

1. FINANCES OF THE STATE GOVERNMENT

This chapter provides a broad perspective of the finances of the Government of Himachal Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.1 Summary of Current Year's Fiscal Transactions

Table-1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while *Appendix-1.4* provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table-1.1: Summary of Current Year's Fiscal Operations

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
					Non Plan	Plan	Total
Section-A: Revenue							
9,142	Revenue receipts	9,308	8,292	Revenue expenditure	8,561	877	9,438
1,958	Tax revenue	2,242	3,429	General services	3,887	31	3,918
1,823	Non-tax revenue	1,756	2,876	Social services	2,898	434	3,332
794	Share of Union Taxes/ Duties	838	1,984	Economic services	1,772	412	2,184
4,567	Grants from Government of India	4,472	3	Grants-in-aid and Contributions	4	--	4
Section-B: Capital							
--	Misc. Capital Receipts	--	1,414	Capital Outlay	87	1,992	2,079
26	Recoveries of Loans and Advances	21	14	Loans and Advances disbursed	76	14	90
1,849	Public Debt receipts	2,249	936	Repayment of Public Debt	885	--	885
--	Contingency Fund	--	--	Contingency Fund	--	--	--
6,223	Public Account receipts	6,760	5,737	Public Account disbursements	5,690	--	5,690
(-)24	Opening Cash Balance	823	823	Closing Cash Balance			979
17,216	Total	19,161	17,216	Total			19,161

Following are the significant changes in receipts and expenditure/disbursements during 2008-09 over the previous year (2007-08):

- Revenue receipts grew by Rs 166 crore (1.8 per cent) over the previous year. The marginal increase was mainly contributed by tax revenue (Rs 284 crore) and Central tax transfers (Rs 44 crore) which was offset by a decrease under non-tax revenue (Rs 67 crore) and grants-in-aid from GOI (Rs 95 crore). The revenue receipts at Rs 9,308 crore is however, higher by Rs 2,283 crore than the assessment made by the State Government in its FCP^α (Rs 7,025 crore), but lower by Rs 90 crore than the assessment made in its MTFPS[#] (Rs 9,398 crore) for the year 2008-09.

^α Fiscal correction path.

[#] Medium term fiscal plan statement.

- Revenue expenditure and Capital expenditure increased by Rs 1,146 crore (14 per cent) and Rs 665 crore (47 per cent) respectively during 2008-09 over the previous year. The NPRE component increased by Rs 1,471 crore (21 per cent) while the PRE decreased by Rs 325 crore (27 per cent) in 2008-09 relative to the previous year.
- Recoveries of loans and advances decreased by Rs 5 crore while its disbursement increased by Rs 76 crore over the previous year.
- Public Debt receipts increased by Rs 400 crore while its repayments decreased by Rs 51 crore.
- Public Account receipts increased by Rs 537 crore and disbursements decreased by Rs 47 crore during 2008-09 over the previous year.
- The closing cash balance increased by Rs 156 crore (19 per cent) from Rs 823 crore (2007-08) to Rs 979 crore at the end of 2008-09.

The performance of the State during 2008-09 in terms of key fiscal targets set for selected variables laid down in HPFRBM Act, 2005 as well as projections made in FCP and MTFPS vis-à-vis achievements for 2008-09 are summarised in the Table-1.1A.

Table-1.1A

(Rupees in crore)

Fiscal forecasts	Projections in FRBM Act/ TFC	Projections made by State Government in		Actual	Percentage variation of actual over		
		MTFPS	FCP		TFC ¹	MTFPS	FCP
Own Tax Revenue	2,203	2301	1783	2242	*	2.56	*
Own Non Tax Revenue	592	1232	732	1756	*	*	*
NPRE	5507	8541	6088	8561	55	*	41
Capital Expenditure	--	1779	915	2079	--	17	127
Revenue Deficit (-) Surplus (+) as per cent of RRs	0.0 (By 2008-09)	(+) 0.74	(-) 6.19	(-) 1.40	1.40	2.14	7.59
Fiscal Deficit(-)/ Surplus (+) as per cent of GSDP	3.0 (By 2008-09)	5.37	4.09	(-) 6.17	9.17	11.54	10.26
Consolidated debt (including Guarantees) as per cent of GSDP	31 (By 2009-10)	63	78	65	34	2	*
Outstanding guarantees as percentage of the State's RRs of preceding financial year	80	23	70	25	*	*	*

* Targets were achieved.

Though the State has achieved targets for revenue and fiscal deficits as laid down in HPFRBM Act as well as in MTFPS, FCP and TFC in the year 2007-08 earlier than the timeline with revenue surplus of Rs 850 crore,

1 TFC: Twelfth Finance Commission.

however, in the current year (2008-09), revenue of the State has gone under deficit (Rs 130 crore) i.e. (-) 1.40 *per cent* of revenue receipts and fiscal deficit increased by Rs 1726 crore from Rs 552 crore in 2007-08 to Rs 2,278 crore in current year i.e. 6.17 *per cent* of GSDP which is much higher than the projections and a set back to the State that was heading towards achieving the target set forth in the HPFRBM Act. The consolidated debt as percentage of GSDP of the State at 65 per cent was much higher than the target set by the TFC upto 2009-10 which seems unlikely to be achieved. Non-plan revenue expenditure (NPRE) has increased by 55 and 41 *per cent* over the projections made in the TFC and FCP respectively.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1: Selected Fiscal Parameters: Budget Estimates vis-a-vis Actuals

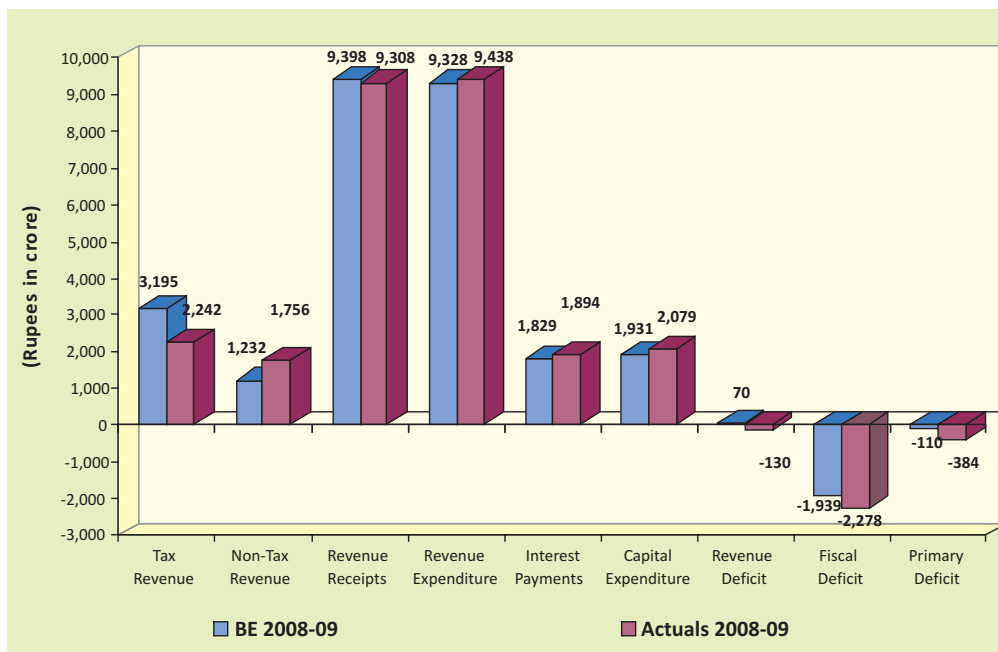


Chart 1.1 depicts that actual tax revenue fell short by Rs 953 crore (43 *per cent*) and revenue receipts by Rs 90 crore against the estimated budget. Revenue expenditure was Rs 9,438 crore during 2008-09 against the estimated Rs 9,328 crore (1.18 *per cent*). Against the estimation of revenue surplus of Rs 70 crore, there was deficit of Rs 130 crore during current year. Fiscal deficit and primary deficit were Rs 2,278 crore and Rs 384 crore against the estimated fiscal deficit and primary deficit of Rs 1,939 crore and Rs 110 crore respectively.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union

taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart 1.2 depicts the trends in various components of the receipts of the State during 2004-09. Chart 1.3 depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts

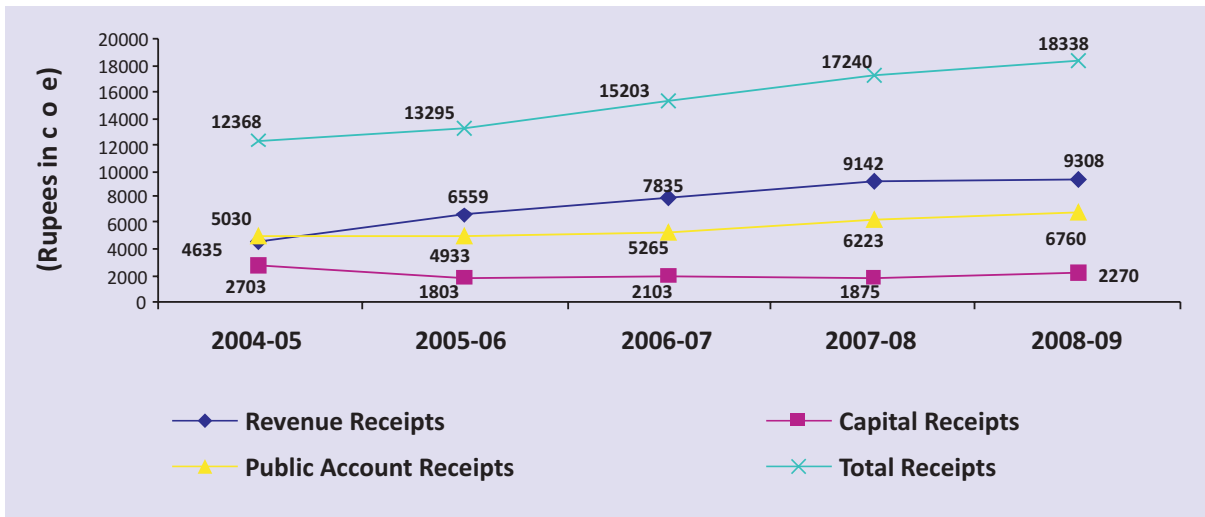
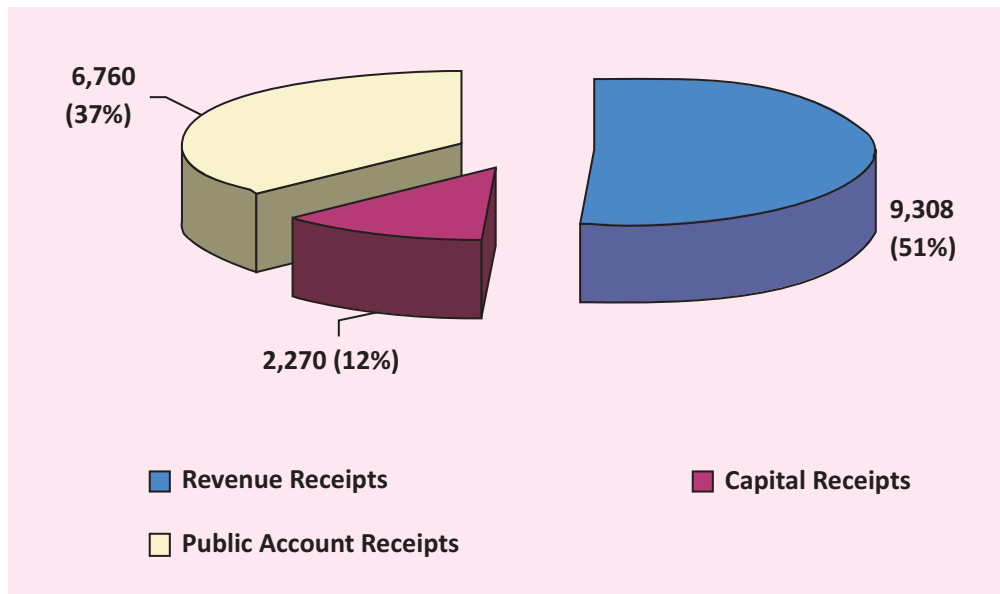


