by TFC. Thus, the growing trend of expenditure on salaries and wages needs to be halted.

Table 1.8: Committed expenditure vis-à-vis targets during 2009-10

(₹ in crore)

Item	TFC	FCP	Budget estimates	Actual
Salaries and wages	-	7426	8305	8225
Of which total salaries (Plan and Non-plan)	6664 ²	-	8140	8095
Interest payments	4832	4765	5349	5011
Pensions	2237	2109	3651	3357
Subsidies, of which	-	1758	3630	2919
Power subsidies		1745	3140	2874

Source: Figures of actual expenditure from Finance Accounts.

The **interest payments** increased by 2.22 *per cent* from ₹ 4,902 crore in 2008-09 to ₹ 5,011 crore in 2009-10. The increase was mainly due to increase of ₹ 359.31 crore under interest on internal debt. The interest payment as a percentage of the revenue receipts was 23 *per cent* in 2009-10, which was still beyond the medium term target of 15 *per cent* of the revenue receipts (TFC) targeted to be achieved by 2009-10. Further, the interest payment (₹ 5,011 crore) made during the year was higher than the projection made by the TFC (₹ 4,832 crore) and assessment in FCP (₹ 4,765 crore) for the year 2009-10.

The **pension payments** recorded a growth of ₹ 527 crore (18.62 *per cent*) during the current year over the previous year. The expenditure at ₹ 3,357 crore during 2009-10 was higher than the projection made by the Government in its FCP (₹ 2,109 crore) and envisaged by TFC (₹ 2,237 crore) whereas it was less than the BE (₹ 3,651 crore).

The **subsidies** during the current year increased by ₹ 113 crore (4.03 *per cent*) over the previous year mainly due to increase in subsidy to the Power and Energy sector by ₹ 272 crore (10.45 *per cent*). The amount of subsidy (₹ 2,919 crore) was less than the projection made in the BE (₹ 3,630 crore), but higher than that projected in the FCP (₹ 1,758 crore).

Analysis of the committed expenditure (Table 1.7) of the State Government revealed that interest payments and subsidies together constituted 28.93

² Revenue expenditure (₹ 27408 crore) – Interest payments (₹ 5011 crore) – Pensions (₹ 3357 crore) = ₹ 19040 crore x 35 *per cent* = ₹ 6664 crore.

per cent of the total revenue expenditure and consumed 35.79 per cent of the revenue receipts, which needs to be addressed by the Government.

1.4.3 Financial assistance to the local bodies/other institutions

The quantum of assistance provided by way of grants and loans to the local bodies and others during the current year and the previous years is presented in Table 1.9.

Table 1.9: Financial assistance to local bodies etc.

(₹ in crore)

Institutions	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities etc.)	230.33	195.88	454.93	452.12	678.61	748.02
Municipal Corporations and Municipalities	73.77	69.99	28.75	1.93	93.94	18.87
Zilla Parishads and Other Panchayati Raj Institutions	--	162.15	145.11	73.34	117.83	116.93
Development Agencies	--	102.93	2.77	28.21	57.11	10.41
Hospitals and Other Charitable Institutions	--	62.91	62.19	55.00	64.00	46.45
Other Institutions	91.14	0.01	--	--	--	--
TOTAL	395.24	593.87	693.75	610.60	1011.49	940.68
Assistance as percentage of revenue expenditure	2.17	3.20	3.01	2.49	3.34	3.43

Source: Finance Accounts

The financial assistance to the local bodies and other institutions increased from ₹ 395.24 crore in 2005-06 to ₹ 940.68 crore in 2009-10. During 2009-10, it increased to ₹ 940.68 crore from ₹ 610.60 crore in 2008-09. The increase of ₹ 330.08 crore (54.06 per cent) over the previous year was mainly due to more assistance to the educational institutions (₹ 295.90 crore). Against the total budget provision of ₹ 1,011.49 crore, financial assistance of ₹ 940.68 crore was released. The decrease in the actual release vis-à-vis the BE to the municipal corporations and municipalities was ₹ 75.07 crore (79.91 per cent), to the development agencies ₹ 46.70 crore (81.77 per cent) and to the hospitals and other charitable institutions ₹ 17.55 crore (27.42 per cent).

The overall quantum of financial assistance to the local bodies and other institutions remained at 2.17 to 3.43 per cent of the revenue expenditure during 2005-10.

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, efficiency of expenditure and its effectiveness.

1.5.1 Adequacy of public expenditure

Adequacy of public expenditure means whether there are enough provisions for providing public services. The responsibilities to incur expenditure on social sector and economic infrastructure are largely assigned to the State Governments. For enhancing the levels of human development, the States are

required to step up their expenditure on key social services like education, health etc. 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. In **Table 1.10**, the fiscal priority of the State Government with regard to development expenditure, expenditure on social sector and capital expenditure etc. is shown.

Table 1.10: Fiscal Priority of the State in 2005-06 and 2009-10

<i>(Per cent)</i>						
Fiscal Priority by the State	AE/GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Punjab's Average (Ratio) 2005-06	18.18	44.35	20.03	7.68	11.68	3.54
General category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Punjab's Average (Ratio) 2009-10	15.39	45.52	23.36	7.32	12.91	3.35
AE= Aggregate Expenditure, DE= Development Expenditure, SSE= Social Sector Expenditure and CE= Capital Expenditure						
# Development expenditure includes Development Revenue expenditure, Development Capital expenditure and Loans & Advances disbursed.						
Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics						

Public expenditure as indicated by the ratio of aggregate expenditure to GSDP was higher in 2005-06 in the state as compared to the other general category states. However in 2009-10, public expenditure as a proportion of GSDP was much lower in the State in comparison to the other general category States.

- Development expenditure refers to the expenditure on economic and social sector. Increased priority to Development expenditure will result in better human and physical capital formation which will further increase the growth prospects of the State. In the case of Punjab, there appears to be a much lower priority given to the Development expenditure, as lower proportion of the aggregate expenditure was spent under this head. Similarly, lower priority had been given to the Social sector expenditure - mainly education and health - as lower proportion of aggregate expenditure was spent under these heads as compared to the other general category States in the country.
- Capital expenditure increases the asset creation which will generate opportunities for higher growth. In Punjab, the ratio of capital expenditure to the aggregate expenditure was also low as compared to the other general category States.

1.5.2 Efficiency of expenditure

In view of the importance of public expenditure on development items, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision for core public and

merit goods³. Apart from improving the allocation towards development expenditure⁴, the efficiency of expenditure is 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 the total expenditure (and/or GSDP), the better would be the quality of expenditure.

Table 1.11 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table 1.11: Development expenditure

(₹ in crore)

Components of Development expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Total Development expenditure (a to c)	8763 (44.35)	10796 (50.04)	11879 (46.97)	12929 (47.04)	15992 (47.18)	13476 (45.52)
a. Development Revenue expenditure	7316 (37.03)	7877 (36.51)	9812 (38.80)	10227 (37.21)	12671 (37.38)	11436 (38.63)
b. Development Capital expenditure	1427 (7.22)	2492 (11.55)	2056 (8.13)	2671 (9.72)	3306 (9.75)	2041 (6.89)
c. Development Loans and Advances	20 (0.10)	427 (1.98)	10 (0.04)	31 (0.11)	16 (0.05)	0 (Nil)

Figures in parentheses indicate percentage to aggregate expenditure

Source: Finance Accounts

Table 1.11 shows that the total development expenditure increased by ₹ 4,713 crore (53.78 per cent) during 2005-10 and by ₹ 547 crore (4.23 per cent) during the current year over the previous year.

The **development expenditure on revenue account** increased consistently from ₹ 7,316 crore in 2005-06 to ₹ 11,436 crore in 2009-10. The development revenue expenditure increased by ₹ 1,209 crore (11.82 per cent) during the current year over the previous year, whereas it was less by ₹ 1,235 crore (9.75 per cent) when compared with the BE of State Government for the year 2009-10.

