
CHAPTER-I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on information contained in the Finance Accounts. The analysis is based on the trends in receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section giving an analysis of financial performance of the Government, based on certain ratios and indices pertaining to some selected indicators developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are explained in Appendix-I.

1.2 Financial position of the State

The Government accounting system does not attempt a comprehensive accounting of fixed assets i.e. land and buildings, etc., owned by the Government. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by them. Exhibit-I (Page 3) presents an abstract of liabilities and the assets as on 31 March 2002, alongwith the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of monies owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account, overdrafts from the Reserve Bank of India and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. Exhibit-I shows that while the liabilities grew by 17 per cent, assets grew only by 12 per cent during 2001-2002 mainly as a result of high (27 per cent) growth in the deficit on the Government accounts. Consequently there was deterioration in the financial position of the Government.

1.3 Financial operations of the State Government

1.3.1 Exhibit-II (Page 4-5) details the receipts and disbursements of the State Government. The revenue expenditure (Rs 4,576 crore) during the year exceeded the revenue receipts (Rs 3,716 crore) resulting in a revenue deficit of Rs 860 crore. The revenue receipts comprised tax revenue (Rs 1,119 crore), non-tax revenue (Rs 198 crore), State's share of Union taxes and duties (Rs 122 crore) and grants-in-aid from the Central Government (Rs 2,277 crore). The main sources of tax revenue were taxes on sales, trade, etc., (32 per cent), State Excise (21 per cent), taxes on vehicles (12 per cent) and other taxes and duties on commodities and services (6 per cent), Union

Excise Duties (10 *per cent*) and Customs (7 *per cent*). Non-tax revenue comprised mainly of General Services (16 *per cent*), Economic Services (63 *per cent*) and Social Services (17 *per cent*).

1.3.2 The net addition to Public Debt as adjusted by the effect of remittance, suspense balance, etc., was Rs 1640.43 crore. This, after meeting capital expenditure (Rs 649.80 crore), lending for development and other purposes (Rs 30.35 crore), generated a surplus of Rs 960.28 crore. After meeting the revenue deficit (Rs 860.46 crore), there was a surplus of Rs 99.82 crore.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit-II and the time series data for the five year period from 1997-98 to 2001-2002, presented in Exhibit-IV (Page 7).

1.4 Sources and application of funds

1.4.1 Exhibit-III (Page 6) gives the position of sources and application of funds during the current and the preceding year. The main sources of funds included the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These were applied mainly on revenue and capital expenditure and lending for developmental purposes. It would be seen that the revenue receipts constituted the most significant source of funds for the State Government. Their relative share increased from 61 *per cent* in 2000-2001 to 69 *per cent* during 2001-2002 mainly due to crediting of Rs 203 crore pertaining to Customs (Rs 82 crore), Union Excise Duties (Rs 113 crore) and Service Tax (Rs 8 crore) to revenue receipts of the state. The net receipts from the Public Account, however, decreased significantly from Rs 714.08 crore in 2000-2001 to Rs 187.60 crore in 2001-2002 mainly due to decrease in Suspense and Miscellaneous transactions and Deposits and Advances. The receipts from Public Debt increased from 24 *per cent* to 27 *per cent*, during the same period.

The funds were mainly applied for revenue expenditure, whose share decreased from 87 *per cent* to 85 *per cent* of total available funds and remained higher than the share of the revenue receipts (69 *per cent*). This inevitably resulted in a revenue deficit of Rs 860.46 crore. The percentage of capital expenditure to total available funds, however, increased marginally from 11 to 12 and lending for development purposes remained at one *per cent*.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF HIMACHAL PRADESH AS ON 31 MARCH 2002

(Rupees in crore)

(Rupees in crore)

As on 31 March 2001	Liabilities	As on 31 March 2002	As on 31 March 2001	Assets	As on 31 March 2002
2932.69	Internal Debt (excluding overdrafts from Reserve Bank of India)	4309.87	5342.92	Gross Capital Outlay	5992.73
935.42	Market Loans bearing interest	1299.32	1178.81	Investment in shares of Companies, Corporations, etc.	1383.54
0.17	Market Loans not bearing interest	0.17	4164.11	Other capital expenditure	4609.19
576.37	Loans from the Life Insurance Corporation of India	651.76	252.35	Loans and Advances	253.43
8.45	Loans from the General Insurance Corporation of India	8.15	64.31	Loans for Energy	64.31
229.68	Loans from the National Bank for Agriculture and Rural Development	319.36	84.38	Other Development Loans	92.32
43.89	Loans from the National Co-operative Development Corporation	34.35	103.66	Loans to Government Servants and Miscellaneous Loans	96.80
1046.71	Loans from other institutions	1431.09	--	Suspense and Miscellaneous Balances	5.28
92.00	Ways and Means Advances from the Reserve Bank of India	92.00	0.16	Advances	0.16
	Special securities issued to National small savings Funds of the Central Government	473.67 [*]	21.74	Cash	23.56
3045.18	Loans and Advances from the Central Government	2842.84	21.45	Cash in Treasuries and Local Remittances	23.27
65.02	Pre 1984-85 Loans	57.77	0.24	Departmental Cash Balance including Permanent Advances	0.24
2236.39	Non-Plan Loans	2009.72	0.05	Cash Balance Investment Account	0.05
584.87	Loans for State Plan Schemes	658.93	3188.92	Deficit on the Government Account	4049.38
0.45	Loans for Central Plan Schemes	0.40	1891.68	Accumulated deficit upto 31 March 2001	3174.85
48.45	Loans for Centrally Sponsored Plan Schemes	49.35		Add	
110.00	Ways and Means Advances	66.67	1283.17	(i) Current year's deficit	860.46
5.00	Contingency Fund	5.00	14.07	(ii) Other miscellaneous adjustment, etc.	14.07
2001.32	Small Savings, Provident Funds, etc.	2208.29			
20.34	Suspense and Miscellaneous Balances	--			
573.63	Deposits	445.04			
26.55	Overdrafts from the Reserve Bank of India	275.27			
41.77	Reserve Funds	138.76			
75.78	Deposits with the Reserve Bank of India	(-)22.21			
83.83	Remittance Balances	121.68			
8806.09	Total :	10324.54	8806.09	Total :	10324.54

* Includes Rs 197.78 crore being the share of Small Savings collections for the year 1999-2001 transferred from head 6004-01-102.