Chart 1.3: Composition of Receipts during 2008-09



The above charts show that the total receipts of the State Government increased by 6 per cent from Rs 17,240 crore to Rs 18,338 crore in 2008-09 over the previous year. Of which, 51 per cent (Rs 9,308 crore) came from revenue receipts, the balance 49 per cent from borrowings (12 per cent) and Public Account (37 per cent). The share of Revenue receipts in the total receipts of the State increased from 37 per cent in 2004-05 to 51 per cent in 2008-09. On the other hand, the Capital receipts (market borrowings and special securities issued to NSSF) together with Public account receipt ranged between 47 and 63 per cent of total receipts during 2004-09. Revenue receipts increased steadily by 101 per cent from Rs 4,635 crore in 2004-05 to Rs 9,308 crore in 2008-09, whereas the debt Capital receipts which create future repayment obligation displayed inter year fluctuation and decreased from Rs 2,703 crore (22 per cent of total receipts) in 2004-05 to Rs 2,270 crore (12 per cent of total receipts) in 2008-09. Except during 2005-06, Public account receipts increased steadily from Rs 5,030 crore in 2004-05 to Rs 6,760 crore in 2008-09 ranging between 35 and 41 per cent of total receipts.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies² for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/ State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. During 2008-09, the Government of India has transferred an amount of Rs 977.66 crore directly to State Implementing Agencies (detailed in *Appendix-1.5*). This data is yet to be verified by the Implementing Agencies. Significant amounts given to the major programme/ scheme are presented in Table-1.2.

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Sl. No.	Name of the Programme/ Scheme	Name of the Implementing Agency in the State	Total fund released by the Government of India during 2008-09
1.	Sarva Siksha Abhiyan (SSA)	Mission Director, SSA	85.53
2.	Ayush and Public Health	Department of Indian System of Medicines and Homeopathy	26.31
3.	National Rural Health Mission (NRHM)	Mission Director, NRHM	57.79
4.	National Rural Employment Guarantee Scheme (NREGA)	Project Director, District Rural Development Agency	411.15
5.	Indira Awas Yojana (IAY)	Project Director, District Rural Development Agency	21.91
6.	Swaran Jayanti Gram Swarajgar Yojana (SGSY)	Project Director, District Rural Development Agency	13.67

² State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

7.	DRDA Administration	Project Director, District Rural Development Agency	5.72
8.	Members of Parliament Local Area Development Scheme (MPLADS)	Deputy Commissioners	14.00
9.	Accelerated Rural Water Supply Programme (ARWSP)	Engineer-in-Chief	14.82
10.	National E-Governance Action Plan (NEGAP)	Government of Himachal Pradesh	88.94
11.	National Institute Of Technology NIT	NIT, Hamirpur	25.66
12.	Package For Special Category State Other Than North East	Himachal Pradesh State Industrial Development Corporation	65.23
13.	National Afforestation Programme	Forest Development Agency	7.83
14.	Rashtriya Gram Swaraj Yojana	Panchayati Raj Training Institute Mashobra Shimla	7.54
15.	Pradhan Mantri Gram Sadak Yojana	Engineer-in-Chief	33.58
16.	Integrated Watershed Management Program DPAP/DDP/IWDP/DLR	Project Director, District Rural Development Agency	39.03
		Total	918.71

Source: CPSMS of CGA's website.

Table 1.2 shows that an amount of Rs 411.15 crore (42 per cent of the total funds transferred) was given for National Rural Employment Guarantee Programme, Rs 85.53 crore (9 per cent) for Sarva Siksha Abhiyan and Rs 88.94 crore (9 per cent) for National E-Governance Action Plan (NEGAP). Thus, with the transfer of Rs 977.66 crore during 2008-09 by GOI to the State Implementing Agencies, the total availability of State resources increased from Rs 18,338 crore to Rs 19,316 crore.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in *Appendix 1.3* and also depicted in Chart 1.4 and 1.5 respectively.

Chart 1.4: Trends in Revenue Receipts

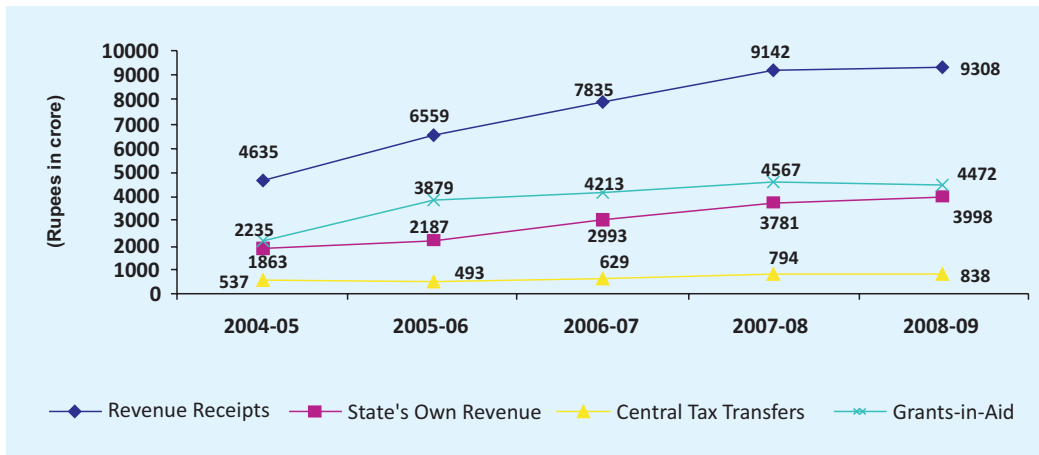
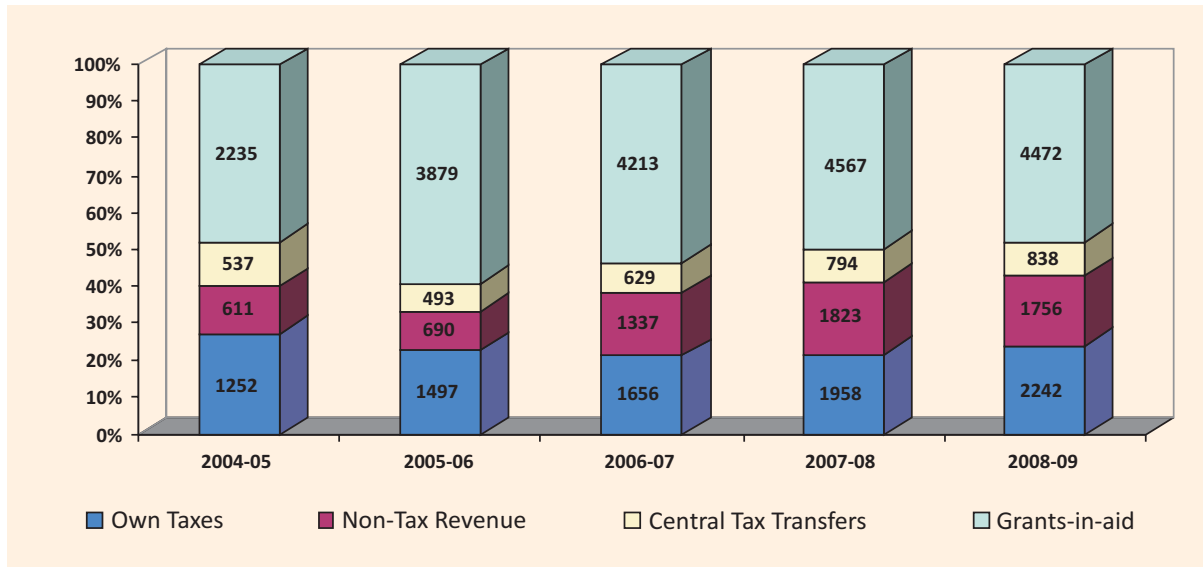


Chart 1.5: The Composition of Revenue Receipts during 2004-09



Although Revenue receipts steadily increased from Rs 4,635 crore in 2004-05 to Rs 9,142 crore in 2007-08 at an annual average rate of 24 *per cent*, during 2008-09, it recorded only an increase of 1.8 *per cent* over the previous year. The share of non-tax revenue and grants-in-aid from GOI exhibited decrease of 4 *per cent* and 2 *per cent* respectively over the previous year. While 43 *per cent* of the revenue receipts during 2008-09 have come from the State's own resources comprising taxes and non-taxes, the remaining 57 *per cent* were contributed by Central transfers comprising the State's share in Central taxes and duties (9 *per cent*) and grants-in-aid from GOI (48 *per cent*).

Tax revenue: The percentage of tax revenue to total revenue receipts ranged between 21 and 27 *per cent* during 2004-09. Tax revenue has increased by 15 *per cent* from Rs 1,958 crore in 2007-08 to Rs 2,242 crore during 2008-09. The increase in tax revenue during 2008-09 over the previous year was mainly due to increase in Sales tax (Rs 154 crore), State Excise (Rs 43 crore). Sales tax contributed a major share (56 *per cent*) of the tax revenue. Although the value added tax (VAT) had enhanced the buoyancy of sales tax revenue and generated higher collection but the target which was projected in the budget estimate was not achieved.