The **development expenditure on capital account** increased from ₹ 1,427 crore in 2005-06 to ₹ 2,041 crore in 2009-10. However, it decreased by ₹ 630 crore (23.59 per cent) during the current year over the previous year and was also less by ₹ 1,265 crore (38.26 per cent) as compared to the BE. Infact, the development capital expenditure during 2009-10 (₹ 2,041 crore) was just equal to the development capital expenditure in 2007-08 (₹ 2,056 crore) implying that the State Government was giving less priority to capital expenditure for development as out of 45.52 per cent of the aggregate expenditure incurred as Development expenditure, only 6.89 per cent was on development capital expenditure.

Recognizing the need to improve the quality of Education and Health Services, TFC recommended that the salary expenditure under Health and Family Welfare and Education should be increased only by five and six

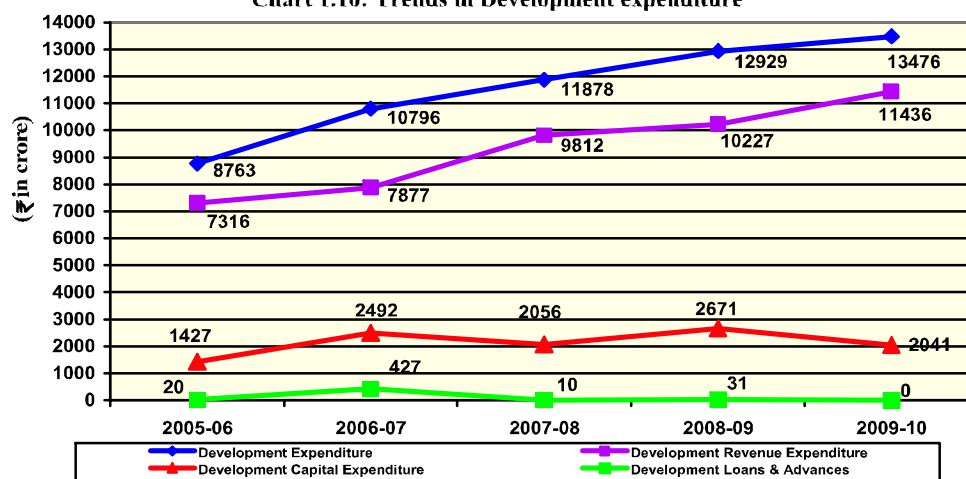
³ Please see the glossary (Appendix 4.1)

⁴ Please see the glossary (Appendix 4.1)

per cent respectively while non-salary expenditure should be increased by 30 per cent per annum during the award period (2005-10). However, trends in expenditure revealed that the salary component under Education and Health and Family Welfare increased by 21.42 and 22.04 per cent respectively during the current year over the previous year, whereas the non-salary expenditure under Education increased by 20.72 per cent and under Health and Family Welfare it decreased by 5.87 per cent. There was huge variation in the growth of expenditure (both in salary and non-salary component) on Education and Health and Family Welfare as against the recommendations of TFC. This needs urgent correction in the ensuing years to improve the quality of these services.

The expenditure actually incurred on General Education (₹ 3,533.46 crore) was more than the recommendations of ₹ 3,506.04 crore made by TFC, but the expenditure incurred on Health and Family welfare (₹ 980.66 crore) was less than the recommendations of ₹ 1,126.50 crore made by TFC.

Chart 1.10: Trends in Development expenditure

Table 1.12: Efficiency of expenditure in selected Social and Economic Services
(In per cent)

Social/Economic Infrastructure	2008-09			2009-10		
	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	5.47	76.02	NIL	3.50	76.12	0.00
Health and Family Welfare	2.82	86.56	NIL	1.09	89.31	0.00
WS, Sanitation, HUD	76.38	57.05	47.17	60.75	56.85	44.35
Total (SS)	17.27	61.11	2.43	10.11	65.25	2.27
Economic Services (ES)						
Agri. and Allied Activities	2.78	47.48	NIL	0.35	56.67	0.00
Irrigation & Flood Control	46.95	85.01	9.54	42.47	82.66	11.29
Power and Energy	5.19	0.02	NIL	0.83	0.02	0.00
Transport	60.85	42.09	20.42	54.83	34.55	11.20
Total (ES)	24.34	24.48	2.64	20.45	26.51	2.65
Total (SS+ES)	20.71	44.12	2.53	15.14	47.57	2.44

WS: Water Supply, HUD: Housing and Urban Development; Agri: Agriculture; CE: Capital Expenditure; TE: Total Expenditure; RE: Revenue Expenditure; S&W: Salary and Wages, O&M: Operations and Maintenance.

Source: Finance Accounts

Table 1.12 shows that in 2009-10, the ratio of capital expenditure (CE) to total expenditure (TE) on Social Services (SS) and Economic Services (ES) decreased by 7.16 and 3.89 respectively over the previous year.

The ratio of salaries and wages components to revenue expenditure on SS and ES increased from 61.11 to 65.25 and 24.48 to 26.51 respectively during the current year over the previous year.

The combined ratio of CE to total expenditure on SS and ES decreased by 5.57 during 2009-10 over the previous year, while the ratio of salaries & wages to revenue expenditure on SS and ES increased from 44.12 to 47.57.

1.5.3 Punjab State Development Fund

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 realised 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, an amount of ₹ 76.47 crore in 2008-09 and ₹ 10.02 crore in 2009-10 was deposited under the Punjab State Development Fund, but no expenditure was incurred during both the years by the Government of Punjab resulting in denial of the intended benefits envisaged under the Fund. On being enquired regarding amount to be deposited in the Fund during 2009-10 and non-incurring of expenditure during 2008-10, no reply was furnished by the Finance Department (October 2010).

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, 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 works undertaken by the Government during the current year vis-à-vis the previous years.

1.6.1 Financial results of Irrigation works

The financial results of nine major irrigation projects involving a capital expenditure of ₹ 434.65 crore at the end of March 2010 showed that revenue realised from these projects during 2009-10 (₹ 27.04 crore) was only 6.22 *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (₹ 223.35 crore) and interest charges (₹ 21.62 crore), the projects suffered a net loss of ₹ 217.93 crore.

1.6.2 Incomplete projects

The department-wise information pertaining to the incomplete projects as on 31 March 2010 is given in the **Table 1.13**.

Out of 10 projects, in the Irrigation Department, cost of four projects was revised, which resulted in increase in the estimated cost by ₹ 1,886.76 crore (98.50 *per cent*). Out of which, ₹ 961.63 crore (72.62 *per cent*) related to Shahpur Kandi Dam Project; ₹ 491.00 crore (134.15 *per cent*) to Shri Dashmesh Irrigation Project; ₹ 425.25 crore (241.62 *per cent*) to Satluj Yamuna Link (SYL) Canal Project and ₹ 8.88 crore (18.02 *per cent*) to Converting the Banur Canal System from Non-perennial to Perennial.

Out of the 16 Public Works Department's (Buildings & Roads) projects, cost of four projects was revised resulting in increase of ₹ 22.67 crore (50.25 *per cent*) out of which ₹ 13.35 crore (75.30 *per cent*) related to 'Construction of Judicial Complex at Bathinda (Block B & C); ₹ 7.22 crore (67.79 *per cent*) related to 'Construction of new Judicial Complex at Abohar'; ₹ 1.85 crore (18.69 *per cent*) to 'Special repair of Garhshanker Nurpur Bedi Road' and ₹ 0.25 crore (3.66 *per cent*) to 'Upgradation of Balachaur Bunga Sahib Road via Tibba Nangal road under NABARD RIDF XV'.

