CHAPTER 1

Finances of the State Government

Profile of Punjab

Punjab is an agrarian State. It is a General Category State as per the categorization of states made by the Government of India. It gets central aid in the ratio of 70 *per cent* grant and 30 *per cent* loan unlike special category states which gets central aid in the ratio of 90 *per cent* grant and 10 *per cent* loan. The State has seen moderate economic growth in the past decade and the Compounded Annual Growth Rate of its Gross State Domestic Product (GSDP) at current prices for the period 2002-03 to 2011-12 has been around 13.05 *per cent* ***(Appendix 1.1)***.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Punjab during 2011-12 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, 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 the Forest Departments. The accounts of the State Government are kept in three parts viz. (i) Consolidated fund (ii) Contingency fund and (iii) Public account. The annual accounts of the State Government consist of the Finance Accounts and the Appropriation Accounts. The Finance Accounts of the Government of Punjab are laid out in nineteen statements. The structure of the Government Accounts and the layout of the Finance Accounts are shown in the ***Appendix 1.2.***

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 the Thirteenth Finance Commission (ThFC) and enacted the FRBM (Amendment) Act, 2011. The salient features of the FRBM Act, 2003 (amended upto March 2011) are given in ***Appendix 1.3***.

Keeping in view the fiscal targets fixed by the FRBM (Amendment) Act, 2011, the Government of Punjab in its budget estimates for the year ended 31 March 2012, pegged the revenue deficit at 1.36 *per cent* and fiscal deficit at 3.54 *per cent* of GSDP. However, at the close of financial year 2011-12, revenue deficit and fiscal deficit were 2.74 *per cent* and 3.42 *per cent* of GSDP respectively. The fiscal deficit at 3.42 *per cent* was within the budgetary assumptions as well as ceiling of 3.50 *per cent* fixed under the FRBM (Amendment) Act, 2011. However, the revenue deficit was higher than the budgetary assumption as well as ceiling of 1.80 *per cent* fixed under the FRBM Act.

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 2011-12 vis-à-vis those of 2010-11. ***Appendix 1.4*** provides the details of receipts and disbursements as well as the summarized financial position of the Government of Punjab as on 31 March 2012.

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

(₹ in crore)

Receipts	2010-11	2011-12	Disbursements	2010-11	2011-12		
Section A: Revenue			**Section A: Revenue**		**Non-Plan**	**Plan**	**Total**
Revenue receipts	**27608.47**	**26234.41**	**Revenue expenditure**	**32897.18**	**31040.50**	**2004.82**	**33045.32**
Tax revenue	16828.18	18841.01	*General services*	18597.73	16767.04	20.91	16787.95
Non-tax revenue	5330.17	1398.45	*Social services*	7260.85	7441.42	1805.08	9246.50
Share of Union taxes/ duties	3050.87	3554.31	*Economic services*	6398.94	6085.24	178.83	6264.07
Grants from Government of India	2399.25	2440.64	*Grants-in-aid and Contributions*	639.66	746.80	0.00	746.80
Section B: Capital			**Section B: Capital**				
Misc. Capital Receipts	**0.45**	**0.24**	**Capital Outlay**	**2384.09**	**238.60**	**1359.52**	**1598.12**
Recoveries of Loans and Advances	**597.45**	**94.50**	**Disbursement of Loans and Advances**	**68.40**	**176.61**	**0.00**	**176.61**
Public Debt receipts*	**7321.36**	**8598.85**	**Public Debt repayments***	**2339.87**	**2675.22**	**0.00**	**2675.22**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**	**0.00**	**0.00**	**0.00**
Public Account receipts	**27654.86**	**31278.88**	**Public Account disbursements**	**25836.98**	**28771.75**	**0.00**	**28771.75**
Opening Cash Balance	**225.77**	**-118.16**	**Closing Cash Balance**	**-118.16**	**-178.30**	**0.00**	**-178.30**
TOTAL	**63408.36**	**66088.72**	**TOTAL**	**63408.36**	**62724.38**	**3364.34**	**66088.72**

Source: Finance Accounts

****Excluding net transactions under ways and means advances***

1.2.1 Significant changes over the previous year

Revenue receipts	Revenue receipts decreased by 4.98 *per cent*. Non-tax revenue decreased by 73.76 *per cent*. Whereas Tax revenue increased by 11.96 *per cent* and share of union taxes/duties increased by 16.50 *per cent*.
Revenue expenditure	Revenue expenditure increased by 0.45 *per cent*. Plan expenditure decreased by 13.61 *per cent*. Non-plan expenditure increased by 1.52 *per cent*.
Capital expenditure	Decreased by 32.97 *per cent*.
Public debt	Receipts increased by 17.45 *per cent* and disbursements increased by 14.33 *per cent*.
Public account	Receipts increased by 13.10 *per cent* and disbursements increased by 11.36 *per cent*.
Cash balances	Net cash balances decreased by 50.90 *per cent*.
Revenue Deficit	The State Government was in revenue deficit for the consecutive fifth year.

1.2.2 Assessment of the fiscal position

The norms/ceilings prescribed by the 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 trend 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 ***(Appendix 1.5)*** as per the recommendations of the ThFC. Assuming that 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 (New series 2004-05). 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 (at current prices) and sectoral growth of GSDP (at current prices) for the last five years are indicated in **Table 1.2.**

Table 1.2: Trends in Gross State Domestic Product

(₹ in crore)

S.No.	Sector	2007-08 (R)	2008-09 (R)	2009-10 (P)	2010-11(Q)	2011-12(A)
1	Agriculture	45658	52431	57430	63573	69921
2	Forestry & Logging	1835	2731	4053	5547	7768
3	Fishing	339	380	484	537	628
	Agriculture & Allied activities (1+2+3)	47831	55541	61967	69657	78316
	Growth rate of Agriculture & Allied activities	***20.77***	***16.12***	***11.57***	***12.41***	***12.43***
4	Mining & Quarrying	29	54	30	33	36
A.	**Sub Total of Primary sector**	**47860 (31.44)**	**55595 (31.94)**	**61997 (31.25)**	**69690 (30.98)**	**78352 (31.56)**
	Growth Rate of Primary Sector	***20.77***	***16.16***	***11.52***	***12.42***	***12.43***
5	Manufacturing	28336	29894	34384	37956	42861
6	Construction	11616	13240	15208	16306	17604
7	Electricity, Gas and Water Supply	3105	3562	4087	4313	4452
B.	**Sub Total of Secondary sector**	**43057 (28.28)**	**46696 (26.83)**	**53680 (27.06)**	**58575 (26.04)**	**64917 (26.14)**
	Industry (4+5+6+7)	43086(28.30)	46750(26.86)	53710(27.07)	58608(26.05)	64953(26.16)
	Growth rate of Industry	***25.14***	***8.50***	***14.89***	***9.12***	***10.83***
8	Transport, Storage & Communication	8846	9849	11629	13061	14549
9	Trade, Hotels & Restaurants	18238	21315	23015	24797	26745
10	Banking & Insurance	6543	7753	8950	11608	12947
11	Real Estate, Ownership	7968	9342	10907	12863	14627
12	Public Administration	6479	8146	9005	10538	11648
13	Other Services	13254	15342	19210	23843	24515
C.	**Sub total of Tertiary (Service) Sector**	**61328 (40.28)**	**71748 (41.23)**	**82716 (41.69)**	**96710 (42.99)**	**105032 (42.30)**
	Growth rate of Tertiary Sector	***15.52***	***16.99***	***15.29***	***16.92***	***8.60***
14	**Calculated GSDP at current prices (A+B+C)**	**152245**	**174039**	**198393**	**224975**	**248301**
	Growth Rate of GSDP at current prices	***19.76***	***14.31***	***13.99***	***13.40***	***10.37***
15	**Calculated GSDP at constant prices**	**123223**	**130431**	**138629**	**148069**	**156483**
	Growth rate of GSDP at constant prices	***9.05***	***5.85***	***6.29***	***6.81***	***5.68***
16	**GDP of All India (at current prices)**	**4582086**	**5303567**	**6091485**	**7157412**	**8232652**
	Growth rate of all India GDP (at current prices)	***15.91***	***15.75***	***14.86***	***17.50***	***15.02***
17	**GDP of All India (at constant prices)**	***3896636***	***4158676***	***4507637***	***4885954***	***5202514***
	Growth rate of all India GDP (at constant prices)	***9.32***	***6.72***	***8.39***	***8.39***	***6.48***

Source: Economic and Statistical Organisation, Government of Punjab
(Figures in parentheses indicate percentage to calculated GSDP at current prices)
R= Revised, P= Provisional, Q= Quick and A= Advance estimates

The GSDP at current prices has increased to ₹ 2,48,301 crore in 2011-12 from ₹ 1,52,245 crore in 2007-08. The GSDP grew at the rate of 19.76, 14.31, 13.99, 13.40 and 10.37 *per cent* during the years 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 respectively. The corresponding figures for national growth are 15.91, 15.75, 14.86, 17.50 and 15.02 *per cent*. However, GSDP of Punjab at constant prices grew at the rate of 9.05, 5.85, 6.29, 6.81 and 5.68 *per cent* during the years 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 respectively. The corresponding figures for national growth are 9.32, 6.72, 8.39, 8.39 and 6.48 *per cent*. Decreasing trend in the growth of GSDP is a matter of concern as the State is weighed down by high committed expenditure (79.13 *per cent* of total expenditure). The average ratio of committed expenditure to GSDP has been 10.47 *per cent* as discussed in ***para 1.5.2*** during the period 2007-08 to 2011-12.

Contribution of Primary Sector remained stagnant around 31 *per cent* during the period 2007-08 to 2011-12. The rate of growth of Agriculture and allied activities has come down from 20.77 during 2007-08 to 12.43 *per cent* in 2011-12. The economic survey of Punjab for the year 2011-12 has also expressed concern over deteriorating health of soil in the State with continuation of rice-wheat rotation by the farmers due to assured profits as compared to other crops, cropping intensity reaching a saturation point and dwindling ground water resources and recommended to develop a concrete programme of diversification and raising value addition in each agro-climatic region of Punjab depending on the health of soil and water availability. The need for revitalizing agriculture sector assumes significance in view of the fact that rural population which comprises about 62.51 *per cent* of the total population is still mainly dependent on agriculture for their living.

Rate of growth of Industry has come down from 25.14 *per cent* in 2007-08 to 10.83 *per cent* in 2011-12. However, contribution of industry towards GSDP remained between 26.05 *per cent* and 28.30 *per cent* during 2007-12.

Rate of growth of Service Sector came down from 15.52 *per cent* in 2007-08 to 8.60 *per cent* in 2011-12. However, its contribution towards GSDP remained between 40.28 and 42.30 *per cent* during the period 2007-12.

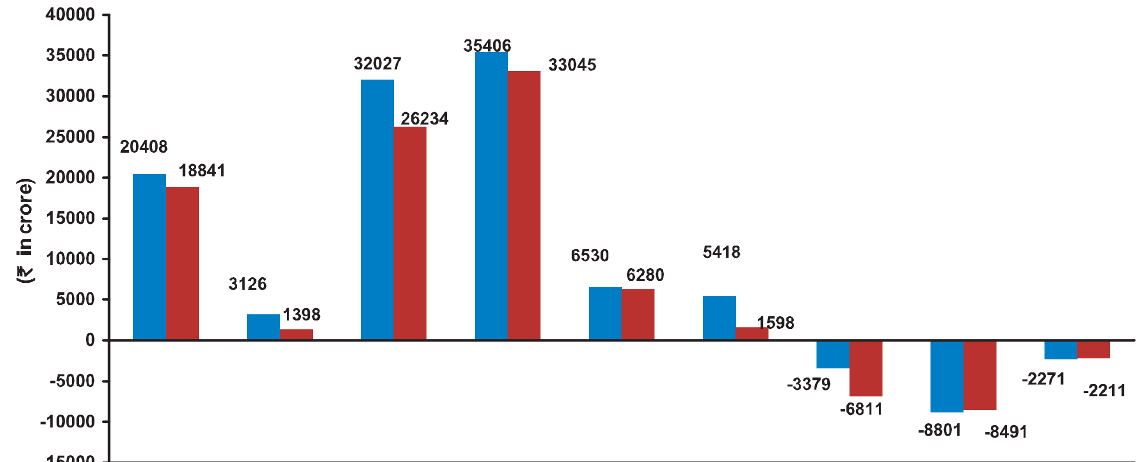
Thus, rate of growth of various sectors is coming down year by year whereas contribution of various sectors towards GSDP remained almost stagnant.

