

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 0.71 crore in 2015 (projected) recording a growth of 16 *per cent*. The percentage of population below the poverty line was 11 *per cent* which was less than the all-India average (30 *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 2006-07 to 2015-16 has been recorded 15.47 *per cent* (**Appendix 1**).

The State's GSDP in 2015-16 at current prices was ₹ 1,10,511 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 ₹ 1,30,067² during the year 2015-16.

Gross State Domestic Product

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

Table 1.1: Trends in Annual growth of GDP/GSDP

Year	2011-12	2012-13	2013-14	2014-15	2015-16
India's GDP (₹ in crore)	87,36,039	99,51,344	112,72,764	124,88,205	135,76,086
Growth rate of GDP (percentage)	--	13.91	13.28	10.78	8.71
State's GSDP (₹ in crore)	72,720	82,294	92,589	1,01,108	1,10,511
Growth rate of GSDP (<i>per cent</i>)	--	13.16	12.51	9.20	9.30

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

India's and the State's GSDP growth rate at current prices shows inter year decreasing trend during the period 2011-16. State's GSDP increased by 0.1 percentage point during 2015-16 over the previous year.

1.1.1 Summary of Fiscal Transactions

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2015-16) *vis-à-vis* the previous year (2014-15), while **Appendix 1.4**

¹ Refer Glossary in Appendix 4.

² Advance figure

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

(₹ in crore)

Receipts	2014-15	2015-16	Disbursements	2014-15	2015-16		
	Total	Total		Total	Non Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	17,843	23,440	Revenue expenditure	19,787	18,810	3,493	22,303
Tax revenue	5,940 (33)	6,696 (29)	General Services	7,604	8,734	54	8,788
Non-tax revenue	2,081 (12)	1,837 (8)	Social Services	7,451	6,036	1,944	7,980
Share of Union Taxes/Duties	2,644 (15)	3,611 (15)	Economic Services	4,723	4,030	1,494	5,525
Grants from Government of India	7,178 (40)	11,296 (48)	Grants-in-aid and Contributions	9	10	--	10
Section-B: Capital and others							
Misc. Capital Receipts	650	--	Capital outlay	2,473	296	2,568	2,864
Recoveries of Loans and Advances	41	26	Loans and advances disbursed	474			463
Public Debt receipts	10,877	6,129	Repayment of public debt	8,260			3,948
Contingency Fund	--	--	Contingency Fund	--			--
Public account receipts#	10,575	11,515	Public account disbursements#	8,844			10,577
Opening cash balance	(-887)	(-739)	Closing cash balance	(-739)			216
Total	39,099	40,371	Total	39,099			40,371

Source: Finance Accounts for the respective years.

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

Following are the significant changes during 2015-16 over the previous year:

Revenue receipts	Grew by ₹ 5,597 crore (31 per cent). The increase over the previous year was due to significant increase in central transfers i.e. Grants-in-Aid (by ₹ 4,118 crore) and Share of Union Taxes and Duties (by ₹ 967 crore).
Revenue expenditure	Increased by ₹ 2,516 crore (13 per cent). The increase in Non-plan Revenue and Plan Revenue expenditure was ₹ 2,227 crore and ₹ 289 crore respectively.
Revenue Surplus	Revenue deficit which was stood at ₹ 1,944 crore in 2014-15 turned surplus to ₹ 1,137 crore in current year (2015-16). This was due to heavy devolution of central transfers to the State.
Capital expenditure	Increased by ₹ 391 crore (16 per cent).
Public debt receipts	Receipts and its repayment decreased by ₹ 4,748 crore (44 per cent) and ₹ 4,312 crore (52 per cent) respectively.
Public account receipts	Both receipts and disbursements increased by ₹ 940 crore (9 per cent) and ₹ 1,733 crore (20 per cent) respectively.
Closing cash balance	Increased by ₹ 955 crore from the previous year ((-) ₹ 739 crore) and stood at ₹ 216 crore at the end of 2015-16.

