# Chapter I

# 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 2014-15 by benchmarking against past trends of major fiscal aggregates. ***Appendix 1.1*** contains profile of Punjab and ***Appendix 1.2*** contains the structure of the Government Accounts and layout of the Finance Accounts of the State Government on which this Report is based.

### *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 kms and ranks 19th among states in terms of area. It has been organized into 22 districts. The districts have further been divided into 82 sub divisions, 146 blocks and 12581 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 population density of 382 persons per sq km at national level.

The Gross State Domestic Product (GSDP) of a State measures the value of goods and services produced within the State. As per estimates prepared by the Economic and Statistical Organisation, Punjab the GSDP at current market prices, was ₹ 3,49,826 crore for the year 2014-15. At current prices, per capita income of the State was ₹ 84,512 (Provisional), ₹ 92,350 (Quick) and ₹ 99,578 (Advance) for the years 2012-13, 2013-14 and 2014-15 respectively.

### *1.1.2 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. Money so authorised by the Appropriation Act is spent as per provisions contained in the Punjab Financial Rules and the Departmental Financial Rules and instructions issued by the Finance Department from time to time. The Punjab Financial Rules contain the financial regulations of general nature issued by the Finance Department for the guidance of various offices and departments. The Departmental Financial Rules are the Rules relating to the Public Works and Forest Departments. 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 Government of Punjab 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 prudential debt management. Subsequently, in March 2011, the State Government amended the FRBM Act on the recommendations of Thirteenth Finance Commission (TFC) and enacted FRBM (Amendment) Act, 2011. The salient features of the FRBM Act, 2003 are given in ***Appendix 1.3***.

### *1.1.3 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 trends in the annual growth of India's GDP at current prices and Punjab's GSDP at current prices are indicated in **Table 1.1.**

**Table 1.1: Trends in Gross State Domestic Product**

| Year | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **India's GDP (₹ in crore)** | 7248860 | 8391691 | 9388876 | 10472807 | NA |
| **Growth rate of GDP (*per cent*)** | 18.66 | 15.77 | 11.88 | 11.54 | NA |
| **State's GSDP (₹ in crore)** | 226204 | 256374 | 285119 | 317556 | 349826 |
| **Growth rate of GSDP (*per cent*)** | 14.53 | 13.34 | 11.21 | 11.38 | 10.16 |

*Source: Official website of Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as on 31st July 2015.*
*NA stands for Not Available*

### *1.1.4 Summary of fiscal transactions in 2014-15*

**Table 1.2** presents the summary of the Government of Punjab's fiscal transactions during the year 2014-15 vis-à-vis those of 2013-14. ***Appendix 1.4–Part A*** provides the abstract of receipts and disbursements for the year 2014-15 as well as the summarized financial position of the Government of Punjab as on 31 March 2015.

### Table 1.2: Summary of the fiscal transactions

***(₹ in crore)***

| Receipts | | | Disbursements | | | | |
|---|---|---|---|---|---|---|---|
| | 2013-14 | 2014-15 | | 2013-14 | 2014-15 | | |
| Section A: Revenue | | | | | | | |
| | | | | Total | Non-Plan | Plan | Total |
| **Revenue receipts** | **35103.54** | **39022.85** | **Revenue expenditure** | **41640.67** | **41700.48** | **4913.01** | **46613.49** |
| **Tax revenue** | 24079.20 | 25570.20 | **General services** | 20192.19 | 22929.55 | 113.54 | 23043.09 |
| **Non-tax revenue** | 3191.49 | 2879.73 | **Social services** | 11319.09 | 9989.25 | 3739.80 | 13729.05 |
| **Share of Union taxes/ duties** | 4431.47 | 4702.97 | **Economic services** | 9599.73 | 8177.65 | 1059.67 | 9237.32 |
| **Grants from Government of India** | 3401.38 | 5869.95 | **Grants-in-aid and Contributions** | 529.66 | 604.03 | 0.00 | 604.03 |
| Section B: Capital | | | | | | | |
| **Misc. Capital Receipts** | **0.51** | **0.52** | **Capital Outlay** | **2200.61** | 179.08 | 2939.36 | **3118.44** |
| **Recoveries of Loans and Advances** | **112.30** | **137.14** | **Disbursement of Loans and Advances** | **165.13** | 270.27 | 0.00 | **270.27** |
| **Public Debt receipts*** | **11107.51** | **11362.81** | **Public Debt repayments*** | **3649.97** | 3213.98 | 0.00 | **3213.98** |
| **Contingency Fund** | **0.00** | **0.00** | **Contingency Fund** | **0.00** | 0.00 | 0.00 | **0.00** |
| **Public Account receipts#** | **36261.15** | **42451.18** | **Public Account disbursements#** | **33994.60** | 40526.50 | 0.00 | **40526.50** |
| **Opening Cash Balance** | **(-)303.61** | **630.42** | **Closing Cash Balance** | **630.42** | (-)137.76 | 0.00 | **(-)137.76** |
| **TOTAL** | **82281.40** | **93604.92** | **TOTAL** | **82281.40** | **85752.55** | **7852.37** | **93604.92** |

*Source: Finance Accounts of the respective years*

** Excluding net transactions under ways and means advances.*

*# Public Account receipts/disbursements have been shown in the table as gross figures and at other places in the Report, net of disbursement. Further, these exclude transactions of investment of cash balances and departmental cash chests. The net effect of these transactions is included in the opening and closing cash balances in the row next below.*

## *1.1.5 Significant changes over the previous year*

The following are the major changes in fiscal transactions during 2014-15 over the previous year:

- Revenue receipts increased by ₹ 3,919 crore (11.16 *per cent*) which is net effect of increase in grants from GoI (₹ 2,469 crore: 72.58 *per cent*), tax revenue (₹ 1,491 crore: 6.19 *per cent*), share of Union taxes and duties (₹ 272 crore: 6.13 *per cent*) and decrease in non-tax revenue (₹ 312 crore: 9.77 *per cent*).
- Revenue expenditure increased by ₹ 4,973 crore (11.94 *per cent*), whereas Capital expenditure increased by ₹ 918 crore (41.71 *per cent*).
- Public debt receipts increased by ₹ 255 crore (2.30 *per cent*) and public debt repayments decreased by ₹ 436 crore (11.94 *per cent*).
- Public account receipts increased by ₹ 6,190 crore (17.07 *per cent*) and public account disbursements increased by ₹ 6,532 crore (19.21 *per cent*).

- Net closing cash balances decreased by ₹ 768 crore (121.85 *per cent*).

### *1.1.6 Review of the fiscal situation*

The State Government prepared a Fiscal Consolidation Roadmap (FCR) for the State for the period 2010-11 to 2014-15 ***(Appendix 1.5)*** as per recommendation of the TFC. Targets vis-à-vis achievements in respect of major fiscal aggregates are as under:

**Table 1.3: Targets vis-à-vis achievements in respect of major fiscal aggregates**

| Fiscal Variables | 2014-15 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Targets Proposed in the | | | Actual | Percentage Variation of Actual over targets of | | |
| | FRBM Act | Budget | Fiscal Consolidation Roadmap | | FRBM Act | Budget | Fiscal Consolidation Roadmap |
| **Ratio of Revenue Deficit to GSDP** ***(per cent)*** | 0.00 | (-)1.22 | 0.00 | (-)2.17 | (-)2.17 | (-)0.95 | (-)2.17 |
| **Ratio of Fiscal Deficit to GSDP** ***(per cent)*** | (-)3.00 | (-)2.97 | (-)3.00 | (-)3.10 | (-)0.10 | (-)0.13 | (-)0.10 |
| **Ratio of total outstanding debt to GSDP** ***(per cent)*** | (+)38.7 | (+)30.95 | (+)38.7 | (+)32.12 | (-)6.58 | (+)1.17 | (-)6.58 |

*Source: FRBM Act 2011, Budget at a glance (2014-15) and Finance Accounts (2014-15).*

The Government could not contain the revenue deficit and fiscal deficit at the levels projected in the FRBM Act, budget and FCR. Though the Debt-GSDP ratio was within the target fixed under the FRBM Act and FCR yet the level projected in the budget estimates for the same could not be achieved.

### *1.1.7 Budget estimates and actual*

The budget presented by the State Government provide description of projections or estimates of revenue and expenditure for a particular fiscal year. The budget estimates vis-à-vis actuals in respect of various fiscal parameters for the year 2014-15 are given in ***Appendix 1.6.*** However, the budget estimates vis-à-vis actual in respect of important fiscal parameters are given in **Table 1.4**:-

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

***(₹in crore)***

| | Tax Revenue | Non-tax Revenue | Revenue Receipts | Revenue Expenditure | Interest Payments | Capital Expenditure | Revenue Deficit | Fiscal Deficit | Primary Deficit |
|---|---|---|---|---|---|---|---|---|---|
| **BE 2014-15** | **28480** | **2783** | **44894** | **49146** | **8380** | **6066** | **(-)4252** | **(-)10373** | **(-)1993** |
| **Actuals 2014-15** | **25570** | **2880** | **39023** | **46614** | **8960** | **3118** | **(-)7591** | **(-)10841** | **(-)1881** |

*Source: Finance Accounts and Budget at a Glance 2014-15*

The revenue deficit and fiscal deficit were higher by ₹ 3,339 crore (78.53 *per cent*) and ₹ 468 crore (4.51 *per cent*) respectively than the budget estimates whereas the primary deficit remained lower than budget estimates by ₹ 112 crore (5.62 *per cent*). Total revenue receipts remained lower than budget estimates by ₹ 5,871 crore (13.08 *per cent*), tax revenue by ₹ 2,910 crore (10.22 *per cent*) whereas non-tax revenue was higher than budget estimates by ₹ 97 crore (3.49 *per cent*). The capital expenditure incurred during 2014-15 was just 51.40 *per cent* of budget estimates which indicates that asset creation was not given as much priority as intended in the budget estimates.

### *1.1.8 Major policy initiatives in the budget*

Major policy announcements made in the budget speech 2014-15 and status of their implementation is given in the **Table 1.5.**

**Table 1.5: Status of implementation of major policy announcements during 2014-15**

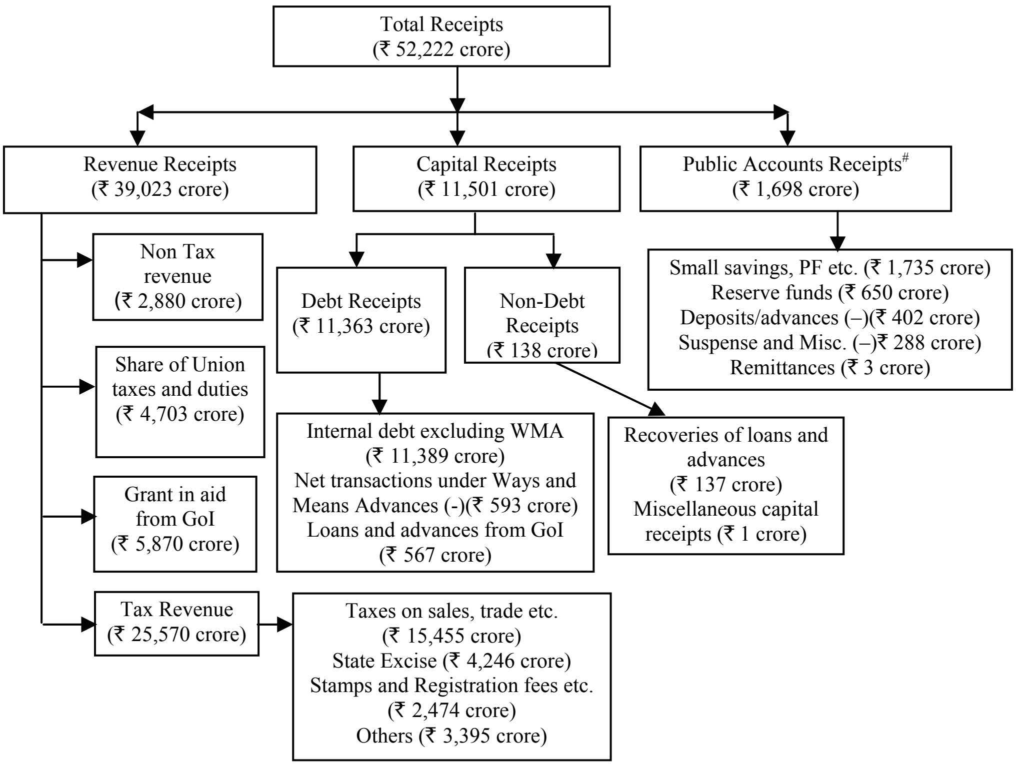
<table>
<tr><th>Announcement</th><th>Status of implementation (March 2015)</th></tr>
<tr><td>An amount of ₹ 100 crore was provided in budget for National Rural Drinking Water Supply Programme (NRDWSP)</td><td>Out of ₹ 58.53 crore released by GoI under NRDWSP, the State Government released only ₹ 39.99 crore.</td></tr>
<tr><td>An amount of ₹ 100 crore was provided in the budget for setting up of AIIMS like institute in the State.</td><td>During the year 2014-15, a provision of ₹ 100 crore was made in the Budget, but no expenditure was incurred.</td></tr>
<tr><td>An amount of ₹ 62.50 crore was announced for empowerment of girl child under Bebe Nanaki Ladli Beti Kalyan Scheme, Mai Bhago Vidya Scheme, (free bicycles to girl students) and Scholarship to Poor Girls for Admission in Professional Courses.</td><td>A provision of ₹ 45.02 crore was made in the budget for the year 2014-15. Position of budget allotment and expenditure is as under:
<table>
<tr><th>Scheme</th><th>Allotment</th><th>Expenditure</th></tr>
<tr><td>Mai Bhago Vidya Scheme</td><td>₹ 0.01 crore</td><td>Nil</td></tr>
<tr><td>Bebe Nanaki Ladli Beti Kalyan Scheme</td><td>₹ 45 crore</td><td>₹ 30.23 crore</td></tr>
<tr><td>Scholarship to poor girls for admission in Professional Courses</td><td>₹ 0.01 crore (whole provision was withdrawn later on)</td><td>--</td></tr>
<tr><td>Total</td><td>₹ 45.02 crore</td><td>₹ 30.23 crore</td></tr>
</table></td></tr>
<tr><td>₹ 34 crore for Rajiv Gandhi (SABLA) scheme to provide nutrition to the adolescent girls and promote awareness about health, hygiene, family and child care.</td><td>During the year 2014-15, a provision of ₹ 26.60 crore was made in the budget and an expenditure of ₹ 21.56 crore incurred thereagainst.</td></tr>
</table>

*Source: Annual Financial Statement (2015-16) prepared by the State Government and detailed Appropriation Accounts.*

## 1.2 Resources of the State

### *1.2.1 Resources of the State as per the Annual Finance Accounts*

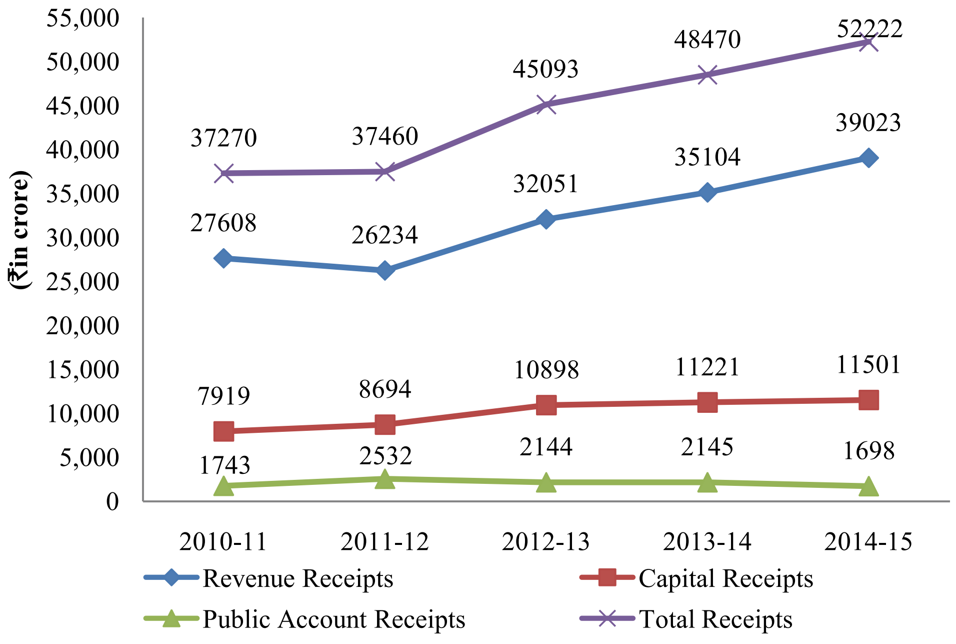
Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, 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, 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 receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts are indicated in **Table 1.2.** **Chart 1.1** depicts the trends in various components of the receipts of the State during 2010-11 to 2014-15. **Chart 1.2** depicts the composition of receipts of the State during current year. The position of total receipts of the State is depicted in the flow-chart:




*Source: Finance accounts*

# *These figures are net of disbursements out of Public Account.*

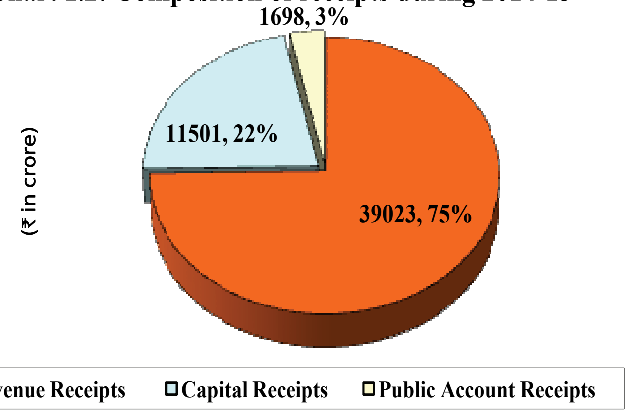
**Chart 1.1 Trends in receipts**




During the period 2010-11 to 2014-15 revenue receipts and capital receipts increased from ₹ 27,608 crore and ₹ 7,919 crore to ₹ 39,023 crore and ₹ 11,501 crore respectively whereas net public account receipts decreased from ₹ 1,743 crore to ₹ 1,698 crore with the overall result that total receipts increased from ₹ 37,270 crore to ₹ 52,222 crore.

