

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large revenue and fiscal deficits year after year indicate continued macro imbalances in the State. The revenue deficit which was Rs 3,781 crore during 2001-02, declined by 67 *per cent* in 2005-06 (Rs 1,241 crore) and the fiscal deficit which was Rs 4,959 crore declined by 46 *per cent* in 2005-06 (Rs 2,654 crore). The ratio of revenue receipts to total expenditure stood at 86 *per cent* in 2005-06. Overall revenue receipts increased from Rs 8,929 crore in 2001-02 to Rs 16,966 crore in 2005-06. During the current year, revenue receipts grew by 23 *per cent*. This comprised 29 *per cent* increase in tax revenue while there was 15 *per cent* decline in non-tax revenue. Around 80 *per cent* of the revenue came from the State's own resources. In fact, Central tax transfers remained static whereas grants-in-aid had increased from six *per cent* in 2001-02 to 13 *per cent* in 2005-06. Arrears of revenue under the principal revenue heads were Rs 2,728.38 crore and constituted 20 *per cent* of tax and non-tax revenue receipts.

Overall expenditure of the State increased from Rs 14,760 crore in 2001-02 to Rs 19,757 crore in 2005-06. The rate of growth was 10 *per cent* in 2001-02 which declined marginally to nine *per cent* in 2005-06. The proportion of developmental expenditure in total expenditure slightly increased from 43 *per cent* in 2001-2002 to 44 *per cent* in 2005-06. Ratio of revenue expenditure to the total expenditure during 2001-02 was 0.86 and same ratio reached 0.92 in 2005-06. Interest payments increased steadily by 17 *per cent* from Rs 3,178 crore in 2001-02 to Rs 3,715 crore in 2005-06 primarily due to continued dependence on borrowings for financing the fiscal deficit. Interest payments are likely to rise substantially once the moratorium granted by Government of India (GOI) for seven years on repayment and interest on a portion of GOI loans is over in 2007.

The State passed the Fiscal Responsibility and Budget Management Act in 2003 which provides for a cap on the ratio of the debt to Gross State Domestic Product (GSDP) at the level achieved in the previous year subject to an absolute ceiling of 40 *per cent* to be achieved by 2006-07. Generation of additional internal resources and curtailment of non-development expenditure are the best means available to avoid the situation of non-achievement of the targets.

1.1. Introduction

The Finance Accounts of Government of Punjab are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in box below:

Lay out of Finance Accounts

The Finance Accounts of Punjab contain 19 statements as depicted below.

Statement No.1 presents the summary of transactions of the State Government –receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund of the State, the Contingency Fund and the Public Account.

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure upto the end of 2005-06.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss etc.

Statement No.4 indicates the summary of debt position of the State which includes internal debt, borrowings from Government of India, other obligations and service of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under the Consolidated Fund, the Contingency Fund and the Public Account as on 31 March 2006.

Statement No.9 shows the revenue and expenditure under different heads for the year 2005-06 as a *percentage* of total revenue/expenditure.

Statement No.10 indicates the distribution between the Charged and the Voted expenditures incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts and capital receipts by minor heads.

Statement No.12 provides accounts of revenue and capital expenditure by minor heads under Non-Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2005-06.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, co-operative banks and societies etc. up to the end of 2005-06.

Statement No.15 depicts the capital and other expenditure to the end of 2005-06 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of Punjab.

Statement No.18 provides the detailed account of loans and advances given by the Government of Punjab, the amount of loan repaid during the year, the balance as on 31 March 2006 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of Reserve Funds.

1.2. Trend of Finances with reference to previous year

Finances of the State Government during the current year as compared to the previous year were as under:

(Rupees in crore)

2004-05	Sr. No	Major Aggregates	2005-06
13807	1.	Revenue Receipts	16966
6944	2.	Tax Revenue (Net)	8989
5358	3.	Non-Tax Revenue	4536
1505	4.	Other Receipts	3441
134	5.	Non-Debt Capital Receipts	137
134	6.	Of which Recovery of Loans	137
13941	7.	Total Receipts (1+5)	17103
16940	8.	Non-Plan Expenditure (9+11)	17483
16732	9.	On Revenue Account	17246
3981	10.	Of which Interest Payments	3715
208	11.	On Capital Account	237
97	12.	Of which Loans disbursed	33
1116	13.	Plan Expenditure (14+15)	2274
466	14.	On Revenue Account	961
650	15.	On Capital Account	1313
--	16.	Of which Loans disbursed	-
18056	17.	Total Expenditure (8+13)	19757
4115	18.	Fiscal Deficit (17-1-5)	2654
3391	19.	Revenue Deficit (9+14-1)	1241
134	20.	Primary Deficit(+)/Surplus(-) (18-10))	(-)1061

1.3. Summary of Receipts and Disbursements

Table -1 summarises the finances of the State Government of Punjab for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

Table-1

Summary of Receipts and Disbursements for the year 2005-2006

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
	Section-A: Revenue		Total		Non-Plan	Plan	Total
13807.48	Revenue receipts	16966.48	17198.03	Revenue expenditure	17246.08	960.65	18206.73
6944.63	Tax revenue	8989.28	9850.04	General services	10503.89	12.36	10516.25
5358.03	Non-tax revenue	4536.33	3535.79	Social Services	3321.31	281.09	3602.40
902.35	Share of Union Taxes/Duties	1227.55	3737.67	Economic Services	3046.86	667.20	3714.06
602.47	Grants from Govt. of India	2213.32	74.53	Grants-in-aid and Contributions	374.02	-	374.02
3390.55	Revenue Deficit carried over to Section B	1240.25	17198.03	Total	17246.08	960.65	18206.73
17198.03	Total	18206.73		Opening Overdraft from Reserve Bank of India	-	-	-
	Section-B: Capital		193.44	Capital Outlay	203.63	1313.26	1516.89
373.13	Opening Cash Balance	460.93	761.40	Loans and Advances Disbursed-	33.48	--	33.48
-	Misc. Capital Receipts	-	96.80	Revenue Deficit brought down	1240.25	-	1240.25
133.81	Recoveries of Loans & Advances	136.70	3390.55	Repayment of Public Debt	1111.35	-	1111.35
6360.59	Public debt receipts	4577.93	3017.08	Public Account disbursements	15154.28	-	15154.28 ¹
-	Amount transferred to Contingency Fund	-	11793.57 ¹	Cash Balance at end	1767.65	-	1767.65
12846.24	Public account receipts	15648.34	19713.77	Total	19510.64	1313.26	20823.90
-	Closing Overdraft from Reserve Bank of India	-	36911.80	Grand Total	36756.72	2273.91	39030.63
19713.77	Total	20823.90					
36911.80	Grand Total	39030.63					

¹ Public Account transactions do not fall under either Plan or non-Plan category.

