CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large Revenue and Fiscal Deficit year after year indicate continued macro imbalances in the State. In Punjab both the Revenue and Fiscal Deficit which have been rising until 2001-02 declined marginally in 2002-03 (current year for the purpose of this Report). The ratio of revenue receipts to total expenditure stood at 71.04 *per cent* in 2002-03. Revenue of the State consist mainly of its own tax and non-tax revenue, Central Tax Transfers and Grants-in-aid from Government of India. Overall revenue receipts increased from Rs 5,755 crore in 1998-99 to Rs 11,071 crore in 2002-03 at an average trend rate of 13.15 *per cent* per annum. There were, however, significant inter year variations in the growth rates. During the current year revenue receipts grew by 12.83 *per cent*. This was due to 18.5 *per cent* increase in tax revenue and 36.35 *per cent* increase in non-tax revenue. Arrears of revenue were high at Rs 3005 crore and represented 31 *per cent* of tax and non-tax revenue receipts. On an average, around 85 *per cent* of the revenue came from the State's own resources. In fact, Central Tax Transfers declined throughout the period and came down to 5.86 *per cent* in 2002-03 from 10.20 *per cent* during 1998-99. Grants-in aid also declined from the peak of 8.82 *per cent* in 2000-01 to 6.10 *per cent* in 2002-03.

Overall expenditure of the State increased from Rs 9,642 crore in 1998-99 to Rs 15,584 crore in 2002-03 at an average trend rate of 13.02 *per cent* per annum. The rate of growth achieved a peak of 24.48 *per cent* in 2000-01 and declined thereafter to 5.58 *per cent* in 2002-03. In fact, the major burden of a curtailment in the growth of total expenditure has been borne by a decline in the proportion of development expenditure to total expenditure. The proportion of development expenditure declined from 52.69 *per cent* in 1998-99 to 38.9 *per cent* in 2002-03. Revenue expenditure which constituted 95.13 *per cent* of total expenditure grew at a trend rate of 13.97 *per cent* over the period with a growth of 16.64 *per cent* in 2002-03. Interest payments increased steadily by 48 *per cent* from Rs 2,317 crore in 1998-99 to Rs 3,434 crore in 2002-03 primarily due to continued reliance on borrowings for financing fiscal deficit. Interest payments are likely to rise substantially once moratorium granted by GOI for five years on repayment and interest on a portion of GOI loans is over in 2005.

The State passed the 'Fiscal Responsibility and Budget Management Act' in 2003 which provides for a cap on the ratio of the debt to GSDP at the level achieved in the previous year subject to an absolute ceiling of 40 *per cent* to be achieved by 2004-05. Though, it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap. As generation of additional internal resources and curtailment of non-developmental expenditure are the best means available, the Fiscal Responsibility and Budget Management Act 2003 is a step in the right direction.

1.1. Introduction

The Finance Accounts of the Government of Punjab are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Punjab. The lay out of the Finance Accounts is depicted in Box below :

Lay out of Finance Accounts

The Finance Accounts of Punjab contains 19 statements as depicted below:

Statement No 1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund of the State, Contingency Fund and Public Account.

Statement No 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2002-03.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No.4 indicates the summary of debt position of the State which includes internal debt, borrowings from Government of India, other obligations and service of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31st March 2003.

Statement No.9 shows the revenue and expenditure under different heads for the year 2002-2003 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the Charged and Voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads under Non Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.12 provides accounts of revenue and capital expenditure by minor heads under Non Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2002-2003.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2002-03.

Statement No.15 depicts the capital and other expenditure to the end of 2002-03 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of Punjab.

Statement No.18 provides the detailed account of loans and advances given by the Government of Punjab, the amount of loan repaid during the year, the balance as on 31st March 2003, and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of Reserve Funds.

1.2. Trend of Finances with reference to previous year

Financial position of the State Government during the current year as compared to the previous year was as under :

(Rupees in crore)

2001-02	Sr.No	Major Aggregates	2002-03
8929	1.	Revenue Receipts	11071
4820	2.	Tax Revenue (Net)	5711
2960	3.	Non-Tax Revenue	4036
1149	4.	Other Receipts	1324
872	**5.**	**Non-Debt Capital Receipts**	**103**
872	6.	Of which Recovery of Loans	103
9801	**7.**	**Total Receipts (1+5)**	11174
12885	**8.**	**Non-Plan Expenditure**	13881
11845	9.	On Revenue Account	14117
3178	10.	Of which Interest Payments	3434
1040	11.	On Capital Account	(-) 236
1008	12.	Of which Loans disbursed	241
1875	**13.**	**Plan Expenditure**	1703
865	14.	On Revenue Account	708
1010	15.	On Capital Account	995
58	16.	Of which Loans disbursed	98
14760	**17.**	**Total Expenditure (8+13)**	**15584**
4959	**18.**	**Fiscal Deficit (17-7)**	**4410**
3781	**19.**	**Revenue Deficit (9+14-1)**	**3754**
1781	**20.**	**Primary Deficit (18-10))**	**976**

1.3. Summary of Receipts and Disbursements

Table 1 summarises the state of Finances of the Government of Punjab for the year 2002-03 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1

SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2002-2003

(Rupees in crore)

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
	Section-A: Revenue		Total		Non-Plan	Plan	Total
8928.62	**Revenue receipts**	**11071.18**	**12709.81**	**Revenue expenditure-**	**14117.37**	**707.75**	**14825.12**
4820.23	Tax revenue	5711.00	7567.23	General services	9067.67	4.69	9072.36
2960.45	Non-tax revenue	4035.56	3110.60	Social Services-	2844.55	377.09	3221.64
610.49	Share of Union Taxes/Duties	649.02	1865.68	Eco. Services-	1983.97	325.97	2309.94
537.45	Grants from Govt. of India	675.60	166.30	Grants-in-aid and Contributions	221.18	--	221.18
3781.19	Revenue Deficit carried over to Section B	3753.94					
12709.81	**Total**	**14825.12**	**12709.81**	**Total**	**14117.37**	**707.75**	**14825.12**
	Section-B: Capital		48.37	Opening Overdraft from Reserve Bank of India	196.36*	--	196.36
509.17	Opening Cash Balance	422.39					
	Misc. Capital Receipts		984.32	Capital Outlay-	-476.47	896.87	420.40
872.33	Recoveries of Loans & Adv.-	102.86	1065.79	Loans and Adv. Disbursed-	240.78	97.96	338.74
6554.91	Public debt receipts-	6245.95#	3781.19	Revenue Deficit brought down	3753.93*	--	3753.93
3.40	Amount transferred to Contingency Fund	--	2577.67	Repayment of Public Debt-	2248.33	--	2248.33
14171.40	Public account receipts-	11972.25	13427.84	Public Account disbursements-	11395.24*	--	11395.24
196.36	Closing Overdraft from Reserve Bank of India	--	422.39	Cash Balance at end	390.45*	--	390.45
22307.57	**Total**	**18743.45**	**22307.57**	**Total**	**17748.62**	**994.83**	**18743.45**
35017.38	**Grand Total**	**33568.57**	**35017.38**	**Grand Total**	**31865.99**	**1702.58**	**33568.57**

Note : *Minus expenditure is because of recoveries on capital account.*
* *Represents 'Other expenditure ' not covered under Plan or Non Plan.*

1.4. Audit Methodology

Audit observations on the statements of the Finance Accounts for the year 2002-2003 bring out the trends in the major fiscal aggregates of receipts and expenditure and wherever necessary show these in the light of time series data ***(Appendix I)*** and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances have been presented as percentages to the GSDP at current market prices. Tax revenue, non-tax revenue, revenue expenditure etc., buoyancy projections have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are: (i) resources by volume and sources (ii) application of resources (iii) management of assets and (iv) undischarged liabilities. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

1.5. State Finances by key Indicators

1.5.1. Resources by volume and sources

Resources consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union Taxes and Duties and Grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/ commercial banks etc. and loans and advances from Government of India as well as accruals from Public Account. Table 2 shows the total receipts of the Government of Punjab (Rs 29,392 crore) for the year 2002-03, by volume and source.

