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 2017-18 and analyses changes observed in the movement of major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. ***Appendix 1.1*** contains socio-economic profile of Punjab and ***Appendix 1.2*** contains the structure of the Government Accounts and layout of the Finance Accounts of the State Government.

1.1.1 Profile of the State

Punjab is an agrarian State. The State is located in the north-western corner of India. It spreads over a geographical area of 50,362 sq km and ranks 19th among States in terms of area. It has been organized into 22 districts. The districts have further been divided into 90 sub-divisions, 149 blocks and 12,581 inhabited villages.

As per 2011 census, the State's population increased from 2.44 crore in 2001 to 2.77 crore in 2011 recording a decadal growth of 13.52 *per cent*. The population of the State accounts for 2.29 *per cent* of the country's population and ranks 15th among States in terms of population. The population density of the State increased from 484 persons per sq km in 2001 to 551 persons per sq km in 2011 which is higher than the national average population density of 382 persons per sq km. The State's Gross State Domestic Product (GSDP) in 2017-18 at current prices was ₹ 4,71,301 crore. The State's literacy rate increased from 69.70 *per cent* (as per 2001 census) to 75.80 *per cent* (as per 2011 census) ***(Appendix 1.1)***. The per capita income of the State for 2017-18 was ₹ 1,40,872.

1.1.2 Gross State Domestic Product

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

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

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Current Prices					
India's GDP (**₹ in crore**)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (***per cent***)	12.97	10.99	10.40	10.82	9.96
State's GSDP (**₹ in crore**)	3,32,147	3,55,102	3,90,087	4,28,340	4,71,301
Growth rate of GSDP (***per cent***)	11.56	6.91	9.85	9.81	10.03

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Growth rate of Neighbouring States					
Haryana	15.05	9.44	11.18	12.25	11.58
Himachal Pradesh	14.42	9.51	9.23	9.60	9.40
Constant Prices (Base year - 2011-12)					
India's GDP (**₹ in crore)**	98,01,370	1,05,27,674	1,13,86,145	1,21,96,006	1,30,10,843
Growth rate of GDP **(*per cent*)**	6.39	7.41	8.15	7.11	6.68
State's GSDP **(₹ in crore)**	2,99,450	3,12,125	3,30,052	3,52,421	3,72,423
Growth rate of GSDP **(*per cent*)**	6.63	4.23	5.74	6.78	5.68

Source: Official website of Economic & Statistical Organization, Government of Punjab (www.esop.gov.in)

1.1.3 Salient features of financial management of the State Government

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

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

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

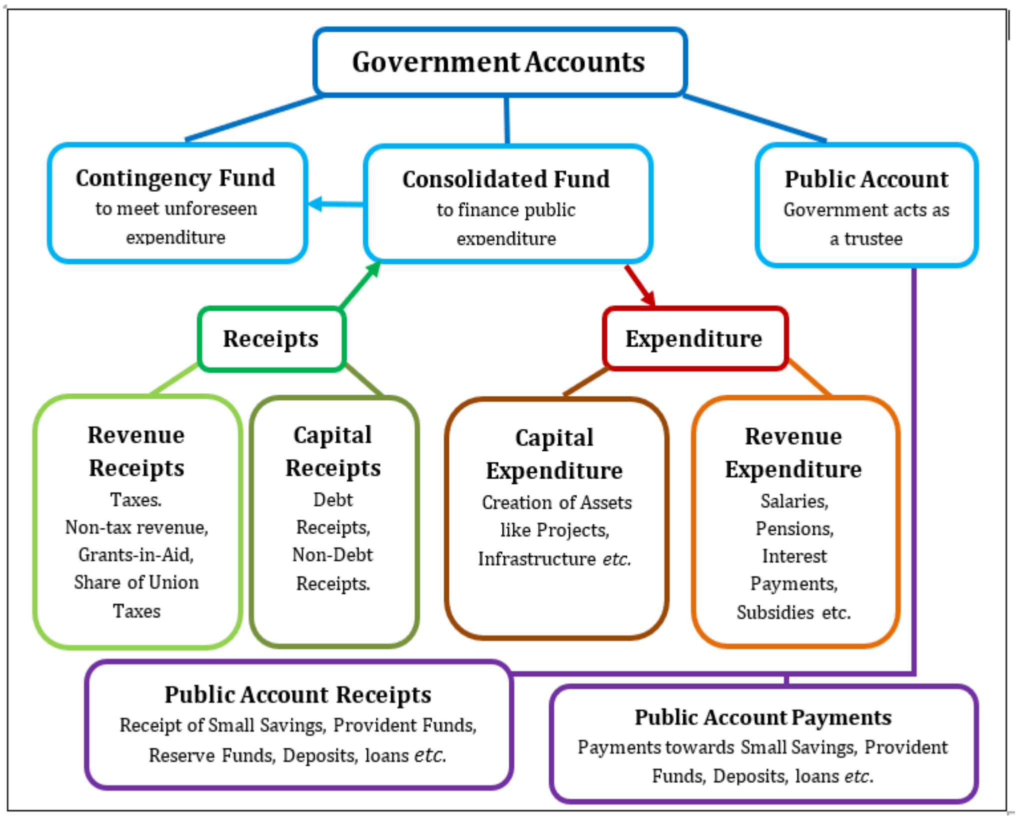
The FFC also recommended to the State Government to adopt a template for collating, analysing and annually reporting the total extended public debt in the budget, as a supplement to the budget, to assess the debt position of the State in the context of risks arising from guarantees, off-budget borrowings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

As of March 2018, the State Government had not amended its FRBM Act as per recommendations of the FFC. However, Fiscal Consolidation Roadmap for 2015-20 was prepared in 2017-18.

1.1.4 Summary of fiscal transactions

Government finances generally comprise the following:

Chart 1.1: Structure of Government Accounts



Source: Finance Account

Table 1.2 presents the summary of the State Government's fiscal transactions during the year 2017-18 *vis-à-vis* those of 2016-17. ***Appendix 1.3 (Part A and B)*** provides the abstract of receipts and disbursements for the year 2017-18 *vis-à-vis* those of 2016-17 as well as the summarized financial position of the State Government as on 31 March 2018.

Table 1.2: Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements		
	2016-17	**2017-18**		**2016-17**	**2017-18**
Section A: Revenue					
Revenue receipts	**47,985.42**	**53,009.58**	**Revenue expenditure**	**55,296.05**	**62,464.85**
Tax revenue	27,746.66	30,423.25	General services	28,487.93	34,499.50
Non-tax revenue	5,863.20	4,318.39	Social services	15,672.10	15,469.74
Share of Union taxes/ duties	9,599.73	10,616.94	Economic services	10,217.61	11,194.41
Grants from GoI	4,775.83	7,651.00	Grants-in-aid and Contributions	918.41	1,301.20
Section B: Capital and Public Account					
Misc. Capital Receipts	**0.41**	**0.12**	**Capital Outlay**	**4,346.30**	**2,352.08**
Recoveries of Loans and Advances	**180.93**	**73.07**	**Disbursement of Loans and Advances**	**41,364.12**	**760.05**
Public Debt receipts	**55,234.21**	**18,516.74***	**Public Debt repayments**	**4,050.38**	**7,486.90**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**	**0.00**
Public Account receipts#	**52,723.92**	**47,083.44**	**Public Account disbursements#**	**50,599.95**	**45,525.90**
			Proforma adjustment of prior period	**58.18**	**0.00**
Opening Cash Balance	**(-)14.63**	**395.28**	**Closing Cash Balance**	**395.28**	**488.45**
Total	**1,56,110.26**	**1,19,078.23**	**Total**	**1,56,110.26**	**1,19,078.23**

Source: Finance Accounts of the respective years.
** Includes net transaction of ₹434.45 crore under Ways and Means Advances.*
 # Public Account receipts/disbursements have been shown in this table as gross figures and at other places in the Report as net of disbursement. Further, these exclude transactions of investment of cash balances and departmental cash in chests. The net effect of these transactions is included in the opening and closing cash balances.

Composition and application of resources in the Consolidated Fund of the State during 2017-18 is given in **Chart 1.2** and **Chart 1.3**.

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

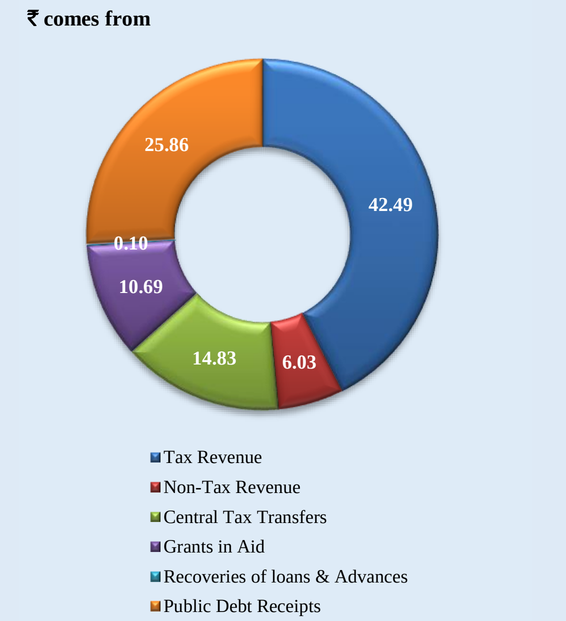
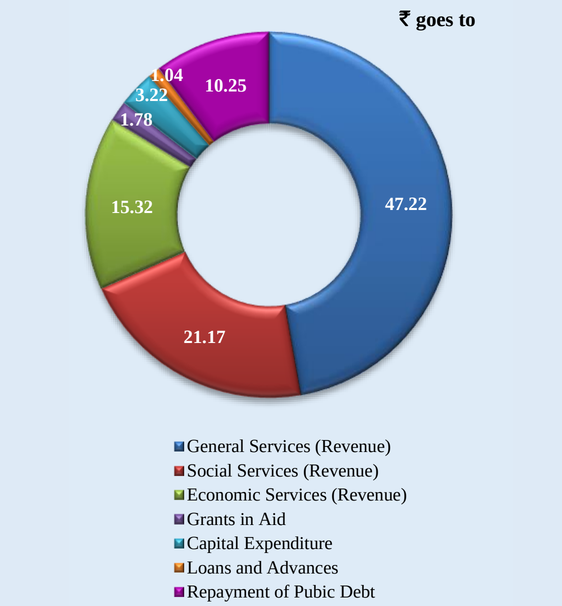


Chart 1.3: Application of Resources
(In *per cent*)



Source: Finance Accounts

The following are the major changes in fiscal transactions during 2017-18 over the previous year:

- Revenue receipts increased by ₹ 5,024 crore (10.47 *per cent*) which is due to increase in tax revenue (₹ 2,677 crore: 9.65 *per cent*), share of Union taxes and duties (₹ 1,017 crore: 10.60 *per cent*) and grants from GoI (₹ 2,875 crore: 60.20 *per cent*). There was increase in Grants-in-aid from GoI in 2017-18 as compared to 2016-17, offset by decrease in non-tax revenue by ₹ 1,545 crore (26.35 *per cent*) as detailed in paragraph 1.3.1.2. Grants-in-aid of ₹ 7,651 crore include compensation of ₹ 4,037 crore for loss of revenue arising out of implementation of Goods and Services Tax.
- Revenue expenditure increased by ₹ 7,169 crore (12.96 *per cent*), primarily due to increase in revenue expenditure on general services (₹ 6,012 crore: 21.10 *per cent*). There was significant increase in Interest Payments by ₹ 3,692.20 crore (31.72 *per cent*), Pension and Other Retirement Benefits (₹ 1,435.05 crore: 16.36 *per cent*) and Miscellaneous General Services (₹ 592.83 crore: 1,060.94 *per cent*). Revenue expenditure on economic services increased by ₹ 977 crore (9.56 *per cent*) followed by grants-in-aid and contributions (₹ 383 crore: 41.68 *per cent*). Revenue expenditure on social services decreased by ₹ 202 crore (1.29 *per cent*) mainly due to decline of expenditure on Information and Broadcasting (79 *per cent*), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (44 *per cent*) and Social Welfare and Nutrition (10 *per cent*).
- Public debt receipts in 2017-18 decreased by ₹ 36,717 crore (66.48 *per cent*) as compared to the previous year. During 2016-17 Public debt receipts reached an all-time high of ₹ 55,324 crore mainly **due to raising of long term loans during 2016-17 (₹ 29,920 crore) by the State Government for one time settlement of Legacy Cash Credit Accounts for food procurement operations and issuing of Bonds (₹ 10,031 crore) for clearing debts of Punjab State Power Corporation Limited (PSPCL) in compliance with the implementation of Ujwal Discom Assurance Yojana (UDAY) during the previous year, as discussed in paragraph 1.1.5.** Public debt repayments showed an increase of ₹ 3,437 crore (84.84 *per cent*).
- Public account receipts and disbursements decreased by ₹ 5,640 crore (10.70 *per cent*) and ₹ 5,074 crore (10.03 *per cent*) respectively.
- Net closing cash balances increased by ₹ 93 crore (23.57 *per cent*).

1.1.5 One time transactions affecting fiscal parameters

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

1.1.5(a) Ujwal DISCOM Assurance Yojana

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

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

As per MoU, GoP committed to take over 50 *per cent* (₹ 10,418.84 crore) of the Punjab DISCOM debt in 2015-16 and 25 *per cent* (₹ 5,209.42 crore) in 2016-17. The State Government would raise this amount through issue of bonds. Amount raised was to be disbursed to the DISCOM as loans. The State Government committed to convert the loan of ₹ 15,628.26 crore into grant (₹ 11,728.26 crore) and equity (₹ 3,900.00 crore) during 2019-20.

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

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

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

1.1.5(b) Settlement of Cash Credit Limit

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

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

The State procuring agencies obtains cash credit limit[1] (CCL) carrying interest rates ranging from 9.10 *per cent* to 13.05 *per cent* from the consortium of banks led by SBI before the start of every procurement season. On delivery of food grain to FCI, the expenses incurred by SPAs on procurement, storage and delivery of food grain are reimbursed, which are credited against CCL. However, the actual expenditure incurred by the SPAs were higher than the rates finalised by GoI. Further, the SPAs incurred expenditure on different items[2] which were not eligible for reimbursement like losses on disposal of damaged/rejected wheat, loss on account of open market sale of damaged paddy, difference between simple interest (as paid by GoI) and quarterly compound interest on incidental charges (as charged by RBI). As a result, there is difference between actual cost incurred by SPAs on procurement operations and amounts reimbursed by GoI which results in liabilities under CCL remaining unsettled. Difference between actual expenditure incurred and expenditure reimbursed by GoI works out to ₹ 376.60[3] per metric tonne.

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

Table 1.3: Details of accumulation of unsettled CCL

(₹ in crore)

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

Source: State Government information *KMS : Kharif Marketing Season; RMS : Rabi Marketing Season*

Government of Punjab (GoP) entered into a long term loan agreement of ₹ 31,000 crore at interest rate of 8.25 *per cent* per annum with State Bank of

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

[2] *Loss on account of damaged food grain, custody and maintenance charges, administrative charges and interest born due to time gap between procurement and reimbursement of cost of procurement.*

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

India on 31 December 2016 for one-time settlement of outstanding CCL accounts. The loan was to be repaid by 2036. Against this agreement, a loan of ₹ 30,584 crore was raised during 2016-17 against which ₹ 29,920 crore[4] was given as loans to SPAs in 2016-17 for the purpose. Rate of interest to be charged from SPAs on these loans has not yet been fixed. An amount of ₹ 26 crore was recovered by the State Government from the SPAs during 2017-18.

As per agreement, this loan is being repaid by the State Government in monthly instalments of ₹ 270 crore including interest. Total loan to be repaid by December 2036 worked out to ₹ 64,800 crore including interest. Against the outstanding amount, the State Government repaid ₹ 3,240 crore (Principal: ₹ 810 crore and interest ₹ 2,430 crore) during 2017-18. Thus, the State had to bear financial burden of ₹ 3,214 crore (₹ 3,240 crore - ₹ 26 crore repaid by the SPAs) during 2017-18.

On account of these additional borrowings of ₹ 29,920 crore and borrowings of ₹ 4,263 crore under UDAY the fiscal deficit in 2016-17 increased to 10.99 *per cent* from 4.45 *per cent* in 2015-16. **Payment of interest on additional borrowings under CCL and UDAY impacted the fiscal deficit and revenue deficit by ₹ 2,453 crore during 2017-18.**

1.1.6 Review of the fiscal situation

The Fourteenth Finance Commission (FFC) and the State Government set fiscal targets to be achieved during 2017-18. The Government of India, while reiterating the targets set by FFC, recommended evaluation of fiscal parameters with the estimated GSDP (₹ 4,70,137 crore[5]) for 2017-18. Though, the State Government did not amend its FRBM Act during 2017-18 as per recommendations of the FFC, the targets set by FFC and proposed in the State budget *vis-à-vis* achievements in respect of major fiscal aggregates with reference to the estimated GSDP are given in **Table 1.4**.

Table 1.4: Targets *vis-à-vis* achievements in respect of major fiscal aggregates for the year 2017-18

Fiscal variables	Targets as prescribed by FFC	Targets in the Budget	Actuals (as per estimated GSDP)	Percentage variation of actuals over	
				Targets of FFC	Targets in Budget
Revenue Deficit/GSDP (*per cent*)	(-)1.40	(-)3.18	(-) 2.01	(-) 0.61	1.17
Fiscal Deficit/GSDP (*per cent*)	(-)3.00	(-)4.96	(-) 2.66	0.34	2.30
Ratio of total outstanding debt of the Government to GSDP (*per cent*)	30.96	41.88	41.51	10.55	(-)0.37

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

- During the year 2017-18, though the Government was able to contain the revenue deficit within the level projected in the budget estimates, it was higher than the ratio fixed by FFC.
- Revenue Deficit was 17.84 *per cent* of revenue receipts.

