

CHAPTER-I
FINANCES OF THE STATE GOVERNMENT

CHAPTER - I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter provides a broad overview of the finances of the State Government 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. Himachal Pradesh is a Special Category State (SCS) based upon categorisation of States made by Government of India (GoI). 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 of 30 *per cent* grant and 70 *per cent* loan.

Profile of State

The State of Himachal Pradesh is the 17th largest State in terms of geographical area (55,673 sq km) and the 20th largest by population. As indicated in **Appendix 1**, the State's population increased from 0.61 crore in 2001 to 0.72 crore in 2017 (projected) recording a growth of 18 *per cent*. The percentage of population below the poverty line was 11 *per cent* which was less than the all-India average (22 *per cent*). The State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product¹ (GSDP) for the period 2007-08 to 2016-17 has been recorded at 15.53 *per cent* (**Appendix 1**).

The State's GDP in 2016-17 at current prices was ₹ 1,24,570 crore. The State's literacy rate increased from 76.50 *per cent* (as per 2001 census) to 82.80 *per cent* (as per 2011 census). The per capita income of the State stands at ₹ 1,47,277² during the year 2016-17.

Gross State Domestic Product

The trends in the annual growth of State's and India's GDP at current prices are indicated in **Table 1.1**.

Table 1.1: Trends in Annual growth of India's GDP and GSDP of Himachal Pradesh (Current Prices)

Year	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP (₹ in crore)	99,51,344	112,72,764	124,88,205	135,76,086	151,83,709
Growth rate of GDP (percentage)	13.91	13.28	10.78	8.71	11.84
State's GDP (₹ in crore)	82,294	94,764	1,04,177	1,13,667	1,24,570
Growth rate of GSDP (<i>per cent</i>)	13.16	15.15	9.93	9.11	9.59

Source: Economics and Statistics Department, Himachal Pradesh and Central Statistics Office.

The GSDP during 2016-17 at ₹ 1,24,570 crore and its growth rate at 9.59 *per cent* was below the assessment (₹ 1,36,914 crore and 13.79 *per cent* respectively) made by the Fourteenth Finance Commission (XIV FC).

Note: In this Chapter, debt taken over by the State under UDAY (Ujwal Discom Assurance Yojna) Scheme which was launched by Government of India in November, 2015 to improve financial and operational efficiencies of State power distribution companies (DISCOMs) has not been counted for the calculation of fiscal parameters. Necessary notes inserted at appropriate places.

¹ Refer Glossary in Appendix 4.

² Advance figure

1.1.1 Summary of Fiscal Transactions

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2016-17) *vis-à-vis* the previous year (2015-16), while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year as compared to previous year.

Table 1.2: Summary of Fiscal operations

Receipts	2015-16	2016-17	Disbursements	2015-16	2016-17		
	Total	Total		Total	Non Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	23,440	26,264	Revenue expenditure	22,303	20,824	4,520	25,344
Tax revenue	6,696 (29)	7,039(27)	General Services	8,788	9,644	84	9,728
Non-tax revenue	1,837 (8)	1,717(6)	Social Services	7,980	7,201	2,409	9,610
Share of Union Taxes/Duties	3,611 (15)	4,344(17)	Economic Services	5,525	3,970	2,026	5,996
Grants from Government of India	11,296 (48)	13,164(50)	Grants-in-aid and Contributions	10	10	Nil	10
Section-B: Capital and others							
Misc. Capital Receipts	Nil	Nil	Capital outlay	2,864	384	3,115	3,499
Recoveries of Loans and Advances	26	30	Loans and advances disbursed	463			3,290*
Public Debt receipts	6,129	8,603*	Repayment of public debt	3,948			3,943
Contingency Fund	Nil	Nil	Contingency Fund	Nil			Nil
Public account receipts#	11,515	13,630	Public account disbursements#	10,577			12,351
Opening cash balance	(-739)	216	Closing cash balance	216			316
Total	40,371	48,743	Total	40,371			48,743

Source: Finance Accounts for the respective years.

Figures in the parenthesis indicate the percentage of Revenue receipt.

In other places net figures of Public Account Receipts have been taken for analysing the State resources.

* Includes ₹2890.50 crore on account of UDAY Scheme.

Following are the significant changes during 2016-17 over the previous year:

Revenue Receipts	Grew by ₹ 2,824 crore (12 per cent). The increase over the previous year was due to significant increase in central transfers i.e. Grants-in-Aid (by ₹ 1,868 crore) and Share of Union Taxes and Duties (by ₹ 733 crore).
Revenue expenditure	Increased by ₹ 3,041 crore (14 per cent). The increase in Non Plan Revenue expenditure and Plan Revenue expenditure was ₹ 2,014 crore and ₹ 1,027 crore respectively.
Revenue Surplus	Revenue surplus decreased by ₹ 217 crore and stood at ₹ 920 crore in 2016-17 as compared to previous year.
Capital expenditure	Increased by ₹ 635 crore (22 per cent).
Public debt receipts	Receipts increased by ₹ 2,474 crore (40 per cent) and its repayment decreased by ₹ 5 crore (0.13 per cent).
Public account receipts	Both receipts and disbursements increased by ₹ 2,115 crore (18 per cent) and ₹ 1,774 crore (17 per cent) respectively.
Closing cash balance	Increased by ₹ 100 crore from the previous year (₹ 216 crore) and stood at ₹ 316 crore at the end of 2016-17.

1.1.2 Review of the fiscal situation

Performance of the State Government on major fiscal variables against the recommendations of Fourteenth Finance Commission (XIVth FC) and against the targets of the FRBM Act of the State is depicted in **Table 1.3**.

Table 1.3: Major Fiscal Variables

Fiscal variables	2016-17					
	Targets as prescribed in FRBM Act/XIV FC	Projections/ Targets proposed in the Budget/MTFPS [#]	Actual		Percentage variation of actual (without UDAY scheme) over	
			Without UDAY scheme	With UDAY scheme	Targets of FRBM Act/XIVFC	Projections/ Targets proposed in the Budget/MTFPS [#]
Revenue Surplus(+)/ Deficit(-) (in crore)	Maintain revenue surplus	(-) 475.62	920	920	Target achieved	Target achieved
Fiscal Deficit/GSDP (in per cent)	(-) 3.00 or less	(-) 3.17	(-) 2.37	(-) 4.69	Target achieved	Target achieved
Ratio of total outstanding debt* of the government to GSDP (in per cent)	34.13	32.82	35.61	37.93	(-) 1.48	(-) 2.79

Source: Finance Department and Finance Accounts

#Medium Term Fiscal Plan Statement

* This includes public debt and other obligations of the State Government

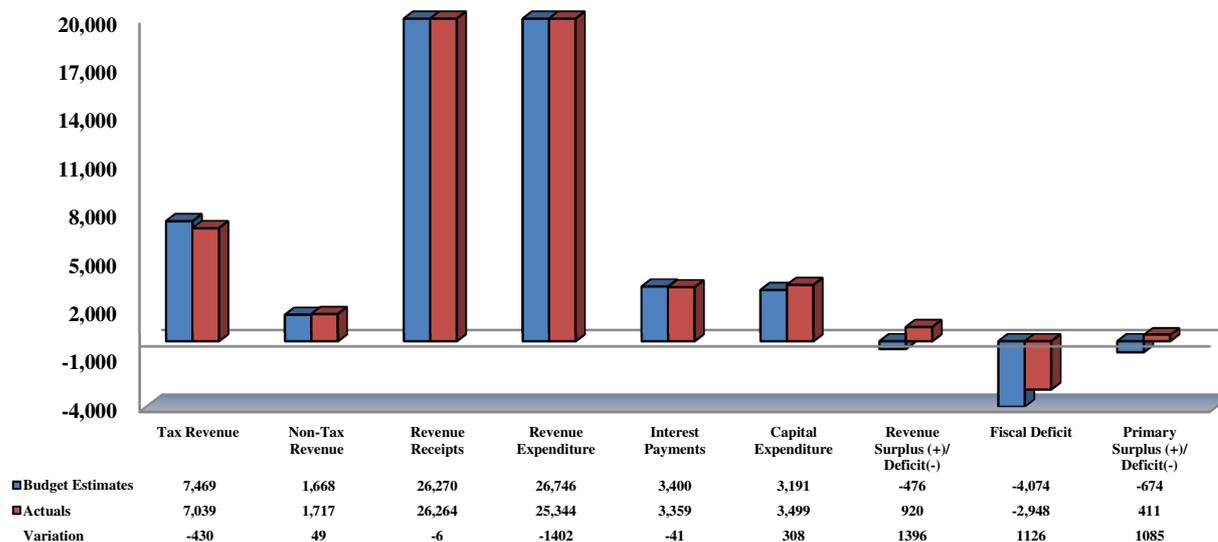
- Target of maintaining revenue surplus set out in the XIV FC was achieved and it stood at ₹ 920 crore during 2016-17.
- Fiscal Deficit was 2.37 per cent of the GSDP excluding effect of UDAY³ scheme and 4.69 per cent of GSDP with UDAY scheme against the target (3 per cent or less) set out in XIV FC and FRBM/MTFPS.
- Total outstanding debt to GSDP was 35.61 per cent excluding UDAY scheme and 37.93 per cent with UDAY scheme which in both the cases exceeded the projection made in XIV FC and FRBM/MTFPS.

1.1.3 Budget estimates and actuals

The budget papers presented by the Government of Himachal Pradesh provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. The budget estimates and actuals for some important fiscal parameters for 2016-17 are given in **Chart 1.1**.

³ UDAY (Ujwal Discom Assurance Yojna) Scheme was launched by Government of India in November, 2015 to improve financial and operational efficiencies of State power distribution companies (DISCOMs). As per the Scheme, Debt taken over by the State is not to be counted against the fiscal deficit of the State in the financial years 2015-16 and 2016-17. For details see paragraph 1.8.2.1

Chart 1.1 : Selected Fiscal Parameters: Budget Estimates vis-a-vis Actuals (₹ in crore)



Source: MTFPS (March 2016) and Finance Accounts 2016-17

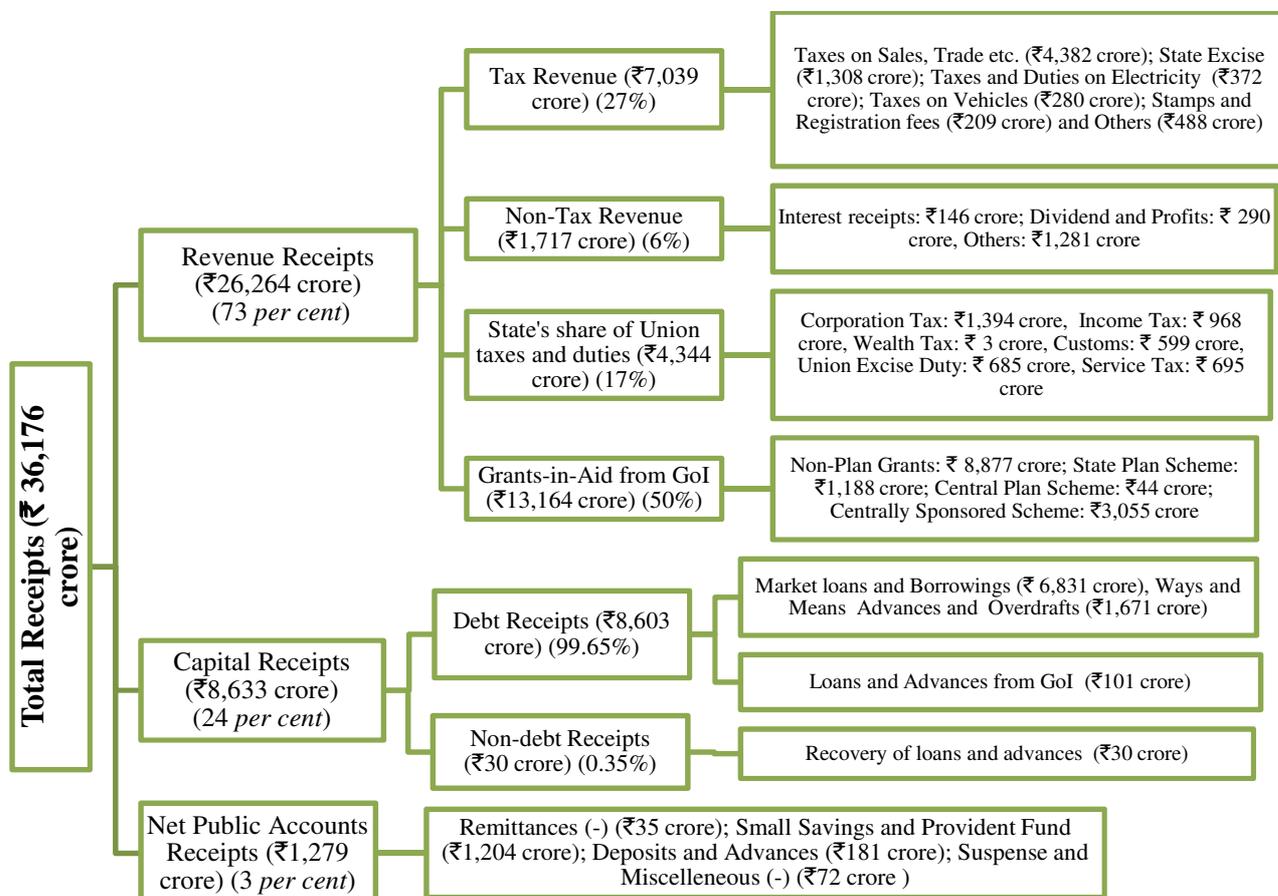
As may be seen from **Chart 1.1**, there were considerable variations between budget estimates and actuals in case of several parameters. It triggers the question that the budget estimates were unrealistic and should have been based on better information and understandings of the realization trend of revenue.