The composition of resources of the State during the current year is given in **Chart 1.2.**

**Chart 1.2: Composition of receipts during 2014-15**




During the year 2014-15 contribution of revenue, capital and public account receipts towards total receipts was 75 *per cent*, 22 *per cent* and 3 *per cent* respectively.

### *1.2.2 Non-deposit of revenue receipts into the Consolidated Fund of the State*

Article 266 (1) of the Constitution of India provides that all revenues received by the State Government, all loans raised by the Government by the issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one Consolidated Fund to be entitled "the Consolidated Fund of the State".

Audit noticed following irregularities in non-depositing of revenue receipts into the Consolidated Fund of the State:

### *(i) Establishment of Fund outside Government Accounts*

The Government of Punjab established Punjab Education Development Fund as mentioned in ***Appendix 1.7*** through enactment of Act. The revenue receipts collected under this Act by the concerned authority were credited to this Fund. During 2014-15, revenue receipts amounting to ₹ 219.10 crore were credited to this Fund and an expenditure of ₹ 172.76 crore was incurred from the accumulated receipts of the Fund which is in violation of the constitutional provisions.

### *1.2.3 Funds transferred to State implementing agencies outside the State budget*

The GoI had been transferring sizeable funds directly to the State implementing agencies for implementation of various schemes/programmes in the social and economic sectors. Till 31 March 2014, it transferred substantial funds to these agencies/organisations. Thereafter GoI decided to route these funds through State Budget from 2014-15 onwards. However, Finance Accounts showed that an amount of ₹ 2,517.92 crore was released directly to these agencies/organisations during the year 2014-15 as detailed below:

**Table 1.6: Funds transferred directly to the State implementing agencies**

*(₹ in crore)*

| Sr. No. | Government of India Scheme | Implementing Agency | Government of India releases | | |
|---|---|---|---|---|---|
| | | | 2014-15 | 2013-14 | 2012-13 |
| 1 | NHAI Investment | 1. Competent Authority for Land Acquisition/SDM, Sunam, Sangrur, Moonak, Patran, Amritsar, Kotkapura, Jaitu, Bathinda, Ferozepur, Zira, Faridkot, Tarn Taran and Patti.<br>2. Executive Engineer–Central Works Division, Punjab, PWD, B&R Sangrur at Patiala, Ferozepur, Amritsar, Bathinda etc.<br>3. ERA INFRA Engineering Limited | 2093.63 | .. | .. |
| 2 | Support to Indian Institute of Technology (IIT) | Indian Institute of Technology, Ropar | 113.84 | 49.99 | .. |
| 3 | MPs Local Area Development Scheme (MPLADS) | Deputy Commissioners | 73.50 | 104.50 | 94.50 |
| 4 | Autonomous R and D Institutions | 1. Center of Innovative and Applied Bio-processing, Mohali<br>2. National Agri-Food Biotechnology Institute, Mohali | 50.15 | 27.10 | 20.62 |
| 5 | Scheme for Quality Assurance, Codex Standards Research and Development and other Promotional Activities | 1. Central Institute of Post Harvest Engineering and Technology, ICAR<br>2. Guru Angad Dev Veterinary and Animal Sciences University | 15.68 | 9.36 | 8.37 |

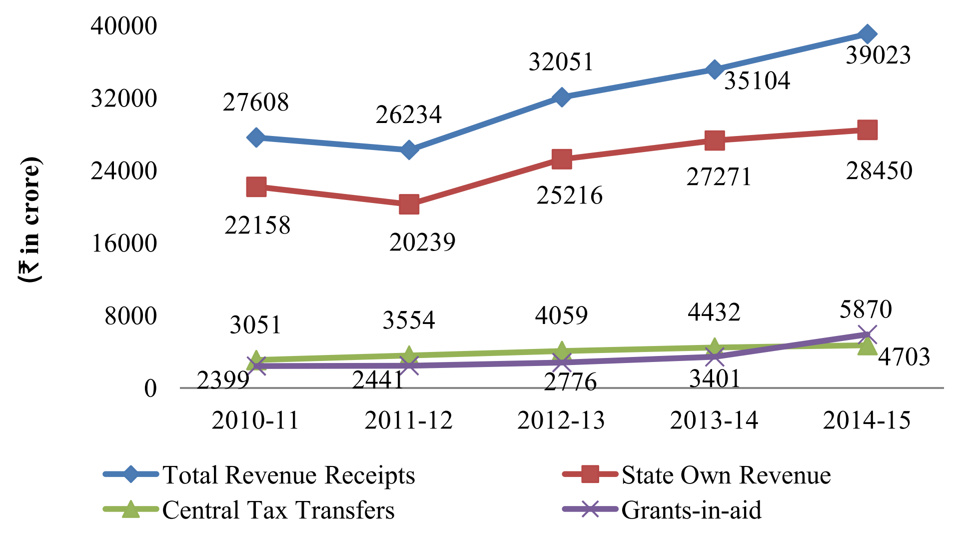
| Sr. No. | Government of India Scheme | Implementing Agency | Government of India releases | | |
|---|---|---|---|---|---|
| | | | 2014-15 | 2013-14 | 2012-13 |
| | | 3. Punjab Biotechnology Incubator | | | |
| 6 | Support to National Institute of Technology (NITs) including Ghani Khan Institute | Dr. B.R. Ambedkar National Institute of Technology, Jalandhar | 15.00 | 29.00 | 75.00 |
| 7 | Zonal Culture Centre | 1. North Zone Cultural Centre, Patiala<br>2. Non-Government Organisations<br>3. Individuals (Sh. Rajinder Singh and Ms. Sunita Dhir) | 14.83 | .. | .. |
| 8 | Off Grid DRPS | 1. Kudos Chemie Limited<br>2. Punjab Energy Development Agency<br>3. M/s Patiala Distillers Manufacturers Limited<br>4. Sarita Industries Limited<br>5. Nector Life Sciences Limited<br>6. DRRK Foods Private Limited | 13.70 | 7.35 | 2.18 |
| 9 | Research, Design and Development in Renewable Energy | 1. Sardar Swaran Singh National Institute of Renewable Energy<br>2. Punjab Agriculture University | 12.41 | 0.67 | 0.08 |
| 10 | Renewable Energy for Rural Applications for all Villages | Punjab Energy Development Agency | 12.38 | 13.58 | 7.96 |
| 11 | Assistance to Training Institutions | Central Tool Room, Ludhiana | 10.20 | 14.83 | 6.45 |
| 12 | Other Schemes having a release below ₹ 10.00 crore in each case (Base Year: 2014-15) | Miscellaneous Agencies | 92.60 | 1494.92 | 1670.88 |
| | | **Total** | **2517.92** | **1751.30** | **1886.04** |

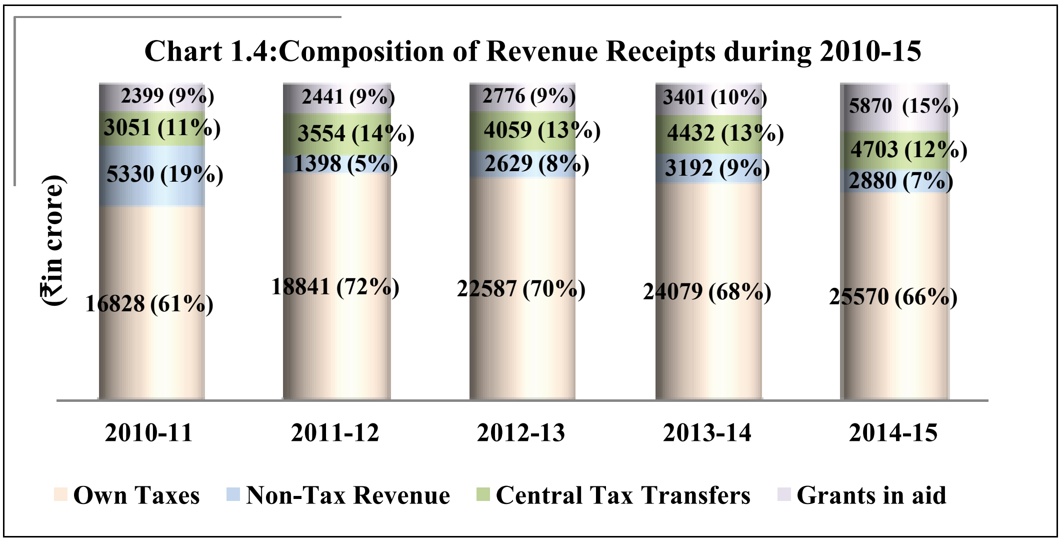
*Source: Finance Accounts*

## 1.3 Revenue receipts

**Statement 14** of the Finance Accounts detail the revenue receipts of the Government. 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 over the period 2010-15 are presented in ***Appendix 1.8*** and also depicted in **Charts 1.3** and **1.4** respectively.

**Chart 1.3: Trends in revenue receipts**






The revenue receipts increased by ₹ 3,919 crore (11.16 *per cent*) in 2014-15 over the previous year which was due to increase in grants from GoI (₹ 2,469 crore: 72.58 *per cent*), tax revenue (₹ 1,491 crore: 6.19 *per cent*) and share of Union taxes and duties (₹ 272 crore: 6.11 *per cent*) as compared to previous year. The revenue receipts during the current year (₹ 39,023 crore) were less by ₹ 6,393 crore (14.08 *per cent*) as compared to projections in the FCR (₹ 45,416 crore) for the year 2014-15 ***(Appendix 1.5).***

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

**Table 1.7: Trends in Revenue receipts**

| | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** |
|---|---|---|---|---|---|
| **Revenue Receipts (RR) (₹ in crore)** | **27608** | **26234** | **32051** | **35104** | **39023** |
| **Rate of growth of RR (*per cent*)** | 24.61 | (-)4.98 | 22.17 | 9.53 | 11.16 |
| **RR/GSDP (*per cent*)** | 12.21 | 10.23 | 11.24 | 11.05 | 11.15 |
| **Buoyancy Ratios** | | | | | |
| **Revenue buoyancy w.r.t GSDP** | 1.69 | (-)0.37 | 1.98 | 0.84 | 1.10 |
| **State's own tax buoyancy w.r.t GSDP** | 2.74 | 0.90 | 1.77 | 0.54 | 0.61 |
| **Revenue buoyancy w.r.t. State's own taxes** | 0.62 | (-)0.42 | 1.12 | 1.44 | 1.80 |

*Source: Finance Accounts*

The revenue receipts increased from ₹ 27,608 crore in 2010-11 to ₹ 39,023 crore in 2014-15 at an annual average growth rate of 8.27 *per cent*. The ratio of revenue receipts to GSDP decreased from 12.21 in 2010-11 to 10.23 *per cent* in 2011-12 and increased to 11.15 *per cent* in 2014-15. The revenue buoyancy with reference to GSDP came down from 1.69 in 2010-11 to (-) 0.37 in 2011-12, went up to 1.98 in 2012-13 and again came down to 1.10 in 2014-15. The State's own tax buoyancy with reference to GSDP came down from 2.74 in 2010-11 to 0.61 in 2014-15.

### 1.3.1 State's own resources

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

The State's actual tax and non-tax receipts for the year 2014-15 vis-à-vis assessment made by TFC and Fiscal Consolidation Roadmap (FCR) are given in **Table 1.8.**

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

| | TFC projections | Budget Estimates | FCR Projections | Actual | Percentage variation of actual over | | |
|---|---|---|---|---|---|---|---|
| | | | | | TFC projections | Budget estimates | FCR projections |
| **Own Tax revenue** | 28490 | 28480 | 29665 | 25570 | (-)10.25 | (-)10.22 | (-)13.80 |
| **Non-tax revenue** | 4847 | 2783 | 3610 | 2880 | (-)40.58 | 3.49 | (-)20.22 |

*Source: Report of TFC, Budget at a Glance 2014-15, Annual Financial Statement 2014-15 and Finance Accounts*

In respect of own–tax revenue, State Government could not achieve the targets fixed in TFC projections, budget estimates and FCR of the State. In respect of non-tax revenue, State Government was able to achieve the targets fixed in budget estimates only.

#### 1.3.1.1 Tax revenue

The collection 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 Receipt | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Taxes on Sales, Trade etc.** | 10017 (32) | 11172 (12) | 13218 (18) | 14847 (12) | 15455 (4) |
| **State Excise** | 2373 (13) | 2755 (16) | 3332 (21) | 3765 (13) | 4246 (13) |
| **Taxes on Vehicles** | 654 (18) | 850 (30) | 995 (17) | 1146 (15) | 1394 (22) |
| **Stamp Duty and Registration fees** | 2318 (49) | 3079 (33) | 2920 (-5) | 2500 (-14) | 2474 (-1) |
| **Land Revenue** | 19 (27) | 25 (32) | 37 (48) | 42 (14) | 47 (12) |
| **Taxes and Duties on Electricity** | 1423 (518) | 928 (-35) | 2035 (119) | 1710 (-16) | 1875 (10) |
| **Other taxes and duties on commodities and services** | 24 (140) | 32 (33) | 50 (56) | 69 (38) | 79 (14) |
| **Total Own Tax Revenue** | **16828 (40)** | **18841 (12)** | **22587 (20)** | **24079 (7)** | **25570 (6)** |

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

The State's own-tax revenue was lower than the assessment made by TFC and projections made in the FCR by ₹ 2,920 crore (10.25 *per cent*) and ₹ 4,095 crore (13.80 *per cent*) respectively.

