

## CHAPTER-I

### AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

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

#### 1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of its expenditure. Exhibit-I gives an abstract of such liabilities and the assets as on 31 March 2002, with the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account, Deposits and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit-I that while the liabilities grew by 17 *per cent*, the assets grew by only 7 *per cent* during 2001-2002, mainly as a result of a 27.62 *per cent* growth in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government, as brought out in succeeding paragraphs.

#### 1.3 Financial operations of the State Government

**1.3.1** Exhibit-II presents details of the receipts and disbursements made by the State Government during the years 2000-2001 and 2001-2002. The revenue expenditure (Rs.12,709.81 crore) during the year exceeded the revenue receipts (Rs.8,928.62 crore) resulting in a revenue deficit of Rs.3,781.19 crore. The revenue receipts comprised tax revenue (Rs.4,820.23 crore), non-tax revenue (Rs.2,960.45 crore), State's share of Union taxes and duties (Rs.610.49 crore) and grants-in-aid from the Central Government (Rs.537.45 crore). The main sources of tax revenue were taxes on sales & trades etc. (56 *per cent*), state excise (28 *per cent*) etc. Non-tax revenue came mainly from General Services (69 *per cent*) and Economic Services (10 *per cent*).

**1.3.2** The capital receipts comprised of Rs.872 crore from recoveries of loans and advances and Rs.8,532\* crore from public debt. Against this, the expenditure was Rs.984 crore on capital outlay, Rs.1,066 crore on disbursement of loans and advances and Rs.4,554 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.14,171 crore, against which the disbursements of Rs.13,428 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was a decrease of Rs.87 crore in the cash balance from Rs.509 crore at the beginning of the year to Rs.422 crore at the end of the year.

**1.3.3** The financial operations of the State Government pertaining to receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit-II and the time series data for the five year period from 1997-98 to 2001-2002, presented in Exhibit-IV.

#### **1.4 Sources and application of fund**

**1.4.1** Exhibit-III gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure, lending for developmental purposes and repayment of overdraft. It would be seen that the revenue receipts constitute the most significant source of funds. Their share came down from 67.84 per cent in 2000-2001 to 60.29 per cent during 2001-2002, the receipts from the public debt marginally went up from 25.91 per cent to 26.86 per cent. The share of recoveries of loans and advances went up from 0.92 per cent to 5.89 per cent and the net receipts from the Public Account, increased from 4.99 per cent in 2000-2001 to 5.02 per cent in 2001-2002 due mainly to increase in the Reserve Funds.

**1.4.2** The funds were mainly applied for revenue expenditure (85.83 per cent) which registered an increase of 1.09 per cent from the previous year and was significantly higher than the share of revenue receipts at 60.29 per cent in the total receipts.

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\* Including ways and means advances other than Overdraft.

**EXHIBIT-I**  
**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF PUNJAB AS**  
**ON 31 MARCH 2002**

As on 31.03.2001	Liabilities		(Rupees in crore) As on 31.03.2002
<b>9612.41</b>	<b>Internal Debt -</b>		<b>13691.70</b>
2594.97	Market Loans bearing interest	2991.60	
0.64	Market Loans not bearing interest	0.45	
11.70	Loans from LIC	10.57	
2671.28	Loans from other Institutions	4834.42	
243.42	Ways and Means Advances	221.42	
48.37	Overdrafts from Reserve Bank of India	196.36	
4042.03	Special Securities issued to National Small Savings Fund of Central Government	5436.88	
<b>13008.27</b>	<b>Loans and Advances from Central Government -</b>		<b>13054.20</b>
93.07	Pre 1984-85 Loans	74.44	
5799.26	Non-Plan Loans	5653.89	
6787.92	Loans for State Plan Schemes	7117.83	
0.77	Loans for Central Plan Schemes	0.51	
87.25	Loans for Centrally Sponsored Plan Schemes	87.53	
240.00	Other ways and means advances	120.00	
<b>21.60</b>	<b>Contingency Fund</b>		<b>25.00</b>
<b>5209.64</b>	<b>Small Savings, Provident Funds, etc.</b>		<b>5749.86</b>
<b>1024.76</b>	<b>Deposits</b>		<b>1117.17</b>
<b>243.77</b>	<b>Reserve Funds</b>		<b>449.56</b>
<b>243.33</b>	<b>Remittance Balances</b>		<b>135.78</b>
<b>29363.78</b>			<b>34223.27</b>
<b>Assets</b>			
<b>10121.59*</b>	<b>Gross Capital Outlay on Fixed Assets -</b>		<b>11105.91</b>
2348.37*	Investments in shares of Companies, Corporations, etc.	2346.01	
7773.22	Other Capital Outlay	8759.90	
<b>4956.71*</b>	<b>Loans and Advances -</b>		<b>5150.17</b>
3784.81	Loans for Power Projects	3842.21	
929.28*	Other Development Loans	952.03	
242.62	Loans to Government servants and Miscellaneous loans	355.93	
<b>0.68</b>	<b>Advances</b>		<b>0.68</b>
<b>85.06</b>	<b>Suspense and Miscellaneous Balances</b>		<b>72.36</b>
<b>509.17</b>	<b>Cash -</b>		<b>422.39</b>
	Cash in Treasuries and Local Remittances	-	
155.69	Deposits with Reserve Bank	74.90	
87.78	Departmental Cash Balance	101.58	
0.16	Permanent cash imprest	0.15	
141.56	Investment of Earmarked Funds	141.78	
123.98	Cash Balance Investments	103.98	
<b>13690.57</b>	<b>Deficit on Government Accounts -</b>		<b>17471.76</b>
2335.97	Revenue Deficit of the Current Year	3781.19	
-	Other adjustments	-	
11354.60	Accumulated deficit up to previous year	13690.57	
	Proforma correction	-	
<b>29363.78</b>			<b>34223.27</b>

\* Differs by Rs.13.49 crore from the closing balance on account of proforma transfer of balances due to conversion of loans given to Punjab Financial Corporation, Chandigarh into equity vide foot note at page 316 Finance Accounts for the year 2001-02

