

**CHAPTER-I**  
**FINANCES OF THE STATE GOVERNMENT**



## CHAPTER - I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

This chapter provides a broad perspective of the finances of the government 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. Revenue deficit of ₹ 1,641 crore in 2013-14 increased to ₹ 1,944 crore during 2014-15. Fiscal deficit increased from ₹ 4,011 crore in the year 2013-14 to ₹ 4,200 crore (**Appendix 1.3**) during 2014-15 and was 4.39 *per cent* of the GSDP. This was above the target of three *per cent* in the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011). Himachal Pradesh is a Special Category State (SCS) based upon categorisation of States made by Government of India (GoI). 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 of 30 *per cent* grant and 70 *per cent* loan.

#### Profile of State

The State of Himachal Pradesh is the 17<sup>th</sup> largest State in terms of geographical area (55,673 sq. km) and the 20<sup>th</sup> largest by population. As indicated in **Appendix 1**, the State's population increased from 0.61 crore in 2001 to 0.70 crore in 2014 recording a growth of 15 *per cent*. The percentage of population below the poverty line was 11 *per cent* which was less than the all-India average (30 *per cent*). The State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product<sup>1</sup> (GSDP) for the period 2005-06 to 2014-15 has been 15.02 *per cent* (**Appendix 1**).

The State's GSDP in 2014-15 at current prices was ₹ 95,587 crore. The State's literacy rate increased from 76.50 (as per 2001 census) to 82.80 *per cent* (as per 2011 census). The per capita income of the State stands at ₹ 1,04,943<sup>2</sup> during the year 2014-15.

#### Gross State Domestic Product

The trends in the annual growth of State's and India's GSDP at current prices are indicated in **Table 1.1**.

**Table 1.1: Trends in Annual growth of GDP/GSDP**

Year	2010-11	2011-12	2012-13	2013-14	2014-15
India's GDP (in crore)	72,48,860	83,91,691	93,88,876	1,04,72,807	N.A.
Growth rate of GDP (percentage)	18.66	15.77	11.88	11.54	N.A.
State's GSDP (in crore)	56,980	66,448	76,259	85,841	95,587
Growth rate of GSDP ( <i>per cent</i> )	18.24	16.62	14.76	12.57	11.35

Source: Economics and Statistics Department, Himachal Pradesh and Central Statistics Office

The state's GSDP growth rate at current prices shows inter year decreasing trend during the period 2010-15.

<sup>1</sup> Refer Glossary in Appendix 4.

<sup>2</sup> Advance figure

**1.1.1 Summary of Fiscal Transactions**

**Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2014-15) *vis-à-vis* the previous year (2013-14), while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year as compared to previous year.

**Table 1.2: Summary of Fiscal operations**

(₹ in crore)

Receipts	2013-14	2014-15	Disbursements	2013-14	2014-15		
	Total	Total		Total	Non Plan	Plan	Total
<b>Section-A: Revenue</b>							
<b>Revenue receipts</b>	<b>15,711</b>	<b>17,843</b>	<b>Revenue expenditure</b>	<b>17,352</b>	<b>16,583</b>	<b>3,204</b>	<b>19,787</b>
Tax revenue	5,121	5,940	General Services	7,047	7,534	70	7,604
Non-tax revenue	1,785	2,081	Social Services	6,706	5,734	1,717	7,451
Share of Union Taxes/Duties	2,491	2,644	Economic Services	3,590	3,305	1,418	4,723
Grants from Government of India	6,314	7,178	Grants-in-aid and Contributions	9	--	9	9
<b>Section-B: Capital and others</b>							
<b>Misc. Capital Receipts</b>	--	650	<b>Capital outlay</b>	1,856	42	2,431	<b>2,473</b>
<b>Recoveries of Loans and Advances</b>	17	41	<b>Loans and advances disbursed</b>	531	--	--	<b>474</b>
<b>Public Debt receipts</b>	4,050 <sup>3</sup>	10,877	<b>Repayment of public debt</b>	1,704	--	--	<b>8,260</b>
<b>Contingency Fund</b>	--	--	<b>Contingency Fund</b>	--	--	--	--
<b>Public account receipts#</b>	10,300	10,575	<b>Public account disbursements#</b>	9,227	--	--	<b>8,844</b>
<b>Opening cash balance</b>	(-) 295	(-) 887	<b>Closing cash balance</b>	(-) 887	--	--	<b>(-) 739</b>
<b>Total</b>	<b>29,783</b>	<b>39,099</b>	<b>Total</b>	<b>29,783</b>			<b>39,099</b>

Source: Finance Accounts for the respective years

# In other places Net figures of Public Account Receipts have been taken for analysing the State resources

Following are the significant changes during 2014-15 over the previous year:

<b>Revenue receipts</b>	Grew by ₹ 2,132 crore (14 per cent). The increase was the net effect of increase in Grants-in-Aid (₹ 864 crore), Tax Revenue (₹ 819 crore), Non-tax revenue (₹ 296 crore) and Share of Union Taxes and Duties (₹ 153 crore).
<b>Revenue expenditure</b>	Increased by ₹ 2,435 crore (14 per cent). The increase in Non-plan and Plan expenditure was ₹ 1,618 crore and ₹ 817 crore respectively.
<b>Revenue Deficit</b>	Resultantly, revenue deficit increased by ₹ 303 crore (18 per cent) and stood at ₹ 1,944 crore. This also indicates that the State is increasingly resorting to borrowing to fill the revenue deficit, which is a matter of concern.
<b>Capital expenditure</b>	Increased by ₹ 617 crore (33 per cent).
<b>Public debt receipts</b>	Receipts increased by ₹ 6,827 crore (169 per cent) while Public debt repayment increased by ₹ 6,556 crore (385 per cent).
<b>Public account receipts</b>	Increased by ₹ 275 crore (three per cent) and disbursements decreased by ₹ 383 crore (four per cent).
<b>Closing cash balance</b>	Increased by ₹ 148 crore.

<sup>3</sup> Exact value ₹ 4,050.70 crore

### 1.1.2 Review of the fiscal situation

Performance of the State Government on major fiscal variables against the recommendations of Thirteenth Finance Commission (Th FC) and against the targets of the FRBM Act of the State is depicted in **Table 1.3A & B**.

**Table 1.3(A)**  
**Major Fiscal Variables**

Fiscal variables	2014-15				
	Targets as prescribed in FRBM Act	Projections/ Targets proposed in the Budget/ MTFPS <sup>#</sup>	Actual	Percentage variation of actual over	
				Targets of FRBM Act	Projections/ Targets proposed in the Budget/ MTFPS <sup>#</sup>
Revenue Surplus(+)/ Deficit(-) (in crore)	Maintain revenue surplus	(-) 3,262	(-) 1,944	Revenue Deficit	Target achieved
Fiscal Deficit/GSDP (in per cent)	(-) 3.00 or less	(-) 5.74	(-) 4.39	(-) 1.39	Target achieved
Ratio of total outstanding debt* of the government to GSDP (in per cent)	40.10	37.58	39.96	Target achieved	(-) 2.38

Source: Finance Department and Finance Accounts

<sup>#</sup>Medium Term Fiscal Plan Statement

\*This includes public debt and other obligations of the State Government

Following significant points emerged from the above table:

- Targets in MTFPS were not fixed by the State Government as per the projections/assessment made in the FRBM Act.
- Revenue deficit during 2014-15 was ₹ 1,944 crore against the target of maintaining revenue surplus set out in FRBM Act.
- Fiscal deficit was 4.39 per cent of GSDP against the target of 3.00 per cent or less set out in FRBM Act.
- The ratio of total outstanding debt to GSDP was within the target mentioned in FRBM Act.

**Table 1.3(B): Review of the fiscal situation for 2010-15**

Fiscal variables	2010-11			2011-12			2012-13			2013-14			2014-15		
	T	P	A	T	P	A	T	P	A	T	P	A	T	P	A
Revenue Deficit(-) / Surplus (+) (in crore)	*	--	(-) 1,235	*	--	(+) 645	*	(+) 355	(-) 576	*	(-) 1,810	(-) 1,641	*	(-) 3,262	(-) 1,944
Fiscal Deficit (as per cent of GSDP)	3.5	5.08	4.83	3.00	2.70	2.59	3.00	2.88	4.13	3.00	2.85	4.86	3.00	5.74	4.39
Ratio of total outstanding debt of the government to GSDP (in per cent)	49.70	56	58	47.00	44.00	31	44.40	40.10	39.70	42.10	37.95	41.03	40.10	37.58	39.96

T: Targets as prescribed in Th FC/FRBM Act

A: Actuals

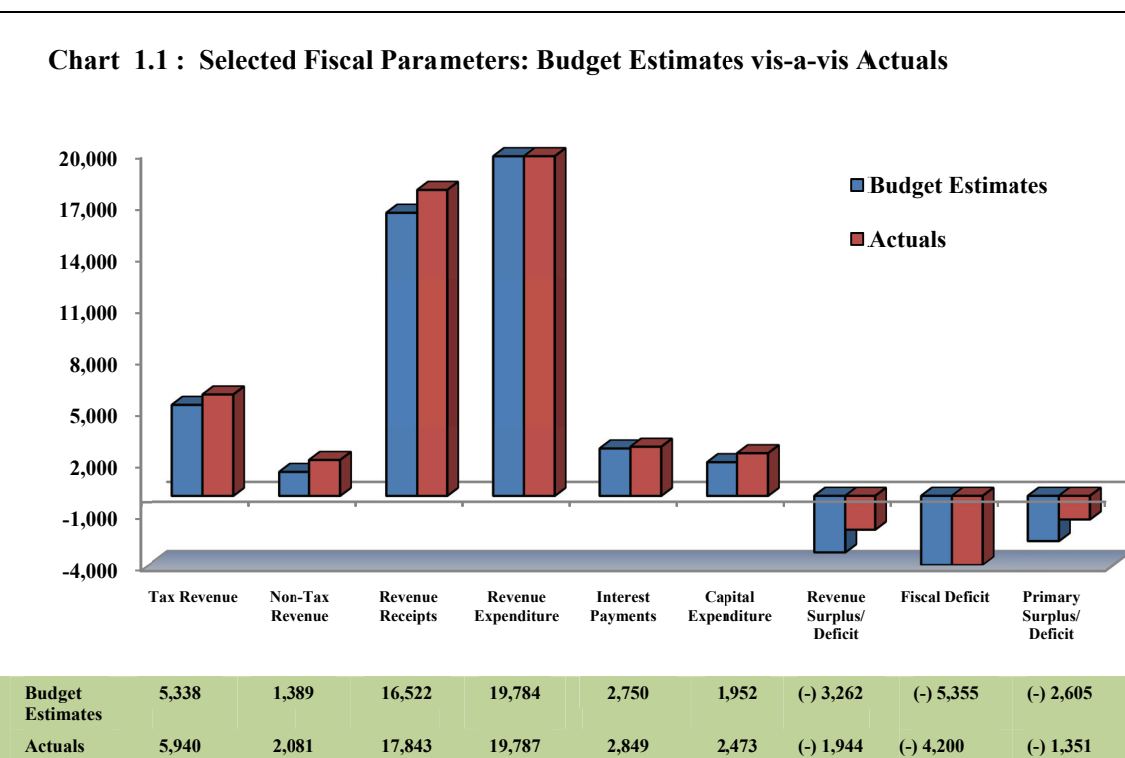
P: Projections/ Targets proposed in the MTFPS

\*: Maintain revenue surplus

- Scrutiny of the targets fixed by the State Government under MTFPS over a five year period as in Table 1.3 (B) above indicates that these were fixed in complete disregard to the requirements of the Th FC/FRBM Act.
- With the exception of 2011-12, the targets for maintaining a fiscal deficit at 3 per cent or less of GSDP and revenue surplus were NOT achieved in any of the five years ending 31 March 2015.

### **1.1.3 Budget estimates and actuals**

The budget papers presented by the Government of Himachal Pradesh provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. The budget estimates and actuals for some important fiscal parameters for 2014-15 are given in **Chart 1.1**.



*Source: Review of Receipt and Expenditure (January 2015) and Finance Accounts 2014-15/Annual Financial Statement 2014-15*

As may be seen from **Chart 1.1**, there were considerable variations between budget estimates and actuals in case of several parameters.

From above, it is evident that the variations in Revenue, Primary and Fiscal deficits were primarily caused by greater revenue realization vis-à-vis estimates, which was commendable. However, it also triggers the question that the budget estimates were unrealistic and should have been based on better information and understandings of the realization trend of revenue.

### 1.1.4 Gender Budgeting

Gender Budgeting Cell (GBC) was constituted in the Social, Justice and Empowerment (SJE) Department on 14 November 2008 but after bifurcation of SJE department into two departments viz. Women and Child Development (WCD) and Scheduled Castes, Other Backward Classes and Minority Affairs, the GBC was constituted in the department of WCD in 2013. There were 19 schemes designated to benefit women to the extent of 100 *per cent* allocation and five schemes with partial allocation during the year 2014-15 under which outlay was made as mentioned in **Appendix 1.5**. Against the total outlay of ₹ 282.13 crore under these schemes, an amount of ₹ 295.64 crore was spent with excess expenditure of ₹ 13.51 crore at the end of the year 2014-15.

### 1.1.5 Major policy initiatives in the recent years' budgets

The State Government while presenting the budget for 2014-15, committed all round and balanced development of all regions and sections of the State and society respectively, with special focus on the poor and the downtrodden. Some of major policy initiatives of the Government and budget provision *vis-à-vis* actual expenditure on these schemes during 2014-15 are given in **Table 1.4**.

