

**CHAPTER-II**  
**FINANCES OF THE STATE**



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**2.1 Major changes in key fiscal aggregates in 2022-23 vis-à-vis 2021-22**

Major changes in key fiscal aggregates of the State during the financial year 2022-23, as compared with the previous year, are given in **Table 2.1**.

**Table 2.1: Changes in key fiscal aggregates in 2022-23 compared with 2021-22**

<b>Revenue Receipts</b>	<ul style="list-style-type: none"> <li>• Revenue receipts of the State increased by 2.09 <i>per cent</i>.</li> <li>• Own Tax receipts of the State increased by 9.07 <i>per cent</i>.</li> <li>• Own Non-tax receipts of the State increased by 10.10 <i>per cent</i>.</li> <li>• State's Share of Union Taxes and Duties increased by 7.28 <i>per cent</i>.</li> <li>• Grants-in-Aid from Government of India decreased by 5.10 <i>per cent</i>.</li> </ul>
<b>Revenue Expenditure</b>	<ul style="list-style-type: none"> <li>• Revenue expenditure increased by 22.74 <i>per cent</i>.</li> <li>• Revenue expenditure on General Services increased by 27.80 <i>per cent</i>.</li> <li>• Revenue expenditure on Social Services increased by 25.40 <i>per cent</i>.</li> <li>• Revenue expenditure on Economic Services increased by 10.03 <i>per cent</i>.</li> <li>• Expenditure on Grants-in-Aid and contributions decreased by 21.01 <i>per cent</i>.</li> </ul>
<b>Capital Receipts</b>	<ul style="list-style-type: none"> <li>• Debt capital receipts* increased by 236.94 <i>per cent</i>.</li> <li>• Non-debt capital receipts increased by 99.83 <i>per cent</i>.</li> </ul>
<b>Capital Expenditure</b>	<ul style="list-style-type: none"> <li>• Capital expenditure decreased by 0.01 <i>per cent</i>.</li> <li>• Capital expenditure on General Services decreased by 23.68 <i>per cent</i>.</li> <li>• Capital expenditure on Social Services increased by 1.91 <i>per cent</i>.</li> <li>• Capital expenditure on Economic Services increased by 1.48 <i>per cent</i>.</li> </ul>
<b>Loans and Advances</b>	<ul style="list-style-type: none"> <li>• Disbursement of Loans and Advances decreased by 70.75 <i>per cent</i>.</li> <li>• Recoveries of Loans and Advances increased by 103.32 <i>per cent</i>.</li> </ul>
<b>Public Debt</b>	<ul style="list-style-type: none"> <li>• Public Debt Receipts* increased by 236.94 <i>per cent</i>.</li> <li>• Repayment of Public Debt increased by 131.03 <i>per cent</i>.</li> </ul>
<b>Public Account</b>	<ul style="list-style-type: none"> <li>• Public Account Receipts increased by 32.19 <i>per cent</i>.</li> <li>• Public Account Disbursements increased by 33.81 <i>per cent</i>.</li> </ul>
<b>Cash Balance</b>	<ul style="list-style-type: none"> <li>• Cash balance increased by 40.95 <i>per cent</i>.</li> </ul>

Source: Finance Accounts.

\*Excludes ₹ 2,695.22 crore (2021-22) as back-to-back loan from GoI in lieu of GST compensation shortfall which are not to be repaid by the State from its sources.

## 2.2 Sources and Application of Funds

Comparison of components of the sources and application of funds of the State during the current year with those of the previous year is given in **Table 2.2**.

**Table 2.2: Details of Sources and Application of funds during 2021-22 and 2022-23**

(₹ in crore)

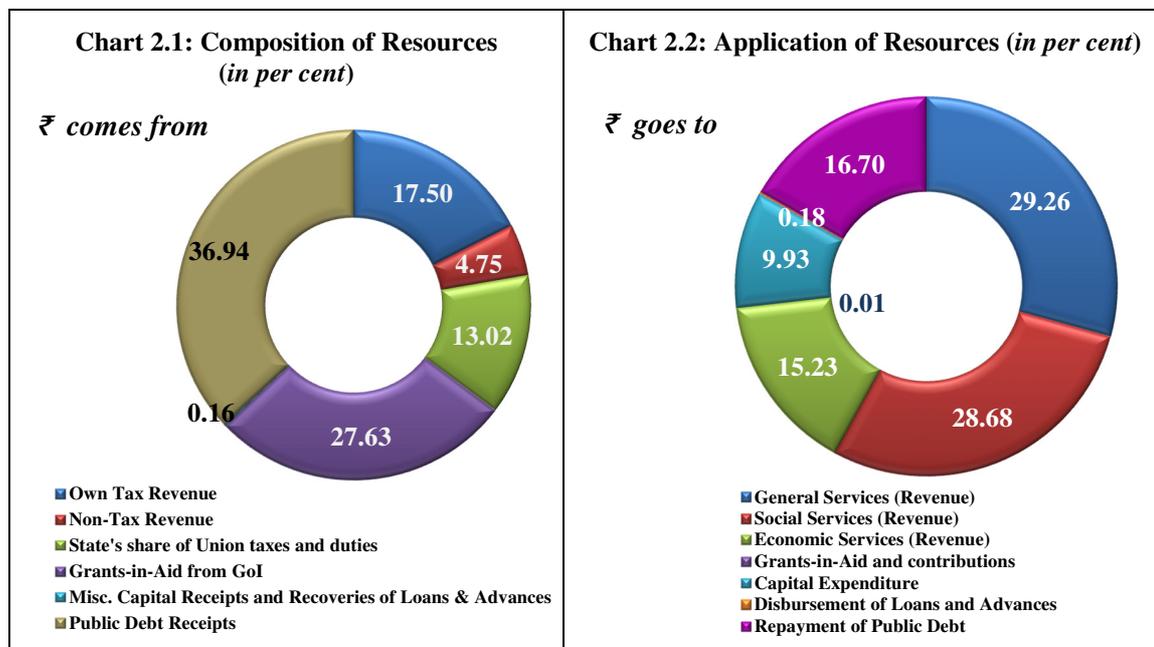
	Particulars	2021-22	2022-23	Increase/Decrease
<b>Sources of funds</b>	Opening Cash Balance with RBI	1,756.24	2,522.86	766.62
	Revenue Receipts	37,309.30	38,089.50	780.20
	Miscellaneous Capital Receipts	7.01	12.59	5.58
	Recoveries of Loans and Advances	40.72	82.79	42.07
	Public Debt Receipts (Net)	4,947.69*	12,236.02	7,288.33
	Public Account Receipts (Net)	1,063.79	1,176.99	113.20
	<b>Total*</b>	<b>45,124.75*</b>	<b>54,120.75</b>	<b>8,996.00</b>
<b>Application of funds</b>	Revenue Expenditure	36,194.54	44,425.26	8,230.72
	Capital Expenditure	6,029.38	6,028.89	-0.49
	Disbursement of Loans and Advances	377.97	110.57	-267.40
	Closing Cash Balance with RBI	2,522.86	3,556.03	1,033.17
	<b>Total</b>	<b>45,124.75</b>	<b>54,120.75</b>	<b>8,996.00</b>

Source: Finance Accounts.

\* Includes ₹ 2,695.22 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall during 2021-22.

**Appendix 2.1** provides details of receipts and disbursements and the overall fiscal position of the State during the current year as well as the previous year.

**Composition and application of resources in the Consolidated Fund** of the State during 2022-23 is given in **Charts 2.1** and **2.2**.



Source: Finance Accounts.

## 2.3 Resources of the State

The resources of the State are described below:

- 1. Revenue receipts** consist of tax revenue (Own tax revenue plus share of Union taxes/duties), non-tax revenue and Grants-in-aid from the Government of India (GoI).
- 2. Capital receipts** (debt and non-debt capital receipts) comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

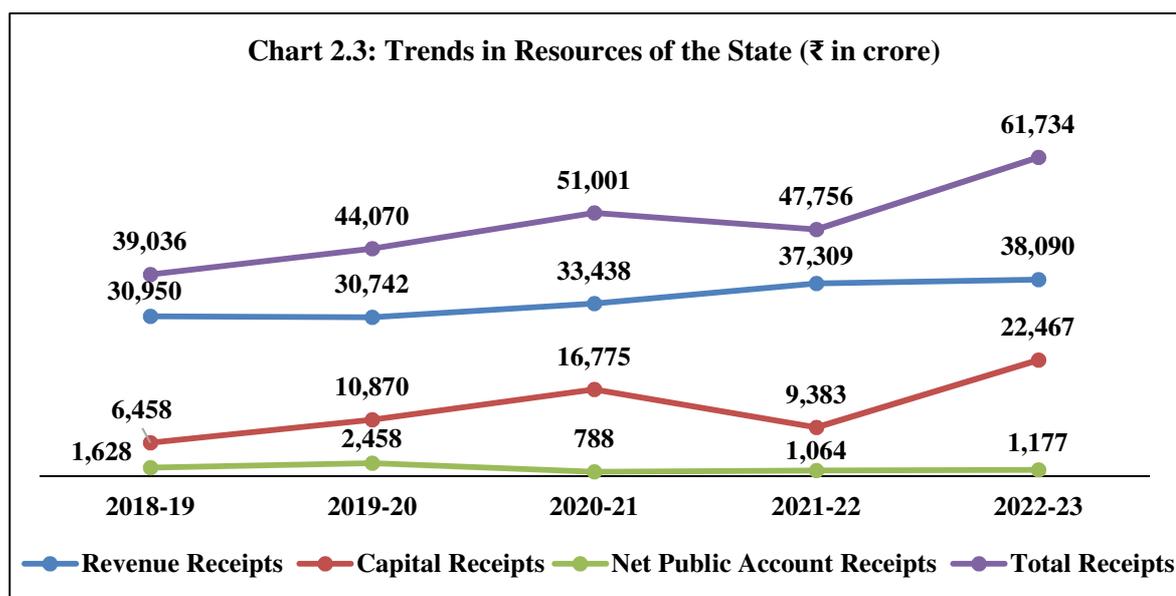
- 3. Net Public Accounts receipts:** There are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc., which do not form part of the Consolidated Fund.

These 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.

### 2.3.1 Receipts of the State

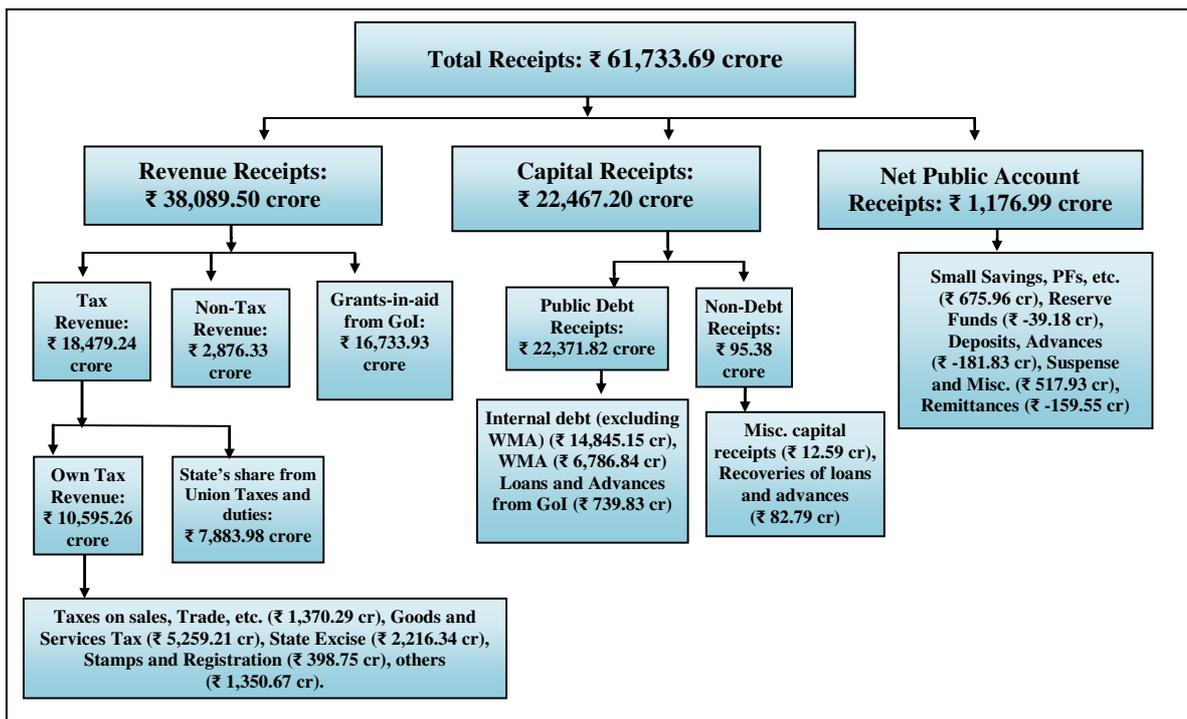
This paragraph provides the composition of the overall receipts. Besides Capital and Revenue Receipts, funds available in the Public Account (net of disbursements made from it) are also utilised by the Government to finance its deficit.

Trends in various components of the receipts of the State during 2018-23 are given in **Chart 2.3**, while composition of total receipts of the State during 2022-23 is depicted in **Chart 2.4**.



Source: Finance Accounts.

Chart 2.4: Composition of Receipts of the State during 2022-23



Source: Finance Accounts.

Out of the total resources of ₹ 61,733.69 crore of the State Government during the year 2022-23, Revenue Receipts (₹ 38,089.50 crore) constituted 61.70 per cent. Capital Receipts (₹ 22,467.20 crore) and net Public Account Receipts (₹ 1,176.99 crore) constituted 36.39 per cent and 1.91 per cent respectively of the total resources.

## 2.3.2 State's Revenue Receipts

### 2.3.2.1 Trends and growth of Revenue Receipts

Trends and growth of revenue receipts with respect to Gross State Domestic Product (GSDP) over the five-year period (2018-23) are shown in **Table 2.3**. The trends and composition of revenue receipts over the same period are presented in **Appendix 2.2**.

**Table 2.3: Trends in Revenue Receipts**

(₹ in crore)

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Revenue Receipts (RR)</b>	<b>30,950.32</b>	<b>30,742.41</b>	<b>33,438.27</b>	<b>37,309.30</b>	<b>38,089.50</b>
Rate of growth of RR (per cent)	13.09	-0.67	8.77	11.58	2.09
<b>Tax Revenue (i+ii)</b>	<b>13,002.58</b>	<b>12,301.38</b>	<b>12,837.24</b>	<b>17,063.62</b>	<b>18,479.24</b>
(i) Own Tax Revenue (OTR)	7,572.81	7,623.82	8,083.32	9,714.58	10,595.26
Rate of growth of OTR (per cent)	6.54	0.67	6.03	20.18	9.07
(ii) State's share of union taxes and duties	5,429.77	4,677.56	4,753.92	7,349.04	7,883.98
Rate of growth of State's share of union taxes and duties (per cent)	13.09	(-) 13.85	1.63	54.59	7.28
<b>Non-Tax Revenue (NTR)</b>	<b>2,830.07</b>	<b>2,501.51</b>	<b>2,188.46</b>	<b>2,612.36</b>	<b>2,876.33</b>
Rate of growth of NTR (per cent)	19.72	-11.61	-12.51	19.37	10.10
<b>Grants-in-Aid from GoI</b>	<b>15,117.66</b>	<b>15,939.52</b>	<b>18,412.58</b>	<b>17,633.32</b>	<b>16,733.93</b>
Rate of growth of GIA from GoI (per cent)	15.45	5.44	15.52	-4.23	-5.10
State's Own Revenue (OTR + NTR)	10,402.88	10,125.33	10,271.78	12,326.94	13,471.59

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
Rate of growth of State's Own Revenue (OTR+NTR) (per cent)	9.83	-2.67	1.44	20.01	9.29
Gross State Domestic Product (2011-12 Series)	1,48,383	1,59,164	1,55,251 <sup>a</sup>	1,76,269 <sup>b</sup>	1,95,405 <sup>c</sup>
Rate of growth of GSDP (per cent)	7.10	7.27	-2.46	13.54	10.86
RR/GSDP (per cent)	20.86	19.31	21.54	21.17	19.49
<b>Buoyancy Ratios<sup>#</sup></b>					
Revenue Buoyancy w.r.t. GSDP	1.85	--*	--*	0.86	0.19
State's Own Revenue Buoyancy w.r.t. GSDP	1.37	--*	--*	1.48	0.86

Source: Finance Accounts and Department of Economics and Statistics, Himachal Pradesh.

a - Second Revised Estimate, b - First Revised Estimate, c - Advance Estimate, w.r.t.- with respect to

# Buoyancy indicates the degree of responsiveness of a fiscal variable with respect to a given change in the base variable.

\* Buoyancy ratio was not calculated as GSDP growth was negative.

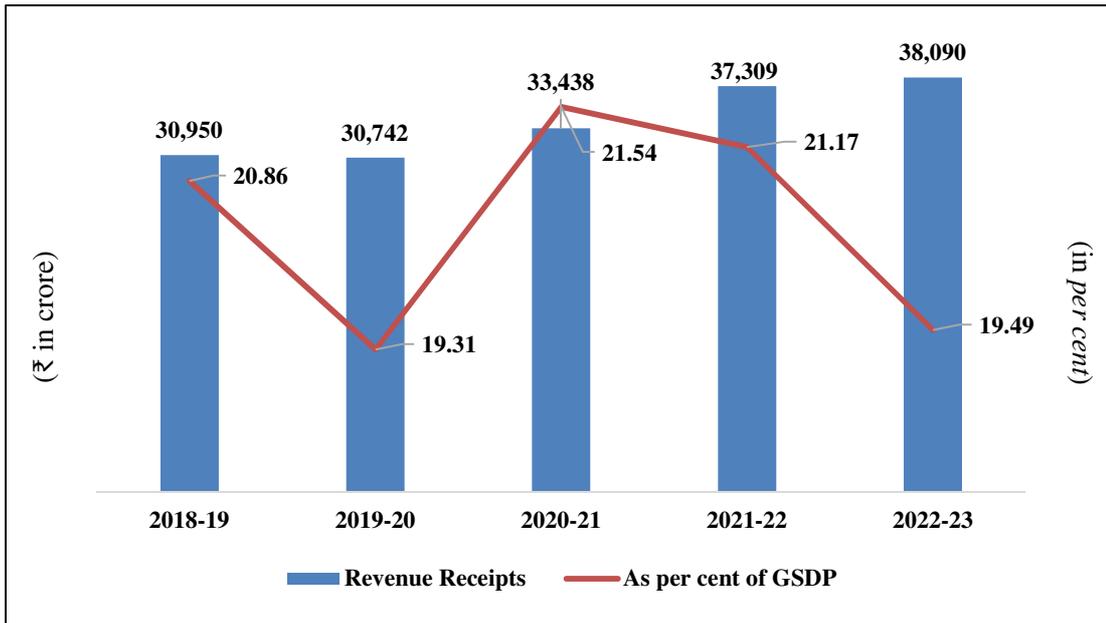
**Table 2.3** shows the following:

- While revenue receipts increased by 23.07 per cent from ₹ 30,950.32 crore in 2018-19 to ₹ 38,089.50 crore in 2022-23, the increase was only by ₹ 780.20 crore (2.09 per cent) during the current year (2022-23) over the previous year. During the period of the last five years 2018-23, it increased at an annual average growth rate of 6.97 per cent.
- Own tax revenue and non-tax revenue increased by ₹ 880.68 crore (9.07 per cent) and ₹ 263.97 crore (10.10 per cent) respectively in 2022-23 as compared to 2021-22.
- Revenue buoyancy with reference to GSDP decreased from 1.84 per cent in 2018-19 to 0.19 per cent in 2022-23. The State's own revenue buoyancy with reference to GSDP also decreased from 1.37 per cent in 2018-19 to 0.86 per cent in 2022-23.
- The sudden decline in State's own revenue buoyancy in 2022-23 over the previous year was primarily due to decrease in receipts under Taxes on Sales, Trades, etc. (VAT), Taxes and Duties on Electricity and Taxes on Goods and Passengers (under own tax revenue) and in interest receipts, Education, Sports, Arts and Culture, Forestry and Wildlife, etc. (under non-tax revenue). Trends in components of the State's own revenue (own tax revenue and non-tax revenue) are discussed in **Paragraphs 2.3.2.2 (i) and (ii)** respectively.
- On the other hand, Grants-in-aid from GoI increased by 10.69 per cent during the five year period from 2018-19 to 2022-23. It however, showed a decreasing trend from 2020-21 onwards. The decrease was by ₹ 779.26 crore (4.23 per cent) and ₹ 899.39 crore (5.10 per cent) in 2021-22 and 2022-23 respectively. The decrease during these periods over the previous year was mainly due to less receipts under Finance Commission Grants, as discussed in **Paragraph 2.3.2.3 (ii)**.

Increasing trend of grants-in-aid compared to own revenue buoyancy indicates more reliance, whereas a decreasing trend indicates less reliance on GoI support. Diversifying revenue sources and strengthening the local tax base are essential for sustainable fiscal stability and development.

Trends of revenue receipts are shown in **Chart 2.5**.

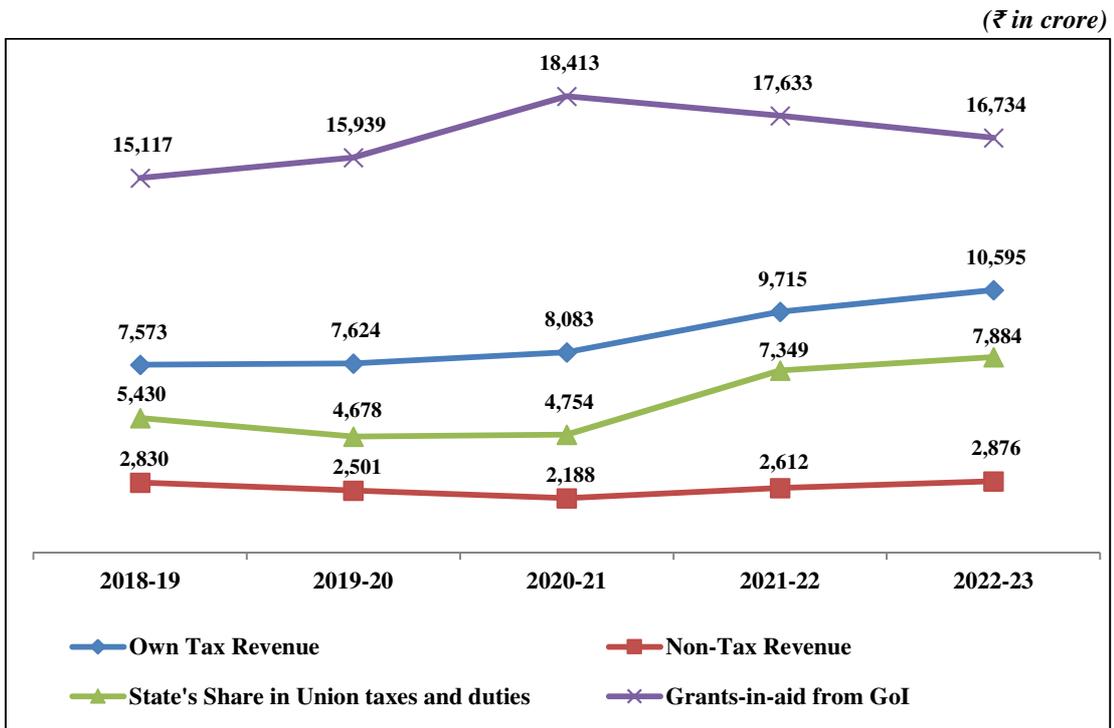
**Chart 2.5: Trends in Revenue Receipts as percentage of GSDP**



Source: Finance Accounts.

Trends in composition of revenue receipts are shown in **Chart 2.6**.

**Chart 2.6: Trend of components of Revenue Receipts**



Source: Finance Accounts.

