Executive Summary

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About the Report

This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 7.49 *per cent* from ₹ 5,12,510 crore in 2018-19 to ₹ 6,73,107 crore in 2022-23. Budget Outlay of the State grew at an average annual growth rate of 10.17 *per cent* from ₹ 1,34,355.89 crore in 2018-19 to ₹ 1,92,655.66 crore in 2022-23.

There was 9.59 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 12.09 *per cent and* the percentage of revenue receipts over GSDP improved from 12.73 *per cent* in 2021-22 to 13.02 *per cent* in 2022-23. The tax revenue increased by 12.91 *per cent* during the period and the State's own tax revenue increased by 13.17 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Punjab increased from ₹ 1,06,222 crore in 2021-22 to ₹ 1,21,710 crore in 2022-23 increasing by 14.58 *per cent*. Of this, revenue expenditure showed 17.62 *per cent* increase from 2021-22. Revenue deficit increased from ₹ 18,468 crore to ₹ 26,045 crore registering 41.03 *per cent* increase over 2021-22, while fiscal deficit increased from ₹ 27,847 crore in 2021-22 to ₹ 33,930 crore in 2022-23 increasing by 21.84 *per cent*.

Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants-in-aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 62,269 crore to ₹ 87,616 crore, with an average annual growth rate of 10.76 *per cent*. Capital receipts also increased from ₹ 23,788 crore to ₹ 47,427 crore during this period.

The share of Grants-in-aid in revenue receipts rose from 17.84 *per cent* in 2018-19 to 25.08 *per cent* in 2022-23, indicating increased reliance on support from the Government of India. The State Government received ₹ 3,776.79 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 75,404 crore (14.71 *per cent* of GSDP) to ₹ 1,13,661 crore (16.89 *per cent* of GSDP). It consistently made up a significant portion (80 to 95 *per cent*) of the total expenditure during this period, growing at an average annual rate of 13 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹ 26,045 crore (3.87 *per cent* of GSDP) in the current year from ₹ 13,135 crore (2.56 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹ 6,667 crore only on capital account. This was 5.48 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was just 7 *per cent* of the total borrowings. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 33,930 crore (5.04 *per cent* of GSDP) in 2022-23 from ₹ 16,059 crore (3.13 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 62-69 *per cent* of revenue expenditure during 2018-19 (67 *per cent*) and 2022-23 (62 *per cent*). The Committed expenditure increased at an average rate of 7.63 *per cent* i.e. from ₹ 50,771 crore in 2018-19 to ₹ 70,290 crore in 2022-23 {an increase of 13.52 *per cent* over 2021-22 (₹ 61,918 crore)}.

In addition to the committed expenditure, inflexible expenditure increased from 4.58 *per cent* to 10.32 *per cent* of revenue expenditure during 2018-19 to 2022-23, indicating a rising trend. The inflexible expenditure increased from ₹ 9,721 crore in 2021-22 to ₹ 11,734 crore in 2022-23 registering an increase of 20.71 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 82,024 crore; 72 *per cent* of the revenue expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

Subsidies constitute major portion of the non-committed expenditure

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 13,361 crore in 2018 -19 to ₹ 20,607 crore in 2022-23 i.e., from 17.72 *per cent* of the total revenue expenditure in 2018-19 to 18.13 *per cent* in 2022-23. Power subsidies constituted a significant portion, ranging from 68 *per cent* to 99 *per cent* of the total subsidies during this period. Apart from this, the State Government also spent ₹ 811.19 crore on implicit subsidies.

Off-budget borrowings

The State Government, through Public Sector Undertakings and parastatals, raised ₹ 3,243.48 crore as off-budget borrowings; which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget.

Contingent Liabilities on account of Guarantees

In 2022-23, the Government provided guarantees against borrowings of ₹ 3,507 crore. During the year, Government paid ₹ 0.97 crore against the guarantee of ₹ 12.97 crore invoked i.e. the State did not pay an amount of ₹ 12 crore against the guarantees invoked.

The State Government had also notified reversion to the Old Pension Scheme (OPS) vide Notification dated 18 November 2022. The imminent financial burden on account of implementation of OPS also needs to be reckoned while assessing debt sustainability of the State.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, etc. So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, etc. and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, etc.

FRBM requirements and compliance with fiscal parameters

The FRBM Act / Rules prescribes certain limits within which revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly for guarantees as a percentage of revenue receipts of the previous year. In compliance with the provisions of State Fiscal Consolidation Roadmap under FRBM Act, the target of revenue deficit of the State was 1.99 *per cent* of GSDP, whereas the target for fiscal deficit was

3.78 *per cent* against which the revenue deficit was 3.87 *per cent* and fiscal deficit of the State was 5.04 *per cent* respectively. Debt was 43.64 *per cent* as against limit of 45.23 *per cent* and guarantees given were 25.85 *per cent* as against the prescribed limit of 80 *per cent*.

Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (includes Public Debt and Public Account Liabilities) of the Government was 44.12 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilisation analysis, the public debt of the Government of Punjab has grown on an average at a rate of 9.25 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. Public debt-GSDP ratio of Punjab has increased from 34.95 *per cent* in 2018-19 to 38.03 *per cent* in 2022-23, which indicates that debt stabilisation may not be possible in near future.