### *1.3.1.2 Non-tax revenue*

In the current year, the share of non-tax revenue in total revenue receipts came down to 7.38 *per cent* from 9.09 *per cent* in the previous year. The non-tax revenue decreased by 9.77 *per cent* during the current year over the previous year. The composition and growth in State's non-tax revenue is given in **Table 1.10.**

**Table 1.10: Components of State's non-tax revenue**

***(₹ in crore)***

| Revenue Head | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Interest Receipts** | 169.37 (3) | 170.16 (0) | 170.47 (0) | 174.68 (2) | 193.88 (11) |
| **Dividends and Profits** | 0.62 (-32) | 1.73 (179) | 0.33 (-81) | 1.46 (342) | 1.48 (1) |
| **Misc General Services** | 4277.23 (-11) | 323.71 (-92) | 1420.73 (339) | 1640.32 (15) | 1473.47* (-10) |
| **Road Transport** | 150.39 (21) | 183.35 (22) | 222.51 (21) | 199.68 (10) | 161.67 (-19) |
| **Other non-tax receipts** | 732.56 (24) | 719.50 (-2) | 815.17 (13) | 1175.35 (44) | 1049.23 (-11) |
| **Total Non-Tax revenue** | **5330.17 (-6)** | **1398.45 (-74)** | **2629.21 (88)** | **3191.49 (21)** | **2879.73* (-10)** |

*Source: Finance Accounts*

*Figures in parenthesis show rate of growth over previous year*

*** During the year 2014-15, ₹ 704.93 crore, which do not represent receipts on account of Miscellaneous General Services, were deposited by different agencies, in the head of account 0075–Misc General Services, 800–Other receipts. Thus, the receipts on account of Misc General Services as shown in the table, are inflated by ₹ 704.93 crore.**

### *1.3.1.3 Grants-in-aid*

***(i)*** The position of Grants-in-aid received during the period 2010-11 to 2014-15 are presented in **Table 1.11.**

**Table 1.11: Grants-in-aid from Government of India**

***(₹ in crore)***

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Non-plan Grants** | 720.81 | 874.11 | 894.91 | 1064.11 | 2003.87 |
| **Total non-plan grants** | **720.81** | **874.11** | **894.91** | **1064.11** | **2003.87** |
| **Plan Grants *of which*** | | | | | |
| **Grants for State Plan Schemes** | 954.65 | 694.06 | 684.19 | 1058.26 | 3597.61 |
| **Grants for Central Plan Schemes** | 64.40 | 5.68 | 60.63 | 7.67 | 80.06 |
| **Grants for Centrally Sponsored plan Schemes** | 659.39 | 866.79 | 1135.84 | 1271.34 | 188.41 |
| **Total plan grants** | **1678.44** | **1566.53** | **1880.66** | **2337.27** | **3866.08** |
| **Total grants** | **2399.25** | **2440.64** | **2775.57** | **3401.38** | **5869.95** |

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Percentage increase in grants over previous year** | 3.40 | 1.73 | 13.72 | 22.55 | 72.58 |
| **Revenue Receipts** | 27608.47 | 26234.41 | 32051.15 | 35103.54 | 39022.85 |
| **Percentage increase in revenue receipts over previous year** | 24.61 | -4.98 | 22.17 | 9.52 | 11.16 |
| **Percentage of total grants to revenue receipts** | 8.69 | 9.30 | 8.66 | 9.69 | 15.04 |

*Source: Finance Accounts*

**Table 1.11** shows that grants-in-aid from GoI increased at an annual average rate of 28.93 *per cent* during the period 2010-11 to 2014-15. It increased by 72.58 *per cent* in 2014-15 over the previous year. During this period contribution of grants-in-aid towards revenue receipts ranged between 8.66 and 15.04 *per cent*.

### *(ii) Non-availing of Central assistance under BRGF Programme*

The GoI launched (February 2006) Backward Regions Grant Fund (BRGF) Programme to redress regional imbalances in development and to provide financial resources for supplementing and converging existing developmental inflow into the identified districts. Hoshiarpur was the only district identified under the programme in the State of Punjab. One of the mandatory conditions for release of development grant under BRGF was the consolidation of the district plans prepared by local bodies and their approval by the District Planning Committee (DPC)[1].

Our examination of records (March 2015) of Additional Deputy Commissioner (Development), Hoshiarpur showed that Deputy Commissioner-cum Secretary DPC, Hoshiarpur (DC) submitted Annual Action Plan (AAP) for 2013-14 for ₹ 20.60 crore[2] to Ministry of Panchayati Raj, GoI on 24 June 2013 (against the stipulated date of 25 June 2013) without the approval of DPC on the ground that the earlier DPC had been dissolved due to new elections of Zila Parishads. But GoI did not accede to the request of DC (June 2013-March 2014) and the funds against the allocation (₹ 20.60 crore) of 2013-14 were not released (August 2015).

The Department stated (June 2015) that AAP for the year 2013-14 could not be approved as the post of Chairman, DPC, Hoshiarpur was vacant from 31 December 2012 to 3 October 2013. The reply of the Department was not convincing as the DPC, Hoshiarpur was functional till 21 July 2013, much later than 25 June 2013, which was the last date for submitting the AAP to the GoI. But, the laxity of the State Government in making an appointment of Chairman caused the State Government to lose ₹ 20.60 crore of central

[1] Constituted under Article 243 ZD of the Constitution from amongst the elected members of the panchayats at district level, municipalities in the district and members nominated by the State Government. The term of the members was co-terminus with the term of the Panchayat or the Municipality.

[2] Comprising of works relating to health, sanitation, maintenance of community system, roads, bridges, public amenities, agriculture, women and child development, cultural activities, drinking water, etc.

assistance under BRGF programme during 2013-14, at a time when the State has been facing an acute financial stress.

### *1.3.1.4 Central tax transfer*

The actual release of share in Union taxes and duties to Punjab during 2010-11 to 2014-15 vis-à-vis projections made by the commission is tabulated in **Table 1.12:**

**Table 1.12: State's share in Union taxes and duties: Actual devolution vis-à-vis 13th Finance Commission projections**

*(₹ in crore)*

| Year | 13th 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 | 3207 | 3051 | (-) 156 |
| **2011-12** | | 3665 | 3554 | (-) 111 |
| **2012-13** | | 4398 | 4059 | (-) 339 |
| **2013-14** | | 5278 | 4432 | (-) 846 |
| **2014-15** | | 6333 | 4703 | (-) 1630 |

*Source: Fiscal consolidation roadmap of the State, Finance Accounts and Report of TFC*

The share of Union taxes received during 2014-15 was lower than the projections made in FCR by ₹ 1,630 crore.

### *1.3.1.5 Cost of collection*

The figures of major own revenue receipts, expenditure incurred on collection of these own taxes and percentage of such expenditure to own tax revenue receipts vis-à-vis All India Average percentage are given in ***Appendix 1.9***. During the period 2010-11 to 2013-14, the percentage of expenditure on collection to collection in respect of various components of state's own tax revenue is lower than the All India averages except in taxes on Sales, trades etc. for the years 2010-11 to 2012-13.

## 1.4 Capital receipts

The capital receipts are non-debt capital receipts such as proceeds from disinvestment of equity in Government companies/corporations; recoveries of loans and advances; and debt capital receipts credited under public debt section of the Consolidated Fund. The public debt receipts fall broadly under two categories-(a) loans/advances from the Union Government; and (b) 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 negligible and capital receipts were mainly borrowing from banks, financial institutions and open market, as detailed in **Table 1.13**.

**Table 1.13: Trends in growth and composition of capital receipts**

***(₹in crore)***

| Sources of State's Receipts | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Capital Receipts** | **11532.26** | **14965.61** | **22340.80** | **24253.30** | **31361.21** |
| **Miscellaneous Capital Receipts** | 0.44 | 0.24 | 0.21 | 0.51 | 0.52 |
| **Recovery of Loans and Advances** | 597.45 | 94.50 | 174.09 | 112.30 | 137.15 |
| **Public Debt Receipts** | 10934.37 | 14870.88 | 22166.50 | 24140.49 | 31223.54 |
| ***Internal Debt*** | *10741.44* | *14721.38* | *21944.56* | *23762.52* | *30656.92* |
| ***Growth rate*** | *7.02* | *37.05* | *49.07* | *8.28* | *29.01* |
| ***Loans and advances from GoI*** | *192.93* | *149.50* | *221.94* | *377.97* | *566.62* |
| ***Growth rate*** | *170.21* | *(-)22.51* | *48.45* | *70.30* | *49.91* |
| **Rate of growth of debt Capital Receipts** | 8.18 | 36.00 | 49.06 | 8.90 | 29.34 |
| **Rate of growth of non-Debt capital receipts** | (-)53.16 | (-)84.15 | 83.98 | (-)35.28 | 22.04 |
| **Rate of growth of GSDP** | 14.53 | 13.34 | 11.21 | 11.38 | 10.16 |
| **Rate of growth of Capital Receipts (*per cent*)** | 1.30 | 29.77 | 49.28 | 8.56 | 29.31 |

*Source: Finance Accounts and for GSDP–Official website of Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as on 31st July 2015.*

## 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, 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, as given in **Table 1.14**:

**Table 1.14: Detail of net Public Account receipts**

***(₹in crore)***

| Source of State Receipts | Public Account Receipts | | Disbursement from Public Account | | Excess of receipts over disbursements | |
|---|---|---|---|---|---|---|
| | **2013-14** | **2014-15** | **2013-14** | **2014-15** | **2013-14** | **2014-15** |
| **Small Savings, Provident Fund, etc.** | 3340.96 | 3683.39 | 1376.93 | 1948.02 | 1964.03 | 1735.37 |
| **Reserve Funds** | 576.80 | 668.51 | 237.53 | 18.97 | 339.27 | 649.54 |
| **Deposits and advances** | 3860.12 | 4448.72 | 3668.57 | 4850.69 | 191.55 | (-)401.97 |
| **Suspense and Miscellaneous** | 37940.13 | 38098.33 | 38180.99 | 38386.81 | (-)240.86 | (-)288.48 |
| **Remittances** | (-)38.86 | 90.50 | 70.59 | 87.28 | (-)109.45 | 3.22 |
| **Total*** | **45679.15** | **46989.45** | **43534.61** | **45291.77** | **2144.54** | **1697.68** |

*Source: Finance Accounts of respective years*
** Includes transactions of investment of cash balances and departmental cash chest.*

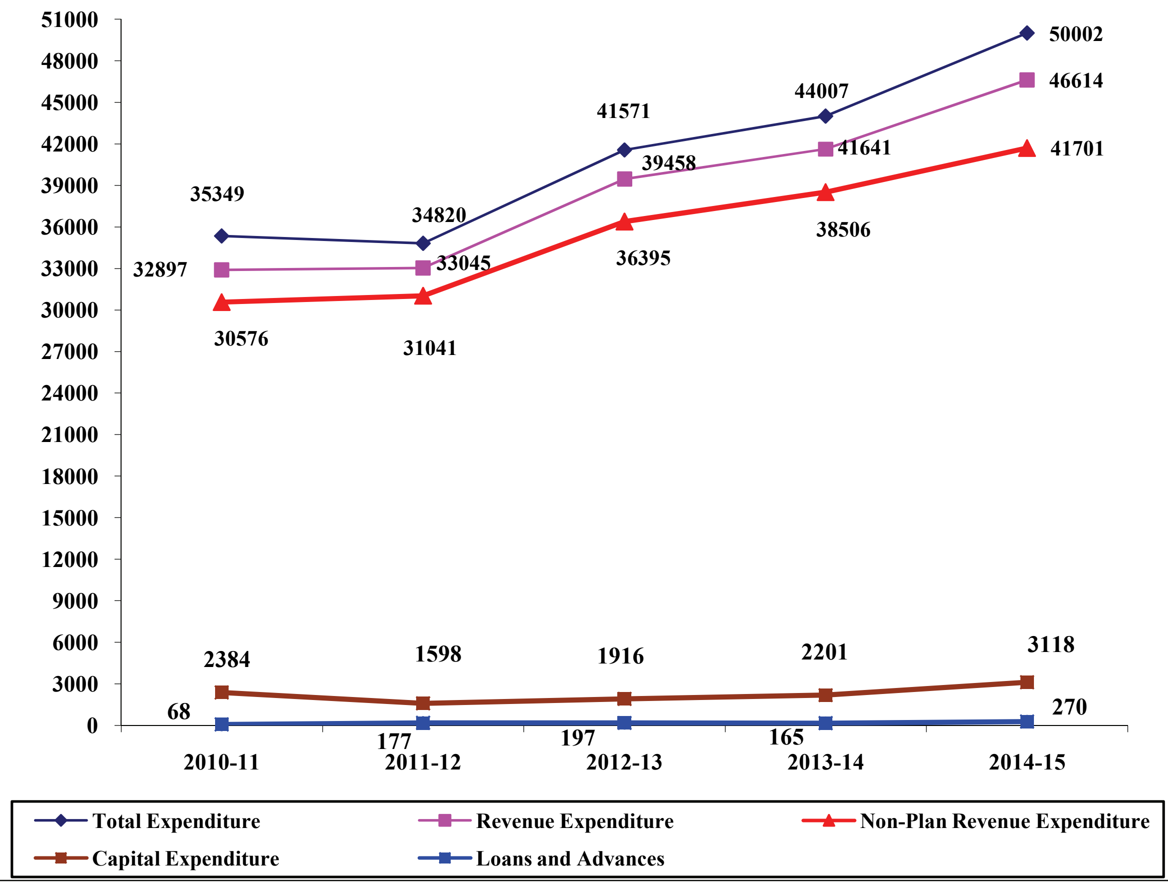
## 1.6 Application of resources

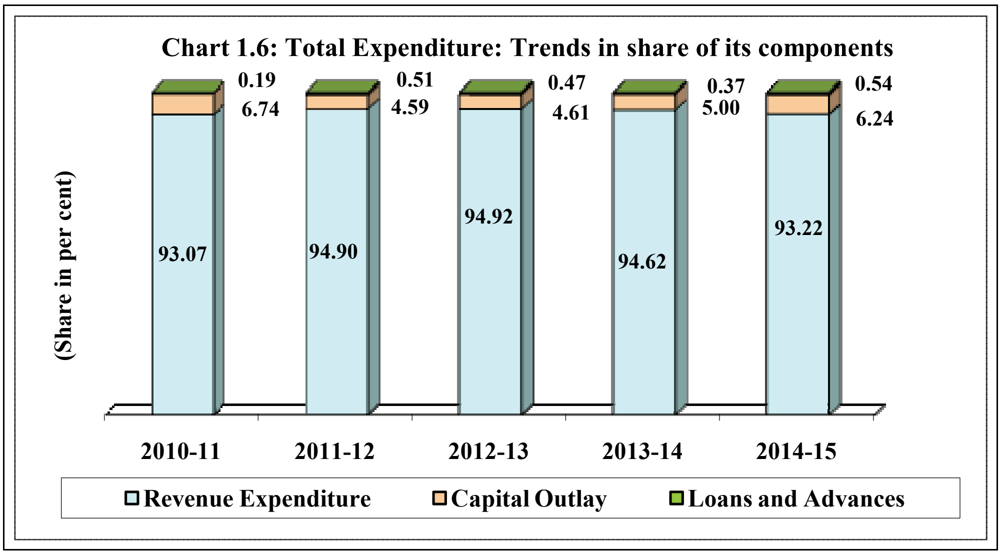
The Government raises resources to perform their sovereign functions, to maintain the existing level of delivery in social and economic services, to extend the network of these services through capital expenditure and investments; and to discharge their debt service obligations. Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising the public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

### *1.6.1 Growth and composition of expenditure*

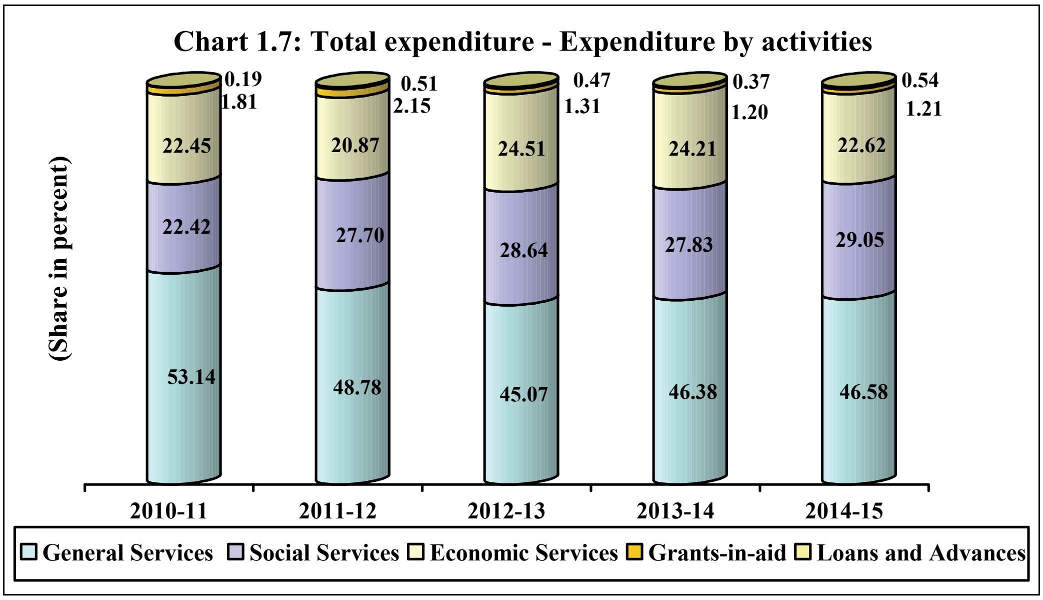
**Chart 1.5** presents the trends of total expenditure over the period of the last five years (2010-15). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Chart 1.6** and **1.7** respectively**.**

**Chart 1.5: Total expenditure: Trends and Composition**
**(₹ in crore)**






The total expenditure of the State increased by 41.45 *per cent* from ₹ 35,349 crore in 2010-11 to ₹ 50,002 crore in 2014-15. It increased by ₹ 5,995 crore (13.62 *per cent*) over the previous year. The revenue expenditure increased by ₹ 4,973 crore (11.94 *per cent*), the capital expenditure increased by ₹ 917 crore (41.66 *per cent*) and disbursement of loans and advances increased by ₹ 105 crore (63.64 *per cent*) during the current year over the previous year. The revenue expenditure continued to constitute a dominant proportion (93 to 95 *per cent*) of the total expenditure during the years 2010-15 **(Chart 1.6 and *Appendix 1.8*)**. During this period, it grew at an annual average growth rate of 8.34 *per cent*. The plan revenue expenditure contributed only six to 11 *per cent* of the total revenue expenditure, whereas the non-plan revenue expenditure was 89 to 94 *per cent* during the period 2010-15 ***(Appendix 1.8)***.



