

Chapter-II

Finances of the State

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2.1 Major changes in key fiscal aggregates *vis-à-vis* 2018-19

Major changes in key fiscal aggregates of the State during the financial year 2019-20, compared to the previous year, are given in **Table 2.1**.

Table 2.1: Changes in key fiscal aggregates in 2019-20 compared to 2018-19

Revenue Receipts	<ul style="list-style-type: none">• Revenue receipts of the State decreased by 1.11 <i>per cent</i>• Own tax receipts of the State decreased by 5.00 <i>per cent</i>• Own Non-tax receipts decreased by 12.24 <i>per cent</i>• State's Share of Union Taxes and Duties decreased by 13.82 <i>per cent</i>• Grants-in-Aid from Government of India increased by 31.26 <i>per cent</i>
Revenue Expenditure	<ul style="list-style-type: none">• Revenue expenditure increased by 0.60 <i>per cent</i>• Revenue expenditure on General Services increased by 4.56 <i>per cent</i>• Revenue expenditure on Social Services increased by 6.35 <i>per cent</i>• Revenue expenditure on Economic Services decreased by 18.65 <i>per cent</i>• Expenditure on Grants-in-Aid and Contributions increased by 41.72 <i>per cent</i>
Capital Outlay	<ul style="list-style-type: none">• Capital outlay increased by 639.14 <i>per cent</i>• Capital outlay on General Services decreased by 8.88 <i>per cent</i>• Capital outlay on Social Services decreased by 7.83 <i>per cent</i>• Capital outlay on Economic Services increased by 1,297.07 <i>per cent</i>
Loans and Advances	<ul style="list-style-type: none">• Recoveries of Loans and Advances increased by 1,792.82 <i>per cent</i>• Disbursement of Loans and Advances decreased by 42.47 <i>per cent</i>
Public Debt	<ul style="list-style-type: none">• Public Debt Receipts increased by 21.28 <i>per cent</i>• Repayment of Public Debt increased by 46.53 <i>per cent</i>
Public Account	<ul style="list-style-type: none">• Public Account Receipts increased by 2.95 <i>per cent</i>• Disbursement of Public Account increased by 3.30 <i>per cent</i>
Cash Balance	<ul style="list-style-type: none">• Cash balance increased by 60.40 <i>per cent</i>

Source: Finance Accounts

2.2 Sources and Application of Funds

Comparison of components of the sources and application of funds of the State during the current year with those of the previous year is given in **Table 2.2**.

Table 2.2: Details of sources and application of funds during 2018-19 and 2019-20

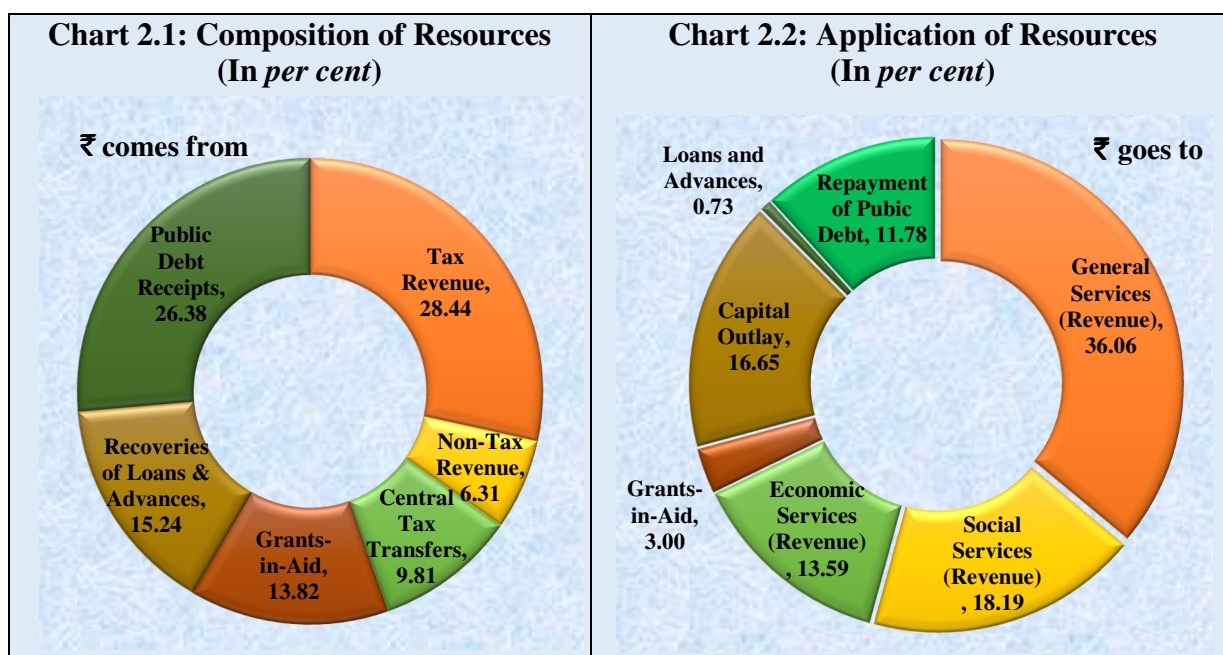
(₹ in crore)

	Particulars	2018-19	2019-20	Increase (+)/ Decrease (-) (per cent)
Sources	Opening Cash Balance with RBI	488	1,325	(+)837 (172)
	Revenue Receipts	62,269	61,575	(-)694 (-1)
	Recoveries of Loans and Advances	849	16,070	(+)15,221 (1793)
	Public Debt Receipts (Net)	14,328	15,202	(+)874 (6)
	Public Account Receipts (Net)	2,568	2,424	(-)144 (-6)
	Total	80,502	96,596	(+)16,094 (20)
Application	Revenue Expenditure	75,404	75,860	(+)456 (1)
	Capital outlay	2,412	17,828	(+)15,416 (639)
	Disbursement of Loans and Advances	1,361	783	(-)578 (-42)
	Closing Cash Balance with RBI	1,325	2,125	(+)800 (60)
	Total	80,502	96,596	(+)16,094 (20)

Source: Finance Accounts

Appendix 2.1 provides details of receipts and disbursements and the overall fiscal position of the State during current year as well as previous year.

Composition and application of resources in the Consolidated Fund of the State during 2019-20 is given in **Chart 2.1** and **Chart 2.2**.



Source: Finance Accounts

2.3 Resources of the State

The resources of the State are described below:

1. **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).
2. **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.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

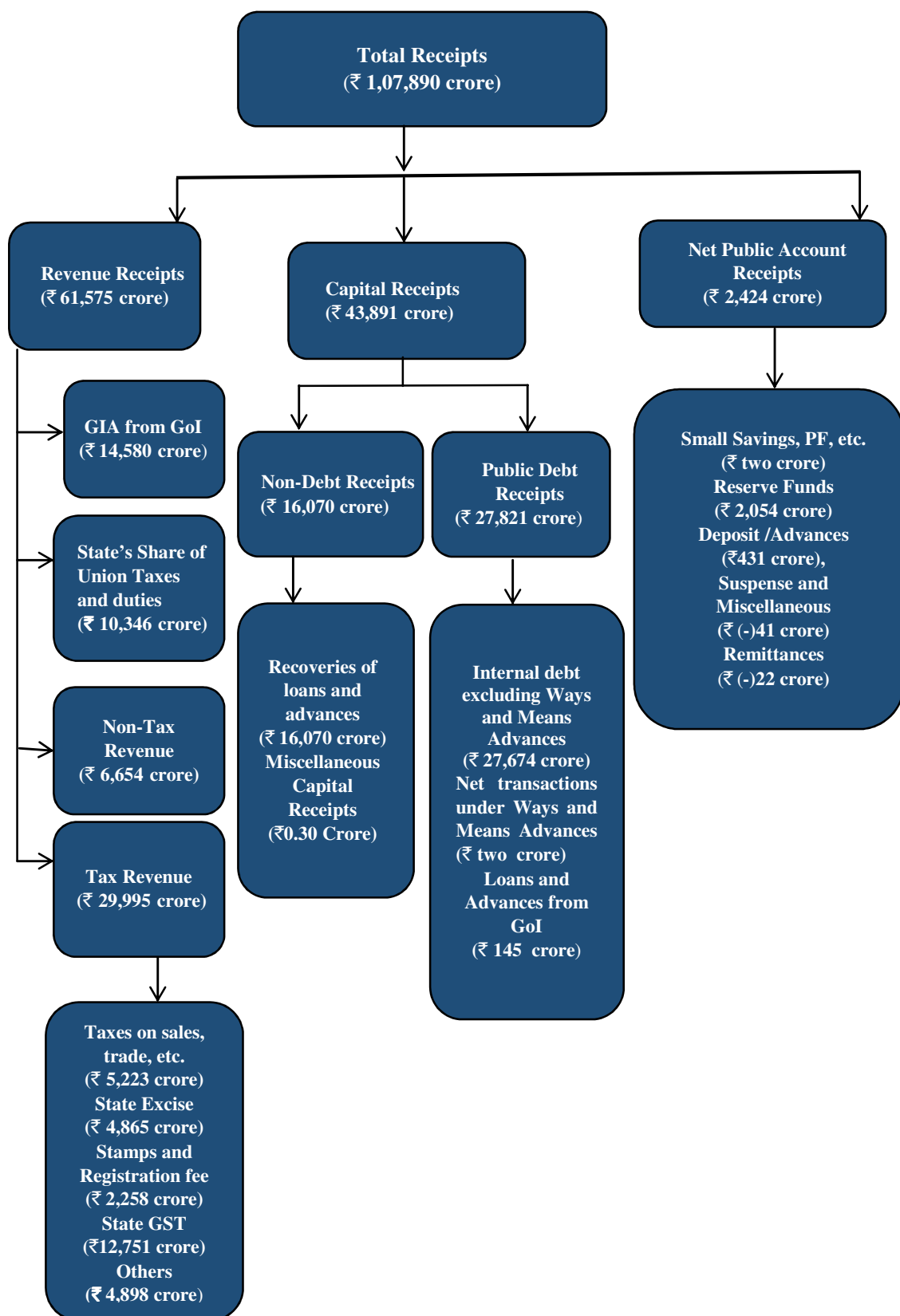
3. **Net Public Account receipts:** There are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund.

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.

2.3.1 Receipts of the State

This paragraph provides the composition of the overall receipts. Besides the Revenue and Capital Receipts, funds available in the Public Account (net of disbursement made from it) are also utilised by the Government to finance its deficit. The composition of total receipts of the State is depicted in **Chart 2.3**.

Chart 2.3: Composition of receipts of the State during 2019-20



Source: Finance Accounts

2.3.2 State's Revenue Receipts

2.3.2.1 Trends and growth of Revenue Receipts

Trends and growth of revenue receipts as well as revenue buoyancy with respect to Gross State Domestic Product (GSDP) over the five year period (2015-2020) are shown in **Table 2.3**. The trends and composition of revenue receipts over the same period are presented in (*Appendix 2.2*).

Table 2.3: Trends in Revenue Receipts

(₹ in crore)					
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR)	41,523	47,985	53,010	62,269	61,575
Rate of growth of RR (<i>per cent</i>)	6.41	15.56	10.47	17.47	(-)1.11
Own Tax Revenue	26,690	27,747	30,423	31,574	29,995
Non-Tax Revenue	2,650	5,863	4,319	7,582	6,654
Own Revenue	29,340	33,610	34,742	39,156	36,649
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (<i>per cent</i>)	3.13	14.55	3.37	12.71	(-)6.40
GSDP (2011-12 Series)	3,90,087	4,26,988	4,70,834	5,26,376 (Q)	5,74,760 (A)
Rate of growth of GSDP (<i>per cent</i>)	9.85	9.46	10.27	11.80	9.19
RR/GSDP (<i>per cent</i>)	10.64	11.24	11.26	11.83	10.71
Buoyancy Ratios¹					
Revenue Buoyancy w.r.t. GSDP	0.65	1.64	1.02	1.48	(-)0.12
State's Own Revenue Buoyancy w.r.t. GSDP	0.32	1.54	0.33	1.08	(-)0.70

Source: Finance Accounts for Revenue Receipts and Economic and Statistical Organisation, GoP for GSDP figures Q-Quick Estimates and A-Advance Estimates

Table 2.3 shows that:

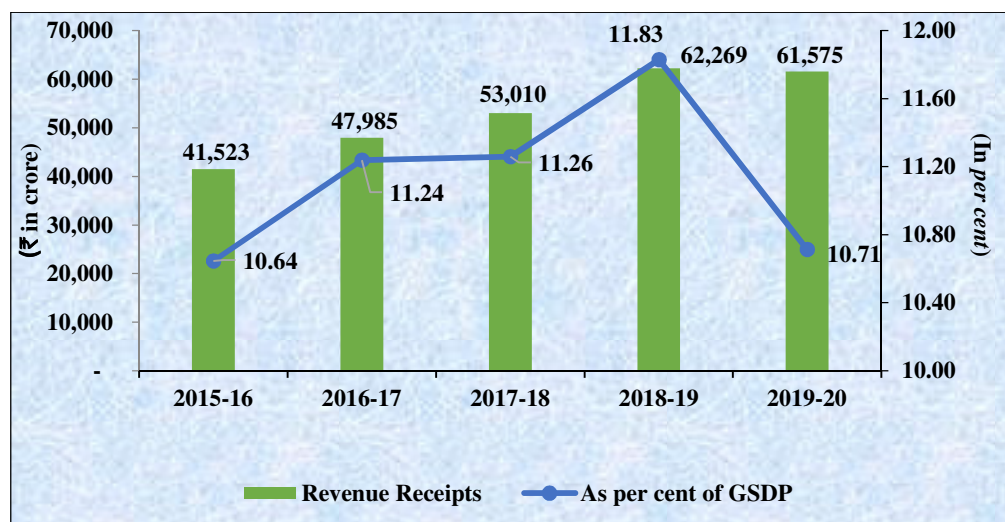
- The revenue receipts increased by 48.29 *per cent* from ₹ 41,523 crore in 2015-16 to ₹ 61,575 crore in 2019-20 though it slightly decreased by 1.11 *per cent* during 2019-20 over the previous year. During the period of five years, it increased at an annual average growth rate of 9.76 *per cent*. The Government stated (June 2021) that the receipts of the State had reached at its optimum level and due to higher committed liabilities, the State had to depend on GoI contributions.
- The revenue buoyancy with reference to GSDP fluctuated between (-) 0.12 and 1.64 percentage points during 2015-20. The decrease in revenue buoyancy with respect to GSDP in 2019-20 *vis-à-vis* the previous year was primarily due to decrease in own tax revenue (5.00 *per cent*), non-tax revenue (12.24 *per cent*) and State's share in Union taxes and duties (13.82 *per cent*).

¹ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one *per cent*.

- The State's own revenue buoyancy with reference to GSDP decreased to (-) 0.70 percentage points as compared to 1.08 percentage points in 2018-19 due to decrease in both own tax revenue as well as non-tax revenue. Trends in components of own tax revenue and non-tax revenue are discussed in paragraphs 2.3.2.2 (i) and 2.3.2.2 (ii) respectively.

Trends of revenue receipts are shown in **Chart 2.4**.

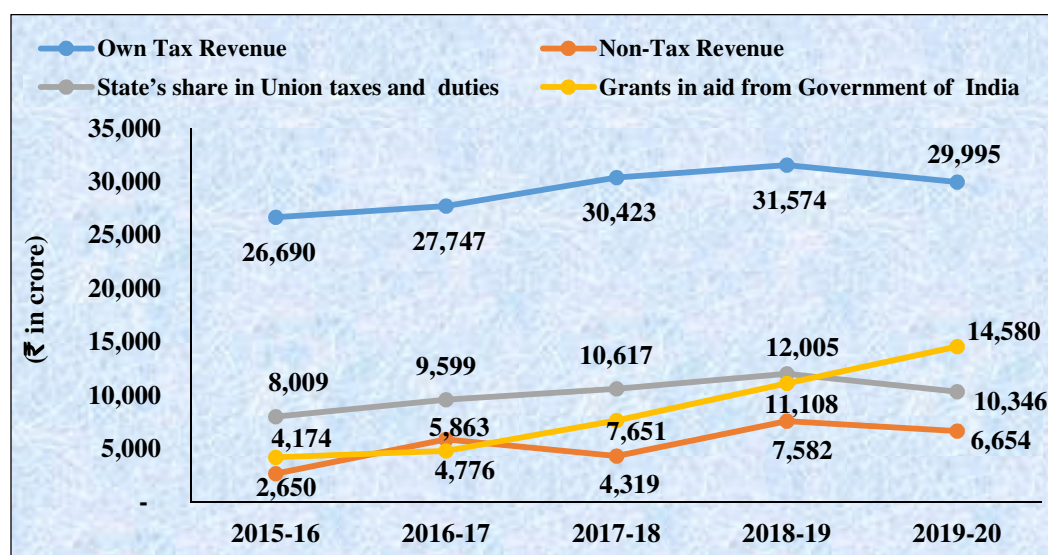
Chart 2.4: Trends of Revenue Receipts



Source: Finance Accounts

Trends in composition of revenue receipts are given in **Chart 2.5**.

Chart 2.5: Trend of components of Revenue Receipts



Source: Finance Accounts

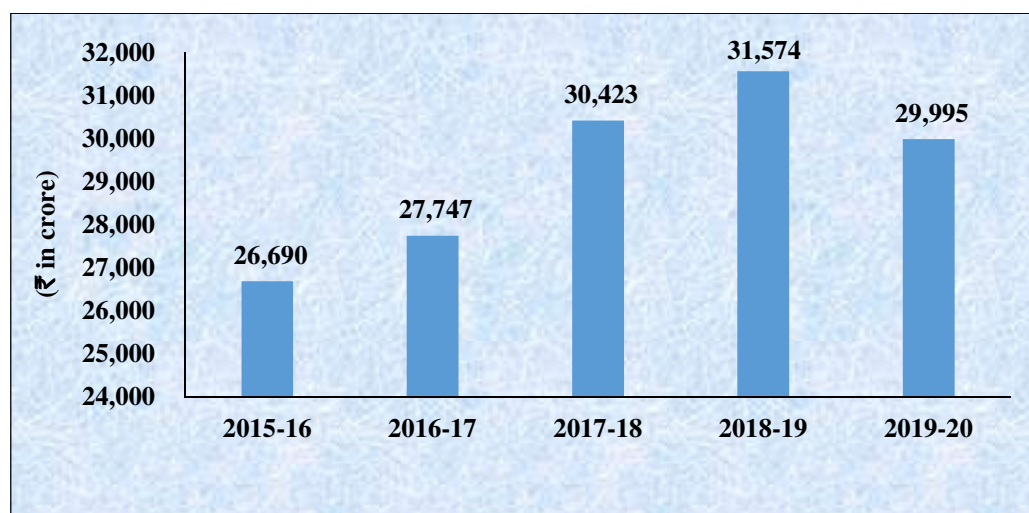
2.3.2.2 State's Own Resources

(i) Own tax revenue

Own tax revenue of the State consists of State Goods and Services Tax (SGST), State excise, taxes on vehicles, stamp duty and registration fees, land revenue, taxes on goods and passengers, etc.

