# Chapter 1

# Finances of the State Government

## Profile of Punjab

Punjab is an agrarian State, with relatively higher literacy, higher life expectancy at birth and lower infant mortality as compared to the All India average ***(Appendix 1.1).*** Punjab has also the advantage of relatively less population below poverty line. During the period 2000-01 to 2010-11, the compound annual growth rate of GSDP in Punjab was lower (12.43 *per cent*) against the average rate of the general category States (14.68 *per cent*). However, population in Punjab has grown by 13.73 *per cent* during 2001-11, which is lower than growth rate of general category States (17.56 *per cent*).

## 1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Punjab during 2010-11 and analysis of the critical changes in major fiscal parameters relating to the previous year, keeping in view the overall trends during the last five years. The analysis has been made based on the State's Finance Accounts and information obtained from the State Government.

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

Apart from the above, in May 2003, the Government of Punjab enacted the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudential debt management. Subsequently, in March 2011, the State Government amended the FRBM Act on the recommendations of Thirteenth Finance Commission and enacted FRBM (Amendment) Act, 2011. The salient features of the FRBM Act, 2003 (as amended upto March 2011) are given in ***Appendix 1.2***. The structure of Government Accounts and the layout of Finance Accounts are shown in the ***Box 1.1.***

**Box 1.1**

**Structure of the Government Accounts**

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

**Part I: Consolidated Fund :** All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.

**Part II: Contingency Fund:** Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

**Part III: Public Account:** Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature.

**Layout of the Finance Accounts**

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

## 1.2 Summary of the current year's fiscal transactions

**Table 1.1** presents the summary of the Government of Punjab's fiscal transactions during the year 2010-11 vis-à-vis the previous year 2009-10. ***Appendix 1.3*** provides the details of receipts and disbursements as well as the overall fiscal position of the Government of Punjab as on 31 March, 2011.

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

***(₹ in crore)***

| Receipts | 2009-10 | 2010-11 | Disbursements | 2009-10 | 2010-11 | | |
|---|---|---|---|---|---|---|---|
| **Section A: Revenue** | | | **Section A: Revenue** | | **Non-Plan** | **Plan** | **Total** |
| **Revenue receipts** | **22156.58** | **27608.47** | **Revenue expenditure** | **27407.94** | **30576.46** | **2320.72** | **32897.18** |
| *Tax revenue* | 12039.48 | 16828.18 | *General services* | 15525.28 | 18536.78 | 60.95 | 18597.73 |
| *Non-tax revenue* | 5652.70 | 5330.17 | *Social services* | 6217.13 | 5687.78 | 1573.07 | 7260.85 |
| *Share of Union taxes/ duties* | 2144.10 | 3050.87 | *Economic services* | 5218.62 | 5712.24 | 686.70 | 6398.94 |
| *Grants from Government of India* | 2320.30 | 2399.25 | *Grants-in-aid and Contributions* | 446.91 | 639.66 | 0.00 | 639.66 |
| **Section B: Capital** | | | **Section B: Capital** | | | | |
| **Misc. Capital Receipts** | **0.50** | **0.45** | **Capital Outlay** | **2166.41** | **218.06** | **2166.03** | **2384.09** |
| **Recoveries of Loans and Advances** | **1276.02** | **597.45** | **Disbursement of Loans and Advances** | **28.84** | **68.40** | **0.00** | **68.40** |
| **Public Debt receipts*** | **7082.62** | **7321.36** | **Public Debt repayments*** | **2283.14** | **2339.87** | **0.00** | **2339.87** |
| **Contingency Fund** | **0.00** | **0.00** | **Contingency Fund** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Public Account receipts** | **22047.45** | **27654.86** | **Public Account disbursements** | **20721.04** | **25836.98** | **0.00** | **25836.98** |
| **Opening Cash Balance** | **269.97** | **225.77** | **Closing Cash Balance** | **225.77** | **-118.16** | **0.00** | **-118.16** |
| **TOTAL** | **52833.14** | **63408.36** | **TOTAL** | **52833.14** | **58921.61** | **4486.75** | **63408.36** |

***Excluding net transactions under ways and means advances.** ***Source: Finance Accounts***

### 1.2.1 Significant changes

| | | |
|---|---|---|
| ***Revenue receipts*** | ***Increase over the previous year***<br>Revenue receipts by 24.61 *per cent*<br>Tax revenue by 39.78 *per cent*<br>Share of union taxes/duties by 42.30 *per cent*<br>Whereas Non-tax revenue decreased by 5.71 *per cent* | The State Government was in revenue deficit for the consecutive fourth year and fiscal deficit was 3.12 *per cent* of GSDP during the current year, as against 3.09 *per cent* of GSDP in 2009-10 which was within the ceiling of 3.50 *per cent* fixed by FRBM (Amendment) Act, 2011. |
| ***Revenue expenditure*** | Increased by 20.03 *per cent* over previous year<br>Plan expenditure increased by 62.99 *per cent*<br>Non-plan expenditure increased by 17.67 *per cent* | |
| ***Capital expenditure*** | Increased by 10.06 *per cent* over the previous year | |
| ***Public debt*** | Receipts increased by 3.37 *per cent* and disbursements increased by 2.50 *per cent* over the previous year | |
| ***Public account*** | Receipts increased by 25.43 *per cent* and disbursements increased by 24.69 *per cent* over the previous year | |
| ***Cash balances*** | Net cash balances decreased by 152.34 *per cent* over the previous year | |

### 1.2.2 Assessment of the fiscal position

The norms/ceilings prescribed by the Thirteenth Finance Commission (ThFC) for selected fiscal variables and the commitments/projections made by the State Government in their FRBM Act and in other statements required to be laid in the legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates. State Government prepared a fiscal consolidation roadmap for the state for the financial years 2010-11 to 2014-15 as per the recommendations of the ThFC ***(Appendix 1.4)***. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, the major fiscal aggregates like tax and non-tax revenue, capital and revenue expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. The buoyancy coefficients for the relevant fiscal variables with reference to the base represented by GSDP have also been worked out to assess whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The trends in GSDP for the last five years are indicated in **Table 1.2.**

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

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Gross State Domestic Product *(₹ in crore)* | 126791 (R) | 152772 (R) | 175064 (P) | 199459 (Q) | 228754 (A) |
| Growth rate of GSDP | 17.17 | 20.49 | 14.59 | 13.93 | 14.69 |

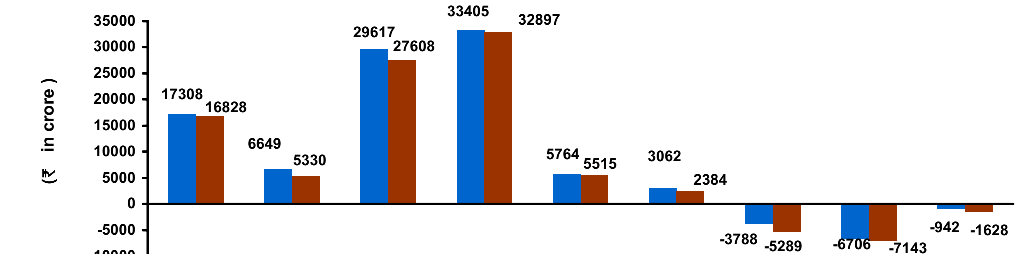
***Source: Figures of GSDP as furnished by the Economic Adviser to Government of Punjab.***
**R= Revised, P= Provisional, Q= Quick and A= Advance estimates.**

### 1.2.3 Budget estimates and actuals

As per the State Budget Manual, the Finance Department is responsible for the preparation of the annual budget by obtaining material from the various departments to base its estimates. The departmental estimates of receipts and expenditure are prepared by Controlling Officers on the advice of the Heads of Departments and submitted to the Finance Department by the prescribed dates. The Finance Department then processes and consolidates the estimates and prepares the Budget Estimates.

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

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




| | Tax Revenue | Non-tax Revenue | Revenue Receipts | Revenue Expenditure | Interest Payments | Capital Expenditure | Revenue Deficit | Fiscal Deficit | Primary Deficit |
|---|---|---|---|---|---|---|---|---|---|
| BE 2010-11 | 17308 | 6649 | 29617 | 33405 | 5764 | 3062 | -3788 | -6706 | -942 |
| Actuals 2010-11 | 16828 | 5330 | 27608 | 32897 | 5515 | 2384 | -5289 | -7143 | -1628 |

The revenue deficit, fiscal deficit and primary deficit of ₹ 5,289 crore, ₹ 7,143 crore and ₹ 1,628 crore increased by ₹ 1,501 crore (39.62 *per cent*), ₹ 437 crore (6.52 *per cent*) and ₹ 686 crore (72.82 *per cent*) respectively over the budget estimates of the current year. It was also noticed that the actual receipts under non-tax revenue and total revenue receipts decreased by ₹ 1,319 crore (19.84 *per cent*) and ₹ 2,009 crore (6.78 *per cent*) respectively. The capital expenditure decreased by ₹ 678 crore (22.14 *per cent*) over the budget estimates during 2010-11 which indicates that asset creation was not given as much priority as intended in the budget estimates. Variations in some of the tax and non-tax revenue heads are given in **Table 1.3.**

**Table 1.3: Variation between the budget estimates and actuals**

***(₹ in crore)***

| S.No. | Revenue head | Budget estimates | Actual receipts | Variations increase (+) shortfall (-) | Percentage |
|---|---|---|---|---|---|
| | **Tax revenue** | | | | |
| 1 | Taxes/VAT on sales, trade etc. | 9600.00 | 10016.91 | 416.91 | 4.34 |
| 2 | State excise | 2520.00 | 2373.08 | -146.92 | -5.83 |
| 3 | Stamp duty and registration fees | 2395.00 | 2318.46 | -76.54 | -3.20 |
| 4 | Taxes on vehicles | 645.00 | 653.91 | 8.91 | 1.38 |
| 5 | Taxes and duties on electricity | 980.00 | 1422.90 | 442.90 | 45.19 |
| 6 | Land revenue | 17.00 | 19.24 | 2.24 | 13.18 |
| 7 | Other taxes and duties on commodities and services including entertainment tax | 151.00 | 23.69 | -127.31 | -84.31 |
| | **Non-tax revenue** | | | | |
| 1 | Road transport | 110.00 | 150.39 | 40.39 | 36.72 |
| 2 | Forestry and wild life | 17.00 | 12.52 | -4.48 | -26.35 |
| 3 | Interest receipts | 143.00 | 169.37 | 26.37 | 18.44 |
| 4 | Medium irrigation | 150.00 | 2.46 | -147.54 | -98.36 |
| 5 | Major irrigation | 149.24 | 27.14 | -122.10 | -81.81 |
| 6 | Crop husbandry | 10.83 | 29.83 | 19.00 | 175.44 |
| 7 | Miscellaneous General Services | 5349.20 | 4277.23 | -1071.97 | -20.04 |
| 8 | Police | 71.00 | 61.89 | -9.11 | -12.83 |
| 9 | Public works | 21.00 | 21.30 | 0.30 | 1.43 |

***Source: Finance Accounts and Annual Financial Statement***

The actual receipts were more than the budget estimates by 175.44 *per cent*, 45.19 *per cent*, 36.72 *per cent* and 18.44 *per cent* in the case of crop husbandry, taxes and duties on electricity, receipts from road transport and interest receipts respectively whereas the actual receipts were lower than the budget estimates by 20 *per cent* or more in the case of medium irrigation (98.36 *per cent*), other taxes and duties on commodities and services including entertainment tax (84.31 *per cent*), major irrigation (81.81 *per cent*), forestry and wild life (26.35 *per cent*) and miscellaneous general services (20.04 *per cent*).

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

The Principal Chief Conservator of Forests, Punjab, stated (August 2011) that only 33,000 cubic metre of wood was transferred to Punjab State Forest Development Corporation during 2010-11 as against 72,500 cubic metre during 2009-10. As the said corporation was the main source of revenue of Punjab Forest Department, the revenue receipts decreased accordingly.

The Deputy Controller (Finance and Accounts), Directorate of Lotteries while giving reasons for decrease in receipts on account of miscellaneous general services stated that certain lottery schemes were discontinued due to implementation of Central Government Lottery (Regulation) Rules, 2010 w.e.f. 1st April 2010.

