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Act 11 of 2003

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Punjab Fiscal Responsibility and Budget Management Act, 2003Punjab Act No. 11 of 2003Statement of Objects and Reasons for enacting the proposed Legislation - The State Government enacted " The Punjab Fiscal Responsibility and Budget Management Act, 2003" to provide for the responsibility of the State Government to ensure fiscal management and long-term financial stability by achieving sufficient revenue surplus, eliminating fiscal deficit and prudent debt management consistent with fiscal sustainability,through limits on the State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and conducting fiscal policy in a medium term framework.The Twelfth Finance Commission has recommended that the Central Loan to States contracted till March 31, 2004 and outstanding on March 31, 2005 may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal instalments) and an interest rate of 7.5% be charged on them. The Government of India have accepted the recommendations of the Twelfth Finance Commission and framed 'The States' Debt Consolidation and Relief Facility' for the period 2005-06 to 2009-10 for implementation of the recommendations of the Commission. The general debt relief comprising consolidation, re schedulement and lowing of interest rate to 7.5% shall be available to the States with effect from the year they enact the Fiscal Responsibility Legislation. The Twelfth Finance Commission has indicated in their recommendations the contents of the Fiscal Responsibility and Budget Management Legislation and has divided them is two parts; core (non- negotiable) and other (recommendatory). The core recommendations which need to be incorporated in the Fiscal Responsibility and Budget Management Legislation are as under :-Eliminating revenue deficit by 2008-09.Reducing fiscal deficit to 3% of GSDP by 2009-10;Bringing annual reduction targets of revenue and fiscal deficits;Bringing out annual statement giving prospects for the State's economy and related fiscal strategy; andBringing out special reports alongwith the budget giving details of number of employees in Government, public sector and aided institutions and related salaries.The State Government is required to amend the Fiscal Responsibility and Budget Management Act, 2003 to access 'The States' Debt Consolidation and Relief Facility' (DCRF) for the period 2005-06 to 2009-10. Under DCRF the Punjab State will get relief of Rs. 351.48 crore in repayment of Central loans and Rs. 523.18 crore on interest payments during the period 2005-06 to 2009- 10.The State Government, therefore, has proposed to amend the Fiscal Responsibility and Budget Management Act, 2003 to make it conform to the recommendations of the Twelfth Finance Commission and a recommendatory recommendation of the Commission in regard 'to bring down the ratio of debt Gross State Domestic Product (GSDP) down to 28% within a period of five years from 2005-06 to 2009-10' in the proposed Amendments to the Act.The Amendment of the Fiscal Responsibility and Budget Management Act, 2003 will make the Punjab State eligible to access the Debt Consolidation and Relief Facility framed by the Government of India on the recommendations of the Twelfth Finance Commission.Published by Punjab Government Notification No. 26-PLA-2005/54, dated October 14, 2005.[Dated 5th May, 2003]No. 13-Legislative/2003. - The following Act of the Legislature of the State of Punjab received the assent of the Governor of Punjab on the 1st May, 2003, and is hereby published for general information :-An Act to provide for the responsibility of the State Government to ensure inter-generational equity in fiscal management and long-term financial stability by achieving sufficient revenue surplus, containing fiscal deficit and prudential debt management consistent with fiscal sustainability through limits on the State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto.Be it enacted by the Legislature of the State of Punjab in the Fifty-fourth Year of the Republic of India as follows :-

1. Short title and commencement.

(1)This Act may be called Punjab Fiscal Responsibility and Budget Management Act, 2003.(2)It shall come into force on such date as the State Government may, by notification in the Official Gazette, appoint in this behalf.