**EXHIBIT-II  
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002**

*(Rupees in crore)*

2000-01		Receipts		2001-02	2000-01		Disbursements				2001-02
									<u>Non Plan</u>	<u>Plan</u>	<u>Total</u>
		<b>Section-A: Revenue</b>				<b>I</b>	<b>Revenue expenditure-</b>				
<b>9376.86</b>	<b>I</b>	<b>Revenue receipts</b>		<b>8928.62</b>							
4895.22		-Tax revenue	4820.23		<b>6530.81</b>		<b>General Services</b>	7558.94	8.29		<b>7567.23</b>
					<b>2992.71</b>		<b>Social Services-</b>	2559.08	551.52		<b>3110.60</b>
2935.24		-Non-tax revenue	2960.45		1858.97		-Education, Sports, Art and Culture	1579.76	252.53	1832.29	
					637.58		-Health and Family Welfare	473.17	145.00	618.17	
719.33		-State's share of Union Taxes and Duties	610.49		167.55		-Water Supply, Sanitation, Housing and Urban Development	108.14	91.74	199.88	
					10.83		-Information and Broadcasting	13.31	2.38	15.69	
441.50		-Non-Plan Grants	159.03		46.15		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	28.60	18.97	47.57	
					52.69		-Labour and Labour Welfare	48.07	3.07	51.14	
193.35		-Grants for State Plan Schemes	183.00		212.28		-Social Welfare and Nutrition	301.33	37.83	339.16	
					6.66		-Others	6.70	-	6.70	
192.22		-Grants for Central and Centrally sponsored Plan Schemes	195.42								
					<b>2100.50</b>		<b>Economic Services-</b>	1560.64	305.04		<b>1865.68</b>
					448.10		-Agriculture and Allied Activities	305.62	114.79	420.41	
					67.25		-Rural Development	35.83	25.60	61.43	
					13.25		-Special Areas Programmes	-	16.25	16.25	
					315.77		-Irrigation and Flood Control	324.89	0.93	325.82	
					605.01		-Energy	450.00	0.68	450.68	
					28.55		-Industry and Minerals	19.87	3.00	22.87	
					447.44		-Transport	394.54	10.27	404.81	
					1.53		-Science, Technology and Environment	-	1.41	1.41	
					173.60		-General Economic Services	29.89	132.11	162.00	
					<b>88.81</b>		<b>Grants-in-aid and Contributions</b>	-	-	<b>166.30</b>	<b>166.30</b>
<b>2335.97</b>	<b>II</b>	<b>Revenue deficit carried over to Section B</b>		<b>3781.19</b>							
<b>11712.83</b>		<b>Total Section A</b>		<b>12709.81</b>	<b>11712.83</b>		<b>Total Section A</b>	<b>11678.66</b>	<b>864.85</b>		<b>12709.81</b>
					<b>101.92</b>	<b>II</b>	<b>Opening Overdraft from RBI</b>				<b>48.37</b>
						<b>III</b>	<b>Capital Outlay-</b>	32.61	951.71		<b>984.32</b>
					<b>42.80</b>		<b>General Services-</b>	0.15	21.72	21.87	
					<b>52.51</b>		<b>Social Services-</b>	0.02	54.66	54.68	
					0.28		-Education, Sports, Art and Culture	-	0.64	0.64	
					2.55		-Health and Family Welfare	-	0.13	0.13	
					49.53		-Water Supply, Sanitation	0.02	53.69	53.71	
							-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes,	-	-	-	
					0.01		-Social Welfare and Nutrition	-	0.01	0.01	
					0.14		-Others	-	0.19	0.19	

(Rupees in crore)

2000-2001		Receipts			2000-2001		Disbursements			2001-02
		<b>Section-B</b>			1297.28		<b>Economic Services-</b>	32.44	875.33	907.77
195.76	III	Opening Cash balance including Permanent Advances and Cash Balance Investment		509.17	692.61		-Agriculture and Allied Activities	13.55	(-)2.90	10.65
-	IV	Miscellaneous Capital receipts		-	4.77		-Special Areas Programmes	-	20.49	20.49
					441.26		-Irrigation and Flood Control	-	534.88	534.88
126.90	V	Recoveries of Loans and Advances-		872.33	0.30		Rural Development	-	3.03	3.03
0.20		-From Power Projects	0.18		(-7.87)		-Industry and Minerals	-	(-)1.30	(-)1.30
54.85		-From Government Servants & Miscellaneous Purposes	66.10		79.52		-Transport	0.04	181.22	181.26
71.85		-From others	806.05		79.83		-General Economic Services	-	30.21	30.21
	VI	Revenue surplus brought down		-			Energy	18.85	107.00	125.85
5049.04	VII	Public debt receipts-		6554.91	6.86		Capital Account of Science Technology and Environment.	-	2.70	2.70
					<b>1392.59</b>		<b>Total</b>			<b>984.32</b>
4363.62		-Internal debt other than ways and means Advances and Overdraft	5719.16		<b>302.09</b>	IV	<b>Loans and Advances disbursed-</b>			<b>1065.79</b>
61.30		-Net transactions under Ways and Means Advances	-		175.91		-For Power Projects			57.58
624.12		-Loans and Advances from Central Government	835.75		100.91		-To Government Servants & Miscellaneous Purposes			179.41
					25.27		-To Others			828.80
-	VIII	Appropriation from the Consolidated Fund		-		V	<b>Appropriation from the Consolidated Fund</b>			-
-	IX	Amount transferred to Contingency Fund		3.40	2335.97	VI	<b>Revenue deficit brought down</b>			<b>3781.19</b>
11049.04	X	Public Account receipts-		14171.40	1467.93	VII	<b>Repayment of Public Debt-</b>			<b>2577.67</b>
1256.98		-Small Savings and Provident funds	1206.19		836.32		-Internal debt other than Ways and Means Advances and Overdrafts			1765.85
96.03		-Reserve funds	238.63		-		-Net transactions under Ways and Means Advances			<b>22*.00</b>
1726.63		-Deposits and Advances	2169.50							
7195.51		-Suspense and Miscellaneous	9596.93		631.61		-Repayment of Loans and Advances to Central Government			789.82
773.89		-Remittance	960.15			VIII	<b>Expenditure from Contingency Fund</b>			
48.37	XI	Closing Overdraft from Reserve Bank of India		196.36	10359.44	IX	<b>Public Account disbursements-</b>			<b>13427.84</b>
					615.44		-Small Savings and Provident Funds			665.98
					86.56		-Reserve Funds			32.84
					1748.06		-Deposits and Advances			2077.10
					7264.87		-Suspense and Miscellaneous			9584.23
					644.51		-Remittances			1067.69
					<b>509.17</b>	X	<b>Cash Balance at end-</b>			<b>422.39</b>
					155.69		-Deposits with Reserve Bank			74.90
					87.78		-Departmental Cash Balance			101.58
					0.16		-Permanent cash imprest			0.15
					123.98		-Cash Balance Investment			103.98
					141.56		Investment of Earmarked Funds			141.78
16469.11		<b>Total</b>		<b>22307.57</b>	16469.11		<b>Total</b>			<b>22307.57</b>

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

\* Represents receipts Rs.1976.61 crore and disbursements Rs.1998.61 crore

**EXHIBIT-III  
SOURCES AND APPLICATION OF FUNDS**

*(Rupees in crore)*

Percentage of total			Sources			Percentage of total
	<b>2000-2001</b>				<b>2001-2002</b>	
67.84	<b>9376.86</b>	<b>1.</b>	<b>Revenue receipts</b>		<b>8928.62</b>	60.29
0.92	<b>126.90</b>	<b>2.</b>	<b>Recoveries of Loans and Advances</b>		<b>872.33</b>	5.89
25.91	<b>3581.11</b>	<b>3.</b>	<b>Increase in Public debt other than overdraft</b>		<b>3977.24</b>	26.86
4.99	<b>689.60</b>	<b>4.</b>	<b>Net receipts from Public account</b>		<b>743.56</b>	5.02
	641.54		Increase in Small Savings	540.21		
	(-)21.43		Increase in Deposits and Advances	92.40		
	9.47		Increase in Reserve funds	205.79		
	(-)69.36		Net effect of Suspense and Miscellaneous transactions	12.70		
	129.38		Net effect of Remittance transactions	(-)107.54		
	-	<b>5.</b>	<b>Net effect of contingency fund transactions</b>	-	<b>3.40</b>	0.02
0.34	<b>48.37</b>	<b>6</b>	<b>Outstanding overdraft</b>		<b>196.36</b>	1.33
	-	<b>7</b>	<b>Decrease in closing cash balance</b>	-	<b>86.78</b>	0.59
<b>100</b>	<b>13822.84</b>		<b>Total</b>		<b>14808.29</b>	<b>100</b>
			<b>Application</b>			
84.74	<b>11712.83</b>	<b>1.</b>	<b>Revenue expenditure</b>		<b>12709.81</b>	85.83
2.19	<b>302.09</b>	<b>2.</b>	<b>Lending for development and other purposes</b>		<b>1065.79</b>	7.20
10.07	<b>1392.59</b>	<b>3.</b>	<b>Capital expenditure</b>		<b>984.32</b>	6.65
2.27	<b>313.41</b>	<b>4.</b>	<b>Increase in closing cash balance</b>	-	-	
<b>0.73</b>	<b>101.92</b>	<b>5.</b>	<b>Repayment of over draft</b>		<b>48.37</b>	<b>0.32</b>
<b>100</b>	<b>13822.84</b>		<b>Total</b>		<b>14808.29</b>	<b>100</b>

