

The State of Himachal Pradesh is considered a special category State¹ because of its mountainous terrain, which has the inherent disadvantage of infrastructure and transaction costs and also calls for relatively higher cost of governance. Despite this, the State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been almost 13 per cent (*Appendix-1*). During 2001-11, its population has grown by 13 per cent and the per capita income growth has been at 16 per cent between 2010 and 2011. The Finance Accounts of the State Government are laid out in 19 statements, the structure and layout of which are depicted in *Appendix-1.1*. 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. *Appendix-1.2* of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and *Appendix-1.3* presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2006-11.

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 (2010-11) vis-à-vis the previous year (2009-10) while *Appendix-1.4* provides details of receipts and disbursements as well as overall fiscal position during the current year as compared to the previous year.

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

		(₹ in crore)					
2009-10	Receipts	2010-11	2009-10	Disbursements			2010-11
Section-A: Revenue				Non Plan		Plan	Total
10,346	Revenue receipts	12,711	11,151	Revenue expenditure	12,294	1,652	13,946*
2,574	Tax revenue	3,643	4,377	General services	5249	30	5279
1,784	Non tax revenue	1,695	3,902	Social services	4081	898	4979
862	Share of Union Taxes/ Duties	1,715	2,868	Economic services	2959	723	3682
5,126	Grants from Government of India	5,658	4	Grants-in-aid and Contributions	6	--	6
Section-B: Capital							
	Misc. Capital Receipts	646	1,943	Capital Outlay	15	1,774	1,789
34	Recoveries of Loans and Advances	73	70	Loans and Advances disbursed	4	223	227
2,553	Public Debt receipts	2,411	867	Repayment of Public Debt	--	870	870
--	Contingency Fund	--	--	Contingency Fund	--	--	--
6,821	Public Account receipts	8,507	6,421	Public Account disbursements	--	--	7,162
979	Opening Cash Balance	281	281	Closing Cash Balance	--	--	635
20,733	Total	24,629	20,733	Total			24,629

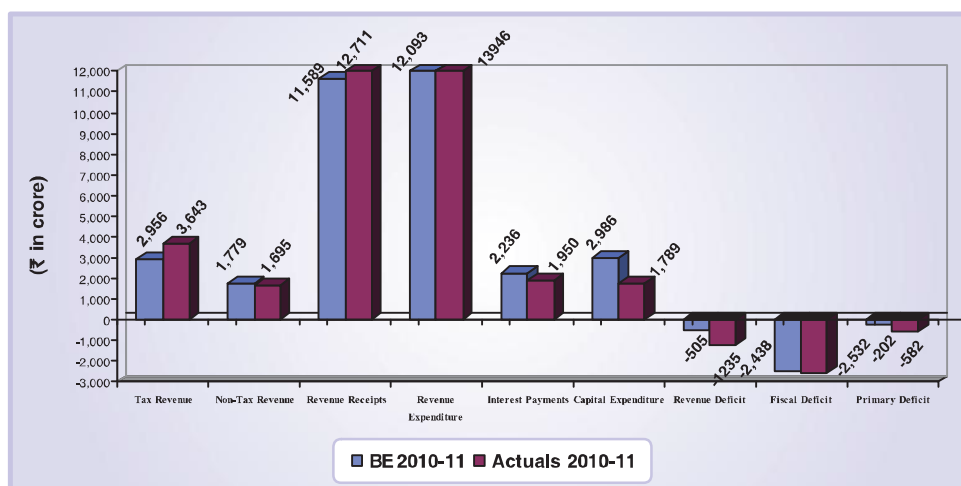
¹ The Special privileges given to Himachal Pradesh include financial assistance from GoI in the ratio of 90 per cent grant and 10 per cent loan unlike non-special category states which get central aid in the ratio 70 per cent grant and 30 per cent loan. Besides, significant excise duty concessions persuading industry to relocate/locate manufacturing within its territory are also available.

* Includes an amount of ₹699.96 crore (₹643.08 crore+₹56.88 crore) by way of book adjustment.

- Being a special category State 45 *per cent* of the revenue receipts are in the form of grants from GoI. Although revenue receipts in 2010-11 grew by 23 *per cent* over the previous year, revenue expenditure grew by 25 *per cent*.
- State's own tax revenue (OTR) increased in the current year by ₹1,069 crore (42 *per cent*) over the previous year whereas Non Tax Revenue (NTR) marginally decreased by ₹89 crore (five *per cent*). Increase in OTR was mainly due to collection of more sales/trade taxes, state excise, taxes on vehicles, stamps and registration fee on sale of land/property and taxes & duties on electricity, etc.
- Revenue expenditure in the current year increased by ₹2795 crore (25 *per cent*) over the previous year. This was mainly due to implementation of 5th Pay Commission, release of DA installments and book adjustment of loans.
- The revenue deficit increased by ₹430 crore (53 *per cent*) from ₹805 crore in 2009-10 to ₹1235 crore² in 2010-11. Revenue deficit as a percentage of the GSDP in the current year is 2.4 as compared to 1.9 in the previous year.
- Repayment of public debt has marginally increased by ₹3.00 crore in the current year.
- Disbursement of Loans and Advances has increased drastically by 224 *per cent* over the previous year. This was higher due to loans given to Power Projects.
- Though the opening balance in 2010-11 was less by 71 *per cent* over the previous year but the closing balance increased by 126 *per cent* in 2010-11 as compared to 2009-10.

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



Source: Review of receipt and expenditure (August 2010) and Finance Accounts

² Includes an amount of ₹699.96 crore by way of book adjustment.

Chart 1.1 depicts that revenue expenditure was higher by ₹1853 crore (15 per cent) during 2010-11 against the estimated expenditure of ₹12093 crore. Against the estimation of revenue deficit of ₹505 crore, there was a deficit of ₹1235 crore⁵ during the current year. Fiscal deficit and primary deficit were ₹2532 crore and ₹582 crore against the estimated fiscal and primary deficit of ₹2438 crore and ₹202 crore respectively.

The performance of the State during 2010-11 in terms of key fiscal targets set for selected variables laid down in HPFRBM³ (Amendment) Act, 2011⁴ as well as projections made in MTFPS⁵ vis-à-vis achievements for 2010-11 are summarised in **Table-1.1A** below :

Table-1.1A: Key fiscal targets for selected variables

(₹ in crore)

Fiscal forecasts	Projections in FRBM Act / ThFC	Projections made by State Government in	Actual	Percentage variation of actual over	
		MTFPS		ThFC ⁶	MTFPS
Own Tax Revenue	3,087	2,956	3,643	*	*
Non Tax Revenue	1,394	1,779	1,695	*	4.72
Non-Plan Revenue Expenditure (NPRE)	8,305	10,796	12,294	48.03	13.87
Capital Expenditure	---	---	1,789	--	--
Revenue Deficit (-) Surplus (+) as per cent of RRs	---	(-)4.36	(-)9.72	(-)9.72	(-)5.36
Fiscal Deficit(-)/ Surplus (+) as per cent of GSDP (2010-11)	3.5	(-)5.08	(-) 4.83	(-)8.33	*
Consolidated debt (including Guarantees) as per cent of GSDP (By 2010-11)	49.7	56	58	8.3	2
Outstanding guarantees as percentage of the State's RRs of preceding financial year	Below 40 per cent	17	38	*	21

* Targets were achieved.

- Although targets set for attaining the level of revenue and fiscal deficits in HPFRBM Act as well as in MTFPS and TFC were achieved in 2007-08

⁵ Includes an amount of ₹699.96 crore by way of book adjustment.

³ Himachal Pradesh Fiscal Responsibility and Budget Management.

⁴ Amended by Act Number 25 of 2011.

⁵ Medium Term Fiscal Plan statement

⁶ Thirteenth Finance Commission.

(i.e. earlier than timeline of 2008), the State had again gone under revenue and fiscal deficits during 2008-09, 2009-10 and 2010-11.

- In 2009-10 the State had revenue deficit of ₹805 crore which increased to ₹1,235 crore* (53 per cent) in the current year. Fiscal deficit decreased by ₹252 crore from ₹2,784 crore in 2009-10 to ₹2532 crore in the current year (i.e. 4.83 per cent of GSDP) which is higher than the projections (3.50 per cent of GSDP) laid down in the FRBM Act as shown in the above Table.
- The consolidated debt of the State which is 58 per cent of GSDP is also higher than the targets of 49.7 and 56 per cent laid down by the ThFC and MTFPS respectively during the year.

Commitments made in the Budget Speech 2010-11

In budget speech Finance Minister had made the following commitment for fiscal consolidation in the year 2010-11:

- Total revenue expenditure was estimated at ₹12093.42 crore and the total expenditure at ₹15078.92 crore;
- Total expected capital receipts were ₹2798.77 crore and the total capital expenditure, including loan repayments was estimated at ₹2985.50 crore;
- Total estimated interest payments were ₹2236.30 crore and pension expenditure was ₹1850 crore;
- The fiscal deficit was expected to be 5.08 per cent of Gross State Domestic Product (GSDP) whereas revenue deficit pegged at ₹504.87 crore respectively.