1.4. Audit Methodology

Audit observations on the Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure and wherever necessary show these in the light of time series data *Appendix I to IV* and periodic comparisons. Major fiscal aggregates such as tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances have been presented as *percentages* to the GSDP at current market prices. The buoyancy projections for tax revenue, non-tax revenue, revenue expenditure etc., have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are: (i) Resources by volume and sources, (ii) Application of resources, (iii) Management of deficits and (iv) Assets and liabilities. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

In addition, this chapter also contains a paragraph on indicators of financial performance of the Government. Some of the terms used here are explained in *Appendix-V*.

1.5. State Finances by key indicators

1.5.1. Resources by volume and sources

Resources consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union Taxes and Duties and Grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions and commercial banks and loans and advances from Government of India as well as accruals from the Public Account. Table-2 shows the total receipts of the Government of Punjab (Rs 37,329 crore) for the year 2005-06, by volume and sources. Of these, revenue receipts of the State Government were only Rs 16,966 crore, constituting 45 *per cent* of the total receipts. The balance of receipts came from borrowings and the Public Account.

Table-2: State Resources

(Rupees in crore)

I. Revenue Receipts-----	16966
II. Capital Receipts	4715
-----	-----
a. Recovery of Loans and Advances	137
b. Debt Receipts	4578
-----	-----
III. Public Account Receipts-----	15648
-----	-----
a. Small Savings and Provident Fund	1483
b. Reserve Fund	218
c. Deposit and Advances	1462
d. Suspense and Miscellaneous	11462 ²
e. Remittance	1023
Total Receipts	37329

1.5.2. Revenue Receipts

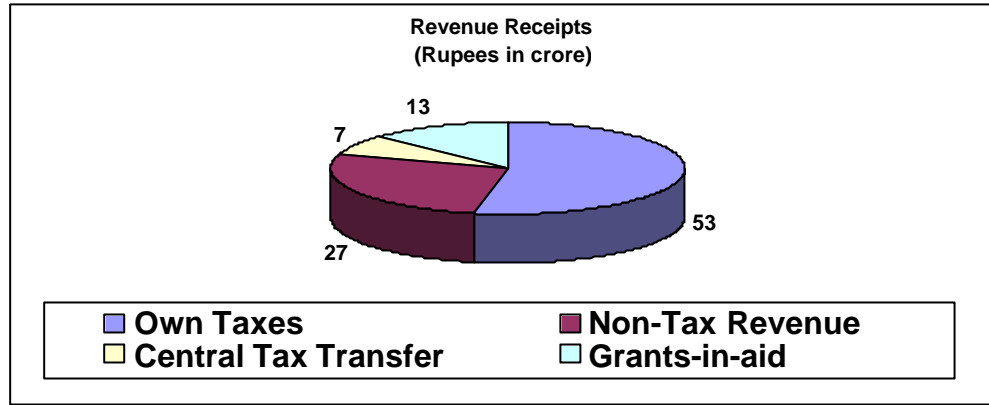
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts, their annual and trend rate of growth, ratio of these receipts to the GSDP and their buoyancies are indicated in Table-3.

Table-3
Revenue Receipts- Basic Parameters
(Value: Rupees in crore and others in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (in crore of rupees)	8929	11071	12139	13807	16966
Own Taxes	4820(54)	5711(52)	6146(51)	6944(50)	8989(53)
Non-Tax Revenue	2960(33)	4036(36)	4666(38)	5358(39)	4536(27)
Central Tax Transfers	611(7)	649(6)	754(6)	903(7)	1228(7)
Grants-in-aid	538(6)	675(6)	573(5)	602(4)	2213(13)
Rate of growth of Revenue Receipts	(-) 4.78	23.99	9.65	13.74	22.88
Rate of growth of own taxes	(-)2	18	8	13	29
Revenue Receipts/ GSDP	11.62	12.83	12.65	12.86	14.99
Revenue Buoyancy	- ³	1.962	0.859	1.153	4.253
Own-Tax Buoyancy	- ³	1.51	0.68	1.09	5.474
GSDP growth over previous year	12.29	12.23	11.23	11.92	5.38

² Includes Rs 11229 crore on account of cheques and bills issued by the departments other than Public Works Department and Forest Department, which have been encashed during the year.

³ Buoyancy not calculated because the rate of growth of revenue receipts was negative.



Revenue receipts of the Government increased from Rs 8,929 crore in 2001-02 to Rs 16,966 crore in 2005-06. There were, however, significant inter year variations in the growth rates. The impressive trend rate of 24 per cent achieved during 2002-03 declined to 14 per cent during the year 2004-2005 but it again touched 23 per cent during 2005-06. The pace of rate of growth has shown some improvement as compared to last years. In the category of tax revenue, Sales Tax increased by 21 per cent and Stamp and Registration Fees by 73 per cent. Interest receipts of Rs 1,890 crore declined to Rs. 644 crore mainly due to less receipts under interest from public sector and other undertakings. Other receipts reduced by Rs 65 crore and Rs 52 crore during 2005-06 as compared to 2004-05 in respect of Irrigation and Public Works Department respectively. Grants-in-aid from Central Government increased from Rs 602 crore in 2004-05 to Rs 2,213 crore in 2005-06. The receipts under the State lotteries Rs 3,202 crore increased by 19 per cent over the previous year (Rs 2,698 crore) while the receipts of Road Transport Department reduced from Rs 185 crore in 2004-05 to Rs 171 crore in 2005-06 mainly due to less receipts under Government Transport Services– Punjab Roadways.