**Explanatory Notes for Exhibit I, II and III:**

1. The abridged accounts in the foregoing statements have to be read with comments and explanation in the finance accounts.
2. Government accounts being mainly on cash basis, the deficit on Government accounts, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and other pending settlement etc.
4. There was a difference of Rs.196.30 crore between the figures reflected in the accounts and that intimated by the Reserve Bank of India under the head "Deposits with Reserve Bank". On reconciliation, this difference now stands at Rs.196.94 crore (May 2002).

## EXHIBIT-IV

## TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
<i>Part A. Receipts</i>					
<b>1. Revenue Receipts</b>	<b>6351</b>	<b>5755</b>	<b>7468</b>	<b>9377</b>	<b>8929</b>
(i) Tax Revenue	3045 (48)	3262 (57)	3947 (53)	4895 (52)	4820(54)
Taxes on Agricultural Income	-	-	-	-	-
Taxes on Sales, Trades etc.	1401 (46)	1490 (46)	1977 (50)	2645 (54)	2684(56)
State Excise	1144 (38)	1204 (37)	1231 (32)	1325 (27)	1350(28)
Taxes on vehicles	216 (7)	266 (8)	321 (8)	338 (7)	318(7)
Stamps and Registration fees	233 (8)	258 (8)	326 (8)	424 (9)	444(9)
Land Revenue	4	3	5	7	9
Other Taxes	47 (1)	41 (1)	87 (2)	156 (3)	15
(ii) Non Tax Revenue	2356 (37)	1507 (26)	2362 (32)	2935 (31)	2960(33)
(iii) State's share of Union taxes and duties	657 (10)	587 (10)	639 (8)	720 *(8)	611(7)
(iv) Grants-in-aid from GOI	293 (5)	399 (7)	520 (7)	827 (9)	538(6)
<b>2. Misc Capital Receipts</b>	-	-	-	-	-
<b>3. Total revenue and Non debt capital receipts (1+2)</b>	<b>6351</b>	<b>5755</b>	<b>7468</b>	<b>9377</b>	<b>8929</b>
<b>4. Recoveries of Loans and Advances</b>	<b>95</b>	<b>107</b>	<b>109</b>	<b>127</b>	<b>872</b>
<b>5. Public Debt Receipts</b>	<b>2538</b>	<b>4532</b>	<b>4456</b>	<b>4996</b>	<b>6681</b>
Internal Debt (excluding Ways & Means Advances and Overdrafts.)	<b>1083</b>	<b>1267</b>	<b>1654</b>	<b>4364</b>	<b>5719</b>
Net transactions under Ways and Means advances and Overdraft	-	<b>905</b>	-	<b>8</b>	<b>126</b>
Loans and Advances from Government of India*	<b>1455</b>	<b>2360</b>	<b>2802</b>	<b>624</b>	<b>836</b>
<b>6. Total receipts in the Consolidated Fund (3+4+5)</b>	<b>9084</b>	<b>10394</b>	<b>12033</b>	<b>14500</b>	<b>16482</b>
<b>7. Contingency Fund Receipts</b>	-	<b>5</b>	<b>7</b>	-	<b>3</b>
<b>8. Public Account Receipts</b>	<b>9057</b>	<b>9370</b>	<b>10864</b>	<b>11049</b>	<b>14171</b>
<b>9. Total receipts of the State (6+7+8)</b>	<b>18141</b>	<b>19769</b>	<b>22904</b>	<b>25549</b>	<b>30656</b>

\* Higher rounding taken

\* Includes Ways and Means Advances from GOI

<b>Part B. Expenditure/Disbursement</b>					
<b>10. Revenue Expenditure</b>	<b>7835(88)</b>	<b>8384(87)</b>	<b>10195(95)</b>	<b>11713 (87)</b>	<b>12710(86)</b>
Plan	552(7)	628(7)	812(8)	829 (7)	865(7)
Non Plan	7283(93)	7756(93)	9383(92)	10884 (93)	11845(93)
General Services (incl. Interest Payments)	3643(47)	4391(52)	5582(55)	6531 (56)	7567(60)
Social Services	2062(26)	2640(31)	2716(27)	2993 (25)	3111(24)
Economic Services	2060(26)	1280(15)	1846(18)	2100 (18)	1866(15)
Grants-in-aid and Contributions	70 (1)	73 (1)	51	89 (1)	166(1)
<b>11. Capital Expenditure</b>	<b>970(11)</b>	<b>1140(12)</b>	<b>439(4)</b>	<b>1393 (11)</b>	<b>984(7)</b>
Plan	877(90)	870(76)	589(134)	697 (50)	952(97)
Non Plan	93(10)	270(24)	(-)150 <sup>@</sup> (-34)	696 (50)	32(3)
General Services	35(3)	42(4)	38(9)	43 (3)	22(2)
Social Services	46(5)	68(6)	42(9)	53 (4)	54(6)
Economic Services	889(92)	1030(90)	359(82)	1297 (93)	908(92)
<b>12. Disbursement of Loans and Advances</b>	<b>119(1)</b>	<b>118(1)</b>	<b>137(1)</b>	<b>302 (2)</b>	<b>1066(7)</b>
<b>13. Total (10+11+12)</b>	<b>8924</b>	<b>9642</b>	<b>10771</b>	<b>13408</b>	<b>14760</b>
<b>14. Repayments of Public Debt</b>	<b>1130</b>	<b>1696</b>	<b>2570</b>	<b>1468</b>	<b>2556</b>
Internal Debt (excluding Ways and Means Advances and Overdraft)	604	414	717	836	1766
Net transactions under Ways and Means advances and Overdraft	2	-	722	-	-
Loans and Advances from Government of India*	524	1282	1131	632	790
<b>15. Appropriation to Contingency Fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>16. Total disbursement out of Consolidated Fund (13+14+15)</b>	<b>10054</b>	<b>11338</b>	<b>13341</b>	<b>14876</b>	<b>17316</b>
<b>17. Contingency Fund disbursements</b>	<b>5</b>	<b>7</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>18. Public Account disbursements</b>	<b>8101</b>	<b>8254</b>	<b>9627</b>	<b>10359</b>	<b>13428</b>
<b>19. Total disbursements by the State (16+17+18)</b>	<b>18160</b>	<b>19599</b>	<b>22972</b>	<b>25235</b>	<b>30744</b>
<b>Part C. Deficits</b>					
<b>20. Revenue Deficit (1-10)</b>	<b>1484</b>	<b>2629</b>	<b>2727</b>	<b>2336</b>	<b>3781</b>
<b>21. Fiscal Deficit (3+4-13)</b>	<b>2478</b>	<b>3780</b>	<b>3194</b>	<b>3904</b>	<b>4959</b>
<b>22. Primary Deficit (21-23)</b>	<b>629</b>	<b>1463</b>	<b>557</b>	<b>1561</b>	<b>1781</b>
<b>Part D. Other data</b>					
<b>23. Interest Payments (included in revenue exp.)</b>	<b>1849</b>	<b>2317</b>	<b>2637</b>	<b>2343</b>	<b>3178</b>
24. Arrears of Revenue (Percentage of Tax & non-Tax Revenue Receipts)	1543(29)	2026(42)	2393(38)	3439(44)	3760(48)
25. Financial Assistance to local bodies etc.	96	212	376	357	370
26. Ways and Means Advances/Overdraft availed (days)	140/101	128/225	166/84	146/107	140/119
27. Interest on WMA/Overdraft	7/2	8/6	8/4	7/2	9/4
28. Gross State Domestic Product (GSDP)	48387	54414	62700	68448 <sup>#</sup>	76860
29. Outstanding Debt (year end)	17857	21705	24804	28957	33921
30. Outstanding guarantees (year end)	5012	3390	9951	8990	10584
31. Maximum amount guaranteed (year end)	10630	7408	12059	7331	10244
32. Number of incomplete projects	8	10	13	10	11
33. Capital blocked in incomplete projects	62	102	1380	548	1177

