

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



## CHAPTER – I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

This chapter provides a broad overview of the finances of the State Government during the current year (2018-19) and analyses critical changes in the major fiscal aggregates relative to the previous year and the overall trend during the last five years. Himachal Pradesh is a Special Category State (SCS). The special privileges given to Himachal Pradesh include financial assistance from Government of India (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

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 shown in **Appendix 1**, the State's population increased from 0.61 crore in 2001 to 0.74 crore in 2019 (projected) recording a growth of 21 *per cent*. The percentage of population (as per census 2011) below the poverty line was eight *per cent* (all-India average being 22 *per cent*).

#### Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP is an important indicator of standard of living in the State. The trends in the annual growth of the State's GSDP and India's GDP at current and constant prices are shown in **Table 1.1**.

**Table 1.1: Trends in Annual growth of India's GDP and GSDP of Himachal Pradesh (Current and Constant Prices)**

Year	2014-15	2015-16	2016-17 <sup>@</sup>	2017-18 <sup>#</sup>	2018-19 <sup>\$</sup>
<b>Current Prices (Base year – 2011-12)</b>					
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate ( <i>per cent</i> )	10.99	10.46	11.55	11.28	11.20
State's GSDP (₹ in crore)	1,03,772	1,14,239	1,25,122	1,36,542	1,51,835
Growth rate ( <i>per cent</i> )	9.51	10.09	9.53	9.13	11.20
<b>Growth Rate of Neighbouring States</b>					
Uttarakhand	8.29	9.74	10.14	14.20	10.35
Jammu & Kashmir	2.87	19.11	7.00	10.46	11.52
<b>Constant Prices (Base year – 2011-12)</b>					
India's GDP (₹ in crore)	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate ( <i>per cent</i> )	7.41	8.00	8.17	7.17	6.81
State's GSDP (₹ in crore)	89,060	96,274	1,03,038	1,09,748	1,17,751
Growth rate ( <i>per cent</i> )	7.5	8.1	7.0	6.5	7.3

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

<sup>@</sup> Provisional <sup>#</sup> Quick <sup>\$</sup> Advance estimates.

In 2018-19, the growth rate of GSDP of Himachal Pradesh at current prices was higher than that of Uttarakhand but lower than that of Jammu & Kashmir, while being equal to the growth rate of India's GDP. At constant prices, the growth rate of the GSDP of Himachal Pradesh was slightly higher than that of India's GDP.

### 1.1.1 Summary of Financial Transactions

Government finances comprise the following:

**Chart 1.1: Structure of Government Accounts**

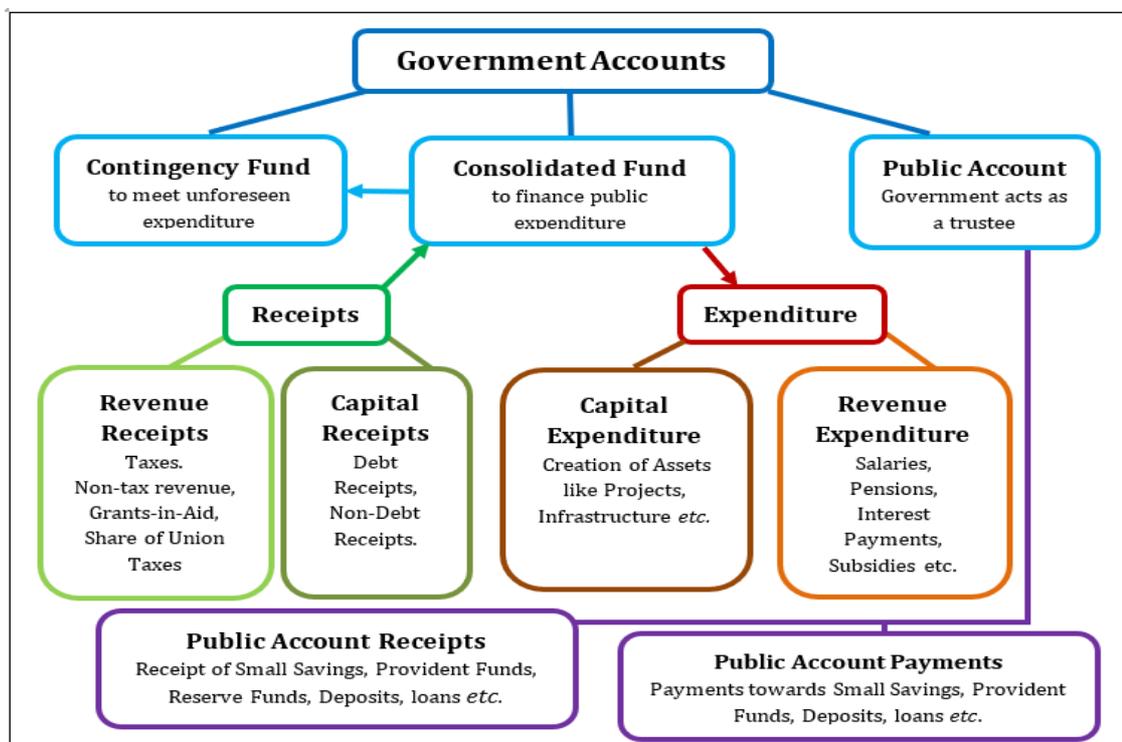


Table 1.2 presents the summary of the State Government’s fiscal transactions during the current year (2018-19) *vis-à-vis* the previous year (2017-18).

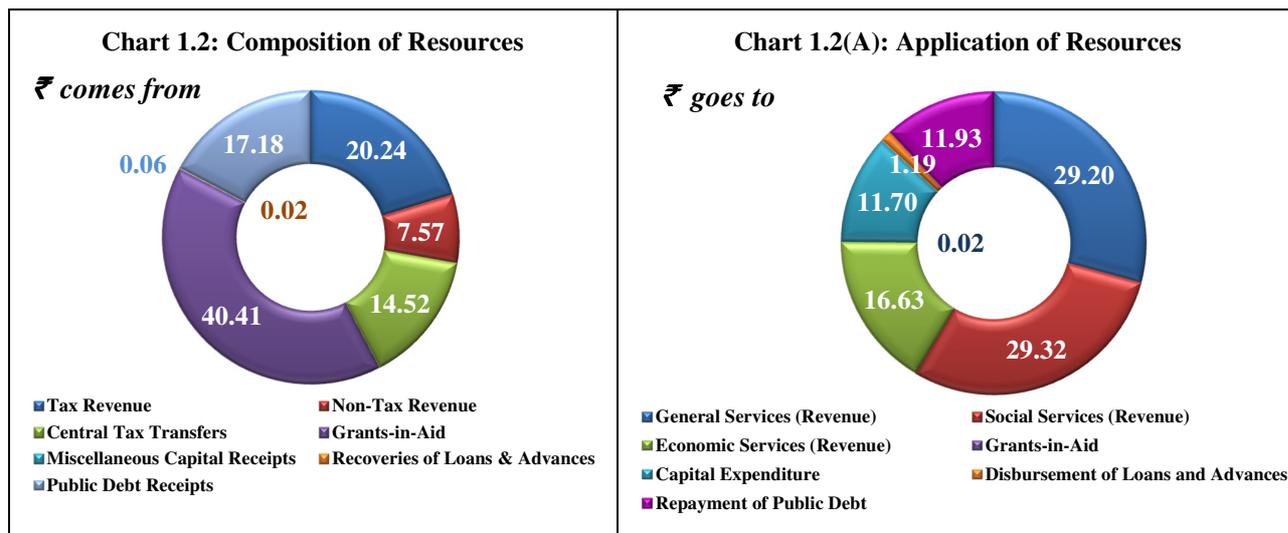
**Table 1.2: Summary of Fiscal operations in 2018-19**

(₹ in crore)					
Receipts	2017-18	2018-19	Disbursements	2017-18	2018-19
<b>Section-A: Revenue</b>					
<b>Revenue receipts</b>	<b>27,367</b>	<b>30,950</b>	<b>Revenue expenditure</b>	<b>27,053</b>	<b>29,442</b>
Tax revenue	7,108	7,573	General Services	11,009	11,438
Non-tax revenue	2,364	2,830	Social Services	10,337	11,482
Share of union Taxes/Duties	4,801	5,430	Economic Services	5,697	6,512
Grants from Government of India	13,094	15,117	Grants-in-aid and Contributions	10	10
<b>Section-B: Capital and others</b>					
<b>Misc. Capital Receipts</b>	<b>35</b>	<b>9</b>	<b>Capital outlay</b>	<b>3,756</b>	<b>4,583</b>
Recoveries of Loans and Advances	40	22	Loans and advances disbursed	503	468
Public Debt receipts	5,600	6,427	Repayment of Public Debt	3,500	4,673
Contingency Fund	Nil	Nil	Contingency Fund	Nil	Nil
Public account receipts	14,680	16,121	Public account disbursements	13,043	14,493
Opening Cash Balance	316	183	Closing cash balance	183	53
<b>Total</b>	<b>48,038</b>	<b>53,712</b>	<b>Total</b>	<b>48,038</b>	<b>53,712</b>

Source: Finance Accounts

**Appendix 1.4 (Part-A)** provides details of receipts and disbursements as well as the overall fiscal position during the current year in comparison with the previous year.

Percentage composition of sources and application of funds in the Consolidated Fund of the State during 2018-19 is given in **Chart 1.2 and 1.2 (A)**.



### 1.1.2 Review of the fiscal situation

#### Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The Government of Himachal Pradesh enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in April 2005 which was amended by Act No. 25 of 2011 to ensure prudence in fiscal management and fiscal stability (**Appendix-1.2-Part B**). The FRBM Act was required to be further amended as per recommendation of 14<sup>th</sup> Finance Commission (2015-20)<sup>1</sup>. However, the State Government had not yet amended the FRBM Act.

Performance of the State Government on major fiscal variables provided in the budget/Medium Term Fiscal Plan Statement (MTFPS), based on the recommendations of 14<sup>th</sup> Finance Commission (14<sup>th</sup> FC) and against the targets of the FRBM Act is depicted in **Table 1.3**.

**Table 1.3: Major Fiscal Variables**

Fiscal variables	2018-19				
	Targets as prescribed by the 14 <sup>th</sup> FC and FRBM Act	Targets proposed in the Budget/ MTFPS <sup>#</sup>	Actual	Percentage variation of actual over	
				Targets of 14 <sup>th</sup> FC and FRBM Act	Targets proposed in the Budget/MTFPS <sup>#</sup>
Revenue Surplus(+)/ Deficit(-) (₹ in crore)	Maintain revenue surplus	(-) 3,167.75	1,508.21	Target achieved	(+)147.61
Fiscal Deficit/GSDP (in per cent)	(-) 3.00 or less	(-) 5.16	(-)2.31	Target achieved	(+)2.85
Ratio of total outstanding debt* of the Government to GSDP (in per cent)	31.99	35.00	35.76	(-) 3.77	(-)0.76

Source: Finance Department and Finance Accounts

# Medium Term Fiscal Plan Statement

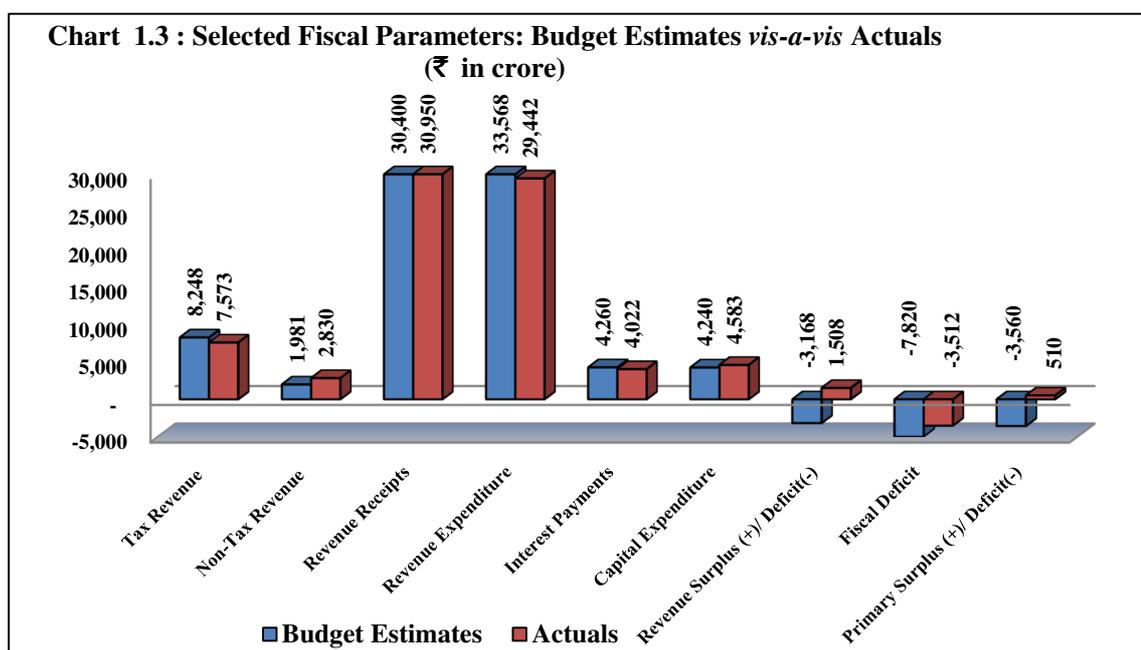
\* This includes public debt and other obligations of the State Government

<sup>1</sup> (i) To provide for the statutory flexible limits on fiscal deficit; (ii) To provide a statutory ceiling on the sanction of new capital works to an appropriate multiple of the annual budget provision

- The State achieved the targets of eliminating the revenue deficit and maintained surplus as prescribed in the FRBM Act/14<sup>th</sup> FC due to increase in central devolutions on the recommendations of 14<sup>th</sup> Finance Commission.
- Fiscal Deficit was 2.31 *per cent* of the GSDP which was within the targets.
- There was a significant variation between the targets projected in the Budget/MTFPS and the actual figures for revenue deficit/surplus and fiscal deficit: revenue surplus of ₹ 1,508 crore against projected revenue deficit of ₹ 3,168 crore in Budget/MTFPS; fiscal deficit of 2.31 *per cent* against projected fiscal deficit of 5.16 *per cent* in the Budget/MTFPS. The large difference between projected and actual figures for revenue deficit/surplus was due to incurring of substantially less amount of development revenue expenditure than the budget estimates (discussed in detail in paragraph 1.7.2). This indicated either that the State Government had not properly assessed the estimated expenditure at the time of budget preparation, or that the State Government lacked the capacity to spend.
- The ratio of outstanding liabilities to GSDP at 35.76 *per cent* was higher than the recommendations of the 14<sup>th</sup> FC / FRBM Act as well as projections made in the Budget and MTFPS.

### 1.1.3 Budget estimates and actuals

The budget estimates and actuals for some important fiscal parameters for 2018-19 are given in **Chart 1.3**.



Source: MTFPS (March 2018) and Finance Accounts 2018-19

- The collection under revenue receipts was ₹ 550 crore (two *per cent*) more than the budget estimate (₹ 30,400 crore).
- The collection under tax revenue was ₹ 7,573 crore against the anticipated receipts of ₹ 8,248 crore. The shortfall of ₹ 675 crore (eight *per cent*) was mainly due to lesser receipts under VAT (₹ 1,185 crore against ₹ 1,320 crore) and GST (₹ 3,343 crore against ₹ 4,064 crore).

- Collection under non-tax revenue was above the budget estimate by ₹ 849 crore (43 per cent).
- Revenue expenditure (₹ 29,442 crore) was less than the budget estimate (₹ 33,568 crore) by ₹ 4,126 crore (12 per cent).
- Capital expenditure exceeded budget estimates by ₹ 343 crore (eight per cent) mainly due to higher expenditure under Economic Services.
- Against the estimated revenue deficit of ₹ 3,168 crore the State generated a revenue surplus of ₹ 1,508 crore. This was mainly due to less expenditure under development revenue expenditure *i.e.* Social and Economic services (discussed in detail in paragraph 1.7.2).
- Fiscal deficit at ₹ 3,512 crore was lower than the budget estimate (₹ 7,820 crore) by ₹ 4,308 crore. Primary surplus (₹ 510 crore) was more than the budget estimate of primary deficit of ₹ 3,560 crore by ₹ 4,070 crore.

It is evident from the above that there were large variations between the budget estimates prepared by the State Government and the actuals indicating that the State Government had not properly assessed the estimated receipts/ expenditures at the time of budget preparation.

#### 1.1.4 Buoyancy Ratios

Buoyancy Ratios indicate the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The buoyancy ratios of revenue receipts, State's own tax receipts, total expenditure and fiscal liabilities with respect to GSDP are given in **Table 1.4**.