Trends in growth of own tax revenue and analysis of its components during the period 2015-20 are shown in **Chart 2.6** and **Table 2.4** respectively.

Chart 2.6: Growth of Own Tax Revenue during 2015-20



Source: Finance Accounts

Table 2.4: Components of State's Own Tax Revenue

						(₹ in crore)
Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
Taxes on Sales, Trade etc.	15,857	17,587	11,160	6,572	5,223	
SGST	0	0	7,901	13,273	12,751	
State Excise	4,796	4,406	5,136	5,072	4,865	
Taxes on Vehicles	1,475	1,548	1,911	1,861	1,994	
Stamp Duty and Registration fees	2,449	2,044	2,135	2,298	2,258	
Land Revenue	55	68	91	69	66	
Taxes on Goods and Passengers	7	1	0	0	0	
Other taxes	2,051	2,093	2,089	2,429	2,838	
Total	26,690	27,747	30,423	31,574	29,995	

Source: Finance Accounts

The total own tax revenue decreased by ₹ 1,579 crore (5 per cent) during the current year over the previous year. The decrease was mainly due to lesser

receipts under Sales Tax (₹ 1,349 crore), SGST (₹ 522 crore) and State Excise (₹ 207 crore). The decrease in Sales Tax was attributed to decrease in rate of VAT on diesel and petrol. The decrease in SGST was due to reduced ad-hoc settlement of IGST during 2019-20 due to problems being faced by the taxpayers in furnishing the returns on account of inadequacy of data regarding cross utilisation of input tax credit for various taxes under GST. The State Government further attributed (May 2021) the reasons for decline in SGST receipts to overlapping in nature/jurisdiction of GST regime between the Centre and the State. The decrease in State Excise was attributed to non-realisation of fixed licence fees and additional fixed licence fees due to postponement of allotment of groups/zones; and non-receipt of bar licence fees in the month of March 2020.

(a) State Goods and Services Tax (SGST)

As per the GST (Compensation to States) Act, 2017, States will be compensated for the shortfall in revenue arising on account of implementation of the goods and services tax considering an annual growth of 14 *per cent* from the base year, for a period of five years. In case of Punjab, the finalised revenue figure was ₹ 14,975.46 crore during the base year of 2015-16.

The projected revenue in accordance with base year figure, actual revenue collected and compensation due and received from GoI during the period 2017-18 to 2019-20 is given in **Table 2.5**.

Table 2.5: Detail of collection of GST and compensation from GoI

(₹ in crore)					
Year	Projected revenue amount	Revenue collected amount [#]	Compensation due amount	Compensation received amount	Shortfall
	1	2	3 = 1-2	4	5 = 3-4
2017-18 ²	14,596.58	9,486.15	5,110.43	4,037.00	1,073.43
2018-19	22,186.80	12,482.76	9,704.04	7,129.00	2,575.04
2019-20	25,292.96	12,676.00	12,616.96	8,804.54	3,812.42
Total	62,076.34	34,644.91	27,431.43	19,970.54	7,460.89

Source: Finance Accounts of the respective years, information obtained from PAG (Accounts and Entitlement) and Excise and Taxation Department

[#] includes pre-GST figures of VAT and CST (net of refunds) and revenue from taxes subsumed in GST by excluding VAT and GST on petroleum products and liquor.

The growth in GST collection in the State was lesser than projected growth and there was total shortfall of ₹ 27,431 crore during 2017-20 against the projected GST receipt of ₹ 62,076 crore. GoI has released ₹ 19,971 crore upto March 2020 as compensation.

² Amount for the year 2017-18 pertains to nine months period i.e. from July 2017 to March 2018.

The State Government stated (June 2021) that an amount of ₹ 6,310.46 crore had been received during 2020-21 against the total shortfall of ₹ 7,460.89 crore. However, Audit is of the view that receipts on account of GST compensation during 2020-21 have to be seen taking into account amount due in that year.

(b) Audit of GST Receipts

The Government of India's decision to provide access to Pan-India data at GSTN premises was conveyed on 22nd June 2020. In case of Punjab, which is a Model-II State, role-based access to back-end application was provided to office of the Principal Accountant General (Audit), Punjab in December 2020. However, the access was limited to their premises only and the matter of providing remote access was under consideration. The accounts for the year 2019-20 have, therefore, been certified on the basis of test audit, as was being done when records were being maintained manually, pending full implementation of the GoI's decision to provide Audit access to GSTN data.

(c) Analysis of arrears of revenue and arrears of assessment

The arrears of revenue indicate delayed realisation of revenue due to the Government. Similarly, arrears of assessment indicates potential revenue which is blocked due to delayed assessment. Both deprive the State of potential revenue receipts and ultimately affect the revenue deficit.

Arrears of revenue

As on 31 March 2020, the arrears of revenue in respect of principal heads of revenue were ₹ 10,261.51 crore, of which ₹ 2,239.77 crore were outstanding for more than five years, as depicted in **Table 2.6**.

Table 2.6: Arrears of revenue

(₹ in crore)

Sr. No.	Head of revenue	Amount outstanding as on 31 March 2020	Amount outstanding for more than five years as on 31 March 2020
1.	Taxes on Sales, Trade, etc.	9,344.17	2,087.95
2.	Goods and Services Tax	182.18	--
3.	Forests and Wildlife	34.81	22.65
4.	State Excise	369.58	13.98
5.	Taxes on Vehicles	209.88	114.97
6.	Land Revenue	120.89	0.22
Total		10,261.51	2,239.77

Source: Departmental Information

Arrears in assessment

The information on number of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year, as furnished by the Department of Excise and Taxation in respect of Sales Tax/VAT, is depicted in **Table 2.7**.

Table 2.7: Arrears of assessment

Sr. No.	Head of Revenue	Cases pending at the beginning of 2019-20	New cases due for assessment during 2019-20	Total cases due for assessment	Cases disposed of during 2019-20	Balance at the end of the year	Percentage of disposal
1.	Taxes/VAT on Sales, Trade, etc.	94,069	11,151	1,05,220	20,993	84,227	19.95

Source: Departmental information

During the period 2015-19, the number of pending cases at the end of the respective years were 80,569 (2015-16); 85,151 (2016-17); 1,06,781 (2017-18); and 94,605 (2018-19), as against 84,227 cases during the end of 2019-20. Disposal of cases during this period ranged between 19.47 *per cent* and 25.90 *per cent*, whereas it was 19.95 *per cent* during the current year.

(d) Details of evasion of tax detected by the Department, refund cases, etc.

The cases of evasion of tax detected, cases finalised and the demands for additional tax raised are important indicators of revenue collection efforts of the State Government. Promptness in disposal of refund cases is an important indicator of performance of the Department concerned. High pendency of refund cases may indicate red tape, vested interests, prevalence of speed money, etc.

The details of cases of evasion of tax detected by the Excise and Taxation Department and Transport Department, cases finalised and the demand for additional tax raised; and details of refund cases during the year 2019-20, as reported by the concerned departments, are depicted in **Table 2.8** and **Table 2.9** respectively.

Table 2.8: Evasion of tax detected

Sr. No.	Head of revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	No. of cases in which assessment / investigation completed and additional demand with penalty, etc. raised		No. of cases pending for finalisation as on 31 March 2020
					No. of cases	Amount of demand (₹ in crore)	
1.	Taxes/VAT on Sales, Trade, etc.	383	0	383	121	2.96	262
2.	Goods and Services Tax	41	2,432	2,473	2,441	124.14	32
3.	Taxes on Vehicles	6	0	6	0	0.00	6
Total		430	2,432	2,862	2,562	127.10	300

Source: Departmental information

Table 2.9: Details of refund cases*(₹ in crore)*

Sr. No.	Particulars	GST		Sales Tax/VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,402	161.92	3,126	293.86	215	3.90
2.	Claims received during the year	6,387	890.84	3,525	298.07	5	23.57
3.	Refunds made during the year	6,140	779.89	3,508	298.03	10	0.07
4.	Refunds rejected during the year	389	111.67	577	69.46	0	0.00
5.	Balance outstanding at the end of year	1,260	161.20	2,566	224.44	210	27.40

Source: Departmental information

(ii) Non-tax revenue

Non-tax revenue consists of interest receipts, dividends and profits, mining receipts, departmental receipts, etc. Trends in components of State's non-tax revenue during 2015-20 are shown in **Table 2.10**.

Table 2.10: Components of State's Non-tax Revenue*(₹ in crore)*

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
Interest receipts	225.28	1,293.80	1,404.94	1,455.26	2,105.51	
Dividends and Profits	1.46	3.88	4.45	4.24	4.24	
Other non-tax receipts	2,423.53	4,565.52	2,909.00	6,122.79	4,544.33	
a) Major and medium Irrigation	142.66	93.61	71.37	24.22	92.49	
b) Road Transport	148.49	213.89	158.69	208.99	176.35	
c) Urban Development	81.04	95.89	72.43	65.31	44.53	
d) Education, Sports, Art and Culture	88.68	95.89	41.87	56.75	196.22	
e) Non-ferrous mining	56.64	42.08	122.40	36.13	90.88	
f) Pensions and Other Retirement Benefits	19.07	26.32	32.14	26.03	121.88	
g) Miscellaneous General Services	999.84	3,028.08	1478.97	4,851.58	2,743.87	
h) Other or Miscellaneous	887.11	969.76	931.13	853.78	1,078.11	
Total	2,650.27	5,863.20	4,318.39	7,582.29	6,654.08	

Source: Finance Accounts

During 2016-17, the increase of ₹ 3,212.93 crore in non-tax revenue was mainly due to increase of ₹ 2,028.24 crore in miscellaneous general services and ₹ 1,068.52 crore in interest receipts. The increase was mainly due to interest

receipts of ₹ 1,072.79 crore against loans given to Punjab State Power Corporation Limited (PSPCL) during 2015-16 for implementation of Ujwal Discom Assurance Yojna (UDAY). The increase of ₹ 2,028.24 crore in miscellaneous general services over previous year was mainly due to increase of ₹ 2,182.33 crore in 800-Other receipts which included ₹ 1,425 crore transferred from Major Head 8342 without requisite details of receipts.

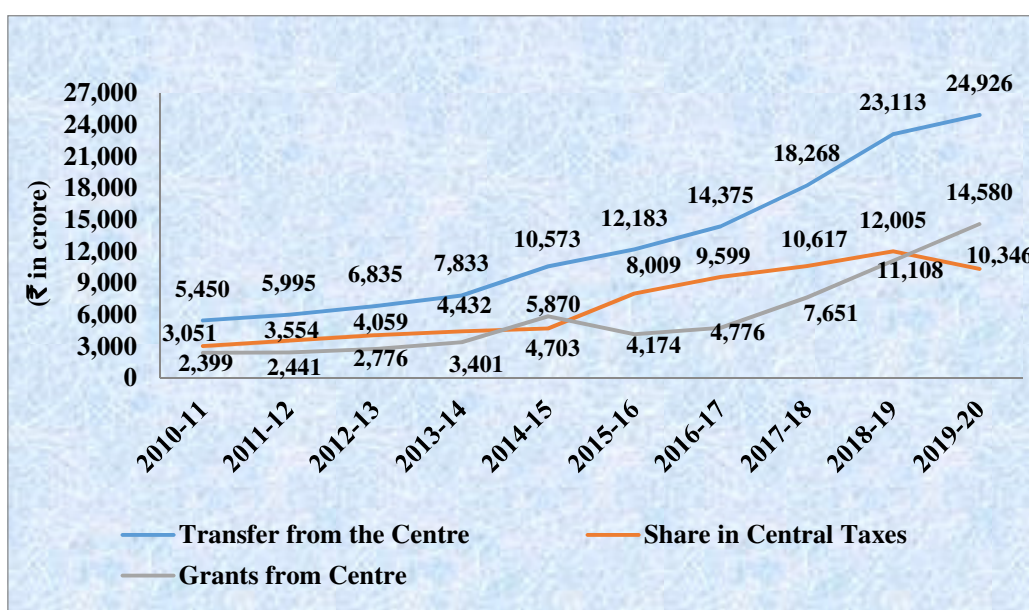
During the year 2019-20, the decrease of ₹ 928.21 crore in total non-tax revenue over the previous year was mainly due to decrease of ₹ 1,578.46 crore in other non-tax receipts which was partially compensated by increase of ₹ 650.25 crore under interest receipts. Major decrease in other non-tax receipts was under Miscellaneous General Services (₹ 2,107.71 crore) off-set by increase under Education, Sports, Art and Culture (₹ 139.47 crore), contribution and recoveries towards Pension and Other Retirement Benefits (₹ 95.85 crore), Major and Medium Irrigation (₹ 68.27 crore) and Non-ferrous Mining (₹ 54.75 crore).

During the current year, out of interest receipts of ₹ 2,105.51 crore, an amount of ₹ 1,307.22 crore was on account of book adjustment for interest due from Government Commercial Departments/Undertakings (₹ 0.27 crore) and adjustment of interest on UDAY Bonds and Guarantee Fee payable by Punjab State Power Corporation Limited (PSPCL) against agricultural subsidy and incentives under various industrial policies payable by the State Government to PSPCL (₹ 1,306.95 crore).

2.3.2.3 Transfers from the Centre

Trends in transfers from Centre for the last ten years are shown in **Chart 2.7**.

Chart 2.7: Trends in transfers from Centre



Source: Finance Accounts

(i) Central tax transfer

The actual release of share in Union taxes and duties to State Government *vis-à-vis* projections made by Thirteenth Finance Commission (TFC) and Fourteenth Finance Commission (FFC) during the period from 2010-11 to 2019-20 is tabulated in **Table 2.11**.

Table 2.11: 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 <i>per cent</i> of net proceeds of all shareable taxes excluding service tax and 1.411 <i>per cent</i> of net proceeds of shareable 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 <i>per cent</i> of net proceeds of all shareable taxes excluding service tax and 1.589 <i>per cent</i> of net proceeds of shareable 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.	10,617	10,617	--
2018-19		12,009	12,005	(-)4
2019-20		13,319	10,346	(-)2,973

Source: Reports of the TFC & FFC, Finance Accounts and Annual Financial Statement

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

State Government's share in Union taxes and duties decreased by ₹ 1,659 crore (13.82 *per cent*) during 2019-20 over the previous year.

During the period of Fourteenth Finance Commission i.e. 2015-20, State's share in Union taxes and duties increased by ₹ 30,778 crore (155.45 *per cent*) over the period of Thirteenth Finance Commission i.e. 2010-15. Trends in components of Central tax transfers are shown in **Table 2.12**.

Table 2.12: Central Tax transfers

(₹ in crore)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax (CGST)	--	--	151.60	2,964.16	2,935.85
Integrated Goods and Services Tax (IGST)	--	--	1,072.32	236.60	-- ³
Corporation Tax	2,528.38	3,082.07	3,252.81	4,176.53	3,527.47
Taxes on Income other than Corporation Tax	1,761.21	2,142.05	2,746.76	3,075.85	2,764.01
Customs	1,281.78	1,325.80	1,072.00	851.31	655.78
Union Excise Duties	1,063.07	1,513.94	1,120.50	565.74	455.97
Service Tax	1,368.73	1,528.78	1,201.05	109.29	--

³ Amount of ₹ 7,166.64 crore received from GoI during 2019-20 has been accounted for under Major Head 0006 - SGST.

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Other Taxes ⁴	5.73	7.09	(-)0.10	25.66	6.77
Central Tax transfers	8,008.90	9,599.73	10,616.94	12,005.14	10,345.85
Percentage of increase over previous year	70.29	19.86	10.60	13.08	(-)13.82
Percentage of Central tax transfers to Revenue Receipts	19.29	20.01	20.03	19.28	16.80

Source: Finance Accounts

(ii) Grants-in-aid from Government of India

Trend of Grants-in-aid (GIA) from GoI and its components is shown in **Table 2.13**.

Table 2.13: Grants-in-aid from Government of India(*₹ in crore*)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants*	1,274.64	1,610.35	--	--	--
Grants for State Plan Schemes*	2,320.12	2,523.14	--	--	--
Grants for Centrally Sponsored Plan Schemes*	237.20	563.69	(-)0.63	(-)74.21	(-)68.84
Grants for Centrally Sponsored Schemes	341.76	78.65	3,096.13	3,091.70	2,864.31
Finance Commission Grants	--	--	355.69	719.54	2,710.13
Other transfers/Grants to States/Union Territories with Legislature	--	--	4,199.81	7,370.34	9,074.43
Total	4,173.72	4,775.83	7,651.00	11,107.37	14,580.03
Percentage of increase over the previous year	(-) 28.90	14.43	60.20	45.18	31.26
Percentage of GIA to Revenue Receipts	10.05	9.95	14.43	17.84	23.68

Source: Finance Accounts

* Non-plan and plan grants merged with effect from 01 April 2017.

Table 2.13 shows that the GIA from GoI increased at an annual average rate of 24.43 *per cent* during the period 2015-16 to 2019-20. Other transfers to State include GST Compensation of ₹ 8,805 crore. The increase in GIA during the current year was due to substantial increase in GST compensation by ₹ 1,676 crore (23.51 *per cent*); and Finance Commission grants by ₹ 1,991 crore (276.65 *per cent*) over the previous year. Further, the contribution of GIA towards revenue receipts increased from 10.05 *per cent* in 2015-16 to 23.68 *per cent* in 2019-20.