Table-4: Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts including Contingency Fund Receipts	Debt Receipts	Public Account Receipts		
2001-02	8929	875	6681	14171	30656	76860
2002-03	11071	103	6246	11972	29392	86260
2003-04	12139	105	7337	10111	29692	95947
2004-05	13807	134	6361	12846	33148	107384
2005-06	16966	137	4578	15648	37329	113161

Contribution of grants-in-aid increased to 13 per cent in 2005-06 from six per cent in 2001-02 and contribution of Central tax transfers remained around seven per cent during 2001-06.

The arrears of revenue as on 31 March 2006 amounted to Rs 2,728.38 crore in respect of some principal heads of revenue of which Rs 1,281.32 crore was outstanding for more than five years. The arrears pertained mainly to Sales Tax

(Rs 2,475.46 crore)⁴, Taxes on vehicle (Rs 59.97 crore), Irrigation (Rs 50.40 crore) and Interest receipts (Rs 49.11 crore).

1.6. Application of Resources

1.6.1. Trend of Growth

Statement-12 of the Finance Accounts gives the details of expenditure by minor heads. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-5 as below:

Table-5: Total Expenditure –Basic Parameters

(Value: Rupees in crore and others in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE)	14760	15584	17124	18056	19757
Rate of Growth	10.08	5.58	9.88	5.44	9.42
TE/GSDP Ratio	19.20	18.07	17.85	16.81	17.46
Revenue Receipts/TE Ratio	60.49	71.04	70.89	76.47	85.87
Buoyancy of Total Expenditure with reference to:					
GSDP	0.820	0.456	0.880	0.457	1.751
Revenue Receipts	⁵	0.233	1.024	0.396	0.412

The total expenditure increased from Rs 14,760 crore in 2001-02 to Rs 19,757 crore in 2005-06. The growth rate has been hovering between five and 10 *per cent* until 2005-06. Consequently, total expenditure–GSDP ratio has also fallen from 19 *per cent* in 2001-02 to 17 *per cent* in 2005-06. There was an upward trend in the ratio of revenue receipts to total expenditure from 60 *per cent* in 2001-02 to 86 *per cent* in 2005-06.

In terms of the activities, the total expenditure could be considered as being composed of expenditure on general services including interest payments, social services, economic services and loans and advances. The relative share of these components in the total expenditure is indicated in Table-6 as follows :

⁴ Mainly due to recoveries stayed by the High Court/Judicial/Departmental authorities (Rs 1008.69 crore), demand of Rs 285.76 crore likely to be written off and Rs 899.69 crore were under departmental action etc.

⁵ Rate of growth of revenue receipts was negative.