**Table 1.4: Buoyancy Ratios of Receipts, Expenditure and Fiscal Liabilities with respect to GSDP**

	2014-15	2015-16	2016-17	2017-18	2018-19
<b>GSDP (₹ in crore)</b>	103,772	114,239	125,122	136,542	151,835
Rate of Growth of GSDP (in per cent)	9.51	10.09	9.53	9.13	11.20
<b>Revenue Receipts (RR)</b>					
Revenue Receipts (RR) (₹ in crore)	17,843	23,440	26,264	27,367	30,950
Rate of growth of RR (per cent)	13.57	31.36	12.05	4.20	13.09
Buoyancy of RR with respect to GSDP	1.43	3.11	1.26	0.46	1.17
<b>State's Own Tax Revenue (SOTR)</b>					
SOTR during the year (₹ in crore)	5,940	6,696	7,039	7,108	7,573
Rate of Growth of SOTR (in per cent)	15.99	12.73	5.12	0.98	6.54
Buoyancy of SOTR with respect to GSDP	1.68	1.26	0.54	0.11	0.58
<b>Total Expenditure (TE)</b>					
TE during the year (₹ in crore)	22,734	25,630	32,133	31,312	34,493
Rate of Growth of TE (in per cent)	15.17	12.74	25.37	(-)-2.56	10.16
Buoyancy of TE with respect to GSDP	1.60	1.26	2.66	(-)-0.28	0.91
<b>Fiscal Liabilities (FL)</b>					
FL at the end of the year (₹ in crore)	38,192	41,197	47,244	51,030	54,299
Rate of Growth of FL (in per cent)	12.71	7.87	14.68	8.01	6.41
Buoyancy of FL with respect to GSDP	1.34	0.78	1.54	0.88	0.57

Source: Finance Accounts of respective years

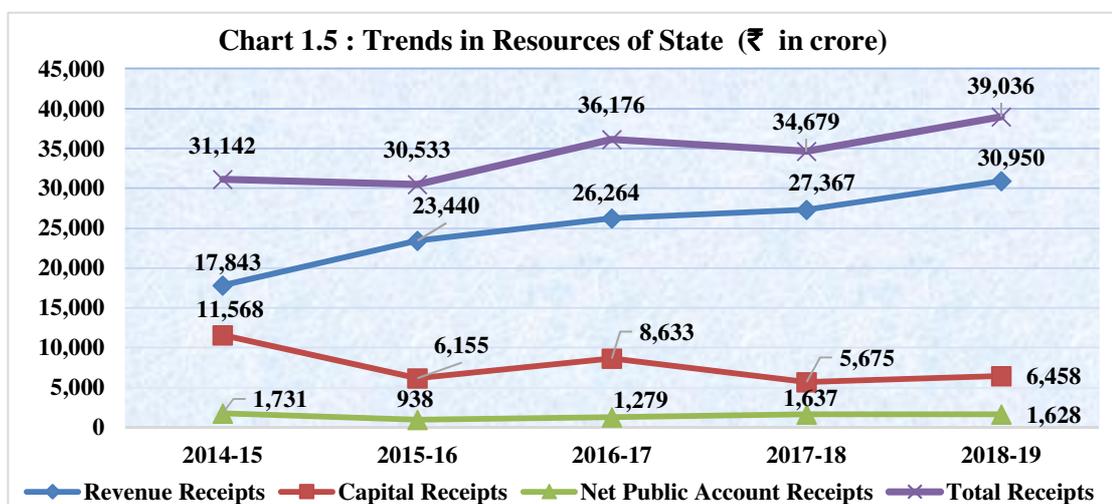
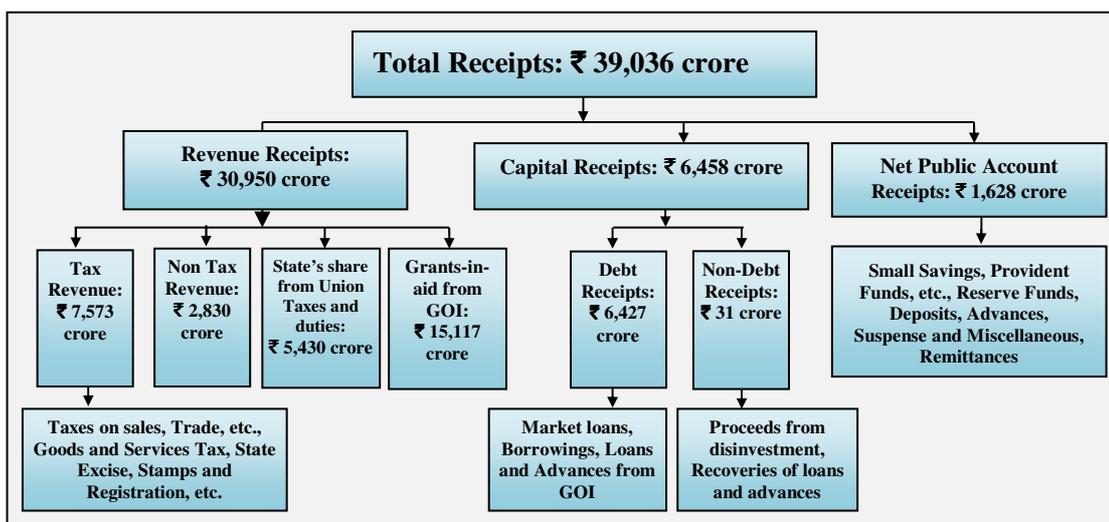
After implementation of Goods and Services Tax (GST) Act which became effective from 1 July 2017, the rate of growth of SOTR decreased from 5.12 per cent to 0.98 per cent and recorded lowest increase of ₹ 69 crore during 2017-18 over the previous year. However, during 2018-19, SOTR increased by ₹ 465 crore

(6.54 per cent). On the other hand during 2016-19, the rate of growth of GSDP *i.e.* 9.53, 9.13 and 11.20 per cent respectively was higher than the rate of growth of SOTR. The low buoyancy of SOTR with reference to GSDP, is a matter of concern. The rate of growth of total expenditure and fiscal liabilities was also less than the rate of growth of GSDP during 2018-19.

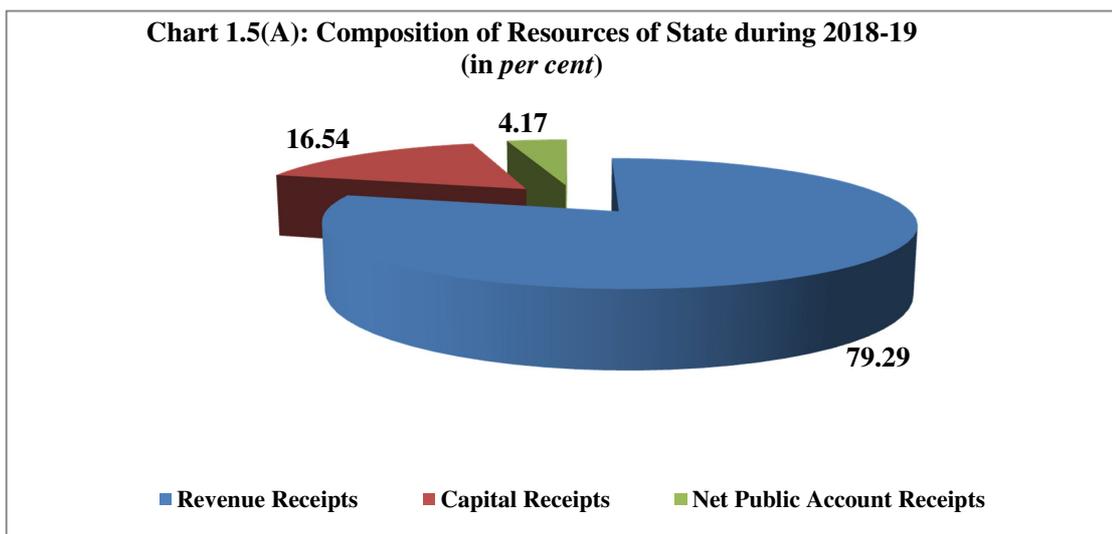
## 1.2 Resources of the State

Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from GoI. Capital receipts consist of 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 as well as accruals from Public Account. **Table 1.2** presents the receipts and disbursements of the State during the year 2018-19 as recorded in its Annual Finance Accounts. **Chart 1.5** depicts the trends in various components of the receipts of the State during 2014-19. **Charts 1.4 and 1.5(A)** depict the composition of resources of the State during the current year.

**Chart 1.4: Components and sub-components of State's resources during 2018-19**



(Source: State Finance Accounts of the respective years)



The total receipts of the State increased by ₹ 7,894 crore (25.35 per cent) during 2014-19. Revenue receipts increased by ₹ 13,107 crore (73.46 per cent), Capital receipts which includes recovery of loans and advances and public debt decreased by ₹ 5,110 crore (44.17 per cent) and Net Public Account receipts decreased by ₹ 103 crore (5.95 per cent) during the same period.

Total receipts increased from ₹ 34,679 crore (2017-18) to ₹ 39,036 crore in 2018-19. This was primarily due to increase in revenue receipts on account of central transfers (State's share from Union taxes and duties and Grant-in-aid from GoI) over the previous year.

Over the five year period 2014-19, the share of revenue receipts in the total receipts increased from 57.30 per cent to 79.29 per cent, the share of net Public Account receipts decreased from 5.56 to 4.17 per cent and the share of capital receipts (including debt) decreased from 37.15 per cent to 16.54 per cent.

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

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

Despite GoI's decision to route these funds through State budget from 2014-15, funds were still transferred directly to State implementing agencies during 2014-19. During 2018-19 these direct fund transfers increased to ₹ 962.08 crore from ₹ 901.83 crore during the previous year (**Appendix 1.5**).

With the transfer of funds of ₹ 962.08 crore during 2018-19 by GoI directly to the State implementing agencies, the total availability of State resources was understated to that extent.

### **1.2.2 Building and Other Construction Workers' Welfare Cess**

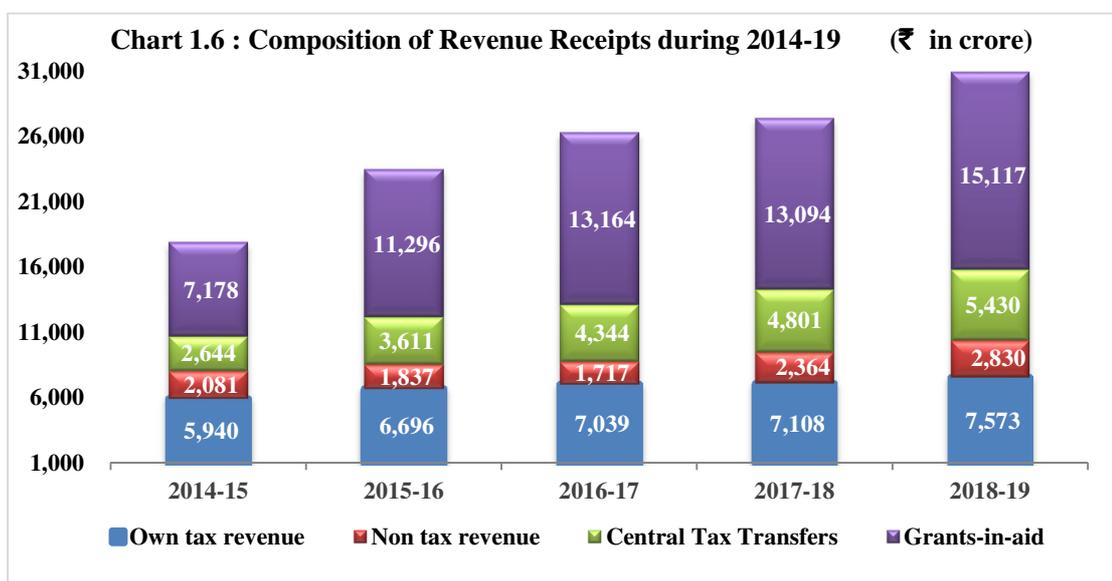
The State Government collects cess on the cost of construction incurred by employers under the Building and other Construction Workers Welfare's Cess Act, 1966. The

collected cess is to be spent on welfare schemes for construction workers. For this purpose, Building and Other Construction Workers' Welfare Board has been constituted. The accounts of the Board showed that the total funds available with the Board as on 31 March 2018 were ₹ 515.76 crore. The Board received ₹ 102.24 crore during 2018-19 as labour cess, interest, etc., and spent only ₹ 27.03 crore including ₹ 24.36 crore on labour welfare schemes during the year. As of 31 March 2019, the Board had funds of ₹ 590.97 crore.

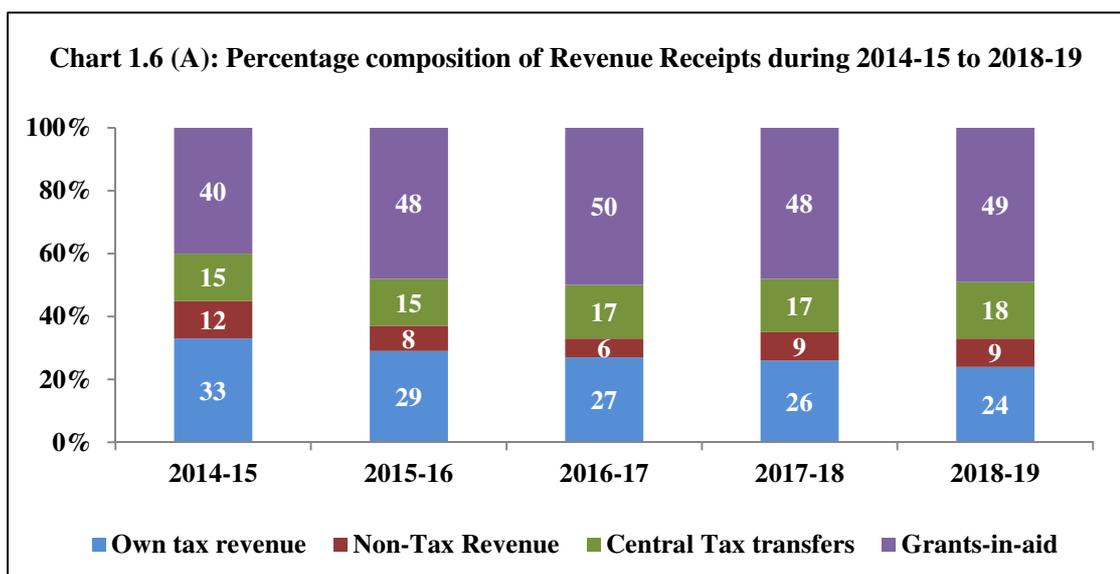
The huge amount of unutilised funds and low percentage of utilisation indicated either that the Board was not spending enough on existing welfare schemes or that the Board had not conceptualised new welfare schemes for the benefit of construction workers.

### 1.3 Revenue Receipts

The trends and composition of revenue receipts over the period 2014-19 are presented in **Appendix 1.3** and also depicted in **Charts 1.6** and **1.6 (A)**:



(Source: State Finance Accounts of respective years)



Revenue receipts of the State increased by ₹ 3,583 crore (13.09 per cent) from ₹ 27,367 crore in 2017-18 to ₹ 30,950 crore in 2018-19. During 2018-19, only 33 per cent of the Revenue receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 67 per cent were contributed by central transfers comprising the State's share in central taxes and duties (18 per cent) and grants-in-aid from GoI (49 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**

	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) (₹ in crore)	17,843	23,440	26,264	27,367	30,950
Rate of growth of RR (per cent)	13.57	31.36	12.05	4.20	13.09
State's Own Taxes (₹ in crore)	5,940	6,696	7,039	7,108	7,573
Rate of growth of Own Taxes (per cent)	15.99	12.73	5.12	0.98	6.54
State's GSDP (₹ in crore)	103,772	114,239	125,122	136,542	151,835
Growth rate of GSDP (per cent)	9.51	10.09	9.53	9.13	11.20
RR/GSDP (per cent)	17.19	20.52	20.99	20.04	20.38
<b>Buoyancy Ratios<sup>2</sup></b>					
Revenue Buoyancy w.r.t. GSDP	1.43	3.11	1.26	0.46	1.17
State's Own Taxes Buoyancy w.r.t. GSDP	1.68	1.26	0.54	0.11	0.58
Revenue buoyancy w.r.t. State's own taxes	0.85	2.46	2.35	4.29	2.00

Revenue receipts increased from ₹ 17,843 crore in 2014-15 to ₹ 30,950 crore in 2018-19 at an annual average growth rate of 14.85 per cent. The ratio of revenue receipts to GSDP remained around 20 per cent during 2015-19. Revenue buoyancy with reference to GSDP varied between 0.46 and 3.11 during 2014-19, and the improvement (1.17) in 2018-19 over the previous year (0.46) was primarily due to increase in non-tax revenue of the State and enhanced devolution of central funds. Despite high devolution of central funds during 2016-19, the effect on Revenue buoyancy was not commensurate due to the considerably low buoyancy in State's own taxes during the same period, which came down from 1.68 in 2014-15 to 0.58 in 2018-19.

### 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 2018-19 *vis-à-vis* projections made by 14<sup>th</sup> FC and in MTFPS are given in **Table 1.6**.

<sup>2</sup> Refer glossary in Appendix 4.

**Table 1.6: Percentage variation of actual over projections/estimates for the year 2018-19**  
(₹ in crore)

	14 <sup>th</sup> FC projections	Budget estimates/ MTFPS projection	Actual	Percentage variation of actual over	
				14 <sup>th</sup> FC projections	Budget estimates/ MTFPS projection
Tax revenue	13,747	8,248	7,573	(-) 44.91	(-) 8.18
Non tax revenue	2,373	1,981	2,830	Target Achieved	Target Achieved

Source: Finance Department and Finance Accounts

The actual collection under tax revenue fell short of the projections made by 14<sup>th</sup> Finance Commission in the budget estimates/MTFPS by ₹ 6,174 crore (44.91 per cent) and ₹ 675 crore (8.18 per cent). Projections made for non-tax revenue in 14<sup>th</sup> Finance Commission's and budget estimates/MTFPS were achieved during 2018-19.

### 1.3.1.1 Tax revenue

The gross collections in respect of major taxes and duties are given in **Table 1.7**, which also depicts the trends in various components of own tax revenue of the State during 2014-19.

