

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account (**Appendix-I-Part-A**). The Finance Accounts of the Government of Himachal Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State. The lay out of the Finance Accounts is depicted in **Appendix-I-Part-B**.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the State Government for the year 2006-07, covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of the Finance Accounts and other detailed statements.

Table-1.1: Summary of Receipts and disbursements for the year 2006-07

(Rupees in crore)							
2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue							
					Non-Plan	Plan	Total
6,558.63	I. Revenue Receipts	7,835.22	6,466.16	I. Revenue Expenditure	6,318.92	1,325.19	7,644.11
1,497.02	Tax revenue	1,656.38	2818.08	General Services	3,269.39	30.46	3,299.85
689.68	Non-tax revenue	1,336.85	2,308.51	Social Services	1,753.82	832.13	2,585.95
493.26	Share of Union Taxes/Duties	629.16	1,333.38	Economic Services	1,292.84	462.60	1,755.44
3,878.67	Grants from Government of India	4,212.83	6.19	Grants-in-aid/Contributions	2.87	--	2.87
Section-B: Capital							
	II. Miscellaneous Capital Receipts	--	820.76	II. Capital Outlay	66.70	1043.11	1,109.81
21.97	III. Recoveries of Loans and Advances	23.41	14.13	III. Loans and Advances disbursed	1.85	23.90	25.75
1,781.47	IV. Public debt receipts¹	2,079.75	1,308.03	IV. Repayment of Public Debt¹	1,269.19	--	1,269.19
--	V. Contingency Fund	--	--	V. Contingency Fund	--	--	--
4,933.39	VI. Public Account receipts	5,265.12	4,386.69	VI. Public Account disbursements	5,370.04	--	5,370.04
(-) 108.43	Opening Balance	191.26	191.26	Closing Balance	--	--	(-) 24.14
13,187.03	Total	15,394.76	13,187.03	Total			15,394.76

¹ Excluding Ways and Means Advances and Overdraft.

Following are the significant changes during 2006-07 over the previous year;

- Revenue receipts grew by Rs 1,276 crore over the previous year. The increase was mainly contributed by Non-tax revenue (Rs 647 crore) and grants from the GOI (Rs 344 crore).
- Revenue expenditure and capital expenditure increased by Rs 1,178 crore and Rs 289 crore respectively over the previous year.
- Disbursement of Loans and Advances increased by Rs 12 crore, while increase in recoveries of Loans and Advances was Rs one crore only.
- While Public Debt receipts increased by Rs 298 crore, its repayments decreased by Rs 39 crore.
- Public Account Receipts increased by Rs 332 crore, whereas its disbursements increased by Rs 983 crore.
- The closing cash balance of 2006-07 was minus Rs 24.14 crore against Rs 191.26 crore during 2005-06.

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

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in April 2005 to ensure prudence in fiscal management and fiscal stability, by progressive reduction of revenue deficit, and debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework. To give effect to the fiscal management principles as laid down in the Act and the rules framed thereunder, the Act prescribed the following fiscal targets for the State Government:

- reduce revenue deficit as a percentage of total revenue receipts by at least two percentage points each financial year, compared to previous year, to eliminate revenue deficit by 31st March 2009;
- progressively reduce fiscal deficit to bring it to three *per cent* of Gross State Domestic Product (GSDP) by 31st March 2009; and
- progressively reduce its outstanding guarantees on long term debt, until it can cap outstanding risk weighted guarantees at 80 *per cent* of total revenue receipts in the preceding financial year.

1.1.3 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government had also laid down its own Fiscal Correction Path (FCP), detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the FRBM Act.

1.1.4 Fiscal Policy Statement(s) 2006-07

As prescribed in the Act, the State Government laid the Medium Term Fiscal Plan Statement (MTFPS) alongwith the budget before the Legislature in March 2007. As per this MTFPS, revenue deficit was projected at (-) 3.90 *per cent* by 31 March 2007, fiscal deficit as a percentage of the GSDP was projected at 3.90 *per cent* and total guarantees were projected at 72.85 *per cent* of the total revenue receipts of the preceding financial year.

1.1.5 Mid-Term Review of Fiscal Situation

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2005, the Finance Minister is to review, after every six months, the trends in receipts and expenditure in relation to the budget and place before the Legislative Assembly, the outcome of such a review and the remedial measures the State Government proposes to take. Pursuant to this, the Finance Minister presented the status in this regard in the State Legislative Assembly in December 2006.

The State achieved Fiscal target laid down in the Act, ending the current year in revenue surplus of Rs 191 crore. Fiscal deficit at Rs 922 crore was 3.26 *per cent* of GSDP, which was well within the target set under MTFPS and moving on the trajectory towards the FRBM target of 3 *per cent*. The outstanding guarantees given by the State Government were well within the limit prescribed in the Act. As a result, the State Government received debt relief of Rs 72.49 crore from GOI under Debt Consolidation and Relief Facility (DCRF)².

² In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated a scheme "The States' DCRF (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State during the current year, as compared to the previous year, is given in **Table-1.2**.

Table: 1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
6,559	1.	Revenue Receipts (2+3+4)	7,835
1,497	2.	Tax Revenue	1,656
690	3.	Non-Tax Revenue	1,337
4,372	4.	Other Receipts	4,842
22	5.	Non-Debt Capital Receipts	23
22	6.	<i>Of which</i> , Recovery of Loans	23
6,581	7.	Total Receipts (1+5)	7,858
5,286	8.	Non-Plan Expenditure	6,388
5,284	9.	On Revenue Account	6,319
1,563	10.	<i>Of which</i> , Interest Payments	1,669
1	11.	On Capital Account	67
1	12.	On Loans disbursed	2
2,015	13.	Plan Expenditure	2,392
1,182	14.	On Revenue Account	1,325
820	15.	On Capital Account	1,043
13	16.	On Loans disbursed	24
7,301	17.	Total Expenditure (13+8)	8,780
(+) 93	18.	Revenue Deficit (-)/surplus (+) (1-(9+14))	(+) 191
(-) 720	19.	Fiscal Deficit (17-1-5)	(-) 922
(+) 843	20.	Primary Deficit (-) /surplus (+) (19-10)	(+) 747

During the current year, revenue receipts increased by 19.5 per cent (Rs 1,276 crore) while revenue expenditure increased by 18 per cent (Rs 1,178 crore) over the previous year, resulting in increase in surplus of Rs 98 crore in Revenue Account during 2006-07. Given the increase in revenue surplus of Rs 98 crore and the marginal increase of Rs 1 crore in non-debt capital receipts and the combined increase of Rs 301 crore in capital expenditure and loan and advances disbursed during 2006-07 over the previous year, fiscal deficit increased by Rs 202 crore during the current year. The increase in fiscal deficit accompanied by an increase of Rs 106 crore in interest payments during 2006-07 over the previous year, led to a decline in primary surplus by Rs 96 crore.

1.3 Methodology adopted for the assessment of fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the last five years (2002-03 to 2006-07) and observations have been made on their behaviour as per **Appendix-II to IV** and Time Series Data (**Appendix-V**). In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FRBM Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FRBM Acts and in other Statements required to be laid in the legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure, etc., are keeping pace with the change in the base or these fiscal aggregates are affected by factors other than GSDP. The trends in the growth of GSDP as provided by Department of Economics and Statistics, Government of Himachal Pradesh are given in **Table-1.3**.