Table 2: Resources of Punjab

(Rupees in crore)

I. Revenue Receipts			11071
II Capital Receipts			*6349*
a.	*Recovery of Loans and Advances*	*103*	
b.	*Debt Receipts*	*6246*	
III Public Account Receipts			*11972*
a.	*Small Savings and Provident Fund*	*1364*	
b.	*Reserve Fund*	*29*	
c.	*Deposit and Advances*	*1243*	
d.	*Suspense and Miscellaneous*	*8491*	
e.	*Remittance*	*845*	
Total Receipts			*29392*

1.5.2. Revenue Receipts

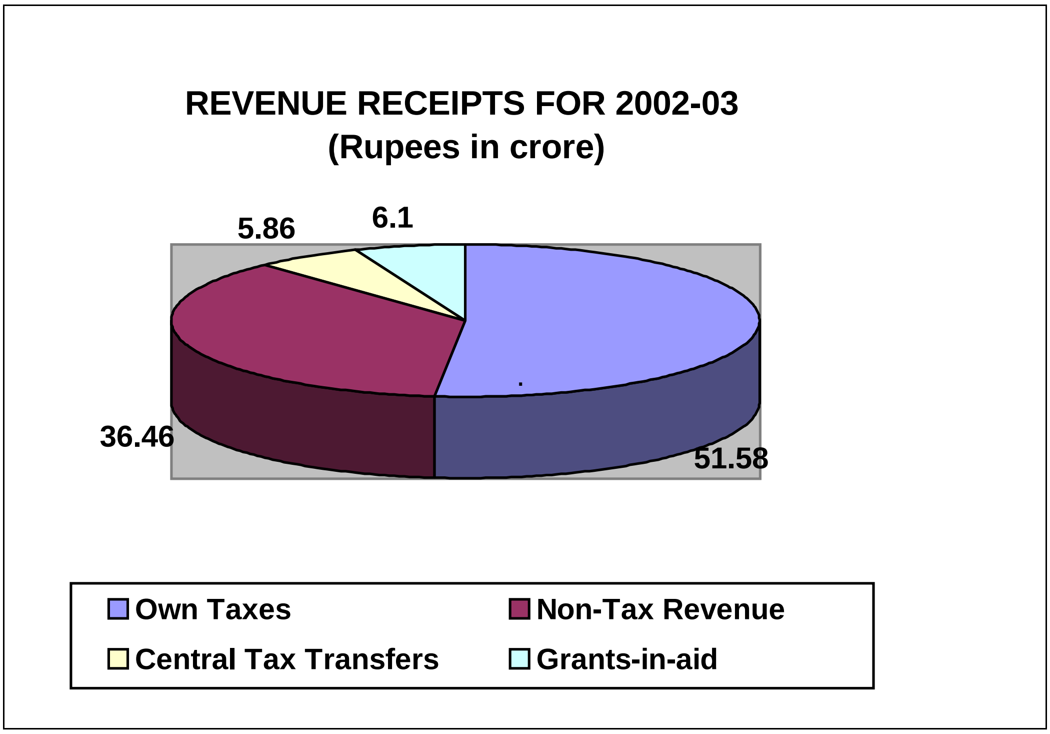
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the Government consist mainly of its own tax, non-tax revenue, central tax transfers and grants-in-aid from Government of India. Revenue receipts, their annual and trend rate of growth, ratio of these receipts to the Gross State Domestic Product (GSDP) and their buoyancies are indicated in Table-3 below:

Table-3: Revenue Receipts- Basic Parameters (Value: Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Receipts (in crore of rupees)	5755	7468	9377	8929	11071	8520
Own Taxes	56.68	52.85	52.20	53.98	51.58	53.13
Non-Tax Revenue	26.19	31.63	31.30	33.15	36.46	32.39
Central Tax Transfers	10.20	8.56	7.68	6.84	5.86	7.53
Grants-in-aid	6.93	6.96	8.82	6.03	6.10	6.95
Rate of growth	-9.38*	29.77	25.56	-4.78	23.99	13.15
Revenue Receipts/ GSDP	10.58	11.91	13.70	11.62	12.83	12.22
Revenue Buoyancy	**	1.955	2.788	**	1.962	1.082
GSDP Growth	12.46	15.23	9.17	12.29	12.23	12.15

* *1997-98 has been taken as base year for calculating rate of growth.*

** *Since the rate of growth of revenue receipt was negative, buoyancy is not calculated.*



Revenue receipts of the Government increased from Rs 5,755 crore in 1998-99 to Rs 11,071 crore in 2002-03, at an average trend rate of 13.15 *per cent* per annum. There were, however, significant inter year variations in the growth rates. Of particular significance is the impressive return of trend rate from regression during the previous year to a positive high of around 24 *per cent*. This happened due to 18.5 *per cent* increase in tax revenue and 36.35 *per cent* increase in the non-tax revenue. Among the tax revenue, 14 *per cent* increase in Sales Tax, 26 *per cent* increase in Stamps and Registration Fees and six *per cent* growth in State Excise were the principal contributors. Thirty six *per cent* increase in receipts of State Lotteries and 65 *per cent* growth in interest receipts were the main sources of increase in the non-tax revenue. Thirty six *per cent* (Rs 684 crore) increase in receipts of State Lotteries during the year was neutralised by an equally high increase (38 *per cent*) in expenditure (Rs 699 crore) on State Lotteries. Significant rise in the interest receipts was due to notional receipt of a large chunk of interest payment (Rs 554.29 crore) from Punjab State Electricity Board (PSEB) which was simultaneously returned to them as Rural Electricity subsidy. Instances like this show how inflated balances on both receipts and expenditure, result in no net additions, but can be misleading as disaggregated information.

Table 4 Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts including Contingency Fund Receipts	Debt Receipts	Accruals in Public Account		
1998-99	5755	112	4532	9370	19769	54414
1999-2k	7468	116	4456	10864	22904	62700
2000-01	9377	127	4996	11049	25549	68448
2001-02	8929	875	6681	14171	30656	76860
2002-03	11071	103	6246	11972	29392	86260

While on an average, around 85 *per cent* of the revenue came from the Government's own resources, Central Tax Transfers and Grants-in-aid together contributed nearly 15 *per cent* of the total revenue. Contribution of Grants-in-aid declined to 6.10 *per cent* in 2002-03 from 6.93 *per cent* in 1998-99 and contribution of Central Tax Transfers continued to decline throughout the period and came down to 5.86 *per cent* in 2002-03 from 10.20 *per cent* during 1998-99.

Besides, the increasing trend of arrears of revenue from Rs 2,026 crore in 1998-99 to Rs 3,005 crore at the end of 2002-03 indicated that the revenue collection efforts were not optimally productive. There had been an increase of 48 *per cent* in accumulation of such arrears which pertained mainly to interest receipts from PSEB (Rs 2,228.09 crore), Taxes on Sales, Trade, etc. (Rs 435.52 crore), Taxes and Duties on Electricity (Rs 183.91 crore) and Taxes on Vehicles (Rs 66.17 crore).

1.6. Application of resources

1.6.1. Trend of Growth

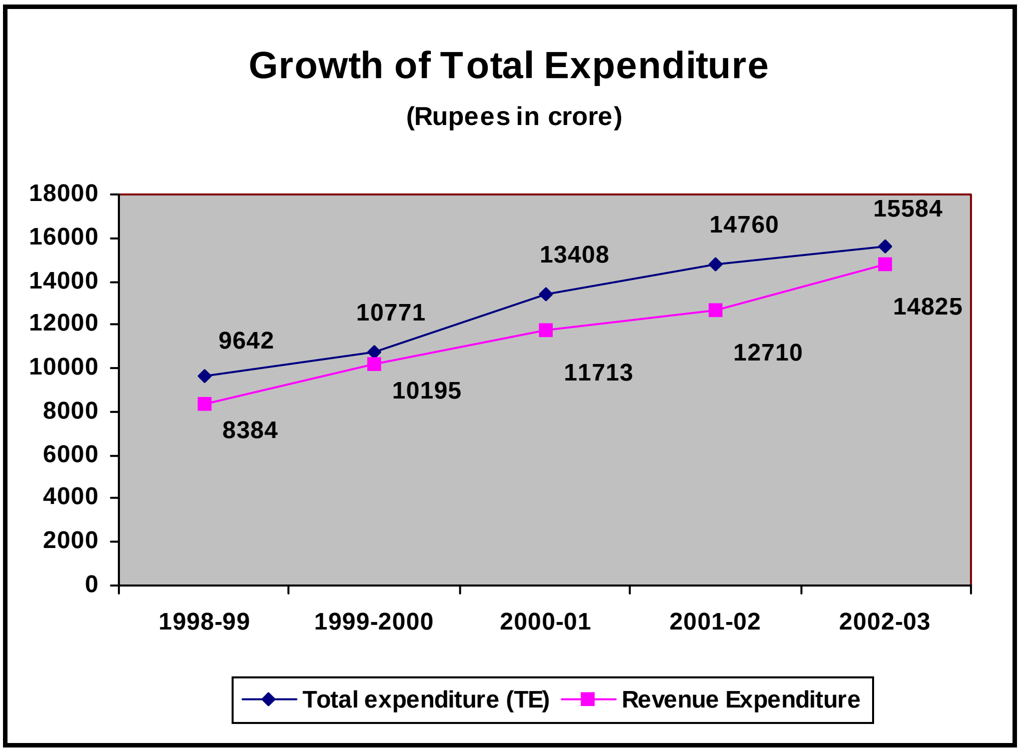
Statement 12 of the Finance Accounts gives the details of expenditure by minor heads. Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipt are indicated in Table-5 below:

