Chapter-I

Overview

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1.1 Profile of the State

Punjab is predominantly 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 20th among States in terms of area. It has been organised 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 was 2.77 crore which accounts for 2.33 *per cent* of the country's population and ranks 16th among States in terms of population. The population density of the State at 551 persons per sq. km in 2011 is higher than the national average of 382 persons per sq. km. The Gross State Domestic Product (GSDP) in 2019-20 at current prices was ₹ 5,74,760 crore. The State's literacy rate is 75.80 *per cent* (as per 2011 Census) ***(Appendix 1.1)***. The per capita income of the State for the year 2019-20 was ₹ 1,85,282 which ranks 16th among the States.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

Trends in GSDP compared to national GDP are shown in **Table 1.1**; and sectoral contribution and growth in GSDP during the period 2015-16 to 2019-20 are depicted in **Chart 1.1** and **Chart 1.2** respectively.

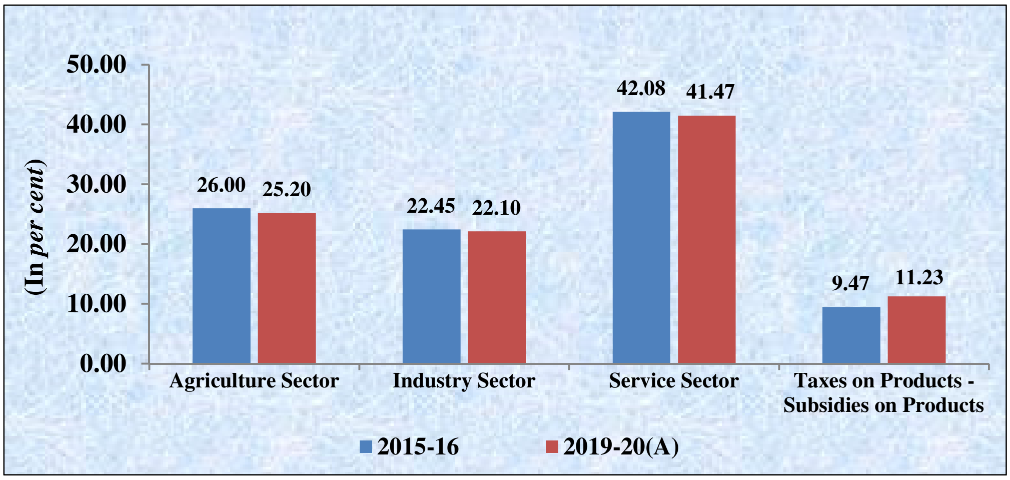
Table 1.1: Trends in GSDP compared to the national GDP (at current prices)

(₹in crore)

Year	2015-16	2016-17	2017-18	2018-19 (Q)	2019-20 (A)
National GDP (2011-12 Series)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate of GDP over previous year (in *per cent*)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series)	3,90,087	4,26,988	4,70,834	5,26,376	5,74,760
Growth rate of GSDP over previous year (in *per cent*)	9.85	9.46	10.27	11.80	9.19

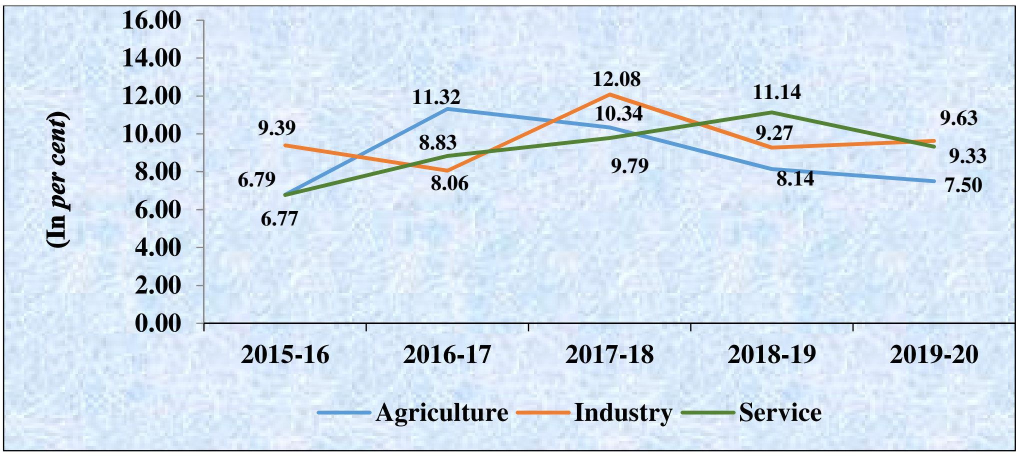
Source: Official website of Economic and Statistical Organisation, Government of Punjab (www.esopb.gov.in) and Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as of August 2020
Q-Quick Estimates and A-Advance Estimates