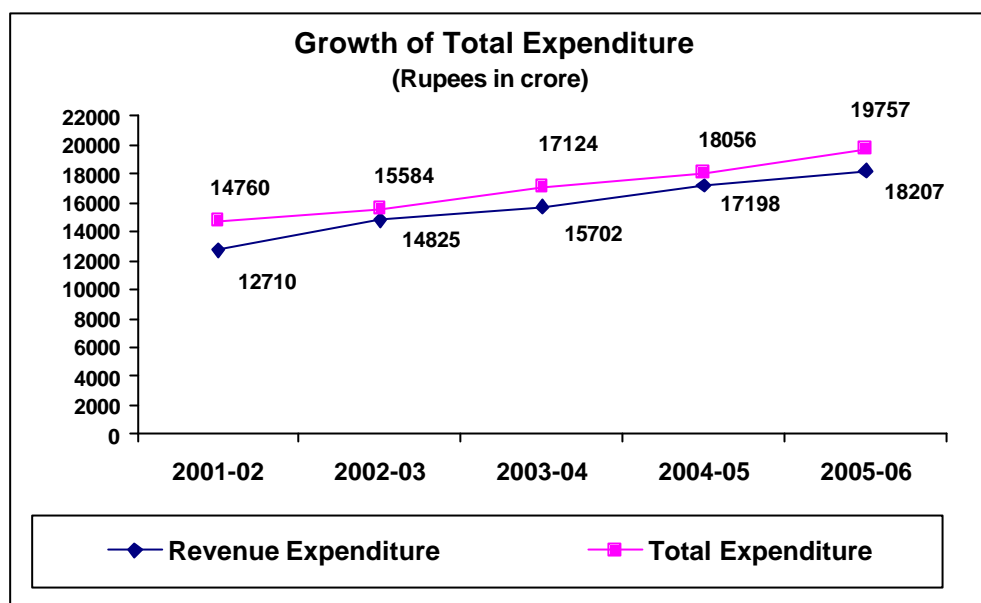


Table-6: Components of Expenditure – Relative Share⁶ (in per cent)⁷

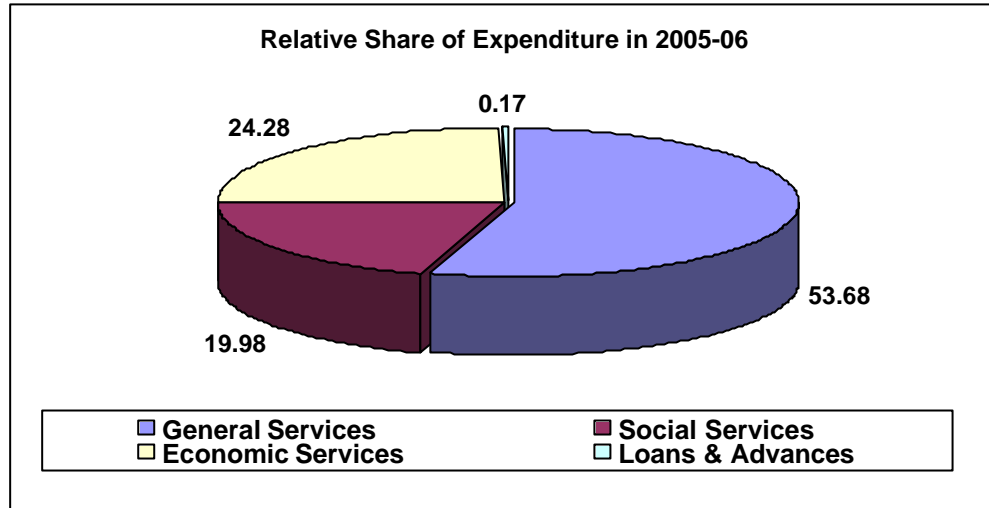
	2001-02	2002-03	2003-04	2004-05	2005-06
General Services⁸	51.41	58.35	54.72	54.84	53.68
Social Services	21.44	20.82	19.70	20.09	19.98
Economic Services	18.79	17.24	20.91	24.13	24.28
Loans & Advances	7.22	2.18	4.42	0.54	0.17

The movement of the relative share of these components of expenditure indicated that while the share of Social Services declined from 21 per cent in 2001-02 to 20 per cent during 2005-06 and that of loans and advances from seven per cent in 2001-02 to below one per cent in 2005-06, the relative share of General Services, which are primarily non-developmental in nature, increased from 51 per cent in 2001-02 to 54 per cent of the total expenditure in 2005-06. Thus, it is the non-developmental General Services which have gained at the expense of developmental services. Interpreted in this light, reduced expenditure would denote a loss of developmental impetus in the more important areas of governance.

⁶ This does not include Grants-in-Aid expenditure 1.14 per cent (2001-02), 1.41 per cent (2002-03), 0.25 per cent (2003-04), 0.40 per cent (2004-05) and 1.89 per cent (2005-06).

⁷ Total expenditure excludes Grants-in-aid and contributions, Compensations and Assignments to Local Bodies and Panchayati Raj Institutions.

⁸ It includes interest payment.



1.6.2. Incidence of Revenue Expenditure

Revenue expenditure had the largest share (92 per cent) in total expenditure. Such expenditure was usually incurred to maintain the current level of services and does not represent a significant addition to the State's service network. Revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and revenue receipts are indicated in Table-7 below:

Table-7: Revenue Expenditure: Basic Ratios
(Value: Rupees in crore and others in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure	12710	14825	15702	17198	18207
Rate of Growth	8.51	16.64	5.92	9.53	5.87
RE/GSDP	16.54	17.19	16.37	16.02	16.09
RE as percentage of TE	86.11	95.13	91.70	95.25	92.15
RE as percentage of Revenue Receipts	142.35	133.91	129.35	124.56	107.31
Buoyancy of Revenue Expenditure					
GSDP (Ratio)	0.693	1.361	0.527	0.799	1.091
Revenue Receipts (Ratio)	(-)1.782	0.694	0.613	0.693	0.256

Revenue expenditure of the State increased from Rs 12,710 crore in 2001-02 to Rs 18,207 crore in 2005-06. The increase in the revenue expenditure during 2005-06 with reference to 2004-05 was mainly due to increase in expenditure on Secretariat-Economics Services⁹ by Rs 478 crore (682 per cent) and Miscellaneous General Services by 476 crore (18 per cent)¹⁰ compensations and assignment to Local Bodies and Panchayati Raj institutions by Rs 299 crore (398 per cent). Though the ratio of revenue expenditure to revenue receipts declined from 142 per cent in 2001-02 to 107

⁹ 101-State Planning Board Rs 66.57 crore to Rs 544.29 crore.

¹⁰ 103-State lotteries Rs 2618.96 crore to Rs 3096.86 crore.

per cent in 2005-06, the dependence of the Government on borrowings persisted for meeting its current expenditure

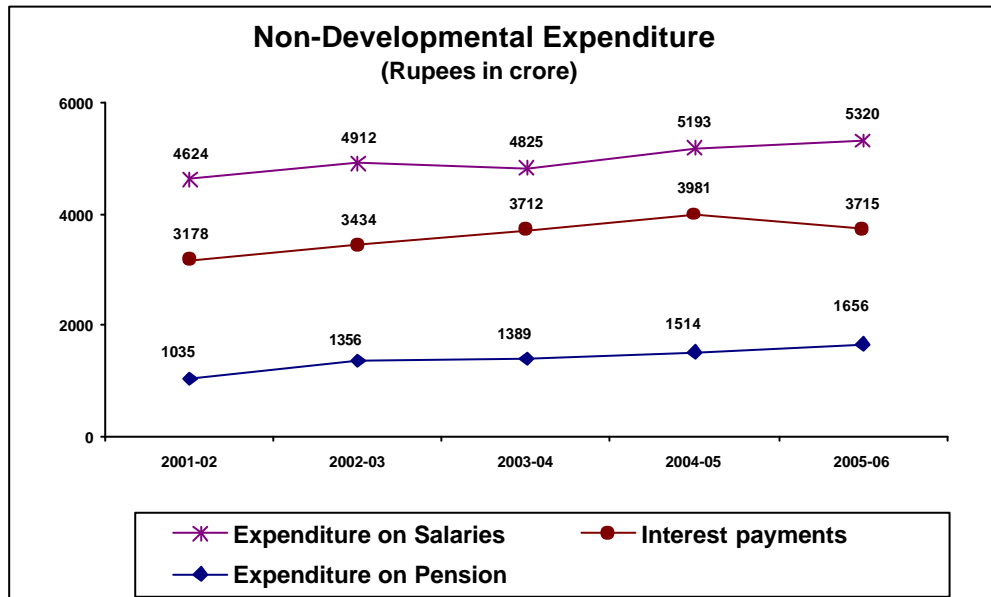
1.6.3. High non-developmental expenditure

Committed expenditure on salaries, pension and interest payments which was Rs 8,837 crore during 2001-02 increased to Rs 10,691 crore during 2005-06.

