CHAPTER-I
FINANCES OF THE STATE GOVERNMENT

The State of Himachal Pradesh is considered a special category State[1] because of its mountainous terrain, which has the inherent disadvantage of infrastructure and transaction costs and also calls for relatively higher cost of governance. Despite this, the State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product (GSDP) for the period 2000-01 to 2009-10 has been almost 12 *per cent*. During this period, its population has grown by 10 *per cent* (*Appendix-1*) and the per capita income growth has also been at 10 *per cent* between 2009 and 2010. The Financial Accounts of the State Government are laid out in 19 statements, the structure and layout of which are depicted in *Appendix-1.1.* This chapter provides a broad perspective of the finances of the Government of Himachal Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. *Appendix 1.2* of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and *Appendix-1.3* presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2005-10.

1.1 Summary of Current Year's Fiscal Transactions

Table-1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year while *Appendix-1.4* provides details of receipts and disbursements as well as overall fiscal position during the current year as compared to the previous year.

Table-1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non Plan	Plan	Total
9,308	**Revenue receipts**	**10,346**	**9,438**	**Revenue expenditure**	**9,913[$]**	**1,238**	**11,151[$]**
2,242	Tax revenue	2,574	3,918	General services	4,335	42	4,377
1,756	Non tax revenue	1,784	3,332	Social services	3,307	595	3,902
838	Share of Union Taxes/ Duties	862	2,184	Economic services	2,267	601	2,868[$]
4,472	Grants from Government of India	5,126	4	Grants-in-aid and Contributions	4	-	4
Section-B: Capital							
--	**Misc. Capital Receipts**	**-**	**2,079**	**Capital Outlay**	**48**	**1,895**	**1,943**
21	**Recoveries of Loans and Advances**	**34**	**90**	**Loans and Advances disbursed**	**3**	**67**	**70**
2,249	**Public Debt receipts**	**2,553[$]**	**885**	**Repayment of Public Debt**	**-**	**-**	**867**
--	**Contingency Fund**	**-**	**--**	**Contingency Fund**	**-**	**-**	**-**
6,760	**Public Account receipts**	**6,821**	**5,690**	**Public Account disbursements**	**-**	**-**	**6,421**
823	**Opening Cash Balance**	**979**	**979**	**Closing Cash Balance**	**-**	**-**	**281**
19,161	**Total**	**20,733**	**19,161**	**Total**			**20,733**

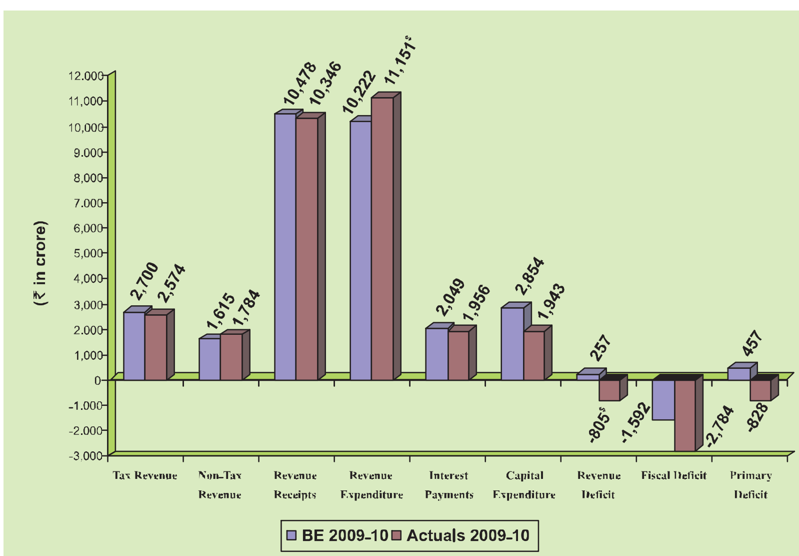
[1] The Special privileges given to Himachal Pradesh include financial assistance from GOI in the ratio of 90 *per cent* grant and 10 *per cent* loan unlike non-special category states which get central aid in the ratio 70 *per cent* grant and 30 *per cent* loan. Besides, significant excise duty concessions persuading industry to relocate/locate manufacturing within its territory are also available.

[$] Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

- Being a special category State 50 *per cent* of the revenue receipts are in the form of grants from GOI. Although revenue receipts in 2009-10 grew by 11 *per cent* over the previous year, revenue expenditure grew by 18 *per cent*.
- State's own tax revenue (OTR) increased in the current year by ₹332 crore (15 *per cent*) over the previous year whereas Non Tax Revenue (NTR) marginally increased by two *per cent*. Increase in OTR was mainly due to collection of more sales/trade taxes, state excise, taxes on vehicles, stamp and registration fee on sale of land/property and passenger and goods taxes, etc.
- Revenue expenditure in the current year increased by ₹1,713 crore (*18 per cent*) over the previous year.
- The revenue deficit increased by ₹675 crore *(519 per cent)* from ₹130 crore in 2008-09 to ₹805[$] crore in 2009-10. Revenue deficit as a percentage of the GSDP in the current year is 1.9 as compared to 0.35 in the previous year. Reasons for the increase in revenue deficit were impact of pay revision arrear payments, pension, increase in Dearness Allowance, enhancement of rates of wages and increased interest payments.
- Repayment of public debt has reduced in the current year due to less borrowing and repayments as per prescribed schedules[2].
- Disbursement of Loans and Advances has reduced by 22 *per cent* over the previous year. This was higher last year due to a one time loan given to Himachal Pradesh State Electricity Board (HPSEB).
- Fiscal deficit in the current year as percentage of GSDP was 6.58 in comparison to 6.17 *per cent* in the previous year.
- Though the opening balance in 2009-10 was higher by 19 *per cent* over the previous year the closing balance decreased by 71 *per cent* in 2009-10.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1: Selected Fiscal Parameters: Budget Estimates vis-a-vis Actuals



Source: Review of receipt and expenditure (December 2009) and Finance Accounts

$ Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

2 As intimated by the Finance Department.

Chart 1.1 depicts that actual tax revenue fell short by ₹126 crore (five *per cent*) and revenue receipts by ₹132 crore against the estimated budget. Revenue expenditure was higher by ₹929 crore (9.09 *per cent*) i.e. ₹11,151[$] crore during 2009-10 against the estimated ₹10,222 crore. *Against the estimation of revenue surplus of ₹257 crore, there was a deficit of ₹805[$] crore during the current year*. Fiscal deficit and primary deficit were ₹2,784 crore and ₹828 crore against the estimated fiscal deficit and primary surplus of ₹1,592 crore and ₹457 crore respectively.

The performance of the State during 2009-10 in terms of key fiscal targets set for selected variables laid down in HPFRBM[3] Act, 2005 as well as projections made in FCP[4] and MTFPS[5] vis-à-vis achievements for 2009-10 are summarised in Table-1.1A below:

Table-1.1A: Key fiscal targets for selected variables

(₹ in crore)

Fiscal forecasts	Projections in FRBM Act/TFC	Projections made by State Government in		Actual	Percentage variation of actual over		
		MTFPS	FCP		TFC[6]	MTFPS	FCP
Own Tax Revenue	2,569	2,700	1,943	2,574	*	4.63	*
Non Tax Revenue	697	1,615	828	1,784	*	*	*
Non-Plan Revenue Expenditure (NPRE)	5,916	9,140	6,437	9,913[$]	*	*	*
Capital Expenditure	---	1,863	1,006	1,943	*	*	*
Revenue Deficit (-) Surplus (+) as per cent of RRs	0.0 (By 2008-09)	(+) 2.45	(-) 9	(-) 7.78	7.78	10.23	*
Fiscal Deficit(-)/ Surplus (+) as per cent of GSDP	3.0 (By 2008-09)	3.54	4.46	(-) 6.58	9.58	10.12	11.04
Consolidated debt (including Guarantees) as *per cent* of GSDP	31 (By 2009-10)	54	74	61	30	7	*
Outstanding guarantees as percentage of the State's RRs of preceding financial year	80	25	68	21	*	*	*

* Targets were achieved.

- Although targets set for attaining the level of revenue and fiscal deficits in HPFRBM Act as well as in MTFPS, FCP and TFC were achieved in 2007-08 (i.e. earlier than timeline of 2008), the State had again gone under revenue and fiscal deficits during 2008-09 and 2009-10. This was due to the continued impact of the general economic slowdown and the counter cyclical fiscal stimulus measures that had to be taken.

- In 2008-09 the State had revenue deficit of ₹130 crore which increased to ₹805[$] crore (519 *per cent*) in the current year. Similarly fiscal deficit also increased by ₹506 crore from ₹2278 crore in 2008 to ₹2784 crore in the current year (i.e. 6.58 *per cent* of GSDP) which is much higher than the projections shown in the above table.

$ Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

3 Himachal Pradesh Fiscal Responsibility and Budget Management.

4 Fiscal Correction Path.

5 Medium Term Fiscal Plan Statement.

6 Twelfth Finance Commission.

- *The consolidated debt of the State which is 61 per cent of GSDP is also higher than the target of 31 per cent laid down by the TFC which was to be achieved by 2009-10.*

- As per recommendation of TFC under Debt Consolidation and Relief Facility (DCRF) there was a debt waiver component. The debt waiver is granted by GOI based on fiscal performance linked to reduction of revenue deficit of States. *It was noticed that the State Government failed to get the benefit of debt waiver of ₹65.75 crore for the financial year 2008-09 and 2009-10 due to non-reduction of revenue deficits as per stipulated norms*. The State Government stated (September 2010) that no such targets were given in debt waiver component. The reply is not acceptable as recommendations of TFC for fiscal consolidation were clear and GOI had also formulated a scheme of DCRF for 2006-10.

Commitments made in the Budget Speech 2009-10

In budget speech Finance Minister had made the following commitment for fiscal consolidation in the year 2009-10:

- Stock of borrowings to be restricted to ₹23000 crore (i.e. after net additional borrowings estimated at about ₹1500 crore in 2009-10);
- The GSDP at current prices to increase from ₹36940 crore in 2008-09 to more than ₹45000 crore;
- Per capita income to be more than ₹50000 against estimated per capita income of ₹44803 for 2008-09.

However, at the close of financial year 2009-10 outstanding borrowings of the State increased by ₹713 crore and stood at ₹23713 crore whereas GSDP remained at ₹42278 crore. The level of per capita income remained at ₹49211 and was also not achieved to the desired level but was close to the target.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams[7] of receipts that constitute the resources of the State Government.

Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart 1.2 depicts the trends in various components of the receipts of the State during 2005-10. Chart 1.3 depicts the composition of resources of the State during the current year.

[7] **Revenue receipts:** These includes own tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from GOI.

Capital receipts: These comprise proceeds from disinvestment recovery of loans and advances, debt receipt from internal sources i.e. market loan, borrowings from financial institutions/commercial banks and loans and advances from GOI as well as accrual from public account.

Chart 1.2: Trends in Receipts

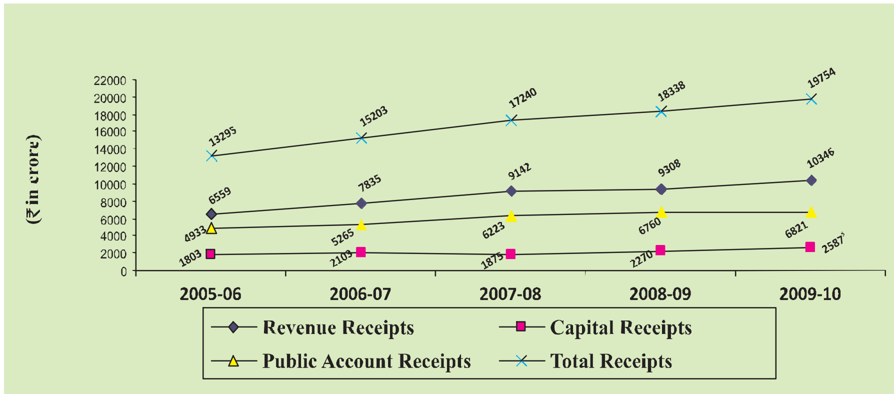
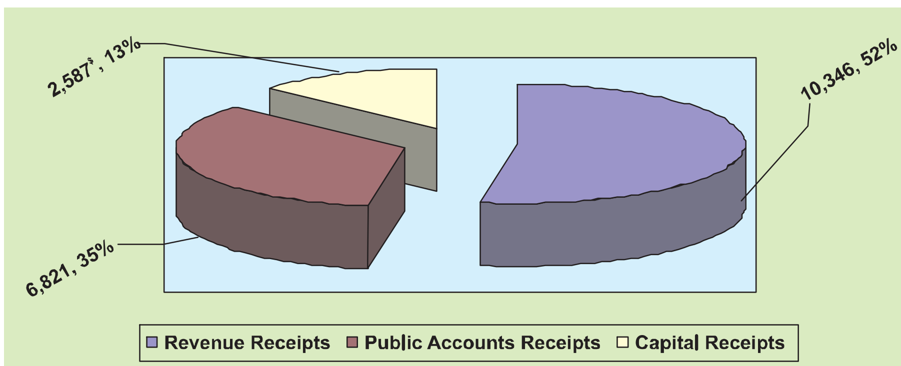


Chart 1.3: Composition of Receipts during 2009-10



The above charts show that the total receipts of the State Government increased by eight *per cent* from ₹18,338 crore to ₹19,754$ crore in 2009-10 over the previous year. Of which, 52 *per cent* (₹10,346 crore) came from revenue receipts, the balance 48 *per cent* from borrowings (13 *per cent*) and Public Account (35 *per cent*). The share of Revenue receipts in the total receipts of the State increased from 49 *per cent* in 2005-06 to 52 *per cent* in 2009-10. On the other hand, the Capital receipts (market borrowings and special securities issued to NSSF) together with Public account receipts ranged between 47 and 51 *per cent* of total receipts during 2005-10. Revenue receipts increased steadily by 58 *per cent* from ₹6,559 crore in 2005-06 to ₹10,346 crore in 2009-10, whereas the debt Capital receipts increased from ₹1,803 crore (14 *per cent* of total receipts) in 2005-06 to ₹2,587$ crore (13 *per cent* of total receipts) in 2009-10[8]. Public account receipts increased steadily from ₹4,933 crore in 2005-06 to ₹6,821 crore in 2009-10 ranging between 35 and 37 *per cent* of total receipts.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[9] for the implementation of various schemes/ programmes in social and

$ Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

8 In 2006-07: Debt Capital Receipts were ₹2103 crore; 2007-08: ₹1875 crore and 2008-09 ₹2270 crore.

9 State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM, etc.

economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. During 2009-10, the Government of India has transferred an approximate amount of ₹923.48 crore directly to State Implementing Agencies (detailed in *Appendix-1.5*). Significant amounts given to the major programmes/ schemes are presented in Table 1.2.

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Name of the Programme/Scheme	Name of the Implementing Agency in the State	Total fund released by the Government of India during 2009-10
1.	Sarva Siksha Abhiyan (SSA)	Mission Director, SSA	86.08
2.	National Rural Employment Guarantee Scheme (NREGA)	Project Director, District Rural Development Agency	395.43
3.	Indira Awas Yojana (IAY)	Project Director, District Rural Development Agency	18.64
4.	Accelerated Rural Water Supply Programme (ARWSP)	Engineer-in-Chief	127.82
5.	Pradhan Mantri Gram Sadak Yojana	Engineer-in-Chief	53.96
6.	Integrated Watershed Management Programme	Project Director, District Rural Development Agency	35.61
	Total		**717.54**

Source: Central Plan Scheme Monitoring System of CGA's website

Table 1.2 shows that an amount of ₹395.43 crore (43 *per cent* of the total funds transferred) was given for National Rural Employment Guarantee Programme, ₹127.82 crore (14 *per cent*) for Accelerated Rural Water Supply Programme (ARWSP) and ₹86.08 crore (nine *per cent*) for Sarva Siksha Abhiyan. Thus, with the transfer of ₹923.48 crore during 2009-10 directly by GOI to the State Implementing Agencies, the total availability of State resources increased from ₹19,754 crore to ₹20,677 crore. It is evident from the above that there is no single agency monitoring the funds directly transferred by the GOI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State Implementing agencies and funded directly by the GOI and therefore, utilization of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

Mahatama Gandhi National Rural Employment Guarantee Act (MNREGA): The GOI released ₹395.43 crore under MNREGA to the State Implementing Agency (Rural Development Department) during 2009-10 which was also confirmed by the Agency but ₹19.93 crore was accounted for during 2010-11 due to its receipt in April 2010.

Accelerated Rural Water Supply Programme: Under Accelerated Rural Water Supply Programme (ARWSP) ₹127.82 crore was released to the State Implementing Agency (Irrigation and Public Health Department) by GOI during 2009-10 but the SIA confirmed receipt of ₹123.19 crore only from GOI and showed pending release of ₹15.33 crore for the year 2009-10. Thus, there was a difference of ₹10.70 crore which needs reconciliation between funds sanctioned and released by GOI.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and NTRs, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in *Appendix 1.3* and also depicted in Chart 1.4 and 1.5 respectively.

