

CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are explained in the Appendix-I.

1.2 Financial position of the State

In the Government accounting system comprehensive accounting of the fixed assets like land and buildings etc., owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Exhibit I gives an abstract of such liabilities and the assets as on 31 March 2001, with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account, Deposits and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 17 per cent, the assets grew by only 14 per cent during 2000-2001, mainly as a result of a (20.57 per cent) growth in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government, as brought out in succeeding paragraphs.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF PUNJAB AS
ON 31 MARCH 2001

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
6077.36	Internal Debt -		9612.41
2249.96	Market Loans bearing interest	2594.97	
0.42	Market Loans not bearing interest	0.64	
12.88	Loans from LIC	11.70	
1818.43	Loans from other Institutions	2671.28	
182.12	Ways and Means Advances	243.42	
101.92	Overdrafts from Reserve Bank of India	48.37	
1711.63	Special Securities issued to National Small Savings Fund of Central Government	4042.03	
13015.76¹	Loans and Advances from Central Government -		13008.27
111.81	Pre 1984-85 Loans	93.07	
5945.40 ¹	Non-Plan Loans	5799.26	
6567.28	Loans for State Plan Schemes	6787.92	
1.04	Loans for Central Plan Schemes	0.77	
90.23	Loans for Centrally Sponsored Plan Schemes	87.25	
300.00	Other ways and means advances	240.00	
21.60	Contingency Fund		21.60
4568.10	Small Savings, Provident Funds, etc.		5209.64
1046.10	Deposits		1024.76
234.29	Reserve Funds		243.77
113.96	Remittance Balances		243.33
25077.17			29363.78
Assets			
8715.51	Gross Capital Outlay on Fixed Assets -		10108.10
2307.54	Investments in shares of Companies, Corporations, etc.	2334.88	
6407.97	Other Capital Outlay	7773.22	
4795.01	Loans and Advances -		4970.20
3609.10	Loans for Power Projects	3784.81	
989.49	Other Development Loans	942.77	
196.42	Loans to Government servants and Miscellaneous loans	242.62	
0.59	Advances		0.68
15.70	Suspense and Miscellaneous Balances		85.06
195.76	Cash -		509.17
-	Cash in Treasuries and Local Remittances	-	
(-)38.44 ²	Deposits with Reserve Bank	155.69	
52.32	Departmental Cash Balance	87.78	
0.16	Permanent cash imprest	0.16	
137.25	Investment of Earmarked Funds	141.56	
44.47	Cash Balance Investments	123.98	
11354.60	Deficit on Government Accounts -		13690.57
2727.41	Revenue Deficit of the Current Year	2335.97	
(-)1.42	Other adjustments	-	
8670.23	Accumulated deficit up to previous year	11354.60	
(-)41.62	Proforma correction	-	
25077.17			29363.78

¹ Differs by 1711.63 from closing balance due to proforma transfer of balance vide foot note (a) and (z) Finance Accounts for the year 2000-2001 page 269.

² This was mainly due to difference in figures reflected in accounts and that intimated by the Reserve Bank of India, and delayed reconciliation of inter-government adjustment transactions

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

1999-2000		Receipts		2000-01	1999-2000		Disbursements	Non Plan	Plan		2000-01
											Total
		Section-A: Revenue				I.	Revenue expenditure-				
7467.86	I.	Revenue receipts		9376.86							
3947.47		-Tax revenue	4895.22		5582.23		General services	-	-		6530.81
					2716.33		Social Services-				2992.71
2361.46		-Non-tax revenue	2935.24		1805.29		-Education, Sports, Art and Culture	1642.90	216.07	1858.97	
					544.56		-Health and Family Welfare	473.54	164.04	637.58	
638.59		-State's share of Union Taxes and Duties	719.33		134.69		-Water Supply, Sanitation Housing and Urban Development,	109.50	58.05	167.55	
					10.92		-Information and Broadcasting	9.23	1.60	10.83	
181.46		-Non-Plan Grants	441.50		28.77		-Welfare of Scheduled Castes, Scheduled tribes and Other Backward Classes	42.88	3.27	46.15	
					49.89		-Labour and Labour Welfare	49.15	3.54	52.69	
115.14		-Grants for State Plan Schemes	193.35		135.50		-Social Welfare and Nutrition	172.31	39.97	212.28	
					6.71		-Others	6.66	-	6.66	
223.74		-Grants for Central and Centrally sponsored Plan Schemes	192.22								
					1846.34		Economic Services-				2100.50
					339.37		-Agriculture and Allied Activities	315.40	132.70	448.10	
					46.69		-Rural Development	35.03	32.22	67.25	
					8.93		-Special Areas Programmes	-	13.25	13.25	
					294.06		-Irrigation and Flood Control	315.34	0.43	315.77	
					404.11		-Energy	604.58	0.43	605.01	
					38.16		-Industry and Minerals	20.93	7.62	28.55	
					458.09		-Transport	433.11	14.33	447.44	
					0.72		-Science, Technology and Environment	-	1.53	1.53	
					256.21		-General Economic Services	38.85	134.75	173.60	
					50.37		Grants-in-aid and Contributions				88.81
2727.41	II.	Revenue deficit carried over to Section B		2335.97							
10195.27		Total Section A		11712.83	10195.27		Total Section A				11712.83
					826.51	II	Opening Overdraft from RBI				101.92
						III	Capital Outlay-				
					37.81		General Services-				42.80
					41.80		Social Services-				52.51
					7.62		-Education, Sports, Art and Culture		0.28	0.28	
					7.16		-Health and Family Welfare		2.55	2.55	
					26.03		-Water Supply, Sanitation,	0.02	49.51	49.53	
					0.50		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes,		-		
					-		-Social Welfare and Nutrition		0.01	0.01	
					0.49		-Others		0.14	0.14	

(Rupees in crore)