1.1.4 Gender Budgeting

Gender Budgeting Cell was constituted in the department of Women and Child Development in 2013. There were 20 schemes designated to benefit women to the extent of 100 *per cent* allocation and 43 schemes with partial allocation during the year 2016-17 under which outlay was made as mentioned in **Appendix 1.5**. Against the total outlay of ₹ 1,072.71 crore under these schemes, an amount of ₹ 897.26 crore was spent leaving unspent balance of ₹ 175.45 crore with the department at the end of the year 2016-17.

1.2 Resources of the State

Chart 1.2: Depicts the components and sub-components of receipts during the year 2016-17

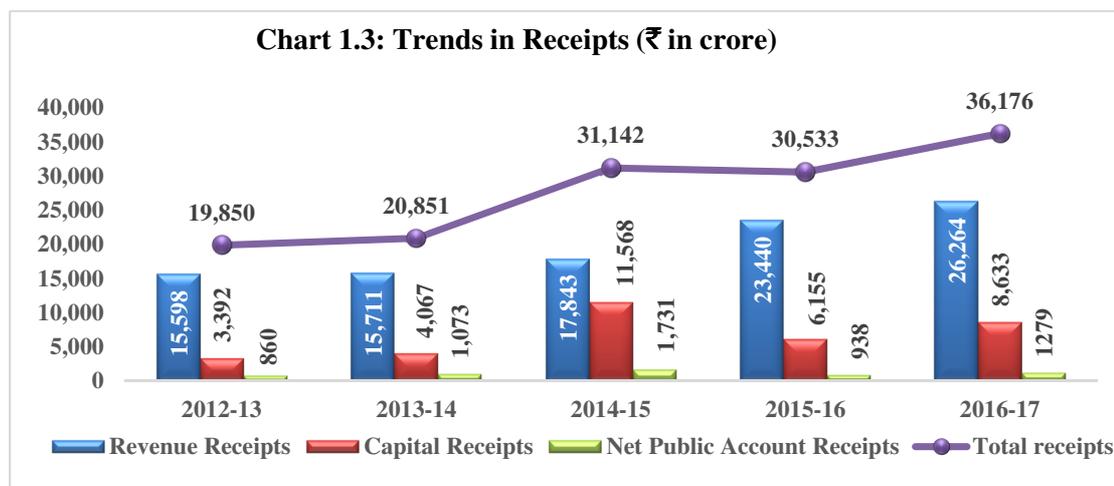


1.2.1 Resources of the State as per the Annual Finance Accounts

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 GoI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowing from financial institutions/commercial banks) and loans and advances from GoI. Besides, the fund available in the Public Accounts after disbursement is also utilized by the Government to finance its deficit. **Table 1.2** presents the receipts and disbursements of the State during the year 2016-17 as recorded in its Annual Finance Accounts while **Chart 1.3** depicts the trends in various components of the receipts of the State during 2012-17.

As evident from the **Chart 1.2**, revenue receipts comprise 73 per cent, capital receipts 24 per cent and net public account receipts three per cent of the total receipts of ₹ 36,176 crore during 2016-17. In revenue receipts, the share of grants-in-aid from

GoI, tax revenue, State's share of union taxes and duties and non-tax revenue was 50 per cent, 27 per cent, 17 per cent and six per cent respectively.



As would be evident from **Chart 1.3** above, the total receipts of the State Government increased by 18 per cent from ₹ 30,533 crore to ₹ 36,176 crore during 2016-17 over the previous year due to more receipts in Revenue, Capital and Net Public Account.

Revenue receipts show an increasing trend during 2012-17. However, it increased by ₹ 2,824 crore in 2016-17 mainly due to increase of ₹ 2,601 crore in share of Union Taxes/duties and Grants from GoI. The share of revenue receipts in the total receipts of the State decreased from 77 per cent in 2015-16 to 73 per cent in 2016-17 due to less receipt in non-tax revenue.

1.2.2 Funds transferred by the GoI directly to State Implementing Agencies outside the State Budget

The GoI has been transferring sizeable funds directly to the State implementing agencies for implementation of various schemes/programs in the social and economic sectors without routing through the State budget/treasury.

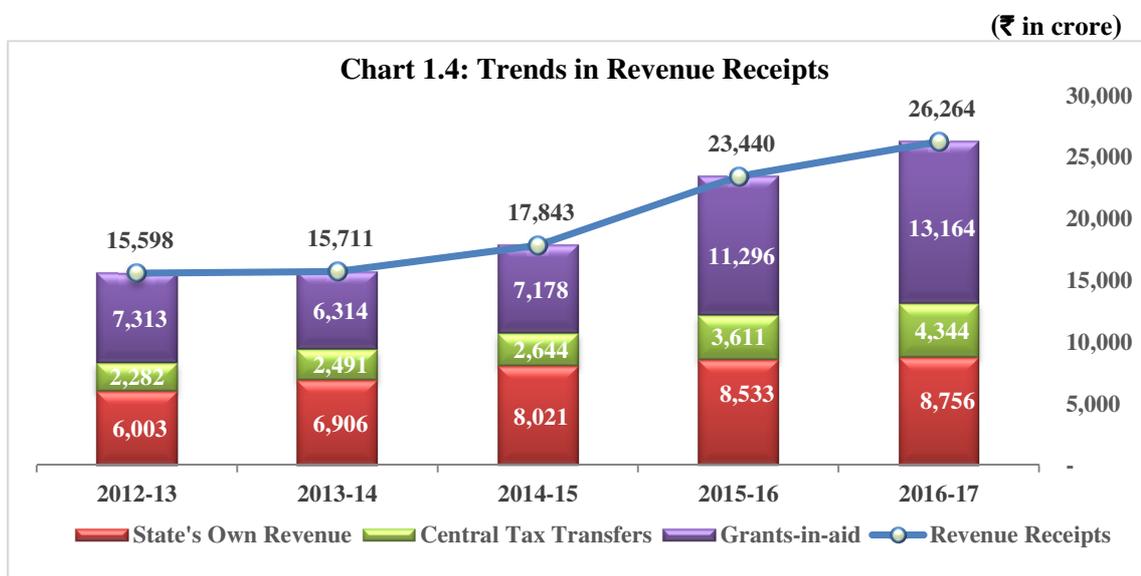
In spite of Central Government decision to route these funds through budget from 2014-15, funds were still transferred directly to the State Implementing agencies during 2014-17.

During 2016-17, these direct fund transfers increased to ₹ 457.18 crore from ₹ 344.68 crore compared to previous year. These funds were transferred mainly to National Rural Employment Guarantee Scheme (MGNREGA) (₹ 104.32 crore), Ministry of Road Transport and Highways (₹ 92.18 crore), MPLAD (₹ 35 crore) and Scheme for Border Management (Executive Engineer HPPWD Bhabanagar) (₹ 30 crore) (**Appendix 1.6**).

Thus, with the transfer of ₹ 457.18 crore funds during 2016-17 by GoI directly to the State implementing agencies, the total availability of the State resources increased from ₹ 48,527 crore to ₹ 48,984 crore. Audit observed that still there is no single agency in the State to monitor these funds and no data is readily available as to how much money has actually been spent in a particular year by these implementing agencies.

1.3 Revenue Receipts

Statement-14 of the Finance Accounts details the revenue receipts of the government. The revenue receipts consist of State's own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends in revenue receipts over the period 2012-17 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** below:



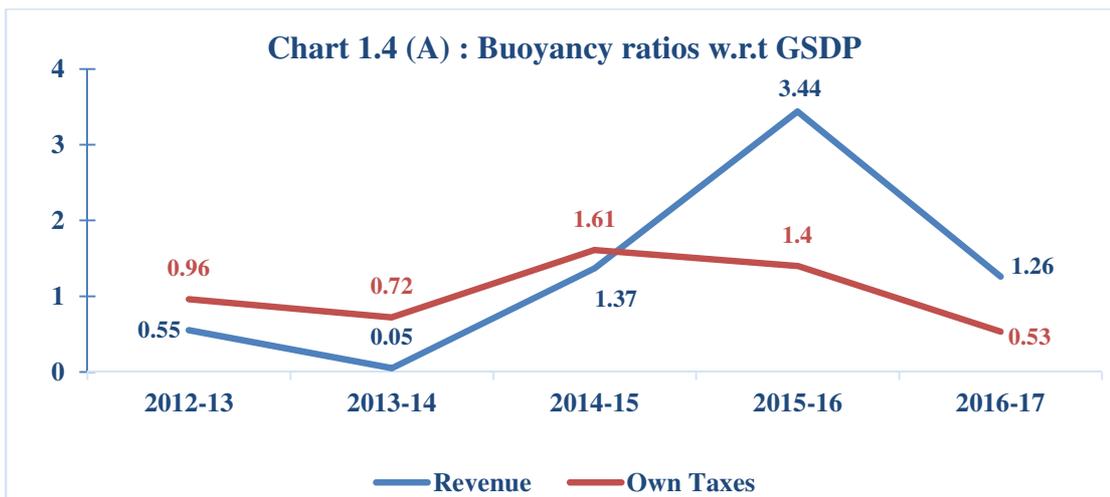
- Revenue receipts steadily increased from ₹ 15,598 crore in 2012-13 to ₹ 26,264 crore in 2016-17 at an annual average growth rate of 12.99 per cent. During 2016-17 it increased by ₹ 2,824 crore recording an increase of 12 per cent over the previous year.
- During 2016-17, only 33 per cent of the Revenue receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 67 per cent were contributed by central transfers comprising the State's share in central taxes and duties (17 per cent) and grants-in-aid from GoI (50 per cent). The trends in revenue receipts relative to GSDP are presented in **Table 1.5**.

Table 1.5: Trends in Revenue Receipts relative to GSDP

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (RR) (₹ in crore)	15,598	15,711	17,843	23,440	26,264
Rate of growth of RR (per cent)	7.25	0.72	13.57	31.36	12.05
State's Own Taxes (₹ in crore)	4,626	5,121	5,940	6,696	7,039
Rate of growth of Own Taxes (per cent)	12.61	10.70	15.99	12.73	5.12
State's GDP (₹ in crore)	82,294	94,764	1,04,177	1,13,667	1,24,570
Growth rate of GSDP (percentage)	13.16	15.15	9.93	9.11	9.59
R R/GSDP (per cent)	18.95	16.58	17.13	20.62	21.08
Buoyancy Ratios⁴					
Revenue Buoyancy w.r.t. GSDP	0.55	0.05	1.37	3.44	1.26
State's Own Taxes Buoyancy w.r.t. GSDP	0.96	0.71	1.61	1.40	0.53

⁴ Refer glossary in Appendix 4.



- After declining to 0.72 per cent in 2013-14, the rate of growth of revenue receipts increased for two consecutive years to 13.57 per cent in 2014-15 and 31.36 in 2015-16, the highest in last five years. However, it fell to 12.05 per cent during 2016-17 despite high devolution of central transfers due to low buoyancy of State's own taxes.
- The growth rate of GSDP increased by 0.48 per cent during 2016-17 over the previous year.
- Inter year variation has been observed in the revenue buoyancy ratio w.r.t. GSDP which after falling to 0.05 in 2013-14 went up to 3.44 in 2015-16 and falling again to 1.26 in 2016-17 due to decline in growth rate of revenue receipts.
- Continuous fall in the State's own tax buoyancy ratio with reference to GSDP has been observed since 2014-15. It has come down to the lowest in 5 years during 2016-17 and stood at 0.53. This is indicative of inadequate focus of State Government on improving efficiency of Revenue mobilization in response to increased economic activity.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2016-17 vis-à-vis assessment made by XIVth FC and MTFPS are given in **Table 1.6**.