However, at the close of financial year 2010-11 revenue expenditure and total expenditure stood at ₹13946.05 crore* and ₹15961.60 crore which was higher than the budgetary projections by ₹1852.63 crore and ₹882.68 crore respectively. Capital receipts remained at ₹645.85 crore which were lesser than the estimations. The pension expenditure exceeded the budget by ₹255.39 crore and stood at ₹2105.39 crore. The revenue deficit remained at ₹1235 crore which was higher by ₹730 crore. Thus, these expectations as per the budgetary assumptions made in this regard, were not achieved to the desired level.

* Includes an amount of ₹699.96 crore (₹643.08 crore + ₹56.88 crore) by way of book adjustment.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams⁷ of receipts that constitute the resources of the State Government.

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 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart-1.2: Trends in Receipts

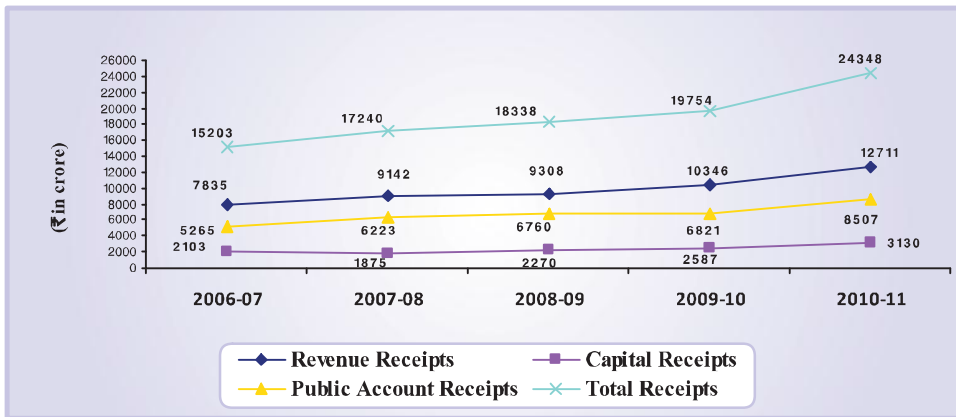
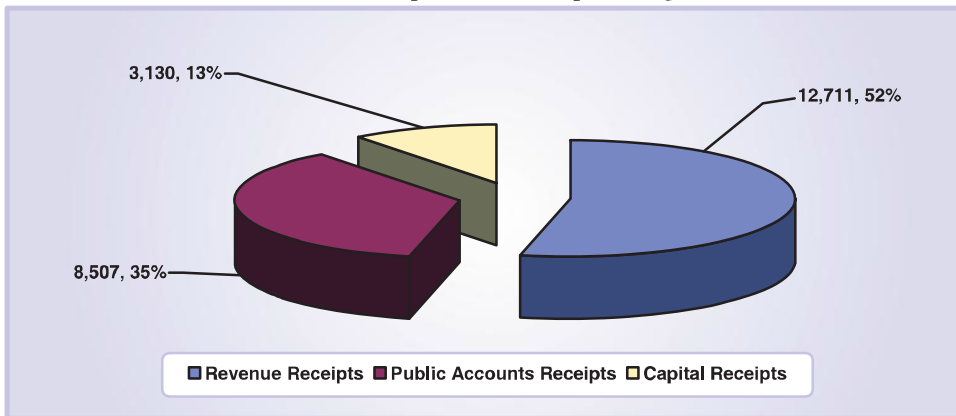


Chart-1.3: Composition of Receipts during 2010-11



The above charts show that the total receipts of the State Government increased by 23 per cent from ₹19,754 crore to ₹24,348 crore in 2010-11 over the previous year. Of which, 52 per cent (₹12,711 crore) came from revenue receipts, the balance

⁷

Revenue receipts: These includes own tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from GoI.

Capital receipts: These comprise proceeds from disinvestment, recovery of loans and advances, debt receipt from internal sources i.e. market loan, borrowings from financial institutions/commercial banks and loans and advances from GoI as well as accrual from public account.

48 per cent from borrowings. The share of Revenue receipts in the total receipts of the State remained almost static during 2006-11. On the other hand, the Capital receipts (market borrowings and special securities issued to NSSF) together with Public account receipts ranged between 47 and 49 per cent of total receipts during 2006-11. Revenue receipts increased steadily by 62 per cent from ₹7,835 crore in 2006-07 to ₹12,711 crore in 2010-11, whereas the debt Capital receipts increased from ₹2,103 crore in 2006-07 to ₹3,130 crore in 2010-11. Public account receipts increased steadily from ₹5,265 crore in 2006-07 to ₹8,507 crore in 2010-11 ranging between 35 and 37 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 Agencies⁸ 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 2010-11, the GoI has transferred an approximate amount of ₹1352.19 crore directly to State Implementing Agencies (detailed in *Appendix-1.5*). Significant amounts given to the major programmes/ schemes are presented in **Table 1.2**.

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Name of the Programme/ Scheme	Name of the Implementing Agency in the State	Total funds released by the GoI during 2010-11
1.	Sarva Siksha Abhiyan (SSA)	Mission Director, SSA	137.87
2.	National Rural Employment Guarantee Scheme (NREGA)	Project Director, District Rural Development Agency	636.25
3.	Indira Awas Yojana (IAY)	Project Director, District Rural Development Agency	22.60
4.	Development for Tourist Destinations	H.P. Tourism Development Board	23.31
5.	Pradhan Mantri Gram Sadak Yojana	Engineer-in-Chief	199.30
6.	Integrated Watershed Management Programme	Project Director, District Rural Development Agency	107.81
Total:			1127.14

Source: Finance Accounts

Table 1.2 shows that an amount of ₹636.25 crore (47 per cent of the total funds transferred) was given for National Rural Employment Guarantee Programme, ₹137.87 crore (10 per cent) for Sarva Siksha Abhiyan (SSA) and ₹199.30 crore

⁸ 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.

(15 per cent) for Pradhan Mantri Gram Sadak Yojna (PMGSY). Thus, with the transfer of ₹1352.19 crore during 2010-11 directly by GoI to the State Implementing Agencies, the total availability of State resources increased from ₹24348 crore to ₹25700 crore. It is evident from the above that there is no single agency monitoring the funds directly transferred by the GoI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State Implementing agencies and funded directly by the GoI and therefore, utilization of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

Sarva Shiksha Abhiyan: Sarva Shiksha Abhiyan launched in January 2001 is a comprehensive and integrated flagship scheme of the Government of India (GoI) to attain universal elementary education in the country by providing access to schooling to all children in the age group of 6-14. During 2010-11 the scheme was financed by the Central and State Governments in the ratio of 65:35. Audit findings are as under:

(i) It was noticed that against the approved outlay of ₹254.82 crore the State Project Director (SPD) could get ₹250.50 crore⁹ during the year 2010-11 against which State could expend only ₹218.40 crore (87 per cent) leaving unspent balance of ₹32.10 crore. Thus due to non utilization of funds as per approved plan, the State was deprived of further release of grants of ₹4.32 crore which could have been utilized on the implementation of elementary education in the State.

The SPD stated (April 2011) that due to non-functioning of schools, vacant posts and non execution/ progress of works, the funds could not be utilized. The contention is not acceptable as the lackadaisical approach of the Department to take appropriate steps for timely utilization of funds had adversely affected the implementation of the scheme.

(ii) **Delay in release of funds:** As per guidelines, the State share was required to be released to the SSA within one month of the release of Central share.

Scrutiny of records, however, revealed that during 2010-11 the state share was released after a delay of 48 to 98 days from the date of release of Central share which was in contravention of the guidelines.

On this being pointed out in Audit, the SPD stated (June 2011) that the delay was due to time taken in the process of release of State share. The reply is not acceptable as initiation of timely action is necessary to ensure timely release of State share for effective implementation of the SSA in the State.

⁹ Opening balance: ₹26.71 crore; Receipt from GoI: ₹137.87 crore; Receipt from State: ₹85.46 crore and Other Receipts: ₹0.46 crore.

Pradhan Mantri Gram Sadak Yojna

The PMGSY a 100 *per cent* centrally sponsored scheme was launched in December 2000 to provide all weather access to unconnected habitations. In respect of Hill State of Himachal Pradesh, the objective of the scheme is to connect habitations with a population of 250 persons and above. Audit findings are as under:

(i) Under PMGSY an amount of ₹199.30 crore was released to the State Government during the current year out of which the State could expend ₹146.63 crore as on 31 March 2011.

