Chapter I

Finances of the State Government

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter provides an overview of the finances of the State Government during the financial year 2018-19 and analyses changes observed in the movement of major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. ***Appendix 1.1*** contains socio-economic profile of Punjab and ***Appendix 1.2*** contains the structure of the Government Accounts and layout of the Finance Accounts of the State Government.

1.1.1 Profile of the State

Punjab is an agrarian State. The State is located in the north-western corner of India. It spreads over a geographical area of 50,362 sq km and ranks 19th among States in terms of area. It has been organized into 22 districts. The districts have further been divided into 91 sub-divisions, 150 blocks and 12,581 inhabited villages.

As per 2011 Census, the State's population increased from 2.44 crore in 2001 to 2.77 crore in 2011 recording a decadal growth of 13.52 *per cent.* The population of the State accounts for 2.29 *per cent* of the country's population and ranks 15th among States in terms of population. The population density of the State increased from 484 persons per sq. km in 2001 to 551 persons per sq km in 2011 which is higher than the national average population density of 382 persons per sq km. The State's Gross State Domestic Product (GSDP) in 2018-19 at current prices was ₹5,21,861 crore. The State's literacy rate increased from 69.70 *per cent* (as per 2001 Census) to 75.80 *per cent* (as per 2011 Census) ***(Appendix 1.1)***. The per capita income of the State for the year 2018-19 was ₹1,54,598.

1.1.2 Gross State Domestic Product

The Gross State Domestic Product (GSDP) of a State measures the value of goods and services produced within the State. The annual growth of India's Gross Domestic Product (GDP) at current prices and that of Punjab's GSDP at current prices are indicated in **Table 1.1.**

Table 1.1: Comparative statement of GDP *vis-à-vis* GSDP

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Current Prices					
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (*per cent*)	10.99	10.46	11.55	11.28	11.20
State's GSDP (₹ in crore)	3,55,102	3,90,087	4,26,988	4,79,141	5,21,861
Growth rate of GSDP (*per cent*)	6.91	9.85	9.46	12.21	8.92

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Growth rate of GSDP of Neighbouring States					
Haryana*	9.49	13.29	12.33	12.53	12.95
Himachal Pradesh*	9.51	10.09	9.53	9.13	11.20
Constant Prices (Base year - 2011-12)					
India's GDP (₹ in crore)	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate of GDP (*per cent*)	7.41	8.00	8.17	7.17	6.81
State's GSDP (₹ in crore)	3,12,125	3,30,052	3,53,041	3,75,535	3,97,711
Growth rate of GSDP (*per cent*)	4.23	5.74	6.97	6.37	5.91

Source: Official website of Economic & Statistical Organization, Government of Punjab (www.esop.gov.in) and Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as of August 2019

** Offices of the AG (Audit) Haryana and Pr. AG (Audit) Himachal Pradesh.*

1.1.3 Salient features of financial management of the State Government

All receipts of the State Government are required to be accounted for in the Consolidated Fund of the State constituted under Article 266 (1) of the Constitution of India. Expenditure therefrom is authorised by the State Legislature through Appropriation Act. The accounts of the State Government are kept in three parts *viz.* (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account. The annual accounts of the State Government consist of the Finance Accounts and the Appropriation Accounts. The Finance Accounts of the Government of Punjab are laid out in twenty two statements.

In May 2003, the State Government enacted the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudent debt management. Subsequently, in March 2011, the State Government amended the FRBM Act on the recommendations of the Thirteenth Finance Commission (TFC) and enacted FRBM (Amendment) Act, 2011, on the basis of which fiscal targets up to the year 2014-15 were fixed.

The Fourteenth Finance Commission (FFC) recommended that the State Government may amend its FRBM Act to provide for statutory flexible limits on fiscal deficit and also to provide a statutory ceiling on the sanction of new capital works to an appropriate multiple of the annual budget provision for ensuring that liabilities of incomplete and ongoing capital projects do not accumulate.

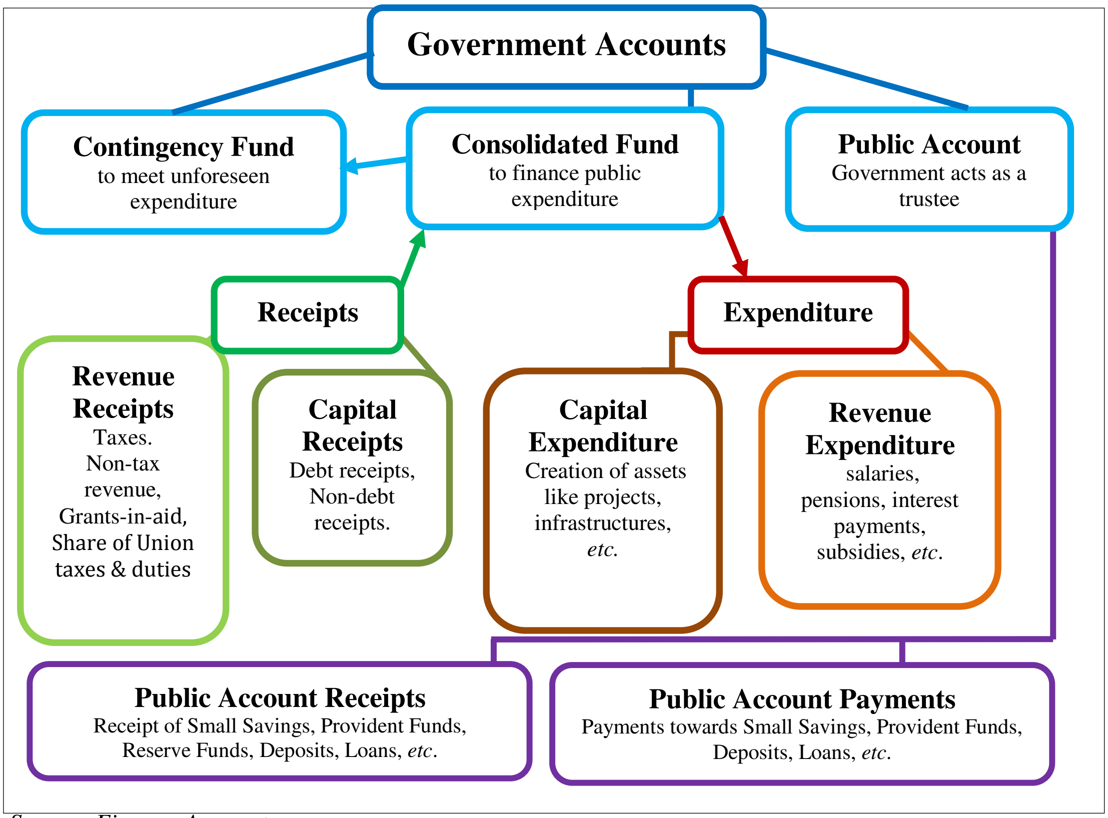
The FFC also recommended to the State Government to adopt a template for collating, analysing and annually reporting the total extended public debt in the budget, as a supplement to the budget, to assess the debt position of the State in the context of risks arising from guarantees, off-budget borrowings and accumulated losses from financially weak public sector enterprises. In order to accord greater sanctity and legitimacy to fiscal management legislation, the State Government was recommended to replace the existing FRBM Act with a Debt Ceiling and Fiscal Responsibility Legislation, specifically invoking Article 293 (1) of the Constitution of India.

As of March 2019, the State Government had not amended its FRBM Act as per recommendations of the FFC. However, the Fiscal Consolidation Roadmap (FCR) for 2015-20 was prepared in 2017-18.

1.1.4 Summary of fiscal transactions

Government finances generally comprise the following:

Chart 1.1: Structure of Government Accounts



Source: Finance Accounts

Table 1.2 presents the summary of the State Government's fiscal transactions during the year 2018-19 *vis-à-vis* those of 2017-18. ***Appendix 1.3 (Part A and B)*** provides the abstract of receipts and disbursements for the year 2018-19 *vis-à-vis* those of 2017-18 as well as the summarized financial position of the State Government as on 31 March 2019.

Table 1.2: Summary of fiscal transactions

(₹in crore)

Receipts			Disbursements		
	2017-18	**2018-19**		**2017-18**	**2018-19**
Section A: Revenue					
Revenue receipts	**53,009.58**	**62,269.08**	**Revenue expenditure**	**62,464.85**	**75,403.71**
Tax revenue	30,423.25	31,574.28	General services	34,499.50	36,930.51
Non-tax revenue	4,318.39	7,582.29	Social services	15,469.74	18,320.37
State's share of Union taxes/ duties	10,616.94	12,005.14	Economic services	11,194.41	17,888.17
Grants from GoI	7,651.00	11,107.37	Grants-in-aid and contributions	1,301.20	2,264.66

Receipts			**Disbursements**		
	2017-18	**2018-19**		**2017-18**	**2018-19**
Section B: Capital and Public Account					
Misc. Capital Receipts	**0.12**	**0.02**	**Capital Outlay**	**2,352.08**	**2,412.24**
Recoveries of Loans and Advances	**73.07**	**848.67**	**Disbursement of Loans and Advances**	**760.05**	**1,361.05**
Public Debt receipts	**18,516.74**	**22,938.51***	**Public Debt Repayment**	**7,486.90**	**8,611.05**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**	**0.00**
Public Account receipts#	**47,083.44**	**64,839.91**	**Public Account disbursements#**	**45,525.90**	**62,271.76**
Opening Cash Balance	**395.28**	**488.45**	**Closing Cash Balance**	**488.45**	**1,324.83**
Total	**1,19,078.23**	**1,51,384.64**	**Total**	**1,19,078.23**	**1,51,384.64**

Source: Finance Accounts of the respective years
** Includes net transaction of ₹(-) 704 crore under Ways and Means Advances.*
 # Public Account receipts/disbursements have been shown in this table as gross figures and at other places in the Report as net of disbursement. Further, these exclude transactions of investment of cash balances and departmental cash in chests. The net effect of these transactions is included in the opening and closing cash balances.

Composition and application of resources in the Consolidated Fund of the State during 2018-19 is given in **Chart 1.2** and **Chart 1.3**.

Chart 1.2: Composition of Resources
(in *per cent*)

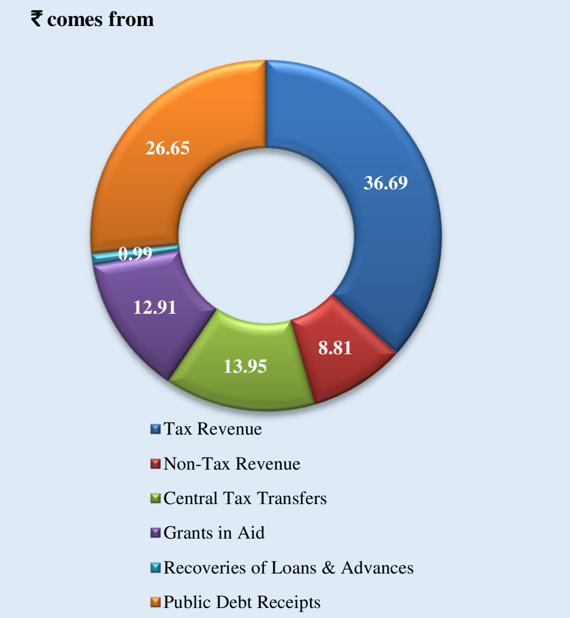
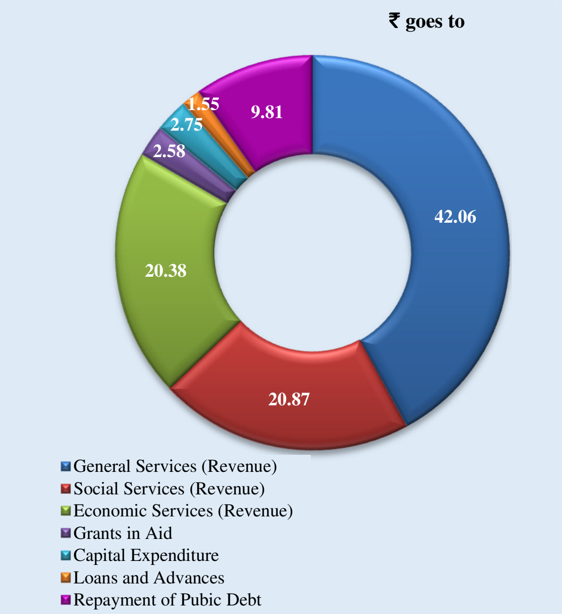


Chart 1.3: Application of Resources
(in *per cent*)



Source: Finance Accounts

The following are the major changes in fiscal transactions during 2018-19 over the previous year:

- Revenue receipts increased by ₹9,260 crore (17.47 *per cent*) which is due to increase in tax revenue (₹1,151 crore: 3.78 *per cent*), non-tax revenue (₹3,264 crore: 75.58 *per cent*), share of Union taxes and duties (₹1,388 crore: 13.08 *per cent*) and grants from GoI (₹3,456 crore: 45.17 *per cent*). Grants-in-aid of ₹11,107 crore include compensation of ₹7,129 crore for loss of revenue arising out of implementation of Goods and Services Tax.

- Revenue expenditure increased by ₹12,939 crore (20.71 *per cent*), primarily due to increase in revenue expenditure on economic services by ₹6,694 crore (59.80 *per cent*) followed by social services by ₹2,851 crore (18.43 *per cent*) and grants-in-aid and contributions by ₹963 crore (74.04 *per cent*).
- Public debt receipts in 2018-19 increased by ₹4,422 crore (23.88 *per cent*) as compared to the previous year. Public debt repayments showed an increase of ₹1,124 crore (15.01 *per cent*).
- Public account receipts and disbursements increased by ₹17,756 crore (37.71 *per cent*) and ₹16,746 crore (36.78 *per cent*) respectively.
- Closing cash balance increased by ₹836 crore (171.23 *per cent*).

1.1.5 One time transactions affecting fiscal parameters

The public debt receipts and the disbursement of loans and advances by the State Government increased significantly due to transactions that occurred during 2015-16 and 2016-17. These transactions involved issuing of Bonds for clearing debts of Punjab State Power Corporation Limited (PSPCL) in compliance with the implementation of Ujwal DISCOM Assurance Yojana (UDAY) and raising of long term loans for one time settlement of Legacy Cash Credit Accounts for food procurement operations as discussed below:

1.1.5.1 Ujwal DISCOM Assurance Yojana

With the objective of ensuring financial turnaround of Power Distribution Companies (DISCOM), the Ministry of Power, Government of India (GoI) introduced (November 2015) the Ujwal DISCOM Assurance Yojana (UDAY) to improve the operational and financial efficiency of the State DISCOMs.

Accordingly, a tripartite Memorandum of Understanding (MoU) was entered into amongst GoI, Government of Punjab (GoP) and Punjab State Power Corporation Limited (PSPCL) i.e. Punjab DISCOM on 4 March 2016 to take over 75 *per cent* of the outstanding debt of Punjab DISCOM (₹20,837.68 crore) as on 30 September 2015.

As per MoU, GoP committed to take over 50 *per cent* (₹10,418.84 crore) of the Punjab DISCOM debt in 2015-16 and 25 *per cent* (₹5,209.42 crore) in 2016-17. The State Government would raise this amount through issue of bonds. Amount raised was to be disbursed to the Punjab DISCOM as loans. The DISCOM shall pay interest to GoP on the outstanding loan in a financial year at the rate at which GoP issued bonds. The State Government committed to convert the loan of ₹15,628.26 crore into grant (₹11,728.26 crore) and equity (₹3,900 crore) during 2019-20.

During 2015-16, against the commitment of ₹10,418.84 crore, GoP could arrange borrowings of ₹9,859.72 crore through UDAY bonds, thereby compensating PSPCL short by ₹559.12 crore than committed. Of these ₹9,859.72 crore, transaction of ₹4,262.65 crore carried out on 31 March 2016 as a cashless transaction through the Reserve Bank of India (RBI) was not accounted for in the Finance Accounts of the State Government. As such, borrowings of only ₹5,597.07 crore were taken into Finance Accounts 2015-16, thereby understating the loans of the State Government by ₹4,262.65 crore during that year.

During 2016-17, against the commitment of ₹5,209.42 crore, GoP transferred ₹5,768.54 crore as loan, which included balance amount of ₹559.12 crore of 2015-16. However, ₹10,031.19 crore were booked to accounts as public debt, which included ₹4,262.65 crore pertaining to the previous year's accounts. This overstated the loans and fiscal deficit[1] of the State in 2016-17 to this extent.

The outstanding debt of Punjab DISCOM carried interest ranging between 8.00 *per cent* and 12.50 *per cent*. Of this, 75 *per cent* of debt amounting to ₹15,628.26 crore was replaced with debts bearing lower interest rates ranging between 7.21 *per cent* and 8.72 *per cent*.

1.1.5.2 Settlement of Cash Credit Limit

In order to maintain buffer stock under National Food Security and to ensure remunerative prices through Minimum Support Price (MSP) to the farmers for their produce, Government of India (GoI) procures food-grains from State Governments for Central Pool through Food Corporation of India (FCI).

Punjab is the highest contributor to Central Pool. Five State Procurement Agencies (SPAs) are performing the activity of procurement of food-grains on 'No Profit No Loss' basis on behalf of the State.

The State procuring agencies obtains cash credit limit[2] (CCL) carrying interest rates ranging from 9.10 *per cent* to 13.05 *per cent* from the consortium of banks led by SBI before the start of every procurement season. On delivery of food-grains to FCI, the expenses incurred by SPAs on procurement, storage and delivery of food-grains are reimbursed, which are credited against CCL. However, the actual expenditure incurred by the SPAs were higher than the rates finalised by GoI. Further, the SPAs incurred expenditure on different items[3] which were not eligible for reimbursement like losses on disposal of damaged/rejected wheat, loss on account of open market sale of damaged paddy, difference between simple interest (as paid by GoI) and quarterly compound interest on incidental charges (as charged by RBI). As a result, there is difference between actual cost incurred by SPAs on procurement operations and amounts reimbursed by GoI which results in liabilities under CCL remaining unsettled. Difference between actual expenditure incurred and expenditure reimbursed by GoI works out to ₹376.60[4] per metric tonne.

As per calculation of the State Government, there was accumulation of unsettled CCL amounting to ₹31,003.91 crore.

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1 Excluding borrowings of ₹5,769 crore under UDAY to take over DISCOM debt, as per GoI's letter No. 40(6) PF-1/2009 Vol. II dated 29 March 2016, which were not to be counted towards fiscal deficit limits of the State during 2016-17.

2 A Cash Credit is a short-term source of financing for a company. It enables a company to withdraw money from a bank account without keeping a credit balance. The account is limited to only borrowing up to the borrowing limit.

3 Loss on account of damaged food-grains, custody and maintenance charges, administrative charges and interest borne due to time gap between procurement and reimbursement of cost of procurement.

4 The rate per metric tonne has been worked out by dividing difference between actual expenditure and rates finalized by GoI (₹8,482.19 crore) by total food-grains procured during 2003-04 and 2014-15 (2,252.25 LMTs).

Table 1.3: Details of accumulation of unsettled CCL

(₹in crore)

Particulars	KMS	RMS	Principal	Interest	Amount
Difference between actual expenditure and rates finalized by GoI	2003-04 to 2014-15	2004-05 to 2014-15	8,482.19	9,244.15	17,726.34
Loss on account of damaged wheat & storage gain deducted on wheat		1995-96 to 2003-04 &1993-94 to 2000-01	817.96	2,292.45	3,110.41
Transportation charges on paddy	2003-04 to 2014-15		1,878.40	2,280.74	4,159.14
Administrative charges	1997-98 to 2003-04		322.55	1,364.09	1,686.64
Non/short reimbursement of ID Cess	Nov. 1998 to June 2002 and 2012-13 to 2013-14		415.49	1,501.81	1,917.30
Non-payment of interest on sale of damaged paddy, difference of purchase tax/VAT, difference between simple and compound interest on incidental charges	1994-95, 1997-98 to 2000-01 and Oct. 2016 to Dec. 2016		244.41	2,159.67	2,404.08
Total			**12,161.00**	**18,842.91**	**31,003.91**

Source: State Government information

KMS : Kharif Marketing Season
RMS : Rabi Marketing Season

Government of Punjab (GoP) entered into a long term loan agreement of ₹31,000 crore at interest rate of 8.25 *per cent* per annum with State Bank of India on 31 December 2016 for one-time settlement of outstanding CCL accounts. The loan is to be repaid by September 2034. Against this agreement, a loan of ₹30,584 crore was raised during 2016-17 against which ₹29,920 crore[5] was given as loans to SPAs in 2016-17 for the purpose. Rate of interest to be charged from SPAs on these loans has not yet been fixed/charged. Recoveries of ₹26 crore and ₹61 crore were effected by the State Government from the SPAs during 2017-18 and 2018-19 respectively.

As per agreement, this loan is being repaid by the State Government in monthly instalments of ₹270 crore[6] including interest. Total loan to be repaid by September 2034 worked out to ₹57,358 crore including interest. Against the outstanding amount, the State Government repaid ₹3,240 crore (Principal: ₹810 crore and Interest: ₹2,430 crore) during 2017-18 and ₹3,240 crore (Principal: ₹875 crore and Interest: ₹2,365 crore) during 2018-19. Thus, the State had to bear financial burden of ₹3,214 crore (₹3,240 crore - ₹26 crore repaid by the SPAs) during 2017-18 and ₹3,179 crore (₹3,240 crore - ₹61 crore repaid by the SPAs) during 2018-19.

Repayment of interest amount on additional borrowings under CCL impacted the revenue deficit and fiscal deficit by ₹2,430 crore during 2017-18 and ₹2,365 crore during 2018-19.

1.1.6 Review of the fiscal situation

The Fourteenth Finance Commission (FFC) and the State Government set fiscal targets to be achieved during 2018-19. Though, the State Government did not amend its FRBM Act during 2017-18 as per recommendations of the FFC, the targets set by FFC and proposed in the State budget *vis-à-vis*

[5] Net loan raised (₹30,584 crore - ₹664 crore repaid during January–March 2017).
[6] Except for last installment of ₹115 crore which is to be paid in September 2034.

achievements in respect of major fiscal aggregates with reference to the GSDP are given in **Table 1.4**.