Table 1.6: Percentage variation of actual over projections/estimates

	XIV th FC projections	Budget estimates/ MTFPS projection	Actual	Percentage variation of actual over	
				XIV th FC projections	Budget estimates/ MTFPS projection
Tax revenue	9,438	7,469	7,039	(-) 25.42	(-) 5.76
Non tax revenue	1,876	1,668	1,717	(-) 8.48	Target Achieved

Source: Finance Department and Finance Accounts

The actual realisation of tax revenue was less by ₹ 2,399 crore (25.42 per cent) while Non-tax Revenue (NTR) was 8 per cent less than the XIVth Finance Commission

projections. The tax revenue was 5.76 per cent less than the State's own projection set out in budget estimates/MTFPS for the year 2016-17.

1.3.1.1 Tax revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7**.

Table 1.7: Components of Tax Revenue

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17
Taxes on sales, trades etc.	2,728 (10)	3,141(15)	3,661(17)	3,993(9)	4,382(10)
State excise	810 (15)	952 (18)	1,044(10)	1,131(8)	1,308(16)
Taxes on vehicles	196 (11)	208 (6)	220 (6)	317(44)	280(-12)
Stamp duty and registration fees	173 (12)	188 (9)	190(1)	206(8)	209(1)
Taxes and duties on electricity	262(42)	191(27)	333 (74)	551(65)	372 (-32)
Land revenue	24 (33)	10 (-58)	17(70)	7(-59)	8 (14)
Taxes on goods and passengers	101 (7)	105 (4)	110(5)	115(5)	121(5)
Other taxes	332 (12)	326 (-2)	365(12)	376(3)	359 (-5)
Total	4,626(13)	5,121 (11)	5,940 (16)	6,696(13)	7,039(5)

Figures in the parenthesis indicate the percentage growth over the previous year

Tax revenue increased by ₹ 343 crore (5 per cent) during 2016-17 over the previous year. The major increase was on taxes on sales, trade, state excise and land revenue whereas there was significant shortfall in taxes and duties on electricity and taxes on vehicles.

1.3.1.2 Non-tax revenue

The position of non-tax revenue (NTR) is given in **Table 1.8**.

Table 1.8: Components of Non-Tax Revenue (NTR)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17
Interest receipts	70 (-39)	119 (70)	101(-15)	94(-7)	146(55)
Dividends and profits	100 (16)	103 (3)	171(66)	112(-35)	290(159)
Other non-tax receipts, of which-	1,207(- 30)	1,563 (29)	1,809(16)	1,631(-10)	1,281(-21)
Misc. General Services	9(-78)	6(-33)	3(-50)	19(533)	2(-89)
Education, Sports, Arts and Culture	112(8)	157(40)	161(3)	206(28)	112(-46)
Forestry and Wild life	64(-40)	358(459)	116(-68)	34(-71)	19(-44)
Other Administrative Services	46(77)	26(-43)	36(38)	33(-8)	43(30)
Non-ferrous mining and metallurgical Industries	148(23)	111(-25)	162(46)	155(-4)	176(14)
Power	637(-44)	696(9)	1,122(61)	924(-18)	651(-30)
Others	191(12)	209(9)	209 (-)	260(24)	278(7)
Total	1,377 (-28)	1,785 (30)	2,081(17)	1,837(-12)	1,717(-7)

Figures in the parenthesis indicate percentage growth/deficit over the previous year

The NTR decreased by ₹ 120 crore (7 per cent) in 2016-17 over the previous year. Other non-tax receipts showed a decline of 21 per cent in 2016-17. Non-tax revenue under Forestry and Wild life increased to ₹ 358 crore in 2013-14 from ₹ 64 crore in 2012-13 due to Government of India (DRDO) refunding erroneous credit deposited under *ad hoc* Compensatory afforestation fund Management and Planning Authority (CAMPA) for sale of trees. It continuously declined then and recorded at ₹ 19 crore during 2016-17. NTR under Power jumped from ₹ 637 crore in 2012-13 to ₹ 1,122 crore in 2014-15, due to receipts of balance amount of ₹ 340 crore on

account of free electricity for previous year. During 2016-17 it declined by 30 per cent over the previous year due to low energy rates prevailing in the market.

1.3.1.3 Cost of collection

The gross collection of taxes on Sales, Trade, State excise, Goods and passengers, Stamp duty and Registration fee, Taxes on Vehicles and Electricity, expenditure incurred on their collection and its percentage to gross collection during the years 2015-16 and 2016-17 are indicated in the **Table 1.9**.

Table 1.9: Cost of Collection

(₹ in crore)

Receipts	Year	Gross Collection	Expenditure on Collection	Percentage of cost of collection to the gross collection
Taxes on Sales, trade	2015-16	3,993	3.92	0.10
	2016-17	4,382	4.27	0.10
State Excise	2015-16	1,131	4.15	0.37
	2016-17	1,308	6.03	0.46
Goods and Passengers	2015-16	115	34.30	29.83
	2016-17	121	39.46	32.61
Stamp Duty and Registration Fee	2015-16	206	2.20	1.07
	2016-17	209	23.04	11.02
Taxes on Vehicles	2015-16	317	6.41	2.02
	2016-17	280	2.95	1.05
Taxes on Electricity	2015-16	551	1.79	0.32
	2016-17	372	2.06	0.55

The percentage cost of collection to the gross collection for State Excise and Goods and Passenger tax, Stamp duty and Registration Fee and Taxes on electricity has gone up during 2016-17 as compared to the previous year 2015-16.

1.3.2 Transfers from GoI to State

Total transfers from GoI to the State for the period 2012-13 to 2016-17 shows continuous increase (except 2013-14) as given in **Table 1.10**.

Table 1.10: Transfer from GoI

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Grants-in-Aid from Government of India	7,313	6,314	7,178	11,296	13,164
State's share of Union Taxes and Duties	2,282	2,491	2,644	3,611	4,344
Total Central Transfer to State	9,595	8,805	9,822	14,907	17,508

Component-wise position of the transfers is given in the succeeding paragraphs.

1.3.2.1 Grants-in-aid from GoI

The position of grants-in-aid from GoI is given in **Table 1.10 (A)**.

Table 1.10 (A): Grants-in-aid from GoI

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan Grants	2,526	2,025	1,199	8,524	8,877
Grants for State Plan Schemes	4,179	3,765	4,333	756	1,188
Grants for Central Plan Schemes	28	17	31	38	44
Grants for Centrally Sponsored Plan Schemes	580	507	1,615	1,978	3,055
Total	7,313	6,314	7,178	11,296	13,164
Percentage of increase over previous year	12.15	(-)13.66	13.68	57.37	16.54
Percentage of Revenue Receipts	47	40	40	48	50

As can be noted from **Table 1.10 (A)** there is a significant increase in Grants-in-aid from GoI from the year 2015-16, as a result of implementation of the recommendations of XIVth Finance Commission. During 2016-17 grants-in-aid from GoI increased by ₹ 1,868 crore, recording a growth of 17 *per cent* over the previous year. Grant for Centrally Sponsored Plan Schemes was the major recipient under Grants-in-aid which increased by ₹ 1,077 crore in 2016-17 over the previous year. Major increase was noticed in Power Development, Urban Development and General Education. The percentage of grants-in-aid from GOI to revenue receipts ranged between 40 and 50 *per cent* during the period 2012-17.

1.3.2.2 Central tax transfers

Central tax transfers increased by ₹ 732.53 crore (20 *per cent*) from ₹ 3,611 crore in 2015-16 to ₹ 4,344 crore in 2016-17 as given in **Table 1.10 (B)**:

Table 1.10 (B): Central tax transfers during 2015-16 and 2016-17

(₹ in crore)				
Name of Tax	Recommendation of XIV th FC	Actual for 2015-16	Actual for 2016-17	Variation
Corporation Tax	42 <i>per cent</i> of the shareable amount of Central Taxes to States.	1,135.61	1,393.48	257.87
Income Tax		786.68	968.47	181.79
Wealth Tax		0.32	3.19	2.87
Customs		579.13	599.42	20.29
Union Excise Duty		484.57	684.49	199.92
Other Taxes and Duties on Commodities and Services		2.93	0.01	(-).2.92
Service Tax		621.90	694.64	72.74
Other Taxes on Income and Expenditure		0.03	--	(-).0.03
Total			3,611.17	4,343.70

1.3.3 Optimisation of Fourteenth Finance Commission (XIV) Grants.

Financial rules provide that institutions or organisations receiving grants shall furnish audited utilisation certificate to the Government after utilisation of grant-in-aid.

Scrutiny of records and information obtained from the concerned departments, viz. Director Panchayati Raj, Director Urban Development, Elementary Education and Special Secretary (Revenue Department), Shimla revealed the following:

Table 1.11: Release of Grants under Fourteenth Finance Commission to selected Departments (2016-17)

(₹ in crore)					
Sr. No.	Name of Department	Transfers	Recommendation by XIV-FC	Actual Release	Expenditure
1	Director Urban Development	Basic grant to ULBs	13.83	13.83	13.83
		Performance grant	8.60	8.60	8.60
2	Director Panchayati Raj	Basic grant to ULBs	270.56	270.56	270.56
		Performance grant	35.49	35.49	35.49
3	Special Secretary (Revenue Department)		248.00	248.00	248.00
Total			576.48	576.48	576.48

It was noticed that grant amounting to ₹ 576.48 crore was released to the State Government for the year 2016-17 under XIV FC. The State Government further

released this amount of grant to the Directorate of PRI, Directorate of ULB and other implementing agencies. It was noticed that only the Revenue Department had submitted UCs amounting to ₹ 108.47 crore against an expenditure of ₹ 248 crore incurred by it, whereas in respect of other concerned departments, neither any UCs were received nor any expenditure statements/returns were submitted by the executing agencies as of September 2017. Further, all amounts received has been shown as utilised without obtaining utilisation certificates from the executing agencies, which is contrary to the financial rules..

1.4 Capital Receipts

The trends in growth and composition of capital receipts are presented in **Table 1.12**.

Table 1.12: Trends in growth and composition of capital receipts

	(₹ in crore)				
Sources of State's Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts (CR)	3,392	4,067	11,568	6,155	8,633
Rate of growth of CR (per cent)	68.84	19.89	184.44	(-) 46.79	40.26
Miscellaneous Capital Receipts	Nil	Nil	650	Nil	Nil
Recovery of Loans and Advances	21	17	41	26	30
Rate of growth of non-debt capital receipts (Loans and Advances only)	(-) 16.00	(-) 19.05	141.18	(-) 36.83	15.38
Public Debt Receipts	3,371	4,050	10,877	6,129	8,603
Rate of growth of debt capital receipts	69.91	20.14	168.57	(-) 43.65	40.37

During 2016-17, capital receipts increased by ₹ 2,478 crore over the previous year (2015-16) with growth rate of 40.26 per cent. It was primarily due to increase in public debt receipts by ₹ 2,474 crore (40.37 per cent) during 2016-17. The details of sources of capital receipts are discussed in following paragraphs:

1.4.1 Recoveries of loans and advances

The State Government had provided loans and advances to various institutions/organizations such as HP Private Institutional Regulatory Commission, HP State Co-operative, HP Marketing and Consumer Federation Corporation Ltd. (HIMFED), HP Power Corporation Ltd. Himachal Pradesh State Electricity Board, HP Power Transmission Corporation, HP State Financial Corporations, etc. As on 31 March 2017, the total outstanding loans and advances amounted to ₹ 6,044 crore. Against this, the State Government recovered only ₹ 30 crore during 2016-17. Besides, ₹ 80 crore was received as interest on loans and advances. The detailed position of loans and advances has been discussed in Paragraph 1.8.3.

1.4.2 Debt receipts from internal sources

Debt receipts from internal sources i.e. market loans/borrowings from different financial institutions and banks over the period 2012-13 to 2016-17 continued to be a major source of receipts of the State Government.

Table 1.13: Details of debt receipts from internal sources

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Market Loans	2,359 (73)	2,367 (59)	2,345 (22)	2,450 (40)	3,400 (40)
Special Securities issued to National small Savings fund of the Central Government (NSSF)	471 (15)	617 (15)	1,102 (10)	1,307 (22)	Nil
Ways and means advances (including overdrafts) (WMA including OD)	Nil	629(16)	6,860 (64)	1,785 (29)	1,671 (20)
Loans from National Bank for Agricultural and Rural Development (NABARD)	400 (12)	350 (9)	400 (4)	500 (8)	500 (6)
Loans from Other Financial Institutions	9 (*)	28 (1)	45 (*)	37 (1)	2,931 [#] (34)
Internal Debt Receipts	3,239	3,991	10,752	6,079	8,502
Internal Debt Repayment	2,056	1,639	8,193	3,876	3,869

Figures in brackets indicate the percentage of internal debt receipts

*Less than one per cent. # Includes ₹2890.50 crore on account of UDAY Scheme.

