CHAPTER-I
OVERVIEW

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1.1 Profile of State

The State of Himachal Pradesh is located in the Himalayan region of the northern part of India. The altitude of the different areas of the State varies from 350 to 6,975 meters above the mean sea level, rendering the climate from humid sub-tropical to dry temperate alpine. Himachal Pradesh is the 17th largest State in terms of geographical area (55,673 sq. km) and 21st by population (as per 2011 census).

Himachal Pradesh is a Special Category State (SCS); accordingly, it is entitled to financial assistance from Government of India (GoI) in the ratio of 90 *per cent* grant and 10 *per cent* loan, unlike Non-Special Category States which receive GoI assistance in the ratio of 30 *per cent* grant and 70 *per cent* loan. The State has better social indicators, viz., literacy rate, infant mortality rate, below poverty line (BPL) population, etc. than the All-India Averages (**Appendix-1**).

1.1.1 Gross State Domestic Product of Himachal Pradesh

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. The trend in GSDP of Himachal Pradesh compared with the national GDP during the past five financial years as shown in **Table-1.1**.

Table-1.1: Trend in GSDP compared with the national GDP (at current prices)

Year	2016-17	2017-18	2018-19	2019-20	2020-21
National GDP (2011-12 Series) *(₹ in crore)*	1,53,91,669.01	1,70,90,042.36	1,88,86,956.91	2,03,51,012.89	1,97,45,670.36
Growth rate of GDP over previous year (in *per cent*)	11.76	11.03	10.51	7.75	-2.97
State's GSDP (2011-12 Series) *(₹ in crore)*	1,25,633.65	1,38,551.06	1,49,442.00 [a]	1,62,816.00 [b]	1,56,522.32[c]
Growth rate of GSDP over previous year (in *per cent*)	9.97	10.28	7.86	8.95	-3.87

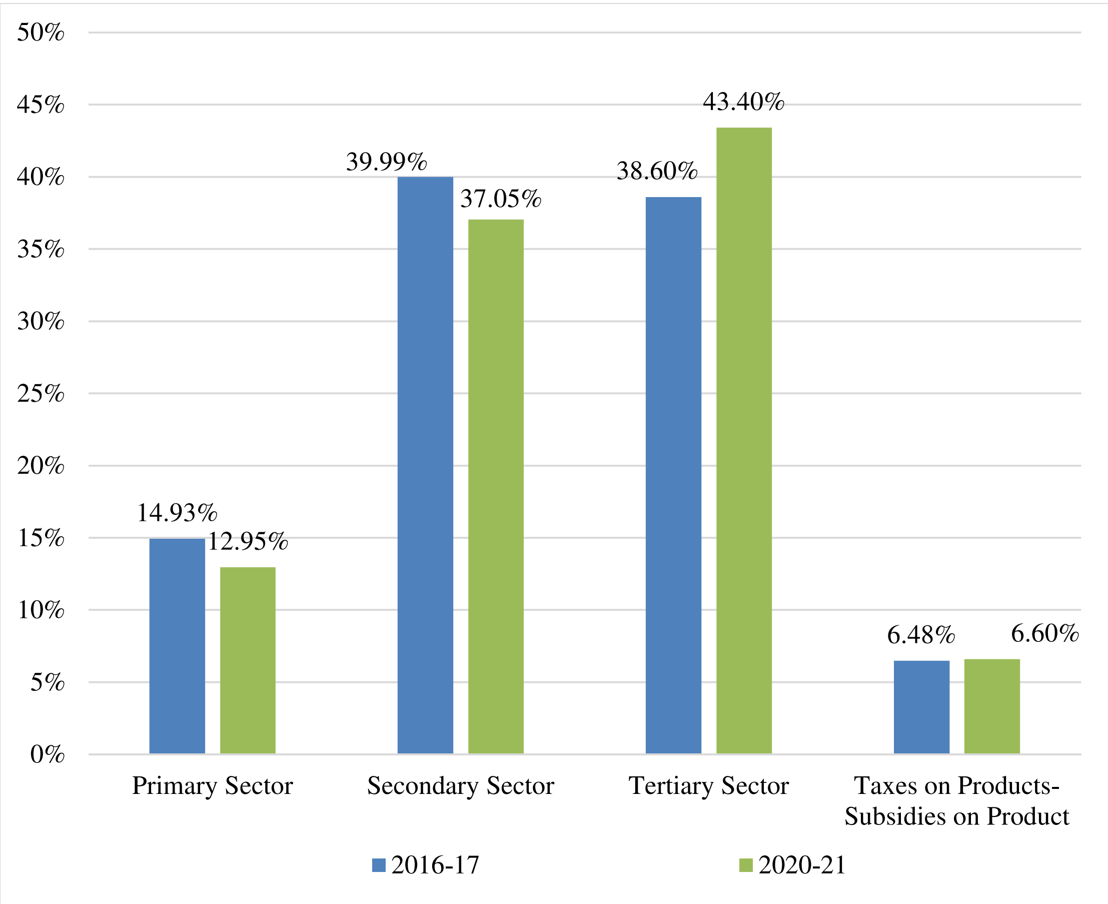
Source: Department of Economics and Statistics, Himachal Pradesh and Central Statistics Office.
a – Second Revised Estimate, b- First Revised Estimate, c- Advance Estimate.