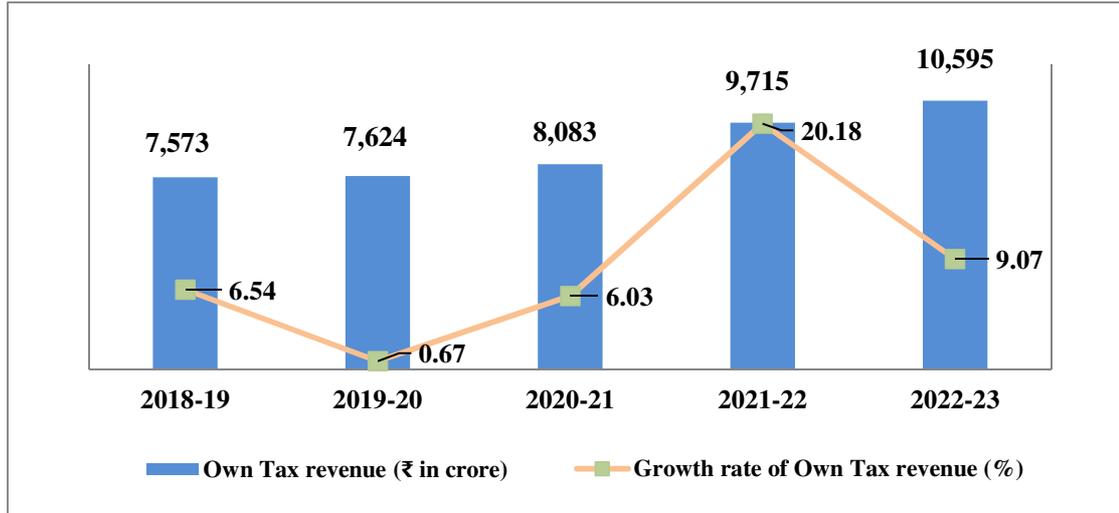
### 2.3.2.2 State's Own Resources

#### (i) Own Tax Revenue

Own tax revenue of the State consists of State Goods and Services Tax (SGST), State Excise, Taxes on Vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc.

Trends of own tax revenue and analysis of its components during the period 2018-23 are shown in **Chart 2.7** and **Table 2.4** respectively.

**Chart 2.7: Trends of Own Tax Revenue during 2018-23**



Source: Finance Accounts.

**Table 2.4: Components of State's Own Tax Revenue**

Revenue Head	2018-19	2019-20	2020-21	2021-22	2022-23
State Goods and Services Tax (SGST)	3,342.68	3,550.34	3,466.58	4,482.15	5,259.21
Taxes on Sales, Trades, etc. (VAT)	1,185.43	1,169.53	1,630.11	1,592.24	1,370.29
State Excise	1,481.63	1,660.02	1,599.74	1,980.63	2,216.34
Taxes on Vehicles	408.01	465.52	380.20	510.03	675.17
Stamp Duty and Registration Fees	250.55	259.58	253.36	318.60	398.75
Taxes and Duties on Electricity	487.08	100.86	401.76	393.51	252.25
Land Revenue	8.39	4.79	6.95	4.81	8.22
Taxes on Goods and Passengers	104.38	104.03	83.55	99.18	68.50
Other Taxes	304.66	309.15	261.07	333.43	346.53
<b>Total Own Tax Revenue</b>	<b>7,572.81</b>	<b>7,623.82</b>	<b>8,083.32</b>	<b>9,714.58</b>	<b>10,595.26</b>

Source: Finance Accounts of the respective years.

The total own tax revenue increased by ₹ 880.68 crore (9.07 per cent) during the current year (2022-23) over the previous year. The major increase was in receipts under SGST (₹ 777.06 crore), State excise (₹ 235.71 crore), Taxes on Vehicles (₹ 165.14 crore) and Stamp Duty and Registration Fees (₹ 80.15 crore). The increase was partly counterbalanced by decrease in receipts under Sales, Trades, etc. (VAT)

(₹ 221.94 crore), Taxes and duties on electricity (₹ 141.26 crore) and Taxes on goods and passengers (₹ 30.68 crore).

The increase in –

- State Goods and Services Tax (SGST) - was mainly due to more receipts from tax, interest, input tax credit cross utilisation of SGST and IGST and increased enforcement by the Department such as e-invoice, e-way bill, monitoring of tax return, capacity building;
- State excise – was mainly on account of increase in receipts from sale of country spirits, foreign liquor and spirits on account of increasing of quota and license fees, etc.;
- Taxes on Vehicles – was mainly due to registration of larger number of vehicles, compounding fee on account of vehicles' challan, cess on taxes, etc.;
- Stamp duty and Registration Fees – was mainly due to sale of stamps, fees for registering documents, court fees realised from stamps/ stamp duty, etc.,

whereas decrease in –

- Taxes on Sales, Trades, etc. - was due to less receipts under value added tax (VAT) on petrol and diesel;
- Taxes and duties on electricity - was mainly due to less receipt from taxes on consumption and sale of electricity;
- Taxes on goods and passengers – was mainly due to less tax collection from goods and passengers.

#### **(a) State Goods and Services Tax (SGST)**

During 2022-23, as per the books of RBI and the Finance Accounts, the amount of SGST was ₹ 5,259.21 crore against the budget estimates of ₹ 5,129.79 crore.

#### **(b) Audit of GST Receipts**

The Government of India's decision to provide access to Pan-India data at GSTN premises was conveyed on 22 June 2020. In case of Himachal Pradesh, access to back-end application was provided to the Office of the Principal Accountant General (Audit), Himachal Pradesh in December 2020. However, the access provided to this office was limited and based on VPN connection to access the Department's internal web-based GSTN portal as the same is accessible only through Himachal State Wide Area Network (HIMSWAN). Remote access to GSTN portal is being used for conducting Performance/ Subject Specific Compliance Audits under GST.

#### **(c) Analysis of arrears of revenue and arrears of assessment**

The arrears of revenue indicate delayed realisation of revenue due to the Government. Similarly, arrears of assessment indicate potential revenue which is blocked due to delayed assessment. Both deprive the State of potential revenue receipts and ultimately affect the revenue deficit.

**Arrears of revenue**

As on 31 March 2023, the arrears of revenue in respect of principal heads of revenue were ₹ 5,026.98 crore, of which ₹ 2,993.32 crore (59.55 per cent) were outstanding for more than five years, as depicted in **Table 2.5**.

**Table 2.5: Arrears of revenue***(₹ in crore)*

Sr. No.	Head of revenue	Amount outstanding as on 31 March 2023	Amount outstanding for more than five years as on 31 March 2023
1.	0006-Goods and Services Tax (GST)	425.46	0.00
2.	0039-State Excise	285.52	187.74
3.	0040-Taxes/VAT on Sales, Trade, etc.	4,206.64	2,742.74
4.	0042-Passengers and Goods Tax	13.72	6.59
5.	0045-Other Tax and Duties	95.64	56.25
<b>Total</b>		<b>5,026.98</b>	<b>2,993.32</b>

Source: Information supplied by State Taxes & Excise Department.

**Arrears in assessment**

The information on number of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed during the year and number of cases pending for finalisation at the end of the year, as furnished by the Department of State Taxes & Excise in respect of Sales Tax/VAT is depicted in **Table 2.6**.

**Table 2.6: Arrears of assessment**

Sr. No.	Head of Revenue		Opening Balance	New cases due for assessment during 2022-23	Total assessment due	Cases disposed during 2022-23	Balance at the end of the year	No. of outstanding cases for more than five years	Percentage of disposal (column 6 to 5)
1.	2.		3.	4.	5.	6.	7.	8.	9.
1.	Taxes on Sales, Trade, etc./ VAT	CST	41,880	5,653	47,533	26,656	20,877	18,044	56
		VAT	48,979	7,560	56,539	32,888	23,651	20,042	58
2.	Motor Spirit tax		94	36	130	80	50	0	62
3.	Taxes on vehicle		3,099	2,875	5,974	3,814	2,160	1,848	64
4.	Luxury tax		2,077	12	2,089	852	1,237	896	41
<b>Total</b>			<b>96,129</b>	<b>16,136</b>	<b>1,12,265</b>	<b>64,290</b>	<b>47,975</b>	<b>40,830</b>	<b>57</b>

Source: Information supplied by State Taxes & Excise Department.

The number of pending cases of arrears of assessment decreased by 50 per cent from 96,129 cases of 2021-22 to 47,975 cases at the end of the year 2022-23. Rates of disposal in the year 2022-23 under various heads of revenue ranged between 41 per cent and 64 per cent.

**(c) Details of evasion of tax detected by the Department, refund cases, etc.**

The cases of evasion of tax detected, cases finalised and the demands for additional tax raised are important indicators of revenue collection efforts of the State Government.

Promptness in disposal of refund cases is an important indicator of performance of the Department concerned.

The details of cases of evasion of tax detected by the State Taxes & Excise Department, cases finalised and the demand for additional tax raised; and details of refund cases during the year 2022-23, are depicted in **Tables 2.7** and **2.8** respectively.

**Table 2.7: Evasion of tax detected**

Sr. No.	Head of revenue	Cases pending as on 31 March 2022	Cases detected during 2022-23	Total	No. of cases in which assessment / investigation completed and additional demand with penalty, etc. raised		No. of cases pending for finalisation as on 31 March 2023
					No. of cases	Amount of demand (₹ in crore)	
1.	Goods and Services Tax	298	4,835	5,133	4,677	244.32	456
2.	State Excise	98	1,130	1,228	1,145	1.86	83
3.	Taxes on sales trade etc.	64	326	390	338	12.58	52
4.	Passengers and goods tax	13	2,302	2,315	2,302	3.79	13
5.	Other taxes and duties on commodities and services	38	1,133	1,171	1,134	5.21	37
<b>Total</b>		<b>511</b>	<b>9,726</b>	<b>10,237</b>	<b>9,596</b>	<b>267.76</b>	<b>641</b>

*Source: Information supplied by State Taxes & Excise Department.*

**Table 2.8: Details of refund cases**

*(₹ in crore)*

Sr. No.	Particulars	GST		Sales Tax/VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	212	15.69	63	19.20	16	0.23
2.	Claims received during the year	1,319	127.24	126	13.61	42	2.38
3.	Refunds made during the year	1,036	98.00	135	24.77	47	2.44
4.	Refunds rejected during the year	256	27.33	2	0.04	1	0.003
5.	Balance outstanding at the end of year	239	17.60	52	8.00	10	0.16

*Source: Information supplied by State Taxes & Excise Department.*

## **(ii) Non-Tax Revenue**

Non-tax revenue consists of interest receipts, dividends and profits, mining receipts, departmental receipts, etc. Trends in components of the State's non-tax revenue during 2018-23 are shown in **Table 2.9**.

Table 2.9: Components of State's Non-tax Revenue

Revenue Head	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Interest receipts</b>	<b>385.88</b>	<b>245.36</b>	<b>306.43</b>	<b>173.95</b>	<b>85.30</b>
<b>Dividends and profits</b>	<b>181.92</b>	<b>248.44</b>	<b>245.43</b>	<b>166.53</b>	<b>180.90</b>
<b>Other Non-tax receipts</b>	<b>2,262.27</b>	<b>2,007.72</b>	<b>1,636.60</b>	<b>2,271.88</b>	<b>2,610.13</b>
Miscellaneous General Services	20.76	5.17	11.41	14.06	7.45
Education, Sports, Arts and Culture	214.59	238.59	196.08	257.70	161.78
Forestry and Wildlife	76.32	83.61	49.56	106.28	81.79
Other Administrative Services	51.34	49.65	37.05	104.90	90.05
Non-ferrous Mining and Metallurgical Industries	221.05	246.30	252.16	230.81	286.34
Power	1,134.34	1,021.68	749.12	1,183.51	1,428.28
Others or Miscellaneous	543.87	362.72	341.22	374.62	554.44
<b>Total Non-tax Revenue</b>	<b>2,830.07</b>	<b>2,501.51</b>	<b>2,188.46</b>	<b>2,612.36</b>	<b>2,876.33</b>
<b>Percentage of Non-tax Revenue to Revenue Receipts</b>	<b>9.14</b>	<b>8.14</b>	<b>6.54</b>	<b>7.00</b>	<b>7.55</b>

Source: Finance Accounts.

During the year 2022-23, there was an increase of ₹ 263.97 crore (10.10 per cent) in total non-tax revenue over the previous year. This was mainly due to increase in receipts under Power (₹ 244.77 crore), others or miscellaneous (₹ 179.82 crore), Non-ferrous Mining and Metallurgical Industries (₹ 55.53 crore), dividends and profits (₹ 14.37 crore), etc. However, the increase was counterbalanced by decrease in receipts mainly under Education, Sports, Arts and Culture (₹ 95.92 crore), interest receipts (₹ 88.65 crore) and Forestry and Wildlife (₹ 24.49 crore), etc.

The increase under -

- *Power* – was mainly due to receipts from Central Public Sector Undertakings (other than Satluj Jal Vidyut Nigam Limited) and upfront premium;
- *Non-ferrous Mining and Metallurgical Industries* – was mainly due to more receipts under mineral concession fees, rents, and royalties, other receipts; and
- *Dividends and profits* – was mainly due to more dividends received from General Industries Corporation Limited and Himachal Pradesh State Cooperative Banks as compared to the previous year;

whereas decrease under -

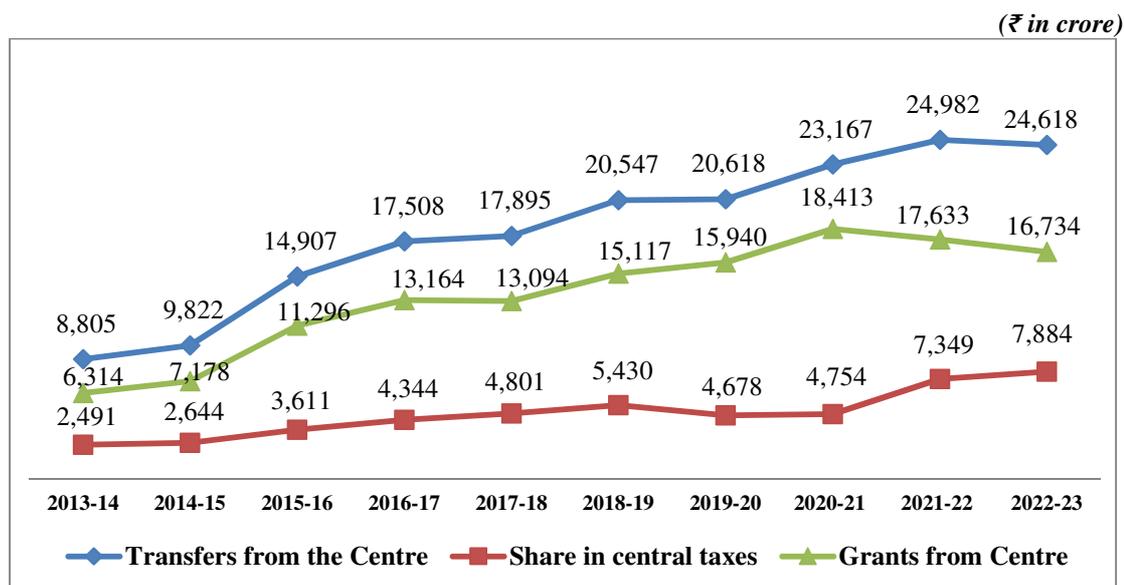
- *Education, Sports, Art and Culture* – was mainly due to non-reimbursement of salary of State Project Directors, *Sarva Siksha Abhiyan* and less receipt under miscellaneous heads;
- *Interest Receipts* – was mainly due to less receipts from interest accrued from loans to Cooperative societies and less interest realised on investment of cash balances; and
- *Forestry and Wildlife* – was mainly due to less receipt from timber and other forest produces and social and farm forestry, etc.

### 2.3.2.3 Transfers from the Centre

Transfers from the Centre mainly consists of tax devolution as per Finance Commission recommendations, Finance Commission grants, Central Government share in centrally

sponsored schemes etc. The trends in Central transfers over the last 10 years are shown in **Chart 2.8**.

**Chart 2.8: Trends in transfers from Centre**



Source: Finance Accounts.

The trends in the Central tax transfers i.e., share in Union taxes and duties and Grants-in-aid from GoI to State Government are discussed in the succeeding paragraphs.

#### (i) Share in Central taxes

The actual release of share in Union taxes and duties to the State Government vis-à-vis projections made by Fourteenth Finance Commission and Fifteenth Finance Commission during the period from 2015-16 to 2022-23 is tabulated in **Table 2.10**. During 15<sup>th</sup> FC (2020-23), the actual tax devolutions were well above the projections (except 2020-21) as service tax was included in the calculation of net proceeds of all shareable taxes as per the 15<sup>th</sup> FC recommendations.

**Table 2.10: State's share in Union taxes and duties: Actual devolution vis-à-vis Finance Commission projections**

(₹ in crore)

Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference
1.	2.	3.	4.	5. (4-3)
2015-16		3,743.71	3,611.17	(-) 132.54
2016-17	0.713 per cent of net proceeds of all shareable taxes excluding service tax and 0.722 per cent of net proceeds of shareable service tax (as per recommendations of 14 <sup>th</sup> FC)	4,074.67	4,343.70	269.03
2017-18		4,819.21	4,801.31	(-) 17.90
2018-19		5,619.31	5,429.77	(-) 189.54
2019-20		5,769.12	4,677.56	(-) 1,091.56
2020-21	0.799 per cent of net proceeds of all shareable taxes including service tax (as per recommendations of 15 <sup>th</sup> FC)	6,265.60	4,753.92	(-) 1,511.68
2021-22	0.830 per cent of net proceeds of all shareable taxes including service tax (as per recommendations of 15 <sup>th</sup> FC)	5,524.16	7,349.04	1,824.88
2022-23		6,778.19	7,883.98	1,105.79

Source: Reports of the 14<sup>th</sup> FC & 15<sup>th</sup> FC (FCRs), Finance Accounts and Annual Financial Statements.

It can be seen from the above table that during the first three years (2020-23) of the period of Fifteenth Finance Commission (2020-26), State's share in Union taxes and duties amounting to ₹ 19,986.94 crore was 87.42 per cent of the total share (₹ 22,863.51 crore) during the period of Fourteenth Finance Commission (2015-20).

Trends in components of Central tax transfers to the State during 2018-23 are given in **Table 2.11**.

**Table 2.11: Composition of Central Tax Transfers**

(₹ in crore)

Components of Central Tax Transfers	2018-19	2019-20	2020-21	2021-22	2022-23	Difference over the previous year
Central Goods and Services Tax (CGST)	1,340.15	1,327.34	1,419.55	2,105.41	2,227.15	121.74
Integrated Goods and Services Tax (IGST)	107.00	0	0	0	0	0
Corporation Tax	1,888.31	1,594.86	1,429.44	2,202.48	2,644.66	442.18
Taxes on Income other than Corporation Tax	1,390.66	1,249.68	1,464.84	2,169.83	2,579.80	409.97
Customs	384.89	296.49	257.07	510.58	309.82	-200.76
Union Excise Duties	255.78	206.16	160.44	265.82	97.22	-168.60
Service Tax	49.66	--	19.39	87.35	12.36	-74.99
Other Taxes <sup>1</sup>	13.32	3.03	3.19	7.57	12.97	5.40
<b>Central Tax Transfers</b>	<b>5,429.77</b>	<b>4,677.56</b>	<b>4,753.92</b>	<b>7,349.04</b>	<b>7,883.98</b>	<b>534.94</b>
<b>Percentage of increase (+)/ decrease (-) over the previous year</b>	<b>13.09</b>	<b>(-) 13.85</b>	<b>1.63</b>	<b>54.59</b>	<b>7.28</b>	<b>--</b>
<b>Percentage of Central Tax Transfers to Revenue Receipts</b>	<b>17.54</b>	<b>15.22</b>	<b>14.22</b>	<b>19.70</b>	<b>20.70</b>	<b>--</b>

Source: Finance Accounts.

**Table 2.11** shows that the percentage of change in the State Government's share in Union taxes and duties ranged between (-) 13.85 and 54.59 per cent during the last five years 2018-23. It increased by only ₹ 534.94 crore (7.28 per cent) during 2022-23 over the previous year. Share in Union taxes and duties constituted 14 per cent to 21 per cent of the revenue receipts of the State during 2018-23.

## (ii) Grants-in-aid from Government of India (GoI)

Trend of Grants-in-aid (GIA) from GoI and its components are shown in **Table 2.12**.

**Table 2.12: Grants-in-aid from Government of India**

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Centrally Sponsored Schemes	4,010.49	4,915.06	4,221.29	5,420.75	4,736.66
Finance Commission Grants*	8,831.25	8,617.82	12,424.10	11,044.26	10,489.70
Other Transfer/Grants to State/ Union Territories with Legislatures	2,275.93	2,406.64	1,767.19	1,168.31	1,507.57 <sup>@</sup>
<b>Total</b>	<b>15,117.66</b>	<b>15,939.52</b>	<b>18,412.58</b>	<b>17,633.32</b>	<b>16,733.93</b>

<sup>1</sup> Includes Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on commodities and Services.

<b>Particulars</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
Percentage increase /decrease over the previous year	15.45	5.44	15.52	-4.23	-5.10
Percentage of GIA to Revenue Receipts	48.84	51.85	55.06	47.26	43.93

Source: Finance Accounts for the respective years.

\* Finance Commission Grants include Post-Devolution Revenue Deficit Grant (₹ 9,377 crore), grants for Local Bodies (₹ 727.50 crore) and Grant-in-Aid for State Disaster Response Fund (₹ 342.40 crore); Grant-in-Aid for State Disaster Mitigation Fund (₹ 42.80 crore).

@ Includes ₹ 1,293.27 crore on account of compensation for loss of revenue arising out of implementation of GST.

**Table 2.12** shows that the grants-in-aid from GoI decreased consistently during the years 2021-22 (4.23 per cent) and 2022-23 (5.10 per cent) as compared to the respective previous years. The decrease in GIA during the current year over the previous year was mainly due to substantial decrease under Post-Devolution Revenue Deficit Grant by ₹ 872 crore (8.51 per cent) and under Centrally Sponsored Schemes towards Central Assistance/ Share by ₹ 702.07 crore (19.19 per cent).

#### **(a) Grants for Centrally Sponsored Schemes**

Out of the grants of ₹ 4,736.66 crore for Centrally Sponsored Schemes during 2022-23, the major amounts were given to:

- Pradhan Mantri Gram Sadak Yojana (PMGSY) - ₹ 624.76 crore. It increased by ₹ 107.31 crore (20.74 per cent) as compared to the previous year.
- Samagra Shiksha Abhiyan - ₹ 551.60 crore. It increased by ₹ 203.37 crore (58.40 per cent) over the previous year.
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) - ₹ 508.72 crore. It increased by ₹ 266.82 crore (110.30 per cent) as compared to the previous year.

#### **(b) Single Nodal Agency**

The Government of India, Ministry of Finance, Department of Expenditure, New Delhi vide Office Memorandum No. 1 (13)/ PFMS/ FCD/2020 dated 8 December 2021 provided that every State Government is required to designate a Single Nodal Agency (SNA) for implementing each Centrally Sponsored Scheme (CSS). The Single Nodal Agency will open a Single Nodal Account for each CSS at the State level in a Scheduled Commercial Bank authorised to conduct business by the State Government. Further, as per the procedure, the State Government is to transfer the Central share received in its accounts to the SNA account concerned along with corresponding State share. It is the responsibility of the State Government concerned to ensure that the entire unspent amount is returned by all the Implementing Agencies (IAs) to the Single Nodal Account of the Single Nodal Agency.

The State Government received ₹ 3,621.78 crore being the Central share during the year. As on 31 March 2023, the State Government transferred ₹ 3,294.07 crore of Central share and State share of ₹ 784.16 crore to the SNAs. As on 31 March 2023, ₹ 2,722.47 crore was lying in the bank accounts of SNAs.

**(c) Fifteenth Finance Commission Grants**

The Fifteenth Finance Commission (15<sup>th</sup> FC) grants were provided to the States for local bodies and State Disaster Response Fund (SDRF), post-devolution revenue deficit and health sector. Details of grants provided by GoI during 2022-23 are given in **Table 2.13**.