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

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

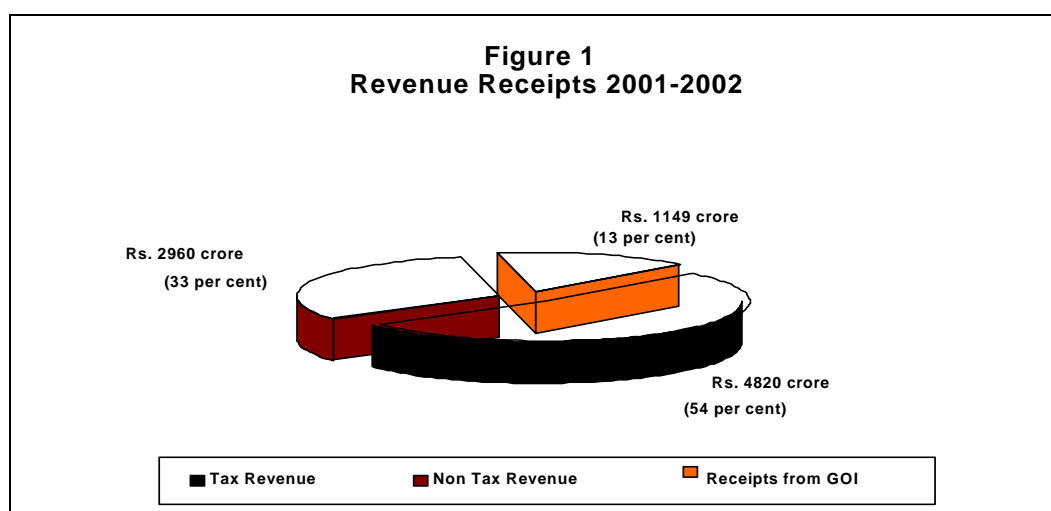
<sup>\*</sup> Includes Ways and Means Advances from Government of India.

<sup>#</sup> Revised GSDP for 2000-2001 has been adopted and 2001-02 worked out on average growth rate



## 1.5 Revenue receipts

**1.5.1** The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts decreased by 4.78 per cent from Rs.9,377 crore (2000-2001) to Rs.8,929 crore (2001-2002). Also receipts from share in Union taxes and duties and Grants-in-aid from Government of India witnessed a decline.



### 1.5.2 Poor budget preparation

According to the provisions of Punjab Budget Manual, the budget estimates of revenue receipts for the ensuing year should be based on average receipt for six months of previous year and actual receipts of first six months of the current year to make the estimates realistic.

Details of Budget estimates and the actual receipts realized during the year 2001-02 in respect of Tax and Non Tax revenue are given below :

*(Rupees in crore)*

	Budget estimates	Actuals	Excess/ Shortfall	Percentage of excess/ shortfall
<b>Tax Revenue</b>				
Taxes on Sale, Trade etc.	3400.00	2684.33	(-) 715.67	(-) 21
Taxes on vehicles	390.00	318.44	(-) 71.56	(-) 18
Taxes & duties on Electricity	175.00	2.80	(-) 172.20	(-) 98
Land Revenue	3.80	8.58	(+) 4.78	(+) 126
Others	1905.50	1806.08	(-) 98.97	(-) 5
<b>Non-Tax Revenue</b>				
Road Transport	3840.41	222.15	(-)158.26	(-)42
Crop Husbandry	9.60	6.86	(-)2.73	(-)28
Interest receipts	623.58	551.97	(-)71.61	(-)11
Forest	13.02	15.12	(+)2.10	(+)16
Others	2071.51	1936.69	(-)134.82	(-)6.5

The above table indicates that budget preparation especially of revenue resources is ineffective. The significant shortfall in collection under Taxes & Duties on Electricity (98 per cent) & Taxes on Sales, Trade etc., (21 per cent), Road Transport (42 per cent) and Crop Husbandry (28 per cent) reveals this. In case of Land Revenue (126 per cent) and Forests (16 per cent), there was significant underestimation in estimates of receipt.

Audit further observed (2001-2002) that there was under assessment/short levy/non levy/loss of revenue and other observations amounting to Rs. 190.00 crore in 4070 cases as detailed below:

*(Rupees in crore)*

Sr. No.		Pointed out by Audit		Observations accepted by the department	
		No. of cases	Amount	No. of cases	Amount
1.	Taxes on Sales, Trade etc.	581	67.17	277	4.42
2.	Taxes on vehicles	844	44.38	76	0.77
3.	Land Revenue	49	0.86	11	0.02
4.	Stamp Duty & Registration Fee	2018	1.35	233	0.26
5.	Entertainment Duty	409	5.34	68	0.44
6.	State Excise	121	10.05	14	1.53
7.	Forest	48	60.85	33	10.33
	<b>Total</b>	<b>4070</b>	<b>190.00</b>	<b>712</b>	<b>17.77</b>

During 2001-02, the concerned departments accepted audit observations involving Rs.17.77 crore in 712 cases. The departments/Government during the year recovered Rs.1.50 crore in 426 cases at the instance of Audit.

### **1.5.3 Tax revenue**

These constitute the major share (54 per cent) of revenue receipts. Even though the tax revenue decreased from Rs. 4,895 crore to Rs.4,820 crore, during the year, yet its share in revenue receipts increased by two per cent in 2001-2002. The decline in tax revenue was mainly due to lesser receipt of electricity duty by Rs. 142.27 crore and decline in revenue from taxes on Motor Vehicles.

### **1.5.4 Non-tax revenue**

The non-tax revenue constituted 33 per cent of the revenue receipts of the Government. It increased from Rs.2,935 crore to Rs.2,960 crore during the year. The increase was mainly due to receipts on account of General Services by 15 per cent (Rs.260 crore) under State Lotteries (Rs.250 crore) as compared to last year.