The State Transport Commissioner, Punjab, stated that increase in revenue under the head 'Taxes on vehicles' was due to the best efforts of the department and better fiscal management.

The Chief Electrical Inspector stated that the increase of 45.19 *per cent* in receipts on account of taxes and duties on electricity during the year 2010-11 was due to upward revision of electricity duty (from 10 to 13 *per cent*) and payment of arrears of electricity duty by Punjab State Power Corporation Limited.

The other departments did not intimate (December 2011) the reasons for variations in receipts when compared to the budget estimates.

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

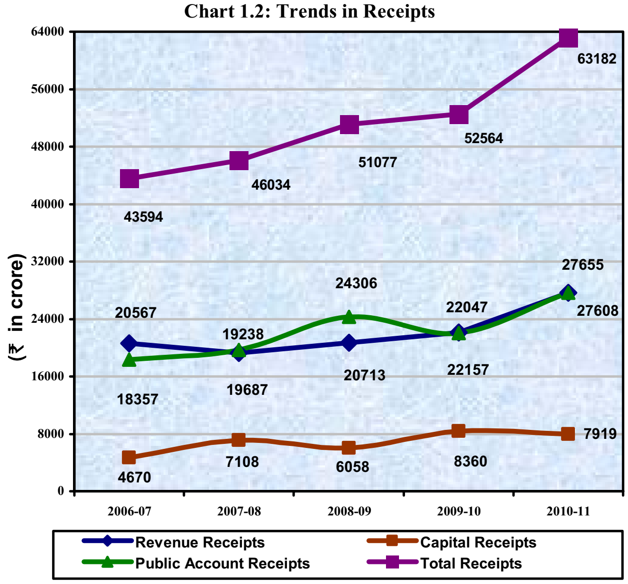
## 1.3 Resources of the State

### 1.3.1 Resources of the State as per the Annual Finance Accounts

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

**Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts



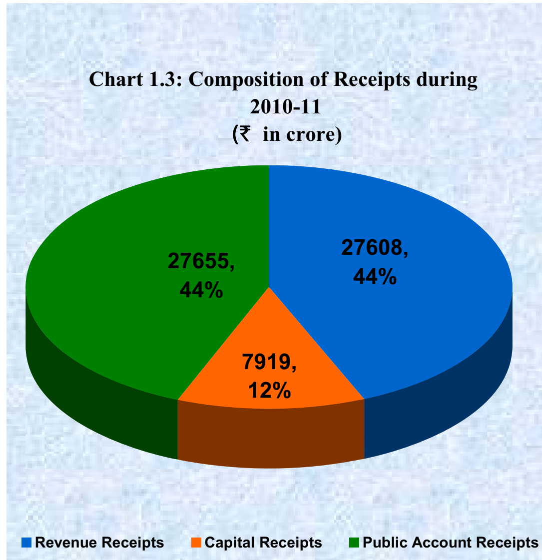




**Chart 1.2** shows that out of the total receipts of ₹ 63,182 crore in the year 2010-11, the revenue receipts were ₹ 27,608 crore. The balance came from capital receipts and Public Account receipts. The total receipts of the State increased from ₹ 43,594 crore in 2006-07 to ₹ 63,182 crore in 2010-11.

**Chart 1.3** shows that out of the total receipts of ₹ 63,182 crore, the Revenue receipts were ₹ 27,608 crore (43.70 *per cent),* Public Account receipts were ₹ 27,655 crore (43.77 *per cent)* and the Capital receipts of ₹ 7,919 crore accounted for 12.53 *per cent.*

### 1.3.2 Funds released to the State implementing agencies outside the State Budget

Huge funds are being released by Government of India directly to the implementing agencies in the State for various schemes/programmes in social and economic sectors instead of routing through State budget. During 2010-11, an amount of ₹ 1,617.15 crore (5.86 *per cent* of revenue receipts) was released by GoI directly to the implementing agencies (as detailed in **Table 1.4).** Thus, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the receipts and expenditure of the State as well as other fiscal variables/parameters derived from them are understated.

**Table 1.4: Funds released directly to the State implementing agencies**

*(₹ in crore)*

| S.No. | Programme/Scheme | Implementing agency | 2010-11 |
|---|---|---|---|
| 1 | Adult Education & Skill Development Scheme | State Literacy Mission Authority | 15.61 |
| 2 | Autonomous R & D Institution | National Agri-Food Biotechnology Institute | 20.00 |
| 3 | Central Rural Sanitation Programme | State Water And Sanitation Mission | 11.16 |
| 4 | DRDA Administration | District Rural Development Agency | 13.49 |
| 5 | Industrial Infrastructure Up gradation Scheme IIUS DIPP | Indian Tools Technology Centre | 17.48 |
| 6 | Mahatma Gandhi National Rural Employment Guarantee Scheme | District Rural Development Agency | 128.79 |
| 7 | Member Parliament Local Area Development Scheme | Deputy Commissioner Amritsar | 34.00 |
| 8 | National Food Security Mission | Sustainable Agriculture Development-Agency (SADA) | 37.91 |
| 9 | National Institute of Pharmaceutical Education & Research | National Institute of Pharmaceutical Education & Research | 13.72 |
| 10 | National Institute of Technology | Dr. Ambedkar National Institute of Technology | 38.50 |
| 11 | National Mission on Micro Irrigation | State Micro Irrigation Committee, Punjab | 12.61 |
| 12 | National Rural Health Mission (NRHM) | State Health Society | 171.45 |
| 13 | Pradhan Mantri Gram Sadak Yojana (PMGSY) | Punjab Roads and Bridges Development Board | 196.43 |
| 14 | Rashtriya Madhyamik Shiksha Abhiyan (RMSA) | Rashtriya Madhyamik Shiksha Abhiyan Authority | 188.25 |
| 15 | Rural Housing- IAY | District Rural Development Agency | 63.59 |
| 16 | Sarva Shiksha Abhiyan (SSA) | Sarva Shiksha Abhiyan Authority | 396.13 |
| 17 | Scheme for Integrated Textile Park (SITP) | Rhythm Textile and Apparels Park Ltd. | 20.00 |
| 18 | Scheme for Setting up of 6000 Model Schools at Block Level as Benchmark of Excellence | Rashtriya Madhyamik Shiksha Abhiyan Authority, Punjab | 28.74 |
| 19 | Setting Up of New IITs | Indian Institute of Technology Ropar | 25.34 |
| 20 | Swaranjayanti Gram Swarozgar Yojana (SGSY) | District Rural Development Agency | 13.90 |
| 21 | Upgradation of 1396 Govt ITIs Through PPP | IMC Society of ITI (W) Nangal | 15.00 |
| 22 | Others | | 155.05 |
| | | **Total** | **1617.15** |

***Source: Controller General of Accounts' website***

As these funds are not routed through the budget of State Government, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the receipts and expenditure of the State as well as other fiscal variables/parameters derived from them are understated. Unless, there is proper documentation and timely reporting of expenditure to the State Government by the implementing agencies, it will be difficult to monitor the end use of these direct releases.

## 1.4 Revenue receipts

**Statement 11** of the Finance Accounts details the revenue receipts of the State. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in ***Appendix 1.6*** and also depicted in **Charts 1.4** and **1.5**.

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

**Table 1.5: Trends in Revenue receipts**

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **Revenue Receipts (RR) (` in crore) *of which*** | **20567** | **19238** | **20713** | **22157** | **27608** |
| *Own Taxes* | 9017 | 9899 | 11150 | 12040 | 16828 |
| *Non-Tax Revenue* | 7744 | 5254 | 5784 | 5653 | 5330 |
| *Grants in aid from Government of India* | 2240 | 2110 | 1695 | 2320 | 2399 |
| *State's share of Union taxes and duties* | 1566 | 1975 | 2084 | 2144 | 3051 |
| Rate of growth of RR (*per cent)* | 21.22 | -6.46 | 7.67 | 6.97 | 24.61 |
| Rate of growth of Own taxes (*per cent* ) | 0.31 | 9.78 | 12.64 | 7.98 | 39.77 |
| RR/GSDP (*per cent)* | 16.22 | 12.59 | 11.83 | 11.11 | 12.07 |
| **Buoyancy Ratios** [1] | | | | | |
| Revenue buoyancy w.r.t GSDP | 1.24 | -0.32 | 0.53 | 0.50 | 1.68 |
| State's own tax buoyancy w.r.t GSDP | 0.02 | 0.48 | 0.87 | 0.57 | 2.71 |
| GSDP Growth rate (*per cent* ) | 17.17 | 20.49 | 14.59 | 13.93 | 14.69 |

***Source: Finance Accounts***

The revenue receipts increased from ₹ 20,567 crore in 2006-07 to ₹ 27,608 crore in 2010-11 at an annual average growth rate of 6.85 *per cent*. There was a significant increase in revenue receipts during the current year over the previous year due to the fact that own tax revenue increased by ₹ 4,788 crore (39.77 *per cent*) in the current year over the previous year. The ratio of revenue receipts to GSDP during the current year (12.07 *per cent*) increased by almost one *per cent* when compared to the previous year. The revenue buoyancy with reference to GSDP increased from 1.24 in 2006-07 to 1.68 in 2010-11. *The State's own tax buoyancy with reference to GSDP increased from 0.02 in 2006-07 to 2.71 in 2010-11.*

**Chart 1.4: Trends in Revenue Receipts**

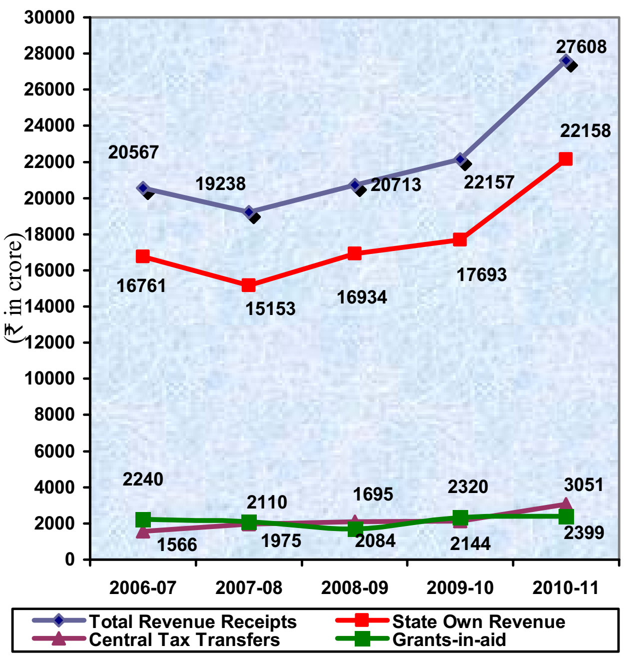
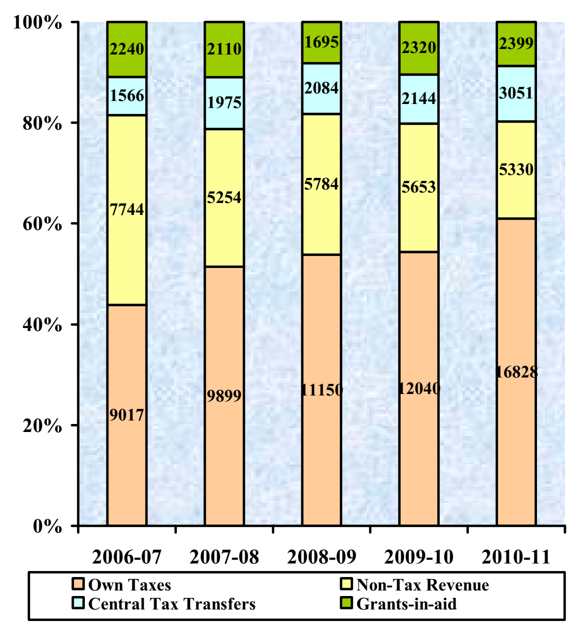



**Chart 1.5: The composition of Revenue Receipts during 2006-11 (₹ in crore)**

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[1] **Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.60 implies that revenue receipts tend to increase by 0.60 percentage points, if the GSDP increases by one *per cent*.**

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

The **revenue receipts** grew by ₹ 5,451 crore (24.61 *per cent*) in 2010-11 over the previous year. The increase was mainly in tax-revenue (₹ 4,788 crore: 39.77 *per cent*) and share of union taxes/duties (₹ 907 crore: 42.30 *per cent*) as compared to previous year. *The revenue receipts at ₹27,608 crore were less than that projected in the Fiscal Consolidation Roadmap for the State (FCR) (₹30,475 crore) for the year 2010-11.*

### 1.4.1 Tax revenue

As shown in **Table 1.6,** the increase in tax-revenue was mainly due to increase of ₹ 2,439 crore (32.19 *per cent*) and ₹ 1,193 crore (518.30 *per cent*) under the heads 'Taxes on Sales, Trade etc.' and 'Taxes and duties on electricity' respectively. The reason for increase in taxes and duties on electricity was due to enhancement in the rates of electricity duty by three *per cent* (from 10 to 13 *per cent*) and revision of tariff rates.