Table 1.4: Targets *vis-à-vis* achievements in respect of major fiscal aggregates for the year 2018-19

Fiscal Variables	Targets as prescribed by FFC	Targets in the Budget	Actuals (as per GSDP)	Percentage variation of actuals over	
				Targets of FFC	Targets in Budget
Revenue Deficit/GSDP (*per cent*)	(-)1.18	(-)2.42	(-)2.52	(-)1.34	(-)0.10
Fiscal Deficit/GSDP (*per cent*)	(-)3.00	(-)3.81	(-)3.08	(-)0.08	0.73
Total outstanding debt/GSDP (*per cent*)	30.49	40.82	40.61	10.12	(-)0.21

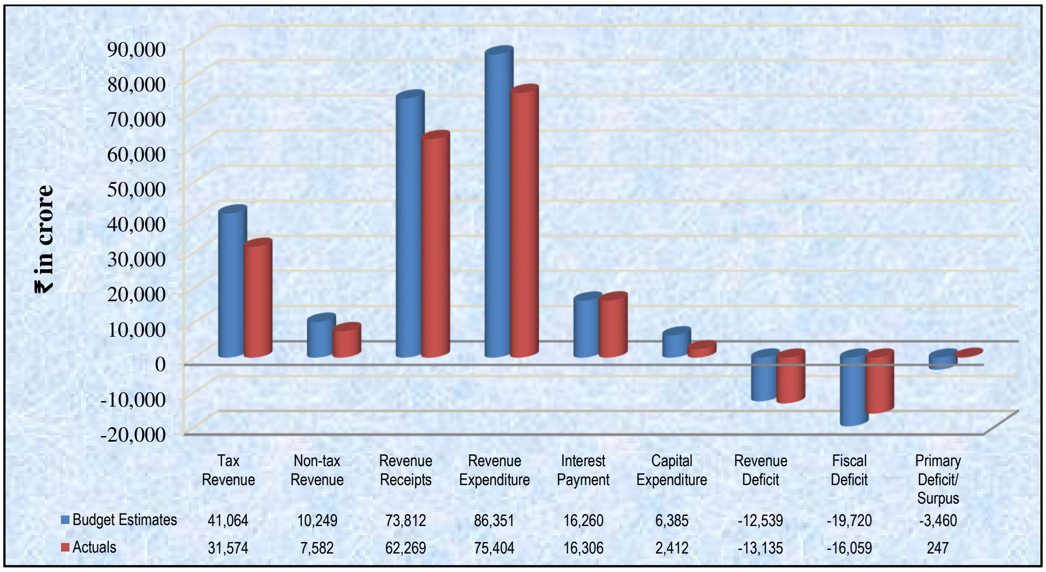
Source: Recommendations of FFC, Budget at a Glance and Finance Accounts
Note : Deficit figures have been shown in minus.

- During the year 2018-19, the Government was unable to contain the revenue deficit within the level projected in the budget estimates and that fixed by the FFC.
- The fiscal deficit-GSDP and total outstanding debt-GSDP ratios remained within the norms projected in the State budget estimates but were higher than those prescribed by the FFC.

1.1.7 Budget estimates and actuals

The budget presented by the State Government provides description of projections or estimates of revenue and expenditure for a particular fiscal year. It is desirable that the estimation of revenue and expenditure should be made as accurately as possible so that reasons for variations can be analysed. The budget estimates *vis-à-vis* actuals in respect of various important fiscal parameters for the year 2018-19 are given in ***Appendix 1.4 and Chart 1.4.***

Chart 1.4: Important fiscal parameters: Budget Estimates *vis-à-vis* Actuals



Source: Budget Estimates and Finance Accounts

- During the year 2018-19, total revenue receipts (₹62,269 crore) remained lower than the budget estimates by ₹11,543 crore (15.64 *per cent*). This was primarily on account of tax revenue being lower by ₹9,490 crore (23.11 *per cent*) and non-tax revenue by ₹2,667 crore (26.02 *per cent*) than the budget estimates. This shortfall was partially compensated by ₹7,129 crore as grant-in-aid from GoI on account of loss of revenue arising from implementation of Goods and Services Tax (GST).

- The revenue expenditure and the capital expenditure remained lower by ₹10,947 crore (12.68 *per cent*) and ₹3,973 crore (62.22 *per cent*) respectively, whereas the interest payments were slightly higher than projected in the budget estimates by ₹46 crore (0.28 *per cent*).
- The actual revenue deficit was higher by ₹596 crore (4.75 *per cent*), whereas the fiscal deficit was less by ₹3,661 crore (18.56 *per cent*) than those anticipated in the budget. The primary deficit (₹3,460 crore) projected in the budget turned into primary surplus (₹247 crore) during the year.

The Government may consider examining reasons for the shortfall in mobilisation of tax receipts and take measures for improving resource mobilisation.

1.1.8 Buoyancy Ratios

Buoyancy Ratios indicate the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The Buoyancy Ratios of Revenue Receipts, State's Own Tax Receipts, Total Expenditure and Fiscal Liabilities with respect to GSDP are given in **Table 1.5.**

Table 1.5: Buoyancy Ratios of Receipts, Expenditure and Fiscal Liabilities in comparison to GSDP

	2014-15	2015-16	2016-17	2017-18	2018-19
GSDP (₹ in crore)	3,55,102	3,90,087	4,26,988	4,79,141	5,21,861
Rate of Growth of GSDP (in *per cent*)	6.91	9.85	9.46	12.21	8.92
Revenue Receipts (RR)					
RR during the year (₹ in crore)	39,023	41,523	47,985	53,010	62,269
Rate of growth of RR (in *per cent)*	11.16	6.41	15.56	10.47	17.47
Buoyancy of RR with GSDP	1.62	0.65	1.64	0.86	1.96
Own Tax Revenue					
Own Tax Revenue during the year (₹ in crore)	25,570	26,690	27,747	30,423	31,574
Rate of Growth of Own Tax Revenue (in *per cent*)	6.19	4.38	3.96	9.64	3.78
Buoyancy of Own Tax Revenue with GSDP	0.90	0.44	0.42	0.79	0.42
Total Expenditure (TE)					
TE during the year (₹ in crore)	50,002	59,101	1,01,006	65,577	79,177
Rate of Growth of TE (in *per cent*)	13.62	18.20	70.90	(-)35.08	20.74
Buoyancy of TE with GSDP	1.97	1.85	7.23	(-)3.50	2.33
Fiscal Liabilities					
Fiscal Liabilities (₹ in crore)	1,12,366	1,28,835	1,82,526	1,95,152	2,11,917
Rate of Growth (in *per cent*)	9.91	14.66	41.67	6.92	8.59
Buoyancy of Fiscal liabilities with GSDP	1.43	1.49	4.40	0.57	0.96

Source: Finance Accounts of respective years

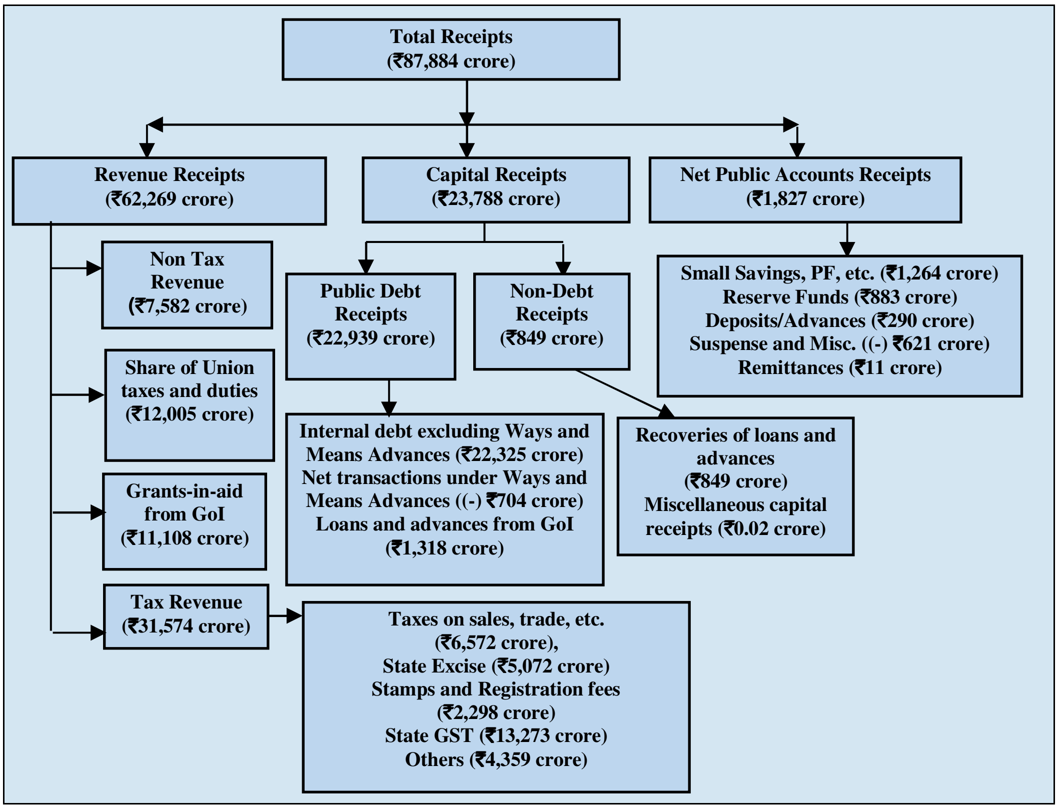
Table 1.5 shows that during 2018-19, the buoyancy of revenue receipts with respect to GSDP was higher, while that of own tax revenue was lower as compared to the previous year. The growth rate of total expenditure was higher whereas the growth rate of fiscal liabilities was slightly less than that of GSDP during the current year.

1.2 Resources of the State

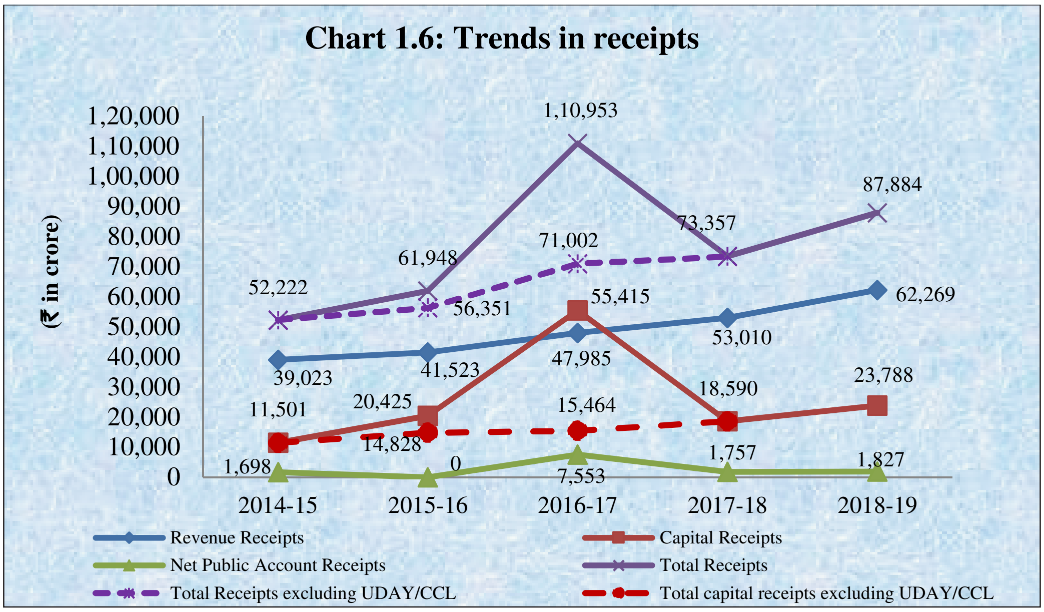
1.2.1 Receipts of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes & duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. Besides, there are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund. These are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The composition of total receipts of the State is depicted in **Chart 1.5**. **Chart 1.6** depicts the trends in various components of receipts of the State during 2014-15 to 2018-19.

Chart 1.5: Composition of receipts of the State during 2018-19



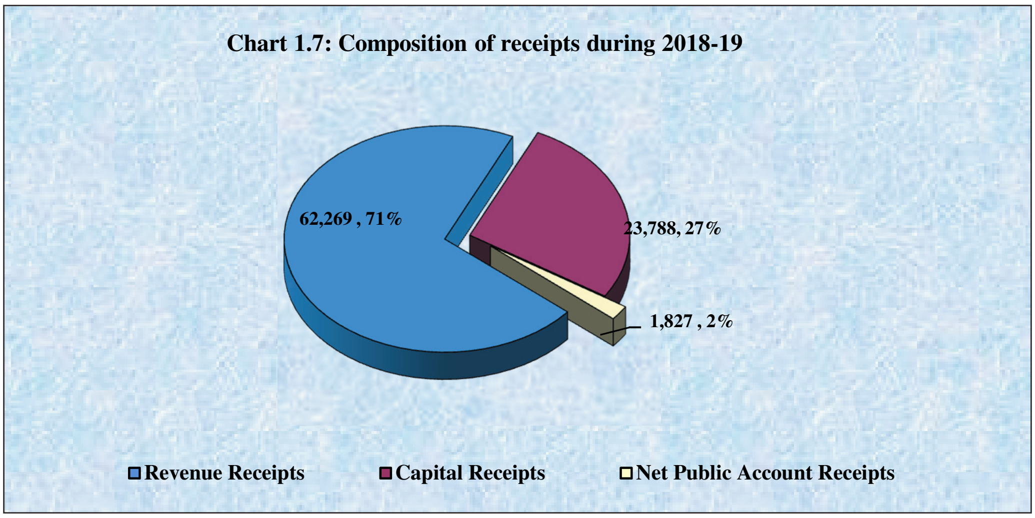
Source: Finance Accounts



Source: Finance Accounts

- During the period 2014-15 to 2018-19, revenue receipts increased from ₹39,023 crore to ₹62,269 crore.
- The net public account receipts also increased from ₹1,698 crore to ₹1,827 crore during the same period.
- Capital receipts had a fluctuating trend as it increased from ₹11,501 crore in 2014-15 to ₹55,415 crore in 2016-17 but again decreased to ₹18,590 crore in 2017-18 and further increased to ₹23,788 crore in 2018-19. Major increase in capital receipts over the previous year was due to increase in internal debt by ₹4,703 crore and loans and advances from GoI by ₹858 crore during the current year.

The composition of resources of the State during the current year is given in **Chart 1.7.**



Source: Finance Accounts

During the year 2018-19, contribution of revenue receipts, capital receipts and net public account receipts towards total receipts of the State was 71 *per cent,* 27 *per cent* and 2 *per cent* respectively as compared to 72 *per cent,* 25 *per cent* and 3 *per cent* in 2017-18.

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Government of India (GoI) had been transferring sizeable amount of funds directly to the State implementing agencies for implementation of various schemes/programmes in the social and economic sectors. The GoI decided (May 2014) to route these funds through State budget from 2014-15 onwards. During the year 2018-19, an amount of ₹2,508.36 crore was released directly to the State implementing agencies/organizations **(Table 1.6)**, which was an increase of 22.50 *per cent* over the previous year (₹2,047.59 crore).

Table 1.6: Funds transferred directly to State implementing agencies

(₹in crore)

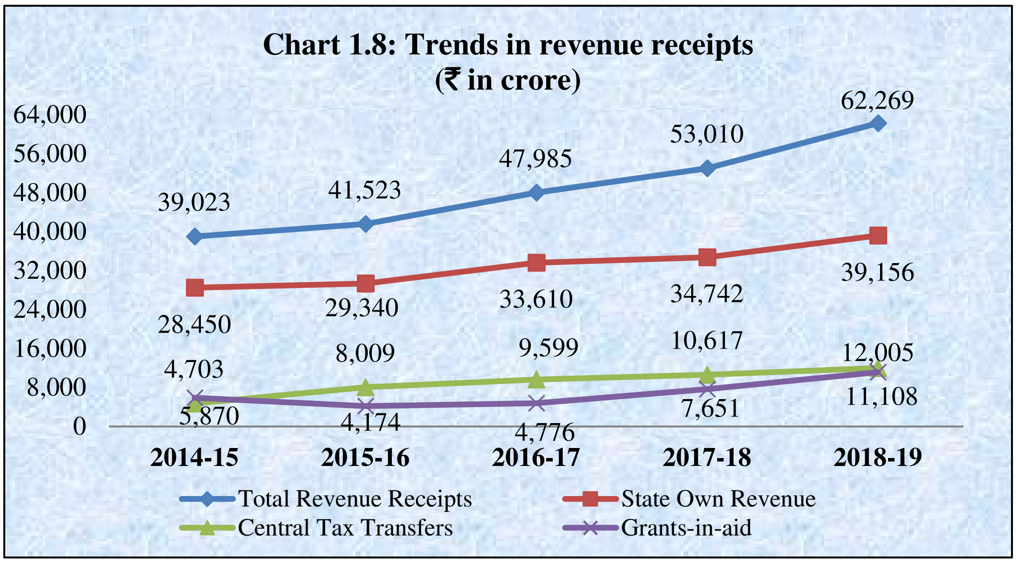
Sr. No.	Government of India Scheme	Implementing agency	Amount
1	Food Subsidy	Punjab State Grains Procurement Corporation Limited	1,722.33
2	Mahatma Gandhi National Rural Employment Guarantee Programme	The Punjab State Rural Employment Guarantee Society	480.76
3	Sub-Mission on Agriculture Mechanisation	Department of Agriculture, Punjab	269.38
4	National Policy for Prevention of Alcoholism and Substance (Drugs) abuse	State Mental Health Authority, Punjab	10.07
5	Other Schemes	Miscellaneous Agencies	25.82
Total			**2,508.36**

Source: Finance Accounts

1.3 Revenue receipts

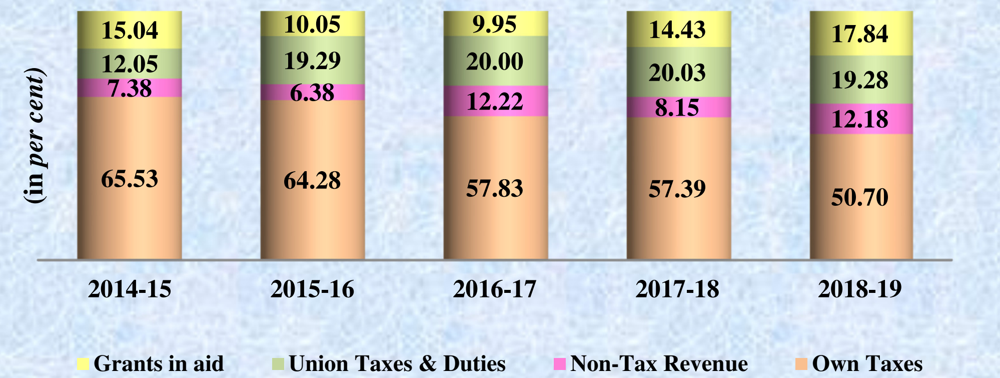
The revenue receipts consist of the State's own tax and non-tax revenues, share of Union taxes/duties and grants-in-aid from GoI.

The trends and composition of revenue receipts during the period 2014-15 to 2018-19 are presented in ***Appendix 1.5*** and also depicted in **Charts 1.8** and **1.9** respectively.



Source: Finance Accounts

Chart 1.9: Composition of revenue receipts during 2014-19



Source: Finance Accounts

The trends in revenue receipts relative to GSDP are presented in **Table 1.7**.

Table 1.7: Trends in revenue receipts

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) (₹ in crore)	**39,023**	**41,523**	**47,985**	**53,010**	**62,269**
Rate of growth of RR (*per cent*)	11.16	6.41	15.56	10.47	17.47
RR/GSDP (*per cent*)	10.99	10.64	11.24	11.06	11.93
Own tax revenue (₹ in crore)	25,570	26,690	27,747	30,423	31,574
Rate of growth of own tax revenue (*per cent*)	6.19	4.38	3.96	9.64	3.78
Buoyancy Ratios[7]					
Revenue buoyancy w.r.t GSDP	1.62	0.65	1.64	0.86	1.96
State's own tax buoyancy w.r.t GSDP	0.90	0.44	0.42	0.79	0.42

Source: Finance Accounts

- The revenue receipts increased from ₹39,023 crore in 2014-15 to ₹62,269 crore in 2018-19. During the period of five years, it increased at an annual average growth rate of 12.21 *per cent*. The ratio of revenue receipts to GSDP increased from 10.99 in 2014-15 to 11.93 *per cent* in 2018-19.
- The revenue buoyancy with reference to GSDP fluctuated between 0.65 and 1.96 during 2014-19. The increase in revenue buoyancy with respect to GSDP in 2018-19 *vis-à-vis* the previous year was primarily due to increase in non-tax revenue of the State by 76 *per cent*.
- The State's own tax buoyancy with reference to GSDP decreased from 0.90 in 2014-15 to 0.42 in 2018-19.

1.3.1 State's own resources

The State's share in Union taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission. The State's performance in mobilization of resources is assessed in terms of its own resources comprising own-tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2018-19 *vis-à-vis* assessment made by Fourteenth Finance Commission (FFC) and Budget Estimates are given in **Table 1.8**.

[7] Buoyancy ratio indicates the elasticity or degree of responsiveness of fiscal variable with respect to a given change in the base variable.

Table 1.8: Tax and non-tax receipts *vis-à-vis* projections

(₹in crore)

	FFC projections	Budget Estimates	Actual	Percentage variation of actual over	
				FFC projections	Budget estimates
Own Tax revenue	49,142	41,064	31,574	(-)35.75	(-)23.11
Non-tax revenue	4,140	10,249	7,582	83.14	(-)26.02

Source: Report of FFC, Annual Financial Statement 2018-19 and Finance Accounts

Own-tax revenue of the State Government fell short of projections made by FFC and the budget estimates by 35.75 *per cent* and 23.11 *per cent* respectively. Whereas, non-tax revenue was higher by 83.14 *per cent* than the projections made by FFC and was lower by 26.02 *per cent* from the budget estimates.

1.3.1.1 Tax revenue

The collections in respect of major taxes and duties are given in **Table 1.9**.