Chart 1.1: Change in sectoral contribution to GSDP (2015-16 to 2019-20)



Source: Economic and Statistical Organization, Government of Punjab

Chart 1.2: Sectoral growth in GSDP



Source: Economic and Statistical Organisation, Government of Punjab

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151(2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under the Article *ibid* of the Constitution of India.

Accountant General (Accounts and Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the office of the Principal Accountant General (Audit);
- Other data with departmental authorities and treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis has also been carried out in the context of recommendations of the Fourteenth Finance Commission (FFC), State Fiscal Responsibility and Budget Management (FRBM) Act, 2003, best practices and guidelines of the Government of India (GoI). An entry conference was held (September 2020) with the State Finance Department, wherein the audit approach was explained and the draft State Finance Audit Report (SFAR) was forwarded (December 2020) to the State Government for comments. The audit analysis/findings of the Report were discussed in the exit conference held (May 2021) with the Principal Secretary (Finance), Government of Punjab. Replies furnished by the Principal Secretary (Finance) in the exit conference and those received from the State Government in June 2021 have been suitably incorporated in the Report.

1.3 Report Structure

The SFAR is structured into the following four chapters:

Chapter-I	**Overview** This chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.
Chapter-II	**Finances of the State** This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter-III	**Budgetary Management** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter-IV	**Quality of Accounts and Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

I. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from financial institutions, special securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with the law and for the purposes and in the manner provided by the

Constitution of India. Certain categories of expenditure (e.g. salaries of Constitutional authorities, loan repayments, etc.) constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

II. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

III. Public Account of the State (Article 266(2) of the Constitution)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This ‘Annual Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union taxes/duties, and grants from Government of India.

Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **capital receipts** consist of:

- **Debt receipts:** Market loans, bonds, loans from financial institutions, net transaction under Ways and Means Advances, loans and advances from Central Government, etc.; and

- **Non-debt receipts:** Proceeds from disinvestment, recoveries of loans and advances, etc.