**Table 1.6: Variation in tax revenue of current year vis-à-vis previous year**

***( ₹ in crore)***

| S. No. | Revenue head | 2009-10 | 2010-11 | Variation | Percentage |
|---|---|---|---|---|---|
| 1 | Taxes on Sales, Trade etc. | 7578 | 10017 | 2439 | 32.19 |
| 2 | State excise | 2101 | 2373 | 272 | 12.95 |
| 3 | Taxes on Vehicles | 555 | 654 | 99 | 17.84 |
| 4 | Stamps and registration fees | 1551 | 2318 | 767 | 49.45 |
| 5 | Taxes and duties on electricity | 230 | 1423 | 1193 | 518.30 |
| 6 | Other tax revenue | 25 | 43 | 18 | 72.00 |
| | **Total Tax Revenue** | **12040** | **16828** | **4788** | **39.77** |

***Source: Finance Accounts***

The **State's own tax revenue** during the current year was ₹ 16,828 crore, which was less by ₹ 1,690 crore (9.13 *per cent)* compared to the norms of ₹ 18,518 crore fixed by ThFC and less by ₹ 568 crore (3.27 *per cent)* against ₹ 17,396 crore projected in the FCR for the State.

The share of **Central transfers** in revenue receipts increased from seven to 11 *per cent* during the period 2006-11 but increased by only one *per cent* during the current year over the previous year. The share of **grants-in-aid** from GOI remained 11 *per cent* during 2006-08 and it comes down to nine *per cent* in the current year which is also less by one *per cent* over previous year.

### 1.4.2 Non-tax revenue

The share of **non-tax revenue** in total revenue receipts, decreased by seven *per cent* (from 26 to 19 *per cent*), during the current year over the previous year. The share of **non-tax revenue** comes down to half (19 *per cent*) from what it was in the year 2006-07 (38 *per cent*).

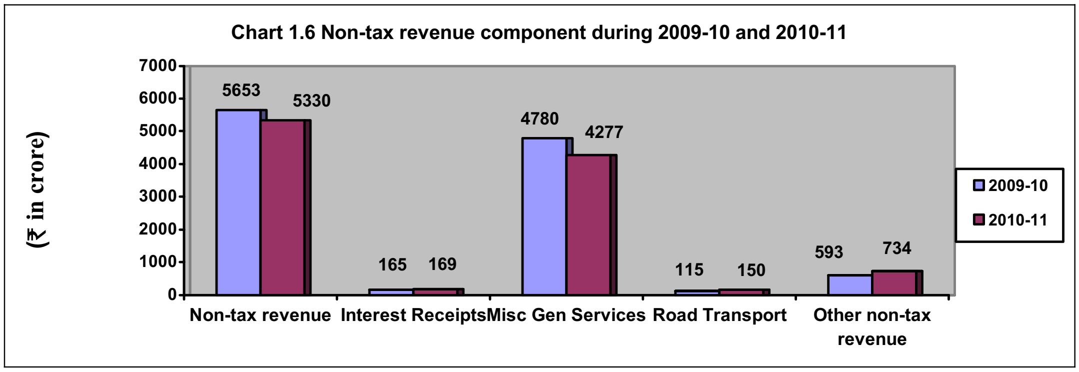


Chart 1.6 Non-tax revenue component during 2009-10 and 2010-11

The **State's non-tax revenue** during the current year was ₹ 5,330 crore, which was higher by ₹ 2,126 crore (66.35 *per cent)* against ₹ 3,204 crore fixed by ThFC. The non-tax revenue decreased by ₹ 323 crore (5.71 *per cent*) over the previous year (**Chart 1.6**). The decrease in non-tax revenue was mainly due to decrease of ₹ 503 crore under the Head 'Miscellaneous General Services' partly offset by increase of ₹ 63 crore under 'Other Administrative Services'; ₹ 36 crore under 'Road Transport' and ₹ 27 crore under the head 'Medical and Public Health' etc.

The component wise analysis of non-tax receipts during the period 2006-11 revealed that gross receipts from State lotteries contributed on an average of 59.83 *per cent* of the total non-tax receipts. Netting the receipts from lotteries against the expenditure incurred revealed only marginal net receipts from lotteries to the State Government which varied from ₹ 39.88 crore to ₹ 128.29 crore during 2006-10 and only ₹ 2.50 crore in 2010-11.

### 1.4.3 Revenue arrears

The arrears of revenue as on 31 March 2011 stood at ₹ 1,285.46 crore **(Chart 1.7)** which were ₹ 456.79 crore (55.12 *per cent*) higher than arrears of ₹ 828.67 crore pending as on 31 March 2010. ₹ 591.45 crore were outstanding for more than five years **(Chart 1.8)**. Major increase in the arrears was observed under Taxes on Sales Trade etc./Value Added Tax (VAT) (₹ 290.47 crore), Irrigation (₹ 96.20 crore), Taxes and duties on electricity (₹ 64.46 crore) and Forestry and wild life (₹ 15.73 crore).

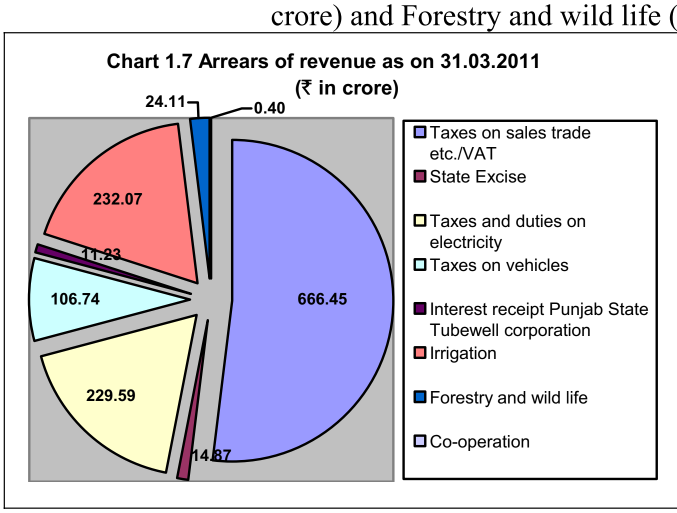


Chart 1.7 Arrears of revenue as on 31.03.2011 (₹ in crore)

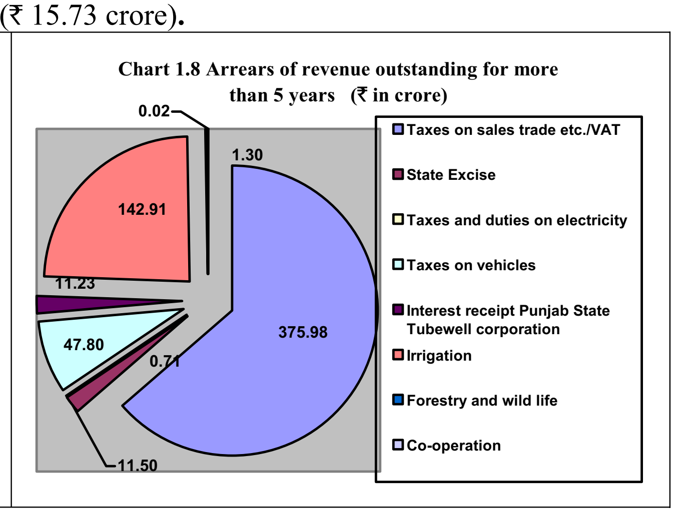


Chart 1.8 Arrears of revenue outstanding for more than 5 years (₹ in crore)

Out of the total arrears of revenue as on 31 March 2011, recovery of ₹ 225.96 crore was stayed by Government departments, recovery of ₹ 122.71 crore was stayed by High Court and recovery of ₹ 27.73 crore was likely to be written off. An amount of ₹ 330.03 crore was pending due to other reasons such as amount covered by recovery certificates, amount recoverable in installments, amount covered by dealers becoming insolvent, amount pending due to rectification, amount recoverable in individual cases and recovery at different stages of action. No reasons were intimated by the departments for the remaining amount of ₹ 579.03 crore.

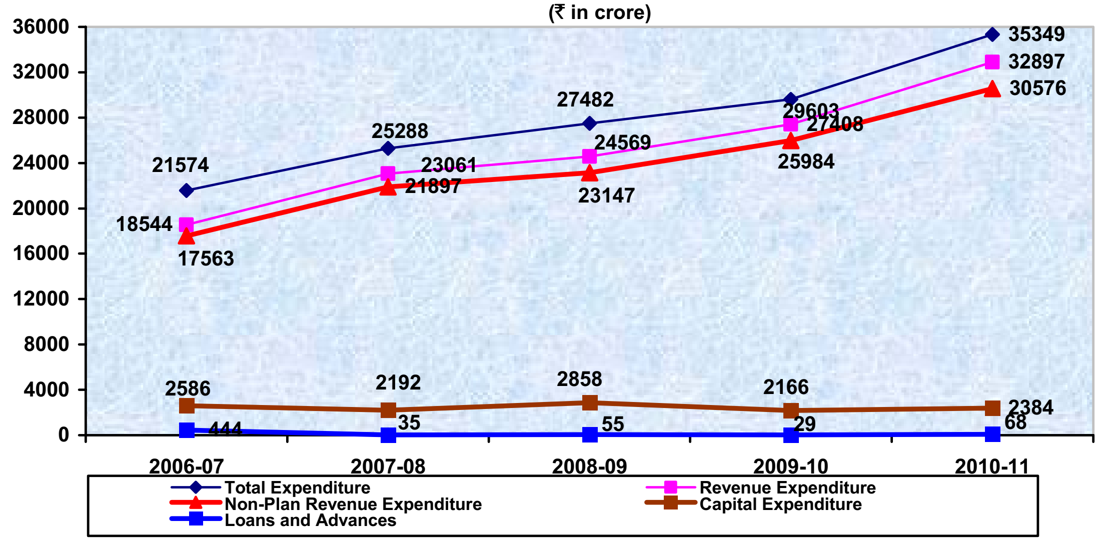
## 1.5 Application of resources

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

### 1.5.1 Growth and composition of expenditure

**Chart 1.9** presents the trends of total expenditure over a period of five years (2006-11). Its composition in terms of 'economic classification' is depicted in **Chart 1.10**

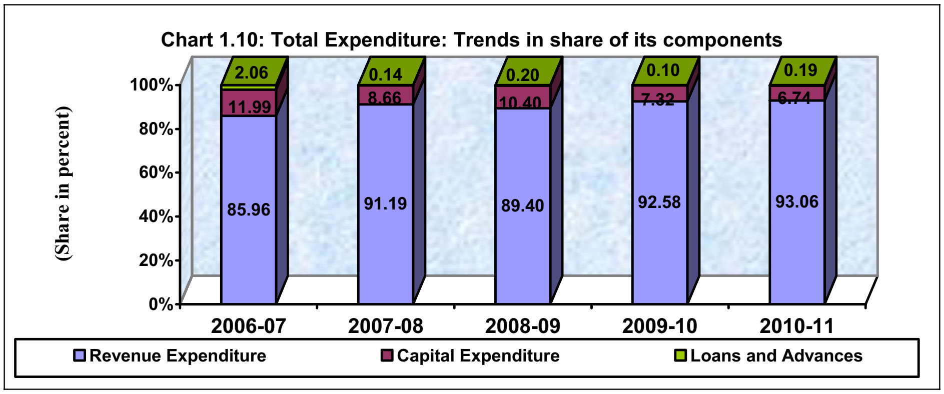
Chart 1.9: Total expenditure: Trends and Composition
(₹ in crore)




The Government raises resources to perform their sovereign functions, to maintain the existing nature of delivery in social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The **totalexpnditure** of the State increased by 63.85 *per cent* from ₹ 21,574 crore in 2006-07 to ₹ 35,349 crore in 2010-11, it increased by ₹ 5,746 crore (19.41 *per cent)* over the previous year. The revenue expenditure increased by ₹ 5,489 crore (20.03 *per cent*), the capital expenditure increased by ₹ 218 crore

(10.06 *per cent*) and disbursement of loans and advances increased by ₹ 39 crore (134.48 *per cent*) during the current year.