Table-8

(Rupees in crore)

Year	Committed expenditure			Total committed expenditure	Revenue Receipts excluding notional receipts	Percentage
	Salaries	Pension	Interest			
	1	2	3	4	5	6
2001-02	4624	1035	3178	8837	6622	133.45
2002-03	4912	1356	3434	9702	7763	124.98
2003-04	4825	1389	3712	9926	8401	118.15
2004-05	5193	1514	3981	10688	9826	108.77
2005-06	5320	1656	3715	10691	13764	77.67



Salary expenditure

Salaries alone accounted for nearly 39 per cent of the revenue receipts of the Government (excluding notional receipts from State lotteries) during the year showing a marginal growth of 2.45 per cent over previous year. The expenditure on salaries increased from Rs 4,624 crore in 2001-02 to Rs 5,320 crore in 2005-06 as shown in Table-9:

Table-9

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Salary expenditure	4624	4912	4825	5193	5320
As <i>percentage</i> of GSDP	6.02	5.69	5.03	4.84	4.70
As <i>percentage</i> of Revenue Receipts ¹¹	69.83	63.27	57.43	52.85	38.65

Expenditure on pension payments

Pension payments accounted as much as 12 *per cent* of the revenue receipts (excluding receipts from State lotteries) of the Government during 2005-06 which increased by 60 *per cent* from Rs 1,035 crore in 2001-02 to Rs 1,656 crore in 2005-06.

Government decided (March 2004) that certain categories of government employees who are appointed on or after 1 January 2004 shall be covered by the new defined Contributory Pension Scheme to be notified in due course.

Interest payments

Interest payments as *percentage* of revenue receipts ranged between 22 to 36 *per cent* during the last five years. If revenue receipts excluding notional receipts from State lotteries are taken, the ratio of interest payments as *percentage* of revenue receipts were ranging between 27 to 48 *per cent* as indicated in Table-10.

In absolute terms, interest payments increased by 17 *per cent* from Rs 3,178 crore in 2001-02 to Rs 3,715 crore in 2005-06 primarily due to continued reliance on borrowings for financing the fiscal deficit. The State Government raised Rs 1,199.30 crore from open market at a weighted average rate of 7.73 *per cent* and it borrowed Rs 3,402 crore from the National Small Savings Fund during the year.

Table-10

Year	Revenue Receipts	Revenue Receipts excluding Notional Receipts	Interest Payment	Percentage of Interest payment with reference to			Revenue Expenditure ¹²
				Revenue Receipts	Revenue Receipts excluding Notional Receipts	Revenue Expenditure	
(Rupees in crore)							
2001-02	8929	6622	3178	36	48	31	10403
2002-03	11071	7763	3434	31	44	30	11517
2003-04	12139	8401	3712	31	44	31	11964
2004-05	13807	9826	3981	29	41	30	13217
2005-06	16966	13764	3715	22	27	25	15110

¹¹ Does not include receipts from State lotteries (Rs 3202 crore).
¹² Excluding expenditure under State lotteries (Rs 3097 crore).

The growth in interest payments is, however, understated due to the moratorium granted by GOI for the period 2001-06 (extended up to 2006-07) on repayment and interest on a portion of GOI Special Term Loans which after availing debt relief and waiver stood at Rs 3,772 crore as on 31 March 2000. Ever increasing interest payments had adversely affected both developmental expenditure and social welfare schemes.

1.7. Expenditure by Allocative Priorities

1.7.1. The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure reflected in Statement-12 of the Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, the better is the efficiency of the State apparatus. Table-11 gives the ratio of these components of expenditure to the State's total expenditure.

Table-11: Quality of Expenditure
(per cent to total expenditure¹³)

	2001-02	2002-03	2003-04	2004-05	2005-06
Plan Expenditure	13.27	10.53	7.56	6.21	11.53
Capital Expenditure	7.19	2.76	4.06	4.24	7.69
Developmental Expenditure	43.37	38.90	42.49	44.46	44.33

Rupees 227 crore (17 per cent) of plan expenditure (Rs 1,313 crore) was spent on irrigation and flood control activities while Rs 355 crore (27 per cent) spent on roads and bridges were significant the expenditure heads under plan capital outlay in 2005-06.

The share of the developmental expenditure Rs 8,744 crore remained static during 2001-06. Out of the developmental expenditure during the year, social services (Rs 3,946 crore) accounted for 45 per cent.

¹³ Total expenditure does not include Loans and Advances.

1.7.2. Financial Assistance to local bodies and other institutions

The quantum of assistance provided to different local and autonomous bodies etc., during the period of five years ending 2005-06 was as follows:

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Universities and Educational Institutions	151.49	234.01	193.88	245.81	230.33
Municipal Corporations and Municipalities, Zila Parishads and Panchayati Raj Institutions	14.40	16.84	-	-	73.77
Cooperative Societies and Cooperative Institutions	0.29	0.51	0.80	-	-
Other Institutions	203.99	111.50	21.27	106.18	91.14
Total	370.17	362.86	215.95	351.99	395.24
<i>Percentage of growth over previous year</i>	4	(-)2	(-) 40	63	12
Assistance as per <i>percentage</i> of revenue expenditure	3	2	1	2	2

1.8. Assets and Liabilities

1.8.1. The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement-16 and the details in Statement-17 of the Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-I* presents an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position as on 31 March 2005.

The liabilities as per *Appendix-I* mainly comprise money owed by the State Government such as internal borrowings, loans and advances from the Government of India, Small Savings, Provident Fund, Deposits and the Reserve Fund. The liabilities of the Government of Punjab depicted in the Finance Accounts, however, did not include the pension and other retirement benefits payable to the serving and retired State employees. During 2005-06, the liabilities grew by eight *per cent*.

Similarly, the assets comprise mainly the capital expenditure, loans and advances given by the State Government and these grew by 14 *per cent* during 2005-06.