As is evident from the above table, during 2016-17, internal debt receipts increased from the previous year due to receipt of ₹ 2,891 crore as loan on accounts of Ujwal Discom Assurance Yojna (UDAY) bonds. The major components of internal debt over the last five years were market loans. In 2016-17, market loans (average rate of interest of 7.5 per cent) increased by ₹ 950 crore. During 2016-17, internal debt receipts increased by ₹ 2,423 crore (40 per cent) from ₹ 6,079 crore to ₹ 8,502 crore and internal debt repayments decreased by ₹ 7 crore from ₹ 3,876 crore to ₹ 3,869 crore over the previous year.

1.4.3 Loans and advances from GoI

The position of loans and advances by GoI to State Government for the last five years is given in the **Table 1.14**.

Table 1.14: Position of Loans and advances from GoI

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Opening Balance	947	1,018	1,012	1,070	1,049
Addition during the year	132	59	125	50	101
Discharge during the year	61	65	67	71	74
Closing Balance	1,018	1,012	1,070	1,049	1,076
Percentage of total expenditure	5	5	5	4	3

During the year 2016-17, the receipt of loans and advances for State plan schemes from GoI (₹ 101.30 crore) increased by 103 per cent.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here the government acts as a banker. The balance after disbursements is the fund available with the government for use. The trends in public account receipts and disbursements during the year 2015-16 and 2016-17 are given in **Table 1.15**.

Table 1.15: Trends in Public Accounts Receipts and Disbursements during 2015-16 and 2016-17
(₹ in crore)

Resources under various heads	Public Account Receipts		Public Account Disbursements		Excess of Receipts over Disbursements	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Small Savings, Provident Fund etc.	3,116	3,403	2,397	2,198	719	1205
Reserve fund	235	249	244	249	(-) 9	--
Deposits and Advances	2,408	2,727	2,293	2,546	115	181
Suspense and Miscellaneous	617	800	651	872	(-) 34	(-)72
Remittances	5,139	6,451	4,992	6486	147	(-)35
Total	11,515	13,630	10,577	12,351	938	1,279

Net Public Account Receipts=Public Account Receipts-Public Account Disbursements

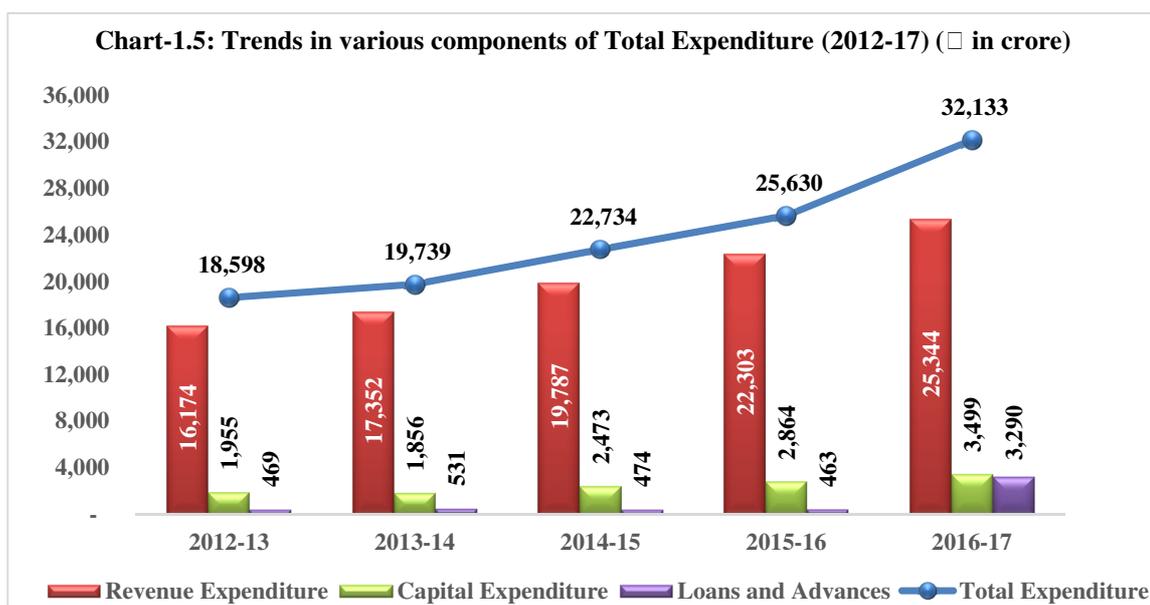
As is evident from the above table, net public account receipts (excess of receipts over disbursements) increased by ₹ 341 crore from ₹ 938 crore in 2015-16 to ₹ 1,279 crore in 2016-17. The increase was mainly under Small Savings, Provident Fund, etc. by ₹ 486 crore and under deposits and advances by ₹ 66 crore during this period.

1.6 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 the expenditure directed towards development of social sector.

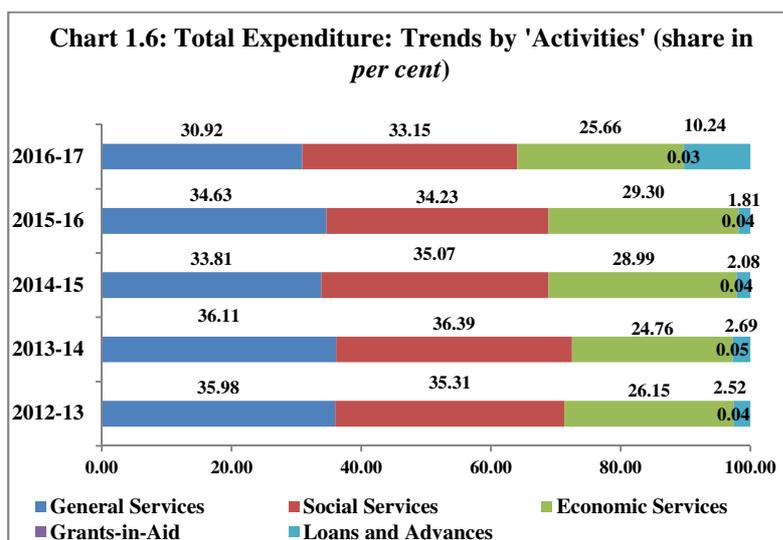
1.6.1 Growth and Composition of Expenditure

Chart 1.5 presents the trends and composition of total expenditure over the last five years (2012-17) and **Chart 1.6**, **Chart 1.7** depicts its composition both in terms of 'economic classification' and 'expenditure by activities' respectively.



- **Total Expenditure (TE)** of the State increased from ₹ 18,598 crore in 2012-13 to ₹ 32,133 crore in 2016-17 at an annual average rate of 15 *per cent*. During current year it increased by ₹ 6,503 crore (25 *per cent*) over the previous year. The increase in total expenditure was on account of increase in revenue expenditure by ₹ 3,041 crore, disbursement of loans and advances by ₹ 2,827 crore and capital expenditure by ₹ 635 crore.

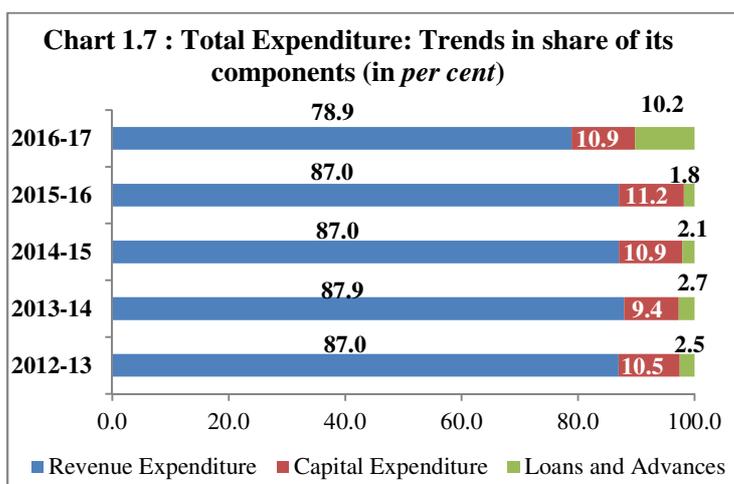
The movement of relative share of these components of expenditure indicated that



major components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental as a *per cent* of total expenditure increased from 35.98 *per cent* in 2012-13 to 36.11 *per cent* in 2013-14 but gradually decreased to 30.92 *per cent* in 2016-17. The expenditure under General Services was mainly on

account of Interest Payments (34 *per cent*) and Pension and Other Retirement Benefits (41 *per cent*). On the other hand, developmental expenditure⁵ i.e. on Social and Economic Services together accounted for 58.81 *per cent* in 2016-17 against 63.53 *per cent* during 2015-16. The share of loans and advances increased by 8.43 percentage point during 2016-17 due to implementation of UDAY Scheme.

- **Revenue Expenditure (RE):** The revenue expenditure increased by ₹ 3,041 crore (14 *per cent*) from ₹ 22,303 crore in 2015-16 to ₹ 25,344 crore in 2016-17. The increase was



mainly on General Services, Social Services and Economic Services by ₹ 940 crore (11 *per cent*), ₹ 1,630 crore (20 *per cent*) and ₹ 471 crore (9 *per cent*) respectively. The overall increase is the result of significant increase under the heads Education, Sports, Art and Culture (₹ 813 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 510 crore),

Interest payments (₹ 204 crore), Health and Family Welfare (₹ 201 crore), Rural Development (₹ 174 crore), Irrigation and Flood Control (₹ 124 crore). The revenue

⁵ Refer Glossary in Appendix 4.

expenditure continued to constitute a dominant proportion (79 to 88 per cent) of total expenditure during the years 2012-17 and increased at an annual average rate of 13 per cent. During 2016-17, the revenue expenditure constituted 78.9 per cent of the total expenditure.

The Plan Revenue Expenditure increased by ₹ 1,027 crore (29 per cent) in 2016-17 as compared to the previous year and contributed just 13 to 18 per cent of the total revenue expenditure during 2012-17. The non-plan revenue expenditure increased by ₹ 2,014 crore (11 per cent) in 2016-17 as compared to the previous year and constituted a dominant share of 82 to 87 per cent of revenue expenditure during the period 2012-17. The Non-Plan Revenue Expenditure consumed a dominant proportion (**Appendix-1.3**) of Revenue Receipts and ranged between 79 to 95 per cent during 2012-17.

State's revenue receipts and revenue expenditure stood at 21.08 per cent and 20.35 per cent to GSDP respectively during 2016-17. The State had revenue surplus of ₹ 920 crore which was 0.74 per cent of GSDP during the current year.

- **Capital Expenditure (CE):** Capital expenditure decreased by ₹ 99 crore from ₹ 1,955 crore to ₹ 1,856 crore during 2012-14. For the last three years continuous growth has been observed in the capital expenditure. During 2016-17, capital expenditure (₹ 3,499 crore) increased by ₹ 635 crore (22 per cent) over the previous year 2015-16 (₹ 2,864 crore). Education, Sports, Arts and Culture (₹ 296 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 434 crore) under Social Services, Power Projects (₹ 203 crore), Irrigation and Flood Control (₹ 201 crore) and Transport (₹ 1,584 crore) under economic services were the major beneficiary sectors where capital expenditure had been made during 2016-17. The share of capital expenditure to total expenditure has decreased from 11.2 per cent in 2015-16 to 10.9 per cent in 2016-17.
- **Loans and Advances:** constituted 10 per cent (₹ 3,290 crore) of the total expenditure in 2016-17 which increased by ₹ 2,827 crore over the previous year. The major portion of the loans (₹ 2,890.50 crore) was disbursed to DISCOMS under UDAY Scheme.

➤ 1.6.2 Committed Expenditure

The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages, pensions and subsidies.

Table 1.16: Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries and Wages, of which	7,255 (47)	7,545 (48)	8,418 (47)	8,174 (35)	9,682(37)
Non-Plan Head	6,999	7,289	8,159	7,826	9,345
Plan Head	256	256	259	348	337
Interest Payments	2,370 (15)	2,481 (16)	2,849 (16)	3,155 (13)	3,359(13)
Pensions	2,747 (18)	2,855 (18)	2,914 (16)	3,836 (16)	4,114(16)
Subsidies	567 (4)	467 (3)	801 (4)	1,346 (6)	764(3)
Total	12,939	13,348	14,982	16,511	17,919
Percentage to RE	80	77	76	74	71

* Salary: ₹ 9,356 crore; wages: ₹ 326 crore.