Table-5: Total Expenditure –Basic Parameters(Value : Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Total expenditure (TE)	9642	10771	13408	14760	15584	12833
Rate of Growth	8.05	11.71	24.48	10.08	5.58	13.02
TE/GSDP Ratio	17.72	17.18	19.59	19.20	18.07	18.40
TE/Revenue Receipts Ratio	59.69	69.33	69.94	60.49	71.04	66.10
Buoyancy of Total Expenditure with reference to:						
GSDP	0.646	0.769	2.671	0.820	0.456	1.071
Revenue Receipts	*	0.393	0.958	*	0.233	0.990

** Rate of growth of revenue receipt was negative.*

The total expenditure increased from Rs 9,642 crore in 1998-99 to Rs 15,584 crore in 2002-03 at an average trend rate of 13.02 *per cent* per annum. The high average was contributed solely by an abnormal peak year (2000-01) when the growth rate touched a whopping 24.48 *per cent* due to increase in expenditure under State Lotteries (Rs 1,146.11 crore) and University and Higher Education and Secondary Education (Rs 102.69 crore). Leaving aside this abnormal year, the growth rate has been hovering between 8 to 12 *per cent* until 2002-03 when the growth of expenditure has been brought down to an appropriate 5.58 *per cent*, accelerating the rate of decline that began the previous year. Consequently, total expenditure–GSDP ratio has also fallen from 19.59 *per cent* in 2000-01 to 18.07 *per cent* in 2002-03.



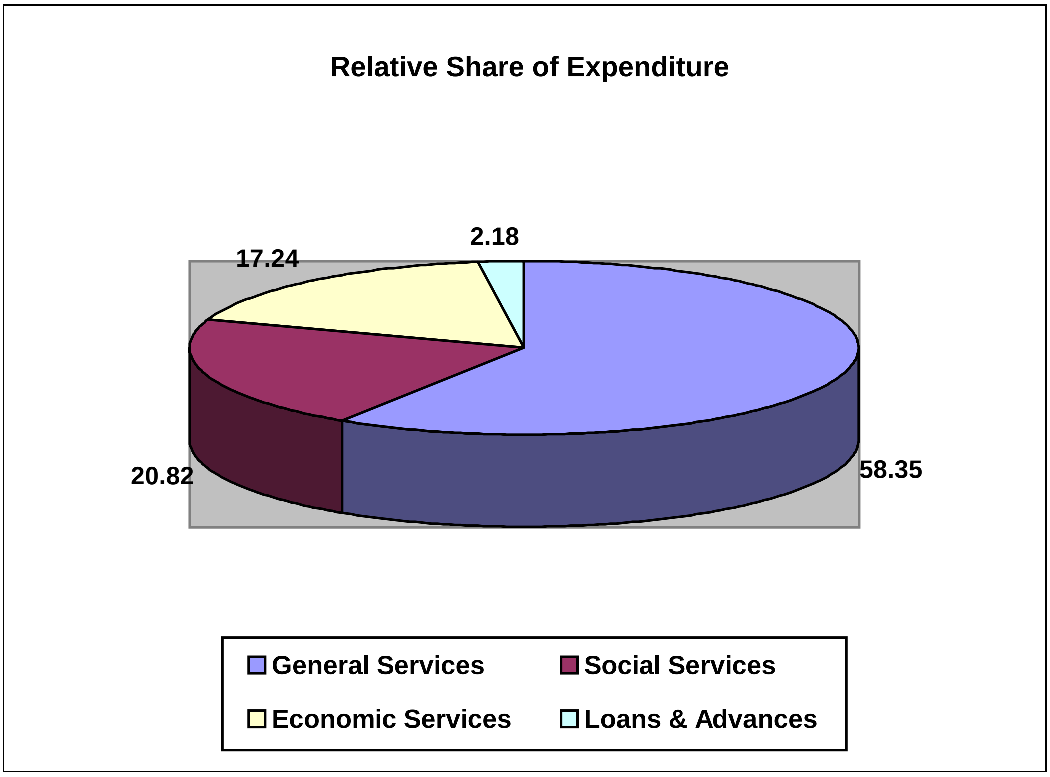
The relative share of activity components in total expenditure is indicated in Table-6.

Table-6: Components of Expenditure – Relative Share (in *per cent*)*

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	45.98	52.17	49.03	51.41	58.35	51.39
Social Services	28.09	25.61	22.72	21.44	20.82	23.73
Economic Services	23.96	20.47	25.34	18.79	17.24	21.16
Loans & Advances	1.22	1.27	2.25	7.22	2.18	2.83

* *Total expenditure excludes Grants in aid and contributions- Compensations and Assignments to Local Bodies and Panchayati Raj Institutions*

The movement of relative share of these components of expenditure indicated that while the share of Economic Services and Social Services in total expenditure declined from 23.96 *per cent* and 28.09 *per cent* to 17.24 *per cent* and 20.82 *per cent* respectively during 1998-2003, the relative share of General Services, which are primarily non-developmental in nature, increased from 45.98 *per cent* in 1998-99 to 58.35 *per cent* of total expenditure in 2002-03. Thus, the appreciable decline in the volume of total expenditure is not so appreciable after all when in terms of application to activity areas, it is the non-developmental General Services which have gained at the expense of developmental services. Interpreted in this light, reduced expenditure would denote a certain loss of developmental impetus in the more important areas of governance.



1.6.2. Incidence of Revenue Expenditure

Revenue expenditure, which constituted the largest bulk (95.13 *per cent*) was incurred to maintain the current level of services and did not represent a significant addition to the State's service network. Revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts are indicated in Table-7:

Table-7: Revenue Expenditure: Basic Ratios (Value : Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure	8384	10195	11713	12710	14825	11565
Rate of Growth	7.01*	21.60	14.89	8.51	16.64	13.97
RE/GSDP	15.41	16.26	17.11	16.54	17.19	16.58
RE as percentage of TE	86.95	94.65	87.36	86.11	95.13	90.12
RE as percentage of Revenue Receipts	145.68	136.52	124.91	142.35	133.91	135.74

