

**GOVERNMENT OF THE PUNJAB**

**FINANCE DEPARTMENT**

**MEMORANDUM**

**ON THE**

**BUDGET ESTIMATES,**

**1971-72**

## MEMORANDUM FOR THE BUDGET COMMITTEE

### BUDGET PROPOSALS FOR 1971-72

*Secretary-in-Charge*—Mr. Asif Rahim, S.K., C.S.P., Secretary to Government of the Punjab, Finance Department.

This review of the financial position of the Province during 1970-71 and of the Budget proposals for 1971-72 has been arranged in the following parts:—

- (i) Non-developmental, which is largely in the Revenue Account;
- (ii) Developmental, which is mainly in the Capital Account;
- (iii) Review of Ways and Means position.

1970-71

### NON-DEVELOPMENTAL BUDGET

#### (a) Revenue Receipts

2. In the current financial year, revenue receipts (excluding developmental grants) were originally estimated at Rs. 1,04.26 crore. The revised estimate of revenue receipts stands at Rs. 1,04.21 crore. The variations between the budgeted figures and the revised estimates are summarised below:—

(In crores of rupees)

<i>Item</i>	<i>Budget</i> 1970-71	<i>Revised</i> 1970-71	<i>Variation</i>
Provincial taxes ..	35.34	31.52	-3.82
Central tax assignments ..	36.54	38.92	+2.38
Central non-development grants ..	0.18	0.18	..
Irrigation receipts (net) ..	7.89	8.92	+1.03
Other Provincial receipts ..	24.31	24.67	+0.36
Total ..	1,04.26	1,04.21	-0.05

3. The variation of Rs. 3·82 crore in Provincial Taxes is explained as follows :—

(a) lower receipts under the head “VII—Land Revenue” on account of ban on the lease of state lands which was in operation till the early part of this year and non-realization of arrears of Land Revenue upto the originally anticipated level ;

(b) lower receipts on account of sale of stamps as a result of the present abnormal conditions prevailing in the country resulting in fewer transactions ;

(c) lower receipts on account of Entertainment Duty as a result of closure of a large number of cinemas for a considerable period of time during the strike called for by the film industry. The introduction of Capacity Tax system also appears to have depressed the receipts.

4. The decrease in receipts on account of the factors mentioned above has been partly off-set by improved receipts under the Motor Vehicles Act.

5. Gross receipts from Irrigation are expected to go down from 25·05 crore to Rs. 24·74 crore in the revised estimates for 1970-71. This is due to non-recovery of double the occupiers' rate from certain areas of SCARP II and lower receipts on account of Reclamation Fee levied in SCARP I. The net receipts have, however, gone up from Rs. 7·89 crore to Rs. 8·92 crore as a result of reduction effected in the working expenses which went down from Rs. 17·17 crore to Rs. 15·82 crore.

6. The over-all variation in Other Provincial Receipts is not very significant. Although receipts under Cotton Fee have gone down by Rs. 70 lac. These have been off-set by increase in receipts from the sale of state land and various receipts under Civil Administration.

#### **(b) Revenue Expenditure**

7. The revised estimates for non-developmental revenue expenditure during 1970-71 stand at Rs. 82·81 crore as against the budgeted figure of

Rs. 88.33 crore. The variations between the budgeted figures and the revised estimates are tabulated below :—

(In crore of rupees)

Item	Budget 1970-71	Revised 1970-71	Variation
Direct Demands on the Revenue ..	4.85	5.11	0.26
Civil Administration ..	14.01	14.55	0.54
Beneficent Departments ..	32.34	33.73	1.39
Civil Works and Miscellaneous Public Improvement ..	4.25	4.68	0.43
Miscellaneous ..	8.96	10.51	1.55
Debt Services ..	16.17	*13.00	-3.17
Contingency Item ..	7.75	1.23	-6.52
Total ..	88.33	82.81	-5.52

\* The General Abstract shows the corresponding figure for Debt Service Charges less by 30 lac which will have to be corrected in the final edition.

8. The major variations between the budgeted figures and the revised estimates are explained as follows :—

- (i) an excess of Rs. 1.82 crore allowed to the Education Department on account of revision of pay scales of teachers and increased provision of contingent grants for various schools and colleges in the Province. The budget provision for teachers' pay revision was made on an *ad hoc* basis at the time of preparation of the budget and proved to be inadequate;
- (ii) increase of Rs. 1.11 crore in the provision for subsidy on sales of wheat from Government stocks as a result of higher off-take than originally anticipated as well as a revision of incidental charges from Rs. 2.60 per-maund to Rs. 3.00 per maund;
- (iii) increase of Rs. 0.60 crore allowed in the Police Budget to correct a budgeting mistake which had continued over the last two years;

(iv) increase of Rs. 0.18 crore allowed to the Prisons Department to meet the expenditure on a larger number of prisoners than the sanctioned strength of the prisons;

(v) decrease of Rs. 3.17 crore on account of Debt Service Charges has two components: one of Rs. 2.73 crore which is a reduction in a purely technical provision for Appropriation for Reduction or Avoidance of Debt and the other of Rs. 44 lac on account of lower interest charges paid on Floating Debt.