(ii) Against the target of new connectivity of 344 kilometers (kms) of roads and upgradation of 250 kms roads with an estimated expenditure of ₹150 crore under the scheme, the State could provide new connectivity of 280.17 kilometers and upgradation of 379.286 kms during the current year. Though the State could cover more length of upgradation of existing roads than the projections made, the State failed to achieve the physical target of new connectivity of roads. The Empowered Officer, Himachal Pradesh Gram Sadak Development Agency stated that the targets could not be achieved due to non clearance under FCA, Land dispute at the site of the works in many packages.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the State Government. The revenue receipts consist of its own tax and NTRs, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2006-11 are presented in *Appendix-1.3* and also depicted in **Chart 1.4** and **1.5** respectively.

Chart-1.4: Trends in Revenue Receipts

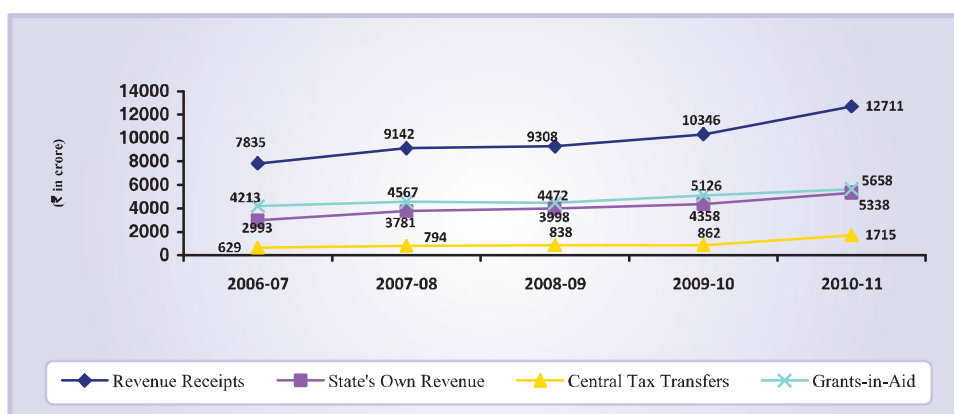
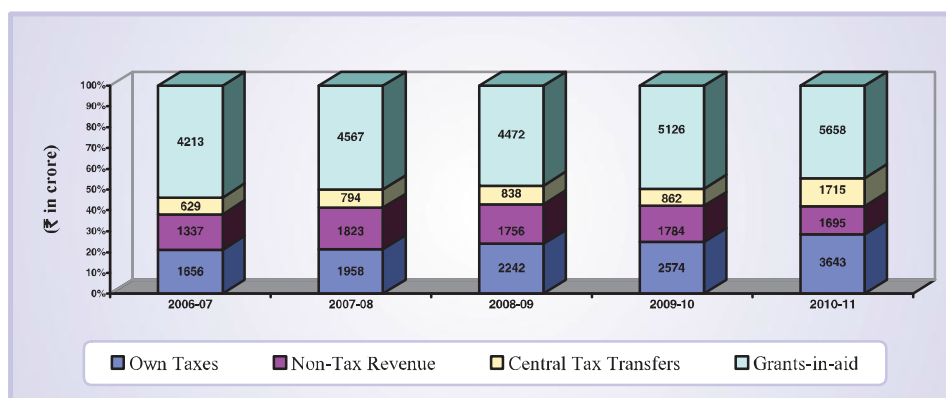


Chart-1.5: The composition of Revenue Receipts during 2006-11



Revenue receipts steadily increased from ₹7,835 crore in 2006-07 to ₹10,346 crore in 2009-10 at an annual average rate of 10 *per cent* but during 2010-11 it recorded an increase of 23 *per cent* over the previous year. The share of NTR exhibited decrease of five *per cent* whereas Grant-in-aid from GoI increased by 10 *per cent* over the previous year.

While 42 *per cent* of the revenue receipts during 2010-11 have come from the State's own resources comprising taxes and non-taxes, the remaining 58 *per cent* were contributed by Central transfers comprising the State's share in Central taxes and duties (13 *per cent*) and grants-in-aid from GoI (45 *per cent*).

Central Tax transfers: Central tax transfers increased by ₹853 crore (99 *per cent*) from ₹862 crore in 2009-10 to ₹1,715 crore in 2010-11 and constituted 13 *per cent* of the revenue receipts during the year. The increase was mainly due to increase in Corporation tax (₹316 crore) taxes on income other than corporation tax (₹157 crore) customs (₹179 crore) and union excise duties (₹121 crore).

Grants-in-aid: Grants-in-aid from the GoI increased by ₹532 crore from ₹5,126 crore in 2009-10 to ₹5,658 crore in 2010-11.

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

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	7,835	9,142	9,308	10,346	12,711
Rate of growth of RR (<i>per cent</i>)	19.45	16.68	1.82	11.15	22.86
RR/GSDP* (<i>per cent</i>)	25.88	26.91	24.13	23.90	24.24
Buoyancy Ratios¹⁰					
Revenue Buoyancy w.r.t GSDP	1.68	1.36	0.13	0.91	1.08
State's Own Tax Buoyancy w.r.t GSDP	0.91	1.49	1.06	1.21	1.97

* GSDP at 2004-05 base price.

¹⁰ 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*.

Revenue receipts of the State increased from ₹7,835 crore in 2006-07 to ₹12,711 crore in 2010-11 at an average rate of 13 *per cent*. It is evident from the details above that there was consistent decline in the growth rates during 2006-09 from 19.45 *per cent* in 2006-07 to 16.68 *per cent* in 2007-08 and with sharp decline of 1.82 *per cent* in 2008-09 due to decrease in NTR and grant-in-aid ratio of revenue receipts. However, from 2009-10 it showed increasing trend and rose from 11.15 *per cent* to 22.86 *per cent* during 2010-11. Besides this, buoyancy ratio of State's own taxes with reference to GSDP increased from 0.91 in 2006-07 to 1.97 during 2010-11. The State's own tax buoyancy with respect to GSDP was higher than revenue buoyancy during the year 2010-11 because NTR as a percentage of GSDP has come down from 4.12 *per cent* in 2009-10 to 3.23 *per cent* in the current year.

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 ₹1,656 crore in 2006-07 to ₹3,643 crore in 2010-11 at an annual average rate of 22 *per cent*. The major contributors in the State's own tax during 2010-11 are taxes on Sales, Trades, etc., (₹2,101 crore-58 *per cent* of tax revenue), State Excise (₹562 crore-15 *per cent* of tax revenue), taxes and duties on electricity (₹302 crore-eight *per cent* of tax revenue), taxes on vehicles (₹163 crore-four *per cent* of tax revenue), Stamps and Registration fees (₹133 crore-four *per cent* of tax revenue) and taxes on goods and passengers (₹93 crore-three *per cent* of tax revenue). Collection of Sales tax, trade, etc., and taxes and duty on electricity increased by ₹614 crore and ₹263 crore respectively in 2010-11 over the previous year (2009-10).

Non-tax revenue

Non-tax revenue decreased to ₹1,695 crore (five *per cent*) in 2010-11 from ₹1784 crore during the previous year. The major contributors in State's NTR during 2010-11 were power sector: ₹1,093 crore (64 *per cent* of NTR) and interest receipts, dividends and profits: ₹134 crore (eight *per cent* of NTR). Although these were major contributors to non tax revenue (NTR) in 2010-11, it showed a decline in power sector and interest, dividends and profits by ₹122 crore and ₹16 crore respectively over the previous year (2009-10).

The actual realisation of State's NTR (₹1,695 crore) was less by five *per cent* than the projections made in MTFPS of ₹1779 crore. The State's own tax/NTR were higher by 18 *per cent* and 22 *per cent* respectively than the projections made in the ThFC (₹3,087 crore and ₹1,394 crore respectively).

The current level of cost recovery (revenue receipts as percentage of revenue expenditure) in supply of goods and services is depicted in **Table- 1.4**.

Table-1.4: Current level of cost recovery

(₹ in crore)

Sl. No.	Departments	2006-07			2010-11		
		Receipt	Expenditure	Percentage	Receipt	Expenditure	Percentage
1.	Health and Family Welfare	5.47	397.46	1.38	8.43	763.00	1.10
2.	Minor Irrigation	0.48	123.38	0.39	0.75	245.25	0.31
3.	Secondary Education	34.31	418.88	8.19	6.79	858.15	0.79
4.	University & Higher Education	3.38	78.53	4.30	3.71	183.67	2.01
5.	Power	910.08	311.82	291.86	1093.21	792.88 ^s	137.88
6.	Road Transport	0.02	55.78	0.04	0.80	95.27	0.84

Source: Finance Accounts
^s Includes an amount of ₹643.08 crore transferred from Major Head 6003-Internal Debt of the State Government to rectify the Misclassification of loans raised through Himachal Pradesh State Electricity Board.

A look at the expenditure-receipt ratio for major departments of the State indicate that between 2006-07 and 2010-11 in all the above departments, the situation has deteriorated because the expenditure has drastically increased whereas the receipt has increased only marginally except under power.