Figures in brackets indicate per cent to Revenue Receipts

As evident from **Table 1.16**, there is a consistent rise in committed expenditure of the State. The increase in committed expenditure was ₹ 1,408 crore (9 per cent) during 2016-17 over the previous year. It consistently constituted a dominant share of 80, 77, 76, 74 and 71 per cent of revenue expenditure respectively during 2012-17.

Salaries and Wages

The expenditure on salaries and wages increased by ₹ 1,508 crore (18 per cent) over the previous year due to dearness allowance installments and other benefits paid to the staff. It constituted 37 per cent of revenue receipts of the State during 2016-17. The salary expenditure in the current year (₹ 9,356 crore) was within the projections made in Medium Term Fiscal Plan Statement (MTFPs) (₹ 9,445 crore).

Pension Payments

The expenditure on pension payments increased from ₹ 2,747 crore in 2012-13 to ₹ 4,114 crore in 2016-17 and by ₹ 278 crore (seven per cent) during the current year over the previous year. Salary and pension payments together accounted for 53 per cent of the revenue receipts. The actual expenditure on pension payments for the current year was within the projections made in Medium Term Fiscal Plan Statement (MTFPs) (₹ 4,200 crore).

Interest Payments

The interest payments increased by 42 per cent from ₹ 2,370 crore in 2012-13 to ₹ 3,359 crore in 2016-17 and increased by ₹ 204 crore (six per cent) during 2016-17 over the previous year. Interest payments was well within the normative assessment made by the XIVth FC (₹ 3,391 crore) and the projections made by State Government in MTFPS (₹ 3,400 crore). It was noticed in audit that increased outgo on account of interest payments was due to increased commercial borrowing as detailed in para 1.9.2.

Subsidies

The State Government has been paying subsidies to various institutions/bodies/corporations. **Table 1.16** depicts that after rising for two consecutive years 2014-15 and 2015-16 there is decline in subsidies given during 2016-17. Subsidies decreased by ₹ 582 crore during 2016-17 and constituted about 3 per cent of the revenue receipts. The major components of subsidies were Energy (₹ 265 crore), Transport (₹ 160 crore), Food and Supply (₹ 175 crore) and Horticulture (₹ 62 crore).

1.6.3 Financial Assistance to Local bodies and other institutions

The detailed position of grants-in-aid released to various institutions during the period 2012-13 to 2016-17 by the State Government is given in **Table 1.17**.

Table 1.17: Detail of Grants-in-aid released to Local Bodies and other institutions

(₹ in crore)						
Sr. No.	Name of Institution	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Universities and Educational Institutions	405.62 (29)	451.55 (11)	601.03(33)	663.67 (10)	849.57(28)
2.	Municipal Corporations and Municipalities	174.09 (42)	282.33 (62)	211.65 (-25)	321.63 (52)	554.49(72)
3.	Panchayati Raj Institutions	282.09 (7)	353.54 (25)	810.37(129)	926.72 (14)	1,011.60(9)
4.	Development Agencies	38.72 (-17)	65.96 (70)	63.52(-4)	80.53 (27)	150.37(87)
5.	Hospitals and other Charitable Institutions	87.77 (26)	94.63 (8)	216.24 (129)	277.14 (28)	271.64(-2)
6.	Other Institutions	214.82 (32)	189.87 (-12)	253.37 (33)	342.58 (35)	519.31(52)
	Total	1,203.11 (23)	1,437.88 (20)	2,156.18 (50)	2,612.27 (21)	3,356.98(29)
	Assistance as percentage of Revenue Expenditure	7.43	8.28	10.90	11.71	13.25

Source: Figures compiled by Accountant General (Accounts & Entitlement) office.

Figures in brackets indicate the percent increase/decrease over previous year

The grants extended to local bodies and other institutions consistently showed an increasing trend during the year 2012-16. It increased by ₹ 744.71 crore

(29 per cent) during current year (2016-17) over the previous year. The increase in grants-in-aid during 2016-17 was mainly due to more grants to Universities and Educational Institutions (₹ 185.90 crore), Municipal Corporations and Municipalities (₹ 232.86 crore), Development Agencies (₹ 69.84 crore) and other Institutions (₹ 176.73 crore).

1.7 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 expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for selected services).

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure, assigned to the State Governments, are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is below the Special Category States' average for that year.

Table 1.17 (A) analyses the fiscal priorities of the State Government with regard to development expenditure (DE), social sector expenditure (SSE) and capital expenditure (CE) relative to Special Category States during 2015-16 and the current year 2016-17 taking 2012-13 as the base year.

Table-1.17 (A): Fiscal Priority of the State during 2012-13, 2015-16 and 2016-17

Fiscal Priority by the State	AE/GSDP	DE [#] /AE	SSE/AE	ESE/AE	CE/AE	Education/AE	Health/AE
Special Category States' Average (Ratio) 2012-13	24.80	61.10	34.30	30.70	15.10	18.10	5.30
Himachal Pradesh's Average (Ratio) 2012-13	22.60	63.93	35.31	28.62	10.51	19.27	5.41
Special Category States' Average (Ratio) 2015-16	24.70	63.90	36.30	30.10	14.00	18.50	6.00
Himachal Pradesh's Average (Ratio) 2015-16	22.55	65.27	34.22	31.04	11.17	17.29	5.53
Special Category States' Average (Ratio) 2016-17	27.40	61.50	34.20	30.00	13.60	16.60	5.40
Himachal Pradesh's Average (Ratio) 2016-17	25.80	69.03	33.15	35.88	10.89	16.31	5.56

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; ESE: Economic Sector Expenditure
[#] Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
 Source: For GSDP, the information as available on CSO website as on 01st, August 2017 and supplied by the States.

Fiscal priority refers to the priority given to a particular category of expenditure by the State. A Comparative study of expenditure in 2016-17 with that in 2012-13 and 2015-16 showed the following:

- The Government's aggregate expenditure as a proportion of GSDP was 22.60 per cent in 2012-13 which slightly decreased to 22.55 per cent in 2015-16. However, it was 25.80 per cent in 2016-17 which is higher by 3.25 percentage point over the previous year. During 2012-13, 2015-16 and 2016-17 it was less than the SCS average.
- Development expenditure as a percentage of aggregate expenditure in Himachal Pradesh is higher than the SCS average during 2012-13, 2015-16 and 2016-17 by 2.83, 1.37 and 7.53 percentage points respectively.
- Social sector expenditure as a proportion of aggregate expenditure in the State was above the SCS average in the base year 2012-13. However, it was lower than the SCS average during 2015-16 and 2016-17.
- The ratio of Capital expenditure as a proportion of aggregate expenditure is below the SCS average during all the years compared. During 2016-17 it declined by 0.28 percentage point over the previous year and 2.71 percentage point less than the SCS average.
- The ratio under Education sector was above the SCS average during 2012-13 but was below the average of SCS during the period 2015-16 and 2016-17.

1.7.2 Efficiency of expenditure use and its effectiveness

As per **Table 1.17 (B)** below, salary and wages expenditure increased by ₹ 880 crore (18 per cent) and ₹ 255 crore (13 per cent) in social services and economic services respectively during the current year 2016-17 as compared to previous year, whereas operation and maintenance expenditure increased by ₹ 246 crore (26 per cent) in social services and increased by ₹ 133 crore (12 per cent) in economic services.

Table 1.17 (B): Expenditure incurred in various sectors

Year	Total Expenditure	Sector	Revenue Expenditure	Capital Expenditure	Ratio of Capital expenditure to Total expenditure	Revenue expenditure (₹ in crore)	
						Salaries and wages	Operation and maintenance
2015-16	25,630	Social Services	7,980	792	0.03	4,776	930
		Economic Services	5,525	1,984	0.08	1,911	1,147
2016-17	32,133	Social Services	9,610	1,041	0.03	5,656	1,176
		Economic Services	5,996	2,250	0.07	2,166	1,280

Source: Voucher level computerization system from Accountant General (A&E)

It is further seen that the ratio of capital expenditure to total expenditure in social services and economic services was 0.03 and 0.07 respectively during the period 2016-17 which is a matter of concern.

1.8 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.

1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2017 is given in **Table 1.18**. Only those projects where the scheduled date of completion is already over as of 31 March 2017 have been included under incomplete projects.

Table 1.18: Department-wise Profile of Incomplete Projects

(₹ in crore)				
Department	Number of incomplete projects	Initial budgeted cost	Revised total cost of projects	Total expenditure as on 31 March 2017
Irrigation and Public Health	08	85.68	35.48*	99.68
Public Works (Building and Roads)	04	196.38	NA	87.94
Total	12	282.06		187.62

Source: Finance Accounts

* Revised cost of 3 projects only.

NA: Not Available

In respect of the incomplete projects, revised costs of only three projects of Irrigation and Public Health Department were available where the cost overrun was to the tune of ₹ 17.78 crore. These projects were to be completed between July 2005 and March 2012. An analysis of the physical progress of the 12 projects showed that the completion of the works ranged between 70 to 99 *per cent* with time overruns ranging upto 12 years.

1.8.2 Investment and returns

The Government as on 31 March 2017 had invested ₹ 3,294 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (**Table 1.19 (A)**). The average return on investment was 5.15 *per cent* while the government paid an average rate of interest as 7.85 *per cent* on its borrowings during 2012-17.

Table 1.19 (A): Return on Investment

(₹ in crore)						
Investment/ Return/ cost of Borrowing	2012-13	2013-14	2014-15	2015-16	2016-17	Average 2012-17
Investment at the end of the year	2,767	3,025	2,732	3,041	3,294	NA
Return (Dividend/interest)	100.09	103.42	171.00	111.94	289.63	NA
Return (<i>per cent</i>)	3.62	3.42	6.26	3.68	8.79	5.15
Average rate of interest on government borrowings (<i>per cent</i>)	8.08	7.71	7.91	7.95	7.60	7.85
Difference between interest rate and return (<i>per cent</i>)	4.46	4.29	1.65	4.27	(-1.19)	2.70

Source: Finance Accounts

NA: Not applicable

While the Government investments increased by 8.32 *per cent* in 2016-17 (₹ 3,294 crore) over the previous year 2015-16 (₹ 3,041 crore), the return from investments showed increase during the period 2012-15 from ₹ 100.09 crore in 2012-13 to ₹ 171 crore in 2014-15 but decreased by ₹ 59.06 crore during 2015-16. During 2016-17, it increased by ₹ 177.69 crore. The main contributor of dividend was Satluj Jal Vidyut Nigam over the last five years (2012-17) period. The major recipients of investments amongst Government Companies, which had accumulated

losses as per latest finalised accounts, were Himachal Road Transport Corporation (₹ 1018.64 crore), Himachal Pradesh Financial Corporation (₹ 161.06 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹ 80.14 crore), Himachal Pradesh Tourism Development Corporation Limited (₹ 22.08 crore) and Himachal Pradesh State Forest Corporation Limited (₹ 52.75 crore).

1.8.2.1 Implementation of UDAY Scheme

The Scheme – UDAY (Ujwal Discom Assurance Yojna) was launched by Government of India in November, 2015 to improve financial and operational efficiencies of State power distribution companies (DISCOMs). It envisages to reduce interest burden, cost of power and Aggregate Technical and Commercial (AT&C) losses. Consequently, DISCOM would become sustainable to supply adequate and reliable power enabling 24x7 power supply. The scheme provides that States would take over 75 per cent debt (as on 30th September, 2015) of DISCOMS in two years i.e. 50 per cent debt taken in 2015-16 and 25 per cent in 2016-17. After signing of Tripartite Agreement among Government of India, Government of Himachal Pradesh and Himachal Pradesh State Electricity Board limited on 8th December 2016 the Government of Himachal Pradesh raised funds amounting to ₹ 2,890.50 crore through Reserve Bank of India on 28th February 2017 and transferred these funds to the Himachal Pradesh State Electricity Board Limited on 1st March 2017. The amount so received from Government of Himachal Pradesh was paid by the Himachal Pradesh State Electricity Board Limited to concerned lender. As per the scheme, Debt taken over by the State is not to be counted against the fiscal deficit of the State in the financial years 2015-16 and 2016-17. Though the fiscal deficit of the State for the year 2016-17 without the UDAY Scheme is ₹ 2,948 crore (2.37 per cent of GSDP), the fiscal deficit would be ₹ 5,839 crore (4.69 per cent of GSDP) taking into account the UDAY scheme.