**Table 1.7: Components of Tax Revenue**

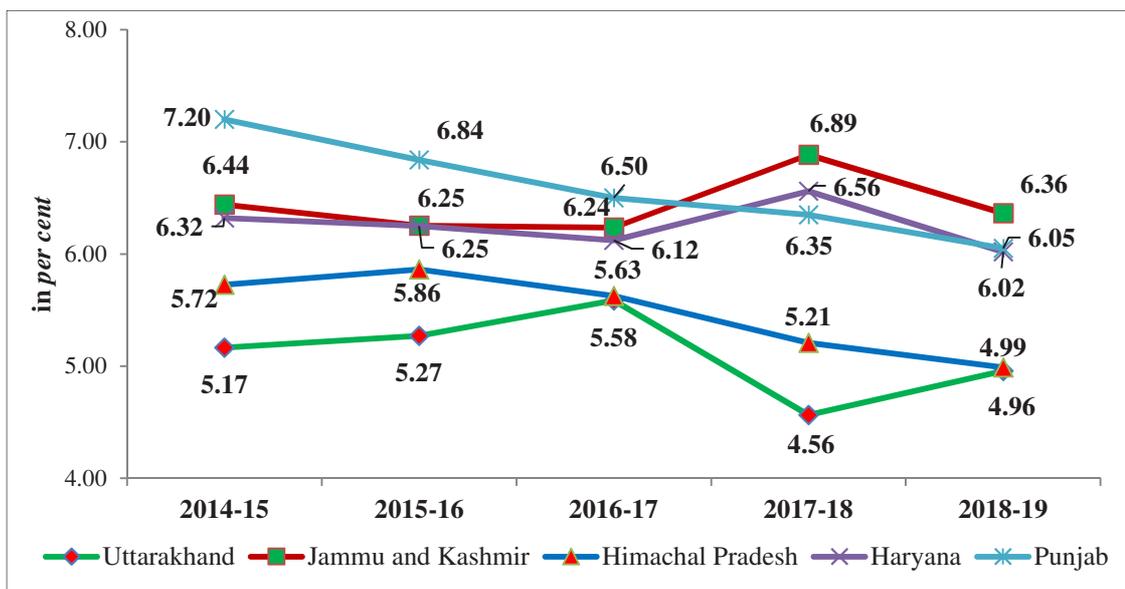
Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
State Goods and Services Tax (SGST)	-	-	-	1,833	4,065	3,343(82)
Taxes on sales, trades, etc.	3,661(17)	3,993(9)	4,382(10)	2,526(-42)	1,320	1,185(-53)
State excise	1,044(10)	1,131(8)	1,308(16)	1,311(-)	1,426	1,482(13)
Taxes on vehicles	220 (6)	317(44)	280(-12)	367(31)	300	408(11)
Stamp duty and registration fees	190(1)	206(8)	209(1)	229(10)	270	251(10)
Taxes and duties on electricity	333 (74)	551(65)	372 (-32)	361(-3)	350	487(35)
Land revenue	17(70)	7(-59)	8 (14)	17(112.5)	21	8(-53)
Taxes on goods and passengers	110(5)	115(5)	121(5)	112(-24)	145	104(-7)
Other taxes	365(12)	376(3)	359 (-5)	352(-2)	351	305(-13)
<b>Total Tax Revenue</b>	<b>5,940 (16)</b>	<b>6,696(13)</b>	<b>7,039(5)</b>	<b>7,108(1)</b>	<b>8,248</b>	<b>7,573(7)</b>

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

Tax revenue increased by ₹ 1,633 crore (27.49 per cent) during 2014-19. During 2018-19, tax revenue registered an increase of ₹ 465 crore (6.54 per cent) over 2017-18 primarily due to the large increase in collections under SGST. The State Government stated that increase in receipts under State Excise (₹ 171 crore) was due to better enforcement of excise policy, quarterly monitoring of licence fee, manufacturing cost and keeping strict watch on fees by manufacturing plants; increase in collections under taxes on vehicles (₹ 41 crore) was due to registration of more vehicles, issuance of more choice numbers, and revision of composite fee; and increase in receipts under taxes and duties on electricity ₹ 126 crore was due to deposit of arrears of electricity duty by HP State Electricity Board.

In comparison with the budget estimates, the actual collections under Tax revenue during 2018-19 fell short by eight per cent (₹ 675 crore), with substantial shortfall under SGST and taxes on sales, trades, etc.

**Chart 1.7: Comparison of Own Tax Revenue to GSDP (*per cent*) of Himachal Pradesh w.r.t. Uttarakhand, Haryana, Jammu & Kashmir and Punjab**



The Own Tax Revenue to GSDP ratio of Himachal Pradesh showed a declining trend from 2015-16 onwards. In 2018-19, the ratio for Himachal Pradesh was higher than the ratio for Uttarakhand and lower than the ratio for Haryana, Jammu and Kashmir and Punjab.

### Goods and Services Tax

State Government implemented the Goods and Services Tax (GST) Act which became effective from 1 July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the States shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure was finalised under GST Act. For Himachal Pradesh, the base year revenue figure was ₹ 3,634 crore (2015-16). The projected revenue for any year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) cumulatively over the base year revenue of that State. The projected revenue for the year 2018-19 in accordance with the base year figure was ₹ 5,388 crore. Revenue figure under GST for the year 2018-19 has been depicted in Finance Accounts as per nature of receipts *i.e.* State Goods and Services Tax (SGST), Input Tax Credit, Cross Utilization of SGST and Integrated Goods & Services Tax (IGST), Apportionment of IGST-transfer-in of Tax component to SGST and Advance Apportionment from IGST. Against the projected revenue of ₹ 5,388 crore, the revenue receipts of the State Government under GST during the year 2018-19 remained at ₹ 2,806 crore and compensation of ₹ 2,037 crore was received as detailed in **Table 1.8**. Thus, there was a shortfall of ₹ 544.82 crore in receipt of compensation as on 31 March 2019.

**Table 1.8: Month-wise (April 2018 to March 2019) impact of GST and compensation received**

(₹ in crore)

Month	Monthly revenue to be protected*	Pre-GST taxes collected**	SGST collected	Provisional apportionment of IGST	Total amount received	Compensation received	Surplus (+)/ Deficit (-)
	1	2	3	4	5=(2+3+4)	6	7={1-(5+6)}
April-18	449	2.19	134.88	100.02	237.09	--	211.91
May-18	449	2.18	117.30	117.63	237.11	184	27.89
June-18	449	2.27	127.98	120.38	250.63	336	-137.63
July-18	449	1.68	130.74	108.30	240.72	225	-16.72
August-18	449	2.45	121.64	103.99	228.08	--	220.92
September-18	449	1.78	117.38	102.99	222.15	354	-127.15
October-18	449	1.50	124.54	94.86	220.90	--	228.10
November-18	449	0.57	142.58	124.64	267.79	315	-133.79
December-18	449	1.65	139.43	115.79	256.87	--	192.13
January-19	449	2.00	142.96	104.64	249.60	330	-130.60
February-19	449	2.45	132.58	100.18	235.21	--	213.79
March-19	449	2.02	158.94	91.05	252.01	293	-96.01
	--	--	- 91.98#	--	-91.98	--	91.98
<b>Total</b>	<b>5388</b>	<b>22.74</b>	<b>1498.97</b>	<b>1284.47</b>	<b>2806.18</b>	<b>2037</b>	<b>544.82</b>

\* Revenue is to be calculated considering the revenue figures of 2015-16 as base year by adding 14 per cent per annum

\*\* Includes VAT & CST (net of refund) and revenue from the taxes subsumed in GST by excluding VAT and CST on petroleum products and liquor.

# An amount of ₹91.98 crore refunded during 2018-19.

### Advance Apportionment from IGST

GoI is to apportion IGST to State Government under section 17 of the IGST Act, 2017. State Tax Division, Department of Revenue, Ministry of Finance (GoI) sanctioned ₹ 559.24 crore on account of 'Advance Apportionment of IGST' and an amount of ₹ 107 crore was devolved during 2018-19 to the State Government on the basis of the recommendations of the Fourteenth Finance Commission.

### Audit of GST Receipts

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

## 1.3.1.2 Non-tax revenue

Table 1.9 and Chart 1.8 depict the trends in various components of non-tax revenue (NTR) of the State during the past five years (2014-19).

Table 1.9: Components of Non-Tax Revenue (NTR)

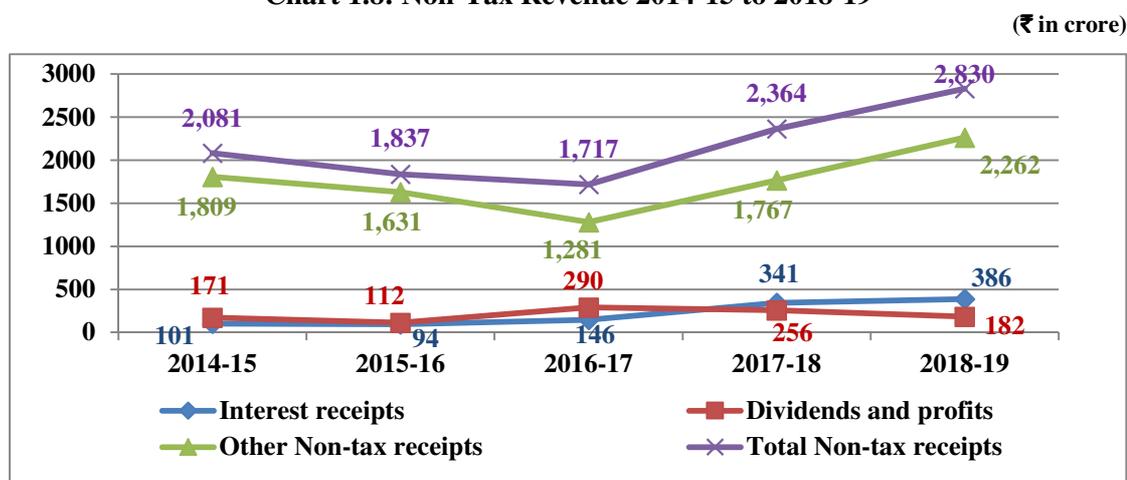
Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
Interest receipts	101(-15)	94(-7)	146(55)	341(134)	313	386(13)
Dividends and profits	171(66)	112(-35)	290(159)	256(-12)	117	182(-29)
Other non-tax receipts, of which-	1,809(16)	1,631(-10)	1,281(-21)	1,767(38)	1,551	2,262(28)
Misc. General Services	3(-50)	19(533)	2(-89)	5(150)	--	21(320)
Education, Sports, Arts and Culture	161(3)	206(28)	112(-46)	181(62)	--	215(19)
Forestry and Wildlife	116(-68)	34(-71)	19(-44)	47(147)	46	76(62)
Other Administrative Services	36(38)	33(-8)	43(30)	40(-7)	--	51(28)
Non-ferrous Mining and Metallurgical Industries	162(46)	155(-4)	176(14)	441(151)	175	221(-50)
Power	1,122(61)	924(-18)	651(-30)	688(6)	725	1,134(65)
Others	209 (-)	260(24)	278(7)	365(32)	605	544 (49)
<b>Total</b>	<b>2,081(17)</b>	<b>1,837(-12)</b>	<b>1,717(-7)</b>	<b>2,364(38)</b>	<b>1,981</b>	<b>2,830(20)</b>

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

BE: Budget estimates

(Source: Finance Accounts for the respective years)

Chart 1.8: Non-Tax Revenue 2014-15 to 2018-19



The receipts under non-tax revenue increased by ₹ 749 crore (35.99 per cent) during 2014-19. Non-tax revenue constituted 9.14 per cent of the revenue receipts during 2018-19. The overall increase of ₹ 466 crore (19.7 per cent) over the previous year was mainly on account of increase in receipts under power (₹ 446 crore) due to receipt of arrears of free power royalty and electricity duty. Increase under Forestry and Wildlife was on account of increased sale of timber and other produce to consumers/buyers by State Forest Development Corporation. Increase under Non-ferrous Mining and Metallurgical Industries during 2017-18 was due to upfront payment of ₹ 194.20 crore on account of transfer of mining leases and interest of ₹ 14.72 crore on delayed payment of royalty.

### 1.3.2 Grants- in-aid from GoI

GoI discontinued Plan and Non-Plan classification and operated new Sub-Major Heads under Major Head-1601-Grants-in-aid (GIA) for providing GIA to States from 2017-18. The position of grants-in-aid from GoI is given in **Table 1.10**.

**Table 1.10: Grants-in-aid from GoI**

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Non-Plan Grants</b>	1,199	8,524	8,877	--	--
<b>Grants for State Plan Schemes</b>	4,333	756	1,188	--	--
<b>Grants for Central Plan Schemes</b>	31	38	44	--	--
<b>Grants for Centrally Sponsored Plan Schemes</b>	1,615	1,978	3,055	--	--
<b>Centrally Sponsored Schemes</b>	--	--	--	3,590	4,010
<b>Finance Commission Grants*</b>	--	--	--	8,889	8,831
<b>Other Transfer/Grants to State/ Union Territories with Legislatures</b>	--	--	--	615	2,276
<b>Total</b>	<b>7,178</b>	<b>11,296</b>	<b>13,164</b>	<b>13,094</b>	<b>15,117</b>
<b>Percentage increase over previous year</b>	13.68	57.37	16.54	(-) 0.53	15.45
<b>Percentage of Revenue Receipts</b>	40	48	50	48	49

(Source: Finance Accounts for the respective years)

\* Finance Commission Grants includes post devolution revenue deficit grant, grants for local bodies and SDRF which was earlier depicted as Non-plan grants in State Accounts.

In 2018-19, grants-in-aid from GoI increased over the previous year by ₹ 2,023 crore which included compensation of ₹ 2,037 crore in lieu of loss of revenue arising out of implementation of GST. Share of GIA in State's revenue receipts ranged between 40 and 50 per cent during 2014-19.

### 1.3.3 Central tax transfers

In 2018-19, Central tax transfers (CTT) increased by ₹ 628.46 crore (13.09 per cent) over the previous year as given in **Table 1.11**. CTT constituted 18 per cent of State's revenue in 2018-19.

**Table 1.11: Central tax transfers during 2017-18 and 2018-19**

Name of Tax	Recommendation of 14 <sup>th</sup> FC	₹ in crore)			
		Actual for 2017-18	Actual for 2018-19	Variation	
<b>Integrated Goods and Services Tax (IGST)</b>	42 per cent of the shareable amount of Central Taxes to States.	484.84	107.00	-377.84	
<b>Central Goods and Services Tax (CGST)</b>		68.36	1,340.15	1,271.79	
<b>Corporation Tax</b>		1,470.67	1,888.31	417.64	
<b>Income Tax</b>		1,241.88	1,390.66	148.78	
<b>Wealth Tax</b>		(-)0.04	0.69	0.73	
<b>Customs</b>		484.70	384.89	-99.81	
<b>Union Excise Duty</b>		506.50	255.78	-250.72	
<b>Other Taxes on Income and Expenditure</b>		-	9.83	9.83	
<b>Other Taxes and Duties on Commodities and Services</b>		-	2.80	2.8	
<b>Service Tax</b>		544.40	49.66	-494.74	
<b>Total</b>			<b>4,801.31</b>	<b>5,429.77</b>	<b>628.46</b>

The 14<sup>th</sup> FC recommended increasing the States' share of Central taxes from 32 to 42 *per cent*. Accordingly, the State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax was fixed at 0.713 *per cent* and 0.722 *per cent*, respectively.

Increase of CTT in 2018-19 over the previous year was mainly under CGST (₹ 1,271.79 crore), Corporation Tax (₹ 417.64 crore) and Income tax (₹ 148.78 crore).

## 1.4 Capital Receipts

Capital receipts include recoveries of loans and advances, receipts through debt (internal and from GoI) and miscellaneous capital receipts. The trends in growth and composition of capital receipts during the past five years (2014-19) are presented in Table 1.12.

**Table 1.12: Trends in growth and composition of capital receipts**

Sources of State's Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Capital Receipts (CR)</b>	<b>11,568</b>	<b>6,155</b>	<b>8,633</b>	<b>5,675</b>	<b>6,458</b>
<b>Rate of growth of CR (per cent)</b>	184.44	(-) 46.79	40.26	(-)34.26	13.80
<b>Miscellaneous Capital Receipts</b>	650*	Nil	Nil	35	9
<b>Recoveries of Loans and Advances</b>	41	26	30	40	22
<b>Rate of growth of non-debt capital receipts (in per cent)</b>	3,964.71	(-) 96.23	15.38	150.00	(-)58.67
<b>Public Debt Receipts</b>	10,877	6,129	8,603	5,600	6,427
Debt Receipts from internal sources	10,752	6,079	8,502	5,518	6,360
Loans and Advances from GoI	125	50	101	82	67
<b>Rate of growth of debt capital receipts</b>	168.57	(-) 43.65	40.37	(-)34.91	(-)14.77

\* Proceeds from capital disinvestment of Himachal Pradesh Power Corporation.

Capital receipts decreased from ₹ 11,568 crore in 2014-15 (high amount due to more ways and means advances and overdrafts (₹ 6,860 crore) taken to maintain minimum cash balances with RBI) to ₹ 6,155 crore in 2015-16. In 2016-17, there was an increase due to inclusion of loan of ₹ 2,890.50 crore given to DISCOM on account of UDAY scheme. In 2018-19, capital receipts (₹ 6,458 crore) increased by ₹ 783 crore over the previous year (₹ 5,675 crore). Details of sources of capital receipts are discussed in following paragraphs:

### 1.4.1 Recoveries of loans and advances

The State Government had provided loans and advances to various institutions/organizations such as Himachal Pradesh Private Educational Institutions Regulatory Commission, Himachal Pradesh State Co-operative Bank, Himachal Pradesh Marketing and Consumer Federation Corporation Ltd. (HIMFED), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Ltd., Himachal Pradesh Power Corporation Ltd., Himachal Pradesh Power Transmission Corporation Ltd., Himachal Pradesh Financial Corporation, etc. The State Government recovered loans and advances of ₹ 22 crore during 2018-19. Besides, ₹ 272 crore was received as interest on loans and advances. As of 31 March 2019, the total outstanding loans

and advances amounted to ₹ 6,953 crore. The detailed status of loans and advances has been discussed in Paragraph 1.8.3.

#### 1.4.2 Debt receipts from internal sources

Debt receipts from internal sources *i.e.* market loans/borrowings from different financial institutions and banks over the period 2014-15 to 2018-19 continued to be a major source of receipts for the State Government.

**Table 1.13: Details of debt receipts from internal sources**

	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
i) Market Loans	2,345 (22)	2,450 (40)	3,400 (40)	4,600 (84)	4,210 (66)
ii) Special Securities issued to National Small Savings fund of the Central Government (NSSF)	1,102 (10)	1,307 (22)	Nil	Nil	Nil
iii) Ways and means advances (including overdrafts) (WMA including OD)	6,860 (64)	1,785 (29)	1,671 (20)	400 (7)	1,496 (24)
iv) Loans from National Bank for Agricultural and Rural Development (NABARD)	400 (4)	500 (8)	500 (6)	500 (9)	626 (10)
v) Loans from Other Financial Institutions	45 (*)	37 (1)	2,931# (34)	18 (*)	28 (*)
<b>Internal Debt Receipts (Total (i to v))</b>	<b>10,752</b>	<b>6,079</b>	<b>8,502#</b>	<b>5,518</b>	<b>6,360</b>
<b>Internal Debt Repayment</b>	<b>8,193 (76)</b>	<b>3,876 (64)</b>	<b>3,869 (46)</b>	<b>3,421 (62)</b>	<b>4,588 (72)</b>

Figures in brackets indicate the percentage of internal debt receipts

\* Less than one per cent.