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 the Controlling Officers on 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 the actual figures of various fiscal parameters and receipts and expenditure heads are given in ***Appendix 1.6.*** The budgeted and the actual figures of selected fiscal parameters are given in **Chart 1.1.**

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 2011-12	20408	3126	32027	35406	6530	5418	-3379	-8801	-2271
Actuals 2011-12	18841	1398	26234	33045	6280	1598	-6811	-8491	-2211

The revenue deficit at ₹ 6,811 crore increased by ₹ 3,432 crore (101.57 *per cent*) whereas the fiscal deficit and primary deficit at ₹ 8,491 crore, ₹ 2,211 crore respectively decreased by ₹ 310 crore (3.52 *per cent*) and ₹ 60 crore (2.64 *per cent*) respectively over the budget estimates of the current year. Total revenue receipts decreased by ₹ 5,793 crore (18.09 *per cent*) over the budget estimates of the current year. There was huge difference between the budgeted and actual figures of non-tax revenue. Actual receipts under non-tax revenue amounted to only 44.72 *per cent* of budgeted receipts. The capital expenditure incurred during 2011-12 amounted to only 29.49 *per cent* of budgeted capital expenditure which indicates that asset creation was not given as much priority as intended in the budget estimates. Variations between the budget estimates and actuals 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 during 2011-12

(₹ in crore)

S. No.	Revenue head	Budget estimates	Actual receipts	Variations increase (+) Shortfall (-)	Percentage
	Tax revenue				
1	Taxes/VAT on sales, trade etc.	11800.00	11171.67	-628.33	-5.32
2	Sate excise	3250.00	2754.60	-495.40	-15.24
3	Stamp duty and registration fees	2900.00	3079.13	179.13	6.18
4	Taxes on vehicles	800.00	850.06	50.06	6.26
5	Taxes and duties on electricity	1400.00	928.28	-471.72	-33.69
6	Land revenue	19.00	24.65	5.65	29.74
7	Other taxes and duties on commodities and services including entertainment tax	238.70	32.62	-206.08	86.33
	Non- tax revenue				
1	Road transport	133.00	183.35	50.35	37.86
2	Forestry and Wild Life	32.00	5.22	-26.78	-83.69
3	Interest receipts	176.62	170.16	-6.46	-3.66
4	Medium irrigation	1.51	4.08	2.57	170.20
5	Major irrigation	297.91	21.11	-276.80	-92.91
6	Crop husbandry	35.00	31.59	-3.41	-9.74
7	Miscellaneous general services	1657.10	323.72	-1333.38	-80.46
8	Police	78.00	51.91	-26.09	-33.45
9	Public works	23.00	15.83	-7.17	-31.17

Source: Finance Accounts and Annual Financial Statement

The actual receipts were more than the budget estimates by 170.20 *per cent* in the case of Medium irrigation whereas the actual receipts were lower than the budget estimates in case of Major irrigation (92.91 *per cent*), Other taxes and duties on commodities and services (86.33 *per cent*), Forestry and Wild Life (83.69 *per cent*), Miscellaneous general services (80.46 *per cent*), Taxes and duties on electricity (33.69 *per cent*), Police (33.45 *per cent*) and Public works (31.17 *per cent*).

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

The Additional Secretary to Government of Punjab, Department of Revenue stated (July 2012) that income from Stamp duty and registration fee on account of market value of the properties cannot be anticipated with exactness. This varies with the number and quantum of transactions.

The Chief Electricity Inspector, Patiala stated (September 2012) that the decrease of 33.69 *per cent* for the year 2011-12 was due to non-deposit of electricity duty by Powercom/Electricity Department in the Punjab Government Account.

The Controller (Finance and Accounts), office of the Director General of Police, Punjab stated (July 2012) that the variation between estimates and actual for the year 2011-12 is due to non-payment of deployment charges by other states/departments.

The Director of Agriculture, Punjab stated (September 2012) that the decrease of 9.74 *per cent* for the year 2011-12 was due to less renewal of licenses for sale of fertilizer, plant protection equipment, pesticides and weedicides.

The other departments did not intimate (December 2012) the reasons for variations in receipts when compared to the budget estimates.

Thus, 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 Government of India (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 (para 1.2) 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 2007-12. **Chart 1.3** depicts the composition of receipts of the State during the current year.

Chart 1.2: Trends in components of the Receipts

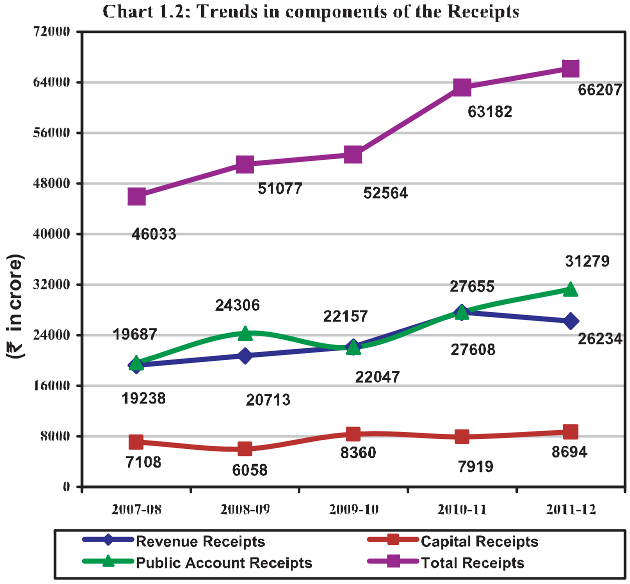


Chart 1.3: Composition of Receipts during 2011-12
(₹ in crore)

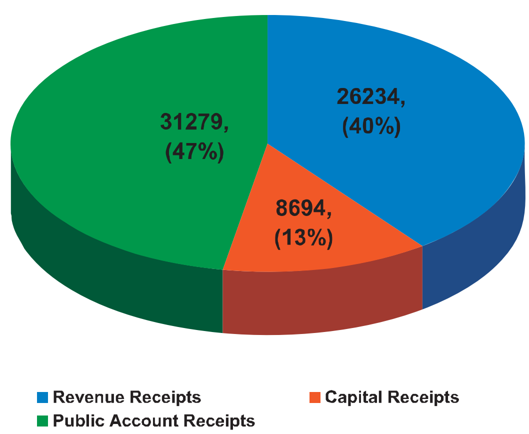


Chart 1.2 shows that out of the total receipts of ₹ 66,207 crore in the year 2011-12, the revenue receipts were ₹ 26,234 crore. The balance came from capital receipts and Public Account receipts. The total receipts of the State increased from ₹ 46,033 crore in 2007-08 to ₹ 66,207 crore in 2011-12.

Chart 1.3 shows that out of the total receipts of ₹ 66,207 crore, the Revenue receipts were ₹ 26,234 crore (39.63 *per cent),* Public Account receipts were ₹ 31,279 crore (47.24 *per cent)* and the Capital receipts of ₹ 8,694 crore accounted for 13.13 *per cent.*

1.3.2 Non-deposit of revenue receipts into the Consolidated Fund of the State

Article 266 (1) of the Constitution of India provides that all revenues received by the State Government, all loans raised by the Government by the issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one Consolidated Fund to be entitled “the Consolidated Fund of the State”.

The Thirteenth Finance Commission also expressed concern over the tendency to divert public expenditure from the budget to nominated funds which are operated outside the authority of the legislature and recommended that the expenditure incurred through these irregular arrangements not only bypassed the oversight of the State Legislature but also the audit of the Comptroller and Auditor General of India and hence should be discouraged.

The Government of Punjab established various funds as mentioned in ***Appendix 1.7*** through enactment of Acts/issuance of notifications. The revenue receipts collected under these Acts by various bodies were credited to these Funds. During 2011-12, revenue receipts amounting to ₹ 1,634.62 crore[1] were credited to these funds and an expenditure of ₹ 3,194.84 crore ***(Appendix 1.7)*** was incurred from the accumulated receipts of these funds which is in violation of the constitutional provisions. Since these funds are neither part of annual budget proposals nor are their expenditure reported to the Pr. Accountant General (A&E), the legislature has no opportunity to exercise its oversight over such funds.

1.3.3 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 2011-12, ₹ 916.92 crore (3.50 *per cent* of revenue receipts) were released by the GoI directly to the implementing agencies (as detailed in **Table 1.4).**

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[1] **Total revenue receipts during the year do not include revenue receipts of Punjab Rural Development Fund as the same was not furnished by the Department.**

Table 1.4: Funds released directly to the State implementing agencies

(₹ in crore)

S.No.	Programme/Scheme	Implementing agency	2011-12
1	Mahatma Gandhi National Rural Employment Guarantee Scheme	Joint Development Commissioner, Rural Development, Punjab, SAS Nagar	48.77
2	Swaranjayanti Gram Swarozgar Yojana (SGSY)		9.79
3	Indira Awas Yojana (New Construction)		23.98
4	District Rural Development Agency (Administration)		12.34
5	Swarn Jayanti Shahri Rozgar Yojana	Deputy Director, Urban Local Bodies, Ludhiana	0.11
6	Member Parliament Local Area Development Scheme	Deputy Director, Urban Local Bodies, Amritsar, Bathinda, Ferozepur, Jalandhar, Ludhiana and Patiala.	4.12
7	National Rural Health Mission Reproductive Child Health-II	State Health Society- Director, Health and Family Welfare, Punjab, Chandigarh	65.01
8	National Rural Health Mission-Additionalities		92.70
9	National Programme for Control of Blindness		5.53
10	National Leprosy Eradication Programme		0.45
11	Revised National Tuberculosis Control Programme		6.39
12	Sarv Shiksha Abhiyan	Director, Sarv Shiksha Abhiyan, Punjab, Chandigarh	481.12
13	Pradhan Mantri Gram Sadak Yojana	Punjab Roads and Bridges Development Board, SAS Nagar.	166.61
		Total	**916.92**

Source: Finance Accounts

It is evident from the above table that there is no single agency monitoring the funds directly transferred by Government of India and data is not readily available as to how much money has actually been spent in a particular year on major flagship programmes and other important schemes which are being implemented by State implementing agencies and funded directly by the GoI. On this being pointed out (October 2012), the Finance Department stated (November 2012) that the funds were released directly by GoI and as such the State Government had no control over the manner GoI released the funds. *The funds released by Government of India directly to the State implementing agencies need to be monitored by appointing a nodal agency.*

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 the GoI. The trends and composition of revenue receipts over the period 2007-12 are presented in Time Series data on State Finances in ***Appendix 1.8*** and also depicted in **Charts 1.4** and **1.5**.

