CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large Revenue and Fiscal Deficits year after year indicate continued macro imbalances in the State. In Punjab, the Revenue Deficit which had been rising until 2001-02 declined by five *per cent* in 2003-04 as compared to previous year. However, the fiscal deficit after rising until 2001-02 (Rs 4,959 crore) declined marginally in the year 2002-03 (Rs 4,410 crore) and again rose by 11 *per cent* in the year 2003-04 (Rs 4,880 crore). The ratio of revenue receipts to total expenditure stood at 71 *per cent* in 2003-04. Overall revenue receipts increased from Rs 7,468 crore in 1999-2000 to Rs 12,139 crore in 2003-04. There were, however, significant inter year variations in the growth rates. During the current year, revenue receipts grew by 10 *per cent*. This was due to eight *per cent* increase in tax revenue and 16 *per cent* increase in non-tax revenue. Around 89 *per cent* of the revenue came from the State's own resources. In fact, Central Tax Transfers had declined throughout the period and came down to six *per cent* in 2003-04 from nine *per cent* during 1999-2000. Grants-in-aid also declined from the peak of nine *per cent* in 2000-01 to five *per cent* in 2003-04. Arrears of revenue were high at Rs 2,805 crore and represented 26 *per cent* of tax and non-tax revenue receipts.

Overall expenditure of the State increased from Rs 10,771 crore in 1999-2000 to Rs 17,124 crore in 2003-04. The rate of growth achieved a peak of 24 *per cent* in 2000-01 and declined thereafter to 10 *per cent* in 2003-04. In fact, the major burden of a curtailment in the growth of total expenditure has been borne by a decline in the proportion of developmental expenditure to total expenditure. The proportion of developmental expenditure declined from 49 *per cent* in 2000-2001 to 42 *per cent* in 2003-04. Revenue expenditure which constituted 92 *per cent* of total expenditure grew at a rate of six *per cent* in 2003-04. Interest payments increased steadily by 41 *per cent* from Rs 2,637 crore in 1999-2000 to Rs 3,712 crore in 2003-04 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 Gross State Domestic Product (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 contain 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 upto the end of 2003-04.

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 2004.

Statement No.9 shows the revenue and expenditure under different heads for the year 2003-2004 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 2003-2004.

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 2003-04.

Statement No.15 depicts the capital and other expenditure to the end of 2003-04 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 2004 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)

2002-03	Sr.No	Major Aggregates	2003-04
11071	**1.**	**Revenue Receipts**	**12139**
5711	2.	Tax Revenue (Net)	6146
4036	3.	Non-Tax Revenue	4666
1324	4.	Other Receipts	1327
103	**5.**	**Non-Debt Capital Receipts**	**105**
103	6.	Of which Recovery of Loans	105
11174	**7.**	**Total Receipts (1+5)**	**12244**
13881	**8.**	**Non-Plan Expenditure**	**15215**
14117	9.	On Revenue Account	15087
3434	10.	Of which Interest Payments	3712
(-) 236	11.	On Capital Account	128
241	12.	Of which Loans disbursed	86
1703	**13.**	**Plan Expenditure**	**1909**
708	14.	On Revenue Account	615
995	15.	On Capital Account	1294
98	16.	Of which Loans disbursed	671
15584	**17.**	**Total Expenditure (8+13)**	**17124**
4410	**18.**	**Fiscal Deficit (17-7)**	**4880**
3754	**19.**	**Revenue Deficit (9+14-1)**	**3563**
976	**20.**	**Primary Deficit (18-10)**	**1168**

1.3. Summary of Receipts and Disbursements

Table-1 summarises the state of Finances of the Government of Punjab for the year 2003-04 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 2003-2004

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
	Section-A: Revenue		**Total**		**Non-Plan**	**Plan**	**Total**
11071.18	**Revenue receipts**	**12138.96**	**14825.12**	**Revenue expenditure**			**15701.92**
5711.00	Tax revenue	6145.94	9072.36	General Services	9333.38	17.52	9350.90
4035.56	Non-tax revenue	4665.53	3221.64	Social Services	3061.38	306.31	3367.69
649.02	Share of Union Taxes/Duties	754.39	2309.94	Economic Services	2648.57	290.83	2939.40
675.60	Grants from Govt. of India	573.10	221.18	Grants-in-aid and Contributions	43.93	--	43.93
3753.94	Revenue Deficit carried over to Section B	**3562.96**					
14825.12	**Total**	**15701.92**	**14825.12**	**Total**	**15087.26**	**614.66**	**15701.92**
	Section-B: Capital		196.36[1]	Opening Overdraft from Reserve Bank of India	--	--	--
422.39	Opening Cash Balance	390.44					
--	Misc. Capital Receipts	--	420.40	Capital Outlay	41.55	623.14	664.69
102.86	Recoveries of Loans & Advances	105.41	338.74	Loans and Advvances Disbursed	86.20	671.34	757.54
6245.95	Public debt receipts	7144.04	3753.93[1]	Revenue Deficit brought down	3562.96	--	3562.96[1]
--	Amount transferred to Contingency Fund	--	2248.33	Repayment of Public Debt	3239.10	--	3239.10
11972.25	Public account receipts	10111.21	11395.24[1]	Public Account disbursements	9347.12	--	9347.12[1]
--	Closing Overdraft from Reserve Bank of India	193.44	390.45[1]	Cash Balance at end	373.13	--	373.13[1]
18743.45	**Total**	**17944.54**	**18743.45**	**Total**	**16650.06**	**1294.48**	**17944.54**
33568.57	**Grand Total**	**33646.46**	**33568.57**	**Grand Total**	**31737.32**	**1909.14**	**33646.46**

1.4. Audit Methodology

Audit observations on the statements of the Finance Accounts for the year 2003-2004 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 such as 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 deficits, and (iv) Assets and

1 Represents "Other expenditure", not covered under Plan or Non Plan.

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. 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 such as 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 29,692 crore) for the year 2003-04, by volume and source.