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

Evasion of tax

The details of cases of evasion of tax deducted, assessments completed and pending cases during the year are as follows:

Table-1.5: Evasion of Taxes

Sl. No.	Head of revenue	Cases pending as on 31 March 2010	Cases detected during the year	Total as on 31 March 2011	Number of cases in which assessments/ investigations completed and additional demand including penalty etc. raised		Number of pending cases as on 31 March 2011
					Number of cases	Amount of demand (₹ in lakh)	
1.	Taxes on sales, trade etc.	120	3013	3,133	3,023	483.31	110
2.	State excise	2	325	327	323	10.59	4
3.	Passengers and goods tax	333	1006	1,339	1,043	32.83	296
4.	Other taxes and duties on commodities and services	19	262	281	262	18.40	19
Total		474	4,606	5080	4,651	545.13	429

It is evident that 429 number of cases are pending for their settlement. Thus, action needs to be taken to finalise these cases at the earliest.

Refunds

The number of refund cases pending at the beginning of the year 2010-11, claims received, refunds allowed and cases pending at the close of the year 2010-11 are as given below:

Table-1.6: Refund Cases

Sl. No.	Particulars	Sales tax/VAT		Taxes on entry of goods into local areas		State excise	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	17	80.05	--	--	1	11.05
2	Claims received during the year	49	10.71	1	0.01	4	11.11
3	Refunds made during the year	29	4.23	1	0.01	3	10.93
4	Balance outstanding at the end of the year	37	86.53	--	--	2	11.23

(₹ in lakh)

Cost of collection

Expenditure on collection of taxes on Sales, Trade, etc., was ₹21.85 crore, State Excise ₹5.84 crore, Taxes on Vehicles, Goods and Passengers ₹0.97 crore and Stamp Duty and Registration Fee ₹1.04 crore during 2010-11. Percentage of expenditure to gross collection was 1.03, 1.04, 0.37 and 1.48 respectively. Percentage of expenditure to gross collection in the State was below the all India average except in the case of taxes on Sale, trade, etc., which was 0.07 *per cent* higher than the all India average percentage of collection for the year 2010-11. Efforts need to be taken to reduce the expenditure *ibid*, in order to achieve the all India average.

Arrears of revenue

The arrears of revenue have decreased by ₹247 crore from ₹430 crore in 2006-07 to ₹183 crore at the end 2010-11. Of these, ₹49.38 crore was outstanding for a period of more than five years. Arrears were mainly in respect of taxes on Sales, Trade/VAT, etc., (₹162.72 crore), taxes on goods and passengers (₹7.83 crore), State Excise (₹7.11 crore) and other taxes and duties on commodities and services (₹5.34 crore).

Expeditious action to effect the recoveries of revenue needs to be taken by the Government.

1.4 Application of Resources

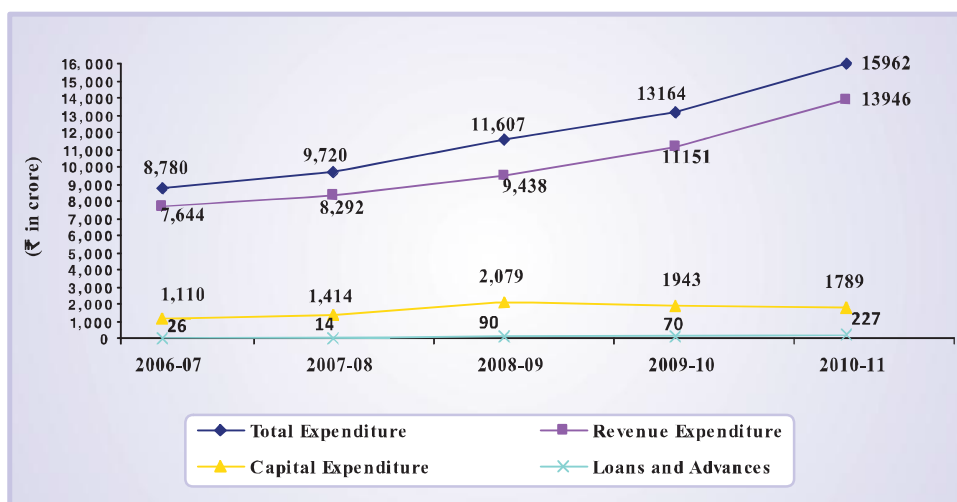
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit 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.

An analysis of allocation of expenditure is discussed below:

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2006-11) 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



- The total expenditure¹¹ of the State increased from ₹8,780 crore in 2006-07 to ₹15,962 crore in 2010-11 at an annual average rate of 16 per cent. This increase was 21 per cent (₹2,798 crore) in 2010-11 over the previous year. The increase of ₹2,798 crore in total expenditure during 2010-11 over the previous year was due to increase in revenue expenditure and loans & advances of ₹2795 crore and ₹157 crore respectively whereas capital expenditure decreased by ₹154 crore.
- Revenue expenditure increased from ₹7644 crore in 2006-07 to ₹13,946 crore^s in 2010-11 at an annual average rate of 16 per cent. The increase in revenue expenditure during 2010-11 over the previous year was mainly due to expenditure on Education, Sports, Art and Culture (₹617 crore), Water Supply, Sanitation, Housing and Urban Development (₹136.41 crore), Health and Family Welfare (₹153.32 crore), Social Welfare and Nutrition (₹151.65 crore), Welfare of Scheduled Castes,

¹¹ Statements 12 and 13 of the Finance Accounts depict the detailed revenue expenditure and capital expenditure by minor heads respectively. 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.

^s Includes an amount of ₹699.96 crore by way of book adjustment.

Scheduled Tribes and Other Backward Classes (₹11.15 crore) in Social Sector, Transport (₹201.37 crore), Energy (₹608.24 crore), Rural Development (₹62.21 crore), Irrigation and Flood Control (₹39.76 crore) in Economic Sector.

- *Capital expenditure increased from ₹1110 crore in 2006-07 to ₹2079 crore in 2008-09 at an annual average rate of 37 per cent but decreased during the years 2009-10 and 2010-11 by ₹136 crore (seven per cent) and ₹154 crore (eight per cent) over the corresponding previous year. Capital investments in 2010-11 increased marginally from ₹2736 crore to ₹2928 crore as compared to previous year. No specific norms for prioritisation of capital expenditure have been laid down in FRBM Act. Water Supply and Sanitation, Housing and Urban Development (₹329.11 crore), General Education (₹144.01 crore) in Social Sector and Transport (₹464.79 crore), Irrigation and Flood Control (₹308.58 crore) and Power Projects (₹160 crore) in Economic sector were the beneficiary sectors where capital expenditure was made. Loans and advances constituted ₹227 crore (1.42 per cent) of the total expenditure which increased by ₹157 crore over the previous year.*

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 are indicated in **Charts 1.7** and **1.8** respectively.

Chart-1.7: Total Expenditure: Trends in share of its components

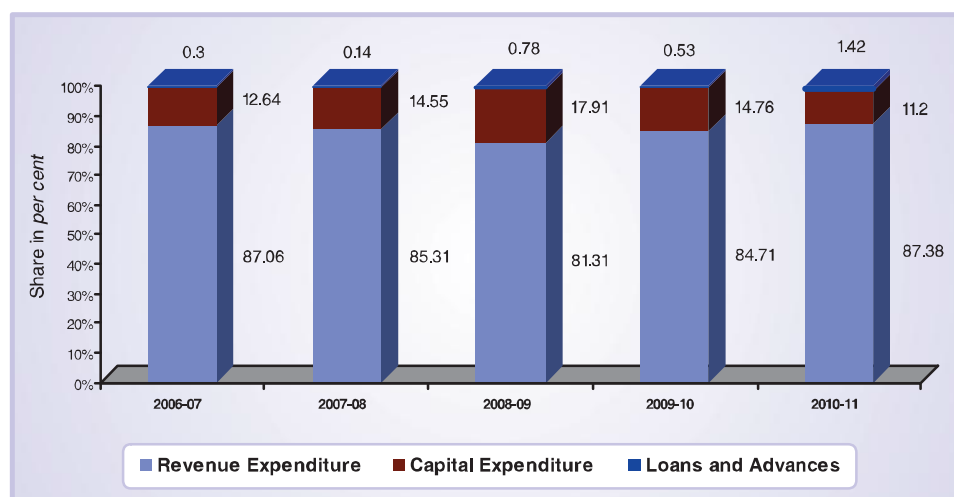
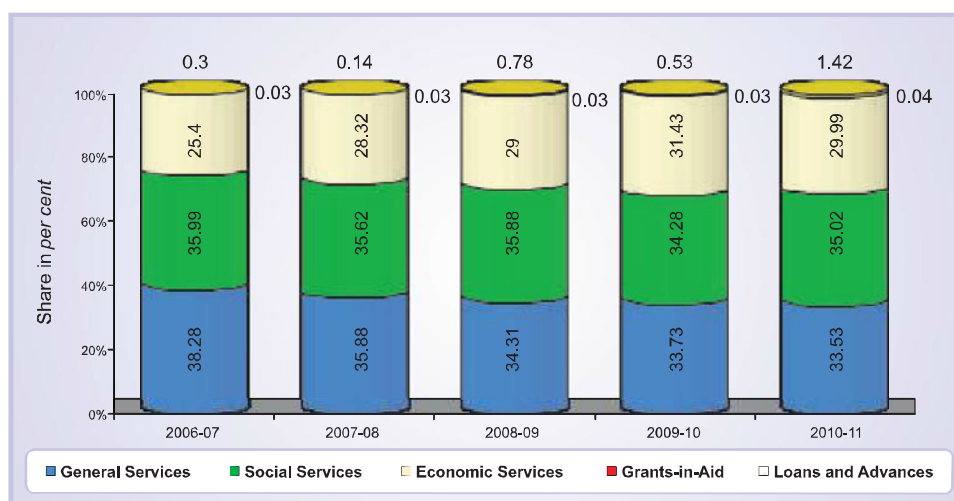


Chart-1.8: Total Expenditure: Trends by 'Activities'



The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental, consistently decreased from 38.28 per cent in 2006-07 to 33.53 per cent in 2010-11. On the other hand, developmental expenditure i.e., on Social and Economic Services together accounted for 65 per cent in 2010-11. The share of Economic Services and Social Services was mainly on account of increase in expenditure on General Education (₹606 crore) and Transport (₹201 crore).