Chart 1.4: Trends in Revenue Receipts

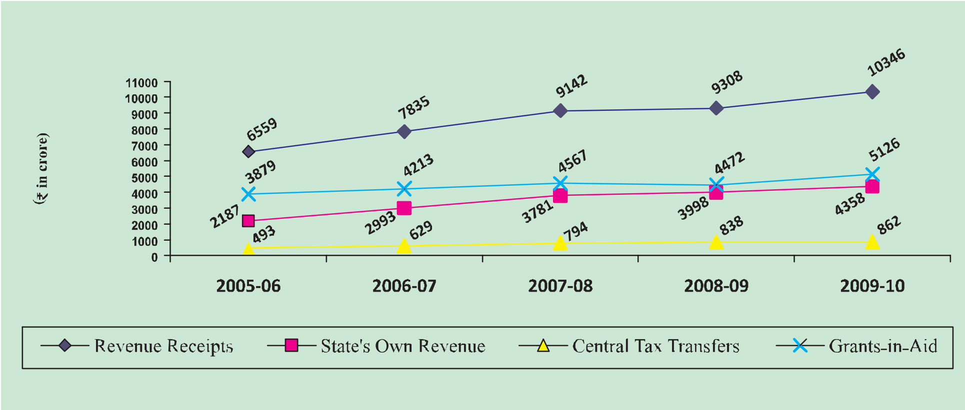
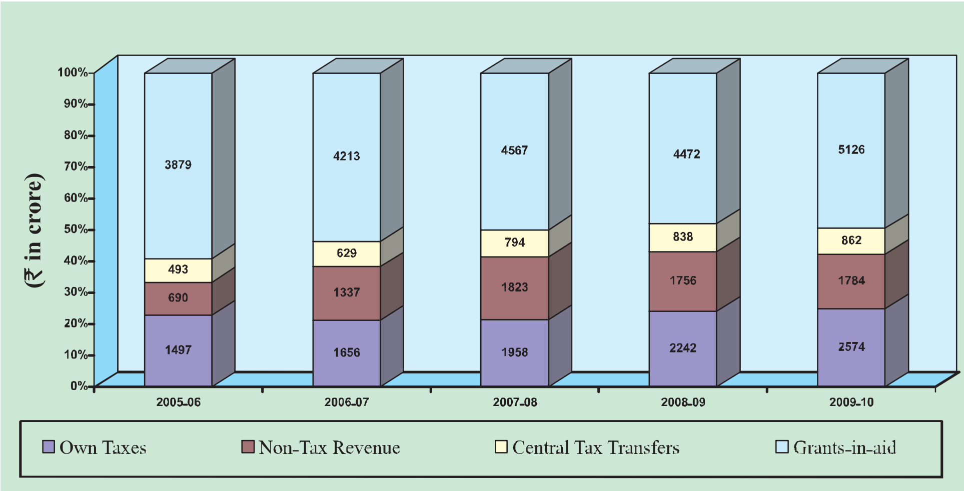


Chart 1.5: The composition of Revenue Receipts during 2005-10



Revenue receipts steadily increased from ₹6,559 crore in 2005-06 to ₹9,308 crore in 2008-09 at an annual average rate of 20 *per cent* but during 2009-10 it recorded increase of 11.15 *per cent*. The share of NTR and grants-in-aid from GOI exhibited increase of two *per cent* and 15 *per cent* respectively over the previous year.

While 42 *per cent* of the revenue receipts during 2009-10 have come from the State's own resources comprising taxes and non-taxes, the remaining 58 *per cent* were contributed by Central transfers comprising the State's share in Central taxes and duties (eight *per cent*) and grants-in-aid from GOI (50 *per cent*).

Central Tax transfers: Central tax transfers increased by ₹24 crore from ₹838 crore in 2008-09 to ₹862 crore in 2009-10 and constituted eight *per cent* of the revenue receipts during the year. The increase was due to increase in Corporation tax (₹80 crore) and taxes on income other than corporation tax (₹25 crore) which was counterbalanced by decrease in custom (₹40 crore) and union excise duties (₹43 crore).

Grants-in-aid: Grants-in-aid from the GOI increased by ₹654 crore from ₹4,472 crore in 2008-09 to ₹5,126 crore in 2009-10.

The trends in revenue receipts relative to GSDP are presented in Table 1.3 below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	**6,559**	**7,835**	**9,142**	**9,308**	**10,346**
Rate of growth of RR (*per cent*)	41.51	19.45	16.68	1.82	11.15
RR/GSDP (*per cent*)	25.54	27.40	28.37	25.21	24.47
Buoyancy Ratios[10]					
Revenue Buoyancy w.r.t GSDP	3.657	1.720	1.313	0.124	0.769
State's Own Tax Buoyancy w.r.t GSDP	1.72	0.94	1.44	0.99	1.02

Revenue receipts of the State increased from ₹6,559 crore in 2005-06 to ₹10,346 crore in 2009-10 at an average rate of 18.12 *per cent*. There was consistent decline in the growth rates during 2005-10 from 41.51 *per cent* in 2005-06 to 11.15 *per cent* in 2009-10 with sharp decline (1.82 *per cent*) noticed in 2008-09 due to decrease in NTR and grants received from GOI. Besides this, buoyancy ratio of revenue and State's own taxes with reference to GSDP increased from 0.12 to 0.77 and from 0.99 to 1.02 respectively during 2009-10 over the previous year. For every one *per cent* increase in GSDP, revenue increased by 0.8 *per cent* indicating that tax efforts need to be stepped up in the State. The State's own tax buoyancy with respect to GSDP was higher than revenue buoyancy because NTR as a percentage of GSDP has come down from 4.76 *per cent* in 2008-09 to 4.22 *per cent* in the current year.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes, etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

Tax revenue of the State increased from ₹1,497 crore in 2005-06 to ₹2,574 crore in 2009-10 at an annual average rate of 16 *per cent*. The major contributors in the State's own tax during 2009-10 are taxes on Sales, Trades, etc.: ₹1,487 crore (58 *per cent* of tax revenue), State Excise: ₹500 crore (19 *per cent* of tax revenue), taxes on vehicles: ₹134 crore (five *per cent* of tax revenue), Stamps and Registration fees: ₹113 crore (four *per cent* of tax revenue) and taxes on goods and passengers: ₹89 crore (three *per cent*

[10] 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 at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

of tax revenue). Collection of Sales tax, trade, etc. and State excise increased by ₹241 crore and ₹68 crore respectively in 2009-10 over the previous year.

Non-tax revenue

Non-tax revenue on the other hand showed consistent increase from ₹690 crore in 2005-06 to ₹1,823 crore in 2007-08 at an annual average rate of 48 *per cent* but decreased during 2008-09 to ₹1,756 crore by (four *per cent). H*owever, during 2009-10 it further increased to ₹1,784 crore (two *per cent*) over the previous year. The major contributors in State's NTR during 2009-10 were power sector: ₹1,215 crore (68 *per cent* of NTR), interest receipts, dividends and profits: ₹150 crore (8 *per cent* of NTR). Although these were major contributors to non tax revenue (NTR) in 2009-10, it showed a decline in power sector and interest, dividends and profits by ₹40 crore and ₹18 crore respectively over the previous year.

The actual realisation of State's own taxes (₹2574 crore) was less by five *per cent* and NTR (₹1784 crore) was higher by 10 *per cent* than the projections made in MTFPS (₹2700 crore and ₹1,615 crore) respectively. The State's own tax/NTR were higher by 0.2 *per cent* and 156 *per cent* than the projection made in the TFC (₹2,569 crore and ₹697 crore) and higher by 32 *per cent* and 115 *per cent* than the projection made in the FCP (₹1,943 crore and ₹828 crore) respectively (*Appendix-1.2*).

The current level of cost recovery (revenue receipts as percentage of revenue expenditure) in supply of goods and services is depicted in the following table:

Table 1.4: Current level of cost recovery

(₹ in crore)

Sl. No.	Departments	2005-06			2009-10		
		Receipt	Expenditure	Percentage	Receipt	Expenditure	Percentage
1.	Health and Family Welfare	5.37	344.84	1.56	5.90	609.68	0.97
2.	Minor Irrigation	0.54	84.14	0.64	0.80	208.47	0.38
3.	Secondary Education	33.40	443.28	7.53	3.85	638.04	0.60
4.	University & Higher Education	2.78	72.72	3.82	4.46	137.88	3.23
5.	Power	251.47	120.68	208.38	1214.80	185.33*	655.48
6.	Road Transport	0.02	51.93	0.04	0.04	58.48	0.07

Source: Finance Accounts

A look at the expenditure-receipt ratio for major departments of the State indicate that between 2005-06 and 2009-10 in all the above departments, the situation has deteriorated because the expenditure has drastically increased whereas the receipt has only increased marginally except under power.

1.3.2 Loss of Revenue due to Evasion of Taxes, Write Off/waivers, Refunds and Revenue arrears

The Excise and Taxation Department despite making numerous requests did not provide details of cases pending, detected, penalty raised in respect of Sales Tax, State Excise, Passenger and goods Tax and analysis of arrears of Revenue.

* Includes an amount of ₹21.07 crore now correctly classified to Major Head 6003- Internal Debt of the State Government to rectify the misclassification of loans of previous years.