Table-2: Resources of Punjab

(Rupees in crore)

I.	Revenue Receipts		12139
II.	*Capital Receipts*		*7442*
a.	*Recovery of Loans and Advances*	*105*	
b.	*Debt Receipts*	*7337*[2]	
III.	*Public Account Receipts*		*10111*
a.	*Small Savings and Provident Fund*	*1309*	
b.	*Reserve Fund*	*223*	
c.	*Deposit and Advances*	*913*	
d.	*Suspense and Miscellaneous*	*7137*	
e.	*Remittance*	*529*	
Total Receipts			*29692*

1.5.1. Revenue Receipts

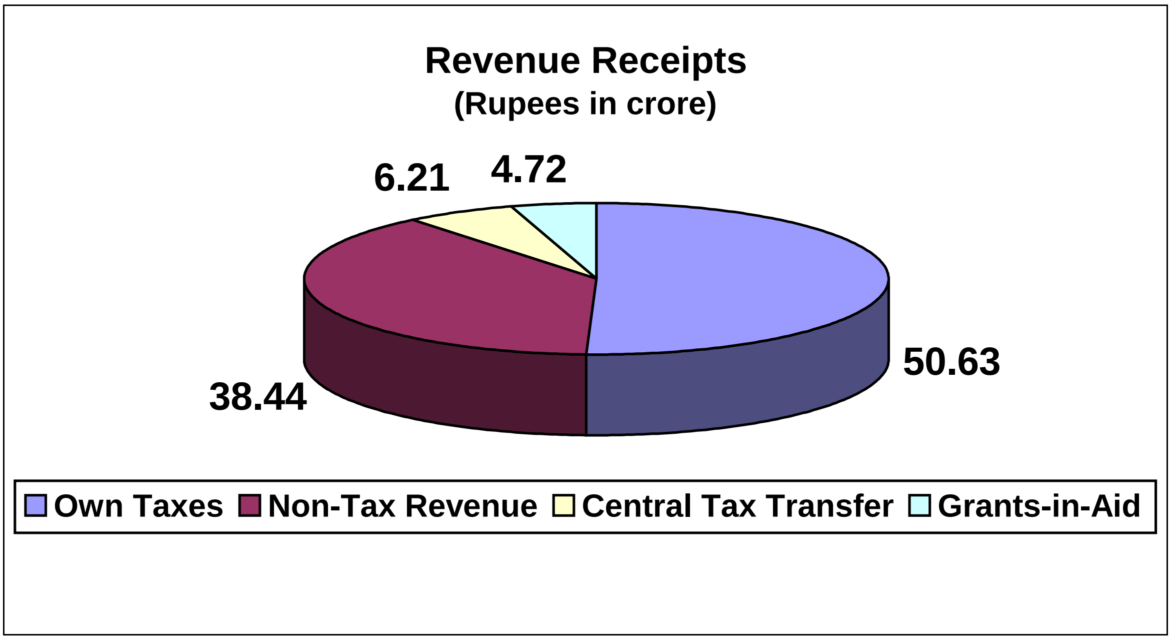
Statement-11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts, their annual and trend rate of growth, ratio of

[2] Includes Rs 193 crore on account of over draft.

these receipts to the 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*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Receipts (in crore of rupees)	7468	9377	8929	11071	12139
Own Taxes	52.85	52.20	53.98	51.58	50.63
Non-Tax Revenue	31.63	31.30	33.15	36.46	38.44
Central Tax Transfers	8.56	7.68	6.84	5.86	6.21
Grants-in-aid	6.96	8.82	6.03	6.10	4.72
Rate of growth of Revenue Receipts	29.77[3]	25.56	(-) 4.78	23.99	9.65
Revenue Receipts/ GSDP	11.91	13.70	11.62	12.83	12.65
Revenue Buoyancy	1.955	2.788	-[4]	1.962	0.859
GSDP Growth over previous year	15.23	9.17	12.29	12.23	11.23



Revenue receipts of the Government increased from Rs 7,468 crore in 1999-2000 to Rs 12,139 crore in 2003-04. There were, however, significant inter year variations in the growth rates. The impressive return of trend rate of 24 *per cent* achieved during 2002-03 again declined to 10 *per cent* during the year 2003-04. The pace of rate of growth was low even though in the category of tax revenue, Sales Tax increased by eight *per cent* and Stamp and Registration Fees by 30 *per cent*. Sixty *per cent* growth in interest receipts (Rs 551 crore) was the main source of increase in the non-tax revenue. The increase in interest receipts, however, was mainly on account of notional

3 1998-99 has been taken as base year for calculating rate of growth.

4 Buoyancy not calculated because the rate of growth of revenue receipt was negative.

receipts from Punjab State Electricity Board (PSEB) towards interest payments (Rs 483.09 crore for the period 2002-03 and Rs 866.10 crore for the period from 1 April 1998 to 31 March 2002). Such notional adjustment without actual inflow of cash gives misleading information about State finances and deficit as these lead to only inflated balances on receipts as well as on expenditure side without any net addition. The receipts from State Lotteries declined by six *per cent* (Rs 163.84 crore) during 2003-04.

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		
1999-2000	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
2003-04	12139	105	7337	10111	29692	95947

While around 89 *per cent* of the revenue came from the Government's own resources, Central Tax Transfers and Grants-in-aid together contributed nearly 11 *per cent* of the total revenue. Contribution of Grants-in-aid declined to five *per cent* in 2003-04 from nine *per cent* in 2000-01 and contribution of Central Tax Transfers came down to six *per cent* in 2003-04 from nine *per cent* during 1999-2000.