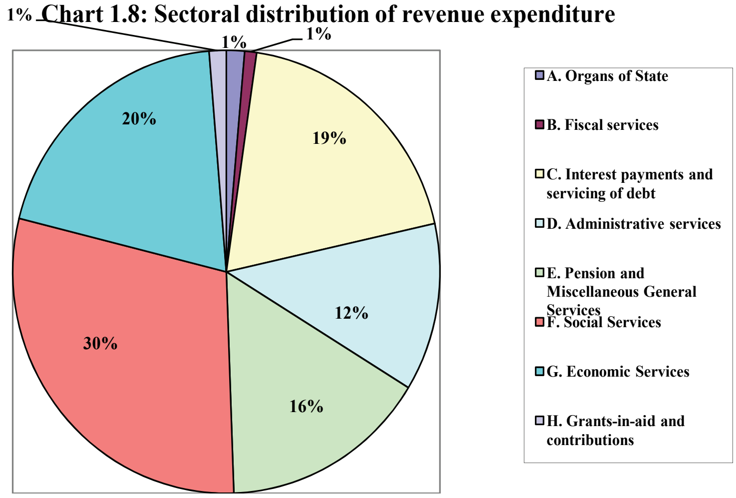

The movement of relative share of various components of expenditure **(Chart 1.7)** indicates that the share of General Services in total expenditure decreased from 53.14 *per cent* in 2010-11 to 46.58 *per cent* in 2014-15, Social services increased from 22.42 *per cent* to 29.05 *per cent* and Economic

Services increased from 22.45 *per cent* to 22.62 *per cent* during the same period. The development expenditure i.e. 'expenditure on social and economic services' together remained between 45 and 53 *per cent* during the period 2010-15.

The revenue expenditure increased by ₹ 4,973 crore (11.94 *per cent*) from ₹ 41,641 crore in 2013-14 to ₹ 46,614 crore in 2014-15. The overall increase is the result of prominent increase under the heads 'Crop Husbandry' (₹ 2,285.59 crore: 501.23 *per cent*), 'Interest payments' (₹ 1,140.27 crore: 14.58 *per cent*), 'General Education' (₹ 1,047.22 crore: 16.92 *per cent*) 'Pensions and other retirement benefits' (₹ 971.96 crore: 15.48 *per cent)*, 'Medical and Public Health' (₹ 457.69 crore: 26.73 *per cent*), 'Police' (₹ 384.99 crore: 9.99 *per cent*) 'Housing' (₹ 289.80 crore: 163.84 *per cent*), 'Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities' (₹ 215.90 crore: 31.98 *per cent*), 'Urban Development' (₹ 212.74 crore; 260.32 *per cent*), 'Other Rural Development Programmes' (₹ 141.61 crore: 20.29 *per cent*) and 'Nutrition' (₹ 127.85 crore: 319.90 *per cent*) partly offset by decrease mainly under 'Power' (₹ 2,310.14 crore: 47.98 *per cent*), 'Roads and Bridges' (₹ 208.21 crore: 56.50 *per cent*) and 'Civil Supplies' (₹ 199.45 crore: 43.63 *per cent*).

The revenue expenditure was higher by ₹ 1,709 crore (3.80 *per cent*) than the projections in FCR (₹ 44,905 crore) for the year 2014-15. The sector-wise distribution of revenue expenditure is shown in **Chart 1.8**.

**Chart 1.8: Sectoral distribution of revenue expenditure**




During the current year the Capital Expenditure increased by ₹ 917 crore (41.66 *per cent*) over the previous year. The increase was mainly under capital outlay on Roads and Bridges (₹ 545.17 crore: 143.27 *per cent*), capital outlay on Other General Economic Services (₹ 157.47 crore: 209.07 *per cent*), capital outlay on Flood Control Projects (₹ 135.05 crore: 140.86 *per cent*) capital outlay on Water Supply and Sanitation (₹ 91.75 crore: 44.93 *per cent*), capital outlay on Medium Irrigation (₹ 86.31 crore: 163.62 *per cent*) and capital outlay on Urban Development (₹ 86.13 crore: 50.54 *per cent*) partly offset by decrease mainly under capital outlay on Education Sports, Art and

Culture (₹ 203.00 crore: 56.91 *per cent*) and capital outlay on Housing (₹ 92.27 crore: 87.66 *per cent*).

The capital expenditure during the current year (₹ 3,118 crore) was only 33.30 *per cent* of the projections made in the FCR (₹ 9,362 crore).

### *1.6.2 Committed expenditure*

The committed expenditure of the Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.15** presents the trends in expenditure on these components during 2010-11 to 2014-15.

**Table 1.15: Trends in components of committed expenditure**

***(₹ in crore)***

| Sr. No | Components of committed expenditure | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | |
|---|---|---|---|---|---|---|---|
| | | | | | | BE | Actuals |
| 1 | **Salaries and Wages$, of which** | 9750 (35) | 12403 (47) | 14120 (44) | 14852 (42) | 20366 (45) | 16304 (42) |
| | ***Under Non-Plan Head*** | *9525* | *12081* | *13727* | *14496* | *17664* | *15615* |
| | ***Under Plan Head**** | *225* | *322* | *393* | *356* | *2702* | *689* |
| 2 | **Interest Payments** | 5515 (20) | 6280 (24) | 6831 (21) | 7820 (22) | 8380 (19) | 8960 (23) |
| 3 | **Pensions** | 5309 (19) | 5657 (22) | 5966 (19) | 6277 (18) | 6886 (15) | 7249 (19) |
| 4 | **Subsidies** | 3480 (13) | 3215 (12) | 5132 (16) | 4904 (14) | 5199 (12) | 4772 (12) |
| | **Total Committed Expenditure** | **24054** | **27555** | **32049** | **33853** | **40831** | **37285** |
| | **Total Revenue expenditure#** | **32897** | **33045** | **39458** | **41641** | **49146** | **46614** |
| | **Revenue Receipts** | **27608** | **26234** | **32051** | **35104** | **44894** | **39023** |

*Source: Finance Accounts*
*Figures in the parenthesis indicate percentage to Revenue Receipts*
*$ Salaries (2014-15): ₹16003.80 crore + Wages (2014-15): ₹299.56 crore*
** Plan Head includes centrally sponsored schemes*
*# includes expenditure other than committed expenditure.*

### *1.6.2.1 Salaries*

**Table 1.16** presents the targets of various components of committed expenditure vis-à-vis actuals during 2014-15.

**Table 1.16: Committed expenditure vis-à-vis targets during 2014-15**

***(₹in crore)***

| Item | TFC | FCR for State | 2013-14 | 2014-15 | |
|---|---|---|---|---|---|
| | | | | BE | Actuals |
| **Salaries** | 10809 | 14730 | 14580 | 20076 | 16004 |
| **Interest payments** | 7717 | 8130 | 7820 | 8380 | 8960 |
| **Pensions** | 5356 | 6418 | 6277 | 6886 | 7249 |
| **Subsidies** | -- | -- | 4904 | 5199 | 4772 |
| ***of which Power subsidy*** | -- | *5020* | *4815* | *2505* | *4642* |

*Source: Report of TFC, Annual Financial Statement 2014-15 and Finance Accounts*

**Table 1.16** shows that the expenditure on salaries in 2014-15 exceeded the projections of TFC and FCR by ₹ 5,195 crore (48.06 *per cent*) and ₹ 1,274 crore (8.65 *per cent*) respectively.

### *1.6.2.2 Interest payments*

**Table 1.15** shows that the interest consumed 23 *per cent* of revenue receipts as against 22 *per cent* during the previous year. **Table 1.16** shows the interest payments exceeded the projections of TFC, FCR and budget estimates by ₹ 1,243 crore (16.11 *per cent*), ₹ 830 crore (10.21 *per cent*) and ₹ 580 crore (6.92 *per cent*) respectively.

### *1.6.2.3 Subsidies*

**Table 1.16** shows that the subsidies during the current year came down by ₹ 132 crore (2.69 *per cent*) over the previous year. The actual expenditure on subsidies (₹ 4,772 crore) was less than the projection made in the BE (₹ 5,199 crore). The expenditure on Power subsidy (₹ 4,642 crore) was 92.47 *per cent* against the norm of FCR (₹ 5,020 crore).

The subsidies present a partial picture as these are exclusive of the 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 take the shape of concessions. Some implicit subsidies extended during 2014-15 are detailed in the **Table 1.17**.

**Table 1.17: Details of implicit subsidies during the year 2014-15**

***(₹in crore)***

| Sr. No. | Scheme | Amount |
|---|---|---|
| 1 | **Free books to scheduled caste students (Ist to Xth Class)** | 51.66 |
| 2. | **Reimbursement to Transport department in respect of facility to physically handicap and blind in Government/ PRTC buses** | 7.59 |
| 3 | **Reimbursement to Transport department in lieu of free concessional travel facility to women above the age of 60 years in Government/PRTC buses** | 0.23 |
| 4 | ***Shagun* to Scheduled Castes girls/widows/divorcees and daughters of widows at the time of their marriage** | 26.95 |
| 5 | ***Shagun* to Backward classes and Christian girls/widows/divorcees and daughters of widows** | 7.47 |
| | **Total** | **93.90** |

*Source: Detailed Appropriation Accounts for the year 2014-15*

### *1.6.2.4 Pension payments*

**Table 1.16** shows that the pension payments recorded a growth of ₹ 972 crore (15.49 *per cent*) during the current year over the previous year. Pension payments exceeded the projections of TFC and FCR by ₹ 1,893 crore (35.34 *per cent*) and ₹ 831 crore (12.95 *per cent*) respectively.

### *1.6.3 Financial assistance to the local bodies/other institutions*

The assistance provided by way of grants and loans to the local bodies and other institutions during the current year and the previous years is presented in **Table 1.18.**

**Table 1.18: Financial assistance to local bodies, etc.**

***(₹ in crore)***

| Institutions | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | |
|---|---|---|---|---|---|---|
| | | | | | BE | Actual |
| **Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)** | 683.84 | 905.58 | 921.18 | 564.95 | 561.63 | 689.66 |
| **Municipal Corporations and Municipalities** | 155.05 | 71.90 | 43.13 | 109.10 | 107.00 | 0.00 |
| **Zila Parishads and Other Panchayati Raj Institutions** | 87.02 | 131.48 | 132.39 | 99.27 | 93.69 | 93.36 |
| **Development Agencies** | 3.59 | 0.43 | 127.67 | 754.92 | 942.24 | 1107.74 |
| **Hospitals and Other Charitable Institutions** | 63.27 | 90.14 | 105.06 | 98.15 | 122.90 | 266.91 |
| **TOTAL** | **992.77** | **1199.53** | **1329.43** | **1626.39** | **1827.46** | **2157.67** |
| **Assistance as percentage of RE** | 3.62 | 3.63 | 3.37 | 3.91 | 3.72 | 4.63 |

*Source: Calculated on the basis of Finance Accounts and demand for grants 2014-15*

The financial assistance to the local bodies and other institutions increased by ₹ 531.28 crore (32.67 *per cent*) during 2014-15 over the previous year. This increase was mainly due to increase in assistance to the Development agencies (₹ 352.82 crore: 46.74 *per cent*); Hospitals and other charitable institutions (₹ 168.76 crore: 171.94 *per cent*) and Educational Institutions (₹ 124.71 crore: 22.07 *per cent*) off-set by decrease in assistance to Municipal Corporations and Municipalities (₹ 109.10 crore: 100 *per cent*).

The overall quantum of financial assistance to the local bodies and other institutions remained between 3.37 and 4.63 *per cent* of the revenue expenditure during 2010-15.

## 1.7 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves adequacy and efficiency of the expenditure.

### *1.7.1 Adequacy of public expenditure*

Adequacy of public expenditure means whether there are enough provisions for providing public services. The responsibilities to incur expenditure on social sector and economic infrastructure are largely assigned to the State Governments. For enhancing the levels of human development, the States are required to step up their expenditure on key social services like education, health etc. The fiscal priority (ratio of expenditure on a particular category to the aggregate expenditure) to a particular sector is considered low if it is below the respective national average. The fiscal priority of the State Government with regard to development expenditure, expenditure on social sector and capital expenditure etc. is shown in **Table 1.19**.

**Table 1.19: Fiscal priority of the State in 2011-12 and 2014-15**

***(In per cent)***

| Fiscal Priority by the State | AE/ GSDP | DE#/ AE | SSE/ AE | ESE/ AE | CE/ AE | Education/ AE | Health/ AE |
|---|---|---|---|---|---|---|---|
| **General Category States Average* (Ratio) 2011-12** | 15.98 | 65.39 | 36.63 | 28.76 | 13.23 | 17.10 | 4.68 |
| **Punjab (Ratio) 2011-12** | 13.58 (84.98) | 48.94 (74.84) | 27.70 (75.62) | 21.24 (73.85) | 4.59 (34.69) | 15.61 (91.29) | 4.59 (98.08) |
| **General Category States Average* (Ratio) 2014-15** | 16.49$ | 69.12 | 36.50 | 32.61 | 14.01 | 16.23 | 5.04 |
| **Punjab (Ratio) 2014-15** | 14.29 (86.66) | 52.04 (75.29) | 29.05 (79.59) | 22.99 (70.50) | 6.24 (44.54) | 15.25 (93.96) | 4.73 (93.85) |

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

* Based on 18 General Category States viz 1) Andhra Pradesh including Telangana, 2) Bihar, 3) Chhattisgarh, 4) Goa, 5) Gujarat, 6) Haryana, 7) Jharkhand, 8) Karnataka, 9) Kerala, 10) Madhya Pradesh, 11) Maharashtra, 12) Odisha, 13) Punjab, 14) Rajasthan, 15) Tamil Nadu except Puducherry, 16) Uttar Pradesh, 17) West Bengal and 18) Delhi.

$ Based on 17 States except Goa and Puducherry

**AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, CE: Capital Expenditure**

# Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

**Table 1.19** shows that:

- The Public expenditure, as indicated by the ratio of aggregate expenditure to GSDP, was lower in 2011-12 in the State as compared to the General Category States and the trend continues in the year 2014-15. However, the ratio of public expenditure incurred by Punjab to that incurred by General Category States has gone up from 84.98 *per cent* in 2011-12 to 86.66 *per cent* in 2014-15.