Non-tax revenue: The non-tax revenue of the State constituted 19 *per cent* of total revenue receipts but recorded a decrease of Rs 67 crore (4 *per cent*) over the previous year. It is observed that 81 *per cent* of the non-tax revenue was received from economic services and within this category, power sector alone contributed 88 *per cent* (Rs 1,255 crore) during the current year. This year revenue from power sector was less by Rs 159 crore due to less generation of electricity due to shortage of water and failure of machinery. The interest receipts increased during 2008-09 due to release of dividend by Satluj Jal Vidyut Nigam (Rs 89 crore).

Central Tax transfers: Central tax transfers increased by Rs 44 crore from Rs 794 crore in 2007-08 to Rs 838 crore in 2008-09 and constituted 9 *per cent* of the revenue receipts during the year. The

increase was mainly due to increase in Corporation tax (Rs 22.76 crore), Service tax (Rs 11.70 crore), and Customs (Rs 10.09 crore).

Grants-in-aid: Grants-in-aid from the GOI decreased by Rs 95 crore from Rs 4,567 crore in 2007-08 to Rs 4,472 crore in 2008-09 mainly due to less receipt of Revenue Deficit grants and also less receipt of Annual Central Assistance (ACA) for Externally Aided Projects.

The trends in revenue receipts relative to GSDP are presented in Table 1.3 below:

Table-1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	4,635	6,559	7,835	9,142	9,308
Rate of growth of RR (per cent)	16.43	41.51	19.45	16.68	1.82
R R/GSDP (per cent)	20.09	25.75	27.63	28.59	25.20
Buoyancy Ratios³					
Revenue Buoyancy w.r.t GSDP	1.451	3.980	1.717	1.308	0.117
State's Own Tax Buoyancy w.r.t GSDP	2.45	1.87	0.94	1.43	0.93

Revenue receipts of the State grew by only 1.8 *per cent* during 2008-09 over the previous year (16.7 *per cent*) due to decrease in non-tax revenue and grants received from GOI. Besides this, buoyancy ratio of revenue and State's own taxes with reference to GSDP also decreased from 1.3 to 0.1 and from 1.4 to 0.9 respectively during 2008-09 over the previous year. For every one *per cent* increase in GSDP, revenue increased only by 0.1 *per cent* and State's own taxes increased by 0.93 *per cent*, indicating that tax efforts need to be stepped up in the State.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

Tax revenue of the State increased from Rs 1,252 crore in 2004-05 to Rs 2,242 crore in 2008-09 at an annual average rate of 23 *per cent*. The major contributors in the State's own tax during 2008-09 are taxes on Sales, Trades, etc: Rs 1,246 crore (56 *per cent* of tax revenue), State Excise: Rs 432 crore (19 *per cent* of tax revenue), taxes on Vehicles: Rs 136 crore (six *per cent* of tax revenue), Stamps and Registration fees: Rs 98 crore (four *per cent* of tax revenue) and taxes on goods and passengers:

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

Rs 62 crore (three *per cent* of tax revenue). Collection of Sales tax, trade etc., has increased by Rs 154 crore in 2008-09 over the previous year, mainly due to more receipt under VAT, sale of liquor and sale of land.

Non-tax revenue

Non-tax revenue on the other hand shown consistent increase from Rs 611 crore in 2004-05 to Rs 1,823 crore in 2007-08 at an annual average rate of 15 *per cent* but decreased during 2008-09 to Rs 1,756 crore by four *per cent* over the previous year. The major contributors in State's non-tax revenue during 2008-09 are power sector: Rs 1,255 crore (72 *per cent* of non-tax revenue), interest receipts, dividends and profits: Rs 167 crore (10 *per cent* of non-tax revenue). This decrease in non-tax revenue was mainly due to less receipt under Power Sector.

The performance of State in regard to the mobilization of its own resources vis-à-vis assessment made by the TFC and the State Government in its FCP and MTFPS for 2008-09 was as under:

Table-1.4

(Rupees in crore)

Parameters	Assessment made by TFC	FCP	MTFPS	Actual
Tax Revenue	2,203	1,783	2,301	2,242
Non-Tax Revenue	592	732	1,232	1,756

The actual realisation of State's own taxes was less by 3 *per cent* (Rs 2,301 crore) and non-tax revenue receipts was higher by 43 *per cent* (Rs 1,232 crore) than the projection made in MTFPS by the State Government for 2008-09. The State's own tax revenue was higher by 2 and 26 *per cent* and the non-tax revenue by 197 and 140 *per cent* over the normative assessments made by the TFC (Rs 2,203 crore and Rs 592 crore) and FCP (Rs 1,783 crore and Rs 732 crore) respectively.

Current level of cost recovery: The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of goods and services by Government are 1.71 *per cent* in 2008-09 as compared to 1.56 *per cent* in 2005-06 for Health and Family Welfare, 0.33 *per cent* in 2008-09 as compared to 0.64 *per cent* in 2005-06 for Minor Irrigation, 0.62 *per cent* in 2008-09 as compared to 7.54 *per cent* in 2005-06 for Secondary Education, 4.62 *per cent* in 2008-09 as compared to 3.83 *per cent* in 2005-06 for University and Higher Education, 1196.29 *per cent* in 2008-09 as compared to 208.38 *per cent* in 2005-06 for power and 0.18 *per cent* in 2008-09 as compared to 0.03 *per cent* in 2005-06 for road transport.

1.3.2 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

Evasion of taxes: The details of cases of evasion of tax in the Excise and Taxation Department during 2008-09 are mentioned below:

Sr. No.	Head of revenue	Cases pending as on 31 March 2008	Cases detected during 2008-09	Total cases	Cases in which assessments/ investigations completed and additional demand including penalty etc. raised		Number of cases pending as on 31 March 2009
					Number of cases	Amount of demand (Rupees in lakh)	
1.	Taxes on sales, trade etc.	50	5,812	5,862	5,765	391.27	97
2.	State excise	4	384	388	388	7.51	--
3.	Passengers and goods tax	300	2,184	2,484	2,210	58.39	274
4.	Other taxes and duties on commodities and services	7	593	600	592	23.29	8
Total		361	8,973	9,334	8,955	480.46	379

Source: Audit Report (Revenue-Receipts) 2008-09

Refunds: The number of refund cases pending at the beginning of the year 2008-09, claims received, refunds allowed during the year in the Excise and Taxation Department are mentioned as under:

Sr. No.	Particulars	Sales tax		State Excise	
		Number of cases	Amount (Rupees in crore)	Number of cases	Amount (Rupees in crore)
1.	Claims outstanding at the beginning of the year	29	0.74	--	--
2.	Claims received during the year	20	0.77	33	0.40
3.	Refunds made during the year	26	0.90	33	0.40
4.	Balance outstanding at the end of the year	23	0.61	--	--

Source: Audit Report (Revenue-Receipts) 2008-09

1.3.3 Revenue arrears

The arrears of revenue increased by Rs 171.60 crore from Rs 397 crore in 2005-06 to Rs 568.60 crore at the end of 2008-09. Of these, Rs 159.39 crore was outstanding for a period of more than five years. The arrears of revenue increased by Rs 56.17 crore from Rs 512.43 crore in 2007-08 to Rs 568.60 crore in 2008-09. Arrears were mainly in respect of taxes on duties on electricity (Rs 120.38 crore), taxes on sales, trade/VAT, etc. (Rs 120.38 crore), taxes on vehicles (Rs 109.10 crore), Water supply, sanitation and minor irrigation (Rs 64.59 crore), forestry and wildlife (Rs 61.57 crore), taxes on goods and passengers (Rs 13.21 crore), Police (Rs 10.67 crore), State excise (Rs 7.87 crore), Industries (Rs 5.78 crore).

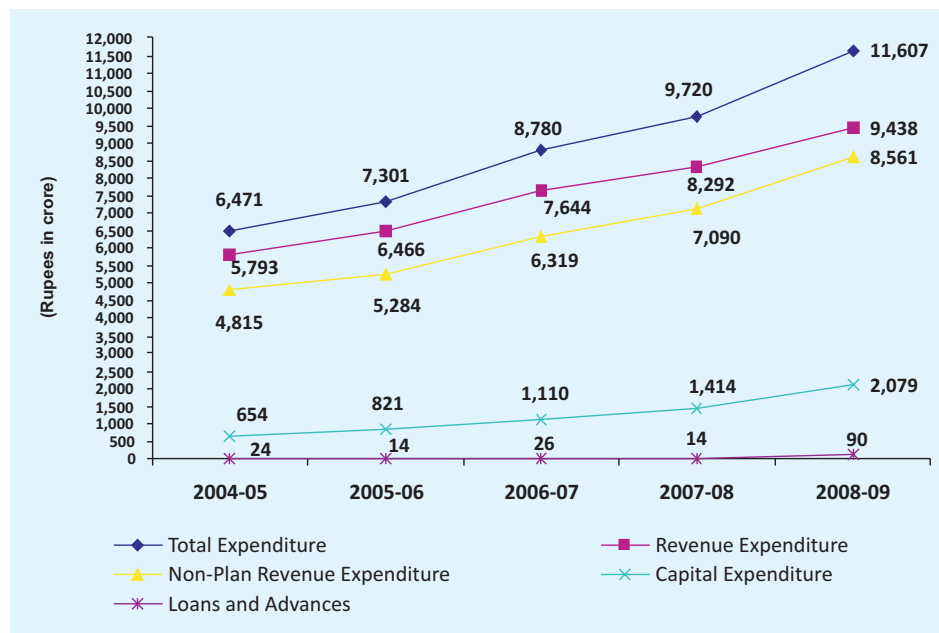
1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in Charts 1.7 and 1.8.

Chart 1.6: Total Expenditure : Trends and Composition



Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 6,471 crore in 2004-05 to Rs 11,607 crore in 2008-09 at an annual average rate of 14 *per cent* and increased by 19 *per cent* (Rs 1,887 crore) in 2008-09 over the previous year. Of this, revenue expenditure increased from Rs 5,793 crore in 2004-05 to Rs 9,438 crore in 2008-09 at an annual average rate of 11 *per cent*.

Of the Revenue expenditure, non-plan revenue expenditure (NPRE) increased from Rs 4,815 crore in 2004-05 to Rs 8,561 crore in 2008-09 at an annual average rate of 13 *per cent* and the Plan revenue expenditure showed inter year fluctuation and decreased from Rs 1,202 crore in 2007-08 to Rs 877 crore in 2008-09. Capital expenditure increased from Rs 654 crore in 2004-05 to Rs 2,079 crore in 2008-09 at an annual average rate of 24 *per cent* and increased by 47 *per cent* in 2008-09 over the previous year.

The break up of total expenditure during 2008-09 in terms of Plan and Non-Plan expenditure reveals that Non-Plan expenditure contributed a dominant share of Rs 8,724 crore (75 *per cent*) while the remaining Rs 2,883 crore (25 *per cent*) was in the form of plan expenditure. The increase of Rs 1,887 crore in total expenditure during 2008-09 over the previous year was due to increase in revenue expenditure by Rs 1,146 crore; capital expenditure by Rs 665 crore and disbursements of loans and advances by Rs 76 crore.