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 *Appendix-1.3*. Non-plan revenue expenditure (NPRE) increased from ₹6,319 crore in 2006-07 to ₹12,294 crore in 2010-11 at an annual average rate of 18 per cent and the Plan Revenue Expenditure (PRE) increased from ₹877 crore in 2008-09 to ₹1,652 crore in 2010-11.

The break up of total expenditure during 2010-11 in terms of Plan and Non-Plan expenditure reveals that Non-Plan expenditure contributed a dominant share of ₹12,313 crore (77 per cent of the total expenditure) while the remaining ₹3,649 crore (23 per cent) was in the form of plan expenditure.

The revenue expenditure increased by 25 per cent from ₹11,151 crore in 2009-10 to ₹13,946 crore^s in 2010-11. The NPRE has shown an inter year variation at an average rate of 18 per cent over the periods 2006-11 and continued to share a dominant proportion varying in the range of 83-91 per cent of the revenue expenditure. The increase in NPRE by ₹2,381 crore during the current year was mainly due to increase in Education (₹442 crore), pension (₹757 crore) and assistance to Local Bodies (₹131 crore).

^s Includes an amount of ₹699.96 crore by way of book adjustment.

The ratio of NPRE to GSDP increased from 21 per cent to 23 per cent during 2006-11. The buoyancy of revenue expenditure to NPRE decreased from 0.93 per cent in 2006-07 to 0.67 per cent in 2008-09, but increased to 1.15 per cent in 2009-10. It was further decreased to 1.04 per cent during the current year while with reference to Revenue Receipts it decreased from 7.59 in 2008-09 to 1.09 in 2010-11. In other words, in 2010-11 for every one per cent increase in Revenue receipt, NPRE increased by 1.09 per cent. The NPRE (₹12294 crore) not only exceeded the assessment made by the State Government in MTFPS (₹10,796 crore), but also exceeded the normative assessment made by ThFC (₹8,305 crore) by ₹ 3,989 crore for 2010-11.

The PRE on the other hand has displayed fluctuations varying from 12.10 per cent in 2006-07, which turned negative (9.28 per cent) in 2007-08 and (27.04 per cent) during 2008-09 respectively. However, it increased by ₹361 crore and recorded increase of 41.16 per cent during 2009-10 over the previous year. But in current year it again decreased to 33.44 per cent.

1.4.4 Committed expenditure

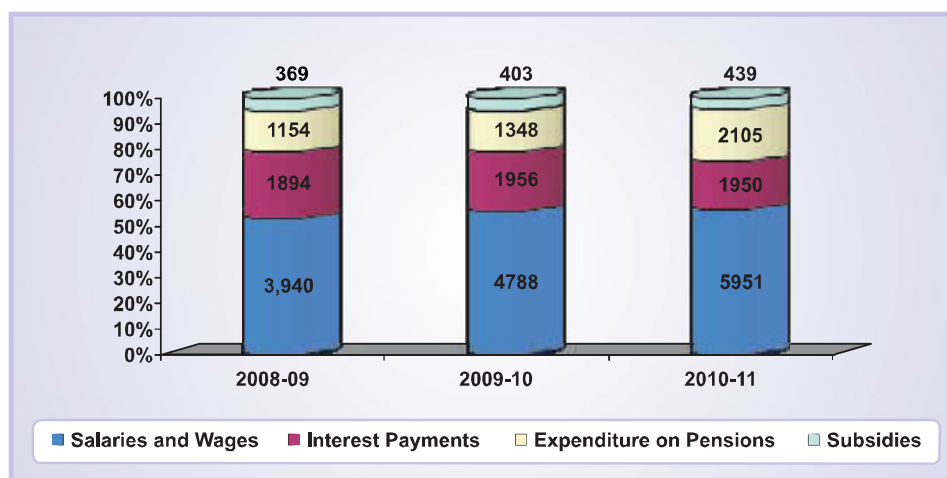
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table 1.7 and Chart 1.9 present the trends in the expenditure on these components during 2006-11 and 2008-11 respectively.

Table-1.7: Components of Committed Expenditure

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries & Wages , <i>Of which</i>	3,057 (39)	3,577 (39)	3,940 (42)	4,788 (46)	4591	5951 (47)
Non-Plan Head	2,577 (33)	3,173 (35)	3,813 (41)	4,645 (45)		5784 (46)
Plan Head*	480 (6)	404 (4)	127 (1)	143 (1)		167 (1)
Interest Payments	1,669 (21)	1,703 (17)	1,894 (20)	1,956 (19)	2236	1950 (15)
Expenditure on Pensions	912 (12)	949 (10)	1,154 (12)	1,348 (13)	1850	2105 (17)
Subsidies	343 (4)	328 (4)	369 (4)	403 (4)	407	439 (3)
Total	5,981	6,557	7,357	8,495		10445

Source: Accountant General (Accounts & Entitlement) 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 2008-11
(Value in labels in ₹ in crore)



The expenditure on salaries and wages alone accounted for more than 47 per cent of revenue receipts of the State during 2010-11. It increased by about 24 per cent from ₹4788 crore in 2009-10 to ₹5951 crore in 2010-11. Salary expenditure under non-plan head during 2010-11 increased by ₹1139 crore (25 per cent) over the previous year whereas the salary expenditure on plan head increased by ₹24 crore (17 per cent) over the previous year. Non-plan salary expenditure ranged between 88 and 97 per cent of total expenditure on salaries during 2006-11. The salary expenditure during the current year exceeded by ₹1496 crore and ₹2113 crore than the projections made in MTFPS (₹4455 crore) and ThFc (₹ 3838 crore) respectively, requiring attention of the State Government.

- **Pension Payments**

The expenditure on pension payments increased from ₹912 crore in 2006-07 to ₹2105 crore in 2010-11 and by ₹757 crore during the current year over the previous year, recording a growth rate of 56 per cent over the previous year. Pension payments accounted for nearly 17 per cent of revenue receipts of the State during 2010-11. The actual expenditure on pension payments for the current year exceeded the projections made in the ThFC (₹1,445 crore) and MTFPS (₹1,850 crore).

- **Interest Payments**

The interest payments increased by 17 per cent from ₹1,669 crore in 2006-07 to ₹1,950 crore in 2010-11 and decreased by ₹six crore during the current year. The major source of borrowings is market loans at interest rates varying from five to 13.99 per cent. Interest payments exceeded the ThFC projections (₹1,776 crore) but less than MTFPS (₹2236 crore) for the year 2010-11.

- **Subsidies**

The State Government has been paying subsidies to various institutions/bodies/corporations, etc. The subsidies increased by 28 *per cent* from ₹343 crore in 2006-07 to ₹439 crore in 2010-11 and by nine *per cent* over the previous year and constituted about three *per cent* each of the revenue receipts and total expenditure respectively. The major components of subsidies were food and supply items (₹80.55 crore); transport (₹90 crore) and electricity (₹140 crore). The subsidy at ₹439 crore in 2010-11 was higher than the projections made in MTFPS (₹407 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.