1999-2000		Receipts		2000-2001	1999-2000		Disbursements			2000-2001
		Section-B			359.25		Economic Services-			1297.28
263.90	III	Opening Cash balance including Permanent Advances and Cash Balance Investment		195.76	(-)154.49		-Agriculture and Allied Activities	695.30	(-)2.69	692.61
-	IV	Miscellaneous Capital receipts		-	2.76		-Special Areas Programmes	-	4.77	4.77
108.67	V.	Recoveries of Loans and Advances-		126.90	363.82		-Irrigation and Flood Control Rural Development	-	441.26	441.26
0.15		-From Power Projects	0.20					0.30	0.30	
33.00		-From Government Servants	54.85		(-)30.31		-Industry and Minerals	-	(-)7.87	(-)7.87
75.52		-From others	71.85		61.27		-Transport	(-)0.50	80.02	79.52
	VI	Revenue surplus brought down			115.79		-General Economic Services	-	79.83	79.83
4458.63	VII	Public debt receipts-		5049.04						
1653.90		-Internal debt other than ways and means Advances and Overdraft	4363.62		0.41		Capital Account of Science Technology and Environment.	-	6.86	6.86
2.72		-Net transactions under Ways and Means Advances	61.30*		438.86		Total			1392.59
2802.01		-Loans and Advances from Central Government	624.12		137.11	IV	Loans and Advances disbursed-			302.09
-	VIII	Appropriation from the Consolidated Fund	-		36.76		-For Power Projects			175.91
7.00	IX	Amount transferred to Contingency Fund	-		74.50		-To Government Servants			100.91
10863.91	X	Public Account receipts-		11049.04	25.85		-To Others			25.27
1372.65		-Small Savings and Provident funds	1256.98		-	V	Appropriation from the Consolidated Fund			
68.29		-Reserve funds	96.03		2727.41	VI	Revenue deficit brought down			2335.97
2214.17		-Deposits and Advances	1726.63		1848.20	VII	Repayment of Public Debt-			1467.93
6339.27		-Suspense and Miscellaneous	7195.51		716.61		-Internal debt other than Ways and Means Advances and Overdrafts			836.32
869.53		-Remittance	773.89		-		-Net transactions under Ways and Means Advances and overdraft			-
101.92	XI	Closing Overdraft from Reserve Bank of India		48.37	1131.59		-Repayment of Loans and Advances to Central Government			631.61
					3.40	VII	Expenditure from Contingency Fund			
15804.03		Total		16469.11	9626.78	IX	Public Account disbursements-			10359.44
					474.03		-Small Savings and Provident Funds			615.44
					35.10		-Reserve Funds			86.56
					6338.66		-Deposits and Advances			1748.06
					845.79		-Suspense and Miscellaneous			7264.87
					1933.20		-Remittances			644.51
					195.76	X	Cash Balance at end-			509.17
					(-)38.44		-Deposits with Reserve Bank			155.69
					52.32		-Departmental Cash Balance			87.78
					0.16		-Permanent cash imprest			0.16
					44.47		-Cash Balance Investment			123.98
					137.25		Investment of Earmarked Funds			141.56
					15804.03		Total			16469.11

Note : Minus expenditure is because of recoveries on capital account.

* Represents receipts Rs.2170.77 crore and disbursements Rs.2109.47 crore.

EXHIBIT III. SOURCES AND APPLICATION OF FUNDS**(Rupees in crore)**

Percentage of total			Sources			Percentage of total
	1999-2000				2000-2001	
64.41	7467.86	1.	Revenue receipts		9376.86	67.84
0.94	108.67	2.	Recoveries of Loans and Advances		126.90	0.92
22.52	2610.43	3.	Increase in Public debt other than overdraft		3581.11	25.91
10.67	1237.13	4.	Net receipts from Public account		689.60	4.99
	898.62		Increase in Small Savings	641.54		
	280.97		Decrease in Deposits and Advances	(-)21.43		
	33.19		Increase in Reserve funds	9.47		
	0.61		Net effect of suspense and Miscellaneous transactions	(-)69.36		
	23.74		Net effect of Remittance transactions	129.38		
-	-	5.	Misc. Capital Receipt	-	-	
0.87	101.92	6	Outstanding overdraft		48.37	0.34
0.59	68.14	7	Decrease in closing cash balance	-	-	
100.00	11594.15		Total		13822.84	100
			Application			
87.93	10195.27	1.	Revenue expenditure		11712.83	84.74
1.18	137.11	2.	Lending for development and other purposes		302.09	2.19
3.79	438.86	3.	Capital expenditure		1392.59	10.07
(-)0.03	(-)3.60	4.	Net effect of contingency fund transactions		-	
-	-	5.	Increase in closing cash balance		313.41	2.27
7.13	826.51	6.	Repayment of over draft		101.92	0.73
100.00	11594.15		Total		13822.84	100

Explanatory Notes for Exhibit I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanation in the finance accounts.
2. Government accounts being mainly on cash basis, the deficit on Government accounts, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and other pending settlement etc.
4. There was a difference of Rs.47.73 crore between the figures reflected in the accounts and that intimated by the Reserve Bank of India under the head "Deposits with Reserve Bank". On reconciliation this difference now stands at Rs.0.59 crore (July, 2001).