1.8.2. Financial results of irrigation works¹⁴

Statement-3 of the Finance Accounts depicts the financial results of nine major irrigation projects with a capital expenditure of Rs 336.11 crore at the end of March 2006, which showed that revenue realised from these projects during 2005-06 (Rs 15.51 crore) was only five *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (Rs 343.47 crore) and interest charges (Rs 19.39 crore), the schemes, however suffered a net loss of Rs 347.36 crore.

1.8.3. Incomplete projects¹⁵

As of 31 March 2006, there were 11 projects which were incomplete, in which Rs 776 crore were blocked. Of these, one SYL Canal project¹⁶ which involve Rs 738 crore was incomplete for more than 24 years due to water dispute with Haryana State.

1.8.4. Investment and returns

As on 31 March 2006, the Government had invested Rs 3,718.60 crore in 18 Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. The Government's return on this investment was meagre as indicated in Table-12 below. As of March 2006, 18 out of 32 Statutory Corporations and Government Companies with an aggregate investment of Rs 3,404.75 crore were running at a loss and the accumulated losses were Rs 5,815.35 crore (*Appendix-VI*) as per accounts furnished by these companies. Reasons for losses were called for from the departments and replies were awaited (July 2006).

Table-12: Return on Investment*(Rupees in crore)*

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government Borrowing (in per cent)
2001-02	2346.28	1.09	0.05	10.11
2002-03	2352.28	0.91	0.04	9.51
203-04	2359.00	1.82	0.077	9.11
2004-05	3544.81	0.59	0.017	8.79
2005-06	3718.60	1.07	0.029	7.52

1.8.5. Loans and advances by the State Government

The Government gives loans and advances to Government Companies, Corporations, Local bodies, Autonomous bodies, Cooperatives, Non-Government institutions etc. The position for the last five years shows that returns were poor during 2001-06.

¹⁴ Refer Finance Accounts 2005-06: Statement No.3.

¹⁵ Refer Finance Accounts 2005-06 Annexure to Statement No. 2.

¹⁶ SYL Canal Project Rs 738 crore.

**Table-13: Average Interest Received on Loans Advanced
by the State Government**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening balance	4970	5150	5386	5718	5681 ¹⁷
Proforma adjustment	- 14 ¹⁸	-	-		-114
Amount advanced during the year	1066	339	757	97	34
Amount repaid during the year	872	103	105	134	137
Closing balance	5150	5386	6038	5681	5464
Net addition	194	236	652	-37	-103
Interest received	459	817	1368	1863	504
Interest received as <i>per cent</i> to Loans advanced	9.06	15.51	23.95	32.69	9.14
Weighted average interest paid by the State (<i>per cent</i>)	10.11	9.51	9.11	8.79	7.52
Difference between Interest paid and received (<i>per cent</i>)	(-)1.05	(+)6.00	(+)14.84	(+)23.90	(+) 1.62

There was a sharp decrease in receipts of interest during the year i.e. from Rs 1,863 crore in 2004-05 by Rs 504 crore in 2005-06 due to less receipts under Public Sector and other undertakings.

¹⁷ Differs by Rs 114 crore (decreased) from the closing balance adopted in the Finance Accounts 2005-06 due to conversion of loans into equity etc.

¹⁸ Decreased by Rs 13.49 crore from closing balances of 2000-01 due to proforma correction.

Position of some of the outstanding loans was as under:

(Rupees in crore)

Sr. No.	Name of agency to whom loan was given	Year of loan/sanction	Amount of loan	Remarks
1.	Punjab State Electricity Board	Upto 2005-06	4141.97	Repayment of principal and interest on loans is to be made out of the balances of revenue, if any, which are left after meeting all the liabilities but there was no revenue surplus.
2.	Punjab State Housing Board (now PUDA)	--	44.93	No reasons intimated
3.	Punjab Financial Corporation	Prior to 1998-99	14.89	-do-
4.	Punjab State Agro Industries Corporation	1996-97	0.42	No repayment of loan has been made since the proposal of conversion of loan to equity is pending with the State Government.
		1997-98	12.20	
		--	0.02	
5.	Punjab State Tube Well Corporation	1990-91 to 1998-99	250.58	Requested to the State Government for write off/ waive off.
		--	264.74	
6.	SPINFED	1998-99 to 2003-04	17.04 8.13	No reasons intimated
7.	SUGARFED	2001-02 to 2002-03	136.78 0.27 0.40	No terms and conditions for loan were laid down.
8.	MARKFED	1990-91	1.86 +6.29 +2.23	No reasons intimated
9.	PUNSUP	1987-88 to 1988-89	40.74	-do-
Total			4943.49	

The Administrative departments are required to intimate to the Accountant General (A&E) by the 10th of August each year, the arrears in recovery of principal and interest for the loans, the detailed accounts of which are maintained by the departmental officers. Against 151 statements relating to 2005-06 due from 20 departmental officers, none had been received so far (July 2006). A major portion (Rs 4,142 crore) of the outstanding related to loans for power projects against which repayment during the year 2005-06 was negligible¹⁹.

Rs 137.50 crore (Principal: Rs 28.40 crore and interest: Rs 109.10 crore) were outstanding against Municipal Corporations and Municipalities on account of non-repayment of loans advanced as far back as 1963-64 as shown in table 14 as follows:

¹⁹ Rs 2.71 crore.

Table 14

Borrower/purpose of loans	Earliest year from which in default	Amount due on 31 March 2006	
		Principal	Interest
		(Rupees in lakh)	
(A) Municipal Corporations, Municipalities and other Local Funds			
(a) Sanitation Schemes	1967-68	160.62	204.29
(b) Sewerage Schemes	1963-64	110.33	381.26
(c) Water Supply Schemes	1964-65	632.58	1074.75
(d) Integrated city development Programmes	1967-68	400.42	1765.33
(e) Shopping centres, cinemas etc.	1969-70	9.11	17.65
(f) Preparation and distribution of town compost	1965-66	14.66	7.36
(g) Other purposes	1963-64	1507.49	7457.35
(B) Loans to rulers of erstwhile States	1965-66	5.34	1.62
Total		2840.55	10909.61

Reasons for non-repayment of these outstanding amounts were not furnished by the Government or the Directorate, Local Self Government, Punjab (July 2006).