Table-1.3: Trends in Growth and Composition of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP (Rs in crore)	18,905	20,721	23,024	25,435	28,298
Rate of Growth of GSDP (in per cent)	10.25	9.61	11.11	10.47	11.26

Source: Department of Economics and Statistics, Government of Himachal Pradesh

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the

relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix-I Part-C**.

1.4 State Finances by Key Indicators

1.4.1 Resources by Volumes and Sources

The resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account and miscellaneous capital receipts such as proceeds from disinvestments. **Table-1.4** shows that the total receipts of the State for the year 2006-07 were Rs 15,203 crore. Of these, the revenue receipts were Rs 7,835 crore, constituting 51 *per cent* of the total receipts. The balance came from borrowings (14 *per cent*) and receipts from Public Account (35 *per cent*).

Table-1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's receipts		2002-03	2003-04	2004-05	2005-06	2006-07
I.	Revenue Receipts	3,659	3,981	4,635	6,559	7,835
II.	Capital Receipts	2,228	3,790	2,703	1,803	2,103
	Public Debt Receipts	2,199	3,762	2,677	1,781	2,080
	Recovery of Loans and Advances	29	28	26	22	23
	Miscellaneous Capital Receipts	--	--	--	--	--
III.	Contingency Fund	--	--	--	--	--
IV.	Public Account Receipts	4,156	5,033	5,030	4,933	5,265
(a)	Small Savings, Provident Fund, etc.	827	833	922	1,026	1,112
(b)	Reserve Fund	273	140	53	214	129
(c)	Deposits and Advances	704	1,375	1,323	708	790
(d)	Suspense and Miscellaneous	172	172	205	219	148
(e)	Remittances	2,180	2,513	2,527	2,766	3,086
	Total Receipts	10,043	12,804	12,368	13,295	15,203

1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government consisting of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and buoyancies are indicated in **Table-1.5**.

Table-1.5: Revenue Receipts - Basic Parameters

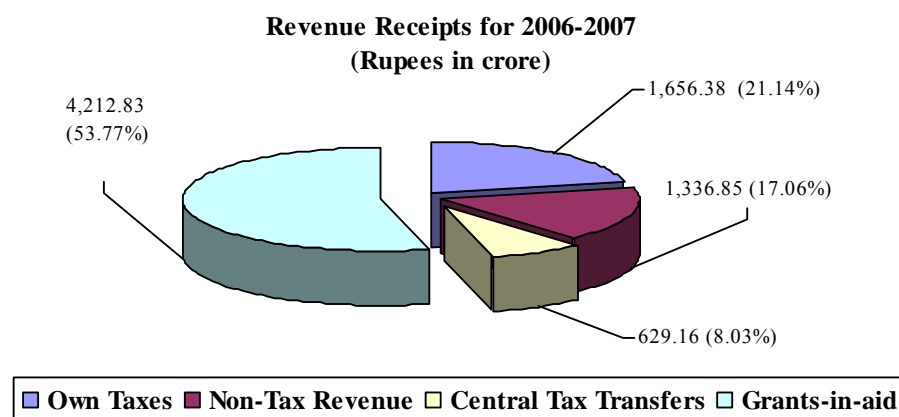
	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	3,659	3,981	4,635	6,559	7,835
Own Taxes (<i>per cent</i>)	890 (24.32)	984 (24.72)	1,252 (27.01)	1,497 (22.82)	1,656 (21.14)
Non-Tax Revenue (<i>per cent</i>)	175 (4.78)	292 (7.33)	611 (13.18)	690 (10.52)	1,337 (17.06)
Central Tax Transfers (<i>per cent</i>)	346 (9.46)	450 (11.30)	537 (11.59)	493 (7.52)	629 (8.03)
Grants-in-aid (<i>per cent</i>)	2,248 (61.44)	2,255 (56.65)	2,235 (48.22)	3,879 (59.14)	4,213 (53.77)
Rate of Growth of RR (<i>per cent</i>)	(-) 1.53	8.80	16.43	41.51	19.45
RR/GSDP (<i>per cent</i>)	19.35	19.21	20.13	25.79	27.69
Revenue Buoyancy (ratio)³	(-) 0.149	0.916	1.479	3.965	1.727
State's own taxes Buoyancy (ratio)	(-) 0.28	1.10	2.45	1.87	0.94
Revenue Buoyancy with reference to State's own taxes (ratio)	(-) 0.53	0.83	0.60	2.12	1.84
GSDP Growth (<i>per cent</i>)	10.25	9.61	11.11	10.47	11.26

1.4.3 General Trends

Revenue receipts have shown a progressive increase over the period 2002-07 with noticeable changes in the share of non-tax revenue and grants-in-aid from GOI while the share of own taxes and Central transfers exhibited marginal variations over the period. While 38 *per cent* of the revenue receipts during

³ The negative buoyancy ratio is due to decline in the growth rate of revenue receipts over the previous year.

2006-07 have come from the State's own resources comprising taxes and non-taxes, the remaining 62 per cent is contributed in the form of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI.



1.4.4 Tax Revenue

The tax revenue has increased by 10.62 per cent from Rs 1,497 crore in 2005-06 to Rs 1,656 crore during 2006-07. The revenue from Sales tax not only contributed major share of tax revenue (81 per cent) but also increased by 26 per cent (Rs 187 crore) over the previous year. The sharp increase in sales tax revenue over the previous year has been on account of more receipts under Central Sales Tax Act. However, tax and duties on electricity declined from Rs 89 crore to Rs 30 crore over the previous year mainly on account of late receipt of electricity duty from the Electricity Board in April 2007 and therefore booked in the receipts for the next year. **Table-1.6** below shows the trend of Tax Revenue during 2002-07.

Table-1.6: Tax Revenue

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Sales Tax	383	437	542	727	914
State Excise	274	280	300	329	342
Taxes on Vehicles	82	78	108	102	106
Stamps and Registration	37	52	75	82	93
Electricity	--	17	88	89	30
Other Taxes ⁴	114	120	139	168	171
Total	890	984	1,252	1,497	1,656

⁴ Other Taxes include land revenue, taxes on goods and passengers and other taxes and duties on commodities and services.

1.4.5 Non-Tax Revenue

The non-tax revenue constituted 17 *per cent* of total revenue receipts and increased by Rs 647 crore recording a growth rate of 94 *per cent* over previous year. The increase was mainly in power sector (Rs 659 crore) partly set off by marginal decrease in other sectors on account of royalty, investment allocation of Power Projects and sale of electricity at higher rates. Besides, the debt relief of Rs 72.49 crore given by GOI under DCRF booked under 'Miscellaneous General Services' led to a sharp increase in non-tax revenue of the State. These increases were, however, off set by a fall in the receipts by Rs 104 crore from Forestry and Wildlife sector during 2006-07 on account of transfer of receipts from compensatory afforestation and catchment areas to the new agency Compensatory Afforestation Fund Management and Planning Authority.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 1.38 *per cent* for health and family welfare, 0.39 *per cent* for minor irrigation and 4.30 *per cent* for university and higher education. The State Government has already established a State Electricity Regulatory Commission. Draft Bill for setting up the Himachal Pradesh Tariff Board for various services like Transport, Education, Health, Water and Irrigation for ensuring reasonable cost recovery from the users and for better targeting of latest subsidies is under consideration by the Government.