- Development expenditure refers to the expenditure on economic and social sector. Increased priority to Development expenditure will result in better human and physical asset formation which will further increase the growth prospects of the State. In the case of Punjab, lower priority was given to the Development expenditure, as lower proportion of the aggregate expenditure as compared to General Category States was spent under this head. Punjab spent 48.94 *per cent* in 2011-12 and 52.04 *per cent* in 2014-15 respectively of aggregate expenditure on development whereas General Category States average expenditure on development ranged between 65.39 *per cent* and 69.12 *per cent* during this period. However, the ratio of development expenditure incurred by Punjab to the average expenditure incurred by General Category States has gone up from 74.84 *per cent* in 2011-12 to 75.29 *per cent* in 2014-15.

- Similarly, lower priority had been given to the expenditure in Social Sector as lower proportion of aggregate expenditure was spent on this sector as compared to the General Category States in the country.

However, the ratio of social sector expenditure incurred by Punjab to the average expenditure incurred by General Category States has gone up from 75.62 *per cent* in 2011-12 to 79.95 *per cent* in 2014-15.

- Capital expenditure increases the asset creation which will generate opportunities for higher growth. In Punjab, the ratio of capital expenditure to the aggregate expenditure was also lower as compared to the General Category States. However, the ratio of Capital expenditure incurred by Punjab to the average capital expenditure incurred by General Category States has gone up from 34.69 *per cent* in 2011-12 to 44.54 *per cent* in 2014-15.

- In the case of education, the ratio of expenditure incurred by the Government of Punjab to average expenditure incurred by General Category States has gone up from 91.29 *per cent* in 2011-12 to 93.96 *per cent* in 2014-15 whereas in the case of health, it came down to 93.85 *per cent* in 2014-15 from 98.08 *per cent* in 2011-12.

### *1.7.2 Efficiency of expenditure*

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves adequacy of the expenditure (i.e. adequate provisions for providing public services) and efficiency of expenditure (use). In view of the importance of public expenditure on development heads from the point of view of 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. Apart from improving the allocation towards development expenditure, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.20** presents the expenditure incurred in various sectors during the year 2014-15, **Table 1.21** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years.

**Table 1.20: Expenditure incurred in various sectors**

***(₹in crore)***

| Sector | Total Expenditure | Amount of Committed expenditure | *Per cent* spent on committed expenditure | Amount of Capital expenditure | *Per cent* spent on Capital expenditure |
|---|---|---|---|---|---|
| **General Services** | 23379.14 | 22125.85 | 94.64 | 252.27 | 1.08 |
| **Social Services** | 14523.67 | 8262.29 | 56.89 | 794.62 | 5.47 |
| **Economic Services** | 11495.35 | 6927.62 | 60.26 | 2071.55 | 18.02 |

*Source: Calculated on the basis of Finance Accounts*

**Table 1.20** shows that the capital expenditure incurred in various sectors during the year 2014-15 ranged between one to 18 *per cent*.

**Table 1.21: Development expenditure**

*(₹ in crore)*

| Components of Development expenditure | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | |
|---|---|---|---|---|---|---|
| | | | | | BE | Actual |
| **Total Development expenditure (a to c)** | **15890 (44.95)** | **17042 (48.94)** | **22241 (53.50)** | **23017 (52.30)** | **32147 (57.84)** | **26019 (52.04)** |
| **a. Development Revenue expenditure** | 13660 (38.64) | 15511 (44.54) | 20342 (48.93) | 20919 (47.54) | 26443 (47.58) | 22967 (45.93) |
| **b. Development Capital expenditure** | 2199 (6.22) | 1402 (4.03) | 1754 (4.22) | 1982 (4.50) | 5704 (10.26) | 2866 (5.73) |
| **c. Development Loans and Advances** | 31 (0.09) | 129 (0.37) | 145 (0.35) | 116 (0.26) | 0 (0.00) | 186 (0.37) |

*(Figures in parenthesis indicate percentage to aggregate expenditure)*
*Source: Calculated on the basis of Finance Accounts and Annual Financial Statement 2014-15*

**Table 1.21** shows that the total development expenditure increased by ₹ 10,129 crore (63.74 *per cent*) during 2010-11 to 2014-15 and by ₹ 3,002 crore (13.04 *per cent*) during the current year over the previous year.

The development revenue expenditure increased from ₹ 13,660 crore in 2010-11 to ₹ 22,967 crore in 2014-15. The development revenue expenditure increased by ₹ 2,048 crore (9.79 *per cent*) during the current year over the previous year, whereas it was less by ₹ 3,476 crore (13.15 *per cent*) when compared with the BE of the State for the year 2014-15.

The development capital expenditure increased from ₹ 2,199 crore in 2010-11 to ₹ 2,866 crore in 2014-15 though it is only 5.73 *per cent* of aggregate expenditure in the current year as against 6.22 *per cent* in 2010-11. It implies that the State Government was giving less priority to capital expenditure for development.

**Table 1.22: Expenditure on selected Social and Economic Services vis-à-vis respective total expenditure**

*(In per cent)*

| Social/Economic Infrastructure | 2013-14 | | 2014-15 | |
|---|---|---|---|---|
| | 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)** | | | | |
| **General Education** | 5.13 | 75.74 | 0.81 | 75.21 |
| **Health & Family Welfare** | 4.20 | 81.83 | 0.00 | 72.81 |
| **Water Supply, Sanitation, Housing and Urban Development** | 46.02 | 63.55 | 34.42 | 35.71 |
| **Total (SS)** | **7.59** | **63.66** | **5.47** | **59.80** |
| **Economic Services (ES)** | | | | |
| **Agriculture and Allied Activities** | 5.49 | 51.78 | 2.22 | 20.62 |
| **Irrigation & Flood Control** | 21.18 | 67.59 | 34.88 | 69.82 |
| **Power and Energy** | 0.00 | 0.02 | 0.00 | 0.03 |
| **Transport** | 36.00 | 31.76 | 66.63 | 42.67 |
| **Total (ES)** | **9.77** | **22.63** | **18.02** | **23.59** |
| **Total (SS+ES)** | **8.61** | **44.83** | **11.02** | **45.23** |
| ***CE: Capital Expenditure; TE: Total Expenditure; RE: Revenue Expenditure; S&W: Salary and Wages.*** | | | | |

*Source: Calculated on the basis of Finance Accounts*

**Table 1.22** shows that in 2014-15, the ratio of the capital expenditure (CE) to the total expenditure (TE) on the Social Services (SS) decreased by 2.12 and that of the capital expenditure to the total expenditure on Economic Services (ES) increased by 8.25 *per cent*.

The share of salaries and wages components in revenue expenditure on SS decreased from 63.66 to 59.80 *per cent* and in case of ES it increased from 22.63 to 23.59 *per cent* during the current year over the previous year.

The combined ratio of CE to TE on SS and ES increased by 2.41 during 2014-15 over the previous year, while the share of salaries and wages in revenue expenditure on SS and ES increased from 44.83 to 45.23 *per cent*.

### *1.7.3 End use of various cess imposed by the Government of Punjab*

The Government of Punjab imposed various cesses for meeting expenditure for specific purposes. End use of major cesses imposed by the Government of Punjab, was checked to see as to whether the amount collected on account of these cesses was utilised for meeting expenditure on specific purposes only or other expenditure was also met from the amount of cess. The findings are as under:

### *(i) Cultural Cess*

The Government of Punjab 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. 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 agencies concerned 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 year 2013-14 and 2014-15, an amount of ₹ 81.74 crore was deposited by various agencies on account of cultural cess in the head of account 0202-Education, Sports, Art and Culture 04-Art and Culture 800-Other receipts 02-Cultural heritage maintenance and development fund. Out of this, the Director, Cultural Affairs, Archaeology and Museums, Punjab who is a member secretary of the Board drew ₹ 16.08 crore. The balance amount is parked in the Government account. Further, out of ₹ 16.08 crore drawn by the Director, ₹ 3.76 lakh were stated to have been spent towards expenditure on salary of a Superintendent and Accountant appointed for attending to the various projects of the Board and miscellaneous expenditure which was against the provisions of the Act.

### *(ii) Social Infrastructure Cess*

The Government of Punjab, 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 social sector. As per information provided by the Department of Revenue and Rehabilitation, ₹ 234.31 crore and ₹ 410.53 crore were collected during the year 2013-14 and 2014-15 respectively on account of this cess and deposited in major head of Account "0030-Stamps and Registration". As regards expenditure out of cess collection, the Finance Department intimated (August 2015) that the matter was being investigated and the information on expenditure would be provided after the investigation was complete. However, no information was provided (October 2015) by the Finance Department. Thus, Audit could not ascertain as to whether the cess collection was utilized for specific purpose or not.

### *(iii) Building and Other Construction Workers Welfare Cess*

The Building and Other Construction Workers Welfare Act and the Building and Other Construction Workers Welfare Cess Act provide that in order to provide basic amenities and welfare facilities to workers engaged in construction activities, 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 Government of Punjab 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 by the Central Government vide notification dated 26 September 1996, and deposit it with the Punjab Buildings 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. Detail of cess collected by the Board and expenditure incurred there from are given in the **Table 1.23:**

**Table 1.23: Detail of cess collected**

***(₹in crore)***

| Year | Actual receipts | | | | Actual expenditure | | |
|---|---|---|---|---|---|---|---|
| | Cess collected | Beneficiaries contribution | Interest earned | Total receipts | Administrative expenditure | Expenditure on schemes | Total expenditure |
| 2009-10 | 37.68* | 0.130 | 0.69 | 38.500 | 1.28 | -- | 1.28 |
| 2010-11 | 92.69 | 0.004 | 2.98 | 95.670 | 1.06 | 0.14 | 1.20 |
| 2011-12 | 112.95 | 0.023 | 4.92 | 117.890 | 1.47 | 1.15 | 2.62 |
| 2012-13 | 122.03 | 0.870 | 25.92 | 148.820 | 1.34 | 1.23 | 2.57 |
| 2013-14 | 120.52 | 1.600 | 43.48 | 165.600 | 2.60 | 79.18 | 81.78 |
| 2014-15 | 145.38 | 1.900 | 47.50 | 194.780 | 3.43 | 61.73 | 65.16 |
| **Total** | **631.25** | **4.527** | **125.49** | **761.267** | **11.18** | **143.43** | **154.61** |

*Source: Departmental figures*

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

**Table 1.23** showed that the whole of the amount collected on account of cess was not spent every year with the result that an unspent amount of ₹ 606.66 crore was lying with the board as on 31 March 2015.

### *1.7.4. Non-release of funds by treasury*

It is incumbent upon the Government that budgeted funds are released to concerned departments. However, information collected from Director, Treasury and Accounts, Punjab showed that during the year 2014-15 the treasury did not release funds in respect of bills for ₹ 3,956.95 crore (Plan: ₹ 2,404.04 crore and Non-plan: ₹ 1,552.91 crore).

## 1.8 Analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low level but also meet its capital expenditure/ investment 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 Government during the current year vis-à-vis the previous years.

### *1.8.1 Financial results of irrigation works*

The financial results of nine[3] major irrigation projects involving a capital expenditure of ₹ 504.21 crore at the end of March 2015 showed that revenue realised from these projects during 2014-15 (₹ 62.40 crore) was only 12.38 *per cent* of the capital expenditure on these projects. This return was not sufficient to cover even the total working expenses and maintenance charges (₹ 375.71 crore) and interest chargers (₹ 25.09 crore) during the year

[3] (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.

2014-15. After meeting the direct working expenditure and interest charges of ₹ 400.80 crore, these projects suffered a net loss of ₹ 338.41 crore.

### 1.8.2 Incomplete projects

The department-wise information pertaining to the incomplete projects (scheduled to be completed between 2008-09 and 2014-15) as on 31 March 2015 is given in the **Table 1.24.**

**Table 1.24: Department-wise profile of incomplete projects**

*(₹ in crore)*

| Department | Number of Incomplete Projects | Initial Budgeted Cost | Revised Cost of Projects | Expenditure | Cost Overrun |
|---|---|---|---|---|---|
| Buildings and Roads | 7 | 173.64 | NA | 92.70 | NA |
| | 3 | 4.17 | NA | NA | NA |
| | 1 | 18.10 | 20.00 | 18.03 | 1.90 |
| Irrigation | 17 | 2644.99 | NA | 511.57 | NA |
| | 1 | 58.15 | 74.14 | 26.57 | 15.99 |
| Water Supply and Sanitation | 4 | 8.53 | NA | 4.74 | NA |
| | 1 | 0.94 | 1.07 | 0.71 | 0.13 |
| **TOTAL** | **34** | **2908.52** | | **654.32** | **18.02** |

*Source: Finance Accounts* *NA stands for Not Available*

Out of total 34 incomplete projects, 11 projects were in Public Works (B&R) Department, 18 projects were in Irrigation Department and 5 projects were in Water Supply and Sanitation Department.

### 1.8.3 Investment and return

***(i)*** The investment and return on investment is given in **Table 1.25**:

**Table 1.25: Return on investment**

| Investment/return/ cost of borrowings | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Investment at the end of the year (₹ in crore)** | 3831.96 | 3831.73 | 3832.65 | 3862.16 | 3977.48 |
| **Return (₹ in crore)** | 0.62 | 1.73 | 0.33 | 1.46 | 1.48 |
| **Return (*per cent)*** | 0.02 | 0.05 | 0.01 | 0.04 | 0.04 |
| **Average rate of interest on Government Borrowing (*per cent*)** | 7.73 | 7.96 | 7.79 | 8.04 | 8.35 |
| **Difference between interest rate and return (*per cent*)** | 7.71 | 7.91 | 7.78 | 8.00 | 8.31 |

*Source: Finance Accounts*

During 2014-15, the return on investment from Co-operative Banks and Societies (₹ 0.03 crore); and Statutory Corporations, Joint Stock Companies and Government Companies (₹ 1.45 crore) was ₹ 1.48 crore (0.04 *per cent*). The return was only between 0.01 and 0.05 *per cent* during 2010-15 while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.73 and 8.35 *per cent* during the same period**.**

***(ii)*** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should 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. The position in this regard as at 31 March 2015 is given in **Table 1.26**.

**Table 1.26: Equity, loans, guarantees outstanding as per Finance Accounts vis-à-vis records of PSUs**

| Particulars | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
|---|---|---|---|
| Equity | 3609.48 | 7801.54 | 4192.06 |
| Loans | 1580.78 | 359.33 | 1221.45 |
| Guarantees | 49058.42 | 49058.42 | -- |

*Source: Finance Accounts and records of PSUs*

Audit observed that the differences occurred in respect of 15 PSUs and some of the differences were pending reconciliation since 1985-86. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### *1.8.4 Loans and advances by the Government of Punjab*

In addition to the investments in Co-operative Societies, Corporations and Companies, the Government of Punjab has also been providing loans and advances to many institutions/organizations. **Table 1.27** presents the position of outstanding loans and advances as on 31 March 2015 and interest receipts vis-à-vis interest payments by the State Government on its borrowings during last five years**.**

**Table 1.27: Position of outstanding loans and advances and interest received/paid**

***(₹ in crore)***

| Quantum of loans/ interest receipts/ cost of borrowings | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Opening Balance of loans outstanding** | 2853 | 2324 | 2406 | 2429 | 2482 |
| **Amount advanced during the year** | 68 | 177 | 197 | 165 | 270 |
| **Amount recovered during the year** | 597 | 95 | 174 | 112 | 137 |
| **Closing Balance of the loans outstanding** | 2324 | 2406 | 2429 | 2482 | 2615 |
| **Interest received** | 51 | 40 | 44 | 48 | 55 |
| **Interest received as *per cent* to the outstanding Loans and Advances** | 2.19 | 1.66 | 1.83 | 1.93 | 2.10 |
| **Interest paid as *per cent* to the outstanding fiscal liabilities of the Government** | 7.03 | 7.96 | 7.79 | 8.04 | 8.35 |
| **Difference between the rate of, interest paid and interest received (*per cent*)** | (-)5.54 | (-)6.30 | (-)5.96 | (-) 6.11 | (-)6.25 |

*Source: Finance Accounts*

During 2014-15, ₹ 270 crore were advanced as loans against ₹ 165 crore during previous year. Further, recovery of loans amounting to ₹ 137 crore was made as against ₹ 112 crore during previous year. The total outstanding loan increased from ₹ 2,482 crore in 2013-14 to ₹ 2,615 crore in the year 2014-15. The interest receipts of ₹ 55 crore during the current year increased by ₹ 7 crore (14.58 *per cent)* over the previous year. While the interest payment during 2014-15 was 8.35 *per cent* of its outstanding fiscal liabilities, the interest received was only 2.10 *per cent* of the outstanding loans and advances.