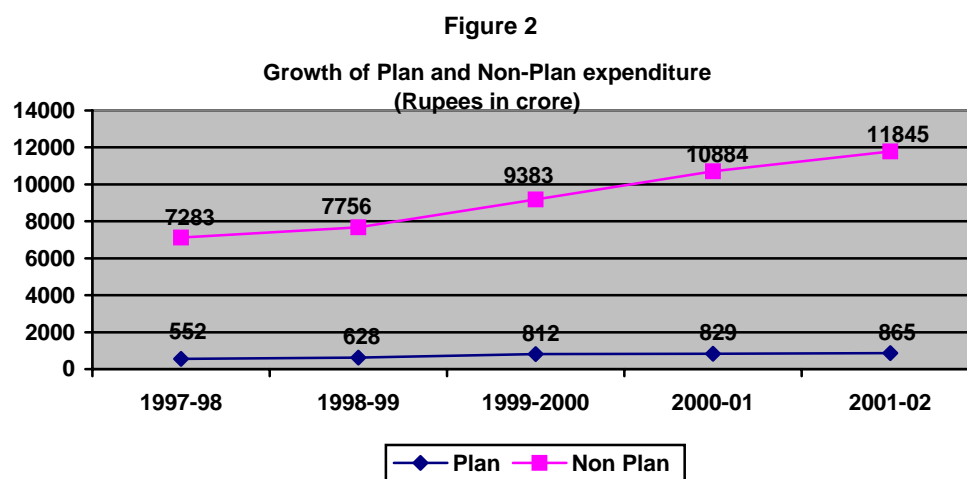
### **1.5.5 State's share of Union taxes and duties and grants-in-aid from the Central Government**

The State's share of Union taxes (excise duties and income tax) decreased from Rs.720 crore to Rs.611 crore and the grants-in-aid from the Central government from Rs.827 crore to Rs.538 crore during the said period. The

decrease in Grants-in-aid from Central government was mainly under Non-Plan Grants (Rs.232 crore) and Grants for Plan Schemes (Rs.10 crore).

## 1.6 Revenue expenditure

**1.6.1** Revenue expenditure increased by 9 per cent during the year (Exhibit-IV) but accounted for 86 per cent of total expenditure\* compared to 88 per cent in 1997-98. While non-plan revenue expenditure increased by 63 per cent, the share of plan revenue expenditure did not show any change over 1997-98.



**1.6.2** Sector-wise analysis shows that during the last five years (1997-2002), expenditure on General Services increased from 47 per cent in 1997-98 to 60 per cent in 2001-2002 and the expenditure on Economic Services declined from 26 per cent (1997-98) to 15 per cent (2001-2002). The increase in expenditure on General Services was mainly due to increased expenditure on interest payments.

### 1.6.3 Interest payments

Interest payments increased by 36 per cent during the year from Rs.2,343 crore (2000-2001) to Rs. 3,178 crore (2001-2002). The increase was mainly on 'Interest on Small Savings, Provident Fund etc.' and 'Interest on Internal Debt'. Interest payments constituted 25 per cent of revenue expenditure during 2001-2002. The position has been discussed further in the section on financial indicators (Para 1.12).

### 1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different local bodies etc., during the period of five years ending 2001-2002 was as follows:

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

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Universities and Educational Institutions	89.53	139.01	321.86	241.72	151.49
Municipal Corporations and Municipalities, Zila Parishad and Panchayati Raj Institutions	0.40	4.39	-	20.29	14.40
Cooperative Societies and Cooperative Institutions	-	-	-	-	0.29
Other Institutions	5.75	68.94	54.52	95.38	203.99
<b>Total</b>	<b>95.68</b>	<b>212.34</b>	<b>376.38</b>	<b>357.39</b>	<b>370.17</b>
Percentage of growth over previous year	(-) 23	122	77	(-)5	4
Assistance as per percentage of revenue expenditure	1	3	4	3	3

The reduction in financial assistance to University and Education Institutions during 2001-02 is as a result of Fiscal Reforms Programme and revision of fees for Technical Education, Medical Education and Higher/ Secondary Education to improve the internal finances of the institutions.

### 1.7 Capital expenditure

Capital expenditure generally leads to asset creation. In addition, financial assets arise from money invested in institutions or Public Sector Undertakings (PSUs) and from loans and advances. The capital expenditure decreased by 29 per cent during the year and its share in total expenditure declined from 11 to 7 per cent. However, during 2001-02, the Capital Plan expenditure increased by 37 per cent.

### 1.8 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, cooperatives, non-government institutions, etc. The details below show that the recoveries were poor upto 2000-01 and increased sharply during 2001-02. Despite the improvement in recoveries the amount outstanding had increased.

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Opening balance	4694	4707	4725	4795	4970
Proforma adjustment	(-) 11	(+) 7	(+)42	-	(-) 14*
Amount advanced during the year	119	118	137	302	1066
Amount repaid during the year	95	107	109	127	872
Closing balance	4707	4725	4795	4970	5150
Net addition	24	11	28	175	193
Interest received	884	15	447	618	459

\* Decreased by Rs.13.49 crore from the Closing Balance of 2000-2001 due to proforma correction.

The table shows that the interest received has been erratic. This was mainly due to adjustment of interest payable by Punjab State Electricity Board to Government against subsidy payable to them by the Government.

Out of total outstanding loans of Rs.5,150 crore as on 31 March 2002, Rs.3,842 crore (75 per cent) was advanced to Punjab State Electricity Board, which could not be repaid by the Board, because of financial constraints. Similarly, out of Rs.251 crore advanced to Punjab State Tubewell Corporation (PSTC), Rs.214 crore advanced between 1990-91 and 1998-99 could not be recovered and PSTC had requested the Government to convert the loan into grant-in-aid.

Punjab Government sanctioned loan amounting to Rs.42.81 crore between July 2001 and January 2002 to SUGARFED PUNJAB stating that terms and conditions of loan would be specified later. The terms and conditions of repayment were yet to be decided (July 2002).

The administrative departments are required to intimate the Principal Accountant General (A&E) by 10<sup>th</sup> of August each year the arrears in recovery of principal and interest for the loans, the detailed accounts of which are maintained by the departmental officers. Against 151 statements due from 20 departmental officers for the year 2001-2002, none had been received (June 2002). According to the statements received, recovery of Rs.131.75 crore (including Rs.103.37 crore as interest) was overdue as on 31 March 2002. Major portion (Rs.3,842.21 crore) of the outstanding loan relates to Loans for Power Projects against which repayment was negligible\*.

## **1.9 Quality of Expenditure**

**1.9.1** Government expenditure is broadly classified into plan, non-plan, revenue and capital. While the plan and capital expenditure are usually associated with asset creation, the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, the plan and capital expenditure can be viewed as contributing to the quality of expenditure.

**1.9.2** Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as negation of quality expenditure. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

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\* Rs. 0.18 crore only.

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

*(Rupees in crore)*

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
1. Plan expenditure: (Total of Revenue + Capital)	1429	1498	1401	1526	1817
2. Capital expenditure ( <i>per cent</i> )	11	12	4	11	7
3. Expenditure on General services (Total of Revenue + Capital)	3678	4433	5620	6574	7589
4. Amount of wastages and diversion of funds detected during test audit	134.87	40.57	140.25	66.35	214.29
5. Non-remunerative expenditure on incomplete projects (Capital works)	62.08	101.52	1380	548	1177

It would be seen from Exhibit-IV that plan capital expenditure has increased by 8 *per cent* during the period 1997-2002 (Rs. 877 crore to Rs. 952 crore) and revenue expenditure under General Services has increased by 107.71 *per cent* (Rs.3,643 crore to Rs.7,567 crore) during the same period. This indicates that most of the expenditure was on revenue side and very little on asset formation. Despite this, Rs.1,177 crore were blocked in eleven incomplete projects. These projects were incomplete for want of further funds indicating that the Government failed to prioritise projects and had spread its resources thin.