The trends in revenue receipts are presented in **Table 1.5.**

Table 1.5: Trends in Revenue receipts

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore) ***of which***	**19238**	**20713**	**22157**	**27608**	**26234**
Own Taxes	9899	11150	12040	16828	18841
Non-Tax Revenue	5254	5784	5653	5330	1398
Grants in aid from Government of India	2110	1695	2320	2399	2441
State's share of Union taxes and duties	1975	2084	2144	3051	3554
Rate of growth of RR (*per cent*)	-6.46	7.67	6.97	24.61	-4.98
Rate of growth of own taxes (*percent*)	9.78	12.64	7.98	39.77	11.96
RR/GSDP (*per cent*)	12.64	11.90	11.17	12.27	10.57
Buoyancy Ratios[2]					
Revenue buoyancy w.r.t. GSDP	-0.33	0.54	0.50	1.84	-0.48
State's own tax buoyancy w.r.t. GSDP	0.50	0.88	0.57	2.97	1.15
Revenue buoyancy w.r.t. State's own taxes	-0.66	0.61	0.87	0.62	-0.42
GSDP Growth rate (*per cent*)	19.76	14.31	13.99	13.40	10.37

Source: Finance Accounts

Chart 1.4: Trends in Revenue Receipts

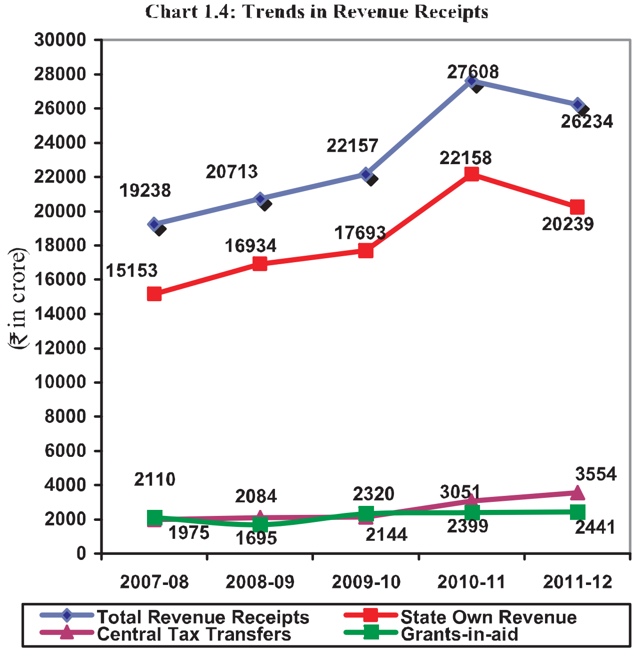
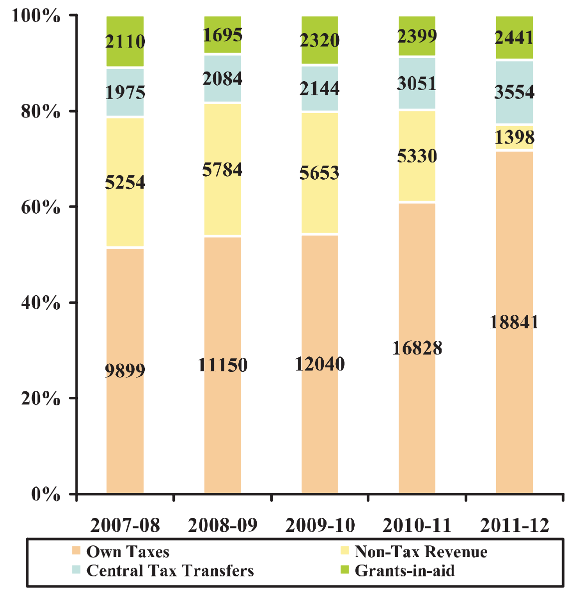


Chart 1.5: Composition of Revenue Receipts during 2007-12 (₹ in crore)



The revenue receipts increased from ₹ 19,238 crore in 2007-08 to ₹ 26,234 crore in 2011-12 at an annual average growth rate of 7.27 *per cent*. The ratio of revenue receipts to GSDP during the current year (10.57 *per cent*) decreased by 1.70 *per cent* when compared to the previous year. The revenue buoyancy with reference to GSDP increased from minus 0.33 in 2007-08 to 1.84 in 2010-11 and in 2011-12 it came down to minus 0.48. *The State's own tax buoyancy with reference to GSDP increased from 0.50 in 2007-08 to 1.15 in 2011-12.*

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

The State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, 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 decreased by ₹ 1,374 crore (4.98 *per cent*) in 2011-12 over the previous year which was due to decrease in non-tax revenue (₹ 3,932 crore: 73.77 *per cent*) as compared to previous year. *The revenue receipts at ₹26,234 crore were less by 18.09 per cent as compared to projections in the Fiscal Consolidation Roadmap for the State (FCR) (₹32,027 crore) for the year 2011-12 **(Appendix 1.5)**.* On this being pointed out (October 2012), the Finance Department stated (November 2012) that measures were being taken to mobilize additional revenue.

1.4.1 Tax revenue

As shown in **Table 1.6,** the increase in tax-revenue was mainly due to increase of ₹ 196 crore (29.97 *per cent*) and ₹ 761 crore (32.83 *per cent*) under the heads 'Taxes on Vehicles' and Stamps and registration fees'. The Additional State Transport Commissioner, Punjab stated (August 2012) that increase under the head 'Taxes on vehicles' was due to upward revision of Motor vehicle tax on personalized vehicles and on line collection of taxes and fees.

The Additional Secretary to Government of Punjab, Department of Revenue stated (July 2012) that the reason for shortfall in income from stamp duty and registration fee during the year 2010-11 as compared to the fiscal year 2011-12 was due to global recession in the real estate sector, as sale/purchase of properties was less in 2010-11.

Table 1.6: Tax revenue of current year vis-à-vis previous year

(₹in crore)

S. No.	Revenue head	2010-11	2011-12	Variation	Percentage
1	Taxes on Sales, Trade etc.	10017	11172	1155	11.53
2	State excise	2373	2755	382	16.10
3	Taxes on Vehicles	654	850	196	29.97
4	Stamps and registration fees	2318	3079	761	32.83
5	Taxes and duties on electricity	1423	928	-495	-34.79
6	Other tax revenue	43	57	14	32.56
Total Tax Revenue		**16828**	**18841**	**2013**	**11.96**

Source: Finance Accounts

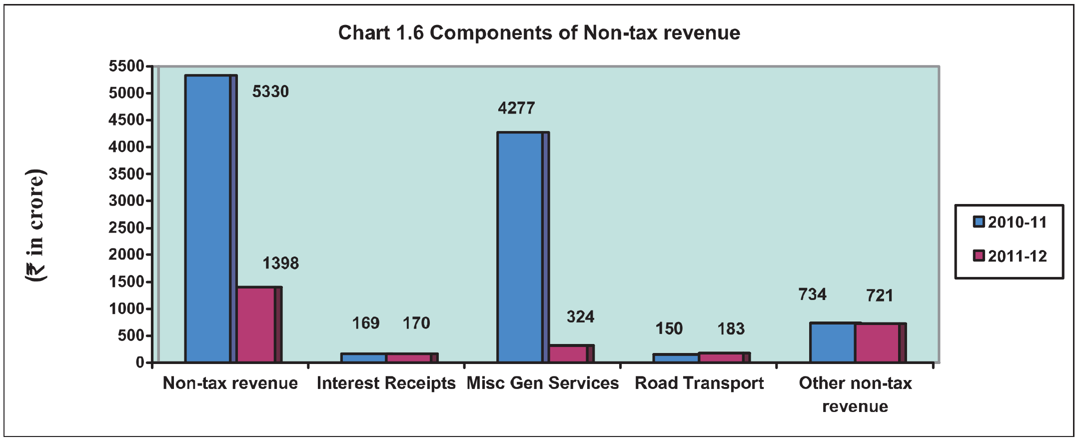
The State's own tax revenue during the current year was ₹ 18,841 crore, which was less by ₹ 1,711 crore (8.33 *per cent)* compared to the norms of ₹ 20,552 crore fixed by ThFC and less by ₹ 1,567 crore (7.68 *per cent)* against ₹ 20,408 crore projected in the FCR for the State.

The share of Central transfers in revenue receipts increased from 10 to 14 *per cent* during the period 2007-12. It increased by three *per cent* during the current year over the previous year. The share of grants-in-aid from GoI decreased from 11 *per cent* in 2007-08 to nine *per cent* in the current year.

1.4.2 Non-tax revenue

In the current year, the share of non-tax revenue in total revenue receipts came down sharply to five *per cent* from 19 *per cent* in the previous year as it came down from ₹ 5,330 crore in the previous year to meager ₹ 1,398 crore in the current year **(chart 1.6).** The percentage decrease in non-tax revenue during the current year was 73.77 *per cent* over the previous year.

The decrease in non-tax revenue was due to discontinuance of weekly lottery scheme which was a major contributor of revenue under the head Miscellaneous General Services. *Non-tax revenue was less by ₹2,130 crore (60.37 per cent) than projections made in the ThFC (₹3,528 crore) and by ₹1,728 crore (55.28 per cent) than those in FCR (₹3,126 crore).*

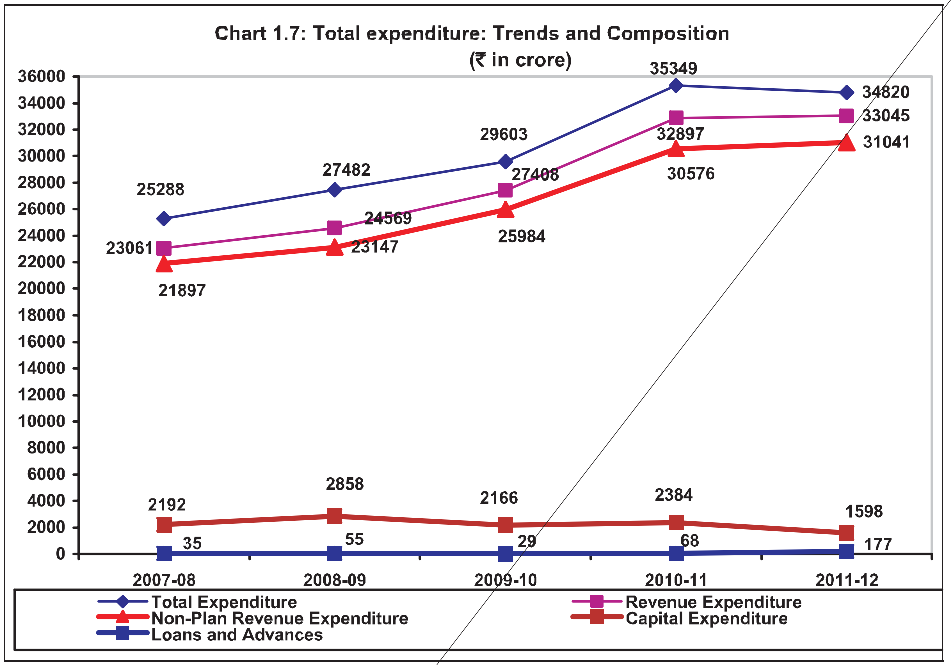


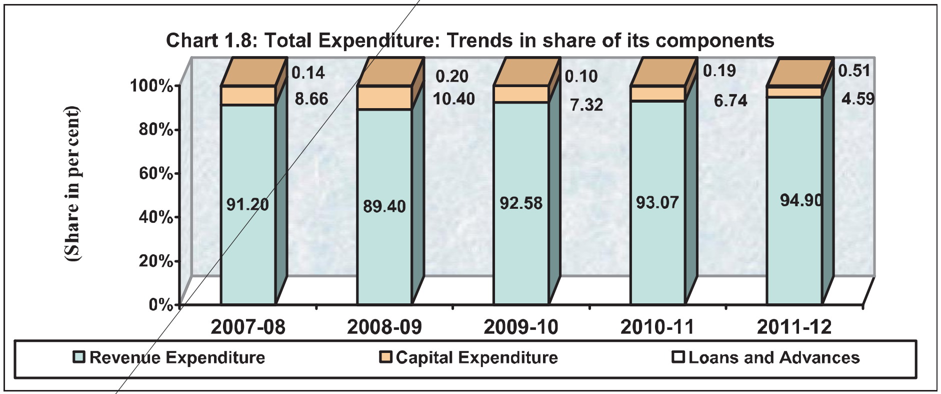
1.5 Application of resources

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 1.7 presents the trends of total expenditure over a period of five years (2007-12). Its composition in terms of 'economic classification' is depicted in **Chart 1.8.**





The Government raises resources to perform their sovereign functions, to maintain the existing nature of delivery in social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased by 37.69 *per cent* from ₹ 25,288 crore in 2007-08 to ₹ 34,820 crore in 2011-12. It decreased by ₹ 529 crore (1.50 *per cent)* over the previous year. The revenue expenditure increased by ₹ 148 crore (0.45 *per cent*), the capital expenditure decreased steeply by ₹ 786 crore (32.97 *per cent*) and disbursement of loans and advances increased by ₹ 109 crore (160.29 *per cent*) during the current year over the previous year.

Similarly, the non-plan revenue expenditure (NPRE) at ₹ 31,041 crore in 2011-12 increased by ₹ 465 crore (1.52 *per cent)* as compared to the previous year. The NPRE also exceeded the normative assessment made by ThFC at ₹ 24,627 crore by 26.04 *per cent.*

The movement of relative share of various components of expenditure **(Table 1.7)** indicates that the share of General Services in total expenditure increased from 51.52 *per cent* in 2007-08 to 53.14 *per cent* in 2010-11 and came down to 48.78 *per cent* during the current year, Social Services increased from 19.07 to 27.70 *per cent* and Economic Services decreased from 27.86 to 20.87 *per cent* during the same period. The development expenditure i.e. 'expenditure on social and economic services' together remained between 45 and 49 *per cent* during the period 2007-12.