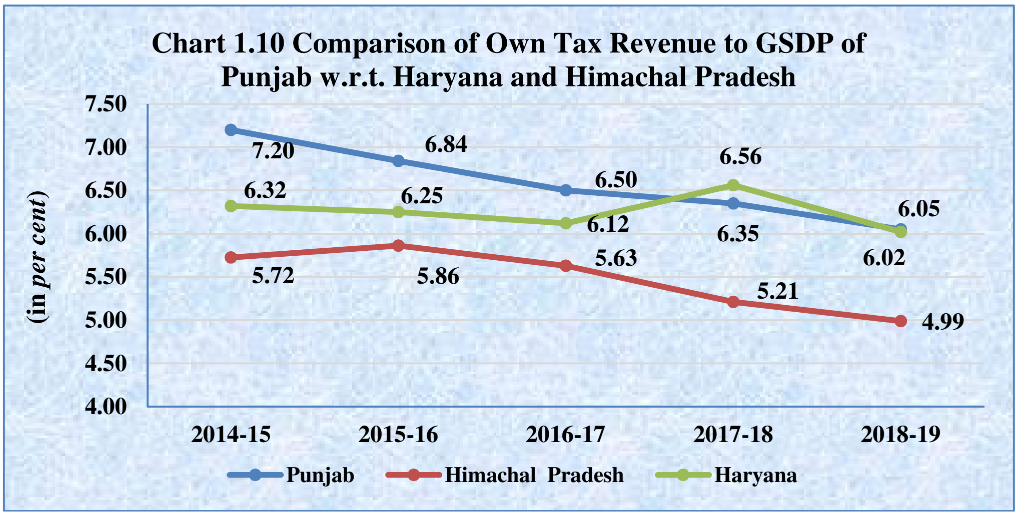
Table 1.9: Components of State's own tax revenue

(₹in crore)

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Taxes on Sales, Trade, etc.	15,455 (4)	15,857 (3)	17,587 (11)	11,160*	6,572*
State Goods and Services Tax	-	-	-	7,901*	13,273*
State Excise	4,246 (13)	4,796 (13)	4,406 (-8)	5,136 (17)	5,072 (-1)
Taxes on Vehicles	1,394(22)	1,475(6)	1,548 (5)	1,911 (23)	1,861(-3)
Stamp Duty and Registration fees	2,474(-1)	2,449(-1)	2,044(-17)	2,135(4)	2,298(8)
Land Revenue	47(12)	55(17)	68(24)	91(34)	69(-24)
Taxes and Duties on Electricity	1,875(10)	1,968(5)	1,993(1)	2,053(3)	2,330(13)
Other taxes and duties on commodities and services[8]	79(14)	90(14)	101(12)	36*	99*
Total Own Tax Revenue	**25,570(6)**	**26,690(4)**	**27,747(4)**	**30,423(10)**	**31,574 (4)**

Source: Finance Accounts
Figures in parenthesis show rate of growth over previous year
** Tax realized being not of full year (2017-18); rate of growth is not comparable.*

The total own tax revenue increased by ₹1,151 crore (3.78 *per cent*) during the current year over the previous year. Additionally, the State Government received an amount of ₹7,129 crore as compensation on account of loss of revenue arising out of implementation of GST (July 2017), which was provided by GoI as grant-in-aid, as discussed in paragraph 1.3.1.3.



Source: Finance Accounts and Offices of the AG (A) Haryana and PAG (A) Himachal Pradesh

[8] Entertainment tax, betting tax, luxury tax, taxes on advertisements exhibited in cinema theatres, etc. subsumed in GST w.e.f. 01.07.2017.

Ratio of own tax revenue to GSDP of Punjab remained higher than that of Haryana and Himachal Pradesh during 2014-19. However, during 2017-18, it was marginally lower at 6.35 *per cent* as compared to Haryana (6.56 *per cent*).

(i) Goods and Services Tax

The State Government implemented Goods and Services Tax (GST) Act which became effective from 1 July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure was finalised under GST Act. In case of Punjab, the revenue was ₹14,975.46 crore during the base year (2015-16). The protected revenue for any year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) cumulatively over the base year revenue of that State.

The protected revenue for the year 2018-19 in accordance with the base year figure was ₹22,186.80 crore. Revenue figure under GST for the year 2018-19 has been depicted in Finance Accounts as per nature of receipts i.e. State Goods and Services Tax (SGST), Input Tax Credit cross utilisation of SGST and Integrated Goods & Services Tax (IGST), apportionment of IGST-transfer-in of tax component to SGST and advance apportionment from IGST. Against the protected revenue of ₹22,186.80 crore, the revenue receipt of the State Government under GST during the year 2018-19 was ₹12,482.76 crore as given in **Table 1.10**.

Table 1.10: Month-wise impact of GST and compensation received

(₹ in crore)

Month	Monthly revenue to be protected	Pre-GST taxes collected#	Total SGST		Total amount received	Compensation received	Deficit (-)/ Surplus (+)
			SGST collected	Provisional apportionment of IGST			
	1	2	3	4	5=(2+3+4)	6	7={1-(5+6)}
April 2018	1,848.90	(-)250.02	498.62	516.89	765.49	0.00	(-)1,083.41
May2018	1,848.90	18.44	368.34	382.57	769.35	581.00	(-) 498.55
June 2018	1,848.90	19.81	437.97	472.63	930.41	944.00	(+) 25.51
July 2018	1,848.90	(-)61.58	424.72	1,408.50	1,771.64	0.00	(-) 77.26
August 2018	1,848.90	(-)10.36	409.40	474.05	873.09	0.00	(-) 975.81
September 2018	1,848.90	(-)137.43	359.32	750.61	972.50	0.00	(-) 876.40
October 2018	1,848.90	17.99	423.87	499.61	941.47	1,306.00	(+) 398.57
November2018	1,848.90	(-)122.12	432.50	988.81	1,299.19	0.00	(-) 549.71
December 2018	1,848.90	(-)61.73	439.22	836.07	1,213.56	1,454.00	(+) 818.66
January 2019	1,848.90	(-)140.35	499.38	486.34	845.37	0.00	(-) 1,003.53
February 2019	1,848.90	2.22	430.93	512.91	946.06	1,466.00	(+) 563.16
March 2019	1,848.90	(-)65.26	379.14	840.75	1,154.63	1,378.00	(+) 683.73
Total	**22,186.80**	**(-)790.39**	**5,103.41**	**8,169.74**	**12,482.76**	**7,129.00**	**(-) 2,575.04**

Source: Office of the Accountant General (A&E), Punjab and departmental information

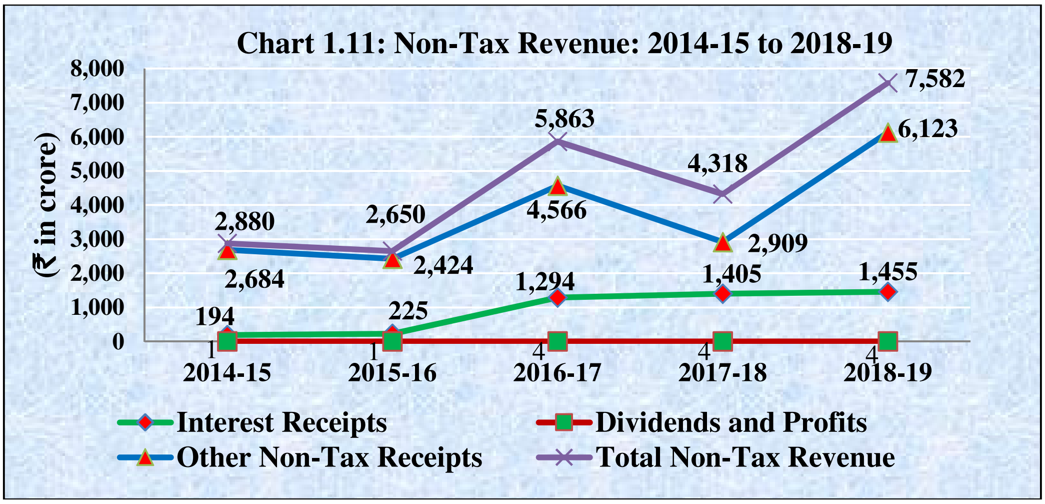
\# *includes VAT and CST (net of refunds) and revenue from taxes subsumed in GST by excluding VAT and CST on petroleum products and liquor.*

As against the loss of revenue of ₹9,704.04 crore (Protected revenue: ₹22,186.80 crore–revenue realised: ₹12,482.76 crore), the State Government received compensation of ₹7,129 crore from GoI. However, the basis for compensation received during 2018-19 were not available (June 2020).

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfill the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.3.1.2 Non-tax revenue

In the year 2018-19, the share of non-tax revenue in total revenue receipts went up to 12.18 *per cent* from 8.15 *per cent* in the previous year. The non-tax revenue increased by 75.59 *per cent* during the current year over the previous year. The composition and growth in State's non-tax revenue is given in **Chart 1.11 and Table 1.11**.



Source: Finance Accounts

Table 1.11: Components of State's non-tax revenue

(₹ in crore)

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Interest Receipts	193.88	225.28	1,293.80	1,404.94	1,455.26
	(11)	(16)	(474)	(9)	(4)
Dividends and Profits	1.48	1.46	3.88	4.45	4.24
	(1)	(-1)	(166)	(15)	(-5)
Miscellaneous General Services[9]	1,473.47	999.84	3,028.08	1,478.97	4,851.58
	(-10)	(-32)	(203)	(-51)	(228)
Road Transport	161.67	148.49	213.89	158.69	208.99
	(-19)	(-8)	(44)	(-26)	(32)
Other Non-Tax Receipts[10]	1,049.23	1,275.20	1,323.55	1,271.34	1,062.22
	(-11)	(22)	(4)	(-4)	(-16)
Total Non-Tax Revenue	**2,879.73**	**2,650.27**	**5,863.20**	**4,318.39**	**7,582.29**
	(-10)	**(-8)**	**(121)**	**(-26)**	**(76)**

Source: Finance Accounts
Figures in parenthesis show rate of growth over previous year

9 Unclaimed deposits, State lotteries, Sale of land and property, Guarantee fees and other receipts.

10 Medical and Public Health, Social Security and Welfare, Civil Supplies, Non-Ferrous Mining and Metallurgical Industries, etc.

During the current year, the increase of ₹3,263.90 crore in total non-tax revenue over the previous year was mainly due to increase of ₹3,372.61 crore in Miscellaneous General Services partially compensated by decrease in Other Non-Tax Receipts (₹209.12 crore). The major increase in Miscellaneous General Services during the current year was due to substantial increase in Other Receipts by ₹3,312.78 crore over previous year, which was attributed to deposit of receipts of ₹4,528[11] crore collected by Punjab Agricultural Marketing Board and Punjab Rural Development Board for giving debt relief to the farmers as per the scheme announced by the State Government in 2017-18.

1.3.1.3 Grants-in-aid from GoI

The position of grants-in-aid received during the period 2014-15 to 2018-19 is presented in **Table 1.12**.

Table 1.12: Grants-in-aid from Government of India

(₹in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-plan Grants	2,003.87	1,274.64	1,610.35	0.00[12]	0.00
Grants for State Plan Schemes	3,597.61	2,320.12	2,523.14	162.81	241.34
Grants for Central Plan Schemes	80.06	341.76	78.65	3,096.13	3,091.70
Grants for Centrally sponsored Plan Schemes	188.41	237.20	563.69	(-)0.63	(-)74.21
Finance Commission Grants	-	-	-	355.69	719.54
Other Transfer/Grants to States (GST Compensation)	-	-	-	4,037.00	7,129.00
Total	**5,869.95**	**4,173.72**	**4,775.83**	**7,651.00**	**11,107.37**
Percentage of increase over previous year	72.58	(-)28.90	14.43	60.20	45.18
Percentage of Total Grants to Revenue Receipts	15.04	10.05	9.95	14.43	17.84

Source: Finance Accounts

Table 1.12 shows that the grants-in-aid from GoI increased at an annual average rate of 32.70 *per cent* during the period 2014-15 to 2018-19. Though the grants-in-aid decreased by 28.90 *per cent* in 2015-16 over 2014-15, it increased by 60.20 *per cent* and 45.18 *per cent* during 2017-18 and 2018-19 respectively over the previous years. The increase in grants-in-aid during 2018-19 was due to substantial increase in GST compensation by ₹3,092 crore (76.59 *per cent*) over the previous year. Further, the contribution of grants-in-aid towards revenue receipts decreased from 15.04 *per cent* in 2014-15 to 9.95 *per cent* in 2016-17 and again increased to 17.84 *per cent* in 2018-19.

1.3.1.4 Central tax transfer

The actual release of share in Union taxes and duties to State Government during 2010-19 *vis-à-vis* projections made by Thirteenth Finance Commission (TFC) and Fourteenth Finance Commission (FFC) is tabulated in **Table 1.13**.

11 In normal course, receipts of these Boards are not a part of the State accounts.
12 Non-plan and plan grants merged with effect from 01 April 2017.

Table 1.13: State's share in Union taxes and duties: Actual devolution *vis-à-vis* Finance Commission projections

(₹in crore)

Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference
1	2	3	4	5. (4-3)
2010-11	1.389 *per cent* of net proceeds of all shareable taxes excluding service tax and 1.411 *per cent* of net proceeds of sharable service tax (As per recommendations of TFC).	3,207	3,051	(-) 156
2011-12		3,665	3,554	(-) 111
2012-13		4,398	4,059	(-) 339
2013-14		5,278	4,432	(-) 846
2014-15		6,333	4,703	(-) 1,630
2015-16	1.577 *per cent* of net proceeds of all shareable taxes excluding service tax and 1.589 *per cent* of net proceeds of sharable service tax (As per recommendations of FFC).	8,009*	8,009	--
2016-17		9,600*	9,600	--
2017-18	As per Fiscal Consolidation Roadmap of the State Government.	10,651	10,617	(-)34
2018-19		12,429	12,005	(-)424

Source: Reports of the TFC & FFC, Finance Accounts and Annual Financial Statement
** Fiscal Consolidation Roadmap (FCR) for the years 2015-16 to 2019-20 was prepared by the State Government in 2017-18 and the actual tax devolution figures for the year 2015-16 and 2016-17 were adopted as the projected figures for the respective years.*

State Government's share in Union taxes increased by ₹1,388 crore (13.07 *per cent*) during 2018-19 over the previous year.

1.3.1.5 Cost of collection

The figures of major own tax receipts, expenditure incurred on collection of these own taxes and percentage of such expenditure to components of own tax revenue receipts *vis-à-vis* All India Average percentage are given in ***Appendix 1.6***. During the period 2014-15 to 2017-18, the percentage of cost of collection to total collection in respect of various components of State's own tax revenue is lower than the All India average[13] except in case of Taxes on Sales, Trade, etc. during 2015-16 and State Excise during 2016-17.

1.4 Capital receipts

Sources of Capital receipts of a State can be divided into non-debt capital receipts and debt capital receipts. Non-debt capital receipts are proceeds from disinvestment of equity in Government companies/corporations and recoveries of loans and advances. The public debt receipts fall broadly under two categories **-** (a) loans/advances from the Union Government; and (b) Internal Debt consisting of borrowings from banks, financial institutions through negotiated loans or open market borrowings through issue of State Development Loans. The share of non-debt capital receipts and loans/advances from the Union Government was insignificant and capital receipts were mainly on account of borrowing from banks, financial institutions and open market, as detailed in **Table 1.14**.

[13] Data in respect of All India average for the year 2018-19 was not available.

Table 1.14: Trends in growth and composition of capital receipts

(₹in crore)

Source of State Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
Capital Receipts	**11,501**	**20,425**	**55,415**	**18,590**	**23,788**
Miscellaneous Capital Receipts	1	0	0	0	0
Recovery of Loans and Advances	137	218	181	73	849
Public Debt Receipts	**11,363**	**20,207**	**55,234**	**18,517**	**22,939**
*Internal Debt**	*10,796*	19,942	54,579	18,057	21,621
Growth rate	*0.62*	*84.72*	*173.69*	(-)*66.92*	*19.74*
Loans and advances from GoI	*567*	265	655	460	1,318
Growth rate	*50.00*	(-)*53.26*	*147.17*	(-)*29.77*	*186.52*
Rate of growth of debt Capital Receipts	2.30	77.83	173.34	(-)66.48	23.88
Rate of growth of non-debt capital receipts	22.12	57.97	(-)16.97	(-)59.67	1,063.01
Rate of growth of GSDP	6.91	9.85	9.46	12.21	8.92
Rate of growth of Capital Receipts (*per cent*)	2.50	77.59	171.31	(-)66.45	27.96

Source: Finance Accounts and for GSDP – Official website of Economic & Statistical Organization, GoP (www.esop.gov.in)

** Includes net transactions under Ways and Means Advances, which was ₹(-)704 crore during 2018-19.*

During the current year, the public debt receipts increased by ₹4,422 crore (23.88 *per cent*) over the previous year. Besides, recovery of loans and advances increased by ₹776 crore (1,063.01 *per cent*) over the previous year mainly due to recovery of ₹747 crore from Punjab State Civil Supplies Corporation.

1.5 Public Account receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund of the State, are kept in the Public Account set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here, the State Government acts as a banker. The balance after disbursements is the fund available with the State Government for use, as given in **Table 1.15**.

Table 1.15: Trends in Public Account Receipts and Disbursements during 2017-18 and 2018-19

(₹in crore)

Source of State Receipts	Public Account Receipts		Disbursement from Public Account		Excess of receipts over disbursements	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
Small Savings, Provident Funds, etc.	3,521.99	3,565.08	2,395.79	2,301.26	1,126.20	1,263.82
Reserve Funds	729.95	923.82	79.84	40.72	650.11	883.10
Deposits and Advances	3,112.08	4,567.43	3,291.54	4,277.02	(-)179.46	290.41
Suspense and Miscellaneous*	48,010.70	73,582.14	47,838.10	74,203.33	172.60	(-)621.19
Remittances	109.50	81.00	121.70	70.32	(-)12.20	10.68
Total	**55,484.22**	**82,719.47**	**53,726.97**	**80,892.65**	**1,757.25**	**1,826.82**

Source: Finance Accounts of respective years

** Includes transactions of investment of cash balances and departmental cash in chest.*

The receipts exceeded the disbursement in Public Account by ₹1,826.82 crore during 2018-19. The excess in public account receipt was due to substantial increase in Small Savings, Provident Funds, Reserve Funds and Deposits & Advances.

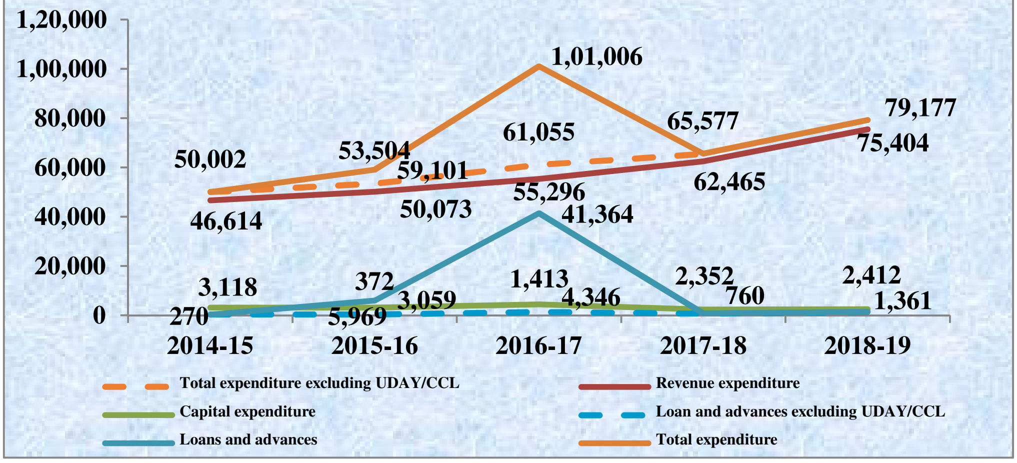
1.6 Application of resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector. Following is an analysis of allocation of expenditure in the State:

1.6.1 Growth and composition of expenditure

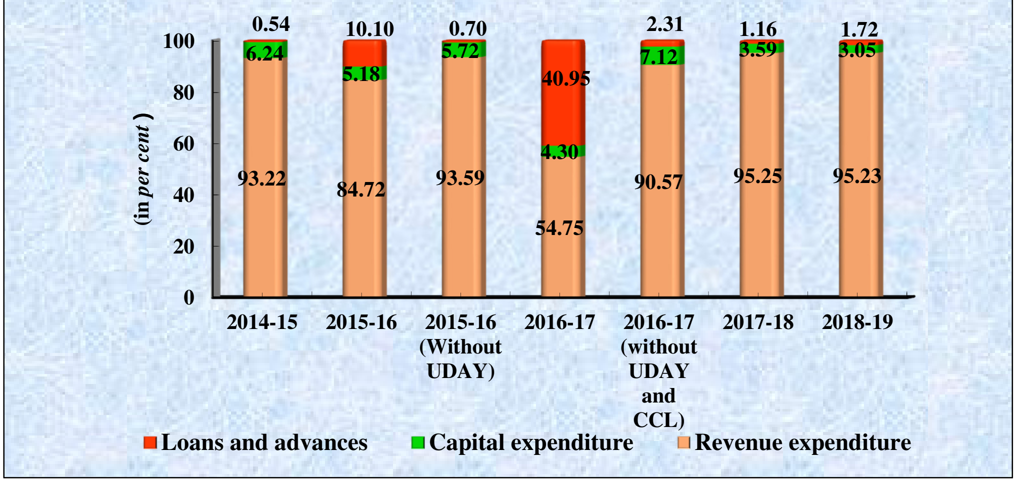
Chart 1.12 presents the trends of total expenditure over the period of the last five years (2014-19). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Chart 1.13** and **1.15** respectively.

Chart 1.12: Total expenditure: Trends and Composition (₹ in crore)



Source: Finance Accounts

Chart 1.13: Total Expenditure: Trends in share of its components



Source: Finance Accounts

The total expenditure of the State Government increased by ₹29,175 crore (58.35 *per cent)* from ₹50,002 crore in 2014-15 to ₹79,177 crore in 2018-19. It increased by ₹13,600 crore (20.74 *per cent*) from the previous year.