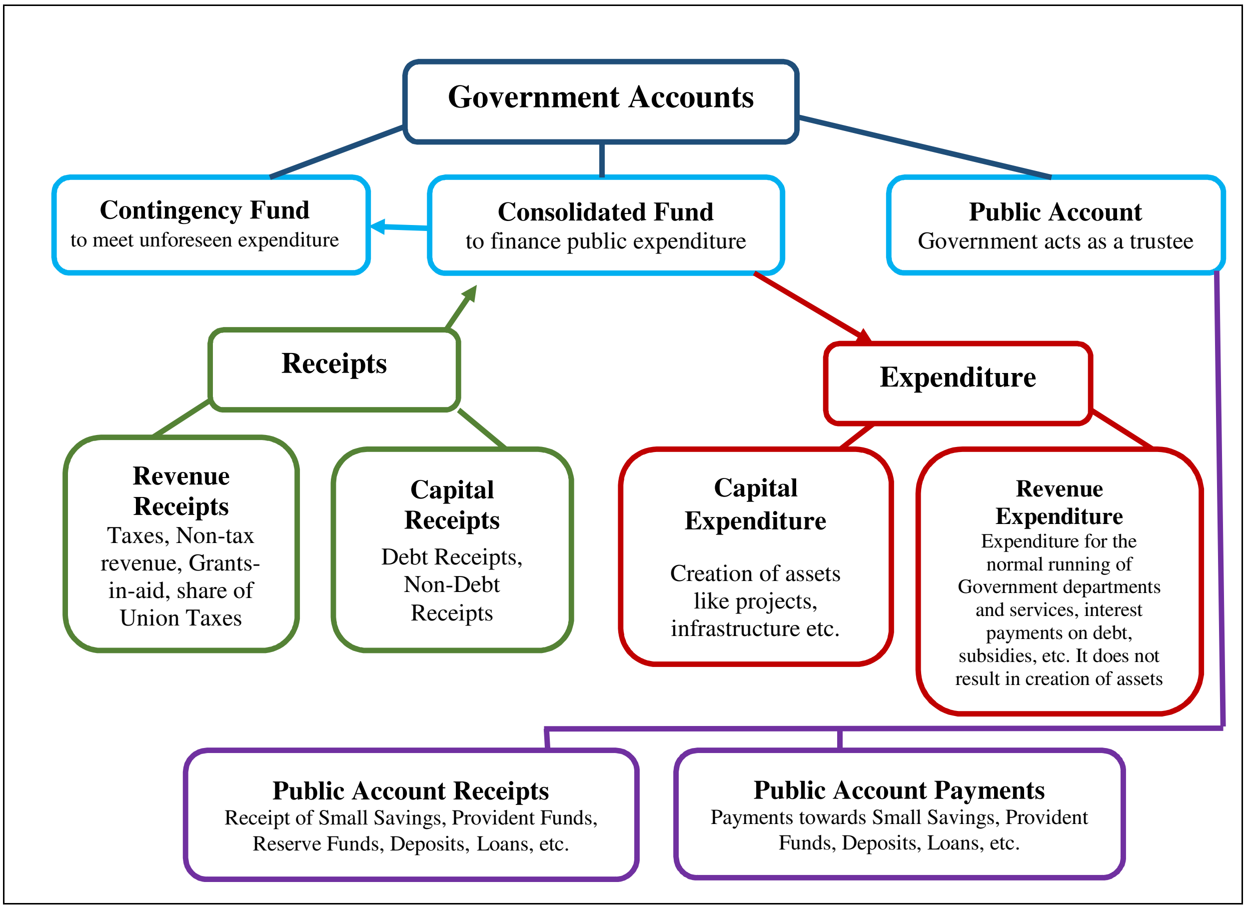
Capital expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to Public Sector Undertakings (PSU) and other parties.

At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardized in List of Major and Minor Heads by CGA	Function- Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/ Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Chart 1.3: Structure of Government Accounts



Source: Finance Accounts

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in Chapter III of this Report.

1.4.1 Snapshot of Finances

Table 1.2 shows the details of actual financial results for the years 2018-19 and 2019-20 *vis-a-vis* Budget Estimates (BE) and GSDP for the year 2019-20.

Table 1.2: Snapshot of Finances

(₹in crore)