**Table 1.4**  
**Major policy initiatives, budget provision and expenditure**  
(₹ in crore)

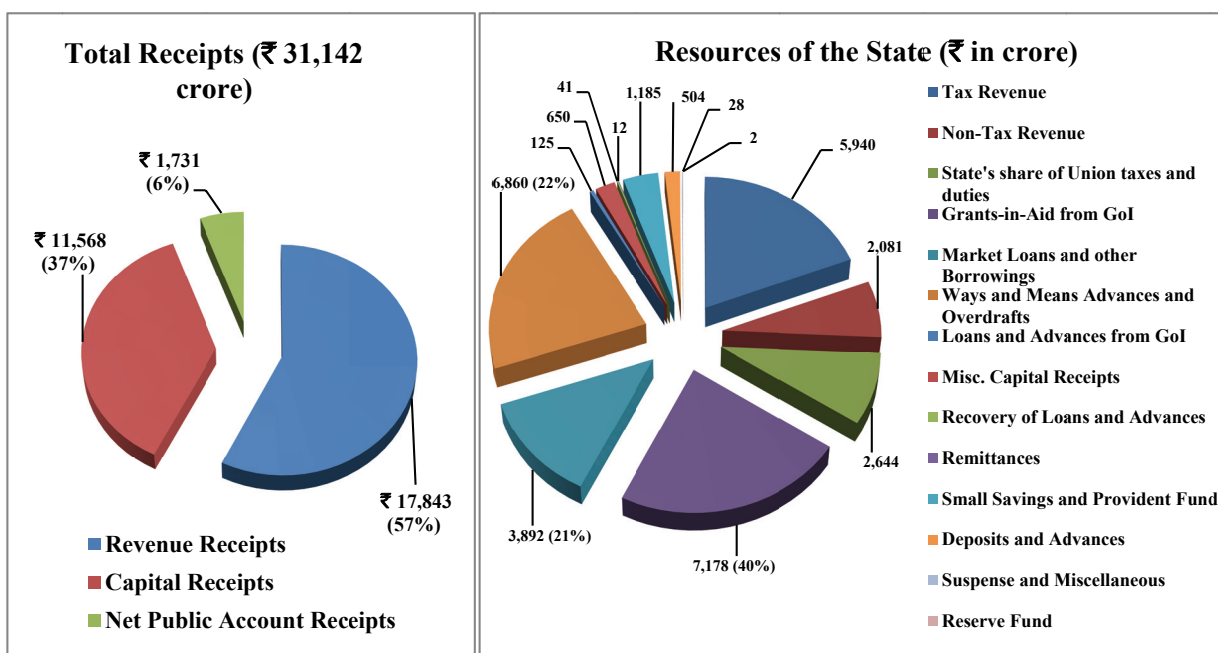
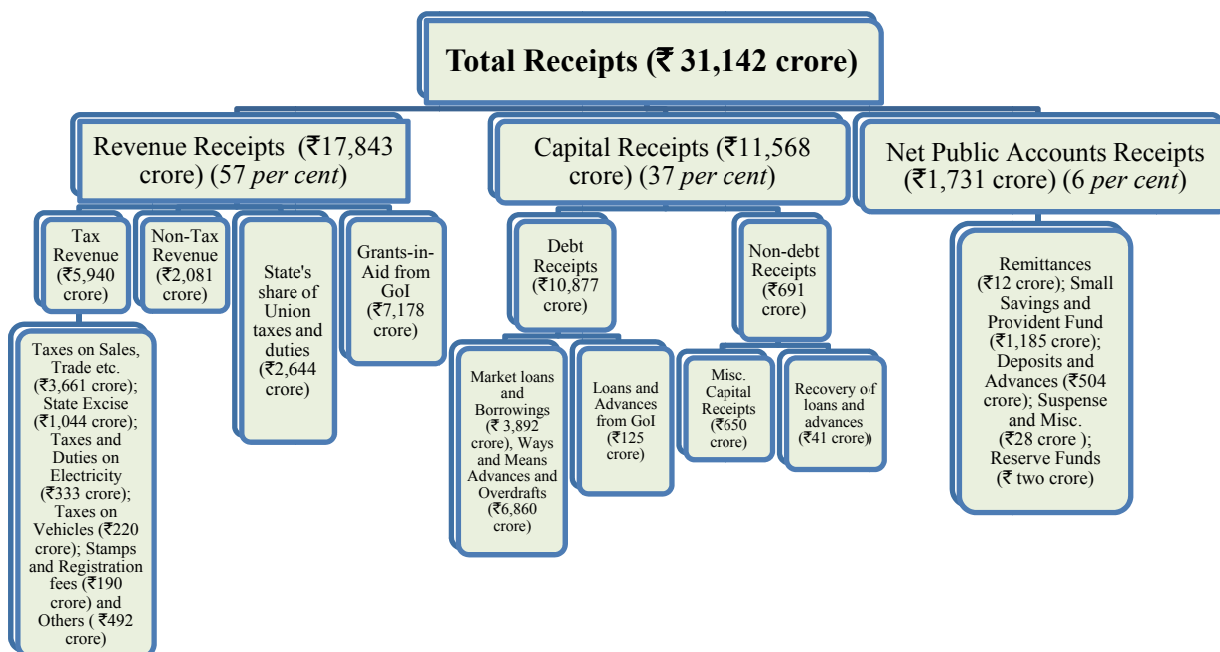
Sr. No.	Name of the Scheme	Budget estimates	Revised estimates	Actual budget received	Expenditure	Percentage of expenditure to actual budget received
1	Integrated Child Development Services	200.97	254.73	254.73	243.38	95.54
2	Installation of Liquid Nitrogen Gas plant at Sperm Station Palampur	4.00	4.21	4.30	4.21	97.91
3	Dr. Y.S. Parmar Kisan Swarozgar Yojna	20.00	13.45	13.45	13.45	100
4	Integrated Watershed Management Programme (IWMP)	17.00	-	-	59.38*	-

Source: Departmental figures

\*Expenditure incurred out of the opening balance carried from previous years

Although a budget provision of ₹ 17 crore was made in the State budget for running IWM programme but budget was not released by the Government. Besides, announcement in the budget speech to establish the PPP Cell, the Cell could not be started as of September 2015 as no budget had been provided by the State Government for the purpose.

## 1.2 Resources of the State



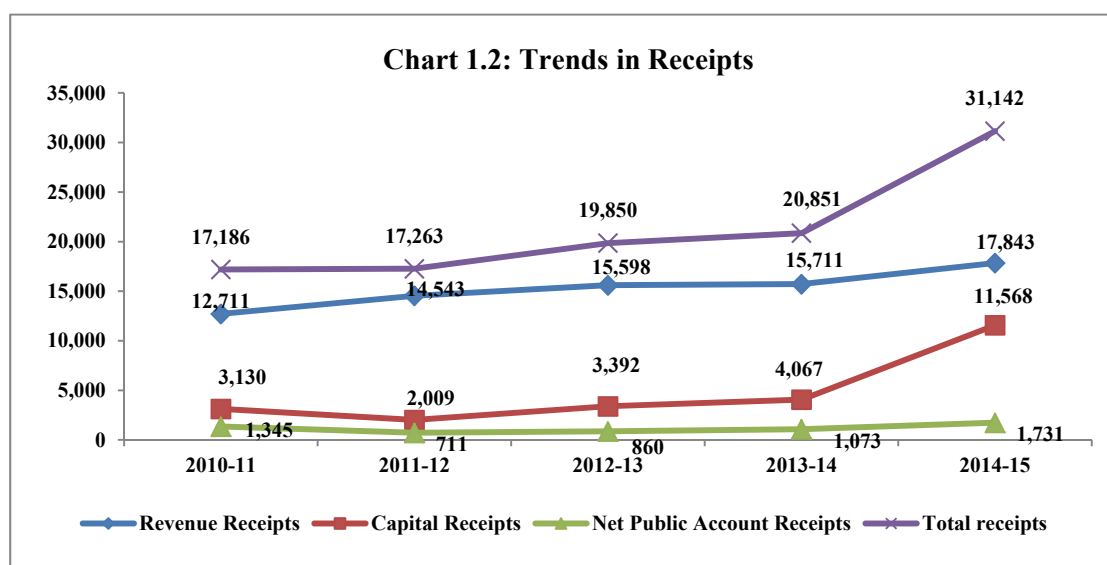
### 1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GoI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowing from financial institutions/commercial banks) and loans and



advances from GoI. Besides, the fund available in the Public Accounts after disbursement is also utilized by the Government to finance its deficit. **Table 1.2** presents the receipts and disbursements of the State during the year 2014-15 as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2010-15. Above flowchart shows the components and sub-components of resources for the year 2014-15.

As evident from the flowchart above, revenue receipts comprise 57 per cent, capital receipts 37 per cent and net public account receipts six per cent of the total receipts of ₹ 31,142 crore during 2014-15. In revenue receipts, the share of grants-in-aid from GoI, tax revenue, State's share of union taxes and duties and non-tax revenue was 40 per cent, 33 per cent, 15 per cent and 12 per cent respectively.



The total receipts of the State Government increased by 49 per cent from ₹ 20,851 crore to ₹ 31,142 crore during 2014-15 over the previous year. The buoyancy in total receipts primarily stems from a significant increase in capital receipts driven by increased debt receipts (market loans, WMA and overdrafts) that rose by ₹ 7,501 crore (184 per cent) from ₹ 4,067 crore in 2013-14 to ₹ 11,568 crore in 2014-15.

As would be evident from Chart 1.2 above that during the period 2010-15, revenue and net public accounts receipts show a much uniform increase, while the capital receipts have increased significantly over the previous year. The share of revenue receipts in the total receipts of the State fell from 75 per cent in 2013-14 to 57 per cent in 2014-15 due to tremendous rise i.e. 184 per cent in borrowings (capital receipts).

Revenue receipts increased by 40 per cent from ₹ 12,711 crore in 2010-11 to ₹ 17,843 crore in 2014-15, whereas the capital receipts increased (270 per cent) from ₹ 3,130 crore in 2010-11 to ₹ 11,568 crore in 2014-15. Net public account receipts decreased from ₹ 1,345 crore in 2010-11 to ₹ 711 crore in 2011-12. However, the increase from 2010-11 to 2014-15 was ₹ 386 crore (29 per cent) over the five year period.

### 1.2.2 Funds transferred by the GoI directly to State Implementing Agencies outside the State Budget

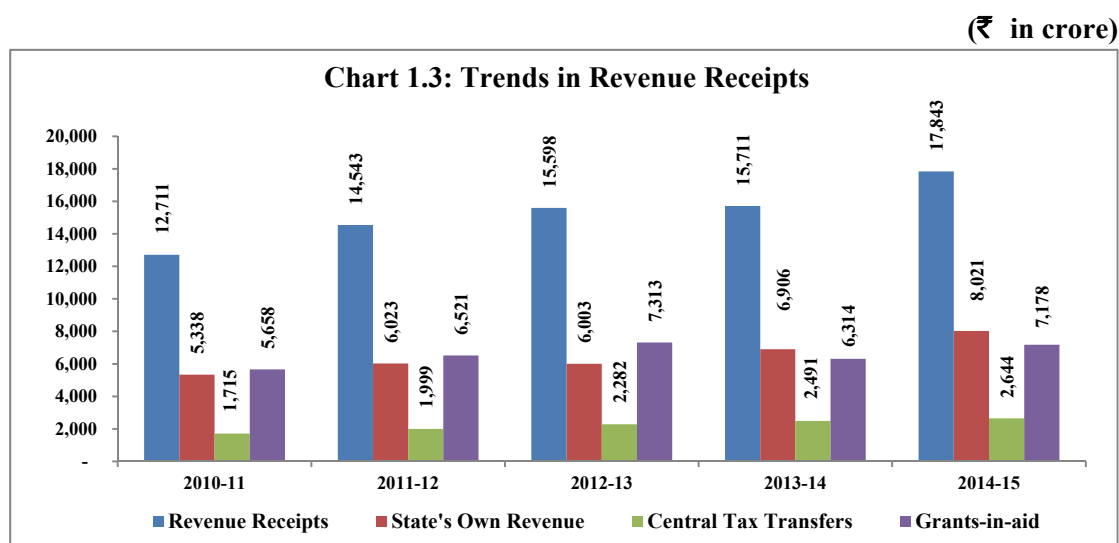
The GoI has been transferring sizeable funds directly to the State implementing agencies for implementation of various schemes/programmes in the social and economic sectors without routing through the State budget/treasury.

As per the Central Government decision to henceforth route these funds through budget, these funds decreased to ₹ 278.55 crore during 2014-15 from ₹ 1,671.30 crore in 2013-14. These funds were transferred mainly to NIT, Hamirpur (₹ 60 crore) and IIT, Mandi (₹ 51 crore), Transport Subsidy Scheme (HPSIDC) (₹ 16.24 crore) and other miscellaneous agencies (₹ 151.31 crore) (**Appendix 1.6**).

Thus, with the transfer of ₹ 278.55 crore funds during 2014-15 by GoI directly to the State implementing agencies, the total availability of the State resources increased from ₹ 39,986 crore to ₹ 40,265 crore. Still there is no single agency in the State to monitor these funds and no data readily available as to how much money has actually been spent in a particular year.

### 1.3 Revenue Receipts

Statement-14 of the Finance Accounts details the revenue receipts of the government. The revenue receipts consist of state's own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends in revenue receipts over the period 2010-15 are presented in **Appendix 1.3** and also depicted in **Chart 1.3**.



- Revenue receipts steadily increased from ₹ 12,711 crore in 2010-11 to ₹ 17,843 crore in 2014-15 at an annual average growth rate of 12 per cent but during 2014-15 it recorded an increase of 14 per cent over the previous year.
- During 2014-15, 45 per cent of the Revenue receipts came from the State's own resources comprising taxes and non-taxes, the remaining 55 per cent were contributed by central transfers comprising the State's share in central taxes and duties (15 per cent) and grants-in-aid from GoI (40 per cent).

The trends in revenue receipts relative to GSDP are presented in **Table 1.5**.

**Table 1.5: Trends in Revenue Receipts relative to GSDP**

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (RR) (₹ in crore)	12,711	14,543	15,598	15,711	17,843
Rate of growth of RR ( <i>per cent</i> )	22.86	14.41	7.25	0.72	13.57
State's GSDP (in crore)	56,980	66,448	76,259	85,841	95,587
Growth rate of GSDP percentage)	18.24	16.62	14.76	12.57	11.35
R R/GSDP ( <i>per cent</i> )	22.31	21.89	20.45	18.30	18.67
<b>Buoyancy Ratios<sup>4</sup></b>					
Revenue Buoyancy w.r.t. GSDP	1.25	0.87	0.49	0.06	1.20
State's Own Taxes Buoyancy w.r.t. GSDP	2.28	0.77	0.85	0.85	1.41

- The growth rate of GSDP has declined from 18.24 *per cent* in 2010-11 to 11.35 *per cent* in 2014-15.
- The growth rate of revenue receipts consistently decreased from 22.86 *per cent* in 2010-11 to 0.72 *per cent* in 2013-14 but it showed a positive trend during the current year (2014-15) with an increase of 13.57 *per cent* over the previous year mainly due to routing the direct central transfers from GOI through budget in the year 2014-15 and increase in own resources revenue by 16.14 *per cent*.
- The revenue buoyancy with reference to GSDP which continuously decreased from 1.25 to 0.06 during 2010-14 went up to 1.20 in 2014-15 due to increase in revenue receipts and declining rate of GSDP growth.
- The State's own tax buoyancy with reference to GSDP which came down to 0.77 in 2011-12 from 2.28 in 2010-11 consistently went up to 1.41 in 2014-15.

### 1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2014-15 *vis-à-vis* assessment made by Th FC and MTFPS are given in **Table 1.6**.

**Table 1.6: Percentage variation of actual over projections/estimates**

	Th FC projections	Budget estimates/ MTFPS projection	Actual	Percentage variation of actual over	
				Th FC projections	Budget estimates/ MTFPS projection
Tax revenue	5,406	5,338	5,940	9.88	11.28
Non tax revenue	1,744	1,389	2,081	19.32	49.82

Source: Finance Department and Finance Accounts

The actual tax revenue and NTR were 9.88 and 19.32 *per cent* respectively more than the Th FC projections. Both the tax revenue and NTR were also more by 11.28 and

<sup>4</sup> Refer glossary in Appendix 4.

49.82 per cent respectively when compared to the budget estimates/MTFPS for the year 2014-15. It also indicates that MTFPS projections regarding NTRs were on lower side.

### 1.3.1.1 Tax revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7**.

**Table 1.7: Components of Tax Revenue**

(₹ in crore)					
Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15
Taxes on sales, trades etc.	2,101 (41)	2,477 (18)	2,728 (10)	3,141(15)	3,661(17)
State excise	562 (12)	707 (26)	810 (15)	952 (18)	1,044(10)
Taxes on vehicles	163 (22)	176 (8)	196 (11)	208 (6)	220 (6)
Stamp duty and registration fees	133 (18)	155 (17)	173 (12)	188 (9)	190(1)
Taxes and duties on electricity	302(241)	185(-39)	262(42)	191(27)	333 (74)
Land revenue	5 (- 67)	18 (260)	24 (33)	10 (-58)	17(70)
Taxes on goods and passengers	93 (4)	94 (1)	101 (7)	105 (4)	110(5)
Other taxes	284 (44)	296 (4)	332 (12)	326 (-2)	365(12)
<b>Total</b>	<b>3,643 (42)</b>	<b>4,108 (13)</b>	<b>4,626(13)</b>	<b>5,121 (11)</b>	<b>5,940 (16)</b>

*Figures in the parenthesis indicate the percentage growth over the previous year*

Tax revenue increased by ₹ 2,297 crore (63 per cent) during 2010-15 and ₹ 819 crore (16 per cent) during 2014-15 over the previous year. All the major taxes and duties recorded increase in the tax revenue mainly under: (a) taxes on sales, trades, etc. by ₹ 520 crore (17 per cent) due to increase in tax collection under 'VAT'; (b) State excise by ₹ 92 crore (10 per cent) mainly due to receipt of free Power share from new power projects and (c) Taxes and duties on electricity by ₹ 142 crore (74 per cent).