**1.9.4 Subsidies**

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

*(Rupees in crore)*

Year	Revenue Expenditure	Capital Expenditure	Total	Subsidies paid	Percentage of total Expenditure
1997-98	7835	970	8805	2.46	0.028
1998-99	8384	1140	9524	3.70	0.039
1999-2000	10195	439	10634	404.50	3.80
2000-2001	11713	1393	13106	604.58	4.61
2001-2002	12710	984	13694	448.00	3.27

Subsidy during the year pertained to Rural Electrification by the Punjab State Electricity Board. However, the subsidy given was adjusted as recovery of interest on loan. Expenditure on subsidy which was less than 0.1 *per cent* of the total expenditure in 1997-98 rose substantially to 4.61 *per cent* in 2000-2001. Though the position has marginally improved, it is still at Rs. 448 crore as against Rs. 2.46 crore in 1997-98.

**1.10 Financial Management**

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as these

relate to the expenditure management in the Government. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

### **1.10.1 Fiscal Reforms Programme**

Mention was made in the Civil Audit Reports of Government of Punjab for the year 1999-2000 and 2000-2001 on the Fiscal Reforms Programme initiated by GOI on Memorandum of understanding reached (April 1999) between the Government of India and Punjab to shore up revenue and reduce non plan expenditure of the State. State Government had made certain commitments. Audit scrutiny disclosed that:

- (i) Though Disinvestment Commission has been set up, Government was able to generate only Rs.5.26 crore through disinvestments in one Public Sector Undertaking against the target of Rs. 50 crore.
- (ii) While there was a commitment to reduce the non-plan revenue expenditure by 5 *per cent*, it increased by 9 *per cent* over previous years level.
- (iii) Facilities of rent free accommodation/payment of additional house rent allowance to eligible Government employees continued though there was commitment to withdraw this facility.
- (iv) Water charges proposed to be introduced in a phased manner to achieve economic pricing of irrigation water at least to cover O&M charges was not achieved. The matter was stated to be under consideration of State Government.
- (v) The State Government had committed to rationalize tax structure and strengthen enforcement mechanism to increase revenue collection. But tax revenue decreased by Rs.74.99 crore in 2001-02. The decrease was due to non-payment of electricity duty by PSEB.
- (vi) State Electricity Regulatory Commission was constituted in March 1999 but the measures taken to rationalize power tariff were not intimated to audit.
- (vii) Transmission and distribution losses increased to 26.22 *per cent* in 2001-02 as compared to 17.76 *per cent* in 1999-2000. Thus, the return on investment in power sector remained poor.
- (viii) To arrest the growth of Public Debt and to lay down guidelines for management of loans and advances, the State Government formed a High Powered Committee in May 1999. Guidelines and priorities for borrowing and extending guarantees have not been laid down and limits to borrowing had not been fixed as required under Article 293(i) of the Constitution. Guarantees given by the State Government has been discussed in para 1.10.8.

### **1.10.2 Investments and returns**

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

(Rupees in crore)

Sr. No	Sector	Number of concerns	Investments as on 31.3.2002	Increase/decrease over the previous year
1	Statutory Corporations	10	1788.88	(+) 13.50
2	Government Companies	23	337.10	-
3	Joint Stock Companies	15	1.39	-
4	Cooperative Institutions	8020	218.91	(-) 2.36
	<b>Total</b>	<b>8068</b>	<b>2346.28</b>	<b>11.14</b>

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

(Rupees in crore)

Year	Investment	Return	Percentage of return	Rate of interest on Government borrowings
1997-98	2312.89	2.17	0.09	13.05 & 12.30
1998-99	2341.53	1.18	0.05	12.15, 12.50 & 12.47
1999-2000	2307.81	9.15	0.40	12.25, 11.85 & 11
2000-2001	2335.14	2.33	0.10	11, 10.52, 12
2001-2002	2346.28	1.09	0.05	10.35, 9.40, 8.30 and 8

Thus, while the Government was raising money from the market at high cost, its investments in Government companies etc., fetched insignificant returns. The returns decreased from Rs.2.33 crore in 2000-2001 to Rs.1.09 crore in 2001-02. The decrease was due to less receipt of dividends from Government Companies and Corporations. As on 31 March 2002, 14 out of 23 Government companies were running at a loss and the accumulated losses were Rs.536.68 crore outstripping investment of Rs.284.95 crore, (*Appendix II*).

### 1.10.3 Financial results of irrigation works

The financial results of 9 major irrigation projects with a capital outlay of Rs.211.61 crore showed that revenue realised from these during 2001-2002 (Rs.12.49 crore) was only 5.90 per cent of the capital outlay and did not reimburse even the direct working expenses (Rs.112.72 crore). The projects suffered a net loss of Rs.114.98 crore.

### 1.10.4 Incomplete projects

As of 31 March 2002, there were 11 projects which were incomplete, in which Rs.1,177 crore were blocked, for want of funds. This shows that the Government failed to prioritise its projects and was spreading its resources thin.



### **1.10.5 Arrears of revenue**

The arrears of revenue in comparison with tax and non-tax revenue receipts were substantial. Exhibit-IV shows that arrears of revenue increased to 48 *per cent* in 2001-2002 as against 29 *per cent* in 1997-98. Of the arrears of Rs.3,759.67 crore as of March 2002, Rs.812.38 crore (24 *per cent*) were pending for more than five years and pertained mainly to Taxes on Sales & Trades etc. (Rs.73.05 crore) and interest receipts (Rs.722.90 crore). The arrears of revenue increased by 9 *per cent* during the year.

### **1.10.6 Ways and Means Advances and overdraft**

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

During the year 2001-2002, the Government took Ways and Means Advances on 140 days (Rs.1,976.61 crore) and Overdraft on 119 days (Rs.3,826.70 crore) as compared to 146 days (Rs 2,170.77 crore) and 107 days (Rs 1,600.10 crore) respectively during the year 2000-2001. Ways and Means Advance of Rs.221.42 crore and Overdraft of Rs.196.36 crore were outstanding on 31 March 2002. An interest of Rs.13.23 crore was paid on overdrafts and ways and means advances.

### **1.10.7 Deficit**

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

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

*(Rupees in crore)*

<b>CONSOLIDATED FUND</b>					
<b>Receipt</b>	<b>Amount</b>			<b>Disbursement</b>	<b>Amount</b>
Revenue	8929	<b>Revenue deficit: 3781</b>		Revenue	12710
Misc. capital receipts	-			Capital	984
Recovery of loans & advances	872			Loans & advances disbursement	1066
<b>Sub Total</b>	<b>9801</b>	<b>Gross fiscal deficit:4959</b>		<b>Sub Total</b>	<b>14760</b>
Public debt receipt	6703			Public debt repayment	2578
<b>Total</b>	<b>16504</b>	<b>A: Deficit in CF: 834</b>			<b>17338</b>
<b>CONTINGENCY FUND</b>					
Contingency Fund	3	<b>B. Surplus Contingency Fund : -3</b>		Contingency Fund	---
<b>PUBLIC ACCOUNT</b>					
Small savings, PF etc.	1206			Small savings, PF etc.	666
Deposits & advances	2170			Deposits & advances	2077
Reserve funds	239			Reserve funds	33
Suspense & misc.	9597			Suspense & misc.	9584
Remittances	960			Remittances	1068
<b>Total Public Account</b>	<b>14172</b>	<b>C: Deficit in CF financed by Surplus Public Account: 744</b>			<b>13428</b>
<b>Decrease in cash balance C-(A-B) : 87</b>					

The Table shows that Rs.4,872 crore available from net proceeds of the Public Debt (Rs.4,125 crore), surplus from Public Account (Rs.744 crore) and contingency fund (Rs. 3 crore) financed the fiscal deficit (Rs.4,959 crore) and resulted in decrease in cash balance by Rs. 87 crore. Exhibit-IV shows that revenue deficit increased (from Rs. 1,484 crore in 1997-98 to Rs. 3,781 crore in 2001-02) by 155 *per cent* during 1997-2002 and by 62 *per cent* as compared to the previous year.