# Includes ₹2,890.50 crore on account of loans raised for disbursement to DISCOM under UDAY Scheme.

Over the last five years, market loans were the major component of internal debt. During 2018-19, market loans decreased by ₹ 390 crore over the previous year as the State Government accessed more loans from NABARD and other financial institutions. Trends in market borrowings are detailed in paragraph 1.10.

#### 1.4.3 Loans and advances from GoI

Loans of ₹ 67 crore were received from GoI and repayment of ₹ 85 crore was made during 2018-19. Total outstanding loans and advances from GoI decreased by ₹ 17 crore during 2018-19 (₹ 1,062 crore) over the previous year (₹ 1,079 crore).

#### 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 2017-18 and 2018-19 are given in **Table 1.14**.

Table 1.14: Trends in Public Accounts Receipts and Disbursements during 2017-18 and 2018-19

(₹ in crore)

State's resources under various heads	Public Account Receipts		Public Account Disbursements		Excess of Receipts over Disbursements	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
(a) Small Savings, Provident Fund, etc.	3,768	3,754*	2,376	2,640	1,392	1,114
(b) Reserve fund	420	500	315	508	105	-8
(c) Deposits and Advances	2,874	3,580	2,685	3,172	189	408
(d) Suspense and Miscellaneous	763	839	882	838	(-) 119	1
(e) Remittances	6,854	7,448	6,785	7,336	69	112
<b>Total</b>	<b>14,679</b>	<b>16,121</b>	<b>13,043</b>	<b>14,494</b>	<b>1,636</b>	<b>1,627</b>

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

Actual figure: \* ₹3,753.46 crore

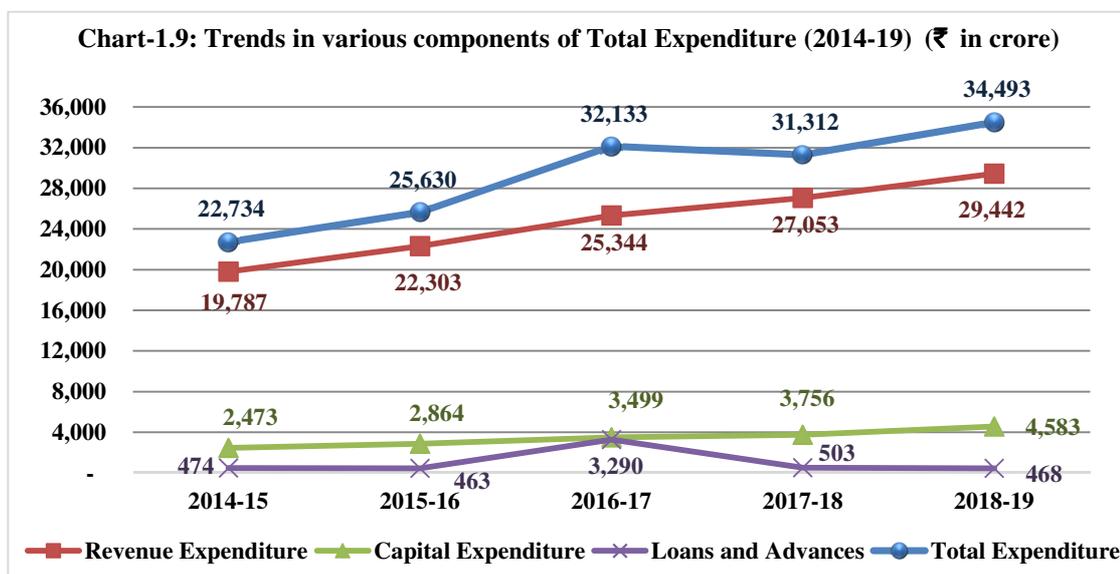
Net public account receipts (excess of receipts over disbursements) decreased by ₹ 9 crore from ₹ 1,636 crore in 2017-18 to ₹ 1,627 crore in 2018-19. Net availability of funds under these heads had a major share in financing the fiscal deficit.

## 1.6 Application of Resources

The application of resources is analysed under various headings, viz. growth and composition of expenditure, revenue expenditure, capital expenditure, committed expenditure (expenditure on salaries, interest payments, subsidies, pension payments) and financial assistance to local bodies and other institutions, in the succeeding paragraphs.

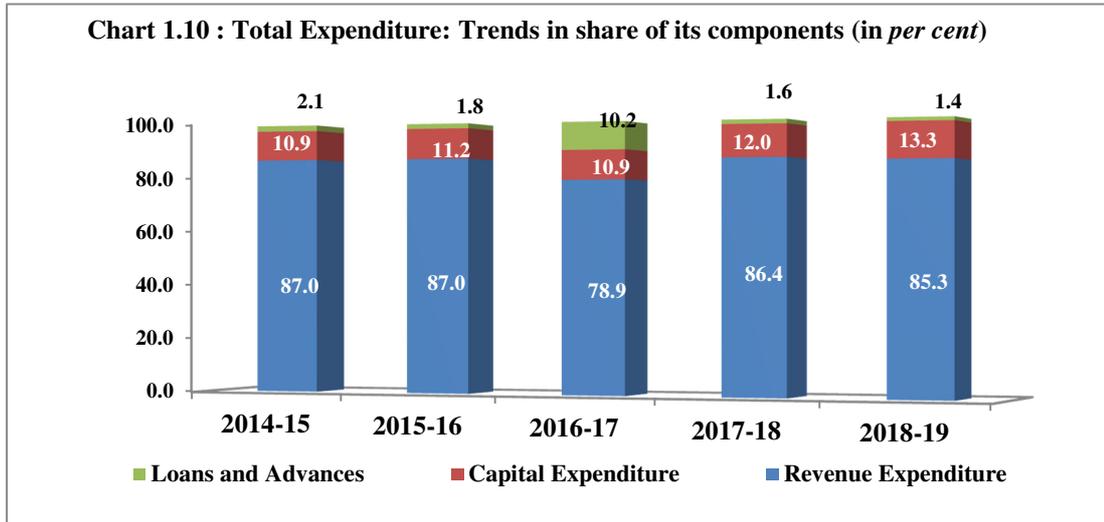
### 1.6.1 Growth and Composition of Expenditure

Charts 1.9 to 1.11 present the trends and composition of total expenditure over the last five years (2014-19):

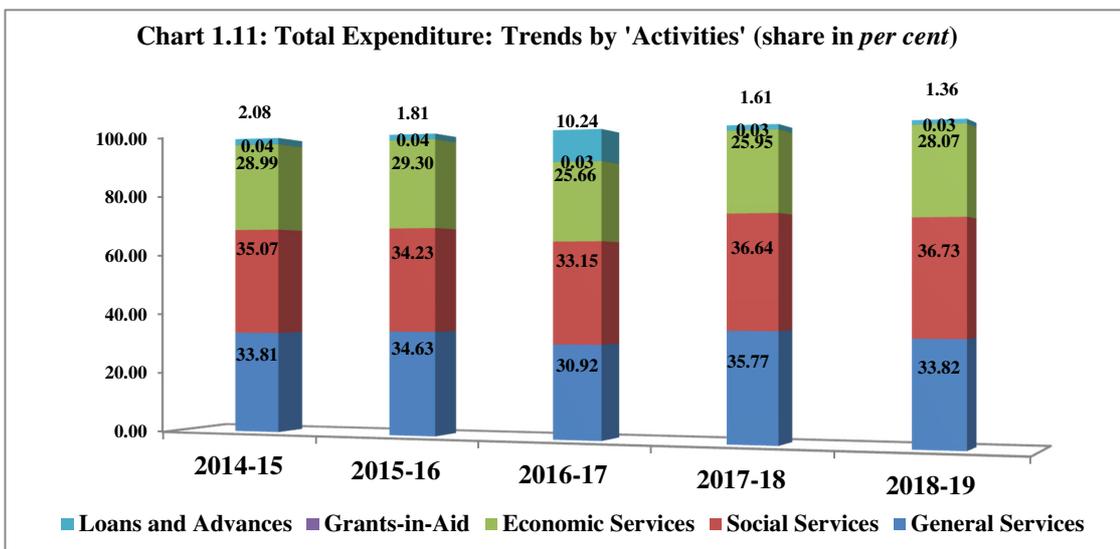


### Total expenditure

Total expenditure of the State increased from ₹ 22,734 crore in 2014-15 to ₹ 34,493 crore in 2018-19 at an annual average rate of 12 per cent. During 2018-19, it increased by ₹ 3,181 crore (10 per cent) over the previous year. The increase in total expenditure was mainly on account of increase in revenue expenditure by ₹ 2,389 crore and capital expenditure by ₹ 827 crore with decrease in loans and advances by ₹ 35 crore over the previous year.



The share of revenue expenditure in total expenditure during 2018-19 was 85.3 per cent which was less than the previous year (2017-18), while the share of capital expenditure (13.3 per cent) in total expenditure increased by more than one per cent over the previous year (12 per cent). The share of loans and advances disbursed remained almost static during the same period.



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 forms part of non-development expenditure, decreased from 35.77 per cent in 2017-18 to 33.82 per cent as a percentage of total expenditure in 2018-19. Expenditure under General Services was

mainly on account of Interest Payments (34 *per cent*) and Pension and Other Retirement Benefits (43 *per cent*). Development expenditure<sup>3</sup> *i.e.* expenditure on Social and Economic Services together accounted for 64.80 *per cent* in 2018-19 against 62.59 *per cent* in 2017-18. The share of loans and advances remained almost static over the past five years except in 2016-17 (10.24 *per cent*) when loan amounting to ₹ 2,890.50 crore was disbursed to DISCOM under UDAY Scheme. During 2018-19, the share of loans and advances was 1.36 *per cent* of total expenditure.

### 1.6.1.1 Revenue Expenditure

**Table 1.15** presents the growth of revenue expenditure over five years (2014-19).

**Table 1.15: Growth of Revenue expenditure**

	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Expenditure	19,787	22,303	25,344	27,053	29,442
Growth rate ( <i>per cent</i> )	14.03	12.72	13.63	6.74	8.83
Revenue Expenditure as percentage to GSDP	19.07	19.52	20.26	19.81	19.39

Revenue expenditure during 2014-19 increased by ₹ 9,655 crore (48.79 *per cent*) at an annual growth rate ranging from 7 to 14 *per cent*, and its percentage to GSDP increased at an annual average rate of 19.61 *per cent*. Revenue expenditure in 2018-19 (₹ 29,442 crore) increased by ₹ 2,389 crore (nine *per cent*) over 2017-18 (₹ 27,053 crore) (**Chart-1.9**). The increase in expenditure was mainly under Social Services (by ₹ 1,145 crore or 11 *per cent*) and Economic Services (by ₹ 815 crore or 14 *per cent*). The overall increase in revenue expenditure was primarily on account of increase under Interest payments (₹ 234 crore) in General Services; Water Supply, Sanitation, Housing and Urban Development (₹ 378 crore); Education, Sports, Art and Culture (₹ 172 crore) and Health and Family Welfare (₹ 149 crore) in Social Services; and Agriculture and Allied Activities (₹ 386 crore) and Energy (₹ 211 crore) in Economic Services.

**Chart-1.10** shows that revenue expenditure continued to consume a dominant proportion (79 to 87 *per cent*) of total expenditure during the years 2014-19 and increased at an annual average rate of 11 *per cent*. During 2018-19, the revenue expenditure consumed 85.3 *per cent* of the total expenditure.

The percentage of State's revenue receipts and revenue expenditure to GSDP stood at 20.38 and 19.39 *per cent* respectively during 2018-19. The State had revenue surplus of ₹ 1,508 crore during 2018-19 which was one *per cent* of GSDP.

### 1.6.1.2 Capital Expenditure

There was a trend of sustained growth in capital expenditure for the last five years (**Chart-1.10**), increasing by ₹ 2,110 crore (85 *per cent*) during 2014-19. During 2018-19, capital expenditure (₹ 4,583 crore) increased by ₹ 827 crore (22 *per cent*)

<sup>3</sup> Refer to Glossary in Appendix 4.

over the previous year 2017-18 (₹ 3,756 crore). The share of capital expenditure in total expenditure increased from 12 per cent in 2017-18 to 13.29 per cent in 2018-19.

The major sectors where capital expenditure was made during 2018-19 were under Social Services: Water Supply, Sanitation, Housing and Urban Development (₹ 492 crore), Health and Family Welfare (₹ 346 crore), Education, Sports, Arts and Culture (₹ 327 crore); and under Economic Services: Transport (₹ 2,085 crore), Irrigation and Flood Control (₹ 465 crore), Power Projects (₹ 250 crore).

### 1.6.2 Committed Expenditure

The committed expenditure of the State Government on revenue account consists primarily of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.16** present the trends in the expenditure on these components during 2014-19.

**Table 1.16: Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
<b>Salaries and Wages, of which</b>	8,418 (47)	8,174 (35)	9,682(37)	10,766 (39)	11,264	11,210* (36)
Non-Plan Head	8,159	7,826	9,345	10,462	-	10,869
Plan Head	259	348	337	304	-	341
<b>Interest Payments</b>	2,849 (16)	3,155 (13)	3,359(13)	3,788(14)	4,260	4,022(13)
<b>Pensions</b>	2,914 (16)	3,836 (16)	4,114(16)	4,709(17)	5,893	4,975(16)
<b>Subsidies</b>	801 (4)	1,346 (6)	764(3)	907(3)	1,085	1,283 (4)
<b>Total</b>	<b>14,982</b>	<b>16,511</b>	<b>17,919</b>	<b>20,170</b>		<b>21,490</b>
<b>Percentage to RE</b>	<b>76</b>	<b>74</b>	<b>71</b>	<b>75</b>		<b>73</b>
<b>Percentage to RR</b>	<b>83</b>	<b>70</b>	<b>69</b>	<b>73</b>		<b>69</b>

Figures in brackets indicate per cent to Revenue Receipts

\* Salary: ₹10,956 crore; wages: ₹ 254 crore. BE: Budget estimates

There was a consistent rise in committed expenditure of the State. The increase in committed expenditure during 2018-19 over the previous year was ₹ 1,320 crore (seven per cent). It consumed a dominant share of revenue expenditure and ranged between 71 and 76 per cent during 2014-19 leaving little scope for the Government to spend on developmental activities.

#### Salaries and Wages

The expenditure on salaries and wages increased from ₹ 8,418 crore in 2014-15 to ₹ 11,210 crore in 2018-19. It increased by ₹ 444 crore (four per cent) during 2018-19 over the previous year, and consumed 36 per cent of revenue receipts of the State during 2018-19. The expenditure on salaries in the current year (₹ 10,956 crore) was within the projections made in Medium Term Fiscal Plan Statement (MTFPS) (₹ 11,264 crore).

#### Pension Payments

The expenditure on pension payments increased from ₹ 2,914 crore in 2014-15 to ₹ 4,975 crore in 2018-19 and by ₹ 266 crore (six per cent) during the current year over

the previous year. Salary and pension payments together accounted for 55 per cent of revenue expenditure. It was noticed that there was significant variation (by ₹ 918 crore or 16 per cent) between the pension payments projected in the Budget/MTFPS (₹ 5,893 crore) and the actual expenditure (₹ 4,975 crore).

### **New Pension Scheme**

State Government employees recruited with effect from 15 May 2003 are covered under the New Pension Scheme, which is a defined contribution scheme. As per prescribed procedure, both employer and employee contributions are to be initially credited to the Public Account under Major Head 8342-Other Deposits-117 Defined Contribution Pension Scheme for Government Employees. Thereafter, the entire amount is to be transferred to the National Securities Depository Limited (NSDL)/Trustee Bank through the designated fund manager in the same year.

During 2018-19, the State Government received ₹ 301.95 crore towards employees' contribution. Considering a matching share of ₹ 301.95 crore as State Government share and taking into account opening balance ₹ 0.89 crore (Dr.), a total amount of ₹ 603.01 crore was to be transferred to NSDL. As per information received from NSDL, a total amount of ₹ 606 crore (including legacy amount) was credited during the year. Out of ₹ 606 crore transferred to NSDL on account of Pension contribution, only ₹ 525.43 crore had been routed through the Government account following the prescribed accounting procedure. The adverse balance of ₹ 0.89 crore during 2017-18 increased to ₹ 1.41 crore during 2018-19.

### **Interest Payments**

Interest payments increased by 41 per cent from ₹ 2,849 crore in 2014-15 to ₹ 4,022 crore in 2018-19. The increase in 2018-19 over the previous year was of ₹ 234 crore (six per cent). Interest payments consumed 13 per cent share of revenue receipts. Interest payments were lower than the normative assessment made by 14<sup>th</sup> FC (₹ 4,129 crore) and projections made in Budget/MTFPS (₹ 4,260 crore) by ₹ 107 crore and ₹ 238 crore respectively. The increased outgo on account of interest payments was due to increased commercial borrowing as detailed in Para 1.9.2.

### **Subsidies**

The State Government has been paying subsidies to various institutions/bodies/corporations. Inter-year variation in subsidies is shown in **Table 1.16**. Subsidies increased by 60 per cent from ₹ 801 crore in 2014-15 to ₹ 1,283 crore in 2018-19. Subsidies increased by ₹ 376 crore during 2018-19 and consumed about four per cent of the revenue receipts. The major components of subsidies were Energy (₹ 574 crore), Food and Supply (₹ 300 crore), Transport (₹ 160 crore) and Agriculture (₹ 87 crore).

The overestimation of pension and interest payments in the Budget/MTFPS was difficult to justify, as these are committed liabilities and can be accurately assessed in advance. This led to overestimation of Revenue expenditure and resulted in overestimation of fiscal variables *i.e.* revenue and fiscal deficits.

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

The detailed position of grants-in-aid released to various institutions by the State Government during the period 2014-15 to 2018-19 is given in **Table 1.17**.