* *1997-98 has been taken as base year for calculating rate of growth.*

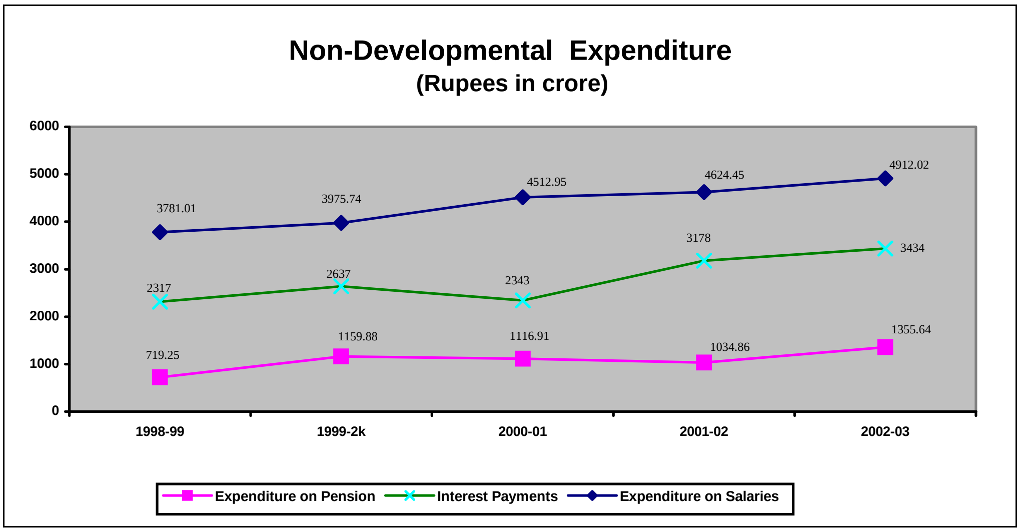
Revenue expenditure of the State increased from Rs 8,384 crore in 1998-99 to Rs 14,825 crore in 2002-03, at an average trend rate of 13.97 *per cent* per annum. The increase in the revenue expenditure during 2002-03 was mainly due to increase in expenditure on General Education by Rs 251 crore (14 *per cent*), Pension by Rs 321 crore (31 *per cent*), State Lotteries by Rs 699 crore (38 *per cent*) and Interest Payments by Rs 256 crore (eight *per cent*). Though ratio of revenue expenditure to revenue receipt declined from 145.68 *per cent* in 1998-99 to 133.91 *per cent* in 2002-03 yet dependence of the Government on borrowed funds persisted for even meeting the current expenditure primarily due to the fact that Salaries (Rs 4,912 crore), Interest payments (Rs 3,434 crore), Pension dues (Rs 1,356 crore) and expenditure on State Lotteries (Rs 2,558 crore) alone went 11 *per cent* beyond the total revenue receipts of the State during the year.

1.6.3. High salary expenditure

Salaries alone took away nearly 63 *per cent* of the revenue receipts of the Government (excluding receipts from state lotteries and notional interest receipts from PSEB etc.) during the year. The expenditure on Salaries increased from Rs 3,787 crore in 1998-99 to Rs 4,912 crore in 2002-03.

Table 8 ***(Rupees in crore)***

Heads	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**	**Growth Rate**
Salary Expenditure	3787.01	3975.74	4512.95	4624.45	4912.02	6.79
As percentage of GSDP	6.96	6.34	6.59	6.02	5.69	6.25
As percentage of Revenue Receipts (excluding receipts from State Lotteries and notional interest receipts from PSEB etc.)	65.93	60.40	63.16	69.83	63.11	64.38



1.6.4. Huge expenditure on pension payments

Pension payments took away as much as 12.24 *per cent* of the revenue receipts of the Government during 2002-03 as it increased by 88.48 *per cent* from Rs 719.25 crore in 1998-99 to Rs 1,355.64 crore in 2002-03.

Government's proposal to introduce a new contributory pension scheme during 2002-03 to contain expenditure on pension payments has not yet materialised.

1.6.5. Interest payments

The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was, however, observed that interest payments as percentage of revenue receipts were 31 *per cent* (average) during the last three years. If revenue receipts excluding net lotteries receipts only is taken, the ratio of interest payments as percentage of revenue receipts would sharply rise to 38 *per cent* (average) as indicated in Table 9.

In absolute terms, interest payments increased steadily by 48 *per cent* from Rs 2,317 crore in 1998-99 to Rs 3,434 crore in 2002-03 (the average growth rate was 11.87 *per cent)* primarily due to continued reliance on borrowings for financing the fiscal deficit. The State Government raised Rs 1,141 crore from open market at a weighted average rate of 7.14 *per cent* and it borrowed Rs 2,627 crore from National Small Savings Fund @10.5 *per cent* per annum and Rs 419 crore from Government of India @ 11.5 *per cent* per annum during the year.

Table 9

Year	**Total Revenue Receipts**	**Revenue Receipts excluding Net Lottery Receipts**	**Interest Payment**	**Percentage of Interest payment with reference to**		
	(Rupees	**in**	**crore)**	**Total Revenue Receipts**	**Revenue Receipts excluding Net Lottery Receipts**	**Revenue Expenditure**
1998-99	5755	5748	2317	40	40	28
1999-2000	7468	6987	2637	35	38	26
2000-01	9377	7750	2343	25	30	20
2001-02	8929	7070	3178	36	45	25
2002-03	11071	8513	3434	31	40	23

The interest payments have grown by 48 *per cent* over the period 1998-2003. This growth is, however, understated due to moratorium granted by GOI for the period 2000-05 on repayment and interest on a portion of GOI loans. The moratorium on interest payments amounts to Rs 481.48 crore per annum which was 14 *per cent* of interest payments in 2002-03. Large interest payments year after year resulted in reduced expenditure on primary education, health and social welfare schemes.

1.6.6. Subsidies by the Government

The Government of Punjab has been giving notional subsidy to Punjab State Electricity Board every year which sharply increased from Rs 3.70 crore in 1998-99 to Rs 750 crore in 2002-03. This subsidy is, however, not paid in cash but adjusted against the interest receivable from PSEB on the loans given to them. Further, as per Memorandum of Understanding (MOU) between GOI and State Government signed in April 1999, non-merit subsidies were to be reduced in a phased manner but contrarily the same increased from Rs 407.47 crore in 1999-2000 to Rs 589.64 crore in 2002-03.

1.7. Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure better is the efficiency of the State apparatus. Table-10 below gives the ratio of these components of expenditure to State's total expenditure.

Table-10 Quality of expenditure (*per cent* to total expenditure)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan Expenditure	15.73	13.17	11.64	13.27	10.53	12.62
Capital Expenditure	11.97	4.13	10.63	7.19	2.76	7.04
Development Expenditure	52.69	46.67	49.16	43.37	38.90	45.49

(Total expenditure does not include Loans and Advances).

All the three components of expenditure show a relative decline during 1998-2003. Plan expenditure declined from 15.73 *per cent* of total expenditure in 1998-99 to 10.53 *per cent* in 2002-03. Similarly, capital expenditure also declined from 11.97 *per cent* in 1998-99 to 2.76 *per cent* in 2002-03 partly due to excess receipts and recoveries of Rs 475 crore under the head ‘Capital Outlay on Food Storage and Warehousing’. Irrigation and Flood Control accounted for nearly 39 *per cent* of the plan expenditure of Rs 897 crore under the capital outlay while Energy (20 *per cent*) and Transport (17 *per cent*) were the other major heads accounting for significant expenditure under the plan capital outlay.

There was also a decline in the share of development expenditure from 52.69 *per cent* in 1998-99 to 38.90 *per cent* in 2002-03. The share of expenditure on these components decreased significantly in 2002-03 as compared to the level achieved in 1998-99. Out of the developmental expenditure, Social Services (Rs 3,244 crore) accounted for 55 *per cent* of the expenditure during the year. General Education and Health and Family Welfare consumed nearly four-fifth (80 *per cent*) of the total allocations meant for social sector. Of the Economic Services (Rs 2,687 crore), Power (Rs 933 crore), Irrigation and Flood Control (Rs 709 core), and Transport (Rs 481 crore) were the principal expenditure heads.

Social Sector Expenditure

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Education	1626.18 (2.98)	1680.28 (2.68)	1782.97 (2.60)	1762.29 (2.29)	2013.10 (2.33)
Medical & Public Health	474.51 (0.87)	504.89 (0.80)	592.75 (0.87)	577.88 (0.75)	574.35 (0.67)
Water Supply & Sanitation	122.63 (0.225)	116.25 (0.19)	152.50 (0.22)	184.82 (0.24)	225.66 (0.26)

Figures in brackets indicate the expenditure as percentage of GSDP.