Similarly, the **non-plan revenue expenditure (NPRE)** at ₹ 30,576 crore in 2010-11 increased by ₹ 4,592 crore (17.67 *per cent)* as compared to the previous year. The NPRE also exceeded the normative assessment made by ThFC (₹ 22,927 crore) by 33.36 *per cent.*




The movement of relative share of various components of expenditure **(Chart 1.10 & Table 1.7)** indicates that while the share of General Services in total expenditure increased from 48.36 *per cent* in 2006-07 to 53.14 *per cent* in 2010-11, the relative share of Social Services increased from 20.74 to 22.42 *per cent* and the share of Economic Services decreased from 27.32 to 22.45 *per cent* during the same period. The development expenditure i.e. 'expenditure on social and economic services' together remained stagnant between 45 and 48 *per cent* during the period 2006-11.

**Table 1.7: Components of Expenditure – Relative Share**

***(in per cent)***

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **General Services** | 48.36 | 51.52 | 51.74 | 52.87 | 53.14 |
| *Of which Interest payments* | *19.25* | *17.90* | *17.84* | *16.93* | *15.60* |
| **Social Services** | 20.74 | 19.07 | 24.12 | 23.36 | 22.42 |
| **Economic Services** | 27.32 | 27.86 | 22.82 | 22.16 | 22.45 |
| **Grants-in-aid** | 1.52 | 1.41 | 1.13 | 1.51 | 1.81 |
| **Loans and Advances** | 2.06 | 0.14 | 0.20 | 0.10 | 0.19 |

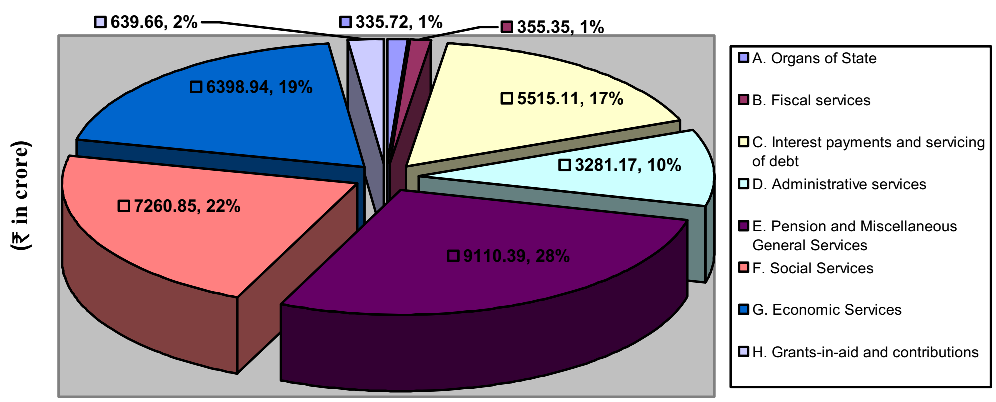
***Source: Finance Accounts***

The **revenue expenditure** continued to constitute a dominant proportion (86 to 93 *per cent*) of the total expenditure during the years 2006-11. During this period, it grew at an annual average growth rate of 15.48 *per cent*. The plan revenue expenditure contributed just five to seven *per cent* of the total revenue expenditure, whereas the non-plan revenue expenditure was 93 to 95 *per cent* during the period 2006-11 ***(Appendix 1.6)***.

The **revenue expenditure** increased by ₹ 5,489 crore (20.03 *per cent*) over the previous year. The increase was mainly under 'Pensions and other Retirement benefits' (₹ 1,951.90 crore: 58.14 *per cent*), 'Interest Payments' (₹ 504.12 crore: 10.06 *per cent*), 'Power' (₹ 501.52 crore: 17.45 *per cent*), 'General Education' (₹ 408.15 crore: 11.55 *per cent*), 'Crop Husbandry' (₹ 406.78 crore:

221.68 *per cent*) and 'Police' (₹ 386.86 crore: 20.38 *per cent*), partly offset by decline under the heads 'Miscellaneous General Services' (₹ 194.31 crore: 4.86 *per cent*) and 'Secretariat-Economic Services' (₹ 148.73 crore: 89.81 *per cent*). *The revenue expenditure exceeded the projections in FCR for the year 2010-11 by ₹ 1,283 crore (3.75 per cent)*. The sector-wise distribution of revenue expenditure is shown in **Chart 1.11**:

**Chart 1.11: Sectoral distribution of revenue expenditure**




The **Capital Expenditure (CE)** which was 11.99 *per cent* of the total expenditure in 2006-07 decreased to 7.32 *per cent* in 2009-10 and further to 6.74 *per cent* in 2010-11. The CE increased by ₹ 218 crore (10.06 *per cent*) over the previous year and it remained at 1.04 *per cent* of the GSDP. The increase was mainly under capital outlay on Rural Development Programme (₹ 210.78 crore: 226.38 *per cent*), Command Area Development (₹ 104.45 crore: 108.08 *per cent*), Education, Sports, Art and Culture (₹ 77.20 crore: 43.80 *per cent*) and Major Irrigation (₹ 67.01 crore: 191.46 *per cent*) partly offset mainly by decrease in capital outlay on Medium Irrigation (₹ 130.14 crore: 46.57 *per cent*), Flood Control Projects (₹ 96.28 crore: 68.71 *per cent*) and Urban Development (₹ 82.44 crore: 33.24 *per cent*). The CE during the current year at ₹ 2,384 crore was 40.83 *per cent* lower than that projected in FCR (₹ 4,029 crore). This shows that due priority was not given to CE.

### 1.5.2 Committed expenditure

The committed expenditure of the Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.8** presents the trends in expenditure on these components during 2006-11.

**Table 1.8: Components of committed expenditure**

*(₹ in crore)*

| Sr.No | Components of committed expenditure | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 Budget Estimate | 2010-11 Actuals |
|---|---|---|---|---|---|---|---|
| 1 | Salaries and Wages$, of which | 5726 (28) | 6379 (33) | 6835 (33) | 8225 (37) | 9821 (33) | 9750 (35) |
| | *Under Non-Plan Head* | *5574* | *6244* | *6677* | *8034* | *9508* | *9525* |
| | *Under Plan Head** | *152* | *135* | *158* | *191* | *313* | *225* |
| 2 | Interest Payments | 4152 (20) | 4527 (24) | 4902 (24) | 5011 (23) | 5764 (19) | 5515 (20) |
| 3 | Expenditure on Pensions | 1905 (9) | 2433 (13) | 2830 (14) | 3357 (15) | 3094 (10) | 5309 (19) |
| 4 | Subsidies | 1553 (8) | 3021 (16) | 2806 (14) | 2919 (13) | 3961 (13) | 3480 (13) |
| | **Total Revenue expenditure #** | **18544** | **23061** | **24569** | **27408** | **33405** | **32897** |
| | **Revenue Receipts** | **20567** | **19238** | **20713** | **22157** | **29617** | **27608** |

Figures in the parentheses indicate percentage to Revenue Receipts *Source: Finance Accounts*

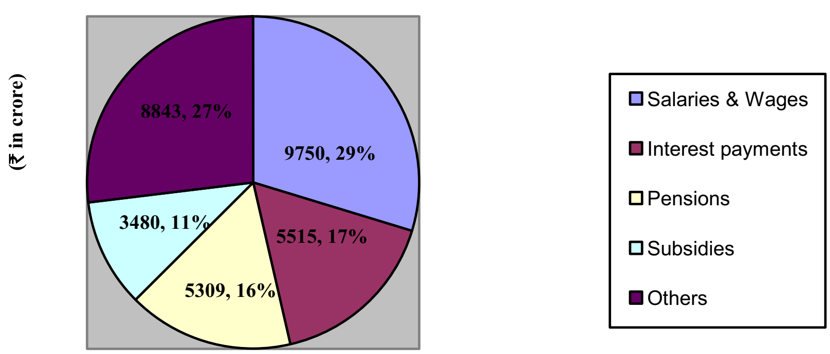
** Plan Head includes Centrally sponsored schemes*

$ *Salaries (2010-11): ₹ 9589.28 crore + Wages (2010-11): ₹ 161.17 crore*

*# includes expenditure other than committed expenditure.*

**Table 1.8** shows that the expenditure on **salaries and wages** increased from 28 *per cent* of revenue receipts in 2006-07 to 35 *per cent* in 2010-11 and it increased by ₹ 1,525 crore (18.54 *per cent*) in 2010-11 over the previous year.

**Chart 1.12 Share of committed expenditure in revenue expendirue during 2010-11**



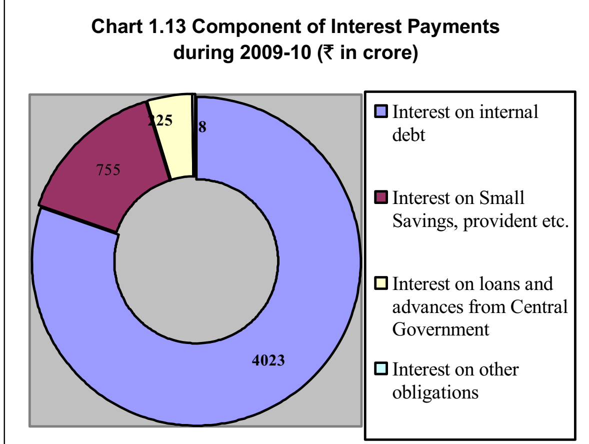

**Tables 1.9** show that although the expenditure on salaries increased during the current year over the previous year yet it remained less than the BE (` 9,653 crore) and target fixed under fiscal consolidation roadmap for the State (` 10,309 crore). The expenditure on salaries was ` 9,589 crore exceeding the norm of ` 8,816 crore as envisaged by ThFC.

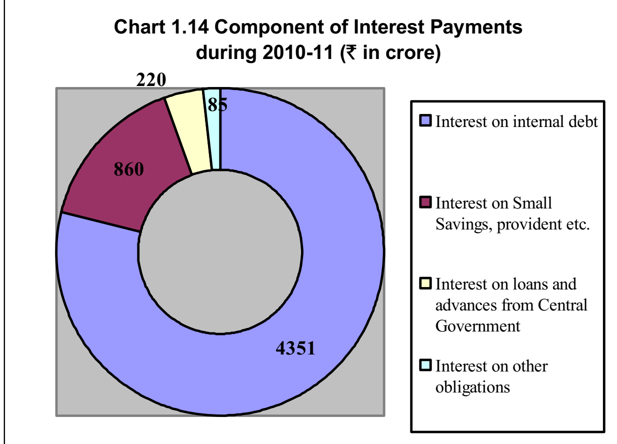
**Table 1.9: Committed expenditure vis-à-vis targets during 2010-11**

*(₹in crore)*

| Item | ThFC | FCR for State | Budget estimates | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Salaries | 8816 | 10309 | 9653 | 8095 | 9589 |
| Interest payments | 5587 | 5499 | 5764 | 5011 | 5515 |
| Pensions | 3659 | 4048 | 3094 | 3357 | 5309 |
| Subsidies | - | - | 3961 | 2919 | 3480 |

***Source: Figures of actual expenditure from Finance Accounts***




The **interest payments** increased by 10.06 *per cent* from ₹ 5,011 crore in 2009-10 to ₹ 5,515 crore in 2010-11 which was mainly due to increase of ₹ 327.71 crore (8.15 *per cent*) under 'Interest on internal debt' as shown in **Charts 1.13 and 1.14.** As a percentage of the revenue receipts it was 19.98 *per cent* and was higher than the projections made in the FCR of the State (₹ 5,499 crore), whereas it was within budget estimates (₹ 5,764 crore) and projections made by ThFC (₹ 5,587 crore) for the year 2010-11.

