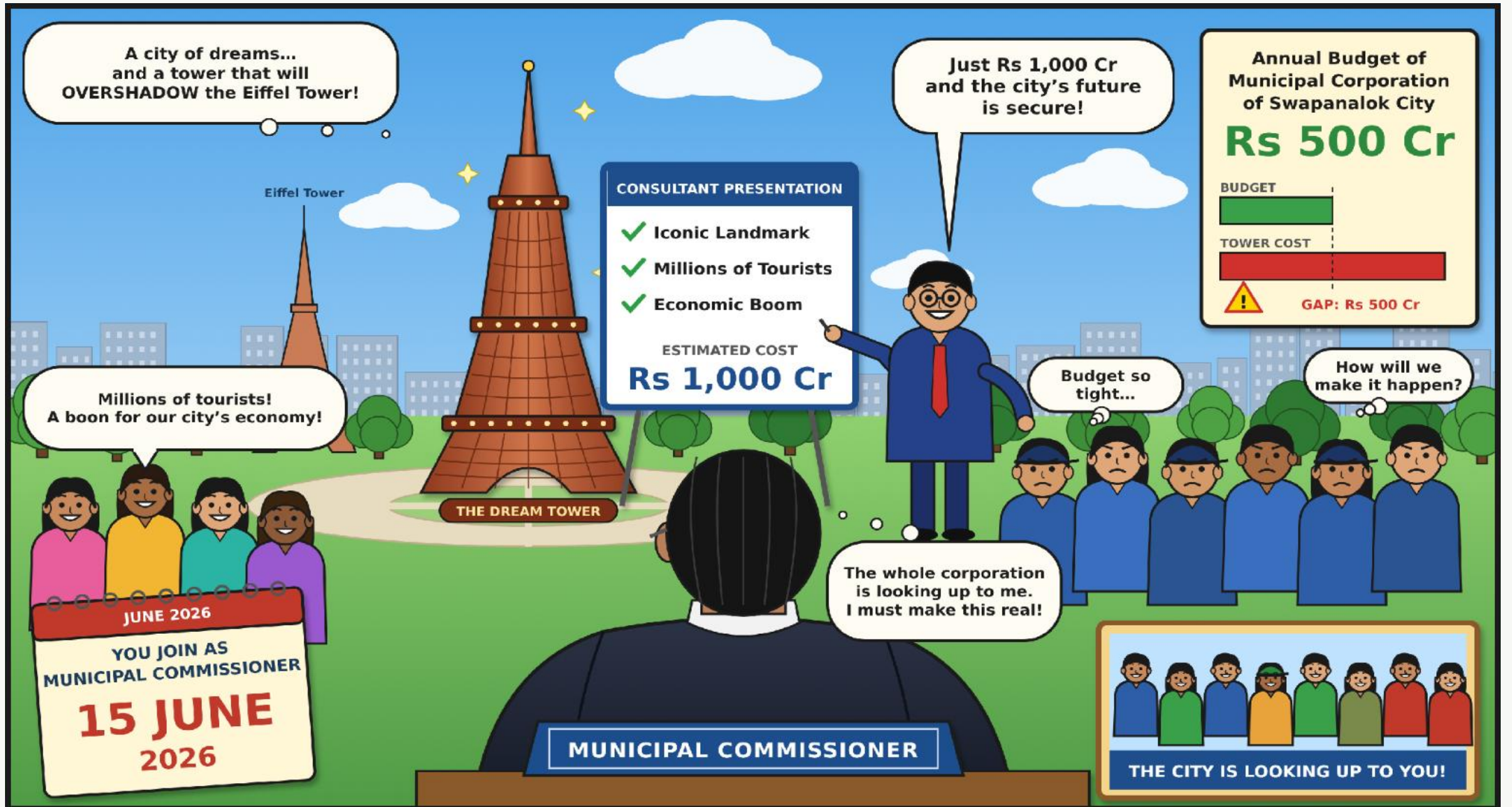




PUBLIC FINANCE • FIELD GUIDE

Introduction to Public Financial Management



What is the Problem statement?

- The Municipal Corporation of Swapnalok city decides to construct a tower so magnificent and beautiful that it would over shadow Paris' Eiffel tower. The consultant hired by the corporation has confidently stated that once this monument is constructed, millions of tourists will visit the city, and it would be a boon for city's economy.
- The consultant has estimated the cost of the project to be just Rs. 1,000 crores.
- However, there is one MAJOR obstacle in achieving this dream: The Annual budget of the corporation is only Rs. 500 crores.

You have joined as Municipal Commissioner on June 15, 2026 and the whole corporation is looking up to you to turn this dream to reality.

You are Rs.500 crores short. What can you actually pull?