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002
(Rupees in crore) (Rupees in crore)

Receipts					Disbursements						
2000-2001		2001-2002			2000-2001		2001-2002				
1.	2.	3.	4	5.	6.	7.	Non-Plan 8.	Plan 9.	Total 10.	11.	
Section – A Revenue											
3045.58	I-Revenue Receipts			3715.80	I-Revenue Expenditure						4576.26
	728.42	(i) Tax revenue	1118.79		1613.65	General Services	1896.81	44.98	1941.79		
	176.96	(ii) Non-tax revenue	198.33		1561.01	Social Services	863.08	680.68	1543.76		
	330.34	(iii) State's share of Union Taxes and Duties	121.84		879.94	Education, Sports, Art and Culture	473.56	403.97	877.53		
	889.74	(iv) Non-Plan Grants	1124.76		263.06	Health and Family Welfare	125.09	134.42	259.51		
	740.92	(v) Grants for State Plan Schemes	965.20		236.32	Water Supply, Sanitation, Housing and Urban Development	134.87	73.05	207.92		
	179.20	(vi) Grants for Central Plan and Centrally Sponsored Plan Schemes	186.88		8.54	Information and Broadcasting	4.64	3.23	7.87		
					14.39	Welfare of Scheduled Castes, Scheduled Tribes and Other backward Classes	3.15	11.48	14.63		
1283.17	II-Revenue Deficit carried over to Section B			860.46	13.06	Labour and Labour Welfare	8.86	3.73	12.59		
					142.50	Social Welfare and Nutrition	110.48	50.05	160.53		
					3.20	Others	2.43	0.75	3.18		
					1133.67	Economic Services	611.57	458.34	1069.91		
					444.10	Agriculture and Allied Activities	217.29	223.30	440.59		
					138.86	Rural Development	28.67	51.95	80.62		
					54.69	Irrigation and Flood Control	29.83	20.83	50.66		
					135.43	Energy	83.76	2.59	86.35		
					68.29	Industry and Minerals	4.98	34.34	39.32		
					224.73	Transport	235.90	67.15	303.05		
					2.03	Science, Technology and Environment	--	1.41	1.41		
					65.54	General Economic Services	11.14	56.77	67.91		
					20.42	Grants-in-aid and Contributions	2.87	17.93	20.80		
4328.75	Total:			4576.26	4328.75	Total:	3374.33*	1201.93	4576.26	4576.26**	
Section-B-Capital											
(-) 66.51	III-Opening cash balance including Permanent Advances and Cash Balance Investment Account, etc.			(-) 54.05	548.71***	Capital Outlay	(-) 0.01	649.81	649.80	649.80***	
					19.33	General Services	0.25	8.05	8.30		
					228.00	Social Services	0.37	269.27	269.64		
					24.81	Education, Sports, Art and Culture	0.17	41.01	41.18		
					36.64	Health and Family Welfare	--	18.41	18.41		
					164.16	Water Supply, Sanitation, Housing and Urban Development	--	207.39	207.39		
					0.19	Information and Broadcasting	--	0.04	0.04		

* This includes Rs 5.57 crore Non-Plan expenditure on Centrally sponsored schemes (General Services: Rs 3.09 crore; Social Services: Rs 2.44 crore; General Economic Services: Rs 0.04 crore).

** These are net figures exclusive of recoveries adjusted in reduction of revenue expenditure.

*** These are net figures exclusive of recoveries adjusted in reduction of capital expenditure.

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
					1.70	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	2.25		2.25
					0.40	Social Welfare and Nutrition	0.20	0.15		0.35
					0.10	Others	--	0.02		0.02
					301.38	Economics Services	(-) 0.63	372.49		371.86
					13.51	Agriculture and Allied Activities	(-) 0.63	16.39		15.76
					0.13	Rural Development	--	--		--
					43.20	Irrigation and Flood Control	--	45.21		45.21
					--	Energy	--	164.18		164.18
					1.61	Industry and Minerals	---	0.13		0.13
					240.78	Transport	--	145.04		145.04
					2.15	General Economic Services	--	1.54		1.54
27.36				29.27	40.27	III-Loans and Advances disbursed				30.35
	--		--		2.66	For Power Projects		--		
	19.20		19.87		31.87	To Government Servants				14.03
	8.16		9.40		5.74	To others				16.32
					1283.17	IV-Revenue deficit brought down				860.46
1557.20				1587.93*	414.03	V-Repayment of Public Debt				164.37
	1226.60		1465.30		46.73	Internal debt other than Ways and Means Advances and Overdraft				88.12
					16.84	Net transactions under Ways and Means Advances including Overdraft				(-) 248.72**
	330.60		122.63		350.46	Repayment of Loans and Advances to Central Government				324.97
3878.50				3733.11	3164.42	VI-Public Account Disbursement				3545.51
	691.88		761.04		436.68	Small Savings and Provident Funds				554.07
	63.39		169.77		114.10	Reserve Funds				72.78
	1146.32		737.41		976.97	Deposit and Advances				866.01
	265.28		162.83		(-)103.06	Suspense and Miscellaneous				188.44
	1711.63		1902.06		1739.73	Remittances				1864.21
					(-) 54.05	VII-Cash Balance at end				45.77
					21.44	Cash in Treasuries and Local Remittances				23.27
					0.24	Departmental Cash Balance including Permanent Advances				0.24
					(-) 75.78	Deposits with Reserve Bank				22.21
					0.05	Cash Balance investment				0.05
5396.55				5296.26	5396.55					5296.26

* Includes Rs 197.78 crore being the share of small savings collections for the years 1999-2001 transferred from the head 6004-01-102

** Represents receipts: Rs 2814.33 crore and disbursements: Rs 2565.61 crore.

EXHIBIT-III

SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

2000-2001	Source	2001-2002
3045.58	1. Revenue Receipts	3715.80
27.36	2. Recoveries of Loans and Advances	29.27
1193.01	3. Increase in Public Debt* other than Overdraft	1423.56
714.08	4. Net receipts from Public Account	187.60
255.20	Increase in Small Savings, Provident Funds, etc.	206.97
169.35	Increase in Deposits and Advances	(-) 128.60
(-) 50.71	Increase in Reserve Funds	96.99
368.34	Net effect of Suspense and Miscellaneous transactions	(-) 25.61
(-) 28.10	Net effect of Remittance transactions	37.85
4980.03	Total	5356.23

2000-2001	Application	2001-2002
4328.75	1. Revenue expenditure	4576.26
40.27	2. Lending for development and other purposes	30.35
548.71	3. Capital expenditure	649.80
49.84	4. Decrease in Overdraft	--
12.46	5. Increase in closing cash balance	99.82
4980.03	Total	5356.23

Explanatory Notes for Exhibit-I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit-I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlement, etc.
4. There was an unreconciled difference of Rs 275.55 crore between the figures reflected in the accounts and that intimated by the RBI under "Deposits with Reserve Bank". A net difference of Rs 0.04 crore had been reconciled and Rs 275.51 crore were awaiting reconciliation (May 2002).

* Includes Ways and Means Advances taken from Reserve Bank of India/GOI.