The increasing trend of arrears of revenue from Rs 2,393 crore in 1999-2000 to Rs 2,805 crore at the end of 2003-04 indicated that the revenue collection efforts were not optimally productive. There had been an increase of 17 *per cent* in accumulation of such arrears which pertained mainly to interest receipts from PSEB (Rs 2,228.10 crore), Taxes on Sales, Trade, etc. (Rs 466.17 crore), Irrigation (Rs 17.59 crore) and State Excise (Rs 15.82 crore).

1.6. Application of resources

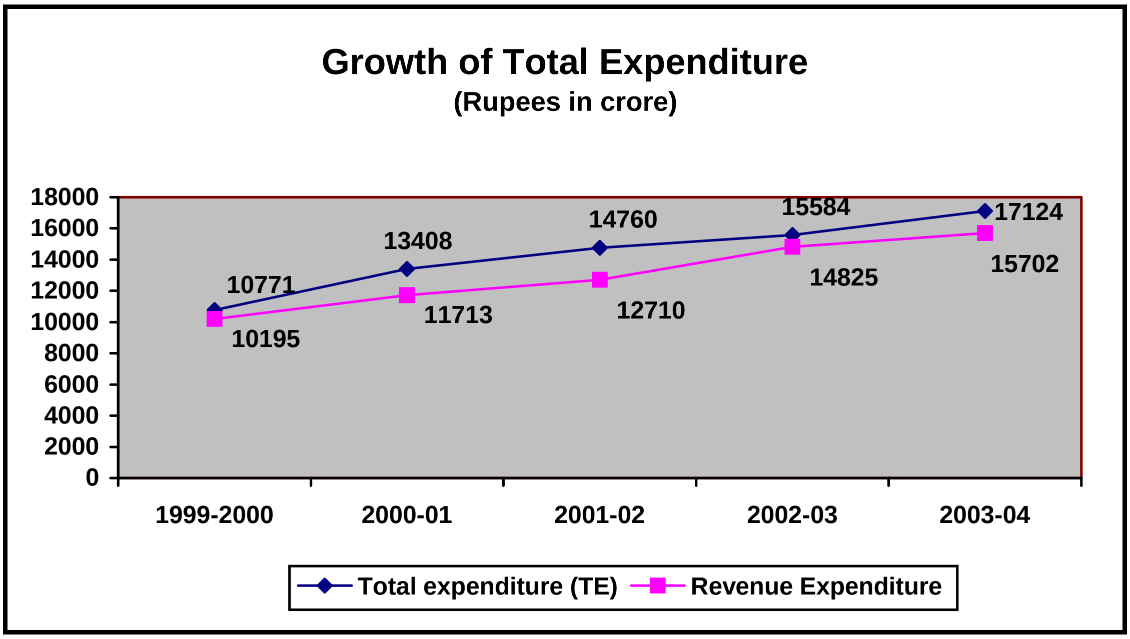
1.6.1. Trend of Growth

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 as follows:

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total expenditure (TE)	10771	13408	14760	15584	17124
Rate of Growth	11.71	24.48	10.08	5.58	9.88
TE/GSDP Ratio	17.18	19.59	19.20	18.07	17.85
Revenue Receipts/ TE Ratio	69.33	69.94	60.49	71.04	70.89
Buoyancy of Total Expenditure with reference to:					
GSDP	0.769	2.671	0.820	0.456	0.880
Revenue Receipts	0.393	0.958	-[5]	0.233	1.024

The total expenditure increased from Rs 10,771 crore in 1999-2000 to Rs 17,124 crore in 2003-04. The rate of growth achieved a peak of 24 *per cent* in 2000-01 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, the growth rate has been hovering between six and 12 *per cent* until 2002-03. It stood at 10 *per cent* during 2003-04. Consequently, total expenditure–GSDP ratio has also fallen from 20 *per cent* in 2000-01 to 18 *per cent* in 2003-04.



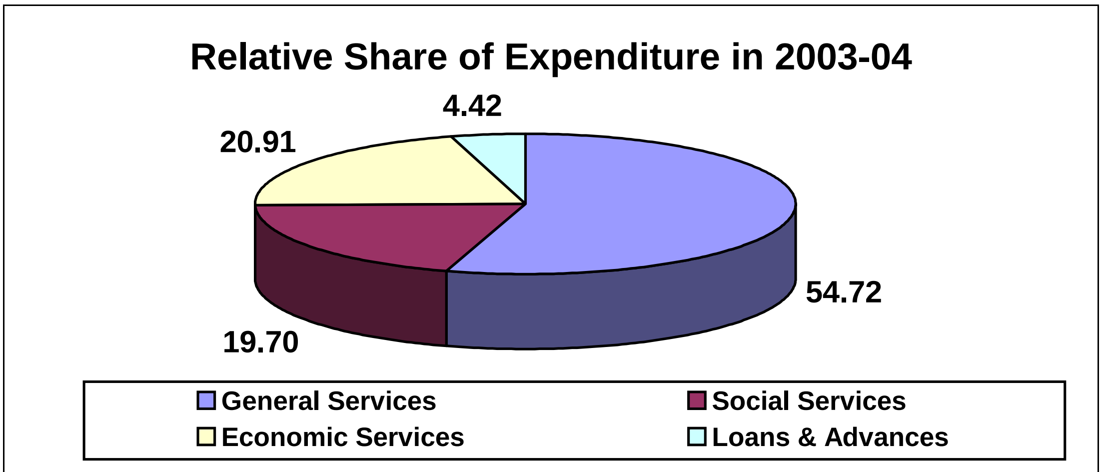
The relative share of activity components in total expenditure is indicated in Table-6 as follows:

[5] Rate of growth of revenue receipt was negative It was (-) 2.110.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services [7]	52.17	49.03	51.41	58.35	54.72
Social Services	25.61	22.72	21.44	20.82	19.70
Economic Services	20.47	25.34	18.79	17.24	20.91
Loans & Advances	1.27	2.25	7.22	2.18	4.42