### 1.3.1.2 Non-tax revenue

The position of non-tax revenue is given in **Table 1.8**.

**Table 1.8: Components of Non-Tax Revenue (NTR)**

(₹ in crore)					
Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15
Interest receipts	70 (-9)	115 (64)	70 (-39)	119 (70)	101(-15)
Dividends & profits	64 (- 14)	86 (34)	100 (16)	103 (3)	171(66)
Other non-tax receipts, of which-	1,561 (- 4)	1,714 (10)	1,207(- 30)	1,563 (29)	1,809(16)
Misc. General Services	2 (50)	40 (1900)	9(-78)	6(-33)	3(-50)
Education, Sports, Arts and Culture	82 (-2)	104(27)	112(8)	157(40)	161(3)
Forestry and Wild life	65 (-10)	107(65)	64(-40)	358(459)	116(-68)
Other Administrative Services	31 (82)	26(-16)	46(77)	26(-43)	36(38)
Non-ferrous mining and metallurgical Industries	114(34)	120(5)	148(23)	111(-25)	162(46)
Power	1,093(-10)	1,146(5)	637(-44)	696(9)	1,122(61)
Others	174 (9)	171(-2)	191(12)	209(9)	209 (-)
<b>Total</b>	<b>1,695 (-5)</b>	<b>1,915 (13)</b>	<b>1,377 (-28)</b>	<b>1,785 (30)</b>	<b>2,081(17)</b>

*Figures in the parenthesis indicate percentage growth/deficit over the previous year*

The NTR increased by ₹ 296 crore in (17 per cent) 2014-15 over the previous year. Other non-tax receipts showed a growth of 16 per cent in 2014-15. The increase in NTR was mainly under Power sector ₹ 426 crore (61 per cent), Non-ferrous mining and metallurgical industries ₹ 51 crore (46 per cent) and Dividend and profits ₹ 68 crore (66 per cent) which was offset by decrease in Forestry and wild life by ₹ 242 crore (68 per cent) and interest receipts by ₹ 18 crore (15 per cent).

### 1.3.1.3 Cost of collection

Expenditure on collection of taxes on Sales, trade was ₹ 2.98 crore, State excise ₹ 3.91 crore, Goods and Passengers ₹ 33.98 crore, stamp duty and registration fee ₹ 1.69 crore, Vehicles ₹ 2.97 crore and Electricity ₹ 1.82 crore during 2014-15. Percentage of expenditure to gross collection of revenue was 0.08, 0.37, 30.88, 0.89, 1.35 and 0.55 respectively. The percentage of collection charges in respect of Goods and Passenger Tax (30.88) was comparatively high than the other heads of revenue.

### 1.3.2 Grants-in-aid from GoI

The position of grants-in-aid from GoI is given in **Table 1.9**.

**Table 1.9: Grants-in-aid from GoI**

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Non-Plan Grants	2,634	2,647	2,526	2,025	1,199
Grants for State Plan Schemes	2,680	3,342	4,179	3,765	4,333
Grants for Central Plan Schemes	1	27	28	17	31
Grants for Centrally Sponsored Plan Schemes	343	505	580	507	1,615
<b>Total</b>	<b>5,658</b>	<b>6,521</b>	<b>7,313</b>	<b>6,314</b>	<b>7,178</b>
Percentage of increase over previous year	10.36	15.25	12.15	(-)13.66	13.68
Percentage of Revenue Receipts	45	45	47	40	40

Total grants-in-aid from GoI increased from ₹ 5,658 crore to ₹ 7,313 crore during the period 2010-13 (**Table 1.9**). But it decreased by ₹ 999 crore to ₹ 6,314 crore during the year 2013-14 mainly due to decrease of ₹ 554 crore in Th FC grants and ₹ 414 crore in grants for State Plan schemes. During current year (2014-15) grants-in-aid from GoI increased by ₹ 864 crore, recording a growth of 14 per cent over the previous year. Its percentage to revenue receipts ranged between 40 and 47 per cent during the period 2010-15. Contribution of Non-plan grants, State and Central Plan Schemes and Centrally sponsored Plan schemes was 17, 60 and 23 per cent respectively to total grants from GoI during the year 2014-15.

### 1.3.3 Central tax transfers

Central tax transfers increased by ₹ 153 crore (six per cent) from ₹ 2,491 crore in 2013-14 to ₹ 2,644 crore in 2014-15 as given in **Table 1.10**.

**Table 1.10: Central tax transfers during 2013-14 and 2014-15**

(₹ in crore)

Name of Tax	Recommendation of Th FC	Actual for 2013-14	Actual for 2014-15	Variation
Corporation Tax	32 per cent of the sharable amount of Central taxes to States	837.99	923.41	85.42
Income Tax		551.79	659.41	107.62
Wealth Tax		2.30	2.50	0.20
Customs		406.54	427.66	21.12
Union Excise Duty		287.13	241.48	(-) 45.65
Service Tax		405.77	389.69	(-) 16.08
Other Taxes on Income and Expenditure		-	0.02	0.02
<b>Total</b>			<b>2,491.52</b>	<b>2,644.17</b>

#### 1.4 Capital Receipts

The trends in growth and composition of capital receipts are presented in **Table 1.11**.

**Table 1.11: Trends in growth and composition of capital receipts**

(₹ in crore)

Sources of State's Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Capital Receipts (CR)</b>	<b>3,130</b>	<b>2,009</b>	<b>3,392</b>	<b>4,067</b>	<b>11,568</b>
<b>Rate of growth of CR (per cent)</b>	20.99	(-) 35.81	68.84	19.89	184.44
<b>Miscellaneous Capital Receipts</b>	646	-	-	-	650
<b>Recovery of Loans and Advances</b>	73	25	21	17	41
<b>Rate of growth of non-debt capital receipts (Loans and Advances only)</b>	114.71	(-) 65.75	(-) 16.00	(-) 19.05	141.18
<b>Public Debt Receipts</b>	2,411	1,984	3,371	4,050	10,877
<b>Rate of growth of debt capital receipts</b>	(-) 5.56	(-) 17.71	69.91	20.14	168.57

Above table shows that capital receipts increased from ₹ 3,130 crore in 2010-11 to ₹ 11,568 crore in 2014-15. During 2014-15, capital receipts recorded an increase of ₹ 7,501 crore over the previous year (2013-14) with growth rate of 184 per cent. Recovery of loans and advances increased by ₹ 24 crore whereas public debt capital receipts increased by ₹ 6,827 crore (168.57 per cent) during 2014-15. The details of sources of capital receipts are discussed in following paragraphs:

##### 1.4.1 Proceeds from disinvestment

During 2014-15 miscellaneous capital receipts of ₹ 650 crore were received from net proceeds from capital disinvestment.

##### 1.4.2 Recoveries of loans and advances

The State Government had provided loans and advances to various institutions/organizations such as HP Agro Industries Corporation, HP SC/ST Corporation, HP Power Transmission Corporation, HP State Financial Corporations, etc. As on 31 March 2015, the total outstanding loans and advances amounted to ₹ 2,346 crore. Against this, the State Government recovered only ₹ 41 crore during 2014-15 and ₹ 17 crore during 2013-14. Besides, during 2014-15, ₹ 65 crore was

received as interest on loans and advances. Further, the detailed position of loans and advances has been discussed in Paragraph 1.8.3.

#### 1.4.3 Debt receipts from internal sources

Debt receipts from internal sources i.e. market loans/borrowings from different financial institutions and banks over the period 2010-11 to 2014-15 continued to be a source of receipts of the State Government. As it is evident from the **Table 1.12**, an amount of ₹ 10,752 crore was received as internal debt which was ₹ 6,761 crore (169 per cent) more than the previous year. Against this ₹ 8,193 crore was repaid for debt obligations.

**Table 1.12: Details of debt receipts from internal sources**

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Market Loans</b>	645(27)	1,325 (70)	2,359 (73)	2,367 (59)	2,345 (22)
<b>Special Securities issued to National small Savings fund of the Central Government (NSSF)</b>	761 (32)	279(14)	471(15)	617(15)	1,102 (10)
<b>Ways and means advances (including overdrafts) (WMA including OD)</b>	-	-	-	629(16)	6,860 (64)
<b>Loans from National Bank for Agricultural and Rural Development (NABARD)</b>	300(13)	300(16)	400(12)	350(9)	400(4)
<b>Loans from Other Financial Institutions</b>	666(28)	--	9 (--)	28(1)	45(--)
<b>Internal Debt Receipts</b>	<b>2,372</b>	<b>1,904</b>	<b>3,239</b>	<b>3991</b>	<b>10,752</b>
<b>Internal Debt Repayment</b>	<b>808</b>	<b>1,034</b>	<b>2,056</b>	<b>1,639</b>	<b>8,193</b>

Figures in brackets indicate the percentage of internal debt receipts

The major components of internal debt over the last five years were market loans, NSSF and NABARD. In 2014-15, the loans from NSSF increased by ₹ 485 crore (79 per cent) over the previous year. The massive rise in internal debt receipt was caused by a sharp increase in WMA and OD taken during the year. Borrowings through WMA and OD was ₹ 629 crore in 2013-14, it shot up by more than 10 times to ₹ 6,860 crore in 2014-15.

#### 1.4.4 Loans and advances from GoI

The position of loans and advances by GoI to State Government for the last five years is given in the **Table 1.13**.

**Table 1.13: Position of Loans and advances from GoI**

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Opening Balance</b>	984	961	947	1,018	1,012
<b>Addition during the year</b>	39	80	132	59	125
<b>Discharge during the year</b>	62	94	61	65	67
<b>Closing Balance</b>	<b>961</b>	<b>947</b>	<b>1,018</b>	<b>1,012</b>	<b>1,070</b>
<b>Percentage of total expenditure</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>5</b>

During the year 2014-15, GoI provided ₹ 125.31 crore as loans and advances for State plan schemes.

## 1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here the government acts as a banker. The balance after disbursements is the fund available with the government for use. The trends in public account receipts and disbursements during the year 2013-14 and 2014-15 are given in **Table 1.14**.

**Table 1.14: Trends in Public Accounts Receipts and Disbursements during 2013-14 and 2014-15**  
(₹ in crore)

Resources under various heads	Public Account Receipts		Public Account Disbursements		Excess of Receipts over Disbursements	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
Small Savings, Provident Fund etc.	2,772	3,153	1,886	1,968	886	1,185
Reserve fund	153	161	151	159	02	02
Deposits and Advances	1,973	2,222	1,766	1,718	207	504
Suspense and Miscellaneous	499	487	498	459	01	28
Remittances	4,903	4552	4,926	4,540	(-)23	12
<b>Total</b>	<b>10,300</b>	<b>10,575</b>	<b>9,227</b>	<b>8,844</b>	<b>1,073</b>	<b>1,731</b>

*Net Public Account Receipts=Public Account Receipts-Public Account Disbursements*

As is evident from the above table net public account receipts (excess of receipts over disbursements) increased by ₹ 658 crore from ₹ 1,073 crore in 2013-14 to ₹ 1,731 crore in 2014-15. Net public account receipts under Small Savings, Provident Fund, etc., increased by ₹ 299 crore in 2014-15 over the previous year whereas the deposits and advances increased by ₹ 297 crore during this period.

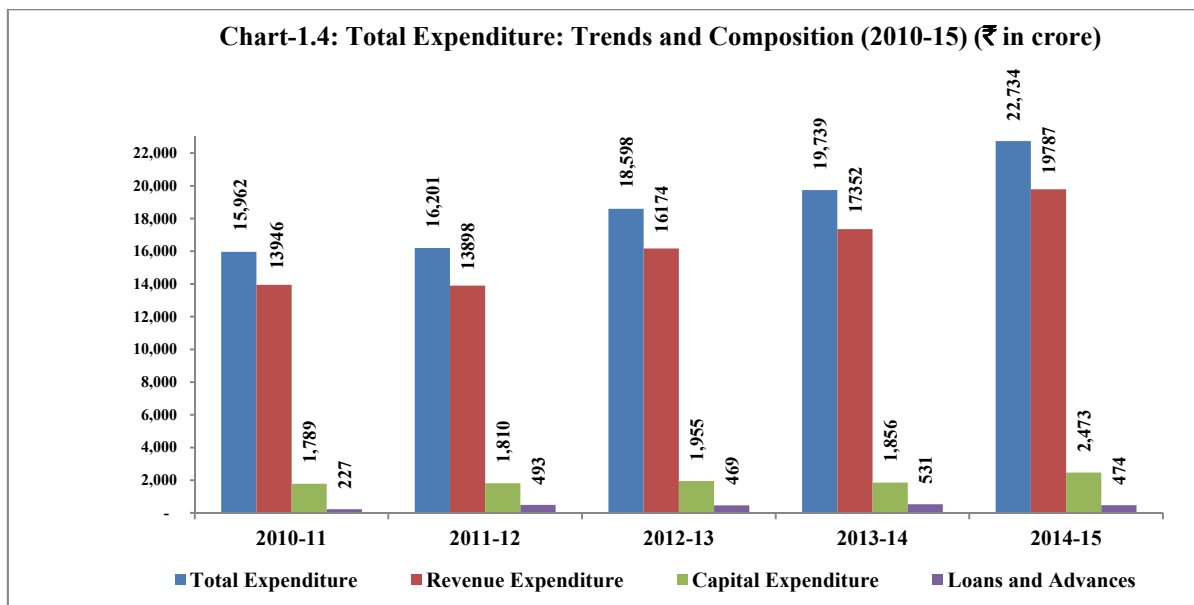
## 1.6 Application of Resources

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 the expenditure directed towards development of social sector.

### 1.6.1 Growth and Composition of Expenditure

**Chart 1.4** presents the trends and composition of total expenditure over the last five years (2010-15) and **Chart 1.5**, **Chart 1.6** depicts its composition both in terms of 'economic classification' and 'expenditure by activities' respectively.