Refunds: The number of refund cases pending at the beginning of the year 2009-10, claims received, refunds allowed during the year in the Excise and Taxation Department are detailed below:

Table 1.5: Refund cases outstanding

(₹ in crore)

Sr. No.	Particulars	Sales tax		State Excise	
		Number of cases	Amount	Number of cases	Amount
1.	Claims outstanding at the beginning of the year	23	0.61	0	0
2.	Claims received during the year	17	0.92	5	0.17
3.	Refunds made during the year	23	0.73	4	0.06
4.	Balance outstanding at the end of the year	17	0.80	1	0.11

Source: Departmental figures

Cost of collection

Expenditure on collection of taxes on Sales, Trade was ₹15.06 crore, State Excise ₹5.06 crore, Taxes on Vehicles, Goods and Passengers ₹2.53 crore and Stamp Duty and Registration Fee ₹1.02 crore during 2009-10. Percentage of expenditure to gross collection was 1.01, 1.01, 1.14 and 0.90 respectively. Percentage of expenditure to gross collection in the State was below the all India average except in the case of Taxes on Sales, trade etc. which was 0.13 per cent higher than the all India average percentage of collection for the year 2009-10. Efforts need be taken to reduce the expenditure in order to at least achieve the all India average.

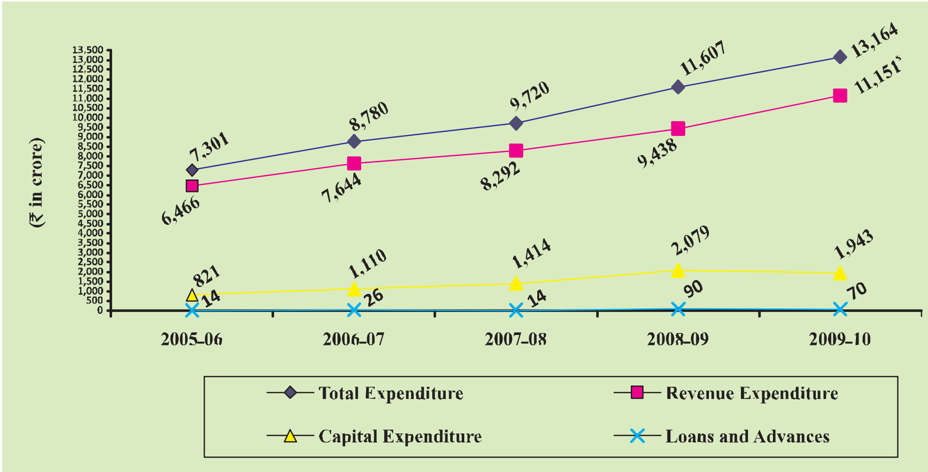
1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in Charts 1.7 and 1.8.

Chart 1.6: Total Expenditure: Trends and Composition



- The total expenditure[11] of the State increased from ₹7,301 crore in 2005-06 to ₹13,164 crore in 2009-10 at an annual average rate of 15 *per cent* and increased by 13 *per cent* (₹1,557 crore) in 2009-10 over the previous year. The increase of ₹1,557 crore in total expenditure during 2009-10 over the previous year was due to increase in revenue expenditure by ₹1,713 crore whereas capital expenditure and disbursements of loans and advances decreased by ₹136 crore and ₹20 crore respectively.

- Revenue expenditure increased from ₹6,466 crore in 2005-06 to ₹11,151[$] crore in 2009-10 at an annual average rate of 14 *per cent*. The increase in revenue expenditure during 2009-10 over the previous year was mainly due to expenditure on Education, Sports, Art and Culture (₹350 crore), Water Supply, Sanitation, Housing and Urban Development (₹51 crore), Health and Family Welfare (₹128 crore), Social Welfare and Nutrition (₹31.98 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹4.93 crore) in Social sector and Agriculture and Allied activities (₹354.51 crore), Transport (₹201.85 crore), Energy (₹80.75* crore), Rural Development (₹27.86 crore), Irrigation and Flood Control (₹17.87 crore) in Economic Sector.

- *Capital expenditure increased from ₹821 crore in 2005-06 to ₹2,079 crore in 2008-09 at an annual average rate of 34 per cent but decreased during 2009-10 by ₹136 crore (seven per cent) over the previous year.* No specific norms for prioritisation of capital expenditure have been laid down in FRBM Act. Water Supply and Sanitation, Housing and Urban Development (₹308.90 crore), Education (₹157.46 crore) in Social sector and Transport (₹588.98 crore), Irrigation and Flood Control (₹287.77 crore) and Power

[$] Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

[11] Statements 12 and 13 of the Finance Accounts depict the detailed revenue expenditure and capital expenditure by minor heads respectively. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations.

* Includes an amount of ₹21.07 crore now correctly classified to Major Head 6003- Internal Debt of the State Government to rectify the misclassification of loans of previous years.

Projects (₹210.61 crore) in Economic sector were the beneficiary sectors where capital expenditure was made. Loans and advances constituted ₹70 crore (0.53 *per cent*) of the total expenditure which was less by ₹20 crore over the previous year.

1.4.2 Trends in Total Expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure are indicated in charts 1.7 and 1.8 respectively.

Chart 1.7: Total Expenditure : Trends in share of its components

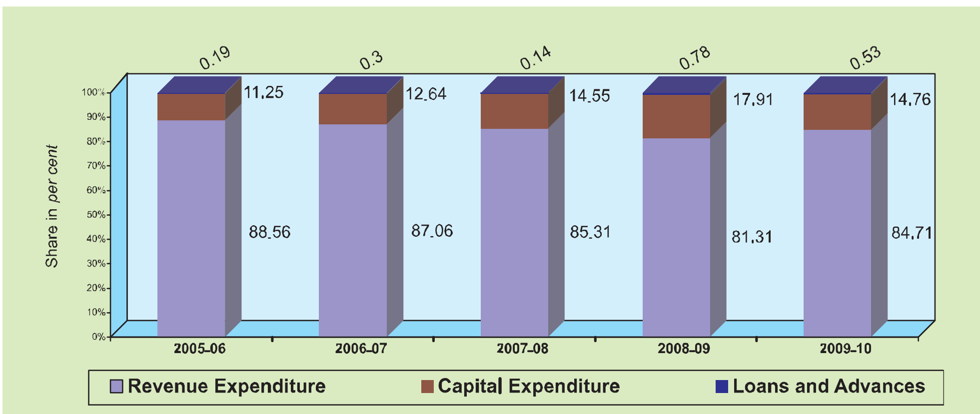
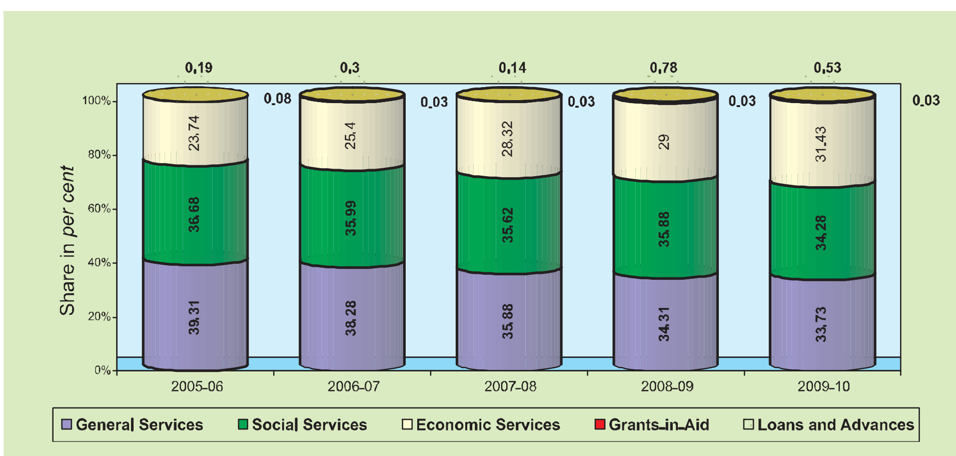


Chart 1.8: Total Expenditure : Trends by 'Activities'



The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental, together consistently decreased from 39.31 *per cent* in 2005-06 to 33.73 *per cent* in 2009-10. On the other hand, developmental expenditure i.e. on Social and Economic Services together accounted for 66 *per cent* in 2009-10 as against 65 *per cent* in 2008-09. The marginal increase in share of Economic Services and Social Services was mainly on account of increase in expenditure on General Education (₹344 crore), Transport (₹202 crore) and Agriculture and Allied Activities (₹354.51 crore).

1.4.3 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. It is incurred to maintain the current level of services and payments, for the past obligations, and, as such, does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Appendix-1.3. Non-plan revenue expenditure (NPRE) increased from ₹5,284 crore in 2005-06 to ₹9,913[$] crore in 2009-10 at an annual average rate of 16 *per cent* and the Plan Revenue Expenditure (PRE) increased from ₹877 crore in 2008-09 to ₹1,238 crore in 2009-10. The break up of total expenditure during 2009-10 in terms of Plan and Non-Plan expenditure reveals that Non-Plan expenditure contributed a dominant share of ₹9,964[$] crore (76 *per cent* of the total expenditure) while the remaining ₹3,200 crore (24 *per cent)* was in the form of plan expenditure.