Growth rate of GSDP of Himachal Pradesh during 2020-21 was (-) 3.87 *per cent*, attributable mainly to decline in growth rate under primary and secondary sectors in comparison with 2019-20. The Compound Annual Growth Rate (CAGR) of the State's GSDP (at current prices) for the period 2011-12 to 2020-21 was 8.89 *per cent*, marginally below the average CAGR of all Special Category States (including Union Territory of Ladakh) which was 9.76 *per cent*.

1.1.2 Sectoral contribution to GSDP

Changes in sectoral contribution to the GSDP are important for understanding changes in the structure of the economy. Economic activity is generally divided into primary, secondary and tertiary sectors. The primary sector includes mainly agricultural activities along with other economic activities of primary nature viz., forestry, animal husbandry, fishing and mining. The secondary sector includes manufacturing, construction and infrastructure, supply of electricity, gas, etc. The tertiary sector includes all service-related activities. The change in sectoral contribution to the State's GSDP and sectoral growth in GSDP between 2016-17 and 2020-21 is depicted in **Charts-1.1** and **1.2**.

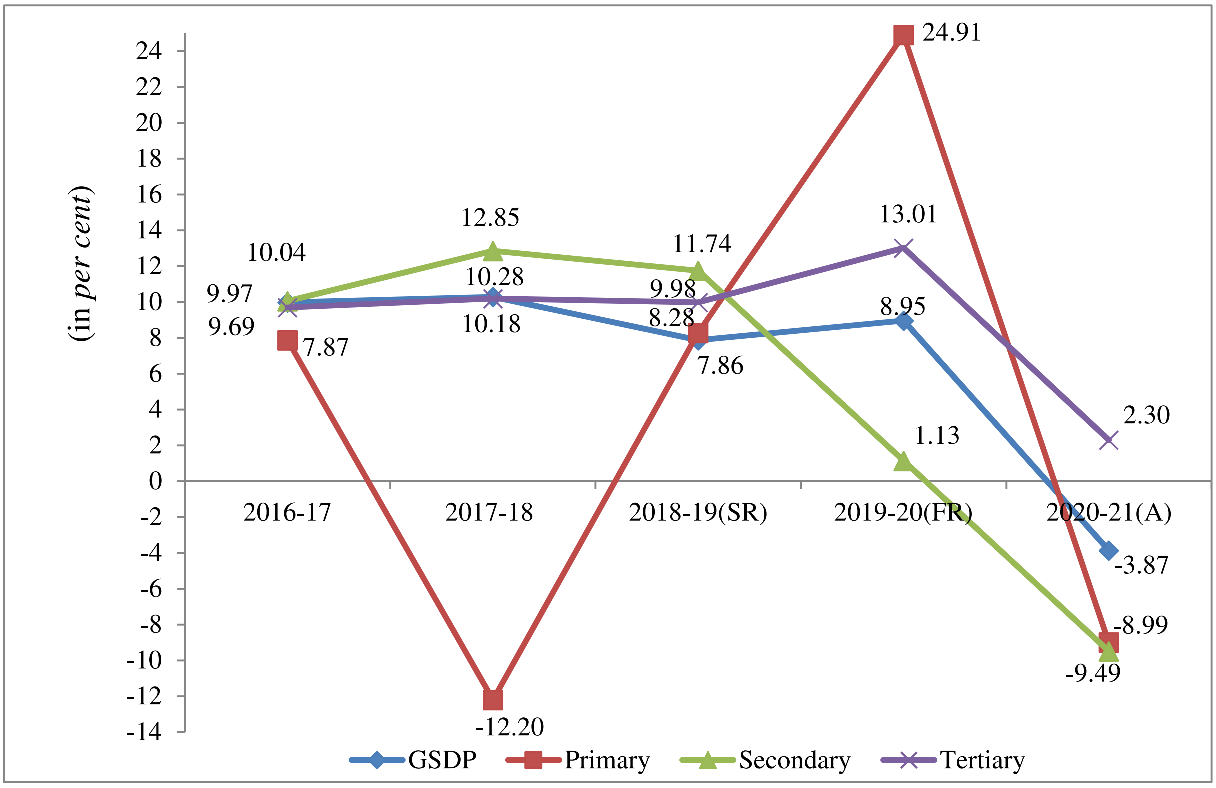
Chart-1.1: Change in sectoral contribution to GSDP (2016-17 to 2020-21)



Source of data: Department of Economics and Statistics, Himachal Pradesh.

As can be seen from **Chart-1.1** above, the share of the tertiary sector in GSDP has increased, whereas the share of the primary and secondary sectors in GSDP has decreased between 2016-17 and 2020-21.

Chart-1.2: Sectoral growth in GSDP



Source: Department of Economics and Statistics, Himachal Pradesh.