Some points of interest in respect of loans and advances given by the Government are as under:

***(i)*** Out of loan of ₹ 90.04 crore shown in the Finance Accounts as recoverable from Pepsu Road Transport Corporation (PRTC) as on 31 March 2015 under the account head 7055 (190), an amount of ₹ 66.29 crore along with interest of ₹ 76.69 crore was converted into equity share capital in June 2012 by the State Government. But the adjustment to the effect could not be made in the Finance Accounts for want of requisite sanction from the Government.

***(ii)*** The Government of Punjab in the Department of Agriculture in anticipation of release of funds by GoI for scheme "second push in Agriculture" released (December 2002) ₹ 27 crore out of Rural Development Fund to the Punjab Agro Industries Corporation Limited for execution of said scheme. The amount was to be treated as loan taken from the Punjab Rural Development Fund by the State Government but no entry to this effect was made in the Finance Accounts.

***(iii)*** The loan amounting to ₹ 87.50 crore shown in the Finance Accounts as recoverable from Punjab Mandi Board as on 31 March 2015 under the account head 6401 (800) was converted to grant-in-aid by the State Government in March 2011. But the adjustment to the effect could not be made in the Finance Accounts even after four years for want of requisite sanction from the Finance Department.

***(iv)*** The State Government provided loan of ₹ 5.50 crore during the year 1996-97 and 1998-99 to the Punjab Agro Industries Corporation Limited. The principal amount of loan of ₹ 5.50 crore was repaid to the State Government in 2015-16 (April 2015) but interest of ₹ 18.33 crore recoverable up to 31 March 2015 on principal amount of loan which had been accounted for by the Company in its books as payable to the State Government had not been paid by the Company. This resulted into non-recovery of interest and understatement of revenue receipt by ₹ 18.33 crore and overstatement of revenue deficit to that extent.

***(v)*** Further, test check of records of loans and advances given by the State Government showed that terms and conditions in respect of the following loans had not been finalized (July 2015):

| Sr.No. | Name of company to which loan was given | Amount of loan |
|---|---|---|
| 1. | Punjab Water Resources Management and Development Corporation Limited | ₹ 233.23 crore (given during the period 1983-84 to 1998-99) |
| 2. | Punjab State Federation of Co-operative Sugar Mills Limited | ₹ 332.19 crore (2011-12: ₹ 46.00 crore; 2012-13: ₹ 99.70 crore) and 2014-15: ₹ 186.49 crore) |
| 3. | M/s Punjab Agro Juices Limited | ₹ 30 crore (given during the year 2012-13) |

*Source: Departmental records*

### *1.8.5 Cash balances and investment of cash balances*

**Table 1.28** depicts the cash balances and investments made by the Government of Punjab out of the cash balances during the year 2014-15. Total investment out of cash balances during 2014-15 were ₹ 350.35 crore. On these investments, the Government earned interest of ₹ 2.03 crore during the current year. The cash balances at the close of the current year decreased from ₹ 630.42 crore of the previous year to ₹ (-)137.76 crore mainly due to increase in *minus* balance of Deposits with Reserve Bank of India from minus ₹ 69.18 crore to minus ₹ 1,064.36 crore.

**Table 1.28: Cash balances and investment of cash balances**

***(₹in crore)***

| | Overall Cash Position of the Government | As on 31st March 2014 | As on 31st March 2015 | Increase(+)/ Decrease(-) |
|---|---|---|---|---|
| **(A)** | **General Cash Balances-** | | | |
| **1** | **Deposits with Reserve Bank of India** | **(-)69.18** | **(-)1064.36** | **(-)995.18** |
| **2** | **Investment held in the Cash balance Investment Account** | **102.03** | **350.35** | **248.32** |
| *(i)* | *GoI Securities*[4] | *101.99* | *101.99* | *0.00* |
| *(ii)* | *GoI Treasury Bills* | *0.00* | *248.32* | *248.32* |
| *(iii)* | *Punjab State Power Corporation Bonds* | *0.04* | *0.04* | *0.00* |
| | **Total (A)** | **32.85** | **(-)714.01** | **(-)746.86** |
| **(B)** | **Other Cash Balances and Investments-** | | | |
| **1** | **Cash with departmental officers viz; Forest and Public Works** | 596.67 | 575.34 | **(-)21.33** |
| **2** | **Permanent advances for contingent expenditure with departmental officers** | 0.22 | 0.23 | **0.01** |
| **3** | **Investments of earmarked fund** | 0.68 | 0.68 | **0.00** |
| | **Total (B)** | **597.57** | **576.25** | **(-)21.32** |
| | **Total (A) and (B)** | **630.42** | **(-)137.76** | **(-)768.18** |
| | **Interest realised on investment** | **4.30** | **2.03** | **(-)2.27** |

*Source: Finance Accounts*

Under an agreement with the Reserve Bank of India, the Government of Punjab has to maintain with the bank a minimum balance of ₹ 1.56 crore on all days. If the balance falls below the agreed minimum balance on any day, the

4 An amount of ₹ 101.99 crore is appearing as GoI Securities in the Finance Accounts of the Government of Punjab since 2003. This amount is static since 2003. Despite taking up the matter time and again, response for its adjustment from Finance Department of the Government of Punjab is still awaited (August 2015).

deficiency is made good by taking ways and means advances/overdraft from the Reserve Bank of India.

As per statement 6 of the Finance Accounts, ₹ 546.89 crore were outstanding as ways and means advances at the end of the year 2013-14. During 2014-15, the Government obtained ₹ 10,239.32 crore as ways and means advances from Reserve Bank of India on 84 occasions. Total outstanding amount of ₹ 10,786.21 crore were repaid during the year leaving nil balance. An amount of ₹ 28 crore was paid as interest on these advances.

An amount of ₹ 45.73 crore was outstanding at the end of the year 2013-14 as shortfall/overdraft. During 2014-15, the Government had availed shortfall of ₹ 32.76 crore on 22 occasions and overdraft of ₹ 8,996.03 crore on 76 occasions. During the year, ₹ 9,074.52 crore were repaid leaving nil balance at the end of the year. An amount of ₹ 12.54 crore was paid as interest on these shortfalls/ overdrafts.

Minimum cash balance was maintained for 50 days without taking any advance from the RBI.

#### *1.8.6 Parking of fund outside Government Accounts*

In terms of Rule 2.10 of Punjab Financial Rules Vol.-I, no money is withdrawn from the treasury unless it is required for immediate disbursement or has already been paid out of the permanent advance and that 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.

An amount of ₹ 575.34 crore as on 31 March 2015 pertaining to Major Head 8671-Departmental Balances was lying with Departmental Officers as idle cash. The amount should have been remitted by the Departmental officers to treasury by 31 March 2015.

## 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 1.4–Part B*** gives an abstract of such liabilities and the assets as on 31 March 2015, compared with the corresponding position as on 31 March 2014. The liabilities consist mainly of internal borrowings; loans and advances from the GoI; 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 2014-15, the assets grew by ₹ 2,525.73 crore (7.03 *per cent*) whereas the liabilities increased by ₹ 10,116.37 crore (9.89 *per cent*) over the previous year. The ratio of Financial Assets to

Liabilities came down to 34.21 *per cent* in 2014-15 from 35.13 *per cent* in the previous year.

### *1.9.2 Fiscal liabilities*

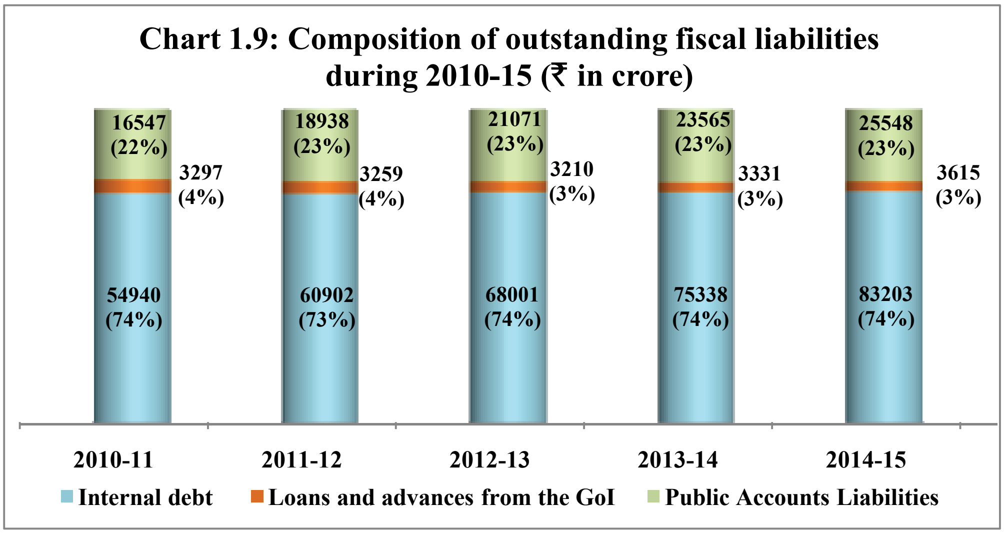
Fiscal liabilities comprise Public Debt and Other Liabilities. The Public Debt consists of market loans, loans from banks/financial institutions; and loans and advances from the GoI. The other liabilities include deposits under small savings scheme, provident funds and other deposits. The Constitution 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 these parameters during the period 2010-15 are presented in **Table 1.29.**

**Table 1.29: Fiscal liabilities – Basic Parameters**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Fiscal Liabilities (₹ in crore)** | 74784 | 83099 | 92282 | 102234 | 112366 |
| ***Rate of Growth (per cent)*** | *10.03* | *11.12* | *11.05* | *10.78* | *9.91* |
| **Public Debt** | ***58237*** | ***64161*** | ***71211*** | ***78669*** | ***86818*** |
| *Internal debt* | *54940* | *60902* | *68001* | *75338* | *83203* |
| *Loans and advances from the GoI* | *3297* | *3259* | *3210* | *3331* | *3615* |
| **Public Accounts Liabilities** | **16547** | **18938** | **21071** | **23565** | **25548** |
| **Ratio of Fiscal liabilities to** | | | | | |
| **GSDP (*per cent*)** | 33.06 | 32.41 | 32.37 | 32.19 | 32.12 |
| **Revenue receipts (*per cent*)** | 270.87 | 316.76 | 287.92 | 291.23 | 287.95 |
| **Own resources (*per cent*)** | 337.50 | 410.59 | 365.95 | 374.88 | 394.96 |
| **Buoyancy of Fiscal liabilities to** | | | | | |
| **GSDP (ratio)** | 0.69 | 0.83 | 0.99 | 0.95 | 0.98 |
| **Revenue receipts (ratio)** | 0.41 | -2.23 | 0.50 | 1.13 | 0.89 |
| **Own resources (ratio)** | 0.40 | -1.28 | 0.45 | 1.32 | 2.29 |

*Source: Calculated on the basis of Finance Accounts and GSDP figures obtained from the official website of Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as on 31st July 2015.*

The composition of outstanding fiscal liabilities during the year 2010-11 to 2014-15 is as presented in **Chart 1.9.**




The overall fiscal liabilities of the State Government had been on the rise and it increased from ₹ 74,784 crore as on 31 March 2011 to ₹ 1,12,366 crore as on 31 March 2015. At the end of the current year the Consolidated Fund liabilities (₹ 86,818 crore) comprised of internal debt of ₹ 83,203 crore and loans of ₹ 3,615 crore from GoI. The Public Account liabilities during the current year (₹ 25,548 crore) comprised of small savings, provident fund (₹ 18,262 crore) and interest bearing obligations and non-interest bearing obligations like deposits and other earmarked funds (₹ 7,286 crore). The total fiscal liabilities went up at an annual average growth rate of 10.05 *per cent* during the period 2010-11 to 2014-15.

### *1.9.3 Management of Reserve Funds*

**Table 1.30: Position of Reserve Funds**

*(₹ in crore)*

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Reserve Funds Bearing Interest** | | | | | |
| **1. Closing Balance, of which** | 2292 | 2607 | 3240 | 3579 | 4228 |
| **Investments** | Nil | Nil | Nil | Nil | Nil |
| **2. Funds Utilised for Intended Purposes** | 188 | 160 | 13 | 238 | 19 |
| **3. Interest Paid on Interest-Bearing Reserve Funds** | 85 | 245 | 276 | 311 | 374 |
| **Reserve Funds not bearing interest** | | | | | |
| **Closing Balance, of which** | 9 | 9 | 9 | 9 | 9 |
| **Investments** | 0.68 | 0.68 | 0.68 | 0.68 | 0.68 |
| **Cumulative aggregate balance** | **2301** | **2616** | **3249** | **3588** | **4237** |
| **Inoperative Reserve Funds** | | | | | |
| **No. of Inoperative Funds** | 4 | 4 | 4 | 4 | 4 |
| **Amount** | 9 | 9 | 9 | 9 | 9 |

*Source: Finance Accounts of respective years*

**Table 1.30** shows that the cumulative aggregate balance in Reserve Funds as on 31 March 2015 was ₹ 4,237 crore. Out of which ₹ 68 lakh were invested.

As per Finance Accounts, Reserve Funds not bearing interest have been inoperative since 1982-83.

### *1.9.4 Non-investment of State Disaster Response Funds*

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. As per paragraph 19 of the guidelines, 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, the balance in SDRF account was ₹ 4,113.61 crore as on 31 March 2015. But no investment out of these funds was made.

### *1.9.5 Status of Guarantees*

Government of Punjab 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 given by the Government of Punjab for the last five years is given in **Table 1.31**.

**Table 1.31: Guarantees given by the Government of Punjab**

***(₹in crore)***

| Guarantees | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Outstanding amount of guarantees at the end of the year** | 40333 | 45714 | 58102 | 61411* | 66893 |

*Source: Finance Accounts*

** Outstanding Guarantees for the year 2013-14 differs due to change in source of information from entities (till previous year) to State Government.*

The outstanding amount of ₹ 66,893 crore of guarantees as on 31 March 2015 was in respect of banks and financial institutions (₹ 874.06 crore); cash credit facilities (₹ 33,218.32 crore); and working capital to companies, corporations, co-operative societies and banks (₹ 32,800.96 crore).

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 to meet its obligations arising out of the Guarantees issued on behalf of the State level bodies. As per the guidelines, the State Government is required to contribute with an initial contribution of minimum one *per cent* of outstanding guarantees at the end of the previous year and thereafter minimum 0.50 *per cent* every year to achieve a minimum level of three *per cent* in next five years. Accordingly, the State Government was required to make a minimum contributions of ₹ 307.06 crore for the year 2014-15 (0.50 *per cent* of outstanding guarantee of ₹ 61,411 crore at the end of the previous year i.e. 2013-14) which was not done. Non-contribution to GRF has resulted into understatement of Revenue Expenditure by

₹ 307.06 crore with consequent impact on Revenue Deficit and Fiscal Deficit of the State Government.

### *1.9.6 Off-budget borrowings*

***(i)*** The term 'off-budget borrowings' refers to incurring liabilities by Government without bringing them into Government accounts. These may also arise when Government does not fully pay moneys it owes to Government companies/corporations. While a reasonable amount of unpaid bills are always there in the system due to time taken in passing the claims, these become a cause of concern when the magnitude is sizeable and non-payment could be attributed to lack of budget provision. A significant item of 'off-budget borrowings' by the Government pertains to non-clearance of bills submitted by Punjab State Civil Supplies Corporation Limited (PUNSUP) in respect of various procurement agencies for differential cost (i.e. difference between purchase cost and issue price to beneficiaries), fixed by the State Government under Atta Dal Scheme. Atta Dal Scheme was introduced by the Government of Punjab in March 2007 to provide Wheat and Dal at the subsidized rates to the poor families of the State every month. As on 31 March 2015, an amount of ₹ 2,025.67 crore[5] (pertaining to the period August 2007 to March 2015) was payable by the State Government to PUNSUP under the Scheme.