⁴ Include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on Commodities and Services.

(iii) Fourteenth Finance Commission Grants

The Fourteenth Finance Commission (FFC) grants were provided to the States for local bodies and State Disaster Response Fund (SDRF). Details of grants provided by GoI are given in **Table 2.14**.

Table 2.14: Recommended amount, actual release and transfers of Grant-in-aid

(₹ in crore)

Transfers		Recommendation of FFC			Actual release by GoI			Release by State Government		
		2015-16 to 2018-19	2019-20	Total	2015-16 to 2018-19	2019-20	Total	2015-16 to 2018-19	2019-20	Total (%age of release by GoI)
(i) Grants to PRIs		2,851.55	1,239.60	4,091.15	827.74	1,394.61	2,222.35	747.51	659.13	1,406.64 (63)
(a) General Basic Grant		2,577.43	1,104.60	3,682.03	747.51	1,394.61	2,142.12	747.51	659.13	1,406.64 (66)
(b) General Performance Grants		274.12	135.00	409.12	80.23	0.00	80.23	0.00	0.00	0.00
(ii) Grants to ULBs		1,702.37	750.58	2,452.95	1,521.18	581.64	2,102.82	1,521.18	581.64	2,102.82 (100)
(a) General Basic Grant		1,373.67	588.69	1,962.36	1,321.03	581.64	1,902.67	1,321.03	581.64	1,902.67 (100)
(b) General Performance Grants		328.70	161.89	490.59	200.15	0.00	200.15	200.15	0.00	200.15 (100)
Total for Local Bodies		4,553.92	1,990.18	6,544.10	2,348.92	1,976.25	4,325.17	2,268.69	1,240.77	3,509.46 (81)
SDRF	Centre share	1,260.00	355.50	1,615.50	1,124.70	313.05	1,437.75	1,124.70	313.05	1,437.75 (100)
	State share	420.00	118.50	538.50				363.62	115.63	479.25
Total for SDRF		1,680.00	474.00	2,154.00	1,124.70	313.05	1,437.75	1,488.32	428.68	1,917.00
Grand Total		6,233.92	2,464.18	8,698.10	3,473.62	2,289.30	5,762.92	3,757.01	1,669.45	5,426.46

Source: FFC Report and departmental information

PRIs-Panchayati Raj Institutions and ULBs-Urban Local Bodies

During 2019-20, there was a difference of ₹ 420.83 crore in the amount of FFC grants released by GoI, as booked in the Finance Accounts (₹ 2,710.13 crore – **Table 2.13**) and those supplied by the departments concerned (₹ 2,289.30 crore – **Table 2.14**). The Department of Local Government, Punjab stated (April 2021) that grants released by GoI during a particular year were released to ULBs by the State Finance Department with delay, due to which release of FFC grants pertaining to a particular year was reflected by the Department in the coming year. It was added that the figures of FFC Grant were subject to reconciliation with the office of the Accountant General (A&E), Punjab.

In respect of SDRF, remaining share of ₹ 177.75 crore by GoI and ₹ 59.25 crore by the State Government was released in the year 2020-21. FFC recommended Centre and State share in the ratio of 75:25. As per the decision taken by the Government of India to implement the recommendation of Fourteenth Finance

Commission with effect from 1 April 2018, the Centre and State Governments were required to contribute to the Fund in the proportion of 90:10 during 2018-19 and 2019-20. However, as per sanctions issued by the Central Government for the year 2018-19 and 2019-20, the Central share to the Fund has been released as per existing ratio of 75:25.

2.3.3 Capital receipts

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.

Trends of capital receipts and its components during 2015-16 to 2019-20 are shown in **Table 2.15**.

Table 2.15: Trends in growth and composition of capital receipts

(₹ in crore)

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
Capital Receipts	20,425	55,415	18,590	23,788	43,891
Miscellaneous Capital Receipts	0	0	0	0	0
Recovery of Loans and Advances	218	181	73	849	16,070
Public Debt Receipts	20,207	55,234	18,517	22,939	27,821
Internal Debt *	19,942	54,579	18,057	21,621	27,676
Growth rate (per cent)	84.72	173.69	(-)66.92	19.74	28.01
Loans and advances from GoI	265	655	460	1,318	145
Growth rate (per cent)	(-)53.26	147.17	(-)29.77	186.52	(-)89.00
Rate of growth of debt Capital Receipts (per cent)	77.83	173.34	(-)66.48	23.88	21.28
Rate of growth of Non-debt Capital Receipts (per cent)	57.97	(-)16.97	(-)59.67	1063.01	1792.82
Rate of growth of GSDP (per cent)	9.85	9.46	10.27	11.80	9.19
Rate of growth of Capital Receipts (per cent)	77.59	171.31	(-)66.45	27.96	84.51

Source: Finance Accounts

*Including net figure under Ways and Means Advances, which was ₹1.64 crore during 2019-20.

During 2016-17, the capital receipts increased by 171.31 per cent due to substantial increase in public debt receipts by ₹ 35,027 crore (173.34 per cent) over the previous year because of raising of long term loans (₹ 29,919.96 crore) by State Government for one-time settlement of Legacy Cash Credit Account for food procurement operations; and issuing of Bonds (₹ 10,031.19 crore) for advancement of loans to PSPCL for clearing their debts in compliance to implementation of UDAY.

During the current year, the public debt receipts increased by ₹ 4,882 crore (21.28 per cent) over the previous year. Recovery of loans and advances increased by ₹ 15,221 crore (1,792.82 per cent) over the previous year. The substantial increase in recovery during the current year was mainly due to recovery of ₹ 15,628 crore from Punjab State Power Supply Corporation (PSPCL) on account of conversion of UDAY loans into equity, as discussed in Paragraph 2.4.2.2 (v).

2.3.4 State's performance in mobilisation of resources

The State's performance in mobilisation of resources is assessed in terms of its own resources comprising own-tax and non-tax sources.

The State's actual own tax and non-tax receipts for the year 2019-20 *vis-à-vis* assessment made by Fourteenth Finance Commission (FFC) and Budget Estimates are given in **Table 2.16**.

Table 2.16: Tax and non-tax revenue *vis-à-vis* projections

(₹ in crore)

	FFC projections	Budget Estimates	Actual	Percentage variation of actual over	
				FFC projections	Budget estimates
Own Tax revenue	55,656	37,674	29,995	(-)46.11	(-)20.38
Non-tax revenue	4,502	9,477	6,654	47.80	(-)29.79

Source: Report of FFC, Annual Financial Statement and Finance Accounts.

Own-tax revenue of the State Government fell short of projections made by FFC and the budget estimates by 46.11 *per cent* and 20.38 *per cent* respectively. Whereas, non-tax revenue was higher by 47.80 *per cent* than the projections made by FFC and was lower by 29.79 *per cent* from the budget estimates.

2.4 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. Analysis of allocation of expenditure in the State is given in succeeding paragraphs.

Growth and composition of expenditure

Revenue Expenditure: Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order as also all other expenses incurred for the day-to-day running of the organisation, including establishment and administrative expenses shall be classified as revenue expenditure.

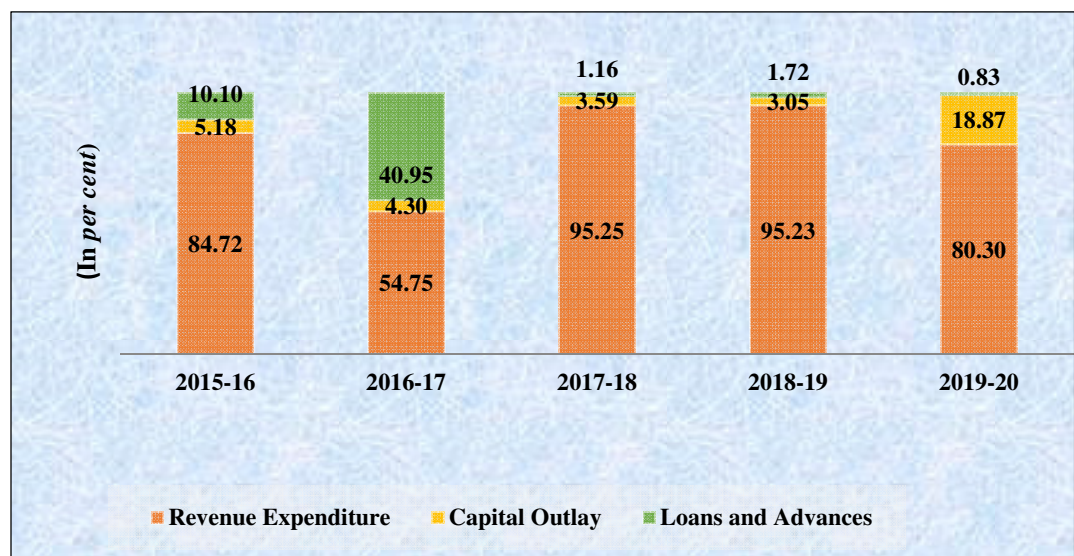
Capital Expenditure: All charges for the first construction of a project as well as charges for intermediate maintenance of the work while not opened for service and also charges for such further additions and improvements as may be sanctioned under the rules made by competent authority shall be classified as capital expenditure.

Trends of overall expenditure and its components are shown in **Table 2.17** and **Chart 2.8**.

Table 2.17: Total expenditure and its composition

(₹ in crore)					
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	59,101	1,01,006	65,577	79,177	94,471
Revenue Expenditure (RE)	50,073	55,296	62,465	75,404	75,860
Capital Outlay (CO)	3,059	4,346	2,352	2,412	17,828
Loans and Advances	5,969	41,364	760	1,361	783
As a percentage of GSDP					
TE/GSDP	15.15	23.66	13.93	15.04	16.44
RE/GSDP	12.84	12.95	13.27	14.33	13.20
CO/GSDP	0.78	1.02	0.50	0.46	3.10
Loans and Advances/GSDP	1.53	9.69	0.16	0.26	0.14

Source: Finance Accounts

Chart 2.8: Total Expenditure: Trends in share of its components

Source: Finance Accounts

Table 2.17 shows that the total expenditure increased by ₹ 35,370 crore (59.85 per cent) from ₹ 59,101 crore in 2015-16 to ₹ 94,471 crore in 2019-20, which was 13.93 per cent to 23.66 per cent of GSDP during the period of five years. **Chart 2.8** shows that the revenue expenditure constituted dominant proportion (80 to 95 per cent) during 2015-20 except for the year 2016-17 when it was 55 per cent of the total expenditure. The capital outlay, on the other hand, constituted between three and five per cent except for the year 2019-20 when it was 19 per cent due to conversion of UDAY loans amounting to ₹ 15,628 crore into equity in Punjab State Power Corporation Limited (PSPCL), as discussed in Paragraph 2.4.2.2 (v). The State Government attributed (June 2021) the reasons for higher proportion of revenue expenditure to high committed liabilities of the State i.e. salary, wages, pension, interest, etc. as compared to its revenue receipts. During exit conference, the Principal Secretary (Finance) expressing his concern over meagre expenditure on capital outlay, stated (May 2021) that a budget provision of ₹ 14,400 crore had been made for Capex in the year 2021-22.

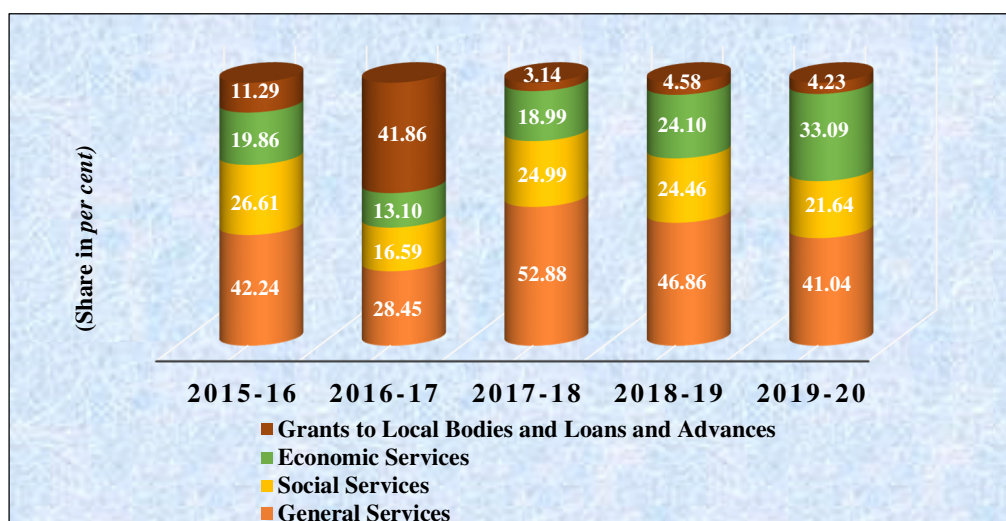
Relative share of various sectors of expenditure during 2015-20 is depicted in **Table 2.18** and **Chart 2.9**.

Table 2.18: Relative share of various sectors of expenditure

Parameters	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
General Services	24,966	28,737	34,680	37,100	38,769
Social Services	15,726	16,759	16,386	19,367	20,449
Economic Services	11,734	13,228	12,450	19,084	31,260
Others (Grants to Local Bodies and Loans and Advances)	6,675	42,282	2,061	3,626	3,993

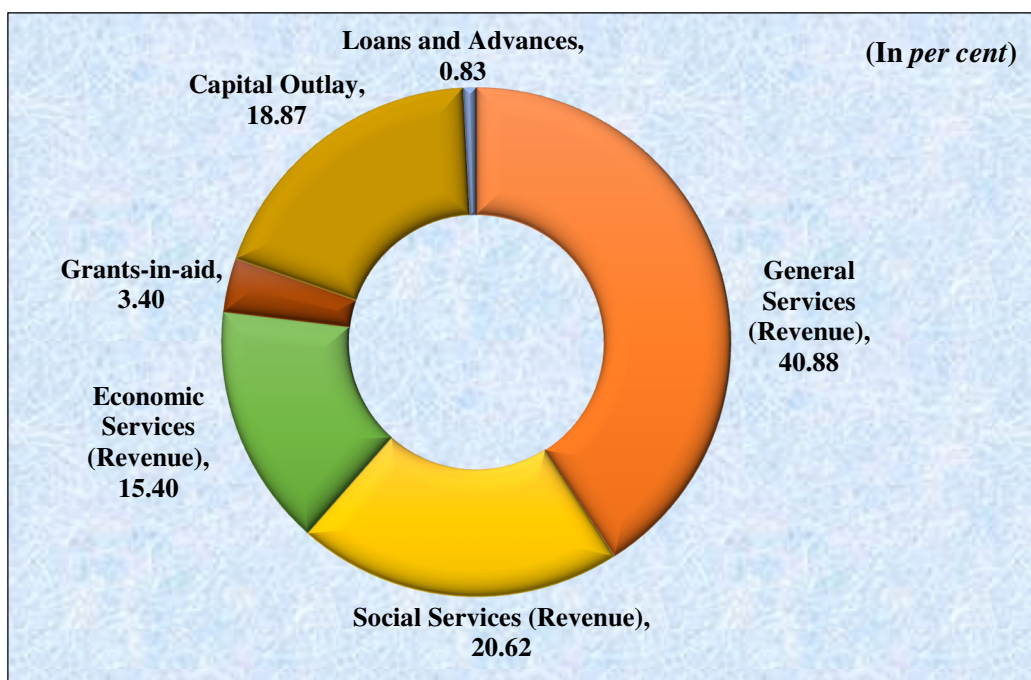
Source: Finance Accounts

Chart 2.9: Total expenditure - Expenditure by activities



Source: Finance Accounts

Chart 2.9 shows that the relative share of various components of expenditure in the total expenditure fluctuated during 2015-20. The share of General Services and Social Services in total expenditure decreased from 42.24 *per cent* and 26.61 *per cent* in 2015-16 to 41.04 *per cent* and 21.64 *per cent* respectively in 2019-20 while that of Economic Services increased from 19.86 *per cent* to 33.09 *per cent* during the same period. **Chart 2.10** shows composition of expenditure by function.

Chart 2.10: Composition of expenditure by function during 2019-20

Source: Finance Accounts

2.4.1 Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Growth of revenue expenditure, its ratio to total expenditure and buoyancy vis-à-vis GSDP and revenue receipts is shown in **Table 2.19** and sectoral distribution of revenue expenditure is shown in **Chart 2.11**.

Table 2.19: Revenue Expenditure – Basic Parameters

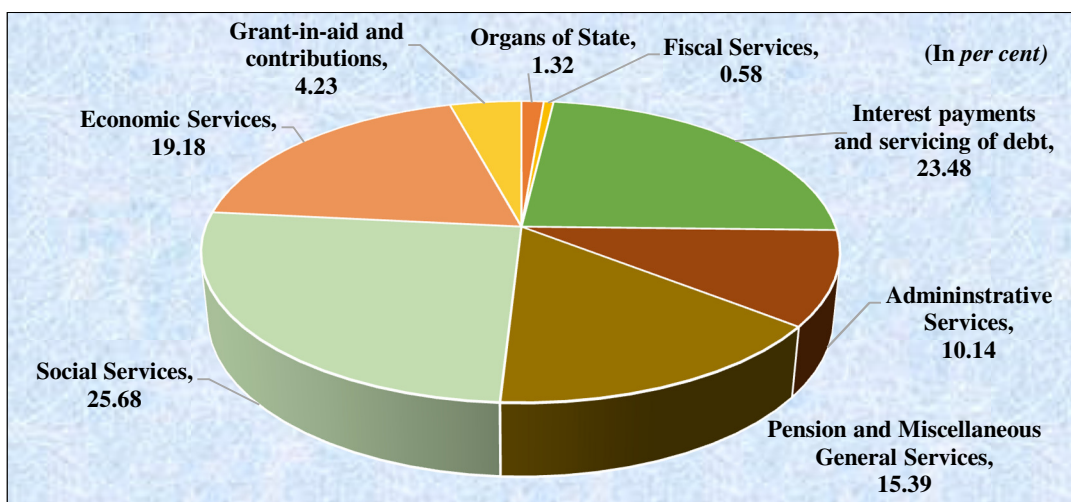
(₹ in crore)					
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	59,101	1,01,006	65,577	79,177	94,471
Revenue Expenditure (RE)	50,073	55,296	62,465	75,404	75,860
Rate of Growth of RE(<i>per cent</i>)	7.42	10.43	12.96	20.71	0.60
Revenue Expenditure as percentage of TE	84.72	54.75	95.25	95.23	80.30
RE/GSDP (<i>per cent</i>)	12.84	12.95	13.27	14.33	13.20
Revenue receipts	41,523	47,985	53,010	62,269	61,575
RE as percentage of RR	120.59	115.24	117.84	121.09	123.20
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.75	1.10	1.26	1.76	0.07
Revenue Receipts (ratio)	1.16	0.67	1.24	1.19	(-)-0.54

Source: Finance Accounts

The revenue expenditure increased by ₹ 25,787 crore (51.50 *per cent*) from ₹ 50,073 crore in 2015-16 to ₹ 75,860 crore in 2019-20. It increased at an annual

average growth rate of 10.42 *per cent*, whereas as percentage of GSDP, it ranged between 12.84 *per cent* and 14.33 *per cent* during the period 2015-20.