9. The increase in expenditure shown under the various Service Heads has been met by sanctioning expenditures from the Contingency Item. A provision of Rs. 1.23 crore has been retained under the Contingency Item for sanctioning expenditures of unforeseen nature up to the end of the current financial year.

#### (c) Revenue surplus for Development

10. At the time of the preparation of the budget the revenue surplus for development was estimated at Rs. 15.93 crore. The revised estimates for revenue surplus come to Rs. 22.40 crore.

#### (d) Capital Account

11. The position of the non-developmental capital account excluding state trading is as follows:—

Item	(In crores of rupees)		
	Budget 1970-71	Revised 1970-71	Variation
Receipts	9.93	5.66	-4.27
Deduct non-development expenditure	8.59	10.05	-1.46
Deduct negative opening balance	2.65	1.00	1.65
Total net capital receipts	-1.31	5.39	-4.08

12. The short-fall of Rs. 4.27 crore in the capital receipts for the current year is explained mainly by a reduction of Rs. 2.73 crore in the technical provision for the Reduction or Avoidance of Debt discussed in paragraph 8 (v) above and short-fall in recoveries of loans from the Thal Development Authority and the Lahore Stadium Committee.

**(e) Provincial contribution towards financing of the Annual Development Programme**

13. Taking the revenue surplus together with the net capital receipts, the total contribution of the Provincial Government towards financing of the Annual Development Programme for 1970-71 comes to Rs. 17.01 crore as against the originally budgeted figure of Rs. 14.62 crore.

**(f) State Trading**

14. The Provincial Government's state trading operations cover foodgrains, medical stores and coal. As far as trading in foodgrains is concerned, the gross expenditure during the current year was expected to be Rs. 63.05 crore. The revised expenditure on this account is expected to be Rs. 32.09 crore. The reduction in expenditure is mainly due to the fact, that against the original target of 9.50 lac tons for the procurement of wheat, the actual procurement now expected to take place is of the order of 5.50 lac tons only. The receipts from the sale of foodgrains including subsidy paid by Government were estimated at Rs. 54.70 crore at the time of the preparation of the budget estimates and the revised estimates peg this figure at Rs. 43.80 crore. Thus the net excess of expenditure over receipts originally estimated at Rs. 8.17 crore has now been converted into an excess of receipts over expenditure of the order of Rs. 11.80 crore. This amount represents the draw-down on the foodgrains reserves and repayment of an equivalent amount of bank loans by the Food Department. The net effect of state trading in medical stores during the current year is expected to be *nil*, the expenditure matching the receipts. State trading operations in coal are expected to yield a net surplus of Rs. 10 lac as against the budgeted figure of Rs. 18 lac.

**DEVELOPMENT BUDGET, 1970-71**

**(a) Development Expenditure**

15. The Annual Development Programme for 1970-71 provided for a gross expenditure of Rs. 61.84 crore. The revised estimates for

developmental expenditure during 1970-71 have been adopted as Rs. 44.31 crore as per details given below:—

(In crores of rupees)		
	<i>Budget</i> 1970-71	<i>Revised</i> 1970-71
Water and Power	3.75	2.69
Agriculture	8.36	6.39
Physical Planning and Housing	9.08	6.92
Industries, Fuel and Minerals	0.57	0.32
Education and Training	14.39	9.81
Health	8.36	6.31
Communications	14.05	9.06
Social Welfare and Manpower	0.78	0.56
Works Programme	2.50	2.25
Total	61.84	44.31

16. As some re-appropriations and sanctions of funds from Contingency Item have been allowed subsequent to the finalization of the revised estimates, including an expenditure of Rs. 87 lac sanctioned against Russian and Italian Suppliers Credits for agricultural schemes, the probability is that development expenditure will exceed the figure of Rs. 44.31 crore by about Rs. 1.75—2.50 crore.

