Executive Summary

Background

To ensure prudence in fiscal management and to achieve fiscal stability in the State the Government of Punjab had enacted the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of the revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability.

The Thirteenth Finance Commission (ThFC) in its report has recommended a revised roadmap for Fiscal Consolidation for States and a Fiscal Consolidation Roadmap for the years 2010-11 to 2014-15 has been prepared for each state incorporating year-wise annual targets for revenue deficit, fiscal deficit and debt outstanding. The Act, as amended (March 2011), prescribed the following fiscal targets for Punjab State:

a) reduce fiscal deficit as *per cent* of estimated Gross State Domestic Product (GSDP) from 3.5 *per cent* in the financial year 2010-11, to three *per cent* by 2014-15 and maintain the ratio thereafter;

b) reduce the revenue deficit as *per cent* of estimated GSDP to bring it down to 1.8 *per cent* in the financial year 2011-12 and to zero *per cent* or surplus, in the financial year 2014-15 and maintain surplus thereafter;

c) bring down debt as *per cent* of estimated GSDP to 42.5 *per cent* in the financial year 2010-11 and 38.7 *per cent* by 2014-15;

d) cap the outstanding guarantees on long term debt to 80 *per cent* of the revenue receipts of the previous year. Guarantees on short term debt were to be given only for working capital or food credit in which case this must be fully backed by physical stocks.

The Report

Based on the audited accounts of the Government of Punjab for the year ended March 2011, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Punjab Government's fiscal position as on 31 March 2011. It provides an insight into the trends in receipts and expenditure, committed expenditure, borrowing pattern, fiscal imbalances etc, besides a brief account of central funds released directly to the State implementing agencies through off-budget route.

Chapter 2 is based on the audit of Appropriation Accounts and it gives the grant wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is report on the Punjab Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings.

Audit findings and recommendations

Revenue receipts/expenditure of the State Government: Revenue receipts grew by 24.61 *per cent* during the year 2010-11. The growth of revenue expenditure was 20.03 *per cent* over the previous year. However, during the period 2006-11 while the revenue receipts grew at an annual average of 6.85 *per cent,* revenue expenditure grew faster at an average of 15.48 *per cent,* during the same period implying that unless addressed this fiscal imbalance could become acute in the coming years.

Funds released by the Central Government to State implementing agencies outside the State budget: During 2010-11, the Government of India released ₹ 1,617.15 crore to the State implementing agencies directly instead of routing through the State Budget, for implementation of various schemes/programmes. 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 understated.

Priority to capital expenditure: The Capital expenditure of ₹ 2,384 crore in 2010-11, increased by 10.06 *per cent* over the previous year; yet it fell short by 22.14 *per cent* when compared with the budget estimates and was 40.83 *per cent* lower than the level projected in fiscal consolidation roadmap for the State. Ratio of development expenditure (expenditure on social and economic services) to the aggregate expenditure during the year in respect of Punjab was 44.95 *per cent* against an average of 64.42 *per cent* for the General Category States. This shows that in the current year due priority has not been given to the capital expenditure. *It warrants appropriate action at Government's level to improve the capital expenditure*.

Government investments: As of March 2011, the total investment of Government of Punjab in statutory corporations, companies etc. was ₹ 3,832 crore. Though the State has been borrowing funds at the average rate of 7.72 to 8.46 *per cent* interest, the return on these investments during 2006-11, was negligible (0.01 to 0.05 *per cent*). *It would be advisable for the State Government to ensure better value for these investments.*

Low backup of liabilities by assets: The ratio of Financial Assets to Liabilities came down to 39.12 *per cent* in 2010-11 from 46.59 *per cent* in 2006-07 which indicates that most of the debt was spent for purpose other than asset creation. *Great care should be taken to utilize debt receipt for asset creation.*

Outstanding guarantees: The outstanding guarantees of ₹ 40,333 crore (as of March 2011) given by the Government were 182 *per cent* of the revenue receipts of 2009-10 against the norm of 80 *per cent* prescribed in the FRBM Act, 2003. The State Government has set up a Guarantee Redemption Fund, but no amount was transferred to the fund during 2010-11. *The State Government need to give due priority to reduction of contingent liabilities and ensure proper monitoring and recovery of the outstanding guarantee fees as well as transfer of funds to the Guarantee Redemption Fund.*

Debt sustainability: During 2010-11, 20 *per cent* of the revenue receipts were used for payment of interest. Hence borrowed funds being 43.77 *per cent* of the total receipts were mostly used for redemption and servicing of past debts leaving only small fund for other purposes. *The Government need to restrict the borrowings and should use the borrowed funds as far as possible only to fund the capital expenditure***.**