The **pension payments** recorded a growth of ₹ 1,952 crore (58.15 *per cent*) during the current year over the previous year. The expenditure at ₹ 5,309 crore during 2010-11 was higher than the projection made by the Government in its FCR (₹ 4,048 crore), envisaged by ThFC (₹ 3,659 crore) and BE (₹ 3,094 crore).

The **subsidies** during the current year increased by ₹ 561 crore (19.22 *per cent*) over the previous year mainly due to increase in subsidy under major head 2801-Power by ₹ 502 crore (17.47 *per cent*). However, the actual expenditure on subsidies (₹ 3,480 crore) was less than the projection made in the BE (₹ 3,961 crore).

*Analysis of the committed expenditure **(Table 1.9)** of the State Government revealed that interest payments and subsidies together constituted 27.34 per cent of the total revenue expenditure and consumed 32.58 per cent of the revenue receipts, which needs to be addressed by the Government.*

### 1.5.3 Financial assistance to the local bodies/other institutions

The quantum of assistance provided by way of grants and loans to the local bodies and other institutions during the current year and the previous years is presented in **Table 1.10.**

**Table 1.10: Financial assistance to local bodies etc.**

*(₹ in crore)*

| Institutions | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|---|---|
| | | | | | BE | Actual |
| Educational Institutions (Aided Schools, Aided Colleges, Universities etc.) | 195.88 | 454.93 | 452.12 | 748.02 | 731.66 | 683.84 |
| Municipal Corporations and Municipalities | 69.99 | 28.75 | 1.93 | 18.87 | 77.00 | 155.05 |
| Zila Parishads and Other Panchayati Raj Institutions | 162.15 | 145.11 | 73.34 | 116.93 | 457.28 | 87.02 |
| Development Agencies | 102.93 | 2.77 | 28.21 | 10.41 | 35.70 | 3.59 |
| Hospitals and Other Charitable Institutions | 62.91 | 62.19 | 55.00 | 46.45 | 67.00 | 63.27 |
| Other Institutions | 0.01 | -- | -- | -- | -- | -- |
| **TOTAL** | **593.87** | **693.75** | **610.60** | **940.68** | **1368.64** | **992.77** |

***Source: Finance Accounts***

The financial assistance to the local bodies and other institutions increased from ₹ 593.87 crore in 2006-07 to ₹ 992.77 crore in 2010-11. The increase of ₹ 52.09 crore (5.54 *per cent*) over the previous year was mainly due to increase in assistance to the Municipal Corporations and Municipalities (₹ 136.18 crore). Against the total budget provision of ₹ 1,368.54 crore, financial assistance of ₹ 992.77 crore was released.

In case of zila parishads and other panchayati raj institutions the decrease in the actual release vis-à-vis the BE was ₹ 370.26 crore (80.97 *per cent*), this decrease was due to no release of any grant to PRIs against the recommendations of third State Finance Commission. In case of the educational institutions the decrease of ₹ 47.82 crore (6.54 *per cent*) against the BE was due to less assistance to non-government colleges and institutions (₹ 76.84 crore). Decrease of ₹ 32.11 crore (89.94 *per cent*) in case of development agencies was due to less financial assistance to local bodies, corporations etc.

The overall quantum of financial assistance to the local bodies and other institutions remained between 2.49 and 3.43 *per cent* of the revenue expenditure during 2006-11.

## 1.6 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves adequacy and efficiency of the expenditure.

### 1.6.1 Adequacy of public expenditure

Adequacy of public expenditure means whether there are enough provisions for providing public services. The responsibilities to incur expenditure on social sector and economic infrastructure are largely assigned to the State Governments. For enhancing the levels of human development, the States are required to step up their expenditure on key social services like education, health etc. The fiscal priority (ratio of expenditure on a particular category to the aggregate expenditure) to a particular sector is considered low, if it is below the respective national average. In **Table 1.11,** the fiscal priority of the

State Government with regard to development expenditure, expenditure on social sector and capital expenditure etc. is shown.

**Table 1.11: Fiscal Priority of the State in 2007-08 and 2010-11**

*(in per cent)*

| Fiscal Priority by the State | AE/GSDP | DE#/AE | SSE/AE | CE/AE | Education/ AE | Health/ AE |
|---|---|---|---|---|---|---|
| **General ctegory States Average (Ratio) 2007-08** | **16.85** | **64.28** | **32.54** | **16.14** | **14.64** | **3.98** |
| Punjab's Average (Ratio) 2007-08 | 16.55 | 46.97 | 19.07 | 8.67 | 10.79 | 3.01 |
| **General category States Average (Ratio) 2010-11** | **16.65** | **64.42** | **36.75** | **13.27** | **17.42** | **4.35** |
| Punjab's Average (Ratio) 2010-11 | 15.45 | 44.95 | 22.42 | 6.74 | 12.28 | 3.48 |

AE= Aggregate Expenditure, DE= Development Expenditure, SSE= Social Sector Expenditure and CE= Capital

# Development expenditure includes Development Revenue expenditure, Development Capital expenditure and Loans & Advances disbursed.

***Source: For GSDP, State's Directorate of Economics and Statistics and Finance Accounts of the States.***

- Public expenditure as indicated by the ratio of aggregate expenditure to GSDP was lower in 2007-08 in the state as compared to the other general category states and the trend continues in the year 2010-11.
- Development expenditure refers to the expenditure on economic and social sector. Increased priority to Development expenditure will result in better human and physical asset formation which will further increase the growth prospects of the State. In the case of Punjab, there appears to be a much lower priority given to the Development expenditure, as lower proportion of the aggregate expenditure was spent under this head.
- Similarly, lower priority had been given to the Social sector expenditure – mainly education and health - as lower proportion of aggregate expenditure was spent under these heads as compared to the other general category States in the country.
- Capital expenditure increases the asset creation which will generate opportunities for higher growth. In Punjab, the ratio of capital expenditure to the aggregate expenditure was also low as compared to the other general category States.

### 1.6.2 Efficiency of expenditure

In view of the importance of public expenditure on development items, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision for core public and merit goods[2]. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure.

[2] **Please see the glossary (Appendix 4.1)**

**Table 1.12: Development expenditure**

***(₹ in crore)***

| Components of Development expenditure | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|---|---|
| | | | | | BE | Actuals |
| **Total Development expenditure (a to c)** | **10796 (50.04)** | **11878 (46.97)** | **12929 (47.04)** | **13476 (45.52)** | **17855 (48.92)** | **15890 (44.95)** |
| a. Development Revenue expenditure | 7877 (36.51) | 9812 (38.80) | 10227 (37.21) | 11436 (38.63) | 15023 (41.16) | 13660 (38.64) |
| b. Development Capital expenditure | 2492 (11.55) | 2056 (8.13) | 2671 (9.72) | 2041 (6.89) | 2831 (7.76) | 2199 (6.22) |
| c. Development Loans and Advances | 427 (1.98) | 10 (0.04) | 31 (0.11) | 0 (Nil ) | 1 (Nil) | 31 (0.09) |

***Figures in parentheses indicate percentage to aggregate expenditure*** ***Source: Finance Accounts***

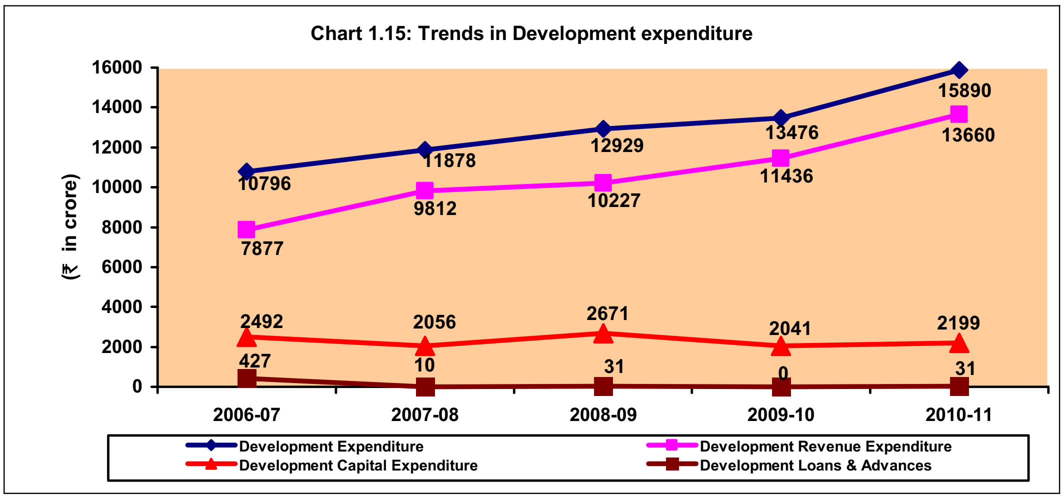



**Table 1.12** and **Chart 1.15** show that the total development expenditure increased by ₹ 5,094 crore (47.18 *per cent*) during 2006-11 and by ₹ 2,414 crore (17.91 *per cent*) during the current year over the previous year.

The **development revenue expenditure** increased consistently from ₹ 7,877 crore in 2006-07 to ₹ 13,660 crore in 2010-11. The development revenue expenditure increased by ₹ 2,224 crore (19.45 *per cent*) during the current year over the previous year, whereas it was less by ₹ 1,363 crore (9.07 *per cent*) when compared with the BE of the State for the year 2010-11.

The **development capital expenditure** decreased from ₹ 2,492 crore in 2006-07 to ₹ 2,199 crore in 2010-11. However, it increased by ₹ 158 crore (7.74 *per cent*) during the current year over the previous year and was less by ₹ 632 crore (22.32 *per cent*) as compared to the BE. The less development capital expenditure during 2010-11 as compared to 2006-07 implies that the State Government was giving less priority to capital expenditure for development as only 6.22 *per cent* of the aggregate expenditure was incurred on development capital expenditure.

**Table 1.13: Efficiency of expenditure in selected Social and Economic Services**

*(in per cent)*

| Social/Economic Infrastructure | 2009-10 | | 2010-11 | |
|---|---|---|---|---|
| | Ratio of CE to TE | In RE, the share of S &W | Ratio of CE to TE | In RE, the share of S&W |
| **Social Services (SS)** | | | | |
| General Education | 3.50 | 76.12 | 3.84 | 80.57 |
| Health and Family Welfare | 1.09 | 89.31 | 3.27 | 88.19 |
| WS, Sanitation, HUD | 60.75 | 56.15 | 51.82 | 64.21 |
| **Total (SS)** | **10.11** | **65.25** | **8.37** | **66.19** |
| **Economic Services (ES)** | | | | |
| Agri. and Allied Activities | 0.35 | 56.67 | 1.41 | 39.43 |
| Irrigation & Flood Control | 42.47 | 82.66 | 36.69 | 75.33 |
| Power and Energy | 0.83 | 0.02 | 0.00 | 0.02 |
| Transport | 54.83 | 34.55 | 53.41 | 34.96 |
| **Total (ES)** | **20.45** | **26.51** | **19.36** | **25.13** |
| **Total (SS+ES)** | **15.14** | **47.57** | **13.87** | **46.95** |

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

***Source: Finance Accounts***

**Table 1.13** shows that in 2010-11, the ratio of the capital expenditure (CE) to total expenditure (TE) on the Social Services (SS) and the Economic Services (ES) decreased by 1.74 and 1.09 respectively over the previous year.

The share of salaries and wages components in revenue expenditure on SS increased from 65.25 to 66.19 *per cent* whereas the same in case of ES decreased from 26.51 to 25.13 *per cent* during the current year over the previous year.