1.8.2.2 Investment in Public Sector Undertakings

Investment in State Public Sector Undertakings (SPSUs)

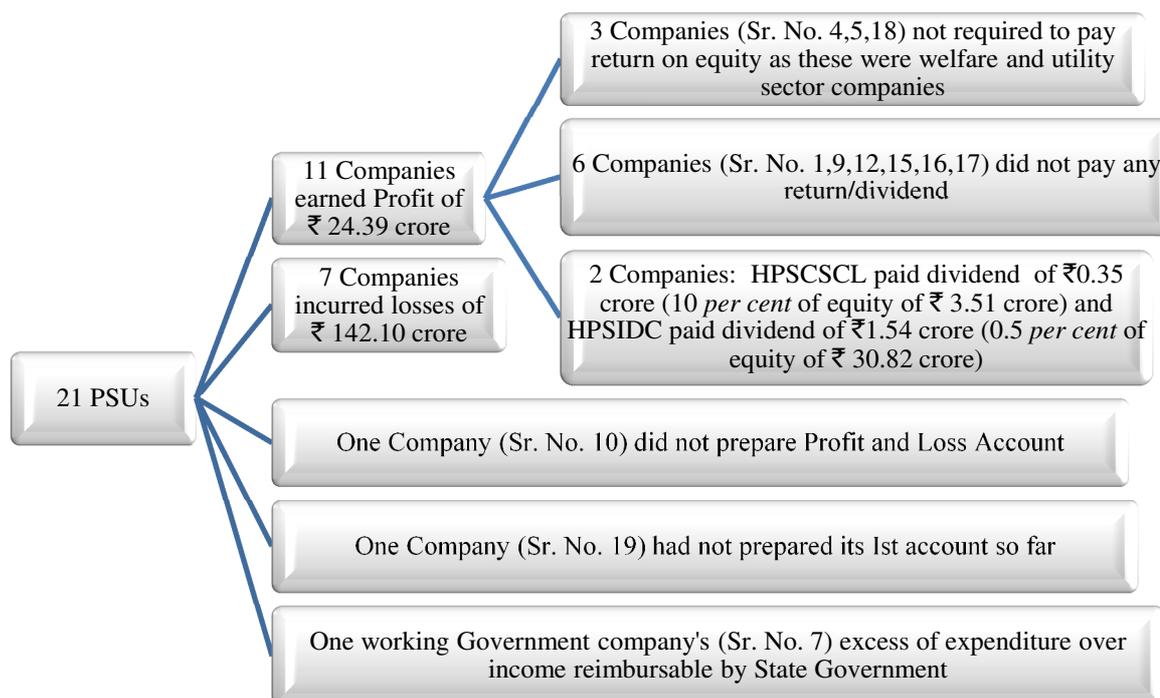
The State Government had formulated (August 1982) a dividend policy under which all PSUs are required to pay a minimum return of 3 per cent on the paid up share capital contributed by the State Government. The Council of Ministers in its meeting held on 8 April 2011 decided that the entire profit making PSUs (except those in welfare and utility sector) may pay a return at the rate of 5 per cent on government equity subject to a ceiling of 50 per cent of profit after tax from financial year 2009-10 onwards. This amount was to be deposited with government treasury latest by end June of the succeeding year and prescribed that return determined was to be payable by all profit making PSUs in future also. As on 31 March 2017, the paid up share capital of the State Government in 23 PSUs was ₹ 3,508.59 crore.

Table 1.19 (B): Investment in State PSUs in paid up share Capital

Nature of investment	Government companies		Statutory corporations (Numbers)	Grand Total (Numbers)
	Working companies (Numbers)	Non-working companies (Numbers)		
Paid up share capital	2,743.81 (19)	16.75 (2) ⁶	748.03 (2)	3,508.59 (23)

As per latest finalized accounts of the PSUs up to 31 May 2017 the position is given in the following **Chart: 1.8** and **Appendix 1.7**:

Chart 1.8: Details of investment in PSUs in paid up share Capital



Thus, on the equity of ₹ 3,508.59 crore invested by the State Government in PSUs as on 31 March 2017, it earned only a return of ₹ 1.89 crore which was 0.05 per cent of total paid up share capital of ₹ 3,508.59 crore as per latest finalized accounts upto May 2017.

1.8.2.3 Investment in Public Private Partnership projects

Public Private Partnership (PPP) projects offer a unique and innovative method of involving the private sector in the nation building activity and in accelerating the delivery of public goods and services of high quality through joint enterprises. As of March 2017, out of 24 PPP projects undertaken, 10 PPP projects (cost ₹ 179.50 crore) had been completed and under operation and 14 projects (estimated cost ₹ 1,245 crore) were awarded and under implementation as detailed in **Appendix 1.8**.

⁶ Out of two (Agro Packaging India Limited and Himachal Worsted Mills Limited), one Company viz. Himachal Worsted Mills Limited was under liquidation.

1.8.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the State Government has also been providing loans and advances to institutions/ organizations working in areas such as Education, Sports, Art and Culture, Animal Husbandry, etc. The details of outstanding loans and advances as on 31 March 2017, interest receipts *vis-à-vis* interest payments during the last five years is given in **Table 1.20**.

Table 1.20: Average interest received on loans advanced by the State Government

(₹ in crore)					
Quantum of loans/interest receipts/cost of borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Opening Balance	951	1,399	1,913	2,346	2,784
Amount advanced during the year	469	531	474	463	3,290*
Amount repaid during the year	21	17	41	25	30
Closing Balance	1,399	1,913	2,346	2,784	6,044
Net addition	448	514	433	438	3,260
Interest Receipts	14	15	65	53	80
Interest receipts as <i>per cent</i> to outstanding loans and advances	1.19	0.78	2.77	1.90	1.32
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the previous year	8.39	8.15	8.41	8.26	8.15
Difference between average rate of interest received and interest paid (<i>per cent</i>)	(-) 7.20	(-) 7.37	(-) 5.64	(-) 6.36	(-) 6.83

Source: Finance Accounts

* Includes ₹2890.50 crore on account of UDAY Scheme.

As can be seen from the **Table 1.20**, the total outstanding loans and advances as on 31 March 2017 was ₹ 6,044 crore. Against ₹ 3,290 crore advanced during 2016-17, only ₹ 30 crore was repaid. Major portion of the loans went to power sector companies (₹ 3,228.81 crore) under Economic Sector to implement UDAY Scheme. 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 during 2015-16 was 6.36 *per cent* which increased to 6.83 *per cent* during 2016-17. The Government received only 1.32 *per cent* of interest receipts as percentage to outstanding loans during 2016-17. It, however, paid an average 8.15 *per cent* interest on borrowings during this period.

The position of loans and advances made during the year 2016-17 is given in **Table 1.21**.

Table 1.21: Loans and Advances

Loanee-Entity	Number of Loans	Total Amount of loans	Terms and conditions	
			Rate of Interest	Moratorium period, if any
HP Private Institutional Regulatory Commission	1	1.00	Interest free	Not specified
HP State Co-operative	3	27.11	11.45 <i>per cent</i>	3 years
HP Marketing and Consumer Federation Corporation Ltd. (HIMFED)	1	10.00	10.20 <i>per cent</i>	Not specified
	1	2.68	10.90 <i>per cent</i>	1 year
HP Power Corporation Ltd.	44	218.31	10 <i>per cent</i>	5 years
Himachal Pradesh State Electricity Board	1	2,890.50	Yet to be finalised	Not specified
HP Power Transmission Corporation Ltd.	6	120.00	10 <i>per cent</i>	5 years
HP State Financial Corporation	3	13.06	8.5 <i>per cent</i>	2 years
Government Servants	--	7.03	As per applicable rules	NA
Total:-	60	3,289.69		

Source: Finance Accounts

NA: Not applicable

1.8.4 Cash Balances and Investment of Cash Balances

Table 1.22 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.22: Cash Balances and Investment of Cash Balances

Particulars	(₹ in crore)		
	As on 1 April 2016	As on 31 March 2017	Increase (+)/ Decrease (-)
(a) General cash balance			
Cash in treasuries	Nil	Nil	Nil
Remittance in transit-Local	Nil	Nil	Nil
Deposits with RBI	(-) 340.76	(-)443.27	(-)102.51
Investments held in cash balance Investment account	556.80	759.43	202.63
(b) Other cash balances and investments			
Cash with departmental officers viz. PWD, etc.	0.16	0.16	Nil
Permanent advances for contingent expenditure with departmental officers	0.03	0.03	Nil
Total (a+b)	216.23	316.35	100.12
(c) Investment from Cash Balances			
GoI Treasury Bills	556.80	759.43	202.63
GoI Securities	7,650.79	7,150.02	(-) 500.77
(d) Funds-wise break up of investment from earmarked balances	NA	NA	Nil
(e) Interest realised	39.59	53.30	13.71

The State Government has to maintain a minimum Cash balance of ₹ 0.55 crore with the Reserve Bank of India. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time. The limit for ordinary ways and means advances to the State Government was ₹ 550 crore with effect from 01.02.2016. The RBI has also agreed to give special ways and means advances against the pledge of government securities.

As per **Statement 2** (Annexure-A) and **Statement 17** of Finance Accounts, there were no outstanding ways and means advances and overdrafts at the end of 2015-16. During 2016-17, State Government could maintain minimum daily cash balance for 342 days. The Government had to take ₹ 1,670.72 crore of ways and means advances from RBI on 23 occasions. All were repaid during 2016-17.

It was noticed in audit that cash balance of the State Government at the end of the current year increased by ₹ 100.12 crore from ₹ 216.23 crore in 2015-16 to ₹ 316.35 crore in 2016-17. Interest realised increased by ₹ 13.71 crore during 2016-17 as compared to previous year.

1.9 Assets and Liabilities

1.9.1 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 (Part B)** gives an abstract of such liabilities and the assets as on 31 March 2017, compared with the corresponding position on 31 March 2016. 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.

During 2016-17, the assets grew by ₹ 6,859.34 crore (22.78 per cent) whereas the liabilities increased by ₹ 5,939.63 crore (14.20 per cent) over the previous year. The Financial Assets/Liabilities increased to 77 per cent in 2016-17 from 72 per cent in 2015-16.

1.9.2 Fiscal Liabilities

The position of outstanding fiscal liabilities of the State for the five year period viz. 2012-13 to 2016-17 is presented in **Appendix 1.3** and **Table 1.23**. The composition of fiscal liabilities during the current year 2016-17 *vis-à-vis* the previous years are presented in **Chart 1.9**.

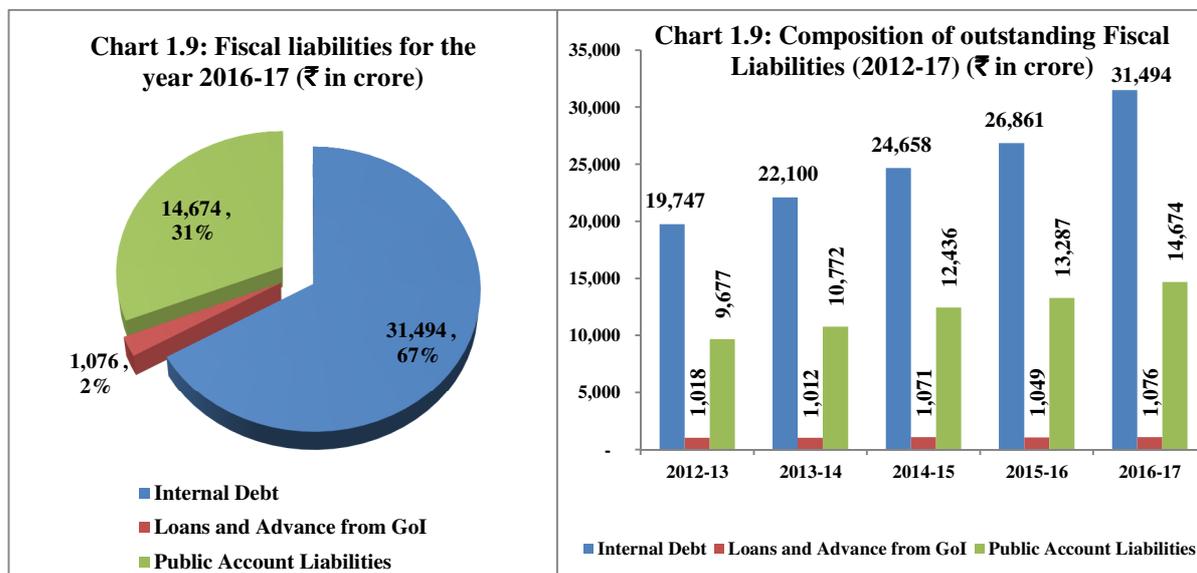
Table 1.23: Fiscal Liabilities – Basic Parameters

	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Liabilities (₹ in crore)	30,442	33,884	38,192	41,197	47,244 [#]
Rate of Growth (per cent)	7.84	11.31	12.71	7.87	14.68
Ratio of Fiscal Liabilities to (in per cent)					
GSDP*	0.37	0.36	0.37	0.36	0.38
Revenue Receipts	1.95	2.16	2.14	1.76	1.80
Own resources	5.07	4.91	4.76	4.83	5.40
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.60	0.75	1.28	0.86	1.53
Revenue receipts (ratio)	1.08	15.71	0.94	0.25	1.22
Own resources (ratio)	(-) 23.76	0.75	0.79	1.24	5.62

*GSDP revised on base year 2011-12

[#] Includes ₹ 2890.50 crore on account of UDAY Scheme.