**Table 2.13: Recommended amount, actual release and transfers of Grant-in-aid***(₹ in crore)*

Transfers		2022-23		
		Recommendation of the 15 <sup>th</sup> FC	Actual release by GoI	Release by State Government
1.	<b>(i) Grants to PRIs</b>	<b>329.00</b>	<b>329.00<sup>@</sup></b>	<b>329.00</b>
	(a) General Basic Grant (Untied)	131.60	131.60	131.60
	(b) General Performance Grants (Tied)	197.40	197.40	197.40
	<b>(ii) Grants to ULBs</b>	<b>162.00</b>	<b>159.00<sup>\$</sup></b>	<b>159.36<sup>*</sup></b>
	(a) General Basic Grant	64.80	63.60	63.75
	(b) General Performance Grants	97.20	95.40	95.61
	<b>(iii) Grant for health sector for local bodies</b>	<b>98.00</b>	<b>0.00</b>	<b>0.00</b>
	<b>Total Grants to Local Bodies (i+ii+iii)</b>	<b>589.00</b>	<b>488.00</b>	<b>488.36</b>
2.	State Disaster Response Fund (SDRF)	Centre share	342.40	342.40
		State share	38.40	--
	<b>Total for SDRF</b>	<b>380.80</b>	<b>342.40</b>	<b>380.80</b>
3.	<b>Post-Devolution Revenue Deficit Grant</b>	<b>9,377</b>	<b>9,377</b>	<b>--</b>

Source: 15<sup>th</sup> FC Report and information provided by the State Government departments.

<sup>@</sup> The amount (₹ 487.50 crore) as appearing in Finance Accounts is different from this amount (₹ 329.00 crore) due to 2<sup>nd</sup> instalment of an amount of ₹ 158.50 crore of 2021-22 released during 2022-23.

<sup>\$</sup> The amount (₹ 240 crore) as appearing in Finance Accounts is different from the amount (₹ 159.00 crore) due to 2<sup>nd</sup> instalment of ₹ 81 crore of 2022-23 received and released by State Government during 2023-24 as this amount was released by GoI on 31 March 2023.

<sup>\*</sup> Includes ₹ 0.36 crore accrued interest on account of delay in release of grant.

- As against the amount of ₹ 329 crore recommended by the 15<sup>th</sup> FC in respect of PRIs, GoI released the entire amount during 2022-23, and the same was released by GoHP during the same period.
- In respect of ULBs, against the recommended amount of ₹ 162.00 crore, GoI released ₹ 159.00 crore during 2022-23. Out of ₹ 159.00 crore released by GoI, the State Government released ₹ 159.36 crore (including interest) during 2022-23.
- In respect of SDRF, 15<sup>th</sup> FC recommended Central and State shares in the ratio of 90:10. As against the recommended share of ₹ 342.40 crore, GoI released ₹ 342.40 crore and the State released ₹ 380.80 crore (Central share: ₹ 342.40 crore and State's share ₹ 38.40 crore) during 2022-23.

**2.3.3 Capital Receipts**

Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Trends of capital receipts and its components during 2018-19 to 2022-23 are shown in Table 2.14.

**Table 2.14: Trends in growth and composition of capital receipts**

(₹ in crore)

Sources of State's Receipts	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Capital Receipts (CR) (i+ii+iii)</b>	<b>1,784.70</b>	<b>4,169.72</b>	<b>3,917.07*</b>	<b>2,300.21*</b>	<b>12,331.41</b>
(i) Miscellaneous Capital Receipts	8.82	2.04	2.88	7.01	12.59
(ii) Recoveries of Loans and Advances	21.83	21.04	23.02	40.73	82.79
(iii) Net Public Debt Receipts	1,754.05	4,146.64	3,891.17*	2,252.47*	12,236.02
- Internal Debt	1,771.71	4,164.59	3,390.44	1,457.82	11,599.12
<i>Growth rate (per cent)</i>	<i>-15.53</i>	<i>135.06</i>	<i>-18.59</i>	<i>-57.00</i>	<i>695.65</i>
- Loans and advances from GoI	-17.66	-17.95	500.73*	794.65*	636.90
<i>Growth rate (per cent)</i>	<i>-690.64</i>	<i>-1.64</i>	<i>2,889.56</i>	<i>58.70</i>	<i>-19.85</i>
<i>Rate of growth of net public debt receipts (per cent) (iii)</i>	<i>-16.49</i>	<i>136.40</i>	<i>-6.16</i>	<i>-42.11</i>	<i>443.23</i>
<i>Rate of growth of non-debt capital receipts (per cent) (i)+(ii)</i>	<i>-58.82</i>	<i>-24.70</i>	<i>12.22</i>	<i>84.29</i>	<i>99.83</i>
<i>Rate of growth of Capital Receipts (per cent)</i>	<i>-17.94</i>	<i>133.64</i>	<i>6.06</i>	<i>-41.28</i>	<i>436.10</i>
<i>Rate of growth of GSDP (per cent)</i>	<i>7.10</i>	<i>7.27</i>	<i>-2.46</i>	<i>13.54</i>	<i>10.86</i>

Source: Finance Accounts of the respective years.

\* Excludes ₹ 1,717 crore during 2020-21 and ₹ 2,695.22 during 2021-22 as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

During the current year, the net public debt receipts increased substantially by ₹ 9,983.56 crore (443.23 per cent) over the previous year. This was due to drastic increase in internal debt by ₹ 10,141.31 crore (695.65 per cent) incurred by the State Government during 2022-23 over the previous year. Internal debt increased primarily due to substantial borrowings from the open market (₹ 12,230 crore) by the State Government. Application of these debt receipts/ borrowings has been discussed in Paragraph 2.7.1.

### 2.3.4 State's performance in mobilisation of resources

The State's performance in mobilisation of resources is assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual own tax and non-tax revenue for the year 2022-23 vis-à-vis assessment made by Fifteenth Finance Commission (15<sup>th</sup> FC) and Budget Estimates/ MTFPS are given in Table 2.15.

**Table 2.15: Tax and non-tax revenue vis-à-vis projections during 2022-23**

(₹ in crore)

Particulars	15 <sup>th</sup> FC projections	Budget Estimates and MTFPS projection	Actual	Percentage variation of actual over	
				15 <sup>th</sup> FC projections	Budget estimates and MTFPS projection
Own Tax revenue	11,026	10,881.39	10,595.26	-3.91	-2.63
Non-tax revenue	4,235	2,769.41	2,876.33	-32.08	3.86

Source: Finance Accounts and Budget documents.

Actual own tax revenue of the State Government fell short from 15<sup>th</sup> FC projections and budget estimates by 3.91 *per cent* and 2.63 *per cent* respectively. Actual realisation of non-tax revenue also fell short by 32.08 *per cent* than the projections made by 15<sup>th</sup> FC but was higher by 3.86 *per cent* than the budget estimates.

## 2.4 Application of Resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that fiscal corrections/ consolidation processes are not at the cost of expenditure directed towards development. The application of resources is analysed in the succeeding paragraphs with regard to growth and composition of expenditure, revenue expenditure, committed expenditure and financial assistance to local bodies and other institutions.

### Growth and composition of expenditure

**Revenue Expenditure:** Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order as also all other expenses incurred for the day-to-day running of the organisation, including establishment and administrative expenses shall be classified as revenue expenditure.

**Capital Expenditure:** All charges for the first construction of a project as well as charges for intermediate maintenance of the work while not opened for service and also charges for such further additions and improvements as may be sanctioned under the rules made by competent authority shall be classified as capital expenditure.

**Loans and Advances:** Loans and advances by the Government to Public Sector Undertakings (PSU) and other parties.

Trends of overall expenditure and its components are shown in **Table 2.16** and **Chart 2.9**.

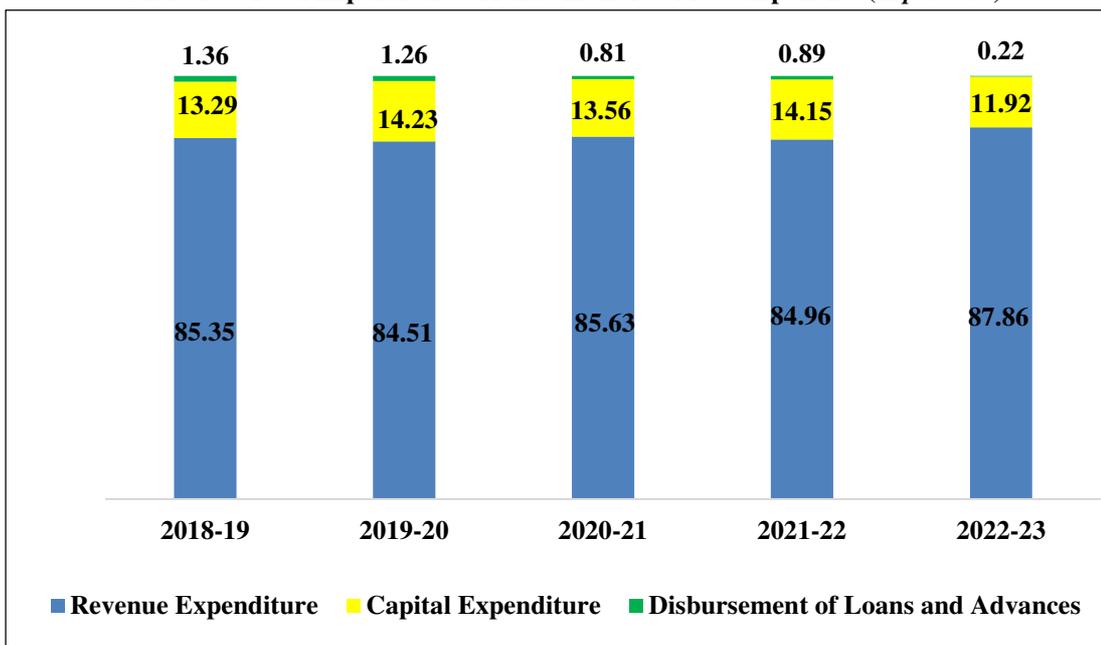
**Table 2.16: Total expenditure and its composition**

(₹ in crore)

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Total Expenditure (TE)</b>	<b>34,493.50</b>	<b>36,362.55</b>	<b>39,164.26</b>	<b>42,601.89</b>	<b>50,564.72</b>
Revenue Expenditure (RE)	29,442.11	30,730.43	33,534.93	36,194.54	44,425.26
Capital Expenditure (CE)	4,583.41	5,173.91	5,309.21	6,029.38	6,028.89
Loans and Advances disbursed	467.98	458.21	320.12	377.97	110.57
GSDP at current prices	1,48,383	1,59,164	1,55,251 <sup>a</sup>	1,76,269 <sup>b</sup>	1,95,405 <sup>c</sup>
<b>As a percentage of GSDP</b>					
TE/GSDP	23.25	22.85	25.23	24.17	25.88
RE/GSDP	19.84	19.31	21.60	20.53	22.73
CE/GSDP	3.09	3.25	3.42	3.42	3.09
Loans and Advances/ GSDP	0.32	0.29	0.21	0.21	0.06

*a - Second Revised Estimate, b - First Revised Estimate, c - Advance Estimate.*

Chart 2.9: Total Expenditure: Trends in share of its components (in per cent)



**Table 2.16** shows that total expenditure increased by ₹ 16,071.22 crore (46.59 per cent) from ₹ 34,493.50 crore in 2018-19 to ₹ 50,564.72 crore in 2022-23, which ranged between 22.85 per cent and 25.88 per cent of GSDP during the period of five years. **Chart 2.9** shows that revenue expenditure constituted the dominant proportion (85 to 88 per cent) of total expenditure. Capital expenditure on the other hand, constituted between 12 per cent and 14 per cent of total expenditure.

During the year 2022-23, revenue expenditure increased by ₹ 8,230.72 crore (22.74 per cent) from the previous year. The increase was due to enhancement in expenditure on salary, pension, etc., on account of pay revision/ implementation of Himachal Pradesh 6<sup>th</sup> Pay Commission in the State as discussed in detail in **Paragraph 2.4.1.2**.

Relative share of various sectors of expenditure during 2018-23 is depicted in **Table 2.17** and **Chart 2.10**.

**Table 2.17: Relative share of various sectors of expenditure**

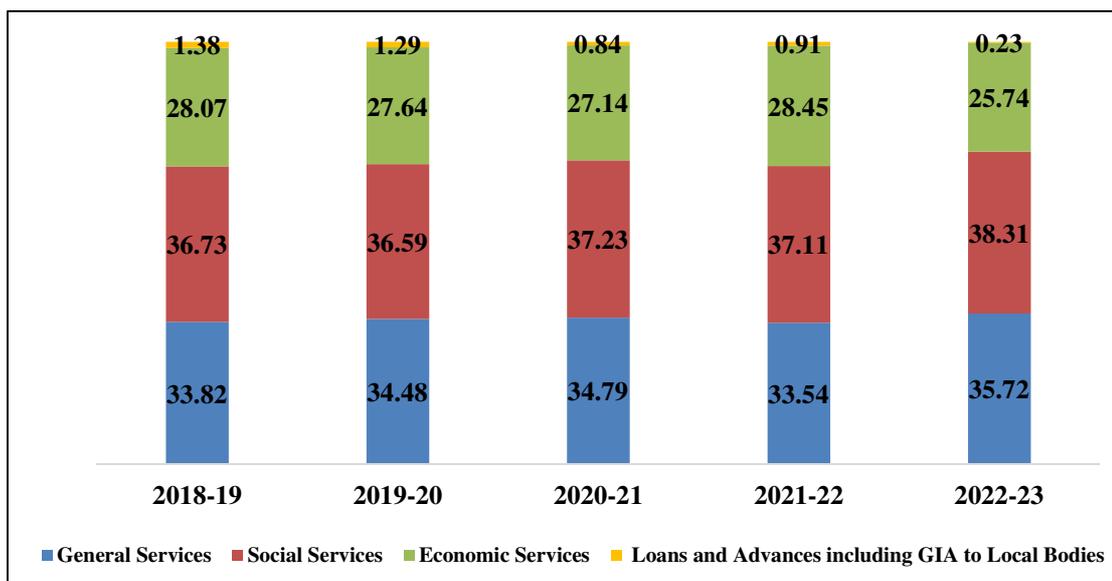
(₹ in crore)

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
General Services	11,665	12,539	13,624	14,289	18,061
Social Services	12,669	13,305	14,580	15,808	19,370
Economic Services	9,681	10,050	10,631	12,119	13,017
Grants to Local Bodies	9.39	10.27	9.37	7.71	6.09
Loans and Advances	467.98	458.21	320.12	377.97	110.57

Source: Finance Accounts.

Chart 2.10: Total expenditure - Expenditure by activities

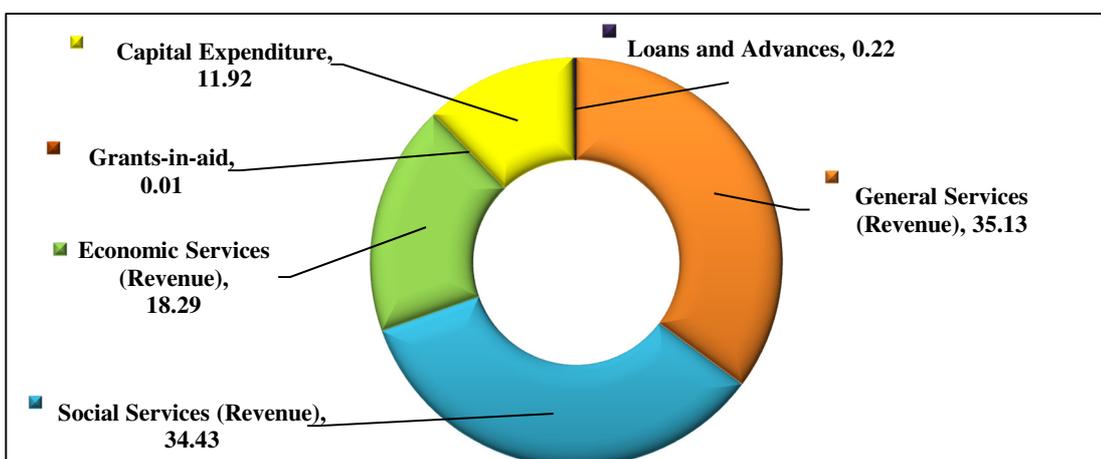
(in per cent)



Source: Finance Accounts.

**Chart 2.10** shows that the relative share of various components of expenditure in total expenditure fluctuated during the period 2018-23. The share of General Services and Social Services in total expenditure increased from 33.82 per cent and 36.73 per cent in 2018-19 to 35.72 per cent and 38.31 per cent respectively in 2022-23, while that of Economic Services decreased from 28.07 per cent to 25.74 per cent during the same period. Grants to local bodies and loans and advances also showed a decreasing trend except during 2021-22. **Chart 2.11** shows composition of expenditure by function.

Chart 2.11: Composition of expenditure by function during 2022-23 (in per cent)



Source: Finance Accounts.

#### 2.4.1 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and payments for past obligations. As such, it does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, its ratio to total expenditure and its rate of growth *vis-à-vis* GSDP and revenue receipts during the period 2018-23 are indicated in **Table 2.18**.

**Table 2.18: Growth of revenue expenditure during 2018-23**

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Total Expenditure (TE)	34,493.50	36,362.55	39,164.25	42,601.89	50,564.72
Revenue Expenditure (RE)	29,442.11	30,730.43	33,534.93	36,194.54	44,425.26
Rate of growth of RE (per cent)	8.83	4.38	9.13	7.93	22.74
Revenue Expenditure as percentage of TE	85.35	84.51	85.63	84.96	87.86
RE/GSDP (per cent)	19.84	19.31	21.60	20.53	22.73
Revenue Receipts (RR)	30,950.32	30,742.41	33,438.27	37,309.30	38,089.50
Rate of growth of RR (per cent)	13.09	-0.67	8.77	11.58	2.09
RE as percentage of RR	95.13	99.96	100.29	97.01	116.63
GSDP	1,48,383.27	1,59,164.02	1,55,251.20 <sup>a</sup>	1,76,269.47 <sup>b</sup>	1,95,404.59 <sup>c</sup>
Rate of growth of GSDP (per cent)	7.10	7.27	-2.46	13.54	10.86
<b>Buoyancy of Revenue expenditure with</b>					
GSDP (ratio)	1.24	0.60	--*	0.59	2.09
Revenue Receipts (ratio)	0.67	--*	1.04	0.68	10.88

Source: Finance Accounts of the respective years.

a - Second Revised Estimate, b - First Revised Estimate, c - Advance Estimate.

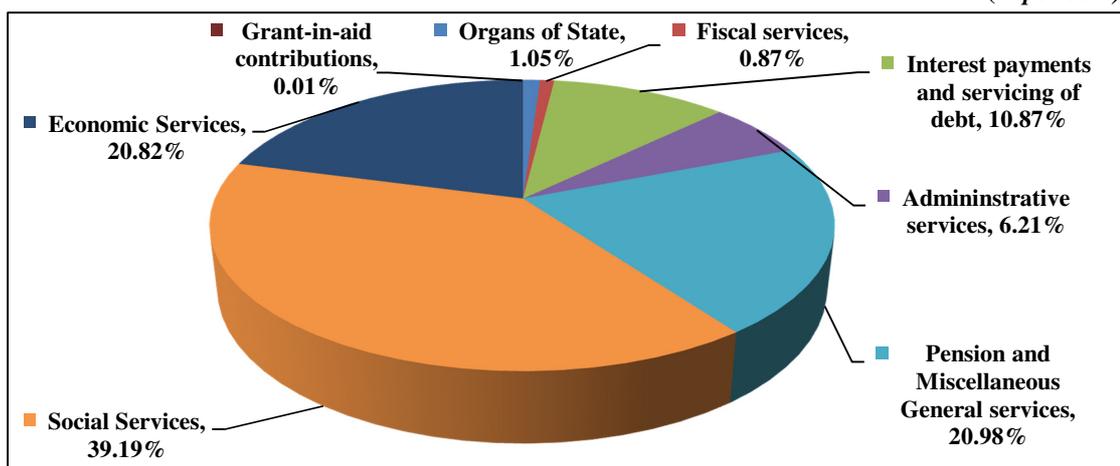
\* Buoyancy ratio was not calculated as growth rate of GSDP/RR was negative.

Revenue expenditure increased by ₹ 14,983.15 crore (50.89 per cent) during 2018-23 and by ₹ 8,230.72 crore (22.74 per cent) during 2022-23 over the previous year. On the other hand, revenue receipts of the State increased only by ₹ 780.20 crore (2.09 per cent) during the same period. The percentage of State's revenue receipts to GSDP (19.49 per cent) was lower than the percentage of revenue expenditure to GSDP (22.74 per cent) during 2022-23, which resulted in revenue deficit of ₹ 6,335.76 crore during 2022-23 which was 3.24 per cent of GSDP, against the target of 0.8 per cent revenue surplus prescribed by 15<sup>th</sup> FC. Buoyancy of revenue expenditure with reference to revenue receipts which had improved during 2021-22 (0.68 per cent), deteriorated during 2022-23 (10.88 per cent), mainly due to increase in revenue expenditure on account of revision of pay/family pension.

Revenue expenditure of ₹ 44,425.26 crore during 2022-23 was well above the projections made by the State in their Budget and MTFPS (₹ 40,278.80 crore) and normative assessment of 15<sup>th</sup> FC (₹ 32,020 crore).

The sector-wise distribution of revenue expenditure during 2022-23 is given in **Chart 2.12**.

**Chart 2.12: Sector-wise distribution of revenue expenditure during 2022-23**  
(in per cent)



Source: Finance Accounts.

#### 2.4.1.1 Major changes in Revenue Expenditure

Revenue expenditure increased substantially by ₹ 8,230.72 crore (22.74 per cent) from ₹ 36,194.54 crore in 2021-22 to ₹ 44,425.26 crore during 2022-23. Significant variations under Major Heads of Accounts with regard to revenue expenditure of the State during the current year as compared to the previous year are depicted in **Table 2.19**.

**Table 2.19: Significant variations in revenue expenditure during 2022-23 as compared to 2021-22**

Major Heads of Account	2022-23	2021-22	Increase (+)/ Decrease (-)
2071-Pensions and Other Retirement Benefits	9,283.87	6,398.91	2,884.96
2202-General Education	8,494.47	6,592.01	1,902.47
2210-Medical and Public Health	2,534.57	1,909.17	625.40
2515-Other Rural Development Programmes	1,168.98	792.20	376.78
2235-Social Securities and Welfare	1,870.56	1,505.29	365.26
2245-Relief on Account of Natural Calamities	685.86	363.00	322.86
2055-Police	1,525.46	1,208.20	317.26
2505-Rural Employment	643.66	381.12	262.54
2801-Power	1100.20	1,645.69	-545.75

Source: Finance Accounts of the respective years.

**Table 2.19** shows:

- increase of ₹ 2,884.96 crore under 'Pensions and Other Retirement Benefits', was mainly due to increase of ₹ 1,136.33 crore in 'Superannuation and Retirement Allowances', ₹ 390.89 crore in 'Gratuities' and ₹ 418.61 crore in 'Commuted Value of Pensions', ₹ 344.54 crore in 'Family Pensions', ₹ 211.14 crore in 'Leave Encashment Benefits' and ₹ 383.84 crore in 'Government Contribution for Defined Contribution'. This was attributed to revision of pay/family pension on account of implementation of Himachal Pradesh 6<sup>th</sup> Pay Commission;
- increase of ₹ 1,902.47 crore in 'General Education', which was primarily due to increase of ₹ 852.47 crore in 'Secondary Education', ₹ 887.84 crore in 'Elementary Education' and ₹ 138.18 crore in 'University and Higher Education';

- increase of ₹ 625.40 crore under 'Medical and Public Health', which was mainly due to increase of ₹ 184.36 crore in 'Rural Health Services - Allopathy', ₹ 168.27 crore in 'Medical Education, Training and Research', ₹ 132.03 crore in 'Public Health';
- increase of ₹ 376.78 crore under 'Other Rural Development Programmes', which was increased by ₹ 135.32 crore mainly due to more assistance to Gram Panchayats, increase of ₹ 94.73 crore in 'Special Component Plan for Scheduled Castes', increase of ₹ 53.29 crore in 'Assistance to Zila Parishad';
- increase of ₹ 365.26 crore under 'Social Security and Welfare', which was mainly due to increase of ₹ 172.22 crore in 'Pensions under Social Security Schemes', increase of ₹ 99.13 crore in 'Child Welfare', and ₹ 53.94 crore in 'Special Component plan for Scheduled Castes' which was due to revision of rates of pension to old age persons/ widows and destitute/handicapped persons;
- increase of ₹ 322.86 crore in 'Relief on account of Natural Calamities', which was primarily due to increase of ₹ 214.26 crore in 'Assistance to States from National Disaster Response Fund' and ₹ 17.80 crore in 'Transfer to Reserve Funds and Deposit Accounts- State Disaster Response Fund', which was partially offset by decrease of ₹ 94.19 crore in 'Gratuitous Relief' and ₹ 93.40 crore in 'Ex-gratia payments to bereaved families';
- increase of ₹ 317.26 crore in 'Police', which was primarily due to increase of ₹ 100.42 crore in 'State Headquarters Police', and ₹ 178.31 crore in 'District Police';
- increase of ₹ 262.54 crore under 'Rural Employment' which was mainly due to increase of ₹ 280.23 crore in 'National Rural Employment Guarantee Scheme' which was partially offset by decrease of ₹ 22.90 crore in 'Jawahar Gram Samridhi Yojana';
- decrease of ₹ 545.75 crore in Power, which was mainly due to decrease of ₹ 1,048.98 crore on clearance of 'General-800-Other Expenditure' which was partially offset by increase of ₹ 318.42 crore in 'Assistance to Electricity Boards', ₹ 156.90 crore in 'Special Component Plan for Scheduled Castes'.