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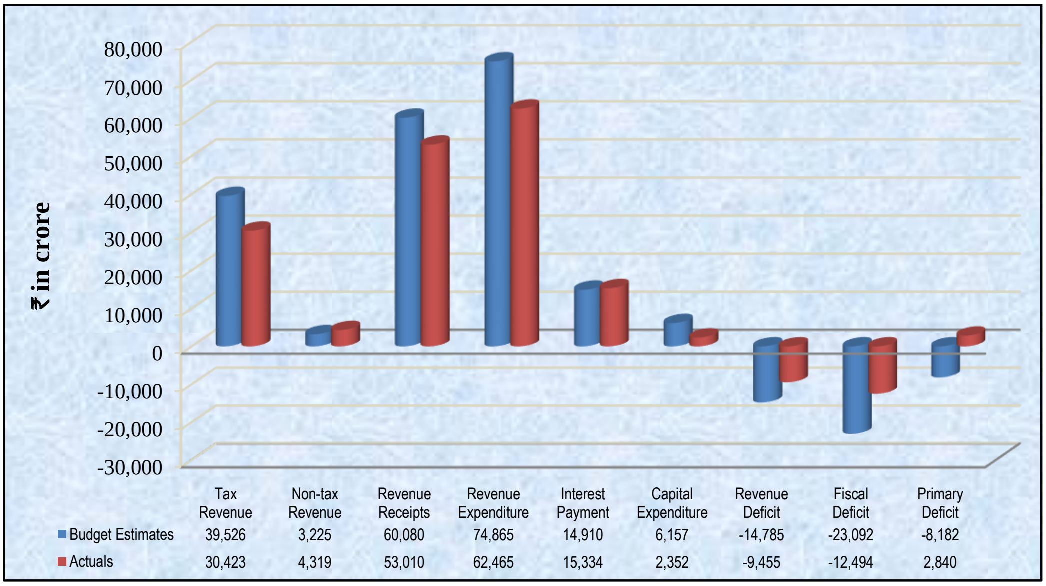
4 *Net loan raised (₹30,584 crore - ₹664 crore repaid during January–March 2017).*
5 *GoI's letter No. 40(6) PF-1/2009 Vol. III dated 28 August 2017.*

- The fiscal deficit-GSDP ratio remained within the norm prescribed by the FFC and as projected in the State budget estimates. However, the Government could not contain the Debt-GSDP ratio within norms prescribed by FFC though the same was within the ceiling projected in the budget estimates.

1.1.7 Budget estimates and actuals

The budget presented by the State Government provides description of projections or estimates of revenue and expenditure for a particular fiscal year. It is desirable that the estimation of revenue and expenditure should be made as accurately as possible so that reasons for variations can be analysed. The budget estimates *vis-à-vis* actuals in respect of various fiscal parameters for the year 2017-18 are given in ***Appendix 1.4.*** The budget estimates *vis-à-vis* actuals in respect of important fiscal parameters are given **in Chart 1.4**.

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



Source: Budget Estimates and Finance Accounts

- During the year 2017-18, total revenue receipts (₹ 53,010 crore) remained lower than budget estimate by ₹ 7,070 crore (11.77 *per cent*). This was primarily on account of tax revenue being lower by ₹ 9,103 crore (23.03 *per cent*) than the budget estimates. This shortfall was partially compensated by grant-in-aid from GoI of ₹ 4,037 crore on account of loss of revenue arising from implementation of Goods and Services Tax (GST) with effect from July 2017.

- Non-tax revenue was higher than the budget estimates by ₹ 1,094 crore (33.92 *per cent*).

- The revenue expenditure and the capital expenditure remained lower by ₹ 12,400 crore (16.56 *per cent*) and ₹ 3,805 crore (61.80 *per cent*) respectively, whereas the interest payments were higher than budget estimates by ₹ 424 crore (2.84 *per cent*).

- Capital expenditure during 2017-18 (₹ 2,352 crore) was less by 61.80 *per cent* of the projection made in the budget estimates (₹ 6,157 crore).
- The actual revenue, fiscal and primary deficits were less than those anticipated in the budget.

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

1.1.8 Buoyancy Ratios

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

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

	2013-14	2014-15	2015-16	2016-17	2017-18
GSDP (₹ in crore)	3,32,147	3,55,102	3,90,087	4,28,340	4,71,301
Rate of Growth of GSDP (in *per cent*)	11.56	6.91	9.85	9.81	10.03
Revenue Receipts (RR)					
RR during the year (₹ in crore)	35,104	39,023	41,523	47,985	53,010
Rate of growth of RR (in *per cent)*	9.52	11.16	6.41	15.56	10.47
Buoyancy of RR with GSDP	0.82	1.62	0.65	1.59	1.04
Own Tax Revenue					
Own Tax Revenue during the year (₹ in crore)	24,079	25,570	26,690	27,747	30,423
Rate of Growth of Own Tax Revenue (in *per cent*)	6.61	6.19	4.38	3.96	9.64
Buoyancy of Own Tax Revenue with GSDP	0.57	0.90	0.44	0.40	0.96
Total Expenditure (TE)					
TE during the year (₹ in crore)	44,007	50,002	59,101	1,01,006	65,577
Rate of Growth of TE (in *per cent*)	5.86	13.62	18.20	70.90	-35.08
Buoyancy of TE with GSDP	0.51	1.97	1.85	7.23	-3.50
Fiscal Liabilities					
Fiscal Liabilities (₹ in crore)	1,02,234	1,12,366	1,28,835	1,82,526	1,95,152
Rate of Growth (in *per cent*)	10.78	9.91	14.66	41.67	6.92
Buoyancy of Fiscal liabilities with GSDP	0.93	1.43	1.49	4.25	0.69

Source: Finance Accounts of respective years

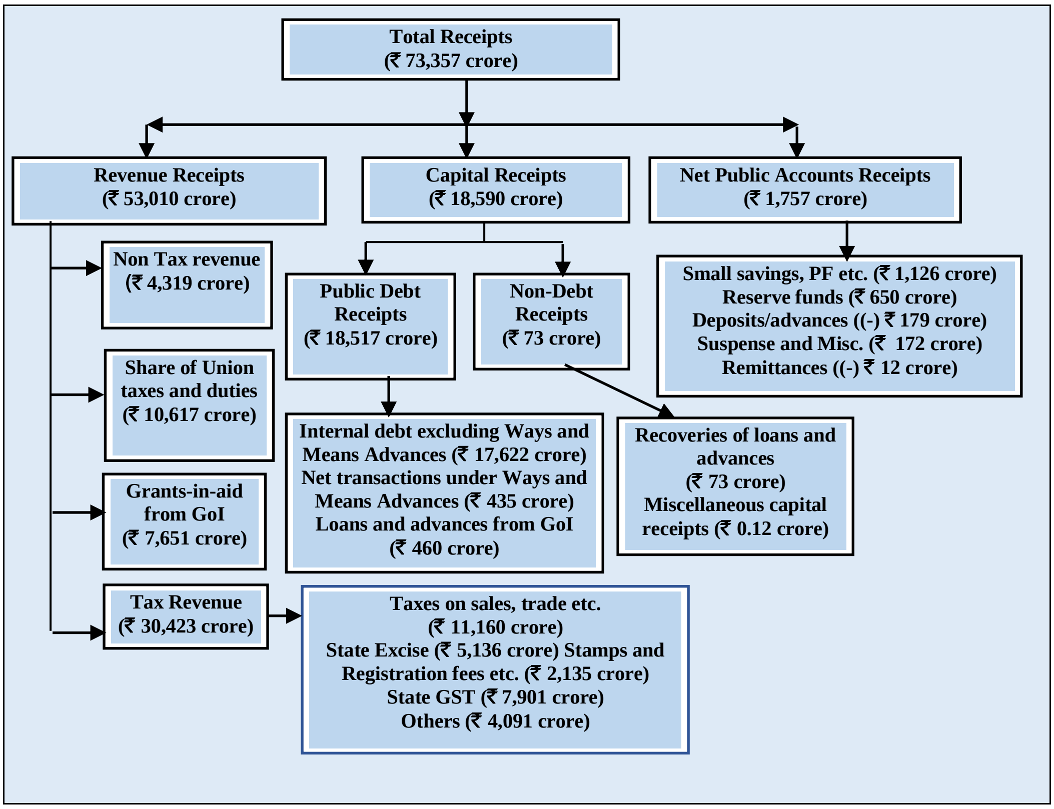
Table 1.5 shows that the buoyancy of revenue receipts with respect to GSDP was lower, while that of own tax revenue was higher during 2017-18 as compared to previous year. The growth rate of total expenditure and fiscal liabilities was less than the growth rate of GSDP during the same period.

1.2 Resources of the State

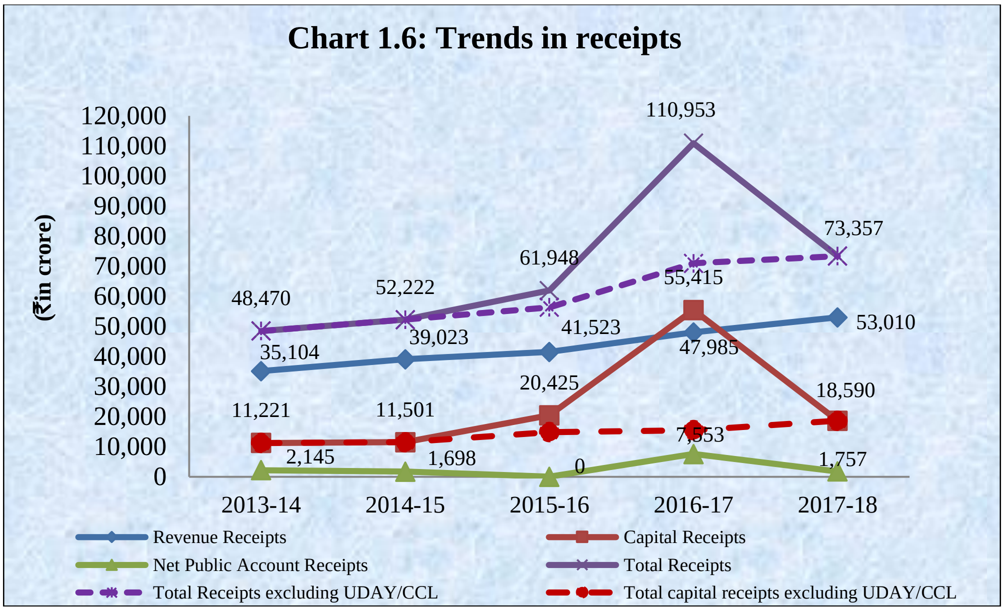
1.2.1 Receipts of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. Besides, there are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund. These are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. **Chart 1.6** depicts the trends in various components of receipts of the State during 2013-14 to 2017-18. The position of total receipts of the State is depicted in **Chart 1.5**.

Chart 1.5: Composition of receipts of the State during 2017-18

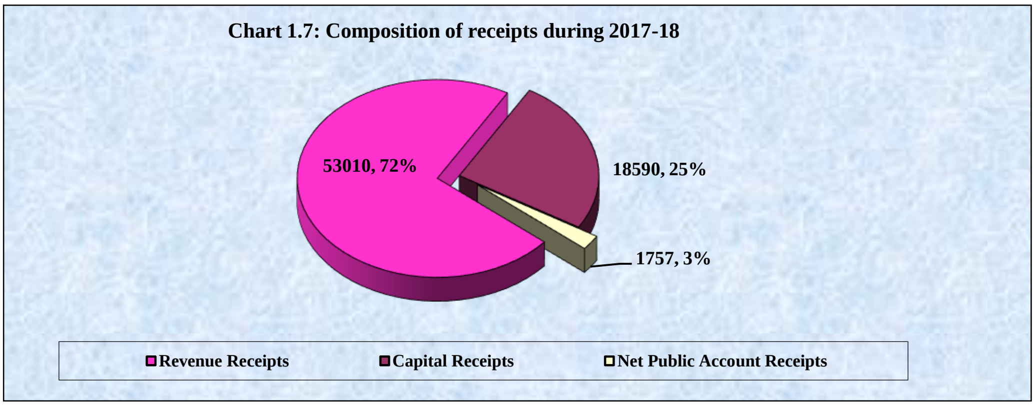


Source: Finance Accounts



- During the period 2013-14 to 2017-18, revenue receipts increased from ₹ 35,104 crore to ₹ 53,010 crore.
- The net public account receipts first decreased from ₹ 2,145 crore in 2013-14 to zero in 2015-16 then increased sharply to ₹ 7,553 crore in 2016-17 and again decreased to ₹ 1,757 crore during the current year mainly due to decrease in receipt of Treasury cheques and Cash balance investments.
- Capital receipts also had an increasing trend as it increased from ₹ 11,221 crore in 2013-14 to ₹ 55,415 in 2016-17 but again decreased to ₹ 18,590 crore in 2017-18 as discussed in paragraph 1.1.5.

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



Source: Finance Accounts

During the year 2017-18, contribution of revenue receipts, capital receipts and net public account receipts towards total receipts of the State was 72 *per cent,* 25 *per cent* and three *per cent* respectively as compared to 43 *per cent,* 50 *per cent* and seven *per cent* in 2016-17.

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Government of India (GoI) had been transferring sizeable amount of funds directly to the State implementing agencies for implementation of various schemes/ programmes in the social and economic sectors. From 2014-15 onwards, GoI decided (May 2014) to route these funds through State budget. During the year 2017-18, an amount of ₹ 2,047.59 crore was released directly to the State implementing agencies/organizations **(Table 1.6)**, which was an increase of 3.09 *per cent* over the previous year (₹ 1,986.12 crore).

Table 1.6: Funds transferred directly to State implementing agencies

(₹in crore)

Sr. No.	Government of India Scheme	Implementing agency	Amount
1	Food Subsidy	Punjab State Grains Procurement Corporation Limited,	796.33
2	National Rural Employment Guarantee Scheme (MGNREGA)	The Punjab State Rural Employment Guarantee Society	479.49
3	Works under Roads Wing	Government Contractors	250.38
4	National Highway Authority of India	1. Era Infra Engineering Limited 2. Competent Authority for Land Acquisition cum SDM Barnala, Patran 3. Executive Engineer-Central Works Division, Punjab, PWD B & R Sangrur at Patiala 4. Punjab State Power Corporation Limited, Patiala 5. Executive Engineer, Water Supply and Sanitation Division No.1 Tarn Taran	150.63
5	MPs Local Area Development Scheme (MPLADS)	Deputy Commissioners	97.50
6	Grants to States E&I from CRF	Government Contractors	55.12
7	National Aids and STD Control Programme (NACO)	Punjab State Aids Control Society	27.26
8	National Heritage Cities Programme	Amritsar Municipal Corporation	22.03
9	S&T Institutional and Human Capacity Building	Educational Institutions	20.10
10	Bio-technology Research and Development	Educational Institutions	16.03
11	Other Schemes	Miscellaneous Agencies	132.72
Total			**2,047.59**

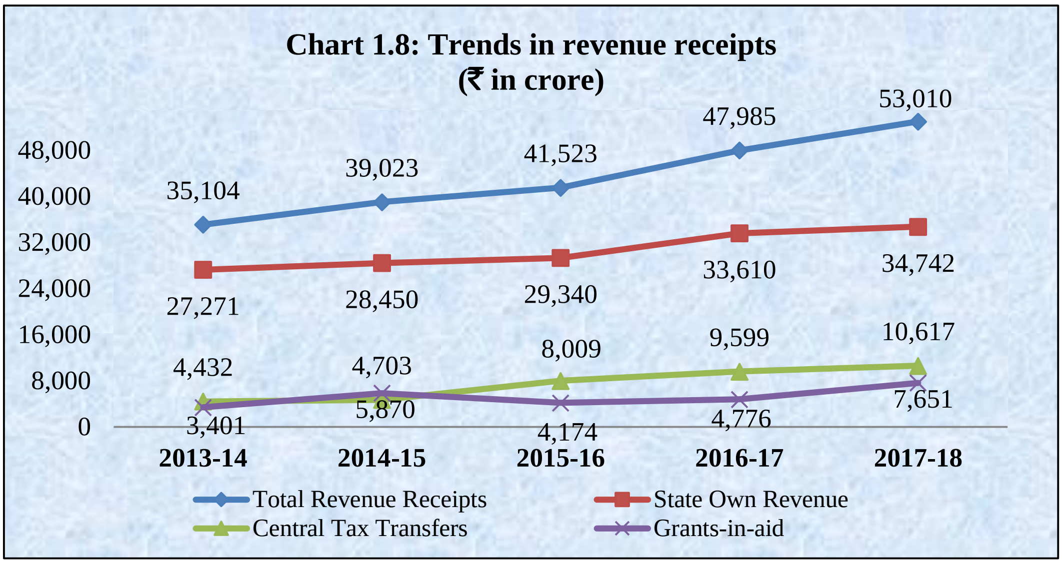
Source: Finance Accounts

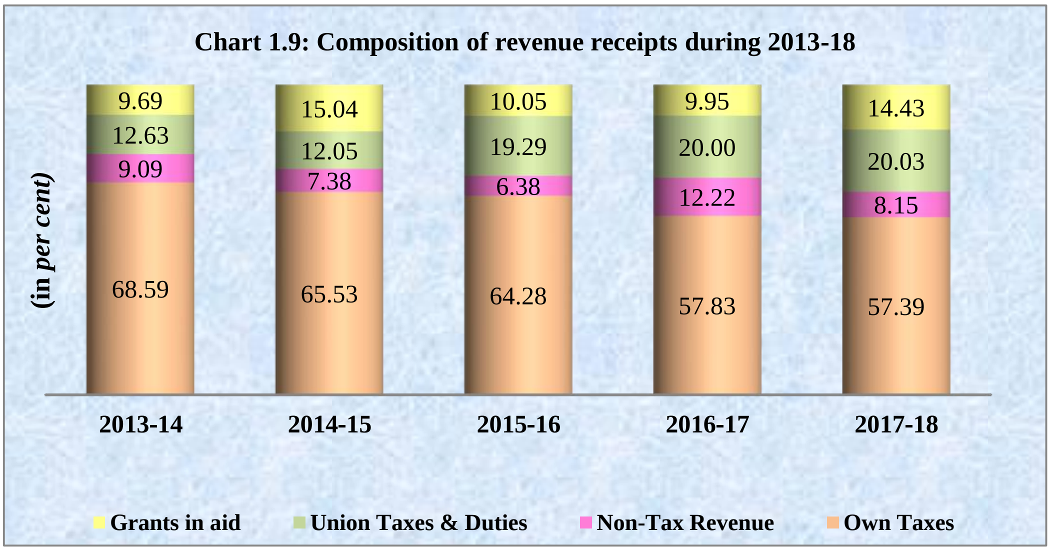
Out of total funds of ₹ 3,293.43 crore transferred by GoI to implementing agencies (including the agencies other that State implementing agencies) in the State, an amount of ₹ 2,047.59 crore (62 *per cent*) was released to the State implementing agencies.

1.3 Revenue receipts

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

The trends and composition of revenue receipts during the period 2013-14 to 2017-18 are presented in ***Appendix 1.5*** and also depicted in **Charts 1.8** and **1.9** respectively.