The above **Chart-1.2** shows inter-year variations in growth rates of all sectors during 2016-21. During 2020-21, there was negative growth in the primary and secondary sectors of the economy, and a sharp decline in the growth rate of the tertiary sector, in comparison with the previous year. This was attributable, in large part, to the COVID-19 pandemic and consequent lockdowns which impacted availability of labour and raw materials, thereby affecting major components of the State economy. There were sharp decrease in all sectors i.e., forestry and logging (12.61 *per cent*), mining and quarrying (7.51 *per cent*) under primary; manufacturing and construction (11.13 *per cent*) under secondary; transportation by other means (27.90 *per cent*), tourism & hospitality (4.32 *per cent*) under tertiary sector.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Himachal Pradesh for the year ended 31 March 2021 has been prepared by the CAG for submission to the Governor of the State under Article 151 (2) of the Constitution of India.

The Principal Accountant General (Accounts & Entitlements) annually compiles the Finance Accounts and Appropriation Accounts of the State, from vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

The Finance Accounts and Appropriation Accounts of the State for the year 2020-21 constitute the core data for this SFAR. Other sources include:

- Budget of the State for the year 2020-21: for assessing fiscal parameters and allocative priorities *vis-à-vis* projections, evaluating the effectiveness of budget implementation and compliance with relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Pr. Accountant General (Audit), Himachal Pradesh;
- Other data with departmental authorities and treasuries (accounting as well as MIS),
- GSDP data and other related statistics; and
- Audit Reports of the CAG of India.

In addition to the above, the analyses carried out in this SFAR are based on the recommendations of the 14th and 15th Finance Commissions, State Financial Responsibility and Budget Management (FRBM) Act and relevant guidelines of the Government of India (GoI).

The draft of this SFAR was forwarded (9th March 2022) to the State Government for comments; reply / comments of the Government had not been received as of March 2022.

1.3 Report Structure

This SFAR is structured into the following five chapters:

Chapter - I	**Overview** This Chapter describes the basis and approach to the Report and the underlying data, an overview of the structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and the State's fiscal position including the deficits/ surplus.
Chapter - II	**Finances of the State** This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter - III	**Budgetary Management** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from constitutional provisions relating to budgetary management.
Chapter - IV	**Quality of Accounts and Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departments of the State Government.
Chapter - V	**State Public Sector Enterprises** This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their latest accounts.

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are maintained in three parts:

Part I: Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from financial institutions, special securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g. salaries of constitutional authorities, loan repayments, etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

Part II: Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest, established by the State Legislature by law, and placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

Part III: Public Accounts of the State (Article 266(2) of the Constitution of India)

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and

Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document

There is a constitutional requirement (Article 202) to present before the House(s) of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. The budget document makes a distinction between expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union taxes/ duties, and grants from Government of India.

Revenue expenditure consists of all expenditures which do not result in creation of physical or financial assets. It relates to expenses incurred for the normal functioning of government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (including grants meant for creation of assets).

Capital receipts consist of:

- **Debt receipts:** Market loans, bonds, loans from financial institutions, net transactions under Ways and Means Advances, loans and advances from Central Government, etc.;
- **Non-debt receipts:** Proceeds from disinvestment, recoveries of loans and advances.

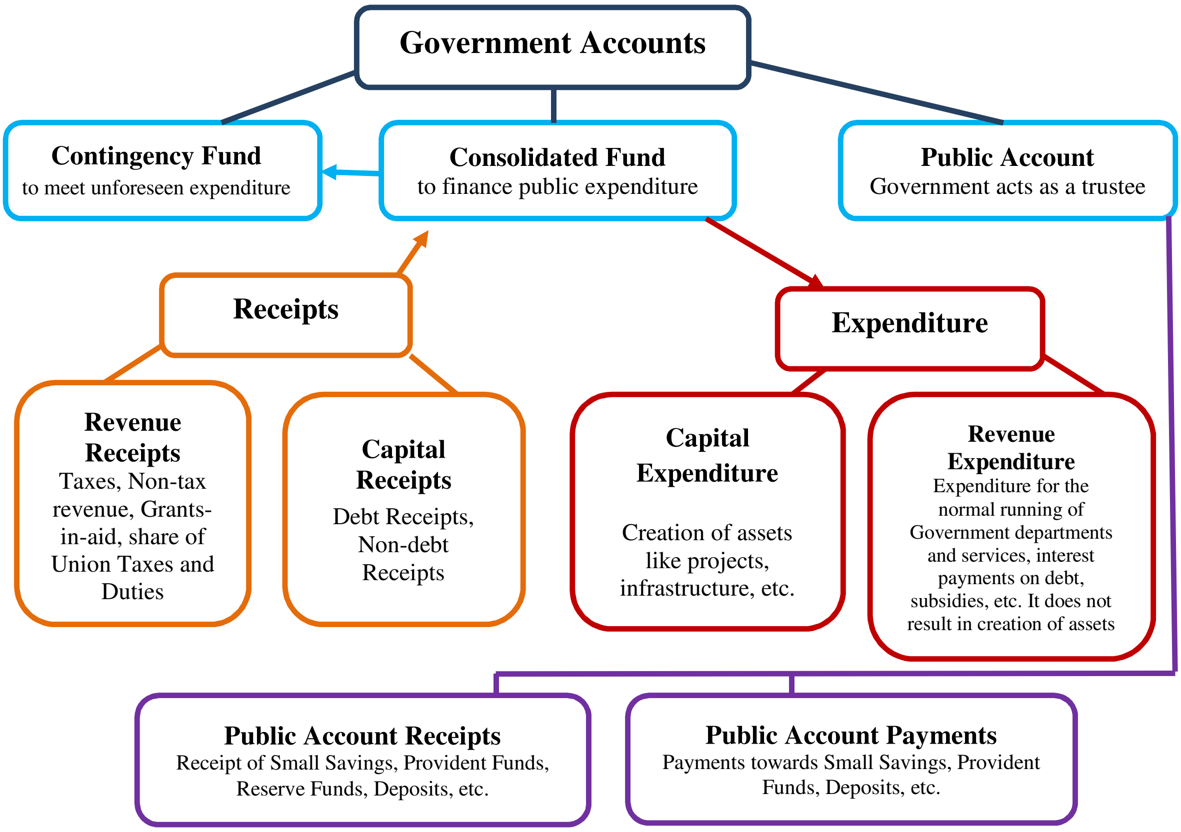
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