The actual Revenue receipts *vis-à-vis* assessments made by TFC and State Government for 2006-07 are given below:

Table-1.7: Comparative statement

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in		Actuals
		Fiscal Correction Path	Medium Term Fiscal Plan Statement	
Tax Revenue	1,619	1,506	1,506	1,656
Non-Tax Revenue	415	683	554	1,337

The tax revenue increased by 2.29 *per cent* and the non-tax revenue by 222 *per cent* over the assessments made by the TFC. The actual realisation also exceeded the assessments made by the State Government.

1.4.6 Revenue receipts not credited to Government account

Article 266 of the Constitution of India lays down that all revenue received by the State Government shall be credited to the Consolidated Fund of the State and that no money out of the said fund shall be appropriated except in accordance with the law and in the manner provided under the Constitution. The State Government had also issued (June 2006) instructions that all taxes and fees fixed by the Government be credited to the Government account and in no case be retained by the societies, such as Hospital Welfare Society, Rogi Kalyan Samiti, etc.

Audit scrutiny (December 2006) of the records of the Principal, Dr. Rajendra Prasad Medical College, Tanda (Kangra district) and further information collected in March 2007 revealed that the tuition fee amounting to Rs 1.03 crore received from the non-resident Indian (NRI) students during the period between 2005-06 and 2006-07 was deposited in Student's fund account instead of crediting these receipts to the Government account.

On this being pointed out (May 2007) the entire amount of Rs 1.03 crore was deposited (June 2007) into Government account. The interest amounting to Rs 3.50 lakh had also been deposited (September 2007).

1.4.7 Central Tax Transfers

The Central tax transfers increased by Rs 136 crore over the previous year and constituted 8 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 196.36 crore), customs duties (Rs 122.71 crore), Union excise duties (Rs 130.30 crore) and taxes on income other than corporation tax (Rs 119.24 crore).

1.4.8 Grants-in-aid

The Grants-in aid from GOI increased from Rs 3,879 crore in 2005-06 to Rs 4,213 crore in the current year. The increase was mainly under State plan scheme (Rs 292 crore), Centrally sponsored schemes (Rs 38 crore) and the State non-plan grants (Rs 4 crore). The Non-Plan grants (Rs 2,416 crore) to State constitute 57 *per cent* of the total grants during the year of which, 87 *per cent* (Rs 2,107 crore) were primarily for meeting the Non-Plan revenue

deficit due to the recommendation of TFC. Details of Grants-in-aid from GOI are given in **Table-1.8**

Table-1.8: Grants-in-aid from GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	1,176	1,335	1,215	1,173	1,465
Non-Plan grants	874	760	830	2,412	2,416
Grants for Central Schemes/Centrally Sponsored Schemes	198	160	190	294	332
Total	2,248	2,255	2,235	3,879	4,213
Percentage of increase/decrease over previous year	(-) 1.27	0.31	(-) 0.89	73.56	8.61

1.5 Application of Resources

1.5.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 6,029 crore in 2002-03 to Rs 8,780 crore in 2006-07. The total expenditure, its annual growth rate and its ratio to the State GSDP, to revenue receipts, and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.9**.

Table-1.9: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE) ⁵ (Rupees in crore)	6,029	6,393	6,471	7,301	8,780
Rate of Growth (<i>per cent</i>)	14.71	6.04	1.22	12.83	20.26
TE/GSDP Ratio (<i>per cent</i>)	31.89	30.85	28.11	28.70	31.03
Revenue Receipts/TE Ratio (<i>per cent</i>)	60.69	62.27	71.63	89.84	89.24
Buoyancy of total expenditure with					
GSDP (ratio)	1.435	0.629	0.110	1.225	1.799
RR (ratio)	(-) 9.614 ⁶	0.686	0.074	0.309	1.042

⁵ Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

⁶ The negative buoyancy ratio is due to decline in growth rate of the revenue receipts over the previous year.

The total expenditure during the current year has increased by Rs 1,479 crore over the previous year, of which, revenue expenditure shared Rs 1,178 crore, capital expenditure contributed Rs 289 crore and Rs 12 crore by repayment of loans and advances. During the current year, 89 *per cent* of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP picked up from 2005-06 and stood at 1.8 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

1.5.2 Trends in Total Expenditure by Activities

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in **Table-1.10**.

Table-1.10: Components of Expenditure – Relative Share

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	35.53	39.21	42.54	39.31	38.28
Of which, Interest payments	19.44	23.04	25.36	21.41	19.01
Social Services	30.74	34.98	34.31	36.68	35.99
Economic Services	32.36	25.46	22.73	23.74	25.40
Grants-in-aid	0.91	0.05	0.05	0.08	0.03
Loans and Advances	0.47	0.31	0.37	0.19	0.30

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services and interest payments, which is considered as non-developmental, together decreased slightly from 39.31 *per cent* in 2005-06 to 38.28 *per cent* in 2006-07. On the other hand, developmental expenditure i.e. on Social and Economic Services together accounted for 61.39 *per cent* in 2006-07 as against 60.42 *per cent* in 2005-06.

1.5.3 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, for the past obligations, and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.11**.

Table-1.11: Revenue Expenditure: Basic Parameters

	(Rupees in crore)				
	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenue Expenditure (RE) <i>Of which,</i>	5,141	5,588	5,793	6,466	7,644
Non-Plan Revenue Expenditure (NPRE)	3,755	4,748	4,815	5,284	6,319
Plan Revenue Expenditure (PRE)	1,386	840	978	1,182	1,325
Rate of Growth (<i>per cent</i>) NPRE	11.29	26.44	1.41	9.74	19.59
Rate of Growth (<i>per cent</i>) PRE	15.31	(-) 39.39	16.43	20.86	12.10
NPRE/GSDP (<i>per cent</i>)	23.13	26.29	23.96	23.60	22.33
RE/TE ⁷ (<i>per cent</i>)	85.67	87.68	89.86	88.73	87.32
NPRE as <i>per cent</i> of TE	62.28	74.27	74.41	72.37	71.97
NPRE as <i>per cent</i> of RR	102.62	119.27	103.88	80.56	80.65
Percentage NPRE to RE	73.04	84.97	83.12	81.72	82.67
PRE to RE	26.96	15.03	16.88	18.28	17.33
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.205	0.904	0.330	1.110	1.618
RRs (ratio)	(-) 8.072	0.988	0.223	0.280	0.937

The revenue expenditure increased by 49 *per cent* from Rs 5,141 crore in 2002-2003 to Rs 7,644 crore in 2006-2007. The NPRE has shown a consistent increase at an average rate of 14 *per cent* over the period and continued to share the dominant proportion varying in the narrow range of 73-85 *per cent*

⁷ Total expenditure excludes loan and advances.

of the revenue expenditure. The plan revenue expenditure on the other hand has displayed wild fluctuations varying from a decrease of 39 per cent in 2003-2004 to an increase of 21 per cent in 2005-2006 and the rate of growth further decreased to 12 per cent during the current year.

The increase in NPRE by Rs 1,035 crore during the current year was mainly due to increase in pension (Rs 242 crore), salaries (Rs 532 crore), assistance to Zilla Parishads (Rs 31 crore) and payment of subsidies (Rs 201 crore). The increase in PRE by Rs 143 crore over previous year was mainly due to increase in Rural Development (Rs 18 crore), General Education (Rs 45 crore) and Agriculture and Allied Activities (Rs 14 crore).