***(ii)*** Mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2013-14 (paragraph 1.9.6(ii)) regarding Government of Punjab permitting Punjab Urban Development Authority (PUDA) to borrow from the banks/financial institutions with responsibility of repaying the loans raised by PUDA. Accordingly, PUDA raised a loan of ₹ 2,000 crore (2012-13: ₹ 1,000 crore and 2013-14: ₹ 1,000 crore) from various banks which was remitted to Government account and booked under Major Head '0075-Miscellaneous General Services' in the accounts of the respective years instead of passing the amount through Major Head '6003-Internal Debt of the State Government. The liability towards repayment of principal and interest on these loans, however, has been taken by the State Government by way of assistance to PUDA.

During the year 2014-15, the State Government incurred an expenditure of ₹ 466.68 crore under the Major Head 2216–Housing, 02–Urban housing, 190–assistance to public sector and other undertakings, 01–assistance to PUDA–50–Other charges.

## 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, pursue its cost and risk objectives, keep the public debt at sustainable levels and to meet any other public debt management goals the government may set through enactment or any other annual budget announcements.

[5] PUNSUP: ₹ 1,233.55 crore, Punjab State Warehousing Corporation (PSWC): ₹ 229.26 crore, Punjab Agro Foodgrains Corporation Limited (PAFCL): ₹ 230.20 crore and MARKFED: ₹ 332.66 crore.

### *1.10.1 Debt profile of the State*

### *(i) Growth of debt*

**Table 1.32: Debt Growth Rate**

***(₹in crore)***

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **1. Internal Debt** | **54940** | **60902** | **68001** | **75338** | **83203** |
| **(i) Market Loans (*Percentage of market loans to total public debt*)** | 26764 (46) | 34504 (54) | 43063 (60) | 50318 (64) | 58003 (67) |
| **(ii) Ways & Means Advances from RBI** | 368 | 107 | 158 | 593 | 0 |
| **(iii) Loans from Financial Institutions** | 4662 | 4069 | 3061 | 3047 | 2895 |
| **(iv) Special Securities issued to NSSF** | 23146 | 22222 | 21719 | 21380 | 22305 |
| **2. Loans from Government of India** | **3297** | **3259** | **3210** | **3331** | **3615** |
| **Total Public debt** | **58237** | **64161** | **71211** | **78669** | **86818** |
| **Other liabilities** | **16547** | **18938** | **21071** | **23565** | **25548** |
| **Total debt** | **74784** | **83099** | **92282** | **102234** | **112366** |

*Source: Finance Accounts*

During 2010-11 to 2014-15, total public debt increased from ₹ 58,237 crore to ₹ 86,818 crore (49 *per cent*). The share of market borrowings in total public debt went up from 46 *per cent* to 67 *per cent* during this period. Public debt increased by 10.36 *per cent* over the previous year over the current year.

### *(ii) Maturity profile of debt*

**Table 1.33: Maturity profile of repayment of State debt as on 31 March 2015**

| Period of repayment (Years) | Amount (₹ in crore) | Percentage (w.r.t. Public debt) |
|---|---|---|
| **0 – 1** | 4098.33 | 4.72 |
| **1 – 3** | 9384.75 | 10.81 |
| **3 – 5** | 17567.51 | 20.23 |
| **5 – 7** | 16627.72 | 19.15 |
| **7 and above** | 37294.80 | 42.96 |
| **Others[6]** | 1844.92 | 2.13 |
| **TOTAL** | **86818.03** | **100.00** |

*Source: Calculated on the basis of Finance Accounts*

**Table 1.33**, indicates that the State Government has to repay 10.81 *per cent* (₹ 9,385 crore) of its debt between 1-3 years, 20 *per cent* (₹ 17,568 crore) between 3-5 years and 19 *per cent* (₹ 16,628 crore) between 5-7 *per cent*. It signifies that State has to repay more than 50 *per cent* of its debt

6 Represents ₹ 1,844.60 crore representing loans of back to back basis, recoveries of which are being made by Central Government itself, ₹ 27.57 lakh repayment of which is on the basis of actual recoveries and ₹ 4.35 lakh representing market loans not bearing interest for which maturity profile was not available.

(₹ 43,581 crore) in the next seven years. This is an alarming position and State is heading towards a serious debt repayment position, which is termed as debt trap.

The State needs to formulate a well thought out debt management strategy and step up resource mobilization to ensure debt stability. Unless such efforts are made in this regard, the State would have serious problem of debt servicing which can lead to a situation of debt trap. Further, the Government of Punjab does not have a formal debt management policy to set out the Government's objectives and strategy for public debt management and the borrowing programme to meet the annual financing requirements of the government.

### *1.10.2 Application of borrowings*

The Scheme of Financing (SOF) for the Annual Plan is submitted to the Planning Commission, GoI for approval. The requirement of borrowings (subject to ceiling fixed by GoI) for execution of Annual Plan are reflected in this Statement. Thus, it is incumbent upon the State that projections made in the SOF in respect of quantum of borrowings and purposes for which borrowed funds are to be utilized are adhered to. However, it was noticed that actual quantum of borrowings and utilization of borrowed funds for non-plan and plan expenditure was not as per the projections made in the SOF. **Table 1.34** shows the difference between projections in respect of resources and expenditure of the State and actuals.

**Table 1.34: Total resources and expenditure: Projections vis-à-vis Actuals**

***(₹in crore)***

| Particulars | 11th Five Year Plan (2007-12) | | 2012-13 | | 2013-14 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | Projections | Actuals | Projections | Actuals | Projections | Actuals | Projections | Actuals |
| **Resources** | | | | | | | | |
| **A) State Government's own funds** | **(-)12286** | **(-)23262** | **(-)4539** | **(-)7127** | **(-)2654** | **(-)6862** | **(-)4787** | **(-)6924** |
| Balance from current revenue | (-)21152 | (-)24070 | (-)6243 | (-)6225 | (-)1969 | (-)5739 | (-)4813 | (-)6543 |
| Additional resource mobilization | 8670 | 0 | 1580 | 0 | 641 | 0 | 0 | 0 |
| Net Non –debt capital receipts | (-)900 | 1981 | (-)300 | (-)172 | (-)1325 | (-)242 | (-)251 | (-)312 |
| Plan Grants from GoI (FC) | 618 | 0 | 424 | 0 | 419 | 0 | 10 | 0 |
| Adjustment of OB | 478 | (-)1173 | 0 | (-)730 | (-)420 | (-)881 | 267 | (-)69 |
| **B) Borrowings** | **29107** | **32061** | **9366** | **9183** | **9111** | **9952** | **10332** | **10131** |
| **C) Other Public Account** | **809** | **286** | **0** | **12** | **0** | **(-)350** | **0** | **(-)285** |
| Suspense and Miscellaneous | 0 | 253 | 0 | 18 | 0 | (-)241 | **0** | (-)288 |
| Remittances | 0 | 33 | 0 | (-)6 | 0 | (-)109 | **0** | 3 |
| **D) Grant for State Plan Scheme received from GoI** | **5858** | **4175** | **1945** | **684** | **1884** | **1058** | **7266** | **3598** |
| **E) Diversion from CP/CSS to State Plan** | **0** | **1121** | **0** | **504** | **0** | **600** | **0** | **-227** |
| **F) Closing cash balance** | **0** | **(-)1925** | **0** | **(-)881** | **0-** | **(-)69** | **226** | **-1064** |
| **Total Resources (A+B+C+D+E-F)** | **23488** | **16306** | **6771** | **4137** | **8341** | **4467** | **12585** | **7357** |

| Particulars | 11th Five Year Plan (2007-12) | | 2012-13 | | 2013-14 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | Projections | Actuals | Projections | Actuals | Projections | Actuals | Projections | Actuals |
| **Expenditure** | | | | | | | | |
| **Capital Expenditure (Plan)** | **13250** | **9356** | **4509** | **1635** | **4069** | **1799** | **12442** | **2931** |
| **Revenue Expenditure (Plan)** | **8885** | **6928** | **3257** | **2472** | **4010** | **2668** | | **4426** |
| **Loans and Advances (Plan)** | **10** | **22** | **5** | **30** | **260** | **0** | **0** | **0** |
| **Total Plan Expenditure** | **22145** | **16306** | **7771** | **4137** | **8339** | **4467** | **12442** | **7357** |
| **Shortfall in plan expenditure** | **5839** | | **3634** | | **3872** | | **4828** | |
| **Percentage over projections (*per cent*)** | **26.37** | | **46.76** | | **46.43** | | **38.80** | |

*Source: Finance Accounts, Scheme of Financing and Annual Financial Statements*

**Table 1.34** shows that during 2007-15, the estimated resources did not materialize and adverse balances from own resources, which were more than those projected in the SOF were met by curtailing the plan expenditure. This resulted in major savings in key developmental sectors in spite of appropriations having been passed by the legislature, as shown in **Table 1.35.**

**Table 1.35: Major savings during 2010-15 in plan expenditure (Revenue and Capital)**

***(₹ in crore)***

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Education, Sports Art and Culture | 369.54 (36) | 776.74 (54) | 658.34 (37) | 597.26 (32) | 927.79 (42) |
| Health and Family Welfare | 106.34 (38) | 208.15 (45) | 520.81 (55) | 798.88 (65) | 367.29 (36) |
| Welfare of SCs, STS and OBCs | 73.49 (28) | 283.53 (66) | 163.53 (36) | 369.41 (61) | -- |
| Social Welfare and Nutrition | 68.01 (7) | 257.21 (22) | 376.30 (29) | 587.65 (40) | 490.53 (31) |
| Agriculture and Allied Activities | -- | 430.00 (79) | 264.88 (38) | 193.16 (22) | 315.95 (30) |

*Source: Annual Financial Statement and Finance Accounts of the respective years*

It was also observed that Punjab Government utilised major portion (47 to 70 *per cent*) of its current borrowings for repayment of earlier borrowings, 20 to 39 *per cent* for revenue expenditure and only 8 to 19 *per cent* of borrowings were utilised for capital expenditure (**Table 1.36**).

**Table 1.36: Details of utilization of borrowed funds towards repayment, net capital expenditure and revenue expenditure**

***(₹ in crore)***

| Year | Total Borrowings | Repayment of earlier borrowings (Principal) (percentage) | Net capital expenditure (Percentage) | Portion of Revenue expenditure met out of borrowings (Percentage) |
|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5=2-3-4** |
| 2010-11 | 12677 | 5953 (47) | 2383 (19) | 4341 (34) |
| 2011-12 | 17403 | 8947 (51) | 1598 (10) | 6858 (39) |
| 2012-13 | 24311 | 15116 (62) | 1916 (8) | 7279 (30) |
| 2013-14 | 26285 | 16683 (63) | 2200 (8) | 7402 (28) |
| 2014-15 | 32922 | 23075 (70) | 3118 (10) | 6729 (20) |

*Source: Finance Accounts*

If this practice continues, Punjab would not be able to generate additional revenue to service its debt and it would have no option but to raise new borrowings every year to repay the borrowings of earlier years.

### *1.10.3 Expenditure management – control over revenue expenditure*

In order to bring down debt, the Government needs to curtail its revenue expenditure and utilize the resultant savings for repayment of debt so that its interest payments may come down. The constituents of revenue expenditure of the State over last five years are given in **Table 1.37**.

**Table 1.37: Constituents of revenue expenditure**

***(₹in crore)***

| Sr. No | Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|
| 1 | **Expenditure on salaries, interest payments and pensions (a+b+c)** | **20413 (62)** | **24141 (73)** | **26664 (68)** | **28677 (69)** | **32213 (69)** |
| *(a)* | ***Salaries*** | *9589 (29)* | *12204 (37)* | *13867 (35)* | *14580 (35)* | *16004 (34)* |
| *(b)* | ***Interest Payments*** | *5515 (17)* | *6280 (19)* | *6831 (17)* | *7820 (19)* | *8960 (19)* |
| *(c)* | ***Pensions*** | *5309 (16)* | *5657 (17)* | *5966 (15)* | *6277 (15)* | *7249 (16)* |
| 2 | **Subsidies** | 3480 (11) | 3215 (10) | 5132 (13) | 4904 (12) | 4772 (10) |
| 3 | **Grants in aid** | 1370 (4) | 1413 (4) | 3074 (8) | 3602 (8) | 4586 (10) |
| 4 | **General Services*** | 4550 (14) | 733 (2) | 764 (2) | 810 (2) | 1013 (2) |
| 5 | **Social Services*** | 1766 (5) | 1909 (6) | 2221 (6) | 2306 (6) | 2940 (6) |
| 6 | **Economic Services*** | 678 (2) | 887 (3) | 1059 (3) | 812 (2) | 486 (1) |
| 7 | **Compensation and assignments to ULBs/PRIs** | 640 (2) | 747 (2) | 544 (1) | 530 (1) | 604 (2) |
| | **Total Revenue expenditure** | **32897** | **33045** | **39458** | **41641** | **46614** |

*Source: Finance Accounts*
* Excluding salaries, interest payments and pensions
Figures in parenthesis represent percentage with total revenue expenditure

**Table 1.37** shows that during 2010-15, 62 to 73 *per cent* of revenue expenditure was on salaries, interest payments and pensions (Sr. No. 1). Expenditure on subsidies and grants-in-aid, which was between 14 *per cent* and 21 *per cent* during the period 2010-11 to 2014-15, is neither statutory nor developmental. Thus, the State Government needs to reconsider its priority on subsidy and grants-in-aid to ascertain whether it would be beneficial to discontinue subsidy and grant in aid to reduce current debt requirements and utilize the resultant savings for repayment of debt so that its interest payments come down.

### *1.10.4 Debt Sustainability in Punjab*

Debt sustainability is generally measured in terms of level of debt, primary deficit and interest cost in relation to nominal GDP. A falling Debt/GDP ratio can be considered as leading towards stability. The ratio of interest payments to revenue receipts is also used to measure debt sustainability. In this section, assessment of the sustainability of public debt is made using trends observed in critical variables.

### *1.10.4.1 Debt-GSDP Ratio*

The trend in the Debt-GSDP Ratio is an important indicator which signifies sustainability of the public debt and is presented in **Table 1.38**. In the State, Debt-GSDP ratio is hovering around 32 *per cent* during the last five years. As per RBI (State Finance–A Study of Budgets of 2014-15) consolidated Debt-GDP ratio is estimated at 21.2 *per cent* by the end of March 2015, much below the recommended target (24.3 *per cent*) stipulated by the TFC. Though the Debt-GSDP ratio of Punjab for 2014-15 (32.12 *per cent*) is within the limits specified by TFC (38.7 *per cent*), when compared to the average of 21.2 *per cent* in respect of all States, it is still on the higher side. Thus, the State needs to step up resource mobilisation efforts to ensure debt stability.

**Table 1.38: Trends in Debt-GSDP Ratio**

| Year | Total Debt (₹ crore) | GSDP of Punjab (₹ crore) | TFC Recommendations (Debt/GSDP (*per cent*)) | | Debt/GDP (*per cent*) (All States) | Debt/GSDP (*per cent*) (Punjab) |
|---|---|---|---|---|---|---|
| | | | All States | Punjab | | |
| 2010-11 | 74784 | 226204 | 26.7 | 42.5 | | 33.06 |
| 2011-12 | 83099 | 256374 | 26.1 | 41.8 | 22.6 | 32.41 |
| 2012-13 | 92282 | 285119 | 25.5 | 41.0 | 22.1 | 32.37 |
| 2013-14 | 102234 | 317556 | 24.9 | 39.8 | 21.5 (RE) | 32.19 |
| 2014-15 | 112366 | 349826 | 24.3 | 38.7 | 21.2 (BE) | 32.12 |

*Source: Report of TFC, Finance Accounts and GSDP figures obtained from the official website of Ministry of Statistics and Programme Implementation, Government of India (www.mospi.nic.in) as on 31st July 2015.*

### *1.10.4.2 Interest Payment*

The trend in the Interest Payment (IP)–Revenue Receipts (RR) Ratio is another important indicator to measure sustainability of public debt and is presented in **Table 1.39**. In the State, IP-RR Ratio was 19.98 by the end of March 2011, which increased to 22.96 *per cent* by the end of March 2015 which is the highest during the last five years. During 2013-15, the rate of growth of RR is around 11 *per cent*, while that of IP is 14 *per cent*. This is again an indication of debt un-sustainability.