The revenue expenditure increased by ₹28,790 crore (61.76 *per cent*), whereas the capital expenditure decreased by ₹706 crore (22.64 *per cent*) during the period 2014-19. The revenue expenditure constituted dominant proportion (85 to 95 *per cent*) during 2014-19 except for the year 2016-17 when it was 55 *per cent* of the total expenditure (**Chart 1.12** and ***Appendix 1.5***). **Table 1.16** presents the growth of revenue expenditure over five years (2014-19).

Table 1.16: Growth of Revenue Expenditure

(₹in crore)

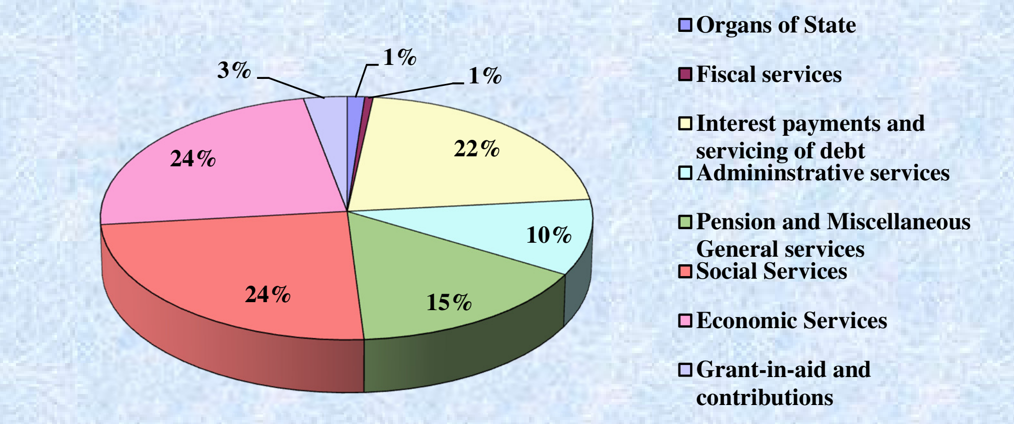
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure	46,614	50,073	55,296	62,465	75,404
Growth rate (*per cent*)	11.94	7.42	10.43	12.96	20.71
Revenue expenditure as percentage of GSDP	13.13	12.84	12.95	13.04	14.45

Source: Finance Accounts of respective years

The revenue expenditure increased by ₹28,790 crore (61.76 *per cent*) from ₹46,614 crore in 2014-15 to ₹75,404 crore in 2018-19. It increased at an annual average growth rate of 12.69 *per cent,* whereas as percentage of GSDP, it ranged between 12.84 *per cent* and 14.45 *per cent* during the period 2014-19.

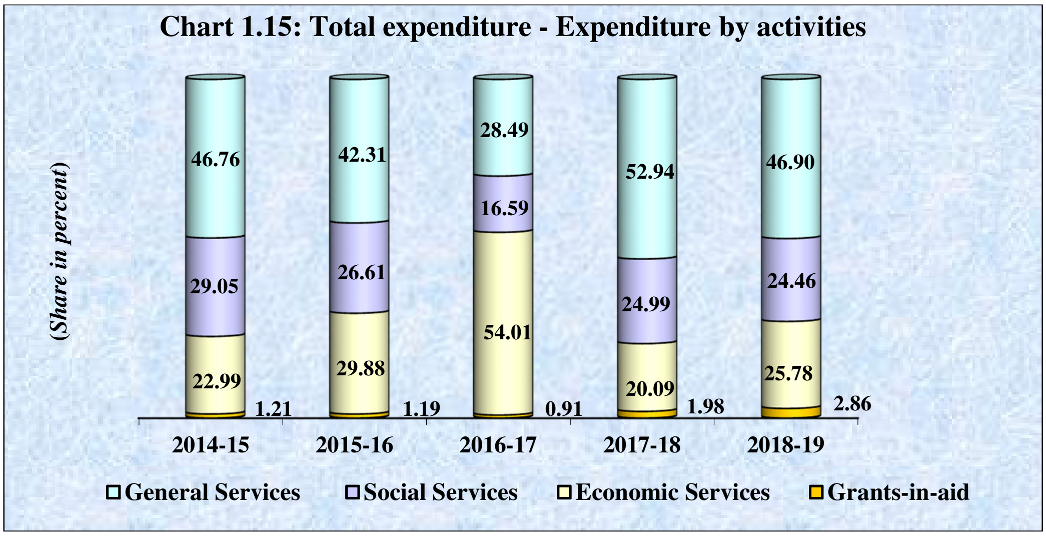
The revenue expenditure increased by ₹12,939 crore (20.71 *per cent*) from ₹62,465 crore in 2017-18 to ₹75,404 crore in 2018-19. The overall increase is the result of significant increase mainly under the Heads-Crop Husbandry (₹4,773.43 crore: 75.55 *per cent*), Miscellaneous General Services (₹966.13 crore: 148.93 *per cent*), Compensation and assignments to local bodies and Panchayati Raj Institutions (₹963.46 crore: 74.04 *per cent*), Social Security and Welfare (₹908.33 crore: 52.50 *per cent*), Power (₹879.07 crore: 66.71 *per cent*) and Industries (₹618.52 crore: 11,993.98 *per cent.* This included an amount of ₹241.41 crore transferred notionally to Punjab State Power Corporation Limited on account of subsidy given for rural electrification in the State). However, there was decrease in revenue expenditure mainly under Taxes on Sales, Trade, etc. (₹101.04 crore: 77.57 *per cent*). The sector-wise distribution of revenue expenditure is shown in **Chart 1.14**.

Chart 1.14: Sectoral distribution of revenue expenditure



Source: Finance Accounts

During the current year, the capital expenditure increased marginally by ₹60 crore (2.55 *per cent*) over the previous year. Loans and Advances increased by ₹601 crore (79.08 *per cent*) mainly due to increase in loans to Government companies by ₹454 crore (73.83 *per cent*) over the previous year.



Source: Finance Accounts

Chart 1.15 shows that the relative share of various components of expenditure in the total expenditure fluctuated during 2014-19. The share of general services in total expenditure increased from 46.76 *per cent* in 2014-15 to 46.90 *per cent* and that of economic services, it increased from 22.99 *per cent* to 25.78 *per cent*; whereas, the expenditure on social services in total expenditure decreased from 29.05 *per cent* to 24.46 *per cent* during the last five years. The development expenditure i.e. 'combined expenditure on social and economic services' too decreased from 52.04 *per cent* in 2014-15 to 50.24 *per cent* in 2018-19.

1.6.2 Committed expenditure

The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.17** presents the trends in expenditure on these components during 2014-15 to 2018-19.

Table 1.17: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	
					BE	**Actuals**
Salaries and Wages	16,304 (42)	17,437 (42)	18,504 (39)	20,030 (38)	21,506 (29)	20,885# (34)
Under Non-Plan Head	*15,615*	*17,032*	*17,959*	*0*[14]	*0*	*0*
*Under Plan Head**	*689*	*405*	*545*	*20,030*	*21,506*	*20,885*
Interest Payments	8,960 (23)	9,782 (24)	11,642 (24)	15,334 (29)	16,260 (22)	16,306 (26)
Pensions	7,249 (19)	7,833 (19)	8,773 (18)	10,208 (19)	10,305 (14)	10,089 (16)
Subsidies	4,772 (12)	5,080 (12)	5,823 (12)	6,982 (13)	14,924 (20)	13,361 (21)
Total Committed Expenditure	**37,285**	**40,132**	**44,742**	**52,554**	**62,995**	**60,641**
Total Revenue Expenditure	**46,614**	**50,073**	**55,296**	**62,465**	**86,351**	**75,404**
Total Committed Expenditure to Revenue Expenditure (*per cent*)	**79.99**	**80.15**	**80.91**	**84.13**	**72.95**	**80.42**
Revenue Receipts	**39,023**	**41,523**	**47,985**	**53,010**	**73,812**	**62,269**

Source: Finance Accounts Figures in parenthesis indicate percentage to Revenue Receipts
 # Salaries: ₹20,299.95 crore + Wages: ₹585.47 crore.
**Plan Head includes centrally sponsored schemes.*

[14] Non-plan and Plan grants merged with effect from 01 April 2017.

Table 1.17 shows that the share of committed expenditure in total revenue expenditure was very high-around 80 *per cent*. During 2018-19, it accounted for 80.42 *per cent* of the total revenue expenditure.

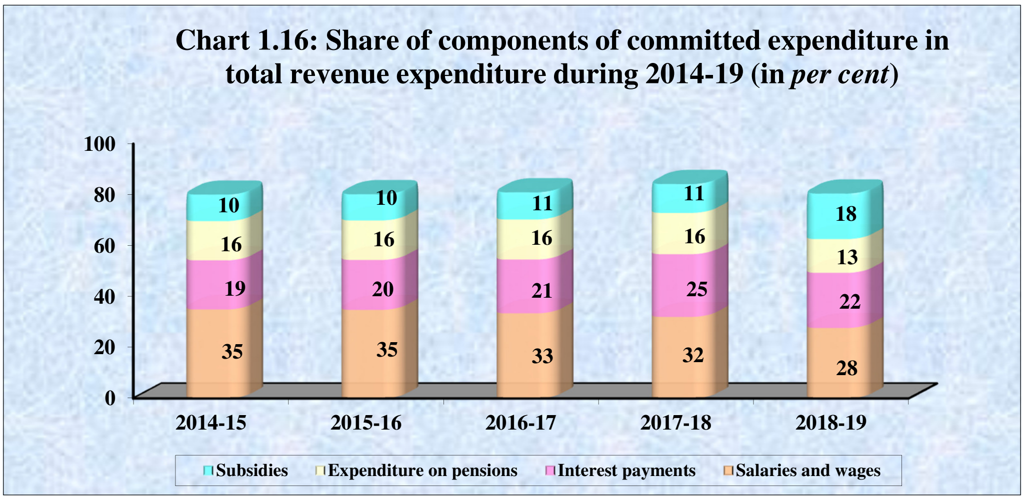
Table 1.18 presents the targets of various components of committed expenditure *vis-à-vis* actuals during 2018-19.

Table 1.18: Committed expenditure *vis-à-vis* targets during 2018-19

(₹in crore)

Component	FFC	2018-19	
		BE	Actuals
Salaries	--	20,900	20,300
Interest payments	12,696	16,260	16,306
Pensions	10,082	10,305	10,089
Subsidies	--	14,924	13,361
Of which Power Subsidy	--	*12,950 (87)*	*8,435 (63)*

Source: Report of FFC, Annual Financial Statement and Finance Accounts
Figures in parenthesis indicate percentage of power subsidy to total subsidy



Source: Finance Accounts

1.6.2.1 Salaries

Table 1.17 shows that during 2018-19, expenditure on salaries and wages marginally increased by ₹855 crore (four *per cent*) over the previous year. Actuals of salaries almost met the budget estimates, as it was only three *per cent* less than the budget estimates during the current year. It accounted for 34 *per cent* of revenue receipts. Committed expenditure on salaries and wages constituted 28 *per cent* of the revenue expenditure **(Chart 1.16)**.

1.6.2.2 Interest payments

Table 1.17 shows that during the period from 2014-15 to 2018-19, interest payments consumed 23 to 29 *per cent* of revenue receipts. Interest payments increased over the previous year by ₹972 crore (six *per cent*). These also exceeded the targets fixed by FFC and State Budget by ₹3,610 crore and ₹46 crore **(Table 1.18)** respectively. The committed expenditure on interest payments constituted 22 *per cent* of the revenue expenditure **(Chart 1.16)**.

1.6.2.3 Pension payments

Table 1.17 shows that during 2018-19, pension payments recorded a marginal decrease of ₹119 crore (1.17 *per cent*) over the previous year. Pension payment exceeded the projections of FFC only by ₹ seven crore (0.07 *per cent*) while the same remained less than the budget estimates by ₹216 crore (2.10 *per cent*). The committed expenditure on pension payments constituted 13 *per cent* of the revenue expenditure **(Chart 1.16)**.

(i) Defined Contribution Pension Scheme

The State Government introduced a Defined Contribution Pension Scheme (DCPS) in December 2006 to cover employees, who entered Punjab Government Service[15] on or after 1 January 2004. Under the scheme, contribution at the rate of 10 *per cent* of the basic pay plus Dearness Allowance was to be recovered from the salary of the employees as employee's share, which, after adding matching Government's contribution, was to be invested in a pension fund regulated by Pension Fund Regulatory and Development Authority (PFRDA).

Though the State Government implemented DCPS with effect from January 2004, it started deducting the contribution from employees largely with effect from April 2008[16]. The arrears of employees' share for the period from January 2004 to March 2008 was also deducted in 36 installments from April 2008 to March 2011. Though the State Government started receiving the contribution from 2008-09, it started transferring the same to Pension Fund from 2010-11 onwards.

Under the Defined Contribution Pension Scheme, during 2018-19, against the balance of ₹801.71 crore lying in the Public Account, the State Government transferred only ₹618.34 crore to NSDL/Trustee Bank from fund, leaving a balance of ₹183.37 crore as on 31 March 2019, which could not be transferred to the fund managers for want of complete particulars of the employees. The State Government is liable to pay interest on delayed transfer of NPS balances at the corresponding interest rates applicable to the General Provident Fund subscribers. However, no interest has been paid by the State Government for the period from 2011-12 to 2018-19 on the fund balance which could not be transferred to NSDL/Trustee Bank within the stipulated period. Thus, the State Government has created interest liability on the amount not transferred to NSDL; incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected, thus leading to possible failure of the scheme itself.

The details of the receipts from employees' share, Government's contribution, interest accrued thereon and investment in Pension Fund are given in **Table 1.19**.

[15] For categories mentioned in Rule 1.2 of Punjab Civil Service Rules, Volume-I Part-I.

[16] Meagre amount of ₹ 0.59 crore was collected during 2006-08.

Table 1.19: Details of contribution and investment under NPS

(₹in crore)

Year	Receipts				Disbursement (Transferred to Pension Fund)	Short transfer (-)/ Excess transfer (+)
	Employees' share	Government contribution	Interest	Total		
1	2	3	4	5 (2+3+4)	6	7 (6-5)
2008-09	38.76*	33.60	0.00	72.36	0.00	(-)72.36
2009-10	45.38	36.26	0.00	81.64	0.00	(-)81.64
2010-11	54.19	51.90	26.86	132.95	2.33	(-)130.62
2011-12	79.19	85.00	22.45	186.64	26.45	(-)160.19
2012-13	181.48	196.78	24.01	402.27	286.17	(-)116.10
2013-14	242.81	230.00	22.78	495.59	481.53	(-)14.06
2014-15	282.86	290.00	21.35	594.21	804.90	(+)210.69
2015-16	389.39	390.00	18.48	797.87	902.69	(+)104.82
2016-17	436.28	435.81	17.19	889.28	957.69	(+)68.41
2017-18	532.59	520.55	15.55	1,068.69	1,058.51	(-)10.18
2018-19	585.78	584.94	14.70	1,185.42	1,203.28	(+)17.86
Total	**2,868.71**	**2,854.84**	**183.37**	**5,906.92***	**5,723.55**	**(-)183.37**

Source: Finance Accounts

** Includes amount ₹0.59 crore collected/received during the period 2006-08 which was yet to be transferred to Pension Fund as on 01.04.2008.*

During the period 2008-19, against total receipts of ₹5,906.92 crore (employees' share: ₹2,868.71 crore, State Government contribution: ₹2,854.84 crore and interest: ₹183.37 crore), amount of ₹5,723.55 crore was transferred to the Pension Fund. Thus, there was short transfer of ₹183.37 crore, which is a deferred liability of the State Government.

Due to delay in release of Government's contribution and transfer to Pension Fund, the State Government had to suffer an avoidable interest of ₹183.37 crore, of which only ₹10.83 crore has so far been transferred to the Pension Fund.

The Government may credit the outstanding amount along with interest at a rate which should not be less than GPF rate.

1.6.2.4 Subsidies

Table 1.17 shows that the subsidies during the current year rose by ₹6,379 crore (91.36 *per cent*) over the previous year, which was mainly due to increase of ₹3,890 crore in subsidy payment on debt relief to farmers, ₹930 crore on rural electrification, ₹927 crore on power subsidy to farmers and ₹618 crore incentive under various industrial policies. The committed expenditure on subsidies constituted 18 *per cent* of the revenue expenditure **(Chart 1.16)**.

(i) Power subsidy

Subsidies constituted 13 to 22 *per cent* of the total committed expenditure of the State Government on revenue account. Of these, power subsidy accounted for 63 to 97 *per cent* of the total subsidy during 2014-19, as detailed in **Table 1.20**.

Table 1.20: Impact of power subsidy on fiscal position of the State

(₹ in crore)

Year	Total subsidy	Power subsidy (percentage to total subsidy)	Power subsidy to farmers (percentage to power subsidy)	Power subsidy to PSPCL for rural electrification (percentage to power subsidy)	Revenue Deficit (percentage of power subsidy to revenue deficit)	Net borrowings# available for revenue expenditure (percentage of power subsidy to net available borrowings)
2014-15	4,772	4,642 (97)	2,137 (46)	2,505 (54)	7,591 (61)	6,596 (70)
2015-16	5,080	4,847 (95)	4,337 (89)	510 (11)	8,550 (57)	7,567 (64)
2016-17	5,823	5,601 (96)	3,986 (71)	1,615 (29)	7,311 (77)	18,977 (30)
2017-18	6,982	6,578 (94)	5,402 (82)	1,176 (18)	9,455 (70)	9,748 (67)
2018-19	13,361	8,435 (63)	6,329 (75)	2,106 (25)	13,135 (64)	13,230 (64)

Source: Finance Accounts *PSPCL = Punjab State Power Corporation Limited*

 # Borrowings available after repayment of earlier borrowings, meeting capital expenditure and net loans and advances.

During 2014-19, revenue deficit ranged between ₹7,311 crore and ₹13,135 crore and power subsidy constituted a significant portion of revenue deficit, which ranged between 57 and 77 *per cent*. As much as 30 to 70 *per cent* of the net borrowings available with the State for incurring revenue expenditure during this period were consumed for meeting power subsidy.

During 2018-19, power subsidy increased by ₹1,857 crore (28 *per cent*) over previous year, which was due to increase of power subsidy to Agriculture Sector (Farmers) by ₹927 crore and ₹930 crore to PSPCL for rural electrification. The power subsidy to farmers decreased from 82 *per cent* in 2017-18 to 75 *per cent* in 2018-19 of the total power subsidy, whereas in case of PSPCL (rural electrification), it increased from 18 *per cent* to 25 *per cent* during the same period.

(ii) Implicit subsidies

Implicit subsidies arise when the Government provides social and economic goods/services at a price lesser than the cost of goods and services incurred by the Government. It can be indirect or in kind or can be given as concessions. Some implicit subsidies extended during 2018-19 are detailed in the **Table 1.21**.

Table 1.21: Details of implicit subsidies during the year 2018-19

(₹in crore)

Sr. No.	Scheme	Amount
1.	*Ashirwaad* scheme to Scheduled Castes girls/widows/divorcees and daughters of widows at the time of their marriage	84.24
2.	Reimbursement to Transport Department in respect of facility to physically handicapped and blind persons in Government/ Punjab Road Transport Corporation buses	11.87
3.	Reimbursement to Transport Department in lieu of free concessional travel facility to women above the age of 60 years in Government/ Punjab Road Transport Corporation buses	1.74
Total		**97.85**

Source: Detailed Appropriation Accounts

1.6.3 Financial assistance to the local bodies/other institutions

Assistance provided by way of grants and loans to the local bodies and other institutions during the period 2014-15 to 2018-19 is presented in **Table 1.22.**

Table 1.22: Financial assistance to local bodies and other institutions

(₹in crore)

Institutions	2014-15	2015-16	2016-17	2017-18	2018-19
Educational Institutions *including Aided Schools, Aided Colleges, Universities, etc.*	689.66	864.67	732.08	626.35	718.44
Urban Local Bodies *including Municipal Corporations, Municipalities and Municipal Councils*	302.77	336.17	475.50	1,091.64	1,747.28
Panchayati Raj Institutions *including Zila Parishads, Panchayat Samitis and Gram Panchayats*	790.54	719.36	544.97	230.36	530.18
Development agencies	1,107.74	422.39	220.13	297.86	372.61
Hospitals and other charitable institutions	266.91	107.97	85.43	100.71	99.34
Total	**3,157.62**	**2,450.56**	**2,058.11**	**2,346.92**	**3,467.85**
Assistance as percentage of RE	6.77	4.89	3.72	3.76	4.60

Source: Finance Accounts

During the current year, financial assistance to the local bodies and other institutions increased by ₹1,120.93 crore (47.76 *per cent*) over the previous year. The increase was mainly due to increase in assistance to Urban Local Bodies (₹655.64 crore: 60.06 *per cent*), Panchayati Raj Institutions (₹299.82 crore: 130.15 *per cent*) and Development Agencies (₹74.75 crore: 25.10 *per cent*). The overall quantum of financial assistance to the local bodies and other institutions as percentage to revenue expenditure marginally increased to 4.60 *per cent* during the current year from 3.76 *per cent* of the previous year.

1.7 Quality of expenditure

Availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure basically involves three aspects, *viz.* adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure (use) and its effectiveness (assessment of outlay-outcome relationships for selected services).

1.7.1 Adequacy of public expenditure

Enhancement of human development levels requires States to step up their expenditure on key social services like education, health, etc. Fiscal priority[17] of the State Government with regard to development expenditure, expenditure on social and economic sector and capital expenditure, etc. is shown in **Table 1.23**.