EXHIBIT IV. TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Part A. Receipts					
1. Revenue Receipts	5569	6351	5755	7468	9377
(i) Tax Revenue	2735 (49)	3045 (48)	3262 (57)	3947 (53)	4895 (52)
Taxes on Agricultural Income	-	-	-	-	-
Taxes on Sales, Trades etc.	1265 (46)	1401 (46)	1490 (46)	1977 (50)	2645 (54)
State Excise	1001 (37)	1144 (38)	1204 (37)	1231 (32)	1325 (27)
Taxes on vehicles	195 (7)	216 (7)	266 (8)	321 (8)	338 (7)
Stamps and Registration fees	182 (7)	233 (8)	258 (8)	326 (8)	424 (9)
Land Revenue	3	4	3	5	7
Other Taxes	89 (3)	47 (1)	41 (1)	87 (2)	156 (3)
(ii) Non Tax Revenue	1945 (35)	2356 (37)	1507 (26)	2362 (32)	2935 (31)
(iii) State's share of Union taxes and duties	528 (10)	657 (10)	587 (10)	639 (8)	720 [*] (8)
(iv) Grants in aid from GOI	361 (6)	293 (5)	399 (7)	520 (7)	827 (9)
2. Misc Capital Receipts	-	-	-	-	-
3. Total revenue and Non debt capital receipts (1+2)	5569	6351	5755	7468	9377
4. Recoveries of Loans and Advances	82	95	107	109	127
5. Public Debt Receipts	2418	2538	4532	4456	4996
Internal Debt (excluding Ways & Means Advances and Overdrafts.)	900	1083	1267	1654	4364
Net transactions under Ways and Means advances and Overdraft	-	-	905	-	8
Loans and Advances from Government of India*	1518	1455	2360	2802	624
6. Total receipts in the Consolidated Fund (3+4+5)	8069	9084	10394	12033	14500
7. Contingency Fund Receipts	-	-	5	7	-
8. Public Account Receipts	7017	9057	9370	10864	11049
9. Total receipts of the State (6+7+8)	15086	18141	19769	22904	25549
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	6926(98)	7835(88)	8384(87)	10195(95)	11713 (87)
Plan	555(8)	552(7)	628(7)	812(8)	829 (7)
Non Plan	6371(91)	7283(93)	7756(93)	9383(92)	10884 (93)
General Services (incl. Interests. Payment)	2912(42)	3643(47)	4391(52)	5582(55)	6531 (56)
Social Services	1639(24)	2062(26)	2640(31)	2716(27)	2993 (25)
Economic Services	2308(33)	2060(26)	1280(15)	1846(18)	2100 (18)
Grants in aid and Contributions	67 (1)	70 (1)	73 (1)	51	89 (1)
11. Capital Expenditure	(-)239(-4)	970(11)	1140(12)	439(4)	1393 (11)
Plan	259(108)	877(90)	870(76)	589(134)	697 (50)
Non Plan	(-)498(-208)	93(10)	270(24)	(-)150 [@] (-34)	696 (50)
General Services	32(13)	35(3)	42(4)	38(9)	43 (3)
Social Services	29(12)	46(5)	68(6)	42(9)	53 (4)
Economic Services	(-)300(-125)	889(92)	1030(90)	359(82)	1297 (93)
12. Disbursement of Loans and Advances	429 (6)	119(1)	118(1)	137(1)	302 (2)
13. Total (10+11+12)	7116	8924	9642	10771	13408
14. Repayments of Public Debt	1272	1130	1696	2570	1468
Internal Debt (excluding Ways and Means Advances and Overdraft.)	623	604	414	717	836
Net transactions under Ways and Means advances and Overdraft	227	2	-	722	-
Loans and Advances from Government of India*	422	524	1282	1131	632
15. Appropriation to Contingency Fund	-	-	-	-	-
16. Total disbursement out of Consolidated Fund (13+14+15)	8388	10054	11338	13341	14876

* Higher rounding taken

* Includes Ways and Means Advances from GOI

@ Minus expenditure is because of recoveries under major head dealing with capital expenditure (4059, 4250, 4401, 4404, 4408 and 5054)

17. Contingency Fund disbursements		5	7	4	-
18. Public Account disbursements	6610	8101	8254	9627	10359
19. Total disbursements by the state (16+17+18)	14998	18160	19599	22972	25235
Part C. Deficits					
20. Revenue Deficit (1-10)	1357	1484	2629	2727	2336
21. Fiscal Deficit (3+4-13)	1465	2478	3780	3194	3904
22. Primary Deficit (21-23)	(-170)	629	1463	557	1561
Part D Other data					
23. Interest Payments (included in revenue exp.)	1635	1849	2317	2637	2343
24. Arrears of Revenue (Percentage of Tax & non-Tax Revenue Receipts)	1980(42)	1543(29)	2026(42)	2393(38)	3439(44)
25. Financial Assistance to local bodies etc.	124	96	212	376	357
26. Ways and Means Advances/Overdraft availed (days)	117/54	140/101	128/225	166/84	146/107
27. Interest on WMA/Overdraft	3/2	7/2	8/6	8/4	7/2
28. Gross State Domestic Product (GSDP)	44163	48387	54414	62700	68746 [#]
29. Outstanding Debt (year end)	15593	17857	21705	24804	28957
30. Outstanding guarantees (year end)	5732	5012	3390	9951	8990
31. Maximum amount guaranteed (year end)	6753	10630	7408	12059	7331
32. Number of incomplete projects	5	8	10	13	10
33. Capital blocked in incomplete projects	0.78	62	102	1380	548

Note: Figures in brackets represent percentages (rounded) to total of each sub heading

Revised GSDP figures adopted for 1996-97 to 1999-2000, GSDP for 2000-01 worked out on average growth rate.

1.3 Financial operations of the State Government

1.3.1 Exhibit II presents details of the receipts and disbursements made by the State Government during the year 1999-2000 and 2000-2001. The Revenue expenditure (Rs.11712.83 crore) during the year exceeded the revenue receipts (Rs.9376.86 crore) resulting in a revenue deficit of Rs.2335.97 crore. The Revenue receipts comprised tax revenue (Rs.4895.22 crore), non-tax revenue (Rs.2935.24 crore), State's share of Union taxes and duties (Rs.719.33 crore) and grants-in-aid from the Central Government (Rs.827.07 crore). The main sources of tax revenue were taxes on sales & trades etc. (54 per cent), state excise (27 per cent). Non-tax revenue came mainly from General Services (62 per cent) and Economic services (11 per cent).

1.3.2 The capital receipts comprised Rs.127 crore from recoveries of loans and advances and Rs.7159* crore from public debt. Against this, the expenditure was Rs.1393 crore on capital outlay, Rs.302 crore on disbursement of loans and advances and Rs.3577 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.11049 crore, against which the disbursements of Rs.10359 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase of Rs. 314 crore in the cash balance from Rs.195 crore at the beginning of the year to Rs.509 crore at the end of the year.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the time series data for the five year's period from 1996-97 to 2000-2001, presented in Exhibit IV.

* Including ways and Means advances other than Overdraft.