The movement of relative share of these components of expenditure indicated that while the share of Economic Services in total expenditure declined from 25 *per cent* in 2000-2001 to 21 *per cent* in 2003-04 and that of Social Services from 26 *per cent* in 1999-2000 to 20 *per cent* during 2003-2004, the relative share of General Services, which are primarily non-developmental in nature, increased from 49 *per cent* in 2000-01 to 55 *per cent* of total expenditure in 2003-04. Thus, 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 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 (92 *per cent*) of total expenditure 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure	10195	11713	12710	14825	15702
Rate of Growth	21.60	14.89	8.51	16.64	5.92
RE/GSDP	16.26	17.11	16.54	17.19	16.37
RE as percentage of TE	94.65	87.36	86.11	95.13	91.70
RE as percentage of Revenue Receipts	136.52	124.91	142.35	133.91	129.35

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

7 This includes interest payments.

Revenue expenditure of the State increased from Rs 10,195 crore in 1999-2000 to Rs 15,702 crore in 2003-04. The increase in the revenue expenditure during 2003-04 with reference to 2002-03 was mainly due to increase in expenditure on Power by Rs 599 crore (80 *per cent*), Interest Payments by Rs 278 crore (eight *per cent*), Police by Rs 55 crore (six *per cent*) and Pension by Rs 33 crore (two *per cent*). Though ratio of revenue expenditure to revenue receipts declined from 137 *per cent* in 1999-2000 to 129 *per cent* in 2003-04, dependence of the Government on borrowed funds persisted even for meeting the current expenditure.

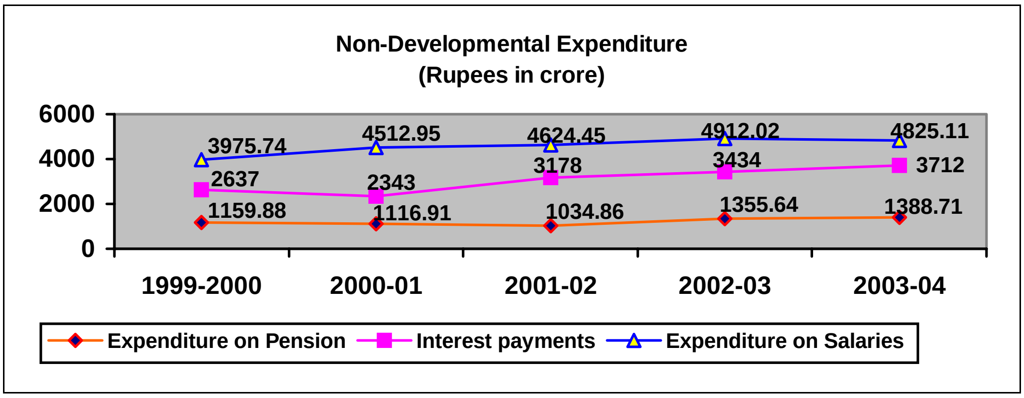
1.6.3 High non-developmental expenditure

Committed expenditure on salaries, pension and interest payments which accounted for 118 *per cent* of the net Revenue Receipts in 1999-2000, after touching a peak of 133 *per cent* during 2001-02, again came down to 118 *per cent* during 2003-04 as detailed below:

Table-8

(Rupees in crore)

Year	Committed expenditure			Total committed expenditure	Revenue Receipts excluding notional receipts	Percentage
	Salaries	Pension	Interest			
	1	2	3	4	5	6
1999-2000	3976	1160	2637	7773	6583	118.08
2000-01	4513	1117	2343	7973	7145	111.59
2001-02	4624	1035	3178	8837	6622	133.45
2002-03	4912	1356	3434	9702	7763	124.98
2003-04	4825	1389	3712	9926	8401	118.15



Salary expenditure

Salaries alone took away nearly 57 *per cent* of the revenue receipts of the Government (excluding notional receipts from State lotteries and interest receipts from PSEB etc.) during the year. The expenditure on Salaries increased from Rs 3,975.74 crore in 1999-2000 to Rs 4,825.11 crore in 2003-04 as shown in Table-9 as follows:

Table-9

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure	3975.74	4512.95	4624.45	4912.02	4825.11
As percentage of GSDP	6.34	6.59	6.02	5.69	5.03
As percentage of Revenue Receipts[8]	60.40	63.16	69.83	63.27	57.43

Expenditure on pension payments

Pension payments took away as much as 11 *per cent* of the total revenue receipts of the Government during 2003-04 as it increased by 20 *per cent* from Rs 1,159.88 crore in 1999-2000 to Rs 1,388.71 crore in 2003-04.

Government decided (March 2004) that certain categories of Government employees who are appointed on or after 1st January 2004 shall be covered by new Defined Contributory Pension Scheme to be notified in due course. Necessary notification is yet to be issued (August 2004).

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 32 *per cent* (average) during the last five years. If revenue receipts excluding net lotteries receipts only are taken, the ratio of interest payments as percentage of revenue receipts would sharply rise to 38 *per cent* as indicated in Table-10.

In absolute terms, interest payments increased steadily by 41 *per cent* from Rs 2,637 crore in 1999-2000 to Rs 3,712 crore in 2003-04 primarily due to continued reliance on borrowings for financing the fiscal deficit. The State Government raised Rs 2,056 crore from open market at a weighted average rate of 6.14 *per cent* and it borrowed Rs 3,376 crore from National Small Savings Fund and Rs 542 crore from Government of India during the year.

Table-10

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
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
2003-04	12139	9750	3712	31	38	24

8 Does not include notional receipts from State Lotteries (Rs 2389 crore) and interest receipts from PSEB (Rs 1349 crore).

The interest payments have grown by 41 *per cent* over the period 1999-2004. 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-Special Term Loans (Principal) which after availing debt relief/waiver stood at Rs 3,772 crore as on 31 March 2000. Ever increasing interest payments had adversely affected both departmental expenditure and social welfare schemes.