#### **2.4.1.2 Committed expenditure**

The committed expenditure of the State Government on revenue account consists of interest payments; expenditure on salaries and wages and pensions. It has the first charge on Government resources.

Apart from the above, there are certain items of *inflexible expenditure* which cannot be ordinarily altered or varied or are statutorily required on an annual basis, unlike for variable transactions such as capital expenditure, etc. For example, the following items may be considered as inflexible expenditure:

- (i) Devolution to local bodies – statutory devolutions to local bodies for pay and allowances (devolution / transfer for capital expenditure).
- (ii) Statutory requirements of contribution to Reserve Funds – Contribution to Consolidated Sinking Fund (CSF), Guarantee Redemption Fund (GRF), State Disaster Mitigation / Response Fund (SDMF/SDRF), etc.

- (iii) Recoupment of Contingency Fund – Amount recouped within the year.
- (iv) Transfer of cess to reserve fund / other body, which are statutorily required.
- (v) Share contribution of CSS against the Central Fund received – Amount of State share to be transferred to SNAs / spent by the State.
- (vi) Payment of interest on the balances of the interest-bearing funds as if they could have been invested and payment of interest on public debt as charged expenditure – Interest payment.

The upward trend in committed expenditure leaves the Government with less flexibility in the development sector. Trend analysis of committed and inflexible expenditure and its components is depicted in **Table 2.20** and share of committed expenditure in revenue expenditure is shown in **Chart 2.13**.

**Table 2.20: Components of Committed and Inflexible Expenditure**

(₹ in crore)

Components of Committed Expenditure	2018-19	2019-20	2020-21	2021-22	2022-23
Salaries & Wages	11,210.42	11,742.23	11,903.67	12,192.52	15,850.87*
Expenditure on Pensions	4,974.77	5,489.75	6,088.39	6,398.91	9,283.87
Interest Payments	4,021.52	4,234.02	4,472.45	4,640.79	4,828.64
<b>Total</b>	<b>20,206.71</b>	<b>21,466.00</b>	<b>22,464.51</b>	<b>23,232.22</b>	<b>29,963.38</b>
<b>As a percentage of Revenue Receipts (RR)</b>					
Salaries & Wages	36.22	38.20	35.60	32.68	41.61
Expenditure on Pensions	16.07	17.86	18.21	17.15	24.37
Interest Payments	12.99	13.77	13.38	12.44	12.68
<b>Total</b>	<b>65.28</b>	<b>69.83</b>	<b>67.19</b>	<b>62.27</b>	<b>78.67</b>
<b>As a percentage of Revenue Expenditure (RE)</b>					
Salaries & Wages	38.08	38.21	35.50	33.69	35.68
Expenditure on Pensions	16.90	17.86	18.16	17.68	20.90
Interest Payments	13.66	13.78	13.34	12.82	10.87
<b>Total</b>	<b>68.64</b>	<b>69.85</b>	<b>66.99</b>	<b>64.19</b>	<b>67.45</b>
Non-committed RE	9,235.40	9,264.43	11,070.42	12,962.32	14,461.88
As a percentage of RE	31.37	30.15	33.01	35.81	32.55
As a percentage of TE	26.77	25.48	28.27	30.43	28.60
<b>Components of Inflexible Expenditure</b>					
Statutory devolution to local bodies	694.35	882.52	1,046.42	858.21	1,223.85
Contribution to Reserve Funds	27.35	28.70	45.00	35.80	38.40
Recoupment of Contingency Fund	0	0	0	0	0
Transfer of cess to reserve fund / other body	NA	116.53	105.71	132.16	174.94
Share contribution of CSS against the Central Fund received	NA	NA	NA	580.09	578.73
Payment of interest on the balance of the interest-bearing funds as if they could have been invested and payment of interest on public debt as charged expenditure- Interest payment.	0.15	NA	0.06	0.47	3.73
<b>Total Inflexible expenditure</b>	<b>721.85</b>	<b>1,027.75</b>	<b>1,197.19</b>	<b>1,606.73</b>	<b>2,019.65</b>
Inflexible expenditure as a percentage of Revenue Expenditure (RE)	2.45	3.34	3.57	4.44	4.55
Subsidies	1,282.60	1,067.78	1,240.63	1,187.99	1,973.32
Subsidies as percentage of non-committed expenditure	13.89	11.53	11.21	9.16	13.64

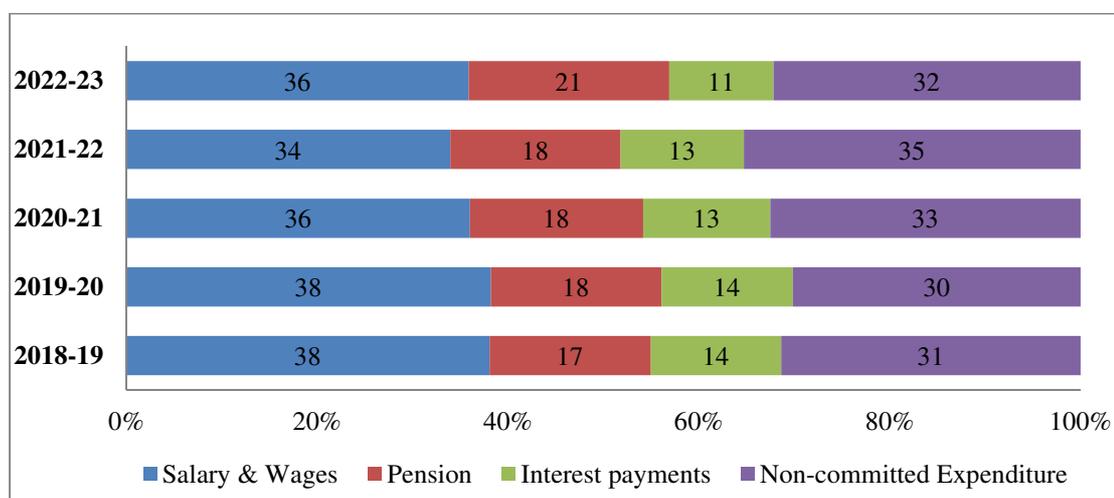
Source: Finance Accounts and SFAR of respective years, PFMS and information received from State Government.

\* Salary: ₹ 15,569.01 crore, Wages: ₹ 281.86 crore.

**Table 2.20** shows that there was a consistent rise in committed expenditure during the period 2018-23. There was a significant increase of ₹ 6,731.16 crore (28.97 per cent) during 2022-23 as compared to the previous year (2021-22). During the period 2018-19 to 2022-23, committed expenditure constituted a dominant share ranging between 64 and 70 per cent of revenue expenditure and between 62 and 79 per cent of revenue receipts. A dominant proportion of committed expenditure and subsidies from revenue expenditure and revenue receipts leaves the State Government with little flexibility for development activities.

In addition to the above, percentage of non-committed expenditure to revenue expenditure shows inter-year fluctuation ranging between 30 per cent and 35 per cent during 2018-23. Subsidies constituted a proportion ranging from nine per cent to 14 per cent of non-committed expenditure during the same period.

**Chart 2.13: Share of Committed expenditure in total Revenue Expenditure**



### Salaries and Wages

The expenditure on salaries and wages increased from ₹ 11,210.42 crore in 2018-19 to ₹ 15,850.87 crore in 2022-23. During 2022-23, it increased by ₹ 3,658.35 crore (30 per cent) over the previous year and consumed 41.61 per cent of revenue receipts and 35.68 per cent of revenue expenditure of the State. The substantial increase in salaries and wages during the current year was mainly due to revision of pay scales, pension/family pension and arrears on account of implementation of the HP 6<sup>th</sup> Pay Commission's recommendations w.e.f. 01.01.2016. The expenditure on salaries (₹ 15,569.01 crore) was substantially higher than the projections made in Medium Term Fiscal Plan Statement (MTFPS) (₹ 13,297.03 crore).

### Interest payments

Interest payments increased by 20.07 per cent from ₹ 4,021.52 crore in 2018-19 to ₹ 4,828.64 crore in 2022-23 and ₹ 187.85 crore (4.05 per cent) in 2022-23 over the previous year. Interest payments consumed 12.68 per cent of revenue receipts and 10.87 per cent of revenue expenditure. Interest on Market loans (₹ 2,671.46 crore), Small Savings, Provident Funds etc. (₹ 1,216.40 crore) continued to be the major

components of interest payments. However, interest payments were within the projections made in MTFPS (₹ 5,104.64 crore).

### **Pensions**

The expenditure on pension and other retirement benefits to State Government pensioners increased by 86.62 *per cent* from ₹ 4,974.77 crore in 2018-19 to ₹ 9,283.87 crore in 2022-23. It increased by ₹ 2,884.96 crore (45.09 *per cent*) during the current year (₹ 9,283.87 crore) over the previous year (₹ 6,398.91 crore). During 2022-23, salary and pension payments together accounted for 56.58 *per cent* of revenue expenditure. During the year, Superannuation and retirement allowances (₹ 4,662.02 crore) increased by ₹ 1,136.33 crore, Family Pensions (₹ 1,216.93 crore) increased by ₹ 344.54 crore and Commuted value of Pension (₹ 687.87 crore) increased by ₹ 418.61 crore from those in 2021-22. The expenditure on pension payments in the current year (₹ 9,283.87 crore) was substantially higher than that projected in the MTFPS (₹ 7,790.20 crore).

#### **(i) Undischarged liabilities in National Pension System**

The State Government employees recruited on or after 15<sup>th</sup> May 2003 are covered under the National Pension System (NPS) which is a Defined Contribution Pension Scheme. In terms of the Scheme, the employee contributes 10 *per cent* of his/her basic pay and dearness allowance, and 14 *per cent* (w.e.f. 01 April 2019) of basic pay and dearness allowance is contributed by the State Government; and the entire amount is to be transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank.

As per the Finance Accounts 2022-23, during the year 2022-23, total contribution to the NPS was ₹ 1,782.50 crore (Employees' contribution ₹ 741.59 crore and Government's contribution: ₹ 1,040.88 crore and interest: ₹ 0.03 crore). The detailed information on government contribution is available in Statement No. 15 of the Finance Accounts. The Government contribution to Defined Contribution Pension Scheme shown under MH-8342-117 (₹ 1,040.88 crore) differs with the amount shown under Major Head 2071-01-117 (₹ 1,033.23 crore), which is due to deposit of employer share directly in Public Account by the Government on account of processing of employee work charged (EWC) cases due to court cases. The Government transferred ₹ 1,782.50 crore to the Public Account under Major Head 8342-117-Defined Contribution Pension scheme.

Further, the State Government is liable to pay interest on delayed transfer of NPS balances at the corresponding interest rates applicable to the General Provident Fund (GPF) subscribers. Thus, the State Government has created interest liability of ₹ 1.02 crore (interest calculated at the rate of 7.10 *per cent* as per interest payable to GPF) on the amount (₹ 14.30 crore on 1 April 2022 as per Finance Accounts) not transferred to NSDL; as a result, creating uncertainty in respect of benefits due, to the affected employees. This also resulted in understatement of revenue surplus and fiscal deficit to that extent, as commented in **Paragraph 1.6**.

As per the information received from the State Government, the details of the receipts from employees' share, Government's contribution, interest accrued thereon and investment in pension fund for the period 2010-23 are given in **Table 2.21**.

**Table 2.21: Details of contribution and investment under DCPS (period 2012-13 to 2022-23)**

(₹ in crore)

Years	Receipts				Disbursements	Short transfer (-)/ Excess transfer (+)
	Employees' share	Government contribution	Interest	Total	(Transferred to Pension Fund)	
1.	2.	3.	4.	5. (2+3+4)	6.	7.=6-5
2010-11	65.48	65.48	Employee and Employer contribution is invested by CRA-NSDL and there is no interest component in the investment as there is NAV on investment.	130.96	130.96	--
2011-12	66.06	66.06		132.12	132.12	--
2012-13	160.47	160.47		320.94	320.94	--
2013-14	154.51	154.51		309.02	309.02	--
2014-15	180.20	180.20		360.40	360.40	--
2015-16	195.69	195.69		391.38	391.38	--
2016-17	226.66	226.66		453.32	453.32	--
2017-18	264.81	264.85		529.66	529.66	Government contribution of ₹ 4,04,310 was paid to PRANs of NPS subscribers, as interest on legacy amount.
2018-19	303.00	303.00		606.00	606.00	--
2019-20	348.72	471.30		820.02	820.02	--
2020-21	395.86	552.00		947.86	947.86	--
2021-22	470.26	655.99		1,126.25	1,126.25	--
2022-23	746.10	1,033.09		1,779.19	1,779.19	--
<b>Total</b>	<b>3,577.82</b>	<b>4,329.30</b>	<b>7,907.12</b>	<b>7,907.12</b>	<b>--</b>	

Source: Information received from the State Government.

During the period 2010-23, against total receipts of ₹ 7,907.12 crore (employees' share: ₹ 3,577.82 crore, State Government contribution: ₹ 4,329.30 crore), the entire amount was transferred to the pension fund.

However, Government of Himachal Pradesh has decided to withdraw from the defined contribution based National Pension System (NPS) and revert to the old pension scheme (OPS) with effect from 01.04.2023 vide Notification No. Fin (Pen) A (3)-1/2023, dated 04.05.2023, which provides a defined benefit.

### **Inflexible expenditure**

The components of Inflexible expenditure which include among others Statutory devolution to local bodies and contribution to Reserve Funds showed a continued increase during the period 2018-19 to 2022-23. As a percentage of revenue expenditure, the inflexible expenditure increased from 2.45 per cent to 4.55 per cent. Further, the inflexible expenditure (₹ 2,019.65 crore) increased by 25.70 per cent during 2022-23 over the previous year (₹ 1,606.73 crore).

#### **2.4.1.3 Subsidies**

**Table 2.22** depicts the expenditure on subsidies during the period 2018-23. The subsidies during the current year increased by ₹ 785.33 crore (66.71 per cent) from the previous year. The increase was mainly due to increase in subsidy of ₹ 624.04 crore given to Power projects.

**Table 2.22: Expenditure on subsidies during 2018-23**

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Subsidies (₹ in crore)	1,282.60	1,067.78	1,240.63	1,187.99	1,973.32
Power subsidy (₹ in crore)	573.88	400.00	520.45	419.99	1,044.03
Subsidies as percentage of Revenue Receipts	4.14	3.47	3.71	3.18	5.18
Subsidies as percentage of Revenue Expenditure	4.36	3.47	3.70	3.28	4.44
Subsidies as percentage of Total Expenditure	3.72	2.94	3.17	2.79	3.90
Subsidies as percentage to Revenue Deficit	*	*	1,283.50	*	31.15
Power subsidy as percentage to total subsidy	44.74	37.46	41.95	35.35	52.91

Source: Finance Accounts.

\* Not calculated as State had revenue surplus.

Power subsidy constituted major portion of the total subsidies ranging between 35.35 per cent and 52.91 per cent during the five-year period from 2018-19 to 2022-23. The total subsidies contributed 31.15 per cent to the revenue deficit during 2022-23.

#### 2.4.1.4 Financial assistance by the State Government to Local Bodies and Other Institutions

Assistance provided by way of grants to the local bodies and other institutions during the period 2018-19 to 2022-23 is presented in **Table 2.23**.

**Table 2.23: Financial assistance to Local Bodies and other institutions**

(₹ in crore)

Financial Assistance to Institutions	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Local Bodies</b>					
Municipal Corporations and Municipalities	487.99	456.22	814.58	800.71	903.04
Panchayati Raj Institutions	1,026.07	1,053.39	1,176.07	1,148.28	1,753.44
<b>Total (A)</b>	<b>1,514.06</b>	<b>1,509.61</b>	<b>1,990.65</b>	<b>1,948.99</b>	<b>2,656.48</b>
<b>Others</b>					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	951.22	1,020.83	944.59	1,031.74	1,157.21
Development Authorities	143.68	99.16	238.37	331.69	330.42
Hospitals and Other Charitable Institutions	337.38	439.71	458.23	673.60	671.32
Other Institutions	687.61	437.17	931.27	994.78	1031.51
<b>Total (B)</b>	<b>2,119.89</b>	<b>1,996.87</b>	<b>2,572.46</b>	<b>3,031.81</b>	<b>3,190.46</b>
<b>Total (A+B)</b>	<b>3,633.95</b>	<b>3,506.48</b>	<b>4,563.11</b>	<b>4,980.80</b>	<b>5,846.94</b>
<b>GIA on Salary</b>	1,203.69	1,324.53	1,507.74	1,687.79	1,736.31
<b>GIA for creation of Capital assets</b>	834.23	844.73	1,039.73	833.26	1,376.62
<b>GIA for non-salary</b>	1,596.04	1,337.25	2,015.70	2,459.75	2,734.01
<b>GIA given in kind</b>	Information not provided by the State Government				
Revenue Expenditure	29,442.11	30,730.43	33,534.93	36,194.54	44,425.26
Financial assistance as percentage of Revenue Expenditure	12.34	11.41	13.61	13.76	13.16

Source: Finance Accounts and information received from PAG (A&E).

During the current year, financial assistance to local bodies and other institutions increased by ₹ 866.14 crore (17.39 per cent) over the previous year. The increase was mainly due to increase in assistance to Panchayati Raj Institutions (₹ 605.16 crore: 52.70 per cent), Educational Institutions (Aided Schools, Aided Colleges, Universities,

etc.) (₹ 125.47 crore: 12.16 per cent), Municipal Corporations and Municipalities (₹ 102.33 crore: 12.78 per cent), etc.

The financial assistance given for creation of Capital assets, salary and non-salary purpose during 2022-23 increased over the previous year. It was further noted that assistance for creation of capital assets, salary and non-salary components had continuously shown an increasing trend during the last five years (except for the year 2019-20 under non-salary and 2021-22 under capital assets). The GIA for creation of capital assets increased (by ₹ 543.36 crore: 65.21 per cent) during 2022-23 over the previous year. Moreover, the average growth rate of financial assistance for creation of capital assets was highest (25.14 per cent) followed by non-salary (18.74 per cent) and salary (7.59 per cent) during 2018-23.

Major recipients of financial assistance are shown in **Table 2.24**.

**Table 2.24: Major recipients of financial assistance during the year 2022-23**

(₹ in crore)

Recipients	Name of schemes	Amount
Director, Rural Employment	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	515.23
Managing Director, Road Transport	Assistance to Transport Services	336.29
Director, Crop Husbandry	Horticulture Development Project	248.97
Director, Family Welfare	Provision for NRHM under Major Head 2211	238.77
	India COVID-19 emergency response and health system preparedness package	167.20
Director, Secondary Education, Shimla	Samagra Shiksha Abhiyan	231.96
Director, Elementary Education, Shimla	Samagra Shiksha Abhiyan	220.21
	Smart City Mission Dharamshala	201.00
	Strengthening teaching learning and results for state (stars project)	194.58
Director, Other Rural Development Programme (Panchayati Raj Institutions)	Grants to Zila Parishads under 5 <sup>th</sup> State Finance Commission	193.40
	Performance grant to Panchayat Samitis under Central Finance Commission	190.18
Project Director, Medical and Public Health	National Health Mission	168.16
Managing Director, Labour Employment and Skill Development	Himachal Pradesh Kaushal Vikas Nigam	166.29

## 2.4.2 Capital Expenditure

Capital expenditure is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings, etc. Capital expenditure, in both the Centre and the State, is being met from budgetary support and extra budgetary resources/ off-budget borrowings. It also includes investments made by the State Government in companies/corporations. Trend of capital expenditure in the State over the last five years i.e., 2018-23, is given in **Chart 2.14**.

Chart 2.14: Trend of Capital Expenditure as per cent of Total Expenditure during 2018-23

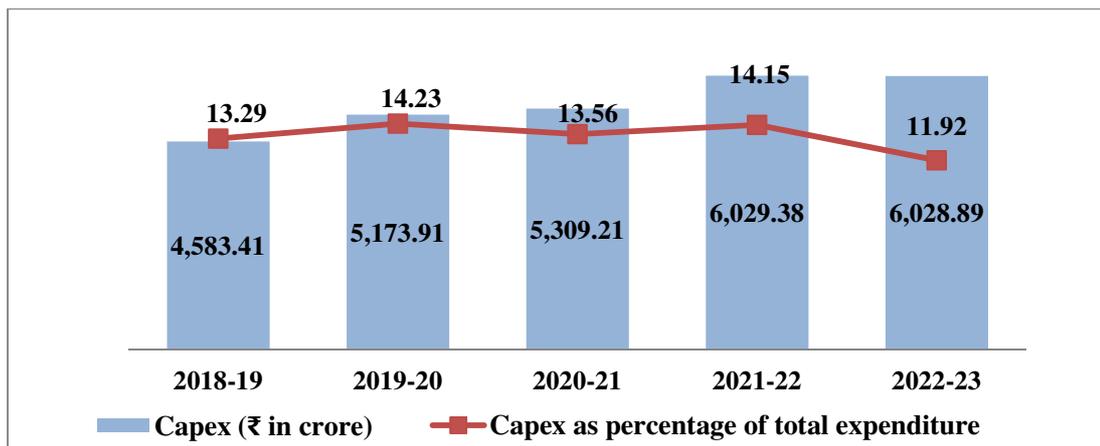


Chart 2.14 shows that capital expenditure fluctuated over the last five-year period. It increased by ₹ 1,445.48 crore (31.54 per cent) from ₹ 4,583.41 crore in 2018-19 to ₹ 6,028.89 crore in 2022-23. During the current year (2022-23), capital expenditure remained almost static over the previous year. Capex constituted 12 per cent to 14 per cent of total expenditure over the last five-year period (2018-23).

Besides, the State Government also gave Grants-in-aid of ₹ 4,928.57 crore during the period 2018-23 for creation of assets which is considered as part of Revenue Expenditure (as shown in Table 2.23).

#### 2.4.2.1 Major changes in capital expenditure

Major changes in capital expenditure during 2022-23 compared to 2021-22 are depicted in Table 2.25.

Table 2.25: Capital expenditure during 2022-23 compared to 2021-22

(₹ in crore)

Major Heads of Accounts	2021-22	2022-23	Increase (+)/ Decrease (-)
4210-Capital Outlay on Medical and Public Health	293.80	551.64	257.83
4217-Capital Outlay on Urban Development	61.48	139.46	77.99
4851-Capital Outlay on Village and Small Industries	122.73	198.28	75.55
4202-Capital Outlay on Education, Sports, Art and Culture	488.72	411.24	-77.48
5475-Capital Outlay on other General Economic Services	330.52	247.18	-83.34
4059-Capital Outlay on Public Works	274.33	185.78	-88.56
4215-Capital Outlay on Water Supply and Sanitation	1011.89	812.04	-199.85

Capital expenditure remained almost static i.e., ₹ 6,029.38 crore in 2021-22 as compared to 2022-23 (₹ 6,028.89 crore). During the year 2022-23, capital expenditure decreased mainly on Water Supply and Sanitation (₹ 199.85 crore); Public Works (₹ 88.56 crore); other General Economic Services (₹ 83.34 crore), etc., and this decrease was counterbalanced by increase in Capital Outlay on Medical and Public Health (₹ 257.83 crore) and Urban Development (₹ 77.99 crore), etc.