There were eight incomplete projects costing ₹ 46.10 crore in the Water Supply and Sanitation Department. Out of which, ₹ 32.70 crore has already been spent. The targeted year of completion of most of the incomplete projects was upto 2009-10. But the works have not been completed so far.

Efforts should be made by the concerned departments to complete all the incomplete projects as early as possible as ₹ 1629.52 crore has already been spent on these projects and full benefits are remained to be realized.

Table 1.13: Department-wise profile of incomplete projects

(₹ in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Expenditure	Cost Overrun
Public Health Department	8	46.10	Not available	32.70	Not available
Irrigation Department	6	16.85	Not available	9.38	Not available
	4	1915.45	3802.21	1493.73	1886.76
Public Works Department (B & R)	12	75.90	Not available	73.71	Not available
	4	45.11	67.78	20.00	22.67

Source: Finance Accounts

1.6.3 Investment and returns

As of 31 March 2010, the Government of Punjab had invested ₹ 3,832.41 crore. Out of which ₹ 3,113.38 crore were invested in Statutory Corporations/ Boards, ₹ 489.30 crore in Government Companies, ₹ 1.39 crore in Joint Stock Companies and ₹ 228.34 crore in Co-operative Banks and Societies. The return on this investment was 0.01 to 0.05 *per cent* only during 2005-10, while the Government of Punjab paid interest at the average rate of 7.52 *per cent* to 8.46 *per cent* on its borrowings during 2005-10 (**Table 1.14**).

Table 1.14: Return on investment

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	3718.60	3761.74	3835.65	3841.36	3832.41
Return (₹ in Crore)	1.07	1.96	0.40	0.78	0.91
Return (<i>per cent</i>)	0.03	0.05	0.01	0.02	0.02
Average rate of interest on Government Borrowing (<i>per cent</i>)	7.52	8.11	8.46	8.32	7.72
Difference between interest rate and return (<i>per cent</i>)	7.49	8.06	8.45	8.30	7.70

Source: Finance Accounts

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 (₹ 2,946.11 crore), Pepsu Road Transport Corporation (₹ 86.82 crore), Punjab Financial Corporation (₹ 29.31 crore) and Punjab Scheduled Castes Land Development and Finance Corporation (₹ 26.44 crore). Out of these four major Statutory Corporations, the first three Corporations were incurring losses and their accumulated losses amounted to ₹ 8,749.29 crore (upto the year 2007-08 and 2008-09 for which their accounts were finalised). The loss amounting to ₹ 8,411.23 crore (96.14 *per cent*) pertains to PSEB alone. The Punjab Scheduled Castes Land Development and Finance Corporation, however, earned cumulative profits of ₹ 25.46 crore upto 2007-08 for which their accounts have been finalized.

The Government needs to review its investments and take action to realise the returns in the form of dividend etc.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are performed by the Punjab Roadways, a departmental undertaking (Transport Department). It is observed that an amount of ₹ 41.87 crore had been invested by the Government in the Punjab Roadways at the end of 1999-2000 (up to which its accounts were finalized). The Punjab Roadways had been incurring losses continuously for more than five years and its accumulated losses were ₹ 650.06 crore as against the total investment of ₹ 41.87 crore upto 1999-2000.

1.6.5 Loans and advances by the Government of Punjab

In addition to the 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 1.15** presents the position of outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during last three years.

Table 1.15: Position of outstanding loans and advances and interest received /paid

(₹ in crore)

Outstanding loans and interest received/paid	2007-08	2008-09	2009-10	
			BE	Actual
Opening Balance of loans outstanding	5533	4123		4100
Amount advanced during the year	35	55	43	29
Amount recovered during the year	1445	78	167	1276
Closing Balance of loans outstanding	4123	4100		2853
Interest receipts	230	46		42
Interest receipt as <i>per cent</i> to the outstanding Loans and Advances	4.76	1.12		1.47
Rate of Interest payment as <i>per cent</i> to the outstanding fiscal liabilities of the Government	8.46	8.32		7.72
Difference between the rate of interest paid and interest received (<i>per cent</i>)	(-)3.70	(-)7.20		-6.25

Source: Finance Accounts

During 2009-10, ₹ 28.84 crore was advanced as loans against the BE of ₹ 43.00 crore. Further, recovery of loans amounting to ₹ 1,276.02 crore was made against the BE of ₹ 167.00 crore. The reasons for steep increase in recovery of loans and advances during the current year was mainly due to book adjustment of subsidy of ₹ 1,192.81 crore payable by the Government against repayment of loan by the Punjab State Electricity Board. The decrease in interest received during the current year was ₹ four crore (8.70 *per cent*) over the last year. While the interest payment during 2009-10 was 7.72 *per cent* of its outstanding fiscal liabilities, the interest received was only 1.47 *per cent* of the outstanding loans and advances. *The Government needs to analyse the reasons for poor return from the loans and advances made by it and explore the ways to collect the interest etc.*

1.6.6 Cash balances and investment of cash balances

Table 1.16 depicts the cash balances and investments made by the Government of Punjab out of the cash balances during the year. The cash balances at the close of the current year decreased from ₹ 269.97 crore of the previous year to ₹ 225.77 crore. The major portion of the cash balances was invested in Government of India Treasury bills (₹ 189.97 crore) and in Securities of Government of India (₹ 101.99 crore) and Government earned interest of ₹ 9.12 crore during the year.

Table 1.16: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase/ decrease
Cash Balances	269.97	225.77	-44.20
Investment from Cash balances	197.13	292.00	94.87
a. GOI Treasury Bills	95.10	189.97	94.87
b. GOI Securities	101.99	101.99	0
c. Punjab State Electricity Board Bonds	0.04	0.04	0
Fund-wise break-up of investment from earmarked balances	0.70	0.70	0
a. Reserve Funds bearing interest
b. Reserve Funds not bearing interest	0.70	0.70	0
Interest realised	28.78	9.12	-19.66

Source: Finance Accounts

Under an agreement with the Reserve Bank of India, the Government of Punjab has to maintain with the bank a minimum balance of ₹ 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.

As per **Statement 6** of the Finance Accounts, during 2009-10, the Government obtained ₹ 3,025.22 crore as Ways and Means Advances (WMAs) from RBI on 61 occasions. The entire amount was re-paid during the year and ₹ six crore was paid as interest on these advances.

At the end of the previous year, no amount was outstanding as overdraft. During 2009-10, the Government of Punjab had availed overdraft of ₹ 891.36 crore (shortfall of ₹ 7.80 crore on five occasions and overdraft of ₹ 883.56 crore on 17 occasions) from RBI and ₹ 0.91 crore was paid as interest on these overdrafts and failure to maintain the minimum balance.

Audit observed that the State Government in its budget for 2009-10 provided ₹ 3,600 crore as Ways and Means Advances. In addition to WMAs, the State Government raised Open Market Borrowings (OMBs) of ₹ 4,985 crore through RBI during 2009-10 at an average interest rate of 8.08 *per cent per annum*. Availing of WMAs of only ₹ 3,025.22 crore as compared to the budgeted provision of ₹ 3,600 crore (i.e. less by ₹ 574.78 crore) led to extra expenditure of ₹ 17.70 crore in 2009-10 as interest on WMAs was lower than the OMBs.

In reply, the Finance Department stated (June 2010) that efforts were first made to raise the borrowings envisaged in the budget and then WMAs were obtained through the automatic system as a last resort to maintain the cash flow. The lower budgeting of WMAs was attributed to availing of WMAs of ₹ 2,600 crore upto December 2009. The reply is not acceptable as the full budgeted WMAs should have been availed to get the benefit of lower rate of interest and to minimize the OMBs.