1.7. Expenditure by Allocative Priorities

1.7.1. The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement-12 of Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure better is the efficiency of the State apparatus. Table-11 below gives the ratio of these components of expenditure to State's total expenditure.

Table-11 Quality of expenditure

(*per cent* to total expenditure[9])

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	13.17	11.64	13.27	10.53	7.56
Capital Expenditure	4.13	10.63	7.19	2.76	4.06
Developmental Expenditure	46.67	49.16	43.37	38.90	42.49

Outlay on Power Projects (Rs 361 crore) accounted for nearly 58 *per cent* of the plan expenditure of Rs 623 crore under the capital outlay while ‘Transport’ with outlay of Rs 105 crore (17 *per cent*) and ‘Other General Economic Services’ with outlay of Rs 46 crore (seven *per cent*) were the other major heads accounting for significant expenditure under the plan capital outlay in 2003-04.

There was also a decline in the share of developmental expenditure from 47 *per cent* in 1999-2000 to 42 *per cent* in 2003-04. Out of the developmental expenditure, Social Services (Rs 3,373 crore) accounted for 49 *per cent* of the expenditure during the year.

1.7.2. 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 2003-04 was as follows:

9 Total expenditure does not include Loans and Advances.

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Universities and Education Institutions	321.86	241.72	151.49	234.01	193.88
Municipal Corporations and Municipalities, Zila Parishads and Panchayati Raj Institutions	--	20.29	14.40	16.84	-
Cooperative Societies and Cooperative Institutions	--	--	0.29	0.51	0.80
Other Institutions	54.52	95.38	203.99	111.50	21.27
Total	**376.38**	**357.39**	**370.17**	**362.86**	**215.95**
Percentage of growth over previous year	77	(-)5	4	(-)2	(-) 40
Assistance as per percentage of revenue expenditure	4	3	3	2	1

Accounts for the year 2002-03 relating to Punjab Khadi and Village Industries Board, Chandigarh and Punjab Scheduled Caste Land Development and Finance Corporation, Chandigarh are in arrears. Utilisation certificates to the tune of Rs 272.84 crore in respect of 672[10] cases are still awaited (March 2004).

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 of the State increased from Rs 2,727 crore in 1999-2000 to Rs 3,563 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 3,194 crore in 1999-2000 to Rs 4,880 crore in 2003-04. State also had a primary deficit of Rs 557 crore in 1999-2000 which increased to Rs 1,168 crore in 2003-04.

Table-12 Fiscal Imbalances: Basic Ratios
(Value: Rupees in crore and Ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit	2727	2336	3781	3754	3563
Fiscal deficit	3194	3904	4959	4410	4880
Primary deficit	557	1561	1781	976	1168
RD/GSDP	4.35	3.41	4.92	4.35	3.71
FD/GSDP	5.09	5.70	6.45	5.11	5.09
PD/GSDP	0.89	2.28	2.32	1.13	1.22
RD/FD	85.38	59.84	76.25	85.12	73.01

The ratio of revenue deficit to fiscal deficit was around 85 *per cent* during 1999-2003 with inter year variation. The position marginally improved at 73 *per cent* in 2003-04. As a proportion to GSDP, though the revenue deficit has

10 Upto 1997-98: 521 cases: Rs 26.23 crore; 2000-01: 1 case: Rs 9.19 crore, 2001-02: 4 cases: Rs 14.40 crore , 2002-03 :70 cases : Rs 53.42 crore and 2003-04: 76 cases: Rs 169.60 crore

decreased to four *per cent* and fiscal deficit turned almost stagnant in 2003-04, large revenue and fiscal deficits year after year have corroded the financial health of the State, propelling the State to enact the 'Fiscal Responsibility and Budget Management Act, 2003 (FRBMA). It aims at containing the rate of growth of fiscal deficit to two *per cent* per annum until the fiscal deficit reaches the level of three *per cent* of GSDP in nominal terms but did not produce the intended results as fiscal deficit rose by 11 *per cent.*

Recommendations of Eleventh Finance Commission

1.8.2. Medium Term Fiscal Reforms Programme (MTFRP)

Eleventh Finance Commission (EFC) in its report (August 2000) 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 Eleventh Finance Commission (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 to its revenue receipts each year till 2004-05 over the base year 1999-2000.

State Government formulated its Medium Term Fiscal Reforms Programme in March 2003 and an MOU was signed by the Punjab Government with GOI in July 2003. However, no funds were released by GOI during 2003-04 out of the said fund because the State Government failed to comply with MOU stipulations.

According to MOU, the Sales Tax receipts were targeted to grow to Rs 3,575 crore in 2003-04 but only Rs 3,308 crore were actually collected i.e. shortfall of Rs 267 crore (seven *per cent*).

Further, the Revenue Deficit as a proportion of Revenue Receipts was to be reduced by five percentage points each year from 1999-2000 base year. Accordingly, the Revenue Deficit of 37 *per cent* during 1999-2000 should have been restricted to 27 *per cent*, 22 *per cent* and 17 *per cent* of Revenue Receipts during 2001-02, 2002-03 and 2003-04 respectively. However, it remained much above the limit[11] specified in MOU.

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 of the expenditure. Statement-16 and

11 42 *per cent* (2001-02), 34 *per cent* (2002-03) and 29 *per cent* (2003-04).

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 2004, compared with the corresponding position on 31 March 2003.

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 2003-04, the liabilities grew by 13 *per cent*.

Similarly, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and the same grew by seven *per cent* during 2003-04.

1.9.2. Raising of loans to boost cash balance

The Government of Punjab, Department of Finance, raised loans of Rs 880 crore from various institutions during the period from 1999-2000 to 2003-04 for providing House Building Advances (HBA) to Punjab Government employees. Consent of the GOI to raise loans required under Article 293(3) of the Constitution was only for Rs 600 crore and for balance Rs 280 crore, no consent was obtained.