Chart 2.11: Sector-wise distribution of revenue expenditure



Source: Finance Accounts

2.4.1.1 Major changes in revenue expenditure

The revenue expenditure increased marginally by ₹ 456 crore (0.60 *per cent*) from ₹ 75,404 crore in 2018-19 to ₹ 75,860 crore in 2019-20. Significant variations under various Heads of Accounts with regard to revenue expenditure of the State during the current year as compared to the previous year are depicted in **Table 2.20**.

Table 2.20: Variation in revenue expenditure during 2019-20 compared to 2018-19

Major Heads of Account	2018-19	2019-20	(₹ in crore)
			Increase (+)/ Decrease (-)
2049-Interest Payments	16,305.89	17,567.17	(+)1,261.28
2852-Industries	623.67	1,757.49	(+)1,133.82
3604-Compensation and assignments to Local Bodies and Panchayati Raj Institutions	2,264.66	3,210.31	(+)945.65
2202-General Education	9,759.34	10,465.34	(+)706.00
2235-Social Security and Welfare	2,638.40	3,035.66	(+)397.26
2401-Crop Husbandry	11,091.51	7,103.86	(-)3,987.65

Source: Finance Accounts

Table 2.20 shows increase of ₹ 1,261 crore under 'Interest Payments', which was mainly due to increase of ₹ 1,184 crore in interest payment on other internal debt. Increase of ₹ 1,134 crore under 'Industries' was mainly due to increase of ₹ 995 crore under 'Other Expenditure - Incentives under various Industrial policies'. Increase of ₹ 946 crore under 'Compensation and assignments to Local Bodies and Panchayati Raj Institutions' was mainly due to increase of ₹ 488 crore in Municipalities/Municipal Councils and ₹ 354 crore in Gram

Panchayats. Increase of ₹ 706 crore under 'General Education' was mainly due to increase of ₹ 419 crore in Government Primary Schools and ₹ 335 crore in Government Secondary Schools. Decrease of ₹ 3,988 crore under 'Crop Husbandry' was mainly due to decrease of ₹ 3,683 crore in debt relief to farmers.

2.4.1.2 Committed expenditure

The committed expenditure of the State Government on revenue account consists of interest payments; expenditure on salaries and wages; and pensions. It has first charge on Government resources. Upward trend on committed expenditure leaves the Government with lesser flexibility for development sector. Trend analysis of committed expenditure and its components is depicted in **Table 2.21** and share of committed expenditure in revenue expenditure is shown in **Chart 2.12**.

Table 2.21: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries & Wages ⁵	20,585	21,756	23,255	24,376	24,729
Expenditure on Pensions	7,833	8,773	10,208	10,089	10,294
Interest Payments	9,782	11,642	15,334	16,306	17,567
Total	38,200	42,171	48,797	50,771	52,590
As a percentage of Revenue Receipts (RR)					
Salaries & Wages	49.57	45.34	43.87	39.15	40.16
Expenditure on Pensions	18.86	18.28	19.26	16.20	16.72
Interest Payments	23.56	24.26	28.93	26.19	28.53
Total	92.00	87.88	92.06	81.54	85.41
As a percentage of Revenue Expenditure (RE)					
Salaries & Wages	41.11	39.34	37.23	32.33	32.60
Expenditure on Pensions	15.64	15.87	16.34	13.38	13.57
Interest Payments	19.54	21.05	24.55	21.62	23.16
Total	76.29	76.26	78.12	67.33	69.33
Non-committed RE	11,873	13,125	13,668	24,633	23,270
Percentage of RE	23.71	23.74	21.88	32.67	30.67
Percentage of TE	20.09	12.99	20.84	31.11	24.63
Subsidies	5,080	5,823	6,982	13,361	10,161
Subsidies as percentage of non-committed expenditure	42.79	44.37	51.08	54.24	43.67

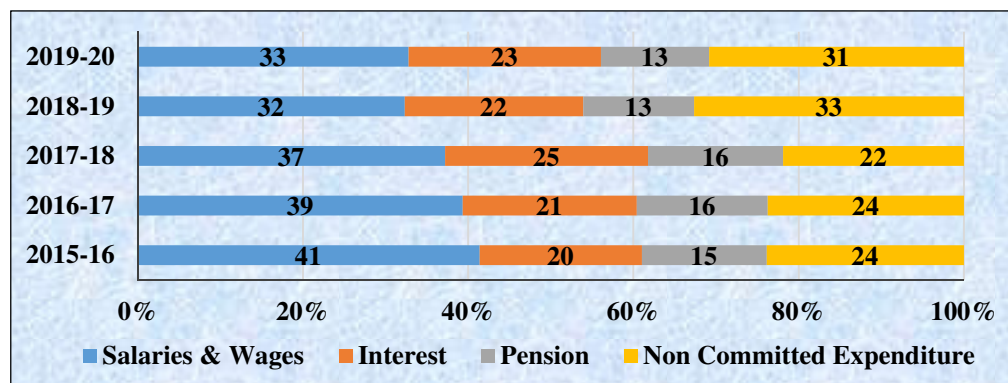
Source: Finance Accounts

Table 2.21 shows that percentage of non-committed expenditure to revenue expenditure increased from 23.71 per cent in 2015-16 to 30.67 per cent in

⁵ Includes Grants-in-aid (Salary) 2015-16 (₹ 3,113 crore); 2016-17 (₹ 3,250 crore); 2017-18 (₹ 3,225 crore); 2018-19 (₹ 3,491 crore); and 2019-20 (₹ 3,248 crore).

2019-20 to which subsidies constituted dominant proportion ranging from 43 *per cent* to 54 *per cent*. The State Government attributed (June 2021) the reasons for high non-committed expenditure mainly to increase in power subsidy and debt waiver scheme implemented by the State Government for the welfare of farmers.

Chart 2.12: Share of committed expenditure in revenue expenditure



Source: Finance Accounts

(i) Undischarged liabilities in National Pension System

The State Government introduced (December 2006) the 'National Pension System' (NPS), in the name of Defined Contribution Pension Scheme (DCPS), applicable to all new entrants joining the State Government Service⁶ on or after 1 January 2004. Under this system, employees contribute 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government (Government's share has been increased to 14 *per cent* with effect from 1 April 2019). The employees' contribution is booked in Public Account under Major Head 8342-Other Deposits, 117-Defined Contribution Pension Scheme and the employer's contribution is transferred to the designated authority i.e. National Securities Depository Limited (NSDL), debiting Major Head 2071-Pension and Other Retirement Benefits, 01-Civil, 117-Defined Contributory Pension Scheme. The State Government has the responsibility to deposit both employees' and employer's share to the NSDL for further investment as per the guidelines of NPS.

Though the State Government implemented DCPS with effect from January 2004, it started deducting the contribution from employees largely from April 2008⁷. 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 the pension fund from 2010-11 onwards.

As per provisions of the scheme, during 2019-20, employees' contribution of ₹ 746.67 crore was booked under Major Head 8342-Other Deposits

⁶ For categories mentioned in Rule 1.2 of Punjab Civil Service Rules, Volume-I Part-I.

⁷ Meagre amount of ₹ 0.59 crore was collected during 2006-08.

117-Defined Contribution Pension Scheme for Government Employees in Public Account as per prescribed procedure. Government's contribution of ₹ 707.69 crore towards New Pension Scheme was transferred to the NSDL, debiting Major Head 2071-Pension and Other Retirement Benefits 01 - Civil 117- Defined Contributory Pension Scheme. As per employees' contribution of ₹ 746.67 crore, the due amount of Government contribution at the rate of 14 per cent works out to ₹ 1,045.34 crore. Thus, the Government's contribution was short by ₹ 337.65 crore (₹ 1,045.34 crore – ₹ 707.69 crore). Short-transfer of Government's contribution to the NSDL has resulted in understatement of the Revenue Deficit and Fiscal Deficit to that extent.

During 2019-20, against the balance of ₹ 930.04 crore lying in the Public Account, the State Government transferred ₹ 728.72 crore to NSDL, leaving a balance of ₹ 201.32 crore as on 31 March 2020, which could not be transferred to the fund managers for want of complete particulars of the employees. Thus, the State Government transferred an amount of ₹ 1,436.41 crore to NSDL during 2019-20 (₹ 728.72 by debiting Major Head 8342-117 and ₹ 707.69 crore by debiting Major Head 2071-01-117). The State Government is liable to pay interest on delayed transfer of NPS balances at the corresponding interest rates applicable to the General Provident Fund (GPF) subscribers. Thus, the State Government has created interest liability on the amount not transferred to NSDL; incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected.

The details of the receipts from employees' share, Government's contribution, interest accrued thereon and investment in pension fund are given in **Table 2.22**.

Table 2.22: Details of contribution and investment under DCPS

(₹ in crore)

Years	Receipts				Disbursement (Transferred to Pension Fund)	Short transfer (-)/ Excess transfer (+)
	Employees' share	Government contribution	Interest	Total		
1	2	3	4	5 (2+3+4)	6	7 (6-5)
2008-09	38.76*	33.60	0.00	72.36	0.00	(-)72.36
2009-10	45.38	36.26	0.00	81.64	0.00	(-)81.64
2010-11	54.19	51.90	26.86	132.95	2.33	(-)130.62
2011-12	79.19	85.00	22.45	186.64	26.45	(-)160.19
2012-13	181.48	196.78	24.01	402.27	286.17	(-)116.10
2013-14	242.81	230.00	22.78	495.59	481.53	(-)14.06
2014-15	282.86	290.00	21.35	594.21	804.90	(+)210.69
2015-16	389.39	390.00	18.48	797.87	902.69	(+)104.82
2016-17	436.28	435.81	17.19	889.28	957.69	(+)68.41
2017-18	532.59	520.55	15.55	1,068.69	1,058.51	(-)10.18
2018-19	585.78	584.94	14.70	1,185.42	1,203.28	(+)17.86
2019-20	746.67	707.69	--	1,454.36	1,436.41	(-)17.95
Total	3,615.38	3,562.53	183.37	7,361.28	7,159.96	(-)201.32

Source: Finance Accounts

* Includes amount ₹0.59 crore collected/received during the period 2006-08 which was yet to be transferred to Pension Fund as on 1 April 2008.

During the period 2008-20, against total receipts of ₹ 7,361.28 crore (employees' share: ₹ 3,615.38 crore, State Government contribution: ₹ 3,562.23 crore and interest: ₹ 183.37 crore), amount of ₹ 7,159.96 crore was transferred to the pension fund. Thus, there was short transfer of ₹ 201.32 crore, which is a deferred liability of the State Government.

The short contribution/transfer of funds to NSDL would impact the pensionary yield of the employees. Besides, due to delay in release of Government's contribution and transfer to pension fund, the State Government had to suffer an avoidable interest of ₹ 183.37 crore.

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

2.4.1.3 Subsidies

Table 2.23 depicts the expenditure on subsidies during the period 2015-20. The subsidies during the current year declined by ₹ 3,200 crore (23.95 *per cent*) from the previous year. The decrease was mainly due to decrease of ₹ 3,683 crore on account of debt relief to farmers.

Table 2.23: Expenditure on subsidies during 2015-20

	2015-16	2016-17	2017-18	2018-19	2019-20
Subsidies (₹ in crore)	5,080	5,823	6,982	13,361	10,161
Subsidies as percentage of Revenue Receipts	12.23	12.14	13.17	21.46	16.50
Subsidies as percentage of Revenue Expenditure	10.15	10.53	11.18	17.72	13.39
Subsidies as percentage of Total Expenditure	8.60	5.77	10.65	16.87	10.76
Subsidies as percentage to Revenue Deficit	59.42	79.65	73.84	101.72	71.13
Power subsidy as percentage to total subsidy	95.41	96.19	94.21	63.13	76.72

Source: Finance Accounts

Power subsidy constituted major portion of the total subsidies ranging between 63 *per cent* and 96 *per cent*; and the subsidies contributed 59 *per cent* to 102 *per cent* to the revenue deficit during 2015-20.

(i) 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 2019-20 are detailed in **Table 2.24**.

Table 2.24: Details of implicit subsidies during the year 2019-20

(₹ in crore)

Sr. No.	Scheme	Amount
1.	Free books to Scheduled Caste Students (Ist to Xth Class)	25.00
2.	Reimbursement to Transport Department in respect of free transport facility to physically handicapped and blind persons in Government/ Punjab Road Transport Corporation buses	7.92
3.	Reimbursement to Transport Department in lieu of free concessional travel facility to women above the age of 60 years in Government/ Punjab Road Transport Corporation buses	0.67
4.	Ashirwad to Scheduled Castes girls/widows/divorcees and daughters of widows at the time of their marriage	50.75
5.	Ashirwad to Backward Class and Christian girls/widows/divorcees and daughters of widows of any caste at the time of their marriage	19.97
Total		104.31

Source: Detailed Appropriation Accounts

2.4.1.4 Financial assistance by the State Government to Local Bodies and Other Institutions

Assistance provided by way of grants to the local bodies and other institutions during the period 2015-16 to 2019-20 is presented in **Table 2.25**.

Table 2.25: Financial assistance to Local Bodies and other institutions

(₹ in crore)

Institutions	2015-16	2016-17	2017-18	2018-19	2019-20
(A) Local Bodies					
Municipal Corporations and Municipalities	336.17	475.50	1,091.64	1,747.28	2,365.48
Panchayati Raj Institutions	719.36	544.97	230.36	530.18	885.81
Total (A)	1,055.53	1,020.47	1,322.00	2,277.46	3,251.29
(B) Others					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	2,272.98	2,223.21	2,117.63	2,824.52	3,196.94
Development Authorities	50.00	0.00	0.00	0.00	1,309.29
Hospitals and Other Charitable Institutions	686.90	779.33	627.74	967.34	1,211.06
Other Institutions	1,586.70	1,734.50	2,095.85	2,795.04	914.70
Total (B)	4,596.58	4,737.04	4,841.22	6,586.90	6,631.99
Total (A+B)	5,652.11	5,757.51	6,163.22	8,864.36	9,883.28
Revenue Expenditure	50,073	55,296	62,465	75,404	75,860
Assistance as percentage of Revenue Expenditure	11.29	10.41	9.87	11.76	13.03

Source: Finance Accounts

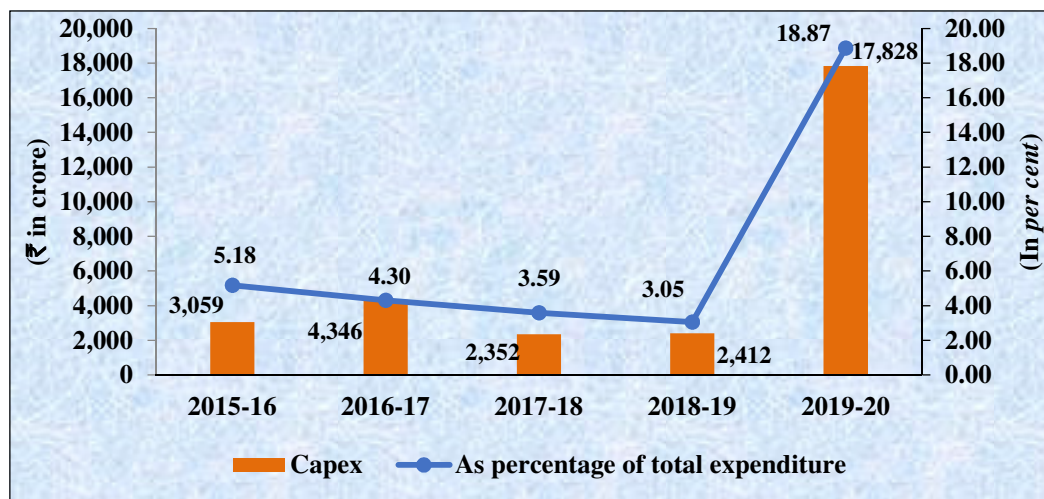
During the current year, financial assistance to the local bodies and other institutions increased by ₹ 1,018.92 crore (11.49 per cent) over the previous year. The increase was mainly due to increase in assistance to Municipal Corporations and Municipalities (₹ 618.20 crore: 35.38 per cent) and Panchayati Raj Institutions (₹ 355.63 crore: 67.08 per cent). The increase in assistance to

Municipal Corporations and Municipalities was mainly on account of increase in General Basic Grant and General Performance Grant recommended by the Fourteenth Finance Commission (FFC) and grants under Punjab Municipal Fund Act, 2006. The increase in assistance to Panchayati Raj Institutions was mainly on account of increase in grant recommended by the FFC. The overall quantum of financial assistance to the local bodies and other institutions as percentage to revenue expenditure increased to 13.03 *per cent* during the current year from 11.76 *per cent* of the previous year.

2.4.2 Capital Expenditure

Capital Expenditure (capex) is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings, etc. Capex, in both the Centre and State, is being met from budgetary support and extra budgetary resources/off-budget. It also includes investments made by the State Government in Companies/Corporations. Trend of capital outlay in the State over the last five years i.e. 2015-20 is given in **Chart 2.13**.