EXHIBIT-IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

		1997-98	1998-99	1999-2000	2000-2001	2001-2002
Part A. Receipts						
1.	Revenue Receipts	2170	2312	3715	3046	3716
(i)	Tax Revenue	476 (22)	572 (25)	620 (17)	729 (24)	1119 (30)
	Taxes on Sales, Trade, etc.	171 (36)	197 (34)	233 (38)	302 (41)	355 (32)
	State Excise	159 (34)	185 (33)	199 (32)	209 (29)	236 (21)
	Taxes on vehicles	16 (3)	17 (3)	28 (4)	61 (8)	133 (12)
	Stamps and Registration fees	19 (4)	22 (4)	25 (4)	29 (4)	34 (3)
	Taxes and duties on Electricity	7 (2)	28 (5)	ψ	28 (4)	8 (-)
	Land Revenue	2 (-)	1 (-)	6 (1)	4 (1)	52 (5)
	Taxes on Goods and Passengers	97 (20)	115 (20)	105 (17)	43 (6)	34 (3)
	Other Taxes and Duties on Commodities and Services	5 (1)	7 (1)	24 (4)	53 (7)	64 (6)
	Customs	--	--	--	--	82 (7)
	Union Excise Duties	--	--	--	--	113 (10)
	Service Tax	--	--	--	--	8 (1)
(ii)	Non-Tax Revenue	222 (10)	206 (9)	1056 (28)	177 (6)	198 (6)
(iii)	State's share in Union taxes and duties	651 (30)	727 (31)	921 (25)	330 (11)	122 (3)
(iv)	Grants-in-aid from GOI	821 (38)	807 (35)	1118 (30)	1810 (59)	2277 (61)
2.	Misc. Capital Receipts	--	--	--	--	--
3.	Total revenue and Non-debt capital receipts (1+2)	2170	2312	3715	3046	3716
4.	Recovery of Loans and Advances	18	29	531	27	29
5.	Public Debt Receipts	828	1642	1477	1557	1588
	Internal Debt (excluding Ways and Means Advances and Overdraft)	112 (14)	357 (22)	859 (58)	1227 (79)	1465 (92)
	Net transactions under Ways and Means Advances and Overdraft	--	819 (50)	--	--	--
	Loans and Advances from Government of India [@]	716 (86)	466 (28)	618 (42)	330 (21)	123 (8)
6.	Total receipts in the Consolidated Fund (3+4+5)	3016	3983	5723	4630	5333
7.	Contingency Fund Receipts	--	4	--	--	--
8.	Public Account receipts	3512	4054	4932	3878	3733
9.	Total receipts of the State (6+7+8)	6528	8041	10655	8508	9066
Part B. Expenditure/Disbursement						
10.	Revenue expenditure	2699	3334	3821	4329	4576
	Plan	842 (31)	1006 (30)	1073 (28)	1282 (30)	1202 (26)
	Non-Plan	1857 (69)	2328 (70)	2748 (72)	3047 (70)	3374 (74)
	General Services (including interest payments)	842 (31)	1088 (33)	1447 (38)	1614 (37)	1942 (42)
	Social Services	994 (37)	1265 (38)	1376 (36)	1561 (36)	1543 (34)
	Economic Services	852 (32)	967 (29)	978 (26)	1134 (26)	1070 (23)
	Grants-in-aid and Contributions	11	14	20	20 (1)	21 (1)
11.	Capital Expenditure	541	584	554	549	650
	Plan	544 (100)	584 (100)	557 (100)	554 (100)	650 (100)
	Non-Plan	(-) 3	--	(-) 3	(-) 5	--
	General Services	20 (4)	21 (4)	34 (6)	19 (3)	8 (1)
	Social Services	144 (27)	178 (30)	201 (36)	228 (42)	270 (42)
	Economic Services	377 (69)	385 (66)	319 (58)	302 (55)	372 (57)
12.	Disbursement of Loans and Advances	151	85	60	40	30
13.	Total (10+11+12)	3391	4003	4435	4918	5256
14.	Repayment of Public Debt	484	165	995	414	164
	Internal Debt (excluding Ways and Means Advances and Overdraft)	10 (2)	17 (10)	28 (3)	47 (11)	88 (54)
	Net Transactions under Ways and Means Advances and Overdraft	421 (87)	--	717 (72)	17 (4)	(-) 249
	Loans and Advances from Government of India [@]	53 (11)	148 (92)	250 (25)	350 (85)	325 (198)
15.	Appropriation to Contingency Fund	--	4 (2)	--	--	--
16.	Total disbursement out of Consolidated Fund (13+14+15)	3875	4172	5430	5332	5420
17.	Contingency Fund disbursements	--	--	--	--	--
18.	Public Account disbursements	3212	3368	5091	3164	3546
19.	Total disbursement by the State (16+17+18)	7087	7540	10521	8496	8966
Part C. Deficits						
20.	Revenue Deficit (1-10)	529	1022	106	1283	860
21.	Fiscal Deficit (3+4-13)	1202	1662	189	1845	1511
22.	Primary Deficit (21-23)	830	1164	(-) 408	1047	469
Part D. Other data						
23.	Interest Payments (included in revenue expenditure)	372	498	597	798	1042
24.	Arrears of Revenue^ψ (Percentage of Tax and non-tax Revenue Receipts)	170 (24)	224 (29)	189 (11)	261 (29)	264 (20)
25.	Financial Assistance to local bodies, etc.	205	175	167	213	169
26.	Ways and Means Advances and Overdraft availed (days)	43	119	253	185	300
27.	Interest on WMA and Overdraft	0.97	2.23	6.69	4.96	9.16
28.	Gross State Domestic Product (GSDP)^{**}	8837	10696	11983	12942	13977
29.	Outstanding Debt (year end)	4337	6418	7104	8621	10220
30.	Outstanding guarantees (year end)	1634	1869	1886	3804	4418
31.	Maximum amount guaranteed (year end)	2357	2507	2897	4268	5112
32.	Number of incomplete projects	87	39	25	17	3
33.	Capital blocked in incomplete projects	58	42	35	30	4

Note: Figures in brackets represent percentages (rounded) to total of each sub heading.

ψ Rs 21 lakh only.

@ Includes Ways and Means Advances from GOI.

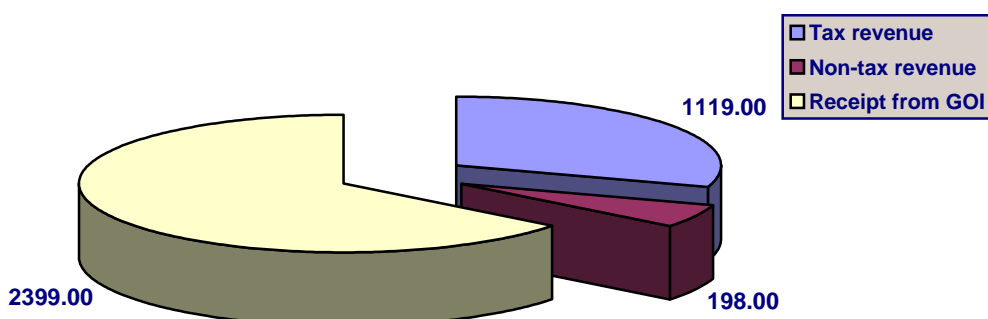
φ Source: Paragraph 1.5 of Audit Report (Revenue Receipts) of respective years.