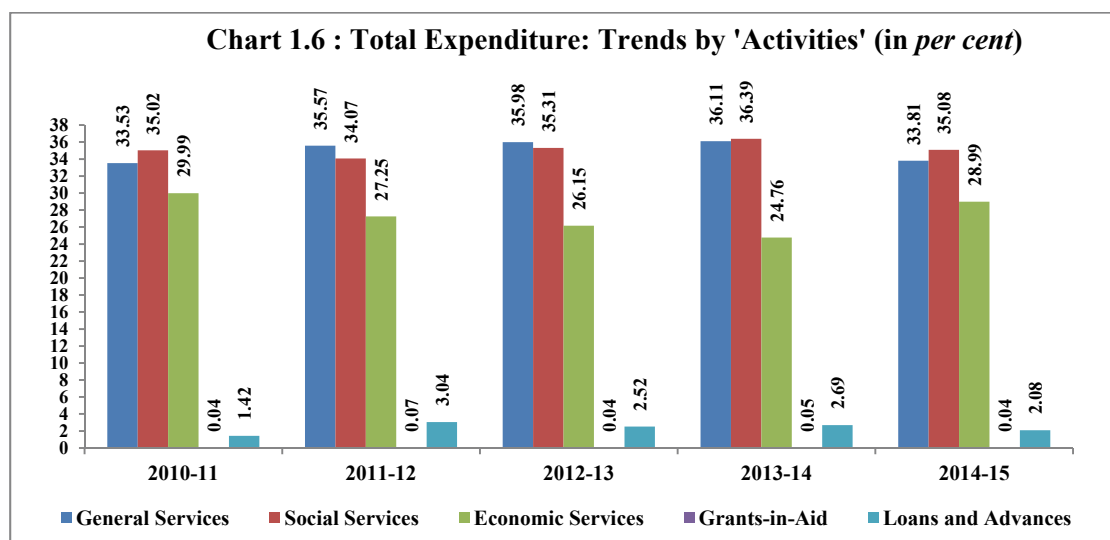
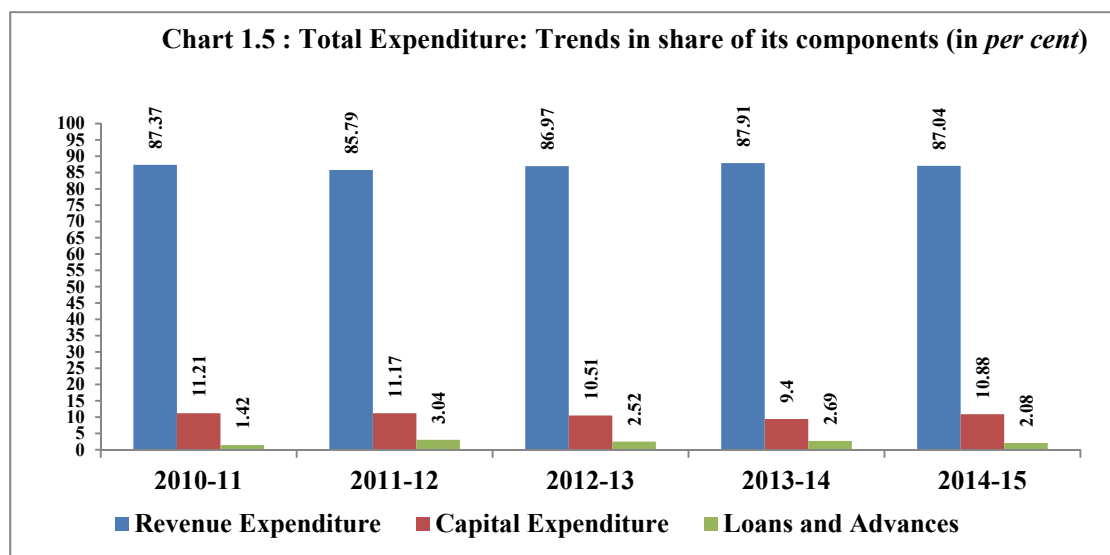


- **Total Expenditure (TE)** of the State increased from ₹ 15,962 crore in 2010-11 to ₹ 22,734 crore in 2014-15 at an annual average rate of 12 *per cent*. The increase during the current year was ₹ 2,995 crore (15 *per cent*) over the previous year. The increase in total expenditure was the effect of increase in revenue expenditure by ₹ 2,435 crore and capital expenditure by ₹ 617 crore, whereas loans and advances decreased by ₹ 57 crore.
- **Revenue Expenditure (RE):** The revenue expenditure increased by ₹ 2,435 (14.03 *per cent*) crore in 2013-14 to ₹ 19,787 crore in 2014-15. The revenue expenditure continued to constitute a dominant proportion (86 to 88 *per cent*) of total expenditure during the years 2010-15 and increased at an annual average rate of 12 *per cent*. During 2014-15, it constituted 87 *per cent* in total expenditure. The increase in expenditure was mainly on General Services, Social Services and Economic Services by ₹ 557 crore (eight *per cent*), ₹ 745 crore (11 *per cent*) and ₹ 1,133 crore (32 *per cent*) respectively. The overall increase is the result of prominent increase under the heads General Education (₹ 526 crore), Interest payments (₹ 368 crore), Health and Family Welfare (₹ 236 crore).

The Plan Revenue Expenditure increased by ₹ 817 crore (34 *per cent*) in 2014-15 as compared to the previous year and contributed just 11 to 16 *per cent* of the total revenue expenditure. The NPRE increased by ₹ 1,618 crore (11 *per cent*) in 2014-15 as compared to the previous year and constituted a dominant share of 83 to 88 *per cent* during the period 2010-15. The NPRE consumed a dominant proportion (Appendix-1.3) of Revenue Receipts i.e. ranged between 84 to 97 *per cent* during 2010-15. It constituted 93 *per cent* in 2014-15 indicating that on an average 92 *per cent* of the revenue receipts were used to meet the NPRE. The NPRE also exceeded the normative assessment made by the Th FC (₹ 10,621 crore) by 56 *per cent*.

State's revenue receipts stood at 18.67 per cent whereas the revenue expenditure at 20.70 per cent to GSDP during the current year. The State had revenue deficit of ₹ 1,944 crore which was 2.03 per cent of GSDP during the current year.

- **Capital Expenditure (CE):** Capital expenditure increased by ₹ 166 crore from ₹ 1,789 crore to ₹ 1,955 crore during 2010-13 but decreased by ₹ 99 crore in 2013-14 to ₹ 1,856 crore. During current year, it increased by ₹ 617 crore (33 per cent) to ₹ 2,473 crore. Education, Sports, Arts and Culture (₹ 131 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 310 crore) under Social Services, Power Projects (₹ 308 crore), Irrigation and Flood control (₹ 506 crore) and Transport (₹ 893 crore) under economic services were the major beneficiary sectors where capital expenditure had been made during 2014-15. The share of capital expenditure to total expenditure has increased from 9.40 per cent in 2013-14 to 10.88 per cent in 2014-15.
- **Loans and Advances:** constituted ₹ 474 crore (two per cent) of the total expenditure in 2014-15 which decreased by ₹ 57 crore over the previous year.



The movement of relative share of these components of expenditure indicated that major components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental increased from 33.53 per cent in 2010-11 to 36.11 per cent in 2013-14 but decreased to 33.81 per cent in 2014-15. The expenditure under General Services was mainly on account of Interest Payments (37 per cent) and Pension and Other Retirement Benefits (38 per cent). On the other hand, developmental expenditure<sup>5</sup> i.e. on Social and Economic Services together accounted for 64.07 per cent in 2014-15 against 61.15 per cent during 2013-14.

### 1.6.2 Committed Expenditure

The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies. As evident from **Table 1.15**, there is a consistent rise in committed expenditure of the State. The increase in committed expenditure was ₹ 1,634 crore (12 per cent) during 2014-15 over the previous year. It consistently constituted a dominant share of 75, 79, 80, 77 and 76 per cent of revenue expenditure respectively during 2010-15. **Chart 1.7** presents the trends in the expenditure on these components during 2010-15.

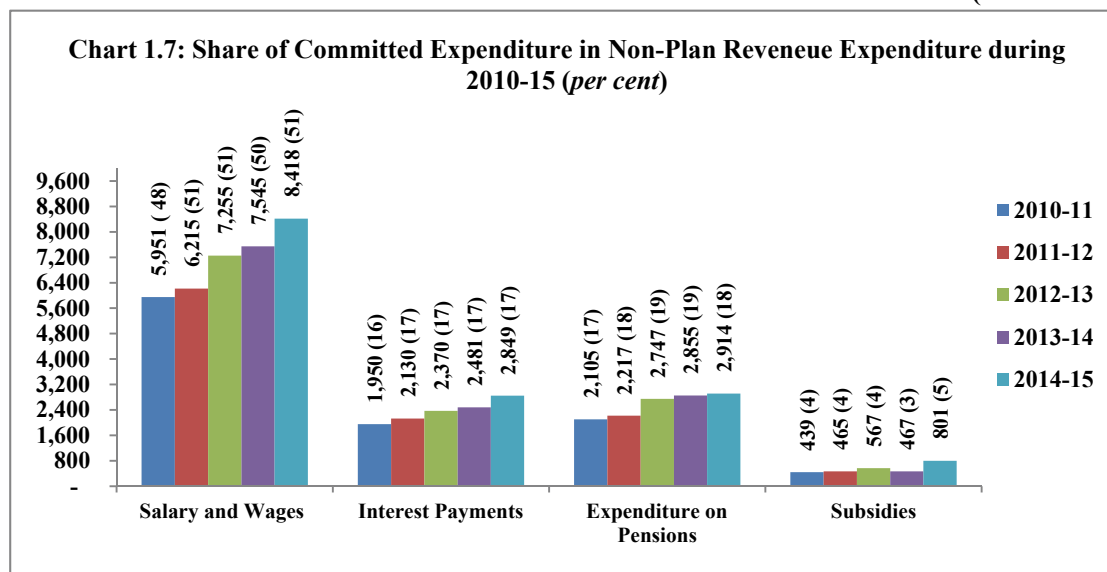
**Table 1.15: Components of Committed Expenditure**

(₹ in crore)					
Components of Committed Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Salaries and Wages, of which	5,951 (47)	6,215 (43)	7,255 (47)	7,545 (48)	8,418* (47)
Non-Plan Head	5,784	5,981	6,999	7,289	8,159
Plan Head	167	234	256	256	259
Interest Payments	1,950 (15)	2,130 (15)	2,370 (15)	2,481 (16)	2,849 (16)
Pensions	2,105 (17)	2,217 (15)	2,747 (18)	2,855 (18)	2,914 (16)
Subsidies	439 (4)	465 (3)	567 (4)	467 (3)	801 (4)
<b>Total</b>	<b>10,445</b>	<b>11,027</b>	<b>12,939</b>	<b>13,348</b>	<b>14,982</b>
<b>Percentage to RE</b>	<b>75</b>	<b>79</b>	<b>80</b>	<b>77</b>	<b>76</b>

\* Salary: ₹ 8,195 crore; wages: ₹ 223 crore  
 Figures in brackets indicate per cent to Revenue Receipts

<sup>5</sup> Refer Glossary in Appendix 4.

(₹ in crore)



### **Salaries and Wages**

The expenditure on salaries and wages was more than 47 *per cent* of revenue receipts of the State during 2014-15. The salary expenditure exceeded by ₹ 548 crore (seven *per cent*) from the projections made in Medium Term Fiscal Plan Statement (MTFPs) (₹ 7,647 crore), requiring attention of the State Government.

### **Pension Payments**

The expenditure on pension payments increased from ₹ 2,105 crore in 2010-11 to ₹ 2,914 crore in 2014-15 and by ₹ 59 crore (two *per cent*) during the current year over the previous year. Salary and pension payments together accounted for 64 *per cent* of the revenue receipts. The actual expenditure on pension payments for the current year exceeded the projections made in the Th FC (₹ 2,116 crore) by ₹ 798 crore (38 *per cent*).

### **Interest Payments**

The interest payments increased by 46 *per cent* from ₹ 1,950 crore in 2010-11 to ₹ 2,849 crore in 2014-15 and increased by ₹ 368 crore (15 *per cent*) during 2014-15 over the previous year. Interest payments exceeded the normative assessment made by the Th FC (₹ 2,378 crore) and from the projections made by State Government in MTFPS (₹ 2,750 crore) for the current year by 20 and four *per cent* respectively. It was noticed in audit that increased outgo on account of interest payments was on account of increased commercial borrowing as detailed in para 1.9.2.

### **Subsidies**

The State Government has been paying subsidies to various institutions/bodies/corporations, etc. The subsidies increased by 29 *per cent* from ₹ 439 crore in 2010-11 to ₹ 567 crore in 2012-13 and decreased by ₹ 100 crore during 2013-14. Subsidies increased by ₹ 334 crore during 2014-15 and constituted about four *per cent* of the revenue receipts. The major components of subsidies were Horticulture (₹ 70 crore); Transport (₹ 135 crore) and Energy (₹ 330 crore).

**1.6.3 Financial Assistance to Local bodies and other institutions**

The detailed position of grants-in-aid released to various institutions during the period 2010-11 to 2014-15 by the State Government is given in **Table 1.16**.

**Table 1.16: Detail of Grants-in-aid released to Local Bodies and other institutions**  
(₹ in crore)

Sr. No.	Name of Institution	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Universities and Educational Institutions	311.25 (35)	314.89 (1)	405.62 (29)	451.55 (11)	601.03(33)
2.	Municipal Corporations and Municipalities	92.26 (-20)	122.94 (33)	174.09 (42)	282.33 (62)	211.65 (-25)
3.	Panchayati Raj Institutions	256.28 (18)	263.95(3)	282.09 (7)	353.54 (25)	810.37(129)
4.	Development Agencies	52.14 (7)	46.72(-10)	38.72 (-17)	65.96 (70)	63.52(-4)
5.	Hospitals and other Charitable Institutions	48.11 (17)	69.70 (45)	87.77 (26)	94.63 (8)	216.24 (129)
6.	Other Institutions	89.35 (41)	162.89 (82)	214.82 (32)	189.87 (-12)	253.37 (33)
	<b>Total</b>	<b>849.39 (18)</b>	<b>981.09 (16)</b>	<b>1,203.11 (23)</b>	<b>1,437.88 (20)</b>	<b>2,156.18 (50)</b>
	Assistance as percentage of Revenue Expenditure	6.09	7.06	7.43	8.28	10.90

Source: Figures compiled by Accountant General (Accounts & Entitlement) office  
Figures in brackets indicate the percent increase/decrease over previous year

The grants extended to local bodies and other institutions consistently showed an increasing trend over the period 2010-15. It increased by ₹ 718.30 crore (49.96 per cent) during current year (2014-15) over the previous year. The increase in grants-in-aid during 2014-15 was mainly due to release of more grant to Panchayati Raj Institutions (₹ 456.83 crore) (129 per cent), Universities and Educational Institutions (₹ 149.48 crore) (33 per cent) and Hospitals and other Charitable Institutions (₹ 121.61 crore) (129 per cent).

**Fund flow: Source, custody and application of funds in ULBs and PRIs**

The resource base consists of grants from State Finance Commission (SFC), Central Finance Commission (CFC), State and Central Governments for maintenance/development purposes and implementation of schemes. The funds allotted through different resources are kept in banks. It was noticed that all funds transferred to the ULBs and PRIs have been shown as expenditure without being its actual utilization by the implementing agencies. The exact figures of expenditure incurred by these bodies were not available with the Department.

During 2014-15, ULBs received funds/grants of ₹ 221.11 crore from different resources and all these funds transferred by the Directorate of Urban Development Department of State Government to ULBs have been shown as expenditure. Similarly, out of ₹ 840.05 crore received by PRIs, ₹ 809.63 crore were released to the executing agencies have also been shown as expenditure.

During the year 14 ULBs and 100 PRIs out of total 50 ULBs and 3,332 PRIs respectively were covered in audit. Following systematic deficiencies were noticed in

Audit of ULBs and PRIs conducted during 2014-15:

**(a) Non-preparation of bank reconciliation statements**

ULBs and PRIs Rules provide that the general cash book shall each day be checked item wise and closed and signed by the competent authority. The reconciliation of any difference between the balances of cash book and bank pass book is required to be conducted every month.

Scrutiny of records revealed that an amount of ₹ 9.35 crore (ULBs: ₹ 1.54 crore and PRIs: ₹ 7.81 crore) remained un-reconciled at the close of the year 2013-14 as on January-March 2015. Thus, the authenticity of accounts of these ULBs and PRIs could not be ascertained in the absence of reconciliation with the bank statements. The concerned ULBs and PRIs stated that the differences would be reconciled shortly. The replies were not acceptable as provisions of the Rules should have been strictly complied with.

**(b) Non-maintenance of registers**

Rule 31 of HPPR Rules, 2002 stipulates that every PRI shall maintain important records, registers, forms, etc., as detailed in Rule 34 of HPPR (General) Rules 1997.

It was observed that in 35 GPs test-checked during 2014-15, important registers like stock register, immovable property register, work register, muster roll register were not being maintained. Due to non-maintenance of the records, correctness of financial transactions could not be ascertained. The Panchayat Secretaries concerned admitted the facts (June 2014-March 2015) and assured to maintain these records in future. The fact, however, remained that there was absence of proper check over maintenance of accounts by the PRIs concerned.