Chart 2.13: Capital Outlay in the State



Source: Finance Accounts

Chart 2.13 shows that the capital outlay increased by ₹ 14,769 crore (482.80 *per cent*) from ₹ 3,059 crore (5.18 *per cent* of total expenditure) in 2015-16 to ₹ 17,828 crore (18.87 *per cent* of total expenditure) in 2019-20. Besides, the State Government also gave Grants-in-aid of ₹ 1,566.84 crore⁸ during the period 2015-20 for creation of assets.

2.4.2.1 Major changes in capital outlay

Major changes in capital outlay during 2019-20 compared to 2018-19 are depicted in **Table 2.26**.

⁸ 2015-16: ₹ 252.96 crore; 2016-17: ₹ 260.10 crore; 2017-18: ₹ 0.50 crore; 2018-19: ₹ 338.94 crore; and 2019-20: ₹ 714.34 crore.

Table 2.26: Capital outlay during 2019-20 compared to 2018-19

(₹ in crore)

Major Heads of Accounts	2018-19	2019-20	Increase (+)/ Decrease (-)
5054-Capital Outlay on Roads and Bridges	514.41	311.58	(-)202.83
4217-Capital Outlay on Urban Development	495.35	323.86	(-)171.49
4700- Capital Outlay on Major Irrigation	56.73	132.54	(+) 75.81
4711-Capital Outlay on Flood Control Projects	26.31	207.86	(+) 181.55
4801- Capital Outlay on Power Projects	0.00	15,628.26	(+) 15,628.26

Source: Finance Accounts

Chart 2.13 shows that the capital outlay increased by ₹ 15,416 crore (639.14 per cent) from ₹ 2,412 crore in 2018-19 to ₹ 17,828 crore in 2019-20. The overall increase was mainly due to substantial increase in Capital Outlay on Power Projects on account of conversion of UDAY loans amounting to ₹ 15,628 crore into equity in Punjab State Power Corporation Limited (PSPCL), as discussed in paragraph 2.4.2.2 (v).

2.4.2.2 Quality of capital expenditure

If the State Government keeps on making investments in loss making Government companies, whose net worth is completely eroded, there are no chances of return on investment. Similarly, experience has shown the inevitability of write-off of the loans given to loss making corporations and other bodies such as sugar mills, financial corporations, etc. Requisite steps have to be taken to infuse transparency in such financial operations. This section presents an analysis of investments and other capital expenditure undertaken by the Government during the current year.

(i) Quality of investments in the companies, corporations and other bodies

Capital expenditure in the companies, corporations and other bodies, which are loss making or where net worth is completely eroded, is not sustainable.

Investments made and loans given to companies (e.g. DISCOMs), corporations (e.g. SC & ST Financial Corporations), and co-operatives (e.g. sugar mills), which are loss making and those where net worth is completely eroded, affect quality of capital expenditure. Return on investment in share capital invested in Public Sector Undertakings (PSUs) and history of repayment of loans given to various bodies are important determinants of quality of capital expenditure.

As per the latest finalised accounts, total paid up capital of 33 working State PSUs stood at ₹ 23,505.15 crore at the end of 2019-20, of which the State Government's investment (equity) was ₹ 23,358.87 crore (99.38 per cent) in 24 State PSUs.

Twelve State PSUs, in which the State Government held investment of ₹ 22,545.81 crore had aggregated accumulated losses of ₹ 16,326.70 crore (*Appendix 2.3*).

Net worth of nine out of above 12 PSUs with accumulated losses had completely eroded and their net worth had become negative. The net worth of these nine PSUs was (-) ₹ 7,431.47 crore against equity investment of ₹ 512.85 crore (GoP investment: ₹ 473.41 crore) in these PSUs as on 31 March 2020 (*Appendix 2.4*).

In six out of above nine PSUs whose capital had eroded, Government loans outstanding as on 31 March 2020 amounted to ₹ 19,363.06 crore (*Appendix 2.4*).

The long term loans amounting to ₹ 25,334.59 crore extended by the State Government in respect of nine PSUs were outstanding as on 31 March 2020 (*Appendix 2.5*).

Trends of return on investment in companies, corporations, and co-operative banks and societies, difference between cost of Government borrowings and return on investments are depicted in **Table 2.27**.

Table 2.27: Return on investment

Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	4,064.56	4,091.32	4,189.27	4,263.25	19,898.08
Return (₹ in crore)*	1.46	3.88	4.45	4.24	4.24
Return (<i>per cent</i>)*	0.04	0.09	0.11	0.10	0.02
Average rate of interest on Government Borrowings (<i>per cent</i>)	8.23	7.46	7.70	8.36	7.31
Difference between interest rate and return (<i>per cent</i>)	8.19	7.37	7.59	8.26	7.29
Difference between interest on Government borrowings and return on investment (₹ in crore) [#]	332.89	301.53	317.97	352.14	1450.57

Source: Finance Accounts

* on historical cost

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

During 2019-20, the return on investment was ₹ 4.24 crore⁹ (0.02 *per cent*) (based on historical cost and not on net present value basis). The return was only between 0.02 *per cent* and 0.11 *per cent* during 2015-20 while the average rate of interest paid by the State Government on its borrowings was between 7.31 *per cent* and 8.36 *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 ₹ 2,755.10 crore. The State Government stated (June 2021) that many of these entities had systemic role to play for other sectors to remain competitive and value-additive. In addition to economic benefits, the social tasks in terms of upliftment of backward classes were also carried out by

⁹ Co-operative Banks and Societies (₹ 0.01 crore); Joint Stock Companies (₹ 0.11 crore); and Government Companies (₹ 4.12 crore).

many of these organisations. The reply furnished by the Government was without considering the precarious financial position of the State.

Table 2.28 shows the details of investments made in the loss making companies/corporations during 2019-20.

Table 2.28: Investments made in loss making companies during 2019-20

(₹ in crore)				
Sl. No.	Company/Corporation	Cumulative losses as on 31.03.2019	Investment made during 2019-20	Cumulative investment as on 31.03.2020
1.	Punjab Scheduled Castes Land Development and Finance Corporation (PSCLDFC)*	11.59	6.87	82.62
2.	Punjab State Power Corporation Limited (PSPCL)	7,001.17	15,628.26 [#]	18,401.05

Source: Finance Accounts

* Accounts from 2018-19 were awaited.

[#] Loans amounting to ₹ 15,628.26 crore extended by the State Government during 2015-16 and 2016-17 under UDAY scheme converted into equity during 2019-20.

(ii) **Reconciliation of Government Investments with Accounts of Companies**

The figures of Government investments as equity in State Public Sector Undertakings (PSUs) should agree with those appearing in the accounts of the PSUs. Reconciliation of figures is necessary to figure out the differences in accounts of PSUs and Finance Accounts of the State Government. Scrutiny of both the accounts revealed that as per Finance Accounts, Government investment in equity of 19 PSUs was ₹ 19,012.52 crore whereas as per records of PSUs, it was ₹ 23,149.08 crore. There was a difference of ₹ 4,136.56 crore as detailed in (**Appendix 2.6**). Reconciliation should be carried out in time bound manner to figure out the difference. The State Government assured (May 2021) that efforts would be made to reconcile the figures with the office of the Accountant General (A&E), Punjab.

(iii) **Loans and advances by 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 2.29** presents the position of outstanding loans and advances as on 31 March 2020 and interest receipts *vis-à-vis* interest payments by the State Government on its borrowings during the last five years.

Table 2.29: Quantum of loans disbursed and recovered during 2015-20*(₹ in crore)*

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Opening Balance of loans outstanding	2,615	8,299	49,482	50,169	50,681
Amount advanced during the year	5,968	41,364	760	1,361	783
Amount recovered during the year	218	181	73	849	16,070
Closing Balance of the loans outstanding	8,365	49,482	50,169	50,681	35,394
Net addition	5,750	41,183	687	512	(-)15,287
Interest received	30	1,131	1,339	1,341	1,336
Interest rate on Loans and Advances given by the Government	0.55	3.91	2.69	2.66	3.10
Rate of Interest paid on the outstanding borrowings of the Government	8.09	7.48	8.12	8.00	7.93
Difference between the rate of interest received and interest paid (<i>per cent</i>)	(-)7.54	(-)3.57	(-)5.43	(-)5.34	(-)4.83

Source: Finance Accounts

During 2019-20, amount of ₹ 783 crore was advanced as loans against ₹ 1,361 crore during the previous year. The loans advanced during the current year included ₹ 100 crore extended to the Punjab State Civil Supplies Corporation (PUNSUP) for procurement and supply of essential commodities; and ₹ 522 crore to other procurement agencies against liability of Atta Dal Scheme. Loans amounting to ₹ 839.22 crore were outstanding at the beginning of the year against Co-operative Sugar Mills. Further, loans of ₹ 100 crore were given to these sugar mills without recovery of earlier loans.

The total outstanding loans advanced by the State Government decreased by ₹ 15,287 crore from ₹ 50,681 crore in 2018-19 to ₹ 35,394 crore in the year 2019-20 mainly due to conversion of UDAY loans amounting to ₹ 15,628 crore into equity in Punjab State Power Corporation Limited (PSPCL). During the current year, the interest receipts marginally decreased by ₹ five crore (0.37 *per cent*) over the previous year. However, the interest received was only 3.10 *per cent* of the outstanding loans and advances during 2019-20.

The outstanding loans (₹ 35,394 crore) at the close of year 2019-20 included the long term loans of ₹ 31,658 crore out of ₹ 32,897 crore advanced by the State Government for –

- one-time settlement of Legacy Cash Credit Accounts for food procurement operations during 2016-17 (₹ 29,920 crore¹⁰), of which ₹ 29,428 crore were outstanding; and

¹⁰ This loan is to be repaid by the State Government in equated monthly instalments of ₹ 270 crore (including interest) except for last installment of ₹ 115 crore which is to be paid in September 2034.

- clearing outstanding CCL extended afresh to five State Procurement Agencies (SPA) during 2016-20 (₹ 2,977 crore), of which ₹ 2,230 crore¹¹ were outstanding.

Thus, against the total amount of ₹ 32,897 crore advanced for clearing old and fresh CCL to SPAs during 2016-20, recovery of only ₹ 1,239 crore¹² had been effected.

During the current year, loans amounting to ₹ 15,628 crore extended to the Punjab DISCOM under UDAY during 2015-16 and 2016-17 were to be converted into Grants-in-aid (₹ 11,728 crore) and equity (₹ 3,900 crore), but the whole amount of ₹ 15,628 crore was converted into equity, as discussed in Paragraph 2.4.2.2 (v).

(iv) *Capital locked in incomplete projects*

An assessment of trends in capital blocked in incomplete capital works would also indicate quality of capital expenditure. Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years lead to extra burden in terms of servicing of debt and interest liabilities. Details of age-wise and department-wise incomplete projects which were to be completed upto 2019-20 are shown in **Table 2.30** and **Table 2.31** respectively.

Table 2.30: Age profile of incomplete projects as on 31 March 2020 (₹ in crore)			
Year of commencement	No of incomplete projects	Estimated cost	Expenditure (as on 31 March 2020)
Upto 2011-12	03	2,543.96	770.94
2012-13	--	0.00	0.00
2013-14	--	0.00	0.00
2014-15	02	71.14	61.16
2015-16	04	71.11	53.52
2016-17	10	292.23	195.49
2017-18	04	72.31	55.44
2018-19	16	173.03	46.26
2019-20	13	37.82	18.46
Total	52	3,261.60	1,201.27

Source: Finance Accounts

Table 2.31: Department-wise profile of incomplete projects as on 31 March 2020 (₹ in crore)			
Department	No. of incomplete projects	Estimated cost	Expenditure (as on 31 March 2020)
Public Works	28	363.19	170.22
Irrigation	19	2,651.98	843.09
Water Supply and Sanitation	05	246.43	187.96
Total	52	3,261.60	1,201.27

The expenditure of ₹ 1,201.27 crore incurred on 52 incomplete projects was yet to yield the intended benefits. Out of 52 incomplete projects, 19 projects on

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

¹² ₹ 492 crore (2017-18: ₹ 26 crore, 2018-19: ₹ 61 crore and 2019-20: ₹ 405 crore) against ₹ 29,920 crore; and ₹ 747 crore (2018-20) against ₹ 2,977 crore.

which expenditure of ₹ 1,081.11 crore had been incurred, pertained to the period prior to the year 2017-18.

Delay in completion of projects not only adversely affected the quality of expenditure but also deprived the State of intended benefits and economic growth. The State Government stated (June 2021) that the matter had been taken up with the concerned departments for taking necessary action in this regard.

(v) Implementation of Ujwal Discom Assurance Yojana (UDAY)

With an objective of ensuring financial turnaround of Power Distribution Companies (DISCOM), the Ministry of Power, Government of India (GoI) introduced (November 2015) the Ujwal DISCOM Assurance Yojana (UDAY) to improve the operational and financial efficiency of the State DISCOMs. This scheme facilitated State Governments to take over 75 per cent of DISCOM's outstanding debt over a period of two years.

The outstanding debt of the DISCOMs was to be taken over in the form of equity, loan and grant/subsidy. The loan extended to DISCOMs under UDAY had to be converted into grant and equity in the subsequent three years.

Further, the State Government was required to take over losses, if any, of the DISCOMs in a graded manner as below:

Year	2017-18	2018-19	2019-20	2020-21
Loss to be taken over by State	5% of loss of 2016-17	10% of loss of 2017-18	25% of loss of 2018-19	50% of loss of 2019-20

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

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

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

2015-16, thereby understating the loans of the State Government by ₹ 4,262.65 crore during that year.

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

The outstanding debt of Punjab DISCOM carried interest ranging between 8.00 per cent and 12.50 per cent. Of this, 75 per cent of debt amounting to ₹ 15,628.26 crore was replaced with debts bearing lower interest rates ranging between 7.21 per cent and 8.72 per cent. Position of equity/loan/grant extended to Punjab DISCOM under UDAY is depicted in **Table 2.32**.

Table 2.32: Position of equity/loan/grant under UDAY

(₹ in crore)

Year	Equity Investment	Loan	Revenue Grant	Total
2015-16	--	9,859.72	--	9,859.72
2016-17	--	5,768.54	--	5,768.54
Total	--	15,628.26	--	15,628.26
2017-18	--	--	141.81	141.81
2018-19	--	--	90.69	90.69
2019-20	15,628.26	--	--	15,628.26
Total	15,628.26	--	232.50	15,860.76

Source: Finance Accounts

It was observed that the State Government converted (March 2020) entire amount of ₹ 15,628.26 crore into equity (instead of ₹ 11,728.26 crore as grant and ₹ 3,900 crore as equity) during 2019-20, in contravention of provisions of the MoU. Further, GoP took over losses of the DISCOM as specified in the scheme for the years 2017-18 and 2018-19 by paying revenue grant amounting to ₹ 232.50 crore, but it did not pay the revenue grant of ₹ 9.45 crore (25 per cent of the DISCOM's loss amounting to ₹ 37.80 crore of 2018-19) during the current year.

Thus, the revenue deficit and fiscal deficit of the State during the current year was understated by ₹ 11,737.71 crore and ₹ 9.45 crore respectively.

The State Government stated (June 2021) that the entire amount of ₹ 15,628.26 crore was converted into equity during 2019-20 with the approval of Council of Ministers and Vidhan Sabha. The reply of the Government was not in line with the provisions of the MoU. The Government further added that the due amount of ₹ 9.45 crore had been funded to PSPCL by way of GIA in March 2021.

2.4.2.3 Resource availability of the State under Public Private Partnership projects

Public Private Partnership (PPP) is an arrangement between the government or statutory entity and a private sector entity, to provide a framework that enables

them to work together to meet the rising demand of the public for infrastructure development. Sector-wise details of PPP Projects are given in **Table 2.33**.

Table 2.33: Sector-wise details of PPP projects as on 31 March 2020

(₹ in crore)

Sl. No.	Sector	Completed		Ongoing		Planned for future	
		No.	Estimated Cost	No.	Estimated Cost	No.	Estimated Cost
1.	Roads	14	1,027.02	--	--	--	--
2.	Urban Infrastructure	--	--	03 ¹³	689.00	04 ¹⁴	125.00
	Total	14	1,027.02	03	689.00	04	125.00

Source: Departmental information

Revenue generated from the 14 completed road projects and three ongoing urban infrastructure projects was ₹ 60 crore and ₹ 371 crore respectively up to 31 March 2020.

2.4.3 Expenditure priorities

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to total expenditure) is attached to a particular sector, if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better. Fiscal priority¹⁵ of the State Government with regard to expenditure on social and economic sectors, etc. is shown in **Table 2.34**.

Table 2.34: Expenditure priority of the State with regard to health, education and capital outlay

(In per cent)

	TE/GSDP	CE/TE	Education*/TE	Health/ TE
All India Average/ General Category States Average (2015-16)	16.97	14.81	15.68	4.79
Punjab 2015-16	15.15	5.18	14.88	4.41
All India Average/ General Category States Average (2019-20)	15.15	12.97	15.91	5.21
Punjab 2019-20	16.44	18.87	11.74	3.72

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

TE: Total Expenditure and CE: Capital Expenditure (excluding Loans and Advances).

*Expenditure on education includes expenditure on sports, art and culture.

¹³ (i) Refurbishment, operation and maintenance of Urban *Haat* at Amritsar; (ii) Omaxe City at Patiala and; (iii) Development of bus terminal-cum-commercial complex at SAS Nagar.

¹⁴ (i) Standard tourism project at Dhar Kalan, Pathankot; (ii) Convention Centre at Guru Ram Das Urban Estate; (iii) Heritage hotel at old site of Shri Guru Teg Bahadur Hospital at Amritsar and; (iv) Construction and operation of exhibition Centre at Ludhiana.

¹⁵ Ratio of expenditure in that category to Total Expenditure (TE).

