

Executive Summary

About the Report

This Report of the CAG of India is on the State Finances for the year 2023-24. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

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

Gross State Domestic Product (GSDP) (at current prices) grew at a compound annual growth rate of 8.52 *per cent* from ₹ 5,37,031 crore in 2019-20 to ₹ 7,44,899 crore in 2023-24. Budget Outlay of the State grew at a compound annual growth rate of 6.50 *per cent* from ₹ 1,62,060.09 crore in 2019-20 to ₹ 2,08,508.68 crore in 2023-24.

There was 9.34 *per cent* growth in GSDP over 2022-23. The revenue receipts grew at 1.80 *per cent* and the percentage of revenue receipts over GSDP decreased from 12.86 *per cent* in 2022-23 to 11.97 *per cent* in 2023-24. The tax revenue increased by 13.90 *per cent* during the period and the State's own tax revenue increased by 11.86 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Punjab increased from ₹ 1,21,710 crore in 2022-23 to ₹ 1,22,346 crore in 2023-24 increasing by 0.52 *per cent*. Of this, revenue expenditure showed 3.30 *per cent* increase from 2022-23. Revenue deficit increased from ₹ 26,045 crore to ₹ 28,215 crore registering 8.33 *per cent* increase over 2022-23, while fiscal deficit decreased from ₹ 33,930 crore (2.40 *per cent*) in 2022-23 to ₹ 33,115 crore in 2023-24.

Receipt-Expenditure Mismatch

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

From 2019-20 to 2023-24, revenue receipts grew from ₹ 61,575 crore to ₹ 89,192 crore, with a compound annual growth rate of 9.71 *per cent*. Capital receipts also increased from ₹ 43,891 crore to ₹ 46,902 crore during this period.

The share of Grants-in-aid in revenue receipts decreased from 23.68 *per cent* in 2019-20 to 16.03 *per cent* in 2023-24, indicating decreased reliance on support from the Government of India. The State Government received ₹ 3,184.97 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2019-20 and 2023-24, revenue expenditure increased from ₹ 75,860 crore (14.13 *per cent* of GSDP) to ₹ 1,17,407 crore (15.76 *per cent* of GSDP). It consistently made up a significant portion (80 to 96 *per cent*) of the total expenditure during this period, growing at a compound annual growth rate of 11.54 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹ 28,215 crore (3.79 *per cent* of GSDP) in the current year from ₹ 14,285 crore (2.66 *per cent* of GSDP) in the year 2019-20.

The State Government spent ₹ 4,743 crore only on capital account. This was 3.88 *per cent* of the total expenditure in the year 2023-24. Capital expenditure was just 4.40 *per cent* of the total borrowings. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 33,115 crore (4.45 *per cent* of GSDP) in 2023-24 from ₹ 16,826 crore (3.13 *per cent* of GSDP) in 2019-20.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 62-69 *per cent* of revenue expenditure during 2019-20 (69 *per cent*) and 2023-24 (65 *per cent*). The Committed expenditure increased at a compound annual growth rate of 9.78 *per cent* i.e. from ₹ 52,544 crore in 2019-20 to ₹ 76,388 crore in 2023-24 {an increase of 8.68 *per cent* over 2022-23 (₹ 70,290 crore)}.

In addition to the committed expenditure, inflexible expenditure increased from 7.95 *per cent* to 10.58 *per cent* of revenue expenditure during 2019-20 to 2023-24, indicating a rising trend except for the year 2021-22 when there was slight decrease as compared to 2020-21. The inflexible expenditure increased from ₹ 11,734 crore in 2022-23 to ₹ 12,420 crore in 2023-24 registering an increase of 5.85 *per cent*.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹ 88,808 crore; 75.64 per cent of the revenue expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

Subsidies constitute major portion of the non-committed expenditure

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 10,161 crore in 2019-20 to ₹ 18,770 crore in 2023-24 i.e., from 13.39 per cent of the total revenue expenditure in 2019-20 to 15.99 per cent in 2023-24. Power subsidies constituted a significant portion, ranging from 92 per cent to 99 per cent of the total subsidies during this period. Apart from this, the State Government also spent ₹ 501.24 crore on implicit subsidies.

Off-budget borrowings

The State Government, through Public Sector Undertakings and parastatals, raised ₹ 4,092.78 crore as off-budget borrowings as on 31 March 2024, which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget.

Contingent Liabilities on account of Guarantees

In 2023-24, the Government provided guarantees against borrowings of ₹ 5,594 crore. During the year, Government paid ₹ 1.17 crore for discharge of guarantee invoked in respect of Punjab State Industrial Development Corporation Limited (PSIDC).

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

Fiscal sustainability

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

FRBM requirements and compliance with fiscal parameters

The FRBM Act / Rules prescribes certain limits within which revenue deficit, fiscal deficit, debt as a percentage of the GSDP should be, and similarly for guarantees as a percentage of revenue receipts of the previous year. In compliance with the provisions of State Fiscal Consolidation Roadmap under

FRBM Act, the target of revenue deficit of the State was 3.52 *per cent* of GSDP, whereas the target for fiscal deficit was 4.60 *per cent* against which the revenue deficit was 3.79 *per cent* and fiscal deficit of the State was 4.45 *per cent* respectively. Debt was 43.72 *per cent* as against limit of 46.81 *per cent* and guarantees given were 25.90 *per cent* as against the prescribed limit of 80 *per cent*.

Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (includes Public Debt and Public Account Liabilities) of the Government was 44.27 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilisation analysis, the debt of the Government of Punjab has grown on a compound annual average rate of 9.16 *per cent* between 2019-20 to 2023-24. Debt-GSDP ratio of Punjab has increased from 42.71 *per cent* in 2019-20 to 43.72 *per cent* in 2023-24, which indicates that debt stabilisation may not be possible in near future.

During the years 2021-22, 2022-23 and 2023-24 though the Domar gap (expressed as $g-r$) was positive, the primary deficit was not stable. Therefore, the trends of strong economic growth (expressed as $g-r > 0$) by only observing the Domar gap in 2021-22, 2022-23 and 2023-24 cannot be conclusively generalized. Further, substantial proportion of total debt receipts was being used for repayment for borrowings (including principal and interest), which ranged between 87.94 *per cent* and 117.01 *per cent* during the period 2019-2024. Thus, it becomes evident that depending solely on economic growth (expressed as $g-r > 0$ from 2021-2024) would not suffice to cover the debt obligations of the State.

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

Budget performance

Aggregate expenditure outturn

Aggregate expenditure outturn measures the deviation in actual expenditure (Actuals) compared with the Budget Estimate (BE) originally approved, both in terms of less than (-) and in excess (+) of approval. In the Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 7.29 *per cent*. This was due to deviation up to (\pm) 25 *per cent* in 35 grants, between (-) 25 *per cent* and (-) 50 *per cent* in three grants; and between (-) 50 *per cent* and (-) 100 *per cent* in four grants. In the Capital section, deviation in outturn compared with BE was (-) 3.52 *per cent*. This was due to deviation up to (-) 25 *per cent* in five grants, between (-) 25 *per cent* and

(-) 50 per cent in three grants; and between (-) 50 per cent and (-) 100 per cent in 28 grants. No provision was made in respect of six grants of the Capital section.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In the Revenue section, deviation in outturn compared with Revised Estimates (RE) was (-) 4.01 per cent. This was due to deviation up to (\pm) 25 per cent in 40 grants, between (\pm) 25 per cent and (\pm) 50 per cent in one Grant and between (\pm) 50 per cent and (\pm) 100 per cent in one grant. In the Capital section, deviation in outturn compared with RE was 2.91 per cent. This was due to deviation up to (\pm) 25 per cent in 16 grants, between (-) 25 per cent and (-) 50 per cent in four grants, between (-) 50 per cent and (-) 100 per cent in 14 grants. No budget provision was, however, made in respect of eight grants.

It was noticed that supplementary provisions of ₹ 1,147.64 crore during the year 2023-24 in 20 cases (more than ₹ one crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

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

Quality of Accounts and Financial Reporting

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

Regularisation of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205(1)(b) of the Constitution. It was observed that in 2023-24, there was excess expenditure of ₹ 5,242.75 crore under three grants which required regularisation. Further, excess expenditure of ₹ 1,475.11 crore for the year 2022-23 under three grants also required regularisation.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make compliance with IGAS-2: Accounting and Classification of Grants-in-aid and IGAS-3: Loans and Advances made by the Government.

Funds to Single Nodal Agency

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, ₹ 6,487.22 crore (₹ 2,758.22 crore share of the Government of India and ₹ 3,729.00 crore share of the State Government) was transferred to the SNAs during 2023-24. However, the State Government intimated that ₹ 6,677.24 crore were transferred to the SNAs during 2023-24, out of which, ₹ 2,914.78 crore were transferred through AC Bills, ₹ 2,974.38 crore through GIA bills and ₹ 788.08 crore through Fully Vouched Contingent Bills. As per data available on PFMS Portal, ₹ 3,372.86 crore was lying unspent in the bank accounts of SNAs as on 31 March 2024. Detailed vouchers and supporting documents of actual expenditure were not received by the office of Accountant General (A&E) Punjab from the SNAs. The State Government has been requested to make the details of the bills drawn, as it is of importance for completeness of the accounts, financial reporting and transparent financial control.

Non-submission of Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 597 outstanding UCs of ₹ 3,089.57 crore were pending as on 31 March 2024.

Utilisation Certificates (UCs) outstanding beyond the specified periods indicate absence of assurance on utilisation of the grants for intended purposes and the expenditure shown in the accounts to that extent cannot be treated as final.

Non-submission of DC bills against AC bills

Similarly, despite the requirement of submitting Detailed Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 2,037 AC bills of ₹ 2,804.85 crore were pending for submission of DC bills as on 31 March 2024, out of which 1,098 AC Bills amounting to ₹ 1,746.84 crore pertained to the period upto 2022-23.

Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DC bills. Further, to the extent of non-receipt

of DC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

Funds outside Government Account

It was noticed that ₹ 406.98 crore collected on account of cess/levies etc. were not deposited into the Government Account by the DDOs.

Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; non-submission of DC bills against AC bills; non-compliance with IGAS-2 & 3; funds remaining outside Government accounts; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.