The overall fiscal liabilities of the State increased by ₹ 16,802 (55 per cent) from ₹ 30,442 crore in 2012-13 to ₹ 47,244 crore in 2016-17. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹ 32,570 crore) comprised market loans (₹ 19,023 crore), loans from GoI (₹ 1,076 crore) and other loans (₹ 12,471 crore, which includes ₹ 7,150 crore on special security issued to NSSF of the GoI).



The Public Account liabilities (₹ 14,674 crore) comprise Small Savings and Provident Funds (₹ 11,844 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹ 2,610 crore) and reserve funds (₹ 220 crore).

The growth rate of fiscal liabilities was 14.68 *per cent* during 2016-17. The ratios of fiscal liabilities to GSDP showed inter year variation and in 2016-17, it increased to 37.93 *per cent* from 36.24 *per cent* in 2015-16. These liabilities stood at 1.80 times the revenue receipts and 5.40 times the own revenue resources at the end of 2016-17. The buoyancy ratio of fiscal liabilities to GSDP stood at 1.53 during 2016-17. This is indicative of the fact that fiscal liabilities growth rate is greater than the growth rate in GSDP.

1.9.3 Transactions under Reserve fund

Closing balance in the Reserve Fund as on 31 March 2016 was ₹ 219.58 crore (Credit). Out of this, reserve fund bearing interest held ₹ 0.95 crore (credit) and the share of the fund not bearing interest was ₹ 218.63 crore (credit).

In terms of the recommendations of the Twelfth Finance Commission, State Governments were required to create two significant reserve funds i.e. (i) Consolidated Sinking Fund to be administered by the Reserve Bank of India (RBI) for redemption of outstanding liabilities and amortization of open market loans availed of by them and (ii) Guarantee Redemption Fund to meet the contingent liabilities arising from the guarantees given. The position of these funds is depicted as under:

1.9.3.1 Consolidated Sinking Fund

The State Government is required to make minimum annual contribution to the Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. The State Government, however, has not created a consolidated sinking fund. As on 31 March 2016, the outstanding liabilities of the Government of Himachal Pradesh was ₹ 41,197 crore. Had there been a consolidated sinking fund, the liability of the State Government towards the fund would have been ₹ 205.99 crore (0.5 *per cent* of outstanding liabilities in previous year) in 2016-17 indicating that the revenue and fiscal deficit are understated to that extent.

1.9.3.2 Guarantee Redemption Fund

The Government was required to set up, with minimum annual contribution at 0.5 *per cent* of the outstanding guarantees at the end of the previous financial year. However, the State Government has not set up such Fund so far. Consequently, the revenue and fiscal deficit were understated to the extent of ₹ 18.57 crore as on 31 March 2017.

1.9.4 Contingent Liabilities

1.9.4.1 Status of Guarantees

Guarantees⁷ are liabilities contingent on the security of the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per **Statement-20** of the Finance Accounts the outstanding guarantees for the last five years are given in **Table 1.24**.

Table 1.24: Guarantees given by the Government of Himachal Pradesh

Guarantees	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding amount of guarantees (₹ in crore)	3,353	4,333	4,281	3,714	4,550
Percentage of outstanding amount of guarantees to total revenue receipts in the preceding financial year	23	28	27	21	19

The outstanding amount ₹ 4,550 crore of guarantees during the current year was in respect of Power Sector (₹ 3,760 crore), three Statutory Boards/Corporations (₹ 430 crore), seven Government Companies (₹ 51 crore), one Co-operative Bank (₹ 280 crore), State Financial Corporation (₹ 24 crore) and one Local/Autonomous Body (₹ 5 crore). No amount of guarantee was invoked during the current year.

1.10 Debt Management

1.10.1 Debt Profile

Table 1.25: Growth rate and maturity profile of debt

		(₹ in crore)				
Sr. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Internal Debt	19,747 (95)	22,099 (96)	24,658 (96)	26,861(96)	31,494(97)
	(i) Market Loans	11,809 (57)	13,565 (59)	15,196 (59)	16,860(60)	19,023(59)
	(ii) Ways and Means Advances from RBI	--	285 (1)	285 (1)	--	--
	(iii) Overdrafts	--	171 (1)	249 (1)	--	--
	(iv) Loans from Financial Institutions	2,589 (12)	2,306 (10)	2,252 (9)	2,350(8)	5,321(16)
	(v) Special Securities issued to NSSF	5,349 (26)	5,772 (25)	6,676 (26)	7,651(28)	7,150(22)
2.	Loans from Government of India	1,018 (5)	1,012 (4)	1,071 (4)	1,049(4)	1,076(3)
Total Public Debt:		20,765	23,111	25,729	27,910	32,570
Maturity Profile of State Debt (In Years)						
	0 – 1	1,533(8)	1,923(8)	2,046 (8)	2,268(8)	3,096(9)
	1 – 3	2,946(14)	3,514(15)	4,837(19)	6,236(22)	5,729(18)
	3 – 5	4,349(21)	5,470(24)	4,929(19)	4,331(16)	4,279(13)
	5 – 7	4,380(21)	3,162(14)	3,192(12)	4,339(16)	4,952(15)
	7 and above	7,557(36)	9,042(39)	10,725(42)	10,736(38)	14,514(45)

Figures in brackets indicate the percentage of total public debt

Total public debt increased from ₹ 20,765 crore in 2012-13 to ₹ 32,570 crore in 2016-17 registering annual average growth rate of 10.85 per cent. The share of market borrowings in total public debt went up from 57 per cent in 2012-13 to 59 per cent in 2016-17. During current year (2016-17), total public debt increased by 17 per cent over the previous year.

⁷ Refer Glossary in Appendix 4.

The maturity profile of the State debt (**Table 1.25**) indicates that 9 per cent (₹ 3,096 crore) of the public debt is payable in the next year. Thirty one per cent (₹ 10,008 crore) is payable in the next 1-5 years' time while the remaining 60 per cent (₹ 19,466 crore) loans are required to be paid in more than five years' time which would put a strain on the Government budget during that period. It is indicative that State is required to pay 55 per cent debt within 7 years which is not a very comfortable position.

A time series analysis of previous five years showing per capita debt is given in **Table 1.26**.

Table 1.26: Per capita debt

	2012-13	2013-14	2014-15	2015-16	2016-17
Population (in crore)	0.6962	0.7023	0.7084	0.7147	0.7219
Total Debt (₹ in crore)	30,442	33,884	38,192	41,197	47,244*
Per capita debt (in ₹)	43,726	48,247	53,913	57,642	65,444*

Source: Finance Accounts and Economics and Statistics Department

* Includes ₹2890.50 crore on account of UDAY Scheme.

Table 1.27 shows that per capita debt had shown increasing trend from ₹ 43,726 in 2012-13 to ₹ 65,444 during 2016-17 (an increase of 50 per cent in five years' time). It increased by ₹ 7,802 (14 per cent) during 2016-17 over the previous year. Though the per capita debt of the State for the year 2016-17 with the UDAY Scheme is ₹ 65,444, it would be ₹ 61,439 without taking into account the UDAY scheme.

1.10.2 Debt sustainability

Debt sustainability implies State's ability to service the debt. Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability⁸ of the State. The analysis of variations in debt sustainability indicators of the State for the period of five years beginning from 2012-13 is given in **Table 1.27**.

Table 1.27: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Public Debt (₹ in crore)	20,765	23,111	25,729	27,910	32,570*
Rate of Growth of Outstanding Public Debt (in per cent)	6.43	11.30	11.33	8.48	16.70
GSDP (₹ in crore)	82,294	94,764	1,04,177	1,13,667	1,24,570
Rate of Growth of GSDP (in per cent)	13.16	15.15	9.93	9.11	9.59
Average Interest Rate of Outstanding Public Debt (in per cent)	11.77	11.31	11.67	11.76	11.11
Percentage of Interest to Revenue Receipts	15.19	15.79	15.97	13.46	12.79
Percentage of Debt payments to Debt Receipts	62.80	42.06	75.94	64.42	45.83
Net Debt Available to the State ** (₹ in crore)	(-) 456	544	588	(-) 63	2,201

Source: State Finance Accounts of the respective years.

* Includes ₹2890.50 crore on account of UDAY Scheme.

** Net Debt available to the State Government is calculated as excess of Public Debt receipts over Public Debt repayment and Interest payment on Public Debt.

⁸ Refer glossary in Appendix 4.

From the **Table 1.27** the following is observed:

- The growth rate of outstanding public debt has shown inter year variation during 2012-17. During 2016-17 the growth rate of outstanding debt increased by 8.22 percentage points over the previous year whereas the rate of growth of GSDP increased by 0.48 percentage point during 2016-17 over the previous year.
- Average interest rate of outstanding debt remained almost static during 2012-17 and was 11.11 *per cent* during 2016-17.
- Almost 13-16 *per cent* revenue receipts of the State were utilised for interest payments during 2012-16. During 2016-17, interest payments accounted for 12.79 *per cent* of the revenue receipts.
- 42.06 to 75.94 *per cent* of debt receipts were used for its repayments during 2012-17.
- Though the net debt available to the State for the year 2016-17 with the UDAY scheme is positive ₹ 2,201 crore, it would be (-) ₹ 690 crore without taking UDAY scheme into account. The positive net funds available from debt after debt redemption (principal + interest) indicates that more funds are available for productive/capital expenditure whereas negative availability of funds shows that the State is not even capable of repaying debt or capital investments.

1.10.3 Violation of provision of HPFRBM Act

HPFRBM Act, 2005 stipulates that borrowings are to be used on self-sustaining development activities and creation or augmentation of capital assets and are not to be applied in financing current expenditure. The Government, in each tranche of loan, notified the object that the proceeds of loans will be utilised for financing development schemes like Power, Agriculture, Irrigation, Transportation, Industries etc., for the benefit, especially, of weaker sections and backward areas of the State that have a major long-term impact on the livelihood of the people and its GSDP. The year-wise position of market borrowings that the Government raised with the above object for the period 2012-13 to 2016-17 is given in **Table 1.28**.

Table-1.28: Details of Market Loans raised and repayments made by the Government during 2012-13 to 2016-17

Year	Amount of market borrowing				
	Raised	For the purpose of repayment		For the purpose of expenditure	
		Amount	Per cent	Amount	Per cent
2012-13	2,359	698	30	1,661	70
2013-14	2,367	611	26	1,756	74
2014-15	2,345	714	30	1,631	70
2015-16	2,450	786	32	1,664	68
2016-17	3,400	1,237	36	2,163	64

Source: Finance Accounts of respective years

Mention was made in the Report of Comptroller and Auditor General of India on State Finances for the year ended March 2015 and 2016 regarding Government using fresh market borrowings to meet the past obligations. In spite of this, during 2016-17, Government also utilised 36 per cent of the fresh borrowings for making re-payment of matured market loans. Thus the payment of matured market loans from fresh loans was against the provisions of FRBM Act, besides defeating the very objectives for these loans.

1.11 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 2016-17.