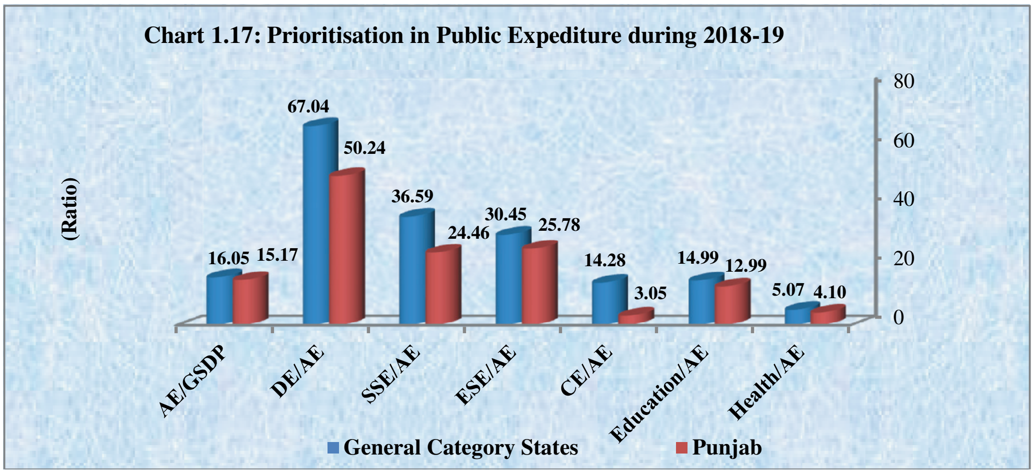
[17] Ratio of expenditure in that category to Aggregate Expenditure (AE).

Table 1.23: Fiscal priority of the State in 2014-15 and 2018-19

(In per cent)

Fiscal Priority of the State (Ratio)	AE/ GSDP	DE/ AE	SSE/ AE	ESE/ AE	CE/ AE	Education*/ AE	Health/ AE
General Category States Average 2014-15	15.99	68.51	36.15	32.36	14.02	16.54	4.92
Punjab 2014-15	14.08	52.04	29.05	22.99	6.24	15.25	4.73
General Category States Average 2018-19	16.05	67.04	36.59	30.45	14.28	14.99	5.07
Punjab 2018-19	15.17	50.24	24.46	25.78	3.05	12.99	4.10

Source: Figures calculated on the basis of Finance Accounts of the respective States
AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure and CE: Capital Expenditure.
**Expenditure on Education includes expenditure on Sports, Art and Culture.*



Source: Figures calculated on the basis of Finance Accounts of the respective States

Table 1.23 shows that:

- The State Government's aggregate expenditure as proportion of GSDP, increased from 14.08 *per cent* in 2014-15 to 15.17 *per cent* in 2018-19 whereas for General Category States (GCS) it increased from 15.99 *per cent* to 16.05 *per cent* during the same period.
- Development expenditure[18] refers to the expenditure on social and economic sector. Increased priority to development expenditure results in better human and physical asset formation which has potential for further increasing the growth prospects of the State. In Punjab, the ratio of development expenditure to aggregate expenditure has been lower than the GCS average. This ratio decreased from 52.04 *per cent* in 2014-15 to 50.24 *per cent* in 2018-19, whereas for GCS from 68.51 *per cent* in 2014-15 to 67.04 *per cent* in 2018-19.
- The ratio of social sector expenditure incurred by the State to aggregate expenditure decreased from 29.05 *per cent* in 2014-15 to 24.46 *per cent* in 2018-19. The corresponding GCS average figures were 36.15 *per cent* and 36.59 *per cent*.
- The ratio of State's economic sector expenditure to aggregate expenditure increased from 22.99 *per cent* in 2014-15 to 25.78 *per cent* in 2018-19, whereas for GCS, it decreased from 32.36 *per cent* in 2014-15 to 30.45 *per cent* in 2018-19.

[18] Please refer the glossary (*Appendix 4.1*).

- Capital expenditure facilitates asset creation which generates opportunities for higher growth. The ratio of capital expenditure to aggregate expenditure was far below the GCS average during the period 2014-15 and 2018-19. The GCS average of capital expenditure to aggregate expenditure increased from 14.02 *per cent* in 2014-15 to 14.28 *per cent* in 2018-19. However, this ratio declined in Punjab from the already low level of 6.24 *per cent* in 2014-15 to 3.05 *per cent* in 2018-19.
- The ratio of expenditure on education to the aggregate expenditure in Punjab came down from 15.25 *per cent* in 2014-15 to 12.99 *per cent* in 2018-19. The GCS average also exhibited a decrease from 16.54 *per cent* to 14.99 *per cent* during the same period.
- The ratio of expenditure on health to aggregate expenditure in Punjab decreased from the already low level of 4.73 *per cent* to 4.10 *per cent* during the period 2014-15 and 2018-19, whereas it showed an increase in GCS average from 4.92 *per cent* to 5.07 *per cent* during the same period.

The Government may consider according higher priority to asset creation by increasing level of capital expenditure and raising the outlay on social services, education and health for enhancing the level of human development.

1.7.2 Efficiency of public expenditure

In view of the importance of development expenditure for bringing about social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[19]. Apart from increasing the allocation of funds towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent in operation and maintenance of the existing social and economic services. The higher the ratio of capital expenditure to total expenditure (and/or GSDP) better would be the quality of expenditure. While **Table 1.24** presents the proportion of capital expenditure in various sectors during the year 2018-19, **Table 1.25** presents the composition and trends of development expenditure relative to the aggregate expenditure of the State during the period 2014-19.

Table 1.24: Expenditure incurred in various sectors

(₹in crore)

Sector	Total expenditure	Capital expenditure	Capital expenditure as *per cent* of total expenditure
General Services	37,133.90	169.34	0.46
Social Services	19,367.62	1,047.25	5.41
Economic Services	20,410.81	1,195.65	5.86

Source: Calculated on the basis of Finance Accounts

[19] Please refer the glossary (*Appendix 4.1*).

Table 1.25: Development expenditure

(₹ in crore)

Components of Development expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actuals
Total Development expenditure (a to c)	**26,019**	**33,388**	**71,310**	**29,558**	**50,938**	**39,778**
	(52.04)	**(56.49)**	**(70.60)**	**(45.08)**	**(61.19)**	**(50.24)**
a. Development revenue expenditure	22,967	24,654	25,890	26,664	44,032	36,208
	(45.93)	(41.71)	(25.63)	(40.66)	(52.89)	(45.73)
b. Development capital expenditure	2,866	2,806	4,097	2,172	6,107	2,243
	(5.73)	(4.75)	(4.06)	(3.31)	(7.34)	(2.83)
c. Development loans and advances	186	5,928	41,323	722	799	1,327
	(0.37)	(10.03)	(40.91)	(1.10)	(0.96)	(1.68)

Source: Calculated on the basis of Finance Accounts and Annual Financial Statement 2018-19
Figures in parenthesis indicate percentage to Aggregate Expenditure

Table 1.25 shows that the total development expenditure increased by ₹13,759 crore (52.88 *per cent*) from 2014-15 to 2018-19 though it increased by ₹10,220 crore (34.58 *per cent*) during the current year over the previous year. However, the total development expenditure was less by ₹11,160 crore (21.91 *per cent*) when compared to the budget estimates of the State for the year 2018-19.

The development revenue expenditure increased from ₹22,967 crore in 2014-15 to ₹36,208 crore in 2018-19. It increased by ₹9,545 crore (35.80 *per cent*) during the current year over the previous year.

The development capital expenditure decreased from ₹2,866 crore in 2014-15 to ₹2,243 crore in 2018-19. It is only 2.83 *per cent* of aggregate expenditure (₹79,177 crore) in the current year whereas it was 5.73 *per cent* in 2014-15.

By including one-time transactions of disbursement of loan of ₹29,920 crore for settlement of Legacy Cash Credit Accounts for food procurement operations and taking over debts of ₹10,031 crore of DISCOMs under UDAY, the expenditure on development loans and advances had increased manifold from ₹186 crore in 2014-15 to ₹41,323 crore in 2016-17, else it would have been ₹1,372 crore. The same was ₹722 crore and ₹1,327 crore during the years 2017-18 and 2018-19 respectively.

During 2018-19, loans and advances for development purposes increased by ₹605 crore (83.80 *per cent*) over the previous year mainly due to increase in loans to Government companies by ₹454 crore (73.83 *per cent*).

Table 1.26: Efficiency of expenditure on selected Social and Economic Services *vis-à-vis* respective total expenditure

(in per cent)

Social/Economic Infrastructure	2017-18		2018-19	
	Ratio of CE to TE	In RE, the share of S &W	Ratio of CE to TE	In RE, the share of S&W
Social Services (SS) expenditure on major components				
General Education	0.49	76.27	0.82	75.31
Health and Family Welfare	0.05	68.69	3.10	61.00
Water Supply, Sanitation & Housing and Urban development	51.82	48.45	44.04	39.11
Total SS	**6.48**	**72.91**	**6.32**	**69.56**

Social/Economic Infrastructure	2017-18		2018-19	
	Ratio of CE to TE	In RE, the share of S &W	Ratio of CE to TE	In RE, the share of S&W
Economic Services(ES) expenditure on major components				
Agriculture & Allied Activities	1.43	10.86	0.65	5.69
Irrigation and Flood Control	21.03	78.34	17.77	76.73
Power & Energy	0.17	0.60	0.00	0.00
Transport	55.00	33.97	41.02	24.54
Total ES	**9.45**	**18.29**	**17.40**	**10.83**
Total (SS + ES)	**7.86**	**47.96**	**9.07**	**37.69**
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

Source: Calculated on the basis of Finance Accounts

Table 1.26 shows that in 2018-19, the ratio of capital expenditure (CE) to the total expenditure (TE) decreased by 0.16 percentage points on the social services (SS), whereas it increased by 7.95 percentage points on economic services (ES) over the previous year.

The share of salaries and wages components in revenue expenditure on SS decreased from 72.91 *per cent* to 69.56 *per cent* and on ES, it decreased from 18.29 *per cent* to 10.83 *per cent* during the current year over the previous year.

The combined ratio of CE to TE on SS and ES increased by 1.21 percentage points during 2018-19 over the previous year and the share of salaries and wages in revenue expenditure on SS and ES decreased from 47.96 *per cent* to 37.69 *per cent*.

1.7.3 Cesses imposed by State Government

The State Government imposed various cesses for meeting expenditure for specific purposes. Status of some of the major cesses imposed by the State Government is as under:

(i) Cultural Cess

The State Government imposed (April 2013) a cultural cess at the rate of one *per cent* on construction cost of roads, bridges, flyovers, road over bridges/road under bridges, etc. costing more than ₹50 crore (revised to ₹15 crore with effect from December 2013) under the Punjab Ancient, Historical Monuments, Archaeological Sites and Cultural Heritage Maintenance Board Act, 2013. The proceeds of the cess were to be credited by the concerned agencies directly into the Consolidated Fund of the State (CFS). The cess so collected was to be released by the State Government under the Plan Scheme to the Board established under the Act for meeting expenditure on:

(i) preservation and conservation of the protected/unprotected monuments in the State;

(ii) construction of the buildings of State/National importance and repayment of loans raised for construction/creation of the buildings of State/National importance;

(iii) operation and maintenance and upkeep of the buildings under sub-section (ii) above; and

(iv) any other building.

During the period 2013-19, the State collected ₹288.93 crore[20] on account of cultural cess. Of these, the O/o the Director, Cultural Affairs, Archaeology and Museums, Punjab, the head of which is a member secretary of the Board, spent ₹335.90 crore[21] for meeting the intended expenses. The excess expenditure of ₹46.97 crore was contributed by the State Government out of its own budget.

(ii) Social Infrastructure Cess

The State Government, by insertion of a new section (3-D) in the Indian Stamp Act, 1899 (as applicable to Punjab) imposed (February 2013) the social infrastructure cess at the rate of one *per cent* on all those instruments mentioned in entry 23 of Schedule I-A of the Act which are chargeable with duty under section 3 and additional duty under sections 3-B and 3-C. The cess so collected was to be utilised for providing and improving infrastructure in the social sector.

The Department of Revenue and Rehabilitation collected ₹231.29 crore during 2018-19 on account of social infrastructure cess. Reply of the Finance Department regarding amount expended was awaited (June 2020). Thus, Audit could not ascertain as to whether the cess collection was utilized for the intended purpose.

(iii) Building and Other Construction Workers Welfare Cess

The Building and Other Construction Workers' (Regulation of Employment and Condition of Service) Act, 1996 and the Building and Other Construction Workers' Welfare Cess Act, 1996 provide that in order to provide basic amenities and welfare facilities to workers engaged in construction activities, the State Government shall collect a cess on the cost of construction incurred by an employer at the rates notified by the Central Government and deposit it with the Board constituted for carrying out the welfare schemes for construction workers. The State Government instructed (November 2008) all the heads of the Departments/Boards/Autonomous Bodies/Local Authorities to collect cess at the rate of one *per cent* of cost of construction, as notified (September 1996) by the Central Government, and deposit it with the Punjab Building and Other Construction Workers' Welfare Board.

The cess so collected was required to be spent for the social security schemes and welfare measures adopted by the Board for the benefit of building and other construction workers in the State. The amount of cess collected by various departments could not be ascertained. However, the details of cess available with the Board and expenditure incurred therefrom are given in the **Table 1.27**.

[20] 2013-14: ₹39.14 crore; 2014-15: ₹47.32 crore; 2015-16: ₹88.57 crore; 2016-17: ₹94.08 crore; 2017-18: ₹7.80 crore; and 2018-19: ₹12.02 crore.

[21] 2013-14: ₹5.80 crore; 2014-15: ₹69.48 crore; 2015-16: ₹78.87 crore 2016-17: ₹109.25 crore; 2017-18: ₹24.50 crore and 2018-19: ₹48 crore.

Table 1.27: Details of cess available and its utilisation

(₹in crore)

Year	Actual receipts				Actual expenditure		
	Cess available	Beneficiaries contribution	Interest earned	Total receipts	Administrative expenditure	Expenditure on schemes	Total expenditure
2009-10	37.68*	0.13	0.69	38.50	1.28	--	1.28
2010-11	92.69	0.00	2.98	95.67	1.06	0.14	1.20
2011-12	112.95	0.02	4.92	117.89	1.47	1.15	2.62
2012-13	122.03	0.87	25.92	148.82	1.34	1.23	2.57
2013-14	120.52	1.60	43.48	165.60	2.60	79.18	81.78
2014-15	155.49	1.90	47.50	204.89	3.43	61.73	65.16
2015-16	145.97	3.13	55.95	205.05	4.00	122.79	126.79
2016-17	201.16	5.23	55.51	261.90	4.89	164.39	169.28
2017-18	163.82	4.76	56.64	225.22	4.51	162.29	166.80
2018-19	176.98	7.13	67.38	251.49	4.08	74.69	78.77
Total	**1,329.29**	**24.77**	**360.97**	**1,715.03**	**28.66**	**667.59**	**696.25**

Source: Departmental figures

** Cess of 2009-10 includes ₹0.93 crore cess collected during 2008-09.*

Table 1.27 showed that against the available cess of ₹1,715.03 crore, the Board could utilize only ₹696.25 crore (40.60 *per cent*) (including administrative expenditure of ₹28.66 crore) during 2009-19 on the welfare activities, with the result that an unspent amount of ₹1,018.78 crore (59.40 *per cent*) was lying with the Board as on 31 March 2019.

1.8 Analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to not only keep its fiscal deficit (and borrowings) at low levels, but also meet its requirements under capital expenditure and investments including loans and advances. In addition, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital works undertaken by the State Government during the current year *vis-à-vis* the previous years.

1.8.1 Financial results of irrigation works

The financial results of nine[22] major irrigation projects involving a capital expenditure of ₹550.45 crore at the end of March 2019 showed that revenue realised from these projects during 2018-19 (₹17.52 crore) was only 3.18 *per cent* of the capital expenditure on these projects. This return was not sufficient to cover even the total working expenses and maintenance charges (₹407.97 crore) and interest charges (₹0.45 crore) during the year 2018-19. These projects suffered a net loss of ₹390.90 crore.

The State Government may compile working results of major irrigation projects to assess benefits of persistently heavy outlays in irrigation sector. These working results should guide future investments in the sector.

[22] (i) Upper Bari Doab Canal; (ii) Sirhind canal; (iii) Sutlej valley project (Eastern canal); (iv) Shah Nahar Canal Project; (v) Madhopur Beas Link Project; (vi) Harike Project; (vii) Installation of 96 tubewells in Shahkot block of Jalandhar district; (viii) Installation of 150 tubewells along main branch to augment irrigation supplies from Upper Bari Doab Canal tracts; and (ix) Installation of 108 tubewells in Mahilpur block of Hoshiarpur district.

1.8.2 Incomplete projects

The department-wise information pertaining to the incomplete projects (scheduled to be completed between 2008-09 and 2018-19) as on 31 March 2019 is given in the **Table 1.28.**

Table 1.28: Department-wise profile of incomplete projects

(₹in crore)

Department	Number of incomplete Projects	Initial Budgeted Cost (No. of Projects)	Revised Total Cost of Projects	Expenditure during the year	Progressive expenditure
Public Works Department (B&R)	14	101.40 (13)	--	43.53	61.88
		35.19 (1)	51.99	10.98	21.62
Irrigation	34	2,594.26 (17)	--	71.90	706.09
		81.59 (17)	97.97	30.84	82.20
Water Supply and Sanitation	5	16.15 (2)	--	0.68	5.69
		17.97 (3)	20.39	0.00	14.85
Total	**53**	**2,846.56**		**157.93**	**892.33**

Source: Finance Accounts

Out of total 53 incomplete projects, 14 projects budgeted for ₹136.59 crore were in Public Works Department (B&R), 34 projects budgeted for ₹2,675.85 crore were in Irrigation Department and five projects budgeted for ₹34.12 crore were in Water Supply and Sanitation Department. The expenditure of ₹892.33 crore incurred on these 53 incomplete projects was yet to yield the intended benefits.

Delays in completion of projects not only adversely affected the quality of expenditure but also deprived the State of intended benefits and economic growth.

1.8.3 Investment and return

(i) The details of investment in share capital and return thereon during the period 2014-19 are given in **Table 1.29**.

Table 1.29: Return on investment in share capital

Investment/return/cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year (₹ in crore)	3,977.48	4,064.56	4,091.32	4,189.27	4,263.25
Return*(₹ in crore)	1.48	1.46	3.88	4.45	4.24
Return*(*per cent*)	0.04	0.04	0.09	0.11	0.10
Average rate of interest on Government borrowings (*per cent*)	8.35	8.09	7.48	8.12	8.00
Difference between interest rate and return (*per cent*)	8.31	8.05	7.39	8.01	7.90
Difference between interest on Government borrowings and return on investment (₹ in crore)#	330.53	327.20	302.35	335.56	336.80

Source: Finance Accounts ** on historical value*

\# $\frac{\text{Investment at the end of the year X Difference between interest rate and return}}{100}$

During 2018-19, the return on investment was ₹4.24 crore[23] (0.10 *per cent*)

[23] Co-operative Banks and Societies (₹ 0.02 crore), Joint Stock Companies (₹ 0.10 crore) and Government Companies (₹ 4.12 crore).

(based on historical cost and not on net present value basis). The return was only between 0.04 *per cent* and 0.11 *per cent* during 2014-19 while the average rate of interest paid by the State Government on its borrowings was between 7.48 *per cent* and 8.35 *per cent* during the same period. Over the past five years, the difference in cost of Government borrowings and return on investments in PSUs was to the tune of ₹1,632.44 crore.

(ii) The figures in respect of State Government equity, loans and guarantees outstanding as per records of State PSUs should ideally agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. However, this has not been done. The position in this regard as on 31 March 2019 is given in **Table 1.30 (a)**.

Table 1.30(a): Equity, loans, guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs

(₹in crore)

Particulars	Amount as per Finance Accounts	Amount as per records of PSUs	Difference for the year 2018-19	Differences recorded in the year 2017-18
Equity	3,604.23	7,746.57	(-)4,142.34	(-)4,240.32
Loans	42,057.67	39,913.28	2,144.39	1,891.64
Guarantees	12,673.55	12,518.16	155.39	49.82

Source: Finance Accounts and Information provided by PSUs

The above differences occurred in respect of 33 PSUs. The differences between the figures are persisting since last many years. The issue of reconciliation of differences has been taken up by the Principal Accountant General (Audit) Punjab with the PSUs and the Departments from time to time. Major differences in balances were observed in Punjab Water Resources Management and Development Corporation Limited, the State food-grains procuring agencies and the Power Sector Undertakings. The State Government and the respective PSUs should reconcile the differences in a time-bound manner.

(iii) During 2018-19, financial support of ₹1,498.09 crore by way of grants/subsidy was provided to five loss making PSUs whose accounts were in arrears, as detailed in **Table 1.30 (b)**.

Table 1.30 (b): Financial support provided to loss making PSUs during 2018-19 whose accounts were in arrears

(₹in crore)

Sl. No.	Name of PSU	State	Centre	Total	Accumulated losses	Year for which accounts finalized
1.	Punjab State Grains Procurement Corporation Limited	0.00	1,251.76	1,251.76	(-) 3,497.86	2016-17
2.	Punjab Water Resources Management and Development Corporation Limited	150.14	0.00	150.14	(-) 181.57	2017-18
3.	Punjab Agri Export Corporation Limited	30.09	5.48	35.57	(-) 6.85	2017-18
4.	PEPSU Road Transport Corporation	55.62	0.00	55.62	(-) 390.58	2016-17
5.	Punjab Financial Corporation	5.00	0.00	5.00	(-) 258.92	2017-18
Total		**240.85**	**1,257.24**	**1,498.09**	**(-) 4,335.78**	

Source: Information provided by the respective PSUs

1.8.4 Loans and advances by the State Government

In addition to the investments in Co-operative Societies, Corporations and Companies, the State Government has also been providing loans and advances to many institutions/organizations. **Table 1.31** presents the position of outstanding loans and advances as on 31 March 2019 and interest receipts *vis-à-vis* interest payments by the State Government on its borrowings during the last five years.

Table 1.31: Position of loans and advances and interest received/paid by the State Government

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance of loans outstanding	2,482	2,615	8,299	49,482	50,169
Amount advanced during the year	270	5,968	41,364	760	1,361
Amount recovered during the year	137	218	181	73	849
Closing Balance of the loans outstanding	2,615	8,365	49,482	50,169	50,681
Interest received	55	30	1,131	1,339	1,341
Interest rate on Loans and Advances given by the Government	2.10	0.36	2.29	2.67	2.65
Rate of interest paid on outstanding borrowings of the Government	8.35	8.09	7.48	8.12	8.00
Difference between the rate of interest paid and interest received (*per cent*)	(-)6.25	(-)7.73	(-)5.19	(-)5.45	(-)5.35

Source: Finance Accounts

During 2018-19, amount of ₹1,361 crore was advanced as loans against ₹760 crore during previous year. The loans advanced during the current year included ₹1,069 crore[24] extended to five SPAs for clearing outstanding CCL. The Indian Government Accounting Standards-3 (IGAS-3) requires that loans sanctioned without specific terms and conditions should be specifically disclosed. However, disclosure in respect of loans advanced during 2018-19 (₹1,361 crore) could not be made as the requisite information was not provided by the State Government.