Increasing deficits: The revenue deficit, which indicates the excess of revenue expenditure over the revenue receipts increased to the level of ₹ 5,289 crore in 2010-11 as against a surplus of ₹ 2,023 crore in 2006-07. It shows that the revenue receipts were not enough to meet the burgeoning and structurally rigid revenue expenditure. As per FRBM (Amendment) Act, 2011, the State ought to have bring its revenue deficit to 1.80 *per cent* of GSDP by 2011-12 and finally bring it down to zero by the year 2014-15. Instead, the revenue deficit has been going up in each passing year. The fiscal deficit, which represents the total borrowing of the State and its total resource gap, increased from ₹ 612 crore in 2006-07 to ₹ 7,143 crore in 2010-11. Though the fiscal deficit at 3.12 *per cent* of GSDP in the current year was within the target of 3.50 *per cent* fixed by FRBM (Amendment) Act, 2011, this was achieved owing to low level of capital expenditure (₹ 2,384 crore) and increased capital receipts (₹ 7,919 crore). The primary deficit, which indicates the excess of primary expenditure over non-debt receipts (total expenditure net of interest payments), has increased to ₹ 1,628 crore in the current year from ₹ 1,159 crore in 2009-10.

Financial Management and Budgetary Control:

Savings: During the year 2010-11, there was a net saving of ₹ 4,693.42 crore (10.05 *per cent*). In 16 out of the 30 Grants, there was saving in excess of ₹ 100 crore or by more than 20 *per cent* of the budget provision.

Excesses/without budget provision: Excess expenditure of ₹ 1,828.96 crore under six grants and expenditure incurred without budget provision of ₹ 1,007.88 crore under nine grants relating to the period 2010-11 requires regularization by the State Legislature. Further, excess expenditure of ₹ 1,862.25 crore relating to the period 2007-10 also require regularization.

Supplementary provision/re-appropriations: Supplementary provision of ₹1,464.65 crore in 21 cases and re-appropriation of ₹168.78 crore in 42 cases proved to be unnecessary.

Budgetary control needs to be strengthened in all the Government departments. Budget estimates should be prepared with due care and on realistic basis so that there are no huge savings or excess over the estimates. Excess expenditure over provision during the previous years should also be got regularized.

Financial reporting:

Utilization Certificates: Against the grants released by the State Government during 2001-11 UCs in respect of grants amounting to ₹ 283.85 crore were outstanding as on 31 March 2011. Grant of ₹ 32.22 crore received from GoI was further disbursed to field units by the Department of Welfare of Scheduled Castes and Backward Classes. Of which, UCs for ₹ 30.66 crore were still awaited from the concerned field units. However, the entire amount was shown as utilized and UCs thereof were submitted by the head of the department to the GoI.

Detailed Contingent bills: DC bills in respect of funds withdrawn through 476 AC bills amounting to ₹ 449.32 crore were outstanding against the Controlling Officers of departments.

Accounts of Autonomous Bodies: As of March 2011 accounts of five autonomous bodies for the year 2009-10 were awaited. The Punjab Labour Welfare Board did not furnish its accounts since 2002-03.

Proforma Accounts: Punjab Roadways had not prepared its proforma accounts since 2001-02.

Creation of liabilities: Due to delay in release of funds to the Panchayati Raj Institutions/Urban Local Bodies as per recommendations of Twelfth Finance Commission, Thirteenth Finance Commission and under Backward Regions Grant Fund, State Government had created an interest liability of ₹ 3.80 crore thus putting extra financial burden on the State exchequer.

Misappropriation, Loss, Theft etc.: Final action by the State Government on 68 cases (₹ 1.23 crore) of misappropriations, thefts, losses etc. was awaited as on 31 March 2011.

Booking under Minor Head 800-Other Expenditure/Receipts: During the year 2010-11 an expenditure of ₹ 5,406.85 crore (15 *per cent* of total expenditure) and receipts of ₹ 1,431.95 crore (five per cent of total revenue receipts) were classified under Minor Head 800-Other Expenditure/Receipts. Hence, rendering the accounts opaque to that extent.

Non-deposit of receipts in the Consolidated Fund: Contrary to the financial rules revenue receipts of ₹ 7,667.13 crore were not deposited in Consolidated Fund of the State and were retained in various funds.

Internal control Mechanism in the Government Departments needs to be strengthened to watch the timely and correct submission of Utilization Certificates. All the departments may be directed to submit pending adjustment bills (DC bills) to Accountant General (A&E) as early as possible. Submission of pending accounts by Punjab Roadways should be got expedited. Departmental enquiries in cases of misappropriation and theft should be expedited and the control system be strengthened to prevent recurrence of such cases. It may also be ensured that all the revenue receipts are deposited to the Consolidated Fund of the State.