#### 2.4.2.2 Quality of capital expenditure

This section presents an analysis of investments and other capital expenditure undertaken by the Government during the current year.

**(i) Quality of investments in the companies, corporations and other bodies**

Investments made and loans given to companies and corporations which are loss making and that where net worth has completely eroded, affect quality of capital expenditure. Return on investment in share capital invested in Public Sector Undertakings (PSUs) and history of repayment of loans given to various bodies are important determinants of quality of capital expenditure.

As per the latest financial accounts, total paid up capital of 27 working SPSEs stood at ₹ 5,242.51 crore at the end of 2022-23, of which the State Government's investment (equity) was ₹ 3,881.93 crore (74.05 per cent) (Appendix 2.3).

Twelve SPSEs (excluding two SPSEs i.e., one inactive and one under liquidation) in which the State Government held investment of ₹ 3,779.16 crore had aggregate accumulated losses of ₹ 4,901.51 crore (Appendix 2.4).

Of the above 12 SPSEs, net worth of seven SPSEs had completely eroded and had become negative. The net worth of these seven SPSEs was ₹ (-)1,867.35 crore against equity investment of ₹ 2,066.95 crore in them as on 31 March 2023. In two out of these seven SPSEs whose capital had eroded, Government loan outstanding as on 31 March 2023 amounted to ₹ 3,072.19 crore (Appendix 2.4).

**(ii) Investment and returns**

Trends of return on investment in companies, corporations, and cooperative banks and societies, difference between cost of Government borrowings and return on investments are depicted in Table 2.26.

**Table 2.26: Details of Investment and return on Investment**

Investment/ Return/ cost of Borrowing	2018-19	2019-20	2020-21	2021-22	2022-23
Investments at the end of the year (₹ in crore)	3,848.83	4,261.06	4,562.40	4,913.00	5,333.57
Return (₹ in crore)	181.91	248.44	245.43	166.53	180.90
Return (per cent)	4.73	5.83	5.38	3.39	3.39
Average rate of interest on government borrowings (per cent)	8.32	7.98	7.59	7.51	6.74
Difference between interest rate and return (per cent)	3.59	2.15	2.21	4.12	3.35
Notional loss due to difference between interest on Government borrowings and return on investment (₹ in crore) #	138.31	91.59	100.86	202.42	178.58

Source: Finance Accounts.

# Investment at the end of year X Difference between interest rate and return.

During 2022-23, the return on investment was ₹ 180.90 crore (3.39 per cent). The return on these investments ranged between 3.39 per cent and 5.83 per cent during 2018-23, while the average rate of interest paid by the State Government on its borrowings was between 6.74 per cent and 8.32 per cent during the same period. Out of total investment of ₹ 5,333.57 crore as on 31 March 2023, investment of

₹ 4,617.53 crore (86.58 per cent) was in five<sup>2</sup> companies. During 2022-23, Satluj Jal Vidyut Nigam contributed more than 90 per cent (₹ 163.50 crore) of total return. Over the past five years, the difference between cost of Government borrowings and return on investments in PSUs was to the tune of ₹ 702.93 crore.

**(iii) Reconciliation of Government Investments with Accounts of Companies**

The figures of Government investments as equity in State Public Sector Enterprises (SPSEs) should agree with those appearing in the accounts of SPSEs. Reconciliation of figures is necessary to figure out the differences in accounts of SPSEs and Finance Accounts of the State Government. Scrutiny of both the accounts revealed that as per Finance Accounts, Government investment as equity in 26 SPSEs was ₹ 4,047.26 crore whereas as per records of SPSEs it was ₹ 3,881.04 crore. There was a difference of ₹ 166.22 crore (**Appendix 2.5**). Reconciliation should be carried out in a time bound manner to explain the difference.

**(iv) Loans and advances by State Government**

In addition to the investments in co-operative societies, corporations and companies, the State Government has also been providing loans and advances to many institutions/organisations. **Table 2.27** presents the position of outstanding loans and advances as on 31 March 2023 and interest receipts *vis-à-vis* interest payments by the State Government on its borrowings during the last five years.

**Table 2.27: Quantum of loans disbursed and recovered during 2018-23**

(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance of the loans outstanding*	6,507.18	6,953.33	7,390.49	7,687.59	8,024.83
Amount advanced during the year	467.98	458.21	320.12	377.97	110.57
Amount recovered during the year	21.83	21.03	23.02	40.73	82.79
<b>Closing Balance of the loans outstanding*</b>	<b>6,953.33</b>	<b>7,390.49</b>	<b>7,687.59</b>	<b>8,024.83</b>	<b>8,052.61</b>
Net addition	446.15	437.17	297.09	337.24	27.78
Interest received	272.15	135.11	248.98	97.72	15.44
Interest rate on Loans and Advances given by the Government ( <i>per cent</i> )	4.18	1.94	3.37	1.24	0.19
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the previous year ( <i>per cent</i> )	7.88	7.80	7.19	6.91	6.99
Difference between the rate of interest paid and interest received ( <i>per cent</i> )	3.70	5.86	3.82	5.64	6.80

Source: Finance Accounts.

\* From 2016-17 onwards, closing and opening balance includes ₹ 2,890.50 crore of loans given to DISCOM under UDAY Scheme.

<sup>2</sup> Satluj Jal Vidyut Nigam Ltd. (₹ 1,098.14 crore), Himachal Pradesh Power Transmission Corporation Ltd. (₹ 422.50 crore), Himachal Pradesh Power Corporation (₹ 1,003.21 crore), Himachal Pradesh State Electricity Board Ltd. (₹ 869.64 crore) and Himachal Road Transport Corporation (₹ 1,224.07 crore).

During 2022-23, an amount of ₹ 110.57 crore was advanced as loans against ₹ 377.97 crore during the previous year. The major portion of loans amounting to ₹ 98.54 crore (98.12 per cent) was given to Power sector only. Loans amounting to ₹ 764.48 crore were outstanding at the beginning of the year against Power sector. Over the last 10 years, repayment of earlier loans was not made by the Public Sector and Other Undertakings under Power sector. However, further loans are being extended continuously to Power sector without recovery of earlier loans.

During the current year (2022-23), recovery of ₹ 82.79 crore was made, which was the highest in the last five years, mainly due to repayment of loans (₹ 76.25 crore) by Cooperative societies (Cooperation Department).

**(v) Capital locked in incomplete projects**

An assessment of trends in capital blocked in incomplete capital works would also indicate quality of capital expenditure. Blocking of funds in incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years lead to extra burden in terms of servicing of debt and interest liabilities. Details of age-wise and department-wise incomplete projects, which were to be completed upto 2022-23 are shown in **Tables 2.28** and **2.29** respectively.

Table 2.28: Age-profile of incomplete projects as on 31 March 2023 (₹ in crore)			
Year of commencement	No. of incomplete projects	Estimated cost	Expenditure (as on 31 March 2023)
Up to 2015	28	780.05	700.73
2016	7	160.11	142.45
2017	9	94.92	46.97
2018	9	55.89	40.97
2019	1	5.44	2.69
2021	2	22.63	1.41
2022	4	34.18	13.28
2023	7	122.34	5.34
<b>Total</b>	<b>67</b>	<b>1,275.56</b>	<b>953.85</b>

Table 2.29: Department-wise profile of incomplete projects as on 31 March 2023 (₹ in crore)			
Department	No. of incomplete projects	Estimated cost	Expenditure (as on 31 March 2023)
I&PH	39	917.19	815.64
PWD (Bridges & Roads)	28	358.37	138.21
<b>Total</b>	<b>67</b>	<b>1,275.56</b>	<b>953.85</b>

Source: Finance Accounts.

The expenditure of ₹ 953.85 crore incurred on 67 incomplete projects was yet to yield the intended benefits. Out of 67 incomplete projects, 28 projects on which expenditure of ₹ 700.73 crore had been incurred till 31.03.2023, pertained to the period prior to the year 2015.

Delay in completion of projects not only adversely affected the quality of expenditure but also deprived the State of intended benefits and economic growth.

### 2.4.2.3 Resource availability of the State under Public Private Partnership Projects

Public Private Partnership (PPP) is an arrangement between the government or statutory entity and a private sector entity, to provide a framework that enables them to work together to meet the rising demand of the public for infrastructure development. Details of PPP projects (completed, ongoing and planned) as on 31 March 2023 are given in **Appendix 2.6**, and sector-wise details of PPP projects are given in **Table 2.30**.

**Table 2.30: Sector-wise details of PPP projects**

(₹ in crore)

Sr. No.	Sector	Completed		Ongoing		Planned	
		Number	Estimated Cost*	Number	Estimated Cost*	Number	Estimated Cost*
1.	Urban Infrastructure	7	124.00	9	383.00	4	--
2.	Energy	33	141.01	13	50.72	49	53.13
3.	Social	4	115.00	0	0	0	0
4.	Tourism	3	177.00	6	680.00	2	--
5.	Others	0	0	2	13.00	2	--
<b>Total</b>		<b>47</b>	<b>557.01</b>	<b>30</b>	<b>1,126.72</b>	<b>57</b>	<b>53.13</b>

Source: Departmental figures.

\* Project(s) for which cost is not known has(have) not been included in the Estimated Cost.

### 2.4.3 Expenditure priorities

Enhancing human development levels requires the States to step up expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) can be said to be attached to a particular sector if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the better the quantity of expenditure.

**Table 2.31** analyses expenditure priorities of the State Government in comparison with North Eastern & Himalayan (NE&H) States, with regard to aggregate expenditure, expenditure on Education and Health sectors and capital expenditure during 2022-23, taking 2018-19 as base year.

**Table 2.31: Expenditure priority of the State in 2018-19 and 2022-23**

(in per cent)

Fiscal priority of the State	TE/ GSDP	CE/ TE	Education/ TE	Health/ TE
North Eastern & Himalayan (NE&H) States (2018-19)	27.30	16.11	17.70	6.48
Himachal Pradesh (2018-19)	23.25	14.64	17.48	6.49
North Eastern & Himalayan (NE&H) States (2022-23)	27.24	15.52	15.77	6.95
Himachal Pradesh (2022-23)	25.88	12.14	17.66	7.34

Note: TE-Total expenditure and CE-Capital Expenditure (includes Loans and advances disbursed).

**Table 2.31** shows that:

- The State Government's total expenditure as proportion of GSDP, increased from 23.25 per cent in 2018-19 to 25.88 per cent in 2022-23 whereas for North Eastern & Himalayan (NE&H) States (2018-19) it remained almost static during the same period.
- Capital expenditure facilitates asset creation which generates opportunities for higher growth. The ratio of capital expenditure to total expenditure decreased to

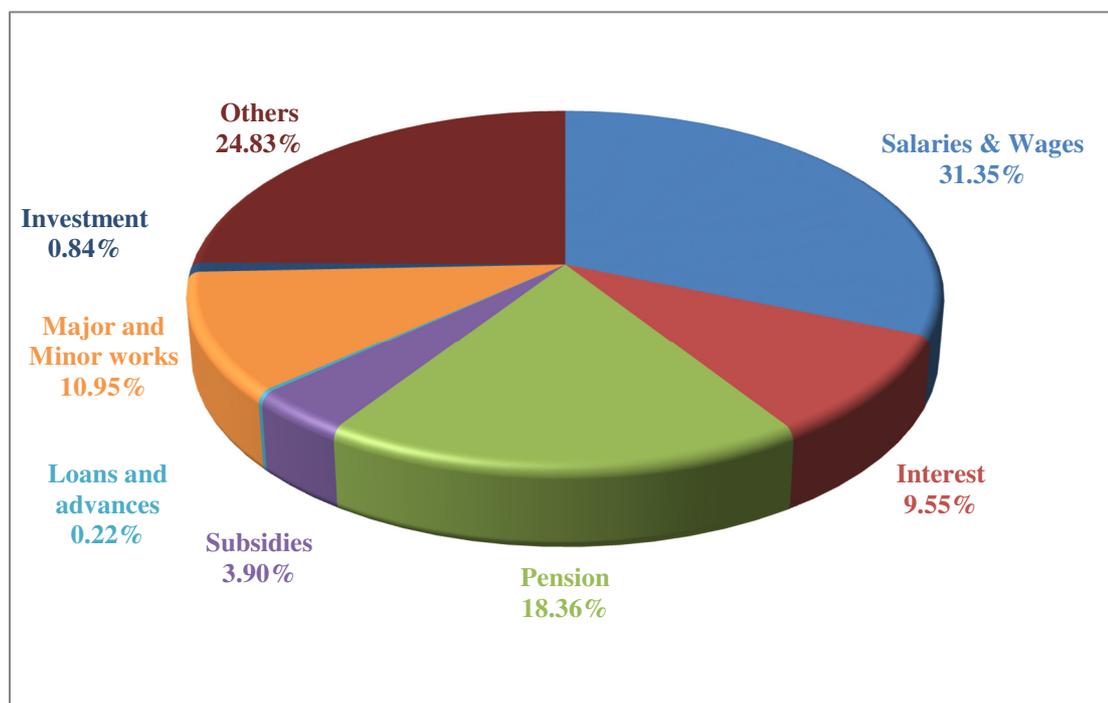
11.92 per cent in 2022-23 from 13.29 per cent in 2018-19. This ratio for NE&H States also decreased from 16.11 per cent to 15.52 per cent during the same period.

- The ratio of expenditure on education to total expenditure in Himachal Pradesh increased slightly from 17.48 per cent in 2018-19 to 17.66 per cent in 2022-23 whereas it decreased from 17.70 per cent to 15.77 per cent in the case of NE&H States during the same period.
- The ratio of expenditure on health to total expenditure in Himachal Pradesh increased slightly from 6.49 per cent in 2018-19 to 7.34 per cent in 2022-23 and in the case of NE&H States, it also increased slightly from 6.48 per cent to 6.95 per cent during the same period.

#### **2.4.4 Object head-wise expenditure**

Object head-wise expenditure gives information about the object/ purpose of the expenditure. Details of object head-wise expenditure for the year 2022-23 are provided in **Chart 2.15**.

**Chart 2.15: Object head-wise expenditure**



Source: Finance Accounts.

#### **2.5 Public Account**

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. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

### 2.5.1 Net Public Account balances

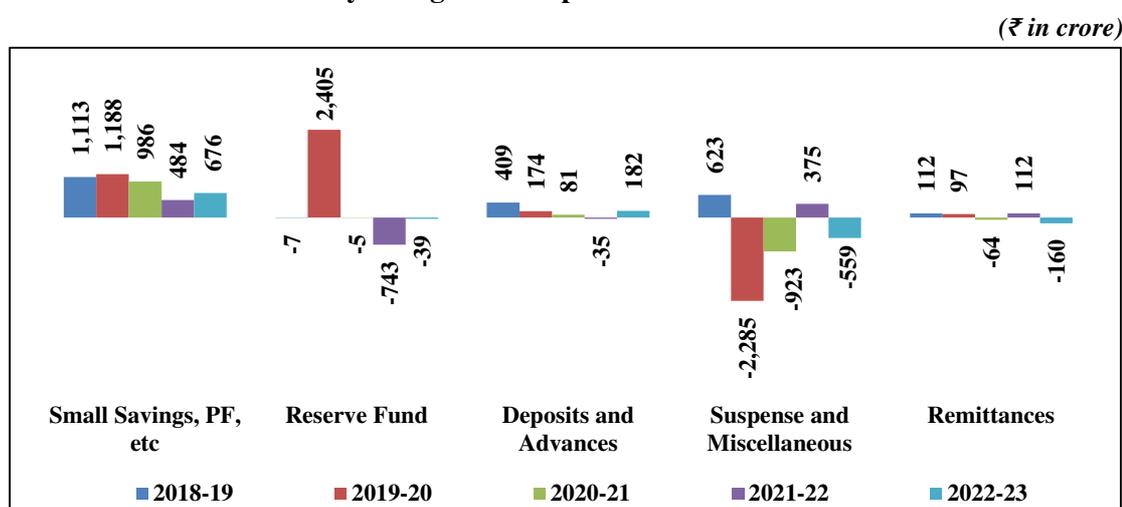
The component-wise net balances in Public Account of the State is given in **Table 2.32** and yearly changes in composition of Public Account balances are depicted in **Chart 2.16**.

**Table 2.32: Component-wise net balances in Public Account**

		(₹ in crore)				
Sector	Sub-Sector	2018-19	2019-20	2020-21	2021-22	2022-23
<b>I.-Small Savings, Provident Funds, etc.</b>	Small Savings, Provident Funds, etc.	14,349.53	15,537.13	16,522.64	17,006.28	17,682.25
	<b>Total (I)</b>	<b>14,349.53</b>	<b>15,537.13</b>	<b>16,522.64</b>	<b>17,006.28</b>	<b>17,682.25</b>
<b>J.-Reserve Funds</b>	(a) Reserve Funds bearing Interest	1.00	1,887.65	1,882.54	1,657.90	1,664.27
	(b) Reserve Funds not bearing Interest	316.60	834.66	834.66	316.00	270.44
	<b>Total (J)</b>	<b>317.60</b>	<b>2,722.31</b>	<b>2,717.20</b>	<b>1,973.90</b>	<b>1,934.71</b>
<b>K.-Deposits and Advances</b>	(a) Deposits bearing Interest	-1.41	-1.64	7.66	14.30	17.39
	(b) Deposits not bearing Interest	3,208.52	3,382.45	3,454.50	3,412.87	3,591.61
	(c) Advances	-0.53	-0.51	-0.51	-0.51	-0.51
	<b>Total (K)</b>	<b>3,206.58</b>	<b>3,380.30</b>	<b>3,461.65</b>	<b>3,426.66</b>	<b>3,608.49</b>
<b>L.-Suspense and Miscellaneous</b>	(a) Suspense	74.12	-1,330.44	-1,539.83	-292.98	224.94
	(b) Other Accounts	-101.91	-982.25	-1,696.28	-2,568.27	-3,645.37
	(c) Accounts with Governments of Foreign Countries	--	--	--	--	--
	(d) Miscellaneous	--	--	--	--	--
	<b>Total (L)</b>	<b>-27.79</b>	<b>-2,312.69</b>	<b>-3,236.11</b>	<b>-2,861.25</b>	<b>-3,420.43</b>
<b>M.-Remittances</b>	(a) Money Orders, and other Remittances	509.19	612.45	546.02	653.51	494.02
	(b) Inter-Governmental Adjustment Account	0.31	-6.16	-4.11	-0.01	-0.06
	<b>Total (M)</b>	<b>509.50</b>	<b>606.29</b>	<b>541.91</b>	<b>653.50</b>	<b>493.96</b>
<b>Grand Total</b>		<b>18,355.42</b>	<b>19,933.34</b>	<b>20,007.29</b>	<b>20,199.09</b>	<b>20,298.98</b>

Source: Finance Accounts.

**Chart 2.16: Yearly changes in composition of Public Account balances**



Source: Finance Accounts of respective years.

## 2.5.2 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund or from outside agencies. It comprises interest bearing reserve funds and reserve funds not bearing interest.

Details of Reserve Funds are available in Statements 21 and 22 of the Finance Accounts. There were three interest bearing funds and four Reserve Funds not bearing interest as on 31 March 2023. The fund balances lying in these Reserve Funds as on 31 March 2023 are given in **Table 2.33**.

**Table 2.33: Details of Reserve Fund**

(₹ in crore)

Sr. No.	Name of Reserve Fund	Balance as on 31 March 2023
<b>A</b>	<b>Reserve Funds bearing Interest</b>	<b>1,664.27</b>
1	State Disaster Response Fund	55.55
2	State Compensatory Afforestation Fund	1,566.68
3	State Disaster Mitigation Fund	42.04
<b>B</b>	<b>Reserve Funds not bearing Interest</b>	<b>270.44</b>
1	Industrial Development Funds	0.16
2	Electricity Development Funds	254.32
3	National Disaster Response Fund	15.97
4	Consumer Welfare	--*
<b>Grand Total</b>		<b>1,934.71</b>

Source: Finance Accounts.

\* ₹ 0.07 lakh only.

### 2.5.2.1 Consolidated Sinking Fund

In terms of the recommendations of the Twelfth Finance Commission, State Governments were required to create Consolidated Sinking Fund to be administered by the Reserve Bank of India for redemption of outstanding liabilities. As per model Consolidated Sinking Fund scheme, circulated by RBI's guidelines of 2006 for voluntary adoption by the States, the State Government was to make minimum annual contributions to the Fund at the rate of 0.5 per cent of the outstanding liabilities at the end of the previous financial year.

As per the above directions, by the end of the year 2022-23 the State Government was required to contribute 0.5 per cent of the outstanding liabilities as on 31 March 2022. The outstanding liabilities of the State Government, as of 31 March 2022, was ₹ 73,534.80 crore. Thus, the State Government was required to contribute a minimum amount of ₹ 367.67 crore (0.5 per cent of ₹ 73,534.80 crore) in 2022-23 into the fund.

However, the State Government had not created the Consolidated Sinking Fund so far.

### 2.5.2.2 State Disaster Response Fund

The Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. In terms of the guidelines of SDRF (September 2010, July 2015 and January 2022), the Centre and the

State Governments are required to contribute to the Fund in the proportion of 90:10. The contributions are to be transferred under the Public Account to Major Head – 8121. Expenditure during the year is incurred by operating Major Head – 2245.

The State Governments are required to pay interest to the SDRF at the rate applicable to overdrafts under Overdraft Regulation Guidelines of the RBI. The interest is to be credited on a half yearly basis. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

The SDRF is to be used only for meeting expenditure for providing immediate relief to the victims of a disaster and provision for disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF. Such expenditure has to be built into the normal budgetary heads/State Plan Funds, etc.

As per Finance Accounts, as on 1 April 2022, an amount of ₹ 49.79 crore was lying in the SDRF. During the year 2022-23, ₹ 380.80 crore (Central share: ₹ 342.40 crore, State share: ₹ 38.40 crore) were transferred to the SDRF under Major Head 8121-122. Out of the total amount of ₹ 430.59 crore, ₹ 375.04 crore was disbursed/ utilised during the current year leaving a balance of ₹ 55.55 crore at the end of the year. The entire balance of ₹ 55.55 crore in SDRF was lying un-invested as on 31 March 2023, in violation of GoI guidelines *ibid*.

The balances of 31 March 2022 of ₹ 49.79 crore under SDRF were also not invested by the State Government. Interest of ₹ 3.73 crore (interest calculated at the rate of 7.49 per cent by taking into account of average rate of overdraft during 2022-23) would have been earned had these balances been invested, which resulted in understatement of revenue surplus and fiscal deficit to that extent. Details of expenditure charged to SDRF during 2022-23 are given in **Table 2.34**.

**Table 2.34: Details of expenditure charged to SDRF during 2022-23**

(₹ in crore)		
Major Head of Account	Minor Head of Account	Expenditure
<b>2245- Relief on Account of Natural Calamities 02- Floods, Cyclones, etc.</b>	101-Gratuitous Relief	20.76
	102-Drinking Water Supply	3.00
	104-Supply of Fodder	0.25
	106-Repairs and restoration of damaged roads and bridges	209.96
	109-Repairs and restoration of damaged water supply, drainage and sewerage works	143.74
	111-Ex-gratia payments to bereaved families	72.41
	113-Assistance for repairs/ reconstruction of Houses	10.97
	114-Assistance to Farmers for Purchase of Agri inputs	1.00
	193-Assistance to Local Bodies and other Non-Government Bodies/Institutions	61.97
	<b>Total</b>	
<b>2245- Relief on Account of Natural Calamities 05-State Disaster Response Fund</b>	901- Deduct - Amount met from State Disaster Response Fund	-573.66
Expenditure charged to SDRF in violation of SDRF guidelines		552.90

Source: Finance Accounts.

As per the SDRF guidelines, only the amount booked under 2245-02-101 is admissible expenditure to be met from SDRF. Hence, expenditure of ₹ 552.90 crore out of ₹ 573.66 crore met from SDRF was in contravention of the guidelines.