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 liabilities⁵ of the Government and the assets created out of the expenditure incurred. **Appendix 1.3 Part B** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position as on 31 March 2009. 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 2009-10, the assets grew by ₹ 908.37 crore (3.38 *per cent*) whereas the liabilities increased by ₹ 6,159.89 crore (9.94 *per cent*) over the

⁵ **Financial liabilities of the Government means the total liabilities under the Consolidated Fund and the Public Account of the State referred to in article 266 of the Constitution of India.**

previous year. During the current year, the ratio of Financial Assets to Liabilities came down to 40.82 (*per cent*) from 43.42 *per cent* of the previous year and the average ratio of 43.64 *per cent* prevailed during 2005-10.

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 accounted under the consolidated fund. It 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, fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. The Other liabilities, which are part of the 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 and to revenue receipts of the State during the period 2005-10 are presented in *Appendix 1.7*.

The compositions of fiscal liabilities at the end of the current year vis-à-vis the previous year are presented in **Charts 1.11** and **1.12**.

Chart 1.11: Composition of outstanding Fiscal Liabilities as on 1 April 2009

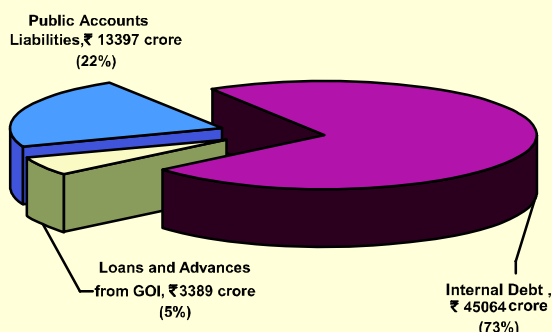
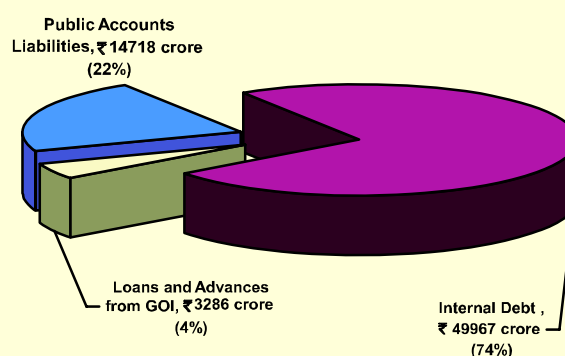


Chart 1.12: Composition of outstanding Fiscal Liabilities as on 31 March 2010



The overall fiscal liabilities of the Government had been on the rise and it increased from ₹ 51,364 crore in 2005-06 to ₹ 67,971 crore in 2009-10 at an annual average growth rate of 6.46 *per cent*. The Consolidated Fund liabilities (₹ 53,252.82 crore) comprised of internal debt of ₹ 49,966.46 crore and loans of ₹ 3,286.36 crore from GoI. The Public Account liabilities (₹ 14,718.16 crore) comprises of small savings, Provident fund (₹ 10,182.44 crore) and interest bearing obligations and non-interest bearing obligations like deposits and other earmarked funds (₹ 4,535.72 crore). The fiscal liabilities of the Government have increased by ₹ 6,120.49 crore (9.90 *per cent*) during 2009-10 over the previous year mainly due to increase of ₹ 4,902.05 crore (10.88 *per cent*) in the internal debt.

1.7.3 Overstatement of internal debt

The outstanding balance of Clean Term Loan (CTL) obtained by the State Government from the State Bank of India shown in the books of the Accountant General (Accounts & Entitlement) did not tally with that shown in the books of the Finance Department. The balance of CTL as per books of the Accountant General as on 31 March 2010 was ₹ 2,657.79 crore, whereas the balance in the books of the Finance Department was ₹ 2,052.17 crore. The discrepancy was due to non-accounting of the repayment of ₹ 605.62 crore made by PUNGRAIN in 2005 in the books of the Accountant General due to non-submission of the required information to the Accountant General i.e. voucher numbers and dates of repayment.

Thus, the internal debt of the State Government was overstated by ₹ 605.62 core in the Finance Accounts for the last five years due to non-furnishing of the details of repayment by the Director, Food and Supplies, Punjab to the Accountant General.

Table 1.17 gives the fiscal liabilities of State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and the State's own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.17: Fiscal liabilities – Basic Parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal Liabilities (Rupees in crore)	51364	51035	55982	61850	67971
Rate of Growth (<i>per cent</i>)	8.36	-0.64	9.69	10.48	9.90
Ratio of Fiscal liabilities to					
GSDP (<i>per cent</i>)	47.27	42.10	38.79	37.30	35.33
Revenue receipts (<i>per cent</i>)	302.75	248.14	291	298.61	306.77
Own resources (<i>per cent</i>)	379.77	304.47	369.44	365.24	384.19
Buoyancy of Fiscal liabilities to					
GSDP (ratio)	0.67	-0.06	0.51	0.70	0.62
Revenue receipts (ratio)	0.37	(-)0.03	(-)1.50	1.37	1.42
Own resources (ratio)	0.84	(-)0.03	(-) 1.01	0.89	2.21

Though the ratio of fiscal liabilities to GSDP had been declining from 47.27 in 2005-06 to 35.33 *per cent* in 2009-10, it was still on the higher side as compared to the target of bringing down the ratio to 28 *per cent* by 2009-10, envisaged in the Punjab FRBM Act, 2003. *The Thirteenth Finance Commission has further recommended that by 2014-15 all states should bring down the Fiscal liability to 25 per cent of GSDP. This means that the State Government should set in place a strategy to review the quantum of fiscal liability in the next five years.* The ratio of fiscal liabilities to revenue receipts increased from 248.14 in 2006-07 to 306.77 *per cent* in 2009-10.

1.7.4 Borrowing in excess of limit

The Planning Commission while approving (July 2009) the State Annual Plan of ₹ 8,600 crore for the year 2009-10, limited the net market borrowing by the State Government to ₹ 6,538.46 crore and nil against small savings. However, GoI fixed (September 2009) the net market borrowing limit for Punjab at ₹ 6,219 crore. Against this, the State Government raised net OMBs of

₹ 4,985 crore, besides a loan of ₹ 1,576.22 crore against small savings during the year, aggregating to ₹ 6,561.22 crore resulting in borrowings in excess of the approved annual plan by ₹ 22.76 crore and the GoI ceiling by ₹ 342.22 crore. On being pointed out (May 2010), the Finance Department did not furnish reasons for the excess borrowings.

1.7.5 Loan against net small savings collections

The GoI had been allowing 100 *per cent* loan at the rate of 9.50 *per cent* interest *per annum* to the State Government against the net collections of small savings mobilised in the State. Such loan is repayable in 25 years with a moratorium period of five years. Though in January 2007, the GoI extended an alternate option to the State Government to avail loan to the extent of 80 *per cent* of the net collections of small savings, the State Government opted (April 2010) for the 80 *per cent* loan against net collections for the year 2010-11 only. The State Government borrowed excess loan of ₹ 315.24 crore (₹ 1,576.22⁶ crore - ₹ 1,260.98⁷ crore) during 2009-10 at the rate of 9.50 *per cent* interest rate *per annum*, though it had the option to borrow the equivalent amount from open market for 10 years on an average market rate of interest of 8.08 *per cent*. Thus, the failure to limit the borrowings against net collections of small savings to the extent of 80 *per cent* in 2009-10 would cost the State additional interest burden of ₹ 111.92 crore during the loan period of 25 years.