2. Definitions.

- In this Act, unless the context otherwise requires, -(a)"annual budget" means the annual financial statement laid before the Punjab Legislative Assembly under Article 202 of the Constitution of India;(b)["fiscal deficit" means revenue deficit, plus budgetary capital expenditure including net loans advanced, minus other non-debt capital receipts.] [Substituted for 'fiscal deficit' means the excess of expenditure, revenue expenditure and capital expenditure including loans, net of recoveries, over the revenue receipts and non-debt capital receipts.' by Punjab Act No. 1 of 2006.] It is, however, made clear that for the purpose of this definition, off budget borrowings shall be treated as borrowings by the State Government, and the expenditure incurred on subsidies due to the enterprises in the power sector whether paid or not, shall be treated as expenditure by the State Government;(c)"fiscal indicators" means the measures such as numerical ceilings and proportions to gross domestic product, as may be prescribed, for the evaluation of the fiscal position of the State Government;(d)"off budget borrowings" means borrowings by the State Government or its Agencies which are not reflected in the Budget;(e)"prescribed" means prescribed by rules made under this Act;(f)"Reserve Bank" means the Reserve Bank of India constituted under sub- section (1) of Section 3 of the Reserve Bank of India Act, 1934 (Act 2 of 1934);(g)["revenue deficit" means the budgetary revenue receipt, minus budgetary revenue expenditure.] [Substituted for 'revenue deficit' means the difference between revenue expenditure and revenue receipts, which indicates increases in liabilities of the State Government without corresponding increase in assets of the State Government.' by Punjab Act No. 1 of 2006.] It is, however, made clear that for the purpose of calculating revenue deficit, expenditure incurred on subsidies due to the enterprises in the power sector, whether paid or not, shall be treated as expenditure incurred by the State Government;(h)"State Government" means the Government of the State of Punjab in the Department of Finance; and(i)"total liabilities" means the liabilities under the Consolidated Fund of the State and the public account of the State referred to in Article 266 of the Constitution of India.

3. Fiscal policy statement to the laid before the Legislative Assembly.

(1)The State Government shall lay in each financial year before the Punjab Legislative Assembly, the Medium-term Fiscal Policy Statement alongwith the annual budget.(2)The Medium-term Fiscal Policy Statement shall set forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions.(3)In particular and without prejudice to the provisions contained in sub- section (2), the Medium-term Fiscal Policy Statement shall include an assessment of sustainability relating to,-(i)the balance between revenue receipts and revenue expenditures;(ii)the use of capital receipts including market borrowings for generating productive assets;(iii)the evaluation of performance of the prescribed fiscal indicators in the previous year vis-a-vis the targets set out earlier and the likely performance in the current financial year as per the revised estimates; and(iv)the statement on recent economic trends and future prospects for growth and development, affecting the fiscal position of the State Government.(4)The Medium Term Fiscal Policy Statement shall, inter alia contain, -(i)policies of the State Government for the ensuing financial year relating to taxation, expenditure, market borrowings and other liabilities (including off-budget borrowings), lending and investments, pricing of administered goods and services, securities and description of other activities, such as, guarantees and activities of Public Sector Undertakings which have potential budgetary implications;(ii)the strategic priorities of the State Government for the ensuing financial year in the fiscal area; and(iii)the key fiscal measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings.(5)The Medium-term Fiscal Policy Statement shall be in such form, as may be prescribed.

4. Fiscal management principles.

(1)The State Government shall take appropriate measures to eliminate the revenue deficit and contain fiscal deficit.(a)[reduce the fiscal deficit from the financial year 2005-2006 so as to bring it down to three per cent of Gross State Domestic Product (GSDP) by the year 2009-2010; [Clause (a), (b) and (c) substituted by Punjab Act No. 1 of 2006.](b)reduce revenue deficit from the financial year 2005-2006, so as to bring it down to zero by the year 2008-2009 and generate revenue surplus thereafter;(c)attempt to bring the ratio of debt including contingent liabilities to Gross State Domestic Product (GSDP) down to twenty eight per cent within a period of five years from 2005-2006 to 2009-2010; and](d)cap outstanding guarantees on long term debt to eighty per cent of revenue receipts of the previous year guarantees on short term debt to be given only for working capital or food credit in which case this must be fully backed by physical stocks.(3)Subsequent to the announcement of the general elections by the Election Commission of India to the Punjab Legislative Assembly, the leaders of the two largest political parties in the State may request the Secretary of the Department of Finance of the State Government, to prepare approximate expenditure of the publicly announced proposals of either party, with a view to facilitate the public debate.(4)No act, which may lead to increase in the expenditure on Government employees, remission in State revenue or which may result in credit operations based on future revenue, other than the normal open market and other borrowings of the State Government conducted through the Reserve Bank, shall be undertaken within a period of six months before the general elections to the Punjab Legislative Assembly become due.(5)Notwithstanding anything contained in sub-section (2), the revenue deficit and fiscal deficit may be exceeded in the case of unforeseen demands on the finances of the State Government due to calamity declared by the State Government or the Central Government, as the case may be.(6)In case the revenue deficit and fiscal deficit specified in sub-section (2), cannot be met due to aforesaid calamity, the State Government shall identify the net fiscal cost of the calamity, and such cost would provide ceiling for extent of non-compliance to the specified limits.