** Source for GSDP figures: Economics and Statistical Department, Government of Himachal Pradesh. Figures revised by the State Government. Figures for 2001-02 have been worked out by taking the eight per cent increase during 2000-01 over 1999-2000.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure I. During 2001-2002, the revenue receipts grew by 22 per cent over the level of 2000-2001. This was mainly due to increase in taxes on vehicles from 8 per cent in 2000-2001 to 12 per cent in 2001-2002, increase in land revenue from 1 per cent in 2000-2001 to 5 per cent during 2001-2002 and crediting of Customs (7 per cent), Union Excise Duties (10 per cent) and Service Tax (1 per cent) as revenue receipt of the State.

Figure I
Revenue receipts 2001-2002
(Rupees in crore)



1.5.2 Tax revenue

The share of tax revenue in total revenue increased from 24 per cent in 2000-01 to 30 per cent in 2001-02, due to growth of tax revenue by 53 per cent in 2001-02. Exhibit IV shows that the relative contribution of taxes on sales, trade, etc., and State Excise had declined significantly from 70 per cent in 2000-2001 to 53 per cent during 2001-2002.

1.5.3 Non-tax revenue

The non-tax revenue which constituted six per cent of the revenue receipts of the Government, increased from Rs 177 crore during 2000-2001 to Rs 198 crore during 2001-2002.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

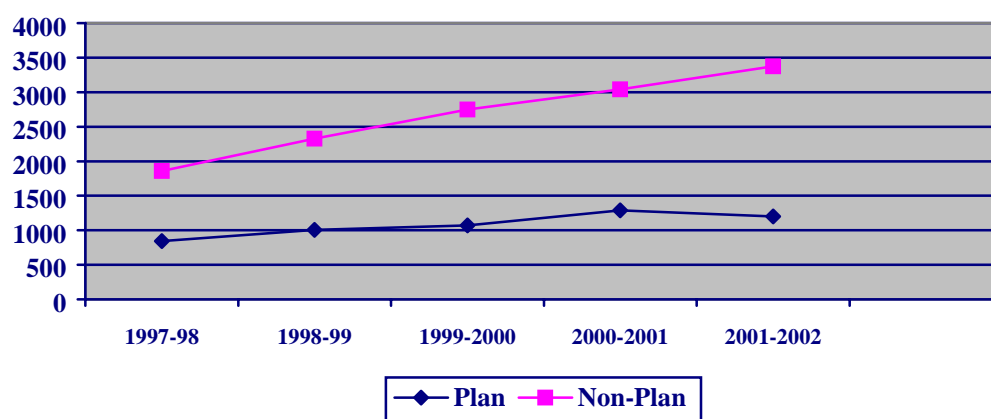
The State's share of Union taxes and duties (income and corporation taxes etc.,) decreased by 63 per cent during the year. As a percentage of revenue receipts it decreased from 11 per cent in 2000-2001 to 3 per cent during 2001-2002. During 1997-2002, on an average, 65 per cent of the revenue

receipts of the State Government were on account of State's share of Union taxes and duties and grants-in-aid from the Central Government even though for the year 2001-2002, contribution on this account decreased to 64 per cent which was in fact due to direct crediting of Rs 203 crore on account of Customs (Rs 82 crore), Union Excise Duties (Rs 113 crore) and Service Tax (Rs 8 crore) to revenue receipts of the State. However, there was significant increase (Rs 467 crore) in receipt of grants-in-aid from GOI.

1.6 Revenue expenditure

1.6.1 The revenue expenditure accounted for most (88 per cent) of the total expenditure* of the State Government and its share increased from 83 per cent during 1997-98. While rate of growth in non-plan revenue expenditure was 11 per cent, there was decline of 6 per cent in plan revenue expenditure during 2001-2002 in comparison to 2000-2001 as can be seen in Figure 2.

Figure 2
Growth of Plan and non-Plan revenue expenditure
(Rupees in crore)



(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Plan	842	1006	1073	1282	1202
Non-Plan	1857	2328	2748	3047	3374

1.6.2 Sector-wise analysis shows that the expenditure on General Services increased by 131 per cent, from Rs 842 crore in 1997-98 to Rs 1942 crore in 2001-2002. Expenditure on Economic Services and Social Services increased by 26 per cent and 55 per cent respectively during 1997-2002. Further, the share of Social Services declined from 37 per cent in 1997-1998 to 34 per cent in 2001-2002 and that of Economic Services declined from 32 per cent in 1997-98 to 23 per cent in 2001-2002.

* Revenue expenditure + Capital expenditure.

1.6.3 Interest payments

Interest payments increased steeply by 180 *per cent* from Rs 372 crore in 1997-98 to Rs 1,042 crore in 2001-2002. Interest payments increased significantly by Rs 244 crore (31 *per cent*) in comparison to such payments made during 2000-2001. The interest payments were to exceed Tax Revenue by Rs 126 crore had the taxes of Rs 203 crore on account of Customs, Union Excise Duties, etc., not been credited to Tax Revenue. The increase in interest payment was mainly due to increase of Rs 153.27 crore in interest payments on Internal Debt. During the year, the interest payments constituted 23 *per cent* of revenue expenditure of the State Government. This is further discussed in the section on financial indicators.

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different bodies, etc., during the period of five years ending 2001-2002 was as follows:

Table: 1.1

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Universities and other Educational Institutions	66.60	56.16	68.84	74.13	88.47
Municipal Corporations and Municipalities	31.75	23.52	16.77	29.99	18.66
Zila Parishads and Panchayati Raj Institutions	20.45	18.76	20.57	85.75	36.25
Development Agencies	48.68	49.30	21.94	8.14	9.84
Hospitals and Other Charitable Institutions	3.89	0.37	0.11	0.10	--
Other Institutions	33.40	26.61	39.20	14.67	15.87
Total	204.77	174.72	167.43	212.78	169.09
Percentage of increase (+)/ decrease (-) over previous year	(+) 55	(-) 15	(-) 4	(+) 27	(-) 21
Assistance as a percentage of revenue receipts	9	8	4	7	5
Percentage of assistance to revenue expenditure	8	5	4	5	4

Compared to 2000-2001, there was marginal increase of Rs 1.70 crore and Rs 1.20 crore in the assistance to Development Agencies and other institutions during 2001-2002. Overall assistance to local bodies and other institutions decreased by 21 *per cent* during 2001-2002 in comparison to assistance given during 2000-2001. The assistance to local bodies and others ranged between 4 and 9 *per cent* of the revenue receipts and between 4 and 8 *per cent* of the revenue expenditure during 1997-2002.