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

Table 1.7: Trends in revenue receipts

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts (RR) (₹ in crore)	**35,104**	**39,023**	**41,523**	**47,985**	**53,010**
Rate of growth of RR (*per cent*)	9.52	11.16	6.41	15.56	10.47
RR/GSDP (*per cent*)	10.57	10.99	10.64	11.20	11.25
Own tax revenue (₹ in crore)	24,079	25,570	26,690	27,747	30,423
Rate of growth of own tax revenue (*per cent*)	6.61	6.19	4.38	3.96	9.64
Buoyancy Ratios[6]					
Revenue buoyancy w.r.t GSDP	0.82	1.62	0.65	1.59	1.04
State's own tax buoyancy w.r.t GSDP	0.57	0.90	0.44	0.40	0.96

Source: Finance Accounts

- The revenue receipts increased from ₹ 35,104 crore in 2013-14 to ₹ 53,010 crore in 2017-18 at an annual average growth rate of 10.62 *per cent*. The ratio of revenue receipts to GSDP remained around 11 *per cent* during 2013-18 though it increased from 10.57 in 2013-14 to 11.25 *per cent* in 2017-18.
- The revenue buoyancy with reference to GSDP fluctuated between 0.65 and 1.62 during 2013-18. **The decrease in revenue buoyancy with respect to GSDP in 2017-18 *vis-à-vis* the previous year was primarily due to decrease in non-tax revenue of the State.**
- The State's own tax buoyancy with reference to GSDP increased from 0.57 in 2013-14 to 0.96 in 2017-18.

1.3.1 State's own resources

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

The State's actual tax and non-tax receipts for the year 2017-18 *vis-à-vis* assessment made by Fourteenth Finance Commission (FFC) and Budget Estimates are given in **Table 1.8.**

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

	FFC projections	Budget Estimates	Actual	Percentage variation of actual over	
				FFC projections	Budget estimates
Own Tax revenue	43,390	39,526	30,423	(-)29.88	(-)23.03
Non-tax revenue	3,816	3,225	4,319	13.18	33.92

Source: Report of FFC, Annual Financial Statement 2017-18 and Finance Accounts

Own–tax revenue of the State Government fell short of projections made by FFC and the budget estimates by 29.88 *per cent* and 23.03 *per cent* respectively, whereas, non-tax revenue was higher by 13.18 *per cent* and 33.92 *per cent* than the projections made by FFC and the budget estimates respectively.

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

1.3.1.1 Tax revenue

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

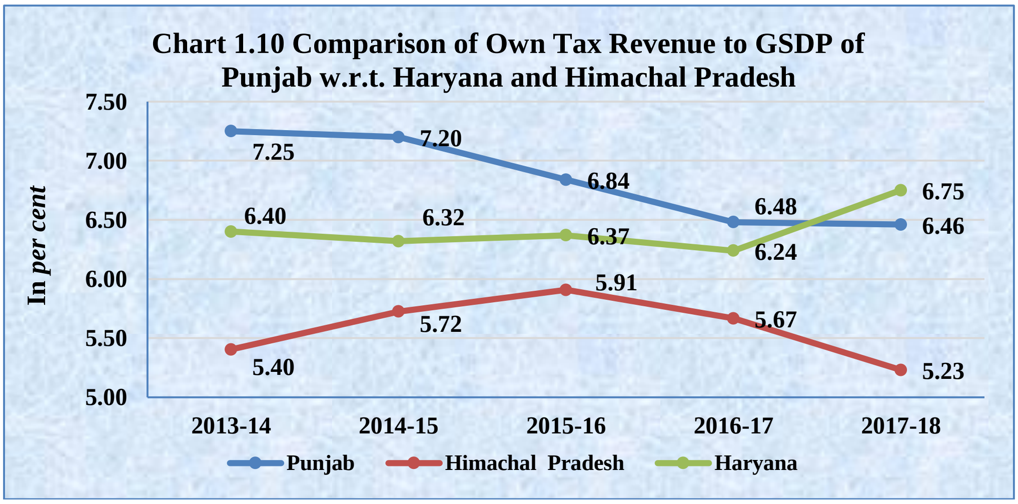
Table 1.9: Components of State's own tax revenue

(₹in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18
Taxes on Sales, Trades etc.	14,847(12)	15,455 (4)	15,857 (3)	17,587 (11)	11,160*
State Goods and Services Tax	-	-	-	-	7,901*
State Excise	3,765 (13)	4,246 (13)	4,796 (13)	4,406 (-8)	5,136 (17)
Taxes on Vehicles	1,146 (15)	1,394(22)	1,475(6)	1,548 (5)	1,911 (23)
Stamp Duty and Registration fees	2,500(-14)	2,474(-1)	2,449(-1)	2,044(-17)	2,135(4)
Land Revenue	42(14)	47(12)	55(17)	68(24)	91(34)
Taxes and Duties on Electricity	1,710(-16)	1,875(10)	1,968(5)	1,993(1)	2,053(3)
Other taxes and duties on commodities and services[7]	69(38)	79(14)	90(14)	101(12)	36*
Total Own Tax Revenue	**24,079(7)**	**25,570(6)**	**26,690(4)**	**27,747(4)**	**30,423(10)**

Source: Finance Accounts
Figures in parenthesis show rate of growth over previous year
** Tax realized being not of full year, rate of growth is not comparable.*

The total own tax revenue increased by ₹ 2,676 crore (9.64 *per cent*) during the current year over the previous year. Additionally, the State Government received an amount of ₹ 4,037 crore as compensation on account of loss of revenue arising out of implementation of GST with effect from July 2017, which was provided by GoI as Grant-in-aid, as discussed in paragraph 1.3.1.3.



Ratio of own tax revenue to GSDP of Punjab remained higher than that of Haryana and Himachal Pradesh during 2013-17. However, during 2017-18, it was marginally lower at 6.46 *per cent* as compared to Haryana (6.75 *per cent*) and higher than Himachal Pradesh (5.23 *per cent*).

(a) Goods and Services Tax

State Government implemented the Goods and Services Tax (GST) Act which

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

became effective from 1st July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure was finalised under GST Act. **In case of Punjab, the revenue was ₹ 14,471.77 crore during the base year (2015-16). The projected revenue for any year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) cumulatively over the base year revenue of that State.**

The projected revenue for the year 2017-18 (1st July 2017 to 31st March 2018) in accordance with the base year figure was ₹ 14,105.70 crore. Revenue figure under GST for the year 2017-18 has been depicted in Finance Accounts as per nature of receipts i.e. State Goods and Services (SGST) Tax, Input Tax Credit cross utilisation of SGST and IGST (Integrated Goods & Services Tax), apportionment of IGST-transfer-in of tax component to SGST and Advance apportionment from IGST. **Against the projected revenue of ₹ 14,105.70 crore, the revenue receipt of the State Government under GST during the year 2017-18 is given in Table 1.10.**

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

(₹ in crore)

Month	Monthly revenue to be protected	Pre-GST taxes collected#	SGST collected	Provisional apportionment of IGST	Total amount received	Compensation received	Deficit (-)/ Surplus (+)
	1	2	3	4	5=(2+3+4)	6	7={1-(5+6)}
July 2017	1,567.30	991.98	0.91		992.89	0	(-)574.41
August 2017	1,567.30	145.35	577.16		722.51	0	(-)844.79
September 2017	1,567.30	94.88	1,217.87		1,312.75	0	(-)254.55
October 2017	1,567.30	184.27	956.35		1,140.62	616.00	(+) 189.32
November 2017	1,567.30	27.08	933.54		960.62	1,482.00	(+) 875.32
December 2017	1,567.30	(-)54.60	832.55		777.95	0	(-)789.35
January 2018	1,567.30	42.03	950.95		992.98	740.00	(+) 165.68
February 2018	1,567.30	57.72	885.40	633.00	1,576.12	0	(+) 8.82
March 2018	1,567.30	96.30	913.41		1,009.71	1,199.00	(+) 641.41
Total	**14,105.70**	**1,585.01**	**7,268.14**	**633.00**	**9,486.15**	**4,037.00**	**(-)582.55**

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

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

(b) Advance apportionment from IGST

The GoI is to apportion IGST to State Governments under sections 17 of the IGST Act, 2017. The State Tax Division, Ministry of Finance, Department of Revenue (GoI) sanctioned (February 2018) provisional/ advance settlement of apportionment of ₹ 633 crore with the condition that amount will be adjusted in the year 2018-19 from the regular settlement of IGST on the basis of monthly returns in ten equal installments starting from April 2018. **However, the GoI adjusted this ₹ 633 crore against the bi-monthly compensation due to the State for November-December 2017. The GoI released only ₹ 740 crore in January 2018 after adjusting ₹ 633 crore advance apportionment towards compensation for the bi-monthly period.** The State Government had not taken up the matter with GoI regarding adjustment of apportionment amount of ₹ 633 crore as compensation payable to the State during 2017-18 instead of during 2018-19 as stipulated by Ministry of Finance letter no.S-31013/16/2017-ST-1-DOR/2 dated 21 February 2018. **Thus, there was an overall shortfall of ₹ 582.55 crore in receipt of compensation as on 31 March 2018.**

1.3.1.2 Non-tax revenue

In the year 2017-18, the share of non-tax revenue in total revenue receipts went down to 8.15 *per cent* from 12.22 *per cent* in the previous year. The non-tax revenue decreased by 26.35 *per cent* during the current year over the previous year. The composition and growth in State's non-tax revenue is given in **Chart 1.11 and Table 1.11.**

Chart 1.11: Non-Tax Revenue: 2013-14 to 2017-18

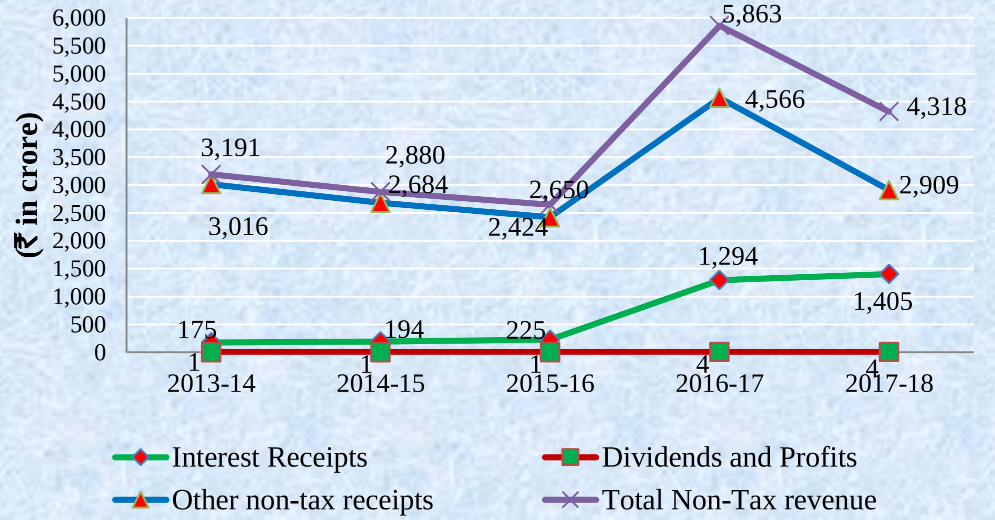


Table 1.11: Components of State's non-tax revenue

(₹ in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18
Interest Receipts	174.68 (2)	193.88 (11)	225.28 (16)	1,293.80 (474)	1,404.94 (9)
Dividends and Profits	1.46 (342)	1.48 (1)	1.46 (-1)	3.88 (166)	4.45 (15)
Misc. General Services[8]	1,640.32 (15)	1,473.47 (-10)	999.84 (-32)	3,028.08 (203)	1,478.97 (-51)
Road Transport	199.68 (-10)	161.67 (-19)	148.49 (-8)	213.89 (44)	158.69 (-26)
Other non-tax receipts[9]	1,175.35 (44)	1,049.23 (-11)	1,275.20 (22)	1,323.55 (4)	1,271.34 (-4)
Total Non-Tax revenue	**3,191.49 (21)**	**2,879.73 (-10)**	**2,650.27 (-8)**	**5,863.20 (121)**	**4,318.39 (-26)**

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

8 *Unclaimed deposits, State Lotteries, Sale of land and property, Guarantee Fees and Other Receipts.*

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

During the current year, the decrease of ₹ 1,544.81 crore in total non-tax revenue over the previous year was mainly due to decrease of ₹ 1,549.11 crore in miscellaneous general services. **The sudden increase in interest receipts during 2016-17 was mainly due to interest receipts of ₹ 1,072.79 crore against loans given to Punjab State Power Corporation Limited (PSPCL) during 2015-16 and 2016-17 for implementation of UDAY.**

1.3.1.3 Grants-in-aid from GoI

The position of grants-in-aid received during the period 2013-14 to 2017-18 is presented in **Table 1.12.**

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

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Non-Plan Grants	**1,064.11**	**2,003.87**	**1,274.64**	**1,610.35**	**0.00**[10]
Plan Grants of which					
Grants for State Plan Schemes	1,058.26	3,597.61	2,320.12	2,523.14	162.81
Grants for Central Plan Schemes	7.67	80.06	341.76	78.65	3,096.13
Grants for Centrally Sponsored Plan Schemes	1,271.34	188.41	237.20	563.69	(-) 0.63
Finance Commission Grants					355.69
Other Transfer/Grants to States (GST Compensation)	--	--	--	--	4,037.00
Total plan grants	**2,337.27**	**3,866.08**	**2,899.08**	**3,165.48**	**3,614.00**
Total grants	**3,401.38**	**5,869.95**	**4,173.72**	**4,775.83**	**7,651.00**
Percentage increase in grants over previous year	22.55	72.58	(-)28.90	14.43	60.20
Percentage of total grants to revenue receipts	9.69	15.04	10.05	9.95	14.43

Source: Finance Accounts

Grants-in-aid from GoI increased at an annual average rate of 28.17 *per cent* during the period 2013-14 to 2017-18. It decreased by 28.90 *per cent* in 2015-16 over 2014-15 and again increased by 60.20 *per cent* in the current year over the previous year. **This significant increase was mainly because the total grant of ₹ 7,651 crore received during the year 2017-18 included compensation of ₹ 4,037 crore on account of loss of revenue arising out of implementation of GST which is 52.76 *per cent* of total grant.** **Table 1.12** shows that the contribution of grants-in-aid towards revenue receipts increased from 9.69 *per cent* in 2013-14 to 14.43 *per cent* in 2017-18.

1.3.1.4 Central tax transfer

The actual release of share in Union taxes and duties to State Government during 2010-18 *vis-à-vis* projections made by Thirteenth Finance Commission and Fourteenth Finance Commission is tabulated in **Table 1.13.**

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

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

(₹in crore)

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

Source: Reports of the TFC & FFC, Finance Accounts and AFS.

* *Fiscal Consolidation Roadmap (FCR) for the years 2015-16 to 2019-20 was prepared by the State Government in 2017-18 and the actual tax devolution figures for the year 2015-16 and 2016-17 were adopted as the projected figures for the respective years.*

State Government's share in Union taxes increased by ₹ 1,017 crore (10.59 *per cent*) during 2017-18 over the previous year.

1.3.1.5 Cost of collection

The figures of major own tax receipts, expenditure incurred on collection of these own taxes and percentage of such expenditure to components of own tax revenue receipts *vis-à-vis* All India Average percentage are given in ***Appendix 1.6***. During the period 2013-14 to 2016-17, **the percentage of cost of collection to total collection in respect of various components of State's own tax revenue is lower than the All India average[11] except in case of taxes on sales, trades etc. during 2015-16 and State Excise during 2016-17.**

1.4 Capital receipts

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

[11] *Data in respect of All India average for the year 2017-18 was not available.*

Table 1.14: Trends in growth and composition of capital receipts

(₹in crore)

Sources of State's Receipts	2013-14	2014-15	2015-16	2016-17	2017-18
Capital Receipts	**24,253.30**	**31,361.21**	**38,646.75**	**83,808.46**	**46,072.61**
Miscellaneous Capital Receipts	0.51	0.52	0.26	0.41	0.12
Recovery of Loans and Advances	112.30	137.15	218.45	180.93	73.07
Public Debt Receipts	**24,140.49**	**31,223.54**	**38,428.04**	**83,627.12**	**45,999.42***
Internal Debt	*23,762.52*	*30,656.92*	38,162.71	82,972.18	45,539.11
Growth rate	*8.28*	*29.01*	*24.48*	*117.42*	*(-)45.12*
Loans and advances from GoI	*377.97*	*566.62*	265.33	654.94	460.31
Growth rate	*70.30*	*49.91*	*(-)53.17*	*146.84*	*(-)29.72*
Rate of growth of debt Capital Receipts	8.90	29.34	23.07	117.62	(-)44.99
Rate of growth of non-debt capital receipts	(-)35.28	22.04	58.87	(-)17.09	(-)59.64
Rate of growth of GSDP	11.56	6.91	9.85	9.81	10.03
Rate of growth of Capital Receipts (*per cent*)	8.56	29.31	23.23	116.86	(-)45.03

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

******Including gross figure under Ways and Means Advances of ₹27,917.13 crore.*

During the current year, the public debt receipts decreased by ₹ 37,628 crore (45 *per cent*) over the previous year due to the reason discussed in paragraph 1.1.5.

If this one-time effect of ₹ 39,951.15 crore during 2016-17 is set aside, the public debt receipts would register an increase of ₹ 2,323.45 crore (five *per cent*) over the previous year. Besides, recovery of loans and advances decreased by ₹ 107.86 crore (*60 per cent*) over the previous year.