**Table 1.17: Detail of Grants-in-aid released to Local Bodies and other institutions**  
(₹ in crore)

Name of Institution	2014-15	2015-16	2016-17	2017-18	2018-19
Panchayati Raj Institutions	780.89(139)	427.34(-45)	696.64(63)	567.75(-19)	746.91(31.56)
Urban Local Bodies	202.24(-28)	319.54(58)	544.66(70)	257.78(-53)	488.52(89.51)
Public Sector Undertakings	53.81(-16)	125.63(133)	150.84(20)	164.01(9)	184.40(12.43)
Autonomous Bodies	502.17(41)	641.87(28)	759.23(18)	799.08(5)	930.45(16.44)
Education	341.89(54)	341.40(-)	479.47(40)	492.21(3)	561.56(14.09)
Other Institutions	275.18(48)	756.50(175)	726.14(-4)	614.62(-15)	722.11(17.49)
<b>Total</b>	<b>2,156.18 (50)</b>	<b>2,612.28 (21)</b>	<b>3,356.98(29)</b>	<b>2,895.46(-14)</b>	<b>3,633.95(26)</b>
Assistance as percentage of Revenue Expenditure	10.90	11.71	13.25	10.70	12.35
Assistance as percentage of Revenue Receipts	12.08	11.14	12.78	10.58	11.74

Source: Finance Accounts of respective years.

Figures in brackets indicate the per cent increase/decrease over previous year

The grants extended to local bodies and other institutions consistently showed an increasing trend in all the years of comparison except during 2017-18 where it decreased by ₹ 461.52 crore (14 per cent) over 2016-17 mainly under plan grants. During 2018-19 it increased by ₹ 738.49 crore (26 per cent) over the previous year. The increase in grants-in-aid during 2018-19 was mainly due to more grants to Urban Local Bodies (₹ 230.74 crore), Panchayati Raj Institutions (₹ 179.16 crore), Autonomous Bodies (₹ 131.37 crore) and other Development Agencies (₹ 107.49 crore), etc. Grants to local bodies and other institutions consumed 11 to 13 per cent of Revenue expenditure of the State during 2014-19.

## 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

To enhance human development levels, the State should increase 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.

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 (SCS) during the current year 2018-19 taking 2014-15 as the base year is analysed in **Table 1.18** and **Chart 1.12**.

Table-1.18: Fiscal Priority of the State during 2014-15, 2017-18 and 2018-19

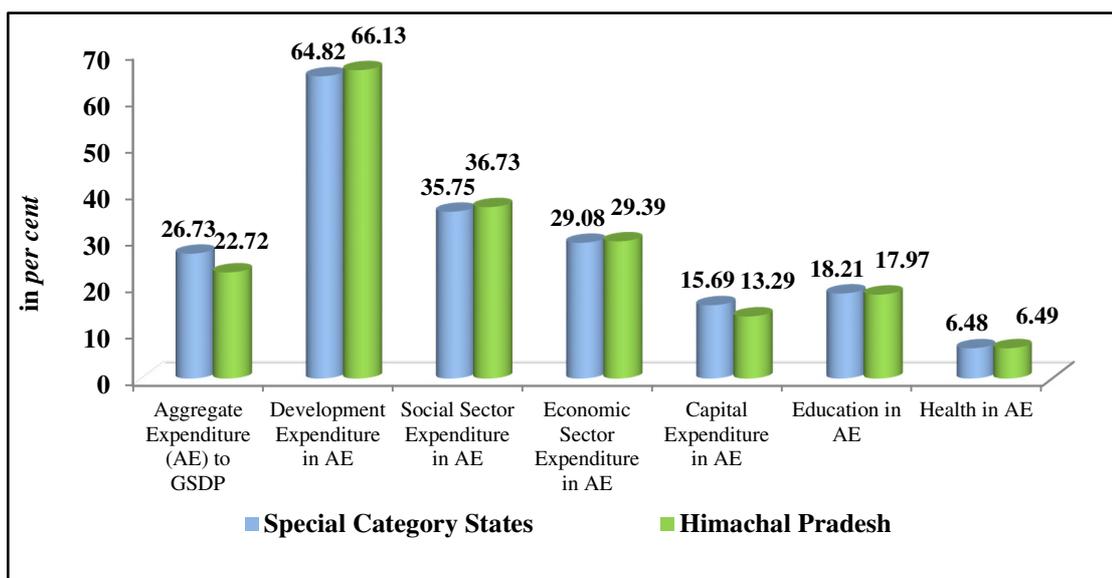
Priority Indicator	2014-15		2017-18		2018-19	
	SCS	HP	SCS	HP	SCS	HP
Aggregate expenditure/GSDP	26.00	22.48	25.86	22.93	26.73	22.72
Development expenditure#/Aggregate expenditure	66.76	66.15	64.17	64.18	64.82	66.13
Social Sector expenditure/Aggregate expenditure	36.27	35.08	34.99	36.66	35.75	36.73
Economic Sector expenditure/Aggregate expenditure	30.49	31.07	29.18	27.52	29.08	29.39
Capital expenditure/Aggregate expenditure	14.46	10.88	15.73	12.00	15.69	13.29
Education/Aggregate expenditure	18.52	18.81	18.04	19.29	18.21	17.97
Health/Aggregate expenditure	5.60	5.71	6.22	6.41	6.48	6.49

SCS: Special Category States, HP: Himachal Pradesh

# Development expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances disbursed under Social and Economic sectors.

Source: For GSDP, the information as available on CSO website as on 1 August 2019 and supplied by the States.

Chart 1.12: Prioritisation in public expenditure in percentage during 2018-19



- Aggregate expenditure of the State as a ratio of GSDP was less in all years (2014-15, 2017-18 and 2018-19) as compared to Special Category States (SCS).
- The State had not given adequate fiscal priority to education in 2018-19 (17.97 per cent) as its percentage to aggregate expenditure decreased by 1.32 percentage points over the previous year (19.29 per cent).
- The ratio of capital expenditure to aggregate expenditure of the State slightly increased (1.29 percentage points) during 2018-19 (13.29 per cent) over the previous year (12 per cent) but was less (2.40 percentage points) than the ratio for SCS (15.69 per cent).

The State Government needs to give more priority to Education and Capital Expenditure to give stimulus to development.

**1.7.2 Efficiency of expenditure use**

**Table 1.19** presents the trends in development expenditure relative to the aggregate (total) expenditure of the State during the current year and previous years' expenditure.

**Table-1.19: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
<b>Aggregate (Total) Expenditure</b>	22,734	25,630	32,133*	31,312	--	34,493
<b>Development Expenditure</b>	15,038 (66)	16,729 (65)	22,180* (69)	20,097 (64)	27,134	22,810 (66)
<b>(a) Development Revenue Expenditure</b>	12,174(54)	13,505 (53)	15,606 (49)	16,034 (51)	22,571	17,994 (52)
<b>(b) Development Capital Expenditure</b>	2,390 (11)	2,776 (11)	3,291 (10)	3,564 (11)	4,128	4,356 (13)
<b>(c) Development Loans and Advances</b>	474 (2)	448 (2)	3,283* (10)	499 (2)	435	460 (1)

Figures in parentheses indicate percentage to aggregate expenditure. BE: Budget estimates  
\*includes loans of ₹2,890.50 crore given to DISCOM on account of UDAY scheme.

The overall Development Expenditure (DE) increased by 51.68 per cent over the period 2014-15 to 2018-19 and its share in TE increased by two per cent in 2018-19 over the previous year. The share of Development Revenue Expenditure (DRE) in the Total Expenditure (TE) averaged 52 per cent during the period 2014-15 to 2018-19. During 2018-19, DRE increased by 12.22 per cent and its share in TE increased by one per cent over the previous year. However, in comparison with the projections made in the budget, the actual expenditure on DE fell short by ₹ 4,324 crore (16 per cent). This was primarily due to incurring less expenditure under DRE by ₹ 4,577 crore (Social: ₹ 2,006 crore and Economic services: ₹ 2,571 crore).

Development Capital Expenditure showed an increasing trend from 2014-15 to 2018-19 and increased by ₹ 1,966 crore from ₹ 2,390 crore in 2014-15 to ₹ 4,356 crore in 2018-19; its share in TE increased by two per cent during 2018-19 over the previous year.

**Table 1.20: 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 and wages	Operation and maintenance
2017-18	31,312	Social Services	10,337	1,135	3.62	6,439 (62)	1,125 (11)
		Economic Services	5,697	2,429	7.76	2,325 (41)	1,529 (27)
		<b>Total (SS+ES):</b>	<b>16,034</b>	<b>3,564</b>		<b>8,764</b>	<b>2,654</b>
2018-19	34,493	Social Services	11,482	1,187	3.44	6,750(59)	1,063(9)
		Economic Services	6,512	3,169	9.19	2,392(37)	1,495(23)
		<b>Total (SS+ES):</b>	<b>17,994</b>	<b>4,356</b>		<b>9,142</b>	<b>2,558</b>

Figures in parentheses indicate percentage to revenue expenditure in the service.

Source: Finance Accounts and voucher level computerization data of respective years.

Expenditure on salary and wages increased by ₹ 311 crore (five per cent) and ₹ 67 crore (three per cent) in social services and economic services respectively during the current year 2018-19 as compared to previous year, whereas expenditure on operation and maintenance decreased by ₹ 62 crore (six per cent) in social services and increased by ₹ 34 crore (two per cent) in economic services.

It was further seen that the percentage ratio of capital expenditure to total expenditure in Social services and economic services was restricted to three and nine per cent respectively during 2018-19. However, during 2018-19, it increased by 1.43 per cent in Economic services over the previous year.

The share of salaries and wages to revenue expenditure (₹ 9,142 crore) in both the services (social and economic) increased by ₹ 378 crore in 2018-19 as compared with 2017-18 (₹ 8,764 crore). The increase in salaries and wages was 4.82 per cent in social services and 2.88 per cent in economic services.

The share of operation and maintenance expenditure to revenue expenditure in both the services (social and economic) decreased by ₹ 96 crore in 2018-19 (₹ 2,558 crore) as compared with 2017-18 (₹ 2,654 crore).

## 1.8 Financial analysis of Government expenditure and investments

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

### 1.8.1 Incomplete capital works

The department-wise information pertaining to incomplete capital works depicted in **Appendix-IX** of Finance Account as on 31 March 2019 is given in **Table 1.21**.

**Table 1.21: Department-wise profile of incomplete capital works**

(₹ in crore)				
Department	Number of incomplete works	Initial budgeted cost	Revised total cost of works	Total expenditure as on 31 March 2019
Irrigation and Public Health	06	88.90	16.36*	83.52
Public Works (Building and Roads)	04	185.41	NA	97.03
<b>Total</b>	<b>10</b>	<b>274.31</b>		<b>180.55</b>

Source: Finance Accounts.

\* Revised cost of one capital work only.

NA: Not Available

An expenditure of ₹ 180.55 crore (March 2019) incurred on 10 incomplete capital works did not deliver envisaged benefits. These works were to be completed between March 2017 and March 2019.

Delays in completion of works not only affected the quality of expenditure but also deprived the State of intended benefits and economic growth.

The State Government should formulate guidelines for timely completion of incomplete works and monitor the physical and financial progress of execution of works in order to minimize slippages, time and cost overruns.

### 1.8.2 Investment and returns

The State Government had invested ₹ 3,849 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies as of 31 March 2019 (Table 1.22). The average return on investment during 2014-19 was 6.14 per cent while the State Government paid an average rate of interest as 7.76 per cent on its borrowings during 2014-19.

**Table 1.22: Return on Investments**

Investment/ Return/ cost of Borrowing	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance (₹ in crore)	3,025	2,732	3,041	3,294	3,533
Investments during the year (₹ in crore)	(-) 293	309	253	239	316
Investments at the end of the year (₹ in crore)	2,732	3,041	3,294	3,533	3,849
Return* (Dividend, interest) (₹ in crore)	171.00	111.94	289.63	255.58	181.91
Return (per cent)	6.26	3.68	8.79	7.23	4.73
Average rate of interest on government borrowings (IP/average of fiscal liabilities of last 2 years) (per cent)	7.91	7.95	7.60	7.71	7.64
Difference between interest rate and return (per cent)	1.65	4.27	(-)1.19	0.48	2.91
Difference in cost (between interest rate on Government borrowings and return on investments) (₹ in crore)	45.08	129.85	NA	16.96	112.01

Source: Finance Accounts

NA: Not applicable

\* Return is based on historical cost and not on net present value basis.

Over the past five years, the difference in cost of State Government borrowings and return on investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies was to the tune of ₹ 303.90 crore.

While State Government investments increased by 8.94 per cent in 2018-19 (₹ 3,849 crore) over the previous year 2017-18 (₹ 3,533 crore), the return from investments decreased by 28.82 per cent in 2018-19 (₹ 181.91 crore) from 2017-18 (₹ 255.58 crore). The main contributor to dividend over the last five years was Satluj Jal Vidyut Nigam Limited. Out of total dividend of ₹ 181.91 crore received during 2018-19, ₹ 179.35 crore (99 per cent) came from Satluj Jal Vidyut Nigam Limited.

During 2018-19, nearly 85 per cent investments were made in Himachal Pradesh Power Corporation Limited (₹ 160 crore), Himachal Road Transport Corporation

(₹ 59 crore), Himachal Pradesh State Electricity Board Limited (₹ 50 crore). These PSUs had accumulated losses as per latest finalised accounts - Himachal Pradesh Power Corporation Limited: ₹ 36.87 crore upto 2016-17, Himachal Road Transport Corporation: ₹ 1,232.48 crore upto 2017-18 and Himachal Pradesh State Electricity Board Limited: ₹ 2,043.84 crore upto 2016-17.

### 1.8.2.1 Investment in Public Sector Undertakings

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

As on 31 March 2019, the investment (paid up capital and long-term loans) in 27 PSUs was ₹ 14,375.71 crore as given in **Table 1.23** and **Appendix 1.6**.

**Table 1.23: Investment in State PSUs in paid up share Capital**

Type of PSUs	Government companies			Statutory corporations*			Grand Total
	Paid up capital	Long Term Loans	Total	Paid up capital	Long Term Loans	Total	
Working	3,562.41	9,609.62	13,172.03	879.06	244.83	1,123.89	14,295.92
Non- working	19.64	60.15	79.79	0	0	0	79.79
<b>Total</b>	<b>3,582.05</b>	<b>9,669.77</b>	<b>13,251.82</b>	<b>879.06</b>	<b>244.83</b>	<b>1,123.89</b>	<b>14,375.71</b>

\*Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation

There were differences between the investment figures maintained by PSUs and the figures reported by the State Government appearing in the Finance Accounts as detailed in **Appendix 1.7**. The differences between the figures were persisting for several years. The State Government and the PSUs should undertake periodic reconciliation to rectify such discrepancies.

As on 31 March 2019, 99.44 per cent of the total investments were in working PSUs while the remaining 0.56 per cent were in non-working PSUs. The investment in the form of paid-up capital was 31.03 per cent of the total investment, while 68.97 per cent was in the form of long-term loans.

As per dividend policy (April 2011) of State Government, all profit-making PSUs (except those in welfare and utility sectors) are required to pay a minimum return of five per cent on the paid-up capital contributed by the State Government subject to a ceiling of 50 per cent of profit after tax. As per their latest accounts finalised during 2018-19, seven PSUs earned an aggregate profit of ₹ 34.24 crore. Out of minimum dividend due (as per policy of State Government) of ₹ 3.72 crore, only three PSUs (Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh General Industries Corporation Limited and Himachal Pradesh State Civil Supplies Corporation Limited) declared/paid dividend of ₹ 2.25 crore during 2018-19. The remaining four companies had not paid any dividend to the State Government (**Appendix 1.8**).

**(ii) Investments made/budgetary support provided by the State Government to PSUs/loss making PSUs whose accounts are in arrears**

The State Government had invested ₹ 4,328 crore in 22 PSUs (including six loss making PSUs detailed in **Appendix 1.10**) whose accounts were in arrears, as detailed in **Appendix 1.9**. In the absence of final accounts and its audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and whether the purpose for which the amount was invested had been achieved or not. Thus, State Government's investments in such PSUs has remained outside the scrutiny of the State Legislature.

The State Government may consider reviewing the working of State PSUs which are incurring huge losses and formulate a strategic plan for their revival or closure, as the case may be.

**1.8.2.2 Investments in Public Private Partnership projects**

Public Private Partnership (PPP) projects offer a unique and innovative method of involving the private sector in delivery of public goods and services of high quality through joint enterprises. As of March 2019, out of 27 PPP projects undertaken, nine PPP projects (cost ₹ 176.50 crore) had been completed and were under operation while 18 projects (estimated cost ₹ 1,339.50 crore) had been awarded and were under implementation as detailed in **Appendix 1.11**.

**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 sectors such as Education, Sports, Art and Culture, Animal Husbandry, etc. The details of outstanding loans and advances and interest receipts *vis-à-vis* interest payments during the last five years are given in **Table 1.24**.

**Table 1.24: Average interest received on loans advanced by the State Government**

	(₹ in crore)				
Quantum of loans/interest receipts/ cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance *	1,913	2,346	2,784	6,044	6,507
Amount advanced during the year	474	463	3,290*	503	468
Amount recovered during the year	41	25	30	40	22
<b>Closing Balance *</b>	<b>2,346</b>	<b>2,784</b>	<b>6,044</b>	<b>6,507</b>	<b>6,953</b>
Net addition	433	438	3,260	463	446
Interest Receipts	65	53	80	256	272
Interest receipts as <i>per cent</i> to outstanding loans and advances	2.77	1.90	1.32	3.93	3.91
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the previous year	8.41	8.26	8.15	8.02	7.88
Difference between percentage of interest received and interest paid ( <i>per cent</i> )	(-) 5.64	(-) 6.36	(-) 6.83	(-)4.09	(-)3.97

Source: Finance Accounts

\* From 2016-17, opening and closing balance includes ₹2,890.50 crore as loan to DISCOM under UDAY Scheme.