The actual Non-plan revenue expenditure vis-à-vis assessments made by TFC and State Government are given below:

Table-1.12: Actual NPRE vis-à-vis projections

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in		Actual NPRE
		Fiscal Correction Path	MTFPS	
Non-plan revenue expenditure	4,688	5,616	5,538	6,319

NPRE during current year not only exceeded the assessment made by State Government, but also exceeded the normative assessment made by TFC by Rs 1,631 crore.

1.5.4 Committed Expenditure

1.5.4.1 Expenditure on Salaries and Wages

Table-1.13: Expenditure on Salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries and wages of which,	2,271	2,382	2,204	2,515	3,057
Non-Plan Head	Plan/Non-Plan-wise break up of salaries is not available for this period			2,115	2,577
Plan Head				400	480
As per cent of GSDP	12.01	11.50	9.57	9.89	10.80
As per cent of RR	62.07	59.83	47.55	38.34	39.02

Expenditure on salaries under Non-plan and plan during the current year is Rs 2,577 crore and Rs 480 crore respectively, recording a growth rate of 22 per cent and 20 per cent respectively. The salary expenditure during current year exceeded the projections made in MTFPS (Rs 2,714 crore) and the Fiscal Correction Path (Rs 2,294 crore). The salary expenditure is 60 per cent of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 per cent recommended by the TFC. The increase in expenditure under salaries was stated to be due to regularisation of about 10,000 daily wages staff in Public Works Department and booking of salary for March 2007 in accounts for 2006-2007 by various departments.

1.5.4.2 Pension Payments

Table-1.14: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on pensions	490	533	591	670	912
Rate of growth	10.61	8.78	10.88	13.37	36.12
As per cent of GSDP	2.59	2.57	2.57	2.63	3.22
As per cent of RR	13.39	13.39	12.75	10.21	11.64
As per cent of RE	9.53	9.54	10.20	10.36	11.93

Source: From Finance Accounts.

Pension payments during the current year have increased by Rs 242 crore, recording a growth rate of 36 per cent over the previous year. The increase in expenditure under pensions was stated to be due to revision of pension, as a result of implementation of judgement of the Supreme Court relating to upgradation of pension on revision of pay scales. Besides, the increase was due to large number of retirements and release of dearness relief. The actual expenditure for the current year exceeded the projections made in the TFC, FCP and MTFPS respectively as shown below:

Table-1.15: Actual Pension Payments vis-à-vis Projections

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in		Actual Expenditure on pensions
		Fiscal Correction Path	MTFPS	
Pension payments	800	698	753	912

The Government introduced Contributory Pension Scheme for employees recruited on or after May 2003 to mitigate the impact of rising pension liabilities in future.

1.5.4.3 Interest Payments

Table-1.16: Interest payments

Year	Total Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2002-2003	3,659	1,172	32.03	22.80
2003-2004	3,981	1,473	37.00	26.36
2004-2005	4,635	1,641	35.40	28.33
2005-2006	6,559	1,563	23.83	24.17
2006-2007	7,835	1,669	21.30	21.83

The major source of borrowings is market loans at interest rates varying from 7.74 to 8.35 per cent. The marginal increase of 7 per cent over the previous year in interest payments was mainly due to payment of interest on special securities issued to the Reserve Bank of India, market loans, other internal debt, State provident funds, etc. It was more than that projected by TFC (Rs 1,450 crore) for the year 2006-07, but lower than the projections made in FCP (Rs 1,755 crore).

1.5.4.4 Subsidies

The State Government has been paying subsidies to various Corporations, etc., over the years. The subsidies given by the State Government during the last five years are given in Table-1.17.

Table-1.17: Subsidies

(Rupees in crore)			
Year	Amount	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure excluding loans and advances
2002-2003	148.17	(+) 23.81	2.47
2003-2004	83.78	(-) 43.46	1.31
2004-2005	158.98	(+) 89.75	2.47
2005-2006	142.09	(-) 10.62	1.95
2006-2007	343.44	(+) 141.71	3.92

Source: VLC/Finance Accounts.

During the current year, subsidies constituted about 4 per cent of the total expenditure. The major components of subsidies were Horticulture and Vegetable Crops: Rs 24.89 crore; Transport: Rs 48 crore and Electricity Board: Rs 244.87 crore. The increase in subsidies (Rs 201 crore) during 2006-07 was mainly on account of increased subsidy to HPSEB to compensate roll back in tariff. The power subsidy at Rs 245 crore in 2006-07 was significantly higher than the projection made both in FCP (Rs 86.5 crore) and MTFPS (Rs 91 crore). Besides, general subsidy at Rs 98 crore was also higher than its projection in FCP (Rs 79 crore).

1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively, would determine the quality of expenditure. The higher the ratio of these components is to total expenditure and GSDP, better is the quality of expenditure. **Table-1.18** gives these ratios during 2002-07.

Table-1.18: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Capital Expenditure	860	785	654	821	1,110
Revenue Expenditure	5,141	5,588	5,793	6,466	7,644
<i>Of which, Social and Economic Services</i>	2,955	3,102	3,067	3,642	4,341
<i>(i) Salary and Wage Component</i>	1,686 (32.80)	1,617 (28.94)	1,830 (31.59)	2,023 (31.29)	2,497 (32.67)
<i>(ii) Non-Salary and Wage component</i>	1,269 (24.68)	1,485 (26.57)	1,237 (21.35)	1,619 (25.04)	1,844 (24.12)
As per cent of total expenditure⁸					
Capital expenditure	14.33	12.32	10.14	11.27	12.68
Revenue expenditure	85.67	87.68	89.86	88.73	87.32
As per cent of GSDP					
Capital expenditure	4.55	3.79	2.84	3.23	3.92
Revenue expenditure	27.19	26.97	25.16	25.42	27.01

Though no specific norms were laid down for prioritisation of capital expenditure, there was increase in capital expenditure by Rs 289 crore during 2006-07 over the previous year which indicates improvement in the quality of expenditure and the impetus being given to asset formation. Water Supply and Sanitation, Irrigation and Flood Control, and Education were beneficiary sectors where capital expenditure was absorbed. The salary and wage component as well as non-salary and wage component of revenue expenditure on social and economic services almost remained stable during the period 2002-07.

⁸ Total expenditure excludes loans and advances. Figures in parenthesis indicate percentage.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion of and efficient provision of these services in the State. **Table-1.19** summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2002-07.