During the years 2021-22 and 2022-23, though the Domar gap (expressed as g-r) was positive and its value also increased from the preceding years (the increase was due to increase in GSDP attributed to economic recovery post Covid-19 pandemic), the primary deficit was not stable and kept on increasing sharply till 2022-23. Therefore, the trends of strong economic growth (expressed as g-r>0) by only observing the Domar gap in 202l-22 and 2022-23 cannot be conclusively generalized. Further, substantial proportion of total debt receipts was being used for repayment for borrowings, which ranged between 68.37 *per cent* and 73.54 *per cent* during the period 2018-2023. Thus, it becomes evident that depending solely on economic growth (expressed as g-r>0 from 2021-2023) would not suffice to cover the debt obligations of the State.

Going by the analysis and results as discussed above, the finances of the State of Punjab is marked by increasing trend of liabilities (debt, guarantees, implicit subsidies, off-budget borrowings, etc.) which pose risk to target of debt stabilisation and debt sustainability. Implementation of the Old Pension Scheme shall further add to this fiscal stress.

Budget performance

Aggregate expenditure outturn

Aggregate expenditure outturn measures the deviation in actual expenditure (Actuals) compared with the Budget Estimate (BE) originally approved, both in terms of less than (-) and in excess (+) of approval. In the Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 4.46 *per cent*. This was due to deviation up to (±) 25 *per cent* in 30 grants, between (-) 25 *per cent* and (-) 50 *per cent* in nine grants; and between (-) 50 *per cent* and (-) 100 *per cent* in three grants. In the Capital section, deviation in outturn compared with BE was (-) 9.68 *per cent*. This was due to deviation up to (-) 25 *per cent* in 11 grants, between (-) 25 *per cent* and

(-) 50 *per cent* in 9 grants; and between (-) 50 *per cent* and (-) 100 *per cent* in 17 grants. No provision was made in respect of five grants of the Capital section.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In the Revenue section, deviation in outturn compared with Revised Estimates (RE) was (-) 3.16 *per cent*. This was due to deviation up to (±) 25 *per cent* in 38 grants, between (±) 25 *per cent* and (±) 50 *per cent* in three grants and between (±) 50 *per cent* and (±) 100 *per cent* in one grant. In the Capital section, deviation in outturn compared with RE was (-) 4.84 *per cent*. This was due to deviation up to (±) 25 *per cent* in 20 grants, between (-) 25 *per cent* and (-) 50 *per cent* in five grants, between (-) 50 *per cent* and (-) 100 *per cent* in six grants and equal to 100 *per cent* in four grants.

It was noticed that supplementary provisions of ₹ 2,249.49 crore during the year 2022-23 in 17 cases (more than ₹ one crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and original budget as well as between the actual expenditure and the final budget were less than 10 per cent, there were deviations up to 25 per cent and even above in different grants. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budget practice should need to deal with such deviations.

Quality of Accounts and Financial Reporting

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short-discharging of liabilities and misclassification of transactions and data gaps.

Regularisation of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205(1)(b) of the Constitution. It was observed that in 2022-23, there was excess expenditure of ₹ 1,475.11 crore under three grants which required regularisation.

Misclassification in accounts

It was noticed that budget provision of ₹ 388.71 crore under six schemes (exceeding ₹ one crore in each scheme) was made under the wrong head of account.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make compliance with IGAS-3: Loans and Advances made by the Government.

Funds to Single Nodal Agency

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, ₹ 7,714.30 crore (₹ 4,559.39 crore share of the Government of India and ₹ 3,154.91 crore share of the State Government) was transferred to the SNAs during 2022-23. However, the State Government intimated that ₹ 8,083.83 crore were transferred to the SNAs during 2022-23, out of which, ₹ 4,158.32 crore were transferred through AC Bills, ₹ 2,956.16 crore through GIA bills, ₹ 921.39 crore through Fully Vouched Contingent Bills, ₹ 47.71 crore through Payment against works and ₹ 0.25 crore through Arrears Bills. As per data available on PFMS Portal, ₹ 3,993.38 crore[1] was lying unspent in the bank accounts of SNAs as on 31 March 2023. Detailed vouchers and supporting documents of actual expenditure were not received by the office of Accountant General (A&E) Punjab from the SNAs. The State Government has been requested to make the details of the bills drawn, as it is of importance for completeness of the accounts, financial reporting and transparent financial control.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 792 outstanding UCs of ₹ 3,674.05 crore were pending as on 31 March 2023.

DC bills against AC bills

Similarly, despite the requirement of submitting Detailed Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 2,074 AC bills of ₹ 5,768.04 crore were pending for submission of DC bills as on 31 March 2023, out of which 1,006 AC Bills amounting to ₹ 1,962.63 crore pertained to the period upto 2021-22.

[1] The unspent balance as on 31 March 2023 updated to ₹ 3,951.32 crore on PFMS portal (22 November 2023).

Funds outside Government Account

It was noticed that ₹ 736.10 crore collected on account of cess/levies etc. was not deposited into the Government Account by the DDOs.

Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; non-submission of DC bills against AC bills; non-compliance with IGAS-3; funds remaining outside Government accounts; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.

Working of State Public Sector Undertakings

As on 31 March 2023, there were 49 State Public Sector Enterprises (SPSEs) in Punjab, including four Statutory Corporations and 42 Government Companies (including 16 inactive Government Companies) and three Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 43 SPSEs whose 229 accounts were in arrears. Out of the total profit of ₹ 319.97 crore earned by 11 working SPSEs, 91.57 *per cent* was contributed by three SPSEs only. Out of total loss of ₹ 5,129.73 crore incurred by 18 working SPSEs, loss of ₹ 5,049.88 crore was incurred by three SPSEs. The financial impact of CAG's comments issued during October 2022 to September 2023 on financial statements of SPSEs was ₹ 67.30 crore on profitability and ₹ 519.92 crore on the financial position.

The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.

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