**(b) Financing of Development Programme**

17. The firm availability of resources for financing the development expenditure, detailed above, is estimated at Rs. 42.46 crore, as per details given below:—

(In crores of rupees)	
Provincial Contribution	17.01
Receipt from Road Funds	3.24
Other Rupee Grants	2.33
Cash Development Loans	14.32
Market Loans (Net)	3.44
Foreign Aid	2.12
Total	42.46

18. Punjab's share of the losses incurred by Pakistan Western Railways has not been taken into account in working out the figure for cash development loan receivable from the Central Government. The present indications are that Pakistan Western Railway's total losses during the current financial year will be about Rs. 4 crore. Punjab's share thereof will not be less than Rs. 2.25 crore. If the Central Government proceed to recover this amount during the current financial year, the resources available for financing the Annual Development Programme will stand reduced by the same amount.

### **Review of Ways and Means position**

19. The Province inherited a debit balance of Rs. 1 crore at the beginning of the current financial year after accounting for all adjustments carried out up to September, 1970. The ways and means position of the Province remained satisfactory up to the beginning of April, 1971, chiefly on account of the regular flow of cash development loans as well as tax assignments from the Central Government and low level of expenditure on the part of the executing agencies. During this period an attempt was made to reduce the borrowings from Commercial Banks for the procurement of wheat by advancing money from Account No. I to Account No. II (Food Account). With the beginning of May, 1971, the ways and means position started deteriorating. On account of the increased rate of expenditure on the part of the executing agencies this trend has continued since then, and a five crore release from the Central Government brought only transient relief. Judging from the revised estimates of expenditure discussed in the earlier paragraphs and the revised resource availability for the current year, the Province is likely to end the current financial year with a negative cash balance of Rs. four to six crore. A negative balance of this magnitude is likely to cause severe ways and means difficulties in the coming financial year.

1971-72

## **NON-DEVELOPMENTAL BUDGET**

### **(a) Revenue Receipts**

20. Revenue receipts (excluding developmental grants) are expected to increase from Rs. 1,04.21 crore in the revised estimates of 1970-71



to Rs. 1,11.11 crore for the next financial year. The position of receipts for the next financial year is summarised below :—

(In crores of rupees)

	<i>Revised</i> 1970-71	<i>Budget</i> 1971-72	<i>Variation</i>
Provincial taxes	31.52	32.97	+1.45
Central tax assignments	38.92	44.99	+6.07
Central non-development grants	0.18	0.18	..
Irrigation receipts (net)	8.92	8.78	-0.14
Other Provincial receipts	24.67	24.19	-0.48
Total	1,04.21	1,11.11	+6.90

21. Provincial taxes except for water rates (which in any case is a service charge), tend to be comparatively inelastic. The increase of Rs. 1.45 crore in Provincial Tax Receipts is spread over a number of sources. The principal increases expected are: Land Revenue (Rs. 43.47 lac), Stamp Duties (Rs. 45.79 lac), Motor Vehicle Taxes (Rs. 25.83 lac), and Other Taxes and Duties (Rs. 29.85 lac).

22. The Provincial Government's share of Central Taxes is expected to increase by Rs. 6.07 crore from Rs. 38.92 crore to Rs. 44.99 crore.

23. Receipts from water rate are expected to go up by Rs. 2.03 crore during the next financial year but this increase is more than off-set by the increase in working expenses which will be of the order of Rs. 2.17 crore. This is explained by the expenditure to be incurred on the operation of tube-wells in SCARP areas. The net receipts from this source will, therefore, go down by Rs. 14 lac.

24. Other Provincial Receipts of the Provincial Government are expected to go down by Rs. 48 lac from Rs. 24.67 crore to Rs. 24.19 crore. These receipts are derived from a number of sources and main declines are on account of lower realization of interest on loans advanced to the T.D.A. and lower receipts from the sale of land.

**(b) Revenue expenditure**

25. On the basis of the Schedule of New Expenditure proposals already accepted by the Finance Department, the non-developmental revenue expenditure during 1971-72 is estimated at Rs. 1,08.13 crore, as compared with Rs. 82.81 crore in the revised estimates for the current financial year. The variation between the revised estimates for the current financial year and the budget estimates for 1971-72 are summarised below :—

(In crores of rupees)

<i>Item</i>	<i>Revised</i> 1970-71	<i>Budget</i> 1971-72	<i>Variation</i>
Direct Demands on the Revenue .. .. .	5.11	5.44	0.33
Civil Administration .. .. .	14.55	16.52	1.97
Beneficial Departments .. .. .	33.73	43.80†	10.07
Civil Works and Miscellaneous Public Improvements .. .. .	4.68	*5.83	1.15
Miscellaneous .. .. .	10.51	12.00	1.49
Debt Services .. .. .	13.00	**16.04	3.04
Contingency Item .. .. .	1.23	8.50	7.27
Total	82.81	1,08.13	25.32

†Figure adopted in the General Abstract does not take into account expenditure of Rs. 0.56 crore on establishment pertaining to the Head "63-B—Development".