1.7.6 Imprudent borrowings resulting in surplus cash with RBI

The RBI introduced (April 2009) an Advance Indicative Calendar for smoothening of the borrowings of the States through 25 tranches for 2009-10 with scope for flexibility in the calendar. The Finance Department, however, raised Open Market Borrowings (OMBs) on 12 occasions and out of these, six OMBs were raised twice in a month⁸, whereas no borrowings were raised in the months of May 2009, February 2010 and March 2010. It was observed in audit that to arrive at the estimated cash position, only the receipt of OMBs were taken into account and the other receipts⁹ were generally ignored by the Finance Department. Thus, due to defective record keeping and non-taking into account the other receipts, the Government worked out the balances wrongly leading to excess borrowings. This resulted in excess cash balances with the RBI at various intervals ranging between ₹ 5.77 crore and ₹ 985.96 crore during 2009-10, which yielded interest at 5.01 *per cent per annum* only, against payment of interest on OMBs ranging between 7.77 and 8.37 *per cent per annum*. Consequently, the State Government was extra burdened to the tune of ₹ 5.79 crore on the excess borrowings made in 2009-10.

1.7.7 Incorrect estimates of repayment of debts

Financing of Annual Plans of Punjab were approved annually by the Planning Commission. For the period 2007-10, the quantum of net borrowings was arrived at by reducing the due repayments of borrowings from the gross borrowings. A comparison of repayments as per the Annual Plan approved by

⁶ Loan raised against small savings in 2009-10 = ₹ 1576.22 crore

⁷ Eighty *per cent* of ₹ 1576.22 crore = ₹ 1260.98 crore.

⁸ April, October and November 2009.

⁹ Borrowings from NABARD: ₹ 450 crore; Ways and Means Advances and Soft Loan against Small savings : ₹ 1,576.22 crore, and Receipts on account of Externally Aided Projects: ₹ 48.42 crore.

the Planning Commission and the actual repayments made during 2007-10 is given below:

Table 1.18: Comparison of actual repayments vis-à-vis targets fixed by the Planning commission

(₹ in crore)

Year	As per the Planning Commission	Actuals as per State's Finance Accounts
2007-08	1439.73	2107.65
2008-09	1427.00	2288.52
2009-10	2365.19	5308.36

Audit observed that the Finance Department did not maintain any records relating to repayment of borrowings and balances and the information was collected from the Accountant General (Accounts & Entitlement), Punjab and the National Bank for Agriculture and Rural Development. Non-maintenance of the records of repayments of the borrowings and balances resulted in under estimation of repayments at the planning stage leading to wrong projection of the further borrowings.

The details given in paragraphs 1.7.4, 1.7.5, 1.7.6 and 1.7.7 reveal that the funds were borrowed in excess of the limits fixed by the Government, it did not avail of the alternate economical means of availing the loan against the net small savings and there was wrong computation of cash balances. This shows that the borrowings of the State Government were not being regulated properly. *A proper monitoring system needs to be evolved in the Finance Department to work out correct quantum and the need based borrowings so as to avoid unnecessary borrowings and to decrease the interest liability of the Government.*

1.7.8 Arrangements for amortization of liability

Government has constituted a Sinking Fund for loans raised by it in the open market. This Fund consists of two components i.e. Sinking Fund (Depreciation) and Sinking Fund (Amortisation). The rate of contribution to these two components of sinking fund was prescribed by the State Government as under:

- (a) **Sinking Fund (Depreciation)**-A sum not exceeding 1.5 per cent of the total amount of loans could, if necessary, be set apart from the revenue each year to a depreciation Fund for purchasing securities of the loans for cancellation.
- (b) **Sinking Fund (Amortization)**-In addition to the annual contribution to the respective depreciation fund, annual contributions are to be made to the Sinking fund from revenues for amortization of loans at such rates as Government may decide from time to time.

The Finance Accounts revealed that no contributions were made during 2009-10 and there were no balances in these two components of the sinking fund at the commencement and end of 2009-10.

In reply, it was stated by the Finance Department that due to weak financial position of the State, no amount could be invested in the Sinking Fund.

1.7.9 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.

The Punjab FRBM Act, 2003 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. The Government of Punjab had given guarantees during 2007-10 for repayment of loans etc. raised by statutory corporations/boards, local bodies, co-operative banks/societies and others. **Table 1.19** shows the maximum amount guaranteed by the State and the outstanding amount of guarantees for the last three years.

Table 1.19: Guarantees given by the Government of Punjab

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	
			BE	Actual
Maximum amount guaranteed	26094	46815	15509	51357
Outstanding amount of guarantees	11014	25868	41230	33295
Percentage of outstanding guarantees to the total revenue receipts of previous year	54	134	199	161
Criteria as per FRBM Act (<i>per cent</i> of guarantees to revenue receipts of the previous year)	80	80	80	80

Source: Finance Accounts

The maximum amount of guarantee given for ₹ 51,357.20 crore in 2009-10 was ₹ 35,847.83 crore (231.14 *per cent*) in excess of the budget estimates of ₹ 15,509.37 crore. Similarly, the outstanding guarantees of ₹ 33,294.82 crore were lower by ₹ 7,935.50 crore (19.25 *per cent*) against the budget estimates of ₹ 41,230.32 crore during 2009-10 showing unrealistic budget estimates.

The amount of outstanding guarantees (₹ 33,294.82 crore) as of March 2010 was 161 *per cent* of the revenue receipts of the previous year (2008-09). This was 81 *per cent* excess over the limit of 80 *per cent* prescribed in the FRBM Act.

The outstanding liability of ₹ 67,971 crore including public debt and outstanding guarantee commitment of ₹ 33,295 crore is a serious threat to financial stability of the State and this needs to be addressed by the Government at the earliest.

In consideration of the guarantees given by the State, the Government has been charging guarantee fees upto two *per cent*. The total amount of guarantee fees received and receivable during 2009-10 was ₹ 53.18 crore and ₹ 145.18 crore respectively. There is a necessity to enforce remittance of the guarantee fees by those who have availed the Government guarantee.

The guarantee shall be effective from the date of execution of the guarantee deed and again the guaranteed loan is to be raised only after the guarantee fee is deposited by the Public Sector Undertaking into the Government treasury. Guarantee notification for raising of a loan amounting to ₹ 40 crore by Punjab Bus Stand Management Company was issued by the Punjab Government on 14th June 2004 and the guarantee agreement was signed on 19th January 2005.

The guarantee fee amounting to ₹ 0.80 crore was deposited by the PSU on 23rd November 2005 (late by 308 days). Due to late deposit of guarantee fee, the Government of Punjab had to bear loss of interest of ₹ 0.04 crore.

Government has set up a Guarantee Redemption Fund on the recommendation of TFC, but so far no amount has been transferred to the fund.

As per instructions issued by the Punjab Bureau of Public Enterprises from time to time, the Administrative Departments shall ensure that the borrowing organization on whose behalf the guarantee of the Government is sought, manages its affairs in a way to repay the liability in accordance with the terms agreed to with the Financial Institution concerned. A proper watch on the functioning of the borrowing institution is thus essential to ensure that appropriate measures are taken for the discharge of their liability regularly and Government is not called upon to meet the liability arising from the guarantee. An instance of invoking of guarantee by the lender is discussed below.

SUGARFED obtained guaranteed loans of ₹ 15.75 crore during the period 1988-89 to 1993-94 from Sugar Development Fund, Ministry of Consumer Affairs, Food and Public Distribution, Government of India. The loans could not be repaid by SUGARFED. As the loans were guaranteed by the Punjab Government, the Government of India deducted ₹ 24.42 crore (outstanding principal ₹ 10.72 crore and interest ₹ 13.70 crore) in April/May 2008 from normal Central assistance to the Punjab Government for 2008-09 due to non-repayment of the said loans by SUGARFED. Thus, lack of monitoring by the State Government caused a loss of receipts to the tune of ₹ 24.42 crore.

In view of the above, the Government of Punjab should limit giving guarantees, enforce recovery of the guarantee fee due to it and transfer funds to the Guarantee Redemption Fund.