**(c) Non-conducting of physical verification of assets**

Under rule 73(i) of HPPR Rules, 2002, a physical verification of all stores shall be made by the Pradhan in the case of Gram Panchayat and by the Secretary concerned in case of Panchayat Samiti or a Zila Parishad, as the case may be, at least once in six months and invariably in April every year. The result of the verification shall be recorded in writing. During the verification in April, the condition of each article shall be indicated against it in the stock register.

Scrutiny of records of 16 PRIs (one ZP, two PSs, 13 GPs) revealed that physical verification of store/ stock had not been carried out. In absence of which it could not be ascertained whether all the articles entered in the stock register were physically exists or not. In reply, the Executive Officers/ Secretaries of PRIs concerned stated (June 2014-March 2015) that physical verification of stores/ stock would be conducted shortly.

**(d) Non-realisation of Revenue amounting to ₹ 7.57 crore**

Scrutiny of records revealed that an amount of ₹ 7.57 crore (ULBs: ₹ 7.12 crore and PRIs: ₹ 0.45 crore) were outstanding/un-realised on account of house tax: ₹ 4.98 crore (ULBs: ₹ 4.79 crore and PRIs: ₹ 0.19 crore) for the period 2013-14; rent

of shops: ₹ 2.05 crore (ULBs: ₹ 1.86 crore and PRIs: ₹ 0.19 crore) for the period 2005-06 to 2014-15; charges of installation/renewal of mobile towers: ₹ 0.25 crore (ULBs: ₹ 0.18 crore and PRIs: ₹ 0.07 crore), non-recovery of electricity cess: ULBs: ₹ 0.29 crore from HPSEB between 2012-14. This indicated that the process of revenue collection had not been given due attention by the ULBs and PRIs and will affect their functioning adversely and would make them more dependent on State finances. The concerned ULBs and PRIs stated that necessary steps/efforts would be made to realise the outstanding revenue. The replies were not convincing as necessary action should have been taken in time to realise the revenue.

## 1.7 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 expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for selected services).

### 1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure, assigned to the State Governments, are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is below the Special Category States' average for that year.

**Table 1.17(A)** analyses the fiscal priorities of the State Government with regard to development expenditure (DE), social sector expenditure (SSE) and capital expenditure (CE) relative to Special Category States in 2011-12 and the current year 2014-15.

**Table-1.17(A): Fiscal Priority of the State during 2011-12 and 2014-15**

Fiscal Priority by the State	AE/GSDP	DE <sup>#</sup> /AE	SSE/AE	ESE/AE	CE/AE	Education/AE	Health/AE
Special Category States' Average (Ratio) 2011-12	26.39	61.26	37.02	28.37	14.02	18.86	5.40
Himachal Pradesh's Average (Ratio) 2011-12	24.38	64.32	34.10	30.21	11.17	19.10	5.10
Special Category States' Average (Ratio) 2014-15	NA	63.51	38.14	28.89	14.22	19.31	5.49
Himachal Pradesh's Average (Ratio) 2014-15	23.78	66.15	35.08	31.07	10.88	18.81	5.71

*AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; ESE: Economic Sector Expenditure*  
<sup>#</sup> Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.  
 Source: Based on 9 Special Category States as Assam, Himachal Pradesh, Manipur, Meghalaya, Nagaland, Mizoram, Sikkim, Tripura and Uttarakhand out of 11 SCSs.

Fiscal priority refers to the priority given to a particular category of expenditure by the

State. A comparative study of expenditure in 2014-15 with that in 2011-12 showed the following:

- The Government's aggregate expenditure as a proportion of GSDP is 23.78 in 2014-15 in comparison to 24.38 in 2011-12 which is slightly lower by 0.6 per cent.
- Development expenditure consists of both economic and social sector expenditure. Development expenditure (DE) as a percentage of aggregate expenditure (AE) is 66.15 in Himachal Pradesh, which is higher than the SCS of 63.51, which is desirable.
- The Social Sector expenditure as a proportion of aggregate expenditure in the State was lower than that of SCS by 2.92 and 3.06 per cent in 2011-12 and 2014-15 respectively.
- The ratio under health sector was below the average of SCS during 2011-12 but slightly high in 2014-15.
- Priority has not been given by the State Government to capital expenditure as the percentage ratio of capital expenditure to aggregate expenditure is 11.17 in 2011-12 and 10.88 in 2014-15, which is lower than the average ratio of Special Category States 14.02 in 2011-12 and 14.22 in 2014-15.

### **1.7.2 Efficiency of expenditure use and its effectiveness**

As per **Table 1.17(B)**, salary and wages increased by ₹ 575 crore (13 per cent) and ₹ 163 crore (nine per cent) in social services and economic services respectively during the current year 2014-15 as compared to previous year whereas operation and maintenance expenditure increased by ₹ 159 crore (27 per cent) in social services and increased by ₹ 107 crore (10 per cent) in economic services. The ratio of capital expenditure to total expenditure in social services and economic services was 0.02 and 0.08 respectively during the period 2014-15 which is a matter of concern.

**Table 1.17(B): Expenditure incurred in various sectors**

(₹ in crore)

Year	Total Expenditure	Sector	Revenue Expenditure	Capital Expenditure	Ratio of Capital expenditure to Total expenditure	Revenue expenditure	
						Salaries & wages	Operation and maintenance
2013-14	19,739	Social Services	6,706	478	0.02	4,307	585
		Economic services	3,590	1,297	0.07	1,843	1,059
2014-15	22,734	Social Services	7,451	522	0.02	4,882	744
		Economic Services	4,723	1,868	0.08	2,006	1,166

Source: Voucher level computerization system from Accountant General (A&E) HP

### **1.8 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.



### 1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2015 is given in **Table 1.18**. Only those projects where the scheduled date of completion is already over as of 31 March 2015 have been included under incomplete projects.

**Table 1.18: Department-wise Profile of Incomplete Projects**

(₹ in crore)				
Department	Number of incomplete projects	Initial budgeted cost	Revised total cost of projects	Total expenditure as on 31 March 2015
Irrigation and Public Health	10	58.84	76.18	83.05
Building and Roads (Public Works)	03	62.03	--	58.22
<b>Total</b>	<b>13</b>	<b>120.87</b>		<b>141.27</b>

Source: Finance Accounts

In respect of the incomplete projects, revised costs of only seven projects of Irrigation and Public Health department were available where the cost overrun was to the tune of ₹ 41.61 crore. These projects were to be completed between July 2005 and March 2015. An analysis of the delays showed time overruns ranging upto 10 years. An analysis of physical progress of works showed that the work was completed between 75 per cent and 99 per cent in respect of eight schemes. In respect of remaining except two IPH schemes<sup>6</sup> which were to be completed by March, 2012 but only 38 and 43 per cent work had been completed at the end of year 2014-15.

### 1.8.2 Investment and returns

The Government as on 31 March 2015 had invested ₹ 2,732 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (**Table 1.19(a)**). The average return on investment was 3.81 per cent while the government paid an average rate of interest as 7.86 per cent on its borrowings during 2010-15.

**Table 1.19(a): Return on Investment**

(₹ in crore)						
Investment/ Return/ cost of Borrowing	2010-11	2011-12	2012-13	2013-14	2014-15	Average 2010-15
Investment at the end of the year	2,864	2,448	2,767	3,025	2,732	--
Return (Dividend/interest)	64.11	85.65	100.09	103.42	171.00	--
Return (per cent)	2.24	3.50	3.62	3.42	6.26	3.81
Average rate of interest on government borrowings (per cent)	7.78	7.80	8.08	7.71	7.91	7.86
Difference between interest rate and return (per cent)	5.54	4.30	4.46	4.29	1.65	4.05

Source: Finance Accounts

While the Government investments decreased by 9.69 per cent in 2014-15 over the previous year 2013-14, the return from investments showed consistent increase during the period 2010-15 from ₹ 64.11 crore in 2010-11 to ₹ 171 crore in 2014-15. The main contributor was Satluj Jal Vidyut Nigam, which consistently contributed about 99 per cent over the last five years (2010-15) period. The major recipients amongst

<sup>6</sup> Sewerage scheme, Mehatpur and Santokhgarh

Government Companies, which had accumulated losses as per latest finalised accounts, were Himachal Pradesh State Electricity Board Limited (₹ 1,738.63 crore), Himachal Road Transport Corporation (₹ 847.67 crore), Himachal Pradesh Financial Corporation (₹ 145 crore), Himachal Pradesh Agro-Industrial Packaging India Limited (₹ 78.23 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹ 70.36 crore) Himachal Pradesh State Forest Corporation Limited (₹ 44.94 crore).

### **1.8.2.1 Investment in Public Sector Undertakings**

#### **Investment in State Public Sector Undertakings (SPSUs)**

The State Government had formulated (August 1982) a dividend policy under which all PSUs are required to pay a minimum return of three *per cent* on the paid up share capital contributed by the State Government. The Council of Ministers in its meeting held on 8 April 2011 decided that the entire profit making PSUs (except those in welfare and utility sector) may pay a return at the rate of 5 *per cent* on government equity subject to a ceiling of 50 *per cent* of profit after tax from financial year 2009-10 onwards. This amount was to be deposited with government treasury latest by end June of the succeeding year and prescribed that return determined was to be payable by all profit making PSUs in future also. As on 31 March 2014, the paid up share capital of the State Government in 21 PSUs (including 619-B companies) was ₹ 1,897.86 crore.

**Table 1.19(b): Investment in SPSUs in paid up share Capital**

Nature of investment	Government companies		Statutory corporations (Numbers)	Grand Total (Numbers)
	Working companies (Numbers)	Non-working companies (Numbers)		
Paid up share capital	1,262.23 (17)	16.75 (2) <sup>7</sup>	618.88 (2)	1,897.86 (21)

As per latest finalized accounts up to 31 May 2015, seven companies earned profit of ₹ 14.30 crore and 12 companies incurred loss of ₹ 480.48 crore. One<sup>8</sup> working Government company has not prepared its profit and loss accounts whereas in respect of one working Government company viz. Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, excess of expenditure over income was reimbursable by the State Government. Out of seven profit earning companies, four companies<sup>9</sup> were not required to pay return on equity as these were welfare and utility sector companies, two companies<sup>10</sup> (paid up share capital: ₹ 10.76 crore) did not pay any return/dividend and only one company (Himachal Pradesh State Civil Supplies Corporation Limited) paid dividend of ₹ 0.35 crore at the rate of 10 *per cent* of equity of ₹ 3.51 crore to the State Government.

Thus, on the equity of ₹ 1,897.86 crore invested by the State Government in PSUs as on 31 March 2014, it earned only a return of ₹ 0.35 crore which was 0.02 *per cent* of

<sup>7</sup> Out of two (Agro Packaging India Limited and Himachal Worsteds Mills Limited), one Company viz. Himachal Worsteds Mills Limited was under liquidation.

<sup>8</sup> Beas Valley Power Corporation Limited

<sup>9</sup> Himachal Backward Classes Finance and Development Corporation, Himachal Pradesh Mahila Vikas Nigam, Himachal Pradesh State Handicrafts and Handloom Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited

<sup>10</sup> Himachal Pradesh State Electronics Development Corporation Limited and Himachal Pradesh General Industries Corporation Limited

total paid up share capital of ₹ 1,897.86 crore as per latest finalized accounts upto May 2015.

### 1.8.2.2 Investment in Public Private Partnership projects

Public Private Partnership (PPP) projects offer a unique and innovative method of involving the private sector in the nation building activity and in accelerating the delivery of public goods and services of high quality through joint enterprises. As of March 2015, out of 16 PPP projects undertaken, seven PPP projects had been completed and under operation and nine projects were awarded and under implementation as detailed in **Appendix 1.7**.

### 1.8.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the State Government has also been providing loans and advances to institutions/ organizations working in areas such as Education, Sports, Art and Culture, Animal Husbandry, etc. The details of outstanding loans and advances as on 31 March 2015, interest receipts *vis-à-vis* interest payments during the last five years is given in **Table 1.20**.

**Table 1.20: Average interest received on loans advanced by the State Government**  
(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Opening Balance	329	483	951	1,399	1,913
Amount advanced during the year	227	493	469	531	474
Amount repaid during the year	73	25	21	17	41
Closing Balance	483	951	1,399	1,913	2,346
Net addition	154	468	448	514	433
Interest Receipts	11	21	14	15	65
Interest receipts as <i>per cent</i> to outstanding loans and advances	2.28	2.21	1.19	0.78	2.77
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the previous year	8.22	8.06	8.39	8.15	8.41
Difference between average rate of interest received and interest paid ( <i>per cent</i> )	(-) 5.94	(-) 5.85	(-) 7.20	(-) 7.37	(-) 5.64

Source: Finance Accounts

Total amount of outstanding loans and advances as on 31 March 2015 was ₹ 2,346 crore. Against ₹ 474 crore advanced, only ₹ 41 crore was repaid during the current year but recording an increase of ₹ 24 crore over the previous year. As compared to previous year, Government advanced ₹ 57 crore (11 *per cent*) less to institutions/organizations during 2014-15. Major recipients of loans during 2014-15 were power sector companies (₹ 404.11 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 during 2012-13 was 7.20 *per cent* which increased to 7.37 *per cent* in 2013-14, during the current year it reduced by 1.73 *per cent* points and stood at 5.64. During 2014-15, the government received 2.77 *per cent* return of interest receipts as percentage to outstanding loans. It, however, paid an average 8.41 *per cent* interest on borrowings during this period.

The position of loans and advances made during the year 2014-15 is given in **Table 1.21**.

**Table 1.21: Loans and Advances**

(₹ in crore)

Loanee-Entity	Number of Loans	Total Amount of loans	Terms and conditions	
			Rate of Interest	Moratorium period, if any
HP Private Institutional regulatory Commission	1	2.00	Interest free	--
Credit Corporation (ICDP)	2	20.29	12.5 per cent	3 Years
HP State Co-operative Marketing and Consumer Federation	1	24.00	12.5 per cent	--
HP Power Corporation Ltd.	17	304.36	10 per cent	5 Years
HP Power Transmission Corporation Ltd.	10	99.75	10 per cent	5 Years
HP State Financial Corporation	3	16.53	--	--
Government Servants	--	7.27	--	--
<b>Total:-</b>	<b>34</b>	<b>474.19</b>		

Source: Finance Accounts

Out of ₹ 474.19 crore, loans amounting to ₹ two crore were advanced as interest free, ₹ 44.29 crore at the rate of 12.50 per cent and ₹ 404.11 crore at the rate of 10 per cent. Besides, ₹ 7.27 crore was advanced to the government servants. The State Government moratorium period ranged between three to five years.

### **1.8.3.1 Sanctioning/advancing of loans without finalizing terms and conditions**

An amount of ₹ 26.57 crore had been sanctioned as loan during the period 2006-07 to 2014-15 without finalizing the terms and conditions. The details are given in **Table 1.22**.

**Table 1.22: Loans granted by the Government for which terms and conditions are yet to be finalised**

Sr. No.	Loanee-Entity	Number of Loans	Total Amount (₹ in crore)	Earliest period to which arrears relate
1.	Himachal Pradesh Agro Industries Corporation	1	2.54	2013-14
2.	Municipal Corporation, Shimla	1	2.00	2008-09
3.	Himachal Pradesh State Handicraft and Handloom Corporation Ltd.	1	0.50	2006-07
4.	Principal Secretary, Multi-Purpose Project and Power, Himachal Pradesh	2	5.00	2008-09
5.	Himachal Pradesh State Financial Corporation	3	16.53	2014-15
	<b>Total</b>	<b>8</b>	<b>26.57</b>	

On this being pointed out in previous Audit Report on State Finances for the year ended 31 March 2014, it was seen that the State Government continued to advance fresh loans and advances to the Loanee/Entity. During the year 2014-15, State Government advanced ₹ 16.53 crore as fresh loans to Himachal Pradesh State Financial Corporation without finalising terms and condition.