During 2018-19, a total of ₹ 468 crore was advanced, of which a major portion (₹ 415.93 crore) was given to power projects. Only ₹ 22 crore was recovered during the year. The total amount of loans and advances outstanding as of 31 March 2019 was ₹ 6,953 crore. There was a large difference between the percentage of interest paid by the Government on borrowings and the percentage of interest received on outstanding loans and advances. The decline during 2017-18 and 2018-19 (4.09 and 3.97 *per cent* respectively) in “difference between percentage of interest received and interest paid” from the previous years was due to increase in interest receipts received on account of loans extended (2016-17) to DISCOM (Himachal Pradesh State Electricity Board Limited) under UDAY Scheme.

#### **1.8.4 Ujwal DISCOM Assurance Yojna (UDAY)**

With the objective of ensuring financial turnaround of Power Distribution Companies (DISCOM), the Ministry of Power, Government of India (GoI) introduced (November 2015) the Ujwal DISCOM Assurance Yojna (UDAY) to improve the operational and financial efficiency of the State DISCOM. States were to take over 75 *per cent* of DISCOM debt as on 30 September 2015 over two years *i.e.* 50 *per cent* of DISCOM debt shall be taken over in 2015-16 and 25 *per cent* in 2016-17.

The DISCOM shall be under obligation to discharge the liability of interest as well as repayment of principal amount to the Government of Himachal Pradesh (GoHP) (15 days before the date of payment of interest and principal by the GoHP to the bond holders under UDAY) as per repayment schedule. In case the DISCOM fails to make payment of interest/principal on due dates, then the DISCOM shall be liable to pay penal interest @ 2 *per cent* per annum on the defaulted amount for the period of delay.

The UDAY bonds carried an interest element of an average rate of 7.88 *per cent* per annum. These Bonds have a moratorium period of 5 years for repayment of Principal and repayment shall start from the 2022-23. The Principal has to be redeemed in 10 equal installments of ₹ 289.05 crore per annum till 2031-32. Annual interest liability is ₹ 227.78 crore, payable on half yearly basis on 28 August and 28 February of every year beginning from year 2017-18.

Himachal Pradesh entered into a tripartite Memorandum of Understanding (MoU) between GoI, GoHP and Himachal Pradesh State Electricity Board Limited (DISCOM) on 8 December 2016 to take over the entire 75 *per cent* (₹ 2,890.50 crore) of the outstanding debt of Himachal Pradesh DISCOM (₹ 3,854 crore) as on 30 September 2015 in the year 2016-17. After signing of the Tripartite Agreement, the GoHP raised funds amounting to ₹ 2,890.50 crore through issuing of UDAY Bonds (7.88 *per cent*) and transferred these funds to the DISCOM during 2016-17. This outstanding debt of ₹ 2,890.50 crore given to the DISCOM, is to be converted into Grants (₹ 2,167.50 crore) and Equity (₹ 723 crore) in the year 2020-21.

During 2018-19, State Government recovered ₹ 227.78 crore towards interest from Himachal Pradesh State Electricity Board Limited and disbursed ₹ 227.78 crore to bond holders.

### 1.8.5 Cash Balances and Investment of Cash Balances

Comparative figures of cash balances and investments made by the State Government out of cash balances for the years 2017-18 and 2018-19 are given in **Table 1.25**.

**Table 1.25: Details of cash balances and investment of cash balances**

(₹ in crore)			
Particulars	As on 31 March 2018	As on 31 March 2019	Increase (+)/ Decrease (-)
<b>(a) General cash balance</b>			
Cash in treasuries	Nil	Nil	Nil
Remittance in transit-Local	Nil	Nil	Nil
Deposits with RBI	(-) 540.68	(-) 49.58	491.10
<b>Total</b>	<b>(-) 540.68</b>	<b>(-) 49.58</b>	
Investments held in cash balance Investment account	723.72	102.09	(-) 621.63
<b>Total (a)</b>	<b>183.04</b>	<b>52.51</b>	<b>(-) 130.53</b>
<b>(b) Other cash balances and investments</b>			
Cash with departmental officers viz., Public Works Department Officers, Forest Department Officers, District Collectors	0.16	0.16	Nil
Permanent advances for contingent expenditure with departmental officers	0.03	0.03	Nil
Investment of earmarked funds	Nil	Nil	Nil
<b>Total (b)</b>	<b>0.19</b>	<b>0.19</b>	Nil
<b>Total (a+b)</b>	<b>183.23</b>	<b>52.70</b>	<b>(-) 130.53</b>

Cash balance of the State Government at the year-end decreased by ₹ 130.53 crore from ₹ 183.23 crore in 2017-18 to ₹ 52.70 crore in 2018-19. The investments made out of cash balances decreased from ₹ 723.72 crore to ₹ 102.09 crore. Interest of ₹ 66.90 crore realised from cash balance investments during 2018-19 decreased by ₹ 14.23 crore in comparison with the interest of ₹ 81.13 crore realised during 2017-18.

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 is ₹ 550 crore with effect from 1 February 2016. RBI also gives special ways and means advances against the pledge of government securities.

During 2018-19, State Government could maintain minimum daily cash balance for 346 days. The Government had to take ₹ 1,495.93 crore in ways and means advances from RBI on 19 occasions which was repaid and there were no outstanding ways and means advances and overdrafts at the end of the year 2018-19.

## 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 assets as on 31 March 2019, compared with the corresponding position as on 31 March 2018. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts from Public Account and Reserve Funds, the assets consist mainly of capital outlay and loans and advances given by the State Government and cash balances.

During 2018-19, assets grew by ₹ 4,899.03 crore (11.93 per cent) whereas liabilities increased by ₹ 3,382 crore (6.57 per cent) over the previous year. The ratio of financial assets to liabilities increased to 84 per cent in 2018-19 from 80 per cent in 2017-18.

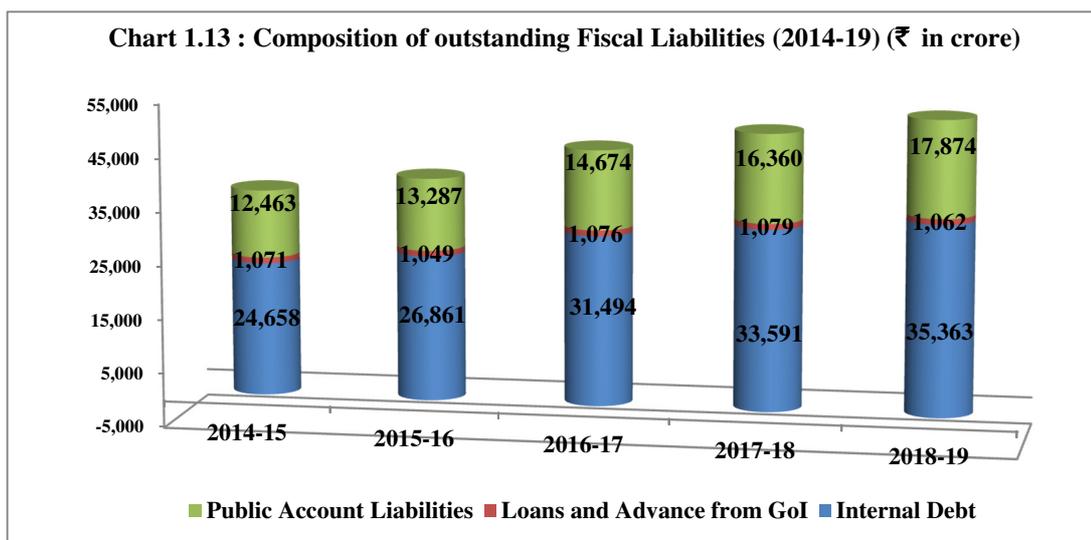
### 1.9.2 Fiscal Liabilities

Fiscal liabilities of the State consist of Consolidated Fund liabilities (consisting mainly of internal borrowings, loans and advances from GoI) and Public Account liabilities (balances in the Public Account).

The composition of fiscal liabilities during the current year 2018-19 *vis-à-vis* the previous years is presented in **Table 1.26** and **Chart 1.13**.

**Table 1.26: Trends in Total Fiscal Liabilities from 2014-15 to 2018-19**

Components of fiscal liabilities	2014-15	2015-16	2016-17	2017-18	2018-19
Internal debt (₹ in crore)	24,658	26,861	31,494	33,591	35,363
Loans from Central Government (₹ in crore)	1,071	1,049	1,076	1,079	1,062
Public Account Liabilities (₹ in crore)	12,463	13,287	14,674	16,360	17,874
<b>Total</b>	<b>38,192</b>	<b>41,197</b>	<b>47,244</b>	<b>51,030</b>	<b>54,299</b>
Rate of Growth ( <i>per cent</i> )	12.71	7.87	14.68	8.01	6.41
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	0.37	0.36	0.38	0.37	0.36
Revenue Receipts	2.14	1.76	1.80	1.86	1.75
Own resources	4.76	4.83	5.40	5.39	5.22
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	1.34	0.78	1.54	0.88	0.57
Revenue receipts (ratio)	0.94	0.25	1.22	1.91	0.49
Own resources (ratio)	0.79	1.23	5.62	0.98	0.65



During 2018-19 (**Chart 1.13**), the Consolidated Fund liabilities (₹ 36,425 crore) included market loans (₹ 23,682 crore), loans from GoI (₹ 1,062 crore) and other loans (₹ 11,681 crore including ₹ 6,097 crore on special security issued to NSSF of GoI); and Public Account liabilities (₹ 17,874 crore) included Small Savings and Provident Funds, etc. (₹ 14,349 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹ 3,207 crore) and reserve funds (₹ 318 crore).

The overall fiscal liabilities of the State increased by ₹ 16,107 crore from ₹ 38,192 crore in 2014-15 to ₹ 54,299 crore in 2018-19 registering an increase of 42 *per cent* mainly due to increase in internal debt (₹ 10,705 crore) and public account liabilities (₹ 5,411 crore). These liabilities stood at 1.75 times the revenue receipts and 5.22 times the own revenue resources at the end of 2018-19. The growth rate of fiscal liabilities consistently declined from 14.68 *per cent* in 2016-17 to 6.41 *per cent* in 2018-19. The ratio of fiscal liabilities to GSDP also showed a decreasing trend, from 38 *per cent* in 2016-17 to 36 *per cent* in 2018-19, but was still higher than the norms recommended by 14<sup>th</sup> FC (31.99 *per cent*) and projected in the MTFPS (35 *per cent*).

### 1.9.3 Transactions under Reserve fund

At the beginning of 2018-19, Reserve Fund stood at ₹ 325.03 crore. During the year 2018-19, there was addition of ₹ 500.34 crore and disbursement of ₹ 507.77 crore leaving closing balance of ₹ 317.60 crore (Credit) as of 31 March 2019. Out of this, reserve fund bearing interest held ₹ one crore (credit) and reserve fund not bearing interest held ₹ 316.60 crore (credit).

In terms of the recommendations of the Twelfth Finance Commission, State Governments were required to create two significant reserve funds *i.e.* (i) Consolidated Sinking Fund, to be administered by the Reserve Bank of India (RBI), for redemption of outstanding liabilities and amortization of open market loans availed of by them, and (ii) Guarantee Redemption Fund, to meet the contingent liabilities arising from the guarantees given. The position of these funds is depicted as under:

### 1.9.3.1 Consolidated Sinking Fund

The State Government was required to make minimum annual contribution to Consolidated Sinking Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. The State Government, however, had not created a Consolidated Sinking Fund. As of 31 March 2018, the outstanding liabilities of the State Government were ₹ 51,030 crore. Had there been a Consolidated Sinking Fund, the liability of the State Government towards the fund would have been ₹ 255.15 crore (0.5 *per cent* of outstanding liabilities in previous year) in 2018-19, indicating that the revenue surplus is overstated and the fiscal deficit is understated to that extent.

### 1.9.3.2 Guarantee Redemption Fund

The Government was required to set up a Guarantee Redemption Fund, with minimum annual contribution at 0.5 *per cent* of the outstanding guarantees at the end of the previous financial year. The State Government, however, had not set up a Guarantee Redemption Fund. Consequently, the revenue surplus was overstated and fiscal deficit was understated to the extent of ₹ 21.97 crore as of 31 March 2019.

### 1.9.3.3 State Disaster Response Fund/National Disaster Response Fund

The Thirteenth Finance Commission (TFC) had made provision for a State Disaster Response Fund (SDRF) in its recommendations. As per the guidelines, the Centre and State Governments are required to contribute to the Fund in the proportion of 90:10. Ministry of Home Affairs, GoI guidelines stipulate that fund balances are required to be invested in specified instruments. As per RBI guidelines, the State Government is also required to pay interest on unspent balances at the rate applicable to overdraft.

During 2018-19, the State Government received ₹ 245.70 crore towards Central Government (90 *per cent*) contribution to SDRF. The State Government released ₹ 26 crore against its own share of ₹ 27.35 crore. Out of total corpus of ₹ 281.53 crore (opening balance of ₹ 8.48 crore plus ₹ 273.05 crore transferred from Major Head 2245-Relief), the State Government adjusted ₹ 280.53 crore towards expenditure on account of natural calamities leaving a balance of ₹ one crore in the fund as of 31 March 2019.

As per guidelines (July 2015), certain natural calamities require expenditure in excess of the balance available under SDRF, which will qualify for immediate relief assistance from NDRF. The State Government received ₹ 227.29 crore under NDRF, and an expenditure of ₹ 227.24 crore had been incurred, leaving unspent balance of ₹ 0.92 crore (opening balance of ₹ 0.87 crore + ₹ 227.29 crore – ₹ 227.24 crore) in the fund as of 31 March 2019.

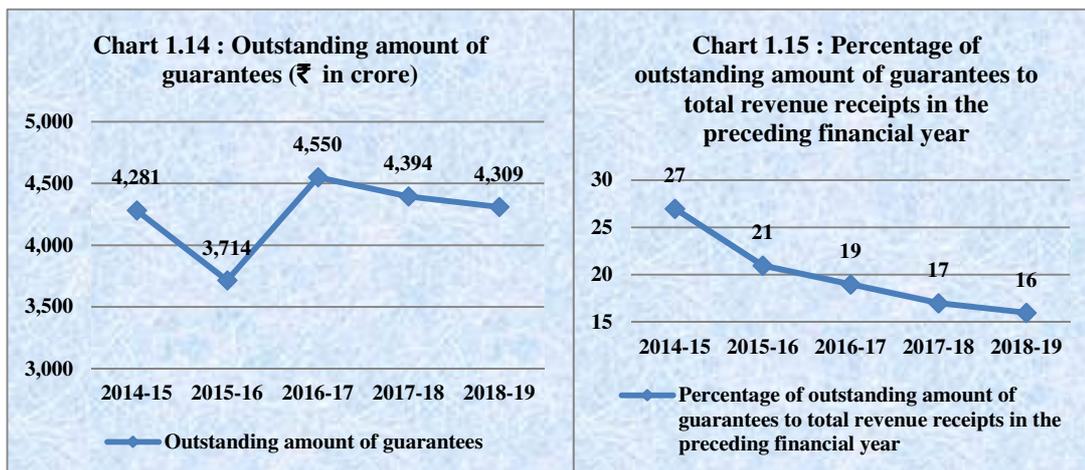
As of 31 March 2019, ₹ 1.92 crore (₹ 1.00 crore + ₹ 0.92 crore) on account of NDRF/SDRF balances were not invested by the State Government. Interest of ₹ 0.15 crore would have been earned had these funds been invested.

### 1.9.4 Contingent Liabilities

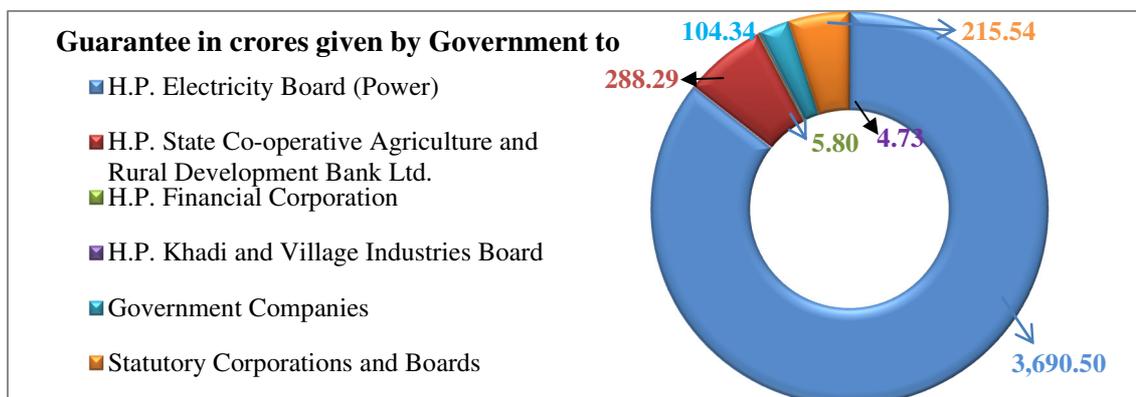
#### 1.9.4.1 Status of Guarantees

Guarantees<sup>4</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 and their percentage to revenue receipts for the last five years are given in **Chart 1.14** and **1.15**.



**Chart 1.16: Bodies in receipt of guarantees at the end of 31 March 2019**



Source: Finance Accounts

No guarantee was invoked during the year (2018-19). The outstanding amount of guarantees as of 31 March 2019 was ₹ 4,309 crore as per the Finance Accounts. However, as the accounts of most PSUs were not current and the PSUs and State Government had not reconciled the figures, there was a difference of ₹ 9.24 crore between the figures appearing in the Finance Accounts and the figures maintained by the PSUs (**Appendix 1.7**). The main recipients to whom guarantees given by the State Government were Power (₹ 3,690.50 crore), Co-operative Banks (₹ 288.29 crore), Himachal Pradesh Road Transport Corporation (₹ 187.29 crore), etc. The maximum amount of guarantee (₹ 4,309 crore) at the close of 2018-19 accounted for 15.7 per cent of total revenue receipts of previous year of the State, which was well within the target of 40 per cent prescribed in the FRBM Act.

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

### 1.10 Debt Management

Table 1.27 gives a time series analysis of debt profile of the State Government for the last five years.