1.5 Public Account receipts

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

Table 1.15: Trends in Public Account Receipts and Disbursements during 2016-17 and 2017-18

(₹ in crore)

Source of State Receipts	Public Account Receipts		Disbursement from Public Account		Excess of receipts over disbursements	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
Small Savings, Provident Funds, etc.	3,373.38	3,521.99	2,140.71	2,395.79	1,232.67	1,126.20
Reserve Funds	1,345.98	729.95	187.66	79.84	1,158.32	650.11
Deposits and Advances	5,943.42	3,112.08	5,827.53	3,291.54	115.89	(-)179.46
Suspense and Miscellaneous*	53,808.39	48,010.70	48,762.16	47,838.10	5,046.23	172.60
Remittances	77.92	109.50	77.79	121.70	0.13	(-)12.20
Total	**64,549.09**	**55,484.22**	**56,995.85**	**53,726.97**	**7,553.24**	**1,757.25**

Source: Finance Accounts of respective years

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

The receipts exceeded the disbursement in Public Account by ₹ 1,757.25 crore during 2017-18. **However, excess of receipts over disbursement during 2017-18 was less than the corresponding figure of 2016-17. The main reasons are discussed below:**

- **Reserve Funds : There was decline in excess of receipts over disbursement under Major Head 8121-'General and Other Reserve Funds' from ₹ 1,158.95 crore in 2016-17 to ₹ 641.79 crore in 2017-18. Receipts under this major head during 2016-17 were higher than 2017-18 primarily due to disinvestment of ₹ 400.00 crore under Minor Head 126-'State Disaster Response Fund-Investment Account' during 2016-17. Receipts under this head was lower by ₹ 216.10 crore in 2017-18 than the previous year due to which there was decline in excess of receipts over disbursements during 2017-18.**

- **Suspense and Miscellaneous: The excess of receipts over disbursement mainly decreased under Major Head 8673-'Çash Balance Investment Account' from ₹ 5,180.21 crore in 2016-17 to Nil in 2017-18. Under this Head, transactions of the State Government by way of investment of its cash balances in short and long term securities and loans i.e. treasury bills of GoI and GoI Securities or loans of the other State Government are recorded. The amount appearing on the disbursement side of this Head is the total of amount invested for short or long period during the course of the year and on the receipt side the total of the amounts realized on maturity (less the discount earned or interest derived there-from) during the year. There was decrease in receipts (encashment) of ₹ 2,564.99 from ₹ 10,391.92 crore in 2016-17 to ₹ 7,826.83 crore in 2017-18 due to lesser investment of cash balances during 2017-18 as compared to financial year 2016-17.**

1.6 Application of resources

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

1.6.1 Growth and composition of expenditure

Chart 1.12 presents the trends of total expenditure over the period of the last five years (2013-18). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Chart 1.13** and **1.15** respectively.

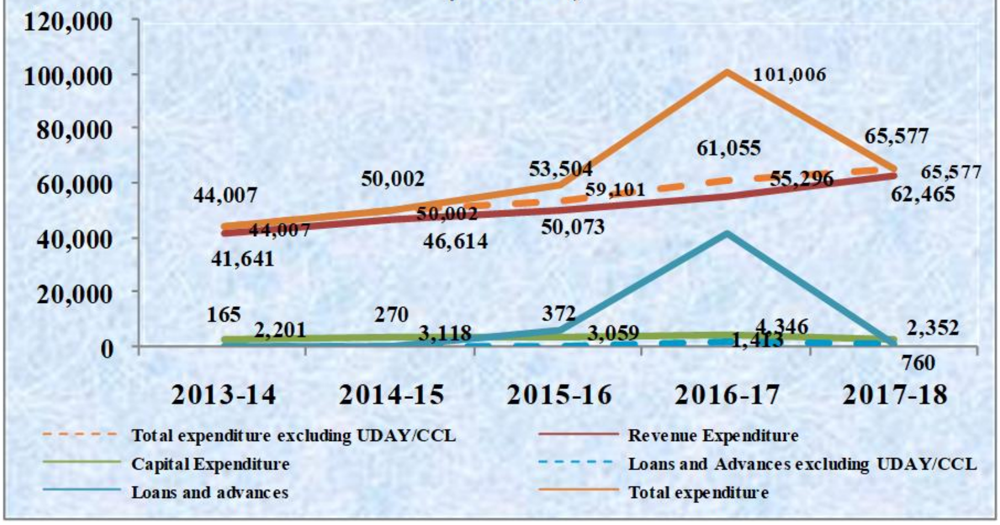


Chart 1.12: Total expenditure: Trends and Composition
(₹ in crore)

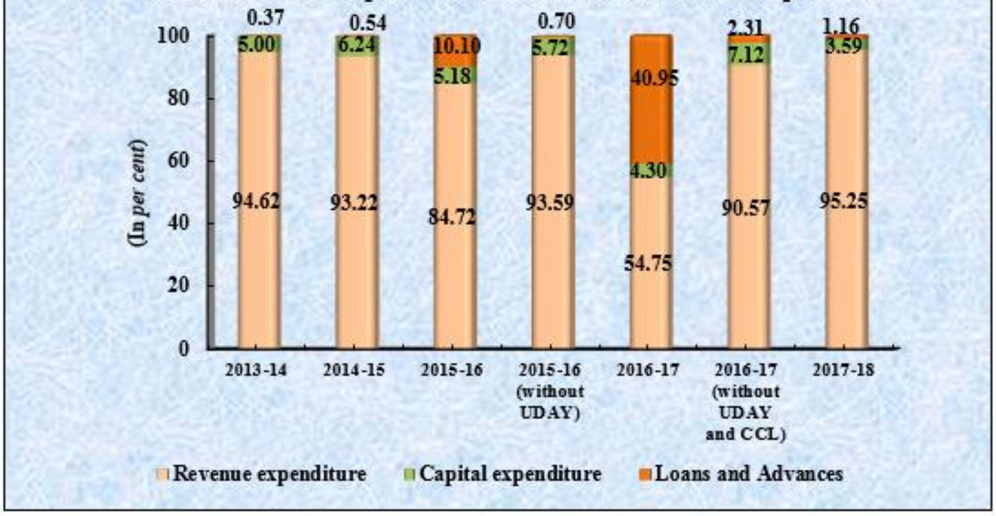


Chart 1.13: Total Expenditure: Trends in share of its components

The total expenditure of the State Government increased by ₹ 56,999 crore (129.52 *per cent*) from ₹ 44,007 crore in 2013-14 to ₹ 1,01,006 crore in

2016-17 due to increase in loans and advances as discussed in paragraph 1.1.5. In 2017-18, it decreased to ₹ 65,577 crore i.e. ₹ 35,429 crore (35.08 *per cent*) from the previous year.

Revenue expenditure increased by ₹ 7,169 crore (12.96 *per cent*), capital expenditure decreased by ₹ 1,994 crore (45.88 *per cent*) and disbursement of loans and advances decreased by ₹ 40,604 crore (98.16 *per cent*) during the current year over the previous year. The revenue expenditure constituted dominant proportion (85 to 95 *per cent*) of the total expenditure during 2013-18 **(Chart 1.12 and *Appendix 1.5*)**.

Table 1.16 presents the growth of revenue expenditure over five years (2013-18).

Table 1.16: Growth of Revenue Expenditure

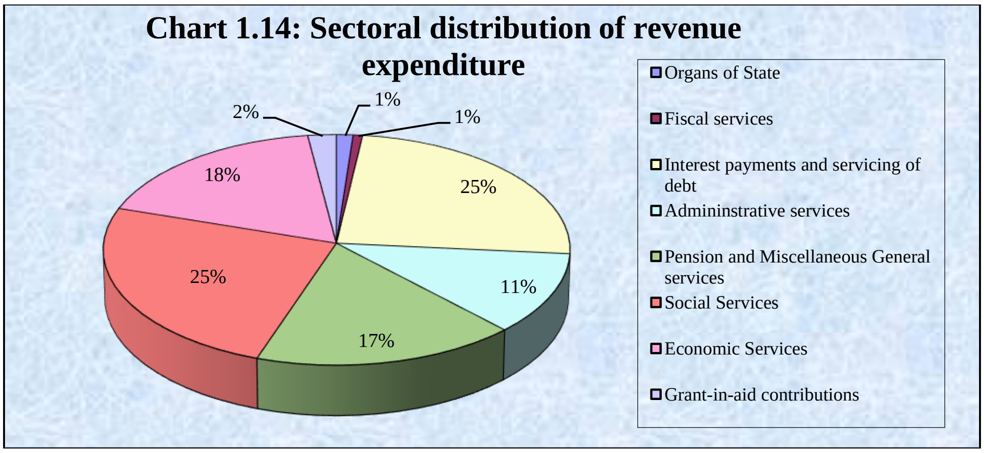
(₹ in crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue expenditure	41,641	46,614	50,073	55,296	62,465
Growth rate (*per cent*)	5.53	11.94	7.42	10.43	12.96
Revenue expenditure as percentage of GSDP	12.54	13.13	12.84	12.91	13.25

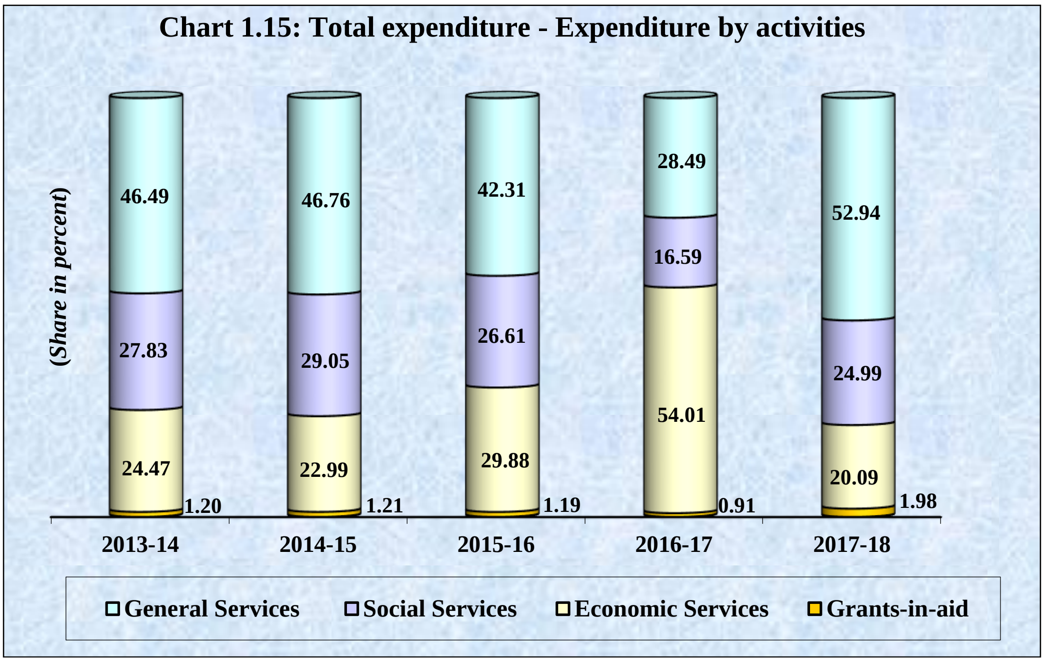
Source: Finance Accounts of respective years

During 2013-18, the revenue expenditure increased by ₹ 20,824 crore (50 *per cent*) at an annual average growth rate of 9.66 *per cent*, whereas as percentage of GSDP it grew at an annual average growth rate of 12.93 *per cent* during the period 2013-18.

The revenue expenditure increased by ₹ 7,169 crore (12.96 *per cent*) from ₹ 55,296 crore in 2016-17 to ₹ 62,465 crore in 2017-18. **The overall increase is the result of significant increase under the Heads Interest Payments (₹ 3,692.20 crore: 31.72 *per cent*), Crop Husbandry (₹ 1,739.73 crore: 38.00 *per cent*), Pension and Other Retirement Benefits (₹ 1,435.05 crore: 16.36 *per cent*), Miscellaneous General Services (₹ 592.83 crore: 1,060.94 *per cent*), General Education (₹ 543.60 crore: 6.41 *per cent*), Social Security and Welfare (₹ 242.64 crore: 16.31 *per cent*).** However, there was decrease in revenue expenditure mainly under Relief on account of Natural Calamities (₹ 385.21 crore: 57.58 *per cent*), Power (₹ 297.30 crore: 18.41 *per cent*), Other Administrative Services (₹ 251.82 crore: 32.06 *per cent*) and Information and Publicity (₹ 145.24 crore: 78.95 *per cent*). The sector-wise distribution of revenue expenditure is shown in **Chart 1.14**.



During the current year, capital expenditure decreased by ₹ 1,994 crore (45.88 *per cent*) over the previous year. **The decrease was mainly under capital outlay on Roads and Bridges (₹ 661.52 crore: 49.55 *per cent*), Command Area Development (₹ 380.02 crore: 96.51 *per cent*), Flood Control Projects (₹ 344.04 crore: 83.74 *per cent*), Medium Irrigation (₹ 257.55 crore: 63.21 *per cent*), Education, Sports, Art and Culture (₹ 150.37 crore: 68.34 *per cent*), Housing (₹ 97.10 crore: 104.00 *per cent*) and Other General Economic Services (₹ 87.96 crore: 69.83 *per cent*). Capital expenditure remained between four and six *per cent* of the total expenditure during 2013-18.**



The movement of relative share of various components of expenditure **(Chart 1.15)** indicates that the **share of general services in total expenditure increased from 46.49 *per cent* in 2013-14 to 52.94 *per cent* in 2017-18, that of social services decreased from 27.83 *per cent* to 24.99 *per cent;* and economic services decreased from 24.47 *per cent* to 20.09 *per cent* during 2013-18.** Development Expenditure i.e. 'expenditure on social and economic services' decreased from 52.30 *per cent* in 2013-14 to 45.08 *per cent* in 2017-18.

1.6.2 Committed expenditure

The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.17** presents the trends in expenditure on these components during 2013-14 to 2017-18.

Table 1.17: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	2017-18
					BE	Actuals
Salaries and Wages#	14,852 (42)	16,304 (42)	17,437 (42)	18,504 (39)	21,321 (35)	20,030 (38)
Under Non-Plan Head	*14,496*	*15,615*	*17,032*	*17,959*	*0*	*0*[12]
*Under Plan Head**	*356*	*689*	*405*	*545*	*21,321*	*20,030*
Interest Payments	7,820 (22)	8,960 (23)	9,782 (24)	11,642 (24)	14,910 (25)	15,334 (29)
Pensions	6,277 (18)	7,249 (19)	7,833 (19)	8,773 (18)	10,147 (17)	10,208 (19)
Subsidies	4,904 (14)	4,772 (12)	5,080 (12)	5,823 (12)	10,805 (18)	6,982 (13)
Total Committed Expenditure	**33,853**	**37,285**	**40,132**	**44,742**	**57,183**	**52,554**
Total Revenue Expenditure	**41,641**	**46,614**	**50,073**	**55,296**	**74,865**	**62,465**
Total Committed Expenditure to Revenue Expenditure (*per cent*)	**81.30**	**79.99**	**80.15**	**80.91**	**76.38**	**84.13**
Revenue Receipts	**35,104**	**39,023**	**41,523**	**47,985**	**60,080**	**53,010**

Source: Finance Accounts. Figures in parenthesis indicate percentage to Revenue Receipts.
 # Salaries (2017-18): ₹19,430.31 crore + Wages (2017-18): ₹599.94 crore.
**Plan Head includes centrally sponsored schemes.*

Table 1.18 presents the targets of various components of committed expenditure *vis-à-vis* actuals during 2017-18.

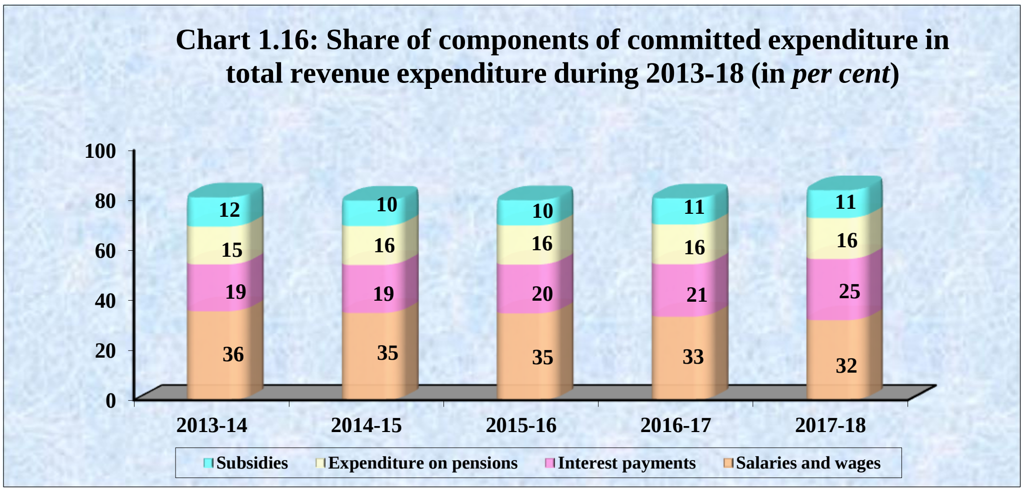
Table 1.18: Committed expenditure *vis-à-vis* targets during 2017-18

(₹in crore)

Item	FFC	2017-18	
		BE	Actuals
Salaries	--	20,724	19,430
Interest payments	11,425	14,910	15,334
Pensions	9,165	10,147	10,208
Subsidies	--	10,805	6,982
Of which Power Subsidy	--	*10,255 (95)*	*6,578 (94)*

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

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



1.6.2.1 Salaries

Table 1.17 shows that during 2017-18, expenditure on salaries increased by ₹ 1,724 crore (9.74 *per cent*) over the previous year. Actuals of salaries was less than the budget estimates by 6.24 *per cent* during 2017-18. It accounted for 38 *per cent* of revenue receipts. Committed expenditure on salary and wages constituted 32 *per cent* of the revenue expenditure **(Chart 1.16)**.

1.6.2.2 Interest payments

Table 1.17 shows that during the period from 2013-14 to 2017-18, interest payments consumed 22 to 29 *per cent* of revenue receipts. Interest payments increased over the previous year by ₹ 3,692 crore (32 *per cent*), which were mainly due to increase of ₹ 3,569 crore in interest payments on internal debt during 2017-18. Interest Payments also exceeded the targets fixed by FFC and State Budget by ₹ 3,909 crore and ₹ 424 crore respectively. The committed expenditure on interest payments constituted 25 *per cent* of the revenue expenditure **(Chart 1.16)**.

1.6.2.3 Pension payments

Table 1.17 shows that during 2017-18, pension payments recorded a growth of ₹ 1,435 crore (16.35 *per cent*) over the previous year. Pension payment exceeded the projections of FFC and budget estimates by ₹ 1,043 crore (11.38 *per cent*) and ₹ 61 crore (0.60 *per cent*) respectively. The committed expenditure on pension payments constituted 16 *per cent* of the revenue expenditure **(Chart 1.16)**.

(i) New Pension Scheme

The State Government introduced a New Contributory Pension Scheme (NPS) in December 2006 to cover employees, who entered Punjab Government Service[13] on or after 1 January 2004. Under the scheme, contribution at the rate of 10 *per cent* of the basic pay plus Dearness Allowance was to be

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

recovered from the salary of the employees as employee's share, which, after adding matching Government's contribution, was to be invested in a pension fund regulated by Pension Fund Regulatory and Development Authority (PFRDA).