The increase in revenue expenditure during 2008-09 over the previous year was mainly due to expenditure on Education, Sports, Art and Culture (Rs 1,722.18 crore), Water Supply, Sanitation, Housing and Urban Development (Rs 582 crore), Health and Family Welfare (Rs 482.46 crore), Social Welfare and Nutrition (Rs 434.60 crore), Welfare of Scheduled Castes, Scheduled Tribes & Other Backward Classes (Rs 49.82 crore), Labour and Labour Welfare (Rs 36.36 crore) in Social sector and Agriculture and Allied activities (Rs 823.18 crore), Transport (Rs 715.02 crore), Rural Development (Rs 250.10 crore), Irrigation and Flood Control (Rs 201.28 crore) in Economic Sector.

Though no specific norms for prioritisation of capital expenditure have been laid down in FRBM Act, the increase was due to expenditure on Water Supply and Sanitation, Housing and Urban Development (Rs 427.60 crore), General Education (Rs 262.82 crore) in Social sector and Transport (Rs 517 crore), Irrigation and Flood Control (Rs 230.40 crore) and Power Projects (Rs 299.25 crore) in Economic sector were the beneficiary sectors where capital expenditure was made. Loans and advances constituted Rs 90 crore (0.78 *per cent* of the total expenditure) and increased by Rs 76 crore over the previous year due to loans advanced to Power Projects (Rs 75 crore).

1.4.2 Trends in Total Expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in Table-1.5.

Table-1.5: Components of Expenditure – Relative Share

	2004-05	2005-06	2006-07	2007-08	2008-09
					<i>(In per cent)</i>
Total Expenditure (In crore)	6,471	7,301	8,780	9,720	11,607
Revenue Expenditure (In crore)	5,793 (89.52)	6,466 (88.56)	7,644 (87.06)	8,292 (85.31)	9,438 (81.31)
Capital Expenditure (In crore)	654 (10.11)	821 (11.25)	1,110 (12.64)	1,414 (14.55)	2,079 (17.91)

Loans and Advances (In crore)	24 (0.37)	14 (0.19)	26 (0.30)	14 (0.14)	90 (0.78)
General Services	42.54	39.31	38.28	35.88	34.31
Of which, Interest payments	25.36	21.41	19.01	17.52	16.32
Social Services	34.31	36.68	35.99	35.62	35.88
Economic Services	22.73	23.74	25.40	28.32	29.00
Grants-in-aid	0.05	0.08	0.03	0.03	0.03

Chart 1.7: Total Expenditure: Trends in Share of its Components

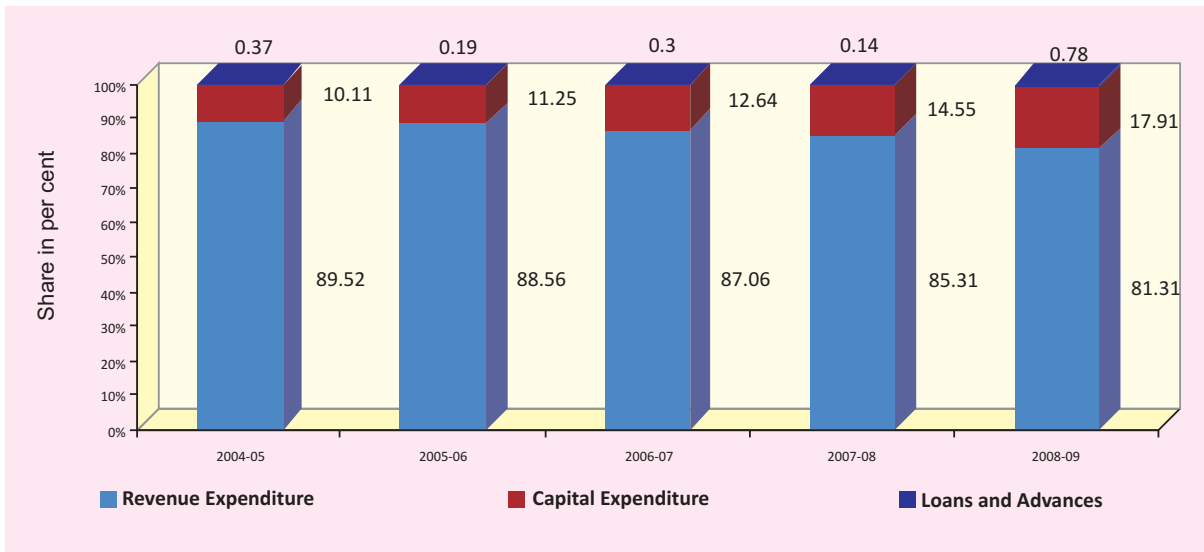
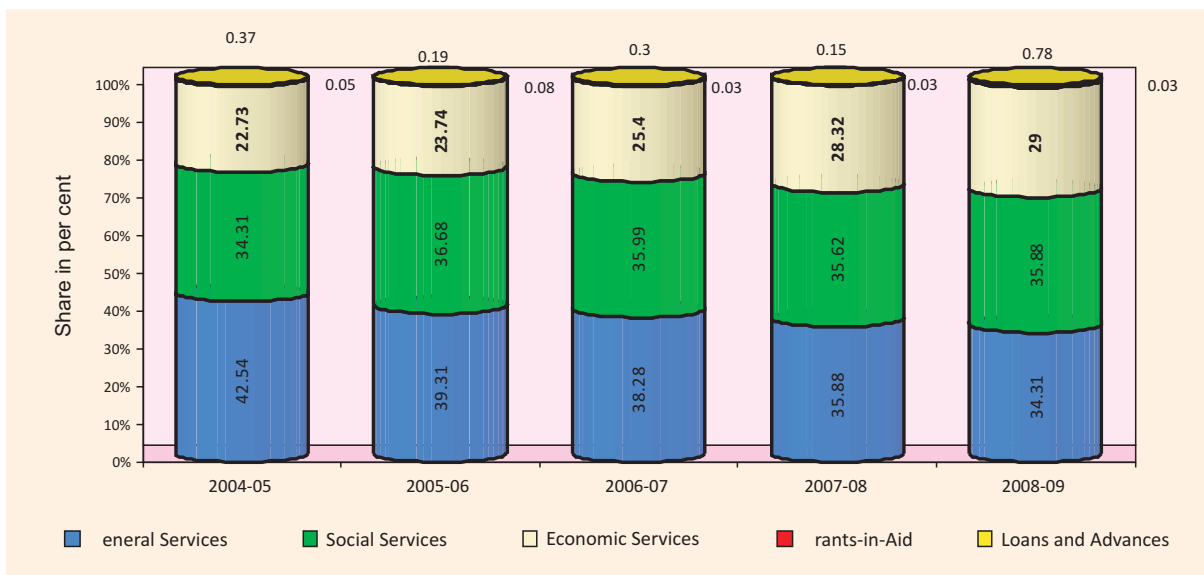


Chart 1.8: Total Expenditure: Trends by 'Activities'



The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services (including interest payments) which is considered as non-developmental, together consistently decreased from 42.54 *per cent* in 2004-05 to 34.31 *per cent* in 2008-09. On the other hand, developmental expenditure i.e. on Social and Economic Services together accounted for 65 *per cent* in 2008-09 as against 64 *per cent* in 2007-08. The marginal increase in share of Economic Services and Social Services was mainly on account of increase in expenditure on General Education (Rs 233 crore), Transport (Rs 56 crore), Agriculture and Allied Activities (Rs 192 crore) and Roads and Bridges (Rs 49 crore). This indicates that there was decrease in non-developmental expenditure and increase in developmental expenditure in comparison to the previous year.

1.4.3 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. It is incurred to maintain the current level of services and payments, for the past obligations, and, as such, does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table-1.6.

Table-1.6: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-09
Revenue Expenditure (RE)	5,793	6,466	7,644	8,292	9,438
Rate of Growth (per cent) RE	3.67	11.62	18.22	8.48	13.82
Non-Plan Revenue Expenditure (NPRE)	4,815	5,284	6,319	7,090	8,561
Rate of Growth (per cent) NPRE	1.41	9.74	19.59	12.20	20.75
Plan Revenue Expenditure (PRE)	978	1,182	1,325	1,202	877
Rate of Growth (per cent) PRE	16.43	20.86	12.10	(-) 9.28	(-) 27.04
NPRE/GSDP (per cent)	20.87	20.75	22.28	22.17	23.17
RE/TE ⁴ (per cent)	89.86	88.73	87.32	85.43	81.95
NPRE as per cent of TE	74.41	72.37	71.97	72.94	74.33
NPRE as per cent of RR	103.88	80.56	80.65	77.55	91.97
Percentage of NPRE to RE	83.12	81.72	82.67	85.50	90.70
PRE to RE	16.88	18.28	17.33	14.50	9.30
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.32	1.11	1.61	0.67	0.89
RRs (ratio)	0.22	0.28	0.94	0.51	7.59
NPRE (ratio)	2.60	1.19	0.93	0.70	0.67
PRE (ratio)	0.22	0.56	1.51	(-) 0.91	(-) 0.51

⁴ Total expenditure excludes loan and advances.

The revenue expenditure increased by 14 *per cent* from Rs 8,292 crore in 2007-08 to Rs 9,438 crore in 2008-09. The NPRE has shown a consistent increase at an average rate of 12.7 *per cent* over the periods 2004-09 and continued to share a dominant proportion varying in the range of 82-91 *per cent* of the revenue expenditure. The increase in NPRE by Rs 1,471 crore during the current year was mainly due to increase in Education (Rs 267 crore), Interest payments (Rs 191 crore), pension (Rs 205 crore), salaries and wages (Rs 363 crore) and assistance to Local Bodies (Rs 115 crore).

The ratio of NPRE to GSDP increased from 20.87 *per cent* to 23.17 *per cent* during 2004-09. The buoyancy of revenue expenditure to NPRE decreased from 2.6 *per cent* in 2004-05 to 0.67 *per cent* in 2008-09, while with reference to Revenue Receipts it increased from 0.51 in 2007-08 to 7.59 in 2008-09. In other words, in 2008-09 for every one *per cent* increase in Revenue receipt, NPRE increased by 7.59 *per cent*. The NPRE not only exceeded the assessment made by the State Government in FCP (Rs 6,088 crore) and MTFPS (Rs 8,541 crore), but also exceeded the normative assessment made by TFC (Rs 5,507 crore) by Rs 3,054 crore (55 *per cent*) for 2008-09.

The plan revenue expenditure (PRE) on the other hand has displayed fluctuations varying from 16.43 *per cent* in 2004-05 to an increase of 20.86 *per cent* in 2005-06, which turned negative (9.28 *per cent*) in 2007-08 and consistently decreased to (-) 27.04 *per cent* during 2008-09. The PRE decreased by Rs 325 crore during 2008-09 mainly on account of fall in expenditure under Tribal Area Sub plan, water supply programmes and assistance given to Planning Board.