1.7.10 Debt waiver under Debt Consolidation and Relief facilities

The Twelfth Finance Commission framed a scheme of debt relief of Central loans named Debt Consolidation and Relief Facilities based on fiscal performance of the State linked to the reduction of revenue deficit of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and re-schedulement of loans, will be eligible for write off. As assessed by the TFC, in the case of Punjab, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 763.40 crore against which the Government of India granted ₹ 370.70 crore as debt relief, as detailed in **Table 1.20**:

Table 1.20: Details of debt relief due and sanctioned by the Central Government

(₹ in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	152.68	76.61
2006-07	152.68	54.81
2007-08	152.68	85.89
2008-09	152.68	153.39
2009-10	152.68	0.00
Total	763.40	370.70

The shortfall in receipt of the benefit of debt relief was due to non-fulfillment of the conditionalities for receiving the debt relief by the State Government.

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 sustainability¹⁰ of the State. Sustainability of debt of the Government can be measured in terms of debt stabilization¹¹, sufficiency of non-debt receipts¹², net availability of borrowed funds¹³, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the Government debt. Table 1.21 analyses the debt sustainability of the Government according to these indicators for the years 2005-10.

Table 1.21: Debt sustainability

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	3469	5769	1434	1845	3975
Sufficiency of Non-debt receipts (Resource Gap)	(+) 1461	(+) 2042	(-) 3992	(-) 2087	521
Net availability of borrowed funds	725	(-) 4238	3810	971	1114
Burden of Interest Payments (IP/RR Ratio)	22	20	24	24	23
Maturity Profile of State Debt (In Years)			(₹ in crore)		
0 - 1	N.A.	N.A.	1229.38	1604.95	2218.34
1 - 3	N.A.	N.A.	3250.00	3551.54	5921.56
3 - 5	N.A.	N.A.	4611.68	6440.89	7157.75
5 - 7	N.A.	N.A.	6834.74	6156.51	6394.97
7 and above	N.A.	N.A.	28383.82	30699.45	31046.60
Total	N.A.	N.A.	44309.62	48453.34	53252.82¹⁴

Source: Finance Accounts

Audit analysis revealed the following:

- The **sum of quantum spread** and **primary deficit** was positive during the period 2005-06 to 2009-10. These trends indicate that the State is moving towards debt stabilization, which if continued would eventually improve the Debt-sustainability position of the State.
- The **negative resource gap** indicates the non-sustainability of debt, while the **positive resource gap** indicates the capacity to sustain the debt. The positive resource gap between the non-debt receipts and the total expenditure of the State during 2005-07 indicates enhancement in the capacity of the Government to sustain the debt. The Government experienced huge negative resource gap in 2007-08 and 2008-09,

¹⁰ Please see glossary (Appendix 4.1)

¹¹ Please see glossary (Appendix 4.1)

¹² Please see glossary (Appendix 4.1).

¹³ Please see glossary (Appendix 4.1).

¹⁴ Includes ₹ 15.48 lakh representing Market loans not bearing interest, ₹ 513.12 crore representing loans of back to back basis recoveries of which are being made by Central Government and ₹ 31.92 lakh repayment of which is on the basis of actual recoveries.

though it turned into a small positive resource gap in 2009-10. Thus, capacity to sustain the debt is being eroded by huge extent since 2007-08.

- 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 ₹ 3,810 crore in 2007-08 to ₹ 1,114 crore in 2009-10. The expenditure pattern of the Government during the current year indicated that the borrowed funds were mostly used for redemption of past debts leaving only small fund for other purposes.
- The **burden of interest payments** (*Interest payments/revenue receipts*) continued to remain high at 23 *per cent* during 2005-10 and was still beyond the medium term target of 15 *per cent* of the revenue receipts in 2009-10 as envisaged by TFC.
- The **Maturity profile of the State's debt** during the current year indicates that 4.17 *per cent* is payable in the next year, 11.12 *per cent* in 1-3 years time, 13.44 *per cent* in 3-5 years time, 12.01 *per cent* in 5-7 years and 58.30 *per cent* is payable after seven years. There will be a bunching of repayments around 3-5 years time as well as 5-7 years time.

A well thought out debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years is taken.

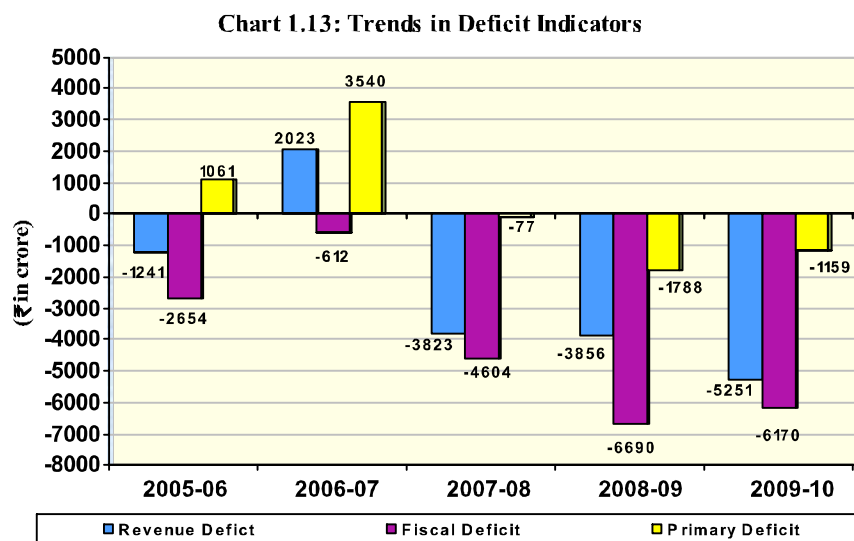
All the above mentioned parameters lead to a conclusion that unless borrowings are restricted, the State will have serious problem of servicing the debt.

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 the FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in deficits

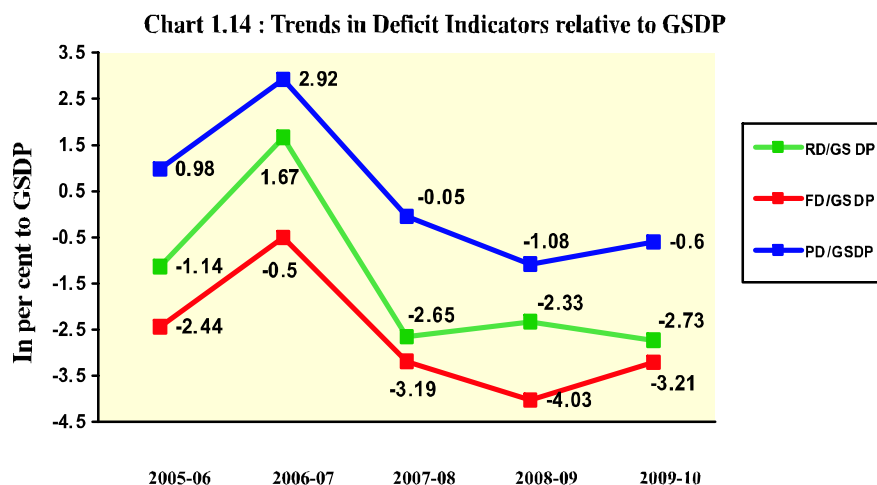
Charts 1.13 and 1.14 present the trends in deficit indicators over the period 2005-10.



The **revenue deficit** which indicates the excess of revenue expenditure over the revenue receipts rose to the level of ₹ 5,251 crore in 2009-10 from the surplus of ₹ 2,023 crore in 2006-07. It shows that the revenue receipts in the State were not enough to meet its revenue expenditure. As per the FRBM Act, 2003 the State was to bring its revenue deficit to zero by 2008-09, which was further relaxed by GoI upto 2009-10. *But instead the revenue deficit is increasing by each passing year.*

The **fiscal deficit**, which represents the total borrowing of the State and its total resource gap, increased from ₹ 2,654 crore in 2005-06 to ₹ 6,690 crore in 2008-09 and marginally decreased to ₹ 6,170 crore in 2009-10. *However, the fiscal deficit as percentage of GSDP at 3.21 per cent was within the target of four per cent fixed by GoI till 2009-10.*

The **primary deficit**, which indicates the excess of primary expenditure (*total expenditure net of interest payments*) over non-debt receipt, was ₹ 1,159 crore in 2009-10 which was less by ₹ 629 crore as compared to that of the previous year.