Table 1.7: Components of Expenditure – Relative Share

(in per cent)

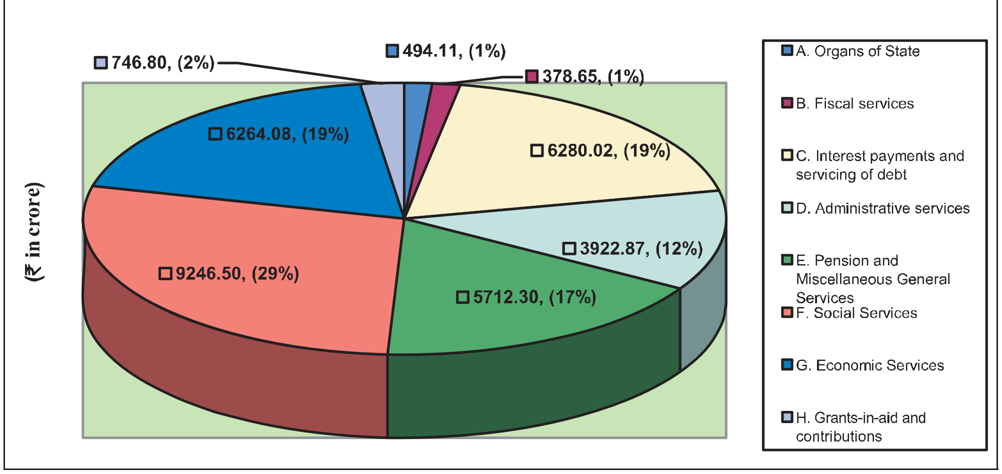
	2007-08	2008-09	2009-10	2010-11	2011-12
General Services	51.52	51.74	52.87	53.14	48.78
Of which Interest payments	*17.90*	*17.84*	*16.93*	*15.60*	*18.04*
Social Services	19.07	24.12	23.36	22.42	27.70
Economic Services	27.86	22.82	22.16	22.45	20.87
Grants-in-aid	1.41	1.13	1.51	1.81	2.15
Loans and Advances	0.14	0.20	0.10	0.19	0.51

Source: Finance Accounts

The revenue expenditure continued to constitute a dominant proportion (89 to 95 *per cent*) of the total expenditure during the years 2007-12 **(Chart 1.8 and *Appendix 1.8*)**. During this period, it grew at an annual average growth rate of 8.66 *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 2007-12 ***(Appendix 1.8)***. On this being pointed out (October 2012), the Finance Department stated (November 2012) that efforts were being made to curtail expenditure.

The revenue expenditure increased by ₹ 148 crore (0.45 *per cent*) over the previous year. The increase was mainly under 'General Education' (₹ 1,140.58 crore: 28.94 *per cent*), 'Interest Payments' (₹ 764.91 crore: 13.87 *per cent*), 'Police' (₹ 568.97 crore: 24.90 *per cent*) and 'Pensions and other Retirement benefits' (₹ 347.89 crore: 6.55 *per cent*), partly offset by decline under the heads 'Miscellaneous General Services' (₹ 3,745.97 crore: 98.55 *per cent*), 'Crop Husbandry' (₹ 372.35 crore: 63.08 *per cent*) and 'Power' (₹ 175.48 crore: 5.20 *per cent*). *The revenue expenditure was less by ₹2,361 crore (6.67 per cent) than the projections in FCR (₹35,406 crore) for the year 2011-12.* The sector-wise distribution of revenue expenditure is shown in **Chart 1.9**:-

Chart 1.9: Sectoral distribution of revenue expenditure



The Capital Expenditure (CE) decreased from 8.66 *per cent* of the total expenditure in 2007-08 to 6.74 *per cent* in 2010-11 and further to 4.59 *per cent* in 2011-12. During the current year the CE decreased by ₹ 786 crore (32.97 *per cent*) over the previous year and it was 0.64 *per cent* of the GSDP as against 1.06 *per cent* of the previous year. The decrease was mainly under capital outlay on Command Area Development (₹ 201.09 crore: 100 *per cent*), 'Roads and Bridges' (₹ 180.65 crore: 31.86 *per cent*), Urban Development (₹ 150.96 crore: 43.63 *per cent*), 'Other Rural Development Programme' (₹ 113.72 crore: 37.42 *per cent*) and 'Education, Sports, Art and Culture' (₹ 106.65 crore: 42.07 *per cent*). *The CE during the current year was only 29.49 per cent of the projections made in the FCR (₹5,418 crore). This shows that due priority was not accorded to CE.*

On this being pointed out (October 2012), the Finance Department stated (November 2012) that in order to compensate low CE, funds like PIDB and RDF had been constituted exclusively for capital projects. The reply is not convincing as neither the department disclosed the extent to which these funds had helped to compensate the low CE nor the Audit could verify the position as these funds had been established outside the Consolidated Fund of the State and thus bypassed the audit of the C&AG, as discussed in ***para 1.3.2.***

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 2007-12.

Table 1.8: Trends in components of committed expenditure

(₹ in crore)

Sr. No	Components of committed expenditure	2007-08	2008-09	2009-10	2010-11	2011-12 Budget Estimate	2011-12 Actuals
1	Salaries and Wages$, of which	6379 (33)	6835 (33)	8225 (37)	9750 (35)	12663 (40)	12403 (47)
	Under Non-Plan Head	*6244*	*6677*	*8034*	*9525*	*12333*	*12081*
	*Under Plan Head**	*135*	*158*	*191*	*225*	*330*	*322*
2	Interest Payments	4527 (24)	4902 (24)	5011 (23)	5515 (20)	6530 (20)	6280 (24)
3	Pensions	2433 (13)	2830 (14)	3357 (15)	5309 (19)	4822 (15)	5657 (22)
4	Subsidies	3021 (16)	2806 (14)	2919 (13)	3480 (13)	3407 (11)	3215 (12)
	Total Committed expenditure	**16360**	**17373**	**19512**	**24054**	**27422**	**27555**
	Total Revenue expenditure #	**23061**	**24569**	**27408**	**32897**	**35406**	**33045**
	Revenue Receipts	**19238**	**20713**	**22157**	**27608**	**32027**	**26234**

Source: Finance Accounts

(Figures in parentheses indicate percentage to Revenue Receipts)

**** Plan Head includes Centrally sponsored schemes***

$ Salaries (2011-12): ₹ 12203.99 crore + Wages (2011-12): ₹ 198.65 crore

 # includes expenditure other than committed expenditure

Salaries and Wages

Table 1.8 shows that the expenditure on salaries and wages increased from 33 *per cent* of revenue receipts in 2007-08 to 47 *per cent* in 2011-12 and it increased by ₹ 2,653 crore (27.21 *per cent*) in 2011-12 over the previous year.

Table 1.9: Committed expenditure vis-à-vis targets during 2011-12

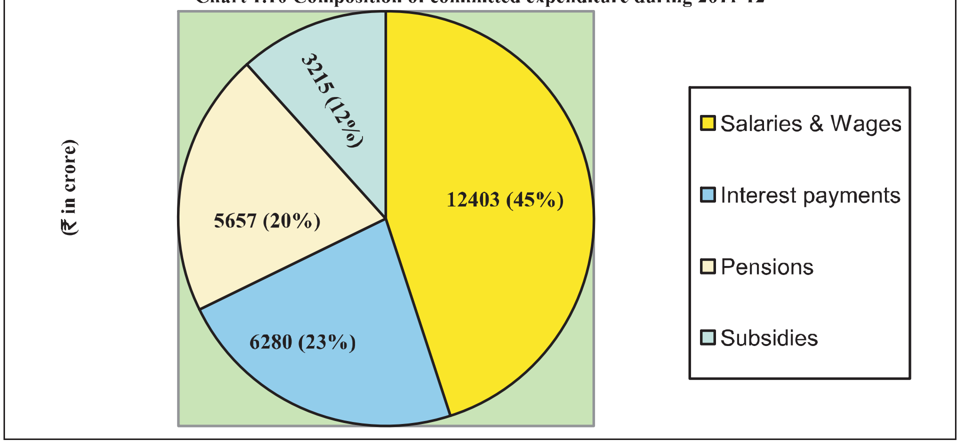
(₹ in crore)

Item	ThFC	FCR for State	2010-11	2011-12	
				Budget estimates	Actuals
Salaries	9278	11067	9589	12417	12204
Interest payments	6074	6530	5515	6530	6280
Pensions	4024	4822	5309	4822	5657
Subsidies	-	-	3480	3407	3215
of which Power subsidy	-	*3020*	*3376*	*3207*	*3200*

Source: Figures of actual expenditure from Finance Accounts

Table 1.9 shows that although the expenditure on salaries increased during the current year over the previous year yet it remained less than the budget estimates (₹ 12,417 crore). The expenditure on salaries was ₹ 12,204 crore exceeding the norm of ₹ 9,278 crore as envisaged by ThFC as well as target of ₹ 11,067 crore fixed under fiscal consolidation roadmap for the State.

Chart 1.10 Composition of committed expenditure during 2011-12



Out of total revenue expenditure of ₹ 33,045 crore, ₹ 27,555 crore (83 *per cent*) were spent on committed expenditure which was 79.13 *per cent* of total expenditure. The average ratio of committed expenditure to GSDP has been 10.47 *per cent* during the period 2007-08 to 2011-12. **Chart 1.10** shows that 65 *per cent* of the total committed expenditure was spent on Salaries & Wages (45 *per cent*) and Pensions (20 *per cent*).

Chart 1.11 Component of Interest Payments during 2010 11 (₹ in crore)

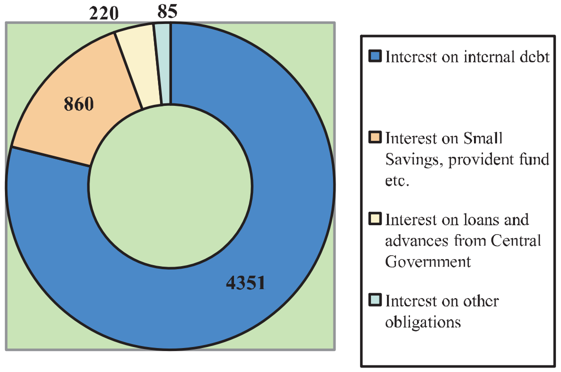
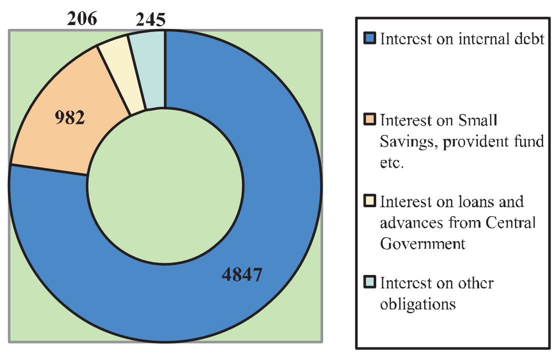


Chart 1.12 Component of Interest Payments during 2011 12 (₹ in crore)



Interest payments

The interest payments increased by 13.87 *per cent* from ₹ 5,515 crore in 2010-11 to ₹ 6,280 crore in 2011-12 and consumed 24 *per cent* of revenue receipts which was mainly due to increase of ₹ 496 crore (11.40 *per cent*) under 'Interest on internal debt' as shown in **Charts 1.11 and 1.12.** *It was higher than the projection of ₹6,074 crore made by ThFC, whereas it was within budget estimates (₹6,530 crore) and FCR of State (₹6,530 crore) for the year 2011-12.*

Subsidies

The subsidies during the current year decreased by ₹ 265 crore (7.61 *per cent*) over the previous year. The actual expenditure on subsidies (₹ 3,215 crore) was less than the projection made in the BE (₹ 3,407 crore). However, expenditure on power subsidy was excess by ₹ 180 crore as compared to projections made in FCR (₹ 3,020 crore).

*Analysis of the committed expenditure **(Table 1.8)** of the State Government revealed that interest payments and subsidies together constituted 29 per cent of the total revenue expenditure and consumed 36 per cent of the revenue receipts.*

Pension payments

The pension payments recorded a growth of ₹ 348 crore (6.55 *per cent*) during the current year over the previous year. *The expenditure at ₹5,657 crore during 2011-12 was higher than the projection made by the Government in its FCR (₹4,822 crore), envisaged by ThFC (₹4,024 crore) and BE (₹4,822 crore).*

The State Government introduced a new Contributory Pension Scheme in December, 2006 to cover all employees who entered Punjab Government Service against the categories mentioned in Rule 1.2 of Punjab Civil Service Rules, Volume-I Part-I on or after 1 January, 2004. Under this scheme, contribution at the rate of 10 *per cent* of his basic pay plus Dearness Allowance will be recovered from the salary of the employees and matching contribution paid by the Government will be invested in a pension fund regulated by Pension Fund Regulatory and Development Authority. At the time of exit, the Government employee will have to invest 40 *per cent* of pension wealth to purchase an annuity from an Insurance Regulatory Development Authority regulated Life Insurance Company which will provide for pension for the life time of the employee and his dependents.