The revenue expenditure increased by 18 *per cent* from ₹9,438 crore in 2008-09 to ₹11,151[$] crore in 2009-10. The NPRE has shown an inter year variation at an average rate of 15.61 *per cent* over the periods 2005-10 and continued to share a dominant proportion varying in the range of 82-91 *per cent* of the revenue expenditure. The increase in NPRE by ₹1,352 crore during the current year was mainly due to increase in Education (₹288 crore), Interest payments (₹62 crore), pension (₹194 crore), salaries and wages (₹832 crore) and assistance to Local Bodies (₹136 crore).

The ratio of NPRE to GSDP increased from 20.57 *per cent* to 23.45 *per cent* during 2005-10. The buoyancy of revenue expenditure to NPRE decreased from 1.19 *per cent* in 2005-06 to 0.67 *per cent* in 2008-09, but increased to 1.15 *per cent* in 2009-10 while with reference to Revenue Receipts it decreased from 7.59 in 2008-09 to 1.63 in 2009-10. In other words, in 2009-10 for every one *per cent* increase in Revenue receipt, NPRE increased by 1.63 *per cent*. The NPRE not only exceeded the assessment made by the State Government in FCP (₹6,437 crore) and MTFPS (₹9,140 crore), but also exceeded the normative assessment made by TFC (₹5,916 crore) by ₹3,997 crore (68 *per cent*) for 2009-10.

The PRE on the other hand has displayed fluctuations varying from 20.86 *per cent* in 2005-06 and decreased to 12.10 *per cent* in 2006-07, which turned negative (9.28 *per cent*) in 2007-08 and (27.04 *per cent*) during 2008-09. However, it increased by ₹361 crore and recorded increase of 41.16 *per cent* during 2009-10 over the previous year.

1.4.4 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table 1.6 and Chart 1.9 present the trends in the expenditure on these components during 2005-10 and 2007-10 respectively.

[$] Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

Table-1.6: Components of Committed Expenditure

(₹ in crore)

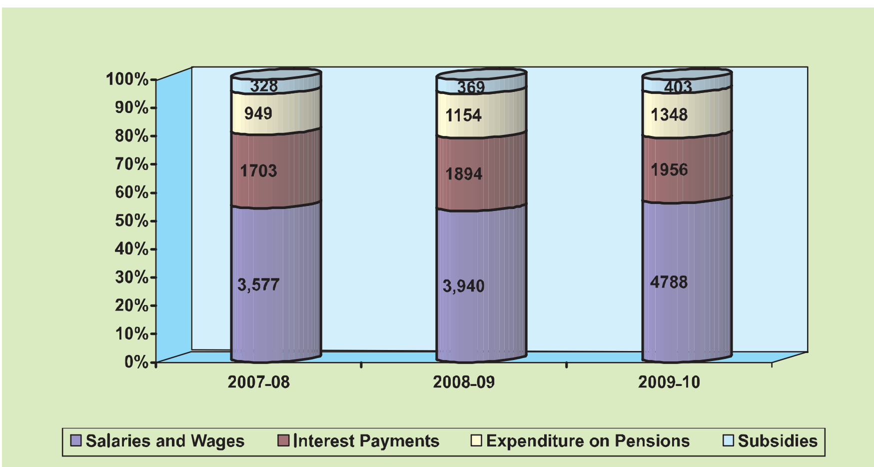
Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries & Wages , *Of which*	2,515 (38)	3,057 (39)	3,577 (39)	3,940 (42)	3,881	4,788 (46)
Non-Plan Head	2,115 (32)	2,577 (33)	3,173 (35)	3,813 (41)	-	4,645 (45)
Plan Head*	400 (6)	480 (6)	404 (4)	127 (1)	-	143 (1)
Interest Payments	1,563 (24)	1,669 (21)	1,703 (17)	1,894 (20)	2,053	1,956 (19)
Expenditure on Pensions	670 (10)	912 (12)	949 (10)	1,154 (12)	1,299	1,348 (13)
Subsidies	142 (2)	343 (4)	328 (4)	369 (4)	347	403 (4)
Total	**4,890**	**5,981**	**6,557**	**7,357**		**8,495**

Source: Accountant General (Accounts & Entitlement) office

Figures in the parentheses indicate percentage to Revenue Receipts.

**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.*

Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2007-10 (Value in labels in ₹ crore)



The expenditure on salaries and wages alone accounted for more than 46 *per cent* of revenue receipts of the State during 2009-10. It increased by about 22 *per cent* from ₹3,940 crore in 2008-09 to ₹4,788 crore in 2009-10. Salary expenditure under Non-plan head during 2009-10 increased by ₹832 crore (22 *per cent*) over the previous year whereas the salary expenditure on plan head increased by ₹16 crore (12.6 *per cent*) over the previous year. Non-plan salary expenditure ranged between 84.10 and 97.01 *per cent* of total expenditure on salaries during 2005-10. *The salary expenditure during the current year exceeded the projections made in MTFPS (₹3,748 crore) and the FCP (₹2,811 crore). The salary expenditure is 61 per cent of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 per cent recommended by the TFC requiring attention of the State Government.*

- **Pension Payments**

The expenditure on pension payments increased by 101 *per cent* from ₹670 crore in 2005-06 to ₹1,348 crore in 2009-10 and by ₹194 crore during the current year, recording a growth rate of 17 *per cent* over the previous year. Pension payments accounted for nearly 13 *per cent* of revenue receipts of the State during 2009-10. The actual expenditure on pension payments for the current year exceeded the projections made in the TFC (₹1,065 crore), FCP (₹880 crore) and MTFPS (₹1,299 crore).

- **Interest Payments**

The interest payments increased by 25 *per cent* from ₹1,563 crore in 2005-06 to ₹1,956 crore in 2009-10 and by ₹62 crore during the current year, recording a growth rate of three *per cent* over the previous year. The major source of borrowings is market loans at interest rates varying from five to 13.99 *per cent*. Interest payments exceeded the TFC projections (₹1,752 crore) for the year 2009-10. *The interest payments relative to revenue receipts which at 19 per cent, was higher than the norms of 15 per cent as recommended by TFC to be achieved during the award period*.

- **Subsidies**

The State Government has been paying subsidies to various institutions/bodies/Corporations, etc. The subsidies increased by 184 *per cent* from ₹142 crore in 2005-06 to ₹403 crore in 2009-10 and by nine *per cent* over the previous year and constituted about four *per cent* and three *per cent* of the revenue receipts and total expenditure respectively. The major components of subsidies were food and supply items (₹116 crore); transport (₹51 crore) and electricity (₹140 crore). The subsidy at ₹403 crore in 2009-10 was higher than the projections made both in FCP (₹186 crore) and MTFPS (₹347 crore).

1.4.5 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in Table 1.7.

Table 1.7: Financial Assistance to Local Bodies, etc.

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	132.81	117.50	176.49	203.49	231.14
Municipal Corporation and Municipalities	32.68	46.74	70.66	82.46	115.92
Zila Parishads and other Panchayati Raj Institutions	70.08	100.58	134.13	188.45	217.92
Development Agencies	112.10	93.44	37.74	44.45	48.61
Hospitals and other charitable Institutions	0.40	0.12	0.10	4.85	41.25
Other Institutions[12]	31.56	41.11	47.65	58.55	63.25
Total	**379.63**	**399.49**	**466.77**	**582.25**	**718.09**
Assistance as per percentage of Revenue Expenditure	5.87	5.23	5.63	6.17	6.44

Source: Accountant General (Accounts & Entitlement) office

[12] Other institutions include those institutions, which received ad hoc or one time grants during the year.

The grants extended to local bodies and other institutions consistently showed an increasing trend over the years 2005-10. It increased by ₹136 crore (23 *per cent*) during current year over the previous year. The share of grants in revenue expenditure indicated increasing trend ranging between 5.23 *per cent* and 6.44 *per cent* during the period 2006-10. Another important trend emerging from Table-1.7 is that the share of other institutions has consistently increased from ₹31.56 crore in 2005-06 to ₹63.25 crore in 2009-10 indicating that huge financial assistance is being given on *ad hoc* basis to various State Government institutions. The sharp increase under different components during 2009-10 was mainly due to release of more grant to Municipal Corporation/Municipalities (₹33.46 crore), Educational Institutions (₹27.65 crore) and Zila Parishads and Panchayati Raj Institutions (₹29.47 crore).

1.5 Quality of Expenditure

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

1.5.1 Adequacy of Public Expenditure

Table 1.8 analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year, which is the terminal year of the TFC and 2005-06 which is the first year of the award period.

Table-1.8: Fiscal Priority of the State during 2005-06 and 2009-10

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
Himachal Pradesh' Average (Ratio) 2005-06	28.42	60.46	36.68	11.25
Himachal Pradesh' Average (Ratio) 2009-10	31.13	66.20	34.28	14.76

* As per cent to GSDP

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure.