The **ratio of fiscal deficit to GSDP** increased from 0.50 *per cent* in 2006-07 to 4.03 *per cent* in 2008-09 and reduced to 3.21 *per cent* in 2009-10. The ratio of revenue surplus to GSDP (1.67 *per cent*) in 2006-07 turned into deficit of 2.33 *per cent* in 2008-09. The ratio of revenue deficit to GSDP during the current year increased to 2.73 *per cent*. The target to bring down the revenue deficit to zero by 2009-10 (as relaxed by GoI) was not achieved due to low growth rate in revenue receipts compared to the growth rate in revenue expenditure.

1.9.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit is reflected in the **Table 1.22**.

Table 1.22: Components of Fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
Composition of Fiscal Deficit		2654	612	4604	6690	6170
(1+2+3)		(2.44)	(0.50)	(3.19)	(4.03)	(3.21)
1	Revenue Deficit/Surplus(-)	1241	(-) 2023 [#]	3823	3856	5251
		(1.14)	(- 1.67)	(2.65)	(2.33)	(2.73)
2	Net Capital Expenditure	1517	2586	2191	2857	2166
		(1.40)	(2.13)	(1.52)	(1.72)	(1.13)
3	Net Loans and Advances	-104	49	-1410	-23	-1247
		(- 0.10)	(0.04)	(- 0.98)	(- 0.01)	(-0.65)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	978	738	3794	4645	4361
2	Loans from GOI	-178	-4008	71	105	-103
3	Special Securities issued to NSSF	3316	2801	463	-213	1004
4	Loans from Financial Institutions	-650	-427	-385	-393	-463
5	Small Savings, PF etc	389	402	636	720	849
6	Deposits and Advances	-84	-102	66	645	264
7	Suspense and Miscellaneous	10	40	38	2	-34
8	Remittances	-11	-15	12	-11	39
9	Others (Reserve Fund)	191	241	184	359	208
10	Increase/Decrease in cash balance	-1307	942	-275	831	44
11	Overall Deficit	2654	612	4604	6690	6170
Figures in brackets indicate the <i>percent</i> to GSDP.		Source: Finance Accounts				
* 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 ₹ 2,654 crore in 2005-06 to ₹ 6,170 crore in 2009-10 with inter year variations. It was mainly met from market borrowings ₹ 4,361 crore, special securities issued to NSSF ₹ 1,004 crore and small savings, provident funds etc, ₹ 849 crore. Special securities issued to NSSF and the small savings, provident funds etc. increased by 571.36 and 17.92 *per cent* respectively in the current year over the previous year, whereas the net market borrowing decreased by 6.11 *per cent* over the previous year.

1.9.3 Non-Compliance of provisions of FRBM Act

Audit observed that the State Government did not comply with the following provisions of FRBM Act, 2003 to ensure prudent fiscal management.

The Act requires that State Government shall attempt to bring down the ratio of debt including contingent liabilities to GSDP to 28 *per cent* within the period of five years from 2005-06 to 2009-10 and no department shall allow any liabilities which have become due to remain unpaid for a period of more than three months or to incur fresh liabilities if previous incurred liabilities have remained unpaid for a period of more than three months. However, the system to evaluate the estimated unpaid liabilities at any time as envisaged in the Act was not in place.

Further, the State Government was to lay before the Legislature the medium term Fiscal Policy Statement (FPS) along with the annual budget for 2009-10. The FPS was to include an assessment of sustainability *inter-alia* stating the use of capital receipts including market borrowings for generating productive assets. Audit noticed that object of market borrowings as per the Government notifications issued for raising borrowings of ₹ 4,985 crore in 2009-10 was to finance the capital expenditure of plan and development schemes, but were utilized partially to meet its committed expenditure. Thus, the State Government did not adhere to the provisions of FRBM Act while incurring expenditure using the capital receipts and borrowings.

1.9.4 Quality of deficit/surplus

The ratio of Revenue deficit to Fiscal deficit 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 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 increased from 57.64 *per cent* in 2008-09 to 85.11 *per cent* in 2009-10, due to increase in revenue deficit and decrease in fiscal deficit during the current year (*Appendix 1.7*).

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2005-10 reveals (**Table 1.23**) that, the primary deficit during this period was on account of slow rise/near stagnation in non-debt receipts. In other words, non-debt receipts of the State were just enough to meet the primary revenue expenditure requirements and it left very small amount to meet the expenditure under the capital account and loans and advances during 2005-06 and 2006-07. If this trend continues, debt sustainability will be in serious jeopardy as ideally incremental non-debt receipts every year should cover not only the primary expenditure but also incremental interest burden.

Table 1.23: Primary deficit/surplus

(₹ 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)
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
2009-10	23433	22397	2166	29	24592	-1159

Source: Finance Accounts

¹⁵ Please see glossary (*Appendix 4.1*)

1.10 State Finances 2001-10–Some key parameters

Table 1.24 provides the summary of the Government finances in 2000-01 and 2009-10, the base year of the analysis and the current year.

Table 1.24: Summary of Government Finances

(₹ in crore)

Resource use				Resource availability			
	As on 31 st March				As on 31 st March		
	2001	2010	CAGR*		2001	2010	CAGR*
Capital Outlay	10108	24703	10.44	Internal debt	9612	49966	20.10
Loans & Advances	4970	2853	-5.98	External debt	0	0	0.00
Resource use in terms of functions				Small savings	5210	10182	7.73
Social Services	923	4119	18.08	Other obligations	14135	7823	-6.36
Agriculture & Allied	542	216	-9.72	Fiscal Liabilities	28957	67971	9.94
Irrigation & Energy	6448	11279	6.41	Cash Balances	-156	275	-
Industry & Minerals	429	475	1.14	Suspense Balances	-297	-523	6.49
Transport & Communication	783	4120	20.26	Remittances	244	116	-7.93
Other Economic Services	624	3391	20.69	Advances	-1	-1	0.00
Total Economic Services	8826	19481	9.20	Contingency Fund	22	25	1.43
General Services and Others	359	1103	13.28	Availability of funds	28769	67863	10.00
Loans & Advances	4970	2853	-5.98	Resource Gap	-13691	-40307	12.75
Total Assets	15078	27556	6.93	Resource use	15078	27556	6.93

* CAGR = Compounded Annual Growth Rate calculated as per methodology explained in Appendix 1.8.

- While the net availability of funds of the State Government increased at an annual rate of 10 *per cent*, assets of the Government comprising the capital expenditure and loans and advances increased at an annual rate of 6.93 *per cent* only.
- The negative spread in the growth of resource availability and assets formation resulted in progressive decline in the asset base of the State Government relative to its liabilities. Within the assets, capital expenditure directly witnessed a relatively higher growth during 2001-10. “Loans and advances” which is akin to capital formation through its parastatal, decreased at an average rate of around six *per cent*.
- Investments as assets formation in Agriculture and allied activities recorded a decline of 9.72 *per cent*, whereas Irrigation and Energy as well as Industry and Minerals recorded a relatively lower growth as compared to the other sectors during the period 2001-10. Investment in Social and Economic Services grew by 18.08 and 9.20 *per cent* respectively and within Economic services, the investment in Transport and Communication and Other Economic Services increased at a relatively faster rate than its other components during the period.

- The General Services and others grew at a faster rate of 13.28 *per cent* than the average growth of Economic Services which grew at 9.20 *per cent* during the period.
- Resource gap measured as a difference between the net availability of funds and resource use increased from around 47.59 *per cent* of net funds availability as on 31 March 2001 to around 59.40 *per cent* as on 31 March 2010.