Sl. No.	Components	2018-19 (Actuals)	2019-20 (BE)	2019-20 (Actuals)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1.	Own Tax Revenue	31,574.28	37,674.20	29,994.79	79.62	5.22
2.	Non-Tax Revenue	7,582.29	9,476.98	6,654.08	70.21	1.16
3.	Share of Union taxes/duties	12,005.14	13,319.42	10,345.85	77.67	1.80
4.	Grants-in-aid and Contributions	11,107.37	18,039.10	14,580.03	80.82	2.54
5.	**Revenue Receipts (1+2+3+4)**	**62,269.08**	**78,509.70**	**61,574.75**	**78.43**	**10.71**
6.	Recovery of Loans and Advances	848.67	15,685.18	16,070.44$	102.46	2.80
7.	Other Receipts	0.02	0.00	0.30	0.00	0.00
8.	Borrowings and other liabilities*	16,059.23	19,657.87	16,825.76	85.59	2.93
9.	**Capital Receipts (6+7+8)**	**16,907.92**	**35,343.05**	**32,896.50**	**93.08**	**5.72**
10.	**Total Receipts (5+9)**	**79,177.00**	**1,13,852.75**	**94,471.25**	**82.98**	**16.44**
11.	**Revenue Expenditure**	**75,403.71**	**90,196.96**	**75,859.64**	**84.10**	**13.20**
12.	Interest payments#	16,305.89	17,669.25	17,567.17	99.42	3.06
13.	**Capital Expenditure**	**3,773.29**	**23,655.79**	**18,611.61**	**78.68**	**3.24**
14.	Capital outlay	2,412.24	22,842.06	17,827.73	78.05	3.10
15.	Loans and advances	1,361.05	813.73	783.88	96.33	0.14
16.	**Total Expenditure (11+13)**	**79,177.00**	**1,13,852.75**	**94,471.25**	**82.98**	**16.44**
17.	**Revenue Deficit (5-11)**	**(-)13,134.63**	**(-)11,687.26**	**(-)14,284.89**	**122.23**	**2.49**
18.	**Fiscal Deficit {(5+6+7)-16}**	**(-)16,059.23**	**(-)19,657.87**	**(-)16,825.76**	**85.59**	**2.93**
19.	**Primary Deficit(-)/ Surplus(+) (18-12)**	**246.66**	**(-)1,988.62**	**741.41**	**137.28**	**0.13**

Source: Finance Accounts

$ The substantial increase in recovery of loans and advances during the current year was mainly due to recovery of ₹15,628 crore from Punjab State Power Supply Corporation (PSPCL) on account of conversion of UDAY loans into equity, as discussed in Paragraph 2.4.2.2 (v).

** Borrowings and other liabilities: Net (Receipts - Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.*

 # Included in the Revenue Expenditure shown at Sr. No. 11.

1.4.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.2*** gives an abstract of such liabilities and assets as on 31 March 2020, compared with the corresponding position of previous year. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. Summarised position of assets and liabilities is depicted in **Table 1.3**.

Table 1.3: Summarised position of Assets and Liabilities

(₹in crore)

Liabilities					Assets				
		2018-19	2019-20	*Per cent* increase/ decrease			2018-19	2019-20	*Per cent* increase/ decrease
Consolidated Fund									
A	Internal Debt	1,74,171.75	1,89,662.07	8.89	a	Gross Capital Outlay	48,248.06	66,075.49	36.95
B	Loans and Advances from GoI	4,958.70	4,670.57	(-)5.81	b	Loans and Advances	50,681.73	35,395.17	(-)30.16
Contingency Fund		**25.00**	**25.00**	**0.00**					
Public Account									
A	Small Savings, Provident Funds, etc.	22,993.55	22,995.06	0.01	a	Advances	0.42	0.42	0.00
B	Deposits	3,389.96	3,821.38	12.73	b	Remittances	2.91	25.26	768.04
C	Reserve Funds	6,403.28	8,457.15	32.08	c	Suspense and Miscellaneous	0.66	0.66	0.00
D	Remittances	--	--		**Cash balance (including investment in Earmarked Funds)**		**1,324.83**	**2,125.06**	**60.40**
E	Suspense and Miscellaneous	69.27	28.62	(-)58.68	**Total**		**1,00,258.61**	**1,03,622.06**	**3.35**
					Deficit in Revenue Account		**1,11,752.90**	**1,26,037.79**	**12.78**
Total		**2,12,011.51**	**2,29,659.85**	**8.32**	**Total**		**2,12,011.51**	**2,29,659.85**	**8.32**

Source: Finance Accounts

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a Government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Deficits must be financed by borrowing giving rise to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the Government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, Government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if Government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both Government and industry can borrow more. Also, if the Government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in Government expenditure. This could be achieved through making Government activities more efficient through better planning of programmes and better administration.

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

In May 2003, the State Government enacted the Punjab 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.