	(₹ in crore)				
Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
University and Educational Institutions	117.50	176.49	203.49	231.14	311.25
Municipal Corporation and Municipalities	46.74	70.66	82.46	115.92	92.26
Zila Parishads and other Panchayati Raj Institutions	100.58	134.13	188.45	217.92	256.28
Development Agencies	93.44	37.74	44.45	48.61	52.14
Hospitals and other charitable Institutions	0.12	0.10	4.85	41.25	48.11
Other Institutions ¹²	41.11	47.65	58.55	63.25	89.35
Total	399.49	466.77	582.25	718.09	849.39
Assistance as per percentage of Revenue Expenditure	5.23	5.63	6.17	6.44	6.09

Source: Accountant General (Accounts & Entitlement) office

The grants extended to local bodies and other institutions consistently showed an increasing trend over the years 2006-11. It increased by ₹131.30 crore (18 *per cent*) during current year over the previous year. The share of grants in revenue expenditure indicated increasing trend ranging between 5.23 *per cent* and 6.44 *per cent* during the period 2006-10. Another important trend emerging from Table-1.8 is that the share of other institutions has consistently increased from ₹41.11 crore in 2006-07 to ₹89.35 crore in 2010-11 indicating that huge financial assistance is being given on *ad hoc* basis to various State Government institutions. The sharp increase under certain components during 2010-11 was mainly due to release of more grant to University and Educational Institutions (₹80.11 crore), and Zila Parishads and Panchayati Raj Institutions (₹38.36 crore).

¹² Other institutions include those institutions, which received *ad hoc* or one time grants during the year.

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

Table 1.9 analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.9: Fiscal Priority of the State during 2007-08 and 2010-11

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
Himachal Pradesh' Average (Ratio) 2007-08	28.62	63.97	35.62	14.55
Himachal Pradesh' Average (Ratio) 2010-11	30.45	66.38	35.03	11.21

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

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

Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics

Fiscal priority refers to the priority given to a particular category of expenditure by the State. On comparing expenditure patterns of Himachal Pradesh in 2010-11 with what it was in 2007-08 it was found that:

- The Government spent a larger proportion of GSDP on Aggregate expenditure (AE) as compared to 2007-08.
- Development expenditure (DE)¹³ as a proportion of AE increased by more than two *per cent*. The increase in expenditure was mainly on Economic Services, since the proportion of expenditure of ESE increased by three *per cent*.
- The proportion of Capital Expenditure (CE) decreased by more than three *per cent*.

The above table indicates that due priority was given to developmental expenditure. However, unless the financial outlays are translated into physical assets, the outcome cannot be assessed.

¹³ DE=SSE+ES.

1.5.2 Efficiency of Expenditure Use

The ratio of capital expenditure to total expenditure in Social sector decreased to 0.14 in 2010-11 from 0.25 in 2006-07. In case of General Education, the ratio of CE to TE decreased from 0.20 in 2006-07 to 0.05 in 2010-11, in Health & Family Welfare it decreased to 0.08 in 2010-11 from 0.10 in 2006-07 and Water Supply, Sanitation & Housing and Urban Development decreased to 0.30 from 0.44 meaning thereby less priority was given to capital expenditure in 2010-11.

Table-1.10: Efficiency of expenditure use in selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2006-07			2010-11		
	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	0.20	0.88	–	0.05	0.85	--
Health and Family Welfare	0.10	0.83	–	0.08	0.82	--
WS, Sanitation, & Housing and Urban Development	0.44	0.35	5.86	0.30	0.47	0.51
Total average ratio on SS	0.25	0.69	1.95	0.14	0.71	0.17
Economic Services (ES)						
Agriculture & Allied Activities	0.05	0.52	0.01	0.06	0.51	--
Irrigation and Flood Control	0.58	0.68	0.59	0.54	0.78	0.46
Energy (Power)	--	0.01	–	0.17	0.01	--
Transport	0.32	0.63	1.37	0.29	0.62	0.63
Total average ratio on ES	0.23	0.46	0.49	0.27	0.48	0.27
Total average ratio of SS+ES	0.24	0.58	1.22	0.21	0.60	0.22

Source: Finance Accounts and Accountant General (Accounts & Entitlement) office
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.

Similarly, it is evident from the above details that ratio of CE to TE in economic sector slightly increased from 0.23 in 2006-07 to 0.27 in 2010-11. In 2006-07 no capital expenditure was incurred in power sector whereas in 2010-11 its ratio was 0.17. The ratio of CE to TE decreased in Irrigation and Flood Control from 0.58 to 0.54 whereas in Agriculture & Allied Activities it increased slightly from 0.05 to 0.06 during this period. In water supply, Sanitation and Urban Development the ratio of salary and wages increased from 0.35 in 2006-07 to 0.47 in 2010-11, in Irrigation and Flood Control from 0.68 to 0.78. In water supply, Sanitation and Urban Development and Irrigation and Flood Control, the ratio of O & M expenditure decreased in 2010-11 as compared to such expenditure during the year 2006-07.

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

As per data available from Government sources (*Appendix-1*), Himachal Pradesh has fared relatively better as compared to other States as far as number of people below poverty line and literacy rate is concerned. However, in order to ensure effectiveness in public expenditure, the State will have 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. A performance audit of Public Distribution System was taken up and the audit findings are contained in the Civil Audit Report 2010-11, which is being presented separately to the State Legislature. The main highlights of the audit are as under:

Public Distribution System (PDS)

Government of India (GoI) launched various schemes under PDS such as Targeted PDS (TPDS) in June 1997, Annapurna Scheme in April 2000 and Antyodaya Anna Yojna (AAY) in December 2000 to ensure availability of foodgrains to the public at affordable prices to poor categories. Besides, the State Government also launched (April 2007) specially subsidised scheme for all ration card holders in the State. The performance audit of PDS for the period 2006-11 revealed that the State Government had covered 2.32 lakh BPL families in excess of the families identified in the survey of poor families conducted in the State during 2006-07 resulting in unnecessary financial burden of food subsidy on GoI. The State Government did not take corrective measures to address the problem of Ghost Cards existed in the system. Against 1.07 lakh Antyodaya families requiring coverage under AAY, 1.96 lakh families were covered on the basis of projected population estimates of GoI determined in March 2000 resulting in excess coverage of 0.89 lakh families. On the distribution side, the State Government had fixed a higher scale of issue of foodgrains than the GoI norms, resulting in excess distribution of foodgrains which resulted in an additional burden of ₹10.98 crore on GoI. The benefit of having foodgrains at prescribed retail price was not extended to BPL families in the State during 2006-11, putting extra burden of ₹35.11 crore on them. There were also deficiencies in quality control system as a result of which 2066.47 MTs of sub-standard pulses and 1368.26 MTs of sub-standard foodgrains were supplied to the consumers. Working of monitoring mechanism of vigilance committees was also ineffective due to non-holding of meetings at required intervals to ensure timely delivery of proper quantity and quality of commodities to the beneficiaries.

Thus, coverage of BPL families in excess of the families identified in the Survey of poor families, inclusion of ineligible families for the coverage under the scheme, fixing of higher scale of issue of foodgrains than the GoI norms having a financial bearing on account of food subsidy, besides issues relating to the supply of sub-standard foodgrains were the areas of concern and requires attention by the Government.

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 31 March 2011 is given in **Table 1.11**.

Table-1.11: Department-wise Profile of Incomplete Projects

(₹ in crore)					
Department	Number of incomplete Projects	Initial budgeted cost	Revised Total Cost of Projects	Cumulative actual expenditure as on 31.03.2011	Cost overrun
1.	2.	3.	4.	5.	6 (5-3)
Irrigation and Public Health	11	37.46	71.67	86.14	48.68

Source: Finance Accounts

Details of incomplete projects pertaining to Irrigation and Public Health are presented in **Table 1.11** above. In respect of all the incomplete projects, revised costs of which are available, the cost overrun was to the tune of ₹49 crore. An analysis of the delays revealed time overruns ranging between three and 11 years. These projects were lying incomplete due to land disputes, paucity of funds, court cases, non release of supply of power, etc.

Efforts need to be taken to sort out the pending issues and complete the projects expeditiously in order to avoid further time and cost overruns and also to ensure that the envisaged benefits accrue to the intended beneficiaries at the earliest.

1.6.2 Investment and returns

No norms for investments have been prescribed by the State Government. As on 31 March 2011, the State Government had invested ₹2,864 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (**Table 1.12**). The average return on this investment was 1.78 per cent in the last five years while the Government paid an average interest rate of 8.81 per cent on its borrowings during 2006-11.

Table-1.12: Return on Investment

	(₹ in crore)				
Investment/ Return/ cost of Borrowing	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year	1,861	2,033	2,369	2,663	2,864
Return	1.80	0.52	89.58	73.49	64.11
Return (per cent)	0.10	0.03	3.78	2.76	2.24
Average rate of interest on Government borrowings (per cent)	9.40	9.09	9.19	8.59	7.78
Difference between interest rate and return (per cent)	9.30	9.06	5.41	5.83	5.54

Major investments were made in six Statutory Corporations/Boards (₹874.54 crore), 21 Government Companies (₹839.22 crore) and a Central PSU Satluj Jal Vidyut Nigam (₹1068.14 crore). The two Statutory Corporations/Boards had incurred accumulated loss of ₹955.98 crore (Himachal Pradesh Road Transport Corporation: ₹572.80 crore and Himachal Pradesh State Electricity Board: ₹383.18 crore) at the end of March 2011. The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2011 were, Himachal Pradesh Financial Corporation (₹117.48 crore), Agro-Industrial Packaging India Limited (₹76.18 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹53.05 crore), Himachal Pradesh State Forest Development Corporation (₹48.67 crore) and Himachal Pradesh Handicrafts and Handloom Corporation Limited (₹21.06 crore).