The accounting classification system in government is both functional and economic.

	Attribute of transaction	**Classification**
Standardised in List of Major and Minor Heads by Controller General of Accounts	Function – Education, Health, etc. / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/ Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification captures the department, function, scheme or programme, and object of expenditure. Economic classification helps organise these payments as revenue, capital, debt, etc. The classification system of government accounts is depicted in **Chart-1.3**.

Chart-1.3: Structure of Government Accounts



Source: Budget Manual.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of a State will cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Child Budget, Agriculture Budget, Weaker Sections (SC/ST) Budget, Disability Budget, etc.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities.

Results of audit of budgetary management of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Snapshot of Finances

Table-1.2 provides the details of actual financial results *vis-à-vis* budget estimates for the year 2020-21 and actuals of 2019-20:

Table-1.2: Actual Financial Results *vis-à-vis* Budget Estimates

(₹ in crore)

Sr. No.	Components	2019-20 (Actuals)	2020-21 (Budget Estimates)	2020-21 (Actuals)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1	Own Tax Revenue	7,624	9,090	8,083	88.92	5.16
2	Non-Tax Revenue	2,501	2,410	2,188	90.79	1.40
3	Share of Union taxes/duties	4,678	6,266	4,754	75.87	3.04
4	Grants-in-aid and Contributions	15,939	20,673	18,413	89.07	11.76
5	**Revenue Receipts (1+2+3+4)**	**30,742**	**38,439**	**33,438**	**86.99**	**21.36**
6	Recovery of Loans and Advances	21	26	23	88.46	0.02
7	Other Receipts	2	0	3	--	0.002
8	Borrowings and other Liabilities (a)	5,597	5,460	5,700*	104.40	3.64
9	**Capital Receipts (6+7+8)**	**5,620**	**5,486**	**5,726***	**104.38**	**3.66**
10	**Total Receipts (5+9)**	**36,362**	**43,925**	**39,164***	**89.16**	**25.02**
11	**Revenue Expenditure Of which,**	**30,730**	**39,123**	**33,535**	**85.72**	21.42
12	Interest payments	4,234	4,932	4,472	**90.67**	2.86
13	**Capital Expenditure**	**5,632**	**6,614**	**5,629**	**85.11**	3.60
14	Capital outlay	5,174	6,255	5,309	**84.88**	3.39
15	Disbursement of Loans and advances	458	359	320	89.14	0.20
16	**Total Expenditure (11+13)**	**36,362**	**45,737**	**39,164**	**85.63**	**25.02**
17	**Revenue Deficit (-)/ Revenue Surplus (+) (5-11)**	**12**	**(-) 684**	**(-) 97**	**14.17**	**(-) 0.06**
18	**Fiscal Deficit {16-(5+6+7)}**	**5,597**	**7,272**	**5,700**	**78.38**	**3.64**
19	**Primary Deficit (18-12)**	**1,363**	**2,340**	**1,228**	**52.48**	**0.78**

Source: Finance Account and State's budget documents.

(a) *Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.*

* *Includes ₹ 1,717 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall.*

Goods and Service Tax (GST) Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. However, in addition to receiving the GST Compensation of ₹ 1,763.53 crore as revenue receipts, due to inadequate balance in GST compensation fund during the year 2020-21, the State also received back-to-back loan of ₹ 1,717.00 crore under debt receipts of the State Government, with no repayment liability for the State.

1.4.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds; whereas the assets consist mainly of capital outlay, loans and advances given by the State Government and cash balances. Summarised position of Assets and Liabilities of the State is given in **Table-1.3**.