**Table 1.27: Growth rate and maturity profile of public debt as on 31 March 2019**  
(₹ in crore)

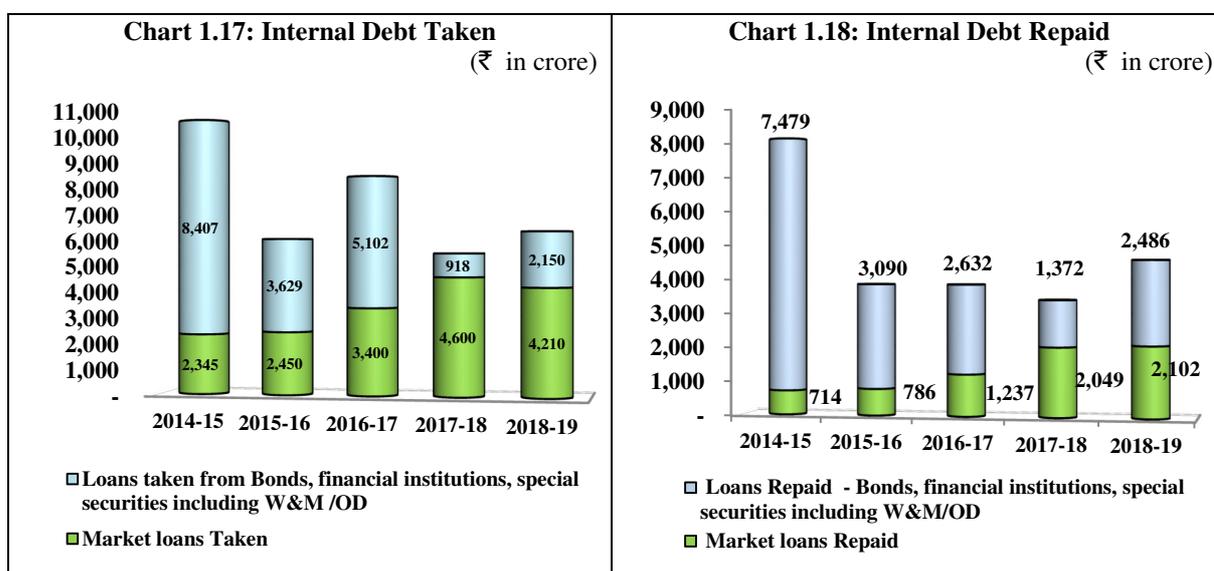
Sr. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	<b>Internal Debt</b>	<b>24,658 (96)</b>	<b>26,861(96)</b>	<b>31,494(97)</b>	<b>33,591(97)</b>	<b>35,363(97)</b>
	(i) Market Loans	15,196 (59)	16,860(60)	19,023(59)	21,574(62)	23,682(65)
	(ii) Ways and Means Advances from RBI	285 (1)	--	--	--	--
	(iii) Overdrafts	249 (1)	--	--	--	--
	(iv) Loans from Financial Institutions	2,252 (9)	2,350(8)	5,321(16)	5,382(16)	5,584(15)
	(v) Special Securities issued to NSSF	6,676 (26)	7,651(28)	7,150(22)	6,635(19)	6,097(17)
2.	<b>Loans from Government of India</b>	<b>1,071 (4)</b>	<b>1,049(4)</b>	<b>1,076(3)</b>	<b>1,079(3)</b>	<b>1,062(3)</b>
<b>Total Public Debt:</b>		<b>25,729</b>	<b>27,910</b>	<b>32,570</b>	<b>34,671*</b>	<b>36,425</b>
<b>Maturity Profile of State Debt (In Years)</b>						
0 – 1		2,046 (8)	2,268(8)	3,096(9)	3,181(9)	3,257 (9)
1 – 3		4,837(19)	6,236(22)	5,729(18)	4,644(13)	5,726(16)
3 – 5		4,929(19)	4,331(16)	4,279(13)	5,043(15)	6,415(17)
5 – 7		3,192(12)	4,339(16)	4,952(15)	6,469(19)	6,586(18)
7 and above		10,725(42)	10,736(38)	14,514(45)	15,334(44)	14,441(40)

\* ₹34,671 crore = ₹33591.47 crore (Internal Debt) + ₹1,079.43 crore (Loans and Advances from GOI)

Figures in brackets indicate the percentage of total public debt

Total Public debt increased from ₹ 25,729 crore in 2014-15 to ₹ 36,425 crore in 2018-19 registering annual average growth rate of 9.60 per cent. The share of market borrowings in total public debt went up from 59 per cent in 2014-15 to 65 per cent in 2018-19. During the current year (2018-19), total public debt increased by five per cent over the previous year.

Composition of market loans taken and repaid during 2014-15 to 2018-19 is given in Charts 1.17 and 1.18:



### Debt sustainability

Debt sustainability refers to the State's ability to service its debt. Apart from the magnitude of debt, it is important to analyse various other indicators that determine the debt sustainability<sup>5</sup> of the State. The analysis of variations in debt sustainability indicators of the State for the five-year period from 2014-15 to 2018-19 is given in Table 1.28.

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

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Public Debt (₹ in crore)	25,729	27,910	32,570	34,671	36,425
Rate of Growth of Outstanding Public Debt (in per cent)	11.33	8.48	16.70	6.45	5.06
GSDP (₹ in crore)	103,772	114,239	125,122	136,542	151,835
Rate of Growth of GSDP (in per cent)	9.51	10.09	9.53	9.13	11.20
Public Debt/GSDP (in per cent)	24.79	24.43	26.03	25.39	23.99
Interest payments (₹ in crore)	2,029	2,244	2,459	2,829	2,958
Average Interest Rate of Outstanding Public Debt (Interest paid/OB of Public Debt + CB of Public Debt/2) (in per cent)	8.31	8.37	8.13	8.41	8.32
Revenue Receipts (₹ in crore)	17,843	23,440	26,264	27,367	30,950
Percentage of Interest Payments to Revenue Receipts	11.37	9.57	9.36	10.34	9.56
Public Debt repayments (incl. WMA) (₹ in crore)	8,260	3,948	3,943	3,500	4,673
Public Debt Receipts (₹ in crore)	10,877	6,129	8,603	5,600	6,427
Percentage of Public Debt repayments to Public Debt Receipts	75.94	64.42	45.83	62.50	72.71
Net Public Debt Available to the State *(₹ in crore)	588	(-) 63	2,201	(-)729	(-)1,204

Source: State Finance Accounts of the respective years.

\*Net Debt available to the State Government is calculated as excess of Public Debt receipts over Public Debt repayment and Interest payment on Public Debt.

An analysis on debt sustainability was carried out based on a study by E.D Domar<sup>6</sup> [Domar, 1944]. The Domar model states that the necessary premise for ensuring stability of public indebtedness is that the interest rates for government loans should not exceed the growth rate of GDP.

The dynamics of public debt depending on the interest rate, growth rate of GDP and the primary budget balance are as follows:

g-r (g - real economic growth rate; r- real interest rate)	s<0 (primary deficit)	s> 0 (primary surplus)
g-r> 0 (strong economic growth)	Public debt as percentage of GSDP should converge to a stable level greater than zero.	Public debt as percentage of GSDP should converge to a stable level less than zero leading to public savings.
g-r<0 (slow economic growth)	Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.	Undefined situation.

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

<sup>6</sup> Domar model does not take into account maturity profile, composition, cost and risk characteristics of debt stock.

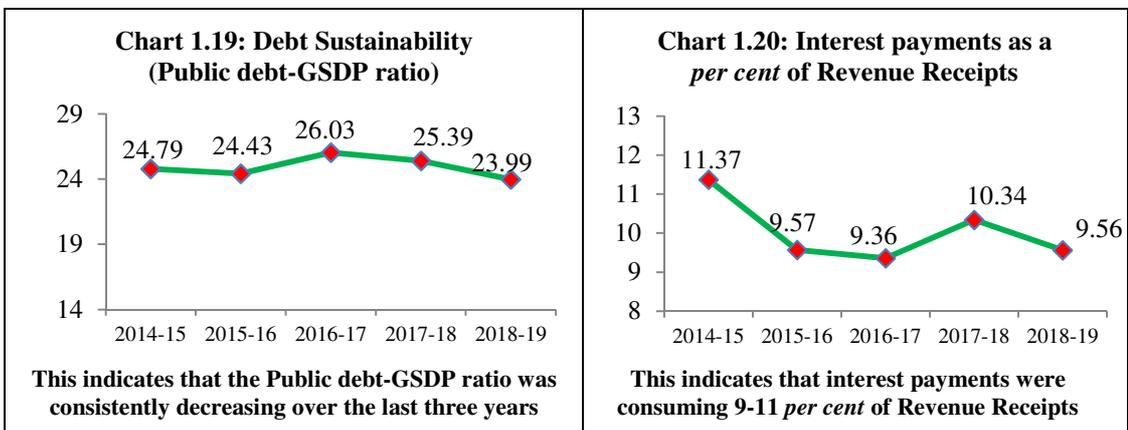
The results of applying the analysis to Himachal Pradesh is shown in the table below:

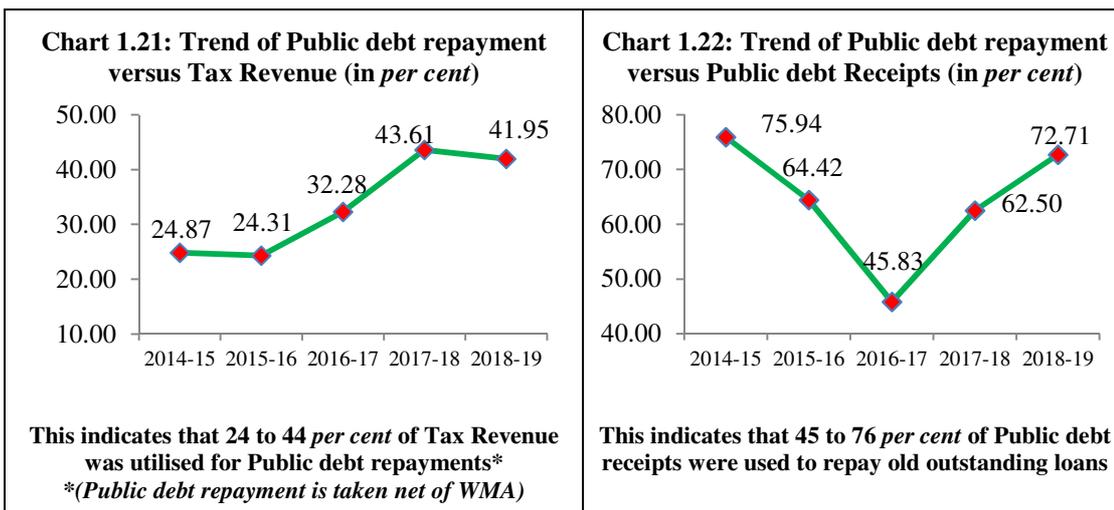
Year	Real Growth Rate (g)	Real Interest Rate (r)	g-r	Primary Deficit(-)/ Surplus (+) (₹ in crore)	Remarks
2014-15	7.48	2.86	4.62	(-) 1,351	g-r>0 and s<0: Public Debt will converge to a stable level greater than zero.
2015-16	8.10	5.74	2.36	990	g-r>0 and s>0; Public debt will converge to a stable level less than zero leading to savings.
2016-17	7.03	2.21	4.82	441	
2017-18	6.51	4.11	2.40	(-) 82	g-r>0 and s<0; Public debt will converge to a stable level greater than zero.
2018-19	7.29	9.69	(-) 2.40	510	g-r<0 and s>0; undefined situation.
Real growth rate calculated for Real GDP					
Real interest rate is the nominal interest rate adjusted for inflation.					

The Fourteenth Finance Commission (FFC) target of debt limit was 31.99 *per cent* of GSDP and fiscal deficit ceiling was three *per cent* of GSDP. The ratio of State's debt to GSDP was higher and fiscal deficit-GSDP ratio was lower than normative targets.

Except during 2018-19, the Domar gap (g-r) was positive in all the years from 2014-15 to 2017-18. However, the State had primary surplus during the year. Thus, the necessary condition for ensuring stability of public debt as per the Domar model was satisfied during the period 2014-18. This is borne out by the fact that the debt to GSDP ratio was around 24 to 26 *per cent* in the last five years and has remained stable.

However, other factors such as public account liabilities and *force majeure* events like current Corona virus crisis and its effect on GSDP and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State as these cannot be anticipated or determined statistically; they have not been factored in the analysis.



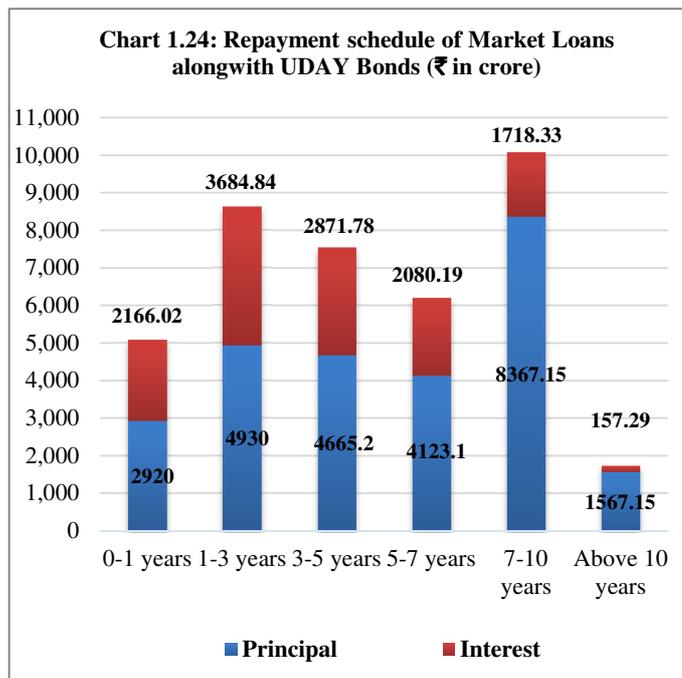
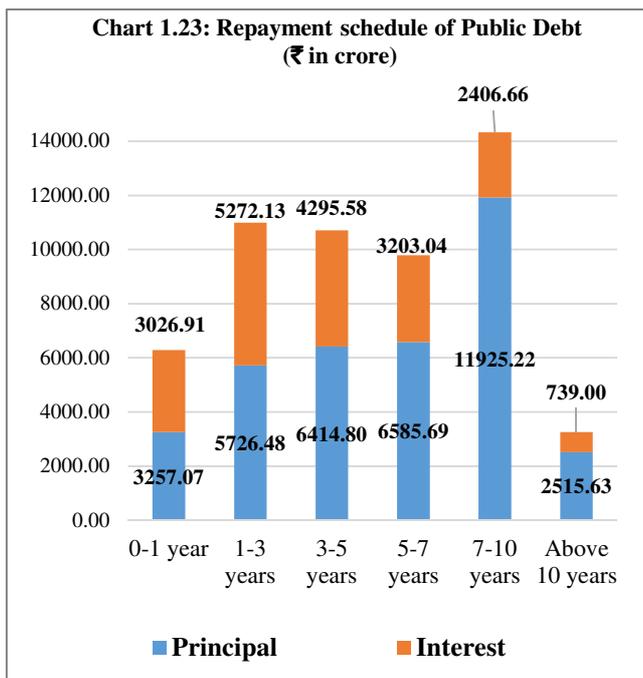


- The growth rate of outstanding public debt and GSDP showed inter-year variation during 2014-19. During 2018-19 the rate of growth of outstanding debt decreased by 1.39 percentage points whereas the rate of growth of GSDP increased by 2.07 percentage points over the previous year. During 2014-15 and 2016-17, the public debt increased annually at higher rate than annual growth rate of GSDP.
- Average interest rate of outstanding debt remained almost static during 2014-19 and was 8.32 per cent during 2018-19.
- Interest payments as percentage of Revenue Receipts decreased from 10.34 per cent in 2017-18 to 9.56 per cent in 2018-19.
- 45.83 to 75.94 per cent of debt receipts were used for making repayments during 2014-19. During 2018-19, 72.71 per cent of borrowed funds were used for discharging existing liabilities.
- The net funds available on account of internal debt and loans and advances from GoI and other obligations after providing for interest and repayments varied between minus ₹ 63 crore and ₹ 2,201 crore during 2014-19. The net debt available to the State during the year 2018-19 was minus ₹ 1,204 crore.

### **Debt repayment schedule (principal and interest)**

#### **Repayment schedule of Public Debt and Market Loans alongwith UDAY Bonds**

The repayment schedules (principal and interest) of public debt and market loans alongwith UDAY Bonds of the State have been given in **Charts 1.23 and 1.24:**



Note: (i) The maturity profile has been depicted for outstanding public debt as of 31 March 2019 and interest has been calculated at a rate of 8.31 *per cent* (average interest rate of outstanding public debt during 2014-19) upto the financial year in which the loans are going to retire.

(ii) The maturity profile has been evolved for outstanding market loans as on 31 March 2019 and interest has been calculated upto the financial year in which the loans are going to retire.

The maturity profile of public debt liabilities (**Chart 1.23**) indicates that the State will have to repay ₹ 27,992.97 crore of public debt (principal: ₹ 15,398.35 crore and interest: ₹ 12,594.62 crore) in the next five financial years *i.e.* upto 2023-24. Out of this, ₹ 21,237.84 crore (principal: ₹ 12,515.20 crore and interest: ₹ 8,722.64 crore) *i.e.* 75.87 *per cent* will be repayable towards market loans and UDAY bonds (**Chart 1.24**). In the following five financial years *i.e.* upto 2028-29, public debt liabilities of ₹ 24,120.62 crore (principal: ₹ 18,510.91 crore and interest: ₹ 5,609.71 crore) and market loans and UDAY bonds of ₹ 16,288.77 crore (principal: ₹ 12,490.25 crore and interest: ₹ 3,798.52 crore) will be repayable. Thus, in the next ten years, out of total outstanding market loans and UDAY bonds of ₹ 26,573 crore, the State has to repay principal of market loans and UDAY bonds of ₹ 25,005 crore (94.10 *per cent*) and interest amounting to ₹ 12,521 crore.