Tax it yourself? Article 243X- only what State law allows

A grant from the State? Article 243Y- State Finance Commission decides

Finance Commission grants? Article 280(3)(c)- fixed for 5 years

Borrow or issue bonds? State Municipal Act- needs State approval

Swapnalok Monument: from Dream to Reality

- The Municipal commissioner was able to convince the State's Tourism Department to undertake the project. His batchmate Mr. X, who is the Deputy Secretary in the Department, has now been tasked to take up the project to its logical end.
- Mr. X sees that the total budget outlay for the state Government is Rs. 2 lakh crores.
- Today is 15th October, 2026. How soon can the work start?

The paper permission

Annual Financial Statement- Article 202 (Union: 112)

Demands for Grants & Appropriation Bill- Articles 203-204 (Union: 113-114)

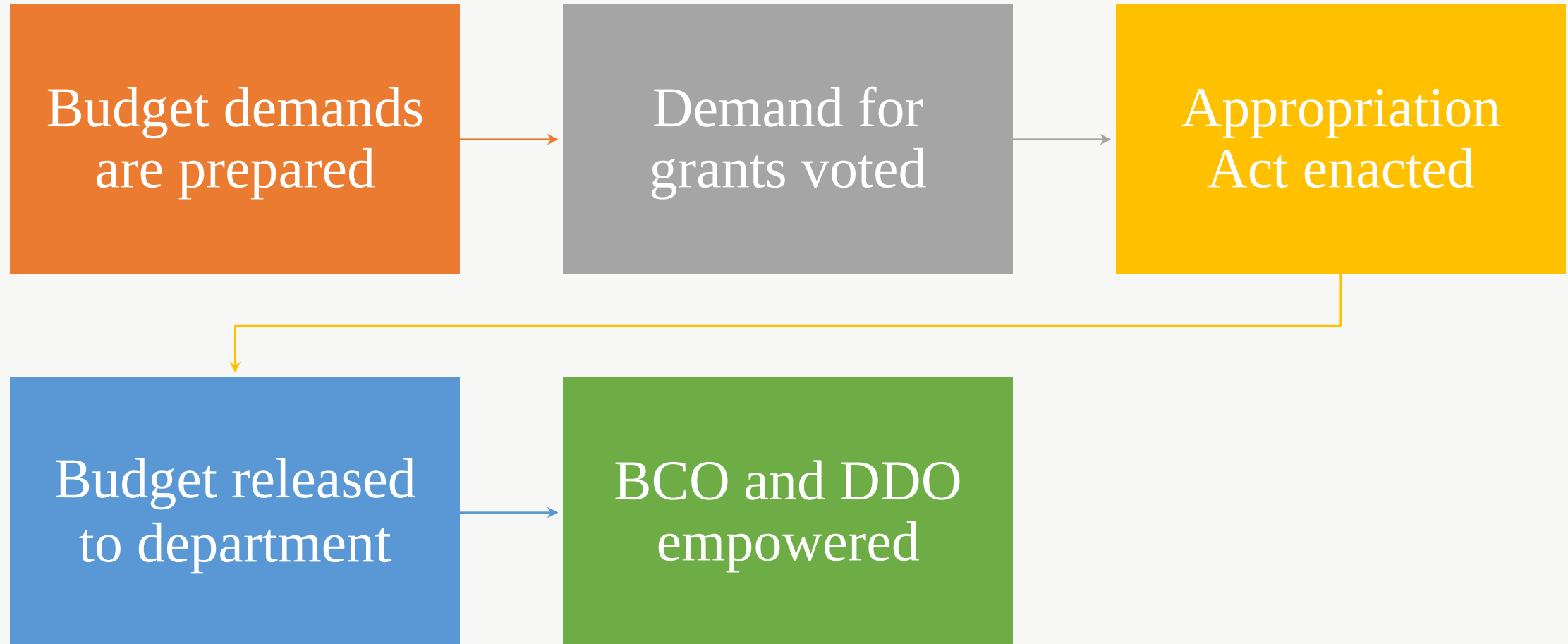
Supplementary and excess grants- Article 205 (Union: 115)

Vote on account- Article 206 (Union: 116)

Remember: All of this is permission. NOT MONEY.

A new project in mid-year is a “New Service”: it needs a supplementary grant (Art. 205), not re-appropriation.

The Budget chain



Funds Arranged, Now what?

- On December 31st 2026, the cabinet approved expenditure of Rs. 1,000 crores for the construction of Swapnalok Monument. The legislature allowed expenditure of Rs. 300 crores in FY 2027-28.