\# Development expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed

Source: (1) for GSDP, the information was collected from the State's Directorate of Economics and Statistics

Fiscal priority refers to the priority given to a particular category of expenditure by the State. On comparing expenditure patterns of Himachal Pradesh in 2009-10 with what it was in 2005-06 it was found that:

- The Government spent a larger proportion of GSDP on Aggregate expenditure (AE) primarily due to the impact of the Pay Commission;
- Development expenditure (DE)[13] as a proportion of AE increased by almost six per cent. The increase in expenditure was mainly on Economic Services, since the proportion of expenditure of SSE actually fell by two *per cent*.
- The proportion of Capital Expenditure (CE) increased by four *per cent.*

[13] DE=SSE+ES.

The above table indicates that due priority was given to development and capital expenditure. However, unless the financial outlays are translated into physical assets, the outcome cannot be assessed.

1.5.2 Efficiency of Expenditure Use

Table 1.9: Efficiency of expenditure use in selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2005-06			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	0.03	0.86	-	0.07	0.86	--
Health and Family Welfare	0.12	0.82	0	0.10	0.83	--
WS, Sanitation, & Housing and Urban Development	0.38	0.23	0.74	0.33	0.47	0.31
Total (SS)	**0.15**	**0.72**	**0.16**	**0.14**	**0.78**	**0.06**
Economic Services (ES)						
Agriculture & Allied Activities	0.02	0.52	0.01	0.06	0.39	0.00
Irrigation and Flood Control	0.54	0.51	0.61	0.57	0.73	0.46
Energy (Power)	0	0.01	-	0.53	0.01	--
Transport	0.40	0.58	0.28	0.39	0.61	0.66
Total (ES)	**0.35**	**0.48**	**0.16**	**0.32**	**0.47**	**0.31**
Total (SS+ES)	**0.19**	**0.63**	**0.16**	**0.23**	**0.65**	**0.16**

Source: Finance Accounts and Accountant General (Accounts & Entitlement) office
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance

The ratio of capital expenditure to total expenditure in Social sector decreased to 0.14 in 2009-10 from 0.15 in 2005-06. In case of General Education, the ratio of CE to TE increased from 0.03 in 2005-06 to 0.07 in 2009-10 whereas in Health & Family Welfare it decreased to 0.10 in 2009-10 from 0.12 in 2005-06 and Water Supply, Sanitation & Housing and Urban Development decreased to 0.33 from 0.38 meaning thereby less priority was given to capital expenditure in 2009-10. Similarly, ratio of CE to TE in economic sector decreased from 0.35 in 2005-06 to 0.32 in 2009-10. In 2005-06 no capital expenditure was incurred in power sector whereas in 2009-10; its ratio was 0.53. The ratio of CE to TE increased in Irrigation and Flood Control from 0.54 to 0.57 and in Agriculture & Allied Activities from 0.02 to 0.06 during this period. In water supply, Sanitation and Urban Development the ratio of salary and wages increased from 0.23 in 2005-06 to 0.47 in 2009-10, in Irrigation and Flood Control from 0.51 to 0.73. In water supply, Sanitation and Urban Development the ratio of O and M decreased from 0.74 in 2005-06 to 0.31 in 2009-10, in Irrigation and Flood Control from 0.61 to 0.46. However, in transport sector it increased from 0.28 to 0.66.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

As per data available from Government sources *(Appendix-I)*, Himachal Pradesh has fared relatively better as compared to other States as far as number of people below poverty line and literacy rate is concerned. However, in order to ensure effectiveness in public expenditure, the State will have to improve the delivery mechanism to achieve the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. A performance audit pertaining to the Economic Services sector was taken up and the audit findings are contained in the Civil Audit Report 2009-10, which is being presented separately to the State Legislature. The main highlights of the audit is as under:

Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

The Government of India (GOI) launched a scheme namely Mahatma Gandhi National Rural Employment Guarantee Act from February 2006. The basic objective of the Act is to provide 100 days guaranteed employment in a financial year to every household whose adult members volunteered to do unskilled manual work at the minimum wage rate. The performance audit covered the period 2005-10. Performance audit of the scheme revealed that during 2005-10, the State Government generated 617.70 lakh persondays of employment by spending ₹1,039.63 crore and benefiting 4.97 lakh (cumulative number) rural households in the State. There were deficiencies in the planning process, particularly in the preparation of five year District Perspective Plans (DPPs). Works were not taken up in order of priority and rural connectivity which was at the bottom in the priority list was given top priority. This resulted in non-execution of adequate number of works such as drought proofing, afforestation and soil conservation for addressing the chronic cause of poverty and strengthening the natural resource base of rural livelihood. Wages of ₹97.45 lakh were paid to workers with delays ranging from 15 to 90 days after the prescribed period of a fortnight. The Status of inspection of works at State, District and Block levels was poor and the State Government had not designated any State and District Quality Monitors for ensuring quality audit of works as of June 2010. Besides, monitoring at high level by the State Employment Guarantee Council was also found deficient.

1.6 Financial Analysis of Government Expenditure and Investments

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

1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2010 is given in Table 1.10.

Table-1.10: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	Number of incomplete Projects	Initial budgeted cost	Revised Total Cost of Projects*	Cumulative actual expenditure as on 31.03.2010	Cost overrun
1.	2.	3.	4.	5.	6 (5-3)
Irrigation and Public Health	19	54.47	111.24	97.47	43.00
Public Works	10	16.91	-	10.62	-
Total:	**29**	**71.38**	**111.24**	**108.09**	**36.71**

Source: Finance Accounts

* *Indicates the revised total cost of the projects as per the last revision by the State Government.*

Details of incomplete projects pertaining to Irrigation and Public Health and Public Works departments are presented in Table-1.10. In respect of 14 incomplete projects, revised costs of which are available, the cost overrun was ₹37 crore. An analysis of the delays revealed time overruns ranging between three months to 11 years. These projects were lying incomplete due to non availability of land, paucity of funds, court cases, non release of supply of power, etc.

Efforts needs to be taken to sort out the pending issues and complete the projects expeditiously in order to avoid further time and cost overruns and also to ensure that the envisaged benefits accrue to the intended beneficiaries at the earliest.

1.6.2 Investment and returns

No norms for investments have been prescribed by the State Government. As on 31 March 2010, Government had invested ₹2,663 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (Table 1.11). *The average return on this investment was 1.65 per cent in the last five years while the Government paid an average interest rate of 9.1 per cent on its borrowings during 2005-10.*

Table-1.11: Return on Investment

(₹ in crore)

Investment/ Return/ cost of Borrowing	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year	1,842	1,861	2,033	2,369	2663
Return	28.61	1.80	0.52	89.58	73.49
Return *(per cent)*	1.55	0.10	0.03	3.78	2.76
Average rate of interest on Government borrowings *(per cent)*	9.20	9.40	9.09	9.19	8.59
Difference between interest rate and return *(per cent)*	7.65	9.30	9.06	5.41	5.83

Major investments were made in six Statutory Corporations/Boards (₹839.35 crore), 21 Government Companies (₹702.16 crore) and a Central PSU Himachal Pradesh Satluj Jal Vidyut Nigam (₹1043.90 crore). The two Statutory Corporations/Boards had incurred accumulated loss of ₹742.59 crore (Himachal Pradesh Road Transport Corporation: ₹512.23 crore and Himachal Pradesh

State Electricity Board: (₹230.36 crore) at the end of March 2010. The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2010 were, Himachal Pradesh Agro-Industrial Packaging India Limited (₹74.57 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹46.33 crore), Himachal Pradesh State Forest Development Corporation (₹50.54 crore) and Himachal Pradesh Handicrafts and Handloom Corporation Limited (₹17.98 crore).

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government had also been providing loans and advances to many of these institutions/ organisations. Table 1.12 presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last three years.