The total outstanding loans advanced by the State Government increased from ₹50,169 crore in 2017-18 to ₹50,681 crore in the year 2018-19. However, the recovery of outstanding loans declined from 5.5 *per cent* in 2014-15 to 0.1 *per cent* in 2017-18 and 1.7 *per cent* in 2018-19. During the current year the interest receipts increased by ₹ two crore (0.15 *per cent)* over the previous year. The interest received was only 2.65 *per cent* of the outstanding loans and advances during 2018-19.

The outstanding loans (₹50,681 crore) included the long term loans of ₹47,591 crore out of ₹48,425 crore advanced by the State Government for –

- clearing debts of Punjab State Power Corporation Limited (PSPCL) i.e. Punjab DISCOM in compliance with the implementation of Ujwal Discom Assurance Yojana (UDAY) during 2015-17 (₹15,628 crore);

24 (i) Punjab State Civil Supplies Corporation Limited (PUNSUP) (₹354.57 crore); (ii) Punjab Agro Foodgrains Corporation: Limited (PAFC) (₹46.07 crore); (iii) Punjab State Co-operative Supply and Marketing Federation Limited (Markfed) (₹403.87 crore); (iv) Punjab Grains Procurement Corporation Limited (PUNGRAIN) (₹220.70 crore); and (v) Punjab State Warehousing Corporation (PSWC) (₹43.45 crore).

- one time settlement of Legacy Cash Credit Accounts for food procurement operations during 2016-17 (₹29,920 crore), of which ₹29,833 crore was outstanding; and
- clearing outstanding CCL extended afresh to five State Procurement Agencies (SPA) during 2016-19 (₹2,877 crore), of which ₹2,130 crore[25] was outstanding.

The loan of ₹15,628 crore extended to the Punjab DISCOM was not to be recovered as the State Government committed to convert the whole amount into grant-in-aid (₹11,728 crore) and equity (₹3,900 crore) during 2019-20, as discussed in paragraph 1.1.5.1, though the interest of ₹3,691 crore[26] on this account had been recovered during 2016-19.

Thus, against the total amount of ₹32,797 crore advanced for clearing old and fresh CCL to SPAs during 2016-19, recovery of ₹834 crore[27] had only been effected.

1.8.5 Cash balances and investment of cash balances

Comparative figures of cash balances and investment of cash balances for the years 2017-18 and 2018-19 are given in **Table 1.32**.

Table 1.32: Details of cash balances and investment of cash balances

(₹ in crore)

		Opening balance as on 1 April 2018	Closing balance as on 31 March 2019
(A)	**General Cash Balances**		
1.	Deposits with Reserve Bank of India	(-)74.95	20.10
2.	Investment held in the Cash balance Investment Account	0.04	468.56
	Total (A)	**(-)74.91**	**488.66**
(B)	**Other Cash Balances and Investments**		
1.	Cash with departmental officers *viz.* Forest and Public Works	562.40	835.21
2.	Permanent advances for contingent expenditure with departmental officers	0.26	0.26
3.	Investments of earmarked fund	0.70	0.70
	Total (B)	**563.36**	**836.17**
	Total (A) and (B)	**488.45**	**1,324.83**

Source: Finance Accounts

The closing cash balance at the end of the current year (₹1,324.83 crore) increased by ₹836.38 crore over the previous year (₹488.45 crore).

The cash balance included investment of ₹0.70 crore only from earmarked funds. During the year 2018-19, the State Government had to resort to

[25] Besides, ₹41 crore pertaining to the period prior 2010-11 was also outstanding from PUNSUP.

[26] 2016-17 (₹1,073 crore); 2017-18 (₹1,307 crore); and 2018-19 (₹1,311 crore).

[27] ₹87 crore (2017-18: ₹26 crore and 2018-19: ₹61 crore) against ₹29,920 crore; and ₹747 crore (2018-19) against ₹2,877 crore.

overdraft facility on 63 days. The Government was able to maintain a minimum cash balance of ₹1.56 crore for 132 days and had also to maintain the minimum balance by taking ordinary Ways and Means Advances (WMA) on 170 days during the year. The State had to pay ₹26.54 crore as interest on WMA during the year 2018-19.

During 2018-19, the State had an opening general cash balance of (-) ₹74.91 crore at the beginning of the year and Government borrowed ₹22,115 crore from open market for meeting its obligations. The general cash balance at the close of the year was ₹488.66 crore. The closing cash balance for the year 2018-19 was not even equal to the earmarked reserve funds of ₹6,402.59 crore which means that reserve funds were used for other than intended purpose.

1.8.6 Cash with divisional officers

In terms of Rule 2.10 of Punjab Financial Rules Vol.-I, no money should be withdrawn from the treasury unless it is required for immediate disbursement or has already been paid out of the permanent advance. It is not permissible to draw advances from the treasury for the execution of works the completion of which is likely to take a considerable time.

As per instructions (March 2015) of Finance Department, the Public Works (PWD) Drawing and Disbursing Officers (DDO) will keep funds of deposit works related to non-Government agencies under head '8443-Civil Deposits 108-PW Deposit'. The PWD DDOs can draw funds from their deposit accounts by presenting bills to the treasury under the same head of account. It was further directed that all bank accounts should be closed and unspent amounts kept under head '8671-Departmental Balances 101-Civil' should be remitted into Government account (under head '8443-Civil Deposits) by 31 March 2015 and no bank accounts would be operated w.e.f. April 2015.

In contravention of the instructions *ibid*, as on 31 March 2019, an amount of ₹835.21 crore was still lying in bank accounts under Major Head 8671-Departmental Balances with Departmental Officers' in 188 Public Works Divisions ***(Appendix 1.7)***. Of this, amount of ₹811.54 crore was lying in 637 bank accounts, ₹22.85 crore in cash chest and ₹0.82 crore cash-in-transit. These bank accounts remained operative as is evident from the transactions *viz.* ₹621.12 crore (credit) and ₹893.92 crore (debit) made during 2018-19. There were cash balances of ₹474.65 crore, ₹596.67 crore, ₹575.34 crore, ₹611.23 crore, ₹762.12 crore and ₹562.40 crore at the close of financial years 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 respectively. Had these funds been deposited in the Government account (under head '8443-Civil Deposits), borrowings to this extent could have been avoided.

1.9 Assets and liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts capture the fiscal liabilities and the assets created out of the expenditure incurred. ***Appendix 1.3–Part B*** gives an abstract of such liabilities and assets as on 31 March 2019, compared with the corresponding position as on 31 March 2018. The liabilities consist mainly of internal borrowings; loans and advances from GoI; and receipts from the

Public Account and Reserve Funds. The assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

In real terms, during 2018-19, the assets grew by ₹3,699.43 crore (3.83 *per cent*) whereas the liabilities increased by ₹16,834.06 crore (8.63 *per cent*) over the previous year. The ratio of Financial Assets to Liabilities declined to 47.29 *per cent* in 2018-19 from 49.47 *per cent* in the previous year.

1.9.2 Fiscal liabilities

Fiscal liabilities comprise Public Debt and Other Liabilities. The Public Debt consists of market loans, loans from banks/financial institutions, and loans and advances from GoI. The other liabilities include deposits under small savings scheme, provident funds and other deposits. The Constitution of India provides that a 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 the Act of its Legislature and give guarantees within such limits as may be fixed. The trends in outstanding fiscal liabilities, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts of the State and State's own resources as also the buoyancy of fiscal liabilities with respect to revenue receipts parameters during the period 2014-19 are presented in **Table 1.33**.

Table 1.33: Fiscal liabilities–Basic Parameters

(₹in crore)

Components of Fiscal Liabilities	2014-15	2015-16	2016-17	2017-18	2018-19
Fiscal Liabilities (₹ in crore)	**1,12,366**	**1,28,835**	**1,82,526**	**1,95,152**	**2,11,917**
Rate of Growth (per cent)	*9.91*	*14.66*	*41.67*	*6.92*	*8.59*
Public Debt	**86,818**	**1,02,589**	**1,53,773**	**1,64,803**	**1,79,130**
Internal debt	83,203	99,023	1,49,880	1,60,785	1,74,172
Loans and advances from the GoI	3,615	3,566	3,893	4,018	4,958
Public Accounts Liabilities	**25,548**	**26,246**	**28,753**	**30,349**	**32,787**
Ratio of Fiscal liabilities to					
GSDP (*per cent*)	31.64	33.03	42.75	40.73	40.61
Revenue receipts (*per cent*)	287.95	310.27	380.38	368.14	340.33
Own resources (*per cent*)	394.96	439.10	543.07	561.72	541.21
Buoyancy of Fiscal liabilities to					
Revenue receipts	0.89	2.29	2.68	0.66	0.49

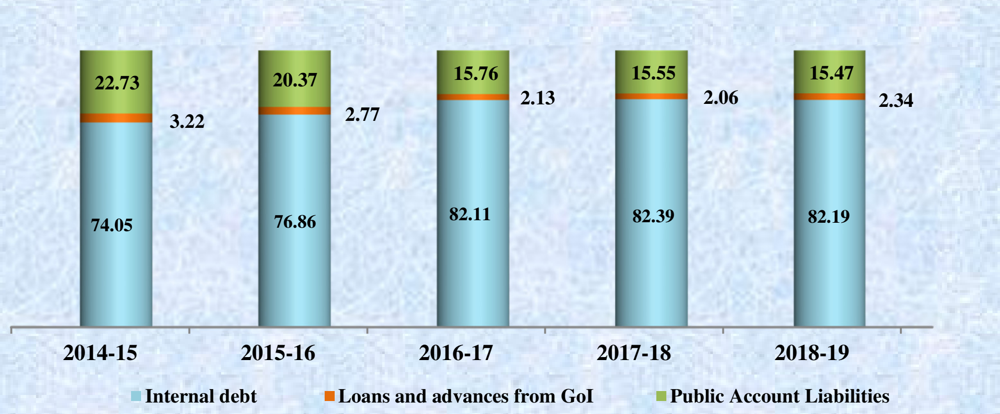
Source: Finance Accounts

There was an increase of ₹16,765 crore (8.59 *per cent*) in fiscal liabilities during the current year over the previous year, which is attributed to increase of ₹14,327 crore (8.69 *per cent*) under Public debt and ₹2,438 crore (8.03 *per cent*) under public account liabilities.

- Public debt increased mainly on account of raising of interest bearing market loans of ₹17,053.48 crore which was partially offset by repayment of ₹1,801.47 crore under Special Securities issued to National Small Savings Fund of the Central Government.
- Public account liabilities increased due to increase of ₹1,263.82 crore in Small Savings, Provident Funds, etc. and ₹883.10 crore in Reserve Funds.

The composition of outstanding fiscal liabilities during the year 2014-15 to 2018-19 is presented in **Chart 1.18**.

Chart 1.18 : Composition of outstanding fiscal liabilities during 2014-19 (in *per cent*)



Source: Finance Accounts

The overall fiscal liabilities of the State Government had been on the rise and it increased from ₹1,12,366 crore as on 31 March 2015 to ₹2,11,917crore as on 31 March 2019. The internal debt accounted for 74.05 *per cent* of the fiscal liabilities in 2014-15 which increased to 82.19 *per cent* during 2018-19. During the current year, the Public Account Liabilities and Loans and advances from GoI accounted for 15.47 *per cent* and 2.34 *per cent* respectively of the fiscal liabilities.

At the end of the current year, the public debt liabilities (₹1,79,130 crore) comprised of internal debt of ₹1,74,172 crore and loans of ₹4,958 crore from GoI. The Public Account liabilities during the current year (₹32,787 crore) comprised of small savings, provident fund (₹22,994 crore) and interest bearing and non-interest bearing obligations[28] (₹9,793 crore). The total fiscal liabilities went up at an annual average growth rate of 16.35 *per cent* during the period 2014-15 to 2018-19.

1.9.3 Reserve Funds

Reserve Funds exist for specific and well-defined purpose and are fed by contributions or grants from the Consolidated Fund or from outside agencies. It comprises of interest bearing reserve funds and non-interest bearing reserve funds.

There were five Reserve Funds earmarked for specific purposes. At the beginning of 2018-19, Reserve Funds stood at ₹5,520.17 crore. There was addition of ₹923.82 crore and disbursement of ₹40.72 crore during the year leading to a closing balance of ₹6,403.27 crore, of which only ₹0.68 crore (0.01 *per cent*) had been invested.

[28] Reserve funds bearing interest (₹6,402 crore), Reserve funds not bearing interest (₹1 crore), Deposits bearing interest (₹808 crore) and Deposits not bearing interest (₹2,582 crore).

1.9.3.1 State Disaster Response Fund

The GoI, Ministry of Home Affairs constituted (September 2010) the State Disaster Response Fund (SDRF) at State level for providing immediate relief to the victims of natural calamities and issued guidelines for administration of this fund. In terms of the guidelines of SDRF (September 2010 and July 2015), the Centre and the State Governments were contributing to the Fund in the proportion of 75:25 (revised to 90:10 during 2018-19 and 2019-20). Further, paragraph 19 of the guidelines stipulates that the accretions to the SDRF together with the income earned on the investment of the SDRF is required to be invested in one or more of the instruments *viz.* (a) Central Government dated securities; (b) auctioned treasury bills; and (c) interest earning deposits and certificates of deposits with scheduled commercial banks.

As per Finance Accounts, as on 1 April 2018, ₹5,382.21 crore was lying in the SDRF. During the year 2018-19, ₹919.51 crore (₹321.99 crore as Centre share, ₹96.05 crore as State share, ₹16.64 crore towards refund of previous year's unspent balance lying with the Drawing and Disbursing Officers and ₹484.83 crore towards payment of interest by the State Government) were transferred to the Fund. An amount of ₹38.22 crore was spent from the Fund during the current year leaving a balance of ₹6,263.50 crore. The entire balance of ₹6,263.50 crore was lying un-invested in SDRF as on 31 March 2019, in violation of GoI guidelines *ibid*.

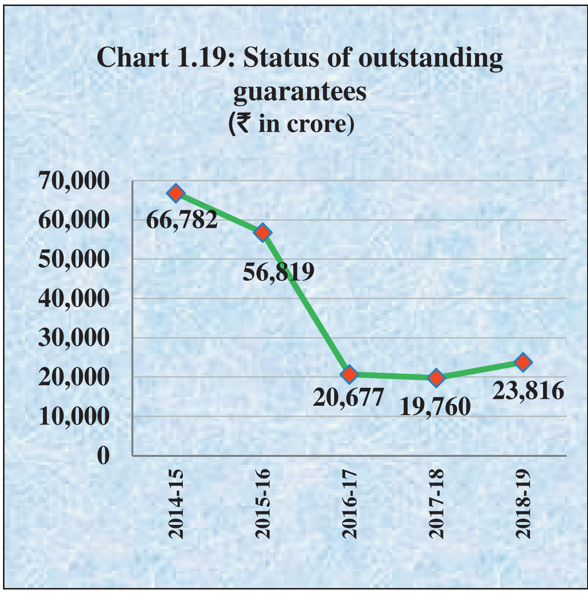
1.9.3.2 Consolidated Sinking Fund

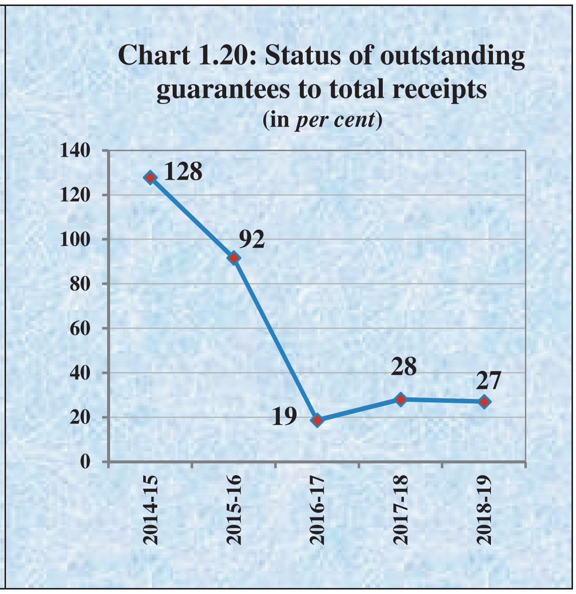
The Government of Punjab constituted (December 2006) a Consolidated Sinking Fund with the objective to redeem its outstanding liabilities commencing from the financial year 2011-12. The State Government is to contribute every year minimum 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. Contribution to this Fund out of borrowings from the Reserve Bank is not permissible. As on 31 March 2018, the outstanding liabilities of the Government of Punjab were ₹1,95,152.45 crore. Accordingly, the State Government was required to contribute a minimum of ₹975.76 crore (0.50 *per cent)* during 2018-19. However, the State Government has not made the minimum contribution of ₹6,300.40 crore[29] during 2011-19 to the said Fund since its inception.

1.9.4 Status of guarantees

The State Government gives guarantees for repayments of loans raised by statutory corporations/boards, local bodies, cooperative banks and societies, etc. Guarantees, in case of defaults by borrowers for whom the guarantees have been extended, are liabilities contingent on the Consolidated Fund of the State. As per Statement 9 of the Finance Accounts, details of the guarantees and status of outstanding guarantees to total receipts for the last five years is given in **Chart 1.19 and Chart 1.20**.

[29] Up to 2015-16: ₹3,764.81 crore; 2016-17: ₹647.20 crore; 2017-18: ₹912.63 crore, and 2018-19; ₹975.76 crore.





Source: Finance Accounts
Note: Opening Balance differs from previous year's closing balance during the period 2013-14 to 2017-18. The matter has been referred to the State Government.

The outstanding guarantees for ₹23,816 crore as on 31 March 2019 was in respect of Power (₹10,495 crore); Co-operatives (₹1,945 crore); State Finance Companies/Corporations (₹815 crore); Food and Supplies (₹950 crore); and Others (₹9,611 crore).

The significant decrease in outstanding guarantees in 2016-17 over 2015-16 was mainly due to one-time settlement of ₹29,919.96 crore of cash credit account of state procuring agencies.

1.9.4.1 Guarantee Redemption Fund

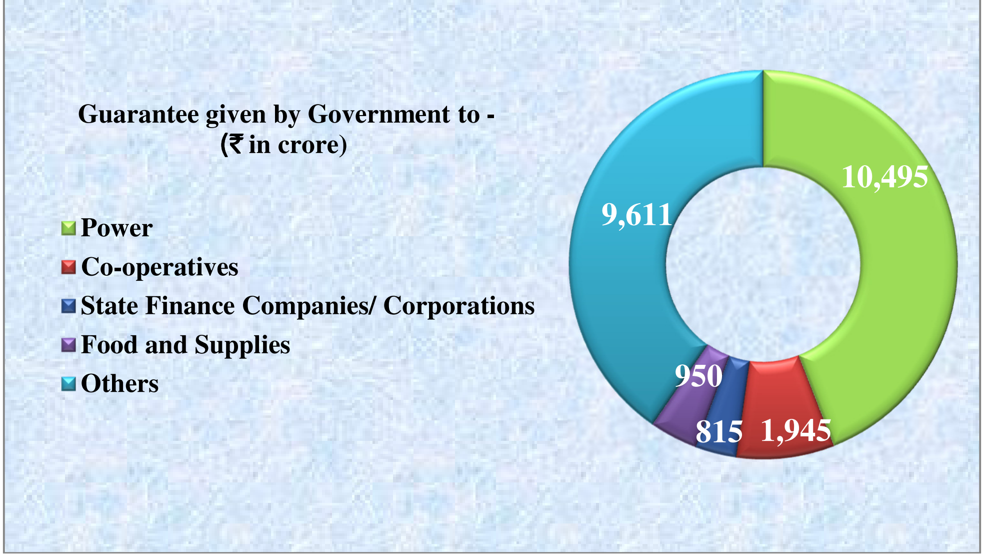
In terms of recommendation of the Twelfth Finance Commission, the State Government introduced the 'Guarantee Redemption Fund Scheme' (GRF) in December 2007 (revised on 8 January 2014 with effect from the financial year 2013-14) with the objective of meeting its obligations arising out of the guarantees issued on behalf of the State bodies. As per the guidelines, the State Government was required to make an initial contribution of at least one *per cent* of outstanding guarantees at the end of the previous year and thereafter at least 0.50 *per cent* of outstanding guarantees at the close of previous year to achieve a minimum level of three *per cent* of outstanding guarantees in next five years.

Accordingly, the State Government was required to make a minimum contribution of ₹600.61 crore for the year 2013-14 (one *per cent* of outstanding guarantees of ₹60,061.25 crore at the end of 2012-13), ₹307.06 crore for the year 2014-15 (0.50 *per cent* of outstanding guarantee of ₹61,411 crore at the end of 2013-14), ₹333.91 crore for the year 2015-16 (0.50 *per cent* of outstanding guarantee of ₹66,782.36 crore at the end of 2014-15), ₹284.09 crore for the year 2016-17 (0.50 *per cent* of outstanding guarantee of ₹56,819 crore at the end of 2015-16).

The State Government has further revised the 'Guarantee Redemption Fund Scheme' on 23 October 2017 with effect from the financial year 2017-18.

In terms of the Scheme, State Government was required to make a minimum contribution of ₹206.77 crore for the year 2017-18 (1.00 *per cent* of outstanding guarantee of ₹20,676.88 crore at the end of 2016-17) and ₹98.80 crore for the year 2018-19 (0.50 *per cent* of outstanding guarantee of ₹19,760.46 crore at the end of 2017-18). Total amount required to be contributed to the Fund during the period 2013-19 works out to ₹1,831.24 crore. However, the State Government has not contributed anything to the Fund during this period. Non-contribution to GRF has also resulted in understatement of revenue expenditure by ₹98.80 crore during 2018-19 with consequent impact on revenue deficit and fiscal deficit of the State Government.