The State Government amended its FRBM Act as per recommendations of the FFC in March 2020. The statutory flexible limit on fiscal deficit had been fixed at three *per cent* of the GSDP, besides an additional ₹ 928 crore in the financial year 2019-20; and at three *per cent* in the financial year 2020-21 and maintain thereafter. Thus, the target for fiscal deficit for the year 2019-20 worked out to ₹ 18,171 crore, which was achieved (₹ 16,826 crore) by the State.

Further, the Fiscal Consolidation Roadmap (FCR) under FRBM Act for the period 2015-20 was prepared and implemented from the year 2017-18[1]. Compliance with the targets fixed in the FCR during the period 2015-16 to 2019-20 is shown in **Table 1.4 (a)**.

Table 1.4(a): Compliance with provisions of State FCR under FRBM Act

Fiscal Parameters		Achievement *vis-a-vis* targets set in the FCR				
		2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Revenue Deficit (-) / Surplus (+) (₹ in crore)	T	--*	(-)11,362	(-)14,310	(-)11,919	(-)11,687
	A	(-)8,550	(-)7,311 ✓	(-)9,455 ✓	(-)13,135 ✗	(-)14,285 ✗
Fiscal Deficit (-) / Surplus (+) (₹ in crore)	T	--*	(-)53,680[#]	(-)20,821	(-)17,650	(-)18,171
	A	(-)17,360	(-)47,071[#] ✓	(-)12494 ✓	(-)16,059 ✓	(-)16,826 ✓
Ratio of total outstanding debt to GSDP (in *per cent*)	T	--*	42.58	41.04	40.96	39.74
	A	33.03	42.75 ✗	41.45 ✗	40.26 ✓	39.90 ✗

Source: Annual Financial Statement (AFS) for the year 2017-18, 2018-19 and 2019-20

* *Targets for the year 2015-16 were not available.*

[#] *Excluding loans and advances of ₹5,769 crore to DISCOM under UDAY to take over 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.*

A: Actual; T: Target

The targets set by Fourteenth Finance Commission (FFC) and projected in the State budget *vis-à-vis* achievements in respect of major fiscal aggregates with reference to the GSDP during 2019-20 are given in **Table 1.4(b)**.

Table 1.4(b): Targets *vis-à-vis* achievements in respect of major fiscal aggregates for the year 2019-20

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*)	(-)0.95	(-)2.02	(-)2.49	(-)1.54	(-)0.47
Fiscal Deficit/GSDP (*per cent*)	(-)3.00	(-)3.40	(-)2.93	0.07	0.47
Total outstanding debt/GSDP (*per cent*)	30.07	39.74	39.90	9.83	0.16

Source: Recommendations of FFC, Budget at a Glance and Finance Accounts

Note : Deficit figures have been shown in minus.

- During the year 2019-20, the Government was unable to contain the revenue deficit-GSDP and total outstanding debt-GSDP ratios within the

[1] FCR for the year 2017-18 also contained targets for the year 2016-17.

levels fixed by the FFC and those projected in the budget estimates. The State Government stated (May 2021) that the revenue deficit-GSDP and debt-GSDP ratios could not be contained within the targets due to the fact that most of the revenue expenditure i.e. salaries, pensions, interest payments, etc. were of committed nature which could not be avoided or reduced and was major contributor to the deficits. The answer lies in growth of GSDP but rate of growth of GSDP was not keeping pace with rate of growth of expenditure. The Principal Secretary (Finance) stressed that situation could be more alarming in the ensuing year due to Covid-19 pandemic.

- The fiscal deficit-GSDP remained within the level target fixed by the FFC as well as that projected in the budget estimates.

As per Punjab FRBM Act, 2003, Medium-term Fiscal Policy (MTFP) Statement shall set forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions. Actuals *vis-à-vis* projections made in Medium Term Fiscal Policy (MTFP) are shown in **Table 1.5**.