### **2.5.2.3 State Disaster Mitigation Fund**

The State Disaster Mitigation Fund (SDMF) is to be constituted under Section 48 (1) (c) of the Disaster Management Act, 2005. This Fund is exclusively for the purpose of mitigation project in respect of disaster covered under State Disaster Response Fund (SDRF)/National Disaster Response Fund (NDRF) guidelines and the State specific local disaster notified by the State Government from time to time. The State Government has created the SDMF (under Major Head- '8121 General and Other Reserve Funds' which is under interest bearing section) vide Notification No. Fin-G-C (2) 05/2022, dated 27.02.2023.

During the year 2022-23, the State Government received ₹ 42.80 crore from the Central Government (received on 31 March 2023). The State share during the year was ₹ 4.80 crore. During 2022-23, the State Government transferred ₹ 90.80 crore (Central Share ₹ 81.80 crore and State Share ₹ 9.00 crore) pertaining to the year 2021-22 in the designated fund under Major Head 8121-130 (SDMF). However, the State Government did not transfer the amount of ₹ 47.60 crore (Central share: ₹ 42.80 crore and State share: ₹ 4.80 crore) received during 2022-23 to the designated fund/ head under Public Account. This resulted in understatement of revenue and fiscal deficits.

### **2.5.2.4 Guarantee Redemption Fund**

Guarantee Redemption Fund is to be constituted for meeting payment obligations arising out of guarantees issued by the Government in respect of bonds and other borrowings by State Public Sector Undertakings or other Bodies and invoked by beneficiaries. The accumulations in the Fund are to be utilised only towards payment of guarantees issued by the Government and not paid by the institutions on whose behalf guarantee was issued. The Reserve Bank of India circulated a draft scheme (August 2001) for voluntary adoption by States, as per which the State Government was to contribute an amount equivalent to at least 0.5 *per cent* of the outstanding guarantees at the end of the second financial year preceding the current financial year as reflected in the books of accounts maintained by the Pr. Accountant General (A&E). The State Government, however, had not set up a Guarantee Redemption Fund so far.

The outstanding amount of guarantees at the close of the financial year 2022-23 was ₹ 1,780.64 crore. In case of default, by a PSU or other body, the State Government will have to bear the expenditure from other available resources in absence of Guarantee Redemption Fund, putting more stress on the finances. However, the outstanding guarantee accounted for five *per cent* of the total revenue receipts of the previous year (2021-22) of the State, which was within the limit of the target 40 *per cent* of the total revenue receipts of the previous year as prescribed in the FRBM Act.

### 2.5.2.5 State Compensatory Afforestation Fund

State Compensatory Afforestation Fund (SCAF) was required to be created for administering amounts received and utilising monies collected for undertaking compensatory afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and for matters connected therewith or incidental thereto. Detailed guidelines for accounting under this Fund have been issued by Ministry of Environment, Forest and Climate Change, Government of India in November 2018.

During the year 2022-23, the State Government received ₹ 0.01 crore (no amount was received in the previous year) from the user agencies and remitted to the National fund. The Government also had not received any amount from National Compensatory Afforestation Deposit during 2021-22 and 2022-23. The State Government credited total interest of ₹ 53.87 crore under Major Head 8121 on balances available under SCAF along with interest of ₹ 1.71 crore on unspent money lying with *Ad hoc* CAMPA. The total balance in the State Compensatory Afforestation Fund as on 31 March 2023 was ₹ 1,566.68 crore.

### 2.5.2.6 Central Road and Infrastructure Fund

The erstwhile Central Road Fund (CRF) has been renamed as the Central Road and Infrastructure Fund (CRIF) vide GoI's Gazette notification dated 31.03.2018. The CRIF will be used for development and maintenance of National Highways, Railway projects, improvement of safety in Railways, State and Rural roads and other infrastructure, etc.

In terms of the extant accounting procedure, the grants received by the State from the Centre are to be initially booked as revenue receipts under Major Head 1601. Thereafter, the amount so received is to be transferred by the State Government to the Public Account under Major Head 8449-103- Subventions from Central Road and Infrastructure Fund through functional Major Head(s).

During the year 2022-23, the State Government received grants of ₹ 169.05 crore towards CRIF. Since the State Government has not created "Subventions from Central Road and Infrastructure Fund", hence no fund was transferred from the functional Major Head(s) to the designated fund so far.

### 2.5.3 Suspense and Miscellaneous

During 2022-23, an amount of ₹ 0.20 crore (Capital Expenditure: ₹ 0.20 crore) has been kept in Suspense Account in the books of the Pr. Accountant General (A&E) as the expenditure has been incurred without notifying the scheme in the Budget. Thus, the said amount has not been taken into account as capital expenditure in the Finance Accounts and actual expenditure in the Appropriation Accounts for the year 2022-23.

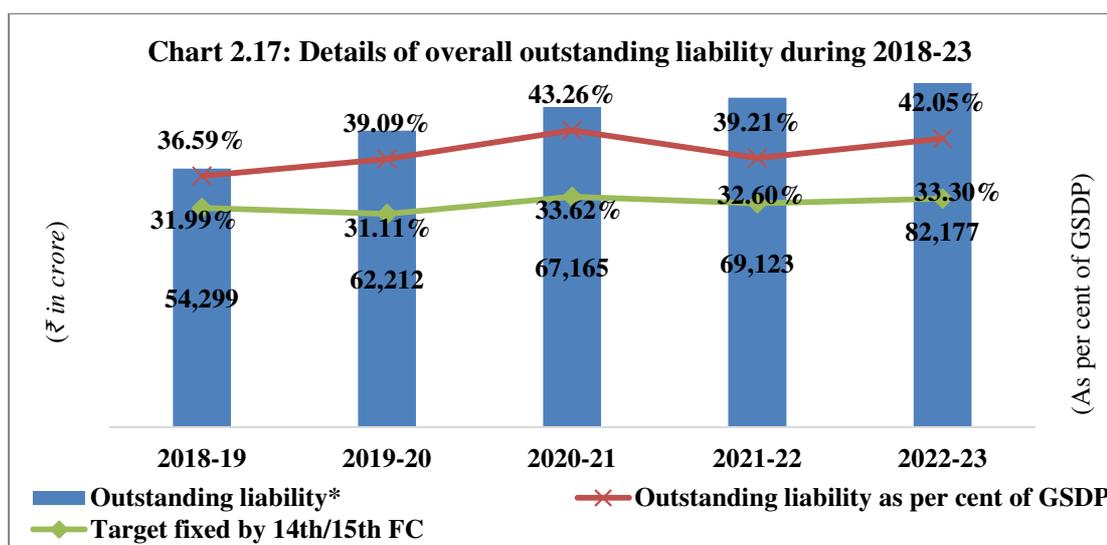
Further, an amount of ₹ 448.61 crore of OB suspense of previous years (₹ 157.51 crore of 2019-20, ₹ 212.64 crore of 2020-21 and ₹ 78.46 crore of 2021-22) has been cleared during 2022-23 and booked under respective head of accounts (Revenue Expenditure: ₹ 268.69 crore and Capital Expenditure: ₹ 179.92 crore). Thus, revenue expenditure/capital expenditure in the Finance Accounts and actual expenditure in the Appropriation

Accounts against the budget provisions for the year 2022-23 are overstated to that extent.

## 2.6 Public Liability Management

Management of public liability is the process of establishing and executing a strategy for managing the Government's liabilities in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or budget announcements.

The year-wise position of overall outstanding liability for the period 2018-19 to 2022-23 is given in **Chart 2.17**.



\* Total outstanding liabilities and ratio of total outstanding debt to GSDP excludes ₹ 1,717 crore for the year 2020-21 and ₹ 4,412.22 crore (2020-21: ₹ 1,717 crore and 2021-22: ₹ 2,695.22 crore) for the years 2021-22 and 2022-23 as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

### 2.6.1 Liability profile: Components

Total liability of the State Government consists of Internal Debt of the State (Market Loans, Ways and Means Advances from RBI, Special Securities issued to National Small Savings Fund and Loans from Financial Institutions, etc.), Loans and Advances from the Central Government, and Public Account Liabilities. The outstanding fiscal liabilities of the State for the year 2022-23 are presented in **Chart 2.18**. The component-wise liability trends of the State for the five-year period from 2018-19 to 2022-23 are shown in **Table 2.35**.

**Table 2.35: Component-wise liability trends**

		(₹ in crore)				
Sr. No.	Components of fiscal liability	2018-19	2019-20	2020-21	2021-22	2022-23
	<b>Outstanding Total Liability* as of 31 March 2023 (1+2)</b>	<b>54,299.19</b>	<b>62,211.84</b>	<b>67,164.75</b>	<b>69,122.58</b>	<b>82,177.21</b>
1.	<b>Public Debt</b>					
	(a) Internal Debt	35,363.18	39,527.77	42,918.21	44,376.03	55,975.16
	(b) Loans from GoI	1,061.77	1,043.81	1,544.54	2,339.19	2,976.09
2.	<b>Public Account Liabilities</b>	<b>17,874.24</b>	<b>21,640.26</b>	<b>22,702.00</b>	<b>22,407.36</b>	<b>23,225.96</b>
	Small Savings, Provident Funds, etc.	14,349.53	15,537.13	16,522.64	17,006.28	17,682.25

Sr. No.	Components of fiscal liability	2018-19	2019-20	2020-21	2021-22	2022-23
	Outstanding Total Liability* as of 31 March 2023 (1+2)	54,299.19	62,211.84	67,164.75	69,122.58	82,177.21
	Reserve Funds bearing Interest	1.00	1,887.65	1,882.54	1,657.90	1,664.27
	Reserve Funds not bearing Interest	316.60	834.66	834.66	316.00	270.44
	Deposits bearing Interest	-1.41	-1.63	7.66	14.30	17.39
	Deposits not bearing Interest	3,208.52	3,382.45	3,454.50	3,412.88	3,591.61
3.	Rate of growth of outstanding total liability (percentage)	6.41	14.57	7.96	2.91	18.89
4.	Gross State Domestic Product (GSDP)	1,48,383	1,59,164	1,55,251 <sup>a</sup>	1,76,269 <sup>b</sup>	1,95,405 <sup>c</sup>
5.	Total liability/GSDP (per cent)	36.59	39.09	43.26	39.21	42.05
<b>Borrowings and Other Liabilities (as per Statement 6 of Finance Accounts)</b>						
6.	Total Public Debt Receipts	6,427.41	10,847.39	15,032.21	6,639.75	22,371.82
7.	Total Public Debt Repayments	4,673.34	6,700.75	11,141.05	4,387.28	10,135.80
8.	Net funds available (6-7)	1,754.07	4,146.64	3,891.16	2,252.47	12,236.02
9.	Repayments/ Receipts (per cent) (7/6)	72.71	61.77	74.11	66.08	45.31
10.	Net Public Account Receipts	1,514.64	3,766.01	1,061.75	-294.64	818.61
11.	Total Debt Available (8+10)	3,268.71	7,912.65	4,952.91	1,957.83	13,054.63
12.	Total Expenditure against Budget	42,469	45,528	53,139	50,130	63,463
13.	Repayment as a percentage of Budget	11.00	14.72	20.97	8.75	15.97

Source: Finance Accounts of the respective years.

\* Excludes ₹ 1,717 crore (2020-21) and ₹ 4,412.22 crore (2020-21: ₹ 1,717 crore and 2021-22: ₹ 2,695.22 crore) for the year 2021-22 and 2022-23 as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

a - Second Revised Estimate, b - First Revised Estimate, c - Advance Estimate.

The outstanding total liability of the State increased by ₹ 27,878.02 crore from ₹ 54,299.19 crore in 2018-19 to ₹ 82,177.21 crore (excluding ₹ 4,412.22 crore as back-to-back loan in 2020-22 from GoI to State in lieu of GST compensation shortfall) in 2022-23 registering an increase of 51.34 per cent during 2018-23. Over the period of five years (2018-23), Internal debt of the State (which mainly included outstanding long term loans raised from open market, bonds issued for clearing debts of State Power Corporation Limited in compliance with the implementation of Ujwal Discom Assurance Yojna (UDAY)) during 2016-17 increased by ₹ 20,611.98 crore (58 per cent); Loans from GoI (which mainly included Block loans) increased by ₹ 1,914.32 crore (180 per cent); and Public Account Liability (which mainly included Small Savings, Provident Funds, Reserve Funds, Deposits, etc.) increased by ₹ 5,351.72 crore (30 per cent).

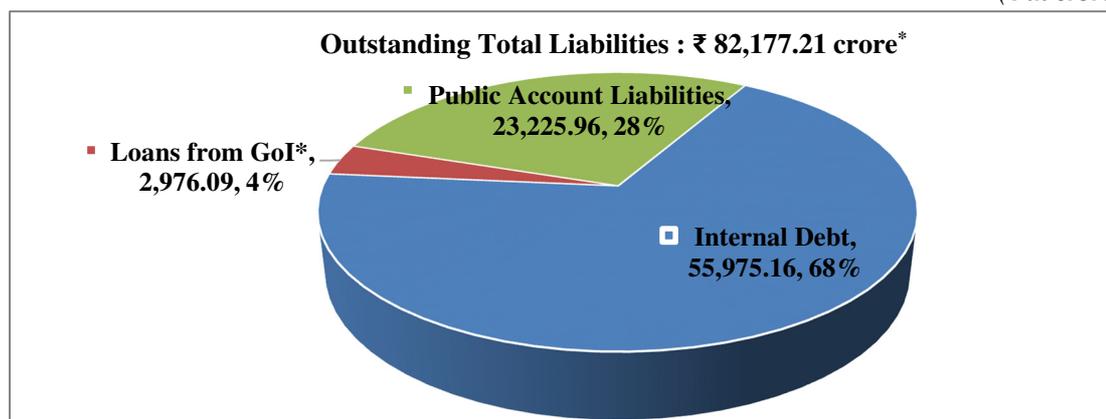
As shown in the table above, the percentage of debt repayments to debt receipts ranged between 45.31 per cent to 74.11 per cent. During the period 2018-23, an average of 64 per cent of debt receipt was used for repayment. This means that the State Government used only 36 per cent (average) of debt receipts on developmental activities except in 2022-23 when it was used for revenue expenditure as well. During 2018-23, the percentage of debt repayments to budget provision ranged between 8.75 per cent and 20.97 per cent (average rate of 14.28 per cent). Details of utilisation of borrowed funds is shown in **Paragraph 2.7.1**.

During 2022-23, total liability increased by 18.89 per cent as compared to 2.91 per cent in the previous year. The ratio of total liability to GSDP increased from 36.59 per cent in 2018-19 to 42.05 per cent in 2022-23 and increased by 2.84 per cent during 2022-23 over the previous year (39.21 per cent in 2021-22). The total liability/ GSDP ratio (42.05 per cent) was substantially higher than that of 15<sup>th</sup> FC projections (33.30 per cent) and targets set by State Government in its Budget/ MTFPS (40.49 per cent). Debt receipts ranging from 45.31 per cent to 74.11 per cent were used for making repayment of past obligations during the period 2018-19 to 2022-23.

Break-up of outstanding total liabilities at the end of 2022-23 is shown in **Chart 2.18**.

**Chart 2.18: Break-up of outstanding total liabilities at the end of 31 March 2023**

(₹ in crore)

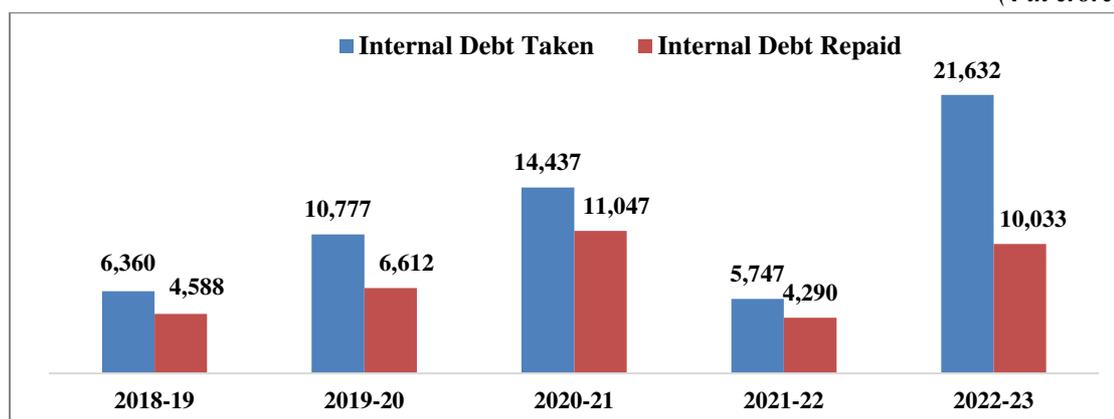


\* Excludes ₹ 1,717 crore (2020-21) and ₹ 4,412.22 crore (2020-21: ₹ 1,717 crore and 2021-22: ₹ 2,695.22 crore) for the years 2020-22 as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

**Chart 2.19** depicts the quantum of internal debt taken vis-à-vis repaid during the period of five years i.e. 2018-23.

**Chart 2.19: Year-wise details of internal debt taken vis-à-vis repaid**

(₹ in crore)



Source: Finance Accounts of the respective years.

Internal debt of the State Government (yearly) increased by ₹ 15,272 crore (240.13 per cent) from ₹ 6,360 crore in 2018-19 to ₹ 21,632 crore in 2022-23. It increased by ₹ 15,885 crore (276.41 per cent) during 2022-23 over the previous year mainly due to substantial increase in market borrowings. An amount of ₹ 3,476.91 crore was paid toward interest on internal debt during 2022-23.

**Table 2.36** depicts financing pattern of the fiscal deficit during 2018-23 and the financing of fiscal deficit during 2022-23 is expressed through a chart (**Chart 2.20**).

**Table 2.36: Components of fiscal deficit and its financing pattern**

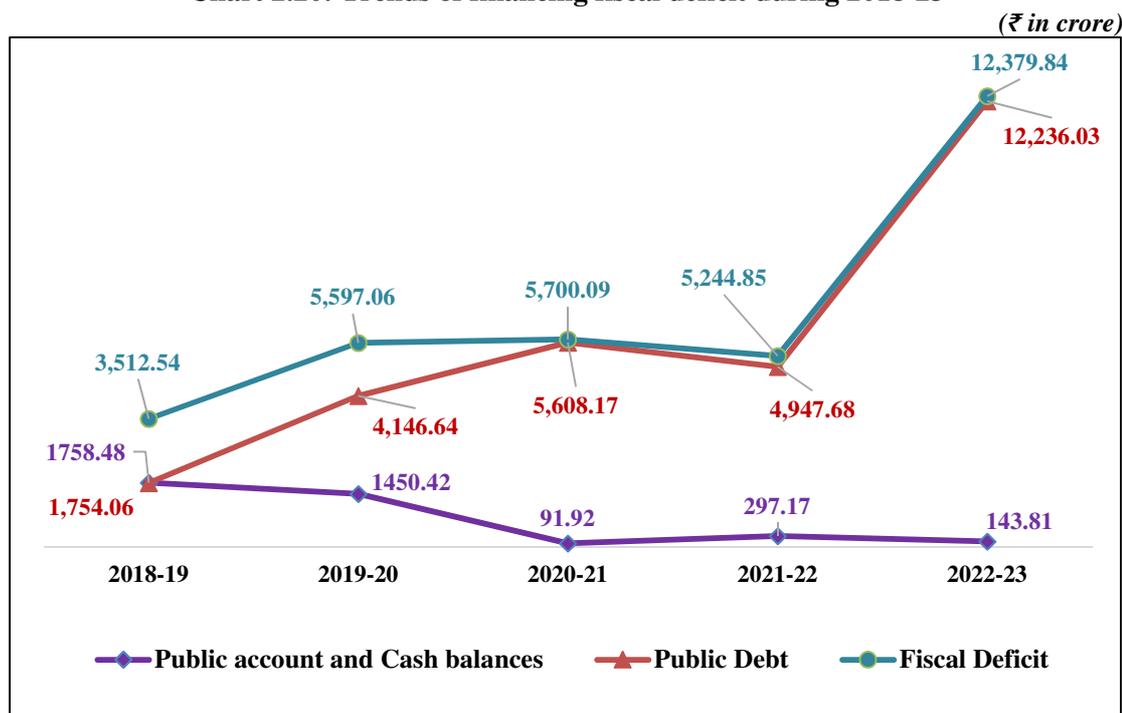
Particulars		(₹ in crore)				
		2018-19	2019-20	2020-21	2021-22	2022-23
<b>Composition of Fiscal Deficit</b>		<b>3,512.54</b>	<b>5,597.06</b>	<b>5,700.09</b>	<b>5,244.85</b>	<b>12,379.84</b>
A	Revenue surplus (+)/deficit (-)	1,508.21	11.98	-96.66	1,114.76	-6,335.76
B	Net Capital Expenditure	-4,574.59	-5,171.87	-5,306.33	-6,022.37	-6,016.30
C	Net Loans and Advances	-446.16	-437.17	-297.10	-337.24	-27.78
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	2,108.10	4,460.00	3,755.00	1,874.99	12,230.00
2	Loans from GoI	-17.65	-17.95	2,217.73*	3,489.87*	636.90
3	Special Securities Issued to NSSF	-538.25	-569.10	-569.10	-569.10	-569.10
4	Loans from Financial Institutions	201.86	273.69	204.54	151.92	-61.78
5	Small Savings, Provident Fund, etc.	1,113.14	1,187.60	985.51	483.65	675.96
6	Deposits and Advances	408.91	173.71	81.35	-34.99	181.83
7	Suspense and Miscellaneous	1.08	-1,404.92	-209.39	1,246.84	517.94
8	Remittances	112.25	96.80	-64.38	111.59	-159.55
9	Reserve Fund	-7.43	2,404.71	-5.11	-743.30	-39.18
10	<b>Overall Deficit</b>	<b>3,382.01</b>	<b>6,604.54</b>	<b>6,396.15</b>	<b>6,011.47</b>	<b>13,413.02</b>
11	Increase (-) / Decrease (+) in cash balances	130.53	-1,007.48	-696.06	-766.62	-1,033.18
12	<b>Gross Fiscal Deficit</b>	<b>3,512.54</b>	<b>5,597.06</b>	<b>5,700.09</b>	<b>5,244.85</b>	<b>12,379.84</b>

Source: Finance Accounts.

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

\* Includes ₹ 1,717 crore (2020-21) and ₹ 2,695.22 crore (2021-22) as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

**Chart 2.20: Trends of financing fiscal deficit during 2018-23**



The fiscal deficit of ₹ 12,379.84 crore in 2022-23 was largely financed through public debt which included market borrowings, loans from financial institutions and through public account including Small Savings, etc. as depicted in **Table 2.37**.

**Table 2.37: Receipts and Disbursements under components financing the fiscal deficit**  
(₹ in crore)

Particulars	Receipt	Disbursement	Net
1 Market Borrowings	14,000.00	1,770.00	12,230.00
2 Loans from GOI	739.83	102.93	636.90
3 Special Securities issued to NSSF	0	569.10	-569.10
4 Loans from Financial Institutions	845.15	906.93	-61.78
5 Small Savings, PF, etc.	3,633.27	2,957.31	675.96
6 Deposits and Advances	5,946.22	5,764.39	181.83
7 Suspense and Miscellaneous	1,569.93	1,052.00	517.94
8 Remittances	8,178.73	8,338.28	-159.55
9 Reserve Fund	741.45	780.63	-39.18
<b>10 Overall Deficit</b>	<b>35,654.58</b>	<b>22,241.57</b>	<b>13,413.02</b>
11 Increase/ Decrease in cash balance	2,522.86	3,556.04	-1,033.18
<b>12 Gross Fiscal Deficit</b>	<b>38,177.44</b>	<b>25,797.61</b>	<b>12,379.84</b>

Source: Finance Accounts.

## 2.6.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. Debt maturity profile of the State is depicted in **Table 2.38** and **Chart 2.21**.