Table 2.34 shows that:

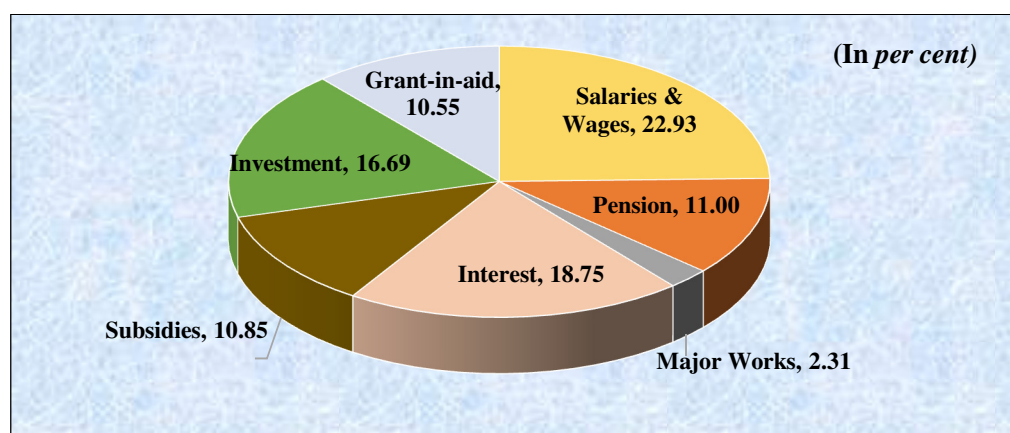
- The State Government's total expenditure as proportion of GSDP, increased from 15.15 *per cent* in 2015-16 to 16.44 *per cent* in 2019-20 whereas for General Category States (GCS) it decreased from 16.97 *per cent* to 15.15 *per cent* during the same period.
- Capital outlay facilitates asset creation which generates opportunities for higher growth. The ratio in this regard increased from 5.18 *per cent* in 2015-16 to 18.87 *per cent* in 2019-20 mainly due to increase in capital outlay on account of conversion of UDAY loans of ₹ 15,628 crore into equity in PSPCL, otherwise, the ratio would have declined to 2.33 *per cent* in 2019-20. This ratio for General Category States (GCS) decreased from 14.81 *per cent* to 12.97 *per cent* during the same period.
- The ratio of expenditure on education to the total expenditure in Punjab came down from 14.88 *per cent* in 2015-16 to 11.74 *per cent* in 2019-20 whereas the GCS average increased from 15.68 *per cent* to 15.91 *per cent* during the same period.
- The ratio of expenditure on health to total expenditure in Punjab decreased from 4.41 *per cent* in 2015-16 to 3.72 *per cent* in 2019-20 whereas the GCS average increased from 4.79 *per cent* to 5.21 *per cent* during the same period.

The Government may consider increasing level of outlay on education and health for enhancing the level of human development.

2.4.4 Object head-wise expenditure

Object head-wise expenditure gives information about the object/purpose of the expenditure. **Chart 2.14** shows object head-wise expenditure.

Chart 2.14: Object head-wise expenditure



Source: Finance Accounts

Note: The object head-wise expenditure obtained from VLC data contains object head-wise expenditure on Salaries & wages, Interest and Pensions in all major heads which differs from the committed expenditure on these items (as appearing in Paragraph 2.4.1.2).

2.5 Public Account

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.5.1 Net Public Account balances

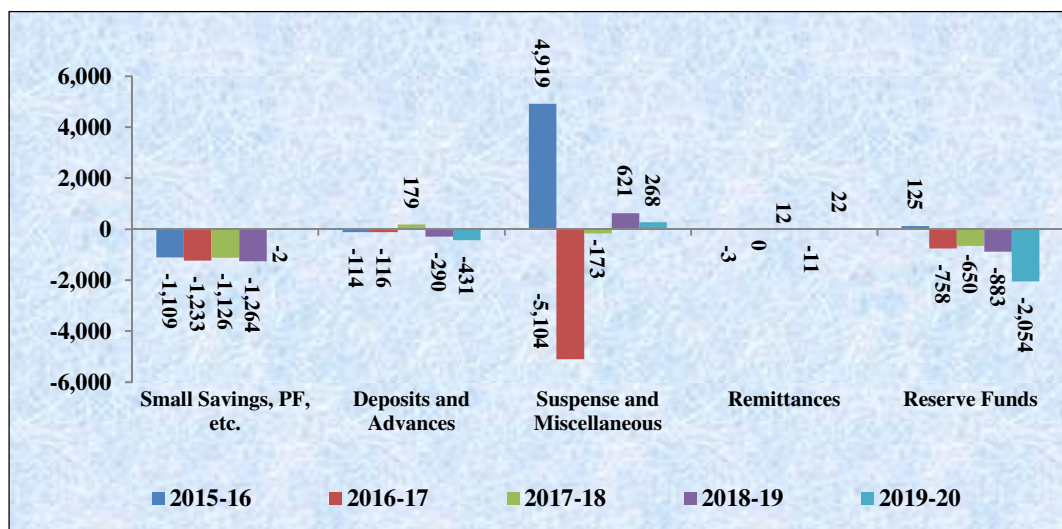
The component-wise net balances in Public Account of the State is given in **Table 2.35** and yearly changes in composition of Public Account balances are depicted in **Chart 2.15**.

**Table 2.35: Component-wise net balances in Public Account
as on 31 March 2020**

(₹ in crore)						
Sector	Sub-Sector	2015-16	2016-17	2017-18	2018-19	2019-20
Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	(-)19,370.85	(-)20,603.53	(-)21,729.73	(-)22,993.55	(-)22,995.06
Reserve Funds	(a) Reserve Funds bearing Interest	(-)4,102.86	(-)4,869.39	(-)5,519.49	(-)6,402.59	(-)8,203.96
	(b) Reserve Funds not bearing Interest	(-)8.90	(-)0.68	(-)0.68	(-)0.68	(-)253.20
Deposits and Advances	(a) Deposits bearing Interest	(-)774	(-)748.52	(-)825.92	(-)808.08	(-)776.16
	(b) Deposits not bearing Interest	(-)2,389.11	(-)2,530.47	(-)2,273.62	(-)2,581.87	(-)3,045.22
	(c) Advances	0.42	0.42	0.42	0.42	0.42
Suspense and Miscellaneous	(a) Suspense	40.69	23.74	50.87	(-)38.05	(-)8.47
	(b) Other Accounts	5,849.89	762.43	562.71	1,272.82	1,511.04
	(c) Accounts with Governments of Foreign Countries	0.66	0.66	0.66	0.66	0.66
	(d) Miscellaneous	0	0	0	0	0
Remittances	(a) Money Orders, and other Remittances	1.52	1.39	0	(-)9.02	2.68
	(b) Inter-Governmental Adjustment Account	0	0	13.59	11.93	22.59
Total		(-)20,752.54	(-)27,963.95	(-)29,721.19	(-)31,548.01	(-)33,744.68

Source: Finance Accounts

Note: +ve figures denote debit balance and -ve figures denote credit balances.

Chart 2.15: Yearly changes in composition of Public Account balances(*₹in crore*)

Source: Finance Accounts

2.5.2 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund or from outside agencies. It comprises of interest bearing reserve funds and non-interest bearing reserve funds.

Details of Reserve Funds are available in Statements 21 and 22 of the Finance Accounts. There were six interest bearing funds and two non-interest bearing funds under Reserve Funds as on 31 March 2020. The fund balances lying in these Reserve Funds as on 31 March 2020 are given in **Table 2.36**.

Table 2.36: Details of Reserve Fund(*₹in crore*)

Sr. No.	Name of Reserve Fund	Balance as on 31 March 2020
A	Reserve Funds bearing Interest	8,203.96
1.	Depreciation Reserve Fund-Motor Transport	115.98
2.	Depreciation Reserve Fund-Government Presses	24.39
3.	Reserve Fund-Motor Transport	0.74
4.	Punjab Road Safety Fund	22.53
5.	State Disaster Response Fund	6,999.48
6.	State Compensatory Afforestation Fund	1,040.84
B	Reserve Funds not bearing Interest	253.20
1.	Sinking Funds	252.52
2.	Other Development and Welfare Fund	0.68
	Grand Total	8,457.16

Source: Finance Accounts

Out of these eight reserve funds, one reserve fund i.e. Other Development and Welfare Funds is in-active since 1982-83.

2.5.2.1 Consolidated Sinking Fund

The Government of Punjab constituted (December 2006) a Consolidated Sinking Fund in line with the recommendations of the Twelfth Finance

Commission (12th FC) with the objective to redeem its outstanding liabilities commencing from the financial year 2011-12. The Fund is managed by the Reserve Bank of India. The State Government is to contribute every year minimum 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. Contribution to this Fund out of borrowings from the Reserve Bank is not permissible.

As on 31 March 2019, the outstanding liabilities of the Government of Punjab were ₹ 2,11,917.24 crore. Accordingly, the State Government was required to contribute a minimum of ₹ 1,059.59 crore (0.50 *per cent*) during 2019-20. However, the State Government has made contribution of only ₹ 243.00 crore to the Fund, which has been invested, on which an interest of ₹ 9.52 crore has been earned, thereby leading to a balance of ₹ 252.52 crore at the end of the current year.

Thus, the State Government has not made the minimum contribution of ₹ 7,116.99 crore¹⁶ during 2011-20 to the said Fund since its inception. Non-contribution to Sinking Fund has also resulted in understatement of revenue expenditure by ₹ 816.59 crore during 2019-20 with consequent impact on revenue deficit and fiscal deficit of the State. The State Government stated (June 2021) that they had started making investment in the Consolidated Sinking Fund from 2019-20 (₹ 243 crore) and an amount of ₹ 925 crore had also been invested in the year 2020-21 too.

2.5.2.2 State Disaster Response Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. In terms of the guidelines of SDRF (September 2010 and July 2015), the Centre and the State Governments were contributing to the Fund in the proportion of 75:25 (revised to 90:10 from the year 2018-19). The contributions are to be transferred under the Public Account to Major Head – 8121. Expenditure during the year is incurred by operating Major Head – 2245.

The State Governments are required to pay interest to the SDRF at the rate applicable to overdrafts under Overdraft Regulation Guidelines of the RBI. The interest is to be credited on a half yearly basis. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

The SDRF is to be used only for meeting the expenditure for providing immediate relief to the victims of a disaster and the provision for disaster preparedness, restoration, reconstruction and mitigation should not be a part of

¹⁶ Up to 2015-16: ₹ 3,764.81 crore; 2016-17: ₹ 647.20 crore; 2017-18: ₹ 912.63 crore; 2018-19: ₹ 975.76 crore; and 2019-20: ₹ 816.59 crore.

SDRF. Such expenditure has to be built into the normal budgetary heads/State Plan Funds, etc.

As per Finance Accounts, as on 1 April 2019, an amount of ₹ 6,263.50 crore was lying in the SDRF. During the year 2019-20, ₹ 929.10 crore (₹ 313.05 crore as Centre share; ₹ 115.63 crore as State share; ₹ 2.68 crore towards refund of previous year's unspent balance lying with the Drawing and Disbursing Officers; and ₹ 497.74 crore towards payment of interest by the State Government) were transferred to the Fund. An amount of ₹ 193.12 crore was spent from the Fund during the current year leaving a balance of ₹ 6,999.48 crore. The entire balance of ₹ 6,999.48 crore was lying un-invested in SDRF as on 31 March 2020, in violation of GoI guidelines *ibid*. Besides, the State Government is liable to pay interest of ₹ 3.92 crore to the fund, accrued on account of delayed release of its share during the year 2019-20.

The Government stated (June 2021) that the State did not have surplus cash for making investment, for which it would have to borrow at higher rate of interest from market for making this investment. The reply of the State Government implied that the available balance under SDRF had been used for other than intended purpose, in contravention of the guidelines *ibid*.

Details of expenditure charged to SDRF during 2019-20 are given in Table 2.37.

Table 2.37: Details of expenditure charged to SDRF during 2019-20

(₹ in crore)		
Major Head of Account	Minor Head of Account	Expenditure
2245- Relief on Account of Natural Calamities 02-Floods, Cyclones, etc.	101-Gratuitous Relief	103.42
	104-Supply of Fodder	0.10
	106-Repairs and restoration of damaged roads and bridges	0.02
	111-Ex-gratia payments to bereaved families	0.92
	113-Assistance for repairs/reconstruction of Houses	7.00
	117-Assistance to Farmers for purchase of live stock	0.17
	122-Repairs and restoration of damaged irrigation and flood control works	81.49
	Total	193.12
2245- Relief on Account of Natural Calamities 05-State Disaster Response Fund	901- Deduct - Amount met from State Disaster Response Fund	193.12
Expenditure charged to SDRF in violation of SDRF guidelines		89.70

Source: Finance Accounts

As per the SDRF guidelines, only the amount booked under 2245-02-101 is admissible expenditure to be met from SDRF. Hence, expenditure of ₹ 89.70 crore out of ₹ 193.12 crore met from SDRF was in contravention of the guidelines. This led to understatement of revenue expenditure to the extent of

₹ 89.70 crore during 2019-20 with consequent impact on revenue deficit and fiscal deficit of the State.

2.5.2.3 Guarantee Redemption Fund

State Government constitutes ‘Guarantee Redemption Fund’ for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Public Sector Undertakings or other Bodies and invoked by the beneficiaries. The accumulations in the Fund are to be utilised only towards payment of the guarantees issued by the Government and not paid by the institutions on whose behalf guarantee was issued.

In terms of recommendation of the Twelfth Finance Commission, the State Government constituted ‘Guarantee Redemption Fund’ (GRF) in December 2007 (revised in 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 (2012-13) 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, State Government was required to make a minimum contribution of ₹ 1,525.67 crore during the period 2013-14 to 2016-17, but the State Government has not contributed the same to the Fund.

The State Government has further revised (October 2017) the ‘Guarantee Redemption Fund Scheme’ 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 (one *per cent* of outstanding guarantee of ₹ 20,676.88 crore at the end of 2016-17), ₹ 98.80 crore for the year 2018-19 (0.50 *per cent* of outstanding guarantee of ₹ 19,760.46 crore at the end of 2017-18) and ₹ 118.59 crore for the year 2019-20 (0.50 *per cent* of outstanding guarantee of ₹ 23,718.68 crore at the end of 2018-19). Total amount required to be contributed to the Fund during the period 2013-20 works out to ₹ 1,949.83 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 ₹ 118.59 crore during 2019-20 with consequent impact on revenue deficit and fiscal deficit of the State. Guarantee fee of ₹ 46.14 crore was also received during the year which was not transferred to Guarantee Redemption Fund, which also impacted the Revenue and Fiscal Deficit of the State to that extent. The State Government stated (June 2021) that investment in the Fund could not be made due to cash crunch.

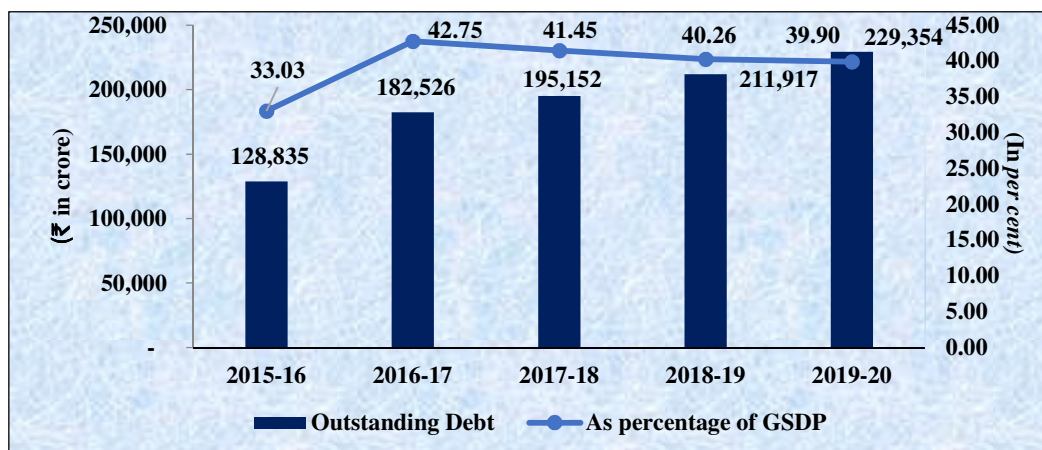
2.6 Debt management

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.

Outstanding debt of the State along with its percentage to GSDP for the years 2015-16 to 2019-20 is as depicted in **Chart 2.16**.

Chart 2.16: Outstanding debt and its percentage to GSDP



Source: Finance Accounts

2.6.1 Debt profile: Components

Total debt of the State Government typically 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.), loans and advances from the Central Government, and Public Account Liabilities. The component-wise debt trends of the State for the period of five years beginning from 2015-16 are presented in **Table 2.38**.

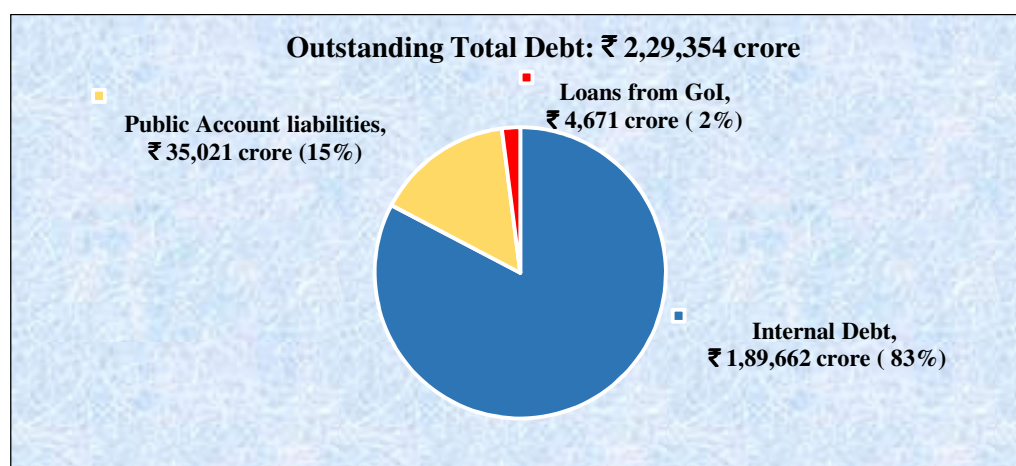
Table 2.38: Component-wise debt trends

Components of fiscal liability		(₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Total Debt		1,28,835	1,82,526	1,95,152	2,11,917	2,29,354
Public Debt	Internal Debt	99,023	1,49,880	1,60,785	1,74,172	1,89,662
	Loans from GoI	3,566	3,893	4,018	4,958	4,671
Public Account Liabilities		26,246	28,753	30,349	32,787	35,021
Rate of growth of outstanding total debt (<i>per cent</i>)		14.66	41.67	6.92	8.59	8.23
Gross State Domestic Product (GSDP)		3,90,087	4,26,988	4,70,834	5,26,376	5,74,760
Debt/GSDP (<i>per cent</i>)		33.03	42.75	41.45	40.26	39.90
Total Debt Receipts (including WMA)		48,152	94,290	53,363	61,155	65,907
Total Debt Repayments (including WMA)		31,078	40,599	40,737	44,390	48,470
Total Debt available		17,074	53,691	12,626	16,765	17,437
Debt Repayments/Debt Receipts (<i>per cent</i>)		64.54	43.06	76.34	72.59	73.54

Source: Finance Accounts

The total debt of the State Government had been on the rise as it increased by 78.02 *per cent* from ₹ 1,28,835 crore in 2015-16 to ₹ 2,29,354 crore in 2019-20, which included outstanding long term loans raised by the State Government for (i) one-time settlement of Legacy Cash Credit Accounts for food procurement operations during 2016-17 (₹ 27,288 crore out of ₹ 29,920 crore); and (ii) issuing of Bonds for clearing debts of Punjab State Power Corporation Limited (PSPCL) in compliance with the implementation of Ujwal Discom Assurance Yojana (UDAY) during 2015-16 (₹ 5,597 crore) and 2016-17 (₹ 10,031 crore). Break-up of outstanding total debt at the end of 2019-20 is shown in **Chart 2.17**.