1.6.5 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years from 1997-98 to 2001-2002 was as follows:

Table: 1.2

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Opening balance	521.53	654.30	709.94	239.44	252.35
Amount advanced during the year	151.04	84.93	60.26	40.27	30.35
Amount repaid during the year	18.27	29.29	530.76	27.36	29.27
Closing balance	654.30	709.94	239.44	252.35	253.43
Net addition/ reduction (-)	132.77	55.64	(-) 470.50	12.91	1.08
Interest received	3.48	4.36	158.13	14.55	6.88

In respect of loans, the detailed accounts of which are maintained by the departmental officers, the total amount overdue for recovery against loans advanced as on 31 March 2002, to the extent relevant information was received (July 2002), was Rs 6.85 crore, including Rs 3.49 crore on account of interest. Major portion of arrears related to “Loans to Co-operative Societies” under Co-operative Department (Rs 5.12 crore) and “Loans to Food and Supply Department (Rs 1.31 crore).

1.7 Capital expenditure

Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc., and loans and advances. The share of capital expenditure in total expenditure increased from 11 per cent in 2000-2001 to 12 per cent in 2001-2002. Exhibit IV shows that most of the capital expenditure (99 per cent) had been on economic and social services and on the Plan side.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and non-Plan and Revenue and Capital. While the Plan and capital expenditure are usually associated with asset creation, the non-Plan and revenue expenditure are identified with expenditure on establishment,

maintenance and services. By definition, therefore, in general, the Plan and capital expenditure can be viewed as contributing to the quality of expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge significantly on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

Table: 1.3

		1997-98	1998-99	1999-2000	2000-2001	2001-2002
1.	Plan expenditure as a percentage of: Revenue expenditure Capital expenditure	31 100	30 100	28 100	30 100	26 100
2.	Capital expenditure (Percentage of total expenditure)	17	15	13	11	12
3.	Expenditure on General Services Capital expenditure (Percentage) Revenue expenditure (Percentage)	4 31	4 33	6 38	3 37	1 42
4.	Amount of wastages, diversion of funds, etc., detected during test audit (Rupees in crore)	1	5	86	79	68
5.	Non-remunerative expenditure on incomplete projects (Rupees in crore)	58	42	35	30	4

It would be seen that the share of Plan expenditure on revenue side declined from 31 *per cent* in 1997-98 to 26 *per cent* in 2001-2002. The share of capital expenditure decreased from 17 *per cent* in 1997-98 to 12 *per cent* in 2001-2002.

1.9 Financial management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this Report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

1.9.1 Investments and returns

The sector-wise details of investments made and the number of concerns involved were as under:

Table: 1.4

(Rupees in crore)

Sector	Number of concerns	Amount invested	
		As on 31.03.2002	During 2001-2002
Statutory Corporations/Boards	6	504.12	38.53
Government Companies	20	807.90	165.31
Joint Stock Companies	14	0.10	--
Cooperative Institutions	*	71.42	0.89
Total	40	1383.54	204.73

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Table: 1.5

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing
1997-98	858.38	0.24	0.028	13.75/13.05
1998-99	972.66	0.54	0.055	12.50
1999-2000	1104.77	0.59	0.053	11/12.25
2000-2001	1178.81	0.61	0.052	10.50/12.00
2001-2002	1383.54	0.89	0.064	8.00/10.35

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies, etc., fetched insignificant returns.

1.9.2 Incomplete projects

As of 31 March 2002, there were 3 incomplete projects in which Rs 4 crore was blocked. The position had improved as compared to the position as on 31 March 2001 (Details in Exhibit IV), though the capital expenditure had grown by 18 per cent during 2001-2002 in comparison to capital expenditure of 2000-2001.

1.9.3 Arrears of revenue

The arrears of revenue pending collection increased by one per cent during the year when compared to the outstanding arrears of 2000-2001. The outstanding

* Information awaited from State Government.

arrears ranged between 11 and 29 *per cent* of the revenue raised by the State Government during 1997-2002 (Exhibit-IV).

1.9.4 Deficit

(a) Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the financial management process in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers to the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

(b) Revenue deficit is the excess of revenue expenditure over revenue receipts. The fiscal deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account during 2001-2002.

EXHIBIT-V

OVERALL FINANCIAL TRANSACTIONS OF GOVERNMENT

(Rupees in crore)

CONSOLIDATED FUND (CF)				
Receipts	Amount		Disbursements	Amount
Revenue	3716	Revenue deficit: 860	Revenue	4576
Miscellaneous capital receipts	--		Capital	650
Recovery of loans and advances	29		Loans and advances disbursement	30
Sub Total	3745	Gross fiscal deficit: 1511	Sub Total	5256
Public debt	1588		Public debt repayment	164
Total	5333	A: Deficit in CF: 87		5420
PUBLIC ACCOUNT				
Small Savings, PF, etc.	761		Small Savings, PF, etc.	554
Deposits and Advances	737		Deposits and Advances	866
Reserve Funds	170		Reserve Funds	73
Suspense and Miscellaneous	163		Suspense and Miscellaneous	189
Remittances	1902		Remittances	1864
Total Public Account	3733	B: Deficit in CF financed by Public Account: 187	Total Public Account	3546
Increase in cash balance (A-B) : 100				

The table shows that the revenue deficit of Rs 860 crore was met partly by net recovery of loans and advances (Rs 29 crore) and partly by borrowings. The fiscal deficit of Rs 1,511 crore was financed by net proceeds of the Public Debt (Rs 1,424 crore) and partly by the surplus from Public Account.

Revenue deficit had decreased during the year by Rs 423 crore (33 *per cent*) in relation to the figures of 2000-2001. Fiscal deficit also decreased by Rs 334 crore (18 *per cent*) during the year from Rs 1,845 crore in 2000-2001 to Rs 1,511 crore in 2001-2002. The revenue deficit constituted 57 *per cent* of the fiscal deficit during 2001-2002.

(c) **Application of the borrowed funds (Fiscal Deficit)**

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the revenue deficit (RD), for incurring capital expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Himachal Pradesh for the last five years.

Table: 1.6

Ratio	1997-98	1998-99	1999-2000	2000-2001	2001-2002
RD/FD	0.44	0.62	0.56	0.70	0.57
CE/FD	0.45	0.35	2.93	0.30	0.43
Net loans/FD	0.11	0.03	(-) 2.49	*	**
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that 57 *per cent* of the borrowed funds have been applied for meeting the revenue expenditure during 2000-2001.

1.9.5 Guarantees given by the State Government

(a) Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions, etc., and payment of interest and minimum dividend by them. They constitute contingent liability of the State. No law under Article 293 (1) of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit-IV shows that the amounts of guarantees given by the Government increased from Rs 2,357 crore to Rs 5,112 crore (117 *per cent* increase) during 1997-2002.