1.8.6. Management of cash balances

It is generally desirable that the State's flow of resources matches its expenditure obligations that arise from time to time. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India (RBI) is in place. Under an agreement with the RBI, the State Government has to maintain with the bank a minimum balance of Rs 1.56 crore on all days. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ways and means advances or overdraft from the RBI. However, the State has been increasingly using this mechanism over the years. Normally, these advances should be liquidated during the year. Any outstanding balances of WMA indicate mismatch between the revenue and the expenditure, which is not transient in nature. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. As may be seen from the Statement-7 along with details in Statement-17 of the Finance Accounts, the State has increasingly been drawing in excess of its WMA limits from RBI.

Table-15
Ways and Means Advances and Overdrafts of the State and Interest paid thereon

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances					
Taken in the Year	1976.61	3127.90	2773.84	3065.82	269.17
Outstanding	221.42	185.79	261.83	283.30	-
Interest paid	8.73	9.45	12.29	9.69	2.99
Overdraft					
Taken in the Year	3826.70	640.74	1811.06	1316.70	-
Outstanding	196.36	Nil	193.44	Nil	-
Interest paid	4.50	1.43	1.84	2.04	-
Number of Days State was in Overdraft	119	53	134	117	-

During the year 2005-06, the Government obtained Rs 269.17 crore as ways and means advances on 18 occasions. An amount of Rs 552.47 crore was repaid leaving no balance as on 31 March 2006. However, a sum of Rs 2.99 crore was paid as interest on these advances.

1.8.7. Fiscal liabilities – Public Debt and Guarantees

The Constitution of India provides that the State may borrow within the territory of India upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an Act of Legislature. The FRBM Act 2003 of Punjab aims to cap the ratio of debt to GSDP at 40 *per cent* to be achieved by 2006-07.

Statement-4 read with Statements-16 and 17 of the Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities are worked out. It would be observed that the fiscal liabilities of the State increased from Rs 33,921 crore at the end of 2001-02 to Rs 51,364 crore at the end of 2005-06 at an average annual rate of 11 *per cent*. Table-16 as follows gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table-16: Fiscal Liabilities - Basic Parameters
(Value: Rupees in crore and others in per cent)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities	33921	38315	43197	47403	51364
Rate of Growth	17.14	12.95	12.74	9.74	8.36
Ratio of Fiscal Liabilities to					
GSDP	44.1	44.4	45.02	44.14	45.39
Revenue Receipts	379.9	346.1	355.85	343.33	302.75
Own Resources	436.0	393.1	399.53	385.30	379.77
Buoyancy of Fiscal Liabilities with respect to					
GSDP	1.395	1.059	1.135	0.817	1.554
Revenue Receipts	(-) 3.588	0.540	1.321	0.709	0.365
Own Resources	(-) 26.845	0.512	1.166	0.707	.0841

The ratio of fiscal liabilities to GSDP increased for 44 *per cent* in 2001-02 to 45 *per cent* in 2005-06 and stood at 3.03 times of its revenue receipts. In addition to these liabilities, the Government had guaranteed loans availed of by its Corporations and others which in 2005-06 stood at Rs 8,851 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment by the borrowers, the State has to honour these commitments.

Increasing liabilities raise the issue of their sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Punjab, the weighted interest rate on fiscal liabilities at 7.52 *per cent* during 2005-06 was higher than the rate of growth of GSDP by two *per cent* as indicated in Table-17 below:

**Table-17: Debt Sustainability–Interest Rate and GSDP Growth
(in per cent)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	10.11	9.51	9.11	8.79	7.52
GSDP Growth	12.29	12.23	11.23	11.92	5.38
Interest spread	2.18	2.72	2.12	3.13	(-)2.14

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of the earlier contracted liabilities and interest. Table-18 below gives the position of the receipt and repayment of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from GOI after providing for the interest and repayments declined from 32 *per cent* during 2001-02 to 15 *per cent* during 2005-06.

Table-18: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt²⁰					
Receipt	5719	5827	6795	5813	4837
Repayment (Principal+Interest)	2701	2365	2269	3054	3610
Net Funds Available	3018	3462	4526	2759	1227
Net Funds Available (<i>per cent</i>)	52.8	59.4	66.61	47.46	25.37
Loans and Advances from GOI²⁰					
Receipt	531	419	542	548	24
Repayment (Principal+Interest)	1538	2623	3944	3051	503
Net Funds Available	(-) 1007	(-)2204	(-)3402	(-) 2503	(-)479
Net Funds Available (<i>per cent</i>)	(-) 189.6	(-)526.01	(-)627.68	(-) 456.75	(-)19.96
Total Public Debt					
Receipt	6250	6246	7337	6361	4861
Repayment (Principal+Interest)	4239	4988	6213	6105	4113
Net Funds Available	2011	1258	1124	256	748
Net Funds Available (<i>per cent</i>)	32.2	20.14	15.32	4.02	15.39

During the year, the State repaid loans and advances from GOI after borrowing funds from the open market at the weighted average rate of 7.52 *per cent*. The net availability of funds was increased to 15 *per cent* from four *per cent* in the previous year. However, 26 *per cent* of the existing market loans of the State Government carried interest rate exceeding 10 *per cent*. The effective cost of borrowing of their past loans, as such, is much higher than the rate at which the State is able to raise resources at present from the market.

The measures being taken to stem the growth of debt viz. to put a cap on debt, phased reduction of debt, strict control on expenditure and cap on short term debt proved insufficient as the fiscal liabilities of the State increased by 51 *per cent* from Rs 33,921 crore in 2001-02 to Rs 51,364 crore in 2005-06.