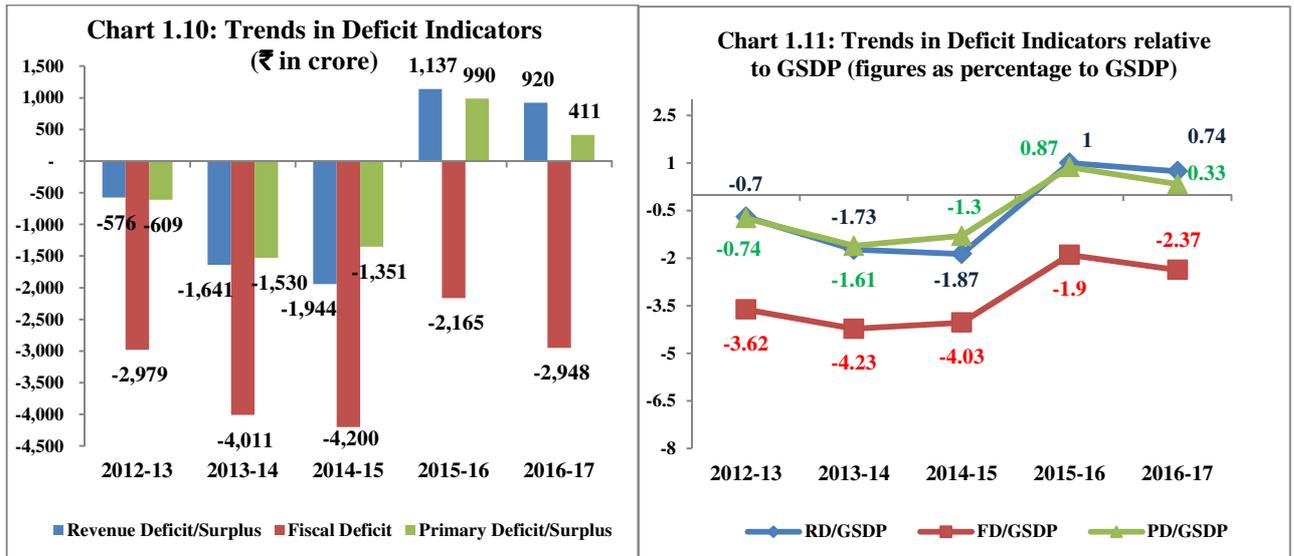
1.11.1 Trends in Deficits

Table 1.29 and **Charts 1.10** and **1.11** present the trends in deficit indicators (revenue, fiscal and primary) over the period 2012-17:

Table 1.29: Trends in deficits

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Deficits					
Revenue Deficit(-)/Revenue Surplus (+)	(-) 576	(-) 1,641	(-) 1,944	1,137	920
Fiscal Deficit (-)/Fiscal Surplus (+)	(-) 2,979	(-) 4,011	(-) 4,200	(-) 2,165	(-) 2,948*
Primary Deficit (-)/Surplus (+)	(-) 609	(-) 1,530	(-) 1,351	990	411
Management of Fiscal Imbalances (In per cent)					
Revenue deficit (surplus)/GSDP	(-) 0.70	(-) 1.73	(-) 1.87	1.00	0.74
Fiscal deficit/GSDP	(-) 3.62	(-) 4.23	(-) 4.03	(-) 1.90	(-) 2.37
Primary Deficit (surplus) /GSDP	(-) 0.74	(-) 1.61	(-) 1.30	0.87	0.33

* Debt in respect of the State DISCOMS taken over by the State under the UDAY scheme is not to be taken into account for arriving at the fiscal deficit of the State in the FY 2015-16 and 2016-17. Though the fiscal deficit of the State for the year 2016-17 without the UDAY Scheme is ₹2,948 crore, the fiscal deficit would be ₹5,839 crore taking into account the UDAY scheme.



The revenue deficit was required to be brought down to zero during 2011-12 and maintain revenue surplus thereafter as per the FRBM Act/ XIII Finance Commission. However, the target of bringing down the revenue deficit to zero had been achieved in 2015-16 and 2016-17. After performing well in 2015-16, declining trends were observed in all three deficit indicators during 2016-17. During 2016-17, revenue surplus of ₹ 1,137 crore declined to ₹ 920 crore over the previous year. It was also noticed that though the central transfers has increased this year, on the contrary the revenue surplus declined.

The fiscal deficit which represents the total borrowings of Government and is total resource gap, steadily increased from ₹ 2,979 crore in 2012-13 to ₹ 4,200 crore in 2014-15 and then decreased to ₹ 2,165 crore during 2015-16. However, the Fiscal deficit increased by ₹ 783 crore over the previous year and recorded at ₹ 2,948 crore during 2016-17. It was 2.37 per cent of GSDP during current year and was within the target fixed in FRBM Act (3.17 per cent) and projections made by XIVth FC (i.e. 3 per cent).

Primary deficit for the period 2012-13 (₹ 609 crore), 2013-14 (₹ 1,530 crore) and 2014-15 (₹ 1,351 crore) which turned to primary surplus (₹ 990 crore) in 2015-16 and (₹ 411 crore) 2016-17.

1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.30**.

Table 1.30: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
1	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	2	3	4	5	6	7
Components of Fiscal Deficit						
1	Revenue Deficit/surplus	(-) 576 (-0.70)	(-) 1,641 (-1.73)	(-) 1,944 (-1.87)	1,137 (1.00)	920 (0.74)
2	Net Capital Expenditure	1,955(2.38)	1,856(1.96)	1,823(1.75)	2,864(2.52)	3,499(2.81)
3	Net Loans and Advances	448(0.54)	514(0.54)	433(0.42)	437(0.38)	3,260(2.62)
4	GSDP	82,294	94,764	1,04,177	1,13,667	1,24,570

1	2	3	4	5	6	7
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1,662	1,757	1,631	1,664	2,163
2	Loans from GoI	71	(-) 6	59	(-) 22	27
3	Special Securities Issued to NSSF	286	424	904	975	(-) 500
4	Loans from Financial Institutions	(-) 764	173	24	(-) 436	80 [#]
5	Small Savings, PF, etc.	1,112	887	1,185	718	1,205
6	Deposits and Advances	(-) 156	207	504	115	181
7	Suspense and Misc.	756	267	28	(-) 590	(-) 274
8	Remittances	(-) 174	(-) 23	12	148	(-) 35
9	Others	186	325	(-) 147	(-) 407	101
10	Overall Surplus/Deficit	(-) 2,979	(-) 4,011	(-) 4,200	(-) 2,165	(-) 2,948 [#]

Figures in brackets indicate the per cent to GSDP. *All these figures are net of disbursements/outflows during the year

Source: Finance Accounts

₹ 2,890.50 crore excluded on account of UDAY Scheme

Table 1.30 shows that the fiscal deficit increased by ₹ 783 crore during 2016-17 over the previous year. The fiscal deficit of ₹ 2,948 crore was financed mainly through borrowings from Market (₹ 2,163 crore), Small Savings, Provident Fund, etc. (₹ 1,205 crore) and Deposits and Advances (₹ 181 crore).

The net capital expenditure as per cent of GSDP declined from 2.38 per cent in 2012-13 to 1.75 per cent in 2014-15. However, it increased to 2.52 per cent in 2015-16 and then to 2.81 per cent of GSDP in 2016-17.

1.11.3 Quality of Deficit/Surplus

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 indicates the extent to which the deficit had been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The ratio of revenue deficit to fiscal deficit ranged from 0.19 to 0.46 during 2012-15. During 2015-16 and 2016-17, State experienced revenue surplus of ₹ 1,137 crore and ₹ 920 crore (**Appendix 1.3**).

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2012-17 are indicated in **Table 1.31**.

Table 1.31: Primary deficit/Surplus – Bifurcation of factors

							(₹ in crore)	
Year (1)	Non-debt receipts (2)	Primary Revenue Expenditure (PRE) (3)	Capital Expenditure (4)	Loans and Advances (5)	Total Primary Expenditure (3+4+5) (6)	Primary revenue surplus (2-3) (7)	Primary deficit (-)/ surplus (+) (2-6) (8)	
2012-13	15,619	13,804	1,955	469	16,228	1,815	(-) 609	
2013-14	15,728	14,871	1,856	531	17,258	857	(-) 1,530	
2014-15	18,534	16,938	2,473	474	19,885	1,596	(-) 1,351	
2015-16	23,466	19,149	2,864	463	22,476	4,317	990	
2016-17	26,294	21,985	3,499	399 [#]	25,883	4,309	411 [#]	

Excludes ₹ 2,890.50 crore on account of UDAY Scheme.

It may be seen from the table that though the non-debt receipts increased from ₹ 15,619 crore in 2012-13 to ₹ 26,294 crore in 2016-17 which were quite enough to meet the primary expenditure requirement in the Revenue account, the non-debt receipts were not enough to meet the expenditure under Capital account resulting in Primary deficit during 2012-13 (₹ 609 crore), 2013-14 (₹ 1,530 crore) and 2014-15 (₹ 1,351 crore). Having seen the primary deficit during previous years, primary surplus of ₹ 990 crore and ₹ 411 crore was observed in 2015-16 and 2016-17 respectively.

1.12 Follow up on Audit Report on State Finances

The State Finances Report is being prepared and presented to the State Legislature from the year 2008-09 onwards. The State Government has submitted action taken notes (ATNs)/*suo-motu* replies upto Audit Reports 2013-14. A discussion in the Public Accounts Committee on these Reports is yet to commence.

1.13 Conclusion

The State could not maintain the target of reduction of revenue deficit to zero and experienced a situation of huge deficits during the period 2012-13 to 2014-15 in all three fiscal indicators viz. revenue deficit, fiscal deficit and primary deficit.

However, during 2015-16 and 2016-17 State experienced revenue surplus of ₹ 1,137 crore and ₹ 920 crore respectively. During 2016-17 the revenue surplus was marginally lower as compared to previous year due to increase in revenue receipts by only ₹ 2,824 crore (12 *per cent*) against increase of ₹ 3,041 crore (14 *per cent*) in revenue expenditure.

Fiscal deficit increased by ₹ 783 crore from ₹ 2,165 crore in 2015-16 to ₹ 2,948 crore in 2016-17. It was 2.37 *per cent* of GSDP during current year and was within the target fixed in FRBM Act (3.17 *per cent*) and projections made by XIVth FC (i.e. 3 *per cent*). Primary surplus of ₹ 990 crore and ₹ 411 crore was observed during 2015-16 and 2016-17 respectively.

During 2016-17, revenue receipts (₹ 26,264 crore) of the State grew by ₹ 2,824 crore (12 *per cent*) as compared to previous year. Only 33 *per cent* of receipts came from State's own resources comprising tax and non-taxes, while the major portion (67 *per cent*) of revenue receipts came from Central transfers (i.e. grants-in-aid (50 *per cent*) and central taxes and duties (17 *per cent*)).

During 2016-17, total expenditure (₹ 32,133 crore) of the State increased by ₹ 6,503 crore (25 *per cent*) over the previous year. Revenue expenditure increased by ₹ 3,041 crore (14 *per cent*) from ₹ 22,303 crore in 2015-16 to ₹ 25,344 crore in 2016-17 but its share in total expenditure decreased from 87 *per cent* in 2015-16 to 79 *per cent* in 2016-17. Plan revenue expenditure (₹ 4,520 crore) increased by ₹ 1,027 crore (29 *per cent*) over the previous year (₹ 3,493 crore) and constituted 13 to 18 *per cent* of revenue expenditure over the last five years. However, the Non-Plan Revenue Expenditure (NPRE) constituted 82-87 *per cent* of revenue expenditure during 2012-17. The expenditure on salaries, interest payments, pensions and subsidies has shown consistent increase over the period 2012-17 from ₹ 12,939 crore in 2012-13 to ₹ 17,919 crore in 2016-17 and constituted an average of 76 *per cent* of revenue expenditure. The share of capital expenditure to total expenditure has decreased from 11.2 *per cent* in 2015-16 to 10.9 *per cent* in 2016-17. The percentage

of developmental expenditure to total expenditure decreased to 58.81 *per cent* in 2016-17 from 63.53 *per cent* in 2015-16.

Major chunk of the non-plan revenue expenditure is on salaries, interest payments and pension. Salary and pension payments together accounted for more than 50 *per cent* of revenue expenditure. These are largely unavoidable. The State Government may explore suitable measures for containing the components of non-plan revenue expenditure so that revenue surplus could be maintained for allowing space for assets creation and sustainable development of the State.

Substantial funds amounting to ₹ 457.18 crore were still being transferred by GoI directly to the State Implementing agencies during 2016-17 in spite of Central Government decision to route these funds through the State budget from 2014-15. There is no single agency in the State to monitor the expenditure from these funds and no data is readily available as to how much money has actually been spent in a particular year by these implementing agencies.

Funds aggregating ₹ 187.62 crore were locked up in 12 incomplete projects at the end of 2016-17.

Fiscal liabilities at the end of the current year were ₹ 47,244 crore (includes ₹ 2,890.50 crore on account of UDAY Scheme) with growth of 15 *per cent* over the previous year and stood at 38 *per cent* of GSDP and 180 *per cent* of the revenue receipts. The share of market borrowings in the total public debt went up from 57 *per cent* in 2012-13 to 59 *per cent* in 2016-17. During 2016-17, 36 *per cent* of borrowings are used for repayment of earlier debts defeating the very objectives for these loans.

1.14 Recommendations

- (i) Efforts should be made by the State Government to improve collection of tax and non-tax revenue and to control the revenue expenditure to avoid recurrence of revenue deficit and fiscal deficit in near future.*
- (ii) A system has to be put in place to ensure proper accounting of funds not routed through treasuries and the updated information should be validated by the State Government to ensure its effective utilization.*
- (iii) The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost overrun with a view to take corrective action.*