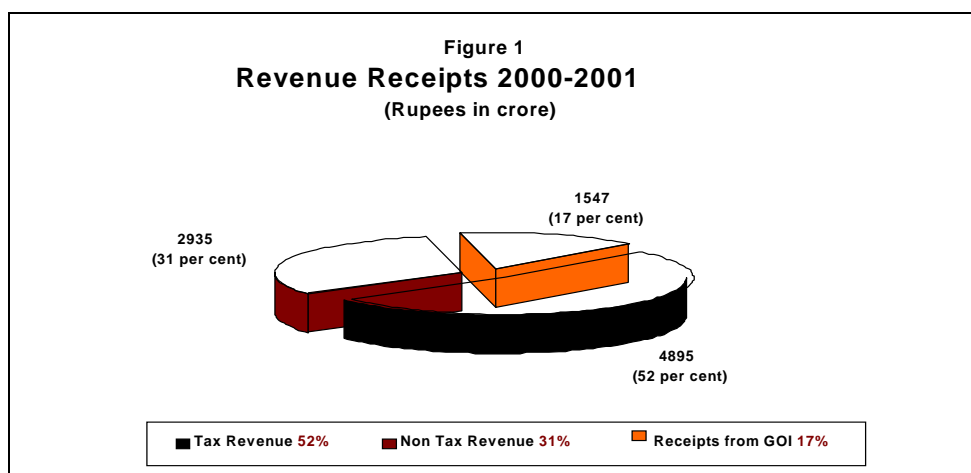
1.4 Sources and application of fund

1.4.1 Exhibit III gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government. Their share went up from 64.41 *per cent* in 1999-2000 to 67.84 *per cent* during 2000-2001, the receipts from the public debt correspondingly went up from 22.52 *per cent* to 25.91 *per cent*. The share of recoveries of loans and advances came down marginally from 0.94 *per cent* to 0.92 *per cent* and the net receipts from the Public Account, decreased from 10.67 *per cent* in 1999-2000 to 4.99 *per cent* in 2000-2001 attributed mainly to decrease in the Deposits and Advances.

1.4.2 The funds were mainly applied for revenue expenditure 84.74 *per cent*, though its share came down marginally by 3.19 *per cent* in 2000-2001 from 87.93 *per cent* in 1999-2000, it was significantly higher than the share of revenue receipts 67.84 *per cent* in the total receipts of the State Government.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts increased by 25.56 *per cent* from Rs.7468 crore (1999-2000) to Rs.9377 crore (2000-2001).



1.5.2 Tax revenue

These constitute the major share (52 *per cent*) of the revenue receipts. Even though the tax revenue increased from Rs 3947 crore to Rs.4895 crore, during the year its share in revenue receipt decreased by one *per cent* in 2000-2001. The increase in tax revenue during 2000-2001 was mainly due to increase in receipt of 'Taxes on Sales and Trades etc.' (Rs.668 crore), 'Stamps and Registration fee' (Rs.98 crore), and 'State Excise' (Rs. 94 crore).

1.5.3 Non-tax revenue

The non-tax revenue constituted 31 *per cent* of the revenue receipts of the Government. It increased from Rs.2362 crore (1999-2000) to Rs.2935 crore during the year (2000-2001). The non tax revenue increased due to increase in Interest Receipts by 32 per cent (Rs.171 crore) and in General Services by 25 per cent (Rs.369 crore) as a result of increase of Rs. 1165 crore under State Lotteries as compared to last year.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (excise duties and income tax) increased from Rs.639 crore (1999-2000) to Rs.720 crore (2000-2001) while the grants-in-aid from the Central government increased from Rs.520 crore to Rs.827 crore during the said period. The increase in Grants-in-aid from Central government was mainly under Non-Plan grants, Other grants (Rs. 260 crore) and Grants for Plan Schemes (Rs. 78 crore).

1.6 Revenue expenditure

1.6.1 Revenue expenditure increased by 14.88 per cent during the year. Despite this increase (Exhibit IV) revenue expenditure accounts for 87 per cent of total expenditure* compared to 98 per cent in 1996-97. Share of plan revenue expenditure came down from 8 per cent in 1996-97 to 7 per cent in 2000-2001.

1.6.2 Sector-wise analysis shows that during the last five years (1996-2001), while expenditure on General Services increased from 42 per cent in 1996-97 to 56 per cent in 2000-2001, the expenditure on Economic services sharply decreased from 33 per cent (1996-97) to 18 per cent (2000-2001). The increase in expenditure on General Services was mainly due to increase of expenditure under State Lotteries.

1.6.3 Interest payments

Interest payments declined by 11 per cent during the year from Rs. 2637 crore (1999-2000) to Rs. 2343 crore (2000-01). The decline in payment of interest was due to Moratorium granted by Government of India on the recommendations of Eleventh Finance Commission on repayments of instalments of debt and interest thereon for the period 2000-05 to enable the State Government to build its economy. However, interest payments constituted 20 per cent of Revenue Expenditure during 2000-2001. The position has been discussed further in the section on financial indicators (Para 1.12).

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different local bodies etc., during the period of five years ending 2000-2001 was as follows:

* Total expenditure = Revenue Expenditure + Capital Expenditure +Loans and Advances disbursed

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Universities and Education Institutions	123.22	89.53	139.01	321.86	241.72
Municipal Corporations and Municipalities, Zila Parishad and Panchayati Raj Institutions	0.26	0.40	4.39	-	20.29
Cooperative Societies and Cooperative Institutions	-	-	-	-	-
Other Institutions	0.14	5.75	68.94	54.52	95.38
Total	123.62	95.68	212.34	376.38	357.39
Percentage of growth over previous year	(-) 31	(-) 23	122	77	(-)5
Assistance as per percentage of revenue expenditure	2	1	3	4	3

The assistance decreased sharply during 2000-2001 mainly on account of decline in grants to universities and educational institutions.

1.7 Capital expenditure

Capital expenditure generally leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc. and loans and advances. The capital expenditure increased by 217 per cent during the year. This increase was due to heavy expenditure under non-plan (Rs. 695.37 crore) on procurement and supply of food included under major head "4408-Capital Outlay on Food Storage and Warehousing". Although expenditure on procurement of foodgrains by definition is of capital nature and receipts on account of selling thereof are adjusted in accounts as deduct recoveries as and when realised, it has to be seen in the light that such heavy expenditure on this account is without creation of durable assets. Further, the possible deterioration of foodgrains due to prolonged storage can not also be ruled out. However, as compared to 1997-98, even though the capital expenditure increased by 44 per cent in 2000-2001 its share in total expenditure remained the same at 11 per cent during the same period.

1.8 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., for developmental and non-developmental activities. The position for the last five years given below shows that the poor position of recoveries had led to continuous increase in outstanding amounts from year to year.

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	4347	4694	4707	4725	4795
Proforma adjustment		(-)11	+7	(+)42 ³	-
Amount advanced during the year	429	119	118	137	302
Amount repaid during the year	82	95	107	109	127
Closing balance	4694	4707	4725	4795	4970
Net addition	347	24	11	28	175
Interest received	1357	884	15	447	618

³ Increased by Rs.41.62 crore from the closing balance adopted in Finance Accounts 1998-99

The table shows that the interest received on these loans has been erratic during 1996-2001. However, increase in the interest received on loans during the period was mainly due to adjustment of interest payable by Punjab State Electricity Board to Government as given at para 1.9.4 against subsidy payable to them by the Government. Infact there was no cash realisation on this account.