Financial propriety

- Rashbihari Panda Etc. v. State of Orissa, 1969
- General Financial Rules- the baseline
- Public procurement rules and manuals
- . Accounting rules- record every transaction
- Spend public money with the same vigilance as your own (GFR Rule 21)

How to do it?

Feasibility survey establishes viability

Detailed project report prepared

Technical estimate costed

Technical sanction by competent authority

Administrative approval accorded

From tender to closure

Tender documents drafted carefully

Bids invited, evaluated, awarded

Contract managed through execution

Contract closed and settled

Bill payments

- The contractor engaged for construction of Swapnalok Monument has presented first tranche of bills amounting to Rs. 50 Crores for the work done so far. He has also provided his bank account details.
- But the Tourism Development Board has no bank account. So how will the payment be made?

Why is this personal?

- Malfeasance is common- so is detection.
- Ignorance of rules is no defence.
- Everyone who signed can be held accountable.
- Inquiries arrive years after your transfer.

How to protect yourself

- Know the rules before you sign
- Ask for the file, not the reassurance
- Record your reasoning in writing
- Never bend propriety under pressure
- Take this session seriously

Must read

- General Financial Rules
- Manual for procurement of Goods
- Manual for procurement of Works
- Manual for procurement of consultancy services
- Delegation of Financial Power Rules

PART II • DECISION ANALYSIS

- **Cost Information for decision making**

On what basis do you approve the Swapnalok Monument?



On what basis do you approve Swapnalok Monument?

- Because it worked in Paris?
- Because similar projects worked in other cities?
- Because the Consultant said so?
- Because it is public demand and we live in democracy?
- Because it is your hunch?

Cost- benefit Assumptions

Costs

- Consultant cost (already paid Rs. 5 Crores)
- Design cost (Rs. 50 crores)
- Land cost (Rs. 450 crores)
- Construction cost (Rs 500 crores)
- Any other costs?

Benefits

- Tourist fee (Rs. 100 x 10,00,000= Rs. 10 crores per year)

Pay back period

Costs- Rs. 1000 crores

Revenue per year- Rs.
10 crores

Simple payback-
 $1000/10 = 100$ years

Will the monument last
100 years?

And is a rupee in year
100 worth a rupee
today?

Cost – Benefit assumption -2

Cost

- Consultant cost (already paid Rs. 5 Crores)
- Design cost (Rs. 50 crores)
- Land cost (Rs. 450 crores)
- Construction cost (Rs 500 crores)
- Life of the monument = 50 years
- Annual maintenance (0.1%)= Rs. 1 crore

Benefit

- Tourist fee (Rs. 100 x 10,00,000= Rs. 10 crores per year)
- Each tourist spends Rs. 5,000/-: 7% SGST (assumed)= Rs. 350 x 10,00,000= Rs. 35 crores
- Attracts private investment of Rs. 100 crores: 9% SGST= Rs. 9 crores (one time)
- Private profit @16% ROE: Rs. 16 crores: 25% corporate tax= Rs. 4 crores: 41% to all States x 5% this State's share= Rs. 0.08 crore/ year

Pay back period 2

Costs- Rs. 1000 cr,
less one time inflow
of Rs. 9 Cr

Net Revenue per year:
Rs. 10+ Rs. 35+ Rs.
0.08- Rs.1 (All in
crores)= Rs. 44.1
crores

Simple payback=
 $(1000-9)/44.1 = 22.5$
years

From 100 years to 22
years! Just by
tinkering with the
assumptions.

Now, should we
proceed?

Net Present Value: a rupee later is worth less

- Money out today: Rs. 991 crores (Rs. 1,000 crores less the Rs. 9 crores one-time SGST)
- Money back: Rs. 44 crores a year, for 50 years
- Discount each year's inflow: Present value = $\text{Inflow} \div (1 + r)^{\text{year}}$
- NPV = Present value of all inflows – cost today
- NPV positive → the project creates value. NPV negative → it destroys value
- Which r ? At least what the Government pays to borrow for the long term

Revisiting the assumptions

- The consultant offers to prepare a revised report on “realistic” scenarios. He argues that India will be an economic super power within 50 years, and that like every developed country its interest rates will fall to around 3%.
- He re-runs the model at 3% discount rate. The NPV is now positive Rs. 143 crores.
- Nothing about the monument has changed. Should we approve now?