1.4.4 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table 1.7 and Chart 1.9 present the trends in the expenditure on these components during 2004-09 and 2006-09 respectively.

Table-1.7: Components of Committed Expenditure

(Rupees in crore)

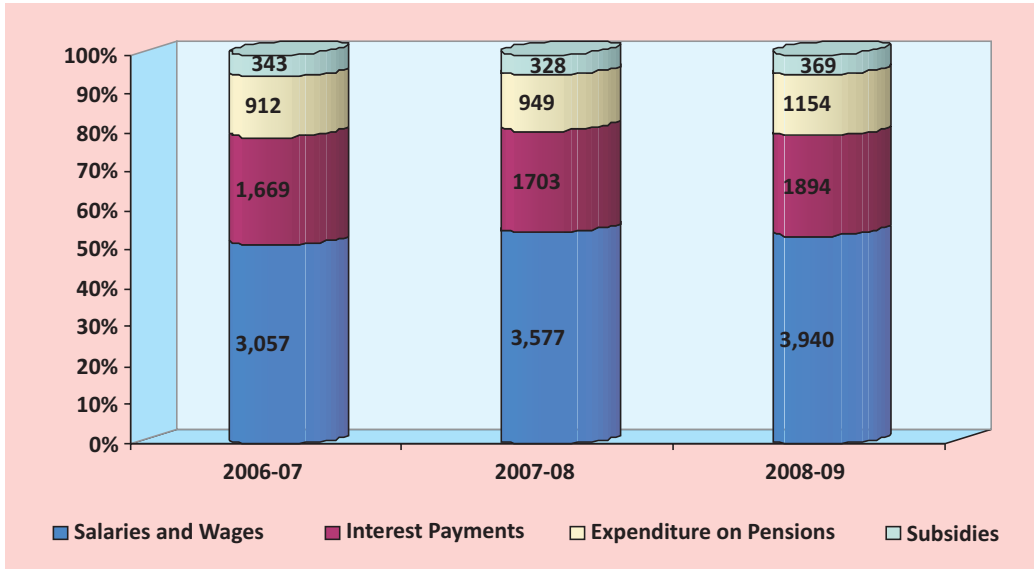
Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries & Wages , Of which	2,204 (48)	2,515 (38)	3,057 (39)	3,577 (39)	3,505	3,940 (42)
Non-Plan Head	Not available	2,115 (32)	2,577 (33)	3,173 (35)	N.A.	3,813 (41)
Plan Head*		400 (6)	480 (6)	404 (4)	N.A.	127 (1)
Interest Payments	1641 (35)	1,563 (24)	1,669 (21)	1,703 (17)	1,834	1,894 (20)
Expenditure on Pensions	591 (13)	670 (10)	912 (12)	949 (10)	1,206	1,154 (12)
Subsidies	159 (3)	142 (2)	343 (4)	328 (4)	328	369 (4)
Total	4,595	4,890	5,981	6,557		7,357

Source: Accountant General (A&E) office

Figures in the parentheses indicate percentage to Revenue Receipts.

*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

**Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2006-09
(Value in labels in Rupees crore)**



The expenditure on salaries and wages alone accounted for more than 42 *per cent* of revenue receipts of the State during 2008-09. It increased by about 10 *per cent* from Rs 3,577 crore in 2007-08 to Rs 3,940 crore in 2008-09. Salary expenditure under Non-plan head during 2008-09 increased by Rs 640 crore (20 *per cent*) over the previous year whereas the salary expenditure on plan head decreased by Rs 277 crore (68.56 *per cent*) over the previous year. Non-plan salary expenditure ranged between 84.10 and 96.78 *per cent* of total expenditure during 2005-09. The increase in non-plan salary expenditure was stated to be due to release of installments of dearness allowances and interim relief on the pattern of Central Government Pay Commission, enhancement in the rate of daily wages and transfer of committed liabilities under Plan schemes to Non-plan side. The salary expenditure during the current year exceeded the projections made in MTFPS (Rs 3,345 crore) and the Fiscal Correction Path (Rs 2,627 crore). *The salary expenditure is 62 per cent of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 per cent recommended by the TFC requiring attention of the State Government.*

- **Pension Payments**

The expenditure on pension payments increased by 95 *per cent* from Rs 591 crore in 2004-05 to Rs 1,154 crore in 2008-09 and by Rs 205 crore during the current year, recording a growth rate of 22 *per cent* over the previous year. Pension payments accounted for nearly 12 *per cent* of revenue receipts of the State during 2008-09. The actual expenditure on Pension Payments for the current year exceeded the projections made in the TFC (Rs 968 crore) and FCP (Rs 814 crore) but was less than the projection made in the MTFPS (Rs 1,206 crore).

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

- **Interest Payments**

The interest payments increased by 21 *per cent* from Rs 1,563 crore in 2005-06 to Rs 1,894 crore in 2008-09 and by Rs 191 crore during the current year, recording a growth rate of 11 *per cent* over the previous year. The major source of borrowings is market loans at interest rates varying from 7.74 to 8.82 *per cent*. The increase of 11 *per cent* over the previous year in interest payments was mainly due to payment of interest on special GOI securities issued against net collection of small savings, insurance, pension fund, etc. Interest payments exceeded the TFC projections (Rs 1,645 crore) as well as the projections made by the State Government in MTFPS (Rs 1,834 crore) and FCP (Rs 1,838 crore) for the year 2008-09. *The interest payments relative to revenue receipts stands at 20 per cent was higher than the norms of 15 per cent as recommended by TFC to be achieved during the award period.*

- **Subsidies**

The State Government has been paying subsidies to various institutions/bodies/Corporations, etc. The subsidies increased by 132 *per cent* from Rs 159 crore in 2004-05 to Rs 369 crore in 2008-09 and by 12.5 *per cent* over the previous year and constituted about 4 *per cent* and 3.18 *per cent* of the revenue receipts and total expenditure respectively. The major components of subsidies were food items (Rs 140 crore); transport (Rs 48 crore) and electricity (Rs 102 crore). The power subsidy at Rs 369 crore in 2008-09 was higher than the projections made both in FCP (Rs 94 crore) and MTFPS (Rs 140 crore).

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

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in Table-1.8.

Table-1.8: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	94.58	103.24	132.81	117.50	176.49	203.49
Municipal Corporation and Municipalities	19.50	28.83	32.68	46.74	70.66	82.46
Zilla Parishads and other Panchayati Raj Institutions	48.82	63.28	70.08	100.58	134.13	188.45
Development Agencies	77.47	52.62	112.10	93.44	37.74	44.45
Hospitals and other charitable Institutions	0.21	0.06	0.40	0.12	0.10	4.85
Other Institutions ⁵	32.83	27.50	31.56	41.11	47.65	58.55
Total	273.41	275.53	379.63	399.49	466.77	582.25
Assistance as per percentage of Revenue Expenditure	4.89	4.76	5.87	5.23	5.63	6.17

Source: Accountant General (A&E) office

⁵ Other institutions include those institutions, which received *ad hoc* or one time grants during the year.

The grants extended to local bodies and other institutions consistently showed an increasing trend over the years 2004-09. It increased by Rs 115 crore (25 per cent) during current year over the previous year. The share of grants in revenue expenditure indicated inter-year variations ranging between 4.76 per cent and 6.17 per cent during the period 2004-09. Another important trend emerging from Table-1.8 is that the share of other institutions has consistently increased from Rs 27.50 crore in 2004-05 to Rs 58.55 crore in 2008-09 indicating that huge financial assistance is being given on *ad hoc* basis to various State Government institutions. The sharp increase under different components during 2008-09 was mainly due to release of more grant to Municipal Corporation/Municipalities (Rs 11.80 crore), to Educational Institutions (Rs 27 crore) and to Zilla Parishads and Panchayati Raj Institutions (Rs 54.32 crore).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. Table 1.9 analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.9: Fiscal Priority and Fiscal capacity of the State during 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Himachal Pradesh' Average (Ratio) 2005-06	32.61	60.61	36.68	11.25
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Himachal Pradesh' Average (Ratio) 2008-09	31.42	65.56	35.88	17.91
Fiscal Capacity of the State	DE	SSE	CE	
All States' Average Per capita expenditure (Amount in Rs) 2005-06	3,010	1,490	692	
Himachal Pradesh' Per Capita Expenditure (Amount in Rs) in 2005-06	6,914	4,184	1,283	

Adjusted Per Capita** Expenditure (Amount in Rs) in 2005-06	7,009	NR	1,612
All States' Average Per Capita Expenditure (Amount in Rs) 2008-09	5,030	2,520	1,254
Himachal Pradesh' Per Capita Expenditure (Amount in Rs) in 2008-09	11,530	6,311	3,150
Adjusted Per Capita** Expenditure (Amount in Rs) in 2008-09	11,902	NR	NR

*As per cent to GSDP

**Calculated as per the methodology explained in the Appendix 1.2

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure.

Population of Himachal Pradesh: 0.64 crore in 2005-06 and 0.66 crore in 2008-09.

Development expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed

Source: (1) for GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar, General and Census Commissioner, India (Website: <http://www.censusindia.gov.in>) Population= Average of Projected population for 2005 and 2006.

NR= No adjustment required since the State is giving adequate fiscal priority. Data for Arunachal Pradesh has not been included.

In Table 1.9, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of Himachal Pradesh in 2005-06 (the first year of the Award period of the TFC) and the current year 2008-09. In 2005-06, the Himachal Government gave adequate fiscal priority to AE and SSE since AE/GSDP and SSE/AE ratios in the case of Himachal was higher than the States/National Average. However, the fiscal priority given to DE and CE was lower than the all States Average in 2005-06. In the current year also the priority given to DE was lower than the all States Average. However, adequate priority for all such categories of expenditure compared to the national average showed a marked improvement in the priority given to CE.

Since Himachal is a special category State, with a relatively small population base, the per capita expenditure of DE, SSE and CE in 2005-06 as well as 2008-09, was higher than the national average. Had the State Government spent as much as the national average for DE and CE in 2005-06 and for DE in 2008-09, the per capita expenditure would have been even higher as indicated by the adjusted per capita expenditure figures, using the methodology explained in *Appendix-1.2*.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁶.