**1.8.3.2 Pendency in the recovery of loans**

Mention was made in Para 1.8.3.2 of Comptroller and Auditor General Report on State Finances for the year ended 31 March 2014 regarding recovery of loans of ₹ 79.86 crore in respect of 26 loans and advances made by State Government to various entities/institutions.

On this being pointed out, these loans and advances were still outstanding and no efforts were made to recover the loans during the year 2014-15. These recoveries had also not been affected since the period from 1987-88 to 2010-11. The period of non-recovery of loans ranged between 4 to 28 years as per **Appendix 1.8**.

**1.8.3.3 Sick/non-working companies**

Mention was made in paragraph 1.8.2.1 of Comptroller and Auditor General Report on State Finances for the year ended 31 March 2013 regarding sick/non-working companies. It is further stated that as per latest finalised accounts of the Agro-Industrial Packaging India Limited (AIPIL)(Company) for the year 2013-14, the company sustained loss of ₹ 0.04 crore during the financial year and accumulated losses were to the tune of ₹ 78.24 crore. The Company had a negative net worth of ₹ 60.52 crore.

After disposal of plant and machinery, the State Government declared (April 2012) the AIPIL a defunct Company and asked the management to take further steps for implementation of the decision as per provisions of the Companies Act, 1956 for which the matter was under consideration by the Company, the State Government and the Registrar of Companies. The management had not taken any action so far (May 2015).

**1.8.4 Cash Balances and Investment of Cash Balances**

**Table 1.23** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 1.23: Cash Balances and Investment of Cash Balances**

(₹ in crore)

Particulars	As on 1 April 2014	As on 31 March 2015	Increase (+)/Decrease (-)
<b>(a) General cash balance</b>			
Cash in treasuries	-	-	-
Remittance in transit-Local	-	-	-
Deposits with RBI	(-) 887.49	(-) 739.51	147.98
Investments held in cash balance Investment account	-	-	-
<b>(b) Other cash balances and investments</b>			
Cash with departmental officers viz. PWD, etc.	0.16	0.16	-
Permanent advances for contingent expenditure with departmental officers	0.03	0.03	-
<b>Total (a+b)</b>	<b>(-) 887.30</b>	<b>(-) 739.32</b>	<b>147.98</b>
<b>(c) Investment from Cash Balances</b>			
GoI Treasury Bills	-	-	-
GoI Securities	5,772.09	6,675.64	903.55
<b>(d) Funds-wise break up of investment from earmarked balances</b>	-	-	-
<b>(e) Interest realised</b>	<b>24.28</b>	<b>9.90</b>	<b>(-) 14.38</b>

The State Government has to maintain a minimum Cash balance of ₹ 0.55 crore with the Reserve Bank of India. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time. The limit for ordinary ways and means advances to the State Government was ₹ 285 crore with effect from 11.11.2013. The RBI has also agreed to give special ways and means advances against the pledge of government securities.

As per Statements 2 (Annexure-A) and 17 of Finance Accounts, ₹ 456.09 crore were outstanding on ways and means advances and overdrafts at the end of 2013-14. During 2014-15, State Government could maintain minimum daily cash balance for 240 days. The Government had to take ways and mean advances (₹ 4,192.80 crore) and overdrafts (₹ 2,667.50 crore) from RBI on 77 and 48 occasions respectively. Out of which, ₹ 6,782.62 crore were repaid during the year leaving a balance of ₹ 533.77 crore. An amount of ₹ 14.80 crore were paid as interest on these shortfalls/overdrafts during 2014-15.

It was noticed in audit that cash balance of the State Government at the end of the current year increased by ₹ 147.98 crore from ₹ (-) 887.30 crore in 2013-14 to ₹ (-) 739.32 crore in 2014-15. Interest income reduced by ₹ 14.38 crore during 2014-15 as compared to previous year.

## **1.9 Assets and Liabilities**

### **1.9.1 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 (Part B)** gives an abstract of such liabilities and the assets as on 31 March 2015, compared with the corresponding position on 31 March 2014. 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.

During 2014-15, the assets grew by ₹ 2,404.51 crore (10.25 per cent) whereas the liabilities increased by ₹ 4,348.11 crore (12.65 per cent) over the previous year. The ratio of Financial Assets/Liabilities came down to 67 per cent in 2014-15 from 70 per cent in 2011-12 which was 68 per cent in 2013-14.

### **1.9.2 Fiscal Liabilities**

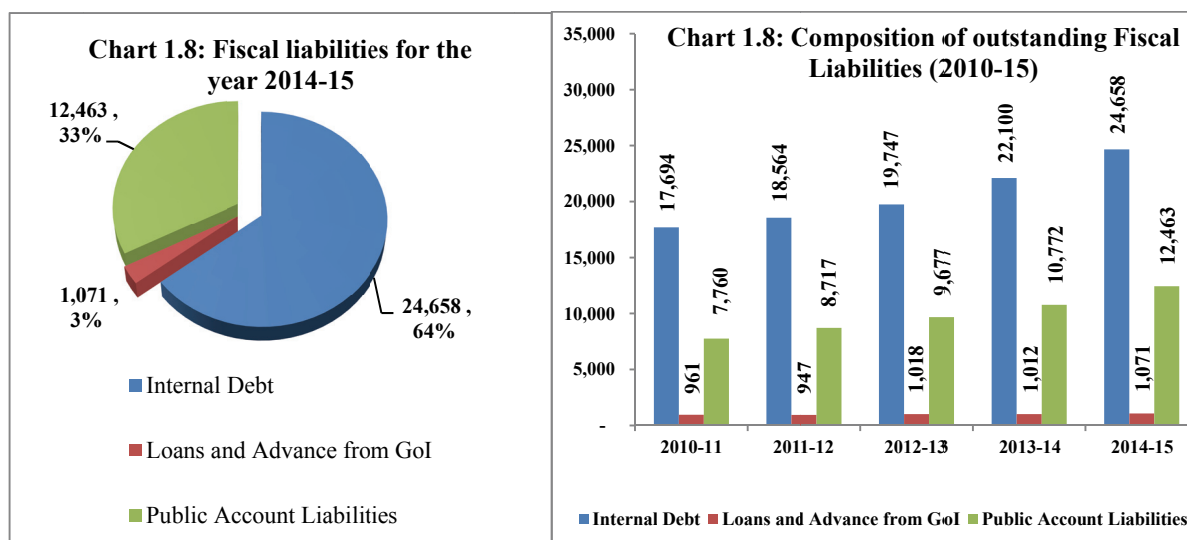
The position of outstanding fiscal liabilities of the State for a five year period viz., 2010-11 to 2014-15 are presented in **Appendix 1.3 and Table 1.24**. The composition of fiscal liabilities during the current year 2014-15 *vis-à-vis* the previous years are presented in **Chart 1.8**.

Table 1.24: Fiscal Liabilities – Basic Parameters

	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Liabilities (₹ in crore)	26,415	28,228	30,442	33,884	38,192
Rate of Growth (per cent)	11.39	6.86	7.84	11.31	12.71
<b>Ratio of Fiscal Liabilities to</b>					
GSDP* (per cent)	46.36	42.48	39.92	39.47	39.96
Revenue Receipts (per cent)	207.81	194.10	195.17	215.67	214.04
Own resources (per cent)	494.85	468.67	507.11	490.65	476.15
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	0.62	0.41	0.53	0.90	1.12
Revenue receipts (ratio)	0.50	0.48	1.08	15.71	0.94
Own resources (ratio)	0.51	0.53	(-) 23.76	0.75	0.79

\*GSDP revised on base year 2004-05

The overall fiscal liabilities of the State increased from ₹ 26,415 crore in 2010-11 to ₹ 38,192 crore in 2014-15. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹ 25,729 crore) comprised market loans (₹ 15,196 crore), loans from GoI (₹ 1,071 crore) and other loans (₹ 9,462 crore, which includes ₹ 6,676 crore on special security issued to NSSF of the GoI).



The Public Account liabilities (₹ 12,463 crore) comprise Small Savings and Provident Funds (₹ 9,922 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹ 2,313 crore) and reserve funds (₹ 228 crore).

The rate of growth of fiscal liabilities was 13 per cent during 2014-15. The ratio of fiscal liabilities to GSDP consistently decreased to 39.47 per cent in 2013-14 from 46.36 per cent in 2010-11 but slightly increased to 39.96 per cent in 2014-15. These liabilities stood at 2.14 times the revenue receipts and 4.76 times the own revenue resources at the end of 2014-15. The buoyancy ratio of fiscal liabilities to GSDP stood at 1.12 during 2014-15. This is indicative of the fact that fiscal liabilities growth rate is more than the growth rate in GSDP.

In terms of the recommendations of the Twelfth Finance Commission, State Governments are required to create a Consolidated Sinking Fund to be administered by the Reserve Bank of India (RBI) for redemption of outstanding liabilities the amortization of open market loans availed of by them. The State Government is required to make minimum annual contribution to the Fund at 0.5 per cent of the outstanding liabilities at the end of the previous financial year. The State Government, however, has not created a consolidated sinking fund. As on 31 March 2015, the outstanding liabilities of the Government of Himachal Pradesh were ₹ 38,192 crore. Had there been a consolidated sinking fund, the liability of the State Government towards the fund would have been ₹ 191 crore (0.5 per cent of outstanding liabilities) in 2014-15.

### **1.9.3 Transactions under Reserve fund**

Closing balance in the Reserve Fund as on 31 March 2015 was ₹ 228.48 crore (Credit). Out of this, reserve fund bearing interest held ₹ 8.95 crore (credit) and the share of the fund not bearing interest was ₹ 219.53 crore (credit). The major heads of account being operated were 8115-Depreciation/Renewal Reserve Fund (RRF) (₹ 0.01 crore) and 8121-General and Other Reserve Fund (₹ 8.94 crore). As for reserve funds not bearing interest, heads of Account 8226-Depreciation/Renewal Reserve Fund (RRF) (₹ 1.53 crore), 8229-Development and Welfare Fund (₹ 217.91 crore) and 8235-General and Other Reserve Fund (₹ 0.09 crore) had been operated thereby understating its revenue and fiscal deficits.

#### **1.9.3.1 Short-release and non-investment of State Disaster Response Funds (SDRF)**

As per the recommendation of the Th FC, State Government has set up “State Disaster Response Fund” (SDRF) for providing immediate relief to the victims of natural calamities and issued some guidelines for administration of this fund. As per guidelines, the Central and State Government are required to contribute in the proportion of 90:10. Further, if the State does not have adequate balance under SDRF, GoI provides additional assistance from the National Disaster Response Fund (NDRF). The guidelines stipulate that the actual expenditure out of the NDRF should be booked under the respective minor heads within Major Head 2245-Relief on account of natural calamities. Direct expenditure by the State Government from the Public Account should not be made. In terms of these guidelines the State Government, on receipt of the NDRF, is required to carry out the necessary book adjustments so that the fund is exhausted in the year of expenditure itself.

During 2014-15, the State Government received ₹ 147.06 crore (₹ four crore for capacity building and ₹ 143.06 crore towards Central Government share of 90 per cent contribution to SDRF). Against its own share of ₹ 15.89 crore, the State Government released only ₹ 11.87 crore. Against the corpus of ₹ 167.98 crore, the State Government adjusted ₹ 159.04 crore towards expenditure on account of natural calamities during the year, leaving a balance of ₹ 8.94 crore lying in the Fund as on 31 March 2015 which, however, had not been invested. The Public Account under Major Head 8121 pertaining to SDRF belongs to the category 'Reserve Fund bearing interest' and the State Government was required to pay interest of ₹ 0.72 crore



(estimated at eight *per cent* applicable on Ways and Means Advances) on un-invested balance which was not done resulting in understatement of Revenue and Fiscal deficits to this extent.

### 1.9.3.2 Inoperative Reserve Funds

Regarding these funds mention was made in previous Audit Reports on State Finances that two reserve funds viz. Major Head 8115-Depreciation/Renewal Reserve Funds-103-Depreciation Reserve Funds - Government Commercial Departments and Undertakings (₹ 0.01 crore) and the Major Head 8226-Depreciation/Renewal Reserve Fund-101- Depreciation Reserve Funds of Government Commercial Departments/ Undertakings (₹ 1.53 crore) had remained inoperative since 1971. Besides this, State Government was not taken any action to make these funds operational.

### 1.9.4 Contingent Liabilities

#### 1.9.4.1 Status of Guarantees

Guarantees<sup>11</sup> are liabilities contingent on the security of the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per Statement-20 of the Finance Accounts the outstanding guarantees for the last three years are given in **Table 1.25**.

**Table 1.25: Guarantees given by the Government of Himachal Pradesh**  
(₹ in crore)

Guarantees	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding amount of guarantees	3,910	3,316	3,353	4,333	4,281
Percentage of outstanding amount of guarantees to total revenue receipts in the preceding financial year	38	26	23	28	27

The outstanding amount ₹ 4,281 crore of guarantees during the current year was in respect of Power Sector (₹ 2,455 crore), three Statutory Boards/Corporations (₹ 1,462 crore), seven Government Companies (₹ 115 crore), one Co-operative Bank (₹ 212 crore), State Financial Corporation (₹ 32 crore) and one Local/Autonomous Body (₹ five crore). An amount of ₹ 0.01 crore was received as the guarantee fees/commission. No amount of guarantee was invoked during the current year. The State Government had not furnished information regarding issue of letter of comfort during 2014-15.

The Government was required to set up Guarantee Redemption Fund, with minimum annual contribution at 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year, as recommended by the TFC to meet the contingent liabilities arising from the guarantees given. However, the State Government has not set up such Fund so far. Consequently, the revenue and fiscal deficit were understated to the extent of ₹ 21.66 crore as on 31 March 2015.

<sup>11</sup> Refer Glossary in Appendix 4.

## 1.10 Debt Management

Fiscal deficit is usually financed by way of borrowings by the State. The public debt receipts increased from ₹ 1,984 crore to ₹ 4,050 crore during 2011-14 and during the current year it increased by ₹ 6,827 crore from ₹ 4,050 crore to ₹ 10,877 crore. The public debt repayment increased from ₹ 870 crore in 2010-11 to ₹ 2,117 crore in 2012-13 but decreased by ₹ 413 crore to ₹ 1,704 crore during 2013-14. In 2014-15 it increased significantly by ₹ 6,556 crore from ₹ 1,704 crore over the previous year to ₹ 8,260 crore. The State experienced revenue deficit of ₹ 1,944 crore and fiscal deficit of ₹ 4,200 crore during 2014-15 was financed by raising public debt of ₹ 10,877 crore during the current year.