1.6.3 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government had also been providing loans and advances to many of these institutions/organisations. Table 1.13 presents the outstanding loans and advances as on 31 March 2011, interest receipts vis-à-vis interest payments during the last three years.

Table-1.13: Average Interest Received on Loans Advanced by the State Government

	(₹ in crore)		
Quantum of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11
Opening Balance	224.85	293.49	329.31
Amount advanced during the year	89.61	69.67	226.56
Amount repaid during the year	20.97	33.85	72.59
Closing Balance	293.49	329.31	483.28
<i>Of which</i> outstanding balance for which terms and conditions have been settled	--	--	--
Net addition	68.64	35.82	153.97
Interest Receipts	11	11	11
Interest receipts as per cent to outstanding Loans and advances	4.2	3.5	2.28
Interest payments as per cent to outstanding fiscal liabilities of the State Government.	9.8	9.0	8.22
Difference between interest payments and interest receipts (per cent)	(-) 5.6	(-) 5.5	(-)5.94

Total amount of outstanding loans and advances as on 31 March 2011 was ₹483.28 crore. Against ₹555.87 crore advanced, only ₹72.59 crore was repaid during 2010-11, recording an increase of ₹38.74 crore in repayment over the previous year. Major recipients of loans during 2010-11 were Power projects (₹192.97 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 was almost static during 2008-11. *During 2010-11, the Government received 2.28 per cent return of interest receipts as percentage to outstanding loans. It, however, paid eight per cent interest on borrowings during this period.*

1.6.4 Cash Balances and Investment of Cash Balances

Table 1.14 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.14: Cash Balances and Investment of Cash balances

Particulars	(₹ in crore)		
	As on 1 st April 2010	As on 31 st March 2011	Increase (+)/ Decrease(-)
Cash Balances	281.16	634.86	(+)353.70
Investments from Cash Balances			
a. GoI Treasury Bills	582.60	906.53	(+)323.93
b. GoI Securities	4285.64	4935.51	(+)649.87
Funds-wise break-up of Investment from Earmarked balances		--	--
Interest realized	63.70	49.60	(-)14.10

Cash balances of the State Government at the end of the current year increased by ₹353.70 crore from ₹281.16 crore in 2009-10 to ₹634.86 crore in 2010-11. The State Government has invested ₹906.53 crore in GoI Treasury Bills and ₹4935.51 crore in GoI Securities and earned an interest of ₹49.60 crore during 2010-11. The State Government was able to maintain daily cash balance fixed by the RBI and did not avail ways and means advances (*Appendix-1.3*).

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 2011, compared with the corresponding position on 31 March 2010. 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 of 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 1.15**.

Table-1.15: Fiscal Liabilities – Basic Parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal Liabilities (₹in crore)	18,071	19,419	21,819	23,713	26,415
Rate of Growth (per cent)	3.67	7.46	12.36	8.68	11.39
Ratio of Fiscal Liabilities to					
GSDP* (per cent)	59.69	57.17	56.56	54.78	50.38
Revenue Receipts (per cent)	230.64	212.42	234.41	229.20	207.81

*GSDP revised on base year 2004-05

The overall fiscal liabilities of the State increased from ₹18,071 crore in 2006-07 to ₹26,415 crore in 2010-11. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹18,654 crore) comprised market loans (₹9,224 crore), loans from GoI (₹960 crore) and other loans (₹8,470 crore which includes ₹4,936 crore on Special Security issued to NSSF of the GoI). The Public Account liabilities (₹7,761 crore) comprise Small Savings and Provident Funds (₹6,102 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹1,581 crore) and reserve funds (₹78 crore). The rate of growth of fiscal liabilities was 11.39 per cent during 2010-11. The ratio of fiscal liabilities to GSDP consistently decreased to 50.38 per cent in 2010-11 from 59.69 per cent in 2006-07. These liabilities stood at 2.08 times the revenue receipts at the end of 2010-11. *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 Guarantee¹⁴ – Contingent liabilities

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years as shown in Statement 9 of the Finance Accounts, is given in **Table 1.16**.

¹⁴ 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.

Table-1.16: Guarantees given by the Government of Himachal Pradesh

Guarantees	(₹ in crore)		
	2008-09	2009-10	2010-11
Max amount guaranteed	6,076	4361	6232
Outstanding amount of guarantees	2,291	1949	3910
Percentage of maximum amount guaranteed to total revenue receipts of the year	65	42	49

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 Fund of the State. However, the HPFRBM Act, 2005 amended in March 2011 provides that the total outstanding guarantees are to be limited to 40 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 upto 2009-10. The outstanding guarantees on the loans raised by various corporations and others stood at ₹3,910 crore at the end of 2010-11 forming 38 per cent of the revenue receipts of the previous year was also within the limit of 40 per cent prescribed vide amendment to FRBM Act 2005. The major recipients of guarantees against which amounts were outstanding as on 31 March 2011 were six Statutory Boards/Corporations (₹3,460 crore), seven Government companies (₹164 crore), one Co-operative Bank (₹269 crore) and two Local/Autonomous Bodies (₹17 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 sustainability¹⁵ of the State. This section assesses the sustainability of debt of the State Government in terms of debt

¹⁵ 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.

stabilization¹⁶; sufficiency of non-debt receipts¹⁷; net availability of borrowed funds¹⁸; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.17** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2008-11.

Table-1.17: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread + Primary Deficit)	472	(-) 40	2577
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 1,726	(-) 506	252
Net Availability of Borrowed Funds	507	341	752
Burden of Interest Payments (IP/RR Ratio)	0.203	0.189	0.153
Maturity Profile of State Debt (In Years)			
0 – 1	987.20 (6.40)	869.69 (5.08)	952.61(5)
1 – 3	3,654.02 (23.26)	2444.40 (14.29)	3121.30(17)
3 – 5	2,733.06 (17.40)	3238.28 (18.92)	3346.47(18)
5 – 7	2,167.37 (13.80)	2568.84 (15.01)	3087.09(16)
7 and above	6,766.17 (43.07)	7991.73 (46.70)	8146.89(44)

Figures in parenthesis indicate percentages.

It is revealed from the **Table 1.17** above that quantum spread together with primary deficit was positive in the year 2008-09 but turned negative in 2009-10 whereas in 2010-11 it was again positive indicating in the current year that debt-GSDP ratio would eventually be falling. During 2010-11, net borrowed funds available was positive indicating that ₹752 crore of net debt receipts were utilised for other purposes rather than for discharging past debt obligations. The maturity profile of the State Government indicates that 40 per cent (₹7420.38 crore) of the total Public Debt is repayable within the next five years while the remaining 60 per cent (₹11233.98 crore) loans are required to be paid in more than five years time.

¹⁶ 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.

¹⁷ 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.

¹⁸ 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 2010-11.

1.9.1 Trends in Deficits

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2006-11:

Chart-1.10: Trends in Deficit Indicators (₹ in crore)

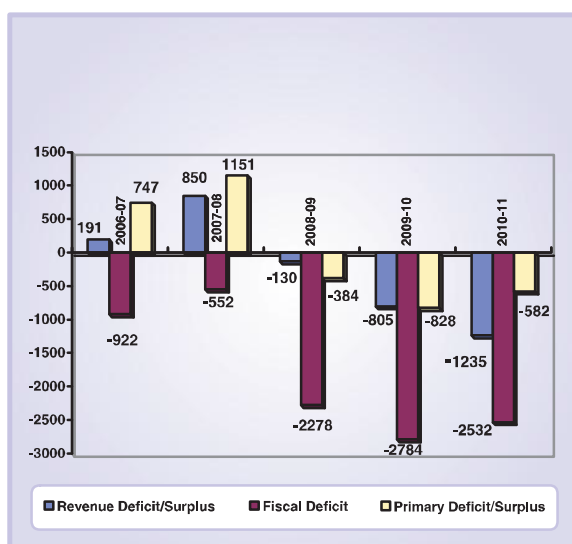
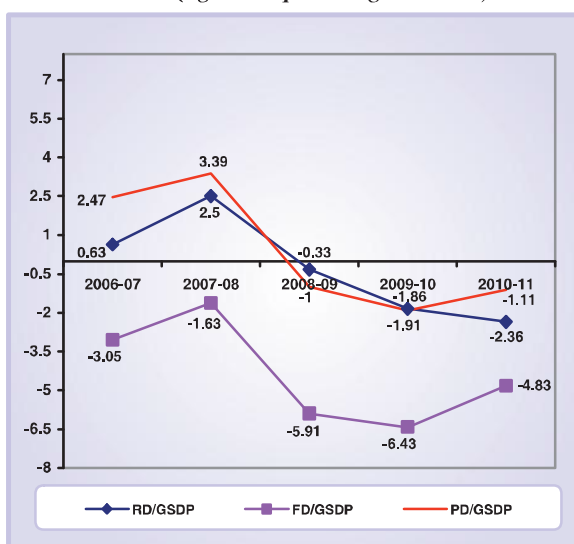