1.7.1. 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 2002-03 was as follows:

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Universities and Education Institutions	139.01	321.86	241.72	151.49	234.01
Municipal Corporations and Municipalities, Zila Parishads and Panchayati Raj Institutions	4.39	--	20.29	14.40	16.84
Cooperative Societies and Cooperative Institutions	--	--	--	0.29	0.51
Other Institutions	68.94	54.52	95.38	203.99	111.50
Total	**212.34**	**376.38**	**357.39**	**370.17**	**362.86**
Percentage of growth over previous year	122	77	(-)5	4	(-)2
Assistance as per percentage of revenue expenditure	3	4	3	3	2

Accounts for the year 2001-02 relating to Punjab Khadi and Village Industries Board, Chandigarh and Punjab Scheduled Caste and Development and Finance Corporation, Chandigarh are in arrears. Utilisation certificates to the tune of Rs 312.17 crore in respect of 724[1] cases are still awaited (July 2003).

1.7.2. Misappropriation, losses and defalcation etc.

Cases of misappropriations, defalcations etc. of Government money reported to audit between April 1997 and March 2003 and under departmental investigation or criminal prosecution outstanding at the end of March 2003 were as follows:

[1] Upto 1996-97: 585 cases: Rs 31.14 crore; 2000-01: 1 case: Rs 12.71 crore, 2001-02: 4 cases: Rs 14.40 crore and 2002-03 : 134 cases : Rs 253.92 crore.

	No. of cases	Amount (Rs in lakh)
Outstanding cases reported between April 1997 to March 2002	42	13.91
Cases reported between April 2002 to March 2003	56	4.00
Total	98	17.91
Less cases finalised during the year 2002-03	2	0.26
Cases outstanding at the end of March 2003	96	17.65

Ninety five out of 96 cases involving Rs 7.65 lakh pertains to Police Department and one case of Rs 10 lakh pertains to Social Welfare Department. Forty cases are outstanding for more than one year and 56 cases are outstanding for less than one year.

1.8. Management of deficits

1.8.1. Fiscal Imbalances

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 raised are applied are important pointers to its fiscal health.

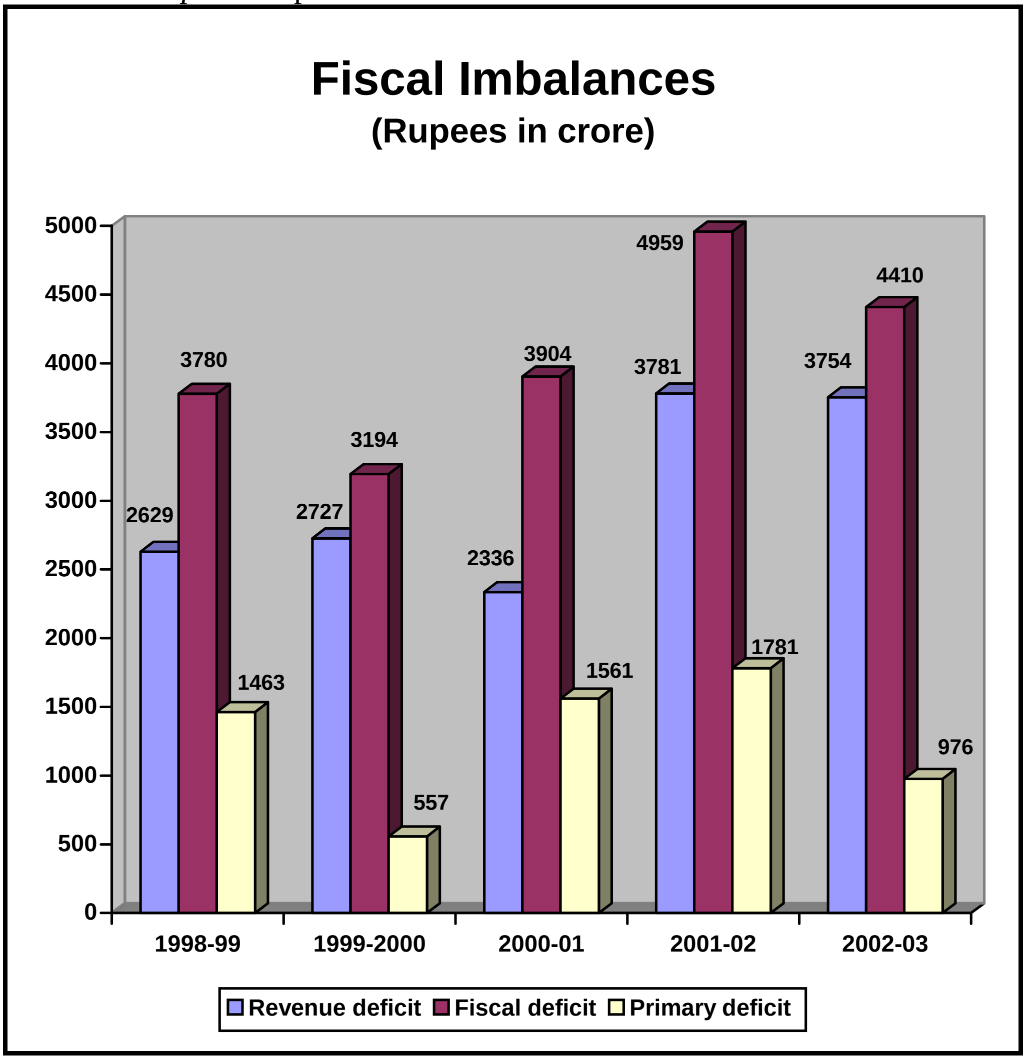
The revenue deficit (Statement 1 of Finance Accounts) of the State increased from Rs 2,629 crore in 1998-99 to Rs 3,754 crore in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 3,780 crore in 1998-99 to Rs 4,410 crore in 2002-03. State also had a primary deficit of Rs 1,463 crore in 1998-99 which decreased to Rs 976 crore in 2002-03.

Table-11 Fiscal Imbalances: Basic Ratios (Value :Rupees in crore and Ratios in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue deficit	2629	2727	2336	3781	3754	3045
Fiscal deficit	3780	3194	3904	4959	4410	4049
Primary deficit	1463	557	1561	1781	976	1268
RD/GSDP	4.83	4.35	3.41	4.92	4.35	4.37
FD/GSDP	6.95	5.09	5.70	6.45	5.11	5.81
PD/GSDP	2.69	0.89	2.28	2.32	1.13	1.82
RD/FD	69.55	85.38	59.84	76.25	85.12	75.21

The ratio of revenue deficit to fiscal deficit increased from 69.55 *per cent* in 1998-99 to 85.12 *per cent* in 2002-03 indicating further deterioration in the financial health of the State. As a proportion to GSDP, though the revenue deficit has decreased marginally to 4.35 *per cent* and fiscal deficit to 5.11 *per cent* in 2002-03, yet large revenue and fiscal deficits year after year have corroded the financial health of the State, propelling the State to promulgate the Fiscal Responsibility and Budget Management Act (FRBMA) this year.

FRBMA of Punjab (2003) aims at containing the rate of growth of fiscal deficit to two *per cent* per annum in nominal terms.



1.8.2. Recommendations of Eleventh Finance Commission

Medium Term Fiscal Reforms Programme (MTFRP)

Eleventh Finance Commission (EFC) in its report lays down broad parameters of fiscal correction in the State Sector. Each State was required to draw up the Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit. The MTFRP should form the basis of a Memorandum of Understanding (MOU) entered into between the State and Ministry of Finance. Further, the EFC recommended an Incentive Fund from which grants were to be released to States based on their fiscal programme. On the basis of the recommendations of the EFC, the Government of India (GOI) created Fiscal Reforms Facility (2000-01 to 2004-05) to motivate the States to undertake MTFRP. Release from the Incentive Fund was to be based on achieving a minimum improvement of five percentage points in the revenue deficit as a proportion of its revenue receipts each year till 2004-05 over the base year 1999-2000.

Test check of records of Finance Department revealed that State Government formulated its Medium Term Fiscal Reforms Programme in March 2003 and an MOU had been signed by the Punjab Government with GOI only in July 2003. GOI released Rs 57.56 crore during 2002-03 towards incentive funds pertaining to their share for the year 2000-01. The main impact of this programme will be felt in the coming years.

Further, according to MOU, the Revenue Deficit as a proportion of Revenue Receipts was to be reduced by five *per cent* each year from 1999-2000 (base year). Accordingly, the Revenue Deficit of 37 *per cent* during 1999-2000 should have been restricted to 32 *per cent*, 27 *per cent* and 22 *per cent* of revenue receipts during 2000-01, 2001-02 and 2002-03 respectively. The actual Revenue Deficit, however, after a dip in 2000-01 (25 *per cent*) was much above the target and increased to 42 and 34 *per cent* in 2001-02 and 2002-03 respectively.