Table-1.3: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities as on					Assets as on				
		31 March 2020	**31 March 2021**	***Per cent* increase**			**31 March 2020**	**31 March 2021**	***Per cent* increase**
Consolidated Fund									
A	Internal Debt	39,527.78	42,918.21	8.58	A	Gross Capital Outlay	44,120.89	49,430.11	12.03
B	Loans and Advances from GoI	1,043.82	3,261.54*	212.46	B	Loans and Advances	7,390.50	7,687.59	4.02
Contingency Fund									
A	Contingency Fund	5.00	5.00	--		--	--	--	--
Public Account									
A	Small Savings, Provident Funds, etc.	15,537.13	16,522.64	6.34	A	Cash balance (including investment in Earmarked Fund)	1,060.18	1,756.24	65.65
B	Deposits and Advances	3,380.30	3,461.64	2.41					
C	Reserve Funds	2,722.31	2,717.19	(-) 0.19					
D	Remittances	606.29	541.91	(-) 10.62					
E	Suspense and Miscellaneous	(-)1,330.44	(-)1,539.83	15.74	B	Cumulative excess of expenditure over receipts	8,920.62	9,014.36	1.05
Total:		**61,492.19**	**67,888.30**	**10.40**	**Total:**		**61,492.19**	**67,888.30**	**10.40**

* *Includes ₹ 1,717 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall.*

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit – fiscal deficit (difference of the total expenditure and the sum of revenue receipts and non-debt capital receipts), revenue deficit (difference of revenue expenditure and revenue receipts), primary deficit (difference of fiscal deficit and interest payments).

Deficits must be financed by borrowings giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows from the people living at present but may decide to pay off the debt many years / decades later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output, in which case the debt would not be considered burdensome. The growth in debt will have to be judged with reference to the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in government expenditure. This can be achieved, in part, by making government activities more efficient through better planning of programmes and better administration.

1.5.1 FRBM Targets on Key Fiscal Parameters and Achievements

The State Government passed the Himachal Pradesh Fiscal Responsibility and Budget Management (HP-FRBM) Act in April 2005 (amended in 2011) with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficits and overall / outstanding debt to acceptable level, establishing improved debt management and transparency in a medium-term framework. The Act provided for quantitative targets to be adhered to by the State with regard to deficit measures and debt levels viz., eliminating revenue deficit by 2011-12 and maintaining revenue surplus, thereafter, maintaining fiscal deficit at 3 *per cent* or less of GSDP from 2011-12 onwards, and reducing outstanding debt to 40.1 *per cent* of GSDP by 2014-15. The HP-FRBM Act was required to be amended to prescribe revised targets for deficit and debt levels.

Further, the Ministry of Finance, GoI had decided to provide additional Borrowing Limit of up to two *per cent* of GSDP during 2020-21, subject to the condition of amendment in the State FRBM Act and implementation of specific State Level Reforms. An additional one *per cent* in the financial year 2020-21 was allowed subject to the condition of amendment in the State FRBM Act and implementation of specific State Level Reforms: (i) Implementation of One Nation One Ration Card System; (ii) Ease of doing business reforms; (iii) Urban Local Body/Utility reforms; and (iv) Power Sector reforms. The weightage of each reform was 0.25 *per cent* of GSDP totaling to one *per cent*.

However, no such amendment had been done by the State Government. Thus, as per the HP-FRBM Act, the State had to maintain revenue surplus along with maintaining fiscal deficit at 3 *per cent* or less of GSDP, whereas no targets had been set for the level of outstanding debt from 2015-16 onwards.

The performance of State Government on major fiscal parameters against the targets recommended by the 15th FC and HP-FRBM Act are shown in the **Table-1.4**:

Table-1.4: Compliance with provisions of 15th FC and HP-FRBM Act during 2020-21

Fiscal Parameters	Fiscal targets set in the 15th FC	Fiscal targets set in the FRBM Act	Actuals	Achievement as per	
				15th FC	HP-FRBM Act
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus of 0.4% of GSDP	Maintain Revenue Surplus	(-) 97	✗	✗
Fiscal Deficit (-)/ Surplus (+) (as *per cent* of GSDP)	(-) 4.00	Three or less	(-) 3.64	✓	✗
Ratio of total outstanding debt* to GSDP (in *per cent*)	36.00	Not available	42.91	✗	--

* *Total outstanding debt includes public debt plus other (public accounts) liabilities; and excludes ₹ 1,717 crore received as back-to-back loans from GoI in lieu of GST compensation shortfall, as the Department of Expenditure, GoI has decided that it will not be treated as debt of the State Government for any norms which may be prescribed by the Finance Commission.*

Against the target of maintaining the revenue surplus prescribed by the 15th FC and in HP-FRBM, actuals were revenue deficit (₹ 97 crore) during 2020-21. Actual Fiscal Deficit at 3.64 *per cent* of GSDP remained within the 15th FC target of 4 *per cent* of GSDP, but exceeded the targets set in the FRBM Act. The total outstanding debt / GSDP ratio (calculated after excluding ₹ 1,717 crore received as back-to-back loans from GoI in lieu of GST compensation shortfall, as it will not be treated as debt of the State Government), which stood at 42.91 *per cent*, was well above the targets set by the 15th FC (36 *per cent*).