\*Figure adopted in the General Abstract does not take into account *pro rata* distribution of establishment expenditure between the revenue and capital heads of account. Transfer to capital head of account is of the order of Rs. 1.50 crore.

\*\*Figure adopted in the General Abstract does not take into account the reduction of Rs. 1.18 crore in expenditure on Debt Services after reconciliation of figure with the Central Government.

26. Major increases in expenditure are discussed below :—

- (i) increase of Rs. 8.07 crore for Education which is on account of full provision having been made in the new budget for such educational institutions (including 4,000 Primary Schools) as were opened at a very late stage during the current financial year. It also includes expenditure on the provincialization of local bodies high schools;

- (ii) increase of Rs. 1.10 crore in expenditure on Health. This is mainly on account of a more liberal provision having been made for the supply of medicines to various hospitals and dispensaries. Grants for some medical institutions including the Fatimah Jinnah Medical College have also been increased;
- (iii) increase in the provision for wheat subsidy which is expected to go up to Rs. 4.99 crore from Rs. 4.08 crore spent during the current financial year. This is based on an estimate of internal off take of 6 lac tons;
- (iv) increase in expenditure on General Administration amounting to Rs. 0.97 crore is explained mainly by expenditure of Rs. 40.65 lacs having been included for the Provincial Assembly and an increased provision for stationery and printing charges;
- (v) increase of Rs. 0.62 crore on account of enhanced provision for repairs of roads and bridges in accordance with the revised yard-stick;
- (vi) increase of Rs. 0.54 crore for repairs of buildings;
- (vii) increase appearing on account of provision for salaries of staff for 12 months instead of 11 months for the current year.

27. A provision of Rs. 15 crore has been included in the next year's budget for the Contingency Item. This has been divided between the Revenue and Capital Accounts as follows:—

		(In crores of rupees)
Revenue Account	.. .. .	8.50
Capital Account	.. .. .	6.50
	Total	15.00

28. The figure of Rs. 8.50 crore proposed to be reflected in the Revenue Account is made up of the following components:—

	(In crores of rupees)
(i) Implementation of Pay Commission's award .. .. .	3.50
(ii) Implementation of Police Commission's award .. .. .	2.50
(iii) Normal Contingency Item .. .. .	2.50
Total	8.50

**(c) Revenue Surplus for Development.**

29. The Revenue surplus for development is estimated at Rs. 2.98 crore as compared to Rs. 22.40 crore in the revised estimates for the current financial year.

**(d) Capital Account**

30. The position of the non-developmental capital account excluding state trading is summarised below:—

	(In crores of rupees)		
<i>Item</i>	<i>Revised 1970-71</i>	<i>Budget 1971-72</i>	<i>Variation</i>
Receipts .. .. .	5.66	9.74	4.08
Deduct non-development expenditure .. .. .	10.05	10.57	0.52
Deduct negative opening balance .. .. .	1.00	*N.A.	..
Total net Capital Receipts	-5.39	-0.83	3.56

\*Expected to be between Rs. four to six crore.

31. The increase of Rs. 4.08 crore in the capital receipts for the year 1971-72 is mainly on account of an increase of 4.04 crore in the technical provision for the Reduction or Avoidance of Debt.

**(e) Provincial contribution towards financing of the Annual Development Programme**

32. Taking the revenue surplus together with the net capital receipts, the total contribution of the Provincial Government towards financing of the Annual Development Programme for 1971-72 comes to Rs. 2.15 crore which will be reduced further by the amount of the negative cash balance that we throw up at the end of the current financial year.

### (f) State Trading

33. The gross expenditure on purchase of foodgrains is estimated at Rs. 53.73 crore against expected sales (including wheat subsidy) of Rs. 58.65 crore. The net result will be a surplus of receipts over expenditure of the order of Rs. 4.92 crore.

34. The expenditure on purchase of medical stores is expected to be balanced by equivalent receipts and the net effect on expenditure will be nil.