1.9. Assets and Liabilities

1.9.1. The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out the expenditure. Statement 16 and details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. ***Appendix II*** presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002.

The liabilities as per ***Appendix II*** mainly comprise money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund. The liabilities of Government of Punjab depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/letters of comforts issued by the State Government. During 2002-03, the liabilities grew by 12.82 *per cent*.

Similarly, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and grew by 3.79 *per cent* during 2002-03.

1.9.2. Financial results of irrigation works

Statement 3 of Finance Accounts depict the financial results of nine major irrigation projects with a capital expenditure of Rs 213.56 crore at the end of March 2003, which showed that revenue realised from these projects during 2002-2003 (Rs 18.75 crore) was only 8.78 *per cent* of the Capital expenditure and these were not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (Rs 141.99 crore) and interest charges (Rs 14.81 crore), the schemes suffered a net loss of Rs 138.05 crore.

1.9.3. Incomplete Projects

As per information received from the State Government, there were seven incomplete projects as of 31 March 2003, in which Rs 858.65 crore were blocked. Of these, four projects were incomplete for periods ranging from two to four years (Rs 93.46 crore), two projects from 10 to 15 years (Rs 27.19 crore), and one project for more than 20 years (Rs 738 crore). This showed that the Government failed to prioritise its projects and was spreading its resources thin. Reasons for incomplete projects were paucity of funds, works left incomplete by contractors, change in site/design of the project(s), defective planning, etc. Comments on some incomplete projects had been included in the Civil Audit Reports.

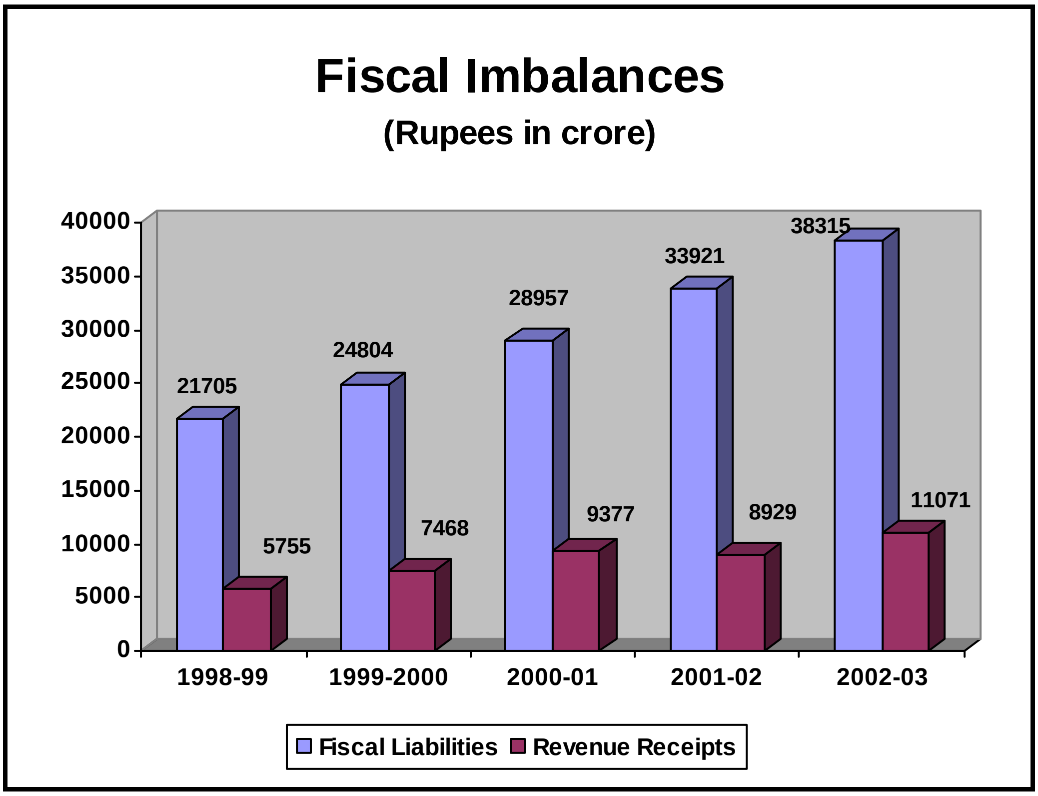
1.9.4. Fiscal Liabilities - Public Debt and Guarantees

The Constitution of India provides that 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 an Act of Legislature. Fiscal Responsibility and Budget Management Act of Punjab 2003 (FRBMA 2003 of Punjab) aims to cap the ratio of debt to GSDP at the level achieved in the previous year subject to an absolute ceiling of 40 *per cent* to be achieved by 2004-05.

Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out. It would be observed that the fiscal liabilities of the State increased from Rs 21,705 crore in 1998-99 to Rs 38,315 crore in 2002-03 at an average annual rate of 16.39 *per cent.* Table-12 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table-12: Fiscal Liabilities - Basic Parameters (Value : Rupees in crore and others in *per cent*)

	1998-99	1999-2k	2000-01	2001-02	2002-03	Average
Fiscal Liabilities	21705	24804	28957	33921	38315	29540
Rate of Growth	21.55	14.28	16.74	17.14	12.95	16.39
Ratio of Fiscal Liabilities to						
GSDP	39.9	39.6	42.3	44.1	44.4	42.4
Revenue Receipts	377.2	332.1	308.8	379.9	346.1	346.7
Own Resources	455.1	393.2	369.8	436.0	393.1	407.1
Buoyancy of Fiscal Liabilities to						
GSDP	1.730	0.938	1.826	1.395	1.059	1.348
Revenue Receipts	(-) 2.296	0.480	0.655	(-) 3.588	0.540	1.246
Own Resources	(-) 1.842	0.442	0.694	(-)26.845	0.512	1.551



The ratio of fiscal liabilities to GSDP increased from 39.9 *per cent* in 1998-99 to 44.4 *per cent* in 2002-03 and stood at 3.46 times of its revenue receipts. In addition to these liabilities, Government had guaranteed loans availed by its Corporations and others which in 2002-03 stood at Rs 13,734 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment, the State has to honour these commitments.

Increasing liabilities raised the issue of its sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Punjab, average interest rate on fiscal liabilities at 10.28 *per cent* during 1998-2003 was lower than the rate of growth of GSDP by 1.87 *per cent* as indicated in Table-13.

Table 13: Debt Sustainability–Interest Rate and GSDP Growth (in *per cent*)

	1998-99	1999-2k	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	11.71	11.34	8.72	10.11	9.51	10.28
GSDP Growth	12.46	15.23	9.17	12.29	12.23	12.15
Interest spread	0.74	3.89	0.45	2.18	2.72	1.87

Another important indicator of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. The Table-14 below gives the position of the receipt and repayment of public debt over the last five years. The net funds available were to the level of 20.14 *per cent* of total fresh loans in 2002-03.

Table-14: Net Availability of Borrowed Funds

(Rupees in crore)

	1998-99	1999-2k	2000-01	2001-02	2002-03	Average
Internal Debt[2]						
Receipt	1267	1654	4364	5719	5827	3766
Repayment (Principal+Interest)	828	1181	1466	2701	2365	1708
Net Fund Available	439	473	2898	3018	3462	2058
Net Fund Available (*per cent*)	34.6	28.6	66.4	52.8	59.4	48.36
Loans and Advances from GOI[2]						
Receipt	1653	2001	374	531	419	996
Repayment (Principal+Interest)	2068	2298	1481	1538	2623	2002
Net Fund Available	(-) 415	(-) 297	(-) 1107	(-) 1007	(-)2204	(-) 1006
Net Fund Available (*per cent*)	(-) 25.1	(-) 14.8	(-) 295.9	(-) 189.6	(-)526.01	(-) 210.3
Total Public Debt						
Receipt	2920	3655	4738	6250	6246	4762
Repayment (Principal+Interest)	2896	3479	2947	4239	4988	3710
Net Fund Available	24	176	1791	2011	1258	1052
Net Fund Available (*per cent*)	0.8	4.8	37.8	32.2	20.14	19.1

During the year, the State repaid the high cost loans and advances from Government of India bearing coupon rates in excess of 13 *per cent* per annum after borrowing funds from the open market at the weighted average rate of 7.14 *per cent.* As a result, the net availability of funds was reduced to 20.14 *per cent* from 32.2 *per cent* in previous year. The maturity profile of the outstanding market loans as on 31 March 2003 indicated that nearly 25 *per cent* loans are payable within five years while the remaining loans are required to be repaid during the next five years.