Try it: the monument at 3%

Click a discount rate:

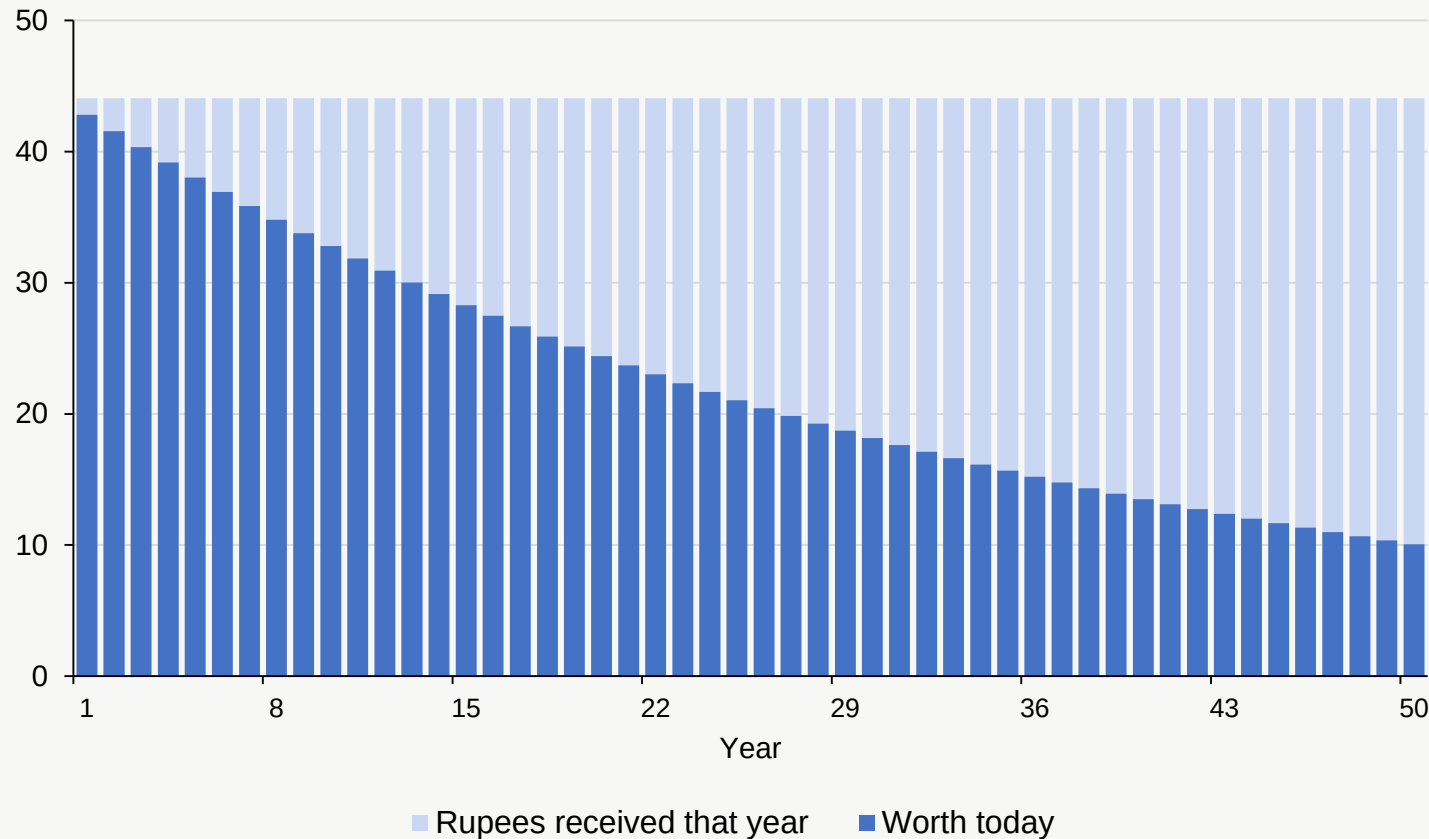
3%

6%

8%

10%

Each year's Rs. 44 cr, in today's money (Rs. crores)



NPV at 3%

+Rs. 143 cr

Creates value

Inflows worth today: Rs. 1,134 cr

Spent today: Rs. 991 cr

Year 50's Rs. 44 cr is worth only Rs. 10.1 cr today.

Break-even rate (IRR): about 3.7%

Try it: the monument at 6%

Click a discount rate:

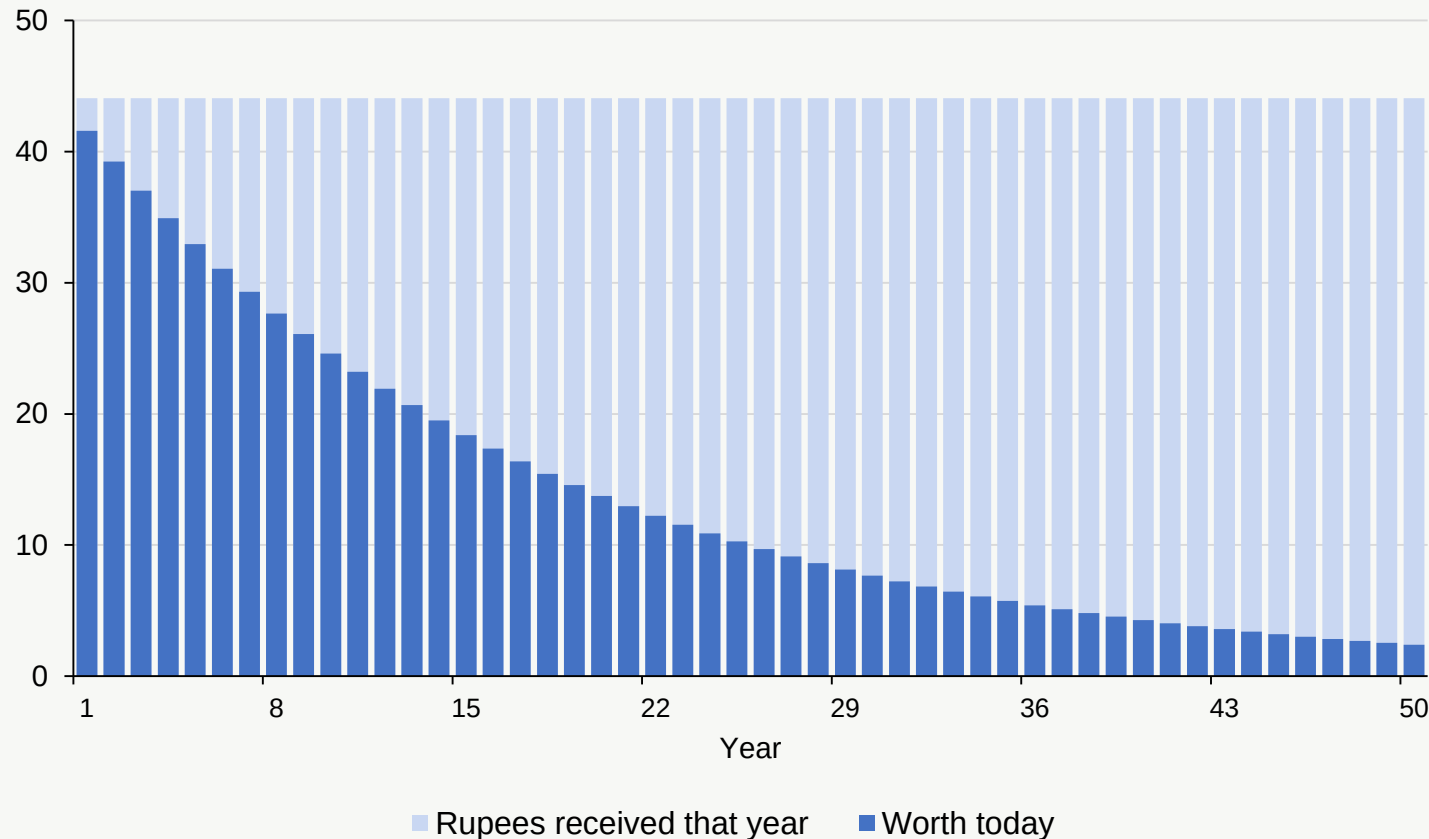
3%

6%

8%

10%

Each year's Rs. 44 cr, in today's money (Rs. crores)



NPV at 6%

–Rs. 296 cr

Destroys value

Inflows worth today: Rs. 695 cr

Spent today: Rs. 991 cr

Year 50's Rs. 44 cr is worth only Rs. 2.4 cr today.

Break-even rate (IRR): about 3.7%

Try it: the monument at 8%

Click a discount rate:

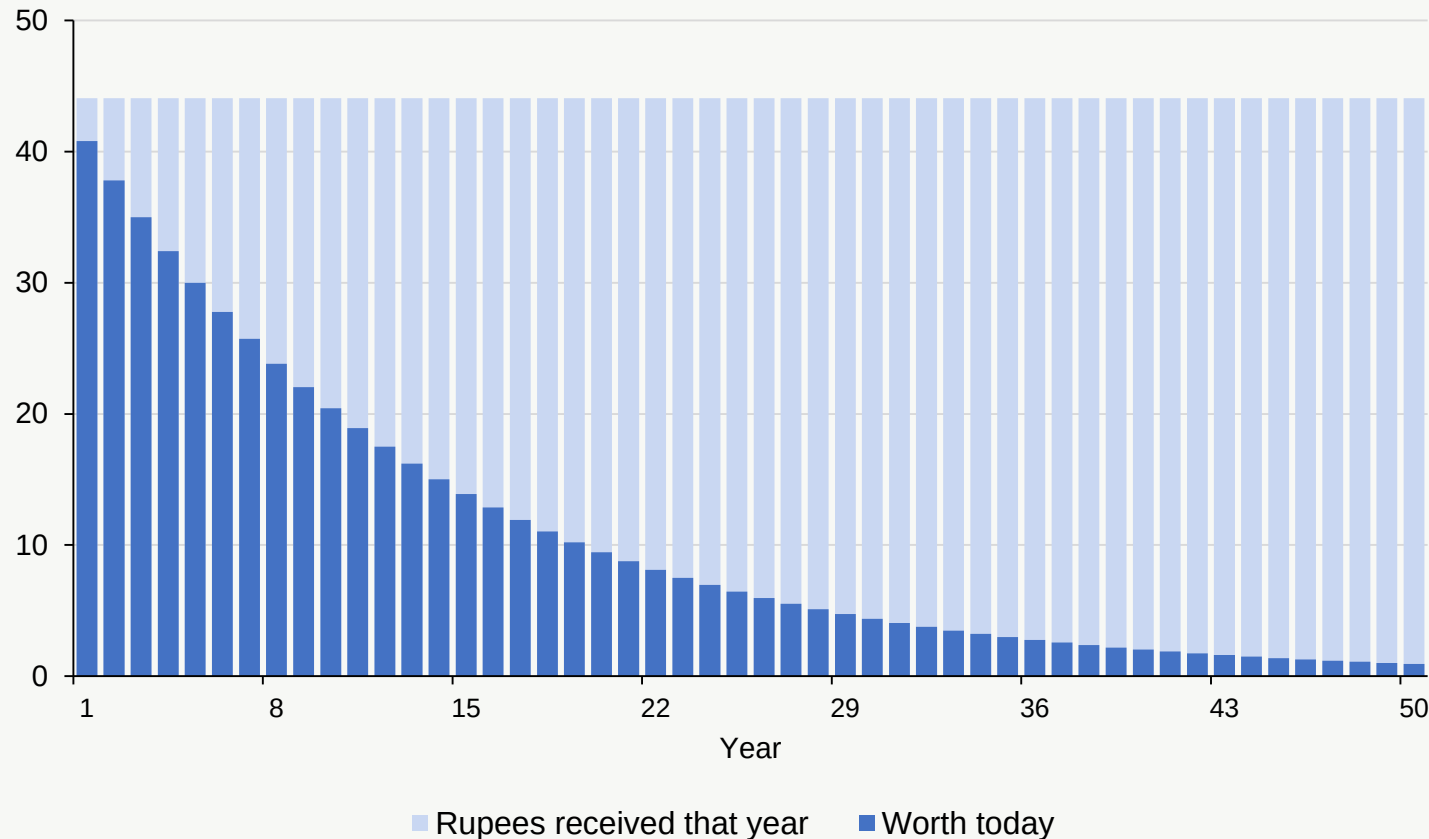
3%

6%

8%

10%

Each year's Rs. 44 cr, in today's money (Rs. crores)



NPV at 8%

–Rs. 452 cr

Destroys value

Inflows worth today: Rs. 539 cr

Spent today: Rs. 991 cr

Year 50's Rs. 44 cr is worth only Rs. 0.9 cr today.

Break-even rate (IRR): about 3.7%

Try it: the monument at 10%

Click a discount rate:

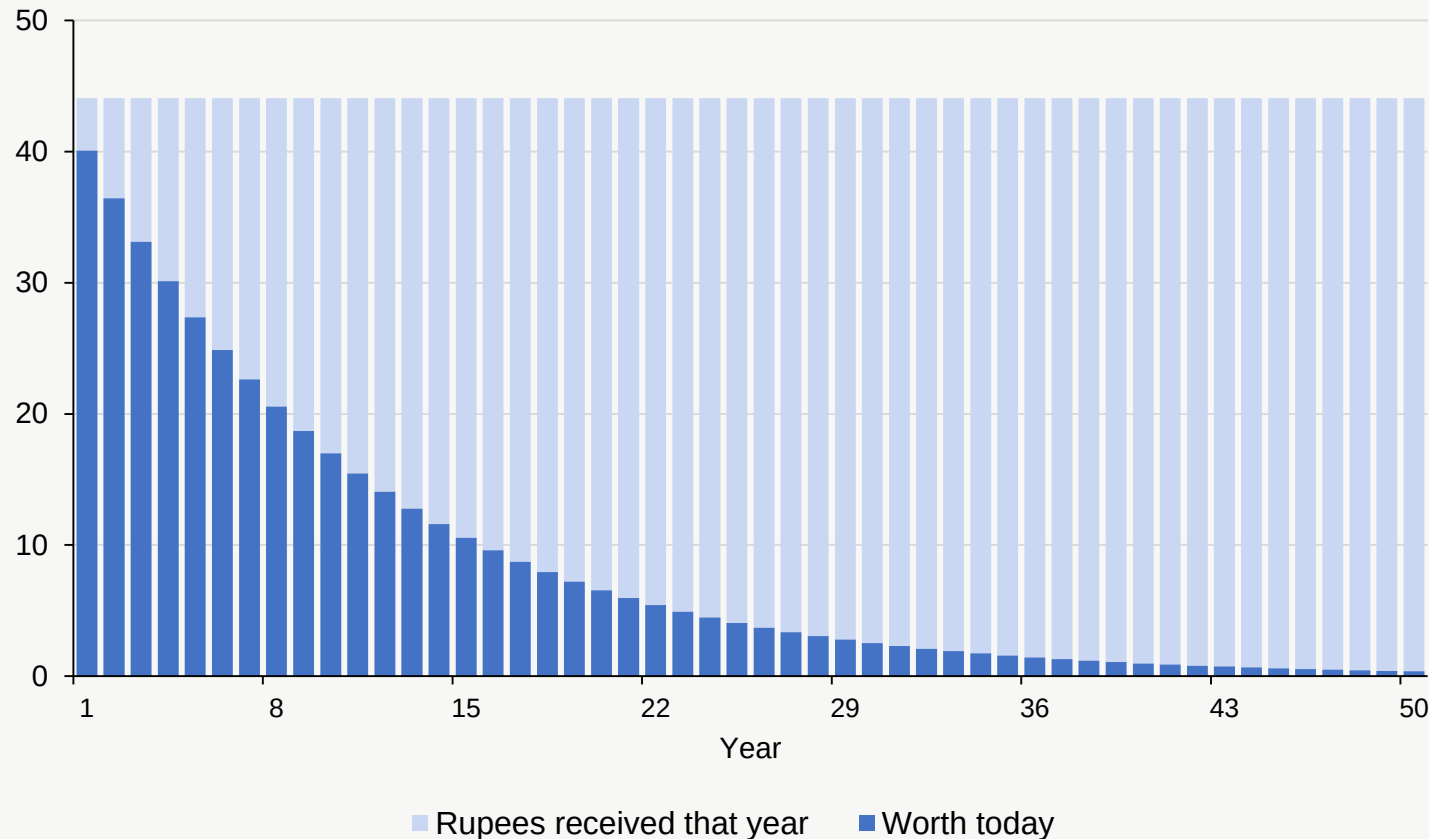
3%

6%

8%

10%

Each year's Rs. 44 cr, in today's money (Rs. crores)