Scrutiny of the records further revealed that against the total loan of Rs 880 crore raised, the Government disbursed HBA amounting to Rs 500.44 crore to the employees during the period 1999-2000 to 2003-04 and retained Rs 379.56 crore for which no reasons were intimated. Raising of loan in excess of actual requirement resulted in avoidable payment of interest of Rs 74.98 crore upto March 2004.

1.9.3. Financial results of irrigation works[12]

Statement-3 of Finance Accounts depicts the financial results of nine major irrigation projects with a capital expenditure of Rs 213.89 crore at the end of March 2004, which showed that revenue realised from these projects during 2003-2004 (Rs 10.62 crore) was only five *per cent* of the Capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (Rs 281.66 crore) and interest charges (Rs 14.82 crore), the schemes suffered a net loss of Rs 285.86 crore.

1.9.4. Incomplete Projects [13]

As of 31 March 2004, there were eight projects which were incomplete, in which Rs 794.61 crore were blocked. Of these, one project[14] was incomplete for more than 20 years (Rs 738 crore). This showed that the Government

12 Refer Finance Accounts 2003-04: Statement No.-3.

13 Refer Finance Accounts 2003-04 Annexure to Statement No.-2.

14 SYL Canal Project-Rs 738 crore.

failed to prioritise its projects and was spreading its resources inadequately over the projects.

1.9.5. 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. 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 24,804 crore in 1999-2000 to Rs 43,197 crore in 2003-04 at an average annual rate of 15 *per cent.* Table-13 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-13: Fiscal Liabilities - Basic Parameters
(Value: Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	24804	28957	33921	38315	43197
Rate of Growth	14.28	16.74	17.14	12.95	12.74
Ratio of Fiscal Liabilities to					
GSDP	39.6	42.3	44.1	44.4	45.02
Revenue Receipts	332.1	308.8	379.9	346.1	355.85
Own Resources	393.2	369.8	436.0	393.1	399.53
Buoyancy of Fiscal Liabilities to					
GSDP	0.938	1.826	1.395	1.059	1.135
Revenue Receipts	0.480	0.655	(-) 3.588	0.540	1.321
Own Resources	0.442	0.694	(-)26.845	0.512	1.166

The ratio of fiscal liabilities to GSDP increased from 40 *per cent* in 1999-2000 to 45 *per cent* in 2003-04 and stood at 3.56 times of its revenue receipts. In addition to these liabilities, Government had guaranteed loans availed by its Corporations and others which in 2003-04 stood at Rs 12,242 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, weighted interest rate on fiscal liabilities at 9.11 *per cent* during 2003-04 was lower than the rate of growth of GSDP by two *per cent* as indicated in Table-14 as follows:

Table-14: Debt Sustainability–Interest Rate and GSDP Growth
(in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted Interest Rate	11.34	8.72	10.11	9.51	9.11
GSDP Growth	15.23	9.17	12.29	12.23	11.23
Interest spread	3.89	0.45	2.18	2.72	2.12

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-15 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 15 *per cent* of total fresh loans in 2003-04.

Table-15: Net Availability of Borrowed Funds

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Internal Debt[15]					
Receipt	1654	4364	5719	5827	6795
Repayment (Principal+Interest)	1181	1466	2701	2365	2269
Net Fund Available	473	2898	3018	3462	4526
Net Fund Available (*per cent*)	28.6	66.4	52.8	59.4	66.61
Loans and Advances from GOI[15]					
Receipt	2001	374	531	419	542
Repayment (Principal+Interest)	2298	1481	1538	2623	3944
Net Fund Available	(-) 297	(-) 1107	(-) 1007	(-)2204	(-)3402
Net Fund Available (*per cent*)	(-) 14.8	(-)295.9	(-) 189.6	(-)526.01	(-)627.68
Total Public Debt					
Receipt	3655	4738	6250	6246	7337
Repayment (Principal+Interest)	3479	2947	4239	4988	6213
Net Fund Available	176	1791	2011	1258	1124
Net Fund Available (*per cent*)	4.8	37.8	32.2	20.14	15.32

During the year, the State repaid loans and advances from GOI after borrowing funds from the open market at the weighted average rate of 6.14 *per cent.* As a result, the net availability of funds was reduced to 15 *per cent* from 20 *per cent* in previous year. However, 66 *per cent* of the existing market loans of the State Government carried interest rate exceeding 10 *per cent*. The effective cost of borrowing on their past loans, as such, is much higher than the rate at which the State is able to raise resources at present from the market.

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 proved insufficient as the fiscal liabilities of the State increased by 74 *per cent* from Rs 24,804 crore in 1999-2000 to Rs 43,197 crore in 2003-04.

15 Net of Ways and Means Advances and Overdrafts from Reserve Bank of India/ Government of India.

1.10. Guarantees given by the State Government

1.10.1. Fiscal Responsibility and Budget Management Act of Punjab 2003 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 8,856.80 crore for the current year, Government had guaranteed loans of Rs 12,242 crore availed by its Corporations and others as of 31st March 2004. 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 2004 was as under:

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees		*Percentage* of maximum amount of guarantee to total revenue
		Principal	Interest	
1999-2000	12059	9861	90	162
2000-2001	7331	8868	122	78
2001-2002	10244	10244	340	115
2002-2003	17720	13255	479	160
2003-2004[16]	22951	12149	93	189

The amount of outstanding guarantees increased from Rs 9,951 crore in 1999-2000 to Rs 12,242 crore in 2003-04 and amounted to 101 *per cent* of the revenue receipts (Rs 12,139 crore) whereas maximum amount guaranteed during 2003-04 stood at 189 *per cent* of the revenue receipts of the State Government.