The Government of Punjab established (July, 2010) Principal Accounts Office (New Pension Scheme), headed by the Deputy Director (Pension) for implementation of New Pension Scheme. **Table 1.10** shows the year-wise detail of employees' contribution collected, amount of matching contribution contributed by the Government and amount transferred to the Fund Managers for investment in pension fund.

Table 1.10: Detail of employees' contribution collected alongwith State's matching contribution and funds transferred to the Fund Managers

(₹ in crore)

Year	Amount of employees contribution collected	Matching contribution contributed by the Government	Total	Amount transferred to the Fund Managers
(1)	(2)	(3)	(4)=(2)+(3)	(5)
2008-09	33.59	33.59	67.18	-
2009-10	40.67	40.67	81.34	-
2010-11	54.06	54.06	108.12	3.44
2011-12	103.40	103.40	206.80	135.82
Total	**231.72**	**231.72**	**463.44**	**139.26**

Source: Departmental records

The balance amount (₹ 324.18 crore) is lying in the State Public Account on which the Government had paid ₹ 49.31 crore as interest to the employees covered under the scheme. On this being pointed out (October 2012), the Finance Department stated (November 2012) that care would be taken to release funds at the time of registration of employees under the New Pension Scheme. The reply is not in consonance with the audit observation as it did not explain reasons for non-transfer of the amount already lying in State Public Account.

The Thirteenth Finance Commission recommended (November 2010) a grant of ₹ 10 crore to assist states to build the database of their employees and pensioners which should be integrated with an electronic payroll and pension payment system to facilitate error free and real time updates. Out of this, the states were to draw ₹ 2.50 crore during 2010-11. The balance amount of ₹ 7.50 crore was to be released after the creation of database. The ThFC recommended to complete this database in three years i.e. by 2012-13.

Out of ₹ 2.50 crore released by the GoI for this purpose, the Deputy Director (Pension) drew (June 2012) only ₹ 50 lakh and kept these funds in a bank account opened in the name of *'Data Base Cell'*. As regards progress of work, the Deputy Director (Pension) intimated (September 2012) that matter regarding preparation of database and its functional integration with the treasury is under consideration with higher authorities.

The Punjab Government should ensure speedy transfer of amount of employees' contribution alongwith the State's matching contribution to the Fund Manager so as to relieve the State exchequer of the burden of interest.

1.5.3 Financial assistance to the local bodies/other institutions

The Seventy-third and Seventy-fourth amendment of Constitution of India gave constitutional status to the Local Self Government Institutions. The constitutional amendments established a system of uniform structure, regular election, regular flow of funds etc. for these institutions.

The State Government enacted the Punjab Panchayati Raj Act, 1994 to establish a three-tier Panchayati Raj system in the State of Punjab with elected bodies at the village, block and district levels, in keeping with the provisions of the Constitution (Seventy-third Amendment) Act, 1992 for greater participation of the people and more efficacy of rural development and Panchayati Raj system.

The Urban Local Bodies (ULBs) in Punjab are governed by the Punjab Municipal Act (PMA), 1911 and the Punjab Municipal Corporation Act (PMCA), 1976. These were amended in 1994 to bring the two Acts in conformity with the Constitution (74^{th} Amendment) Act, 1992.

The 73^{rd} and 74^{th} Constitutional Amendment Acts, 1992 supplemented by legislation/resolutions in the State in 1994 changed the structure of governance permanently to three-tier system in local bodies. The classification of local bodies in State of Punjab is as follows:

Table 1.11: Classification of local bodies in Punjab

Category of local body	Panchayati Raj Institutions (PRIs)			Urban Local Bodies (ULBs)		
Name of the local body	Zila Parishad	Panchayat Samities	Gram Panchayats	Municipal Corporation	Municipal Council	Nagar Panchayats
Number of local bodies as on 31.03.2012	20	141	12775	5	102	33

Source: Departmental records

The local bodies in Punjab are responsible for the implementation of various centrally sponsored and state funded schemes for poverty alleviation, employment generation, sanitation, capacity building, women's social and economic empowerment, apart from provision of basic amenities and services.

The main sources of income are grant-in-aid from Government, percentage of state net tax collection & share of auction money and excise duty from state, compensation for abolished octroi, donation, taxes, duties, cess and fees, fines and penalties, income from village common lands, and sale proceeds of dust, dirt and dung, etc.

The Examiner, Local Fund and Accounts, Punjab is the statutory auditor of Local Bodies. However, in view of the recommendations of ThFC, Punjab Government entrusted (August 2011) the test audit of the ULBs and PRIs to the Comptroller and Auditor General of India (CAG) under Section 20(1) of CAG (Duties, Powers and Conditions of Service) Act, 1971 and also for providing technical guidance and support over the work of the Examiner, Local Fund and Accounts, Punjab.

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 1.12.**

Table 1.12: Financial assistance to local bodies, etc.

(₹ in crore)

Institutions	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities etc.)	454.93	452.12	748.02	683.84	826.80	905.58
Municipal corporations and Municipalities	28.75	1.93	18.87	155.05	80.00	71.90
Zila Parishads and Other Panchayati Raj Institutions	145.11	73.34	116.93	87.02	638.89	131.48
Development Agencies	2.77	28.21	10.41	3.59	32.17	0.43
Hospitals and Other Charitable Institutions	62.19	55.00	46.45	63.27	86.53	90.14
TOTAL	**693.75**	**610.60**	**940.68**	**992.77**	**1664.39**	**1199.53**
Assistance as percentage of revenue expenditure	3.01	2.49	3.43	3.62	4.70	3.63

Source: Finance Accounts

The financial assistance to the local bodies and other institutions increased from ₹ 693.75 crore in 2007-08 to ₹ 1,199.53 crore in 2011-12. The increase of ₹ 206.76 crore (20.83 *per cent*) over the previous year was mainly due to increase in assistance to the Educational Institutions (₹ 221.74 crore: 32.43 *per cent*), Zila Parishads & other Panchayati Raj Institutions (₹ 44.46 crore: 51.09 *per cent*) and Hospitals and other charitable institutions (₹ 26.87 crore: 42.47 *per cent*) partly offset by decrease in financial assistance to Municipal Corporations and Municipalities (₹ 83.15 crore: 53.63 *per cent*).

Against the total budget provision of ₹ 1,664.39 crore during 2011-12, financial assistance of ₹ 1,199.53 crore was released. In case of Zila Parishads and other Panchayati Raj Institutions, decrease in the actual release vis-à-vis the BE was ₹ 507.41 crore (79.42 *per cent*). This decrease was due to non-release of any grant to PRIs against the recommendations of third State Finance Commission. Decrease of ₹ 31.74 crore (98.66 *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 3.63 *per cent* of the revenue expenditure during 2007-12.

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 1.13,** the fiscal priority of the State Government with regard to development expenditure, expenditure on social sector and capital expenditure etc. is shown.

Table 1.13: Fiscal Priority of the State in 2008-09 and 2011-12

(In per cent)

Fiscal Priority	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average* (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Punjab (Ratio) 2008-09	15.79 (92.88)	47.05 (70.13)	24.12 (70.36)	10.40 (63.15)	11.82 (76.70)	3.10 (78.09)
General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Punjab (Ratio) 2011-12	14.02 (87.13)	48.94 (73.66)	27.70 (75.75)	04.59 (34.64)	15.61 (90.86)	4.59 (106.74)

**General category (GC) States represents States other than 11 states termed as Special Category States (Arunachal Pradesh, Assam, Jammu & Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttranchal). Average of General Category States has been calculated on the basis of figures provided by 16 GC States (excluding Delhi, Goa and Puducherry).*

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure

 # Development Expenditure comprises Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Figures in parenthesis indicate percentage to General Category States Average.

Source: Finance Accounts and for GSDP, the information was collected from the Economic and Statistical Organisation, Punjab

From the **Table 1.13,** it is clear that during the years 2008-09 and 2011-12:

- Public expenditure as indicated by the ratio of aggregate expenditure to GSDP was lower in 2008-09 in the state as compared to the General Category States Average and the trend continues in the year 2011-12. The ratio of expenditure incurred by Punjab to the General Category States Average has come down from 92.88 *per cent* in 2008-09 to 87.13 *per cent* in 2011-12 which indicates that gap between expenditure by Punjab and General Category States Average is widening.

- 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, lower priority was given to the Development expenditure, as lower proportion of the aggregate expenditure as compared to General Category States Average was spent under this head. However, the ratio of expenditure incurred by Punjab to the General Category States Average has gone up from 70.13 *per cent* in 2008-09 to 73.66 *per cent* in 2011-12.

- Similarly, lower priority had been given to the expenditure in Social Sector as lower proportion of aggregate expenditure was spent on this sector as compared to the General Category States in the country. However, priority to expenditure on education and health, which are main constituents of Social Sector, has improved during the year 2011-12. In the case of education, the ratio of expenditure incurred by the Government of Punjab with General Category States Average has gone up from 76.70 *per cent* in 2008-09 to 90.86 *per cent* in 2011-12 whereas in the case of health, higher proportion (106.74 *per cent*) of aggregate expenditure was spent by the Government of Punjab as compared to General Category States Average.

- 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 General Category States Average. The ratio of expenditure incurred by Punjab to the General Category States Average has come down from 63.15 *per cent* in 2008-09 to 34.64 *per cent* in 2011-12 which indicates that gap between expenditure by Punjab and General Category States Average is widening.

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[3]. 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.

Table 1.14: Development expenditure

(₹ in crore)

Components of Development expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Total Development expenditure (a to c)	**11878 (46.97)**	**12929 (47.04)**	**13476 (45.52)**	**15890 (44.95)**	**22129 (54.09)**	**17042 (48.94)**
a. Development Revenue expenditure	9812 (38.80)	10227 (37.21)	11436 (38.63)	13660 (38.64)	16908 (41.33)	15511 (44.54)
b. Development Capital expenditure	2056 (8.13)	2671 (9.72)	2041 (6.89)	2199 (6.22)	5174 (12.65)	1402 (4.03)
c. Development Loans and Advances	10 (0.04)	31 (0.11)	0 (Nil)	31 (0.09)	47 (0.11)	129 (0.37)

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

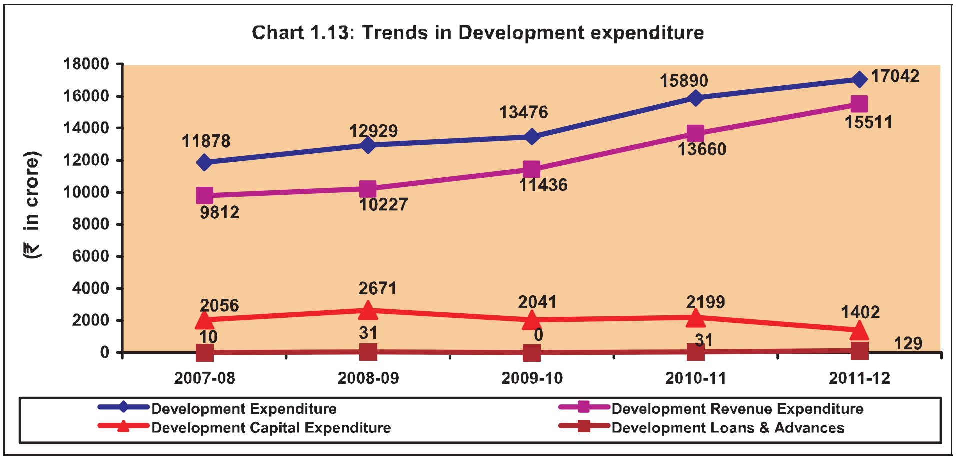


Table 1.14 and **Chart 1.13** show that the total development expenditure increased by ₹ 5,164 crore (43.48 *per cent*) during 2007-12 and by ₹ 1,152 crore (7.25 *per cent*) during the current year over the previous year.