* 0.007.

** 0.0007

The amounts outstanding at the end of each year also increased. While Rs 1.16 crore was received as guarantee commission during 2001-2002, Rs 5.95 crore of guarantee commission was outstanding for recovery from Government companies/statutory corporation as of 31 March 2002.

(b) Issue and management of guarantees

The system of providing guarantee by government departments was reviewed in audit by test-check of records of seven¹ corporations under five² administrative departments for which guarantees were given to the extent of Rs 476.60 crore during 1996-2002.

(i) Non-maintenance of records

Finance Department/Administrative Departments (FD/ADs) did not maintain any record for guarantees given by the Government and for collection of guarantee fee and commitment charges. The information/details of guarantees were being collected by FD from loanee institutions through ADs and consolidated for incorporation in the Finance Accounts each year. There was no effective monitoring of the guarantees either by the FD or the ADs. Scrutiny of records of AD/FD revealed that guarantees were given as a matter of course. The credit-worthiness/solvency of the loanee institutions, creation of sinking funds for amortization of loans, payment of guarantee fee and commitment charges, cancellation of unavailed part of guarantee were not ensured/watched. The Research Officer (FD) stated (May 2002) that no procedure for determining the credit-worthiness of the loanee institutions could be applied since most of them were in losses. The reply is not tenable as the prescribed procedure was not followed.

(ii) Guarantees to loss making units

(a) Government had given guarantee for loans to many loss making units. A few of such institutions are listed below:

Table: 1.7

(Rupees in crore)

Sr. No.	Name of the Institution	Outstanding Guarantee as on 31 March 2001	Loss incurred to the end of March 2001	Remark
1	HRTC	42.85	34.76	Annual accounts for the year 2001-2002 were stated (May 2002) to be under process of finalisation.
2	HP Minorities Finance & Development Corporation	1.38	0.44	
3	HP State Handicrafts & Handloom Corporation	0.24	0.54	
4	HP Financial Corporation	74.42	5.52	
5	HP Agro Industries Corporation	0.75	4.14	
6	HP State Coop. Agriculture and Rural Development Bank	175.52	1.52	
Total		295.16	46.92	

1 Health System Corporation, Himachal Road Transport Corporation (HRTC), Himachal Pradesh State Civil Supplies Corporation, Himachal Pradesh State Handicrafts and Handloom Corporation, Himachal Pradesh Financial Corporation, HP Minorities Finance and Development Corporation, HP Scheduled Caste/Scheduled Tribes Development Corporation (HPSC/STDC).

2 Food and Civil Supply Department, Health Department, Industries Department, Transport Department and Welfare Department.

(b) Loans of Rs 674.63 crore obtained by the HP State Forest Corporation (HPSFC) against guarantee were outstanding as on March 2002. The HPSFC had incurred losses of Rs 30.07 crore during 1996-2001. However, the HPSFC had not finalised the accounts from 1996-97 onwards.

The concerned ADs/Managing Directors mainly attributed (May 2002) these losses to promotional nature of activities, overstaffing and heavy establishment charges, pay revision and increase in royalty rates. The Government had, however, not taken any steps to minimise the risk factors involved in guarantee to such sick units.

(iii) Procedural irregularities

(a) Cabinet approval was not obtained for the guarantee given by Forest and Conservation Department for the cash credit limit of Rs 35 crore availed by the HPSFC during 1996-98. FD was also not consulted while conveying the sanction to the Banks/Corporation. The Secretary (Forest) stated (May 2002) that ex-post-facto, approval of the Cabinet was being obtained. The reply is not tenable as it required prior approval.

(b) Four institutions availed loans of Rs 131.68 crore during July 1995-September 2000 against the guarantees of the Government. It was noticed that guarantee fee and commitment charges of Rs 1.46 crore were not paid by them as per details given below:

Table: 1.8

(Rupees in crore)

Sr. No.	Name of the institution	Amount of guarantee availed	Amount of guarantee fee and commitment charges	Remarks
1.	Himachal Pradesh State Electricity Board (HPSEB)	112.00	1.34	Against the guarantee of the Government, the HPSEB availed (July-September 2000) loans from the Kangra Central Cooperative Bank, Dharamshala.
2.	Agro Industrial Packaging India Limited (AIPIL)	13.00	0.08	Government stood guarantee in July 1995.
3.	Himachal Pradesh State Cooperative Marketing and Consumers Federation Limited (HIMFED)	6.00	0.04	Government approved (March 1999), the proposal for the cash credit limits of Rs five crore and Rs two crore in favour of HPMC and HIMFED respectively from the State Cooperative Bank. However, the deeds for default guarantee for repayment of principal and interest thereon were got executed (March 1999) for Rs one crore with HPMC and for Rs six crore with HIMFED. Thus, the terms of the agreement were not implemented. The HPMC availed of the loans of Rs 68.36 lakh only.
4.	Himachal Pradesh Marketing and Processing Corporation Limited (HPMC)	0.68		
Total:		131.68	1.46	

While the HPSEB and AIPIL stated (July 2002) that the charges could not be paid due to paucity of funds, the HPMC and HIMFED stated (July 2002) that the matter regarding exemption from paying these charges had been taken up with the Government. The replies are not tenable as the payment of these charges could not be postponed.

1.10 Public debt

The Constitution of India provides that a State may borrow within the territory of India, upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limits. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 136 per cent. This was on account of 777 per cent growth in internal debt, 20 per cent growth in loans and advances from Government of India and 95 per cent growth in other liabilities. During 2001-2002, Government borrowed Rs 376.21 crore in the open market at interest rates of eight per cent to 10.35 per cent per annum.

Table: 1.9

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other* liabilities	Total liabilities (Debt)	Ratio of Debt to ** GSDP
1997-98	523	2379	2902	1435	4337	0.49
1998-99	1683	2697	4380	2038	6418	0.60
1999-2000	1796	3065	4861	2243	7104	0.59
2000-2001	2959	3045	6004	2617	8621	0.67
2001-2002	4585	2843	7428	2792	10220	0.73

The amount of funds raised through Public Debt, the amount of repayment and net funds available are given in the following table:

* Other liabilities include small savings, provident fund, reserve funds and deposits etc.