1.9. Management of deficits

1.9.1. Fiscal Imbalances

The deficit in the Government account 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 raised are used are important pointers to the fiscal health of the Government.

The revenue deficit of the State declined from Rs 3,781 crore during 2001-02 to Rs 1,241 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, declined from Rs 4,959 crore in 2001-02 to Rs 2,654 crore in 2005-06 as indicated in Table – 19 as follows:

²⁰ Net Ways and Means Advances and over draft from Reserve Bank of India included.

Table-19: Fiscal Imbalances: Basic Parameters
(Value: Rupees in crore and Ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit	3781	3754	3563	3391	1240
Fiscal deficit	4959	4410	4880	4115	2654
Primary deficit(-)/ Surplus(+)	(-) 1781	(-) 976	(-) 1168	(-) 134	1061
RD/GSDP	4.92	4.35	3.71	3.16	1.10
FD/GSDP	6.45	5.11	5.09	3.83	2.35
PD/GSDP	2.32	1.13	1.22	0.12	0.94
RD/FD	76.25	85.12	73.01	82.41	46.72

The ratio of revenue deficit to fiscal deficit was 76 *per cent* during 2001-02 which declined to 47 *per cent* in 2005-06 with inter year variations. As a proportion to GSDP, though the revenue deficit remained almost steady during 2001-05 but it decreased to one *per cent* in current year and the fiscal deficit was reduced to two *per cent* in 2005-06, the revenue and fiscal deficits year after year have corroded the financial health of the State.

1.9.2. The Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the fiscal targets for the State Government which are as follows:

- i. reduce the rate of growth of fiscal deficit to two *per cent* per annum in normal terms until fiscal deficit is brought down to three *per cent* of GSDP,
- ii. reduce revenue deficit as percentage of total revenue receipts atleast five percentage points from the previous year until revenue balance is achieved,
- iii. bring the ratio of debt to GSDP down to 40 *per cent* by 2006-07, and
- iv. cap outstanding guarantees on long term debt to 80 *per cent* of revenue receipts of the previous year, guarantees on short term debt to be given only for working capital or food credit in which case this must be fully backed by physical stock.

Targets and achievements of fiscal corrections during 2005-06 are given in Table-20 as follows:

Table-20

(Rupees in crore, other in per cent)

Sr. No.	Item	Targets	Achievement
1.	Fiscal Deficit	3659	2654
2.	Revenue Deficit	1710	1241
3.	Debt-GSDP Ratio (40 per cent by 2006-07)	-	45.39

The State Government succeeded in reducing both fiscal deficit and revenue deficit during the year 2005-06. Out of three parameters of 2005-06, targets have been achieved in case of two parameters i.e. reduction of revenue deficit and fiscal deficit. Ratio of debt to GSDP stood at 45.39 per cent during the year 2005-06 against absolute ceiling of 40 per cent to be achieved by 2006-07.

1.10. Guarantees given by the State Government

Punjab Fiscal Responsibility and Budget Management Act 2003 provides that the State Government shall cap outstanding guarantees on long term debt to 80 per cent of Revenue Receipt of the previous year, Guarantees on short term debt to be given only for working capital or food credit in which case this must be fully backed by physical stock. According to the information furnished by concerned Authorities, the Government of Punjab had given guarantee during 2001-06 for repayment of loans etc. raised by statutory corporations/Boards, local bodies, Cooperative Banks and societies and others, as detailed in Table 21 below:

1.10.1. The year-wise position of maximum amount for which guarantee was given by the State Government to the end of March 2006 was as under:

Table-21

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees as of 31 March 2006		Percentage of maximum amount of guarantee to revenue receipts
		Principal	Interest	
2001-2002	10244	10244	340	115
2002-2003	17720	13255	479	160
2003-2004	22951	12149	93	189
2004-2005	23420	8781	104	170
2005-2006 ²¹	22086	8819	32	130

The amount of outstanding guarantees (Rs 8,851 crore) as of March 2006 was 52 per cent of the revenue receipts (Rs 16,966 crore) of the year 2005-06 and was 64 per cent of the revenue receipts of the previous year whereas the maximum amount guaranteed during 2005-06 stood at 130 per cent of the revenue receipts of 2005-06 and was 160 per cent of the revenue receipts of the previous year.

²¹ Refer Finance Account 2005-06: Statement No. 6.

1.10.2. Non-maintenance of records

The Finance Department or the Administrative departments concerned did not maintain any consolidated record of the guarantees given by the Government and collection of guarantee fee. The Finance Department collects information of guarantees from the loanee institutions through the Administrative departments for incorporation in the Finance Accounts. They do not maintain record of payment of guarantee fee to the Government in accordance with rate as laid down in the sanction by the competent authority by corporation/body. Thus, the correctness of the figures of guarantees could not be verified in audit. This indicated lack of effective control and monitoring of the guarantees given by the State Government.

1.11. Conclusion

The finances of the State continued to be under stress during 2005-06 and revenue receipts were not keeping pace with revenue expenditure. Seventy eight *per cent* of the revenue receipts were consumed on committed expenditure of State viz. salaries, pensions and interest payments. Although the revenue deficit decreased from Rs 3,391 crore in 2004-05 to Rs 1,241 crore in 2005-06, the continuous application of borrowed funds largely to current consumption and debt servicing indicated increased unsustainability and vulnerability of the State finances. It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. Similarly, the higher buoyancy of debt both with regard to its revenue receipts and own resources indicated its increasing unsustainability. The State's high cost borrowing for investments, which yielded very little return, indicated an implicit subsidy. Thus, the State has either to generate more revenues from out of its existing assets or needs to provide from its current revenue for servicing its debt obligations. The FRBM Act, 2003 was a step in the right direction but the commitments made therein still remained to be fulfilled by the State Government especially to cap outstanding guarantees to 80 *per cent* of the revenue receipts and efforts have to be made to reach the target of reduction of ratio of debt to GSDP to 40 *per cent* by 2006-07.