3 **Please see the glossary (Appendix 4.1)**

The development revenue expenditure increased consistently from ₹ 9,812 crore in 2007-08 to ₹ 15,511 crore in 2011-12. The development revenue expenditure increased by ₹ 1,851 crore (13.55 *per cent*) during the current year over the previous year, whereas it was less by ₹ 1,397 crore (8.26 *per cent*) when compared with the BE of the State for the year 2011-12.

The development capital expenditure decreased from ₹ 2,056 crore in 2007-08 to ₹ 1,402 crore in 2011-12. It decreased by ₹ 797 crore (36.24 *per cent*) during the current year over the previous year and was less by ₹ 3,772 crore (72.90 *per cent*) as compared to the BE. The less development capital expenditure during 2011-12 as compared to 2007-08 implies that the State Government was giving less priority to capital expenditure for development as only 4.03 *per cent* of the aggregate expenditure as against 8.13 *per cent* in 2007-08 was incurred on development capital expenditure.

Table 1.15: Expenditure on selected Social and Economic Services vis-à-vis respective total expenditure

(In per cent)

Social/Economic Infrastructure	2010-11		2011-12	
	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	3.84	80.57	2.26	81.78
Health and Family Welfare	3.27	88.19	2.98	86.87
WS, Sanitation, HUD	51.82	64.21	31.62	69.58
Total (SS)	**8.37**	**66.19**	**4.13**	**68.22**
Economic Services (ES)				
Agri. and Allied Activities	1.41	39.43	0.11	69.88
Irrigation & Flood Control	36.69	75.33	23.36	76.20
Power and Energy	0.00	0.02	0.00	0.02
Transport	53.41	34.96	36.36	30.38
Total (ES)	**19.36**	**25.13**	**13.81**	**29.37**
Total (SS+ES)	**13.87**	**46.95**	**8.29**	**52.53**

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 1.15 shows that in 2011-12, the ratio of the capital expenditure (CE) to total expenditure (TE) on the Social Services (SS) and the Economic Services (ES) decreased by 4.24 and 5.55 respectively over the previous year.

The share of salaries and wages components in revenue expenditure on SS increased from 66.19 to 68.22 *per cent* and in case of ES from 25.13 to 29.37 *per cent* during the current year over the previous year.

The combined ratio of CE to TE on SS and ES decreased by 5.58 during 2011-12 over the previous year, while the share of salaries & wages in revenue expenditure on SS and ES increased from 46.95 to 52.53 *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 level but also meet its capital expenditure/ investment including loans and advances. 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 ₹ 488.41 crore at the end of March 2012 showed that revenue realised from these projects during 2011-12 (₹ 16.30 crore) was only 3.34 *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses (₹ 287.47 crore). After meeting the direct working expenditure and interest charges (₹ 24.88 crore), the projects suffered a net loss of ₹ 296.05 crore.

Besides, Punjab Government has established 'Punjab Water Resources Management and Development Corporation Limited' which was incorporated in 1970 as a wholly owned Government Company to provide irrigation facilities to the farmers by installation of deep tubewells. The Company is presently engaged in installation, operation and maintenance of tubewells, sale of water to the farmers at the rates fixed by the State Government and lining of watercourses by executing the projects approved by the Government of India under the Command Area Development and Water Management Programme. As on 31 March 2012, investment of Government in the Company stood at ₹ 206.90 crore. Accumulated losses of the Company upto 2009-10 (upto which the accounts were finalized) were ₹ 79.57 crore.

As on 31 March 2012, water charges amounting to ₹ 476.50 crore (Department of Irrigation: ₹ 470.69 crore and Company: ₹ 5.81 crore) were in arrears.

1.7.2 Incomplete projects

The department-wise information pertaining to the incomplete projects as on 31 March 2012 is given in the **Table 1.16.**

Table 1.16: 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	9	59.52	Not available	27.91	Not available
	2	5.43	5.81	3.26	0.38
Irrigation Department	2	2485.81	Not available	318.97	Not available
	1	58.15	74.14	26.51	15.99
Public Works (B & R)	5	37.59	Not available	23.95	Not available
TOTAL	**19**	**2646.50**	**-**	**400.60**	**16.37**

Source: Finance Accounts

Out of three incomplete projects in the Irrigation Department, cost of one project namely 'Banur Canal System–Non-perennial to Perennial' was revised, which resulted in increase in the estimated cost by ₹ 15.99 crore (27.50 *per cent*).

There were 11 incomplete projects in the Water Supply and Sanitation Department on which an expenditure of ₹ 31.17 crore was incurred.

There are three incomplete infrastructural projects viz. 'Construction of high level bridge over Muradpur Drain, Widening and strengthening of Kartarpur to Kapurthala road' and 'Upgradation of Kohlian Bamial Pallah Road upto Jammu and Kashmir boundary' in PWD (B&R) Department.

The targeted year of completion of most of the incomplete projects was upto 2011-12 but the works have not been completed as of 31 March 2012. The reasons for non-completion of projects were called for (August 2012) from the Chief Engineers but no reply was received (December 2012).

Efforts should be made by the concerned departments to complete all the incomplete projects as early as possible, as ₹400.60 crore had already been spent on these incomplete projects and full benefits are yet to be realized.

1.7.3 Investment and return

(a) Investment

As of 31 March 2012, the Government of Punjab had invested ₹ 3,831.73 crore.

Table 1.17: Return on investment

Investment/return/cost of borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	3835.65	3841.36	3832.41	3831.96	3831.73
Return (₹ in crore)	0.40	0.78	0.91	0.62	1.73
Return (*per cent)*	0.01	0.02	0.02	0.02	0.05
Average rate of interest on Government Borrowing (*per cent*)	8.46	8.32	7.72	7.73	7.96
Difference between interest rate and return (*per cent*)	8.45	8.30	7.70	7.71	7.91

Source: Finance Accounts

As per statement 14 of the Finance Accounts, out of total amount invested (₹ 3,831.73 crore), ₹ 167.27 crore were invested in nine Statutory Corporations (four working and five non-working), ₹ 3,435.41 crore in 24 Government Companies (13 working and 11 non-working), ₹ 227.65 crore in 7653 Co-operative Banks and Societies and ₹ 1.40 crore in 15 Joint Stock Companies. The return on investment from Statutory Corporations, Cooperative Banks and Societies, Joint Stock Companies and Government companies was ₹ one crore (0.60 *per cent*), ₹ 42.04 lakh (0.18 *per cent*), ₹ 18.68 lakh (13.39 *per cent*) and ₹ 12.50 lakh (0.004 *per cent*) respectively aggregating to ₹ 1.73 crore (0.05 *per cent*). The return was between only 0.01 and 0.05 *per cent* during 2007-12, while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.72 and 8.46 *per cent* **(Table 1.17)** during the same period**.**

Out of four working Statutory Corporations/Boards, three were incurring losses and their accumulated losses amounted to ₹ 1,079.52 crore (upto the year 2009-10 and 2010-11 for which their accounts were finalized).

In 13 working Government Companies, ₹ 3,409.93 crore were invested. Out of these, five were incurring losses of ₹ 11,398.78 crore and eight companies have accumulated profits of ₹ 206.07 crore (up to 2007-08 to 2010-11 for which their accounts were finalized).

Out of four working Statutory Corporations and 13 working Government Companies, three Statutory Corporations and four Government Companies have negative net worth ***(Appendix 1.9)***.

The State Government may ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns to justify if high cost borrowings are worth being channelized there.

(b) Accounts

Section 210 of the Companies Act, 1956, read with sections 166 and 216 casts the duty on the Board of Directors of a Company to place the accounts alongwith auditor's report (including supplementary comments of the Comptroller and Auditor General of India (C&AG)) in the Annual General Meeting of the shareholders within six months of the close of its financial year.

Similarly, in the case of Statutory Corporations, their accounts are to be finalized, audited and presented to the Legislature as per the provisions of their respective Acts. Out of the four working Statutory Corporations, the C&AG is the sole auditor for the Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation. In respect of the Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by the Chartered Accountants and supplementary audit is conducted by the CAG.

Inspite of the above provisions in the Act, there were arrears in finalization of the accounts of the Government Companies and Corporations (PSUs) ***(Appendix 1.10)***. **Table 1.18** indicates the position of arrear in finalization of accounts of Public Sector Undertakings (PSUs) as of June 2012.

Table 1.18: Position of arrears in finalization of Accounts of PSUs

S. No.	Particulars	
1	Number of working PSUs	17
2	Number of working PSUs where accounts are in arrear	09
3	Number of accounts in arrear	13
4	Extent of arrear (Number of accounts)	1 to 3

Source: Finance Accounts

In the absence of accounts and their subsequent audit, it could not be ensured whether investment made and expenditure incurred had been properly accounted for and the purpose, for which the amount was invested, was achieved or not. Government's investment in the Companies, thus, remained outside the scrutiny of the State Legislature. Further, delay in finalization of the accounts may result in risk of fraud and leakage of public money, apart from violation of the provisions of the Companies Act, 1956.

Though the concerned Administrative Departments of the Government were informed half yearly, by Audit, of the arrears in finalization of accounts, no remedial measures were taken (December 2012).

The Government may set up a cell to oversee the clearance of arrears and set targets for individual companies which should be monitored by the cell.

1.7.4 Departmental commercial undertakings

Activities of quasi-commercial nature are performed by the Punjab Roadways, a departmental undertaking (Transport Department). ₹ 42.72 crore had been invested by the State Government in the Punjab Roadways upto 2000-01 (upto which its accounts were prepared) (Non-preparation of accounts by Punjab Roadways since 2001-02 has been commented upon in ***para 3.3*** of this Report). The Punjab Roadways had been incurring losses continuously for more than five years and its accumulated losses upto 2000-01 were ₹ 731.46 crore as against the total investment of ₹ 42.72 crore.

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 1.19** presents the position of outstanding loans and advances as on 31 March 2012, interest receipts vis-à-vis interest payments by the State Government on its borrowings during last four years.

Table 1.19: Position of outstanding loans and advances and interest received/paid

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2008-09	2009-10	2010-11	2011-12	
				BE	Actual
Opening Balance of loans outstanding	4123	4100	2853	-	2324
Amount advanced during the year	55	29	68	84	177
Amount recovered during the year	78	1276	597	80	95
Closing Balance of the loans outstanding	4100	2853	2324	-	2406
Interest received	46	42	51	-	40
Interest received as *per cent* to the outstanding Loans and Advances	1.12	1.47	2.19	-	1.66
Rate of Interest paid as *per cent* to the outstanding fiscal liabilities of the Government	8.32	7.72	7.73	-	7.96
Difference between the rate of, interest paid and interest received (*per cent*)	(-)7.20	(-)6.25	(-)5.54	-	(-)6.30

Source: Finance Accounts

During 2011-12, ₹ 177 crore were advanced as loans against the BE of ₹ 84 crore. Further, recovery of loans amounting to ₹ 95 crore was made against the BE of ₹ 80 crore. The interest receipt of ₹ 40 crore during the current year decreased by ₹ 11 crore (21.57 *per cent)* over the last year. While the interest payment during 2011-12 was 7.96 *per cent* of its outstanding fiscal liabilities, the interest received was only 1.66 *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 1.20 depicts the cash balances and investments made by the Government of Punjab out of the cash balances during the year 2011-12. Total investment out of cash balances during 2011-12 were ₹ 102.03 crore, major portion of which was in Government of India Securities (₹ 101.99 crore). On these investments, the Government earned interest of ₹ 9.95 crore during the current year. The cash balances at the close of the current year decreased from ₹ (-)118.16 crore of the previous year to ₹ (-)178.30 crore mainly due to increase in *minus* balance of Deposits with Reserve Bank of India from ₹ 694.28 crore to ₹ 729.82 crore. Huge amount of cash was lying with departmental officers. Had this amount been deposited into treasury the minus deposits would have reduced to that extent.