Out of total outstanding loans of Rs. 4970 crore as on 31March 2001, Rs. 3785 crore (76 per cent) was advanced to Punjab State Electricity Board, which could not be repaid by the Board, because of financial constrains. Similarly out of Rs. 251 crore advanced to Punjab State Tube well Corporation (PSTC) Rs. 214 crore advanced between 1990-91 and 1998-99, recovery could not be affected due to non-settlement of terms and conditions. Balance amount of Rs. 37 crore could not be recovered, as PSTC had no source of income.

The administrative departments are required to intimate to the Principal Accountant General (A&E) by 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 2000-2001 due from 20 departmental officers, none had been received (July 2001). According to the statements received, recovery of Rs.127.12 crore (including Rs.99.18 crore as interest) was overdue as on 31 March 2001. Major portion (Rs.3784.82 crore) of the outstanding loan relate to Loans for Power Projects against which repayment during the year 2000-2001 was negligible⁴.

1.9 Quality of Expenditure

1.9.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-Plan and Revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital expenditure can be viewed as contributing to the quality of expenditure.

1.9.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned financial year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services.

⁴ Rs. 0.20 crore only.

1.9.3 The following table lists out the trend in these indicators:

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1. Plan expenditure:(Total of Revenue +Capital)	814	1429	1498	1401	1526
2. Capital expenditure (per cent)	(-) ⁴	11	12	4	11
3. Expenditure on General services (Total of Revenue +Capital)	2944	3678	4433	5620	6574
4. Amount of wastages and diversion of funds detected during test audit	102.37	134.87	40.57	140.25	66.35
5. Non-remunerative expenditure on incomplete projects (Capital works)	0.78	62.08	101.52	1380	548

It would be seen from Exhibit IV that Plan expenditure on capital side has decreased by 21 per cent (Rs.877 crore to Rs.697 crore) during 2000-2001 as compared to 1997-98 and Revenue expenditure on General Services has increased by 79 per cent (Rs.3643 crore to Rs.6531 crore) during the same period which indicates that most of the expenditure is on revenue side and very little funds were available for asset formation. Rs. 548 crore were blocked in ten incomplete projects. These projects were incomplete for want of funds indicating that the Government spread its resources very thinly and has no money to complete the projects as per schedule. Test check of the records of the Irrigation department revealed that there was lack of planning and control over the expenditure during 2000-01 as there was an excess of Rs. 321.95 crore over budget grant which requires regularisation.

1.9.4 Subsidies

Trend of subsidies paid during the last five years was as under:

(Rupees in crore)

Year	Revenue Expenditure	Capital Expenditure	Total	Subsidies paid	Percentage of total Expenditure
1996-97	6926	(-) ²³⁹	6687	1341.59	20.06
1997-98	7835	970	8805	2.46	0.028
1998-99	8384	1140	9524	3.70	0.039
1999-2000	10195	439	10634	404.50	3.80
2000-2001	11713	1393	13106	604.58	4.61

Subsidy paid during the year pertained to Rural Electrification made by the Punjab State Electricity Board. However, the subsidy given by Government during the year was adjusted as recovery of interest on loan for the year 1997-98. Subsidies which were less than 0.1 per cent of the total expenditure in 1997-98 rose substantially to 4.61 per cent in 2000-2001. Government needs to consider how long it can carry the increasing burden of subsidy considering its constrained fiscal resources.

1.10 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.10.1 Fiscal Reforms Programme

Under the Fiscal Reforms Programme initiated by GOI, a Memorandum of Understanding (MOU) reached (April 1999) between Governments of India and Punjab to shore up revenues and reduce expenditure of the State. During the financial year 1999-2000, State Government had made certain commitments. Audit scrutiny disclosed that:

(i) The subsidy to industry was proposed to be reviewed by withdrawing tax concessions, for which detailed strategy was to be finalised before the end of the first quarter of 1999-2000. Even though Cabinet Sub Committee on strategy of fiscal management had set the objective of eliminating non-merit subsidy in a phased manner, no tax concession/subsidy has been withdrawn so far.

(ii) Against the commitment of reduction in Non-plan Revenue Expenditure, it increased by 16 per cent over previous year's level indicating that fiscal measures taken by the Government failed to achieve the desired results.

(iii) to arrest the growth of Public debt, and to lay down the guidelines and priorities for loans and guarantees to be undertaken during the year and fix their limit, the State government formed a High Power Committee in May 1999. However, no guidelines and priorities for borrowings and guarantees has been undertaken and their limits fixed as required under Article 293(I) of the Constitution.

(iv) water charges were proposed to be introduced in a phased manner to achieve economic pricing of Irrigation Water, at least to cover the O&M charges. Neither has been any scheme introduced so far nor any policy for economic prices of water charges been framed. The matter is still under consideration of the government.

1.10.2 Investments and returns

Investments are made out of its capital outlay to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

(Rupees in crore)

S.No	Sector	Number of concerns	Investments as on 31.3.2001	Increase/decrease over the previous year
1	Statutory Corporations	10	1775.38	(-) 0.50
2	Government Companies	23	337.10	25.10
3	Joint Stock Companies	15	1.39	-
4	Cooperative Institutions	8020	221.27	2.73
	Total	8068	2335.14	27.33

The details of investments and the returns realized during the last five years by way of dividend and interest were as follows:

(Rupees in crore)

Year	Investment	Return	Percentage of return	Rate of interest on Government borrowings
1996-97	2283.31	0.83	0.04	13.85 & 13.75
1997-98	2312.89	2.17	0.09	13.05 & 12.30
1998-99	2341.53	1.18	0.05	12.15, 12.50 & 12.47
1999-2000	2307.81	9.15	0.40	12.25, 11.85 & 11
2000-2001	2335.14	2.33	0.10	11, 10.52, 12

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies etc., fetched insignificant returns. The returns decreased from Rs.9.15 crore in 1999-2000 to Rs.2.33 crore in 2000-01. The decrease was due to less receipt of dividends from Cooperative Institutes. As on 31 March 2001, 14 out of 23 Government companies in which Government had invested Rs.284.95 crore, (Appendix-II) were running under loss and the accumulated loss was Rs.335.16 crore up to March 2001.