The combined ratio of CE to TE on SS and ES decreased by 1.27 during 2010-11 over the previous year, while the share of salaries & wages in revenue expenditure on SS and ES decreased from 47.57 to 46.95 *per cent*.

## 1.7 Analysis of Government expenditure and investments

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

### 1.7.1 Financial results of Irrigation works

The financial results of nine major irrigation projects involving a capital expenditure of ₹ 459.76 crore at the end of March 2011 showed that revenue realised from these projects during 2010-11 (₹ 24.48 crore) was only 5.32 *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (₹ 246.62 crore) and interest charges (₹ 23.17 crore), the projects suffered a net loss of ₹ 245.31 crore.

### 1.7.2 Incomplete projects

The department-wise information pertaining to the incomplete projects as on 31 March 2011 is given in the **Table 1.14.**

**Table 1.14: Department-wise profile of incomplete projects**

*(₹ in crore)*

| Department | Number of Incomplete Projects | Initial Budgeted Cost | Revised Total Cost of Projects | Expenditure | Cost Overrun |
|---|---|---|---|---|---|
| Water Supply and Sanitation (Public Health) | 5 | 30.89 | Not available | 11.20 | Not available |
| Irrigation Department | 2 | 2485.81 | Not available | 293.42 | Not available |
| | 1 | 58.15 | 74.14 | 26.51 | 15.99 |
| Public Works (B & R) | 10 | 50.62 | Not available | 20.59 | Not available |
| | 1 | 8.00 | 11.62 | 5.95 | 3.62 |
| **TOTAL** | **19** | **2633.47** | **85.76** | **357.67** | **19.61** |

***Source: Finance Accounts***

Out of three incomplete projects in the Irrigation Department, cost of one project namely 'Converting the Banur Canal System from Non-perennial to Perennial' was revised, which resulted in increase in the estimated cost by ₹ 15.99 crore (27.50 *per cent*). The work was held up due to dispute with the contractor. Sutlej Yamuna Link Canal project was incomplete due to water sharing dispute between Punjab and Haryana Governments.

Out of the 11 incomplete projects of Public Works Department (Buildings & Roads), cost of only one project namely 'Construction of University College at Jaitu, District Faridkot' was revised resulting in increase of ₹ 3.62 crore (45.25 *per cent*). The works were incomplete because in most of the projects, funds were not received from State Government.

There were five incomplete projects costing ₹ 30.89 crore in the Water Supply and Sanitation (Public Health) Department. The main reason for non-completion of works was that the overhead service reservoir work was not allotted.

The targeted year of completion of most of the incomplete projects was upto 2010-11. But the works have not been completed as of 31 March 2011.

*Efforts should be made by the concerned departments to complete all the incomplete projects as early as possible, as ₹357.67 crore had already been spent on these incomplete projects and full benefits are remained to be realized.*

### 1.7.3 Investment and returns

As of 31 March 2011, the Government of Punjab had invested ₹ 3,831.96 crore.

**Table 1.15: Return on investment**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Investment at the end of the year (₹ in crore) | 3761.74 | 3835.65 | 3841.36 | 3832.41 | 3831.96 |
| Return (₹ in crore) | 1.96 | 0.40 | 0.78 | 0.91 | 0.62 |
| Return (per cent) | 0.05 | 0.01 | 0.02 | 0.02 | 0.02 |
| Average rate of interest on Government Borrowing (per cent) | 8.11 | 8.46 | 8.32 | 7.72 | 7.73 |
| Difference between interest rate and return (per cent) | 8.06 | 8.45 | 8.30 | 7.70 | 7.71 |

***Source: Finance Accounts***

As per **statement 14 of the Finance Accounts,** out of amount invested, ₹ 3,113.38 crore were invested in 10 Statutory Corporations (five working and five non-working), ₹ 489.30 crore in 23 Government Companies (12 working and 11 non-working), ₹ 227.89 crore in 7653 Co-operative Banks and Societies and ₹ 1.39 crore in 15 Joint Stock Companies.

However, there was no return on investment from Statutory Corporations, Government Companies and Joint Stock Companies. The return on investment from Co-operative Banks and Societies as dividend/interest was ₹ 61.86 lakh only during the year 2010-11. The return was 0.01 to 0.05 *per cent* only during 2006-11, while the Government of Punjab paid interest at the average rate of 7.72 to 8.46 *per cent* on its borrowings during 2006-11 **(Table 1.15).**

Within the group of five working Statutory Corporations, ₹ 3,088.68 crore (99.87 *per cent*) of the Government investment was made in four Corporations as mentioned in **Table 1.16** and only ₹ four crore (0.13 *per cent*) were invested in Punjab State Warehousing Corporation. Out of these Statutory Corporations/Boards, four were incurring losses and their accumulated losses amounted to ₹ 9,067.79 crore (upto the year 2007-08 to 2009-10 for which their accounts were finalised). The loss amounting to ₹ 8,411.23 crore (92.78 *per cent*) pertains to Punjab State Power Corporation Limited alone. The accumulated profit of the Punjab Scheduled Castes Land Development and Finance Corporation was reduced by ₹ 1.37 crore as compared to 2007-08 which was ₹ 24.09 crore upto 2008-09 for which their accounts have been finalized.

**Table 1.16: Investments made in Statutory Corporations/Boards**

*(₹ in crore)*

| Name of Corporation/Board | Amount invested | Accumulated (Loss(-)/Profit(+) | Loss/Profit accounted upto |
|---|---|---|---|
| Punjab State Power Corporation Ltd. | 2946.11 | (-) 8411.23 | 2008-09 |
| Pepsu Road Transport Corporation | 86.82 | (-) 334.90 | 2008-09 |
| Punjab Financial Corporation | 29.31 | (-) 319.19 | 2009-10 |
| Punjab State Warehousing Corporation | 4.00 | (-)2.47 | 2007-08 |
| Punjab Scheduled Castes Land Development and Finance Corporation | 26.44 | (+) 24.09 | 2008-09 |
| **Net Loss** | **3092.68** | **9043.70** | |

***Source: Finance Accounts***

An amount of ₹ 463.82 crore was invested in 12 working Government Companies, out of these, five were incurring losses of ₹ 1,569.59 crore and accumulated profits of seven companies were ₹ 175.44 crore (upto 2007-08 to 2009-10 for which their accounts were finalized). *The Government needs to review its investments to ensure better value for the investments.*

### 1.7.4 Departmental commercial undertakings

Activities of quasi-commercial nature are performed by the Punjab Roadways, a departmental undertaking (Transport Department). An amount of ₹ 42.72 crore had been invested by the State Government in the Punjab Roadways at the end of 2000-01 (up to which its accounts were finalized). The Punjab Roadways had been incurring losses continuously for more than five years and its accumulated losses were ₹ 731.46 crore as against the total investment of ₹ 42.72 crore upto 2000-01.

### 1.7.5 Loans and advances by the Government of Punjab

In addition to the investments in Co-operative Societies, Corporations and Companies, the Government of Punjab has also been providing loans and advances to many institutions/organizations. **Table 1.17** presents the position of outstanding loans and advances as on 31 March 2011, interest receipts vis-à-vis interest payments by the State Government on its borrowings during last three years**.**

**Table 1.17: Position of outstanding loans and advances and interest received /paid**

***(₹ in crore)***

| Outstanding loans and interest received/paid | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|
| | | | BE | Actual |
| Opening Balance of loans outstanding | 4123 | 4100 | | 2853 |
| Amount advanced during the year | 55 | 29 | 28 | 68 |
| Amount recovered during the year | 78 | 1276 | 172 | 597 |
| Closing Balance of the loans outstanding | 4100 | 2853 | | 2324 |
| Interest received | 46 | 42 | | 51 |
| Interest received as *per cent* to the outstanding Loans and Advances | 1.12 | 1.47 | | 2.19 |
| Rate of Interest paid as *per cent* to the outstanding fiscal liabilities of the Government | 8.32 | 7.72 | | 7.73 |
| Difference between the rate of, interest paid and interest received (*per cent*) | (-)7.20 | (-)6.25 | | (-)5.54 |

***Source: Finance Accounts***

During 2010-11, ₹ 68.40 crore were advanced as loans against the BE of ₹ 28 crore. Further, recovery of loans amounting to ₹ 597 crore was made against the BE of ₹ 172 crore. The recovery of loans and advances amounting to ₹ 597 crore during the current year includes book adjustment of subsidy of ₹ 520 crore payable by the Government to Punjab State Power Corporation Limited against repayment of loan by the Corporation taken from the Government. The interest receipt of ₹ 51 crore during the current year was increased by ₹ nine crore (21.43 *per cent)* over the last year. While the interest payment during 2010-11 was 7.73 *per cent* of its outstanding fiscal liabilities, the interest received was only 2.19 *per cent* of the outstanding loans and advances. *The Government needs to analyse the reasons for inadequate return from the loans and advances made by it.*

### 1.7.6 Cash balances and investment of cash balances

**Table 1.18** depicts the cash balances and investments made by the Government of Punjab out of the cash balances during the year. The major portion of the cash balances was invested in Government of India Securities (₹ 101.99 crore) and Government earned interest of ₹ 0.28 crore during the year. The cash balances at the close of the current year decreased from ₹ 225.77 crore of the previous year to ₹ (-)118.16 crore mainly due to minus balance of ₹ 694.28 crore on account of Deposits with Reserve Bank of India.

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

**Table 1.18:Cash balances and investment of cash balances**

*(₹ in crore)*

| Particulars | As on 31 March 2010 | As on 31 March 2011 | Increase(+)/ Decrease(-) |
|---|---|---|---|
| **Cash Balances** | **225.77** | **-118.16** | **-343.93** |
| **Investment from Cash balances** | **292.00** | **102.03** | **-189.97** |
| a. GOI Treasury Bills | 189.97 | 0 | -189.97 |
| b. GOI Securities | 101.99 | 101.99 | 0 |
| c. Punjab State Power Corporation Bonds | 0.04 | 0.04 | 0 |
| **Fund-wise break-up of investment from earmarked balances** | **0.70** | **0.70** | 0 |
| a. Reserve Funds bearing interest | .. | .. | .. |
| b. Reserve Funds not bearing interest | 0.70 | 0.70 | 0 |
| **Interest realised** | **9.12** | **0.28** | **-8.84** |

***Source: Finance Accounts***

As per **statement 6 of the Finance Accounts**, at the end of the previous year no amount was outstanding as ways and means advances. During 2010-11, the Government obtained ₹ 3,942.62 crore as Ways and Means Advances (WMAs) from RBI on 70 occasions out of which an amount of ₹ 3,589.35 crore was re-paid leaving a balance of ₹ 353.27 crore and ₹ 4.60 crore were paid as interest on these advances.

At the end of the previous year, no amount was outstanding as shortfall/ overdraft. During 2010-11, the Government had availed shortfall of ₹ 12.48 crore on eight occasions and overdraft of ₹ 25.74 crore on eight occasions. ₹ 23.66 crore were repaid during the year leaving a balance of ₹ 14.56 crore. ₹ 0.23 crore were paid as interest on these shortfalls/overdrafts.

## 1.8 Assets and liabilities

### 1.8.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities[3] of the Government and the assets created out of the expenditure incurred. ***Appendix 1.3*** **Part B** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position as on 31 March 2010. The liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

In real terms, during 2010-11, the assets grew by ₹ 1,499.25 crore (5.39 *per cent*) whereas the liabilities increased by ₹ 6,787.96 crore (9.97 *per cent*) over the previous year. The ratio of Financial Assets to Liabilities came down to 39.12 *per cent* in 2010-11 from 46.59 *per cent* in 2006-07 which was 40.82 *per cent* in the previous year.