1.11 Conclusion and recommendations

Inadequate mobilization of revenue receipts: During the year 2009-10, the revenue account decreased by ₹ 1,395.16 crore, as the growth of revenue receipts was 6.97 *per cent* while the growth of revenue expenditure was 11.55 *per cent* over the previous year. The tax revenue decreased by ₹ 2,170 crore (15.27 *per cent*) and non-tax revenue exceeded by ₹ 3,098 crore (119.53 *per cent*) over the normative assessment made by the Twelfth Finance Commission. The State's own tax buoyancy with reference to the Gross State Domestic Product (GSDP) decreased from 2.37 in 2005-06 to 0.50 in 2009-10, implying that the tax revenue had not kept pace with the GSDP. *Concerted efforts to increase the tax revenue could improve the States' finances.*

Funds transferred directly to the State implementing agencies outside the State budget: During 2009-10, the GoI directly transferred ₹ 1,161.73 crore (5.24 *per cent* of total revenue receipts) to the State implementing agencies for implementation of various schemes/ programmes in social and economic sectors. As these funds were not routed through the State budget, the Annual Finance Accounts had not captured 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 implementing agencies.*

High share of revenue expenditure in total expenditure: Revenue expenditure during 2009-10 (₹ 27,408 crore) was 93 *per cent* of the total expenditure, as compared to 89 *per cent* during the previous year. During 2009-10, committed expenditure on salaries and wages, interest payments, pensions and subsidies constituted 71.19 *per cent* of the revenue expenditure. The expenditure on salaries was 42.52 *per cent* of the revenue expenditure (net of interest payments and pension) exceeding the norm of 35 *per cent* envisaged by the Twelfth Finance Commission.

Since the level of subsidies of ₹ 2,919 crore in 2009-10 is almost 66.04 *per cent* higher than that projected (₹ 1,758 crore) in the Fiscal Correction Path, *the State need to discourage extending of subsidies to improve fiscal position of the State.*

Interest payment of ₹ 5,011 crore in 2010, which was 23 *per cent* of the revenue receipts during 2009-10 was still beyond the medium term target of 15 *per cent* of the revenue receipts to be achieved by 2009-10. *As the committed revenue expenditure is continued to be high leaving only a small*

share for the current operations, immediate measures need to be taken to compress the unproductive revenue expenditure.

Low level of assistance to local bodies etc.: The overall quantum of financial assistance (₹ 940.68 crore in 2009-10) given by the State Government to the local bodies and other institutions remained at 2.17 to 3.43 *per cent* of the revenue expenditure during 2005-10 and this needs to be increased so as to strengthen them.

Low priority to capital expenditure: The Capital expenditure of ₹ 2,166 crore in 2009-10 fell short by 38.99 *per cent* when compared with the budget estimate. Relative to the GSDP, the capital expenditure remained at 1.13 *per cent*, far below the target of three *per cent* to be achieved by the State Government by 2009-10, which shows that due priority was not given to the capital expenditure. *It warrants appropriate action at Government's level to improve the capital expenditure.*

Inadequate priority to Development expenditure: In 2009-10, the total expenditure as a proportion of GSDP was much lower in Punjab in comparison to the other general category states. Similarly, lower priority had been given in the State to Development expenditure and Social sector expenditure, as low proportion of the total expenditure was spent under these heads in comparison to the other general category States. *Therefore, Government needs to strengthen the allocation to Development activities.*

Low return on investment: As of March 2010, the total investment of Government of Punjab in statutory corporations, companies etc. was ₹ 3,832.41 crore. In addition to the investments, Government has also been providing loans and advances to many institutions. The outstanding loans as of 31 March 2010 was ₹ 2,853 crore. During 2005-10, the return on these investments was negligible (0.01 to 1.47 *per cent*). On the other hand, the cost of borrowed funds was higher (7.52 to 8.46 *per cent*) which resulted in straining the financial position of the Government. *It would be advisable for the State Government to ensure better value for the investments and loans and advances, otherwise high cost borrowed funds will continue to be invested in activities with low financial returns.*

Low backup of liabilities by assets: The ratio of assets to liabilities remained at an average of 43.64 *per cent* during 2005-10. During 2009-10, the ratio at 40.82 *per cent* had decreased from 43.42 *per cent* in 2008-09 implying that only 41 *per cent* of the liabilities were backed up by assets as on March 2010. *Greater emphasis should be made on creation of capital assets to improve this position.*

High ratio of fiscal liabilities to GSDP: The fiscal liabilities of the Government has been on the rise and it increased from ₹ 51,364 crore in 2005-06 to ₹ 67,971 crore in 2009-10. The ratio of fiscal liabilities to GSDP stood at 35.33 *per cent* in 2009-10 against the norm of 28 *per cent* targeted to be achieved by 2009-10 as per the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003. The Thirteenth Finance Commission has further recommended that by 2014-15 all States should bring down the fiscal liabilities to 25 *per cent* of GSDP. *Therefore, the State Government should set in place a strategy to limit the quantum of fiscal liabilities in the next five years.*

Increase in outstanding guarantees: The outstanding guarantees of ₹ 33,295 crore (as of March 2010) given by the Government were 161 *per cent* of the revenue receipts of 2008-09 against the norm of 80 *per cent* prescribed in the FRBM Act, 2003. The total amount of guarantee fees received and receivable during 2009-10 was ₹ 53.18 crore and ₹ 145.18 crore respectively. The Government has set-up a Guarantee Redemption Fund on the recommendations of TFC, but so far no amount has been transferred to the fund. The outstanding liability of ₹ 67,971 crore and guarantee commitment of ₹ 33,295 crore pose a serious threat to the financial stability of the State. *Therefore, reduction of the contingent liabilities should be given due priority by the State Government, besides ensuring proper monitoring and recovery of the outstanding guarantee fees and transfer of funds to the Guarantee Redemption Fund.*

Debt sustainability: During 2009-10, the burden of interest payments was 23 *per cent* of the revenue receipts. The net funds available from internal debt and loans and advances from GoI and other sources after providing for the interest payments and repayments of principal decreased from ₹ 3810 crore in 2007-08 to ₹ 1114 crore in 2009-10 and the borrowed funds were mostly used for redemption of past debts leaving only small fund for other purposes. *As it would be difficult to manage the huge liabilities, Government need to restrict the borrowings and should use the borrowed funds as far as possible only to fund the capital expenditure and revenue expenditure should be met from revenue receipts.*

During 2009-10, Government resorted to borrowings in excess of the approved annual plan and GoI ceiling, Government did not avail of the alternate economical means of borrowing and there were wrong computations of cash balances while deciding the borrowings. *It is suggested that a proper monitoring system be put in place in the Finance Department to ensure correct quantum and need based borrowings.*

Increasing deficits: The revenue deficit, which indicates the excess of revenue expenditure over the revenue receipts, of the Government of Punjab ranged between ₹ 1,241 crore and ₹ 5,251 crore during 2005-10, which was far higher than the target to wipe out the revenue deficit by 2009-10. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from ₹ 2,654 crore in 2005-06 to ₹ 6,170 crore in 2009-10. Fiscal deficit during the year constituted 3.21 *per cent* of GSDP against the relaxed target of 4 *per cent*. The primary deficit indicates the deficit arising out of financial transactions during a year. The primary surplus of ₹ 3,540 crore in 2006-07 in the State turned into primary deficit of ₹ 1,159 crore in 2009-10 implying declining financial position of the Punjab Government. *The Government of Punjab can achieve the targets set out in the FRBM Act provided efforts are made to increase the tax mobilisation, to collect the arrears of revenue and guarantee fees, to monitor the returns from investments and loans and advances, besides pruning the unproductive expenditure.*