The measures being taken to stem the growth of debt viz. to put cap on the debt, phased reduction of debt, strict control on expenditure and cap on outstanding guarantees on long term debt to 80 *per cent* of revenue receipts of the previous year and on short term debt to actual stock were proved insufficient as the fiscal liabilities of the State increased from Rs 21,705 crore in 1998-99 to Rs 38,315 crore in 2002-03.

1.10. Guarantees given by the State Government

1.10.1. Fiscal Responsibility and Budget Management Act of Punjab provides for cap on outstanding guarantees on long term debt to 80 *per cent* of revenue receipts of the previous year. Accordingly, as against the cap of Rs 7,143 crore for the current year, Government had guaranteed loans of Rs 13,734 crore availed by its Corporations and others as of 31st March 2003. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment, the State has to honour these commitments. The year-wise position of maximum amount for which guarantee given by the State Government to the end of March 2003 was as under:

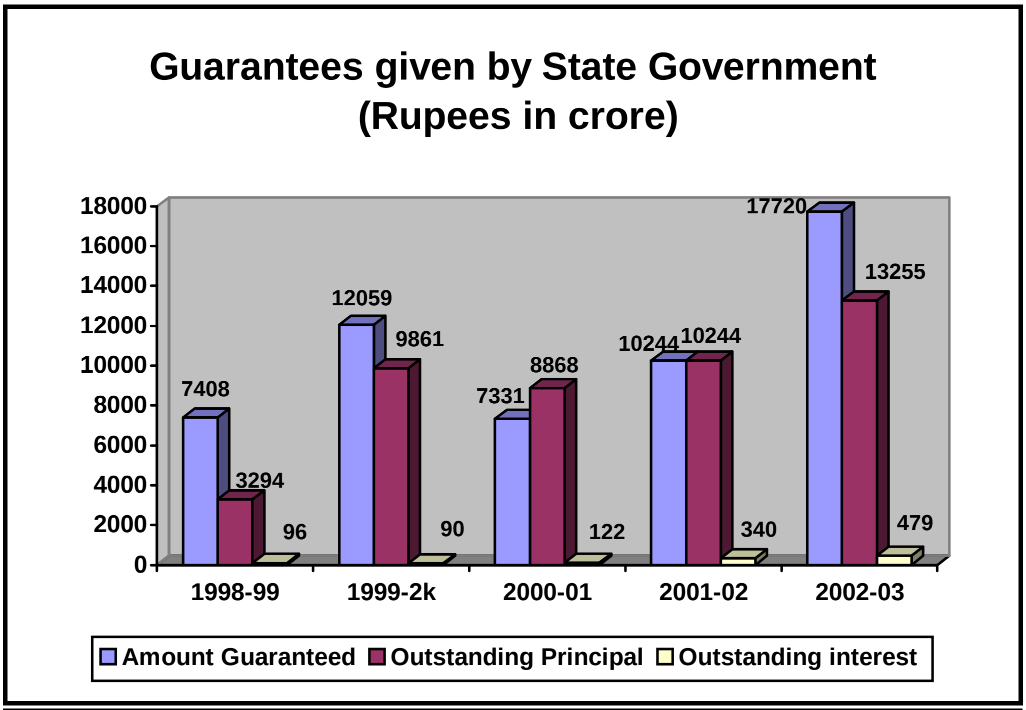
[2] Excluding Ways and Means Advances and Overdrafts from Reserve Bank of India/ Government of India.

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees		Percentage to total revenue
		Principal	Interest	
1998-1999	7408	3294	96	129
1999-2000	12059	9861	90	162
2000-2001	7331	8868	122	78
2001-2002	10244	10244	340	115
2002-2003	17720	13255	479	160

The amount of outstanding guarantees increased from Rs 3,390 crore in 1998-99 to Rs 13,734 crore in 2002-03 and amounted to 124 *per cent* of the revenue receipt (Rs 11,071 crore) of the State Government.

Test check of records of Finance Department and information collected from the Loanee Institutions revealed the following :



1.10.2. Non-maintenance of records

Finance Department/Administrative Department did not maintain any consolidated record except individual case files for guarantees given by the Government and for collection of guarantee fee. The Finance Department collects information of guarantees from loanee institutions through Administrative Departments for incorporation in the Finance Accounts. Thus, the correctness of figures of guarantees could not be verified in audit. This indicated lack of effective control/monitoring of the guarantees given by the State Government.

1.10.3. Non-recovery of guarantee fee

In consideration of guarantees given by the Government, guarantee fee is charged by it. Information about the guarantee fee in arrears and guarantee fee waived off has not been supplied by the Government.

However, in some of the following cases guarantee fee has not been paid by the loanee Institutions.

(Rupees in crore)

Name of the Corporation/ Company/ Board etc.	Amount of loan availed	Date	Amount of guarantee fee payable
Punjab Infrastructure Development Board	309.27	31.3.2001	6.19
Punjab Police Housing Corporation	6.00	10 & 11/2002	0.12
Punjab Urban Development Authority	46.64	3/1997 to 2/2003	0.93
Punjab State Industrial Development Corporation	477.90	Upto 2002-03	9.56
Punjab Water Supply & Sewerage Board	93.13	Upto 2002-03	2.13
Punjab State Container & Warehousing Corporation	63.00	Upto 2002-03	1.26
Punjab State Bus stand Management Company Ltd.	64.96	1997-98 to 2001-02	1.30
Punjab Road and Bridges Development Board	90.10	3/99	1.80

Punjab Infrastructure Development Board intimated that no such condition was included in the sanctions of guarantee issued by the Department of Finance. The Punjab Police Housing Corporation, however, stated that guarantee fee would be paid on receipt of advice from the Government. In the case of PUDA, the Government has been requested to waive off the guarantee fee. Other Corporations/Companies did not furnish any reason for non-payment of guarantee fee. This indicated non monitoring of payment of guarantee fee by the Government.

1.10.4. Invoking of guarantees

Cooperative Spinning Mills, Mansa and Nakodar availed loan of Rs 47 lakh and Rs 50.05 lakh respectively from Punjab State Cooperative Bank for which the Government had stood guarantee. Both the spinning mills were brought under liquidation and the bank invoked (July 1993 and August 2002) guarantee for default in repayment of loan by the mills. Government’s response to honour the guarantee was awaited (July 2003).

1.10.5. Guarantees to unviable units

State Government stood guarantee for eight[3] cooperative sugar mills. As these mills failed to repay the loan raised from IDBI, IFCI, ICICI, the Government had to provide financial assistance of Rs 22.62 crore to Sugarfed in the shape of loans during 2002-03 for one time settlement to these financial institutions on the guarantee given by them.

1.10.6. Guarantees to loss making units

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

(Rupees in crore)

Sr. No.	Name of institutions	Outstanding guarantees (Principal) as on 31/3/03	Loss incurred	
			Amount	Upto the year
1.	Punjab Financial Corporation	238.58	208.89	2001-02
2.	Punjab State Industrial Development Corporation	477.90	236.88	2001-02
3.	Punjab State Civil Supplies Corporation	2998.65	330.45	2001-02
4.	Punjab State Tubewell Corporation	60.00	38.11	1997-98
5.	Punjab Agro Industrial and Horticulture Development Corporation	2117.86*	21.78	2001-02

* Inclusive of interest

The extension of guarantees for loss making units enhanced the risk of invoking of guarantees due to non repayment of principal and interest thereon. The matter was referred to Government (July 2003) and reply was awaited (July 2003).

1.10.7. Overall assessment

Sanctions to guarantees for the loans availed by various Institutions were accorded as a matter of routine. The credit worthiness of loanee institutions was not verified before standing guarantee which resulted in invoking of guarantee of Rs 97.05 lakh in case of two spinning mills and discharging of loan and interest liability of Rs.22.62 crore by the Government in the case of eight sugar mills.