Table-1.12: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	**2007-08**	**2008-09**	**2009-10**
Opening Balance	236.96	224.85	293.49
Amount advanced during the year	13.94	89.61	69.67
Amount repaid during the year	26.05	20.97	33.85
Closing Balance	**224.85**	**293.49**	**329.31**
Of which Outstanding balance for which terms and conditions have been settled	--	--	--
Net addition	(-) 12.11	68.64	35.82
Interest Receipts	16	11	11
Interest receipts as *per cent* to outstanding Loans and advances	6.9	4.2	3.5
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	9.4	9.8	9.0
Difference between interest payments and interest receipts (*per cent*)	(-) 2.5	(-) 5.6	(-) 5.5

Total amount of outstanding loans and advances as on 31 March 2010 was ₹329.31 crore. Against ₹69.67 crore advanced, only ₹33.85 crore was repaid during 2009-10, recording an increase of ₹12.88 crore in repayment over the previous year. Major recipients of loans during 2009-10 were Power projects (₹62 crore). There was a huge variation in the average rate of interest being paid by the Government on borrowings vis-à-vis the percentage of interest received on outstanding loans and advances. The shortfall ranged between 2.5 *per cent* and 5.6 *per cent* during 2007-10. *During 2009-10, the Government received 3.5 per cent return of interest receipts as percentage to outstanding loans against the targeted receipt of seven per cent fixed by TFC. It, however, paid nine per cent interest on borrowings during this period.*

1.6.4 Cash Balances and Investment of Cash balances

Table 1.13 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.13: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1st April 2009	As on 31st March 2010	Increase (+)/ Decrease(-)
Cash Balances	979.23	281.16	(-)698.07
Investments from Cash Balances			
a. GOI Treasury Bills	1,129.18	582.60	(-)546.58
b. GOI Securities	3,889.21	4285.64	(+)396.43
Funds-wise break-up of Investment from Earmarked balances	--	--	--
Interest realised	60.45	63.70	(+)3.25

Cash balances of the State Government at the end of the current year decreased by ₹698.07 crore from ₹979.23 crore in 2008-09 to ₹281.16 crore in 2009-10. The State Government has invested ₹582.60 crore in GOI Treasury Bills and ₹4285.64 crore in GOI Securities and earned an interest of ₹63.70 crore during 2009-10. The Government was able to maintain daily cash balance fixed by Reserve Bank of India and did not avail ways and means advances *(Appendix-1.3)*.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.4* gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.3*. However, the composition of fiscal liabilities during the current year vis-à-vis the previous years are presented in Table-1.14.

Table-1.14: Fiscal Liabilities – Basic Parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal Liabilities (₹in crore)	17,432	18,071	19,419	21,819	23,713
Rate of Growth (*per cent*)	5.44	3.67	7.46	12.36	8.68
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	67.87	63.21	60.27	59.09	56.09
Revenue Receipts (*per cent*)	265.77	230.64	212.42	234.41	229.20

Thirteenth Finance Commission's recommendation on debt stabilisation

Thirteenth Finance Commission (ThFC) has recommended a target for reducing the consolidated debt stock of the States to 25 *per cent* of GSDP by 2014-15. The current debt of the State is ₹23,713 crore which is 56 per cent of the GSDP. The State Government has to take initiatives for fiscal correction to achieve the above target in a phased manner by 2014-15. The State Government stated (September 2010) that the target of 25 per cent is not applicable to this State as there is no target given in this component by the ThFC. The reply is not acceptable as the above target is clearly mentioned in Paragraph 9.29, 9.67, 9.69 and table 9.7 of report of the ThFC which states that the medium term combined debt to GDP ratio target for 2014-15 at 68 *per cent, w*ith the target Central Government debt at 45 *per cent* of GDP in 2014-15, therefore, this implies a target debt to GDP ratio of 25 *per cent* for all states in the same year (the state and central ratios do not add up to the combined ratio because central loans to the states have to be netted out).

The overall fiscal liabilities of the State increased from ₹17,432 crore in 2005-06 to ₹23,713 crore in 2009-10. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹17,113 crore) comprised market loans (₹8,835 crore), loans from GOI (₹984 crore) and other loans (₹7,294 crore which includes ₹4,286 crore on Special Security issued to NSSF of the GOI). The Public Account liabilities (₹6,600 crore) comprise Small Savings and Provident Funds (₹5,214 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹1,248 crore) and reserve funds (₹138 crore). The rate of growth of fiscal liabilities was 8.68 *per cent* during 2009-10. The ratio of fiscal liabilities to GSDP consistently decreased to 56.09 *per cent* in 2009-10 from 67.87 *per cent* in 2005-06. These liabilities stood at 2.29 times the revenue receipts at the end of 2009-10. *The State Government was required to set up a Consolidated Sinking Fund as recommended by the TFC for amortisation of market borrowings as well as other loans and debt obligations. The State Government has not yet set up the sinking fund.*

1.7.3 Status of Guarantee[14] – Contingent liabilities

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years as shown in Statement 9 of the Finance Accounts, is given in Table 1.15.

Table-1.15: Guarantees given by the Government of Himachal Pradesh

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Max amount guaranteed	6,450	6,076	4361
Outstanding amount of guarantees	2,632	2,291	1949
Percentage of maximum amount guaranteed to total revenue receipts	70.6	65	42

No law has been passed by the State Legislature under Article 293(1) of the Constitution laying down the limits within which Government may give guarantees on the security of the Consolidated Fund of the State. However, the HPFRBM Act, 2005 provides that the total outstanding guarantees are to be limited to 80 *per cent* of revenue receipts in the year preceding the current year. Since the enactment of the FRBM Act, 2005, the outstanding guarantees given by the State Government were within the limit prescribed by the Act. The outstanding guarantees on the loans raised by various corporations

14 Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

and others stood at ₹1,949 crore at the end of 2009-10 which was 20.94 *per cent* of the revenue receipts of the previous year and maximum amount guaranteed (₹4,361 crore) to total revenue receipts was 42 *per cent* which is within the permissible limits. The major recipients of guarantees against which amounts were outstanding as on 31 March 2010 were 5 Statutory Boards/Corporations (₹1,490 crore), seven Government companies (₹171 crore), one Co-operative Bank (₹249 crore) and two Local/Autonomous Bodies (₹39 crore). *The State Government was required to set up the Guarantee Redemption Fund as recommended by the TFC to meet the contingent liabilities arising from the guarantees given. However, the State Government has not set up such a Fund so far.*

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[15] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[16]; sufficiency of non-debt receipts[17]; net availability of borrowed funds[18]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. Table 1.16 analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-10.

Table 1.16: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	1,812	1,054	573
Sufficiency of Non-debt Receipts (Resource Gap)	370	(-) 1,726	(-) 506
Net Availability of Borrowed Funds	(-) 79	507	341
Burden of Interest Payments (IP/RR Ratio)	0.186	0.203	0.189
Maturity Profile of State Debt (In Years)*			
0 – 1	1,793.89	987.20 (6.40)	869.69 (5.08)
1 – 3	3,519.01	3,654.02 (23.26)	2444.40 (14.29)
3 – 5	2,802.05	2,733.06 (17.40)	3238.28 (18.92
5 – 7	2,019.54	2,167.37 (13.80)	2568.84 (15.01)
7 and above	4,830.94	6,766.17 (43.07)	7991.73 (46.70)

Figures in parenthesis indicate percentages.

15 The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

16 A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize 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.

17 Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

18 Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table-1.16 reveals that quantum spread together with primary deficit was positive during 2007-10 indicating declining trend of debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilisation, which in turn may improve the debt sustainability position of the State. However, the negative resource gap during 2009-10 indicates a risk of worsening of the fiscal and debt stability of the State provided this trend continues. During 2009-10, net borrowed funds available was positive indicating that ₹341 crore of total debt receipts were utilized for other purposes rather than for discharging past debt obligations. The maturity profile of the State Government indicates that 38 *per cent* (₹6552 crore) of the total Public Debt is repayable within the next five years while the remaining 62 *per cent* (₹10560.57 crore) loans are required to be paid in more than five years time.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in Deficits

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2005-10:

Chart 1.10: Trends in Deficit Indicators (₹in crore)

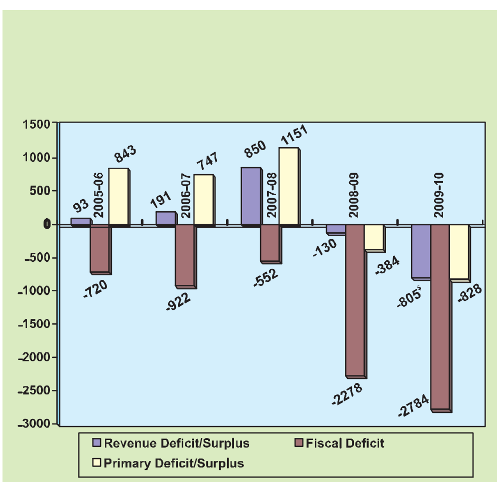
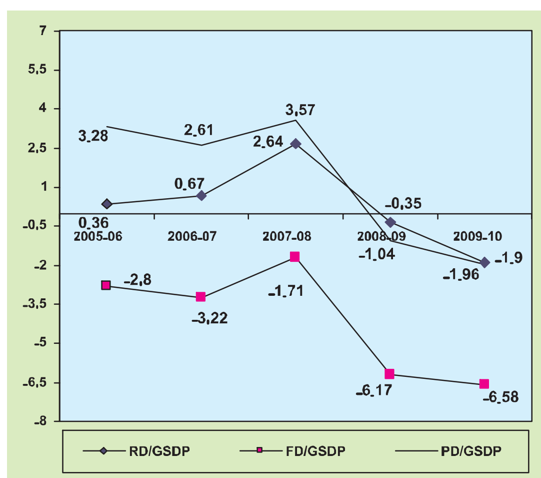


Chart 1.11: Trends in Deficit Indicators relative to GSDP (figures as percentage to GSDP)



Charts 1.10 and 1.11 reveal that all accounts of revenue, fiscal and primary experienced a situation of huge deficit during current year. From a revenue surplus position in 2005-06 to 2007-08 the State had a revenue deficit of ₹130 crore in 2008-09 which further deteriorated and rose to ₹805[$] crore in 2009-10 indicating an increase of 519 *per cent*. The NTR showed marginal increase by ₹28 crore, tax

[$] Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

revenue by ₹332 crore, share of union taxes/duties by ₹24 crore and GIA received from GOI increased by ₹654 crore which accounted for ₹1,038 crore increase in revenue receipts during 2009-10. Against receipts, revenue expenditure increased by 1,713 crore (18 per cent) which led to increase in revenue deficit. Further, fiscal deficit sharply increased by ₹506 crore from ₹2278 crore in 2008-09 to ₹2,784 crore during 2009-10. The primary deficit of ₹384 crore in 2008-09 increased to ₹828 crore in 2009-10 indicating an increase of 116 *per cent.* However, it was offset to some extent by the increase in interest payments (₹62 crore). Thus, revenue deficit and fiscal deficit was 1.9 and 6.58 *per cent* of GSDP which were higher than the projections made by TFC i.e. 0 and three *per cent* respectively which is a set back to the State that was heading towards achieving the target set forth in the FRBM Act.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the Table 1.17.