Table-1.19: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture					
Revenue expenditure of which,	937	969	1,037	1,172	1,325
(a) Salary and Wage component	827	861	907	1,004	1,154
(b) Non-Salary and Wage component	110	108	130	168	171
Capital expenditure	20	37	48	41	99
Total	957	1,006	1,085	1,213	1,424
Health and Family Welfare					
Revenue expenditure of which,	278	296	311	345	397
(a) Salary and Wage component	235	243	256	284	330
(b) Non-Salary and Wage component	43	53	55	61	67
Capital expenditure	20	50	61	48	44
Total	298	346	372	393	441
Water Supply, Sanitation, Housing and Urban Development					
Revenue expenditure of which,	201	470	321	404	518
(a) Salary and Wage component	66	69	73	94	181
(b) Non-Salary and Wage component	135	401	248	310	337
Capital expenditure	201	212	209	244	412
Total	402	682	530	648	930
Other Social Services					
Revenue expenditure of which,	193	197	221	387	346
(a) Salary and Wage component	40	35	37	42	50
(b) Non-Salary and Wage component	153	162	184	345	296
Capital expenditure	3	5	12	36	19
Total	196	202	233	423	365
Total (Social Services)					
Revenue expenditure of which,	1,609	1,932	1,890	2,309	2,586
(a) Salary and Wage component	1,168	1,208	1,273	1,425	1,715
(b) Non-Salary and Wage component	441	724	617	884	871
Capital expenditure	244	304	330	369	574
Total	1,853	2,236	2,220	2,678	3,160

Source: VLC/Finance Accounts

The allocation to Social Sector increased from Rs 1,853 crore in 2002-03 to Rs 3,160 crore in 2006-07 indicating the Government's commitment to improve social well being of the society. Expenditure on social sector during the current year (Rs 3,160 crore) accounted for 36 *per cent* of total expenditure and 59 *per cent* of developmental expenditure⁹. Expenditure on Education increased by Rs 211 crore over previous year while the expenditure on Health and Family Welfare has shown an increase of only Rs 48 crore over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure reveal that the salary and wage component under education sector increased by 15 *per cent* over 2005-06 while non-salary and wage component increased by one *per cent*. Similarly under Health and Family Welfare sector, the salary and wage component increased by 16 *per cent* while non-salary and wage component increased by 10 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs 2,229 crore) accounted for 25 *per cent* of the total expenditure. Of this, Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport consumed nearly 85 *per cent* as can be seen from **Table-1.20** given below:

Table-1.20: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture and Allied Activities					
Revenue expenditure	585	394	386	470	498
of which,					
(a) Salary and Wage component	214	223	220	243	287
(b) Non-Salary and Wage component	371	171	166	227	211
Capital expenditure	23	17	12	10	25
Total	608	411	398	480	523
Irrigation and Flood Control					
Revenue expenditure	70	70	69	90	130
of which,					
(a) Salary and Wage component	32	34	36	46	88
(b) Non-Salary and Wage component	38	36	33	44	42
Capital expenditure	46	82	73	104	176
Total	116	152	142	194	306

⁹ Development expenditure is defined as the total expenditure on social and economic services.

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Power and Energy					
Revenue expenditure of which,	131	152	73	123	314
(a) Salary and Wage component	1	1	1	1	2
(b) Non-Salary and Wage component	130	151	72	122	312
Capital expenditure	359	94	2	--	--
Total	490	246	75	123	314
Transport					
Revenue expenditure of which,	360	363	400	412	512
(a) Salary and Wage component	211	91	236	238	325
(b) Non-Salary and Wage component	149	272	164	174	187
Capital expenditure	174	257	200	274	243
Total	534	620	600	686	755
Other Economic Services					
Revenue expenditure of which,	199	190	249	238	301
(a) Salary and wage component	59	60	64	70	80
(b) Non-Salary and Wage component	140	130	185	168	221
Capital expenditure	3	8	7	12	30
Total	202	198	256	250	331
Total (Economic Services)					
Revenue expenditure of which,	1,345	1,169	1,177	1,333	1,755
(a) Salary and Wage component	517	409	557	598	782
(b) Non-Salary and Wage component	828	760	620	735	973
Capital expenditure	605	458	294	400	474
Total	1,950	1,627	1,471	1,733	2,229

Source: VLC/Finance Accounts

Out of total expenditure on Economic Services during 2006-2007, 34 per cent was incurred on Transport, 14 per cent each on Irrigation & Flood Control and Power & Energy and 23 per cent on Agriculture and Allied Activities. As compared to 2002-2003, significant increases in 2006-2007 were observed in Irrigation and Flood control (163 per cent), and Transport services (41 per cent). The salary component in total expenditure on Economic Service ranged between 25 and 38 per cent during the period. The non-salary component consistently increased from Rs 620 crore in 2004-2005 to Rs 973 crore in 2006-2007 at an average rate of growth of 26 per cent per annum.

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently decreased from Rs 605 crore in 2002-03 to Rs 294 crore (51 per cent) in 2004-05, while it increased to Rs 474 crore (61 per cent) in 2006-07 over the last two years. The revenue expenditure increased from Rs 1,169 crore in 2003-2004 to Rs 1,754 crore (50 per cent) in 2006-07. An increase of Rs 421 crore (32 per cent) during 2006-07 over the

previous year in revenue expenditure was mainly due to increase in Power and Energy (Rs 191 crore) and Irrigation & Flood Control (Rs 40 crore) and Transport (Rs 100 crore). Of the revenue expenditure, salary and wage component ranged from 35 per cent to 47 per cent during 2002-07. It increased from Rs 409 crore (35 per cent) in 2003-04 to Rs 782 crore (45 per cent) in 2006-07 whereas non-salary component decreased from Rs 828 crore (2003-03) to Rs 620 crore (2004-05) and increased to Rs 973 crore in 2006-07, indicating allocative priorities probably towards their maintenance and better quality of services.

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

1.6.4.1 Extent of assistance

The quantum of assistance provided by way of grants to different local bodies, etc., during the five years period 2002-07 is presented in **Table-1.21**.

Table-1.21: Financial Assistance

(Rupees in crore)

Name	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	78.44	94.58	103.24	132.81	117.50
Municipal Corporation and Municipalities	45.15	19.50	28.83	32.68	46.74
Zilla Parishads and Panchayati Raj Institutions	42.87	48.82	63.28	70.08	100.58
Development Agencies	10.45	77.47	52.62	112.10	93.44
Hospitals and other charitable Institutions	0.05	0.21	0.06	0.40	0.12
Other Institutions ¹⁰	8.73	32.83	27.50	31.56	41.11
Total	185.69	273.41	275.53	379.63	399.49
Assistance as a percentage of Revenue Expenditure	3.62	4.89	4.76	5.87	5.23

¹⁰ Other institutions include those institutions which received *ad hoc* or one time grants during the year.

The grants extended to local bodies and other institutions showed consistently increasing trend over the years 2002-07. It increased by Rs 20 crore (5 per cent) over the previous year. The share of grants in revenue expenditure indicated inter year variations from 4 per cent in 2002-03 to 6 per cent in 2005-06. Another important trend emerging from **Table-1.21** is that share of other institutions has sharply increased by about five times from Rs 8.73 crore in 2002-03 to Rs 41.11 crore in 2006-07 indicating that huge financial assistance is being given on *ad hoc* basis to various State Government institutions. The sharp increase under the different components during 2006-07 was mainly due to release of more grant to Municipal Corporation/Municipalities (Rs 14.06 crore) and to Zilla Parishads and Panchayati Raj Institutions (Rs 30.50 crore). Similarly, under the head 'Other Institutions', the increase was due to release of more grant (Rs 9.55 crore) as compared to 2005-06 mainly under Social Justice and Empowerment (Rs 7.5 crore).

1.6.5 Delay in furnishing Utilisation Certificates

Of the 4,796 utilisation certificates (UCs) due in respect of grants aggregating Rs 718.09 crore paid upto 2005-06, 3,277 UCs for an aggregate amount of Rs 444.30 crore were in arrears. Details of department-wise break up of outstanding UCs are given in **Appendix-VI**.