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[3] **Financial liabilities of the Government means the total liabilities under the Consolidated Fund and the Public Account of the State referred to in Article 266 of the Constitution of India.**

### 1.8.2 Fiscal liabilities

There are two sets of liabilities namely, Public Debt and Other Liabilities. The Public Debt consists of Internal Debt of the State and is accounted for under the Consolidated Fund. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may, from time to time, fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. The Other liabilities, which are part of the Public Account, include deposits under small savings scheme, provident funds and other deposits. The trends in outstanding fiscal liabilities, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts of the State and State's own resources as also the buoyancy of fiscal liabilities with respect to these parameters during the period 2006-11 are presented in **Table 1.19.**

**Table 1.19: Fiscal liabilities – Basic Parameters**

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Fiscal Liabilities (₹ in crore) | 51035 | 55982 | 61850 | 67967 | 74778 |
| Rate of Growth (*per cent*) | -0.64 | 9.69 | 10.48 | 9.89 | 10.02 |
| **Ratio of Fiscal liabilities to** | | | | | |
| GSDP (*per cent*) | 40.25 | 36.64 | 35.33 | 34.08 | 32.69 |
| Revenue receipts (*per cent*) | 248.14 | 291.00 | 298.61 | 306.75 | 270.85 |
| Own resources (*per cent*) | 304.47 | 369.44 | 365.24 | 384.16 | 337.47 |
| **Buoyancy of Fiscal liabilities to** | | | | | |
| GSDP (ratio) | -0.04 | 0.47 | 0.72 | 0.71 | 0.68 |
| Revenue receipts (ratio) | (-)0.03 | (-)1.50 | 1.37 | 1.42 | 0.41 |
| Own resources (ratio) | (-)0.03 | (-) 1.01 | 0.89 | 2.21 | 0.40 |

***Source: Finance Accounts***

The compositions of fiscal liabilities at the end of the current year vis-à-vis the previous year are presented in **Charts 1.16** and **1.17.**

**Chart 1.16: Composition of outstanding Fiscal Liabilities as on 01 April 2010 (₹ in crore)**

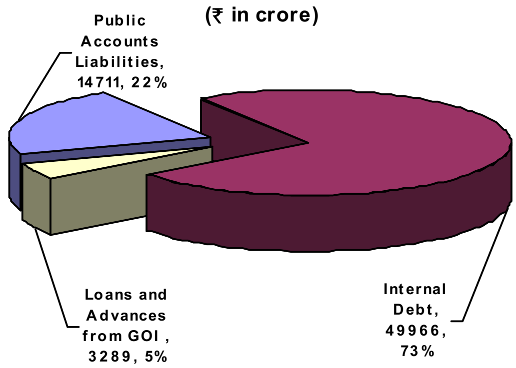
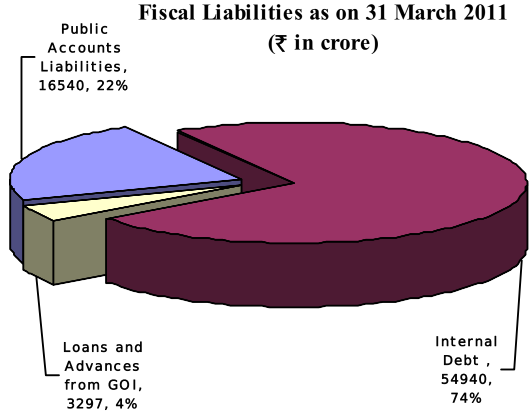



**Chart 1.17: Composition of outstanding Fiscal Liabilities as on 31 March 2011 (₹ in crore)**




The overall fiscal liabilities of the Government had been on the rise and it increased from ₹ 51,035 crore in 2006-07 to ₹ 74,778 crore in 2010-11. The Consolidated Fund liabilities (₹ 58,237.29 crore) comprised of internal debt of

₹ 54,940.33 crore and loans of ₹ 3,296.96 crore from GOI. The Public Account liabilities (₹ 16,540.31 crore) comprises of small savings, Provident fund (₹ 11,357.09 crore) and interest bearing obligations and non-interest bearing obligations like deposits and other earmarked funds (₹ 5,183.22 crore). The fiscal liabilities of the Government have increased by ₹ 6,807 crore (10.02 *per cent*) during 2010-11 over the previous year mainly due to increase of ₹ 4,973.87 crore (9.95 *per cent*) in the internal debt.

Though the ratio of fiscal liabilities to GSDP had been declining from 40.25 in 2006-07 to 32.69 *per cent* in 2010-11, it was still on the higher side as compared to the target of bringing down the ratio to 25 *per cent* by 2014-15, as envisaged by the ThFC. The ratio of fiscal liabilities to revenue receipts increased from 248.14 in 2006-07 to 306.77 *per cent* in 2009-10. However, during 2010-11 this ratio came down to 270.85 *per cent*.

### 1.8.3 Arrangements for amortization of liability

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

**(a)** **Sinking Fund (Depreciation)-**A sum not exceeding 1.5 *per cent* of the total amount of loans could, if necessary, be set apart from the revenue each year to a depreciation Fund for purchasing securities of the loans for cancellation.

**(b)** **Sinking Fund (Amortization)-**In addition to the annual contribution to the respective depreciation fund, annual contributions are to be made to the Sinking fund from revenues for amortization of loans at such rates as Government may decide from time to time.

The Finance Accounts revealed that no contributions were made during 2010-11 and there were no balances in these two components of the sinking fund at the commencement and end of 2010-11.

On being pointed out (September 2011), the Finance Department stated that due to weak financial position of the State, no amount could be invested in the Sinking Fund.

### 1.8.4 Status of Government guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower to whom the guarantee has been extended.

The Punjab FRBM (Amendment) Act, 2011 provides that the Punjab Government shall cap the outstanding guarantees on long term debt to 80 *per cent* of the revenue receipts of the previous year and guarantees on short term debt be given only for working capital or food credit in which case this must be fully backed by physical stock. The Government of Punjab had given guarantees for repayment of loans etc. raised by statutory corporations/ boards, local bodies, co-operative banks/societies and other institutions**.**

**Table 1.20** shows the maximum amount guaranteed by the State and the outstanding amount of guarantees for 2008-11.

**Table 1.20: Guarantees given by the Government of Punjab**

***(₹ in crore)***

| Guarantees | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|
| | | | BE | Actual |
| Maximum amount guaranteed | 46815 | 51357 | 51513 | Not Available |
| Outstanding amount of guarantees | 25868 | 33295 | 49832 | 40333 |
| Percentage of outstanding guarantees to the total revenue receipts of previous year | 134 | 161 | 225 | 182 |
| Criteria as per FRBM Act (*per cent* of guarantees to revenue receipts of the previous year ) | 80 | 80 | 80 | 80 |

***Source: Finance Accounts***

The outstanding guarantees of ₹ 40,333 crore were lower by ₹ 9,499 crore (19.06 *per cent*) against the budget estimates of ₹ 49,832.16 crore during the year 2010-11 showing unrealistic budget estimates.

The amount of outstanding guarantees (₹ 40,333 crore) as of March 2011 was 182 *per cent* of the revenue receipts of the previous year (2009-10). This was 102 *per cent* excess over the limit of 80 *per cent* prescribed in the FRBM Act.

In consideration of the guarantees given by the State, the Government has been charging guarantee fees upto two *per cent.* The total amount of guarantee fees received and receivable during 2010-11 was ₹ 70.05 crore and ₹ 75.60 crore respectively.

The Government of Punjab has set up a Guarantee Redemption Fund (GRF) on the recommendations of TFC, but so far no amount has been transferred to the fund.

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

## 1.9 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability[4] of the State. Sustainability of debt of the Government can be measured in terms of debt stabilization[5], sufficiency of non-debt receipts[6], net availability of borrowed funds[7], burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the Government debt. **Table 1.21** analyses the debt sustainability of the Government according to these indicators for the years 2006-11.

[4] **Please see glossary (Appendix 4.1)**
[5] **Please see glossary (Appendix 4.1)**
[6] **Please see glossary (Appendix 4.1)**
[7] **Please see glossary (Appendix 4.1)**

**Table 1.21: Debt sustainability**

*(₹ in crore)*

| Indicators of Debt Sustainability | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Debt Stabilization (Quantum Spread + Primary Deficit) | 5769 | 1434 | 1845 | 3975 | 3102 |
| Sufficiency of Non-debt receipts (Resource Gap) | (+) 2042 | (-) 3992 | (-) 2087 | 521 | -975 |
| Net availability of borrowed funds | (-) 4238 | 3810 | 971 | 1114 | 1299 |
| Burden of Interest Payments (IP/RR Ratio) | 20 | 24 | 24 | 23 | 20 |

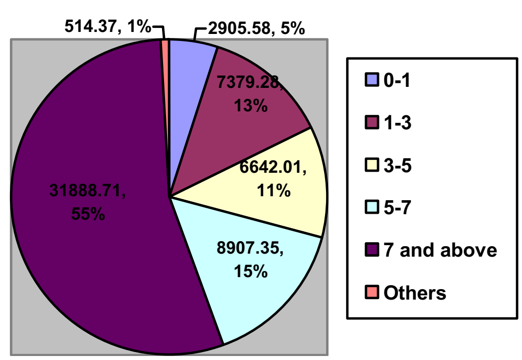
***Source: Finance Accounts***

Audit analysis revealed the following:

- The **sum of quantum** spread and primary deficit was positive during the period 2006-07 to 2010-11. These trends indicate that the State is moving towards debt stabilization, which if continued would eventually improve the Debt-sustainability position of the State. However, the sum of quantum spread and primary deficit decreased by ₹ 873 crore during the current year as compared to the previous year.
- The **negative resource gap** indicates the non-sustainability of debt, while the positive resource gap indicates the capacity to sustain the debt. The positive resource gap between the non-debt receipts and the total expenditure of the State indicates enhancement in the capacity of the Government to sustain the debt. The Government experienced huge negative resource gap in 2007-08 and 2008-09, though it turned into a small positive resource gap in 2009-10. Again, it turned into negative (₹ 975 crore) in the current year indicating non-sustainability of debt which needs to be improved.
- The **net funds available** from the internal debt and loans and advances from GOI and other sources after providing for repayments (including interest) decreased from ₹ 3,810 crore in 2007-08 to ₹ 1,299 crore in 2010-11. The expenditure pattern of the Government during the last three years indicated that the borrowed funds were mostly used for redemption of past debts leaving only small fund for other purposes.

| Maturity Profile of State Debt (₹ in crore) | | |
|---|---|---|
| **Years** | **2010-11** | **Percentage** |
| 0 – 1 | 2905.58 | 4.99 |
| 1 – 3 | 7379.28 | 12.67 |
| 3 – 5 | 6642.01 | 11.41 |
| 5 – 7 | 8907.35 | 15.29 |
| 7 and above | 31888.71 | 54.76 |
| Others | 514.37 | 0.88 |
| **TOTAL** | **58237.30[8]** | **100.00** |

**Chart 1.18 Maturity profile of State debt**
**(₹ in crore)**




[8] **Includes ₹ 513.91 crore representing loans of back to back basis recoveries of which are being made by Central Government, ₹ 31.92 lakh repayment of which is on the basis of actual recoveries and ₹ 15.48 lakh representing Market loans not bearing interest.**

- The **Maturity profile of the State's debt** during the current year **(Chart 1.18)** indicates that 4.99 *per cent* is payable in the next year, 12.67 *per cent* in 1-3 years time, 11.41 *per cent* in 3-5 years time, 15.29 *per cent* in 5-7 years and 54.76 *per cent* is payable after seven years. There will be a bunching of repayments in the next year as well as around 3-5 years' time.