**Table 2.38: Maturity Profile of repayment of Public debt of the State**

Period of repayment (Years)	Amount (₹ in crore)			Percentage (w.r.t. Total Public Debt)
	Public Debt (Principal)	Interest #	Total Public Debt (Principal + Interest)	
0-1	3,480.83	4,340.13	7,820.96	8.75
1-3	8,239.62	7,848.19	16,087.81	18.01
3-5	9,071.31	6,535.89	15,607.20	17.47
5-7	8,988.85	5,157.26	14,146.11	15.83
7-10	14,031.17	5,085.95	19,117.12	21.40
Above 10	13,071.00	3,497.00	16,568.00	18.54
<b>Total</b>	<b>56,882.78*</b>	<b>32,464.42</b>	<b>89,347.20</b>	

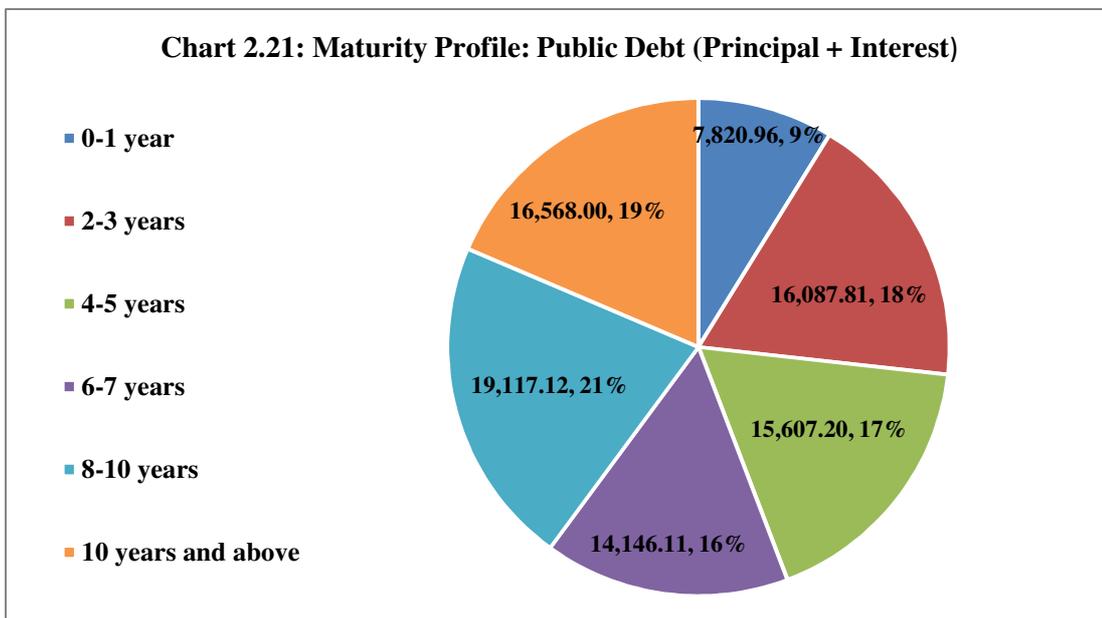
Source: Finance Accounts

\* This amount excludes ₹ 4,412.22 crore received during 2020-21 and 2021-22 as back-to-back loans from GoI in lieu of GST compensation shortfall, ₹ 1,417.96 crore {₹ 1,333 crore (Loan for Centrally Sponsored Schemes), ₹ 0.13 crore (Pre-1984-85 loans), ₹ 84.77 crore and ₹ 5.80 lakh (whose maturity is uncertain)}, ₹ 650 crore (special assistance as loan to State for capital investment).

# Approximate interest calculated at an average interest rate of 7.63 per cent (average of interest rates for the last five years as given in Table 2.39).

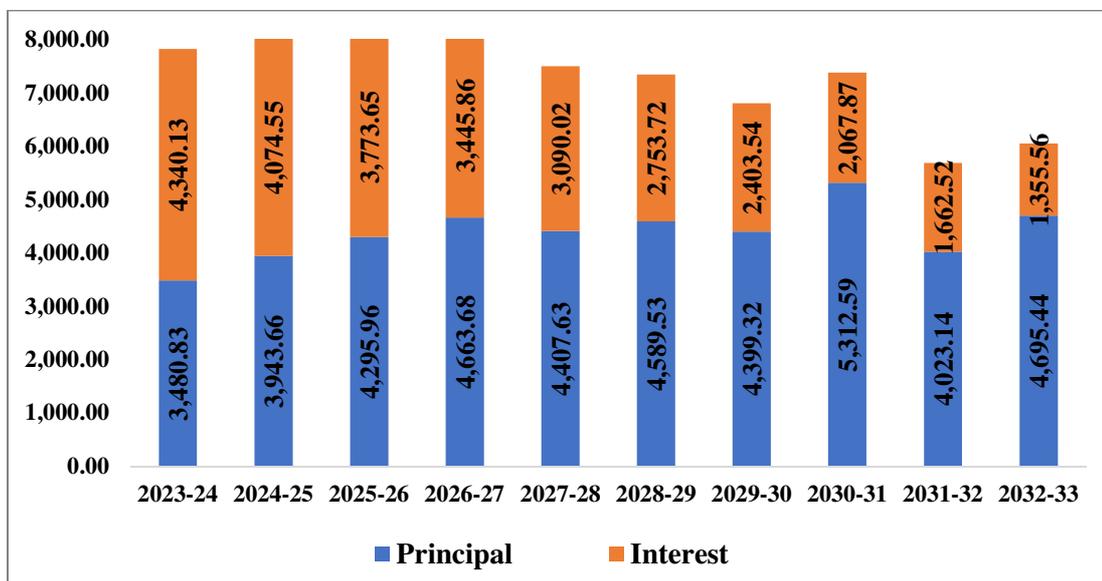
It can be seen from the above table that as of March 2023, out of total outstanding public debt along with interest of ₹ 89,347.20 crore (principal: ₹ 56,882.78 crore and interest: ₹ 32,464.42 crore), 8.75 per cent (₹ 7,820.96 crore) is payable in the next one year; 18.01 per cent (₹ 16,087.81 crore) is payable in the next one to three years (upto 2025-26); 17.47 per cent (₹ 15,607.20 crore) is payable in the next three to five years (upto 2027-28); 15.83 per cent (₹ 14,146.11 crore) is payable in the next five to seven years (upto 2029-30); 21.40 per cent (₹ 19,117.12 crore) is payable in the next seven to 10 years (upto 2032-33), while the remaining 18.54 per cent (₹ 16,568.00 crore) is to be paid after 10 years. Annual outgo on public debt repayment and interest will be approximately ₹ 7,903.19 crore during the next five years up to 2027-28 whereas

current (2022-23) annual repayment of public debt (principal) including interest is ₹ 6,902.66 crore (excluding ways and means advances) which would fall short of meeting the debt liabilities.



Year-wise repayment schedule of Public Debt (including interest) during the next 10 years i.e. up to 2032-33 is given in **Chart 2.22**.

**Chart 2.22: Year-wise Repayment schedule of Public Debt (including interest) during the next 10 years i.e. up to 2032-33 (₹ in crore)**

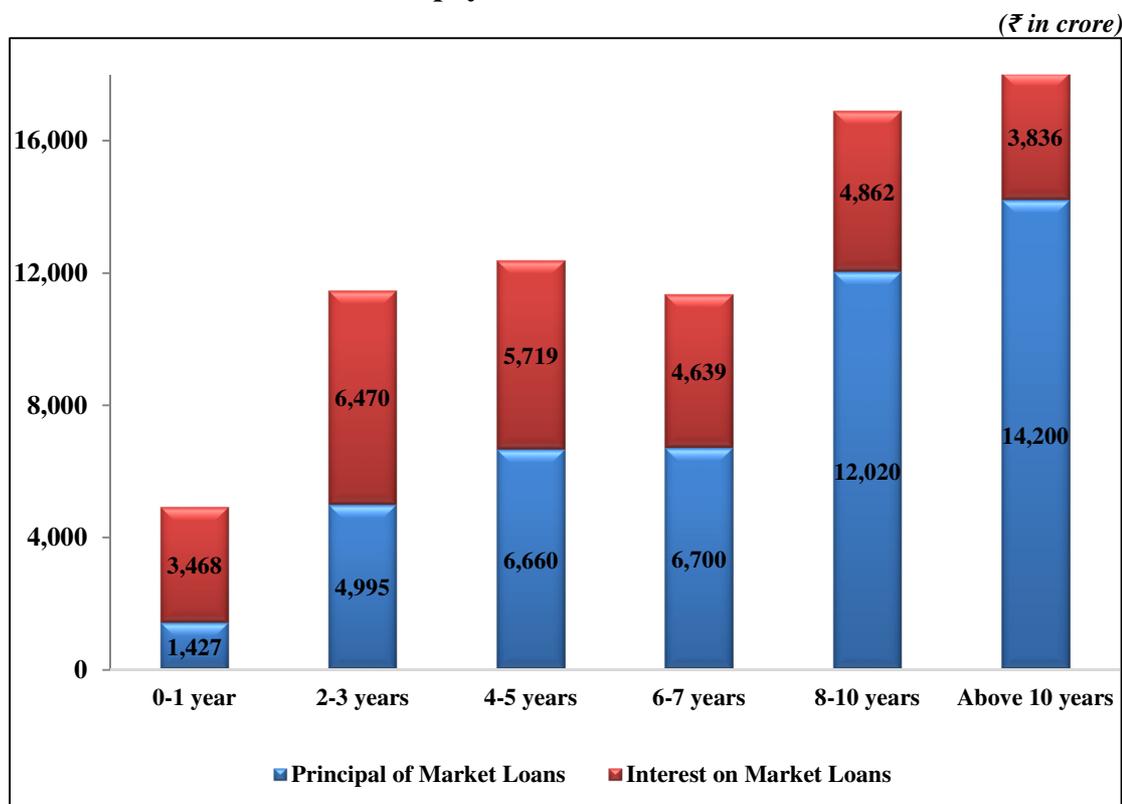


The above **Chart 2.22** shows that on an average, the State will have to repay public debt of ₹ 7,277.92 crore annually till 2032-33. In addition to the debt outstanding at the end of 2022-23, the State would have to resort to further borrowings every year to cover the resource gap.

### Market Borrowings / Loans

The repayment schedule of market loans and interest to be paid thereon is detailed in Chart 2.23.

**Chart 2.23: Repayment schedule of market loans**



Source: Finance Accounts.

Note: The maturity profile has been evolved for outstanding market loans as on 31 March 2023 and interest has been calculated upto the financial year in which the loans are going to retire.

Out of total outstanding market loans along with interest of ₹ 74,996 crore (principal: ₹ 46,002 crore and interest: ₹ 28,994 crore), the State will have to repay ₹ 6,422 crore of principal of market loans and interest of ₹ 9,938 crore in the next three financial years *i.e.*, up to 2025-26. In the next two years up to 2027-28, ₹ 6,660 crore principal and interest of ₹ 5,719 crore will be payable. Thus, the annual outgo on market loan repayment and interest will be approximately ₹ 5,748 crore during the next five years up to 2027-28. Current annual repayment of market loans including interest is ₹ 6,718 crore.

During the period 2028-29 to 2032-33, market loans of ₹ 18,720 crore and interest of ₹ 9,501 crore will be payable. As such, the State will have to repay approximately ₹ 5,644 crore annually during that period.

### 2.7 Debt Sustainability Analysis (DSA)

Debt sustainability analysis has been carried out on the basis of fiscal and debt parameters; Domar approach and compliance of macro-fiscal parameters to the

respective FRBM targets. The results of the analysis are given in the following paragraphs:

(A) Debt sustainability refers to the ability of the State to service its debt obligations now and in the future. Analysis of variations for a period of five years from 2018-19 to 2022-23 in debt sustainability indicators is given in **Table 2.39** and **Chart 2.24**.

**Table 2.39: Trends in Debt Sustainability indicators**

Indicators of Debt Sustainability	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Outstanding Public Debt* (₹ in crore) (as on 31<sup>st</sup> March of the year)</b>	<b>36,425</b>	<b>40,572</b>	<b>44,463<sup>§</sup></b>	<b>46,715<sup>§</sup></b>	<b>58,951<sup>§</sup></b>
Rate of Growth of Outstanding Public Debt (in per cent)	5.06	11.39	9.59	5.07	26.19
GSDP (₹ in crore)	1,48,383	1,59,164	1,55,251 <sup>a</sup>	1,76,269 <sup>b</sup>	1,95,405 <sup>c</sup>
Rate of Growth of GSDP (in per cent)	7.10	7.27	-2.46	13.54	10.86
Public Debt/GSDP (in per cent)	24.55	25.49	28.64	26.50	30.17
Debt maturity profile of repayment of State debt including default history, if any	3,181	3,257	3,399	3,147	3,347
Average Interest Rate on Public Debt (Interest paid/ OB of Public Debt + CB of Public Debt/2) (in per cent)	8.32	7.98	7.59	7.51	6.74
Interest payments on Public Debt (₹ in crore)	2,958	3,071	3,228	3,422	3,558
Revenue deficit (-) /surplus (+) without Interest payments	4,466	3,082	3,131	4,537	-2,777
Percentage of Interest Payments to Revenue deficit (-) / surplus (+)	196.14	25,634.31	3,339.11	307.01	56.16
Percentage of Interest Payments to Revenue Receipts	9.56	9.99	9.65	9.17	9.34
Percentage of Public Debt repayments to Public Debt Receipts	72.71	61.77	74.11	66.08	45.31
Net Public Debt Available to the State <sup>#</sup> (₹ in crore)	-1,204	1,076	664	-1,170	8,678
Net Public Debt available as per cent to Public Debt Receipts	-18.73	9.92	4.41	-17.62	38.79
Primary deficit (-)/ Primary surplus (+)	510	-1,363	-1,228	-604	-7,551
Debt Stabilisation (Quantum spread <sup>@</sup> + Primary Deficit) (₹ in crore)	64.27	-1,653	-5,696	2,212	-5,125

Source: State Finance Accounts of the respective years.

\* Outstanding Public Debt is the sum of outstanding balances under the heads 6003-Internal Debt and 6004- Loans and Advances from the Central Government.

§ Excludes ₹ 1,717 crore (2020-21) and ₹ 4,412.12 crore (2020-21: ₹ 1,717 crore + 2021-22: ₹ 2,695.22 crore) in 2021-22 and 2022-23 as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

a - Second Revised Estimate, b - First Revised Estimate, c - Advance Estimate

# 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.

@ Quantum spread = Debt stock × (GSDP growth rate - average interest rate)/100

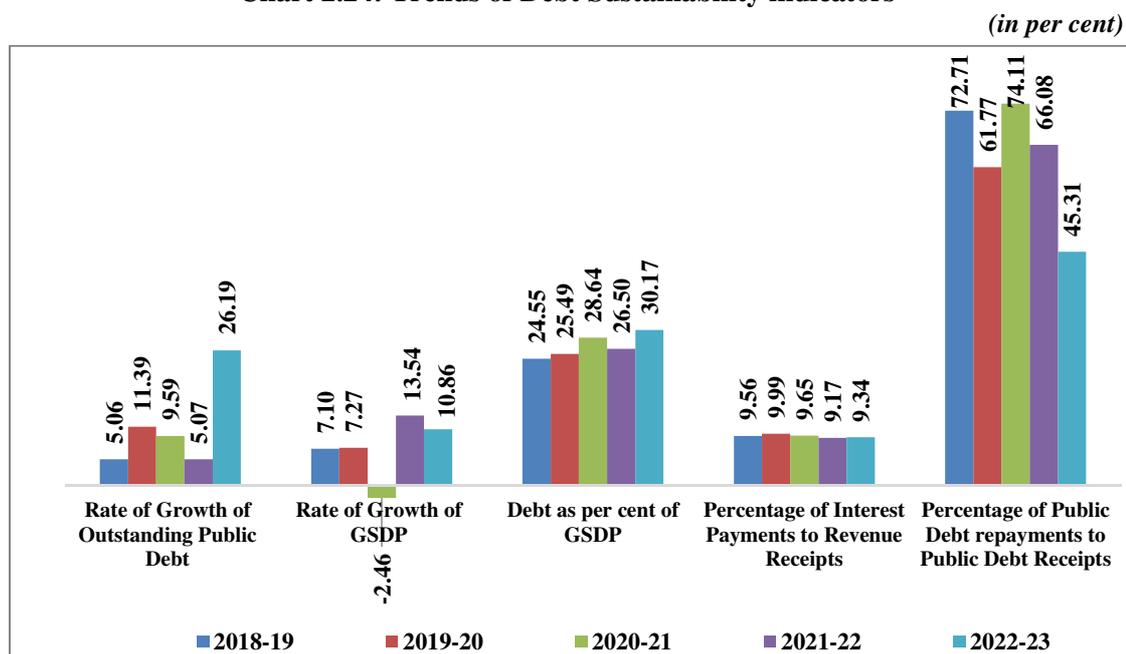
A necessary condition for debt stability states that if the rate of growth of GSDP exceeds the interest rate of public debt, the debt-GSDP ratio is likely to fall eventually and become stable provided primary balances are either zero or positive or moderately

negative. Thus, if quantum spread together with primary deficit turns out to be negative, debt-GSDP ratio would eventually be rising, if it is positive, debt-GSDP ratio would be declining.

In the five-year period from 2018-19 to 2022-23, the ratio of public debt to GSDP was ranging between 24.55 *per cent* to 30.17 *per cent*. The debt-GSDP is showing an increasing trend during 2018-23 (except in year 2021-22) and recorded highest ratio of 30.17 *per cent* during 2022-23. In the year 2022-23, GSDP increased by 10.86 *per cent*, whereas public debt grew substantially by 26.19 *per cent*.

Trends in debt sustainability indicators for the five-year period from 2018-19 to 2022-23 are shown in **Chart 2.24**.

**Chart 2.24: Trends of Debt Sustainability indicators**



During the period 2018-19 to 2022-23, public debt of the State Government increased from ₹ 36,425 crore to ₹ 58,951 crore (excluding ₹ 4,412.22 crore i.e., ₹ 1,717 crore during 2020-21 and ₹ 2,695.22 crore during 2021-22 as back-to-back loans to State from GoI in lieu of GST compensation shortfall during 2022-23), registering an increase of 61.84 *per cent*. The burden of interest payment ranged from 9.17 to 9.99 *per cent* of revenue receipts during the period 2018-19 to 2022-23. Debt receipts were in the range of 61.77 *per cent* to 74.11 *per cent* for discharging existing liabilities in the period of four years (2018-19 to 2021-22). But in the year 2022-23, only 45.31 *per cent* of public receipts were used for discharging existing liabilities.

- A falling debt-GSDP ratio can be considered as leading towards stability. Debt-GSDP ratio rose from 24.55 *per cent* in 2018-19 to 30.17 *per cent* in 2022-23 which cannot be considered as leading towards stability. In 2021-22, however, it went down marginally to 26.50 *per cent*. Also, debt stabilisation condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would tend to be constant, or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio

would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. **Table 2.39** shows that this trend had been mixed as debt stabilisation was positive in 2018-19 and in 2021-22, but in three years (2019-20, 2020-21 and 2022-23), it was negative.

- The ratio of interest payments to revenue receipts is also a good measure of debt sustainability. This ratio ranged between 9.17 *per cent* and 9.99 *per cent* during the period 2018-23.
- The higher the percentage of public debt repayments to public debt receipts, the greater the proportion of debt utilised for debt servicing rather than productively. Ratio of public debt repayments to public debt receipts ranged between 61.77 *per cent* and 74.11 *per cent* during the period 2018-23, which means that most of the public borrowings were used for repayment of earlier borrowings, leaving less space to use them productively.
- During the current year (2022-23), the ratio of public debt repayment to public debt receipts decreased to 45.31 *per cent*, which meant that the debt money had been used on other than past obligations. **Paragraph 2.7.1 (Table 2.42)**, clearly shows that public borrowings which is meant for development activities, creation of assets and increasing productivity of the State, were used for meeting current consumption to reduce revenue deficits.

**(B)** An analysis on debt sustainability was carried out based on a study by E.D. Domar<sup>3</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 GSDP and the primary budget balance are as follows:

<b>g-r (g - real economic growth rate; r - real interest rate)</b>	<b>s&lt;0 (primary deficit)</b>	<b>s&gt; 0 (primary surplus)</b>
<b>g-r&gt;0 (strong economic growth)</b>	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.
<b>g-r&lt;0 (slow economic growth)</b>	Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.	Undefined situation.

The results of applying the above parameters in the case of Himachal Pradesh, are shown in **Table 2.40**.

<sup>3</sup> Domar model does not take into account maturity profile, composition, cost and risk characteristics of debt stock.

**Table 2.40: Debt sustainability analysis based on Domar Model**

Year	Real Growth rate (g)	Real Interest rate (r)	g-r (Domar gap)	Primary Deficit (-)/ Surplus(+) (s) (₹ in crore)	Remarks
2018-19	6.41	9.62	-3.21	+510	g-r<0 and s>0; Undefined situation.
2019-20	4.10	1.82	2.28	-1,363	As g-r> 0 and s<0; Public debt as percentage of GSDP should converge to a stable level greater than zero.
2020-21	-3.00	2.61	-5.61	-1,228	As g-r<0 and s<0; Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.
2021-22	7.55	1.19	6.36	-604	As g-r> 0 and s<0; Public debt as percentage of GSDP should converge to a stable level greater than zero.
2022-23	6.44	2.78	3.66	-7,551	As g-r> 0 and s<0; Public debt as percentage of GSDP should converge to a stable level greater than zero.

Note: Real Growth rate calculated for GSDP at constant prices.

Real Interest rate is the nominal interest rate adjusted for inflation.

In the initial year of the subject period i.e., 2018-19, the State had primary surplus, which later turned to primary deficit in the last four years i.e., 2019-23. The Domar gap (g-r) remained positive during the years 2019-20, 2021-22 and 2022-23 and it was negative during the covid years 2018-19 and 2020-21. However, in post covid years Domar gap turned positive due to high growth in GSDP. Positive Domar gap due to high growth rate in post covid years may also be seen with reference to low base for comparison during covid. However, primary deficit has increased sharply during the same period thereby implying that economic growth is not robust enough to service the debt. Thus, it becomes evident that depending solely on economic growth (expressed as g-r>0 from 2021-23) would not suffice to cover the debt obligations of the State.

(C) Details of the achievements vis-à-vis targets set in the HP-FRBM Act are shown in **Table 2.41**:

**Table 2.41: Achievements vis-à-vis targets set in the HP-FRBM Act**

Fiscal Parameters		Achievement vis a vis targets set in the HP-FRBM Act				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (₹ in crore)	T	Maintain Revenue Surplus				
	A	1.02	0.01	-0.06	0.63	-3.24
Fiscal Deficit (-)/ Surplus (+) (as per cent of GSDP)	T	3% or less				6% or less
	A	-2.37	-3.52	-3.67	-2.98	-6.34
Ratio of total outstanding debt <sup>@</sup> to GSDP (in per cent) <sup>§</sup>	T	35.00	34.04	33.62	40.26	40.49
	A	36.59	39.09	43.26*	39.21*	42.05*
Guarantees in terms of percentage of Revenue Receipts of previous year	T	40 per cent of total revenue receipt in the preceding financial year.				
	A	15.75	6.29	6.97	5.64	4.77

<sup>@</sup> Total outstanding debt includes public debt plus other (public accounts) liabilities.

<sup>\*</sup> Calculated by excluding ₹ 1,717 crore during 2020-21 and ₹ 4,412.22 crore (2020-21: ₹ 1,717 crore + 2021-22: ₹ 2,695.22 crore) during 2020-22 received as back-to-back loan from GoI in lieu of GST compensation shortfall, as the Department of Expenditure, GoI has decided that it will not be treated as debt of the State Government for any norms which may be prescribed by the Finance Commission.

<sup>§</sup> Ratio of total outstanding debt to GSDP has been compared with the targets set in MTFPS, as the State Government did not specify the targets in the FRBM Act (after 2011 upto 2023, when amendments were made).

T- Target, A- Achievement.

Revenue surplus of 1.02 *per cent* of 2018-19 decreased to 0.01 *per cent* in 2019-20 and turned to revenue deficit (-0.06 *per cent*) during 2020-21 which again turned to revenue surplus in 2021-22 (0.63 *per cent*) and to revenue deficit (-3.24 *per cent*) during 2022-23. Ratio of fiscal deficit (FD) to GSDP increased from 2.37 *per cent* to 6.34 *per cent* and outstanding debt-GSDP ratio from 36.59 *per cent* to 42.05 *per cent* during 2018-23. Although the FD-GSDP ratio remained within the target fixed in the FRBM Act during 2018-19 and 2021-22, the Government was unable to meet the targets of FD-GSDP ratio during 2019-20, 2020-21 and 2022-23. Similarly, outstanding debt-GSDP ratio was also above the limits prescribed in the FRBM Act during 2018-23 except 2021-22. However, the guarantees given by the State Government was within the limits prescribed in the FRBM Act during 2018-23.