Chart 1.21: Sector-wise details of guarantees at the end of 31 March 2019



Source: Finance Accounts

The State Government may ensure that the contributions to Funds are made annually as stipulated for ensuring a firm funding stream for the purpose of the Funds.

1.10 Debt management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

1.10.1 Debt profile of the State

(i) Growth of public debt and other liabilities

Total debt of the State Government constitutes internal debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.) and loans and advances from the Central Government.

Table 1.34: Debt Growth Rate

(₹in crore)

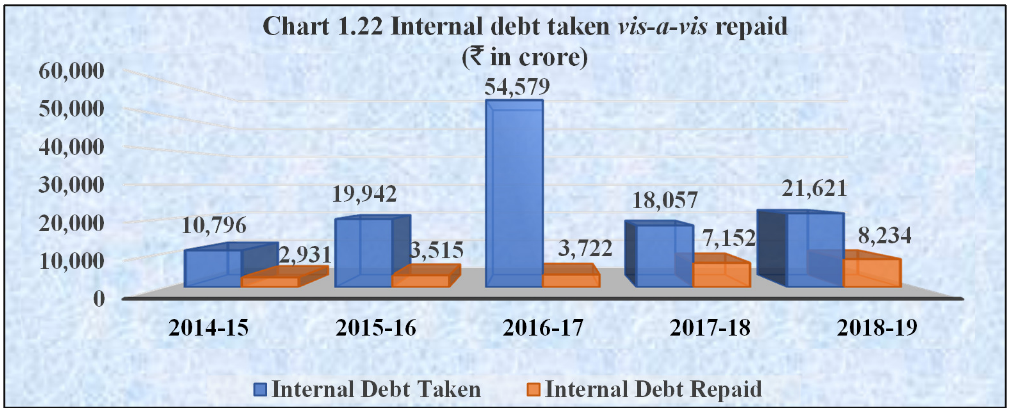
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1. Internal debt (Percentage of internal debt to total public debt)	**83,203 (96)**	**99,023 (97)**	**1,49,880 (97)**	**1,60,785 (98)**	**1,74,172 (97)**
(i) Market Loans (*Percentage of market loans to total public debt*)	58,003 (67)	67,202 (66)	79,346 (51)	92,694 (56)	1,09,748 (61)
(ii) Ways and Means Advances from RBI	0	0	268 (1)	703 (1)	(-)2
(iii) Loans from Financial Institutions	2,895 (3)	7,937 (8)	48,187 (31)	47,051 (29)	45,891 (26)
(iv) Special Securities issued to National Small Savings Fund (NSSF)	22,305 (26)	23,884 (23)	22,079 (14)	20,337 (12)	18,535 (10)
2. Loans from Government of India	**3,615 (4)**	**3,566 (3)**	**3,893 (3)**	**4,018 (2)**	**4,958 (3)**
Total public debt	**86,818**	**1,02,589**	**1,53,773**	**1,64,803**	**1,79,130**
Other liabilities*	**25,548**	**26,246**	**28,753**	**30,349**	**32,787**
Total debt	**1,12,366**	**1,28,835**	**1,82,526**	**1,95,152**	**2,11,917**

Source: Finance Accounts *Figures in parenthesis indicate percentage to public debt*

** Excludes balances under Suspense & Miscellaneous and Remittances.*

During the period from 2014-15 to 2018-19, total public debt increased from ₹86,818 crore to ₹1,79,130 crore (106.33 *per cent*) which included outstanding long term loans raised by the State Government for (i) one time settlement of Legacy Cash Credit Accounts for food procurement operations during 2016-17 (₹28,235 crore out of ₹29,920 crore); and (ii) issuing of Bonds for clearing debts of Punjab State Power Corporation Limited (PSPCL) in compliance with the implementation of Ujwal Discom Assurance Yojana (UDAY) during 2015-16 (₹5,597 crore) and 2016-17 (₹10,031 crore).

During the current year, public debt increased by ₹14,327 crore (8.69 *per cent*) over the previous year. This increase was due to increase in internal debt by ₹13,387 crore (8.33 *per cent*) and loans from Central Government by ₹940 crore (23.40 *per cent*). The share of market borrowings in total public debt was between 51 to 67 *per cent* during 2014-19. Share of loans from financial institutions in total public debt decreased to 26 *per cent* in 2018-19 from 29 *per cent* in 2017-18.



Source: Finance Accounts

Internal debt of the State Government increased by ₹90,969 crore (109.33 *per cent*) from ₹83,203 crore in 2014-15 to ₹1,74,172 crore in 2018-19. An amount of ₹13,934 crore was paid towards interest on internal debt during 2018-19.

(ii) Maturity profile of public debt

Debt maturity profile indicates commitment on the part of the Government for debt repayment or debt servicing.

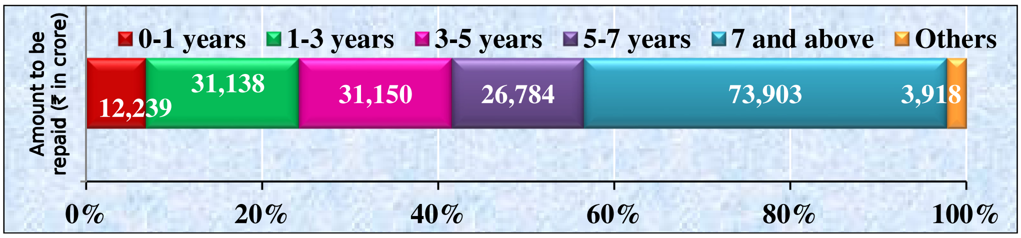
Table 1.35: Debt maturity profile of repayment of State debt as on 31 March 2019

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	12,238.76	6.83
1 – 3	31,138.46	17.38
3 – 5	31,149.80	17.39
5 – 7	26,784.03	14.95
7 and above	73,902.98	41.26
Others[30]	3,918.04	2.19
Total	**1,79,132.07***	**100.00**

Source: Calculated on the basis of Finance Accounts

**Excludes ₹(-) 1.64 crore on account of Ways and Means Advances that remained unpaid during the current year.*

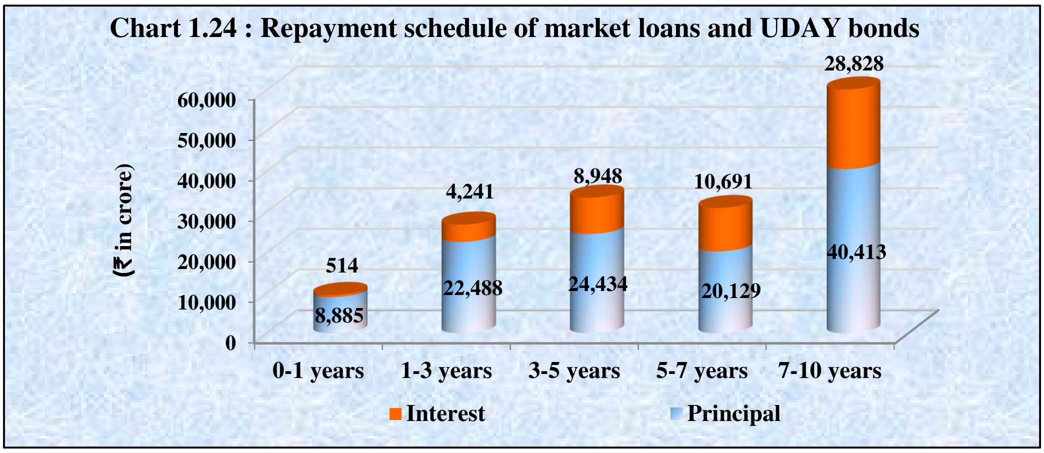
Chart 1.23: Debt Maturity Profile



Source: Finance Accounts

Table 1.35 indicates that the State Government has to repay 24.21 *per cent* (₹43,377 crore) of its debt within the next three years, 17.39 *per cent* (₹31,150 crore) between 3-5 years and 14.95 *per cent* (₹26,784 crore) between 5-7 years. It signifies that the State has to repay 56.55 *per cent* of its debt (₹1,01,311 crore) in the next seven years.

Repayment schedule of market loans (including UDAY bonds) along with interest has been given in **Chart 1.24**.



Source: Office of the Accountant General (A&E), Punjab

Note: *The maturity profile has been evolved for outstanding market loans and UDAY bonds as on 31 March 2019 and interest has been calculated upto the financial year in which the loans are going to retire.*

30 Payment schedule of this amount is not maintained by office of the Accountant General (A&E), Punjab.

As on 31 March 2019, market loans (including UDAY bonds) along with interest amounting to ₹1,69,571 crore were due for repayment during next 10 years. The State will have to repay market loans (including UDAY bonds) of ₹69,510 crore (41 *per cent*) (₹55,807 crore as principal and ₹13,703 crore as interest) during the next five years i.e. up to 2023-24. Balance market loans (including UDAY bonds) of ₹1,00,061 crore (59 *per cent*) (₹60,542 crore as principal and ₹39,519 crore as interest) will have to be repaid in subsequent five years' period up to 2028-29. This means that in the next five years (2019-24), on an average, the State will have to make repayment of ₹13,902 crore annually of the market loans (including UDAY bonds), which will go up to ₹20,012 crore per year in subsequent period of five years (2024-29) from the current annual repayment of ₹14,500 crore.

The revenue receipts and revenue expenditure have grown at an annual average rate of 11.94 *per cent* and 12.04 *per cent* respectively in the past ten years. Applying these growth rates, the Revenue Deficit during 2019-20 works out to ₹12,329 crore. However, as the State is committed to convert UDAY bonds of ₹11,728 crore into grants-in-aid to State DISCOMs in 2019-20, the Revenue Deficit would increase to ₹24,057 crore. Borrowings during that year projected at the average annual growth rate of last ten years (14.81 *per cent)*, would be ₹26,336 crore. After meeting the debt liability of ₹12,239 crore falling due for repayment in 2019-20, borrowed funds would fall short of meeting the revenue deficit by ₹9,960 crore. The State would thus have to resort to additional borrowings to meet its liabilities.

Table1.36: Utilisation of borrowed funds

(₹in crore)

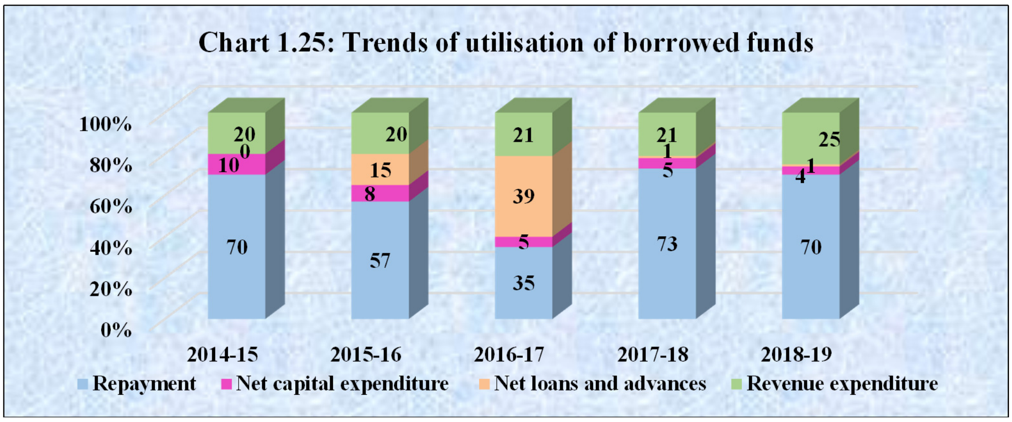
Year	Total Borrowings	Repayment of earlier borrowings (Principal) (percentage)	Net capital expenditure (Percentage)	Net loans and advances (Percentage)	Portion of Revenue expenditure met out of net available borrowings (Percentage)
1	2	3	4	5	6=2-3-4-5
2014-15	32,922	23,075 (70)	3,118 (10)	133 (0)	6,596 (20)
2015-16	38,428	22,051 (57)	3,059 (8)	5,751 (15)	7,567 (20)
2016-17	91,180*	32,443 (35)	4,346 (5)	35,414 (39)	18,977 (21)
2017-18	47,757	34,970 (73)	2,352 (5)	687 (1)	9,748 (21)
2018-19	53,925	37,771 (70)	2,412 (4)	512 (1)	13,230 (25)

Source: Finance Accounts

* *Including additional borrowings of ₹39,951 crore, advanced to food procuring agencies against the legacy amount in the food procurement (₹29,919.96 crore) and to PSPCL for taking over DISCOMs debt under UDAY (₹10,031.19 crore).*

Table 1.36 shows that during 2014-15 to 2018-19, the State Government utilized 35-73 *per cent* of its current borrowings for repayment of earlier borrowings. Revenue expenditure met out of net available borrowings ranged between 20-25 *per cent*. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of earlier borrowings instead of capital creation/development activities.

Trend of utilization of borrowed funds during the period 2014-19 is depicted in **Chart 1.25.**



Source: Finance Accounts

1.10.2 Debt sustainability

Debt sustainability refers to the ability of the State to service its debt obligation in future. A falling debt/GSDP ratio can be considered as leading towards stability. The ratio of interest payments to revenue receipts is also a good measure of debt sustainability. Analysis of variations in debt sustainability indicators is given in the **Table 1.37.**

Table 1.37: Debt Sustainability: Indicators and Trends

(₹ in crore)

Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Public Debt*	**86,818.03**	**1,02,589.32**	**1,53,773.15**	**1,64,802.98**	**1,79,130.45**
Rate of Growth of Outstanding Public Debt (in *per cent*)	10.36	18.17	49.89	7.17	8.69
GSDP	3,55,102	3,90,087	4,26,988	4,79,141	5,21,861
Rate of Growth of GSDP (in *per cent*)	6.91	9.85	9.46	12.21	8.92
Public Debt to GSDP (in *per cent*)	24.45	26.30	36.01	34.40	34.33
Interest Payment	6,941	7,781	9,722	13,293	14,115
Average interest rate of Outstanding Public Debt (Interest Paid/OB of Public Debt+ CB of Public Debt/2)*(in per cent)*	8.39	8.22	7.58	8.35	8.21
Revenue Receipts	39,023	41,523	47,985	53,010	62,269
Percentage of Interest Payment to Revenue Receipts	17.79	18.74	20.26	25.08	22.67
Debt Repayment (including WMA)	23,075	22,051	32,443	34,970	37,771
Debt receipts (including WMA)	31,224	38,428	83,627	46,000	52,098
Percentage of Debt Repayment to Debt Receipts	73.90	57.38	38.79	76.02	72.50
Net Debt available to the State#	1,208	8,596	41,462	(-)2,263	212

Source: Finance Accounts

* *Outstanding Public Debt is the sum of outstanding balances under the Heads 6003-Internal Debt and 6004-Loans and Advances from the Central Government.*

\# *Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt.*

- Increase of interest payments at higher rate than the revenue receipts is not a good indicator of debt sustainability. The percentage of interest payments to revenue receipts has risen during 2014-19. It increased from 17.79 *per cent* in 2014-15 to 25.08 *per cent* in 2017-18 and then decreased to 22.67 *per cent* during the current year.

Chart 1.26: Interest payments as *per cent* of revenue receipts

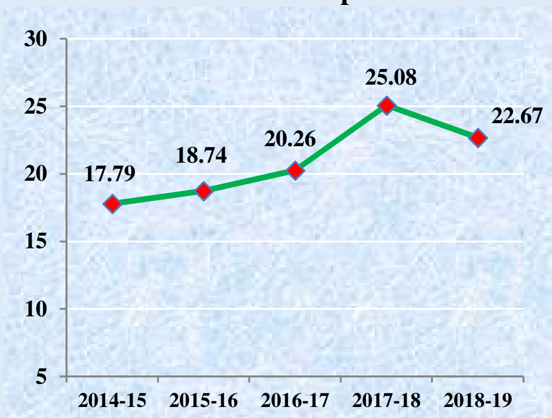
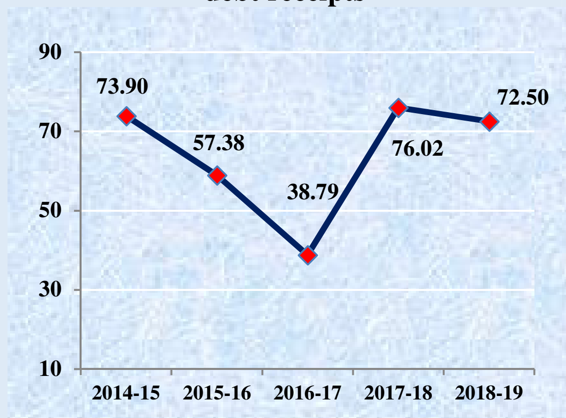


Chart 1.27: Debt repayment as *per cent* of debt receipts



Source: Finance Accounts

- The percentage of debt repayments to debt receipts declined from 73.90 *per cent* in 2014-15 to 38.79 *per cent* in 2016-17. It increased to 76.02 *per cent* in 2017-18 and again decreased to 72.50 *per cent* in 2018-19.

An analysis on debt sustainability was carried out based on a study by E.D Domar[31] [Domar, 1944]. The Domar model states that the necessary premise for ensuring stability of public indebtedness is that the interest rates for government loans should not exceed the growth rate of GDP.

The dynamics of public debt depending on the interest rate, growth rate of GSDP and the primary budget balance are as follows:

g-r (g - real economic growth rate; r - real interest rate)	s<0 (primary deficit)	s> 0 (primary surplus)
g-r> 0 (strong economic growth)	Public debt as percentage of GSDP should converge to a stable level greater than zero.	Public debt as percentage of GSDP should converge to a stable level less than zero leading to public savings.
g-r<0 (slow economic growth)	Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.	Undefined situation.

[31] Domar model does not take into account maturity profile, composition, cost and risk characteristics of debt stock.

The results of applying the analysis to Punjab is shown in **Table 1.38**.

Table 1.38: Debt sustainability analysis based on Domar Model

Year	Real Growth (g)	Real Interest (r)	g-r (Domar gap)	Primary Deficit (-)/ Surplus (s) (₹ in crore)	Remarks
2014-15	4.2	2.6	1.6	(-) 1,881	As g-r>0 and s<0; Public Debt as percentage of GSDP should converge to a stable level
2015-16	5.7	4.6	1.1	(-) 7,578	
2016-17	7.0	3.1	3.9	(-) 35,429	
2017-18	6.4	4.4	2.0	2,840	g-r>0 and s>0; Public Debt as percentage of GSDP should converge to a stable level less than zero leading to Public savings
2018-19	5.9	4.2	1.7	247	

Note: Real Growth rate calculated for GSDP at constant prices.
Real Interest rate is the nominal interest rate adjusted for inflation.

The debt to GSDP ratio stood at 40.61 *per cent* and the fiscal deficit to GSDP ratio at 3.08 *per cent* in 2018-19. The corresponding Fourteenth Finance Commission (FFC) fiscal target of debt limit was 30.49 *per cent*, and fiscal deficit ceiling was 3.00 *per cent* of GSDP. The capital expenditure of the State has hovered between 3 and 6 *per cent* during 2014-19.

In the initial three years of the subject period i.e. 2014-15 to 2016-17, the State had primary deficit which later got converted to primary surplus in the years 2017-18 and 2018-19. Although the Domar gap (g-r) has not been registering a stable or steadily rising trend, it has remained positive during the entire period 2014-15 to 2018-19. Therefore, as per the Domar model, the public debt would converge to a stable level.

Sustainability of public debt was further analysed by using a model based on the guidelines established by Hamilton and Flavin (1986) which states that public debt is sustainable if the present value of the current and future primary expenses is not higher than the present value of the present and future income, net of any initial indebtedness. The formula established to assess the solvency is as under:-

$$\sum_{i=0}^{\infty} \frac{E_{t+i}}{\prod_{j=1}^{i}(1+r_{t+j})} \leq \sum_{i=0}^{\infty} \frac{Y_{t+i}}{\prod_{j=1}^{i}(1+r_{t+j})} - (1+r_t)D_{t-1}$$

Where :

$\sum Et + i$ is the sum of current and future primary expenditure;

$\sum Yt + i$ is the sum of current and future revenues;

D is the initial public debt stock;

$\prod(1+r_j)$ is the product of the discount rates of revenues and expenditure

Table 1.39 (a) shows the projections and analysis of present values (PV) of current and future primary expenditure and revenues (non-debt receipts); and debt stock (including interest) during the period 2019-20 to 2028-29. The projections of these indicators have been made using semi-log model of regression on the basis of trends during the last 12 years i.e. from 2007-08 to 2018-19. The PV of these indicators have been calculated using discount rate of 8.26 *per cent*[32]. Detailed calculations are given at ***Appendix 1.8***.

Table 1.39 (a): Debt sustainability based on the guidelines established by Hamilton and Flavin (1986) (taking into account discount rate of 8.26 *per cent*)

(₹in crore)

Year	Projected primary expen-diture	Projected non-debt receipts	Projected outstan-ding public debt	PV of sum of current and future primary expenditure* ($Et + i$)	PV of sum of current and future non-debt receipts* ($Yt + i$)	PV of initial debt $(1+r_t)D_{t-1}$, where r = 8.26 *per cent*	PV of current and future non-debt receipts net of initial debt	Sustainable If 5 <= 8, "Yes", otherwise "No"
1	2	3	4	5	6	7	8 (6-7)	9
2018-19	**62,871**	**63,118**	**1,79,130**					
2019-20	77,118	65,364	1,93,659	19,79,320	15,00,245	1,93,926	13,06,319	No
2020-21	86,267	72,338	2,20,903	20,65,694	15,58,800	2,09,656	13,49,145	No
2021-22	96,501	80,055	2,51,980	21,50,053	16,15,220	2,39,150	13,76,070	No
2022-23	1,07,949	88,595	2,87,429	22,31,147	16,68,582	2,72,794	13,95,788	No
2023-24	1,20,755	98,047	3,27,864	23,07,490	17,17,812	3,11,170	14,06,642	No
2024-25	1,35,081	1,08,506	3,73,988	23,77,333	17,61,657	3,54,946	14,06,711	No
2025-26	1,51,106	1,20,082	4,26,600	24,38,620	17,98,663	4,04,879	13,93,784	No
2026-27	1,69,032	1,32,893	4,86,614	24,88,944	18,27,151	4,61,838	13,65,313	No
2027-28	1,89,085	1,47,070	5,55,071	25,25,499	18,45,181	5,26,809	13,18,372	No
2028-29	2,11,516	1,62,759	6,33,159	25,45,020	18,50,523	6,00,920	12,49,603	No

Source: Calculated on the basis of actual figures appearing in the Finance Accounts for the years 2007-08 to 2018-19

** Current and future expenditure and non-debt receipts have been taken for next 11-20 years for the period from 2019-20 to 2028-29.*

Analysis of data in **Table 1.39(a)** revealed that the sum of current and future primary expenditure ($Et + i$) (Column No. 5) is higher than the sum of current and future revenues i.e. non-debt receipts ($Yt + i$), net of initial debt stock ($(1+r_t)D_{t-1}$) (Column No. 8), thereby making the debt unsustainable during next 10 years i.e. 2019-20 to 2028-29.

