EXECUTIVE SUMMARY

Background

This Report on the finances of the Government of Punjab is brought out to assess the financial performance of the State during the year 2012-13 *vis-à-vis* the Budget Estimates and the targets set under the Fiscal Responsibility and Budget Management Act, 2003 as amended and analyses the dominant trends and structural profile of Government's receipts and disbursements.

Based on the audited accounts of the Government of Punjab for the year ended 31 March 2013 and additional data collated from several sources such as the Economic Survey brought out by the State government and Census, this report provides an analytical review of the Annual Accounts of the State government in three Chapters.

Chapter-I is based on the Finance Accounts and makes an assessment of Punjab Government's fiscal position as on 31 March 2013. It provides an insight into trends and profile of key fiscal aggregates, committed expenditure, borrowing pattern, etc.

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

Chapter-III details Government's compliance with various reporting requirements and financial rules and submission of accounts.

Audit findings and recommendations

Fiscal Correction Path: Punjab passed the Fiscal Responsibility and Budget Management Act in 2003. The State could not contain its revenue deficit as per targets fixed by the Fiscal Responsibility and Budget Management Act. During the current year it was 2.52 *per cent* as against the target of 1.20 *per cent* of GSDP in Fiscal Responsibility and Budget Management Act. However, the fiscal deficit at 3.18 *per cent* of Gross State Domestic Product in the current year was within the target of 3.50 *per cent* fixed under the Fiscal Responsibility and Budget Management (Amendment) Act, 2011.

Low priority to capital expenditure: No specific norms regarding prioritization of capital expenditure have been laid in Fiscal Responsibility and Budget Management Act. However, the State Government in its Fiscal Consolidation Roadmap committed to increase the capital expenditure every year over the previous year during the period 2010-11 to 2014-15. However, capital expenditure is decreasing year by year and came down from ten *per cent* of total expenditure in 2009-10 to five *per cent* in 2012-13. The net capital expenditure as *per cent* of Gross State Domestic Product declined from 1.64 *per cent* in 2008-09 to 0.65 *per cent* in the current year which indicates that instead of using borrowed funds for creation of assets it was used to meet the revenue expenditure.

Review of Government investments: The average return on Punjab Government's investments in Statutory Corporations, Joint Stock Companies, Cooperative Societies, etc. was almost negligible (0.01 to 0.05 *per cent*) during the period 2008-09 to 2012-13, while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.72 and 8.32 *per cent* during the same period. At the time of unbundling (April 2010) of Punjab State Electricity Board, the State Government did not restructure the Liabilities of the Board which were simply divided between the two successor companies viz. Punjab State Power Corporation Limited and Punjab State Transmission Corporation Limited.

Debt sustainability: Though the debt-GSDP ratio at 31.41 *per cent* was within the target fixed (41 *per cent*) under Fiscal Responsibility and Budget Management Act, yet the borrowed funds were mostly used for redemption of past debts leaving relatively a smaller portion for other purposes. As much as 21 *per cent* of the revenue receipts were used to meet the burden of interest payments.

Non-deposit of revenue receipts into the consolidated fund of the State: The Government of Punjab established various funds through enactment of Acts/issuance of notifications. The revenue receipts collected under these Acts by various bodies were credited to these Funds. Neither the receipts of these funds form part of revenue receipts of Consolidated Fund of the State nor the expenditure was incurred out of the same.

Funds transferred to State Implementing Agencies outside the State Budget: GOI directly transferred ₹ 1,002.22 crore to State implementing agencies during the current year. Since these funds do not pass through the State Budget, the Annual Finance Accounts of the State do not present a complete picture of fund flow of Central Government resources into the State.

Non-release of Central grant received under centrally sponsored–Mid day Meal scheme: GOI funds meant for Mid Day Meal schemes were retained by the State Government and state share was also not released as per funding pattern of the scheme.

Off-budget borrowings: As on 31 March 2013, the State Government owes ₹ 1,593.40 crore (pertaining to the period August 2007 to March 2013) to Punjab State Civil Supplies Corporation Limited on account of payment of differential cost (i.e. difference between purchase cost and the issue price to beneficiaries) under Atta Dal scheme.

Growth of debt: During 2008-09 to 2012-13 total public debt increased by ₹ 22,758 crore (47 *per cent*) registering annual average growth of 9.40 *per cent*. The share of market borrowings in total public debt went up from 37 *per cent* in 2008-09 to 60 *per cent* in 2012-13.

Arrangement for amortization of debt: The State Government has constituted a Sinking Fund for redemption/ amortization of loans raised by it in the open market. But no contribution was made in sinking fund during 2012-13 and there was no balance in this fund. In the absence of this fund, the

Government has no option but to raise new debt every year to repay the debt of earlier years. As many as 68.19 *per cent* of current debt was utilized for repayment of earlier debt during 2012-13.

Financial Management and Budgetary Control

The State Government's budgetary processes have not been sound during the year, with errors in budgeting, persistent savings[1], excess expenditure and expenditure without provision. In many cases, anticipated savings were either not surrendered or surrendered at the end of the year in the month of March leaving no scope for utilizing these funds for other developmental purposes. Financial rules were flouted by several departments by drawing funds in excess of requirement, resorting to re-appropriation without proper explanation and expending without provisions of funds. Surrender of substantial funds at the end of the year is a matter of concern, since funds could not be utilized fruitfully.

Financial reporting

There were inordinate delays in furnishing utilization certificates against the grants released by Punjab Government. In submission of annual accounts by some of the autonomous bodies set up by the State Government non-submission/delays were also noticed. There were instances of theft, loss and misappropriation. As many as 785 AC bills amounting to ₹ 656.84 crore were awaiting adjustment as on 31 March 2013.

[1] Savings means shortage in utilization of funds.