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

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

Table 1.19: Details of contribution and investment under NPS

(₹in crore)

Year	Receipts				Payments (Transferred to Pension Fund)			
	Employees share	Govt. contribution	Interest	Total	Employees share	Govt. contribution	Interest	Total
2008-09	35.27	33.59	0	68.86	0	0	0	0
2009-10	40.67	40.67	0	81.34	0	0	0	0
2010-11	54.31	51.90	26.86	133.07	1.23	1.23	0	2.46
2011-12	104.32	85.00	22.45	211.77	25.95	25.90	0	51.85
2012-13	178.96	196.53	24.01	399.50	142.55	142.50	0.87	285.92
2013-14	221.02	229.8	22.78	473.60	237.51	237.48	0.1	475.09
2014-15	304.56	289.88	21.35	615.79	404.80	403.55	3.69	812.04
2015-16	388.56	390.04	18.48	797.08	424.24	423.76	4.84	852.84
2016-17	436.28	435.81	17.19	889.28	458.67	458.41	0.61	917.69
2017-18	532.54	520.19	15.55	1,068.28	528.79	528.94	0.39	1,058.12
Total	**2,296.49**	**2,273.41**	**168.67**	**4,738.57**	**2,223.74**	**2,221.77**	**10.50**	**4,456.01**

Source: Data supplied by Deputy Director (Pension) GoP

During 2017-18, there was shortfall in government contribution by ₹ 3.75 crore. Against employee's share of ₹ 532.54 crore, the State Government contributed ₹ 528.79 crore. Against the total amount of ₹ 1,068.28 crore (employee's contribution ₹ 532.54 crore, employer's share ₹ 520.19 crore and interest ₹ 15.55 crore), ₹ 1,058.12 crore was transferred to PFRDA during the year. Thus there was a short transfer of ₹ 10.16 crore to PFRDA during the year. During 2008-18, against total receipts of ₹ 4,738.57 crore (employees' share: ₹ 2,296.49 crore, State Government share: ₹ 2,273.41 crore and interest of ₹ 168.67 crore), ₹ 4,456.01 crore was invested in pension fund maintained by PFRDA. Thus, there was short transfer of ₹ 282.56 crore to the Fund which is a deferred liability of the State Government.

Due to delay in release of Government's contribution and transfer to pension fund, the State Government had to suffer an avoidable interest of ₹ 168.67 crore. Of this interest, only ₹ 10.50 crore has so far been transferred to pension fund.

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

1.6.2.4 Subsidies

Table 1.17 shows that the subsidies during the current year rose by ₹ 1,159 crore (19.90 *per cent*) over the previous year. The committed expenditure on subsidies constituted 11 *per cent* of the revenue expenditure **(Chart 1.16)**.

(i) Power subsidy

Impact of power subsidy on fiscal position of the State

Subsidies constituted 13 to 14 *per cent* of the total committed expenditure of the State Government on revenue account. Out of these, power subsidy accounted for 94 to 98 *per cent* of the total subsidy during 2013-18, as detailed in **Table 1.20.**

Table 1.20: Power subsidy to total subsidy, farmers, PSPCL, revenue deficit and borrowings

(₹ in crore)

Year	Total subsidy	Power subsidy (percentage to total subsidy)	Power subsidy to farmers (percentage to power subsidy)	Power subsidy to PSPCL for electrification (percentage to power subsidy)	Revenue Deficit (percentage of power subsidy to revenue deficit)	Net borrowings# available for revenue expenditure (percentage of power subsidy to net available borrowings)
2013-14	4,904	4,815 (98)	0*	4,815 (*)	6,537 (74)	7,349 (66)
2014-15	4,772	4,642 (97)	2,137 (46)	2,505 (54)	7,591 (61)	6,596 (70)
2015-16	5,080	4,847 (95)	4,337 (89)	510 (11)	8,550 (57)	7,567 (64)
2016-17	5,823	5,601 (96)	3,986 (71)	1,615 (29)	7,311 (77)	18,977 (30)
2017-18	6,982	6,578 (94)	5,402 (82)	1,176 (18)	9,455 (70)	9,748 (67)

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

**Prior to 2014-15, power subsidy to farmers was being booked together with power subsidy for electrification to PSPCL under Major Head-2801-Power.*

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

During 2013-18, revenue deficit ranged between ₹ 6,537 crore and ₹ 9,455 crore and power subsidy constituted a significant portion of revenue deficit, which ranged between 57 and 77 *per cent*. **As much as 30 to 70 *per cent* of the net borrowings available with the State for incurring revenue expenditure during this period (Table 1.36) were consumed for meeting power subsidy.**

During 2017-18, power subsidy increased by ₹ 977 crore (17 *per cent*) over previous year, which was due to increase of power subsidy to Agriculture Sector (Farmers) by ₹ 1,416 crore, which was partially offset by decrease of power subsidy of ₹ 439 crore to PSPCL for rural electrification. The power subsidy to farmers increased from 71 *per cent* in 2016-17 to 82 *per cent* 2017-18 of the total power subsidy, whereas in case of PSPCL (rural electrification) it decreased from 29 *per cent* to 18 *per cent* during the same period.

(ii) Implicit subsidies

Implicit subsidies arise when the Government provides social and economic goods/services at a price lesser than the cost of goods and services incurred by the Government. It can be indirect or in kind or can be given as concessions. Some implicit subsidies extended during 2017-18 are detailed in the **Table 1.21**.

Table 1.21: Details of implicit subsidies during the year 2017-18

(₹in crore)

Sr. No.	Scheme	Amount
1	Reimbursement to Transport department in respect of facility to physically handicapped and blind persons in Government/ Punjab Road Transport Corporation buses	17.22
2	Reimbursement to Transport department in lieu of free concessional travel facility to women above the age of 60 years in Government/ Punjab Road Transport Corporation buses	0.84
3	*Shagun* to Scheduled Castes girls/widows/divorcees and daughters of widows at the time of their marriage	78.59
4	*Shagun* to Backward classes and Christian girls/widows/divorcees and daughters of widows	34.19
	Total	**130.84**

Source: Detailed Appropriation Accounts

1.6.3 Financial assistance to the local bodies/other institutions

Assistance provided by way of grants and loans to the local bodies and other institutions during the period 2013-14 to 2017-18 is presented in **Table 1.22.**

Table 1.22: Financial assistance to Local Bodies and Other Institutions

(₹in crore)

Institutions	2013-14	2014-15	2015-16	2016-17	2017-18
Educational Institutions *including Aided Schools, Aided Colleges, Universities, etc.*	564.95	689.66	864.67	732.08	626.35
Urban Local Bodies *including Municipal Corporations, Municipalities and Municipal Councils*	165.09	302.77	336.17	475.50	1,091.64
Panchayati Raj Institutions *including Zila Parishads, Panchayat Samities and Gram Panchayats*	420.17	790.54	719.36	544.97	230.36
Development Agencies	754.92	1,107.74	422.39	220.13	297.86
Hospitals and Other Charitable Institutions	98.15	266.91	107.97	85.43	100.71
Total	**2,003.28**	**3,157.62**	**2,450.56**	**2,058.11**	**2,346.92**
Assistance as percentage of RE	4.81	6.77	4.89	3.72	3.76

Source: Finance Accounts

During the current year, financial assistance to the local bodies and other institutions increased by ₹ 288.81 crore (14.03 *per cent*) over the previous year. **The increase was mainly due to increase in assistance to Urban Local Bodies (₹ 616.14 crore: 129.58 *per cent*), Hospitals & other Charitable Institutions (₹ 15.28 crore: 17.89 *per cent*) and Development Agencies (₹ 77.73 crore: 35.31 *per cent*) during the current year over the previous year.** The increase was partially offset by decrease of financial assistance of ₹ 314.61 crore (57.73 *per cent*) to Panchayati Raj Institutions and ₹ 105.73 crore (14.44 *per cent*) to Educational Institutions. The overall quantum of financial assistance to the local bodies and other institutions marginally increased to 3.76 *per cent* of the revenue expenditure during the current year from 3.72 *per cent* of the previous year.

1.7 Quality of expenditure

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

1.7.1 Adequacy of public expenditure

Enhancement of human development levels requires States to step up their expenditure on key social services like education, health, etc. Fiscal priority[14] of the State Government with regard to development expenditure, expenditure on social and economic sector and capital expenditure, etc. are shown in **Table 1.23**.

Table 1.23: Fiscal priority of the State in 2013-14 and 2017-18

(In per cent)

Fiscal Priority of the State (Ratio)	AE/ GSDP	DE/ AE	SSE/ AE	ESE/ AE	CE/ AE	Education*/ AE	Health/ AE
General Category States Average2013-14	14.70	66.50	37.60	28.90	13.60	17.20	4.50
Punjab 2013-14	13.25	52.30	27.83	24.47	5.00	15.41	4.47
General Category States Average 2017-18	16.10	67.90	36.70	29.60	14.40	15.50	4.90
Punjab 2017-18	13.91	45.08	24.99	20.09	3.59	14.31	4.19

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

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

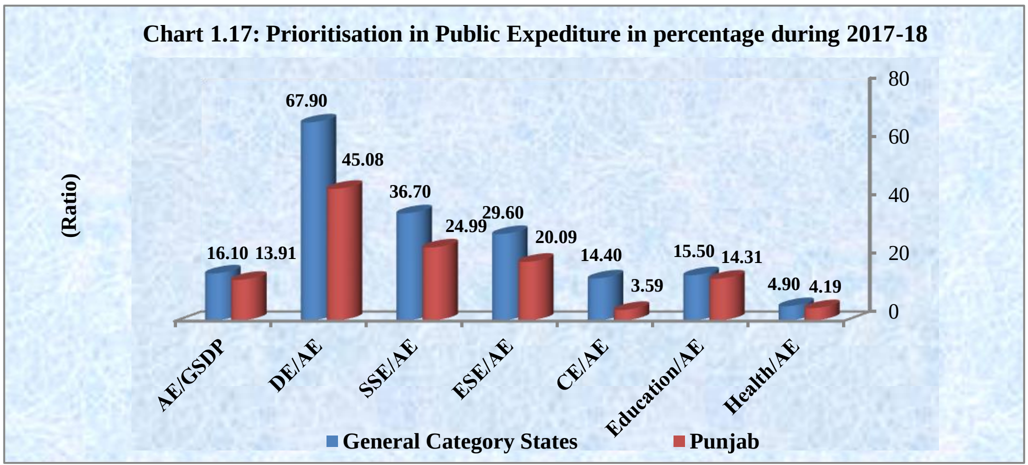


Table 1.23 shows that:

- The State Government's aggregate expenditure as proportion of GSDP, increased from 13.25 *per cent* in 2013-14 to 13.91 *per cent* in 2017-18 whereas for General Category States (GCS) it increased from 14.70 *per cent* to 16.10 *per cent* during the same period.
- Development expenditure[15] refers to the expenditure on social and economic sector. Increased priority to development expenditure results in better human and physical asset formation which has potential for further increasing the growth prospects of the State. In Punjab, the ratio of development expenditure to aggregate expenditure has been lower than the GCS average. **This ratio decreased from 52.30 *per cent* in 2013-14 to 45.08 *per cent* in 2017-18, whereas for GCS there was a nominal growth from 66.50 *per cent* in 2013-14 to 67.90 *per cent* in 2017-18.**
- **The ratio of social sector expenditure incurred by the State to aggregate expenditure decreased from 27.83 *per cent* in 2013-14 to 24.99 *per cent* in 2017-18.** The corresponding GCS average figures were 37.60 *per cent* and 36.70 *per cent*.
- The ratio of economic sector expenditure to aggregate expenditure decreased from 24.47 *per cent* in 2013-14 to 20.09 *per cent* in 2017-18.
- Capital expenditure facilitates asset creation which generate opportunities for higher growth. The ratio of capital expenditure to aggregate expenditure was far below the GCS average during the period 2013-14 and 2017-18. The GCS average of capital expenditure to aggregate expenditure increased from 13.60 *per cent* in 2013-14 to 14.40 *per cent* in 2017-18. However, **this ratio declined in Punjab from the already low level of 5.00 *per cent* in 2013-14 to 3.59 *per cent* in 2017-18.**
- **The ratio of expenditure on education sector to the aggregate expenditure in Punjab came down from 15.41 *per cent* in 2013-14 to 14.31 *per cent* in 2017-18.** The GCS average also exhibited a decrease from 17.20 *per cent* to 15.50 *per cent* during the same period.

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

- **The ratio of expenditure on Health sector to aggregate expenditure in Punjab decreased from the already low level of 4.47 *per cent* to 4.19 *per cent* during the period 2013-14 and 2017-18, whereas it showed an increase in GCS average from 4.50 *per cent* to 4.90 *per cent* during the same period.**

The Government may consider according higher priority to asset creation by increasing level of capital expenditure and raising the outlay on social services to the level of General Category States' average for enhancing the level of human development.

1.7.2 Efficiency of public expenditure

In view of the importance of development expenditure for bringing about social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[16]. Apart from increasing the allocation of funds towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent in operation and maintenance of the existing social and economic services The higher the ratio of capital expenditure to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.24** presents the proportion of capital expenditure in various sectors during the year 2017-18, **Table 1.25** presents the composition and trends of development expenditure relative to the aggregate expenditure of the State during period 2013-18.

Table 1.24: Expenditure incurred in various sectors

(₹in crore)

Sector	Total expenditure	Capital expenditure	Capital expenditure as *per cent* of total expenditure
General Services	34,716.95	179.67	0.52
Social Services	16,386.29	916.55	5.59
Economic Services	13,172.54	1,255.86	9.53

Source: Calculated on the basis of Finance Accounts

Table 1.25: Development expenditure

(₹ in crore)

Components of development expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	
					BE	Actual
Total Development expenditure (a to c)	**23,017 (52.30)**	**26,019 (52.04)**	**33,388 (56.49)**	**71,310 (70.60)**	**45,261 (54.37)**	**29,558 (45.08)**
a. Development revenue expenditure	20,919 (47.54)	22,967 (45.93)	24,654 (41.71)	25,890 (25.63)	37,233 (44.72)	26,664 (40.66)
b. Development capital expenditure	1,982 (4.50)	2,866 (5.73)	2,806 (4.75)	4,097 (4.06)	5,847 (7.02)	2,172 (3.31)
c. Development loans and advances	116 (0.26)	186 (0.37)	5,928 (10.03)	41,323 (40.91)	2,181 (2.62)	722 (1.10)

Source: Calculated on the basis of Finance Accounts and Annual Financial Statement 2017-18
Figures in parenthesis indicate percentage to aggregate expenditure

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

Table 1.25 shows that the total development expenditure increased by ₹ 6,541 crore (28.42 *per cent*) from 2013-14 to 2017-18 though it decreased by ₹ 41,752 crore (58.55 *per cent*) during the current year over the previous year.

The development revenue expenditure increased from ₹ 20,919 crore in 2013-14 to ₹ 26,664 crore in 2017-18. It increased by ₹ 774 crore (2.99 *per cent*) during the current year over the previous year, whereas it was less by ₹ 10,569 crore (28.39 *per cent*) when compared with the budget estimates of the State for the year 2017-18.

The development capital expenditure increased from ₹ 1,982 crore in 2013-14 to ₹ 2,172 crore in 2017-18. It is only 3.31 *per cent* of aggregate expenditure (₹ 65,577 crore) in the current year whereas it was 4.50 *per cent* in 2013-14.

By including onetime transactions of disbursement of loan of ₹ 29,920 crore for onetime settlement of Legacy Cash Credit Accounts for food procurement operations and taking over debts of ₹ 10,031 crore of DISCOMs under UDAY, the expenditure on development loans and advances had increased manifold from ₹ 116 crore in 2013-14 to ₹ 41,323 crore in 2016-17 else it would have been ₹ 1,372 crore. During 2017-18 loans and advances decreased by ₹ 40,601 crore (98.25*per cent*) over the previous year and by ₹ 1,459 crore (66.90 *per cent*) than the State's own budget estimates of 2017-18.

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

(In per cent)

Social/Economic Infrastructure	2016-17		2017-18	
	Ratio of CE to TE	In RE, the share of S &W	Ratio of CE to TE	In RE, the share of S&W
Social Services (SS) expenditure on major components				
General Education	1.02	72.87	0.49	76.27
Health and Family Welfare	0.78	62.08	0.05	68.69
Water Supply, Sanitation & Housing and Urban Development	50.34	44.49	51.82	48.45
Total SS	**6.83**	**68.52**	**6.48**	**72.91**
Economic Services(ES) expenditure on major components				
Agriculture & Allied Activities	1.49	13.07	1.43	10.86
Irrigation and Flood Control	50.04	69.59	21.03	78.34
Power & Energy	0.00	0.05	0.17	0.60
Transport	72.81	38.67	55.00	33.97
Total ES	**22.82**	**19.93**	**9.45**	**18.29**
Total (SS + ES)	**14.45**	**47.63**	**7.86**	**47.96**
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

Source: Calculated on the basis of Finance Accounts

Table 1.26 shows that in 2017-18, the ratio of capital expenditure (CE) to the total expenditure (TE) decreased by 0.35 percentage points on the social services (SS) and by 13.37 percentage points on economic services (ES) over the previous year.

The share of salaries and wages components in revenue expenditure on SS increased from 68.52 *per cent* to 72.91 *per cent* but decreased in ES from 19.93 *per cent* to 18.29 *per cent* during the current year over the previous year.

The combined ratio of CE to TE on SS and ES decreased by 6.59 percentage points during 2017-18 over the previous year and the share of salaries and wages in revenue expenditure on SS and ES increased from 47.63 *per cent* to 47.96 *per cent*.

1.7.3 Cesses imposed by State Government

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

(i) Cultural Cess

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

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

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

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

(iv) any other building.

During the period 2013-18, the State collected ₹ 276.91 crore[17] on account of cultural cess. Out of this, the Director, Cultural Affairs, Archaeology and Museums, Punjab, who is a member secretary of the Board, spent ₹ 287.90 crore[18] for meeting the intended expenses. **The excess expenditure of ₹ 10.99 crore was contributed during 2017-18 by the State Government out of its own budget.**

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

[18] *2013-14: ₹5.80 crore; 2014-15: ₹69.48 crore; 2015-16: ₹78.87 crore 2016-17: ₹109.25 crore and 2017-18: ₹24.50 crore*

(ii) Social Infrastructure Cess

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

The Department of Revenue and Rehabilitation collected ₹ 138.35 crore during 2017-18 on account of social infrastructure cess. Reply of the Finance Department regarding amount expended was awaited (May 2019). Thus, Audit could not ascertain as to whether the cess collection was utilized for the intended purpose.