** Differs from previous year figures due to adoption of revised GSDP figures.

Table: 1.10**(Rupees in crore)**

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Internal Debt*					
- Receipt	112	357	859	1227	1465
- Repayment (principal + interest)	66	86	141	311	503
- Net funds available	46 (41)	271 (76)	718 (84)	916 (75)	962(66)
Loans and advances from GOI[@]					
- Receipt during the year	716	366	179	221	(-) 64
- Repayment (Principal + interest)	273	380	429	464	515
- Net funds available	443 (62)	(-) 14 (-4)	(-) 250 (-140)	(-) 243 (-110)	(-) 579 (- 208)
Other liabilities					
- Receipt during the year	2119	2298	2389	1777	1547
- Repayment + interest paid	1919	1798	2299	1531	1557
- Net funds available	200 (9)	500 (22)	90 (4)	246 (14)	(-) 10 (-1)

(Figures in parenthesis represents the percentage)

It would be seen that in respect of borrowing from the GOI and other liabilities no amount is available for investment and other expenditure after meeting the repayment obligations. Considering that the outstanding debt has been increasing year after year the net availability of funds through public borrowings is going to reduce further.

1.11 Ways and Means Advances and Overdrafts

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 55 lakh. If the balance falls below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdrafts (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government. Government of India Treasury Bills are also rediscounted to make good the deficiencies in cash balance.

The extent to which the State Government maintained the minimum balance with the Bank during 1997-2002 was as under:

Table: 1.11

♦ These represent borrowings from market and institutional borrowings excluding Ways and Means Advances and Overdraft from Reserve Bank of India.

@ Excluding Ways and Means Advances from GOI.

Year	Number of days on which minimum balance was maintained		Number of days on which Overdraft was taken	Number of days on which Government of India Treasury bills were rediscounted
	Without obtaining any advance	By obtaining Ways and Means Advances		
1997-98	135	34	9	187
1998-99	108	81	38	138
1999-2000	67	81	172	45
2000-2001	88	82	103	92
2001-2002	50	71	229	15

Details of the Ways and Means Advances and overdrafts taken by the State Government and interest paid thereon during the period from 1997-98 to 2001-2002 were as tabulated below:

Table: 1.12

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(1) Ways and Means Advances					
(i) Advances taken during the year (Gross)	218.05	564.91	650.58	848.22	586.57
(ii) Advances outstanding at the end of the year	33.67	59.07	59.00	92.00	92.00
(iii) Interest paid	0.24	0.74	3.29	2.60	5.36
(2) Overdrafts					
(i) Overdrafts taken during the year (Gross)	1428.88	1724.76	1508.41	728.73	2227.75
(ii) Overdrafts outstanding at the end of the year	--	793.56	76.40	26.55	275.27
(iii) Interest paid	0.73	1.49	3.40	2.36	3.80
(3) Re-discounting of Government of India Treasury Bills					
(i) Amount of Bills re-discounted during the year	2824.53	1532.18	627.28	2631.47	222.60
(ii) Interest paid	2.06	2.26	0.92	1.68	0.45

1.12 Indicators of the financial performance of the State Government

1.12.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if the Government wishes to increase its level of activity it would be

pertinent to examine the flexibility of the means of financing and also Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five-Year Plans which translate to annual development plans and are provided for mostly in the State Budget. Broadly, it can be stated that non-Plan expenditure represents the Government maintaining the existing level of activity*, while Plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility, vulnerability and transparency. These terms are defined as follows:

(i) Sustainability:

Sustainability is the degree to which a Government can maintain its existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility:

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability:

Vulnerability is the degree to which a Government becomes dependent on and therefore, vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency:

There is also the issue of financial information provided by the Government. This consists mainly of the annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist, and completeness of accounts would be the principal criteria.

1.12.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Annex to this chapter. The following table indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-2002:

* There are exceptions to this notably transfer of Plan to non-Plan at the end of Plan period.

Table: 1.13

Financial indicators for Government of Himachal Pradesh					
	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(1)	(2)	(3)	(4)	(5)	(6)
Sustainability					
BCR (Rs in crore)	(-) 330	(-) 761	(-) 105	(-) 921	(-) 811
Primary Deficit (PD) (Rs in crore)	830	1164	(-) 408	1047	469
Interest Ratio	0.17	0.21	0.12	0.26	0.28
Capital outlay/Capital receipts	0.61	0.62	0.31	0.32	0.40
Total Tax receipts/GSDP*	0.13	0.12	0.13	0.08	0.09
State tax receipts/GSDP*	0.05	0.05	0.05	0.06	0.08
Return on Investment (<i>per cent</i>)	0.03	0.05	0.05	0.05	0.06
Flexibility					
BCR (Rs in crore)	(-) 330	(-) 761	(-) 105	(-) 921	(-) 811
Capital repayment/Capital borrowings	0.07	0.10	0.09	0.09	0.13
State tax receipts/GSDP*	0.05	0.05	0.05	0.06	0.08
Debt/GSDP*	0.51	0.65	0.63	0.69	0.73
Vulnerability					
Revenue Deficit (RD) (Rs in crore)	529	1022	106	1283	860
Fiscal Deficit(FD) (Rs in crore)	1202	1662	189	1845	1511
Primary Deficit (PD) (Rs in crore)	830	1164	(-) 408	1047	469
PD/FD	0.69	0.70	(-) 2.16	0.57	0.31
RD/FD	0.44	0.62	0.56	0.70	0.57
Outstanding guarantees/revenue receipts	0.75	0.81	0.51	1.25	1.19
Assets/Liabilities	0.85	0.73	0.74	0.64	0.61

- Note:**
1. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.
 2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal Loans** + Loans and Advances from Government of India** + Net receipts from small savings, PF, etc. + Repayments received for loans advanced by the State Government – Loans advanced by the State Government.
 3. GSDP for 2001-2002 had not been worked out by the Government and, therefore, the figures have been worked out at an average increase of eight *per cent*.

1.12.3 The implications of these indices/ratios for the State of the financial health of the State Government are discussed in the following paragraphs.

Sustainability

* Differs from previous year figures due to adoption of revised GSDP figures as revised by the State Government.

** Excluding Ways and Means Advances/overdrafts.

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had negative BCRs during 1997-2002 which shows State's inability to generate surplus from the current revenues. The position has slightly improved during the year.

(ii) Interest ratio

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts.

In case of Himachal Pradesh, the ratio has slightly increased from 0.26 in 2000-2001 to 0.28 in 2001-2002, but overall picture during 1997-2002 indicates that interest payments on past borrowings had assumed serious proportion and had become a major constraint in the programme spending of the Government. Weighted average cost of debt as indicated by the ratio of interest payments to total outstanding debt is 11.06 *per cent** in 2001-2002 and is now more than the rate of growth of GSDP. This may seriously constrain debt sustainability.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance.

In the case of Himachal Pradesh, the ratio had been less than one indicating that in all these years large part of capital receipts was used to meet revenue expenditure.

(iv) Tax receipts vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio

* Percentage of interest payments during 2001-2002 to the average of outstanding debt during current and previous year

may not only point to the limits of this source of finance but also its inflexibility.