1.10.3 Financial results of irrigation works

The financial results of 9 major irrigation projects with a capital outlay of Rs.208.40 crore at the end of March 2001 showed that revenue realised from these during 2000-2001 (Rs.9.03 crore) was only 4.33 *per cent* of the capital outlay and was an insignificant part of even the direct working expenses (Rs.94.02 crore). After meeting the working and maintenance expenditure (Rs.94.02 crore) and interest charges (Rs.14.36 crore), the projects suffered a net loss of Rs.99.35 crore.

1.10.4 Incomplete projects

As of 31 March 2001 there were 10 incomplete projects in which Rs.548 crore were blocked. The projects scheduled to be completed in March 2000 have not been completed so far for want of funds which shows that the Government was spreading its resources thinly, consequently failing to yield any return.

1.10.5 Arrears of revenue

The arrears of revenue pending collection accounted for sizable percentage of the tax and non-tax revenue receipts (44 *per cent* during 2000-2001). Exhibit IV shows that though the position had slightly improved during 1996-97 and 1997-98 it worsened during 1998-99 and 1999-2000. Of the arrears of Rs.3438.51 crore as of March 2001, Rs.456.59 crore (13 *per cent*) were pending for more than five years and pertained mainly to Taxes on Sales & Trades etc. (Rs.100.16 crore) and interest receipts (Rs.313.04 crore). The overall deterioration in the position of arrears of revenue partially neutralized the increase in the revenue collection of the State government.

1.10.6 Ways and Means Advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.1.56 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances/Special Ways and Means Advances from the Bank. In addition, overdrafts are also made by the Bank whenever necessary. Recourse to Ways and Means Advances/overdrafts means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government.

During the year 2000-2001, the Government took Ways and Means Advances on 146 days (Rs.2170.77 crore) and overdrafts on 107 days (Rs.1600.10 crore) as compared to Ways and Means Advances on 166 days (Rs 1851.66 crore) and Overdrafts on 84 days (Rs 1178.22 crore) during the year 1999-2000. Ways and Means Advance of Rs.243.42 crore and Overdraft of Rs.48.37 crore were outstanding on 31 March 2001. The interest of Rs.9.21 crore was paid on ways and means advances and the Overdrafts during the year.

1.10.7 Deficit

1.10.7.1 Deficits in Government account represent gap between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.10.7.2 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account

(Rupees in crore)

CONSOLIDATED FUND				
Receipt	Amount		Disbursement	Amount
Revenue	9377	Revenue deficit: 2336	Revenue	11713
Misc. capital receipts			Capital	1393
Recovery of loans & advances	127		Loans & advances disbursement	302
Sub Total	9504	Gross fiscal deficit:3904	Sub Total	13408
Public debt receipt	4996*		Public debt repayment	1468
Total	14500	A: Deficit in CF: 376		14876
CONTINGENCY FUND				
Contingency Fund	----	B. Surplus Contingency Fund : -	Contingency Fund	---
PUBLIC ACCOUNT				
Small savings, PF etc.	1257		Small savings, PF etc.	615
Deposits & advances	1727		Deposits & advances	1748
Reserve funds	96		Reserve funds	87
Suspense & misc.	7195		Suspense & misc.	7265
Remittances	774		Remittances	644
Total Public Account	11049	C: Deficit in CF financed by Surplus Public Account: 690		10359
Increase in cash balance C-(A-B) : 314				

The Table shows that Rs.4218 crore available from net proceeds of the Public Debt (Rs.3528 crore) and surplus from Public Account (Rs.690 crore) went to finance the fiscal deficit (Rs.3904 crore) and resulted in increase in cash balance

* Note:-Public debt receipts including net transactions under W&M Advances and overdraft.

by Rs 314 crore. Exhibit IV shows that though revenue deficit declined as compared to previous year yet it was significantly higher than in 1996-97.

1.10.7.3 The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations as continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Punjab for the last five years.

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RD/FD	0.93	0.60	0.69	0.85	0.60
CE/FD	(-)0.16	0.39	0.30	0.14	0.35
Net loans/FD	0.23	0.01	0.01	0.01	0.05
Total	1.00	1.00	1.00	1.00	1.00

Sixty per cent of borrowed funds were applied to revenue expenditure to the detriment of capital expenditure. Though RD/FD Ratio showed marginal decline yet it is still very high and the revenue expenditure is required to be controlled otherwise the capital formation is bound to suffer and the financial condition of the Government will further deteriorate.

1.10.8 Guarantees given by the State Government

Guarantees are given by the State Government on the security of the Consolidated Funds of the State for discharge of certain liabilities like repayment of loans, share capital, etc. raised by the Statutory Corporations, Government Companies and Cooperative Institutions etc. and payment of dividend and interest by them. These constitute contingent liabilities on the revenue of the State. Exhibit –IV shows that the amount of outstanding guarantees increased from Rs. 5732 crore in 1996-97 to Rs. 8990 crore in 2000-2001 and amounted to 96 per cent of the revenue receipts (Rs. 9377 crore) of the State Government. Test check of records of the Finance Department and information collected from Loanee Institutions revealed the following:

1.10.8.1 Non-prescribing of maximum limit of the guarantees.

Under Article 293 of the Constitution the Government may give guarantees within the limits as prescribed by the State Legislature. It was, however, seen in audit that neither any law prescribing the maximum limit up to which the Government may give guarantee on the security of the Consolidated Fund of the State has been passed nor the State Government has formulated any policy guidelines for giving guarantee and checks to be exercised for this purpose. On being pointed out in audit the department stated that the matter regarding formulation of Policy guidelines for giving guarantees is under consideration of the Government.

1.10.8.2 Non-maintenance of records.

Finance department /Administrative department did not maintain any consolidated record except individual case files for guarantees given by the Government and for collection of guarantee fee. In the absence of any consolidated information/record, the Finance Department has been collecting information/details of guarantees from loanee Institutions through Administrative

Department for incorporation in the Finance Account. As such the correctness of the figures of guarantees could not be ascertained in audit. This indicated that there was no effective monitoring of the guarantees given by the State Government.