Revenue deficit of ₹ 6,336 crore was the result of an increase of ₹ 8,230.72 crore (22.74 *per cent*) in revenue expenditure against the slight increase of ₹ 780.20 crore (2.09 *per cent*) in revenue receipts during 2022-23 over the previous year. This was mainly due to increase in salary and pension because of pay revision on account of implementation of Himachal Pradesh 6<sup>th</sup> Pay Commission recommendations. The expenditure on salary increased to ₹ 15,569 crore in 2022-23 from ₹ 11,990 crore in 2021-22. Similarly, the expenditure on pensions increased to ₹ 9,284 crore in 2022-23 from ₹ 6,399 crore in 2021-22.

Further, there has been an increase in the committed expenditure as a percentage of the revenue receipts from 65 *per cent* in 2018-19 to 79 *per cent* in 2022-23, thereby showing the limited availability of revenue resources for other purposes including debt servicing (**Table 2.20**).

Breaching the levels of the fiscal indicators continuously may lead to the risk of the fiscal situation becoming unmanageable especially when the State Government is yet to contribute to mandatory reserve funds like Guarantee Redemption fund, payment of implicit subsidies, etc.

On the basis of analysis of fiscal sustainability (**Table 2.39**) and Domar model analysis (**Table 2.40**), it is inferred that the State fiscal sustainability has risks in the short to medium term unless remedial measures are taken to rationalise expenditure, explore further sources, expand revenue base, and invest in revenue generating assets.

### 2.7.1 Utilisation of borrowed funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable. Trend in utilisation of borrowed funds during the past five years is shown in **Table 2.42**.

**Table 2.42: Utilisation of borrowed funds**

(₹ in crore)

Sr. No.	Year	2018-19	2019-20	2020-21	2021-22	2022-23
1	Total Borrowings	6,427.40	10,847.39	15,032.21 <sup>\$</sup>	6,639.75 <sup>\$</sup>	22,371.82
2	Repayment of earlier borrowings (Principal)	4,673.35 (72.71)	6,700.75 (61.77)	11,141.04 (74.11)	4,387.28 (66.08)	10,135.80 (45.31)
3	Net Capital Expenditure*	1,754.05 (27.29)	4,146.64 (38.23)	3,891.17 (25.89)	2,252.47 (33.92)	6,016.30 (26.89)
4	Loans and Advances disbursed	--	--	--	--	110.57 (0.49)
5	Portion of total borrowings utilised towards Revenue expenditure {1-(2+3+4)}	--	--	--	--	6,109.16 (27.31)
6	Total budget of the State	46,984	53,708	61,597	55,715	67,733
7	Expenditure against total budget	42,469	45,528	53,139	50,130	63,463
8	Repayment of borrowings to total expenditure (per cent)	11.00	14.72	20.97	8.75	15.97

<sup>\$</sup> Excludes ₹ 1,717 crore (2020-21) and ₹ 2,695.22 crore (2021-22) as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

\* Net Capital Expenditure = Total Capital Expenditure-Misc. Capital Receipts  
 Figures in brackets indicate percentage utilisation of borrowed funds.

**Table 2.42** shows that the repayment of borrowings (principal) to total expenditure of the State ranged between nine *per cent* and 21 *per cent* during the period 2018-23. Over the last four years' period i.e., 2018-19 to 2021-22, utilisation of borrowed funds mainly used for repayment of previous borrowings (principal) ranged between 45 *per cent* and 74 *per cent*, and for capital expenditure between 26 *per cent* and 38 *per cent*. But in the year 2022-23, repayments towards past obligations reduced from 66 *per cent* to 45 *per cent* and capital expenditure from 34 *per cent* to 27 *per cent* over the previous year.

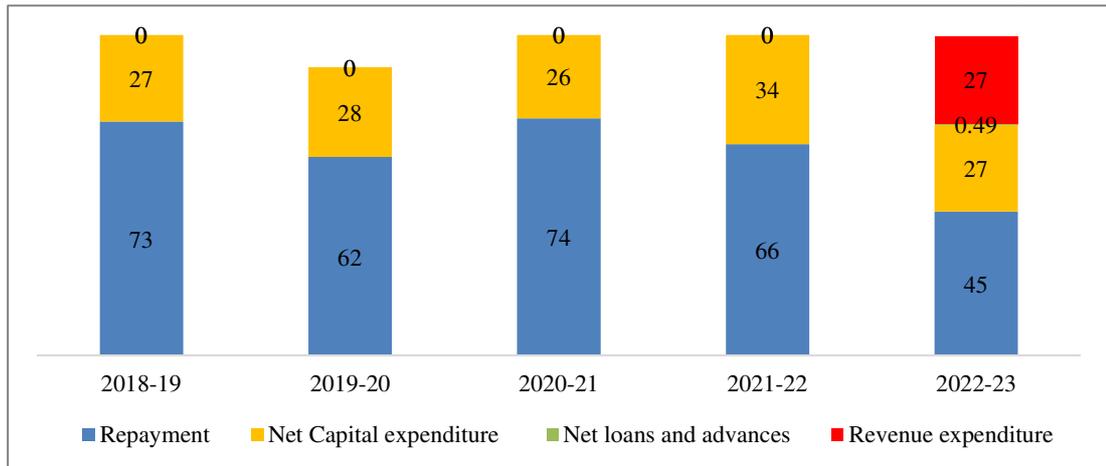
As per the Finance Commission, States are being given revenue deficit grants to reduce and ultimately eliminate revenue deficit and to enable all borrowings to be used for capital expenditure. Up to the year 2021-22, no portion of debt receipts was used for meeting revenue expenditure. In 2022-23, which is the second year of the 15<sup>th</sup> Finance Commission period, a substantial portion of public borrowings i.e. 27 *per cent* (₹ 6,109.16 crore) had been utilised for meeting their current expenses.

Thus, the State Government has not been able to maintain revenue surplus and has borrowed to meet its revenue deficit.

Trends of utilisation of borrowed funds during the period 2018-23 is depicted in **Chart 2.25**.

Chart 2.25: Trends in Utilisation of borrowed funds

(in per cent)



The State Government needs to take steps to reduce revenue deficit so that borrowed funds could be utilised in development activities and for creation of concrete assets.

### 2.7.2 Status of Guarantees – Contingent Liabilities

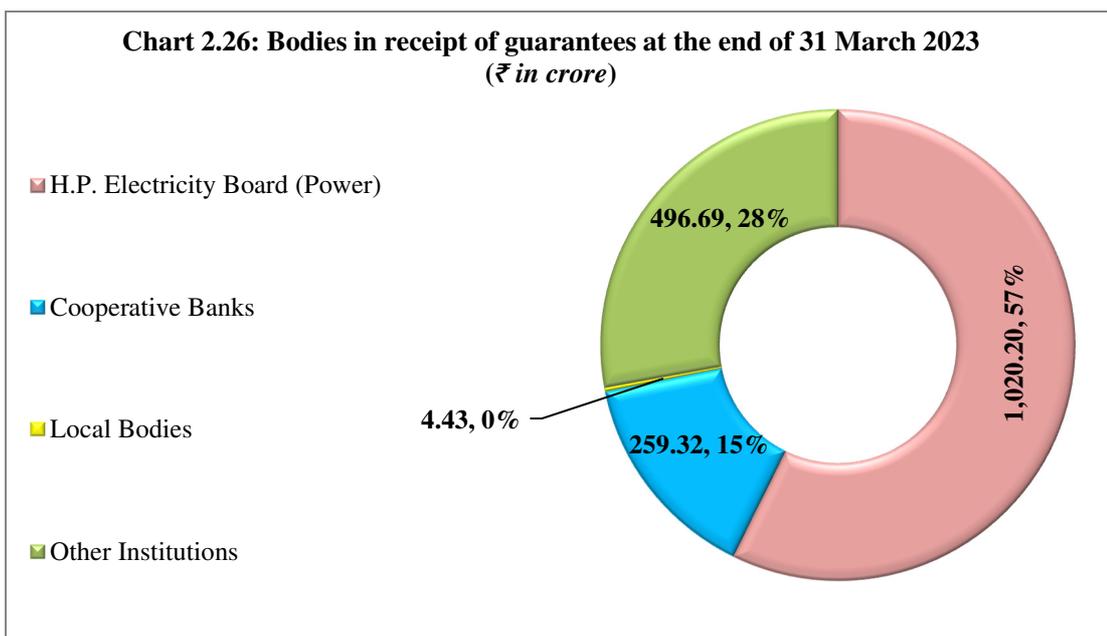
Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement-9 and 20 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years are given in **Table 2.43**. Details of recipients/bodies which have received guarantees from the State Government at the end of 31 March 2023 are given in **Chart 2.26**.

Table 2.43: Guarantees given by the State Government

₹ in crore)

Guarantees	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Outstanding amount of guarantees</b>	<b>4,309.21</b>	<b>1,947.07</b>	<b>2,141.76</b>	<b>1,884.61</b>	<b>1,780.64</b>
Additions during the year	74.28	639.70	418.03	289.46	643.61
Deletions during the year	158.72	3,001.84*	165.60	283.09	747.58
Invoked during the year	--	--	--	--	--
Ceiling applicable to the outstanding amount of guarantees including interest (criterion)	40 per cent of total revenue receipt in the preceding financial year.				
Percentage of outstanding amount of guarantees to total revenue receipts in the preceding financial year	15.75	6.29	6.97	5.64	4.77

\* Includes an amount of ₹ 2,890.50 crore (loans to DISCOM) and ₹ 13.18 crore (interest charged on guaranteed amount) deleted from figures in the Finance Accounts 2019-20 as these amounts were included inadvertently, as intimated by the department. The same is indicated in Statement No. 20 of Finance Accounts of the Government of Himachal Pradesh for the year 2019-20.



No amount of guarantee was invoked during 2022-23. As of 31 March 2023, outstanding amount of guarantees was ₹ 1,780.64 crore as per the Finance Accounts. However, it is to be noted that the accounts of most PSUs were not current, and the PSUs and State Government had not reconciled differences in figures. During 2022-23, an amount of ₹ 643.61 crore was extended to various bodies on the guarantees of State Government. The main recipients of guarantees from the State Government during the year were Himachal Pradesh Power Corporation Limited (₹ 276.96 crore), Himachal Pradesh Road Transport Corporation (₹ 198.16 crore) and Himachal Pradesh State Cooperative Agriculture and Rural Development Bank Limited (₹ 100.03 crore). The outstanding amount of guarantee (₹ 1,780.64 crore) at the close of 2022-23 accounted for five *per cent* of total revenue receipts of previous year of the State, which was within the target of 40 *per cent* prescribed in the FRBM Act.

In addition, as per Himachal Pradesh Financial Rules 2009 and Government instructions (6 March 1992), the guarantee fees (*one per cent*) and commitment charges (*0.2 per cent*) are to be levied from the borrowers at the time of approval of the guarantee. The State Government did not have information about the receivable amount of guarantee fees and commitment charges due from the bodies/ entities. Over the last 10 years (up to 2018-19), no amount of guarantee fees and commitment charges had been received/ levied by the State Government. However, amounts of guarantee fees and commitment charges of ₹ 0.72 lakh (in 2019-20), ₹ 2.16 crore (in 2020-21), ₹ 3.00 crore (in 2021-22) and ₹ 3.31 crore during 2022-23, were received. During the current year ₹ 3.31 crore were received against the ₹ 7.73 crore (guarantee fee: ₹ 6.44 crore + commitment charge: ₹ 1.29 crore) which resulted in short-receipt of ₹ 4.42 crore.

### 2.7.3 Management of Cash Balances

As per an agreement with the Reserve Bank of India (RBI), State Governments have to maintain a minimum daily cash balance with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and

Means Advances (WMA) / Special Ways and Means Advances (SWMA) / Overdrafts (OD) from time to time. The limit for ordinary WMA to the State Government is revised by the RBI from time to time.

The State Government has to maintain minimum Cash balance of ₹ 0.55 crore with the Reserve Bank of India. The limit for ordinary WMA to the State Government is ₹ 880 crore from 17 April 2020 to 31 March 2022 and ₹ 656 crore with effect from 1<sup>st</sup> April 2022. RBI also gives SWMA to the State Government against pledging of government securities.

During 2022-23, the State Government could maintain minimum daily cash balance for 295 days. The Government had to take a total of ₹ 4,042.99 crore of ordinary / special WMA on 51 occasions and ₹ 2,743.85 crore overdraft on 19 occasions from RBI which were repaid during the year. There were no outstanding ways and means advances and overdrafts at the end of the year 2022-23. Against these, an amount of ₹ 4.66 crore was paid as interest during the year. **Table 2.44** depicts the cash balances and investments made out of these by the State Government during the year.

**Table 2.44: Cash Balances and their investment**

(₹ in crore)

Particulars	Opening balance as on 1 April 2022	Closing balance on 31 March 2023	Increase (+)/ Decrease (-)
<b>(a) General cash balance</b>			
Cash in treasuries	0	0	0
Remittance in transit-Local	0	0	0
Deposits with RBI	-45.41	-89.33	-43.92
<b>Total</b>	<b>-45.41</b>	<b>-89.33</b>	<b>-43.92</b>
Investments held in cash balance Investment account	2,568.08	3,645.18	1,077.10
<b>Total (a)</b>	<b>2,522.67</b>	<b>3,555.85</b>	<b>1,033.18</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	0
Permanent advances for contingent expenditure with departmental officers	0.03	0.03	0
Investment of earmarked funds	0	0	0
<b>Total (b)</b>	<b>0.19</b>	<b>0.19</b>	<b>0</b>
<b>Total (a+b)</b>	<b>2,522.86</b>	<b>3,556.04</b>	<b>1,033.18</b>

Cash balances of the State Government at the year-end increased by ₹ 1,033.18 crore from ₹ 2,522.86 crore in 2021-22 to ₹ 3,556.04 crore in 2022-23. The investments made out of cash balances also increased from ₹ 2,568.08 crore to ₹ 3,645.18 crore.

State Government invests its surplus cash balances in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'.

The cash balance investments of the State during the five-year period 2018-19 to 2022-23 are given in **Table 2.45**.

**Table 2.45: Cash Balance Investment Account (Major Head-8673)**

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2018-19	723.72	102.09	(-) 621.63	66.90
2019-20	102.09	982.06	879.97	55.02
2020-21	982.06	1,696.09	714.03	31.88
2021-22	1,696.09	2,568.08	871.99	55.50
2022-23	2,568.08	3,645.18	1,077.10	20.91

Source: Finance Accounts.

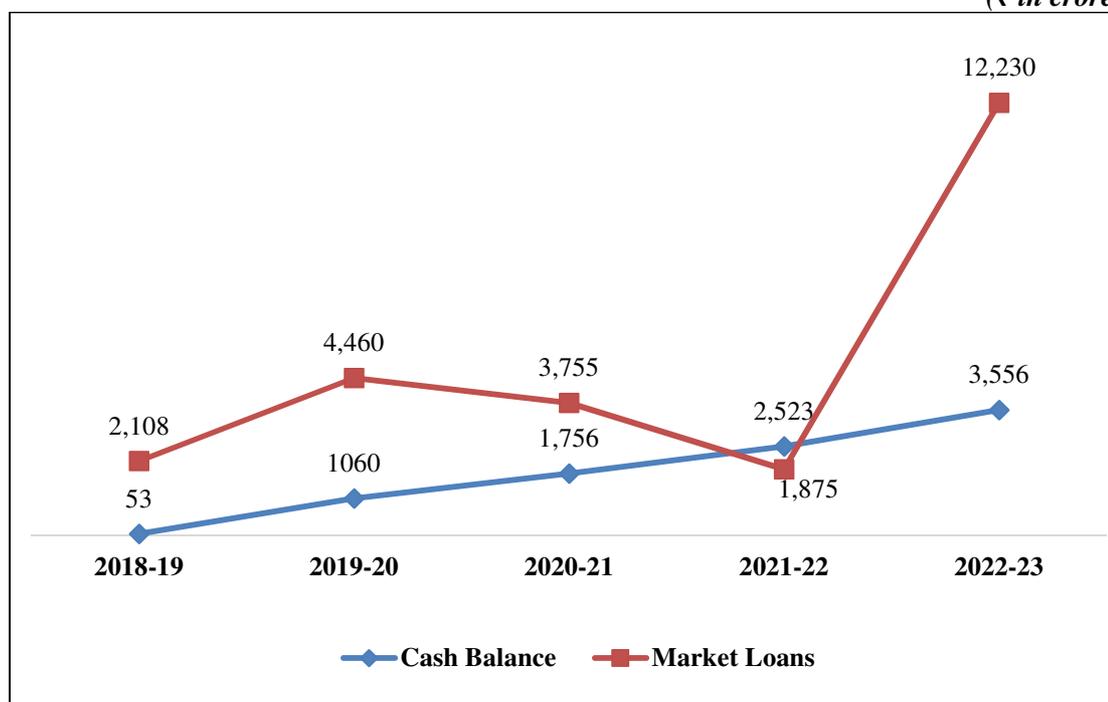
Analysis of the trend in cash balance investment of the State Government during the period 2018-19 to 2022-23 revealed that the balances in the Cash Balance Investment Account have increased over the years.

Large cash balances at the year-end indicated sub-optimal cash management by the State Government which had taken market loans despite having large cash balances which were not put to productive use.

**Chart 2.27** compares the Cash Balances and the Market Loans taken by the State during the period 2018-23. Market Loans were taken at higher interest rates whereas investment in Treasury Bills yielded interest at lower rates.

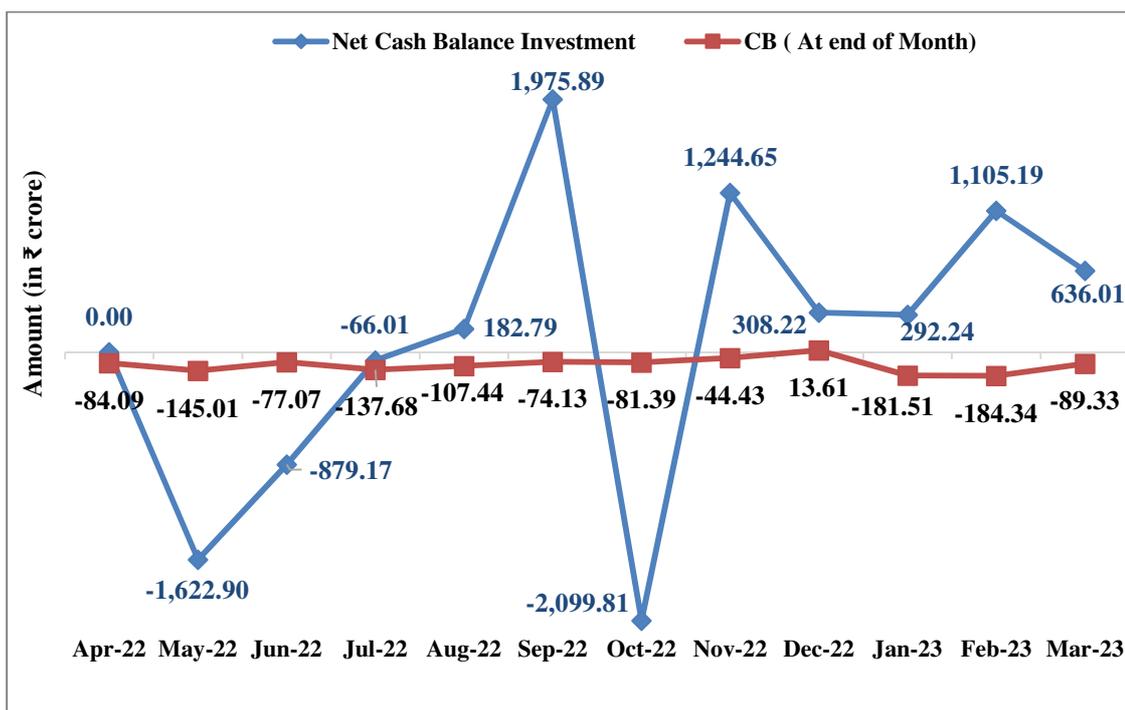
**Chart 2.27: Market loans vis-à-vis Cash Balance**

(₹ in crore)



**Chart 2.28** compares the month-wise Cash Balance Investment Account with the Cash Balances during 2022-23.

**Chart 2.28: Month-wise movement of Cash Balances and net cash balance investments during 2022-23**



Source: Monthly Civil Accounts.

The State Government had taken recourse to market loans during the year despite having cash balances which were not being put to productive use. During the year 2022-23, the State Government raised ₹ 12,230 crore from the market despite the fact that there were adequate cash balances, and the borrowing was avoidable to that extent.

## 2.8 Salient features

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of the Government. Comparison of key parameters of State Finances during 2022-23 with that of the previous year i.e., 2021-22 is summarised in **Table 2.46**.

**Table 2.46: Key parameters**

Positive indicators	Parameters requiring close watch
↑ Increase in Own Non-tax receipts by 10.10 per cent	↑ Increase in Revenue expenditure by 22.74 per cent
↑ Increase in Recoveries of Loans and Advances by 103.32 per cent	↑ Increase in Debt receipts by 236.94 per cent
	↑ Utilisation of debt receipts towards repayment of past obligations and meeting Government's current expenses or to reduce revenue deficit
	↑ Increase in Cash balances by 40.95 per cent
	↑ Increase in revenue deficit, fiscal deficit and outstanding debt liabilities

## **2.9 Conclusion**

Revenue surplus of 2018-19 (₹ 1,508 crore) decreased to ₹ 12 crore in 2019-20 and turned to revenue deficit (₹97 crore) during 2020-21 which turned to revenue surplus in 2021-22 (₹1,115 crore) and to revenue deficit again in (₹ 6,336 crore) during 2022-23.

Subsidies constituted 3 per cent to 4 per cent of revenue expenditure. Power subsidy constituted the major portion of total subsidies ranging between 35 per cent and 52 per cent. Subsidies contributed 31 per cent to the revenue deficit during 2022-23.

Fiscal deficit of the State was ₹ 12,379 crore during 2022-23 which was 6.34 per cent of the GSDP. The fiscal deficit was mainly financed through market borrowings.

Revenue receipts increased by ₹ 780.20 crore (2.09 per cent) during the current year over the previous year whereas revenue expenditure grew by ₹ 8,230.72 crore (22.74 per cent). Further, the State's own revenue registered a positive growth of 9.07 per cent over the previous year.

The State incurred 67 per cent of the total revenue expenditure on committed liabilities like salaries and wages, pensions, interest payments, leaving only 33 per cent for priority sector expenditure.

There was a difference of ₹ 166.22 crore in equity investment figures as per State Finance Accounts and as per the accounts of 26 PSUs.

The State Government earned 3.39 per cent return on its total investment (₹ 5,333.57 crore) in Statutory Corporations, Government Companies and Co-operatives up to 31 March 2023.

The State Government received ₹ 15 crore (0.04 per cent) as interest on outstanding loans during 2022-23 while it paid interest at 7.17 per cent on outstanding debt.

Total outstanding liabilities including public debt and public account liabilities were 42.05 per cent of GSDP. The total liability grew by 18.89 per cent over the previous year.

The State Government had not invested funds of ₹ 55.55 crore available under State Disaster Response Fund.

As many as 67 projects scheduled for completion up to 31 March 2023 were incomplete. The expenditure of ₹ 953.85 crore incurred on these incomplete projects was yet to yield the intended benefits.

## **2.10 Recommendations**

- 1. The State Government should make efforts for augmentation of its own revenues. It should settle pending tax claims in time, settle arrears in assessment of taxes, recover arrears of revenue and improve non-tax revenues for better resource mobilisation;*
- 2. The State Government may consider forming a committee to assess the reasons for insufficient return on investment from statutory corporations, Government companies, cooperative banks and societies and to suggest the remedial measures;*
- 3. The State may ensure time bound completion of the incomplete projects;*
- 4. The State Government should mobilise its resources to minimise dependence on borrowings.*