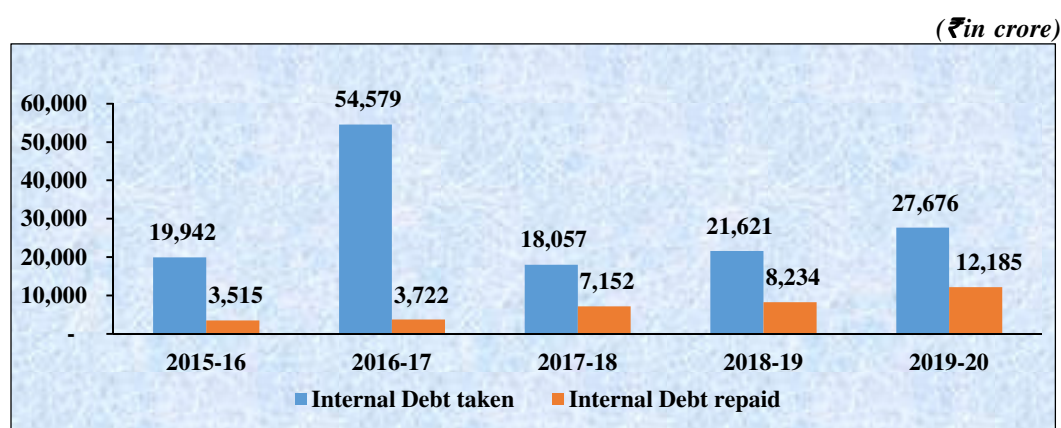
Chart 2.17: Break-up of outstanding total debt at the end of 2019-20



Source: Finance Accounts

Chart 2.18 depicts the quantum of internal debt taken *vis-à-vis* repaid during the period of five years i.e. 2015-20.

Chart 2.18: Internal debt taken *vis-à-vis* repaid



Source: Finance Accounts

Internal debt of the State Government increased by ₹ 90,639 crore (91.53 *per cent*) from ₹ 99,023 crore in 2015-16 to ₹ 1,89,662 crore in 2019-20. An amount of ₹ 15,049 crore was paid towards interest on internal debt during 2019-20.

Table 2.39 depicts financing pattern of the fiscal deficit during 2015-20 and the financing of fiscal deficit during 2019-20 is expressed through a water flow chart (**Chart 2.19**).

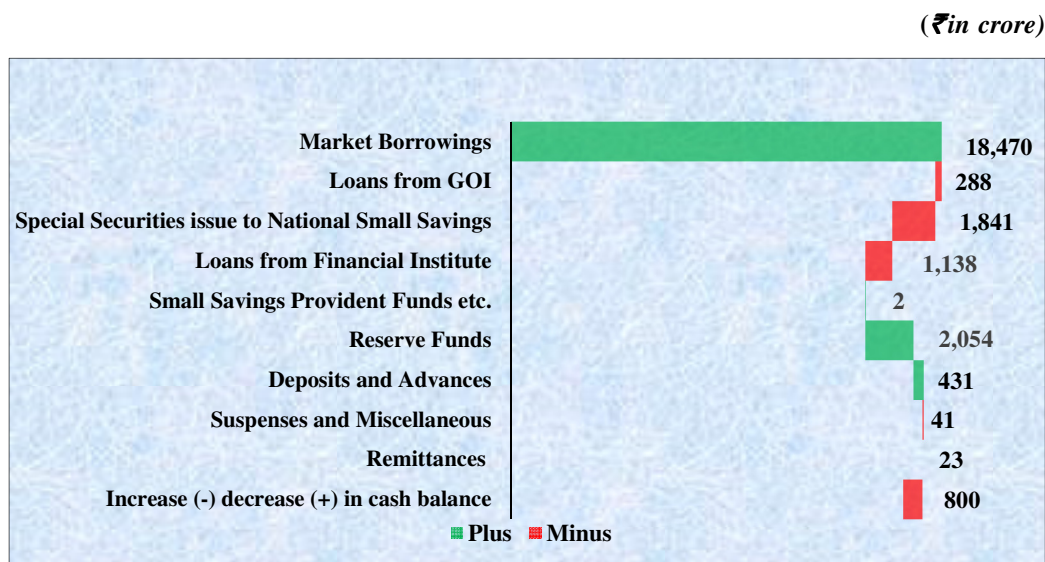
Table 2.39: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Composition of Fiscal Deficit	(-)17,360	(-)47,071	(-)12,494	(-)16,059	(-)16,826
1. Revenue Deficit	(-)8,550	(-)7,311	(-)9,455	(-)13,135	(-)14,285
2. Net Capital outlay	(-)3,059	(-)4,346	(-)2,352	(-)2,412	(-)17,828
3. Net Loans and Advances	(-)5,751	(-)35,414	(-)687	(-)512	15,287
Financing Pattern of Fiscal Deficit					
1. Market Borrowings	9,199	12,144	13,349	17,053	18,470
2. Loans from GoI	(-)49	327	125	940	(-)288
3. Special Securities issued to NSSF	1,579	(-)1,804	(-)1,742	(-)1,801	(-)1,841
4. Loans from Financial Institutions	5,648	34,749	(-)702	(-)1,865	(-)1,138
5. Small Savings, PF, etc.	1,110	1,233	1,126	1,264	2
6. Deposits and Advances	114	115	(-)180	290	431
7. Suspense and Miscellaneous	5	17	(-)27	120	(-)41
8. Remittances	3	0	(-)12	11	(-)23
9. Reserve Funds	(-)126	758	650	883	2,054
10. Overall Deficit	17,483	47,539	12,587	16,895	17,626
11. Increase (-)/Decrease (+) in cash balance	(-)123	(-)410	(-)93	(-)836	(-)800
12. Gross Fiscal Deficit	17,360	47,071	12,494	16,059	16,826

Source: Finance Accounts

Chart 2.19: Financing of fiscal deficit during 2019-20



Source: Finance Accounts

The components of receipts and disbursements financing the fiscal deficit during the year 2019-20 are depicted in **Table 2.40**.

Table 2.40: Receipts and Disbursements under components financing the fiscal deficit during 2019-20

(₹ in crore)

Particulars		Receipt	Disbursement	Net
1.	Market Borrowings	27,355	8,885	18,470
2.	Loans from GoI	145	433	(-)288
3.	Special Securities issued to NSSF	0	1,841	(-)1,841
4.	Loans from Financial Institutions	321	1,459	(-)1,138
5.	Small Savings, PF, etc.	3,591	3,589	2
6.	Deposits and Advances	5,288	4,857	431
7.	Suspense and Miscellaneous	55,574	55,615	(-)41
8.	Remittances	46	69	(-)23
9.	Reserve Funds	2,251	197	2,054
10.	Overall Deficit			17,626
11.	Increase (-)/Decrease (+) in cash balance	2,125	1,325	(-)800
12.	Gross Fiscal Deficit			16,826

Source: Finance Accounts

2.6.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. Debt maturity profile of the State is depicted in **Table 2.41** and **Chart 2.22**.

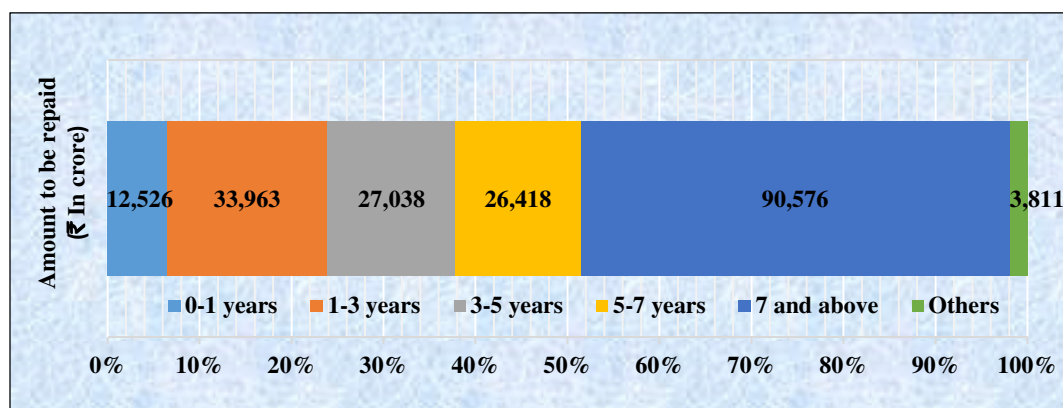
Table 2.41: Debt Maturity Profile of repayment of State debt

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	12,525.97	6.45
1 – 3	33,963.49	17.48
3 – 5	27,037.61	13.91
5 – 7	26,418.31	13.59
7 and above	90,575.78	46.61
Others ¹⁷	3,811.46	1.96
Total	1,94,332.63	100.00

Source: Calculated on the basis of Finance Accounts

Table 2.41 indicates that the State Government has to repay 23.93 *per cent* (₹ 46,489.46 crore) of its debt within the next three years, 13.91 *per cent* (₹ 27,037.61 crore) between 3-5 years and 13.59 *per cent* (₹ 26,418.31 crore) between 5-7 years. It signifies that the State has to repay 51.43 *per cent* of its debt (₹ 99,945.38 crore) in the next seven years.

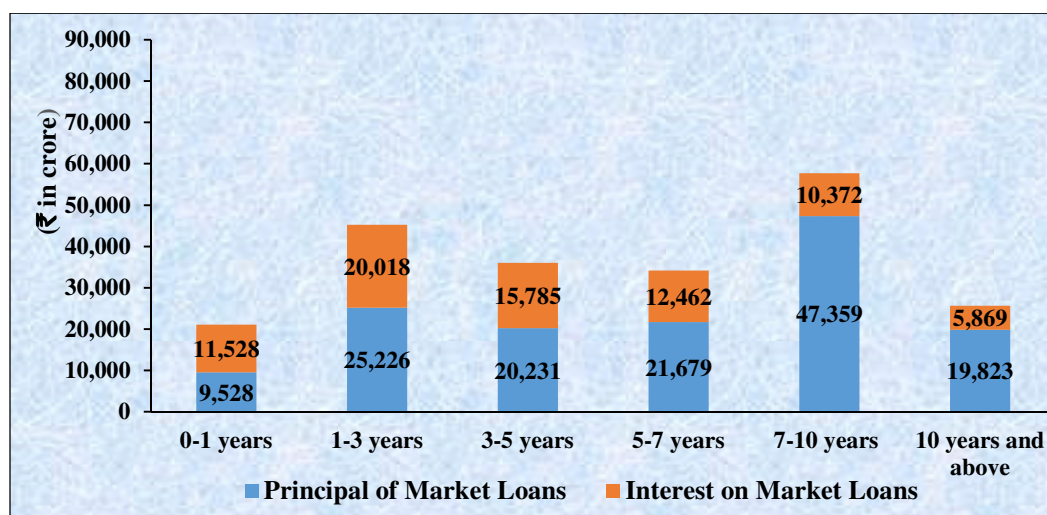
¹⁷ Payment schedule of this amount is not being maintained by office of the Accountant General (A&E), Punjab.

Chart 2.20: Debt Maturity Profile

Source: Finance Accounts

The State Government stated (June 2021) that a debt management unit incorporated in the Finance Department had been actively looking at the maturity profile of the State and taking proactive steps to avoid regions of high concentration. The unit had been extending the yield curve of the State by issuing long-term securities. Concentration risk of the State was being monitored actively and mitigated while keeping the credit cost in check.

Repayment schedule of market loans (including UDAY bonds) along with interest is given in **Chart 2.21**.

Chart 2.21: Repayment schedule of market loans

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

Note: The maturity profile has been evolved for outstanding market loans and UDAY bonds as on 31 March 2020 and interest has been calculated up to the financial year in which the loans are going to retire.

As on 31 March 2020, market loans amounting to ₹ 2,19,880 crore (including UDAY bonds) along with interest were due for repayment. The State will have to repay market loans of ₹ 1,02,316 crore (47 per cent) (₹ 54,985 crore as principal and ₹ 47,331 crore as interest) during the next five years i.e. up to

2024-25. Market loans of ₹ 91,872 crore (42 *per cent*) (₹ 69,038 crore as principal and ₹ 22,834 crore as interest) will have to be repaid in subsequent five years period up to 2029-30. This means that in the next five years (2020-25), on an average, the State will have to make repayment of ₹ 20,463 crore annually of the market loans which will go down to ₹ 18,374 crore in the subsequent five years (2025-30). Remaining ₹ 25,692 crore (11 *per cent*) (₹ 19,823 crore as principal and ₹ 5,869 crore as interest) will be repayable after 2030.

2.7 Debt Sustainability Analysis

Debt sustainability refers to the ability of the State to service its debt obligation now and in future. Analysis of variations in debt sustainability indicators is given in **Table 2.42** and **Chart 2.22**.

Table 2.42: Trends in Debt Sustainability Indicators

(₹ in crore)

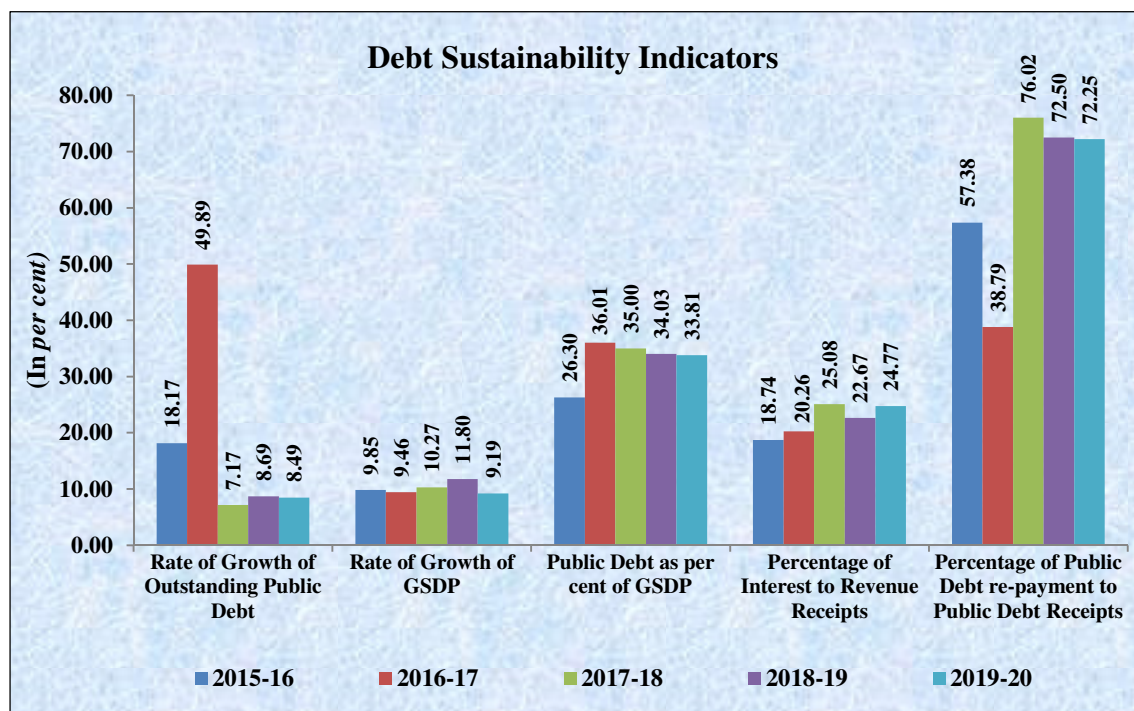
Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt*	1,02,589.32	1,53,773.15	1,64,802.98	1,79,130.45	1,94,332.64
Rate of Growth of Outstanding Public Debt	18.17	49.89	7.17	8.69	8.49
GSDP	3,90,087	4,26,988	4,70,834	5,26,376	5,74,760
Rate of Growth of GSDP	9.85	9.46	10.27	11.80	9.19
Public Debt/GSDP	26.30	36.01	35.00	34.03	33.81
Debt maturity profile of repayment of State debt – including default history, if any	4,098.33	4,473.74	7,317.19	8,318.37	12,238.76
Average interest rate of Outstanding Public Debt (<i>per cent</i>)	8.22	7.58	8.35	8.21	8.17
Percentage of Interest Payment to Revenue Receipts	18.74	20.26	25.08	22.67	24.77
Percentage of Debt Repayment to Debt Receipts	57.38	38.79	76.02	72.50	72.25
Net Debt available to the State [#]	8,596	41,462	(-)2,263	212	(-)52.15
Net Debt available as <i>per cent</i> to Debt Receipts	22.37	49.58	(-)4.92	0.41	(-)0.10
Primary deficit (-)/ Primary surplus (+)	(-)7,578	(-)35,429	2,840	247	741
Debt Stabilisation (Quantum spread ^{\$} + Primary Deficit)	(-)5,911.30	(-)32,356.10	7,081.35	6,406.40	4,388.97

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.