1.10.8.3 Non-recovery of guarantee fee

In consideration of guarantees given by the Government, guarantee fee is charged. It was seen in audit that guarantee fee amounting to Rs. 14.05 crore on loans of Rs.1295.47 crore guaranteed by the State Government had not been paid by four* institutions due to either paucity of funds (Rs. 11.85 crore) or the case for waiving off was under consideration of the State Government (Rs.0.20 crore) and balance amount was to be adjusted against dues recoverable from the Government (Rs.2 crore)

1.10.8.4 Default in repayment of loan and cash credit

Three institutions had not repaid the loans/cash credit raised (Rs. 1394.38 crore) with the guarantees given by the State Government due to non release of funds by the state Government (Tube well Corporation), food grains has not been lifted by the F.C.I. (Punjab Agro Industries Corporation) and non-receipt of installments from Municipal Corporation (Punjab Water Supply and Sewerage Board).

1.10.8.5 Guarantees to unviable units

State Government stood guarantee for six** cooperative spinning mills. In the event of failure of these mills to repay the loans raised from IDBI, IFCI and ICICI, the Government had to provide financial assistance in the shape of loans during 1999-2000 (Rs.12.47 crore) and 2000-2001 (Rs.7.80 crore) for one time settlement and payment of Rs. 21.76 crore was made to IDBI (Rs. 10.63 crore), IFCI (Rs. 5.69 crore) and ICICI (Rs. 5.44 crore) against the loans raised by these institutions on the guarantees given by the State Government.

1.10.8.6 Guarantees to loss making units

Government had given guarantees to loan/cash credit raised by the following loss making units:

Sr. No.	Name of the institution	Outstanding guarantees as on 31.3.2001	Loss incurred	
			Amount	At the end of the year
			(Rupees in crore)	
1.	Punjab State Civil Supplies Corporation Limited.	6021.24	134.04	1996-97
2.	Punjab State Tube well Corporation Limited.	60.00	35.09	1996-97
3.	Punjab Agro Industries Corporation Limited.	1288.33	13.90	1999-2000
4.	Punjab State Industrial Development Corporation Limited.	321.35	33.04	1999-2000

* The Punjab Backward Classes and Development and Finance Corporation (Rs.0.20 crore), Punjab State Industrial Corporation (Rs.2.00 crore), P.S.E.B. (Rs.10.45 crore) and Punjab State Container and Warehousing Corporation (Rs.1.40 crore).

** Abohar, Barnala, Goindwal Sahib, Kotkapura, Mansa and Malout.

Reasons for standing guarantee for loss making units, called for (September 2001) from the government, were awaited (November 2001).

1.11 Public debt

1.11.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five- year period, the total liabilities of the Government had grown by 86 per cent. This was on account of 402 per cent growth in internal debt, 18 per cent growth in loans and advances from Government of India and 141 per cent growth in other liabilities. During 2000-2001, Government borrowed Rs.361.71 crore in the open market at interest rates of 10.52 and 12 per cent per annum as against Rs.580.50 crore at the interest rate of 12.25, 11.85 and 11 per cent per annum during 1999-2000.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1	2	3	4 (2+3)	5	6	7
1996-97	1914	11049	12963	2630	15593	0.35
1997-98	2392	11979	14371	3486	17857	0.37
1998-99	4150	13057	17207	4498	21705	0.40
1999-2000	6077	13016	19093	5711	24804	0.40
2000-2001	9612	13008	22620	6337	28957	0.42

1.11.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Internal Debt					
-Receipt	2750	2902	6387	4684	8134
-Repayment (principal+interest)	2924	2639	5050	4939	5234
-Net funds available (per cent)	(-)174 -	263 (9)	1337 (21)	(-)255	2900 (36)
Loans & advances from GOI					
- Receipt during the year	1518	1454	2360	2802	624
- Repayment including interest	1603	1868	2795	2832	1820
- Net funds available (per cent)	(-)85	(-)414	(-)435	(-)30	(-)1196
Other liabilities ⁵					
- Receipt during the year	1721	2714	2404	3603	2986
- Repayment (including interest)	1518	2148	1773	2856	2882
- Net funds available (per cent)	203 (12)	566 (21)	631 (26)	747 (21)	104 (3)

⁵ Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

It would be seen that during the year 2000-2001, the receipt of loans and Advances sharply declined by 78 per cent during the year as a result of which the net availability of funds from the Loans and Advances from Government of India was negative. Considering that the outstanding debt has been increasing year after year, the situation regarding net availability of funds through public borrowings is not satisfactory.

1.12 Indicators of the financial performance

1.12.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability, in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity⁶, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden on the Government.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of annual Financial Statement (Budget) and the Accounts.

⁶ There are exceptions to this, notably transfer of Plan to the Non-Plan at the end of Plan period.

Exhibit V-Financial indicators for Government of Punjab

	1996-97	1997-98	1998-99	1999-2000	2000-2001
(1)	(2)	(3)	(4)	(5)	(6)
Sustainability					
BCR (Rs. in crore)	(-)1087	(-)1184	(-)2308	(-)2254	(-)1893
Primary Deficit (PD) (Rs. in crore)	(-)170	629	1463	557	1561
Interest Ratio	0.04	0.16	0.39	0.30	0.19
Capital outlay/Capital receipts	(-)0.09	0.32	0.31	0.10	0.27
Total Tax receipts/GSDP	0.07	0.08	0.07	0.07	0.08
State Tax Receipts/GSDP	0.06	0.06	0.06	0.06	0.07
Return on Investment ratio	0.0004	0.0009	0.0005	0.003	0.001
Flexibility					
BCR (Rs. in crore)	(-)1087	(-)1184	(-)2308	(-)2254	(-)1893
Capital repayments/Capital borrowings	0.43	0.43	0.34	0.37	0.24
State tax receipts/GSDP	0.06	0.06	0.06	0.06	0.07
Debt/GSDP	0.35	0.37	0.40	0.40	0.42
Vulnerability					
Revenue Deficit(RD) (Rs. in crore)	1357	1484	2629	2727	2336
Fiscal Deficit(FD) (Rs. in crore)	1465	2478	3780	3194	3904
Primary Deficit(PD) (Rs. in crore)	(-)170	629	1463	557	1561
PD/FD	(-)0.12	0.25	0.39	0.17	0.40
RD/FD	0.93	0.60	0.70	0.85	0.60
Outstanding Guarantees/revenue receipts	1.03	0.79	0.59	1.33	0.96
Assets/Liabilities	0.71	0.66	0.60	0.55	0.53

Notes:

1. The interest payments in 1996-97 were more than the fiscal deficit, hence the negative figures for primary deficit.
2. Fiscal deficit has been calculated as Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts.
3. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

1.12.2 Information available in Finance Accounts (Appendix-I) can be used to flesh out Sustainability, Flexibility, and Vulnerability which can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Exhibit V which indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001.