1.5.2 Medium Term Fiscal Plan

As per the FRBM Act, the State Government is required to lay before the Legislative Assembly in every financial year, the Medium Term Fiscal Plan Statement (MTFPS) along with the budget. The MTFPS sets forth the fiscal objectives and strategic priorities of the State Government along with a three-year rolling target for fiscal management.

Table-1.5 indicates the variation between the projections made for 2020-21 in MTFPS presented to the State Legislature with the Actuals for the year 2020-21.

Table-1.5: Actuals *vis-à-vis* projection in MTFPS for 2020-21

(₹ in crore)

Sl. No.	Fiscal Variables	Target/ projection as per MTFPS	Actuals (2020-21)	Variation (in *per cent*)
1	Own Tax Revenue	9,090	8,083	- 11.08
2	Non-Tax Revenue	2,410	2,188	- 9.21
3	Share of Central Taxes	6,266	4,754	- 24.13
4	Grants-in-aid from GoI	20,673	18,413	-10.93
5	Revenue Receipts (1+2+3+4)	38,439	33,438	- 13.01
6	Revenue Expenditure	39,123	33,535	- 14.28
7	Revenue Deficit (-)/ Surplus (+) (5-6)	(-) 684	(-) 97	85.83
8	Fiscal Deficit (-)/Surplus (+)	(-)7,272	(-)5,700	- 21.62
9	Debt-GSDP ratio (*per cent*)	33.62	42.91*	- 9.29
10	GSDP growth rate at current prices (*per cent*)	10.00	- 3.87	- 13.87

Source: Finance Account and Budget document.

* *Calculated by excluding ₹ 1,717 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall.*

It can be seen from the above table that there was variation between the targets projected in the MTFPS and actual figures. As against the projected revenue receipts of ₹ 38,439 crore and revenue expenditure for ₹ 39,123 crore, the actuals remained at ₹ 33,438 crore and ₹ 33,535 crore respectively during 2020-21. Resultantly, there was a revenue deficit of ₹ 97 crore against projected revenue deficit of ₹ 684 crore. Fiscal deficit stood at ₹ 5,700 crore against projected fiscal deficit of ₹ 7,272 crore in the MTFPS.

The shortfall of ₹ 5,001 crore between the projected and the actual revenue receipts was due to a shortfall in the tax and non-tax revenue, share of central taxes and grants-in-aid received. The actual revenue expenditure was less than the estimated revenue expenditure by ₹ 5,588 crore, mainly on account of lesser committed and developmental expenditure against the estimated amounts. The difference between projected and actual figures for revenue deficit/surplus was due to incurring of lesser revenue expenditure than planned in the budget estimates. This indicated either that the State Government had not properly assessed the estimated expenditure at the time of budget preparation, or that the State Government lacked the capacity to spend.

1.5.3 Trends of Deficit/ Surplus

The State had been able to achieve the target of Revenue Surplus prescribed by the 15th FC during the period 2016-17 to 2019-20. However, in 2020-21, the State had a Revenue Deficit of ₹ 97 crore. The Fiscal Deficit in 2020-21 increased to ₹ 5,700 crore from ₹ 5,597 crore over the previous year, representing 3.64 *per cent* of the GSDP. The Primary Deficit in 2020-21 decreased to ₹ 1,228 crore from ₹ 1,363 crore in 2019-20. The trend of these deficits over the five-year period from 2016-17 to 2020-21 is depicted in **Chart-1.4** and trend in deficits relative to GSDP is given in **Chart-1.5**.

Chart-1.4 : Trends in Deficit Indicators (₹ in crore)

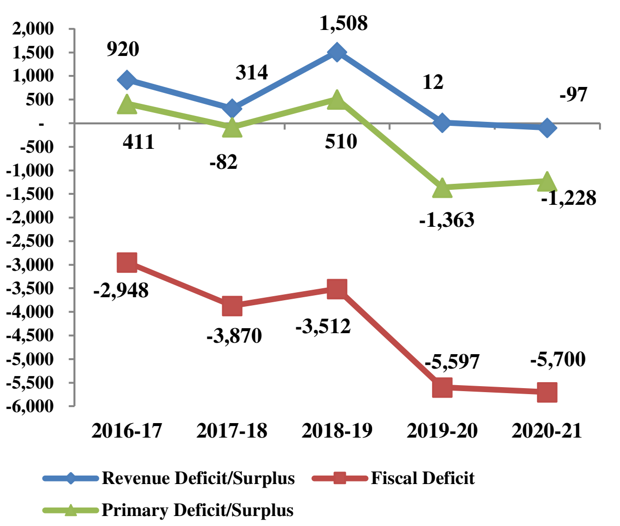
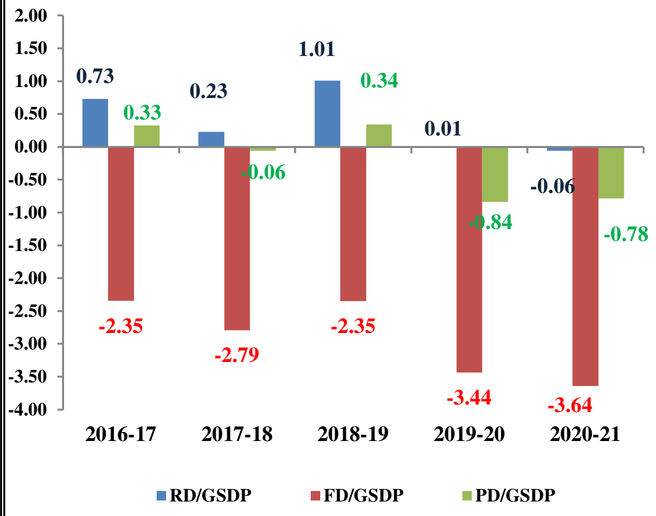