1.6.6 Non-submission of accounts

The accounts of Himachal Pradesh Electricity Regulatory Commission for audit under Section 19 (2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, due for the years 2001-02 to 2005-06, were not received.

1.6.7 Misappropriation, losses, defalcations, etc.

The State Government reported 61 cases of misappropriations, losses, defalcations, etc., involving Government money amounting to Rs 1.60 crore upto June 2007, on which final action was pending. The department-wise break up of pending cases is given in **Appendix-VII**.

1.6.8 Write off of losses, etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc., amounting to Rs 1.23 lakh in three cases were written-off during 2006-07 by the competent authorities.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2007. While the liabilities in this appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and the cash balances. **Appendix-V** depicts the time series data on State Government finances for the period 2002-07.

1.7.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in **Table-1.22**:

Table-1.22: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of incomplete Projects	Initial Budgeted cost	Revised total cost of Projects	Cumulative Actual expenditure as on 31.03.2007	Cost over runs
Irrigation and Public Health	25	66.05	116.60 ¹¹	139.18	73.13
Public Works Department	5	16.22	15.93 ¹²	21.04	4.82
Total	30	82.27	132.53	160.22	77.95

The above table indicates that the State Government incurred Rs 160.22 crore against the budgeted cost of Rs 82.27 crore resulting in cost overrun of Rs 77.95 crore. These projects were lying incomplete due to dispute over site, non-availability of adequate funds, delay in finalisation of design/drawing, Court cases, limited working seasons, etc.

¹¹ Cost in respect of nine projects not yet revised.

¹² Cost of three projects not yet revised.

1.7.2 Investments and returns

As of 31 March 2007, the Government invested Rs 1,861 crore in its statutory corporations, rural banks, Government companies, joint stock companies and co-operatives (**Table-1.23**). The average return on this investment was less than 0.3 *per cent* in the last five years, while the Government paid interest at an average rate of 9.20 to 10.98 *per cent* on its borrowings during 2002-07. The increase in the return during 2006-07 was due to redemption of the share value of various Government companies, etc.

Table-1.23: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return on investment
	(Rupees in crore)			(per cent)	
2002-2003	1,796	0.61	0.03	10.37	10.34
2003-2004	1,922	0.50	0.03	10.98	10.95
2004-2005	1,943	0.58	0.03	10.60	10.57
2005-2006	1,842	28.61	1.55	9.20	7.65
2006-2007	1,861	1.80	0.10	9.40	9.30

Major investments were made in six Statutory Corporations/Boards (Rs 596 crore), 19 Government Companies (Rs 157 crore) and a Central Government Company (Rs 1,027.20 crore). The two Statutory Corporations/Boards had incurred accumulated loss of Rs 644.51 crore (Himachal Pradesh Road Transport Corporation: Rs 405.34 crore and Himachal Pradesh State Electricity Board: Rs 239.17 crore) at the end of March 2007. The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2007 were, Himachal Pradesh Agro-Industrial Packaging India Limited (Rs 57.29 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (Rs 32.76 crore), Himachal Pradesh Forest Corporation (Rs 29.18 crore) and Himachal Pradesh Handicrafts and Handloom Corporation Limited (Rs 10.85 crore).

1.7.3 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, the Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2007 were Rs 237 crore (**Table-1.24**). Interest received against these loans was meagre and it decreased from 11.11 *per cent* in 2004-05 to 4.66 *per cent* during 2006-07.

Table-1.24: Average Interest Received on Loans advanced by the State Government

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	253	252	244	242	234
Amount advanced during the year	28	20	24	14	26
Amount repaid during the year	29	28	26	22	23
Closing Balance	252	244	242	234	237
Net Addition (+)/Decrease (-)	(-) 01	(-) 08	(-) 02	(-) 08	(+) 03
Interest Received	08	09	27	10	11
Interest Received as <i>per cent</i> to outstanding Loans and Advances	3.31	3.63	11.11	4.20	4.66
Average interest rate (in <i>per cent</i>) paid on borrowings by State Government	10.37	10.98	10.60	9.20	9.40
Difference between average interest paid and received (<i>per cent</i>)	7.06	7.35	(-) 0.51	5.00	4.74

Major recipients of loans during 2006-07 were Government servants (Rs 12.91 crore) and Agriculture & Allied Activities (Rs 9.62 crore).

There were inter year fluctuations in the interest received over the years 2002-07, as seen from a sharp increase to Rs 27 crore in 2004-05 compared to the two previous years, and again declined to Rs 11 crore in 2006-07.

1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and

Means Advances and overdraft from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. This limit was Rs 190 crore for Himachal Pradesh for Normal Ways and Means Advances. No limit was fixed for Special Ways and Means Advances during 2006-07.

Ways and Means Advances and Overdrafts availed, the number of occasions these was availed and interest paid by the State is detailed in **Table-1.25**.

Table-1.25: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances					
Availed in the year	1,109.00	1,728.85	1,578.54	232.78	42.00
Number of occasions	92	133	93	13	1
Outstanding WMAs, if any	135.00	117.94	22.49	--	42.00
Interest paid	5.47	5.19	1.85	0.32	0.01
Number of days	92	133	93	13	1
Overdraft					
Availed in the year	1,634.05	1,145.28	319.80	--	--
Number of occasions	127	74	14	--	--
Number of days	179	117	27	--	--
Interest paid	2.18	1.94	0.49	--	--

As can be seen from the above table, the number of occasions when the Government took Ways and Means Advances has been coming down over the last four years. Similarly, the number of occasions when the State Government availed of overdraft facility has been declining progressively during 2002-03 to 2004-05. Infact, the Government had not availed of any overdraft during 2005-06 and 2006-07, since the financial position of the State was comfortable during the year due to a significant increase in grants-in-aid from the Central Government.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities – Public Debt and Guarantees

There are two sets of liabilities viz. public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund-Capital Accounts. It includes market loans, special securities issued by Reserve Bank of India and loans and advances from the Central Government.

The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under Small Savings Schemes, Provident Funds and other deposits.

Table-1.26 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.26: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore)	12,393	14,437	16,533	17,432	18,071
Rate of Growth (per cent)	21.26	16.49	14.52	5.44	3.67
Ratio of Fiscal Liabilities to					
GSDP (per cent)	65.55	69.67	71.81	68.54	63.86
Revenue Receipts (per cent)	338.70	362.65	356.70	265.77	230.64
Own Resources (per cent)	1,163.66	1,131.43	887.44	797.07	603.78
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	2.074	1.716	1.307	0.520	0.326
Revenue Receipts (ratio)	(-) 13.895	1.874	0.884	0.131	0.189
Own resources (ratio)	(-) 4.832	0.832	0.316	0.313	0.100

Overall fiscal liabilities of the State increased from Rs 12,393 crore in 2002-03 to Rs 18,071 crore in 2006-07. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 13,151 crore) comprised market loans (Rs 4583 crore), loans from GOI (Rs 1,020 crore) and other loans

(Rs 7,548 crore which includes Rs 3,694 crore on Special Security issued to NSSF of the GOI). The Public Account liabilities (Rs 4,920 crore) comprise of Small Savings, Provided Fund (Rs 3,613 crore), interest bearing obligations (and non-interest bearing obligations like deposits (Rs 1,131 crore) and reserve funds (Rs 176 crore). The growth rate of fiscal liabilities was 3.67 per cent during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP increased from 65.55 per cent in 2002-03 to 71.81 per cent in 2004-05 but decreased to 63.86 in 2006-07. These liabilities stood at 2.31 times the revenue receipts and 6.04 times of the State's own resources at the end of 2006-07. Buoyancy of fiscal liabilities to GSDP, and to own resources has decreased during 2006-07 over previous year. The State Government was required to set up the Consolidated Sinking Fund as recommended by the TFC for amortisation of market borrowings as well as other loans and debt obligation. Keeping in view its overall liquidity position with Reserve Bank of India, the State Government did not consider setting up a Sinking Fund (October 2007).