(iii) Building and Other Construction Workers Welfare Cess

The Building and Other Construction Workers Welfare Act 1996 and the Building and Other Construction Workers Welfare Cess Act 1996 provide that in order to provide basic amenities and welfare facilities to workers engaged in construction activities, the State Government shall collect a cess on the cost of construction incurred by an employer at the rates notified by the Central Government and deposit it with the Board constituted for carrying out the welfare schemes for construction workers. The State Government instructed (November 2008) all the heads of the Departments/Boards/Autonomous Bodies/Local Authorities to collect cess at the rate of one *per cent* of cost of construction, as notified (September 1996) by the Central Government, and deposit it with the Punjab 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. The amount of cess collected by various departments could not be ascertained. However, the details of cess available with the Board and expenditure incurred there from are given in the **Table 1.27**.

Table 1.27: Details of cess available

(₹ in crore)

Year	Actual receipts				Actual expenditure		
	Cess available	Beneficiaries contribution	Interest earned	Total receipts	Administrative expenditure	Expenditure on schemes	Total expenditure
2009-10	37.68*	0.13	0.69	38.50	1.28	--	1.28
2010-11	92.69	0.00	2.98	95.67	1.06	0.14	1.20
2011-12	112.95	0.02	4.92	117.89	1.47	1.15	2.62
2012-13	122.03	0.87	25.92	148.82	1.34	1.23	2.57
2013-14	120.52	1.60	43.48	165.60	2.60	79.18	81.78
2014-15	155.49	1.90	47.50	204.89	3.43	61.73	65.16
2015-16	145.97	3.13	55.95	205.05	4.00	122.79	126.79
2016-17	201.16	5.23	55.51	261.90	4.89	164.39	169.28
2017-18	150.90	4.76	56.64	212.30	4.52	162.29	166.81
Total	**1,139.39**	**17.64**	**293.59**	**1,450.62**	**24.59**	**592.90**	**617.49**

Source: Departmental figures

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

Table 1.27 showed that against the available cess of ₹ 1,450.62 crore, the Board could utilize only ₹ 617.49 crore (42.57 *per cent*) (including administrative expenditure of ₹ 24.59 crore) during 2009-18 on the welfare activities, with the result that an unspent amount of ₹ 833.13 crore (57.43 *per cent*) was lying with the Board as on 31 March 2018.

1.8 Analysis of Government expenditure and investments

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

1.8.1 Financial results of irrigation works

The financial results of nine[19] major irrigation projects involving a capital expenditure of ₹ 544.60 crore at the end of March 2018 showed that revenue realised from these projects during 2017-18 (₹ 61.05 crore) was only 11.21 *per cent* of the capital expenditure on these projects. **This return was not sufficient to cover even the total working expenses and maintenance charges (₹ 412.25 crore) and interest charges (₹ 0.45 crore) during the year 2017-18. These projects suffered a net loss of ₹ 351.64 crore.**

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

1.8.2 Incomplete projects

The department-wise information pertaining to the incomplete projects (scheduled to be completed between 2008-09 and 2017-18) as on 31 March 2018 is given in the **Table 1.28.**

[19] *(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.*

Table 1.28: Department-wise profile of incomplete projects

(₹ in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost (no. of projects)	Revised Total Cost of Projects	Expenditure during the year	Progressive expenditure
Public Works Department (B&R)	12	310.68 (11)	--	22.02	79.42
		52.57 (1)	50.39	12.85	13.33
Irrigation	7	2,543.96 (3)	--	50.76	621.97
		62.89 (4)	79.02	9.06	39.93
Water Supply and Sanitation	21	35.08 (18)	--	16.87	16.87
		17.97 (3)	21.69	6.57	--
Total	**40**	**3,023.15**		**118.13**	**771.52**

Source: Finance Accounts

Out of total 40 incomplete projects, 12 projects budgeted for ₹ 363.25 crore were in Public Works Department (B&R), seven projects budgeted for ₹ 2,606.85 crore were in Irrigation Department and 21 projects budgeted for ₹ 53.05 crore were in Water Supply and Sanitation Department. The expenditure of ₹ 771.52 crore incurred on these 40 incomplete projects was yet to yield the intended benefits.

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

1.8.3 Investment and return

(i) The details of investment in share capital and return thereon during the year 2013-18 are given in **Table 1.29**.

Table 1.29: Return on investment in share capital

Investment/return/ cost of borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (₹ in crore)	3,862.16	3,977.48	4,064.56	4,091.32	4,189.27
Return (₹ in crore)	1.46	1.48	1.46	3.88	4.45
Return (*per cent)*	0.04	0.04	0.04	0.09	0.11
Average rate of interest on Government Borrowings(*per cent*)	8.04	8.35	8.09	7.48	8.12
Difference between interest rate and return (*per cent*)	8.00	8.31	8.05	7.39	8.01
Difference between interest on Government borrowings and return on investment (₹ in crore)#	308.97	330.53	327.20	302.35	335.56

Source: Finance Accounts

*# Investment at the end of the year*Difference between interest rate and return*

100

During 2017-18, the return on investment was ₹ 4.45 crore[20] (0.11 *per cent*). The return was only between 0.04 *per cent* and 0.11 *per cent* during 2013-18 while the average rate of interest paid by the State Government on its borrowings was between 7.48 *per cent* and 8.35 *per cent* during the same period. **Over the past five years, the difference in cost of Government borrowings and return on investments in PSUs was to the tune of ₹ 1,604.61[21] crore.**

(ii) The figures in respect of State Government equity, loans and guarantees outstanding as per records of State PSUs should ideally agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. However, this has not been done. The position in this regard as on 31 March 2018 is given in **Table 1.30 (a)**.

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

(₹ in crore)

Particulars	Amount as per Finance Accounts	Amount as per records of PSUs	Difference for the year 2017-18	Differences recorded in the year 2016-17
Equity	3,604.22	7,844.54	4,240.32	4,236.02
Loans	41,803.96[22]	39,912.32	1,891.64	1,409.37
Guarantees	11,116.80	11,066.98	49.82	25.84

Source: Finance Accounts and Information provided by PSUs

The differences in loans, equity and guarantees occurred in respect of 33 PSUs during 2017-18. Extent of non-reconciliation increased as compared with previous year. Some of the differences were pending reconciliation since 1985-86.

(iii) During 2017-18, financial support of ₹ 7,628.48 crore by way of grants/subsidy was provided to six loss making PSUs whose accounts were in arrears, as detailed in **Table 1.30 (b).**

[20] *Co-operative Banks and Societies (₹0.02 crore), Statutory Corporations, Joint Stock Companies (₹0.11 crore) and Government Companies (₹4.32 crore).*

[21] *2013-14: ₹308.97 crore, 2014-15: ₹330.53 crore, 2015-16: ₹327.20 crore, 2016-17: ₹302.35 crore and 2017-18: ₹335.56 crore.*

[22] *Includes ₹22,953.92 crore in respect of State Procurement Agencies (SPAs) (excluding MARKFED: ₹6,939.64 crore) which has been calculated on pro-rata basis as SPA-wise break-up of loans to SPAs outstanding as on 31 March 2018 was not available.*

Table 1.30 (b): Financial support provided to loss making PSUs whose accounts were in arrears during 2017-18

(₹ in crore)

Sl. No.	Name of PSU	State	Centre	Total	Year for which last accounts audited
1.	Punjab State Grains Procurement Corporation Limited	0.00	863.33	863.33	2015-16
2.	Punjab Water Resources Management & Development Corporation Limited	114.62	0.00	114.62	2016-17
3.	Punjab Agri Export Corporation Limited	1.20	0.10	1.30	2016-17
4.	Punjab State Power Corporation Limited	6,577.57	0.00	6,577.57	2016-17
5.	Punjab Scheduled Castes Land Development and Finance Corporation	17.66	0.00	17.66	2016-17
6.	PEPSU Road Transport Corporation	54.00	0.00	54.00	2015-16
Total		**6,765.05**	**863.43**	**7,628.48**	

Source: Information provided by the respective PSUs

1.8.4 Loans and advances by the State Government

In addition to the investments in Co-operative Societies, Corporations and Companies, the State Government has also been providing loans and advances to many institutions/organizations. **Table 1.31** presents the position of outstanding loans and advances as on 31 March 2018 and interest receipts *vis-à-vis* interest payments by the State Government on its borrowings during the last five years.

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

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Opening Balance of loans outstanding	2,429	2,482	2,615	8,299	49,482
Amount advanced during the year	165	270	5,968	41,364	760
Amount recovered during the year	112	137	218	181	73
Closing Balance of the loans outstanding	2,482	2,615	8,365	49,482	50,169
Interest received	48	55	30	1,131	1,339
Interest rate on Loans and Advances given by the Government.	1.93	2.10	0.36	2.29	2.67
Rate of Interest paid on the outstanding borrowings of the Government	8.04	8.35	8.09	7.48	8.12
Difference between the rate of interest paid and interest received (*per cent*)	(-) 6.11	(-) 6.25	(-)7.73	(-) 5.19	(-) 5.45

Source: Finance Accounts

During 2017-18, ₹ 760 crore was advanced as loans against ₹ 41,364 crore during previous year. During 2016-17 there was a spike in loans and advances. Loans and advances disbursed during that year increased by 593 *per cent* as compared to 2015-16 as discussed in the paragraph 1.1.5. **The Indian Government Accounting Standards-3 (IGAS-3) requires that loans sanctioned without specific terms and conditions should be specifically disclosed. However, disclosure in respect of loans advanced during 2017-18 (₹ 760 crore) could not be made as the requisite information was not provided by the State Government.**

The total outstanding loan increased from ₹ 49,482 crore in 2016-17 to ₹ 50,169 crore in the year 2017-18. During the current year the interest receipts increased by ₹ 208 crore (18.39 *per cent)* over the previous year. **The increase was mainly due to interest receipt of ₹ 210 crore against loan given to PSPCL during 2016-17 for implementation of UDAY.** The interest received was only 2.67 *per cent* of the outstanding loans and advances during 2017-18.

1.8.5 Cash balances and investment of cash balances

Table 1.32 depicts the cash balances and investments made by the State Government out of the cash balances during the year 2017-18. Total investment out of cash balances during 2017-18 was ₹ 0.04 crore. The State Government did not earn any interest during the current year. The cash balances at the close of the current year increased from ₹ 395.28 crore of the previous year to ₹ 488.45 crore mainly due to increase of ₹ 292.89 crore in Deposit with Reserve Bank of India which was partially offset by ₹ 199.72 crore under Cash with departmental officers *viz.* Forest and Public Works.

Table 1.32: Cash balances and investment of cash balances

(₹ in crore)

	Overall Cash Position of the Government	**As on 31st March 2018**
(A)	**General Cash Balances -**	
1	**Deposits with Reserve Bank of India**	**(-)74.95**
2	**Investment held in the Cash balance Investment Account**	**0.04**
(i)	GOI Securities	0.00
(ii)	GOI Treasury Bills	0.00
(iii)	Punjab State Power Corporation Bonds	0.04
	Total (A)	**(-)74.91**
(B)	**Other Cash Balances and Investments -**	
1	Cash with departmental officers *viz*. Forest and Public Works	562.40
2	Permanent advances for contingent expenditure with departmental officers	0.26
3	Investments of earmarked fund	0.70
	Total (B)	**563.36**
	Total (A) and (B)	**488.45**

Source: Finance Accounts

Under an agreement with the RBI, the Government of Punjab has to maintain a minimum balance of ₹ 1.56 crore on all days with the bank. If the balance falls below the agreed minimum balance on any day, the deficiency is made good by taking Ways and Means Advances/Overdraft from the RBI.

As per statement 6 of the Finance Accounts, State Government obtained Ways and Means Advance of ₹ 19,495.18 crore on 136 occasions during 2017-18 but repaid a sum of ₹ 19,060.73 crore, leaving an amount of ₹ 702.58 crore (includes ₹ 268.13 crore outstanding balance of previous year) unpaid at the close of the financial year. An amount of ₹ 37.50 crore was paid as interest on these advances.

During 2017-18, the State Government availed shortfall of ₹ 32.76 crore on 21 occasions and overdraft of ₹ 8,389.19 crore on 59 occasions, which were fully repaid during the year. Further, an amount of ₹10.74 crore was paid as interest on these shortfalls/overdrafts.

The Cash balance (₹ 488.45 crore) for the year 2017-18 was not even equal to the earmarked reserve funds amounting to ₹ 5,519 crore which means that reserve funds were used for other than intended purpose.

1.8.6 Parking of funds outside Government Accounts

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

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

In contravention of the instructions *ibid*, as on 31st March 2018, an amount of ₹ 562.40 crore was still lying in bank accounts under Major Head 8671-Departmental Balances with Departmental Officers. Of this, amount of ₹ 560.53 crore was still lying in 732 bank accounts ***(Appendix 1.7)*** and ₹ 1.87 crore was kept in cash chest (including cash in transit amounting to ₹ 0.62 crore) in 181 Public Works Divisions. These bank accounts remained operative as is evident from the transactions viz. ₹ 573.96 crore (credit) and ₹ 374.24 crore (debit) made during 2017-18. There were cash balances of ₹ 474.65 crore, ₹ 596.67 crore, ₹ 575.34 crore, ₹ 611.23 crore and ₹ 762.12 crore at the close of financial years 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 respectively. **Had these funds been deposited in the Government account, borrowings to this extent could have been avoided.**

1.9 Assets and liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts capture the fiscal liabilities and the assets created out of the expenditure incurred. ***Appendix 1.3–Part B*** gives an abstract of such liabilities and assets as on 31 March 2018, compared with the corresponding position as on 31 March 2017. The liabilities consist mainly of internal borrowings, loans and advances from 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 2017-18, the assets grew by ₹ 3,171.43 crore (3.40 *per cent*) whereas the liabilities increased by ₹ 12,626.70 crore (6.92 *per cent*) over the previous year. **The ratio of Financial Assets to Liabilities declined to 49.47 *per cent* in 2017-18 from 51.16 *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 2013-18 are presented in **Table 1.33.**

Table 1.33: Fiscal liabilities–Basic Parameters

(₹in crore)

Components of fiscal liabilities	2013-14	2014-15	2015-16	2016-17	2017-18
Fiscal Liabilities *(₹in crore)*	**1,02,234**	**1,12,366**	**1,28,835**	**1,82,526**	**1,95,152**
Rate of Growth (per cent)	*10.78*	*9.91*	*14.66*	*41.67*	*6.92*
Public Debt	**78,669**	**86,818**	**1,02,589**	**1,53,773**	**1,64,803**
Internal debt	*75,338*	*83,203*	*99,023*	*1,49,880*	*1,60,785*
Loans and advances from the GoI	*3,331*	*3,615*	*3,566*	*3,893*	*4,018*
Public Accounts Liabilities	**23,565**	**25,548**	**26,246**	**28,753**	**30,349**
Ratio of Fiscal liabilities to					
GSDP (*per cent*)	30.78	31.64	33.03	42.61	41.41
Revenue receipts (*per cent*)	291.23	287.95	310.27	380.38	368.14
Own resources (*per cent*)	374.88	394.96	439.10	543.07	561.72
Buoyancy of Fiscal liabilities to					
Revenue receipts	1.13	0.89	2.29	2.68	0.66

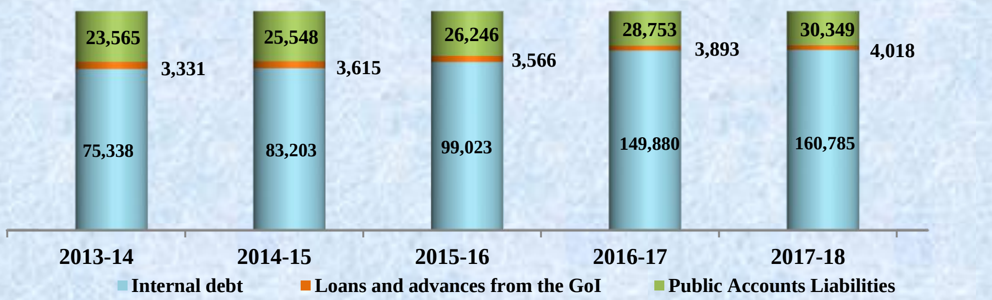
Source: Finance Accounts

There was an increase of ₹ 12,626 crore (6.92 *per cent*) in fiscal liabilities during the current year over the previous year, **which is attributed mainly to increase of ₹ 11,030 crore (7.17 *per cent*) under Public debt and ₹ 1,596 crore (5.55 *per cent*) under public account liabilities.**

- **Public debt increased on account of raising of interest bearing market loans of ₹ 13,348.72 crore which was offset by repayment of ₹ 1,742.42 crore under Special Securities issued to National Small Savings Fund of the Central Government.**
- **Public account liabilities increased due to increase of ₹ 1,126.20 crorein Small Savings, Provident Funds, etc. and ₹ 650.11 crore in Reserve Fund bearing interest.**

The composition of outstanding fiscal liabilities during the year 2013-14 to 2017-18 is as presented in **Chart 1.18.**

Chart 1.18 : Composition of outstanding fiscal liabilities during 2013-18 (₹ in crore)



The overall fiscal liabilities of the State Government had been on the rise and it increased from ₹ 1,02,234 crore as on 31st March 2014 to ₹ 1,95,152 crore as on 31 March 2018. At the end of the current year, the public debt liabilities (₹ 1,64,803 crore) comprised of internal debt of ₹ 1,60,785 crore and loans of ₹ 4,018 crore from GoI. The Public Account liabilities during the current year (₹ 30,349 crore) comprised of small savings, provident fund (₹ 21,730 crore) and interest bearing and non-interest bearing obligations[23] (₹ 8,619 crore). The total fiscal liabilities went up at an annual average growth rate of 16.79 *per cent* during the period 2013-14 to 2017-18.

1.9.3 Reserve Funds

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

There were five Reserve funds earmarked for specific purposes. At the beginning of 2017-18, Reserve Fund stood at ₹ 4,870.07 crore. There was addition of ₹ 729.95 crore and disbursement of ₹ 79.85 crore during the year

[23] *Reserve funds bearing interest (₹5,519 crore), Reserve funds not bearing interest (₹1.00 crore), Deposits bearing interest (₹826 crore) and Deposits not bearing interest (₹2,273 crore).*

leading to a closing balance of ₹ 5,520.17 crore and only ₹ 0.68 crore (0.01 *per cent*) were invested.