Table 1.5: Actuals *vis-à-vis* projections in Medium Term Fiscal Policy for the year 2019-20

(₹ in crore)

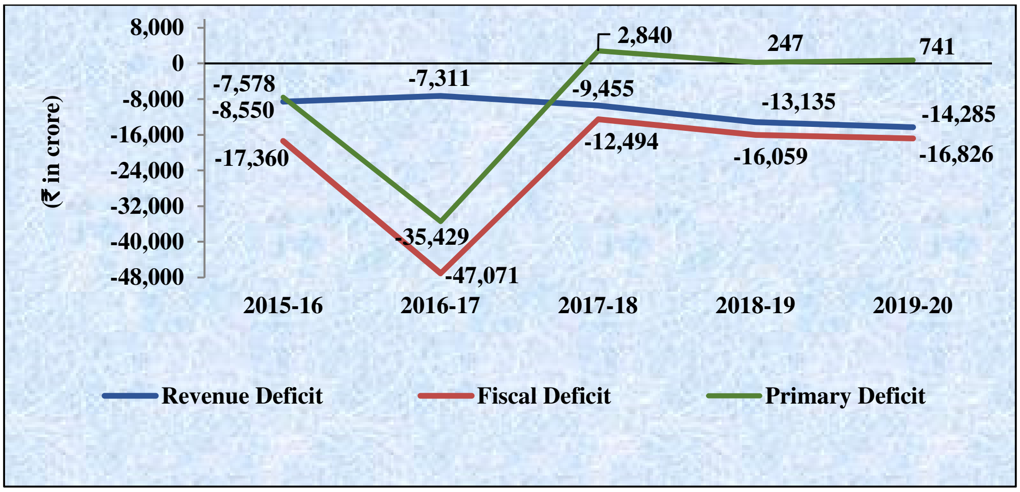
Sr. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in *per cent*)
1.	Own Tax Revenue	37,674	29,995	(-)20.38
2.	Non-Tax Revenue	9,477	6,654	(-)29.79
3.	Share of Central Taxes	13,319	10,346	(-)22.32
4.	Grants -in-aid from GoI	18,039	14,580	(-)19.18
5.	**Revenue Receipts (1+2+3+4)**	**78,510**	**61,575**	**(-)21.57**
6.	**Revenue Expenditure**	**90,197**	**75,860**	**(-)15.90**
7.	**Revenue Deficit (-)/ Surplus (+) (5-6)**	**(-)11,687**	**(-)14,285**	**(-)22.23**
8.	**Fiscal Deficit (-)/ Surplus (+)**	**(-)18,171**	**(-)16,826**	**(+)7.40**
9.	**Debt-GSDP ratio (*per cent*)**	**39.74**	**39.90**	**(+)0.16**
10.	**GSDP growth rate at current prices (*per cent*)**	**11.49**	**9.19**	**(-)2.30**

Source: Finance Accounts

During the year 2019-20, the Government was unable to contain the revenue deficit within the level projected in the MTFP due to shortfall ranging between 19.18 *per cent* and 29.79 *per cent* in all the components of revenue receipts. Whereas, the fiscal deficit remained well within the target projected in the MTFP mainly due to shortfall of 21.95 *per cent* in actual capital expenditure of ₹ 17,828 crore as against ₹ 22,842 crore projected in the MTFP.