**Table 1.39: Trends in Interest Payment –Revenue Receipts Ratio**

| Year | Revenue Receipts (RR) (₹ in crore) | Growth of RR over previous year (*per cent*) | Interest Payment (IP) (₹ in crore) | Growth of IP over previous year (*per cent*) | IP/RR (*per cent*) |
|---|---|---|---|---|---|
| 2010-11 | 27608 | 24.61 | 5515 | 10.06 | 19.98 |
| 2011-12 | 26234 | (-)4.98 | 6280 | 13.87 | 23.94 |
| 2012-13 | 32051 | 22.17 | 6831 | 8.77 | 21.31 |
| 2013-14 | 35104 | 9.53 | 7820 | 14.48 | 22.28 |
| 2014-15 | 39023 | 11.16 | 8960 | 14.58 | 22.96 |

*Source: Finance Accounts*

### *1.10.4.3 Buoyancy of Assets to Liabilities*

The ratio of aggregate assets to aggregate fiscal liabilities could also be considered a surrogate measure of quality of application of borrowed funds. **Table 1.40** shows the buoyancy of assets with respect to liabilities.

**Table 1.40: Buoyancy of Assets to Liabilities**

*(₹in crore and growth in per cent)*

| Period | Aggregate Liabilities | Aggregate Assets | Ratio of Assets to Liabilities | Annual Growth of Liabilities | Annual Growth of Assets | Buoyancy of Assets to Liabilities |
|---|---|---|---|---|---|---|
| 2010-11 | 74900 | 29304 | 39.12 | 9.97 | 5.39 | 0.54 |
| 2011-12 | 83322 | 30916 | 37.10 | 11.24 | 5.50 | 0.49 |
| 2012-13 | 92543 | 32730 | 35.37 | 11.07 | 5.87 | 0.53 |
| 2013-14 | 102275 | 35924 | 35.13 | 10.52 | 9.76 | 0.93 |
| 2014-15 | 112391 | 38450 | 34.21 | 9.89 | 7.03 | 0.71 |

*Source: Finance Accounts*

The ratio of assets to liabilities in 2014-15 was only 34.21 *per cent* as compared to 39.12 *per cent* in the year 2010-11. This means that over the years, the liabilities are growing faster than assets indicating the rising trend towards un-sustainability of debt.

### *1.10.5 Measures taken by Government of Punjab to bring down its debt*

Successive Finance Commissions had suggested measures to reduce the debt burden of States. However, it was observed that most of these recommendations had not been implemented by the State Government as summarized below:

- As against the recommendation of the Ninth and Tenth Finance Commissions to use borrowed funds for productive and capital expenditure, only 8 *per cent* to 19 *per cent* of borrowed funds (**Table 1.36**) were utilised for capital expenditure during the period 2010-15. Besides, Punjab had not been able to earn return on its investments which could meet its average rate of interest on market borrowings. Average rate of return on investment ranged between 0.01 and 0.05 whereas average rate of interest on government borrowings ranged between 7.73 and 8.35 as is evident from **Table 1.25**.

- The Eleventh Finance Commission recommended that incremental revenue receipts should be used to meet incremental interest burden and also suggested to use the surplus for the creation of a sinking fund to meet future debt obligations. Though the State Government had constituted (December 2006) a Sinking Fund for amortization of loans raised by it from the open market, it had not made any contribution to it since its inception as the State was unable to generate revenue surplus in any of the years.

- The salary bills of Punjab continued to be more than 35 *per cent* of revenue expenditure net of interest payments and pensions, which was a ceiling recommended by the Twelfth Finance Commission for this expenditure. These were actually between 44 *per cent* to 59 *per cent*.

- The Thirteenth Finance Commission recommended an adjustment path starting with 2010-11 for Punjab to eliminate the revenue deficit and bring down fiscal deficit to 3 *per cent* by 2014-15. The State Government, in order to achieve these targets of revenue deficit and fiscal deficit prepared a FCR for the State for the period 2010-11 to 2014-15. In this Roadmap, the State Government fixed targets for every individual item of expenditure and revenue

(***Appendix 1.10***) at such a level as to meet the targets of revenue deficit and fiscal deficit suggested by the TFC in the adjustment path.

However, during 2010-15, committed expenditure viz. salaries, and pension and other retirement benefits could not be brought down to the level as prescribed in the FCR. In order to compensate higher expenditure on this account capital expenditure was curtailed. Further, revenue receipts could not be brought up to the level as prescribed in FCR with the result that targets fixed for revenue deficit could not be achieved (***Appendix 1.10***).

Though the target for fiscal deficit was achieved except for 2014-15, but it was achieved by compressing the capital expenditure as shown in **Table 1.41.**

**Table 1.41: Targets of revenue deficit, fiscal deficit and capital expenditure vis-à-vis actuals**

***(₹in crore)***

| Year | Revenue Deficit (as *per cent* to GSDP) | | Fiscal Deficit (as *per cent* to GSDP) | | Capital expenditure | | |
|---|---|---|---|---|---|---|---|
| | Targets | Actuals | Targets | Actuals | Targets in FCR | Actuals | Shortfall (percentage) |
| 2010-11 | - | 2.34 | 3.50 | 3.16 | 4029 | 2384 | 1645 (41) |
| 2011-12 | 1.80 | 2.66 | 3.50 | 3.31 | 5418 | 1598 | 3820 (71) |
| 2012-13 | 1.20 | 2.60 | 3.50 | 3.28 | 6502 | 1916 | 4586 (71) |
| 2013-14 | 0.60 | 2.06 | 3.00 | 2.77 | 7802 | 2201 | 5601 (72) |
| 2014-15 | 0.00 | 2.17 | 3.00 | 3.10 | 9362 | 3318 | 6044 (65) |

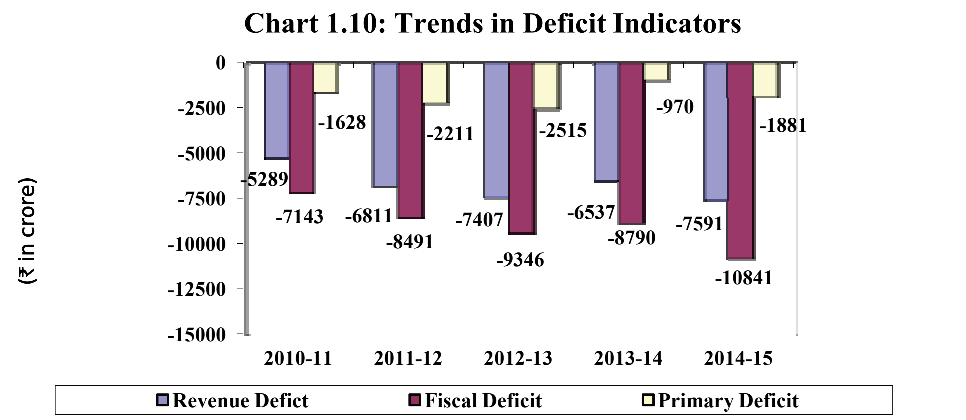
*Source: Finance Accounts*

## 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 during a specified period. 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 resources applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2014-15.

### *1.11.1 Trends in deficits*

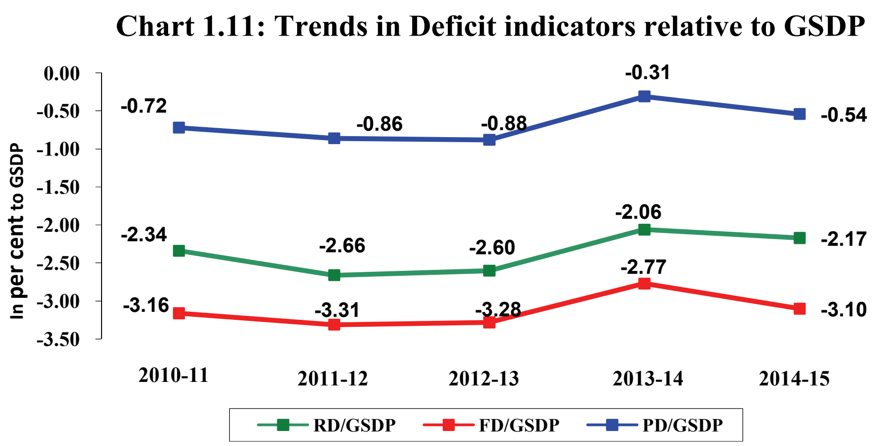
***(i)*** **Charts 1.10** and **1.11** present the trends in deficit indicators over the period 2010-15.




The revenue deficit which indicates the excess of revenue expenditure over the revenue receipts rose to the level of ₹ 7,591 crore (2.17 *per cent* of GSDP) in the current year from ₹ 5,289 crore (2.34 *per cent* of GSDP) in the year 2010-11. The State Government did not contain the revenue deficit within the limit of zero *per cent* prescribed in the FRBM (Amendment) Act, 2011 and FCR.

The fiscal deficit, which represents the total borrowings of the State i.e. its total resource gap, increased from ₹ 7,143 crore (3.16 *per cent* of GSDP) in 2010-11 to ₹ 10,841 crore in 2014-15 (3.10 *per cent* of GSDP). The State Government did not contain the fiscal deficit within the limit of three *per cent* prescribed in the FRBM (Amendment) Act, 2011 and FCR.

The primary deficit, which indicates the excess of primary expenditure (total expenditure net of interest payments) over non-debt receipt, was ₹ 1,628 crore (0.72 *per cent* of GSDP) in 2010-11 and rose to the level of ₹ 1,881 crore (0.54 *per cent* of GSDP) in the current year.




## *1.11.2 Components of fiscal deficit and its financing pattern*

The financing pattern of the fiscal deficit is reflected in the **Table 1.42.**

**Table 1.42: Components of Fiscal deficit and its financing pattern**

***(₹ in crore)***

| | Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|
| **Components of Fiscal Deficit (1+2+3)** | | 7143 (3.16) | 8491 (3.31) | 9346 (3.28) | 8790 (2.77) | 10841 (3.10) |
| 1 | **Revenue Deficit** | 5289 (2.34) | 6811 (2.66) | 7407 (2.60) | 6537 (2.06) | 7591 (2.17) |
| 2 | **Net Capital Expenditure** | 2383 (1.05) | 1598 (0.62) | 1916 (0.67) | 2200 (0.69) | 3117 (0.89) |
| 3 | **Net Loans and Advances** | -529 -(0.23) | 82 (0.03) | 23 (0.01) | 53 (0.02) | 133 (0.04) |
| **Financing Pattern of Fiscal Deficit*** | | | | | | |
| 1 | **Market Borrowings** | 4529 | 7740 | 8559 | 7255 | 7685 |
| 2 | **Loans from GoI** | 8 | -37 | -49 | 121 | 283 |
| 3 | **Special Securities issued to NSSF** | 693 | -924 | -503 | -339 | 925 |
| 4 | **Loans from Financial Institutions** | -248 | -855 | -956 | 421 | -745 |
| 5 | **Small Savings, PF etc.** | 1174 | 1640 | 1565 | 1964 | 1735 |
| 6 | **Deposits and Advances** | 642 | 436 | -66 | 192 | -402 |
| 7 | **Suspense and Miscellaneous** | -67 | 129 | 17 | -241 | -288 |
| 8 | **Remittances** | -19 | 11 | -6 | -110 | 3 |
| 9 | **Reserve Fund** | 12 | 315 | 632 | 339 | 650 |
| 10 | **Increase/Decrease in cash balance with RBI** | 419 | 36 | 152 | -812 | 995 |
| | **Overall Deficit** | **7143** | **8491** | **9346** | **8790** | **10841** |

*Source: Finance Accounts*
*Figures in brackets indicate percentage to GSDP.*
**All these figures are net of disbursements/outflows during the year.*

The fiscal deficit of the State was mainly met from market borrowings (₹ 7,685 crore), small savings, provident funds, etc. (₹ 1,735 crore).

### *1.11.3 Quality of deficit/surplus*

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistent high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of revenue deficit to fiscal deficit decreased from 74.04 *per cent* in 2010-11 to 70.02 *per cent* in 2014-15 ***(Appendix 1.8)***.

The bifurcation of the factors resulting into primary deficit of the Government during the period 2010-15 **(Table 1.43)** reveals that non-debt receipts of the State were not enough to meet the primary expenditure requirements.

**Table 1.43: Details of primary deficit during 2010-15**

*(₹ in crore)*

| Year | Non-debt receipts | Primary Revenue expenditure | Capital expenditure | Loans and advances disbursed | Primary expenditure | Primary deficit (-) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-6) |
| 2010-11 | 28206 | 27382 | 2384 | 68 | 29834 | (-)1628 |
| 2011-12 | 26329 | 26765 | 1598 | 177 | 28540 | (-)2211 |
| 2012-13 | 32225 | 32627 | 1916 | 197 | 34740 | (-)2515 |
| 2013-14 | 35217 | 33821 | 2201 | 165 | 36187 | (-)970 |
| 2014-15 | 39161 | 37654 | 3118 | 270 | 41042 | (-)1881 |

*Source: Finance Accounts*

## 1.12 Conclusions

During 2010-11 to 2014-15 the revenue receipts grew at an annual average rate of 8.27 *per cent* whereas revenue expenditure grew at an annual average rate of 8.34 *per cent*. The revenue expenditure continued to constitute a dominant portion (93 to 95 *per cent*) of the total expenditure during this period.

During the current year the capital expenditure increased by ₹ 917 crore (41.66 *per cent*) over the previous year. The capital expenditure during the current year (₹ 3,118 crore) was only 33.30 *per cent* of the projections made in the Fiscal Consolidation Roadmap (₹ 9,362 crore).

Thirty four projects, which were scheduled to be completed between 2008-09 and 2014-15, were incomplete. An amount of ₹ 654.32 crore was blocked in these incomplete projects.

The return on investment made by the Government in Statutory corporations, Government companies, Cooperative banks and Societies was between 0.01 and 0.05 *per cent* during 2010-11 to 2014-15, while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.73 and 8.35 *per cent* during the same period.

The ratio of financial assets to liabilities came down to 34.21 *per cent* in 2014-15 from 35.13 *per cent* in 2013-14.

During 2010-11 to 2014-15 total debt (including other liabilities) increased from ₹ 74,784 crore in 2010-11 to ₹ 1,12,366 crore in 2014-15.

Though the debt-GSDP ratio at 32.12 *per cent* was within the target fixed (38.7 *per cent*) under Fiscal Responsibility and Budget Management Act, yet the borrowed funds were mostly used for redemption of past debts. As much as 23 *per cent* of the revenue receipts were used to meet the burden of interest payments during current year.

Major portion of borrowings was utilised for repayment of earlier borrowings (47 to 70 *per cent*) and revenue expenditure (20 to 39 *per cent*). Only 8 to 19 *per cent* of the borrowings were utilized for capital expenditure during 2010-15. If this practice continues, Punjab would not be able to generate additional revenue to service its debt and it would have no option but to raise new borrowings every year to repay the borrowings of earlier years.

During the current year the revenue deficit rose to the level of ₹ 7,591 crore (2.17 *per cent* of GSDP) from a deficit of ₹ 5,289 crore (2.34 *per cent* of GSDP) in 2010-11. The State Government did not contain the revenue deficit within limit of zero *per cent* prescribed in the FRBM (Amendment) Act, 2011 and FCR.

The fiscal deficit increased from ₹ 7,143 crore (3.16 *per cent* of GSDP) in 2010-11 to ₹ 10,841 crore in 2014-15 (3.10 *per cent* of GSDP). The State Government did not contain the fiscal deficit within the limit of three *per cent* prescribed in the FRBM (Amendment) Act, 2011 and FCR.

The primary deficit was ₹ 1,628 crore (0.72 *per cent* of GSDP) in 2010-11 and rose to the level of ₹ 1,881 crore (0.54 *per cent* of GSDP) in the current year.

## 1.13 Recommendations

*The Government may consider:*

*(i) according due priority to capital expenditure, obtaining better value for the investments and utilizing the debt receipts for asset creation;*

*(ii) forming a committee to asses the reasons for insufficient return on investment from Statutory corporations, Government companies, Cooperative banks and Societies and to suggest the remedial measures; and*

*(iii) making all out efforts to meet the targets fixed under the Fiscal Responsibility and Budget Management Act to eliminate/bring down its revenue deficit and fiscal deficit.*