

## **EXECUTIVE SUMMARY**

### **Background**

This Report on the finances of the Government of Punjab is brought out to assess the financial performance of the State during the year 2017-18 *vis-à-vis* the Budget Estimates, the targets as recommended by the Fourteenth Finance Commission (FFC) and analyses the dominant trends and structural profile of Government's receipts and disbursements. Recommendations of the Thirteenth Finance Commission have also been referenced, wherever required.

Based on the audited accounts of the Government of Punjab for the year ended 31 March 2018 and additional data collated from several sources such as the Economic Survey brought out by the State Government and Census, this report provides an analytical review of the Annual Accounts of the State Government in three Chapters.

**Chapter-I** is based on the Finance Accounts and makes an assessment of Punjab Government's fiscal position as on 31 March 2018. It provides an account of time series of receipts and disbursements, market borrowings, quality of expenditure, financial analysis of government expenditure and investment, debt sustainability and the fiscal imbalances.

**Chapter-II** is based on Appropriation Accounts and it gives the grant-wise description of appropriations. It elaborates on financial accountability and budget management, deficiencies in working of treasuries and outcome of review of selected grants.

**Chapter-III** is an inventory of the Punjab Government's compliance with various reporting requirements and financial rules.

### **Audit findings**

#### **Chapter I: Finances of the State Government**

The State is on a fiscal correction path. However, the State has not yet amended the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 as recommended by FFC. It has remained a revenue deficit State. During the year 2017-18, the revenue deficit increased by 29 *per cent* as compared to the previous year.

The primary deficit (-8.27 *per cent* of GSDP) in 2016-17 turned into primary surplus (0.60 *per cent* of GSDP) in the current year.

During the period 2013-14 to 2017-18 revenue receipts and capital receipts increased from ₹ 35,104 crore and ₹ 11,221 crore to ₹ 53,010 crore and ₹ 18,590 crore respectively. The net public account receipts also exhibited an increasing trend during 2013-17, as it increased from ₹ 2,145 crore in 2013-14 to ₹ 7,553 crore in 2016-17, but decreased to ₹ 1,757 crore during 2017-18.

Overall, the total receipts increased by 51.35 *per cent*, from ₹ 48,470 crore in 2013-14 to ₹ 73,357 crore in 2017-18. During 2013-18, the revenue receipts increased at an annual average growth rate of 10.62 *per cent*.

The revenue expenditure increased by ₹ 7,169 crore (12.96 *per cent*) during the current year over the previous year. It continued to constitute a dominant proportion (85 to 95 *per cent*) of the total expenditure during 2013-18, except for in 2016-17 (55 *per cent*), and grew at an annual average growth rate of 9.66 *per cent* during this period.

The capital expenditure decreased by ₹ 1,994 crore (45.88 *per cent*) over the previous year. The capital expenditure during the current year was less by ₹ 3,805 crore than the projections made in the State budget, which indicates that asset creation was not given as much priority as intended in the budget estimates. State's spending on social sector as proportion of aggregate expenditure declined from 27.83 *per cent* in 2013-14 to 24.99 *per cent* in 2017-18. Disbursement of loans and advances decreased by ₹ 40,604 crore (98.16 *per cent*) during the current year over the previous year.

Forty projects, scheduled for completion between 2008-09 and 2017-18 were incomplete. The expenditure of ₹ 771.52 crore incurred on these incomplete projects was yet to yield the intended benefits and the nine major irrigation projects caused the State Government to suffer a net loss of ₹ 351.64 crore during 2017-18.

The return on investment from Co-operative Banks and Societies and Statutory Corporations, Joint Stock Companies and Government Companies was only between 0.04 and 0.11 *per cent* during 2013-18 while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.48 and 8.35 *per cent* during the same period.

Overall fiscal liabilities of the State were ₹ 1,95,152 crore as on 31 March 2018. Fiscal liabilities were 41.41 *per cent* of GSDP and 368.14 *per cent* of the revenue receipts.

Cash balance of ₹ 488.45 crore at the close of the year 2017-18 was far lesser than the earmarked reserve funds amounting to ₹ 5,519 crore which indicates that reserve funds were used for other than intended purpose.

The State Government had not invested funds of ₹ 5,382.21 crore lying at balance under State Disaster Response Fund (SDRF) as on 31 March 2018. An amount of ₹ 833.13 crore under Building and Other Construction Workers Welfare Cess was lying unspent as on 31 March 2018.

Total public debt increased (109.49 *per cent*) from ₹ 78,669 crore in 2013-14 to ₹ 1,64,803 crore in 2017-18. The ratio of interest payments to revenue receipts increased from 18 to 25 *per cent* during 2013-18. The percentage of debt repayments to debt receipts increased from 69.11 *per cent* in 2013-14 to 76.02 *per cent* in 2017-18. Availability of net debt to State increased from ₹ 1,275 crore in 2013-14 to ₹ 41,462 crore in 2016-17. However, net debt available during 2017-18 was negative (₹ 2,263 crore).

The revenue deficit increased to ₹ 9,455 crore (2.01 *per cent* of GSDP) in the current year from ₹ 6,537 crore (1.97 *per cent* of GSDP) in the year 2013-14. There was a steep decrease of ₹ 34,577 crore (73 *per cent*) in fiscal deficit during the current year over the previous year. However, there was primary surplus of ₹ 2,840 crore (0.60 *per cent* of GSDP) during the current year.

## **Chapter II: Financial Management and Budgetary Control**

The State Government's budgetary process has not been sound during the year and there were savings under several grants. During 2017-18, expenditure of ₹ 1,01,117.64 crore was incurred against total budget provision of ₹ 1,19,884.67 crore resulting in net savings of ₹ 18,767.03 crore. The net savings was the result of gross savings of ₹ 19,190.81 crore set off by excess of ₹ 423.78 crore. An amount of ₹ 4,200.96 crore (21.89 *per cent* of savings) was surrendered during the year and out of total surrender, an amount of ₹ 3,938.70 crore (93.76 *per cent*) was surrendered on the last day of the year.

Excess expenditure of ₹ 40,609.66 crore incurred during 2011-18 required regularization. Expenditure of ₹ 3,199.43 crore was incurred without making budget provision. In 59 cases, augmentation of provision of funds by re-appropriation orders proved unnecessary because expenditure did not come even to the level of the budget provisions. Anticipated savings of ₹ 14,989.85 crore were not surrendered leaving no scope for utilizing these funds for other developmental purposes. There was rush of expenditure towards the end of financial year. In nine cases, more than 44 *per cent* of budget provisions was utilized in last month of the year.

## **Chapter III: Financial Reporting**

The State Government has not complied with Indian Government Accounting Standards (IGAS)-2: Accounting and Classification of Grants-in-Aid and (IGAS)-3: Loans and Advances made by Government. Disclosure on loans sanctioned without specific terms and conditions could not be made as the requisite information was not provided by the State Government.

Thirteen utilisation certificates in respect of grants amounting to ₹ 587.80 crore were pending for submission by the Departmental Officers. There was delay in submission of 16 annual accounts by three Autonomous Bodies to Audit; and Separate Audit Reports to the Legislature by six Autonomous Bodies. There were 19 instances of theft, loss and misappropriation involving an amount of ₹ 5.20 crore. As many as 414 Abstract Contingent bills for ₹ 761.53 crore were awaiting adjustment as on 31 March 2018.