1.9.3.1 State Disaster Response Fund

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

As per Finance Accounts, as on 1 April 2017, ₹ 4,740.42 crore was lying in the SDRF. During the year 2017-18, ₹ 720.57 crore (₹ 203.47 crore Centre share, ₹ 67.82 crore State share, ₹ 44.05 crore towards refund of previous year's unspent balance lying with the Drawing and Disbursing Officers and ₹ 405.23 crore towards payment of interest by the State Government) were transferred to the Fund. The entire balance of ₹ 5,382.21 crore was lying un-invested in SDRF as on 31March 2018, in violation of GoI guidelines *ibid*.

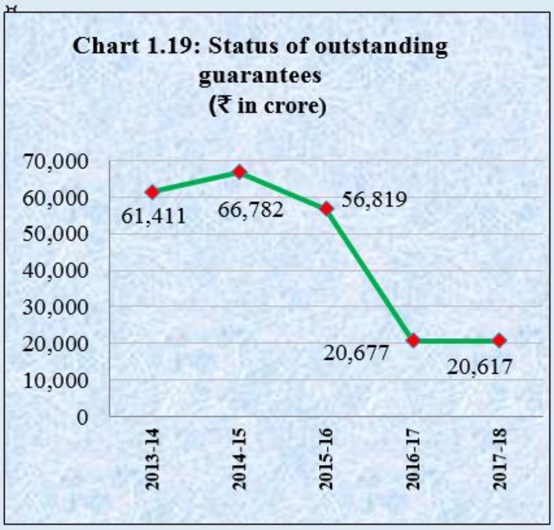
1.9.3.2 Consolidated Sinking Fund

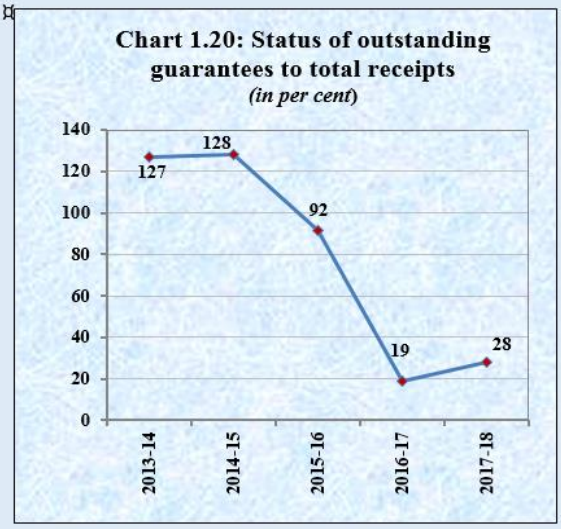
The Government of Punjab constituted a Consolidated Sinking Fund vide order dated 20 December 2006 with the objective to redeem its outstanding liabilities commencing from the financial year 2011-12. The State Government is to contribute every year minimum 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. Contribution to this Fund out of borrowings from the Reserve Bank is not permissible. As on 31st March, 2017, the outstanding liabilities of the Government of Punjab were ₹ 1,82,525.75 crore. Accordingly, the State Government was required to contribute a minimum of ₹ 912.63 crore (0.50 *per cent)* during 2017-18. However, **the State Government has not made the minimum contribution of ₹ 5,324.64 crore[24] during 2011-18 to the said Fund since its inception.**

1.9.4 Status of guarantees

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

[24] *Upto 2015-16: ₹3764.81 crore; 2016-17: ₹647.20 crore and 2017-18: ₹912.63 crore.*





Source: Finance Accounts

Note: Opening Balance differs from previous year's closing balance during the period 2013-14 to 2016-17. The matter has been referred to the State Government.

The outstanding guarantees for ₹ 20,617 crore as on 31 March 2018 was in respect of banks and financial institutions (₹ 905 crore); cash credit facilities (₹ 687 crore); and working capital to companies, corporations, co-operative societies and banks (₹ 19,025 crore).

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

(a) Guarantee Redemption Fund

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

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

The State Government has further revised the 'Guarantee Redemption Fund Scheme' on 23rd October 2017 with effect from the financial year 2017-18. In terms of the Scheme, State Government was required to make a minimum contribution of ₹ 206.77 crore for the year 2017-18 (1.00 *per cent* of outstanding guarantee of ₹ 20,676.88 crore at the end of 2016-17). Total amount required to be contributed to the Fund during the period 2013-18 works out to ₹ 1,732.44 crore. However, the State Government has not contributed anything to the Fund during this period. **Non-contribution to GRF has also resulted in understatement of revenue expenditure by ₹ 206.77 crore during 2017-18 with consequent impact on revenue deficit and fiscal deficit of the State Government.**

Chart 1.21: Sector-wise details of guarantees at the end of 31 March 2018

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

1.10 Debt management

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

1.10.1 Debt profile of the State

(i) Growth of public debt and other liabilities

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

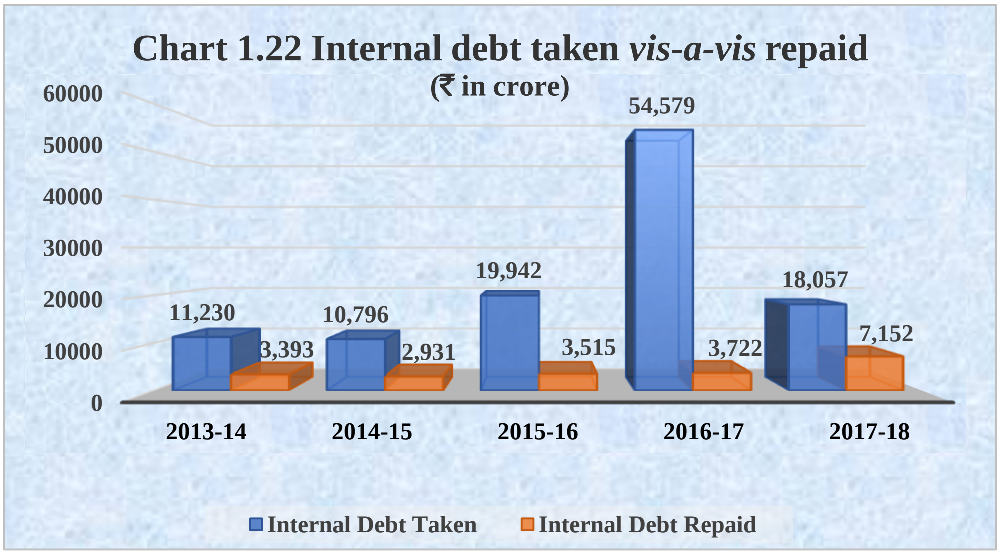
Table 1.34: Debt Growth Rate

(₹in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1. Internal Debt (*Percentage of internal debts to total public debt*)	**75,338 (96)**	**83,203 (96)**	**99,023 (97)**	**1,49,880 (97)**	**1,60,785 (98)**
(i) Market Loans (*Percentage of market loans to total public debt*)	50,318 (64)	58,003 (67)	67,202 (66)	79,346 (52)	92,694 (56)
(ii) Ways & Means Advances from RBI	593	0	0	268	703
(iii) Loans from Financial Institutions	3,047	2,895	7,937	48,187	47,051
(iv) Special Securities issued to NSSF	21,380	22,305	23,884	22,079	20,337
2. Loans from Government of India	**3,331**	**3,615**	**3,566**	**3,893**	**4,018**
Total Public debt	**78,669**	**86,818**	**1,02,589**	**1,53,773**	**1,64,803**
Other liabilities*	**23,565**	**25,548**	**26,246**	**28,753**	**30,349**
Total debt	**1,02,234**	**1,12,366**	**1,28,835**	**1,82,526**	**1,95,152**

Source: Finance Accounts
** Excludes balances under Suspense & Miscellaneous and Remittances.*

During the period from 2013-14 to 2017-18, total Public debt increased from ₹ 78,669 crore to ₹ 1,64,803 crore (109.49 *per cent*). During the current year, public debt increased by ₹ 11,030 crore (7.17 *per cent*) over the previous year. **This increase was due to increase in internal debt by ₹ 10,905 crore (7.28 *per cent*) and ₹ 125 crore (3.21 *per cent*) in Loans from Central Government.** The share of market borrowings in total Public debt was between 52 to 67 *per cent* during 2013-18. Share of loans from financial institutions in total public debt decreased to 28.55 *per cent* in 2017-18 from 31.34 *per cent* in 2016-17.



Internal debt of the State Government increased by ₹ 85,447 crore (113 *per cent*) from ₹ 75,338 crore in 2013-14 to ₹ 1,60,785 crore in 2017-18. An amount of ₹ 13,133 crore was paid towards interest on internal debt during 2017-18.

(ii) Maturity profile of public debt

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

Table 1.35: Debt Maturity profile of repayment of State debt as on 31 March 2018

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	8,318.37*	5.07
1 – 3	24,984.71	15.23
3 – 5	32,659.98	19.90
5 – 7	25,326.30	15.43
7 and above	70,016.00	42.67
Others[25]	2,795.04	1.70
Total	**1,64,100.40***	**100.00**

Source: Calculated on the basis of Finance Accounts

* *Excludes ₹702.58 crore on account of Ways and Means Advances that remained unpaid during the current year.*

Chart 1.23: Debt Maturity Profile

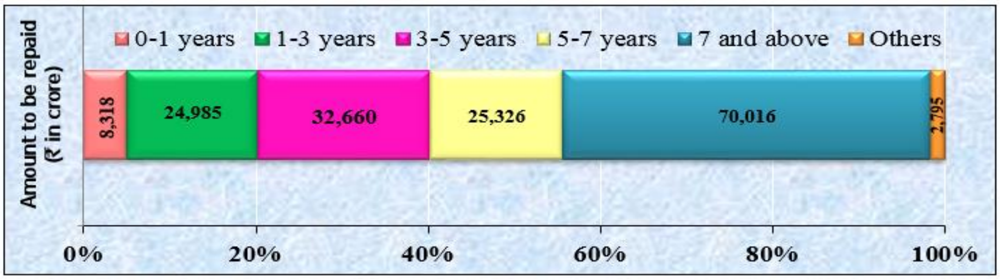
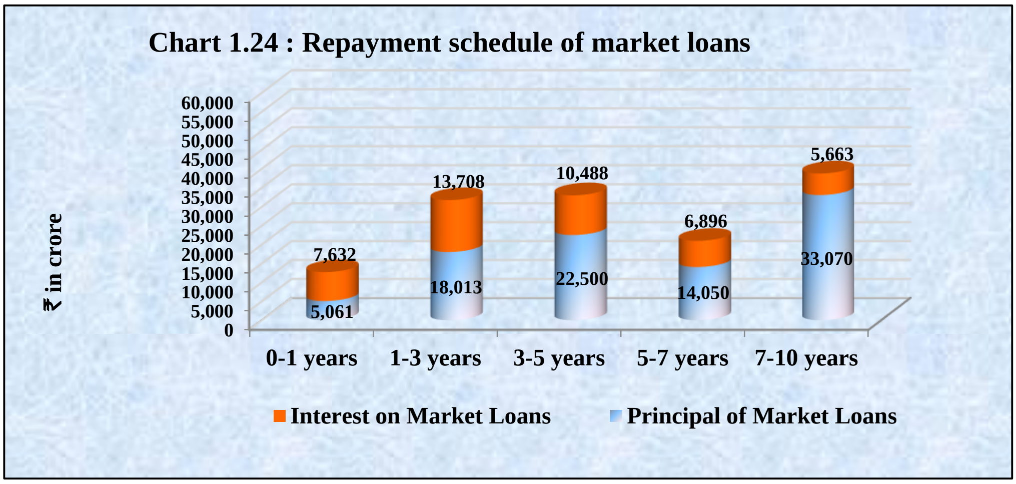


Table 1.35 indicates that the State Government has to repay 20.30 *per cent* (₹ 33,303 crore) of its debt within the next three years, 19.90 *per cent* (₹ 32,660 crore) between 3-5 years and 15.43 *per cent* (₹ 25,326 crore) between 5-7 years. It signifies that the State has to repay 55.63 *per cent* of its debt (₹ 91,289 crore) in the next seven years.

Repayment schedule of market loans along with interest has been given in **Chart 1.24**.



Note: *The maturity profile has been evolved for outstanding market loans as on 31 March 2018 and interest has been calculated up to the financial year in which the loans are going to retire.*

[25] *Payment schedule of this amount is not being maintained by the Accountant General (A&E).*

The State will have to repay market loans of ₹ 45,574 crore (49 *per cent* of total outstanding market loans as on 31 March 2018) along with interest of ₹ 31,829 crore during the next five years up to 2022-23. Balance market loans of ₹47,120 crore (51 *per cent* of total outstanding market loans as on 31 March 2018) along with interest of ₹ 12,560 crore will have to be repaid in subsequent five years' period up to 2027-28. This means that in the next five years (2018-23), on an average, the State will have to make repayment of ₹ 15,481crore annually of the present market loans which will come down to ₹ 11,936 crore per year in subsequent period of five years (2023-28) from the current annual repayment of ₹ 12,278 crore.

Table1.36: Utilisation of borrowed funds

(₹in crore)

Year	Total Borrowings	Repayment of earlier borrowings (Principal) (percentage)	Net capital expenditure (Percentage)	Net loans and advances (Percentage)	Portion of Revenue expenditure met out of net available borrowings (Percentage)
1	**2**	**3**	**4**	**5**	**6=2-3-4-5**
2013-14	26,285	16,683 (64)	2,200 (8)	53 (0)	7,349 (28)
2014-15	32,922	23,075 (70)	3,118 (10)	133 (0)	6,596 (20)
2015-16	38,428	22,051 (57)	3,059 (8)	5,751 (15)	7,567 (20)
2016-17	91,180*	32,443 (35)	4,346 (5)	35,414 (39)	18,977 (21)
2017-18	47,757	34,970(73)	2,352(5)	687 (1)	9,748 (21)

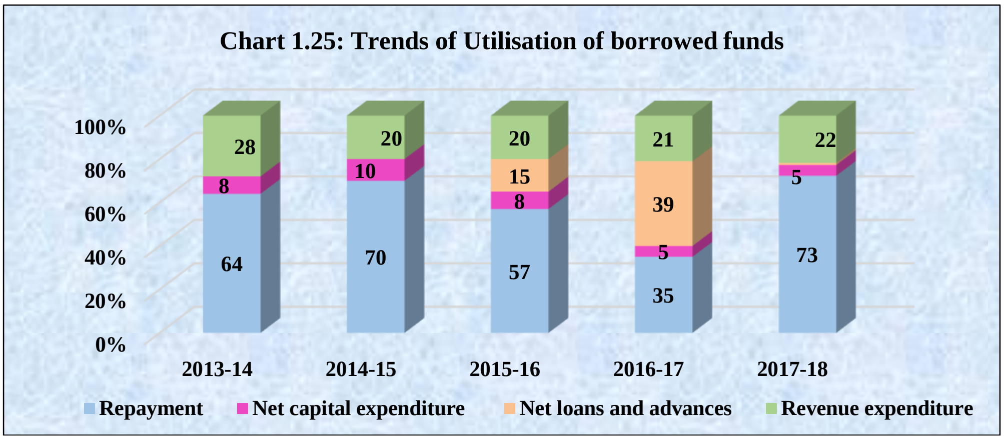
Source: Finance Accounts

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

Table 1.36 shows that during 2013-14 to 2017-18, the State Government utilized 35 to 73 *per cent* of its current borrowings for repayment of earlier borrowings. Revenue expenditure met out of net available borrowings ranged between 20 and 28 *per cent*. **Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of earlier borrowings instead of capital creation/development activities.**

Revenue receipts and Revenue expenditure have grown at an annual average rate of 11.48 *per cent* and 10.63 *per cent* respectively in the past ten years. Applying these growth rates the Revenue Deficit of 2019-20 works out to ₹ 8,166 crore. However as the State is committed to convert UDAY bonds of ₹ 11,728.26 crore into grants in aid to State DISCOMs in 2019-20, the Revenue Deficit would increase to ₹ 19,894.26 crore. Borrowings during that year projected at the average annual growth rate of last ten years (12.98 *per cent)*, would be ₹ 23,636 crore. After meeting the debt liability of ₹ 12,337 crore falling due for repayment in 2019-20, borrowed funds would fall short of meeting the revenue deficit by ₹ 8,595 crore. The State would thus have to resort to additional borrowings to meet its liabilities.

Trend of utilization of borrowed funds during the period 2013-18 is depicted in **Chart 1.25.**



Source: Finance Accounts

1.10.2 Debt sustainability

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

Table 1.37: Debt Sustainability

(₹ in crore)

Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding Public Debt*	78,669.20	86,818.03	1,02,589.32	1,53,773.15	1,64,802.98
Rate of Growth of Outstanding Public Debt	10.47	10.36	18.17	49.89	7.17
GSDP	3,32,147	3,55,102	3,90,087	4,28,340	4,71,301
Rate of Growth of GSDP	11.56	6.91	9.85	9.81	10.03
Average interest Rate of Outstanding Public Debt (*per cent)*	8.25	8.39	8.22	7.58	8.35
Percentage of Interest payment to Revenue Receipt	17.61	17.79	18.74	20.26	25.08
Percentage of Debt Repayment to Debt Receipt	69.11	73.90	58.96	38.80	76.02
Net Debt available to the State#	1,275	1,208	7,991	41,462	(-)2,263
Net Debt available as *per cent* to Debt Receipts	11.48	10.63	39.55	75.07	(-)12.22

Source Finance Accounts

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

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

- Growth rate of GSDP exceeding that of public debt is an indication of sustainability of public debt.

- Public Debt of the State increased by 109.49 *per cent* during the period 2013-18 from ₹ 78,669 crore in 2013-14 to ₹ 1,64,803 crore in 2017-18. During the same period GSDP increased by 41.90 *per cent* from ₹ 3,32,147 crore in 2013-14 to ₹ 4,71,301 crore in 2017-18. However, during the current year growth in GSDP exceeded the growth rate of public debt over its previous year. which is attributed to exponential growth of 49.89 *per cent* in outstanding public debt during 2016-17 due to one-time transaction of raising loans of ₹ 39,951.15 crore as explained in paragraph 1.1.5.

- The percentage of interest payments to revenue receipts has continuously risen during 2013-18. It increased from 17.61 *per cent* in 2013-14 to 25.08 *per cent* in 2017-18, which indicates that interest payments were increasing at higher rate than the revenue receipts, which is not a good indicator of debt sustainability.