1.11. Investment and returns

Statement 14 of Finance Accounts showed that as on 31 March 2003, Government had invested Rs 2,352.28 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return on this investment was not only meagre (less than half *per cent*) but was also on a decline as indicated in Table-15 below. As on March 2003, 16 out of 33 Statutory Corporations and Government Companies with an aggregate

[3] Co-operative Sugar Mills, Ajnala, Faridkot, Fazilka, Gurdaspur, Jagraon, Patiala, Tarn Taran and Zira.

investment of Rs 412.87 crore were running at a loss and the accumulated losses were Rs 1,290.90 crore.

Table-15: Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government Borrowing (in *per cent*)
1998-99	2341.53	1.18	0.05	11.71
1999-2000	2307.81	9.15	0.40	11.34
2000-01	2335.14	2.33	0.10	8.72
2001-02	2346.28	1.09	0.05	10.11
2002-03	2352.28	0.91	0.04	9.51

1.12. 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 recoveries were poor during 1998-99 to 2000-01 and 2002-03.

Table-16: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening balance	4707	4725	4795	4970	5150
Proforma adjustment	7	42	-	- 14[4]	-
Amount advanced during the year	118	137	302	1066	339
Amount repaid during the year	107	109	127	872	103
Closing balance	4725	4795	4970	5150	5386
Net addition	11	28	175	194	236
Interest received	15	447	618	459	817
Interest received as *per cent* to Loans advanced	0.32	9.43	12.66	9.06	15.51
Average interest paid by the State	11.71	11.34	8.72	10.11	9.51
Difference between Interest paid and received	(-)11.39	(-)1.91	(+)3.94	(-)1.05	(+)6.00

The outstanding balances of loans and advances increased by Rs 236 crore from Rs 5,150 crore in 2001-02 to Rs 5,386 crore in 2002-03. The increase was mainly under loans to Government servants and loans for agriculture and allied activities.

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 Government.

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[4] Decreased by Rs 13.49 crore from closing balances of 2000-01 due to proforma correction.

The position of some of the outstanding loans is as under :-

Name of the agency to whom the loan was given	**Date/period of sanction**	**Amount of loan** ***(Rupees in crore)***	**Remarks**
Punjab State Electricity Board	--	3903.00	Loan could not be repaid by the Board as there was no surplus with the Board after meeting the contractual priorities.
Punjab State Tubewell Corporation (PSTC)	--	251.00	Out of this, Rs 214 crore advanced between 1990-99 could not be repaid and PSTC had requested (February 2002) Government for conversion of loan into grant-in-aid which was under consideration (June 2003).
Pepsu Road Transport Corporation	--	46.29	Repayment could not be made due to heavy losses. Interest liability of Rs 18.52 crore created as of 31 March 2003.
Sugarfed	September 2002 to March 2003	22.62	No terms and conditions have been decided. Case for converting loans into share capital has been sent to Government (June 2003). Final decision of the Government is awaited.
Sugarfed	February 2003	50.00	No terms and conditions for repayment of loan have been specified.
Punjab Agro Industries Corporation and Punjab Agri Export Corporation	2000-01 2002-03	11.00 23.00	Repayment of loans could not be started due to non finalisation of terms and conditions by the State Government
Punjab Urban Planning and Development Authority (PUDA) through Housing and Urban Development Department	2002-03	12.50	-do-
Punjab Agro Industries Corporation	1996-98	6.00	Stated to have become Bad debts. Matter for conversion into equity share has been taken up with the State Government and final decision is awaited.
	Total	**4325.41**	

The Administrative Departments are required to intimate to the Accountant General (A&E) by 10th of August each year the arrears in recovery of principal and interest for the loans, the detailed accounts of which are maintained by the departmental offices. Against 151 statements relating to 2002-03, due from 20 departmental officers, none has been received so far (June 2003). Recovery of loan of Rs 133.61 crore (including Rs 105.22 crore as interest) against Municipal Corporations and Municipalities etc. was overdue at the end of 2002-03. Major portion (Rs 3,903 crore) outstanding relate to loans for power projects against which repayment during the year 2002-03 was negligible[5].

[5] Rs 1.39 crore.

1.13. Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. However, State has been increasingly using this mechanism over the years. Normally these advances should be liquidated during the year. Any outstanding balances of WMA indicate mis-match in the revenue and expenditure, which is not transient in nature. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. As may be seen from the Statement 7 along with details in Statement 17 of the Finance Accounts, the State has increasingly been drawing in excess of its WMA limits from RBI as indicated below:

Table-17: Ways and Means and overdrafts of the State and Interest paid thereon (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Ways and Means Advances						
Taken in the Year	1279.58	1851.66	2170.77	1976.61	3127.90	2081.30
Outstanding	179.40	182.12	243.42	221.42	185.79	202.43
Interest paid	7.94	7.67	6.83	8.73	9.45	8.12
Overdraft						
Taken in the Year	3840.23	1178.22	1600.10	3826.70	640.74	2217.19
Outstanding	826.51	101.92	48.37	196.36	Nil	234.63
Interest paid	6.11	4.58	2.38	4.50	1.43	3.8
Number of Days State was in Overdraft	225	84	107	119	53	118

The above table indicates that though the dependence on Reserve Bank of India (RBI) for cash management has declined, the dependence on Ways and Means Advances (WMA) has increased. This is partly due to revision of WMA limits by RBI.

1.14. Fiscal correction measures undertaken by the State

The Finance Minister in his budget speech for the year 2002-03 emphasised corrective measures for restoration of financial health of the State. He had assured the House that he would compress the non-plan expenditure, generate additional revenue by increasing various user charges for services such as transport, drinking water, sewerage, technical, higher and medical education etc. and to take various corrective measures which were likely to increase the Sales Tax revenue to Rs 3,250 crore during the year.

It was, however, seen that non plan expenditure was 33 *per cent* more than total revenue receipts in 2001-02 and in 2002-03, it was 28 *per cent* more than revenue receipts. However, in absolute terms, it increased from Rs 11,844.96 crore in 2001-02 to Rs 14,117.37 crore (19 *per cent*) in 2002-03. Further, user charges in respect of transport were Rs 200.01 crore (2002-03) against Rs 222.15 crore (2001-02) showing a decrease of 10 *per cent*. As regards growth of Sales Tax, it grew from Rs 2,684.33 crore (2001-02) to Rs 3,072.43 crore (2002-03) against the expectation of Rs 3,250 crore.

- No action to implement the recommendation (October 2002) of the Public Expenditure Reforms Commission constituted (August 2000) for compressing Government expenditure, enhancing the quality of public expenditure, restructuring of Government Departments and agencies, subsidies, user charges and Public Sector Undertakings has been taken by the Government. On enquiry, it was stated (July 2003) that the report of the Commission was under process.

- Recommendations of Disinvestment Commission submitted (September 2002) and Government decision to disinvest in six Public Sector Undertakings were yet to be implemented (July 2003). The Government thus failed to achieve the set target of Rs 50 crore to be garnered through such disinvestment. On being pointed out, it was stated (July 2003) that disinvestment in PUNCOM, Punjab Tractors Ltd., Punjab Alkalis and Chemicals Ltd., CONWARE, Punjab Tourism Development Corporation and Punjab State Industrial Development Corporation was at various stages of implementation.

Though it was recognised that there was need to improve returns in the Power Sector yet transmission and distribution losses increased from 17.76 *per cent* in 1999-2000 to 24.67 *per cent* in 2002-03.

1.15. Conclusion

Large revenue and fiscal deficit year after year indicates continued macro-fiscal imbalances of the State. Also the continuous application of borrowed funds largely on current consumption and debt servicing indicates increased unsustainability and highlights vulnerability of state finances. It is not uncommon for a state to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit indicated that the state was gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resource indicated its increasing unsustainability. The State's high cost borrowing for investments, which yields very little return indicated an implicit subsidy. Thus, the State has either to generate more revenue from out of its existing assets or need to provide from its current revenue for servicing its debt obligations. FRBMA 2003 is a step in right direction. Only through reducing revenue/fiscal deficit by compressing non-developmental revenue expenditure in a medium term framework, prudential debt management and greater transparency in fiscal operations, long term fiscal stability could be achieved.