⁶ *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

Apart from improving the allocation towards development expenditure⁷, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While Table 1.10 presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, Table 1.11 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.10: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	3,708 (57)	4,414 (60)	5,403 (61)	6,219 (64)	7,175	7,610 (66)
Development Revenue Expenditure	3,067 (47)	3,642 (50)	4,341 (49)	4,860 (50)	5,303	5,516 (48)
Development Capital Expenditure	624 (10)	769 (11)	1,049 (12)	1,355 (14)	1,872	2,015 (17)
Development Loans and Advances	17 (0.26)	3 (0.04)	13 (0.15)	4 (0.04)	--	79 (0.7)

Figures in parentheses indicate percentage to aggregate expenditure

The allocation to development expenditure, the share of revenue expenditure shows inter-year variations during the period 2004-09 at an average rate of 48.8 *per cent*. Capital expenditure consistently increased from 10 *per cent* in 2004-05 to 17 *per cent* in 2008-09 and by three percentage points over the previous year. Thus, the overall allocation to development expenditure increased by 105 *per cent* from Rs 3,708 crore in 2004-05 to Rs 7,610 crore during 2008-09 and Rs 1,391 crore (22 *per cent*) during 2008-09 over the previous year indicating Government's commitment to improve social and economic well being of the society.

⁷ The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table- 1.11: Efficiency of expenditure use in selected Social and Economic Services*(In per cent)*

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M*		S&W	O &M
Social Services (SS)						
General Education	7.86	85.75	--	13.46	82.91	--
Health and Family Welfare	6.98	81.56	0.06	14.18	83.52	0.30
WS, Sanitation, & Housing and Urban Development	41.02	42.95	57.20	42.35	42.82	64.39
Total (SS)	18.18	75.27	32.08	21.85	74.55	35.34
Economic Services (ES)						
Agriculture & Allied Activities	5.93	50.57	0.65	4.50	47.37	0.60
Irrigation and Flood Control	53.34	73.66	53.58	53.37	70.22	58.34
Power & Energy	42.88	1.05	--	73.48	1.45	--
Transport	36.28	76.62	52.97	41.96	67.31	62.29
Total (ES)	31.51	58.34	30.69	37.01	54.89	32.64
Total (SS+ES)	24.13	68.45	31.25	28.74	67.20	33.66

Source: VLC and Finance Accounts

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance

Table 1.11 depicts the various component-wise percentages of Revenue and Capital expenditure, percentage of expenditure on salary and wages and operation and maintenance cost in relation to revenue expenditure in Social and Economic Services for the year 2007-08 and 2008-09.

Though no specific norms for prioritisation of capital expenditure have been laid down in FRBM Act, the capital expenditure both in Social and Economic sectors of the above mentioned services increased by 4.61 *per cent* from 24.13 *per cent* in 2007-08 to 28.74 *per cent* in 2008-09.

The Capital expenditure as a percentage of total expenditure in Social sector increased from 18.18 to 21.85 *per cent* during 2008-09 over the previous year. In the case of General Education, ratio of Capital expenditure to total expenditure increased by 5.6 *per cent*, in Health and Family Welfare by 7.2 *per cent* and in Water Supply, Sanitation & Housing and Urban Development sector showed an increase of 1.33 *per cent* indicating that in all sub-sectors of social services, there was a higher priority given to Capital expenditure in 2008-09 over the previous year. This improvement was more significant in the case of Health and Family Welfare and Water Supply, Sanitation & Housing and Urban Development. Similarly, share of capital expenditure as percentage to total expenditure in Economic Services increased from 31.51 *per cent* to 37.01 *per cent* during 2008-09 over the previous year. In the case of Power and Energy component ratio of Capital expenditure to total expenditure showed an increase of 30.60 *per cent*, in Transport by 5.68 *per cent* while in Agriculture and Allied Activities it decreased and in Irrigation and Flood Control component this ratio remained static.

During 2008-09, salaries and wages as a percentage of revenue expenditure on Social Services remained almost static while in Economic services this ratio decreased by 3.45 *per cent* as compared to the previous year. In operation and maintenance expenditure as a percentage of revenue expenditure this ratio increased in both Social and Economic Services by 3.26 and 1.95 *per cent* respectively in 2008-09 over the previous year indicating more priorities towards their maintenance and better quality of services.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to achieve the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. Three reviews under Social and Economic Services were taken up and the main highlights of the two performance reviews which figure in the separate Report of the Comptroller and Auditor General of India ended 31 March 2009 are as under:

(a) Accelerated Irrigation Benefits Programme (AIBP)

The Government of India (GOI) launched Accelerated Irrigation Benefits Programme (AIBP) in 1996-97 with the objective of accelerating the completion of ongoing selected major and medium irrigation projects which were in an advanced stage of completion by assisting the State Governments through Central Loan Assistance (CLA). The performance audit covered implementation of two medium irrigation projects and 205 out of 451 minor irrigation schemes taken up during 2004-09. Against admissible Central assistance of Rs 321.03 crore, grant/assistance released during 2004-09 by GOI was only Rs 270.50 crore. While there was no major excess or saving except for the year 2006-07 over the budget provided for construction of schemes under AIBP, there was overall savings of Rs 16.72 crore during 2004-09. The objective of speedy development of irrigation potential and its eventual utilisation for the benefit of the farmers was not achieved to the desired extent in the State due to inherent deficiencies in planning, execution and monitoring. In the absence of a time bound strategy for systematic harnessing of estimated irrigation potential, only 17,053 hectares (22 *per cent*) irrigation potential could be created by the Department during 2005-09 against the target of 77,880 hectares under Bharat Nirman. Even the irrigation potential created under various schemes was not utilised optimally and the shortfall in utilisation during 2004-09 ranged between 56 and 100 *per cent*. Non-completion of projects/schemes within the prescribed time limits of two to four years resulted in time/cost overruns.

(b) National Rural Health Mission (NRHM)

The National Rural Health Mission (NRHM) was launched by the Government of India (GOI) on 12 April 2005. The main objectives of the Mission, to be met during the period 2005-2012 is to provide accessible, affordable, accountable, effective and reliable health care facilities in the rural areas, especially to the poor and vulnerable sections of the society. A mid-term review of the implementation

of the programme during 2005-09 revealed that out of the total available funds ranging between Rs 16.25 crore and Rs 55.75 crore received from GOI (including State share of Rs 10.65 crore) remained unutilised with the State during 2005-09. Upgradation of Community Health Centres, Primary Health Centres and Sub-Centres to the level of Indian Public Health Standards has not been achieved. The review highlighted gaps in planning, implementation and monitoring activities. Absence of a household survey and perspective plan and lack of inputs from the community at the grass roots level in the annual plans rendered the planning process an exercise in futility. While the number of health centres exceeded the norms, these could not ensure reliable and accessible health care to the targeted beneficiaries due to inadequate infrastructure and insufficient manpower. Some of the key initiatives of NRHM like ASHA and village health and sanitation committees have not received the required attention and public spending on health sector also remained constant during the last four years. Acute shortage of manpower in all the health institutions adversely affected the availability of health care services.

1.6 Financial Analysis of Government Expenditure and Investments

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

1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2009 is given in Table-1.12.

Table-1.12: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of incomplete Projects	Initial budgeted cost	Revised Total Cost of Projects*	Cumulative actual expenditure as on 31.03.2009	Cost overrun
1.	2.	3.	4.	5.	6 (5-3)
Irrigation and Public Health	14	29.82	46.23	92.24	62.42
Public Works	03	3.55	--	4.18	0.63
Total:	17	33.37		96.42	63.05

Source: Departmental figures

* Indicates the revised total cost of the projects as per the last revision by the State Government.

The details of incomplete projects pertaining to two main departments are presented in Table-1.12. Moreover, the details of revised costs of the incomplete projects relating to both these

above departments are not captured in the Finance Accounts. In respect of eight incomplete projects, revised costs of which are available, the cost overrun was Rs 63.05 crore. An analysis of the delays in completion of these 17 incomplete projects reveal time overruns ranging between 2 to 12 years in case of major and medium irrigation projects and between 3 to 8 years in respect of the Public Works projects. These projects were lying incomplete due to dispute over site, non-availability of adequate funds, court cases, limited working seasons due to hilly terrain, etc.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs 2,369 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (Table-1.13). The average return on this investment was 1.1 *per cent* in the last five years while the Government paid an average interest rate of 9.5 *per cent* on its borrowings during 2004-09.

Table-1.13: Return on Investment

Investment/Return/cost of Borrowing	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	1,943	1,842	1,861	2,033	2,369
Return (Rs in crore)	0.58	28.61	1.80	0.52	89.58
Return (per cent)	0.03	1.55	0.10	0.03	3.78
Average rate of interest on Government borrowings (per cent)	10.60	9.20	9.40	9.09	9.19
Difference between interest rate and return (per cent)	10.57	7.65	9.30	9.06	5.41

Major investments were made in six Statutory Corporations/Boards (Rs 753.25 crore), 19 Government Companies (Rs 492.40 crore) and a Central PSU Himachal Pradesh Satluj Jal Vidyut Nigam (Rs 1,027.20 crore). The two Statutory Corporations/Boards had incurred accumulated loss of Rs 742.69 crore (Himachal Pradesh Road Transport Corporation: Rs 512.33 crore and Himachal Pradesh State Electricity Board: Rs 230.36 crore) at the end of March 2009. The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2009 were, Himachal Pradesh Agro-Industrial Packaging India Limited (Rs 74.57 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (Rs 43 crore), Himachal Pradesh Forest Corporation (Rs 44.79 crore) and Himachal Pradesh Handicrafts and Handloom Corporation Limited (Rs 11.77 crore).

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. Table 1.14 presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table-1.14: Average Interest Received on Loans Advanced by the State Government*(Rupees in crore)*

Quantum of Loans/Interest Receipts/Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	234	237	225
Amount advanced during the year	26	14	90
Amount repaid during the year	23	26	21
Closing Balance	237	225	294
Of which Outstanding balance for which terms and conditions have been settled	--	--	--
Net addition	03	(-) 12	69
Interest Receipts	11	16	11
Interest receipts as per cent to outstanding Loans and advances	4.7	6.9	4.2
Interest payments as per cent to outstanding fiscal liabilities of the State Government.	9.6	9.4	9.8
Difference between interest payments and interest receipts (per cent)	(-) 4.9	(-) 2.5	(-) 5.6

Total amount of outstanding loans and advances as on 31 March 2009 was Rs 294 crore. Against Rs 90 crore advanced, only Rs 21 crore was repaid during 2008-09, recording a decrease of Rs 5 crore in repayment over the previous year. Major recipients of loans during 2008-09 were Power projects (Rs 75 crore). There was a huge variation in the average rate of interest being paid by the Government on borrowings vis-à-vis the percentage of interest received on outstanding loans and advances. The shortfall ranged between 2.5 per cent and 5.6 per cent during 2006-09. During 2008-09, the Government received 4.2 per cent return of interest receipts as percentage to outstanding loans against the targeted receipt of 7 per cent fixed by TFC. It, however, paid 9.8 per cent interest on borrowings during this period.