Table-1.17: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
1	Revenue Deficit	(+) 93 (0.36)	(+) 191 (0.67)	(+) 850 (2.64)	(-) 130 (-) (0.35)	(-) 805$ (-) (1.90)
2	Capital Expenditure	821 (3.20)	1,110 (3.88)	1,414 (4.39)	2,079 (5.63)	1943 (4.60)
3	Net Loans and Advances	8 (0.03)	(-) 3 ((-) 0.01)	(-)12 (0.04)	69 (0.19)	36 (0.09)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	425	467	1,322	1,752	1177
2	Loans from GOI	(-) 38	(-) 91	(-) 5	(-) 44	13
3	Special Securities Issued to NSSF	813	670	134	60	396
4	Loans from Financial Institutions	(-) 739	(-) 309	(-) 599	(-) 406	78♠
5	Small Savings, PF, etc.	310	322	540	515	546
6	Deposits and Advances	103	(-)500	(-) 366	217	265
7	Suspense and Misc.	9	(-) 7	2	53	117
8	Remittances	119	73	50	(-) 2	75
9	Others	(-) 279	297	(-) 526	151	117
10	Overall Surplus/Deficit	(-) 720	(-) 922	(-) 552	(-) 2,278	(-) 2784

Figures in brackets indicate the per cent to GSDP.
*All these figures are net of disbursements/outflows during the year.

$ Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

♠ ₹78 crore is net increase of loans during 2009-10 which has been worked out as under:

Balance as of 1st April 2009	₹2930.11 crore
Additions during 2009-10	₹574.67 crore
Total:	₹3504.78 crore
Repayment of loans during the year	₹496.47 crore

Table 1.17 reveals that fiscal position of the State had plunged to a huge deficit during 2008-09 and 2009-10. During 2009-10, the fiscal deficit of ₹2,784 crore was mainly due to heavy borrowings from market (₹1,177 crore), small savings, PF, etc. (₹546 crore), special securities issued to NSSF (₹396 crore) and deposits and advances (₹265 crore). During 2009-10, the market borrowings and small savings, PF, etc. together contributed 62 *per cent* which will increase the interest burden in future.

1.9.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (Table 1.18) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.18: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue surplus	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	6,581	4,903	821	14	5,738	1678	843
2006-07	7,858	5,975	1,110	26	7,111	1883	747
2007-08	9,168	6,589	1,414	14	8,017	2579	1,151
2008-09	9,329	7,544	2,079	90	9,713	1785	(-) 384
2009-10	10380	9195	1943	70	11208	1185	(-) 828

- From 2005-06 onwards, non-debt receipts of the State was higher than the PRE which was sufficient to meet this expenditure. From 2007-08, the non-debt receipts as compared to primary revenue expenditure continued to fall from ₹2,579 crore in 2007-08 to ₹1,185 crore in 2009-10.

- Total primary expenditure increased by ₹5470 crore from ₹5738 crore to ₹11208 crore during the period 2005-10 which was due to increase of primary revenue expenditure of ₹4292 crore from ₹4903 crore in 2005-06 to ₹9195 crore in 2009-10 and capital expenditure by ₹1122 crore from ₹821 crore in 2005-06 to ₹1943 crore in 2009-10.

- During the period 2005-08 the State had primary surplus but it plunged into deficit of ₹384 crore in 2008-09 which further increased to ₹828 crore in 2009-10. The primary deficit during 2008-09 was mainly due to decrease of non-tax revenue by ₹67 crore *(four per cent)* and less receipt of grant-in-aid by ₹95 crore *(two per cent)* over the previous year on the one hand and significant increase in disbursement of loans and advances i.e. by ₹76 crore *(543 per cent)* and increase in capital expenditure by ₹665 crore *(47 per cent)* over the previous year on the other hand. The increase in revenue deficit during 2009-10 was due to payment of dearness allowance and revised pay.

1.10 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters viz. Revenue deficit, fiscal deficit and primary deficit revealed during the year, the revenue receipts (₹10346 crore) of the State grew by only 11 *per cent* while the rate of growth of revenue expenditure (₹11151[$] crore) was 18 *per cent* over the previous year. This resulted in increased revenue deficit of ₹805[$] crore, in comparison to ₹130 crore during 2008-09.

The increase in revenue deficit combined with decrease in capital expenditure and disbursement of net loans and advances resulted in a fiscal deficit of ₹2784 crore in 2009-10. The primary deficit increased by ₹444 crore from ₹384 crore in 2008-09 to ₹828 crore in 2009-10. The fiscal deficit as a percentage of GSDP was 6.58 *per cent* in 2009-10 against FRBM Act target of 3 *per cent*.

The revenue expenditure constituted 85 *per cent* of the total expenditure during 2009-10 while the Non-Plan Revenue Expenditure (NRPE) constituted 89 *per cent* of revenue expenditure. The Plan Revenue Expenditure increased by 41 *per cent* over the previous year whereas the Capital Expenditure decreased by 7 *per cent* (₹136 crore) over the previous year.

The salary expenditure during the current year exceeded the projections made in MTFPS (₹3,748 crore) and the FCP (₹2,811 crore). The salary expenditure is 61 per cent of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 per cent recommended by the TFC requiring attention of the State Government.

The State Government failed to get the benefit of debt waiver of ₹65.75 crore for the financial year 2008-09 and 2009-10 due to non-reduction of revenue deficits as per stipulated norms.

The fiscal liability increased by nine per cent over the previous year. The fiscal liabilities to GSDP ratio at 56 *per cent* was higher than the norms of 31 *per cent* recommended by the TFC.

As of 31 March 2010, there were 29 incomplete projects in which ₹108.09 crore were blocked. Efforts need be taken to expedite completion of incomplete projects in order to avoid further time and cost overruns.

The TFC recommended setting up of guarantee redemption and consolidated sinking funds with Reserve Bank of India to mitigate the impact of liabilities during its award period of 2005-10. However, the State Government has not yet set up the funds even after completion of the award period.

Return to Fiscal correction: The State had achieved five out of eight targets as set out in FRBM Act/TFC during 2009-10. There is reasonable prospects of returning back to fiscal correction path if efforts are taken to increase tax compliance, reduce tax administration costs, collection of revenue arrears and prune unproductive expenditure so that deficit are curtailed. Efforts should also be made to improve collection of non tax revenue so that recourse to borrowed funds from GOI can be reduced.

$ Includes an amount of ₹280.62 crore by way of book adjustment (₹259.55 crore + ₹21.07 crore) for rectification of the misclassification of previous years.

Funds directly transferred by GOI: The GOI directly transferred ₹923.48 crore to the State Implementing Agencies thus total availability of State resources increased from ₹19,754 crore to ₹20,677 crore. There was no single agency to monitor the receipt/transfer of funds directly by GOI and therefore, utilisation of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

Greater priority to capital expenditure: The State had an increasing trend in capital expenditure upto 2008-09 which was indicative of improvement in social as well as economic services. But during 2009-10 the capital expenditure decreased by ₹136 crore over previous year. Evidently less priority was given to social and economic services and may have an adverse impact on the social and economic health of the State if left unattended. A monitoring organ should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Government money are being utilized so that value for money is channelized in its entirety to the intended beneficiaries.

Review of Government investments: A performance based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth to be channelized there.

Initiative for fiscal correction: The ThFC has recommended a target to achieve debt stock of 25 *per cent* of GSDP by 2014-15. But the State has not even been able to achieve the target of 31 *per cent* as recommended by TFC and its debt stock as of 31 March 2010 stood at 56 *per cent* of GSDP. The State Government, therefore, needs to gear up its activities so that atleast the target set out by the ThFC can be achieved.