5. [Measures for fiscal transparency. [Clause (c) and (d) added by Punjab Act No. 1 of 2006.]

(1)The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize, as far as practicable, secrecy in the preparation of the annual budget.(2)In particular, and without prejudice to the generality of the foregoing provision, the State Government shall, at the time of presentation of the annual budget, disclose in a statement, in the Form as may be prescribed, -(a)the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of the prescribed fiscal indicators;(b)as far as practicable and consistent with the protection of public interest, the contingent liabilities created by way of guarantees, all claims and commitments made by the State Government, having potential budgetary implications, including revenue demands raised, but not realized and tax arrears, and liability incurred, but not paid.(c)the annual statement, indicating the prospects for the State's economy and related fiscal strategy; and(d)the special reports along with the budget, indicating the details of number of employees in Government, public sector and Government aided institutions and salaries of such employees.]

6. Measures to enforce compliance.

(1)The Minister-in-charge of the Department of Finance, shall review, after every quarter, the trends in receipts and expenditure in relation to the budget and place before the Punjab Legislative Assembly the outcome of such reviews.(2)In particular, and without prejudice to the generality of the foregoing provisions, the said Minister shall make a statement explaining, -(a)any deviation in meeting the obligations cast on the State Government under this Act;(b)whether such deviation is substantial and relates to the actual or the potential budgetary outcomes; and(c)the remedial measures, the State Government proposes to take.(3)Whenever there is either shortfall in revenue or excess of expenditure over the prescribed levels during any period in a financial year, the State Government shall proportionately curtail the sums, authorized to be paid and applied from and out of the Consolidated Fund of the State under any Act enacted by the Punjab State Legislature to provide for the appropriation of such terms :Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of article 202 of the Constitution.(4)Whenever outstanding guarantees exceed the limits specified in clause (d) of sub-section (2) of section 4, no fresh guarantee shall be given except for the purpose of replacing high cost debt with low cost debt in such a way that there is no net increase in outstanding guarantees after such debt swap.(5)No department of the State Government shall allow any liabilities, which have become due, to remain unpaid for a period of more than three months or to incur fresh liabilities, if previously incurred liabilities, have remained unpaid for a period of more than three months.(6)Any measure proposed in the course of the financial year, which may lead to an increase in revenue deficit, either through enhanced expenditures or loss of revenue, shall be accompanied by remedial measures, which will neutralize such increase or loss and such measures shall be clearly mentioned.(7)The State Government may assigns an independent external agency to carry out the periodic review for the compliance of the provisions of this Act in the manner as may be prescribed.

7. Power to make rules.

(1)The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.(2)In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely :-(a)the fiscal indicators to be prescribed for the purpose of sub- section (2) of section 3 and clause (a) of sub-section (2) of section 5;(b)the form of the Medium-term Fiscal Policy Statement, referred to in sub- section (5) of section 3;(bb)[drawing up of road map to eliminate the revenue deficit and to contain fiscal deficit referred to in sub-section (2) of Section 4.] [Inserted by Punjab Act No. 1 of 2006.](c)the form of statement under sub-section (2) of section 5;(d)the levels referred to in sub-section (3) of section 6;(e)the periodic review by an independent external agency under sub-section (7) of Section 6; and(f)any other matter, which is required to be, or may be, prescribed.(3)Every rule made under this Act, shall be laid, as soon as may be, after it is made, before the House of the State Legislature, while it is session, for a total period of fourteen days, which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session in which it is so laid or the successive sessions as aforesaid, the House agrees, in making any modification in the rules, or the House agrees, that the rules should not be made, the rules shall thereafter have effect only in such modified form or be of no effect, as the case may be, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done or omitted to be done under that rule.

8. Protection of action taken in good faith.

- No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything, which is in good faith done or intended to be done under this Act or the rules made thereunder.

9. Application of other laws not barred.

- The provisions of this Act shall be in addition to, and not in derogation of the provisions of any other law for the time being in force.

10. Power to remove difficulties.

(1)If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act, as may appear to be necessary for removing the difficulty :Provided that no order shall be made under this section after the expiry of a period of two years from the commencement of this Act.(2)Every order made under this section, shall be laid, as soon as may be, after it is made, before the House of the State Legislature.