^{\$} Quantum spread=(Debt * rate spread) where rate spread=(GSDP growth rate – interest rate).

Chart 2.22: Trends of Debt Sustainability Indicators

Source: Finance Accounts

- A falling debt-GSDP ratio can be considered as leading towards stability. Debt-GSDP ratio had risen from 26.30 *per cent* in 2015-16 to 36.01 *per cent* in 2016-17 and steadily declined to 33.81 *per cent* in 2019-20 which can be considered as leading towards stability. Also, debt stabilisation condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would tend to be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. **Table 2.42** shows that this trend had been positive since 2017-18 which indicates that debt-GSDP ratio would eventually be falling.
- The ratio of interest payments to revenue receipts is also a good measure of debt sustainability. Rising interest payments to revenue receipts ratio is not a good indicator for debt sustainability. This ratio increased from 18.74 *per cent* in 2015-16 to 24.77 *per cent* in 2019-20.
- Higher the percentage of public debt repayments to public debt receipts, the greater the proportion of debt utilised for debt servicing rather than productively. Ratio of public debt repayments to public debt receipts ranged between 38.79 *per cent* and 76.02 *per cent* during the period 2015-20.

2.7.1 Utilisation of borrowed funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not a healthy trend. **Table 2.43** depicts the utilisation of borrowed funds during 2015-20.

Table 2.43: Utilisation of borrowed funds

		(₹ in crore)				
Sr. No.	Year	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Total borrowings	38,428	91,180*	47,757	53,925	57,200
2.	Repayment of earlier borrowings (Principal) (percentage)	22,051 (57)	32,443 (35)	34,970 (73)	37,771 (70)	39,574 (70)
3.	Net capital outlay (percentage)	3,059 (8)	4,346 (5)	2,352 (5)	2,412 (4)	17,828 (31)
4.	Net loans and advances (percentage)	5,751 (15)	35,414 (39)	687 (1)	512 (1)	(-)15,287 (-)27
5. (1-2-3-4)	Portion of Revenue expenditure met out of net available borrowings (percentage)	7,567 (20)	18,977 (21)	9,748 (21)	13,230 (25)	15,085 (26)

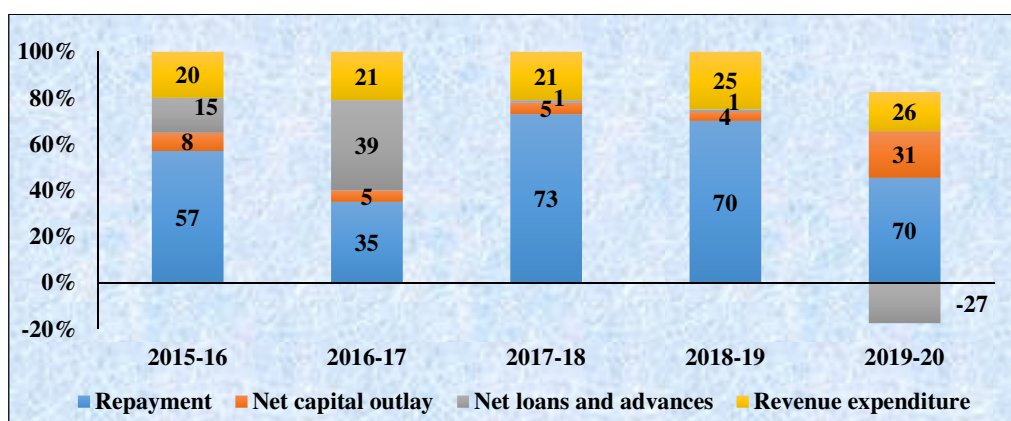
Source: Finance Accounts

* 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 2.43 shows that during 2015-16 to 2019-20, the State Government utilised 35-73 per cent of its current borrowings for repayment of earlier borrowings. Revenue expenditure met out of net available borrowings ranged between 20 and 26 per cent. Net capital outlay ranged between 4 and 8 per cent except for the current year when it was 31 per cent. Increase in net capital outlay during the current year was mainly due to conversion of UDAY loans of ₹ 15,628 crore into equity in PSPCL, as discussed in Paragraph 2.4.2.2 (v). Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of earlier borrowings instead of capital creation/development activities.

Trend of utilisation of borrowed funds during the period 2015-20 is depicted in **Chart 2.23**.

Chart 2.23: Trends of utilisation of borrowed funds



Source: Finance Accounts

The State Government agreed (June 2021) to the fact that the borrowings were utilised to repay principal outstanding and other expenditure. Majority of gross borrowings were therefore channeled towards refinancing the debt while balance towards expenditure (revenue and capital).

2.7.2 Status of Guarantees – Contingent Liabilities

Guarantees, in case of defaults by borrowers for whom the guarantees have been extended, are liabilities contingent on the Consolidated Fund of the State. The State Government gives guarantees for repayments of loans raised by statutory corporations/boards, local bodies, cooperative banks and societies, etc. As per the Punjab FRBM Act, 2003, outstanding guarantees were to be capped at 80 per cent of revenue receipts of previous year. 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 **Table 2.44**.

Table 2.44: Guarantees given by the State Government

Guarantees	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Ceiling applicable to the outstanding amount of guarantees (i.e. 80 per cent of revenue receipts of previous year)	31,218	33,218	38,388	42,408	49,815
Outstanding amount of guarantees	56,819	20,677	19,760	23,719	25,352

Source: Finance Accounts and Annual Financial Statements

Note: Opening Balance differs from previous year's closing balance during the period 2014-15 to 2018-19. The matter has been referred to the State Government.

The outstanding guarantees for ₹ 25,352 crore as on 31 March 2020 was in respect of Power (₹ 13,505 crore); Co-operatives (₹ 1,512 crore); State Finance Companies/Corporations (₹ 776 crore); Food and Civil Supplies (₹ 976 crore); and Others (₹ 8,583 crore).

The Government gave guarantees within the limits prescribed in the FRBM Act during 2016-20. However, during 2015-16, the guarantees were in excess of the limits prescribed due to guarantees given in respect of cash credit (₹ 29,920 crore) availed by the food procuring agencies.

Out of the outstanding guarantees for ₹ 25,352 crore, the State Government had given guarantees amounting to ₹ 1,677.41¹⁸ crore to six PSUs whose net worth

¹⁸ (i) Punjab State Civil Supplies Corporation Limited: ₹ 551.75 crore; (ii) Punjab State Industrial Development Corporation Limited: ₹ 486.71 crore; (iii) Punjab Agro Foodgrains Corporation Limited: ₹ 299.85 crore; (iv) Punjab Financial Corporation: ₹ 214.54 crore; (v) Punjab State Warehousing Corporation: ₹ 86.14 crore; and (vi) Punjab State Grains Procurement Corporation Limited: ₹ 38.42 crore.

became negative. This means that the actual liability lies with the State Government to repay their loans.

2.7.3 Management of Cash Balances

As per an agreement with the Reserve Bank of India, State Governments have to maintain a minimum daily cash balance with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMA)/Special Ways and Means Advances (SWMA)/Overdrafts (OD) from time to time. The limit for ordinary WMA to the State Government is revised by the RBI from time to time.

State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. The cash balances are invested in the Consolidated Sinking Fund and Guarantee Redemption Fund as well.

It is not desirable that the State Government take recourse to market loans despite having large cash balances leading to further accretion to cash balances without putting it to productive use. Details of cash balances and their investment during 2018-19 and 2019-20 are given in **Table 2.45**.

Table 2.45: Cash Balances and their investment

(₹ in crore)

	Opening balance as on 1 April 2019	Closing balance as on 31 March 2020
A. General Cash Balance		
Deposits with Reserve Bank of India	20.10	340.67
Investments held in Cash Balance investment account	468.56	805.39
Total (A)	488.66	1,146.06
B. Other Cash Balances and Investments		
Cash with departmental officers viz. Forest and Public Works	835.21	725.54
Permanent advances for contingent expenditure with departmental officers	0.26	0.26
Investment of earmarked funds	0.70	253.20
Total (B)	836.17	979.00
Total (A + B)	1,324.83	2,125.06
Interest realised	4.92	5.60

Source: Finance Accounts

The closing cash balance at the end of the current year (₹ 2,125.06 crore) increased by ₹ 800.23 crore over the previous year (₹ 1,324.83 crore).

The cash balance included investment of ₹ 253.20 crore from earmarked funds. During the year 2019-20, the State Government had to resort to overdraft facility on 44 days. The Government was able to maintain a minimum cash balance of ₹ 1.56 crore for 139 days and had also to maintain the minimum balance by

taking ordinary WMA on 183 days. The State had to pay ₹ 23.79 crore as interest on WMA during the year 2019-20.

Balances in Reserve funds are either held in cash or are required to be invested in various securities stipulated in the respective fund guidelines. Investment of only ₹ 243 crore was made from the Consolidated Sinking Fund during the year 2019-20. The general cash balance of ₹ 1,146.06 crore at the close of the year was not even equal to the balance of ₹ 8,203.96 crore in earmarked reserve funds, which means that reserve funds were used for other than intended purpose.

Details of Cash Balance Investment Account during the last five years; and month-wise movement of cash balance and net cash balance investments at the end of month during the year 2019-20 are depicted in **Table 2.46** and **Chart 2.24** respectively.

Table 2.46: Cash Balance Investment Account (Major Head-8673)

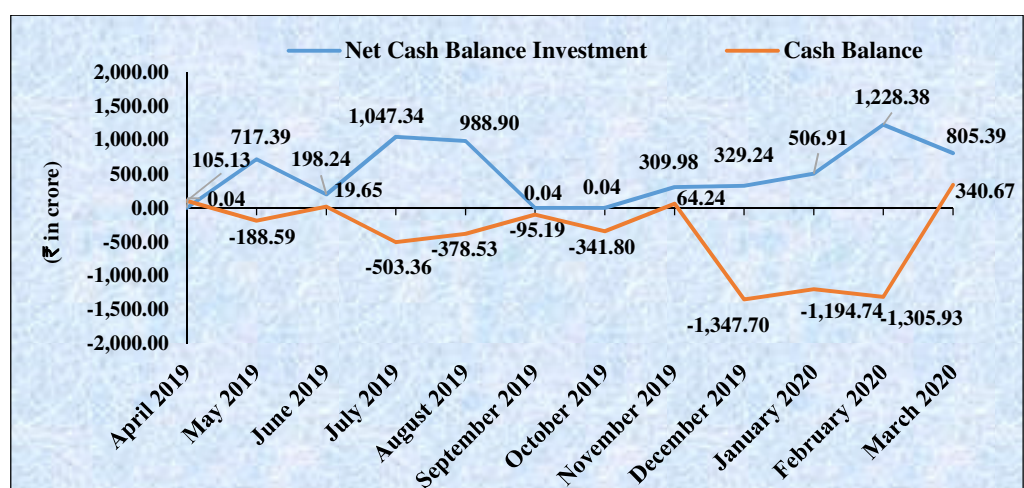
(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / Decrease (-)	Interest earned
2015-16	350.35	5,238.43	(+) 4,888.08	12.31
2016-17	5,180.25*	0.04	(-) 5,180.21	(-) 8.05
2017-18	0.04	0.04	0.00	1.56
2018-19	0.04	468.56	(+) 468.52	4.92
2019-20	468.56	805.39	(+) 336.83	5.60

Source: Finance Accounts

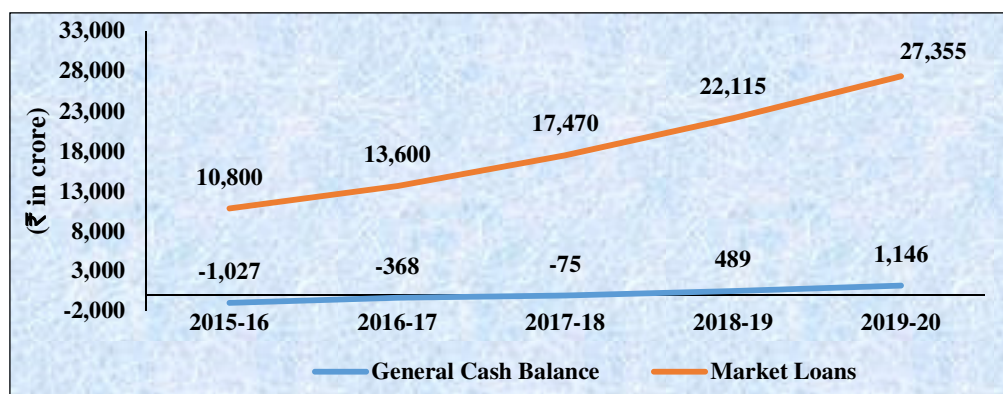
* decreased by ₹ 58.18 crore through proforma adjustment to incorporate prior period adjustment.

Chart 2.24: Month-wise movement of net cash balance investments and cash balance at the end of month during 2019-20



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

Details of market loans vis-a-vis cash balances during the last five years are shown in **Chart 2.25**.

Chart 2.25: Market Loans vis-a-vis Cash Balance

Source: Finance Accounts

During the year 2019-20, the State could have avoided market borrowings to the extent of the general cash balance (₹ 1,146 crore). The general cash balance of ₹ 1,146 crore included cash balance investment of ₹ 805 crore. The State Government stated (June 2021) that timing of borrowing, cash balances and expenditure commitments was sporadic in nature. Also, given the temporary nature of cash balances and long-term implications of debt, sometimes it would be in the favour of Government to borrow pre-emptively to avoid higher rates in future despite having cash balances. Therefore, the recommendation given was not completely valid in today's scenario wherein a large portion of borrowing was done through SDLs (State Development Loans). The reply of the State Government was merely on presumption basis.

2.8 Salient features

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of the Government. Comparison of key parameters of State Finances during 2019-20 with that of the previous year i.e. 2018-19 is summarized in **Table 2.47**.

Table 2.47: Key parameters

Positive Indicators	Parameters requiring close watch
↑ Primary surplus for the past three years.	↓ Increase in revenue deficit by 8.76 per cent over previous year.
↑ Increase in revenue expenditure on social services by 6.35 per cent over the previous year.	↓ Decrease in own revenue (own tax and non-tax revenue) by 6.40 per cent.
↑ Decrease in subsidies as percentage of non-committed expenditure by 10.57 per cent over the previous year.	↓ Increase in public debt receipts by 21.28 per cent.

2.9 Conclusions

The State passed FRBM Act, 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit. The State continued to be a revenue deficit State. The revenue deficit was 23 *per cent* of revenue receipts during 2019-20 against the 21 *per cent* during 2018-19.

The Revenue Deficit which was to be brought down to zero by 2008-09, increased upto ₹ 14,285 crore during 2019-20. It indicates that the State had borrowed funds for meeting current consumption.

Subsidies constituted 10 *per cent* to 18 *per cent* of the revenue expenditure and contributed 59 *per cent* to 102 *per cent* to the revenue deficit during 2015-20. Power subsidy constituted major portion of the total subsidies ranging between 63 *per cent* and 96 *per cent*.

Fiscal Deficit of the State was ₹ 16,826 crore during 2019-20 which was 2.93 *per cent* of the GSDP and was within the target fixed by the State Government in MTFP. The Fiscal Deficit was mainly financed through market borrowings.

Out of total borrowings of ₹ 57,200 crore during 2019-20, the State Government incurred Capital Expenditure of only ₹ 17,828 crore (31 *per cent*) which included equity investment of ₹ 15,628 crore in Punjab State Power Corporation Limited (PSPCL) which means that only ₹ 2,200 crore (4 *per cent*) on creation of capital assets.

Annual growth rate of Revenue Receipts decreased from 6.41 *per cent* in 2015-16 to (-) 1.11 *per cent* in 2019-20, which resulted in higher dependency on borrowed funds for meeting the current consumption. Further, State's own revenue registered a negative growth of 6.40 *per cent* over the previous year, leading to a higher dependency on GoI contributions.

State incurred 69 *per cent* of the total Revenue Expenditure on committed liabilities like salaries and wages, pensions, interest payments, leaving only 31 *per cent* for priority sector expenditure. The percentage of total expenditure in priority sectors such as Education and Health in Punjab was lower than the average of General Category States.

There was a difference of ₹ 4,137 crore in equity investment figures as per State Accounts and as per the Accounts of 19 PSUs. The difference was under reconciliation (February 2021).

In contravention to the UDAY scheme guidelines and tripartite MOU in this regard, State converted the entire amount of loan taken over from DISCOMS, into equity instead of restricting equity and grant in a ratio of 25:75. This has

increased the Capital expenditure at the same time reduced revenue expenditure, which has a direct bearing on the revenue deficit.

The State Government earned a meagre 0.02 *per cent* return on its total investment (₹ 19,898 crore) in Statutory Corporations, Government Companies and Co-operatives up to 31 March 2020.

Loans amounting to ₹ 839 crore were outstanding at the beginning of 2019-20 against co-operative sugar mills. Further loans of ₹ 100 crore were given to these sugar mills without recovery of earlier loans.

Total outstanding debt including public debt and public account liabilities were 39.90 *per cent* of the GSDP. The total debt grew by eight *per cent* over previous year. During the year, outgo because of interest payments was equal to 23 *per cent* of Revenue Expenditure and 29 *per cent* of Revenue Receipts.

The State Government received ₹ 1,336 crore (3.10 *per cent*) as interest on outstanding loans during 2019-20 while paid interest at 7.93 *per cent* on outstanding debt. The State Government raised loans during 2019-20 on an average interest rate of 7.31 *per cent* per annum.

The State Government had not invested funds of ₹ 6,999 crore available under State Disaster Response Fund.

As many as 52 projects scheduled for completion up to 31 March 2020, were incomplete. The expenditure of ₹ 1,201.27 crore incurred on these incomplete projects was yet to yield the intended benefits.

2.10 Recommendations

- (i) The State Government may consider forming a committee to assess the reasons for insufficient return on investment from statutory corporations, Government companies, cooperative banks and societies and to suggest the remedial measures.
- (ii) The State may ensure time bound completion of the incomplete projects.
- (iii) The State Government should mobilise its resources to minimise dependence on borrowings.