Chart-1.11: Trends in Deficit Indicators relative to GSDP (figures as percentage to GSDP)



Charts 1.10 and 1.11 reveal that all accounts of revenue, fiscal and primary experienced a situation of huge deficit during the current year. From a revenue surplus position in 2006-07 and 2007-08, the State had a revenue deficit of ₹130 crore in 2008-09 which further deteriorated and rose to ₹805 crore in 2009-10 indicating an increase of 519 per cent and this trend continued in the current year raising the revenue deficit to ₹1235 crore (53.41 per cent). The NTR decreased by ₹89 crore whereas the tax revenue increased by ₹1069 crore, increase in share of union taxes/duties was ₹853 crore and GIA received from GoI increased by

₹532 crore over the previous year which accounted for ₹2365 crore net increase in revenue receipts during 2010-11. Against receipts, revenue expenditure increased by ₹795 crore (25 per cent) which led to increase in revenue deficit. Further, fiscal deficit decreased by ₹252 crore from ₹2784 crore in 2009-10 to ₹2532 crore during 2010-11. The primary deficit of ₹828 crore in 2009-10 decreased to ₹582 crore in 2010-11 indicating a decrease of 30 per cent. The interest payments decreased by ₹six crore. The revenue deficit and fiscal deficit was 2.36 and 4.83 per cent of GSDP during the year.

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 1.18**.

Table-1.18: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	
Decomposition of Fiscal Deficit						
1 Revenue Deficit	(+) 191 (0.67)	(+) 850 (2.64)	(-) 130 (-) 0.35)	(-) 805 (-) 1.90	(-)1235 ⁵ (-)2.36	
2 Capital Expenditure	1,110 (3.88)	1,414 (4.39)	2,079 (5.63)	1943 (4.60)	1789 (3.41)	
3 Net Loans and Advances	(-) 3 ((-) 0.01)	(-)12 (0.04)	69 (0.19)	36 (0.09)	154 (0.29)	
Financing Pattern of Fiscal Deficit*						
1 Market Borrowings	467	1,322	1,752	1177	389	
2 Loans from GoI	(-) 91	(-) 5	(-) 44	13	(-)23	
3 Special Securities Issued to NSSF	670	134	60	396	650	
4 Loans from Financial Institutions	(-) 309	(-) 599	(-) 406	78	526	
5 Small Savings, PF, etc.	322	540	515	546	888	
6 Deposits and Advances	(-)500	(-) 366	217	265	333	
7 Suspense and Misc.	(-) 7	2	53	117	137	
8 Remittances	73	50	(-) 2	75	48	
9 Others	297	(-) 526	151	117	(-)416	
10 Overall Surplus/Deficit	(-) 922	(-) 552	(-) 2,278	(-) 2784	(-)2532	
Figures in brackets indicate the per cent to GSDP. *All these figures are net of disbursements/outflows during the year.						

Table 1.18 reveals that fiscal position of the State had plunged to a huge deficit during 2008-09, 2009-10 and 2010-11. During 2010-11, the fiscal deficit of ₹2,532 crore was mainly due to borrowings from market (₹389 crore), small savings, PF, etc. (₹888 crore), special securities issued to NSSF (₹650 crore), loans from financial institutions (₹526 crore) and deposits and advances (₹333 crore). During 2010-11, the market borrowings, loans from financial institutions and small savings, PF, etc. together contributed 70 per cent of the deficit which will increase the interest burden in future.

⁵ Includes an amount of ₹ 699.96 crore by way of book adjustment.

1.9.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the revenue 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 1.19**) 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-1.19: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)							
Year	Non-debt receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue surplus	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	7,858	5,975	1,110	26	7,111	1883	747
2007-08	9,168	6,589	1,414	14	8,017	2579	1,151
2008-09	9,329	7,544	2,079	90	9,713	1785	(-) 384
2009-10	10380	9195	1943	70	11208	1185	(-) 828
2010-11	13430	11996	1789	227	14012	1434	(-)582

- From 2006-07 onwards, non-debt receipts of the State were higher than the PRE which was sufficient to meet this expenditure. From 2007-08, the non-debt receipts as compared to PRE continued to fall from ₹2,579 crore in 2007-08 to ₹1,185 crore in 2009-10 but showed an increase of ₹249 crore in 2010-11.
- Total primary expenditure increased by ₹6901 crore from ₹7111 crore to ₹14012 crore during the period 2006-11 which was due to increase of primary revenue expenditure to the extent of ₹6,021 crore from ₹5975 crore in 2006-07 to ₹11996 crore in 2010-11 and capital expenditure by ₹679 crore from ₹1110 crore in 2006-07 to ₹1789 crore in 2010-11.
- During the period 2006-08 the State had primary surplus but it plunged into deficit of ₹384 crore in 2008-09 which further increased to ₹828 crore in 2009-10 but has shown improvement in 2010-11. The primary deficit during 2010-11 was mainly due to decrease of non-tax revenue by ₹89 crore (*five per cent*) over the previous year on the one hand and significant increase in disbursement of loans and advances i.e. by ₹157 crore (*224 per cent*) over the previous year on the other hand. The increase in revenue deficit during 2010-11 was due to payment of dearness allowance and revised pay.

1.10 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters viz; Revenue deficit, fiscal deficit and primary deficit revealed during the year, the revenue receipts (₹12711 crore) of the State grew by 23 *per cent* while the rate of growth of revenue expenditure (₹13946 crore^s) was 25 *per cent* over the previous year. This resulted in increased revenue deficit of ₹1235 crore^s, as compared to ₹805 crore registered during the year 2009-10.

The increase in revenue deficit combined with decrease in capital expenditure and increase in disbursement of net loans and advances resulted in a fiscal deficit of ₹532 crore in 2010-11. The primary deficit decreased by ₹246 crore from ₹828 crore in 2009-10 to ₹582 crore in 2010-11. The fiscal deficit as a percentage of GSDP was 4.83 *per cent* in 2010-11 against FRBM Act target of 3.5 *per cent*.

The revenue expenditure constituted 87 *per cent* of the total expenditure during 2010-11 while the Non-Plan Revenue Expenditure (NRPE) constituted 88 *per cent* of revenue expenditure. The Plan Revenue Expenditure increased by 33 *per cent* over the previous year whereas the Capital Expenditure decreased by eight *per cent* (₹154 crore) over the previous year.

The salary expenditure during the current year exceeded the projections made in MTFPS (₹4,455 crore) and the budget estimates (₹4,591 crore).

The fiscal liability increased by 11 *per cent* over the previous year. The fiscal liabilities to GSDP ratio at 50 *per cent* was higher than the norms of 49.7 *per cent* recommended by the ThFC.

As of 31 March 2011, there were 11 incomplete projects in which ₹86 crore were blocked. Efforts need be taken to expedite completion of incomplete projects in order to avoid further time and cost overruns.

The TFC recommended setting up of guarantee redemption and consolidated sinking funds with Reserve Bank of India to mitigate the impact of liabilities during its award period of 2005-10. However, the State Government has not yet set up the funds even after elapse of one year after the award period.

Return to Fiscal correction: The State had achieved three out of eight targets as set out in FRBM Act/ThFC during 2010-11. There is reasonable prospect of returning back to fiscal correction path if efforts are made to increase tax compliance, reduce tax administration costs, collection of revenue arrears and prune unproductive expenditure so that deficit are curtailed. Efforts should also be made to improve collection of non tax revenue so that recourse to borrowed funds from GoI can be reduced.

^s Includes an amount of ₹699.96 crore by way of book adjustment.

Funds directly transferred by GoI: The GoI directly transferred ₹1352 crore to the State Implementing Agencies. Thus, total availability of State resources increased from ₹24,348 crore to ₹25,700 crore. There was no single agency to monitor the receipt/transfer of funds directly by GoI and therefore, utilisation of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

Greater priority not given to capital expenditure: The increasing trend in capital expenditure is indicative of improvement in social as well as economic services. Although there is marginal increase in the investments, the capital expenditure had in fact decreased by ₹154 crore during 2010-11 over the previous year. A monitoring mechanism should be put in place to ensure effective budgetary system and to keep a vigil on how prudently the Government money is being utilised so that value for money is channelised in its entirety to the intended beneficiaries.

Review of Government investments: A performance based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth to be channelised there.

Initiative for fiscal correction: The FRBM Act recommended a target to contain the consolidated debt (including guarantees) within 49.70 *per cent* of GSDP by 2010-11, which the State has not been able to achieve as per recommendations and its consolidated debt as on 31 March 2011 stood at 58 *per cent* of the GSDP. The State Government, therefore, needs to gear up its activities so that atleast the target set out by the FRBM Act can be achieved.