NPV at 10%

–Rs. 554 cr

Destroys value

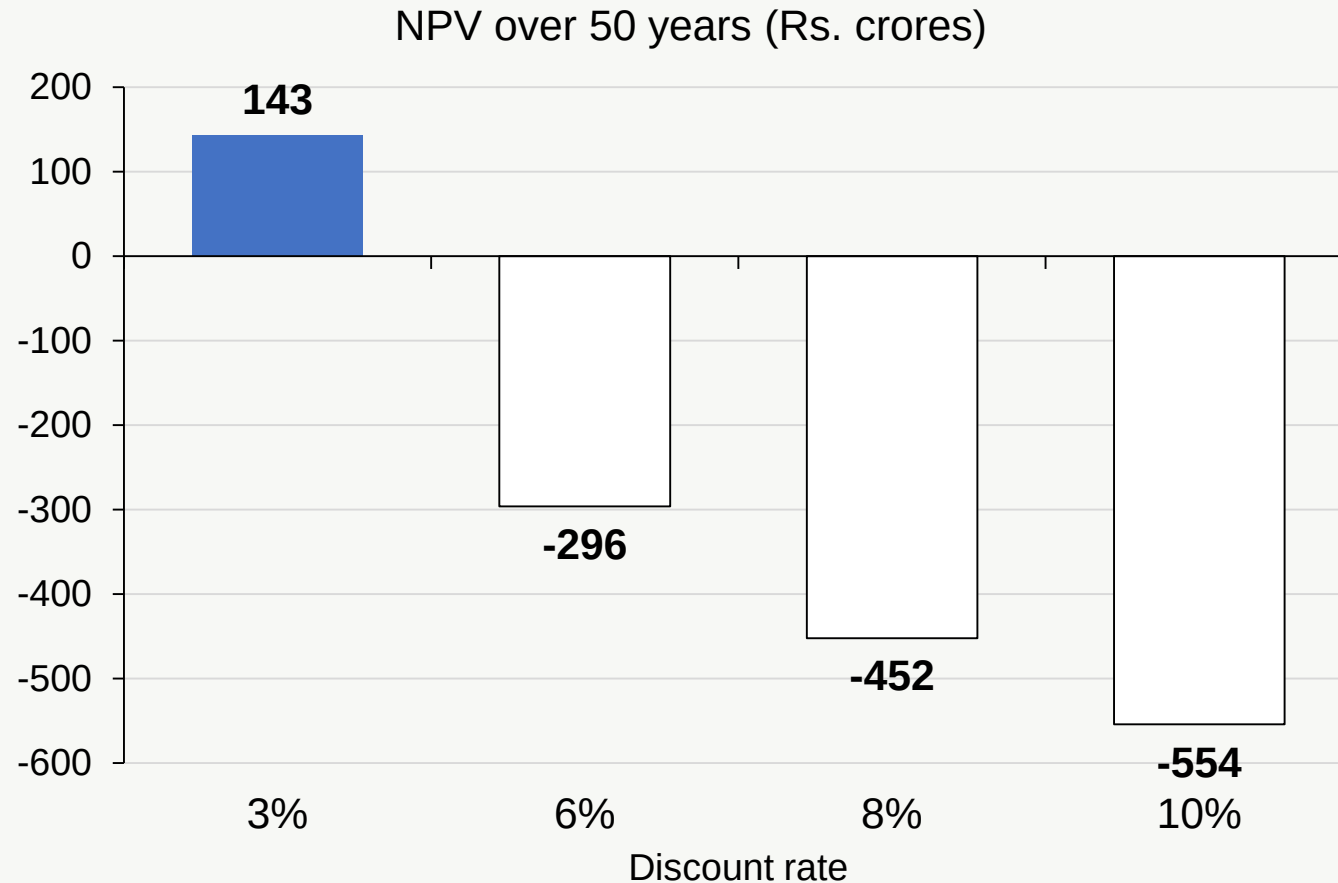
Inflows worth today: Rs. 437 cr

Spent today: Rs. 991 cr

Year 50's Rs. 44 cr is worth only Rs. 0.4 cr today.

Break-even rate (IRR): about 3.7%

NPV depends on the discount rate



Break-even at about 3.7%

That is the project's IRR. Below it, NPV is positive; above it, negative.

At any rate the Government actually borrows at, the monument loses money.

Only the 3% case turns positive.

But what about the Rs. 5 crores already paid to the consultant?

Sunk Cost

- A cost already incurred and unrecoverable
- Identical under every option- therefore, irrelevant.
- You will hear someone say- “ we have spent crores, we can not stop now”.
- Every over run was once defended as “ too late to stop”

Be careful of selective optimism

Low rate comes with low inflation - so his Rs.100 ticket cannot stay Rs. 100

Low rates comes with low growth - not with a tourism boom

We borrow at today's rate, not at 2075's

Convergence is a path , not a starting condition

Same project, same IRR of 3.9% - only the yardstick moved

Revisiting assumptions

10 lakh visitors a year - a typical ASI monument gets 2 lakh

Rs. 1 Cr a year to maintain a Rs.1000 Cr monument - for fifty years

The 450 Cr of land is still owned in year 50 - never counted

Rs. 100 a ticket in 2076 - the price of a bus fare today

SGST is mostly displaced spending - not new wealth for the state

Five Questions for every business case your receive

Where does the revenue assumption come from – name the comparable



What discount rate, and why that one?

Which of these “benefits” are transfers rather than new value?

Does it survive the worst case, or only the base case?

What has been left out – residual value, decommissioning, staffing?

Opportunity Cost

Opportunity cost is the value of the best alternative you gave up.

Every rupee committed to swapnalok is a rupee not committed to something else. That is rhetoric - it is the budget constraint from the last session

Purchase or Rent ?

You have joined an office where there is no car, though the rules permit one. You are entitled to buy a car up to ₹12 lakh. The alternative is to take a car on rent, including maintenance — the going rate in a similar office next door is ₹20,000 a month.

In both cases you will hire a driver separately through an outsourcing agency and bear the fuel yourself.

Which option do you choose — and what will you write in the file?

The two options, and one common rate

Purchase

- Cost of vehicle: Rs. 12,00,000
- Annual maintenance : Rs. 25,000
- Maintenance rises 4% a year
- Resale value after 5 years: Rs.2,00,000

Rent

- Monthly rental: Rs.20,000
- Maintenance included
- Rental rises 4% a year
- nothing owned at the end

The Verdict: As per my rates:

Purchase - PV of cost
Rs.11,69,988

Rent - PV of cost **Rs.10,43,071**

renting is cheaper by
Rs.1,26,917 - about 11%

But the answer flips above a
rent of **Rs. 22,434**

Put the assumptions in the note, not just the
answer

Thank You