The analysis, as shown in **Table 1.39 (b)**, has been extended by factoring in interest rates of 2019-20 and first quarter of 2020-21 for reflecting changes in interest rate, particularly in the post COVID scenario. Interest rate has declined from 8 *per cent* in 2018-19 to 7 *per cent* in 2019-20 and further to 6.79 *per cent* in the first quarter of the current year. The discount rate for calculating the PV of the indicators has accordingly been taken as 8.06 *per cent*[33].

32 Average rate of interest paid on public debt for the last twelve years i.e. from 2007-08 to 2018-19.

33 Average rate of interest paid on public debt from 2007-08 to 2019-20 and first quarter of 2020-21.

Table 1.39 (b): Debt sustainability based on the guidelines established by Hamilton and Flavin (1986) (taking into account discount rate of 8.06 *per cent*)

(₹in crore)

Year	Projected primary expen-diture	Projected non-debt receipts	Projected outstan-ding public debt	PV of sum of current and future primary expenditure* (*Et + i*)	PV of sum of current and future non-debt receipts* (*Yt + i*)	PV of initial debt $(1+r_t)D_{t-1}$, where r = 8.06 *per cent*	PV of current and future non-debt receipts net of initial debt	Sustainable If 5 <= 8, "Yes", otherwise "No"
1	2	3	4	5	6	7	8 (6-7)	9
2018-19	**62,871**	**63,118**	**1,79,130**					
2019-20	77,118	65,364	1,93,659	20,22,276	15,31,808	1,93,568	13,38,240	No
2020-21	86,267	72,338	2,20,903	21,08,153	15,89,907	2,09,268	13,80,638	No
2021-22	96,501	80,055	2,51,980	21,91,803	16,45,716	2,38,708	14,07,007	No
2022-23	1,07,949	88,595	2,87,429	22,71,962	16,98,306	2,72,290	14,26,016	No
2023-24	1,20,755	98,047	3,27,864	23,47,132	17,46,594	3,10,595	14,35,999	No
2024-25	1,35,081	1,08,506	3,73,988	24,15,556	17,89,323	3,54,290	14,35,033	No
2025-26	1,51,106	1,20,082	4,26,600	24,75,169	18,25,036	4,04,131	14,20,905	No
2026-27	1,69,032	1,32,893	4,86,614	25,23,561	18,52,052	4,60,984	13,91,067	No
2027-28	1,89,085	1,47,070	5,55,071	25,57,928	18,68,435	5,25,836	13,42,599	No
2028-29	2,11,516	1,62,759	6,33,159	25,75,012	18,71,961	5,99,810	12,72,151	No

Source: Calculated on the basis of actual figures appearing in the Finance Accounts for the years 2007-08 to 2018-19 and information obtained from office of the Accountant General (A&E), Punjab.

** Current and future expenditure and non-debt receipts have been taken for next 11-20 years for the period from 2019-20 to 2028-29.*

Thus, it is evident that even after taking into consideration the lower discount rate due to decline in interest rates during 2019-20 and the first quarter of 2020-21, the debt would remain unsustainable during next 10 years i.e. 2019-20 to 2028-29. The State would therefore either have to increase its income or raise additional borrowings to service debt.

In addition to above, other factors such as public account liabilities and *force majeure* events[34] and/or any other unanticipated loss of revenue also have to be reckoned in assessing the debt sustainability/stability of the State[35].

1.10.3 Performance of the State Government with respect to raising of loans according to limit fixed by Government of India

Article 293 (3) of the Constitution of India, *inter alia*, provides that a State may not raise any loan without the consent of GoI if any part of a loan, which has been made to the State by GoI, is still outstanding.

The GoI, Ministry of Finance, Department of Expenditure fixed (March 2018) the net borrowing ceiling of the State Government for the financial year 2018-19 as ₹15,200 crore and instructed the State Government to ensure that its incremental borrowings from all sources remained within this ceiling. Further, if the State Government was not able to fully utilize its net borrowing ceiling (i.e. sanctioned fiscal deficit of three *per cent* of GSDP) of 2017-18, it had the option of availing this unutilized borrowing ceiling in 2018-19.

As per Statement 6 of the Finance Accounts *viz.* statement of borrowings and other liabilities, incremental borrowings of the State Government were ₹16,765 crore (including other liabilities) during the financial year 2018-19 which exceeded the net borrowing ceiling of ₹16,677 crore[36] by ₹88 crore (0.53 *per cent*).

[34] Like current Coronavirus crisis and its effect on GSDP.

[35] As these cannot be anticipated or determined statistically, they have not been factored in the analysis.

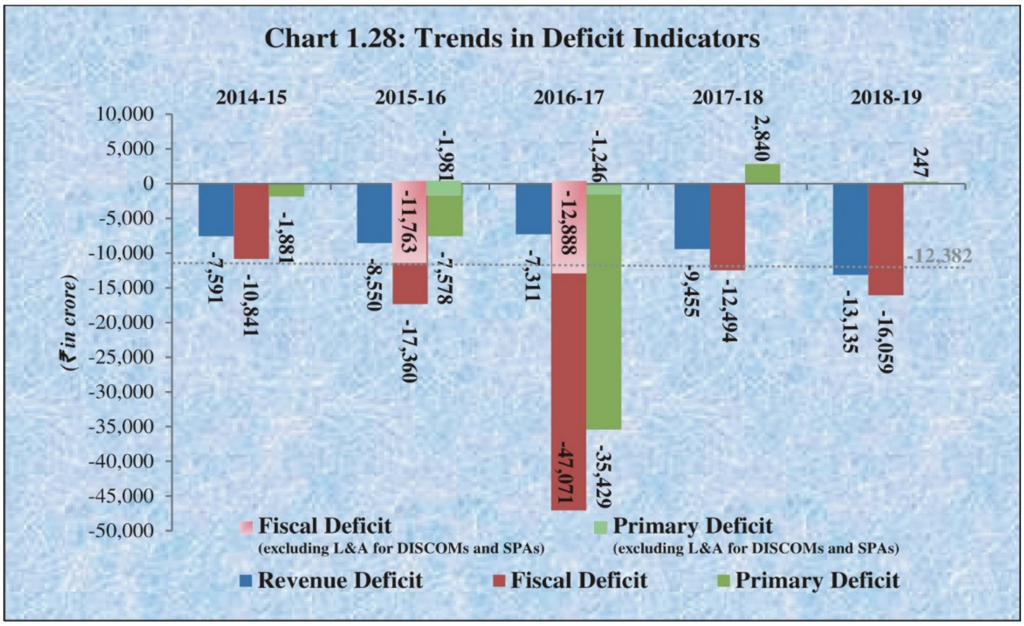
[36] Includes net borrowing ceiling of ₹15,200 crore for the year 2018-19 and unutilised borrowing ceiling of ₹1,477 crore for the year 2017-18.

1.11 Fiscal imbalances

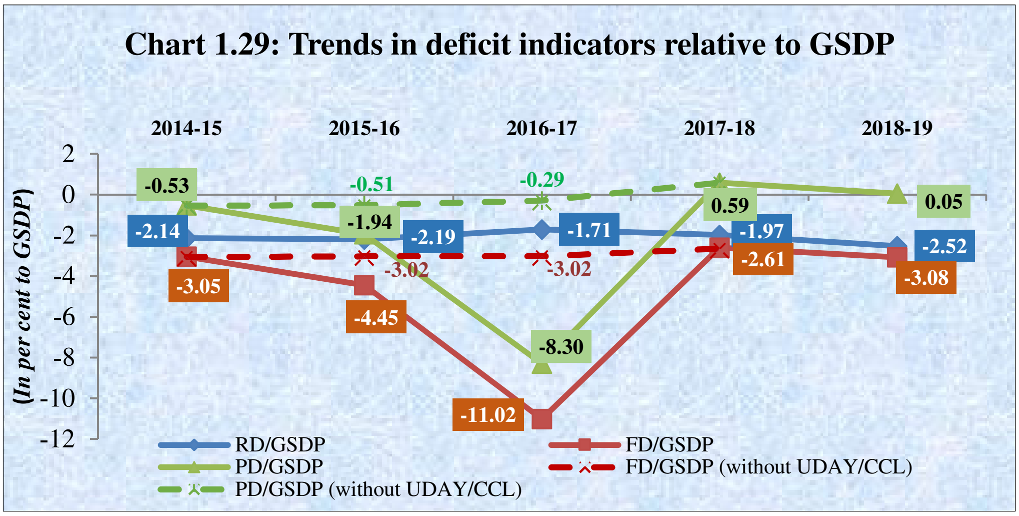
Three key fiscal parameters–revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the application of raised resources are important pointers to its fiscal health.

1.11.1 Trends in deficits

Charts 1.28 and 1.29 present the trends in deficit indicators over the period 2014-19.



Source: Finance Accounts



Source: Finance Accounts

Revenue deficit, which indicates the excess of revenue expenditure over the revenue receipts, increased to ₹13,135 crore (2.52 *per cent* of GSDP) in 2018-19 from ₹7,591 crore (2.14 *per cent* of GSDP) in 2014-15. Revenue deficit as *per cent* of GSDP was higher in 2018-19 (2.52 *per cent)* as compared to previous year (1.97 *per cent).*

Punjab Urban Development Agency (PUDA) raised loans of ₹2,000 crore[37], which were passed on to the State Government. The responsibility to repay the same was taken by the State Government. The State Government booked this amount under the Major Head "0075-Miscellaneous General Services" instead of booking it under Major Head "6003-Internal Debt". Repayment of ₹1,868.25 crore[38] was made during 2013-18 and this has been mentioned in the Reports of the Comptroller and Auditor General of India on State Finances for the years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18.

During the year 2018-19, the State Government repaid ₹518 crore by booking it as revenue expenditure under the Major Head 2216-Housing, 02-Urban Housing, 190-Assistance to Public Sector and Other Undertakings, 01-Assistance to PUDA, 50-Other charges thereby overstating the revenue expenditure and revenue deficit as well.

Fiscal deficit, which represents the total borrowings of the State i.e. its total resource gap, increased significantly by ₹3,565 crore (29 *per cent)* during the current year over the previous year. Fiscal deficit increased to ₹16,059 crore (3.08 *per cent* of GSDP) during the current year against ₹12,494 crore (2.61 *per cent* of GSDP) of the previous year. However, Fiscal deficit of the State during 2015-16 and 2016-17 excluding borrowings for taking over debts of DISCOMs and State procuring agencies worked out to 3.02 *per cent* and 3.01 *per cent* respectively.

Primary deficit, which indicates the excess of primary expenditure (*total expenditure net of interest payments*) over non-debt receipts was ₹1,881 crore (0.53 *per cent* of GSDP) in 2014-15 which increased to ₹35,429 crore[39] (8.30 *per cent* of GSDP*)* in 2016-17. However, in 2017-18 and 2018-19, there was primary surplus of ₹2,840 crore (0.59 *per cent* of GSDP) and ₹247 crore (0.05 *per cent* of GSDP) respectively. This indicates excess of non-debt receipts over primary expenditure.

1.11.1.1 Effective revenue and fiscal deficit

Audit observed that both revenue and fiscal deficit were understated by ₹556.56 crore on account of non-contribution to Consolidated Sinking Fund, Guarantee Redemption Fund and wrong booking of repayment of loan under revenue expenditure, as shown in **Table 1.40**.

Table 1.40: Effective revenue and fiscal deficit

Particulars	Impact on revenue deficit (Understated(+)/ overstated(-)) (*₹in crore*)	Impact on fiscal deficit (Understated(+)/ overstated(-)) (*₹in crore*)	Ratio before taking the net impact (in *per cent*)		Ratio after taking the net impact (in *per cent*)	
			RD/GSDP	FD/GSDP	RD/GSDP	FD/GSDP
Non-contribution to Consolidated Sinking Fund	975.76	975.76	2.52	3.08	2.62	3.18
Non-contribution to Guarantee Redemption Fund	98.80	98.80				
Wrong booking of repayment of loan under revenue expenditure (PUDA)	(-)518.00	(-)518.00				
Total	**556.56**	**556.56**				

Source: Finance Accounts

37 ₹1,000 crore in 2012-13 and ₹1,000 crore in 2013-14.

38 ₹176.88 crore in 2013-14, ₹466.68 crore in 2014-15, ₹495.26 crore in 2015-16, ₹362.49 crore in 2016-17 and ₹366.94 crore in 2017-18.

39 Excluding borrowings of ₹5,769 crore under UDAY to take over DISCOM debt, as per GoI's letter No. 40(6) PF-1/2009 Vol. II dated 29 March 2016, which were not to be counted towards fiscal deficit limits of the State during 2016-17.

Above impacted the revenue and fiscal deficit of the State Government, which have been understated each by 0.10 percentage points.

1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit is reflected in the **Table 1.41.**

Table 1.41: Components of fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Composition of fiscal deficit		**(-)10,841**	**(-)17,360**	**(-)47,071**	**(-)12,494**	**(-)16,059**
1.	Revenue Deficit	(-)7,591	(-)8,550	(-)7,311	(-) 9,455	(-) 13,135
2.	Net Capital Expenditure	(-)3,117	(-)3,059	(-)4,346	(-) 2,352	(-) 2,412
3.	Net Loans and Advances	(-)133	(-)5,751	(-)35,414	(-) 687	(-) 512
Financing Pattern of fiscal deficit						
1.	Market Borrowings	7,685	9,199	12,144	13,349	17,053
2.	Loans from GoI	283	(-)49	327	125	940
3.	Special Securities issued to NSSF	925	1,579	(-)1,804	(-)1,742	(-)1,801
4.	Loans from Financial Institutions	(-)745	5,648	34,749	(-)702	(-)1,865
5.	Small Savings, PF, etc.	1,735	1,110	1,233	1,126	1,264
6.	Deposits and Advances	(-)402	114	115	(-)180	290
7.	Suspense and Miscellaneous	(-)288	5	17	(-)27	120
8.	Remittances	3	3	0	(-)12	11
9.	Reserve Funds	650	(-)126	758	650	883
10.	**Overall Deficit**	**9,846**	**17,483**	**47,539**	**12,587**	**16,895**
11.	Increase/Decrease in cash balance	995	(-)123	(-)410	(-)93	(-)836
12.	**Gross Fiscal Deficit**	**10,841**	**17,360**	**47,071**	**12,494**	**16,059**

Source: Finance Accounts

During 2018-19, the fiscal deficit of the State was met mainly from market borrowings (₹17,053 crore), small savings, provident fund, etc. (₹1,264 crore) and Reserve Funds (₹883 crore).

1.11.3 Quality of deficit/surplus

The contribution of revenue deficit and net capital expenditure (including loans and advances) to fiscal deficit indicates the quality of deficit in the State finances. The share of revenue deficit in fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (fiscal liabilities) does not have any asset backup. The bifurcation of the primary deficit **(Table 1.43)** would indicate the extent to which the deficit is on account of deficit in capital account which may be desirable to improve the productive capacity of the State's economy.

Table 1.42: Components of fiscal deficit during 2014-19

(₹in crore)

Particulars		2014-15	2015-16	2015-16	2016-17	2016-17	2017-18	2018-19
Composition of fiscal deficit		**10,841**	**17,360**	**11,763***	**47,071#**	**12,888$**	**12,494**	**16,059**
1.	Revenue deficit	(-)7,591 (70.02)	(-) 8,550 (49.25)	(-)8,550 (72.69)	(-)7,311 (15.53)	(-)7,311 (56.73)	(-)9,455 (75.68)	(-)13,135 (81.79)
2.	Net capital expenditure	(-)3,117 (28.75)	(-)3,059 (17.62)	(-)3,059 (26.00)	(-)4,346 (9.23)	(-)4,346 (33.72)	(-) 2,352 (18.83)	(-)2,412 (15.02)
3.	Net loans and advances	(-)133 (1.23)	(-)5,751 (33.13)	(-)154 (1.31)	(-) 35,414 (75.24)	(-)1,231 (9.55)	(-) 687 (5.49)	(-)512 (3.19)

Source: Finance Accounts *Figures in parenthesis indicate contribution to fiscal deficit in per cent*

* *Excluding loans of ₹5,597 crore on account of taking over debts of DISCOM under UDAY.*

\# *Excluding borrowings of ₹5,769 crore under UDAY to take over DISCOM debt, as per GoI's letter No. 40(6) PF-1/2009 Vol. II dated 29 March 2016, which were not to be counted towards fiscal deficit limits of the State during 2016-17. But, it includes transaction of ₹4,263 crore pertaining to the year 2015-16, which was booked in the accounts of 2016-17.*

$ *Excluding loans of ₹4,263 crore on account of taking over debts of DISCOM under UDAY and ₹29,920 crore on account of Cash Credit Accounts of State Procuring Agencies.*

Contribution of revenue deficit to fiscal deficit decreased from 70.02 *per cent* in 2014-15 to 15.53 *per cent* in 2016-17 and then increased significantly to 81.79 *per cent* in 2018-19. However, by excluding the one-time transaction of loans and advances on account of taking over debts of DISCOMs and settlement of Cash Credit Accounts of State Procuring Agencies during 2016-17, the contribution of revenue deficit to fiscal deficit was 56.73 *per cent* during 2016-17.

Contribution of net capital expenditure to fiscal deficit declined from 28.75 *per cent* in 2014-15 to 15.02 *per cent* in 2018-19.

During 2018-19, contribution of net loans and advances to fiscal deficit remained at 3.19 *per cent,* which was 1.23 *per cent* during 2014-15.

An analysis of fiscal deficit for the last 10 years (after excluding transactions under UDAY and CCL during 2015-16 and 2016-17) showed that revenue deficit contributed from 57 *per cent* to 85 *per cent* in fiscal deficit. The main cause of such high proportion of revenue deficit was substantial expenditure in subsidy component, which constituted 47 *per cent* to 102 *per cent* of the revenue deficit during 2009-19. Thus, increase in fiscal deficit during last 10 years can be attributed to rise in subsidy, which constituted 38 *per cent* to 83 *per cent* of the fiscal deficit. Power subsidy constituted 63 *per cent* to 97 *per cent* of the total subsidy during 2014-19.

Table 1.43: Details of primary deficit during 2014-19

(₹in crore)

Year	Non-debt receipts	Revenue receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Total primary expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-)/ surplus (+)
1	**2**	**3**	**4**	**5**	**6**	**7= (4+5+6)**	**8=(3-4)**	**9=(2-7)**
2014-15	39,161	39,023	37,654	3,118	270	41,042	(+)1,369	(-)1,881
2015-16	41,741	41,523	40,291	3,059	5,969	49,319	(+)1,232	(-)7,578
2016-17	48,166	47,985	43,654	4,346	41,364	89,364	(+)4,331	(-)35,429*
2017-18	53,083	53,010	47,131	2,352	760	50,243	(+)5,879	(+)2,840
2018-19	63,118	62,269	59,098	2,412	1,361	62,871	(+)3,171	(+)247

Source: Finance Accounts

* *Excluding borrowings of ₹5,769 crore under UDAY to take over DISCOM debt, as per GoI's letter No. 40(6) -1/2009 Vol. II dated 29 March 2016, which were not to be counted towards fiscal deficit limits of the State during 2016-17.*

Non-debt receipts increased by 61.18 *per cent* during 2014-19 and were sufficient to meet the primary revenue expenditure during 2014-19.

The primary deficit of 1,881 crore in 2014-15 turned into a primary surplus of ₹2,840 crore in 2017-18 which stood at ₹247 crore in 2018-19.

1.12 Salient features

Comparison of key elements of State Finances in 2018-19 with that of the previous year 2017-18 is summarized in **Table 1.44**.

Table 1.44: Key parameters

Positive Indicators	Parameters requiring close watch
⇑ Increase in tax and non-tax revenue by 13 *per cent*	⇓ Increase in public debt receipts by 24 *per cent*
⇑ Increase in recovery of loans and advances by ₹ 776 crore (1,063 *per cent*)	⇓ Fiscal deficit increased by 29 *per cent* over the previous year, which was 3.08 *per cent* of GSDP
⇑ Development expenditure increased by ₹ 10,220 crore (*34.58 per cent*)	⇓ Impact of subsidies on revenue deficit increased by 28 *per cent*

1.13 Conclusions

The revenue receipts increased by ₹9,260 crore (17.46 *per cent*) over the previous year. This increase was mainly due to increase in Grants-in-aid from GoI which included compensation of ₹7,129 crore arising on account of implementation of GST. Total expenditure during the year was ₹79,177 crore. Revenue expenditure constituted 95 *per cent* of total expenditure. Capital expenditure increased marginally by three *per cent* as compared to 2017-18.

The ratio of social sector expenditure incurred by the State to aggregate expenditure decreased from 29.05 *per cent* in 2014-15 to 24.46 *per cent* in 2018-19. The expenditure on key social services like Education and Health remained below the General Category States' average.

Major portion of borrowings was utilised for repayment of earlier borrowings (35-73 *per cent*) and revenue expenditure (20-25 *per cent*) during 2014-19. Only 5-10 *per cent* of the borrowings were utilized for capital expenditure during 2014-19. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of earlier borrowings instead of capital creation/development activities.

Revenue deficit during 2018-19 was ₹13,135 crore which was 2.52 *per cent* of GSDP. This was higher than 2017-18 when revenue deficit constituted 1.97 *per cent* of GSDP. The fiscal deficit was 3.08 *per cent* of GSDP during the current year. There was primary surplus of ₹247 crore which was 0.05 *per cent* of GSDP during 2018-19.