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

Ratio	1997-98	1998-99	1999-2000	2000-2001	2001-2002
RD/FD	0.60	0.69	0.85	0.60	0.76
CE/FD	0.39	0.30	0.14	0.35	0.20
Net loans/FD	0.01	0.01	0.01	0.05	0.04
<b>Total</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>

Seventy six *per cent* of borrowed funds were applied to revenue expenditure. RD/FD ratio shows a substantial increase and indicates that the galloping revenue expenditure needs to be controlled as otherwise capital formation would be hurt and the financial condition of the Government would further deteriorate.

### 1.10.8 Guarantees given by the State Government

Guarantees are given by the State Government on the security of the Consolidated Fund of the State for discharge of certain liabilities like repayment of loans, share capital, etc. raised by the Statutory Corporations, Government Companies and Cooperative Institutions etc. and for payment of dividend and interest by them. These constitute contingent liabilities of the State. Exhibit –IV shows that the amount of outstanding guarantees including interest thereon increased from Rs.5,012 crore in 1997-98 to Rs. 10,584 crore in 2001-2002 and amounted to 119 *per cent* of the revenue receipts (Rs.8,929 crore).

The year-wise position of guarantees given by the Government was as under:

Year	Maximum amount guaranteed	Outstanding amount of guarantees	
		Principal	Interest
1997-98	10630	5008	04
1998-99	7408	3294	95
1999-2000	12059	9861	90
2000-2001	7331	8868	122
2001-2002	10244	10244	340

Test check of records of Finance Department and information collected from loanee institutions revealed the following:

#### 1.10.8.1 Failure to prescribe maximum limit of guarantees

Under Article 293 of the Constitution, the Government may give guarantees within the limits prescribed by the State Legislature. It was, however, seen in audit that neither any law prescribing the maximum limit upto which the Government may give guarantee has been passed nor any policy guidelines formulated for giving guarantee.

Government stood guarantee to the loans raised by Punjab State Corporations/ Undertakings to the tune of Rs.10,630 crore, Rs.7,408 crore, Rs.12,059 crore, Rs.7,331 crore and Rs.10,244 crore during the years 1997-98, 1998-99, 1999-2000, 2000-2001 and 2001-02 respectively which constituted 167 *per cent*, 129 *per cent*, 161 *per cent*, 78 *per cent* and 115 *per cent* of the total

revenue earned by the State during the said period. Huge increase in guarantees which were 115 per cent of total revenue earned during the year has added to the vulnerability of the State finances. On being pointed out, the Government stated (June 2002) that formulation of policy guidelines as well as checks to be exercised for the purpose are under consideration.

**1.10.8.2 Failure to maintain records**

Finance department/Administrative department did not maintain any consolidated record except individual case files for guarantees given by the Government and for collection of guarantee fee. In the absence of any consolidated record, the Finance Department has been collecting details of guarantees from loanee institutions. As such the correctness of the figures of guarantees could not be ascertained in audit. This indicated that there was no effective monitoring of the guarantees given by the State Government.

**1.10.8.3 Failure to recover guarantee fee**

In consideration of guarantees given by the Government, guarantee fee is charged. Information about the guarantee fee in arrears and guarantee fee waived was not available with the Finance Department. This indicates that the Government failed to monitor guarantees given and the recovery of guarantee fee. However, records revealed that on a loan of Rs. 20.82 crore raised (1988-89) by Punjab State Federation of Co-operative House Building Society Limited, guarantee fee of Rs. 0.42 crore was yet to be recovered.

**1.10.8.4 Guarantees to unviable units**

State Government stood guarantee for eight\* cooperative sugar mills and had to provide loans of Rs.42.81 crore during 2001-02 for one time settlement of loans to IDBI and IFCI.

**1.10.8.5 Guarantees to loss making units**

Government had given guarantee for loans to loss making units. A few such institutions are listed below:

*(Rupees in crore)*

Sr.No.	Name of the Institution	Outstanding guarantee as on 31 March 2002	Loss incurred	
			Amount	At the end of year
1.	Punjab Financial Corporation Limited	247.35	135.12	1998-99
2.	Punjab Agro Industries Corporation Limited	1832.70	15.24	2000-01
3.	Punjab State Tubewell Corporation Limited Chandigarh	60.00	38.11	1997-98
4.	Punjab State Civil Supplies Corporation Limited	6965.00	320.74	2000-01

\* Cooperative Sugar mills, Ajnala, Faridkot, Gurdaspur, Jagraon, Patiala, Tarn Taran, Zira and Fazilka.

The extension of guarantees for loss making units enhanced the risk of invocation of guarantee. The matter was referred to Government and the reply was awaited (July 2002).

## 1.11 Public debt

**1.11.1** The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government are given in the table. During the five year period, the total liabilities of the Government had grown by 90 per cent. This was on account of 472 per cent growth in internal debt and 106 per cent growth in other liabilities. During 2001-2002, Government borrowed Rs.418.64 crore in the open market at interest rates of 10.35, 9.40, 8.30 and 8 per cent per annum as against Rs.361.71 crore at the interest rate of 10.52 and 12 per cent per annum during 2000-2001.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Govt	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1	2	3	4(2+3)	5	6	7
1997-98	2392	11979	14371	3486	17857	0.37
1998-99	4150	13057	17207	4498	21705	0.40
1999-2000	6077	13016	19093	5711	24804	0.40
2000-2001	9612	13008	22620	6337	28957	0.42
2001-2002	13692 <sup>#</sup>	13054	26746	7175	33921	0.44

**1.11.2** The details of Public debt are given in the following table:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Internal Debt					
-Receipt	2902	6387	4684	8134	11522
-Repayment (principal + interest)	2639	5050	4939	5234	8385
-Net funds available (per cent)	263 (9)	1337 (21)	(-255)	2900 (36)	3137 (27)
Loans & advances from Government of India					
- Receipt during the year	1454	2360	2802	624	836
- Repayment including interest	1868	2795	2832	1820	1999
- Net funds available (per cent)	(-414)	(-435)	(-30)	(-1196)	(-1163)
Other liabilities*					
- Receipt during the year	2714	2404	3603	2986	3520
- Repayment (including interest)	2148	1773	2856	2882	3118
- Net funds available (per cent)	566 (21)	631 (26)	747 (21)	104 (3)	402 (11)

<sup>#</sup> Including ways and Means Advances and overdraft

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

From the above table, it is seen that the receipts of loans and advances from GOI declined from a high of Rs. 2802 crore in 1999-2000 to Rs. 836 crore in 2001-02. Resultantly repayments were more than receipts of loans and advances from GOI. In view of progressive growth in outstanding public debt, net availability of funds for further borrowing is not satisfactory.

## **1.12 Indicators of the financial performance**

**1.12.1** All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity<sup>\*\*</sup>, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

**(i) Sustainability**

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

**(ii) Flexibility**

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

**(iii) Vulnerability**

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

**(iv) Transparency**

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

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<sup>\*\*</sup> There are exceptions to this, notably transfer of Plan to the Non-Plan at the end of Plan period.