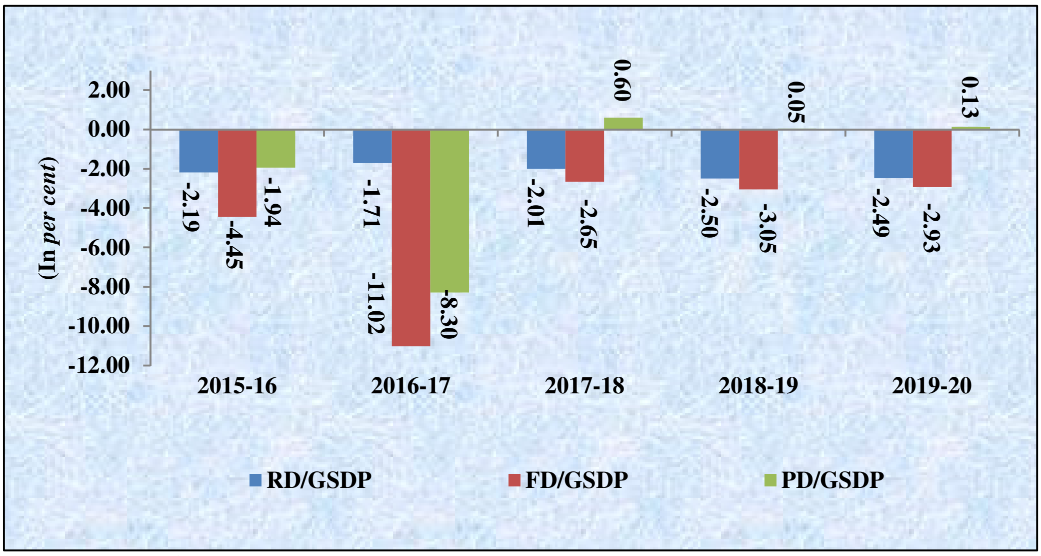
Chart 1.4 and **Chart 1.5** present the trends in deficit parameters and trends relative to GSDP respectively over the period 2015-20.

Chart 1.4: Trends in deficit parameters



Source: Finance Account

Chart 1.5: Trends in Surplus/Deficit relative to GSDP



Source: Finance Accounts

Revenue deficit which was to be brought down to zero by 2008-09 in terms of FRBM Act, 2003, increased to ₹ 14,285 crore (2.49 *per cent* of GSDP) in 2019-20 from ₹ 8,550 crore (2.19 *per cent* of GSDP) in 2015-16. However, the revenue deficit as *per cent* of GSDP decreased marginally in 2019-20 (2.49 *per cent)* as compared to previous year (2.50 *per cent).* The State Government stated (June 2021) that they could not contain the revenue deficit to the level as stipulated in the FRBM Act because their committed liabilities like salary, wages, pension, interest payment etc. were much higher than its revenue receipts.

Punjab Urban Planning and Development Authority (PUDA) raised loans of ₹ 2,000 crore[2], which were passed on to the State Government. The

2 ₹ 1,000 crore in 2012-13 and ₹ 1,000 crore in 2013-14.

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 ₹ 2,386.25 crore[3] was made during 2013-19 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, 2017-18 and 2018-19.

During the year 2019-20, the State Government repaid ₹ 258.72 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 total borrowings of the State i.e. its total resource gap, decreased to ₹ 16,826 crore (2.93 *per cent* of GSDP) in 2019-20 from ₹ 17,360 crore (4.45 *per cent* of GSDP) in 2015-16.

Primary deficit, which indicates the excess of primary expenditure (total expenditure net of interest payments) over non-debt receipts, was ₹ 7,578 crore (1.94 *per cent* of GSDP) in 2015-16 which increased to ₹ 35,429 crore[4] (8.30 *per cent* of GSDP*)* in 2016-17. However, in 2017-18, 2018-19 and 2019-20, there was primary surplus of ₹ 2,840 crore (0.60 *per cent* of GSDP), ₹ 247 crore (0.05 *per cent* of GSDP) and ₹ 741 crore (0.13 *per cent* of GSDP) respectively. This indicates excess of non-debt receipts over primary expenditure.

1.6 Deficits after examination in audit

Misclassification of revenue expenditure as capital and off-budget fiscal operations impacts deficit figures. Besides, deferment of clear-cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking and Redemption Funds, etc. also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities needs to be reversed. Analysis of deficits after examination in audit are given in **Table 1.6**.

3 ₹ 176.88 crore in 2013-14; ₹ 466.68 crore in 2014-15; ₹ 495.26 crore in 2015-16; ₹ 362.49 crore in 2016-17; ₹ 366.94 crore in 2017-18; and ₹ 518.00 crore in 2018-19.