1.6.4 Cash Balances and Investment of Cash balances

Table 1.15 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.15: Cash Balances and Investment of Cash balances*(Rupees in crore)*

Particulars	As on 1st April 2008	As on 31st March 2009	Increase (+)/ Decrease(-)
Cash Balances	(-) 298.96	(-) 150.14	(-) 148.82
Investments from Cash Balances			
a. GOI Treasury Bills	1,121.75	1,129.18	(+) 7.43
b. GOI Securities	3,828.92	3,889.22	(+) 60.30
Funds-wise break-up of Investment from Earmarked balances (a to b)	--	--	--
Interest realized	48.62	60.45	(+) 11.83

Cash balances of the State Government at the end of the current year decreased by Rs 148.82 crore from Rs 298.96 crore in 2007-08 to Rs 150.14 crore in 2008-09. The State Government has invested Rs 1,129.18 crore in GOI Treasury Bills and Rs 3,889.22 crore in GOI Securities and earned an interest of Rs 60.45 crore during 2008-09. The interest realized against investment on cash balance was 1.2 *per cent* during 2008-09 while Government paid interest at the average rate of 9.19 *per cent* on its borrowings during the year.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. Table 1.16 presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table-1.16: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills

Month	Monthly Average Daily Cash Balances			Investment in 14 days Treasury Bills			Investment in Auction Treasury Bills		
	(Rupees in lakh)			(Rupees in crore)			(Rupees in crore)		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	282.31	103.81	89.10	897.57	622.04	2379.93	944.10	441.30	2699.63
May	249.47	148.94	347.46	1262.37	1051.01	1883.35	1080.24	797.34	1809.01
June	55.45	55.56	55.54	1165.77	1399.93	2169.56	1362.61	1263.85	2060.27
July	55.17	55.59	55.54	794.77	1454.74	1843.31	788.23	1401.95	1874.91
August	55.53	190.79	98.01	1064.34	1900.27	2285.25	1061.60	1641.50	2239.14
September	55.40	483.94	1034.05	798.54	1878.15	2281.86	892.02	1681.52	2183.45
October	55.48	55.55	56.13	628.28	2958.34	2795.06	686.99	2962.49	2595.44
November	55.49	55.51	55.51	1152.40	2317.09	3058.59	744.64	2416.88	2909.56
December	351.86	55.51	2930.75	2057.82	2798.48	3220.30	2005.24	2573.79	3288.59
January	203.74	55.43	55.55	1296.09	2664.37	3396.21	1413.40	2765.46	3177.75
February	55.53	55.52	55.46	977.31	3094.91	3010.24	1196.03	2666.66	3237.96
March	128.25	87.83	490.19	1412.81	3190.09	3193.78	1667.85	3594.93	3424.30

Source: Accountant General (A&E) Office and Finance Department

The State Government had maintained a minimum cash balance of Rs 55 lakh as per agreement with the Reserve Bank of India during the last three years.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.4* gives an abstract of such liabilities and the assets as on 31 March 2009, compared with

the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.3*. However, the composition of fiscal liabilities during the current year vis-à-vis the previous years are presented in Table-1.17, Chart 1.10 and 1.11.

Table-1.17: Fiscal Liabilities – Basic Parameters

	2004-05	2005-06	2006-07	2007-08	2008-09
Fiscal Liabilities (Rupees in crore)	16,533	17,432	18,071	19,419	21,819
Rate of Growth (per cent)	14.52	5.44	3.67	7.46	12.36
Ratio of Fiscal Liabilities to					
GSDP (per cent)	71.68	68.44	63.72	60.73	59.07
Revenue Receipts (per cent)	356.70	265.77	230.64	212.42	234.41

Chart 1.10: Composition of Outstanding Liabilities as on 01.04.2008 (Rs in crore)

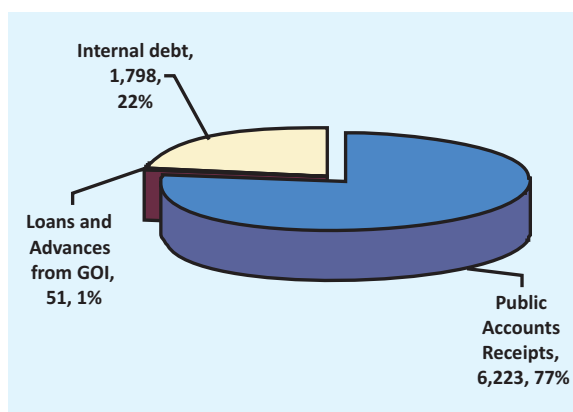
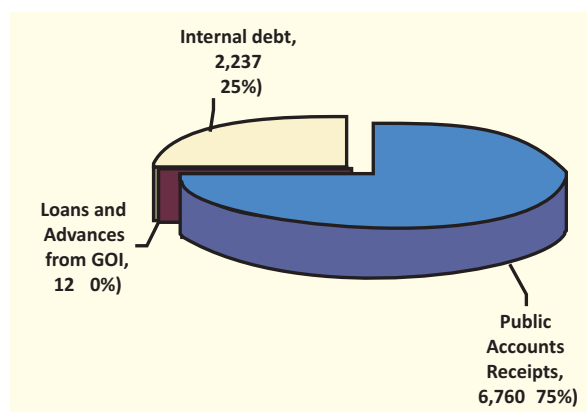


Chart 1.11: Composition of Outstanding Liabilities as on 31.03.2009 (Rs in crore)



The overall fiscal liabilities of the State increased from Rs 16,533 crore in 2004-05 to Rs 21,819 crore in 2008-09. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 15,427 crore) comprised market loans (Rs 7,658 crore), loans from GOI (Rs 971 crore) and other loans (Rs 6,798 crore which includes Rs 3,889 crore on Special Security issued to NSSF of the GOI). The Public Account liabilities (Rs 6,392 crore) comprise Small Savings and Provident Funds (Rs 4,668 crore), interest bearing obligations and non-interest bearing obligations like deposits (Rs 983 crore) and reserve funds (Rs 741 crore). The rate of growth of fiscal liabilities was 12.36 per cent during 2008-09. The ratio of fiscal liabilities to GSDP consistently decreased to 59.07 per cent from 71.68 per cent during 2004-09. These liabilities stood at 2.34 times the revenue

receipts at the end of 2008-09. The State Government was required to set up a Consolidated Sinking Fund as recommended by the TFC for amortisation of market borrowings as well as other loans and debt obligations. The State Government has not yet set up the sinking fund.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years as shown in Statement-6 of the Finance Accounts, is given in Table 1.18.

Table-1.18: Guarantees given by the Government of Himachal Pradesh

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Max amount guaranteed	6,347	6,450	6,076
Outstanding amount of guarantees	2,976	2,632	2,291
Percentage of maximum amount guaranteed to total revenue receipts	81	70.6	65

No law has been passed by the State Legislature under Article 293(1) of the Constitution laying down the limits within which Government may give guarantees on the security of the Consolidated Funds of the State. However, the HPFRBM Act, 2005 provides that the total outstanding guarantees are to be limited to 80 *per cent* of revenue receipts in the year preceding the current year. Since the enactment of the FRBM Act, 2005, the outstanding guarantees given by the State Government were within the limit prescribed by the Act. The outstanding guarantees on the loans raised by various corporations and others stood at Rs 2,291 crore at the end of 2008-09 which were 25.06 *per cent* of the revenue receipts of the previous year and maximum amount guaranteed to total revenue receipts was 65 *per cent* which is within the permissible limits. The major recipients of guarantees against which amounts were outstanding as of 31st March 2009 were 17 Statutory Boards/Corporations (Rs 1,648 crore), eight Government companies (Rs 294 crore), three Co-operative Banks and one Society (Rs 300 crore) and two Local/Autonomous Bodies (Rs 49 crore). The State Government was required to set up the Guarantee Redemption Fund as recommended by the TFC to meet the contingent liabilities arising from the guarantees given. However, the State Government has not set up such a Fund so far.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability⁸ of the State. This section assesses the sustainability of debt of

⁸ The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

the State Government in terms of debt stabilization⁹; sufficiency of non-debt receipts¹⁰; net availability of borrowed funds¹¹; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. Table-1.19 analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table-1.19: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	1,083	1,812	1,054
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 202	370	(-) 1,726
Net Availability of Borrowed Funds	(-) 1,071	(-) 79	507
Burden of Interest Payments (IP/RR Ratio)	0.213	0.186	0.203
Maturity Profile of State Debt (In Years)*			
0 – 1	Not available	1,793.89	387.20 (2.47)
1 – 3		3,519.01	3,654.02 (23.26)
3 – 5		2,802.05	2,733.06 (17.40)
5 – 7		2,019.54	2,167.37 (13.80)
7 and above		4,830.94	6,766.17 (43.07)

Figures in parenthesis indicate percentages

Table-1.19 reveals that quantum spread together with primary deficit was positive during 2006-09 indicating declining trend of debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilisation, which in turn may improve the debt sustainability position of the State. However, the negative resource gap during 2008-09 indicates a risk of worsening of the fiscal and debt instability of the State provided this trend continues. During 2008-09, net borrowed funds available was positive indicating that Rs 507 crore of total debt receipts were utilized for other purposes rather than for discharging past debt obligations. The maturity profile of the State Government indicates that 42.13 per cent (Rs 6774.28 crore) of the total Public Debt is repayable within the next five years while the remaining 57.87 per cent (Rs 8933.54 crore) loans are required to be paid in more than five years time.