1.10.2. Non-maintenance of records

Finance Department/Administrative departments did not maintain any consolidated record for guarantees given by the Government and collection of guarantee fee. The Finance Department collects information of guarantees from loanee institutions through Administrative Departments for incorporation in the Finance Accounts. The Finance Department did not maintain any record whether a Corporation/Body has made payment of guarantee fee to the Government in accordance with rate as laid down in the sanction by the competent authority. Thus, the correctness of figures of guarantees could not be verified in audit. This indicated lack of effective control/monitoring of 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. Loans are to be raised only from financial institutions, after the guarantee fee is deposited by the concerned borrower. Cases of outstanding recoverable fee are given in a table as follows:

16 Refer Finance Accounts 2003-04: Statement No.- 6.

(Rupees in crore)

Sr. No.	Name of Corporation/Company/ Board etc.	Amount of loan availed	Period	Amount of guarantee fee payable
1.	Punjab State Container & Warehousing Corporation	70.00	7/98 to 4/2003	1.40
2.	Punjab State Federation of Cooperative House Building Societies (Housefed)	20.83	3/89	0.42
3.	Punjab Financial Corporation	34.25	6/88 to 12/92	0.69
4.	Punjab Roads & Bridges Development Board	90.10	3/99	1.80
5.	Punjab Urban Planning and Development Authority	46.64	2/2003	0.93
6.	Punjab Police Housing Corporation	12.25	10/2002	0.25
7.	Punjab Water Supply and Sewerage Board	456.92	1978-79 to 2003-04	8.62
8.	Punjab State Cooperative Agricultural Development Bank	2422.50	9/2002	48.45
9.	Punjab Mandi Board	54.89	1998	1.10
10.	Punjab Infrastructure Development Board	309.27	3/01	6.19
11.	Punjab State Industrial Development Corporation	477.90	Upto 2002-03	9.56
	Total			**79.41**

1.10.4. Guarantees to loss making units

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

(Rupees in crore)

Sr. No.	Name of institution	Outstanding guarantees (Principal) as on 31 March 2004	Loss incurred	
			Amount	**Upto the year**
1.	Punjab State Tubewell Corporation	54.00	38.11	1997-98
2.	Punjab Financial Corporation	219.98	227.29	2002-03
3.	Punjab State Industrial Development Corporation	434.26	236.88	2001-02
4.	PUNSUP	1713.97	332.50	2002-03
5.	Punjab State Electricity Board	2919.16	708.38	2002-03
6.	Punjab State Bus Stand Management Company Ltd.	24.46	2.00	1997-98

Inspite of these heavy losses, sanction of guarantees to these units has led to the risk of invocation to be faced entirely by Government if there were to be non-payment of interest and principal. The matter was reported (August 2004) to the Government. Reply was awaited (August 2004).

1.11. Investment and returns

As on 31 March 2004, Government had invested Rs 2,359 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return on this investment was meagre (less than half *per cent*) as indicated in Table-16 below. As on March 2004, 18 out of 33 Statutory Corporations and Government Companies with an aggregate investment of Rs 3,263.09 crore were running at a loss and accumulated losses were Rs 1922.27 crore **(*Appendix-III*).**

Table-16: Return on Investment

(Rupees in crore)

Year	**Investment at the end of the year**	**Return**	***Percentage* of return**	**Rate of interest on Government Borrowings (in *per cent*)**
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
2003-04	2359.00	1.82	0.077	9.11

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 1999 -01 and 2002-04.

Table-17: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	1999-2000	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Opening balance	4725	4795	4970	5150	5386
Proforma adjustment	42	-	- 14[17]	-	-
Amount advanced during the year	137	302	1066	339	757
Amount repaid during the year	109	127	872	103	105
Closing balance	4795	4970	5150	5386	6038
Net addition	28	175	194	236	652
Interest received	447	618	459	817	1368
Interest received as *per cent* to Loans advanced	9.43	12.66	9.06	15.51	23.95
Average interest paid by the State	11.34	8.72	10.11	9.51	9.11
Difference between Interest paid and received	(-)1.91	(+)3.94	(-)1.05	(+)6.00	(+)14.84

The outstanding balances of loans and advances increased by Rs 652 crore from Rs 5,386 crore in 2002-03 to Rs 6,038 crore in 2003-04. The increase was mainly under loans for Energy.

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

The table shows that the interest receipts have 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.

Position of some of the outstanding loans is as under:

(Rupees in crore)

Sr. No.	**Name of agency to which loan was given**	**Year of loan/ sanction**	**Amount of loan**	**Remarks**
1.	Punjab State Electricity Board	1986-87	5.00	Repayment of principal and interest on loans is to be made out of the balances of revenue, if any, which are left after meeting all the liabilities but there was no revenue surplus.
		1991-92	1612.00	
		1994-95	20.00	
		1996-97	1189.11	
		Others	1746.52	
		Total	4572.63	
2.	Punjab State Housing Board (now PUDA)	---	33.73	No reasons intimated.
3.	Punjab Financial Corporation	Prior to 1998-99	14.89	-do-
4.	Punjab State Agro Industries Corporation	1996-97	5.42	No repayment of loan has been made since the proposal of conversion of loan to equity is pending with the State Government.
		1997-98	12.50	
5.	Punjab State Tube Well Corporation	1990-91 to 1998-99	250.58	No reasons intimated.
6.	SPINFED	1998-99 to 2003-04	8.13	Repayment will be made after sale of assets by mills.
			15.36	
7.	SUGARFED	2000-01 to 2002-03	124.95	No reasons intimated.
8.	MARKFED	1990-91	1.86	-do-
9.	PUNSUP	1987-88 to 1988-89	74.66	-do-
	Total		**5114.71**	