35. State trading in coal is expected to throw up a surplus of Rs. 38 lac.

### DEVELOPMENT BUDGET, 1971-72

#### (a) Development expenditure

36. The Planning and Development Department have prepared an Annual Development Programme of Rs. 48.71 crore with the following sectoral break-down :—

(In crores of rupees)

<i>Sector</i>	<i>Budget 1971-72</i>
Water and Power .. .. .	3.00
Agriculture: .. .. .	6.71
Physical Planning and Housing .. .. .	6.60
Industries, Fuel and Minerals .. .. .	0.40
Education and Training .. .. .	11.30
Health .. .. .	6.60
Communications .. .. .	11.00
Social Welfare and Manpower .. .. .	0.60
Works Programme .. .. .	2.50
Total .. .. .	<u>48.71</u>

#### (b) Financing of Development Programme

37. At the meeting of the Annual Plan Coordination Committee held at Islamabad on the 27th and 28th May, 1971, under the Chairmanship of the Deputy Chairman, Planning Commission, the size of the Annual Development Programme for 1971-72 was determined as Rs. 500 crore as against the figure of Rs. 560 crore communicated earlier. As regards resources for financing this Programme, the size of the divisible pool of resources was determined as Rs. 435 crore. The balance of Rs. 65 crore have to be raised by the Provinces by exercising economies in non-development expenditure and additional taxation:

38. Out of the divisible pool of resources, Rs. 100 crore is pre-empted by Tarbela Dam (Rs. 70 crore) and Flood Control Works in East Pakistan (Rs. 30 crore). The balance of Rs. 335 crore is to be apportioned between the West Pakistan A. D. Ps., East Pakistan A. D. P. and the Central Government's A. D. P. in the same proportion as that adopted for the current financial year. On this basis West Pakistan's share works out as Rs. 123 crore. This amount has to be distributed between the programmes of undivided autonomous bodies and the four Provinces. We have proposed that Rs. 70 crore be earmarked for the programmes of undivided autonomous bodies including Rs. 45 crore for WAPDA (Power) and P. W. R. and Rs. 25 crore for the allocable programmes of the aforesaid bodies. The Planning Commission, the Ministry of Finance and the Government of Sind have agreed with this proposal but the Governments of N.-W.F.P. and Baluchistan are opposed to it. It is likely, however, that this proposal will secure the approval of the President and consequently we are proceeding on the assumption that it will be so approved.

39. Out of the remaining Rs. 53 crore, Punjab's share is Rs. 56.4 per cent or Rs. 29.89 crore. The break-up of this amount has not yet been intimated by the Ministry of Finance but is likely to be as follows:—

		(In crores of rupees)
Counter part Fund Grants .. .. .		1.43
Grants for Family Planning .. .. .		0.80
Grants from Roads Fund .. .. .		*0.60
Foreign Aid .. .. .		0.75
Provincial Contribution .. .. .		**1.98
Cash Development Loan .. .. .		24.33
	Total	29.89

\*Figure still to be reconciled with the Communications and Works Department and the Central Ministry of Communications.

\*\*Agreed figure for contribution of Provincial Government as per decision taken at the Finance Secretaries Conference on 25th May, 1971.

40. In the circumstances explained above, it is felt that it would not be possible to protect the Programme of Rs. 48.71 crore prepared by the Planning and Development Department for 1971-72. The gap between the size of the Annual Development Programme and the financing indicated in

the preceding paragraphs is of the order of Rs. 18.82 crore. To meet this gap the Provincial Government may be able to mount an effort of the order of Rs. 9.75 crore if the following proposals are accepted:—

- (i) a 50 per cent cut is imposed on the provision included for the Contingency Item in line with the proposal of the Ministry of Finance which is based on the assumption that the pay increases will be postponed and will not be made effective from 1st July, 1971. This will give us Rs. 4.25 crore.
- (ii) the wheat subsidy reduced by 50 per cent of the existing rate through an increase in the issue price of wheat from Rs. 17.00 per maund to Rs. 18.50 per maund. This will yield Rs. 2.50 crore.
- (iii) additional taxation to yield Rs. 3.00 crore.

41. This additional effort by the Provincial Government would enable us to implement a development programme of Rs. 39.64 crore. This would enable the on-going programme to be completely protected and leave scope for inclusion of new schemes in the next year's Annual Development Programme to the extent of Rs. 2 crore.

**Conclusion:**

42. The Budget Committee is requested to approve—

- (1) The Schedule of New Expenditure for 1971-72 subject to the reduction in wheat subsidy proposed in paragraph 40 (ii) above.
- (2) The proposals contained in paragraph 40 (i) and (ii) above and as a consequence thereof to determine the size of the Annual Development Programme 1971-72 at Rs. 39.64 crore.
- (3) Phasing of expenditure on new schemes as may be included in the revised Annual Development Programme for subsequent years.

*Dated the 31st May, 1971.*

ASIF RAHIM  
*Secretary to Government of the Punjab,  
Finance Department.*