⁹ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

¹⁰ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

¹¹ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Chart 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09:

Chart 1.12: Trends in Deficit Indicators (Rupees in crore)

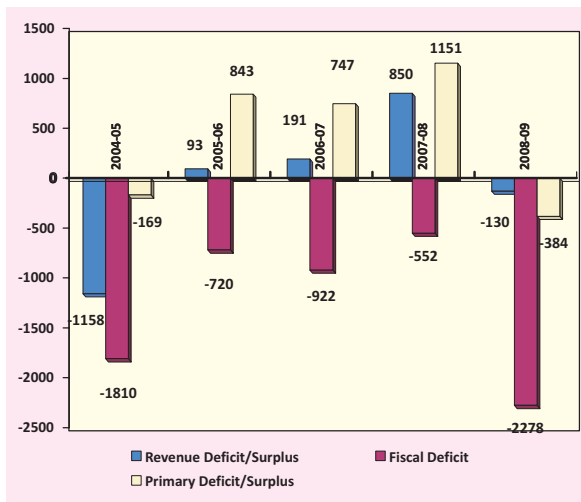


Chart 1.13: Trends in Deficit Indicators relative to GSDP (figures in Per cent to GSDP)

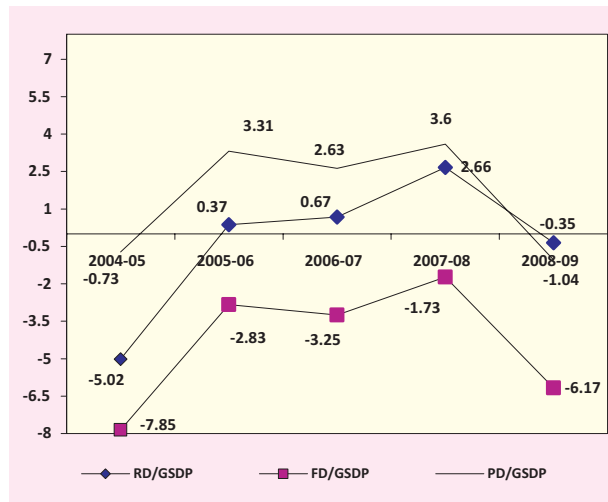


Chart 1.12 and 1.13 reveal that all accounts of revenue, fiscal and primary experienced a situation of huge deficit during current year. The State had continued to experience revenue surplus from 2005-06 to 2007-08 and showed a revenue surplus of Rs 93 crore in 2005-06, Rs 191 crore in 2006-07, Rs 850 crore in 2007-08, which sharply decreased to a deficit of Rs 130 crore by 115 per cent in 2008-09. The deterioration situation in revenue account was mainly on account of marginal increase in revenue receipts (1.8 per cent) against the steep increase in revenue expenditure (13.8 per cent). The Non-tax revenue decreased by Rs 67 crore and GIA received from GOI reduced by Rs 95 crore which accounted for less realization of revenue receipts during 2008-09. Further, fiscal deficit sharply increased by Rs 1,726 crore from Rs 552 crore in 2007-08 to Rs 2,278 crore during 2008-09 due to sharp increase of Rs 665 crore in Capital expenditure and increase of Rs 81 crore in loans and advance disbursed. The primary surplus of 2007-08 turned into deficit due to sharp increase in fiscal deficit during current year,

however, it was offset to some extent by the increase in interest payments (Rs 191 crore). Thus revenue deficit and fiscal deficit was 0.35 and 6.17 per cent of GSDP which were higher than the projections made by TFC i.e. 0 and 3 per cent respectively which is a set back to the State that was heading towards achieving the target set forth in the FRBM Act.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the Table 1. 20.

Table-1.20: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
1	Revenue Deficit	(-) 1,158 (-) 5.02	(+) 93 (0.37)	(+) 191 (0.67)	(+) 850 (2.66)	(-) 130 (-) 0.35
2	Capital Expenditure	654 (2.8)	821 (3.22)	1,110 (3.91)	1,414 (4.42)	2,079 (5.63)
3	Net Loans and Advances	2 (--)	8 (--)	(-) 3 (--)	12 (0.04)	(-) 69 (-) 0.19
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	852	425	467	1,322	1,752
2	Loans from GOI	(-) 750	(-) 38	(-) 91	(-) 5	(-) 44
3	Special Securities Issued to NSSF	785	813	670	134	60
4	Loans from Financial Institutions	343	(-) 739	(-) 309	(-) 599	(-) 406
5	Small Savings, PF, etc.	261	310	322	540	515
6	Deposits and Advances	886	103	(-) 500	(-) 366	217
7	Suspense and Misc.	(-) 29	9	(-) 7	2	53
8	Remittances	(-) 48	119	73	50	(-) 2
9	Others	(-) 490	(-) 279	297	(-) 526	151
10	Overall Surplus/Deficit	(-) 1,810	(-) 720	(-) 92	(-) 552	(-) 2,278

Figures in brackets indicate the per cent to GSDP.

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

Table-1.20 reveals that fiscal position of the State has plunged to a huge deficit during the current year. Given a shift from revenue surplus to a revenue deficit of Rs 980 crore and Rs 81 crore in loans and advances disbursements combined together with an increase of Rs 665 crore in Capital expenditure, the Fiscal deficit sharply increased by Rs 1,726 crore during 2008-09 as compared to previous year. The State Government raised major portion of the internal debt through Market borrowings and Small Savings, PF, etc. Market borrowings increased by 106 per cent from Rs 852 crore in 2004-05 to Rs 1,752 crore during 2008-09 and Small Savings, PF, etc., increased by 97 per cent during the same period.

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (Table-1.21) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table-1.21: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	4,661	4,152	654	24	4,830	509	(-) 169
2005-06	6,581	4,903	821	14	5,738	1,678	843
2006-07	7,858	5,975	1,110	26	7,111	1,883	747
2007-08	9,168	6,589	1,414	14	8,017	2,579	1,151
2008-09	9,329	7,544	2,079	90	9,713	1,785	(-) 384

The non-debt receipt of the State during 2004-05 to 2008-09 was sufficient to meet the primary revenue expenditure. The non-debt receipts of the State increased by 100 *per cent* from Rs 4,661 crore to Rs 9,329 crore in 2008-09. The primary revenue expenditure, however, increased by 82 *per cent* from Rs 4,152 crore in 2004-05 to Rs 7,544 crore in 2008-09. Against the increase in primary revenue expenditure of 14.49 *per cent*, the realization of non-debt receipts increased only by 1.76 *per cent* during 2008-09 over the previous year.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. Table-1.22 presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.22: Change in revenue Receipts and Correction of Deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	27.6	28.6	26	25.2
State's Own Tax Revenue	5.8	6.1	8.8	6.1
State's Own Non- tax Revenue	4.7	5.7	3.4	4.8
State's Share in Central Taxes and Duties	2.2	2.5	--	2.2

Grants-in-Aid	14.9	14.3	13.8	12.1
Revenue Expenditure	27.0	25.9	25.8	25.5
Revenue Deficit/Surplus	(+) 0.7	(+) 2.7	(+) 0.2	(-) 0.4
Fiscal Deficit/Surplus	(-) 3.3	(-) 1.7	(-) 5.4	(-) 6.2

Revenue receipts comprised not only of the tax and non-tax resources but also transfers from the Government of India. The ratio of revenue receipts to GSDP during current year was 25.2 *per cent*, a decrease of three percentage points over the previous year. During 2007-09, the ratio of State's own taxes as a *per cent* of GSDP remained stable. The decrease of three percentage points in revenue receipts was due to decrease in non-tax revenue receipt and grants received from the GOI during current year.

1.10 Conclusion and Recommendations

The fiscal position of State viewed in terms of key fiscal parameters has indicated a significant improvement, as the State was able to maintain revenue and primary surpluses during 2005-08. The State has eliminated the revenue deficit before the target date set in the HPFRBM Act 2005 and was on the trajectory of achieving the fiscal deficit target. But during 2008-09, the position changed and the State has gone under deficit in all key fiscal parameters i.e. revenue (Rs 130 crore), fiscal (Rs 2,278 crore) and primary (Rs 384 crore) due to steep increase in revenue expenditure (13.8 *per cent*) as against the marginal increase in revenue receipts (1.8 *per cent*).

The Non-tax revenue decreased by Rs 67 crore and GIA received from GOI reduced by Rs 95 crore which accounted for less realization of revenue receipts during 2008-09. Further, fiscal deficit sharply increased by Rs 1,726 crore from Rs 552 crore in 2007-08 to Rs 2,278 crore during 2008-09 i.e. 6.17 *per cent* of GSDP which is much higher than the projections and a set back to the State which was heading towards achieving the target set forth in the HPFRBM Act.

The expenditure pattern of the state revealed that the revenue expenditure as a percentage of the total expenditure indicated an increasing trend. It constituted 81 *per cent* of the total expenditure during 2008-09. The NPRE not only exceeded the assessment made by the State Government in FCP and MTFPS, but also exceeded the normative assessment made by TFC by Rs 3,054 crore (55 *per cent*) for 2008-09. Moreover, within the NPRE, three components viz. salary expenditure, pension payments and interest payments constituted 82 *per cent* (Rs 6,988 crore) during 2008-09. These trends in expenditure indicated the need for changing allocation priorities.

The salary expenditure during the current year exceeded the projections made in MTFPS (Rs 3,345 crore) and the FCP (Rs 2,627 crore). The salary and wages expenditure at 62 *per cent* of revenue expenditure net of interest and pension payments is much higher than the norm of 35 *per cent* recommended by the TFC. The expenditure on pension and interest payments exceeded the projections made in the TFC by 19 and 15 *per cent* and FCP by 42 and three *per cent* respectively. The ratio of salaries, interest payments, pensions and subsidies to revenue receipts show an increase of seven percentage points over the previous year.

The ratio of fiscal liabilities to GSDP was 59 *per cent*, stood at 2.34 times the revenue receipts at the end of 2008-09, needed attention of the State Government.

The State Government has yet to set up the Sinking Fund and Guarantee Redemption Fund with RBI as recommended by TFC to mitigate the impact of these liabilities.

The interest realized against investment from cash balances was 1.1 *per cent* while Government paid interest at the average rate of 9.19 *per cent* on its borrowings. Besides, the huge accumulated losses by the Statutory Government Corporations and companies especially in power and transport sectors resulting in negligible average return of 1.1 *per cent* in the last five years on the investment continued to be a cause of concern and needed attention of the State Government.

Adequate thrust to development expenditure: The ratio of development expenditure to aggregate expenditure in Himachal Pradesh is lower than the national average and therefore needs higher fiscal priority. This calls for a re-look at the capacity of the State to utilize expenditure for developmental outcomes to assess if it can be improved by better design of schemes, reducing administration costs, timely implementation, closer monitoring etc. Cost and time overruns of incomplete projects are inevitable by-products of weak control systems. The State can work towards further improvements in this area so that people derive envisaged benefits in the quickest possible time.

Review of Government investments: The average return on Himachal Pradesh Government's investments in Statutory Corporations/Boards, Rural Banks, Joint Stock Companies and Co-operatives was 1.1 *per cent* in the past five years, whereas its average interest outgo was 9.5 *per cent*. This is obviously an unsustainable proposition. The State Government should therefore hasten to seek better value for money in investments. Otherwise high-cost borrowed funds invested in projects with low financial return will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification for the high-cost borrowings. The State Government needs to revisit the working of state-owned public sector undertakings incurring huge losses and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down (if they are not likely to be viable given current market conditions).

Prudent cash management: The cost of holding surplus cash balances is reported high. In 2008-09, interest received on investment of cash balances in RBI's Treasury Bills and Auction Bills was only 1.2 *per cent* while the Government borrowed on an average rate at 9.19 *per cent*. Proper debt management through advanced planning could minimise the need to hold large cash surpluses.

Debt sustainability: The Government of Himachal Pradesh should endeavour to achieve the debt-GSDP ratio of 31 *per cent* by 2009-10 as specified in TFC/Fiscal Reform legislation. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit at the earliest. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GoI to the State implementing agencies: Funds flowing directly to the implementing agencies through off-budget routing inhibits FRBM requirements of transparency and therefore bypass accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes. A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).