### 1.10.1 Debt Profile

**Table 1.26: Growth rate and maturity profile of debt**

(₹ in crore)

Sr. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	<b>Internal Debt</b>	<b>17,694 (95)</b>	<b>18,564 (95)</b>	<b>19,747 (95)</b>	<b>22,099 (96)</b>	<b>24,658 (96)</b>
	(i) Market Loans	9,224 (49)	10,147 (52)	11,809 (57)	13,565 (59)	15,196 (59)
	(ii) Ways and Means Advances from RBI	-	-	-	285 (1)	285 (1)
	(iii) Overdrafts	-	-	-	171 (1)	249 (1)
	(iv) Loans from Financial Institutions	3,534 (19)	3,354 (17)	2,589 (12)	2,306 (10)	2,252 (9)
	(v) Special Securities issued to NSSF	4,936 (26)	5,063 (26)	5,349 (26)	5,772 (25)	6,676 (26)
2.	<b>Loans from Government of India</b>	<b>960 (5)</b>	<b>947 (5)</b>	<b>1,018 (5)</b>	<b>1,012 (4)</b>	<b>1,071 (4)</b>
<b>Total Public Debt:</b>		<b>18,654</b>	<b>19,511</b>	<b>20,765</b>	<b>23,111</b>	<b>25,729</b>
<b>Maturity Profile of State Debt (In Years)</b>						
	0 – 1	952.61(5)	1,496.44(8)	1,533(8)	1,923(8)	2,046 (8)
	1 – 3	3,121.30(17)	3,408.68(17)	2,946(14)	3,514(15)	4,837(19)
	3 – 5	3,346.47(18)	2,853.82(15)	4,349(21)	5,470(24)	4,929(19)
	5 – 7	3,087.09(16)	4,291.81(22)	4,380(21)	3,162(14)	3,192(12)
	7 and above	8,146.89(44)	7,459.94(38)	7,557(36)	9,042(39)	10,725(42)

*Figures in brackets indicate the percentage of total public debt*

Total public debt increased from ₹ 18,654 crore in 2010-11 to ₹ 25,729 crore in 2014-15 registering annual average growth rate of 8.41 per cent. The share of market borrowings in total public debt consistently went up from 49 per cent in 2010-11 to 59 per cent in 2014-15. During current year (2014-15), total public debt increased by 11.33 per cent over the previous year.

The maturity profile of the State debt indicates that eight per cent (₹ 2,046 crore) of the public debt is payable in the next year. Thirty eight per cent (₹ 9,766 crore) is payable in the next 1-5 years' time while the remaining 54 per cent (₹ 13,917 crore)

loans are required to be paid in more than five years' time which would put a strain on the Government budget during that period.

A time series analysis of previous four years showing per capita debt is given in **Table 1.27**.

**Table 1.27: Per capita debt**

	2011-12	2012-13	2013-14	2014-15
<b>Population (In crore)</b>	0.6901	0.6971	0.7042	0.7113
<b>Total Debt (₹ in crore)</b>	28,228	30,442	33,884	38,192
<b>Per capita debt (in ₹)</b>	40,904	43,669	48,117	53,693

Source: Finance Accounts & Economics and Statistics department

Above table shows that per capita debt had shown increasing trend from ₹ 40,904 crore in 2011-12 to ₹ 53,693 crore during 2014-15 (an increase of 31 per cent in four year time).

### 1.10.2 Debt sustainability

Debt sustainability implies State's ability to service the debt. Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability<sup>12</sup> of the State. The analysis of variations in debt sustainability indicators of the State for the period of five years beginning from 2010-11 is given in **Table 1.28**.

**Table 1.28: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Ratio of Debt to GSDP (%)</b>	46.36	42.48	39.92	39.47	39.96
<b>Ratio of Debt to Revenue Receipts (%)</b>	207.81	194.10	195.17	215.67	214.04
<b>Sufficiency of Non-debt Receipts (Resource Gap)<sup>13</sup></b>	252	899	(-) 1,346	(-) 1,032	(-) 189
<b>Net Availability of Borrowed Funds (₹ in crore)</b>	752	(-) 317	(-)155	978	1,500
<b>Burden of Interest Payments (IP/RR Ratio)</b>	0.153	0.146	0.152	0.158	0.160

From the **Table 1.28** the following is observed:

- The Debt to GSDP Ratio has shown a steady improvement during the years 2010-11 to 2013-14 with a small increase in 2014-15 over the previous year. The Debt to Revenue Receipts ratio which indicates the Government's ability to fund

<sup>12</sup> Refer glossary in Appendix 4.

<sup>13</sup> Refer glossary in Appendix 4.

annual debt payments from its revenue receipts varied between 194.10 to 215.67 *per cent* during the five year period 2010-11 to 2014-15.

- The negative resource gap indicates the non-sustainability of debt, while the positive indicates the capacity to sustain the debt. The State after experiencing positive resources gap during 2010-12, turned negative to ₹ 1,346 crore, ₹ 1,032 crore and ₹ 189 crore in 2012-13, 2013-14 and 2014-15 respectively.
- The net funds available from debt after providing for repayments (including interest) turned positive and stood at ₹ 978 crore in 2013-14 and ₹ 1,500 crore in 2014-15 against negative availability of funds of ₹ 317 crore and ₹ 155 crore in 2011-12 and 2012-13 respectively.

### ***1.10.3 Raising of loans in excess of net borrowing limit fixed by the Government of India***

Article 293 (3) of the Constitution of India, inter alia, provides that a State may not raise any loan without the consent of the Government of India.

The Government of India, Ministry of Finance, Department of Expenditure fixed the net borrowing ceiling of the Government of Himachal Pradesh for the financial year 2014-15 as ₹ 2,786 crore and instructed the State Government to ensure that its incremental borrowings remain within this ceiling. This ceiling covered all sources of borrowings of the State Government as reflected in Statement 6 of the Finance Accounts.

As per Statement 6 of Finance Accounts viz. Statement of Borrowings and other Liabilities, incremental borrowings of the State Government were ₹ 4,307.79 crore during the financial year 2014-15 which resulted into violation of the net borrowing limit by ₹ 1,521.79 crore (55 *per cent*).

#### ***1.10.3.1 Violation of provision of HPFRBM Act***

HPFRBM Act, 2005 stipulates that borrowings are to be used on self-sustained development activities and creation or augmentation of capital assets and are not to be applied in financing current expenditure. The Government, in each tranche of loan, notified the object that the proceeds of loans will be utilised for financing development schemes like Power, Agriculture, Irrigation, Transportation, Industries etc., for the benefit, especially, of weaker sections and backward areas of the State that has a major long-term impact on the livelihood of the people and its GSDP. The year-wise position of market borrowings that the Government raised with the above object for the period 2010-11 to 2014-15 is given in **Table 1.29**.

**Table-1.29: Details of Market Loans raised and repayments made by the Government during 2010-11 to 2014-15**

(₹ in crore)

Year	Amount of market borrowing				
	Raised	For the purpose of repayment		For the purpose of expenditure	
		Amount	Per cent	Amount	Per cent
2010-11	645	256	40	389	60
2011-12	1,325	403	30	922	70
2012-13	2,360	698	30	1,622	70
2013-14	2,367	611	26	1,756	74
2014-15	2,345	714	30	1,631	70

Source: Finance Accounts of respective years

The above table indicates that the Government utilised at an average of 31.20 *per cent* on the fresh borrowings (2010-11 to 2014-15) for making re-payment of matured market loans whereas on an average 68.80 *per cent* were applied for capital expenditure in the respective years. The payment of matured market loans from fresh loans was against the provisions of FRBM Act, besides defeating the very objectives for these loans.

#### 1.10.4 Review of Market Borrowings

##### 1.10.4.1 Introduction

Fiscal deficit represents the borrowing requirements of the Government during the year. The borrowings are accounted for under the Consolidated Fund (E-Public debt). The major divisions are internal debt of the State Government and loans and advances from the Central Government. The internal debt is further divided into market loans and negotiated loans.

Market borrowings are controlled by the Central Government and managed by the Reserve Bank of India. As per Article 293 of the Constitution of India, State Governments may not, without the consent of the Central Government, raise any loan if they are indebted to the Central Government. The State Governments issue dated securities, termed State Development Loans (SDLs) of varying tenures. The present review of market borrowings is to assess the requirement and utilization of market loans raised by the Himachal Pradesh Government during the period 2010-15.

##### 1.10.4.2 Position of market borrowings

The year-wise position of market borrowings for the period 2010-11 to 2014-15 is given in **Table 1.30**.

**Table 1.30: Year-wise position of market borrowings**

(₹ in crore)

Year	Opening Balance of Market Loans	Market Loans raised during the year	Market loans repaid during the year	Closing Balance	Net increase in respect of opening balance	Percentage of increase over the previous year
2010-11	8,835	645	256	9,224	389	4.40
2011-12	9,224	1,325	403	10,147	923	10.00
2012-13	10,147	2,360	698	11,809	1,662	16.37
2013-14	11,809	2,367	611	13,565	1,756	14.87
2014-15	13,565	2,345	714	15,196	1,631	12.02

Source: Finance Accounts/Finance Department

The market borrowings increased by 72 per cent from ₹ 8,835 crore at the beginning of 2010-11 to ₹ 15,196 crore at the end of 2014-15.

#### **1.10.4.3 Debt sustainability indicators**

The debt sustainability indicators of the State Government are given in **Table 1.31**.

**Table 1.31: Debt sustainability indicators**

Description	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Total liabilities</b>	26,415	28,228	30,442	33,884	38,192
Public Debt Liabilities*	18,654	19,511	20,765	23,111	25,729
Other Liabilities	7,761	8,717	9,677	10,773	12,463
<b>Total Market Loans</b>	9,224	10,147	11,809	13,565	15,196
<b>Percentage of market loans to total liabilities</b>	34.92	35.95	38.79	40.03	39.79
<b>Percentage of market loans to public debt</b>	49.45	52.01	56.87	58.69	59.06
<b>Weighted Average interest rate on market loans-financial year wise</b>	8.45	8.87	8.77	8.71	8.91
<b>Interest paid on market loans</b>	678.40	706.56	849.54	974.03	1,183.46
<b>GSDP of the State at current prices</b>	56,980	66,448	76,259	85,841	95,587
<b>GSDP growth rate in per cent</b>	18.24	16.62	14.76	12.57	11.35
<b>GSDP growth rate and interest rate ratio</b>	2.16	1.87	1.68	1.44	1.27
<b>Gross interest payments to revenue receipts ratio</b>	0.15	0.15	0.15	0.16	0.16
<b>Primary Surplus(+)/ Deficit(-)</b>	(-)582.77	(+)496.65	(-)608.51	(-)1,530.72	(-)1,351
<b>Revenue surplus(+)/ deficit(-)</b>	(-)1,235.44	(+)644.89	(-)576.13	(-)1,641.42	(-) 1,944
<b>Fiscal Deficit</b>	2,532.54	1,633.05	2,978.41	4,011.58	4,200
<b>Percentage of Total liabilities to GSDP</b>	46.36	42.48	39.92	39.47	39.96
<b>Percentage of public debt to GSDP</b>	32.74	29.36	27.23	26.92	26.92
<b>Outstanding guarantees</b>	3,909.90	3,316.43	3,353.36	4,332.86	4,281
<b>Actual Revenue receipts of the preceding financial year</b>	10,346.36	1,2710.61	14,542.86	15,598.12	15,711.07
<b>Percentage of outstanding guarantees to RR</b>	37.79	28.45	24.29	27.78	27.24

\* Includes internal debt and loans and advances from GoI

The percentage of total liabilities to GSDP decreased from 46.36 per cent in 2010-11 to 39.96 per cent in 2014-15, whereas the percentage of public debt to GSDP decreased from 32.74 per cent in 2010-11 to 26.92 per cent in 2014-15. The percentage of total liabilities to GSDP of 39.96 per cent was within the FRBM target of 40.10 per cent during 2014-15. The share of market loans in the total public debt increased from 49.45 per cent in 2010-11 to 59.06 per cent in 2014-15.

Further the market loans which was ₹ 9,224 crore at the end of 2010-11 increased by 65 per cent to ₹ 15,196 crore in 2014-15. The consistent increase in market loans over the last five years indicated increased dependency of the Government on market loans for managing its finances.

**1.10.4.4 Profile of market loans**

The profile of market loans raised during the last five years is given in Table 1.32.

**Table 1.32: Profile of market loans**

(₹ in crore)

Periodicity of loan	Amount of loan raised				
	2010-11	2011-12	2012-13	2013-14	2014-15
3-5 years	--	--	600	440	--
5-7 years	--	--	400	--	--
>7 years	645	1,325	1,360	1,927	2,345
<b>Total loans raised during the year</b>	645	1,325	2,360	2,367	2,345
<b>Total outstanding as on 31 March</b>	9,224	10,147	11,809	13,565	15,196
<b>Percentage of loans raised during the year to total outstanding loans</b>	6.99	13.06	19.98	17.45	15.43

Source: Finance Department and Finance Accounts

Out of the total market borrowings of ₹ 9,042 crore during 2010-15, 84.07 per cent loans were of 7 to 10 years maturity period. Loans of ₹ 1,440 crore of shorter maturity period (3-7 years) have been raised during the years 2012-13 and 2013-14.

**1.10.4.5 Maturity trend of market loans**

The year-wise position of maturity trend of market loans for the period 2016-23 is given in Table 1.33.

**Table 1.33: Maturity trend of market loans (As on 31 March 2015)**

(₹ in crore)

Maturity year	Maturity amount	As a percentage of outstanding market loans
2016-17	1,237	8.14
2017-18	2,049	13.48
2018-19	2,102	13.83
2019-20	1,420	9.34
2020-21	645	4.24
2021-22	1,325	8.72
2022-23	1,360	8.95

Outstanding market loans as on March 2015 = ₹ 15,196 crore

Over the next seven years, maturity amount constituted an average 9.53 per cent of the outstanding market loans with significant pressure on redemption during the years 2017-18 and 2018-19 at 13.48 and 13.83 per cent of the outstanding debt respectively.

**1.10.4.6 Interest rate profile of market loans**

The year-wise average interest rates on which market loans were availed by the Government during the period 2010-15 are shown in Table 1.34.

**Table 1.34: Interest rate profile of market loans**

(₹ in crore)

Rate of interest (per cent)	Market loans raised during the year					
	2010-11	2011-12	2012-13	2013-14	2014-15	Total
7-7.99	-	-	-	600	-	600
8-8.99	645	1,120	2,360	603	1,445	6,173
9-9.99	-	205	-	1,164	900	2,269
<b>Weighted average interest rate (per cent)</b>	8.45	8.87	8.77	8.71	8.91	

Source: Finance Department

The weighted average interest rate on market loans increased from 8.45 *per cent* in 2010-11 to 8.87 *per cent* in 2011-12 and then reduced to 8.77 and 8.71 *per cent* in 2012-13 and 2013-14 respectively and then slightly increased to 8.91 *per cent* in 2014-15. The increase in the weighted average interest rate was mainly due to raising of short term market loans with maturity of 3 to 5 years as against maturity period of 10 years.

#### **1.10.4.7 Interest payments as a percentage of revenue receipts**

**Table 1.35** brings out the ratio of interest payments to revenue receipts of the State Government during last five years.

**Table 1.35: Interest payments to revenue receipts ratio**

(₹ in crore)

Gross interest payments as a percentage of revenue receipts					
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Interest payments	1,950	2,130	2,370	2,481	2,849
Revenue receipts	12,711	14,543	15,598	15,711	17,843
Percentage of interest payments to revenue receipts	15.34	14.65	15.19	15.79	15.97

Source: Finance Accounts

The percentage of interest payments to revenue receipts decreased from 15.34 *per cent* to 14.65 *per cent* during the period 2010-12 but consistently increased to 15.19, 15.79 and 15.97 *per cent* in 2012-13, 2013-14 and 2014-15 respectively. The overall debt sustainability of the State showed declining trend during the period 2010-15 (except 2011-12).