Chart-1.5 : Trends in Deficit Indicators relative to GSDP (figures as percentage to GSDP)



Revenue Deficit

Revenue deficit indicates the excess of revenue expenditure over revenue receipts. Revenue surplus helps to decrease the borrowings. As per the FRBM Act 2005 (amended in 2011), the State was to eliminate revenue deficit by financial year 2011-12 and maintain revenue surplus thereafter. During the year 2020-21, there was an increase of 8.77 *per cent* (₹ 2,695.86 crore) in Revenue Receipts and an increase of 9.13 *per cent* (₹ 2,804.50 crore) in Revenue Expenditure over the previous year, leading to a revenue deficit of ₹ 97 crore, as against the previous year's revenue surplus of ₹ 12 crore.

Fiscal Deficit

Fiscal deficit represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. During 2020-21, fiscal deficit (₹ 5,700 crore) increased by ₹ 103 crore over the previous year (₹ 5,597 crore). Fiscal Deficit was 3.64 *per cent* of the GSDP, which exceeded the targets set in the HP-FRBM Act.

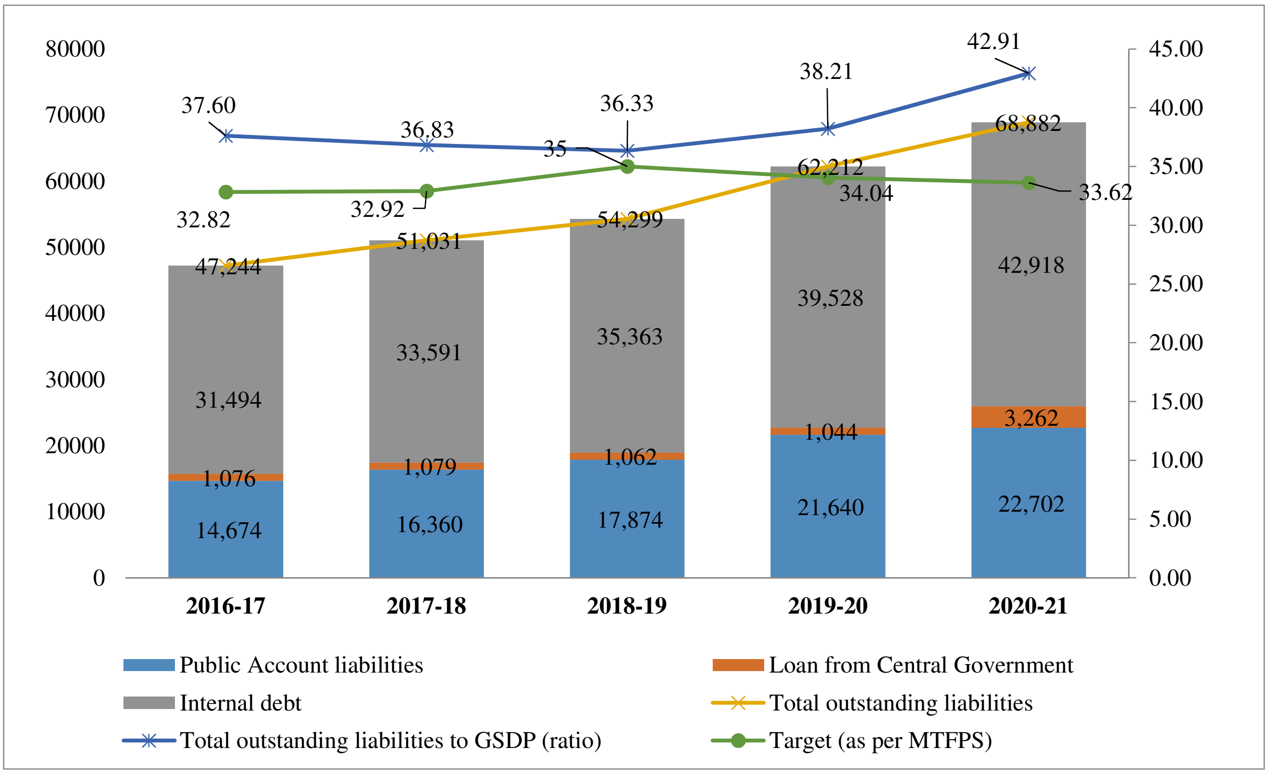
Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments in respect of States having deficit on revenue account. Interest payments represent the expenditure of past obligations and are independent of ongoing expenditure. To look at the imbalances of current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit is thus an important parameter that reflects a State's current financial position. If there is primary deficit it means that the State has a deficit even after netting out interest, and it will have to borrow even to pay interest on its borrowings. Primary deficit decreased to ₹ 1,228 crore during 2020-21 from ₹ 1,363 crore in 2019-20.

