

# **EXECUTIVE SUMMARY**



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### Background

This Report on the finances of the Government of Himachal Pradesh is brought out to assess the financial performance of the State during the year 2015-16 vis-à-vis the Budget Estimates, the targets set under the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 amended further by Act No. 25 of 2011 and analyses the dominant trends and structural profile of Government's receipts and disbursements.

Based on the audited accounts of the Government of Himachal Pradesh for the year ended 31 March 2016 and additional data collated from several sources such as the Economic survey brought out by the State government and Census, this Report provides an analytical review of the Annual Accounts of the State Government in three Chapters.

**Chapter-I** is based on the audit of Finance Accounts and makes an assessment of the Himachal Pradesh Government's fiscal position as on 31 March 2016. It provides an account of time series of receipts and disbursements, market borrowings, quality of expenditure, financial analysis of government expenditure and investment, debt sustainability and fiscal imbalances.

**Chapter-II** is based on the audit of Appropriation Accounts and gives a grant-wise description of appropriations. It elaborates on financial accountability and budget management, deficiencies in working of treasuries and outcome of review of selected grant.

**Chapter-III** is an inventory of the Himachal Pradesh Government's compliance with various reporting requirements and financial rules.

### Audit findings

#### Chapter I

##### Finances of the State Government

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as it reached a revenue surplus but could not maintain the surplus thereafter and experienced a situation of huge deficits during the period 2012-13 to 2014-15 in all three indicators viz. revenue deficit, fiscal deficit and primary deficit.

During 2015-16, the revenue deficit of ₹ 1,944 crore of 2014-15 turned to revenue surplus and stood at ₹ 1,137 crore due to sharp increase in revenue receipts by 31 per cent as against increase in revenue expenditure by 13 per cent over the previous year.

Fiscal deficit decreased from ₹ 4,200 crore in 2014-15 to ₹ 2,165 crore during 2015-16 and the State kept fiscal deficit relative to GSDP (1.96 per cent) below the limit prescribed under FRBM/XIV<sup>th</sup> Finance Commission (FC) (i.e. 3 per cent). Primary deficit ₹ 1,351 crore in 2014-15 turned to surplus (₹ 990 crore) during

2015-16 due to substantial increase in revenue receipts as a result of central transfers on the recommendations of XIV<sup>th</sup> FC.

During 2015-16, revenue receipts (₹ 23,440 crore) of the State grew by ₹ 5,597 crore (31.36 *per cent*) as compared to previous year (13.57 *per cent*). Only 37 *per cent* of receipts came from State's own resources comprising tax and non-taxes, while the major portion (63 *per cent*) of revenue receipts came from Central transfers (i.e. grants-in-aid (48 *per cent*) and central taxes and duties (15 *per cent*)).

During 2015-16, total expenditure (₹ 25,630 crore) of the State increased by ₹ 2,896 crore (13 *per cent*) over the previous year (₹ 22,734 crore). Revenue expenditure increased by ₹ 2,516 crore (13 *per cent*) from ₹ 19,787 crore in 2014-15 to ₹ 22,303 crore in 2015-16 but its share (87 *per cent*) in total expenditure remained the same during the same period. Plan revenue expenditure (₹ 3,493 crore) increased by ₹ 289 crore (9 *per cent*) over the previous year (₹ 3,204 crore) and constituted 12 to 16 *per cent* of revenue expenditure over the last five years. However, the Non-Plan Revenue Expenditure (NPRE) constituted 84-88 *per cent* of revenue expenditure during 2011-16. The expenditure on salaries, interest payments, pensions and subsidies has shown consistent increase over the period 2011-16 from ₹ 11,027 crore in 2011-12 to ₹ 16,511 crore in 2015-16 and constituted an average of 77 *per cent* of revenue expenditure. The share of capital expenditure to total expenditure has increased from 10.9 *per cent* in 2014-15 to 11.2 *per cent* in 2015-16. The percentage of developmental expenditure to total expenditure increased to 65 *per cent* in 2015-16 from 64.10 *per cent* in 2014-15.

In spite of Central Government decision to route central funds through budget, funds of ₹ 364.57 crore were still transferred directly to the State Implementing Agencies during 2015-16. 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 ₹ 142.55 crore were locked up in 12 incomplete projects at the end of 2015-16.

The return from investment of ₹ 3,041 crore as of 31 March 2016 in companies/corporations was negligible (₹ 111.94 crore) i.e. 3.68 *per cent* while government paid an average rate of interest of 7.89 *per cent* on its borrowings. The investment also included companies/corporations which were under perennial loss.

An amount of ₹ 18.48 crore had been sanctioned to the different loanee/entity as loan during the period 2008-09 to 2013-14 without finalizing the terms and conditions.

Fiscal liabilities at the end of the current year were ₹ 41,197 crore with growth of 8 *per cent* over the previous year and stood at 37 *per cent* of GSDP and

176 *per cent* of the revenue receipts. The share of closing balance of market loans in the total public debt increased from 59 *per cent* in 2014-15 to 60 *per cent* in 2015-16. The State is required to pay 62 *per cent* debt within 7 years, which is not a very comfortable position and could lead towards 'debt trap'.

During 2015-16, 32 *per cent* of borrowings were used for repayment of earlier debts defeating the very objectives for these loans.

## **Chapter II**

### **Financial management and budgetary control**

The overall saving of ₹ 191.90 crore registered under grants/appropriations during the year 2015-16 was the net result of substantial savings of ₹ 3,040.33 crore (under important grants like Education and Rural Development) offset by excess of ₹ 2,848.43 crore. An excess expenditure of ₹ 7,904.32 crore relating to the period 2010-11 to 2015-16 required regularisation under Article 205 of the State Legislature.

Supplementary provision of ₹ 818.51 crore in 15 sub-heads proved unnecessary/inadequate as either expenditure did not come up to the level of original provision or leaving an aggregate unconcerned excess expenditure. Re-appropriation of funds in 48 sub-heads (₹ one crore or more in each case) was made injudiciously which resulted in excess/savings. In 42 cases (₹ 10 crore or more in each case), ₹ 3,135.63 crore were surrendered at the end of the financial year. In 83 cases/sub-heads, 100 *per cent* grant amounting to ₹ 385.80 crore was surrendered.

In six cases, the expenditure incurred during the last 4<sup>th</sup> quarter of the year ranged between 52 and 70 *per cent* and the expenditure incurred during the month of March 2016 alone under these heads of accounts constituted 31 to 58 *per cent* of the total expenditure.

## **Chapter III**

### **Financial reporting**

There were delays in furnishing 2,944 Utilisation Certificates in respect of loans and grants amounting to ₹ 2,225.40 crore as on 31 March 2016.

There were 47 cases of misappropriations/loss, theft etc., involving government money amounting to ₹ 78.70 lakh on which final action was pending as of June 2016. Out of these, 41 cases were more than five years old.

The Government's compliance to various rules, procedures and directives was lacking in various departments as there were 104 cases of temporary advances aggregating ₹ 34.38 crore pending in the State departments for adjustments as of September 2016.