Table 1.20: Cash balances and investment of cash balances

(₹ in crore)

	Overall Cash Position of the Government	As on 31st March 2011	As on 31st March 2012	Increase(+)/ Decrease(-)
(A)	**General Cash Balances -**			
1	**Deposits with Reserve Bank of India**	**(-)694.28**	**(-)729.82**	**(-)35.54**
2	**Investment held in the Cash balance Investment Account (a to c)**	**102.03**	**102.03**	**0.00**
a.	GOI Treasury Bills	0.00	0.00	0.00
b.	GOI Securities	101.99	101.99	0.00
c.	Punjab State Power Corporation Bonds	0.04	0.04	0.00
2	**Total (A)**	**(-)592.25**	**(-)627.79**	**(-)35.54**
(B)	**Other Cash Balances and Investments -**			
1	Cash with departmental officers viz; Forest and Public Works	473.17	448.57	(-)24.60
2	Permanent advances for contingent expenditure with departmental officers	0.22	0.22	0.00
3	Investments of earmarked fund	0.70	0.70	0.00
	Total (B)	**474.09**	**449.49**	**(-)24.60**
	Total (A) and (B)	**(-)118.16**	**(-)178.30**	**(-)60.14**
	Interest realised on investment	**0.28**	**9.95**	**9.67**

Source: Finance Accounts

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

As per statement 6 of the Finance Accounts, ₹ 353.27 crore were outstanding as ways and means advances at the end of the year 2010-11. During 2011-12, the Government obtained ₹ 4,834.02 crore as ways and means advances from RBI on 84 occasions out of which ₹ 5,080.54 crore were re-paid during the year leaving a balance of ₹ 106.75 crore. ₹ 9.03 crore were paid as interest on these advances.

At the end of the year 2010-11, ₹ 14.56 crore were outstanding as shortfall/ overdraft. During 2011-12, the Government had availed shortfall of ₹ 7.80 crore on seven occasions and overdraft of ₹ 1,169.12 crore on 14 occasions. During the year, ₹ 1,191.48 crore were repaid leaving nil balance. ₹ 1.04 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[4] of the Government and the assets created out of the expenditure incurred. **Appendix 1.4–Part B** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position as on 31 March 2011. 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 2011-12, the assets grew by ₹ 1,521.45 crore (5.19 *per cent*) whereas the liabilities increased by ₹ 8,332.37 crore (11.12 *per cent*) over the previous year. The ratio of Financial Assets to Liabilities came down to 37.04 *per cent* in 2011-12 from 44.38 *per cent* in 2007-08 which was 39.12 *per cent* in the previous year which indicates that most of the debt was spent for purpose other than asset creation.

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, be 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 2007-12 are presented in **Table 1.21.**

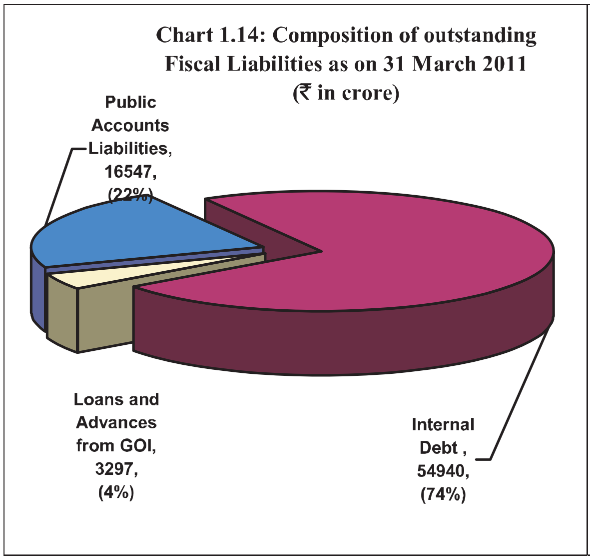
Table 1.21: Fiscal liabilities – Basic Parameters

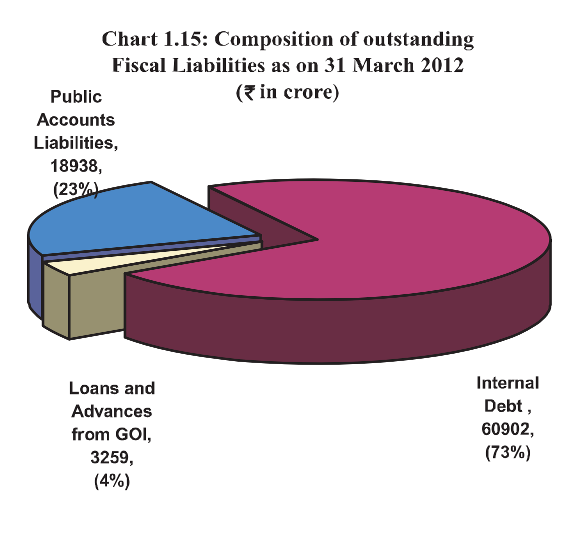
	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities (₹ in crore)	55982	61850	67967	74784	83099
Rate of Growth (*per cent*)	9.69	10.48	9.89	10.03	11.12
Ratio of Fiscal liabilities to					
GSDP (*per cent*)	36.77	35.54	34.26	33.24	33.47
Revenue receipts (*per cent*)	291.00	298.61	306.75	270.87	316.76
Own resources (*per cent*)	369.44	365.24	384.16	337.50	410.59
Buoyancy of Fiscal liabilities to					
GSDP (ratio)	0.49	0.73	0.71	0.75	1.07
Revenue receipts (ratio)	(-)1.50	1.37	1.42	0.41	-2.23
Own resources (ratio)	(-) 1.01	0.89	2.21	0.40	-1.28

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 1.14** and **1.15.**

4 **Please see the glossary (Appendix 4.1).**





The overall fiscal liabilities of the Government had been on the rise and it increased from ₹ 55,982 crore in 2007-08 to ₹ 83,099 crore in 2011-12. The Consolidated Fund liabilities (₹ 64,161 crore) comprised of internal debt of ₹ 60,902 crore and loans of ₹ 3,259 crore from GoI. The Public Account liabilities (₹ 18,938 crore) comprises of small savings, Provident fund (₹ 12,997 crore) and interest bearing obligations and non-interest bearing obligations like deposits and other earmarked funds (₹ 5,941 crore). The fiscal liabilities of the Government have increased by ₹ 8,315 crore (11.12 *per cent*) during 2011-12 over the previous year mainly due to increase of ₹ 5,962 crore (10.85 *per cent*) in the internal debt.

Though the ratio of fiscal liabilities to GSDP had been declining from 36.77 in 2007-08 to 33.47 per cent in 2011-12, 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 291.00 in 2007-08 to 316.76 per cent in 2011-12.

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 to be redeemed for payment of loans.

(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.

It was observed that no contributions were made during 2011-12 and there were no balances in these two components of the sinking fund at the commencement and end of 2011-12. In the absence of these funds, the Government has no option but to raise new borrowings every year to repay the borrowings of earlier years. **Table 1.22** gives the position of utilisation of borrowings for repayment of borrowings of preceding years.

Table 1.22: Utilisation of borrowings for repayment

(₹in crore)

Year	Borrowings	Repayments during the year
2007-08	6050.64	2107.65 (34.83)
2008-09	6432.25	2288.52 (35.58)
2009-10	10107.84	5308.36 (52.52)
2010-11	10934.37	5952.88 (54.44)
2011-12	14870.88	8947.23 (60.17)

Source: Finance Accounts

Note: Figures in brackets indicate the percentage to total borrowings

It is clear from the above table that 60.17 *per cent* of current borrowings were utilized for repayment of earlier borrowings during 2011-12. The percentage of utilisation of borrowing for repayment of earlier borrowings is increasing year by year. It went up from 34.83 *per cent* in 2007-08 to 60.17 *per cent* in 2011-12.

1.8.4 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 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 1.23** shows the maximum amount guaranteed by the State during 2008-12.

Table 1.23: Guarantees given by the Government of Punjab

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11	2011-12	
				BE	Actual
Maximum amount guaranteed	46815	51357	Not Available	55262	48382

Source: Finance Accounts

In consideration of the guarantees given by the State, the Government has been charging guarantee fees at the rate of 0.125 *per cent.* The total amount of guarantee fees receivable and received during 2011-12 was ₹ 101.68 crore and ₹ 51.39 crore respectively.

The Government of Punjab has set up a Guarantee Redemption Fund, but no amount has been transferred to the fund during 2011-12. On this being pointed out (October 2012), the Finance Department stated (November 2012) that the matter regarding transfer of guarantee fees to Guarantee Redemption Fund is in active consideration of the State Government.

In view of the above, *the Government of Punjab should ensure recovery of the guarantee fee due to it and transfer the funds 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[5] of the State. Sustainability of debt of the Government can be measured in terms of debt stabilization[6], sufficiency of non-debt receipts[7], net availability of borrowed funds[8], burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the Government debt. **Table 1.24** analyses the debt sustainability of the Government according to these indicators for the years 2007-12.

Table 1.24: Debt sustainability

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilization (Quantum Spread + Primary Deficit)	1434	1845	3975	3102	-409
Sufficiency of Non-debt receipts (Resource Gap)	(-) 3992	(-) 2087	521	-975	-1348
Net availability of borrowed funds	3810	971	1114	1299	2042
Burden of Interest Payments (IP/RR Ratio)	24	24	23	20	24

Source: Finance Accounts

Audit analysis revealed the following:

- The sum of quantum spread and primary deficit was positive during the period 2007-08 to 2010-11 which decreased by ₹ 3,511 crore in 2011-12 and thus became negative. This indicates that the State's journey towards debt stabilization has been jeopardized.

- 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 positive resource gap in 2009-10. However, it again turned into

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

negative of ₹ 975 crore which increased to ₹ 1,348 crore in 2010-11 indicating non-sustainability of debt which needs to be addressed.

- The net funds available from the internal debt and loans and advances from the 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 State 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. However, in the current year the position has improved to some extent and net availability of funds has increased to ₹ 2,042 crore.

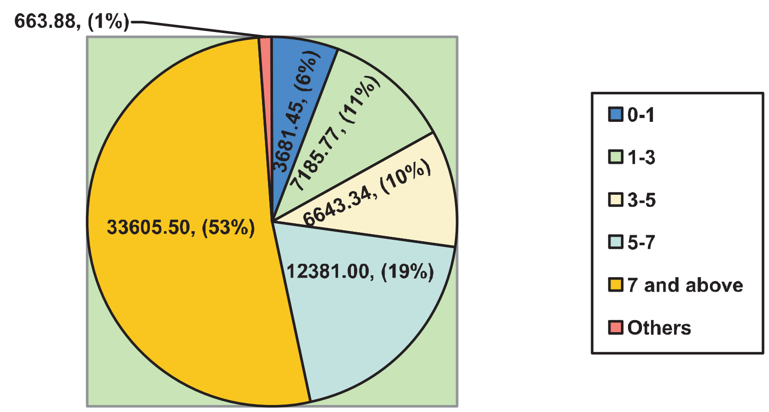
Table 1.25 and Chart 1.16 presents maturity profile of the State debt.

Table 1.25: Maturity Profile of repayment of State Debt as on 31 March 2012

Period of repayment (Years)	Amount (₹ in crore)	Percentage
0 – 1	3681.45	5.74
1 – 3	7185.77	11.20
3 – 5	6643.34	10.35
5 – 7	12381.00	19.30
7 and above	33605.50	52.38
Others[9]	663.88	1.03
TOTAL	**64160.93**	**100.00**

Source: Finance Accounts

Chart 1.16 Maturity profile of State debt **(₹ in crore)**



- The Maturity profile of the State's debt during the current year **(Chart 1.16)** indicates that 5.74 *per cent* of the debt is payable in the next year, 11.20 *per cent* in 1-3 years time, 10.35 *per cent* in 3-5 years time, 19.30 *per cent* in 5-7 years and 52.38 *per cent* is payable after

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[9] **Represents ₹ 663.41 crore representing loans of back to back basis recoveries of which are being made by Central Government itself, ₹ 31.92 lakh repayment of which is on the basis of actual recoveries and ₹ 15.48 lakh representing market loans not bearing interest for which maturity profile was not available.**

seven years. Thus, there would be a bunching of repayments around 5-7 years' time.

A well thought out debt repayment strategy would have to be worked out by the State 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.