**EXHIBIT-V**  
**FINANCIAL INDICATORS FOR GOVERNMENT OF PUNJAB**

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(1)	(2)	(3)	(4)	(5)	(6)
<b>Sustainability</b>					
BCR (Rs. in crore)	(-)1184	(-)2308	(-)2254	(-)1893	(-)3295
Primary Deficit (PD) (Rs. in crore)	629	1463	557	1561	1781
Interest Ratio	0.16	0.39	0.30	0.19	0.31
Capital outlay/Capital receipts	0.32	0.31	0.10	0.27	0.15
Total Tax receipts/GSDP	0.08	0.07	0.07	0.08	0.07
State Tax Receipts/GSDP	0.06	0.06	0.06	0.07	0.06
Return on Investment ratio	0.0009	0.0005	0.003	0.001	0.0005
<b>Flexibility</b>					
BCR (Rs. in crore)	(-)1184	(-)2308	(-)2254	(-)1893	(-)3295
Capital repayments/Capital borrowings	0.43	0.34	0.37	0.24	0.34
State tax receipts/GSDP	0.06	0.06	0.06	0.07	0.06
Debt/GSDP	0.37	0.40	0.40	0.42	0.44
<b>Vulnerability</b>					
Revenue Deficit(RD) (Rs. in crore)	1484	2629	2727	2336	3781
Fiscal Deficit(FD) (Rs. in crore)	2478	3780	3194	3904	4959
Primary Deficit(PD) (Rs. in crore)	629	1463	557	1561	1781
PD/FD	0.25	0.39	0.17	0.40	0.36
RD/FD	0.60	0.70	0.85	0.60	0.76
Outstanding Guarantees/revenue receipts	0.79	0.59	1.33	0.96	1.19
Assets/Liabilities	0.66	0.60	0.55	0.53	0.49

**Notes:**

1. Fiscal deficit has been calculated as Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts.
2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

**1.12.2** Information available in Finance Accounts (*Appendix-I*) can be used to ascertain sustainability, flexibility and vulnerability which can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Exhibit-V which indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-2002.

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

**(i) Balance from current revenues (BCR)**

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the negative BCR was increasing since 1997-98 touching an all time high of Rs.3,295 crore in 2001-02. Thus, Government has to depend more and more on borrowings for financing its plan expenditure.

**(ii) Interest ratio**

Higher the ratio, the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from revenue receipts. In case of Punjab, the ratio had increased from 0.16 in 1997-98 to 0.31 in 2001-2002

despite moratorium given by Government of India on repayment of debt and interest on special term loans for the period 2000-05. This indicates an increasing dependence of the State Government on borrowings. Further once this moratorium is over, the interest ratio is likely to increase even further and would adversely impact the financial position of the Government.

**(iii) Capital Outlay/Capital Receipts**

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

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

Tax receipts consist of state taxes and state's share of central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for flexibility as well. While a low ratio would imply that the Government can tax more, and hence has flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Exhibit-V shows that in case of Punjab, this ratio marginally decreased from 0.08 in 1997-98 to 0.07 in 2001-2002 whereas the ratio of State Tax receipts to GSDP remained static at 0.06 during the same period. The State Government thus needs to make a sustained effort to expand its tax base and improve tax administration to reduce arrears in tax revenue.

**(v) Return on Investment (ROI)**

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table in paragraph 1.10.2 *ibid* presents the return on Government's investments in statutory corporations, government companies, joint stock companies and cooperative institutions. It shows that the ROI has been negligible during 1997-2002.

**(vi) Capital repayments Vs Capital borrowings**

This ratio indicates the extent to which the capital borrowings are available for investment, after repayment of capital. Lower the ratio, higher would be the availability of capital for investment. In case of Punjab Government, the ratio has declined from 0.43 in 1997-98 to 0.34 in 2001-02. Most of the borrowings financed the increasing revenue expenditure and as such the Government was unable to finance asset formation. The level of borrowings and financing pattern will not be sustainable as repayment liabilities will increase in the future.



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

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Punjab, this ratio has increased from 0.37 to 0.44 *per cent* during the period 1997-2002. During 2001-02, the rate of growth in GSDP was 12 *per cent* while rate of growth in debt was 17 *per cent*. As the rate of growth of debt was much higher than the growth in GSDP, Government's ability for debt repayments would be seriously affected.

**(viii) Revenue deficit/Fiscal deficit**

Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance revenue expenditure. Thus, higher the ratio, the worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. During 2001-2002, 76 *per cent* of the borrowings were applied to meet revenue expenditure as compared to 60 *per cent* in 1997-98.

**(ix) Primary deficit Vs Fiscal deficit**

Primary deficit is the fiscal deficit minus interest payments. Primary deficit represents net borrowings available after discharging interest liability, which results from the current action of the Government (interest payments are on account of past actions of the Government). Primary deficit is sustainable only when the rate of growth in the economy is more than the interest rate on the borrowings. This not being the case, the Primary deficit is not sustainable. Exhibit-V shows that the ratio has risen to 0.36 in 2001-2002 from 0.25 in 1997-98. The increasing trend affects sustainability.

**(x) Guarantees Vs Revenue receipts**

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should, therefore, be compared with the ability of the Government to pay viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. Analysis of the reasons of increase in the guarantees are included in para 1.10.8. During 1997-2002, the ratio increased by 51 *per cent* from 0.79 to 1.19 indicating increased risk exposure of Government.

**(xi) Assets Vs Liabilities**

This ratio indicates the solvency of the Government. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator. As stated in Para 1.2, Government account captures mainly the financial assets and liabilities of the Government. However, a trend analysis of the ratio of even these assets and liabilities would be an important indicator of fiscal performance of the State Government. In the case of Punjab, this ratio has all

along been less than one and on a declining trend from 0.66 in 1997-98 to 0.49 in 2001-2002, indicating a deterioration in financial management.

**(xii) Budget**

There was no delay in submission of the budget and their approval. The extent of variations in budget estimates and revised estimates for the year 2001-2002 was as follows:

*(Rupees in crore)*

	<b>Budget Estimate</b>	<b>Revised Estimate</b>	<b>Actuals</b>	<b>Percentage of Variation between BE &amp; RE</b>
<b>Receipt</b>				
Revenue	11299.30	9624.60	8928.62	(-) 14.82
Public Debt	9535.69	12948.38	12358.22	35.78
<b>Expenditure</b>				
Revenue	13986.42	13466.60	12709.81	(-) 3.72
Capital	1554.83	1256.24	984.32	(-) 19.20
Public Debt	6077.25	7903.49	8233.00	30.05

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

**(xiii) Accounts**

There was no significant delay in the submission of accounts by the treasuries/departments during 2001-2002.

**1.12.4 Conclusion**

Persistent negative BCR, almost stagnant tax GSDP ratio, a lukewarm approach by Government to implement the fiscal reforms programme (MOU) to reduce revenue expenditure, coupled with huge arrears in revenue collection and increased fiscal deficit during the year forced the State Government to borrow more. Resultantly, the outstanding Government debt now accounts for 44 *per cent* of GSDP. Most of the borrowings are directed towards revenue expenditure leaving little scope for new investments. As the Government is forced to borrow more, the interest payments have increased by 36 *per cent* and constituted 25 *per cent* of the revenue expenditure. Once the moratorium on repayment and interest of special term loan granted by GOI for the period 2000-05 is over, the interest payments are likely to rise even further. Government investments are yielding virtually nothing to service the high debt burden. In sum, financial management leaves scope for improvement and the present practices indicate that there is no sustainability of its finances.