4 Excluding loans and advances 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.

Table 1.6: Revenue deficit and fiscal deficit, post examination by Audit

Particulars	Impact on Revenue Deficit (Understated (+) / overstated(-) *(₹in crore)*	Impact on Fiscal Deficit (Understated (+) / overstated(-) *(₹in crore)*	Paragraph Reference
Booking of liability amount towards repayment of principal and interest on Public Debt as Revenue expenditure	(-) 258.72	(-) 258.72	1.5
Conversion of entire amount of loans and advances under UDAY Scheme into equity instead of part amount into Grants-in-aid and part amount into equity and further, non-funding of DISCOM's loss by way of Grants-in-aid	(+) 11,737.71	(+) 9.45	2.4.2.2(v)
Non-contribution to Consolidated Sinking Fund	(+) 816.59	(+) 816.59	2.5.2.1
Inadmissible expenditure met from SDRF (MH-2245)	(+) 89.70	(+) 89.70	2.5.2.2
Non-payment of interest payable on account of delay in transfer of SDRF grant	(+) 3.92	(+) 3.92	2.5.2.2
Non-contribution to Guarantee Redemption Fund	(+) 118.59	(+) 118.59	2.5.2.3
Short payment of interest on the balances under interest bearing Reserve Funds and Deposits	(+) 60.61	(+) 60.61	4.2
Short transfer of Government contribution to NSDL in respect of NPS	(+) 337.65	(+) 337.65	2.4.1.2(i)
Non transfer of Guarantee fee receipts to Guarantee Redemption Funds	(+) 46.14	(+) 46.14	2.5.2.3
Total	**(+) 12,952.19**	**(+) 1,223.93**	

Source: Finance Accounts

During 2019-20, the revenue deficit and fiscal deficit was ₹ 14,285 crore (2.49 *per cent* of GSDP) and ₹ 16,826 crore (2.93 *per cent* of GSDP) respectively, as shown in **Charts 1.4** and **1.5**. If the above transactions were taken into account, the actual revenue deficit and fiscal deficit would work out to ₹ 27,237 crore (4.74 *per cent* of GSDP) and ₹ 18,050 crore (3.14 *per cent* of GSDP) respectively. This not only understated the revenue deficit by 90.67 *per cent* and fiscal deficit by 7.27 *per cen*t but the actual revenue deficit would also have exceeded the Fiscal Consolidation Roadmap (FCR) targets by ₹ 15,550 crore (133.05 *per cent*), whereas the fiscal deficit would have remained within the FCR targets.

1.7 Post Audit – Total Public Debt

As per the Punjab Fiscal Responsibility and Budget Management Act, 2003, total liabilities means the liabilities under the Consolidated Fund of the State and the Public Account of the State referred to in Article 266 of the Constitution of India. The outstanding debt/liabilities can be split into various components as given in **Table 1.7**.

Table 1.7: Components of outstanding debt/liabilities

(₹in crore)

Borrowings and other liabilities as per Finance Accounts	Amount
Internal Debt (A)	**1,89,662.07**
Market Loans bearing interest	1,28,217.67
Market Loans not bearing interest	0.04
Compensation and other Bonds	15,628.26
Loans from other Institutions, etc.	29,122.19
Special Securities issued to the National Small Saving Fund of the Central Government	16,693.91
Loans and Advances from Central Government (B)	**4,670.57**
Non-plan Loans	17.91
Loans for State Plan Schemes	2,728.45
Others	1,924.21
Liabilities upon Public Accounts (C)	**35,023.78**
Small Savings, Provident Funds, etc.	22,995.06
Deposits	3,821.38
Reserve Funds	8,204.64
Suspense and Miscellaneous Balances	27.96
Remittances	(-)25.26
Total (A+B+C)	**2,29,356.42**

Source: Finance Accounts

The overall outstanding debt/liabilities of the State were understated by ₹ 2.70 crore by not accounting for the Suspense, Miscellaneous and Remittance balances and percentage to GSDP was understated by 0.004 *per cent.* Liabilities to GSDP was higher at 39.90 *per cent* against the normative assessment of 39.74 per *cent* under MTFPS.