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

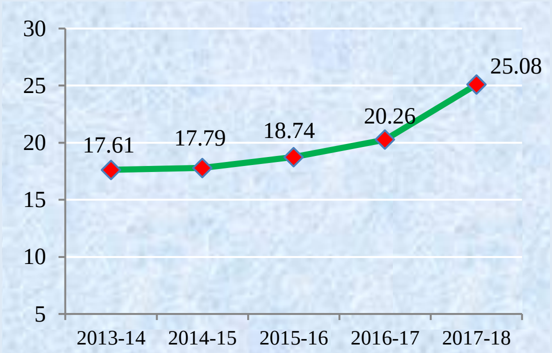
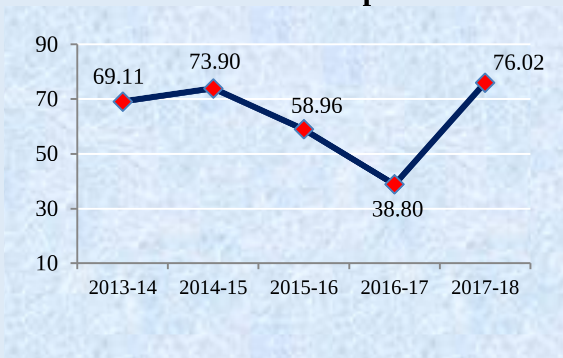


Chart 1.27: Debt repayment as *per cent* of debt receipts



- The percentage of debt repayments to debt receipts declined from 69.11 *per cent* in 2013-14 to 38.80 *per cent* in 2016-17 and again increased to 76.02 *per cent* in 2017-18.

- Availability of net debt to State increased from ₹ 1,275 crore in 2013-14 to ₹ 41,462 crore in 2016-17. However, net debt available during 2017-18 was negative, since Public Debt repayments and Interest Payments on Public Debt was more than Public Debt receipts by ₹ 2,263 crore.

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

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

The GoI, Ministry of Finance, Department of Expenditure fixed (August 2017) the net borrowing ceiling of the State Government for the financial year 2017-18 as ₹ 14,104 crore and instructed the State Government to ensure that its incremental borrowings from all sources remained within this ceiling.

As per Statement 6 of the Finance Accounts *viz.* statement of borrowings and other liabilities, incremental borrowings of the State Government was ₹ 12,627 crore (including other liabilities) during the financial year 2017-18 which was well within the ceiling of incremental borrowing.

1.11 Fiscal imbalances

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

1.11.1 Trends in deficits

Charts 1.28 and 1.29 present the trends in deficit indicators over the period 2013-18.

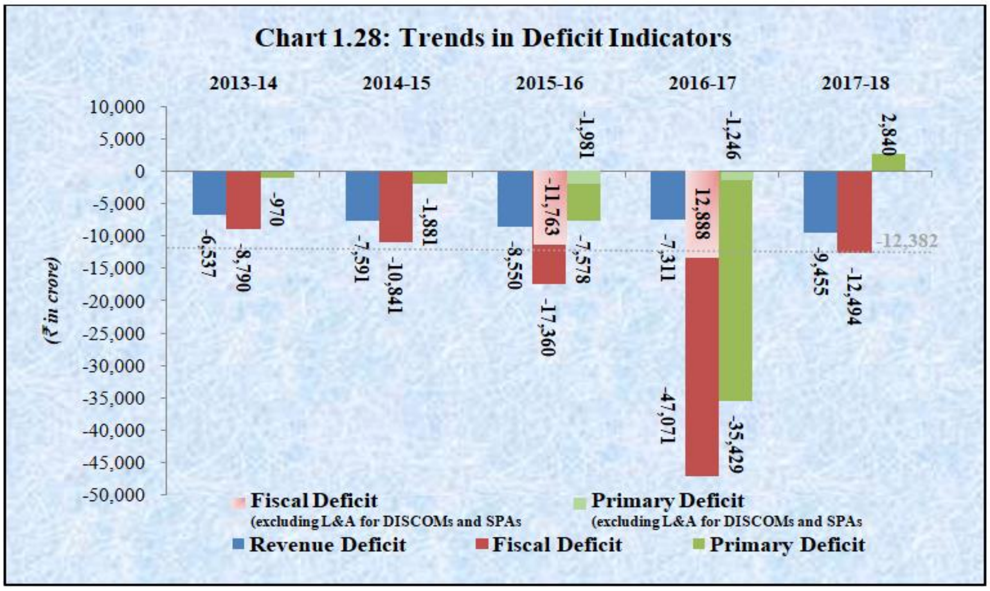
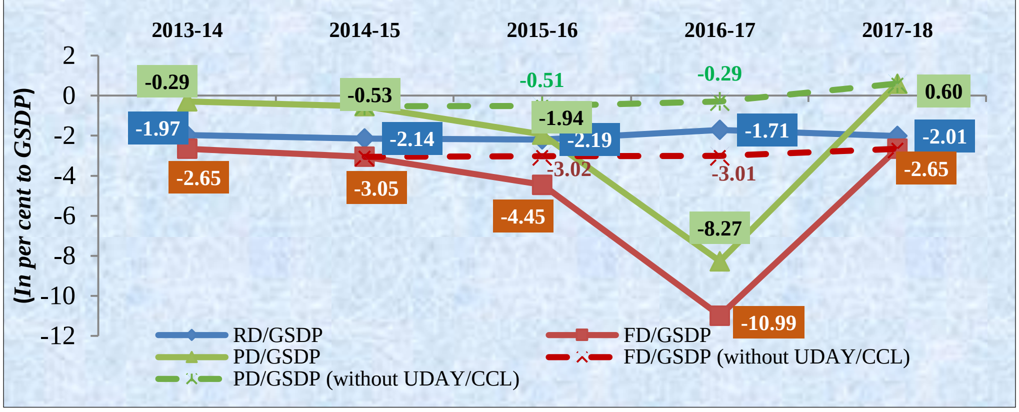


Chart 1.29: Trends in deficit indicators relative to GSDP



Revenue deficit, which indicates the excess of revenue expenditure over the revenue receipts, increased to ₹ 9,455 crore (2.01 *per cent* of GSDP) in 2017-18 from ₹ 6,537 crore (1.97 *per cent* of GSDP) in 2013-14. **Revenue deficit as *per cent* of GSDP was higher in 2017-18 (2.01 *per cent)* as compared to previous year (1.71 *per cent)*.**

Punjab Urban Development Agency (PUDA), raised loans of ₹ 2,000 crore[26], which were passed on to the State Government. The responsibility to repay the same was taken by the State Government. The State Government booked this amount under the Major Head "0075-Miscellaneous General Services" instead of booking it under Major Head "6003-Internal Debt". Repayment of ₹ 1,501.31 crore[27]was made during 2013-17and this has been mentioned in the Reports of the Comptroller and Auditor General of India on State Finances for the years 2013-14, 2014-15, 2015-16 and 2016-17.

During the year 2017-18, the State Government repaid ₹ 366.94 crore by booking it as revenue expenditure under the Major Head 2216-Housing, 02-Urban Housing, 190-Assistance to Public Sector and Other Undertaking, 01-Assistance to PUDA, 50-Other charges thereby overstating the revenue expenditure and revenue deficit as well.

Fiscal deficit, which represents the total borrowings of the State i.e. its total resource gap, decreased significantly by ₹ 34,577 crore (73 *per cent)* during the current year over the previous year. **Fiscal deficit decreased to ₹ 12,494 crore (2.65 *per cent* of GSDP) during the current year against ₹ 47,071 crore[28] (10.99 *per cent* of GSDP) of the previous year.** However, Fiscal Deficit of the State during 2015-16 and 2016-17 excluding borrowings for taking over debts of DISCOMs and State Procuring Agencies work out to 3.02 and 3.01 *per cent* respectively.

Primary deficit, which indicates the excess of primary expenditure (*total expenditure net of interest payments*) over non-debt receipts was ₹ 970 crore (0.29 *per cent* of GSDP) in 2013-14 which increased to ₹ 35,429 crore[28]

[26] *₹1,000 crore in 2012-13 and ₹1,000 crore in 2013-14.*

[27] *₹176.88 crore in 2013-14, ₹466.68 crore in 2014-15 ,₹495.26 crore in 2015-16 and ₹362.49 crore in 2016-17.*

[28] *Excludes additional borrowings of ₹5,768.54 crore under UDAY to take over DISCOMs debt, as per GoI's letter No. 40(6)/PF-1/2009 vol. II dated 29 March 2016.*

(8.27 *per cent* of GSDP) in 2016-17. **However, in 2017-18, there was primary surplus of ₹ 2,840 crore (0.60 *per cent* of GSDP) which indicates excess of non-debt receipts over primary expenditure. The decline in Fiscal Deficit and the conversion of Primary Deficit to Primary Surplus were on account of sharp decrease in loans advanced by the State from ₹ 41,364 crore in 2016-17 to ₹ 760 crore in 2017-18, as discussed in paragraph 1.1.5.**

1.11.1 (a) Impact on Revenue and Fiscal Deficit

Audit observed that the Revenue and Fiscal Deficit were understated by ₹ 775.54 crore and ₹ 1,142.48 crore respectively on account of short contribution to New Pension Scheme, non-contribution to consolidated sinking fund, guarantee redemption fund and wrong booking of repayment of loan under revenue expenditure, as shown in Table 1.38.

Table 1.38: Effective Revenue and Fiscal Deficit

Particulars	Impact on Revenue Deficit (Understated (+) / overstated(-)) (*₹ in crore*)	Impact on Fiscal Deficit (Understated) (*₹ in crore*)	Ratio before taking the net impact (in *per cent*)		Ratio after taking the net impact (in *per cent*)	
			RD/ GSDP	FD/ GSDP	RD/ GSDP	FD/ GSDP
Short contribution to New Pension Scheme	23.08	23.08	2.01	2.65	2.17	2.89
Non-contribution to Consolidated Sinking Fund	912.63	912.63				
Non-contribution to Guarantee Redemption Fund	206.77	206.77				
Wrong booking of repayment of loan under revenue expenditure(PUDA)	(-) 366.94	---				
Total	**775.54**	**1,142.48**				

Source: Finance Accounts

Above impacted the Revenue and Fiscal Deficit of the State Government, which have been understated by 0.16 and 0.24 percentage point respectively.

1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit is reflected in the **Table 1.39.**

Table 1.39: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2013-14	2014-15	2015-16	2016-17	2017-18
Composition of Fiscal Deficit		**(-)8,790**	**(-)10,841**	**(-)17,360**	**(-)47,071**	**(-)12,494**
1	Revenue Deficit	(-)6,537	(-)7,591	(-)8,550	(-)7,311	(-) 9,455
2	Net Capital Expenditure	(-)2,200	(-)3,117	(-)3,059	(-)4,346	(-) 2,352
3	Net Loans and Advances	(-)53	(-)133	(-)5,751	(-)35,414	(-) 687
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	7,255	7,685	9,199	12,144	13,349
2	Loans from GOI	121	283	(-)49	327	125
3	Special Securities issued to NSSF	(-)339	925	1,579	(-)1,804	(-)1,742
4	Loans from Financial Institutions	421	(-)745	5,648	34,749	(-)702
5	Small Savings, PF etc	1,964	1,735	1,110	1,233	1,126
6	Deposits and Advances	192	(-)402	114	115	(-)180
7	Suspense and Miscellaneous	(-)241	(-)288	5	17	(-)27
8	Remittances	(-)110	3	3	0	(-)12
9	Reserve Fund	339	650	(-)126	758	650
10	**Overall Deficit**	**9,602**	**9,846**	**17,483**	**47,539**	**12,587**
11	Increase/Decrease in cash balance	(-)812	995	(-)123	(-)410	(-)93
12	**Gross Fiscal Deficit**	**8,790**	**10,841**	**17,360**	**47,071**	**12,494**

Source: Finance Accounts

During 2017-18, the fiscal deficit of the State was met mainly from market borrowings (₹ 13,349 crore), small savings, provident fund, etc. (₹ 1,126 crore) and Reserve Fund (₹ 650 crore).

1.11.3 Quality of deficit/surplus

The contribution of revenue deficit and net capital expenditure (including loans and advances) to fiscal deficit indicates the quality of deficit in the State finances. The share of revenue deficit in fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (fiscal liabilities) does not have any asset backup. The bifurcation of the primary deficit **(Table 1.41)** would indicate the extent to which the deficit is on account of deficit in capital account which may be desirable to improve the productive capacity of the State's economy.

Table 1.40: Components of fiscal deficit during 2013-18

(₹in crore)

Particulars		2013-14	2014-15	2015-16	2015-16*	2016-17	2016-17*	2017-18
Composition of Fiscal Deficit		**8,790**	**10,841**	**17,360**	**11,763**	**47,071#**	**12,888**	**12,494**
1	Revenue Deficit	(-)6,537 (74.37)	(-)7,591 (70.02)	(-)8,550 (49.25)	(-)8,550 (72.69)	(-)7,311 (15.53)	(-)7,311 (56.73)	(-) 9,455 (75.68)
2	Net Capital Expenditure	(-)2,200 (25.03)	(-)3,117 (28.75)	(-)3,059 (17.62)	(-)3,059 (26.00)	(-)4,346 (9.23)	(-)4,346 (33.72)	(-) 2,352 (18.83)
3	Net Loans and Advances	(-)53 (0.60)	(-)133 (1.23)	(-)5,751 (33.13)	(-)154 (1.31)	(-)35,414 (75.24)	(-)1,231 (9.55)	(-) 687 (5.49)

** Excluding loans and advances on account of taking over debts of DISCOMs and settlement of Cash Credit Accounts of State Procuring Agencies.*

 # Excludes additional borrowings of ₹5,768.54 crore under UDAY to take over DISCOMs debt, as per GoI's letter No. 40(6) PF-1/2009 vol. II dated 29 March 2016.

Figures in parenthesis indicated contribution to fiscal deficit

Contribution of revenue deficit to fiscal deficit declined from 74.37 *per cent* in 2013-14 to 15.53 *per cent* in 2016-17, which increased significantly to 75.68 *per cent* in 2017-18. However, by excluding the one-time transaction of loans and advances on account of taking over debts of DISCOMs and settlement of Cash Credit Accounts of State Procuring Agencies during 2015-16 and 2016-17, the contribution of revenue deficit to fiscal deficit during 2016-17 was 56.73 *per cent*.

Contribution of net Capital Expenditure to Fiscal Deficit declined from 25 *per cent* in 2013-14 to around 19 *per cent* in 2017-18.

Contribution of net Loans and Advances to Fiscal Deficit excluding the one-time transactions remained between 0.60 *per cent* and 9.55 *per cent* during 2013-18.

An analysis of fiscal deficit for the last 10 years (after excluding transactions under UDAY and CCL during 2015-16 and 2016-17) showed that revenue deficit contributed from 57 *per cent* to 85 *per cent*. The main cause of such high proportion of revenue deficit was substantial expenditure in subsidy component which constituted 47 *per cent* to 80 *per cent* of the revenue deficit during 2008-18. Thus, increase in fiscal deficit during last 10 years can be attributed to rise in subsidy which constituted 38 *per cent* to 56 *per cent* of the fiscal deficit. Power subsidy constituted 94 *per cent* to 98 *per cent* of the total subsidy during 2013-18.

Table 1.41: Details of primary deficit during 2013-18

(₹ in crore)

Year	Non-debt receipts*	Revenue Receipt	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus(+)
1	2	3.	4.	5.	6.	7=(4+5+6)	8=(3-4)	9=(2-7)
2013-14	35,217	35,104	33,821	2,201	165	36,187	(+)1,283	(-) 970
2014-15	39,161	39,023	37,654	3,118	270	41,042	(+)1,369	(-) 1,881
2015-16	41,741	41,523	40,291	3,059	5,969	49,320	(+)1,232	(-) 7,579
2016-17	48,166	47,985	43,654	4,346	41,364	89,364	(+)4,331	(-) 35,429*
2017-18	53,083	53,010	47,131	2,352	760	50,243	(+)5,879	(+)2,840

Source: Finance Accounts

* *Excluding additional borrowings of ₹5,768.54 crore under UDAY to take over DISCOMs debt, as per GoI's letter No. 40(6) PF-1/2009 vol. II dated 29 March 2016.*

Non-debt receipts increased by 50.73 *per cent* during 2013-18 and were sufficient to meet the primary revenue expenditure during 2013-18.

The primary revenue surplus declined during 2013-14 to 2015-16. It increased almost tri-fold over the previous year and stood at ₹ 4,331 crore during 2016-17 and again increased by ₹ 1,548 crore during the current year.

The primary deficit of ₹ 970 crore in 2013-14 turned into a primary surplus of ₹ 2,840 crore in 2017-18.

1.12 Salient features

Comparison of key elements of State Finances in 2017-18 with that of the previous year 2016-17 is summarized in **Table 1.42**.

Table 1.42: Key parameters

Positive Indicators	Parameters requiring close watch
⇑ Increase in Tax Revenue by 10 *per cent*	⇓ Decrease in non-tax revenue by 26 *per cent*
⇓ Decrease in Public debt receipts by 66 *per cent*	⇓ Decrease in Capital Expenditure by 46 *per cent*
⇑ Fiscal deficit remained within three *per cent* of GSDP	⇑ Increase in revenue deficit by 29 *per cent*
⇑ Primary surplus was 0.60 *per cent* of GSDP	⇓ Decrease in Social Sector Expenditure

1.13 Conclusions

The revenue receipts increased by ₹ 5,024 crore (10.47 *per cent*) over the previous year. This increase was mainly due to increase in Grants-in-aid from GoI which included compensation of ₹ 4,037 crore arising on account of implementation of GST. Total expenditure during the year was ₹ 65,577 crore. Revenue expenditure constituted 95 *per cent* of total expenditure. Capital expenditure declined by 46 *per cent* as compared to 2016-17 and reached an all-time low of ₹ 2,352 crore.

There was decline in expenditure on social sector by 2.23 *per cent* as compared to 2016-17. The expenditure on key social services like Education and Health remained below the General Category States' average.

During 2017-18 debt repayments including interest exceeded debt receipts by ₹ 2,263 crore. Interest payment was ₹ 13,293 crore, which was 25 *per cent* of the revenue receipts.

Revenue deficit during 2017-18 was ₹ 9,455 crore which was 2.01 *per cent* of GSDP. This was higher than 2016-17 when revenue deficit constituted 1.71 *per cent* of GSDP. The fiscal deficit was 2.65 *per cent* of GSDP during the current year. The State had a primary surplus for the first time in the last five years. The primary surplus was 0.60 *per cent* of GSDP.