### **1.11 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 2014-15.

#### **1.11.1 Trends in Deficits**

As per FRBM Act 2005, the revenue deficit was required to be brought down to zero during 2011-12 and maintain revenue surplus thereafter. **Table 1.36** and **Charts 1.9**



and 1.10 present the trends in deficit indicators (revenue, fiscal and primary) over the period 2010-15:

Table 1.36: Trends in deficits

	2010-11	2011-12	2012-13	2013-14	2014-15
(₹ in crore)					
<b>Deficits</b>					
Revenue Deficit(-)/Revenue Surplus (+)	(-)1,235	(+) 645	(-) 576	(-) 1,641	(-)1,944
Fiscal Deficit (-)/Fiscal Surplus (+)	(-)2,532	(-) 1,633	(-) 2,979	(-) 4,011	(-) 4,200
Primary Deficit (-)/Surplus (+)	(-)582	(+) 497	(-) 609	(-) 1,530	(-) 1,351
<b>Management of Fiscal Imbalances (In per cent)</b>					
Revenue deficit (surplus)/GSDP	(-) 2.17	(+) 0.97	(-) 0.76	(-)1.91	(-) 2.03
Fiscal deficit/GSDP	(-) 4.44	(-) 2.46	(-) 3.91	(-) 4.67	(-) 4.39
Primary Deficit (surplus) /GSDP	(-) 1.02	(+) 0.75	(-) 0.80	(-) 1.78	(-) 1.41

Chart 1.9: Trends in Deficit Indicators  
(₹ in crore)

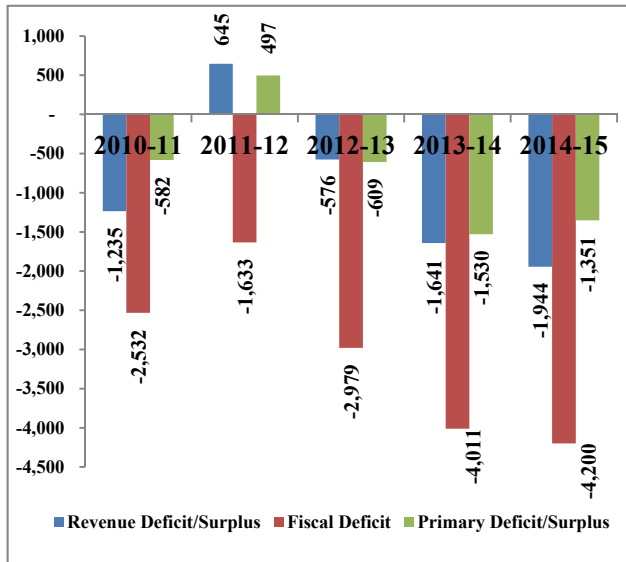
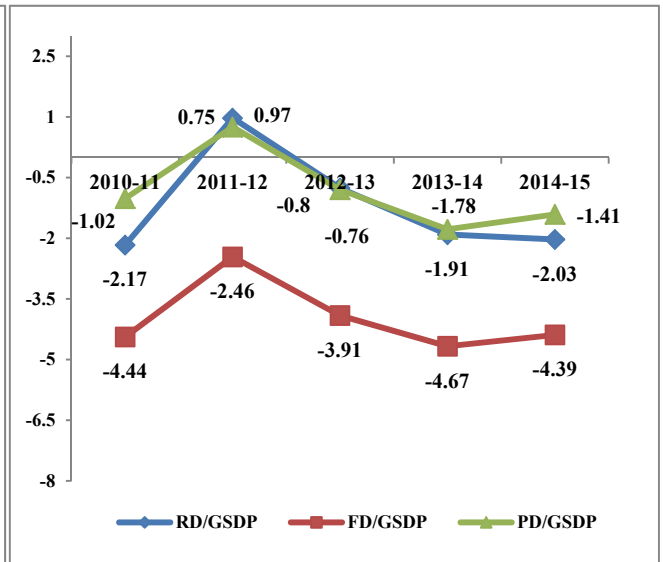


Chart 1.10: Trends in Deficit Indicators relative to GSDP (figures as percentage to GSDP)



The revenue deficit which was required to be brought down to zero during 2011-12 and maintain revenue surplus thereafter could not be achieved. The revenue, fiscal and primary experienced a situation of huge deficit during 2010-15 except for the year 2011-12 when the State experienced revenue and primary surplus of ₹ 645 crore and ₹ 497 crore respectively. From a revenue surplus position in 2011-12, the State experienced a revenue deficit of ₹ 576 crore, ₹ 1,641 crore and ₹ 1,944 crore during 2012-13, 2013-14 and 2014-15 respectively.

Fiscal deficit increased by ₹ 189 crore from ₹ 4,011 crore in 2013-14 to ₹ 4,200 crore during 2014-15. The fiscal deficit was 4.39 per cent of GSDP during the current year which was significantly above the target fixed by FRBM Act and projections made by Th FC (i.e. 3 per cent). The primary deficit decreased by ₹ 179 crore from ₹ 1,530 crore in 2013-14 to ₹ 1,351 crore in 2014-15.

### 1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.37**.

**Table 1.37: Components of Fiscal Deficit and its Financing Pattern**

(₹ in crore)

	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Components of Fiscal Deficit</b>						
1	Revenue Deficit/surplus	(-)1,235 (-2.17)	(+) 645 (0.97)	(-) 576 (-0.76)	(-) 1,641 (-1.91)	(-) 1,944 (-2.03)
2	Net Capital Expenditure	1,143(2.00)	1,810(2.72)	1,955(2.56)	1,856(2.16)	1,823(1.91)
3	Net Loans and Advances	154(0.27)	468(0.70)	448(0.59)	514(0.60)	433(0.45)
4	GSDP	56,980	66,448	76,259	85,841	95,587
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	389	922	1,662	1,757	1,631
2	Loans from GoI	(-) 23	(-) 13	71	(-) 6	59
3	Special Securities Issued to NSSF	650	127	286	424	904
4	Loans from Financial Institutions	526	(-) 180	(-) 764	173	24
5	Small Savings, PF, etc.	888	636	1,112	887	1,185
6	Deposits and Advances	333	178	(-) 156	207	504
7	Suspense and Misc.	137	(-) 119	756	267	28
8	Remittances	48	(-) 127	(-) 174	(-) 23	12
9	Others	(-)416	209	186	325	(-) 147
10	Overall Surplus/Deficit	(-) 2,532	(-) 1,633	(-) 2,979	(-) 4,011	(-) 4,200

Figures in brackets indicate the per cent to GSDP

\*All these figures are net of disbursements/outflows during the year

Source: Finance Accounts

The above **Table 1.37** shows that fiscal deficit of ₹ 4,200 crore during 2014-15 was financed mainly through borrowings from Market (₹ 1,631 crore), Small Savings, Provident Fund, etc. (₹ 1,185 crore), Special Securities issued to National Small Savings Fund (₹ 904 crore) and Deposits and Advances (₹ 504 crore).

The net capital expenditure as *per cent* of GSDP declined from 2.72 in 2011-12 to 1.91 *per cent* in the current year, which shows that the borrowed money was used to meet the revenue expenditure instead of using it for creation of assets.

The details as to how the borrowed money was utilized by the State Government during the last five years are given in the **Table 1.38**.

**Table 1.38: Application of borrowings**

(₹ in crore)

Year	Total Borrowings	Repayment of earlier borrowings (Principal portion)	Net Capital Expenditure	Balance
1	2	3	4	5 (2-(3+4))
2010-11	2,411	870 (36)	1,143 (47)	398 (17)
2011-12	1,984	1,128 (57)	1,810 (91)	(-) 954 (-48)
2012-13	3,371	2,117 (63)	1,955 (58)	(-) 701 (-21)
2013-14	4,050	1,704 (42)	1,856 (46)	490 (12)
2014-15	10,877	8,260 (76)	1,823 (17)	794 (7)

Figures in brackets indicate the percentage to total borrowings

Source: Finance Accounts

Table 1.38 clearly shows that major portion of borrowings was utilised for repayment of earlier borrowings. The percentage of utilisation of borrowings for repayment of

earlier obligations is increasing and the amount available for capital expenditure is decreasing year by year. Utilisation of borrowings for repayment went up from 36 per cent in 2011-12 to 76 per cent in 2014-15 whereas the percentage of utilisation of borrowings for capital expenditure came down to 17 per cent in 2014-15 from 91 per cent in 2011-12. The balance amount of total borrowings was used for financing the gap between revenue receipts and revenue expenditure.

During audit of Finance Accounts, it has been observed that during 2010-15, 36 to 76 per cent of borrowings are used for repayment of earlier debts which means fresh borrowings are being used to finance the earlier borrowing and meet the increasing revenue expenditure. Since the borrowings have reached the limits set in FRBM Act and the investment made are giving a return much less than the interest to be paid on borrowing as detailed in paragraph 1.8.2, any fresh borrowings may only have an adverse effect on the fiscal position of the State Government.

### 1.11.3 Quality of Deficit/Surplus

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 indicates the extent to which the deficit had been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of revenue deficit to fiscal deficit ranged from 0.19 to 0.49 during 2010-14. During 2014-15, the ratio of revenue deficit to fiscal deficit was significantly high at 0.46 (*Appendix 1.3*).

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2010-15 (**Table 1.39**) revealed that the primary deficit during this period was on account of slow rise in non-debt receipts as compared to primary expenditure. Therefore, non-debt receipts of the State were not enough to meet the primary expenditure requirements. If this trend continues, debt sustainability will be in serious jeopardy as ideally incremental non-debt receipts every year should cover not only the incremental primary expenditure but also incremental interest burden.

**Table 1.39: Primary deficit/Surplus – Bifurcation of factors**

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure	Loans and Advances	Total Primary Expenditure (3+4+5)	Primary revenue surplus (2-3)	Primary deficit (-)/ surplus (+) (2-6)
1	2	3	4	5	6	7	8
2010-11	13,430	11,996	1,789	227	14,012	1,434	(-) 582
2011-12	14,568	11,768	1,810	493	14,071	2,800	(+) 497
2012-13	15,619	13,804	1,955	469	16,228	1,815	(-) 609
2013-14	15,728	14,871	1,856	531	17,258	857	(-) 1,530
2014-15	18,534	16,938	2,473	474	19,885	1,596	(-) 1,351

The State observed an improvement in its finances during 2011-12, the primary deficit of (-) ₹ 582 crore in 2010-11 turned into surplus of ₹ 497 crore. However, the State

experienced a primary deficit of ₹ 609 crore in 2012-13 which further increased to ₹ 1,530 crore in 2013-14. The primary deficit during 2014-15 stood at ₹ 1,351 crore which was ₹ 179 crore less than the previous year. It was the net effect of increase in non-debt receipts by ₹ 2,806 crore (18 per cent) to total primary expenditure of ₹ 2,607 crore (15 per cent) during 2014-15 over the previous year. The percentage of interest payments to fiscal deficit stood at 68 per cent during the current year.

### **1.12 Follow up on Audit Report on State finances**

Separate Report on State Finances is being prepared from the year 2008-09 onwards and the State Government has submitted action taken notes (ATNs)/ *suo-motu* replies upto Audit Reports 2011-12. The Public Accounts Committee is yet to discuss any Audit Report on State Finances.

### **1.13 Conclusion and Recommendations**

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State reached a revenue surplus of ₹ 645 crore in that year. But after 2011-12, the State continuously experienced revenue deficit during 2012-13 (₹ 576 crore), 2013-14 (₹ 1,641 crore) and 2014-15 (₹ 1,944 crore). Thus, the revenue account could not meet the projections made in the Th FC and FRBM target of monitoring revenue surplus during 2010-11 to 2014-15 (except 2011-12). Further, fiscal deficit as a percentage of GSDP was significantly higher at 4.39 per cent in 2014-15 against the target fixed in the FRBM Act and projections made in Th FC (i.e. 3 per cent). The primary deficit of ₹ 1,530 crore of previous year improved and stood at ₹ 1,351 crore during 2014-15. The State's total outstanding debt as percentage of GSDP was 39.96 in 2014-15 which was within the projected target of 40.10 per cent as per FRBM Act but higher than the target of 37.58 per cent fixed in MTFPS.

During 2014-15, revenue receipts (₹ 17,843 crore) of the State grew by ₹ 2,132 crore (13.57 per cent). In revenue receipts, the share of tax revenue (33 per cent) and grants-in-aid from GoI (40 per cent) remained the same while non-tax revenue (12 per cent) increased by one per cent during 2014-15 over the previous year.

***Efforts should be made by the State Government to improve collection of tax and non-tax revenue and to control the revenue expenditure so that recourse to borrowed funds can be reduced.***

While revenue expenditure increased by ₹ 2,435 crore (14.03 per cent) from ₹ 17,352 crore in 2013-14 to ₹ 19,787 crore in 2014-15 but its share (87 per cent) in total expenditure declined by three per cent during the same period. However, the Non-Plan Revenue Expenditure (NPRE) constituted 84-88 per cent of revenue

expenditure during 2010-15. The expenditure on salaries, interest payments, pensions and subsidies has shown consistent increase over the period from ₹ 10,445 crore in 2010-11 to ₹ 14,982 crore in 2014-15. Further, the net capital expenditure as *per cent* of GSDP declined from 2.72 in 2011-12 to 1.91 *per cent* in the current year, which shows that the borrowed money was used to meet the revenue expenditure instead of using it for creation of assets.

***Whereas major chunk of the non-plan revenue expenditure is on salaries, interest payments and pensions which is largely uncontrollable, the State Government may explore suitable measures for containing the other components of non-plan revenue expenditure so that revenue deficit could be eliminated for allowing scope for assets creation and sustainable development of the State.***

During 2014-15, GoI directly transferred ₹ 278.55 crore to various State implementing agencies without routing through the State budget. There is no single agency in the State to monitor the expenditure from these funds.

***A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government to ensure its effective utilization.***

The Government as on 31 March 2015 had invested ₹ 2,732 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies. The average return on the government's investments in the past five years was 3.81 *per cent* while the government paid an average rate of interest of 7.86 *per cent* on its borrowings.

***The State Government should improve the productivity of its investments in various entities to be able to finance the loans.***

Recovery of loans and advances of ₹ 79.86 crore in respect of 26 various entities/institutions made by State Government were still outstanding and no efforts were made to recover the loans. The period of non-recovery of loans ranged between 4 to 28 years. Further, an amount of ₹ 26.57 crore had been sanctioned to the different loanee/entity as loan during the period 2006-07 to 2014-15 without finalizing the terms and conditions.

***The State Government may ensure finalising the terms and conditions of loans advanced by it and review the practice of sanctioning of loans and advances without recovering the earlier loans.***

The Social Sector expenditure as a proportion of aggregate expenditure in the State was lower than that of SCS by 2.92 and 3.06 *per cent* in 2011-12 and 2014-15 respectively.

Priority has not been given by the State Government to capital expenditure as the percentage ratio of capital expenditure to aggregate expenditure is 11.17 in 2011-12 and 10.88 in 2014-15, which is lower than the average ratio of Special Category States 14.02 in 2011-12 and 14.22 in 2014-15.

***The State Government should take steps to enhance its social sector spending and simultaneously accord priority to capital expenditure in the State.***

Fiscal liabilities at the end of the current year were ₹ 38,192 crore with growth of 13 *per cent* over the previous year and stood at 40 *per cent* of GSDP and 214 *per cent* of the revenue receipts. The share of closing balance of market loans in the total public debt increased from 49.45 *per cent* in 2010-11 to 59.06 *per cent* in 2014-15. Maturity amount constituted an average 9.53 *per cent* of the outstanding market loans over the next seven years, with significant pressure on redemption during the years 2017-18 and 2018-19 at 13.48 *per cent* and 13.83 *per cent* of the outstanding debt respectively. During 2010-15, 36 to 76 *per cent* of borrowings are used for repayment of earlier debts which means fresh borrowings are being used to finance the earlier borrowing and meet the increasing revenue expenditure. Since the borrowings have reached the limits set in FRBM Act any fresh borrowings may only have an adverse effect on the fiscal position of the State Government.

***The State Government may consider need-based borrowings and utilise the borrowings for capital expenditure and not to finance the burgeoning revenue expenditure.***