Fiscal Liabilities

The trend in Fiscal Liabilities and its components during the past five financial years is shown in **Chart-1.6**.

Chart-1.6: Trends in Fiscal Liabilities* and GSDP (₹ in crore)



* *During 2020-21, fiscal liabilities included ₹ 1,717 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall, however this amount has been excluded for calculating the ratio of total outstanding liabilities to GSDP.*

As can be seen from the **Chart-1.6**, the total outstanding liabilities increased from ₹ 47,244 crore in 2016-17 to ₹ 68,882 crore in 2020-21. The ratio of total outstanding liabilities to GSDP also increased over the past five years and remained well above the State's own target set in the MTFPS during the period 2016-17 to 2020-21.

1.6 Deficits and Total Debt after examination in Audit

The deficit and debt figures are sometimes rendered inaccurate on account of misclassification of revenue expenditures as capital expenditure, non-creation of statutory funds, off-budget fiscal operations, deferment of clear-cut liabilities, etc. by the State Government.

1.6.1 Revenue and Fiscal deficit – Audit Observation

During the year 2020-21, the Revenue and Fiscal Deficit figures were impacted due to misclassification of revenue expenditures as capital expenditure, and non-contribution to interest, balance lying under SDRF. The impact of the above is depicted in the **Table-1.6**.

Table-1.6: Revenue and Fiscal Deficit, post examination by Audit

(₹ in crore)

Particulars	Impact on Revenue Deficit (understated) *(₹ in crore)*	Impact on Fiscal Deficit (understated) *(₹ in crore)*	Para Reference
Non-payment of interest balance lying under SDRF	0.06	0.06	2.5.2.2
Misclassification of capital expenditure as revenue expenditure and vice-versa	2.28	--	3.3.3
Total	**2.34**	**0.06**	

Source: Finance Accounts.

1.6.2 Post audit - Total Public Debt

As per amendments in the FRBM Act in 2018, "debt" includes public debt (internal and external debt), total outstanding liabilities on public account and 'such financial liabilities of any body-corporate or other entity owned or controlled by the (Central) Government, which the Government has to repay or service from the Annual Financial Statement, reduced by cash balance at the end of that date'.

As stated in the explanatory note to the Budget, the debt liabilities of the State consist of internal debt, loans from Central Government, liabilities on Public Account and other debt liabilities of PSUs. There is no explicit definition of total liabilities in the HP-FRBM Act. However, it is mentioned that borrowing by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments, where the liability for repayment is on the State Government are also to be treated as borrowings of the State Government.

The total outstanding public debt of the State Government for the year ending 2020-21 comprising liabilities on the Consolidated Fund and Public Account, and other borrowings is shown in **Table-1.7**.

Table-1.7: Components of outstanding debt/liabilities

(₹ in crore)

Liabilities upon the Consolidated Fund (Public Debt)	Amount
Internal Debt (A)	**42,918.22**
Market Loans	31,897.16
Loan from Life Insurance Corporation of India	21.61
Loan from NABARD	2,969.29
Loan from National Co-operative Development Corporation	140.06
Compensation and other Bonds	2,890.50
Loans from other Institutions, etc.	40.74
Special Securities issued to the National Small Saving Fund of the Central Government	4,958.86
Loans and Advances from Central Government (B)	**3,261.54***
Non-plan Loans	2.38
Loans for State Plan Schemes	3,259.03*
Others	0.13
Liabilities upon Public Accounts (C)	**22,701.99**
Small Savings, Provident Funds, etc.	16,522.64
Deposits	3,462.16
Reserve Funds	2,717.19
Total (A+B+C)	**68,881.75***

* *Includes ₹ 1,717 crore as back-to-back loans to State from GoI in lieu of GST compensation shortfall.*

There were no cases of off-budget fiscal operations such as: borrowings by State PSUs, Special Purpose Vehicles (SPVs) on behalf of the State Government where principal and / or interest are to be serviced out of the State budget; deployment of own funds by the State PSUs, SPVs, etc. for execution of deposit works of the State Government which was to be financed by the State Government through borrowings; or non-reimbursement of principal/ interest component by the State Government to State PSUs, SPVs, etc. of the loan taken by them on behalf of the State Government. As such, there was no impact of these on the overall debt of the State Government.