Time series analysis shows that in case of Himachal Pradesh ratio of total tax receipts to GSDP has been in the range of 0.08-0.13 during 1997-2002. The ratio of State tax receipts compared to GSDP has increased from 0.06 during 2000-2001 to 0.08 during 2001-2002. The ratio suggests that the contribution of State's own taxes to the total tax collections of the State was insignificant though it has shown slight increase during 2001-2002 due to crediting of receipts on account of customs, Union Excise Duties and Service Tax direct to Revenue receipts during the year. In view of low rate of State taxes, the State Government had to borrow heavily (which comes at a cost) for meeting its revenue expenditure. Further, had the Government maintained the ratio of revenue collection *vis-à-vis* the growth in GSDP, its financial difficulties would have been less. Thus, the State seems to be getting heavily dependent on grants-in-aid in its revenue receipts.

(v) Return on investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggest sustainability.

Paragraph 1.9.1 presents the returns on Government's investments in statutory corporations, Government companies, joint stock companies and co-operative institutions. It shows that the ROI in case of Government of Himachal Pradesh was negligible and ranged between 0.03 *per cent* and 0.06 *per cent* during 1997-2002. As the investments are made from borrowed funds the insignificant return make them unsustainable.

Flexibility

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayments of capital. The lower the ratio, the higher is the availability of capital for investment and other expenditure.

In case of Himachal Pradesh, this ratio has been in the range of 0.07-0.13 *per cent* during 1997-2002.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service the debt. An increasing ratio of Debt/GSDP would signify a reduction in the State's ability to meet its debt obligations and therefore, increasing risk for the lender.

In case of Himachal Pradesh, this ratio increased from 0.51 in 1997-98 to 0.73 in 2001-2002. Analysis shows that during this period debt of the State increased (on an average) at a rate faster than the rate of growth of GSDP and was thus unsustainable.

(viii) Revenue Deficit/Fiscal Deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, the higher the revenue deficit, more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus higher the ratio, the worse off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State.

During 2001-2002, 57 per cent of the borrowings were applied to revenue expenditure as compared to 44 per cent in 1997-98. This is an unfavourable trend as it left little amount of borrowed funds for capital expenditure.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio the less the availability of funds for capital investment.

In case of Himachal Pradesh, the ratio was less than one in all the preceding five years which was indicative of increased vulnerability since capital was being applied to meet revenue deficit rather than increasing the assets.

(x) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay viz. its

revenue receipts. Thus, the ratio of total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government.

In case of Himachal Pradesh, this ratio increased from 0.75 in 1997-98 to 1.19 in 2001-2002. The ratio shows that the guarantees given by the State Government exceeds the revenue receipts. The trend shows an increase in the vulnerability of State's finances and higher risk exposure.

(xi) Assets vs Liabilities

This ratio basically is related to financial assets and liabilities as indicated in Exhibit-I and points towards the solvency of the Government. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator.

This ratio had come down from 0.85 in 1997-98 to 0.61 in 2001-2002 which is indicative of increase in vulnerability since capital was being applied to revenue deficit rather than for increasing the assets.

Transparency

(xii) Budget

There was no delay in submission of the budget proposals and their approval. The details are given in the following table:

Table: 1.14

Preparation	Month of submission	Month of approval
Budget	09.03.2001	28.03.2001
Supplementary	27.02.2002	05.03.2002

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates deficit budgeting and inadequate control over expenditure, as evidenced by persistent resumption's (surrenders) of significant amounts every year *vis-a-vis* the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent. Regularisation of excess

expenditure is pending in case of several grants since 1999-2000 as detailed in Para 2.3.2 (a) of the Report.

(xiii) Accounts

It was observed that accounts of one to eight treasuries, one to seven Irrigation and Public Health Divisions and one to two Buildings and Roads Divisions, were delayed resulting in their exclusion from monthly accounts. Similarly 3 to 41 Forest Divisions/offices delayed submission of accounts resulting in their exclusion from monthly cash accounts during 2001-2002.

1.12.4 Conclusion

Analysis shows that a negative BCR and negligible return on investment have adversely affected the sustainability of the State's finances. Falling tax ratio has made the situation worse. Consequently Government had to take recourse to increased borrowings, thereby raising its overall indebtedness. Similarly falling assets to liability ratio, high amounts of guarantees including guarantees to loss making units and revenue and fiscal deficits have added considerably to the vulnerability of the State's finances. Consequently this year the interest payments had also considerably increased by Rs 244 crore (31 per cent). This was to exceed even tax revenue by Rs 126 crore had Rs 203 crore on account of Customs, Union Excise Duties and Service Tax not been credited direct to tax revenue of the State. The limited capital expenditure had no appreciable benefit due to negligible return on investments.

Annex
(Refer paragraph 1.12.2; page 22)
List of Indices/ratios and basis for their calculation

Indices/ratios		Basis for calculation
Sustainability		
Balance from the current revenues	BCR	Revenue Receipts minus all Plan grants (under Major Head 1601-02,03,04) and Non-Plan revenue expenditure
Primary Deficit	PD	Fiscal Deficit minus interest payments.
Interest Ratio		$\frac{\text{Interest payments minus Interest receipts}}{\text{Total revenue receipts minus interest receipts}}$
	Capital Outlay	Capital expenditure as per Statement No 2 of the Finance Accounts
Capital Outlay Vs Capital Receipts	Capital receipts	Miscellaneous Capital receipts (=) Internal Loans [*] + Loans and advances from Government of India [*] + Net receipt under Small Savings, Provident Fund, etc. + Repayment received of loans advanced by the State Government - Loans advanced by the State Government.
Total Tax receipt Vs GSDP	Total Tax Receipts	State Tax receipts plus State's share of Union taxes and duties
State Tax receipt Vs GSDP	State Tax Receipts	Statement 10 of Finance Accounts
Flexibility		
Balance from current revenues		As above.
Capital repayments Vs Capital borrowings	Capital Repayments	Disbursements under Major heads 6003 and 6004 minus repayments on account of Ways and Means Advances/Overdraft under both the major heads
	Capital Borrowings	Addition under Major Heads 6003 and 6004 minus addition on accounts of Ways and Means advances/overdraft under both the major heads
Incomplete Projects		Exhibit-IV
Total Tax Receipts Vs GSDP	Total Tax Receipts	State Tax receipts plus State's share of Union taxes and duties.
Debt Vs GSDP	Debt	Para 1.10 of Audit Report.
Vulnerability		
Revenue Deficit		Paragraph No 1.9.4 (b) of the Audit Report
Fiscal Deficit		Paragraph No 1.9.4 (b) of the Audit Report
Primary Deficit Vs Fiscal Deficit	Primary Deficit	Fiscal Deficit minus interest payments
Total outstanding guarantees including letters of comfort Vs Total revenue receipts of the Government	Outstanding guarantees Revenue Receipts	Exhibit IV Exhibit II
Assets Vs Liabilities	Assets and Liabilities	Exhibit I

* Excluding Ways and Means Advances and Overdraft.