1.12.3 *The implication of these indices/ratios for the state of financial health of the State Government are discussed below.*

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had no balance from current revenue during the last 5 years and the negative BCR was increasing since 1996-97 touching a level of Rs.2308 crore in 1998-99. However, it marginally declined during 1997-2000 and 2000-2001

and stood at Rs.1893 crore in 2000-2001. Thus Government had to depend more and more on borrowings for meeting its plan expenditure.

(ii) Interest ratio

The higher the ratio, the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Punjab, the ratio had increased from 0.04 in 1996-97 to 0.39 in 1998-99 but dipped to 0.19 in 2000-01 because of moratorium of 5 years granted by Government of India to State Government on repayment of loan and interest there on. The burden is likely to go up once the moratorium expires.

(iii) Capital Outlay/Capital Receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in its performance. In the case of Punjab, the ratio has been less than one (mostly well below 0.40) indicating that most of the capital receipts are being used for revenue expenditure and are not available for capital formation or investment.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of state taxes and state's share of central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Exhibit-V shows that in case of Punjab this ratio has marginally increased from 0.07 in 1996-97 to 0.08 in 2000-2001. Similarly, the ratio of state tax receipts to GSDP has also increased from 0.06 to 0.07 during the same period.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table in paragraph 1.10.2 *ibid* presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and cooperative institutions. It shows that the ROI in case of Government of Punjab has been negligible during 1996-2001.

(vi) Capital repayments Vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Punjab Government even though the ratio has declined from 0.43 in 1996-97 to 0.24 in 2000-01, the apparent improvement is due to 5 years (2000-2005) Moratorium granted by GOI on repayment of Special Term Loans and interest accruing thereon and it conceals the substantial debt burden whose impact in terms of higher repayments

would be seen in the subsequent years when moratorium granted to Punjab Government is over. Further, most of the borrowings went for revenue expenditure and thus the Government could not benefit from availability of increased funds. The position may not be sustained as repayment liabilities will increase, if the current trend of increased borrowing to meet revenue expenditure is not arrested.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Punjab, this ratio has increased from 0.35 to 0.42 per cent during 1996-97 to 2000-2001. An analysis of the rate of growth in GSDP from year to year basis shows that the rate of growth in GSDP was 9.64 per cent during 2000-2001 while rate of growth in debt was 16.74 *per cent* during the same period. This shows that the rate of growth in debt was much higher than the growth in GSDP. This would seriously affect the Government's ability for debt repayments.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, higher the ratio, the worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. During 2000-2001, 60 *per cent* of the borrowings were applied to meet revenue expenditure as compared to 93 *per cent* in 1996-97.

(ix) Primary deficit Vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. Primary deficit represents net borrowings available after discharging interest liability, which results from the current action of the Government (interest payments are on account of past actions of the Government). Primary deficit is sustainable only when the rate of growth in the economy is more than the interest rate on the borrowings. This not being the case, the Primary deficit is not sustainable. Exhibit-V shows that the ratio exhibits an increasing trend and has risen to 0.40 in 2000-2001 from (-) 0.12 in 1996-97. The increasing trend is a contra indicator to sustainability.

(x) Guarantees Vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. Analysis of the reasons of increase in the guarantees are included in

para 1.10.7. During 1996-2001 risk exposure of Government has increased due to 57 per cent increase in the amount of outstanding guarantees given on behalf of Statutory Bodies, Government Companies and Co-operative Institutions.

(xi) Assets Vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator. As stated in Para 1.2, Government account captures mainly the financial assets and liabilities of the Government. However, a trend analysis of the ratio of even these assets and liabilities would be an important indicator of fiscal performance of the State Government. In case of Punjab, this ratio has all along been less than one and on a declining trend from 0.71 in 1996-97 to 0.53 in 2000-2001, indicating a deterioration in the assets and liability management.

(xii) Budget

There was no delay in submission of the budget and their approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Vote on account	--	--
Budget	22 March,2000	30 March,2000
Supplementary I	15 March, 2001	21 March ,2001
Supplementary II	--	--

The extent of variations in budget estimates and revised estimates for the year 1999-2000 was as follows:

(Rupees in crore)

	Budget Estimate	Revised Estimate	Actuals	Percentage of Variation between BE & RE
Receipt				
Revenue	8450.78	8382.56	7467.86	(-) 0.81
Public Debt	7356.18	9525.43	7485.79	29.49
Expenditure				
Revenue	10282.93	11486.91	10195.27 ⁷	11.71
Capital	857.93	1150.47	438.86 ⁷	34.10
Public Debt	5511.42	7374.58	5599.96	33.81

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-a-vis* the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent.

(xiii) Accounts

There was no significant delay in the submission of accounts by the treasuries/departments during 2000-2001.

⁷ These figures excludes the recoveries and represents the net figures

1.12.4 Conclusion

Persistent negative BCR, almost stagnant tax GSDP ratio and lukewarm approach by Government to implement the fiscal reforms programme (MOU) to reduce expenditure, coupled with huge revenue pending collection, increased fiscal deficit by 22 per cent during the year and forced State Government to borrow more and more. Resultantly, the outstanding Government debt now accounts for 42 per cent of GSDP. Apparent improvement as a result of decline in the interest ratio and Capital repayment Vs Capital borrowings ratio conceals the real debt burden that will arise in future when moratorium of five years granted by the GOI on repayment of Special Term Loans and interest thereon is over. This may put serious constraints on State resources during the subsequent years, if the growth of public debt is not arrested. Most of the increase in capital expenditure during the year was under non-plan (Rs. 695.37 crore) on procurement of foodgrains. While this has increased the capital expenditure to that extent, but the fact remains that no durable capital assets has been created and the potential loss as a result of prolonged storage at high storage cost cannot also be ruled out. Thus most of the borrowings are being spent on non-productive expenditure like revenue expenditure (60 per cent) and non-plan Capital expenditure (17 per cent) and there is little scope of new investments taking place. Since the government investments are yielding virtually nothing and its financial management leaves much to be desired, the sustainability of its finances is severely impaired and current year's improvement masks medium term problems due to maintenance and debt repayments.