Analysis of the State's receipt and expenditure figures shows that the revenue receipts of the State have grown at an annual average rate of 14.85 *per cent* and revenue expenditure at 11.19 *per cent* in the past five years. Applying these growth rates, the State is projected to have a revenue surplus of ₹ 4,424.89 crore in 2020-21. As the State is committed to convert UDAY Bonds of ₹ 2,167.50 crore into grants-in-aid in 2020-21, the revenue surplus would decline to ₹ 2,257.39 crore. Further, during the

same year (2020-21), the State would have public debt liabilities of ₹ 5,648.65 crore (principal and interest). Thus, the State would have to resort to additional borrowings to meet its liabilities.

The above analysis assumes that the State will have a revenue surplus as per projections based on actual figures for the past five years. However, in four out of the past five years, the State Government had projected revenue deficits in its budget estimates whereas it ended up with revenue surplus. As per the projections in the State's Medium Term Fiscal Policy/Plan Statement, the State Government has projected revenue deficits<sup>7</sup> for the period 2019-20 to 2023-24. In 2020-21 the State has projected a revenue deficit of ₹ 684 crore. In case the revenue deficit projected in the State's Medium Term Fiscal Plan Statement is realised, the revenue deficit would increase to ₹ 2,851.50 crore after meeting the committed conversion of UDAY Bonds of ₹ 2,167.50 crore into grants-in-aid. The State would have to resort to additional borrowings to meet its public debt liabilities of ₹ 5,648.65 crore (principal and interest) in 2020-21.

#### Utilization of borrowed funds

The details of utilisation of borrowed funds for repayment of earlier borrowings, capital expenditure and revenue expenditure for the period 2014-15 to 2018-19 is given in **Table 1.29**.

**Table 1.29: Utilization of borrowed funds**

(₹ in crore)					
Year	Total Borrowings	Repayment of earlier borrowings (Principal)	Net capital expenditure*	Net Loans and Advances disbursed	Portion of total borrowings utilised towards Revenue expenditure
1.	2.	3.	4.	5	6 {2-(3+4+5)}
2014-15	10,877	8,260(76)	1,823(17)	433(04)	361(3)
2015-16	6,129	3,948(64)	2,181(36)	NA	NA
2016-17	8,603	3,943(46)	3,499(41)	1,161(13)	NA
2017-18	5,600	3,500(63)	2,100(37)	NA	NA
2018-19	6,427	4,673(73)	1,754(27)	NA	NA

\*Net Capital Expenditure = Total Capital Expenditure-Misc. Capital Receipts  
 Figures in brackets indicate percentage utilisation of borrowed funds NA: Not applicable

Except during 2014-15, no portion of debt receipts was used for meeting revenue expenditure. During 2014-15, revenue receipts of the State Government were not sufficient and an amount of ₹ 361 crore was utilised from borrowings for meeting revenue expenditure.

<sup>7</sup> 2019-20: ₹4,007 crore; 2020-21: ₹684 crore; 2021-22: ₹824 crore; 2022-23: ₹5,163 crore; 2023-24: ₹6,443 crore

## 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. A 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 by 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 2018-19.

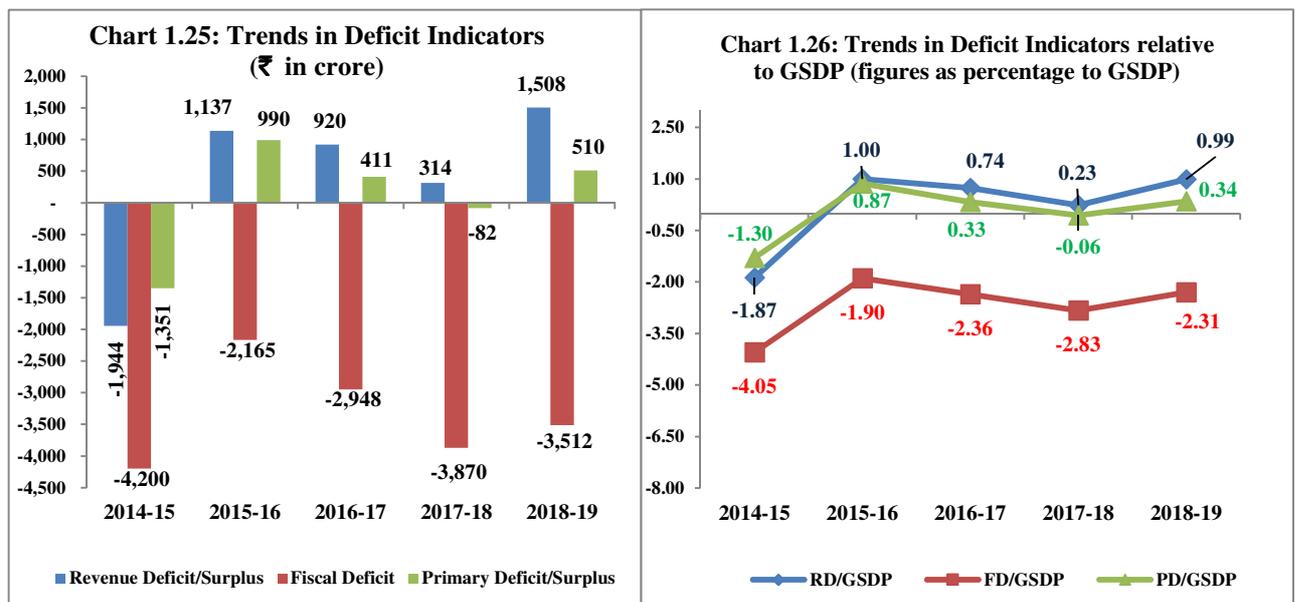
### 1.11.1 Trends in Deficits

Table 1.30 and Charts 1.25 and 1.26 present the trends in deficit indicators (revenue, fiscal and primary) over the period 2014-19:

Table 1.30: Trends in deficits

	2014-15	2015-16	2016-17	2017-18	2018-19
(₹ in crore)					
<b>Deficits</b>					
Revenue Deficit(-) or Surplus (+)	(-)1,944	1,137	920	314	1,508
Fiscal Deficit	4,200	2,165	2,948*	3,870	3,512
Primary Deficit (-) or Surplus (+)	(-) 1,351	990	411	(-) 82	510
<b>Management of Fiscal Imbalances (In per cent)</b>					
Revenue deficit (surplus)/GSDP	(-)1.87	1.00	0.74	0.23	0.99
Fiscal deficit/GSDP	4.05	1.90	2.36	2.83	2.31
Primary Deficit (surplus) /GSDP	(-)1.30	0.87	0.33	(-)0.06	0.34

\* Debt in respect of the State DISCOM taken over by the State under the UDAY scheme is not to be taken into account for arriving at the fiscal deficit of the State from the FY 2016-17 onwards.



### **Revenue Surplus**

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease the borrowings. Revenue surplus of ₹ 314 crore during 2017-18 increased to ₹ 1,508 crore in 2018-19. The high percentage of committed revenue expenditure reduces maneuverability around expenditure decisions by the State and indicates that the State has limited revenue space available after accounting for its committed expenditure needs. Hence, the State Government needs to make medium term corrections on the expenditure side to moderate such committed expenditures and streamline revenue collections.

### **Fiscal Deficit**

Fiscal deficit represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. During 2018-19, fiscal deficit (₹ 3,512 crore) decreased by ₹ 358 crore over the previous year (₹ 3,870 crore).

### **Primary Deficit**

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments in respect of States having deficit on revenue account. Interest payments represent the expenditure of past obligations and are independent of ongoing expenditure. To look at the imbalances of current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit is thus an important parameter that reflects a State's current financial position. If there is primary deficit it means that the State has a deficit even after netting out interest, and it will have to borrow even to pay interest on its borrowings. This parameter showed inter-year variations: primary deficit during 2014-15 and 2017-18 (₹ 1,351 crore and ₹ 82 crore) turned to primary surplus in 2015-16 (₹ 990 crore), 2016-17 (₹ 411 crore) and 2018-19 (₹ 510 crore).

### ***Impact on Revenue and Fiscal deficit***

Audit observed that the Revenue surplus was overstated by ₹ 277.76 crore and fiscal deficit understated by ₹ 277.76 crore on account of non-contribution to Consolidated Sinking Fund and Guarantee Redemption Fund, non-payment of interest on State Disaster Response Fund /National Disaster Response Fund, expenditure/disbursement of GIA from Capital Head as shown in **Table 1.31**:

Table 1.31: Effective Revenue Surplus (RS) and Fiscal Deficit (FD)

(₹ in crore)

Details of short transfer/contribution	Impact on Revenue Surplus	Impact on Fiscal Deficit	Ratio before taking the net impact (in per cent)		Ratio after taking the net impact (in per cent)	
	Overstatement	Understatement	RS/GSDP	FD/GSDP	RS/GSDP	FD/GSDP
Non-contribution to Consolidated Sinking Fund	255.15	255.15	0.99	2.31	0.81	2.50
Non-contribution to Guarantee Redemption Fund	21.97	21.97				
Non-payment of interest on State Disaster Response Fund /National Disaster Response Fund	0.15	0.15				
Misclassification of disbursement of Grant-in-Aid (Grant No. 31 – Tribal Development) from Capital Heads instead of Revenue Heads	0.49	0.49				
<b>Total</b>	<b>277.76</b>	<b>277.76</b>				

Revenue surplus has been overstated by 0.18 percentage points and fiscal deficit understated by 0.19 percentage points as compared to GSDP.

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

The financing pattern for fiscal deficit has undergone a compositional shift as reflected in the Table 1.32.

Table 1.32: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Components of Fiscal Deficit</b>						
1	Revenue Deficit/surplus	(-)1,944	1,137	920	314	1,508
2	Net Capital Expenditure	(-)1,823	(-)2,865	(-)3,499	(-)3,721	(-)4,574
3	Net Loans and Advances	(-)433	(-)437	(-)3,260	(-)463	(-)446
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	1,631	1,664	2,163	2,551	2,108
2	Loans from GoI	59	(-) 22	27	3	(-)18
3	Special Securities Issued to NSSF	904	975	(-) 500	(-)515	(-)538
4	Loans from Financial Institutions	24	(-) 436	80 <sup>#</sup>	61	202
5	Small Savings, PF, etc.	1,185	718	1,205	1,392	1,113
6	Deposits and Advances	504	115	181	189	409
7	Suspense and Misc.	28	(-) 590	(-) 274	(-)119	1
8	Remittances	12	148	(-)35	69	112
9	Others	(-) 147	(-) 407	101	239	123
10	Overall Surplus (+)/ Deficit (-)	(-) 4,200	(-) 2,165	(-) 2,948 <sup>#</sup>	(-) 3,870	(-)3,512

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

Source: Finance Accounts

# ₹ 2,890.50 crore excluded on account of UDAY Scheme

The fiscal deficit (₹ 3,512 crore) in 2018-19 was largely managed by market borrowings (60 per cent) and State Small Savings, Provident Fund, etc. (32 per cent).

### 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 indicates that the asset base of the State is continuously shrinking and a part of borrowings (fiscal liabilities) do not have asset backup. The ratio of revenue deficit to fiscal deficit was 0.46 during 2014-15, whereas during 2015-19, the State experienced revenue surplus of ₹ 1,137 crore (2015-16), ₹ 920 crore (2016-17), ₹ 314 crore (2017-18) and ₹ 1,508 crore (2018-19) (Appendix 1.3).

Disaggregation of factors of the primary deficit shows the extent to which the deficit is impacted on account of enhancement in capital expenditure (which may be desirable to improve the productive capacity of the State's economy). The disaggregation of factors resulting in primary deficit or surplus of the State Government during the period 2014-19 is indicated in Table 1.33.

**Table 1.33: Primary deficit/Surplus – Disaggregation of factors**

(₹ in crore)								
Year	Non-debt receipts	Revenue receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue surplus	Primary deficit (-)/ surplus (+)
1.	2.	3.	4.	5.	6.	7. (4+5+6)	8. (3-4)	9. (2-7)
2014-15	18,534	17,843	16,938	2,473	474	19,885	905	(-) 1,351
2015-16	23,466	23,440	19,149	2,864	463	22,476	4,291	990
2016-17	26,294	26,264	21,985	3,499	399	25,883	4,279	411
2017-18	27,442	27,367	23,265	3,756	503	27,524	4,102	(-) 82
2018-19	30,981	30,950	25,420	4,583	468	30,471	5,530	510

- Non-debt receipts of the State mainly included Revenue Receipts and recoveries of loans and advances which increased by 67.16 per cent from ₹ 18,534 crore in 2014-15 to ₹ 30,981 crore in 2018-19, which was sufficient to meet the primary revenue expenditure.
- The primary revenue surplus during 2014-15 (₹ 905 crore) and 2017-18 (₹ 4,102 crore) was not enough to meet the expenditure under capital account, resulting in primary deficit during these periods.
- During 2015-16, 2016-17 and 2018-19, there was primary surplus mainly on account of increase in receipts of the State due to heavy devolution in the form of

central transfers on the recommendation of the 14<sup>th</sup> FC, which was sufficient to meet primary expenditure.

**Table: 1.34: Components of fiscal deficit during 2014-19**

(₹ in crore)						
	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
	<b>Components of Fiscal Deficit</b>	(-) 4,200	(-) 2,165	(-) 2,948	(-) 3,870	(-) 3,512
<b>1</b>	<b>Revenue Deficit</b>	(-) 1,944 (46.29)	NA	NA	NA	NA
<b>2</b>	<b>Net Capital Expenditure</b>	(-) 1,823 (43.40)	(-) 1,728 (79.81)	(-) 2,579 (87.48)	(-) 3,407 (88.04)	(-) 3,066 (87.30)
<b>3</b>	<b>Net Loans and Advances</b>	(-) 433 (10.31)	(-) 437 (20.19)	(-) 369 (12.52)	(-) 463 (11.96)	(-) 446 (12.70)

Figures in brackets indicate contribution to fiscal deficit

NA: Not applicable

During 2018-19, 87 per cent of fiscal deficit was on account of net capital expenditure. Contribution of net CE to FD showed an increasing trend from 43.40 per cent in 2014-15 to 88.04 per cent in 2017-18 but decreased marginally by one per cent during 2018-19, whereas contribution of loans and advances increased from 10.31 per cent in 2014-15 to 12.70 per cent in 2018-19.

### 1.12 Salient features

Comparison of key elements of State Finances in 2018-19 is summarised below:

**Table 1.35: Key parameters**

Positive Indicators	Parameters requiring close watch
↑ Increase in Non-Tax Revenue by 20 per cent.	↑ Increase in Own tax revenue by only 7 per cent
↑ Increase in Capital Expenditure by 22 per cent.	↓ Decrease in recovery of Loans and Advances by 45 per cent.
↑ Revenue surplus increased by ₹ 1,194 crore.	↑ Increase in borrowings. 60 per cent Public debt (Principal) required to pay within 7 years
↑ Primary Deficit of ₹ 82 crore turned into primary surplus ₹ 510 crore.	↑ 72.71 per cent of borrowed funds were used for discharging existing liabilities.
↓ Fiscal deficit decreased by ₹ 358 crore.	↓ The actual expenditure on Development Expenditure fell short by ₹ 4,324 crore (16 per cent) from the budget estimates.

### 1.13 Follow up on Audit Reports on State Finances

The State Finances Audit Report is being prepared and presented to the State Legislature from the year 2008-09 onwards. The State Government had submitted action taken notes (ATNs)/suo-motu replies upto Audit Report 2016-17.

## 1.14 Conclusion

The State has not yet amended the FRBM Act as recommended by 14<sup>th</sup> FC. The State had a revenue deficit during 2014-15; thereafter, the State continuously experienced revenue surplus due to increase in central devolutions on the recommendations of 14<sup>th</sup> Finance Commission. While the revenue surplus consistently declined from 2015-18: ₹ 1,137 crore (2015-16), ₹ 920 crore (2016-17), and ₹ 314 crore (2017-18); during 2018-19, the revenue surplus increased to ₹ 1,508 crore. The fiscal deficit (₹ 3,512 crore) was 2.31 *per cent* of GSDP during the current year. Primary deficit of ₹ 82 crore in 2017-18 turned into primary surplus of ₹ 510 crore in 2018-19. There was a significant variation between the targets projected in the Budget/MTFPS and the actual figures for revenue deficit/surplus and fiscal deficit.

During 2018-19, the State's revenue receipts (₹ 30,950 crore) increased by 13 *per cent* over the previous year (₹ 27,367 crore). Only 33 *per cent* of the revenue receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 67 *per cent* was contributed by central transfers comprising the State's share in central taxes and duties (18 *per cent*) and grants-in-aid from GoI (49 *per cent*).

During 2018-19, total expenditure (₹ 34,493 crore) of the State increased by ₹ 3,181 crore (10 *per cent*) over the previous year. Revenue expenditure constituted 85.3 *per cent* of total expenditure. Total expenditure on four components *i.e.* salary and wages, pension liabilities, interest payments and subsidies constituted 73 *per cent* of the revenue expenditure during 2018-19.

During 2018-19, capital expenditure (₹ 4,583 crore) increased by ₹ 827 crore (22 *per cent*) over the previous year (₹ 3,756 crore). The share of capital expenditure to total expenditure increased from 12 *per cent* in 2017-18 to 13.29 *per cent* in 2018-19.

During 2018-19, public debt repayments (₹ 4,673 crore) including interest payments on public debt (₹ 2,958 crore) exceeded public debt receipts (₹ 6,427 crore) by ₹ 1,204 crore. Total interest payments were ₹ 4,022 crore, which was 13 *per cent* of the revenue receipts.

Overall fiscal liabilities at the end of the year were ₹ 54,299 crore with growth of six *per cent* over the previous year. Fiscal liabilities were 36 *per cent* of GSDP and 1.75 times the revenue receipts. Internal debt of the Government increased to ₹ 35,363 crore (5.28 *per cent*) during 2018-19 from ₹ 33,591 crore in 2017-18.

In the next 10 years, out of total outstanding market loans and UDAY bonds of ₹ 26,573 crore, the State has to repay principal of market loans and UDAY bonds of ₹ 25,005 crore (94.10 *per cent*) and interest amounting to ₹ 12,521 crore.