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 officers. Against 151 statements relating to 2003-04, due from 20 departmental officers, none had been received so far (June 2004). Major portion (Rs 4,573 crore) outstanding related to loans for power projects against which repayment during the year 2003-04 was negligible[18]. Rupees 134.91 crore (Principal: Rs 28.39 crore and interest: Rs 106.52 crore) were outstanding against Municipal Corporations/Municipalities on account of non-repayment of loans advanced as far back as 1963-64 as follows:

18 Rs 1.99 crore.

Borrower/purpose of loan	**Earliest year from which in default**	**Amount over due on 31st March 2004**		**Reasons for non-recovery of the dues by the department**
		Principal	**Interest**	
		(in lakhs of rupees)		
(A) Municipal Corporations, Municipalities and other Local Funds				
(a) Sanitation Schemes	1967-68	160.62	201.99	Reply not furnished
(b) Sewerage Schemes	1963-64	110.33	371.14	-do-
(c) Water Supply Schemes	1964-65	632.58	1019.91	-do-
(d) Integrated city development Programmes	1971-72	400.42	1724.17	-do-
(e) Shopping centres, cinemas etc.	1969-70	9.11	16.75	-do-
(f) Preparation and distribution of town compost	1965-66	13.88	6.98	-do-
(g) Other purposes	1963-64	1507.49	7309.35	-do-
(B) Loans to Rulers of erstwhile States	1965-66	5.12	1.54	-do-
Total		**2839.55**	**10651.83**	

No reasons for non-repayment of these outstanding amounts were furnished by Government and Directorate, Local Self Government, Punjab, Chandigarh (August 2004).

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 (RBI) 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 follows:

Table-18: Ways and Means and overdrafts of the State and Interest paid thereon

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Ways and Means Advances					
Taken in the Year	1851.66	2170.77	1976.61	3127.90	2773.84
Outstanding	182.12	243.42	221.42	185.79	261.83
Interest paid	7.67	6.83	8.73	9.45	12.29
Overdraft					
Taken in the Year	1178.22	1600.10	3826.70	640.74	1811.06
Outstanding	101.92	48.37	196.36	Nil	193.44
Interest paid	4.58	2.38	4.50	1.43	1.84
Number of Days State was in Overdraft	84	107	119	53	134

The above table indicates that though the dependence on WMA has decreased marginally by 11 *per cent,* the dependence on RBI for cash management has increased by 183 *per cent.*

1.14. Fiscal correction measures undertaken by the State

The Finance Minister in his Budget Speech for the year 2003-04 had stated that to step up the rate of economic growth, it is imperative to reduce the fiscal deficit drastically and for this purpose, he assured the House to compress the non-productive expenditure and generate additional revenue by rationalisation of various user charges. It was, however, seen that Power Sector Reforms and improving the finances of the PSEB were not implemented. The process of disinvestment in four Public Sector Undertakings was not completed (August 2004). The State's actual debt obligation (Rs 43,197 crore) exceeded the budget estimates (Rs 42,056 crore), though marginally.

- Under the Fiscal Reforms Programme initiated by GOI, a MOU was entered into (April 1999) between GOI and Punjab Government to shore up revenue and reduce expenditure of the State. During the year 1999-2000, the State Government made certain commitments. Audit scrutiny disclosed that against its commitment to reduce Non-Plan Revenue expenditure by five *per cent*, such expenditure increased by 61 *per cent* from Rs 9,383 crore during 1999-2000 to Rs 15,087 crore in 2003-04. This indicated that fiscal measures taken by the State Government failed to achieve the desired results.

Year-wise detail of Revenue Receipts and Non-Plan Revenue Expenditure

Year	**Revenue Receipts**	**Non-Plan revenue expenditure**	**Excess**	**Excess as a percentage of revenue receipts**
	(Rupees in crore)			
1999-2000	7468	9383	1915	25.64
2000-2001	9377	10884	1507	16.07
2001-2002	8929	11845	2916	32.65
2002-2003	11071	14117	3046	27.51
2003-2004	12139	15087	2948	24.28

Thus, Non-Plan revenue expenditure exceeded Revenue Receipts by amounts ranging between 16 *per cent* and 33 *per cent* of the Revenue Receipts during the last five years.

The 'Public Expenditure Commission' set up (August 2000) by the State Government for compressing and improving quality of public expenditure submitted its report in October 2002 and its recommendations were in the process of implementation.

- Voluntary Retirement Scheme (VRS) framed (May 2003) by State Government for permanent/regular employees who are declared surplus in Departments/offices of the State Government had not been implemented as relevant rules were still under preparation (August 2004).
- State Government had not taken any step to re-deploy the already identified surplus staff.
- Against the permissible transmission and distribution (T&D) losses of 15.5 *per cent*, PSEB suffered T&D losses of 18 *per cent* in 1999-2000 which increased to 25 *per cent* during 2003-04.

1.15. Conclusions

The finances of the State continued to be under stress during 2003-04 and the revenue receipts were not keeping pace with revenue expenditure. Revenue Receipts were totally consumed by committed expenditure of State viz. salaries, pensions and interest payments. Although the revenue deficit decreased marginally from Rs 3,754 crore in 2002-03 to Rs 3,563 crore in 2003-04, the continuous application of borrowed funds largely on current consumption and debt servicing indicated increased unsustainability and highlighted the 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, the 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 resources indicated its increasing unsustainability. The State's high cost borrowing for investments, which yielded very little return, indicated an implicit subsidy. Thus, the State has either to generate more revenue from out of its existing assets or needs to provide from its current revenue for servicing its debt obligations. Enactment of FRBMA, 2003 is a step in right direction but the commitments made therein still remained to be fulfilled by the State Government. Capping of outstanding guarantees on long term debt at 80 *per cent* of the previous year’s revenue receipts and reduction in revenue deficit as percentage of total revenue receipts, by at least five percentage points, from the previous year have not been achieved. Only through reducing revenue/fiscal deficit by compressing non-developmental revenue expenditure in a time bound manner coupled with prudent debt management the State can achieve long term fiscal stability.