1.8.2 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-6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 are given in **Table-1.27**.

Table-1.27: Guarantees given by the Government of Himachal Pradesh

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2002-2003	5,436	4,503	148.57
2003-2004	6,144	4,682	154.33
2004-2005	6,409	4,751	138.27
2005-2006	5,526	3,587	84.25
2006-2007	6,347	2,976	81.01

As per the HPFRBM Act, 2005 the annual incremental risk weighted guarantees is to be limited to 80 per cent of revenue receipts in the year preceding the current year. The incremental guarantees given by the State

Government marginally crossed the above limit by 1 *per cent*. The Government has guaranteed loans raised by various corporations and others, which at the end of 2006-07 stood at Rs 2,976 crore. The State Government was required to set up the Guarantee Redemption Fund as recommended by the TFC to meet the contingent liabilities arising from the guarantees given by the State Government. However, the State Government has not set up such Fund so far.

1.8.3 Debt Sustainability

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

1.8.4 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would 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. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in **Table-1.28**.

Table-1.28 below gives the average interest rate, GSDP growth, interest spread, and Primary deficit/surplus over the last five years.

Table-1.28: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	10.37	10.98	10.60	9.20	9.40
GSDP Growth	10.25	9.61	11.11	10.47	11.26
Interest spread	(-) 0.12	(-) 1.37	0.51	1.27	1.86
Opening balance	10,220	12,393	14,437	16,533	17,432
Quantum Spread (per cent)	(-) 12.26	(-) 169.78	73.63	209.97	324.24
Primary deficit/surplus (Rs in crore)	(-) 1169	(-) 911	(-) 169	843	747

Table-1.28 reveals that quantum spread together with primary deficit has been consistently negative during 2002-05 indicating rising debt-GSDP ratios during the period. Debt- GSDP has increased steadily from 65.55 *per cent* in 2002-03 to 71.81 *per cent* in 2005-06. It was only from 2005-06, the quantum spread together with primary deficit turned positive, resulting in decline in debt/GSDP ratio to 63.86 in 2006-07. The ratio of fiscal deficit to GSDP also consistently declined during the period 2002-07. These trends indicate that the State is moving towards debt stabilisation, which in turn may improve the debt sustainability position of the State.

1.8.5 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-1.29** indicates the resource gap as defined for the period 2002-07.

Table-1.29: Incremental revenue receipts and revenue expenditure

(Rupees in crore)

Period	Non-debt Receipts	Incremental		Total expenditure	Resource Gap
		Primary expenditure	Interest payments		
2002-2003	(-) 57	643	130	773	(-) 830
2003-2004	321	63	301	364	(-) 43
2004-2005	652	(-) 90	168	78	574
2005-2006	1,920	908	(-) 78	830	1,090
2006-2007	1,277	1,373	106	1,479	(-) 202

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. Debt sustainability of the State in term of the resource gap oscillated between the negative and positive phases during the period 2002-07. The positive resource gap between the period of two years (2004-06) turned negative again in the current year mainly on account of steep increase in non-plan revenue expenditure (Rs 1,035 crore) requiring attention.

1.8.6 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table-1.30 gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table-1.30: Net Availability of Borrowed Funds

	2002-03	2003-04	2004-05	2005-06	2006-07
(Rupees in crore)					
Internal debt					
Receipts	2,053	3,473	2,444	1,753	2,042
Repayments (Principal+Interest)	726	1,700	1,737	2,467	2,492
Net Funds Available	1,327	1,773	707	(-) 714	(-) 450
Net Funds Available (per cent)	64.64	51.05	71.07	--	--
Loans and Advances from Government of India					
Receipts	146	165	133	28	38
Repayments (Principal+Interest)	779	1,170	1,145	141	212
Net Funds Available	(-) 633	(-) 1,005	(-)1,012	(-) 113	(-) 174
Net Funds Available (per cent)	--	--	--	--	--
Other obligations					
Receipts	1,685	2,226	2,171	1,806	1,870
Repayments (Principal+Interest)	1,225	2,283	1,304	1,620	2,317
Net Funds Available	460	(-) 57	867	186	(-) 447
Net Funds Available (per cent)	27.30	--	39.94	10.30	--
Total liabilities					
Receipts	3,884	5,864	4,748	3,587	3,950
Payments (Principal+Interest)	2,730	5,153	4,186	4,228	5,021
Net Funds available	1,154	711	562	(-) 641	(-) 1,071
Net Funds Available (per cent)	29.71	12.12	11.84	--	--

The net funds available on account of internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments varied from minus during the last two years to 29.71 *per cent* during 2002-03. The State Government raised the internal debt amounting to Rs 2,042 crore comprising of market loans (Rs 512 crore), securities issued to National Small Savings Fund (NSSF) (Rs 6.80 crore) and NABARD and other institutions (Rs 850 crore). Against these receipts, Government discharged the past debt obligations (principal+interest) amounting to Rs 2,492 crore resulting in negative net funds available under the debt account. During the current year the Government repaid GOI loans including interest amounting to Rs 212 crore¹³ and also discharged other obligations of Rs 2,317 crore along with interest obligations which were less than the total receipts resulting in negative net availability of funds during the year. During 2005-06 and 2006-07, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the market as well as from the GOI.

1.9 Management of Deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table-1.31**.

Table-1.31: Fiscal Imbalances–Basic Parameters (Values in crore of rupees and ratios in *per cent*)

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit/Surplus	(-) 1,482	(-) 1,607	(-) 1,158	(+) 93	(+) 191
Fiscal Deficit	(-) 2,341	(-) 2,384	(-) 1,810	(-) 720	(-) 922
Primary Deficit/Surplus	(-) 1,169	(-) 911	(-) 169	(+) 843	(+) 747
RD/GSDP	(-) 7.84	(-) 7.76	(-) 5.03	(+) 0.37	(+) 0.67
FD/GSDP	(-) 12.38	(-) 11.51	(-) 7.86	(-) 2.83	(-) 3.26
PD/GSDP	(-) 6.18	(-) 4.40	(-) 0.73	(+) 3.31	(+) 2.64
RD/FD	63.31	67.41	63.98	(-) 12.92	(-) 20.72

(Negative figures indicate deficit).

Table-1.31 reveals that the revenue account experienced a situation of huge deficit during the period 2002-04 which hovered around an average of Rs 1,545 crore during these years. The deficit was reduced slightly to

¹³ Includes Rs 72.49 crore debt relief from GOI under DCRF to States.