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

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

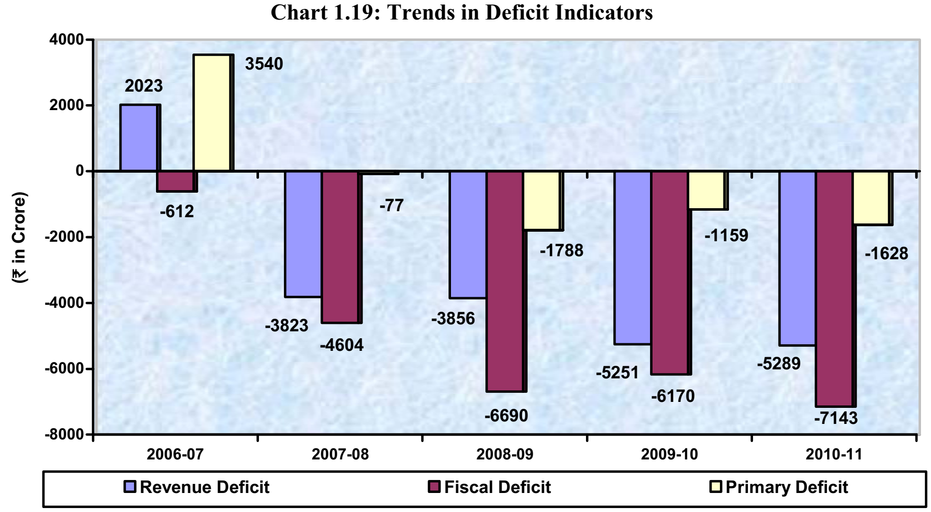
## 1.10 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipt and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2010-11.

### 1.10.1 Trends in deficits

**Charts 1.19** and **1.20** present the trends in deficit indicators over the period 2006-11.

**Chart 1.19: Trends in Deficit Indicators**

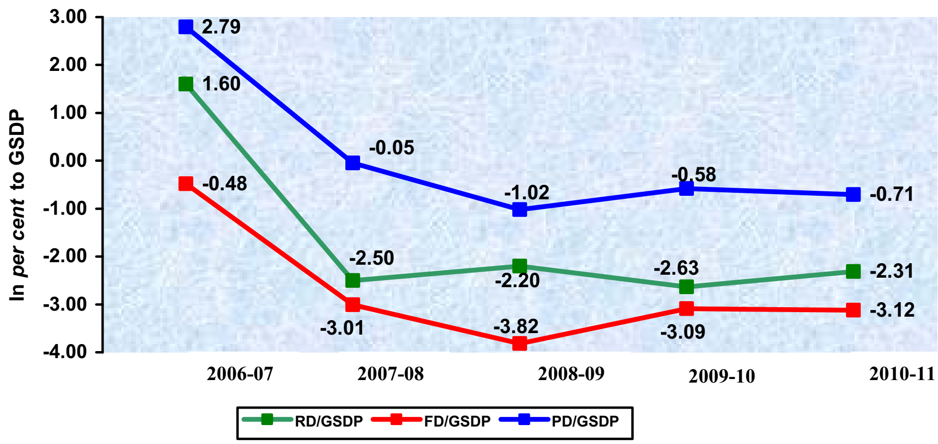



The **revenue deficit** which indicates the excess of revenue expenditure over the revenue receipts rose to the level of ₹ 5,289 crore (2.31 *per cent* of GSDP) in 2010-11 from the surplus of ₹ 2,023 crore (1.60 *per cent* of GSDP) in 2006-07. It shows that the revenue receipts in the State were not enough to meet its revenue expenditure. As per the FRBM (Amendment) Act, 2011 the State should bring down its revenue deficit to 1.80 *per cent* of GSDP by 2011-12 and finally bring it down to zero by the year 2014-15. *Instead of bringing down the revenue deficit it is going up by each passing year.*

The **fiscal deficit**, which represents the total borrowing of the State and its total resource gap, increased from ₹ 612 crore (0.48 *per cent* of GSDP) in 2006-07 to ₹ 7,143 crore (3.12 *per cent* of GSDP) in 2010-11. *However, the fiscal deficit as percentage of GSDP in the current year was within the target of 3.50 per cent to be achieved by 2010-11 fixed by FRBM (Amendment) Act, 2011.*

The **primary deficit,** which indicates the excess of primary expenditure (*total expenditure net of interest payments*) over non-debt receipt, was ₹ 1,159 crore (0.58 *per cent* of GSDP) in 2009-10 and was increased to the level of ₹ 1,628 crore (0.71 *per cent* of GSDP) in the current year.

**Chart 1.20: Trends in Deficit Indicators relative to GSDP**




*The State Government should work in the direction to bring down its revenue deficit to zero by the year 2014-15 as per target fixed by the FRBM (Amendment) Act, 2011.*

### 1.10.2 Components of fiscal deficit and its financing pattern

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

**Table 1.22: Components of Fiscal deficit and its financing pattern**

*(₹ in crore)*

| | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| **Composition of Fiscal Deficit** | | **612** | **4604** | **6690** | **6170** | **7143** |
| **(1+2+3)** | | **(-0.48)** | **(-3.01)** | **(-3.82)** | **(-3.09)** | **(-3.12)** |
| 1 | Revenue Deficit/Surplus(-) | (-) 2023# | 3823 | 3856 | 5251 | 5289 |
| | | (1.60) | (-2.50) | (-2.20) | (-2.63) | (-2.31) |
| 2 | Net Capital Expenditure | 2586 | 2191 | 2857 | 2166 | 2383 |
| | | (-2.04) | (-1.43) | (-1.63) | (-1.09) | (-1.04) |
| 3 | Net Loans and Advances | 49 | -1410 | -23 | -1247 | -529 |
| | | (-0.03) | (- 0.92) | (- 0.01) | (-0.63) | (-0.23) |
| **Financing Pattern of Fiscal Deficit*** | | | | | | |
| 1 | Market Borrowings | 738 | 3794 | 4645 | 4361 | 4529 |
| 2 | Loans from GOI | -4008 | 71 | 105 | -103 | 8 |
| 3 | Special Securities issued to NSSF | 2801 | 463 | -213 | 1004 | 693 |
| 4 | Loans from Financial Institutions | -427 | -385 | -393 | -463 | -248 |
| 5 | Small Savings, PF etc. | 402 | 636 | 720 | 849 | 1174 |
| 6 | Deposits and Advances | -102 | 66 | 645 | 264 | 642 |
| 7 | Suspense and Miscellaneous | 40 | 38 | 2 | -34 | 8 |
| 8 | Remittances | -15 | 12 | -11 | 39 | -19 |
| 9 | Others (Reserve Fund) | 241 | 184 | 359 | 208 | 12 |
| 10 | Increase/Decrease in cash balance | 942 | -275 | 831 | 44 | 344 |
| **11** | **Overall Deficit** | **612** | **4604** | **6690** | **6170** | **7143** |

***Figures in brackets indicate the percent to GSDP.*** ***Source:Finance Accounts***

****All these figures are net of disbursements/outflows during the year.***

***# Minus figure represents that Revenue receipts are more than Revenue expenditure which means revenue surplus.***

The fiscal deficit of the State increased from ₹ 612 crore in 2006-07 to ₹ 7,143 crore in 2010-11. It was mainly met from market borrowings (₹ 4,529 crore), small savings, provident funds etc. (₹ 1,174 crore) and special securities issued to National Small Savings Fund (₹ 693 crore). The small savings, provident funds etc. and the net market borrowing increased by 38.28 and 3.85 *per cent* respectively over the previous year whereas special securities issued to NSSF decreased by 30.98 *per cent* in the current year over the previous year. **Table 1.22** indicates that inspite of increasing trend of fiscal deficit in the last five years', the net capital expenditure as *per cent* of GSDP declined from 2.04 in 2006-07 to 1.04 *per cent* in the current year, which indicates that the borrowed money was used to meet the revenue expenditure.

### 1.10.3 Quality of deficit/surplus

The ratio of Revenue deficit to Fiscal deficit and the decomposition of Primary deficit into primary revenue deficit[9] and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were

[9] **Please see glossary (Appendix 4.1)**

not having any asset backup. The bifurcation of the primary deficit would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of revenue deficit to fiscal deficit decreased from 85.11 *per cent* in 2009-10 to 74.04 *per cent* in 2010-11 ***(Appendix1.6)***.

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2006-11 reveals **(Table 1.23)** that the primary deficit during this period was on account of slow rise in non-debt receipts as compared to primary revenue expenditure. In other words, non-debt receipts of the State were not enough to meet the primary revenue expenditure requirements. If this trend continues, debt sustainability will be in serious jeopardy as ideally incremental non-debt receipts every year should cover not only the primary expenditure but also incremental interest burden.

**Table 1.23: Primary deficit/surplus**

***(₹ in crore)***

| Year | Non-debt receipts | Primary Revenue expenditure | Capital expenditure | Loans and advances disbursed | Primary expenditure | Primary deficit (-)/ surplus (+) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-6) |
| 2006-07 | 20962 | 14392 | 2586 | 444 | 17422 | 3540 |
| 2007-08 | 20684 | 18534 | 2192 | 35 | 20761 | -77 |
| 2008-09 | 20792 | 19667 | 2858 | 55 | 22580 | -1788 |
| 2009-10 | 23433 | 22397 | 2166 | 29 | 24592 | -1159 |
| 2010-11 | 28206 | 27382 | 2384 | 68 | 29834 | -1628 |

***Source: Finance Accounts***

## 1.11 Conclusion and recommendations

### Conclusion

- The revenue receipts grew at an annual average of 6.85 *per cent* during 2006-11 and revenue expenditure grew by 15.48 *per cent* during the same period. It implies that the revenue expenditure could outpace the revenue receipts in the years to come.

- The Annual Finance Accounts do not capture the flow of funds directly released by Government of India to the State implementing agencies and to that extent, the receipts and expenditure of the State as well as other fiscal variables/parameters derived from them are understated.

- The Capital expenditure though increased by 10.06 *per cent* over the previous year yet it fell short by 22.14 *per cent* when compared with the budget estimates and was 40.83 *per cent* lower than projected level in fiscal consolidation roadmap for the State. Ratio of development expenditure (expenditure on social and economic services) to the aggregate expenditure during the year in respect of Punjab was 44.95 *per cent* against the General Category States average of 64.42 *per cent*. This shows that in the current year due priority has not been given to the development expenditure and capital expenditure.

- As of March 2011, the total investment of Government of Punjab in statutory corporations, companies etc. was ₹ 3,832 crore. During 2006-11, the return on these investments was negligible (0.01 to 0.05 *per cent*).

- The ratio of Financial Assets to Liabilities came down to 39.12 *per cent* in 2010-11 from 46.59 *per cent* in 2006-07 which indicates that most of the debt was spent for purpose other than asset creation.

- The outstanding guarantees of ₹ 40,333 crore (as of March 2011) given by the Government were 182 *per cent* of the revenue receipts of 2009-10 against the norm of 80 *per cent* prescribed in the FRBM Act, 2003. The State Government has set up a Guarantee Redemption Fund, but no amount has been transferred to the fund during 2010-11.

- During 2010-11, 20 *per cent* of the revenue receipts were used to meet the burden of interest payments. The borrowed funds were mostly used for redemption and servicing of past debts leaving only small fund for other purposes.

- The revenue deficit has been going up each passing year and increased to the level of ₹ 5,289 crore in 2010-11 as against a surplus of ₹ 2,023 crore in 2006-07, shows that the revenue receipts in the State of Punjab were not enough to meet the burgeoning and structurally rigid revenue expenditure. Though the fiscal deficit at 3.12 *per cent* of GSDP in the current year was within the target of 3.50 *per cent* fixed by FRBM (Amendment) Act, 2011, it increased from ₹ 612 crore in 2006-07 to ₹ 7,143 crore in 2010-11. The primary deficit has increased to ₹ 1,628 crore in the current year from ₹ 1,159 crore in 2009-10.

## Recommendations

- ✓ *To improve the States' finances, Government should make concerted efforts to increase the pace of tax and non-tax revenue as the average growth rate of revenue expenditure was more than that of revenue receipts.*

- ✓ *The funds released by Government of India directly to the State implementing agencies needs to be monitored to ensure proper documentation and timely reporting of expenditure to the State/ Union Government.*

- ✓ *Appropriate action at Government's level should be initiated to improve the development expenditure as well as capital expenditure.*

- ✓ *The State Government should ensure utilization of debt receipts for asset creation; use the borrowed funds towards capital expenditure and better value for the investments.*

- ✓ *The State Government need to give due priority to reduction of contingent liabilities and ensure proper monitoring and recovery of the outstanding guarantee fees and transfer of funds to the Guarantee Redemption Fund.*

- ✓ *The State Government should work in the direction to bring down its revenue deficit to zero by the year 2014-15 as per target fixed by the FRBM (Amendment) Act, 2011.*