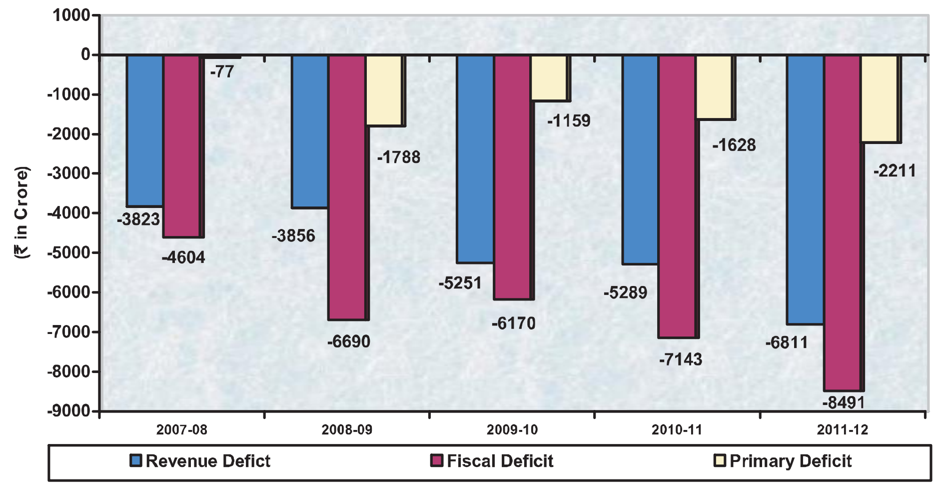
1.10 Fiscal imbalances

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 receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2011-12.

1.10.1 Trends in deficits

Charts 1.17 and **1.18** present the trends in deficit indicators over the period 2007-12.

Chart 1.17: Trends in Deficit Indicators



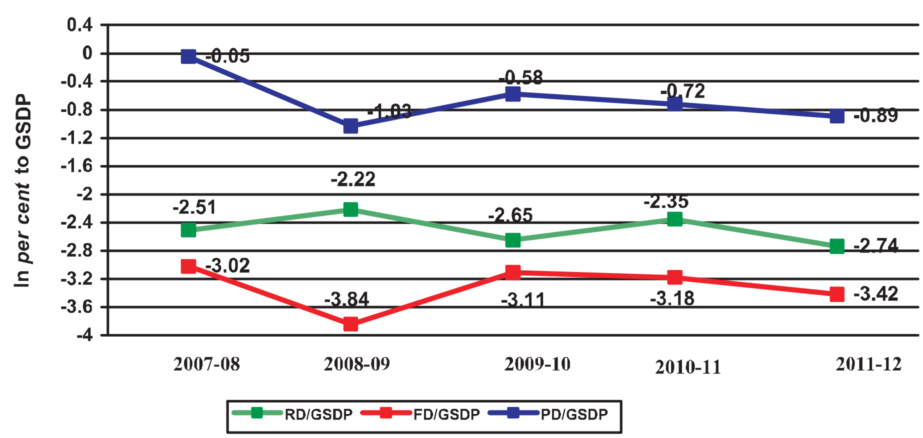
The revenue deficit which indicates the excess of revenue expenditure over the revenue receipts rose to the level of ₹ 6,811 crore (2.74 *per cent* of GSDP) in 2011-12 from a deficit of ₹ 3,823 crore (2.51 *per cent* of GSDP) in 2007-08. It shows that the revenue receipts in the State were not enough to meet the burgeoning and structurally rigid 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 coming down, the percentage of revenue* *deficit to GSDP has gone up during 2011-12 as compared to 2010-11 and was not within the limit of 1.80 per cent earmarked by ThFC.*

The fiscal deficit, which represents the total borrowing of the State and its total resource gap, increased from ₹ 4,604 crore (3.02 *per cent* of GSDP) in 2007-08 to ₹ 8,491 crore (3.42 *per cent* of GSDP) in 2011-12. *However, the fiscal deficit as percentage of GSDP in the current year was within the target of 3.50 per cent 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 ₹ 77 crore (0.05 *per cent* of GSDP) in 2007-08 and increased to the level of ₹ 2,211 crore (0.89 *per cent* of GSDP) in the current year.

On this being pointed out (October 2012), the Finance Department stated (November 2012) that efforts were being made to achieve the target of FRBM (Amendment) Act, 2011 by taking measures to increase revenue receipts and observing austerity in revenue expenditure.

Chart 1.18: 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 under 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 1.26.**

Table 1.26: Components of Fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Composition of Fiscal Deficit (1+2+3)		**4604 (3.02)**	**6690 (3.84)**	**6170 (3.11)**	**7143 (3.18)**	**8491 (3.42)**
1	Revenue Deficit	3823 (2.51)	3856 (2.22)	5251 (2.65)	5289 (2.35)	6811 (2.74)
2	Net Capital Expenditure	2191 (1.44)	2857 (1.64)	2166 (1.09)	2383 (1.06)	1598 (0.64)
3	Net Loans and Advances	-1410 (-0.93)	-23 (-0.01)	-1247 (-0.63)	-529 (-0.24)	82 (0.03)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	3794	4645	4361	4529	7740
2	Loans from GOI	71	105	-103	8	-37
3	Special Securities issued to NSSF	463	-213	1004	693	-924
4	Loans from Financial Institutions	-385	-393	-463	-248	-855
5	Small Savings, PF etc	636	720	849	1174	1640
6	Deposits and Advances	66	645	264	642	436
7	Suspense and Miscellaneous	38	2	-34	8	105
8	Remittances	12	-11	39	-19	11
9	Others(Reserve Fund)	184	359	208	12	315
10	Increase/Decrease in cash balance	-275	831	44	344	60
11	**Overall Deficit**	**4604**	**6690**	**6170**	**7143**	**8491**

(Figures in parentheses indicate the percentage to GSDP)
**All these figures are net of disbursements/outflows during the year*
Source: Finance Accounts

The fiscal deficit of the State increased from ₹ 4,604 crore in 2007-08 to ₹ 8,491 crore in 2011-12. It was mainly met from market borrowings (₹ 7,740 crore) and small savings, provident funds, etc. (₹ 1,640 crore). **Table 1.26** 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 1.44 in 2007-08 to 0.64 *per cent* in the current year, which indicates that the borrowed money was used to meet the revenue expenditure instead of using it for creation of assets. **Table 1.27** gives the details as to how the borrowed money was utilized.

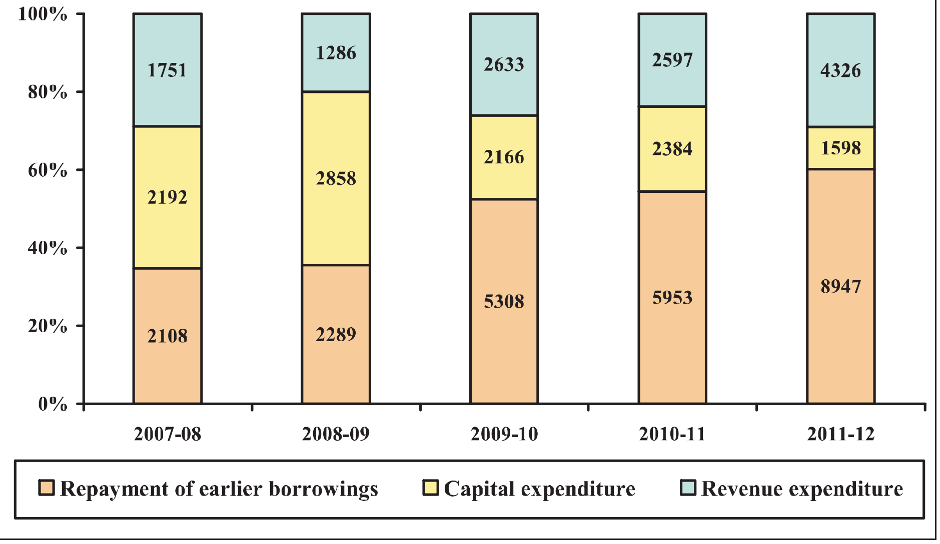
Table 1.27: Application of market borrowings

(₹in crore)

Year	Total Borrowings	Repayment of earlier borrowings (Principal portion)	Capital expenditure	Balance
1	2	3	4	5=2-(3+4)
2007-08	6050.64	2107.65 (34.83)	2191.60 (36.22)	1751.39 (28.95)
2008-09	6432.25	2288.52 (35.58)	2857.93 (44.43)	1285.80 (19.99)
2009-10	10107.84	5308.36 (52.52)	2166.41 (21.43)	2633.07 (26.05)
2010-11	10934.37	5952.88 (54.44)	2384.09 (21.80)	2597.40 (23.75)
2011-12	14870.88	8947.24 (60.17)	1598.12 (10.75)	4325.52 (29.09)

(Figures in parenthesis indicate the percentage to total borrowings)
Source: Finance Accounts

Chart 1.19 : Application of market borrowings during 2007-12 (₹ in crore)



The **Table 1.27 and chart 1.19** shows that major portion of borrowings was utilized for repayment of earlier borrowings. The percentage of utilisation of borrowing for repayment of earlier borrowings is increasing year by year. It went up from 34.83 *per cent* in 2007-08 to 60.17 *per cent* in 2011-12, whereas the percentage of utilisation of borrowings for capital expenditure came down to 10.75 *per cent* in 2011-12 from 36.22 *per cent* in 2007-08. The balance amount is utilized for meeting revenue expenditure.

Table 1.28 shows the detail of receipts and disbursements of components financing the fiscal deficit during 2011-12.

Table 1.28: Receipts and disbursements under various components financing the fiscal deficit during 2011-12

(₹ in crore)

Sr. No.	Particulars	Receipts	Disbursements	Net Balance
1	Market Borrowings	8200	460	7740
2	Loans from GOI	150	187	-37
3	Special Securities issued to NSSF	0	924	-924
4	Loans from Financial Institutions	6521	7376	-855
5	Small Savings, Provident Fund etc.	3106	1466	1640
6	Deposits and Advances	4282	3846	436
7	Suspense and Miscellaneous	22040	21935	105
8	Remittances	1376	1365	11
9	Reserve Funds	475	160	315
10	**Total (1 to 9)**	**46150**	**37719**	**8431**
11	Increase(-)/Decrease (+) in Cash Balance	-	-	60
12	Overall deficit (10 + 11)	46150	37719	8491

Source: Finance Accounts

On this being pointed out (October 2012), the Finance Department stated (November 2012) that efforts were being made to achieve balance in revenue account so that debt receipts and borrowed funds could be utilized for asset creation and capital 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 and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of revenue deficit to fiscal deficit increased from 74.04 *per cent* in 2010-11 to 80.22 *per cent* in 2011-12 ***(Appendix 1.8)***.

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2007-12 reveals **(Table 1.29)** that the primary deficit during this period was on account of slow rise in non-debt receipts as compared to primary revenue expenditure. Therefore, 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 1.29: 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)
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
2011-12	26329	26765	1598	177	28540	-2211

Source: Finance Accounts

1.11 Conclusion

The fiscal position of the state is viewed in terms of key fiscal parameters viz. fiscal and revenue deficits. During the year revenue deficit increased to the level of ₹ 6,811 crore from ₹ 5,289 crore in 2010-11. It was 2.74 *per cent* of GSDP as against the target of 1.80 *per cent* of GSDP fixed by the FRBM (Amendment) Act, 2011. The fiscal deficit of ₹ 8,491 crore (3.42 *per cent* of GSDP) was within the target of 3.50 *per cent* fixed by the FRBM (Amendment), Act 2011.

The revenue expenditure constituted 94.90 *per cent* of the total expenditure while the capital expenditure was only 4.59 *per cent* of the total expenditure. The revenue receipts grew at an annual average of 7.27 *per cent* during 2007-12 and revenue expenditure grew by 8.66 *per cent* during the same period.

Low rate of return on Government investments in statutory corporations and companies etc. was cause of concern. The ratio of financial assets to liabilities came down to 37.04 *per cent* in 2011-12 from 44.38 *per cent* in 2007-08 which indicates that most of the debt was spent for purposes other than asset creation.

During 2011-12 GoI directly transferred ₹ 916.92 crore to the State implementing agencies without routing through the budget. There is no single agency monitoring expenditure out of these funds.

As on 31 March 2012 there were 19 incomplete projects in which ₹ 400.60 crore were blocked.

1.12 Recommendations

- *In order to improve the State's finances, the Government should make concerted efforts to reduce the increasing gap between revenue receipts and revenue expenditure.*
- *Appropriate action at Government's level should be initiated to improve the ratio of development expenditure as well as capital expenditure to total expenditure.*
- *The State Government should ensure utilization of debt receipts for asset creation; use the borrowed funds towards capital expenditure and endeavour to obtain better value for the investments.*
- *The State Government should make all out efforts to bring down its revenue deficit to zero by the year 2014-15 and meet the target fixed under the Fiscal Responsibility and Budget Management (Amendment) Act, 2011.*