Rs 1,158 crore during 2004-05 and revenue account turned into a surplus of Rs 93 crore in 2005-06 which further increased to Rs 191 crore during the current year. The improvement in revenue surplus during the current year was mainly on account of an increase of Rs 1,276 crore (19.5 per cent) in revenue receipts against the increase of Rs 1,178 crore in revenue expenditure (18 per cent) over the previous year. The increase in revenue receipts during 2006-07 was mainly on account of increase in non-tax revenue (Rs 647 crore) and in central transfers (Rs 470 crore) and a steep increase in the former was stated to be on account of enhancement in receipts from the power sector (Rs 659 crore) and booking of Rs 72.49 crore as receipts on account of debt waiver granted to State under DCRF, which to some extent was counterbalanced by a fall in receipts from forestry and wild life.

Even though there was an increase of Rs 98 crore in revenue surplus, the fiscal deficit increased by Rs 202 crore on account of a combined increase of Rs 301 crore in capital expenditure and loans and advances disbursed during 2006-07 over the previous year. This increase in fiscal deficit accompanied by an increase of Rs 106 crore in interest payments during 2006-07 over the previous year led to a decline in primary surplus by Rs 96 crore during the year.

1.10 Quality of Deficit/surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit¹⁴ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD was around 64 per cent in 2004-05 indicating that significant portion of borrowed funds were being applied to meet the current expenditure requirements. The revenue deficit was completely wiped out in 2005-06 and it turned into a surplus during the year, which further increased, although marginally during the current year. This trajectory shows a consistent improvement in the quality of deficit during 2005-06 and 2006-07. All borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2002-07 reveals (**Table-1.32**) that except (2002-04), the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁵

¹⁴ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

¹⁵ Primary expenditure of the State defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account except in 2002-04. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2002-05. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table-1.32: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1.	2.	3.	4.	5.	6. (3+4+5)	7. (2-3)	8. (2-6)
2002-2003	3,688	3,969	860	28	4,857	(-) 281	(-) 1,169
2003-2004	4,009	4,115	785	20	4,920	(-) 106	(-) 911
2004-2005	4,661	4,152	654	24	4,830	509	(-) 169
2005-2006	6,581	4,903	821	14	5,738	1,678	843
2006-2007	7,858	5,975	1,110	26	7,111	1,883	747

1.11 Fiscal ratios

The finances of the State should be sustainable, flexible and non-vulnerable. **Table-1.33** below presents a summarised position of Government finances over 2002-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of the available resources and their applications, highlight areas of concern and capture its important facts.

Table-1.33: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resource Mobilisation					
Revenue Receipts/GSDP	19.35	19.21	20.13	25.79	27.69
Revenue Buoyancy	(-) 0.149	0.916	1.479	3.965	1.727
Own tax/GSDP	4.708	4.749	5.438	5.886	5.852
II. Expenditure Management					
Total Expenditure/GSDP	31.89	30.85	28.11	28.70	31.03
Revenue Receipts/Total Expenditure	60.69	62.27	71.63	89.84	89.24
Revenue Expenditure/Total Expenditure	85.27	87.41	89.52	88.56	87.06
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	32.78	28.94	31.59	31.29	32.73
Non-Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	24.68	26.56	21.35	25.04	37.78

Capital Expenditure/Total Expenditure ¹⁶	14.33	12.32	10.14	11.27	12.68
Development Expenditure/Total Expenditure ¹⁶	63.39	60.63	57.25	60.53	61.57
Capital Expenditure on Social and Economic Services/Total Expenditure	14.08	11.92	9.64	10.53	11.95
Buoyancy of TE with RR	(-) 9.614	0.686	0.074	0.309	1.042
Buoyancy of RE with RR	(-) 8.072	0.987	0.223	0.280	0.937
III. Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	(-) 1,482	(-) 1,607	(-) 1,158	93	191
Fiscal deficit (Rs in crore)	(-) 2,341	(-) 2,384	(-) 1,810	(-) 720	(-) 922
Primary deficit (Rs in crore)	(-) 1,169	(-) 911	(-) 169	(+) 843	(+) 747
Revenue deficit/Fiscal deficit	63.31	67.41	63.98	(-) 12.92	(-) 20.72
IV. Management of Fiscal Liabilities (FL)					
Fiscal liabilities/GSDP	65.55	69.67	71.81	68.54	63.86
Fiscal liabilities/RR	338.70	362.65	356.70	265.77	230.64
Buoyancy of FL with RR	(-) 13.895	1.874	0.884	0.131	0.189
Buoyancy of FL with Own Receipts	(-) 4.832	0.832	0.316	0.313	0.100
Net Funds Available	29.71	12.12	11.84	--	--
V. Other Fiscal Health Indicators					
Return on Investment	0.03	0.03	0.03	1.55	0.10
Balance from Current Revenue (Rs in crore)	(-) 1,470	(-) 2,262	(-) 1,585	(-) 191	(-) 281
Financial Assets/Liabilities	0.56	0.53	0.51	0.54	0.57

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 28 *per cent*, an increase of two percentage points over the previous year. The ratio of own taxes to GSDP improved in 2004-05 and thereafter indicated only marginal variations.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure increased to 90 *per cent* till 2004-05 but indicates a declining trend thereafter. Though, the higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts during 2005-06 and 2006-07 indicates the propensity of the State Government to create assets by resorting to capital expenditure. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 89 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is

¹⁶ Total expenditure does not include Loans and Advances.

also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both developmental and quality of expenditure.

Revenue surplus and significant decline in fiscal deficit during 2005-07 indicates an improvement in fiscal position of the State. The balance from current revenue (BCR), although remained negative during 2002-07 declined steeply during 2005-06 and 2006-07 from the level of (-) Rs 1,585 crore in 2004-05. The improved fiscal position and BCR is also reflected in the improvement in the asset back of the liabilities during the last two years.

1.12 Conclusion

The fiscal position of State viewed in terms of key fiscal parameters has indicated a significant improvement during 2005-06 and 2006-07. The State has eliminated the revenue deficit before the target date set in the HPFRBM Act 2005 and is on the trajectory of achieving the fiscal deficit target. During the current year, even though there was an increase of Rs 98 crore in revenue surplus, the fiscal deficit increased by Rs 202 crore mainly on account of increase in capital expenditure (Rs 289 crore) and loans and advances disbursed (Rs 12 crore) during 2006-07 over the previous year. Although fiscal position has shown improvement, the non-plan revenue expenditure (NPRE) at Rs 6,319 crore during 2006-07 was higher than the normatively assessed level of Rs 4,688 crore by the TFC and within NPRE, the ratio of salary expenditure to revenue expenditure (net of interest payments and pensions) at 60 *per cent* needs to be brought down to 35 *per cent* as recommended by the TFC. Furthermore, the salaries and wages, pensions and interest payments and subsidies continued to consume on an average 94 *per cent* of the NPRE as committed expenditure during the period 2002-07. The fiscal liabilities of the State have consistently increased and stood at as high as 64 *per cent* of GSDP in 2006-07 and appears to be quite high especially if compared with the TFC norm of 31 *per cent* to be achieved by all the States by the terminal year of its award period. Moreover, the level of contingent liabilities of State are also kept at relatively higher level of around 100 *per cent* of States' own resources during the year. The Government on the other hand has yet to set up the Sinking Fund and Guarantee Redemption Fund with RBI as recommended by TFC to mitigate the impact of these liabilities. Besides, the huge accumulated losses by Statutory Government Corporations and Government companies especially in power and transport sectors resulting in negligible rate of return (being less than one *per cent*) on Government's investment and inadequate interest cost recovery continued to be a cause of concern and need attention of the State Government.