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	2015-16				
	Targets as prescribed in FRBM Act	Projections/ Targets proposed in the Budget/ MTFPS [#]	Actual	Percentage variation of actual over	
				Targets of FRBM Act	Projections/ Targets proposed in the Budget/MTFPS [#]
Revenue Surplus(+)/ Deficit(-) (in crore)	Maintain revenue surplus	46.84	1,137*	Target achieved	Target achieved
Fiscal Deficit/GSDP (in per cent)	(-) 3.00 or less	(-) 2.91	(-) 1.96	Target achieved	Target achieved
Ratio of total outstanding debt** of the government to GSDP (in per cent)	35.42	33.83	37.27	(-) 1.85	(-) 3.44

Source: Finance Department and Finance Accounts # Medium Term Fiscal Plan Statement

* ₹1,137.67 crore

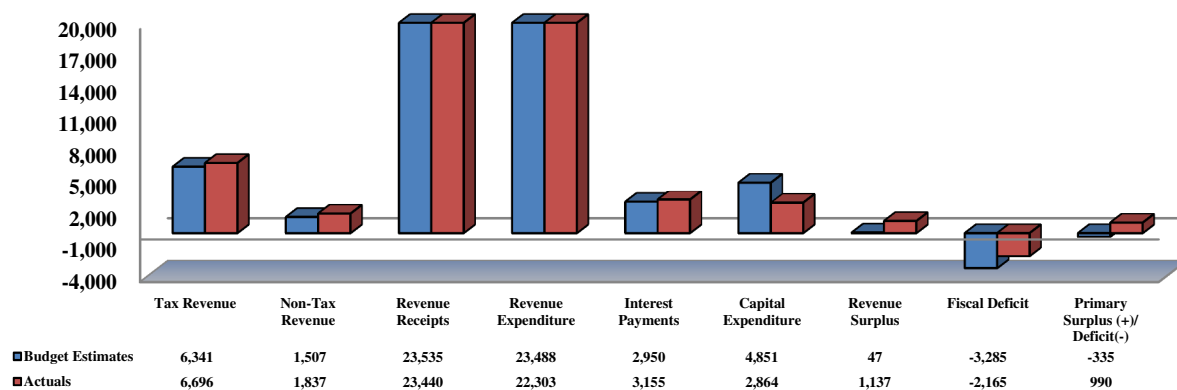
** This includes public debt and other obligations of the State Government

Hence targets mentioned in the FRBM Act and MTFPS were achieved except the ratio of total outstanding debt to GSDP which was higher than the target set out in FRBM Act/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 2015-16 are given in **Chart 1.1**.

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



Source: Review of Receipt and Expenditure (December 2015) and Finance Accounts 2015-16.

As may be seen from **Chart 1.1**, there were considerable variations between budget estimates and actuals in case of several parameters.

From above, it is evident that the variations in estimations of Revenue, Primary and Fiscal deficits were primarily caused by greater revenue receipts vis-à-vis estimates, which were mainly due to receipt of ₹ 5,085 crore more compared to last year on account of share of Union Taxes/duties and Grants from GoI.

1.1.4 Gender Budgeting

Gender Budgeting Cell was constituted in the department of Women and Child Development in 2013. There were 18 schemes designated to benefit women to the extent of 100 *per cent* allocation and five schemes with partial allocation during the year 2015-16 under which outlay was made as mentioned in **Appendix 1.5**. Against the total outlay of ₹ 327.09 crore under these schemes, an amount of ₹ 285.62 crore was spent leaving unspent balance of ₹ 41.47 crore with the department at the end of the year 2015-16.

1.1.5 Major policy initiatives in the recent years' budgets

The State Government while presenting the budget for 2015-16, committed all round and balanced development of all regions and sections of the State and society with special focus on the poor and the downtrodden. Some of the major policy initiatives of the Government and budget provision *vis-à-vis* actual expenditure on these schemes during 2015-16 are given in **Table 1.4**.

Table 1.4: Major policy initiatives, budget provision and expenditure

(₹ in crore)

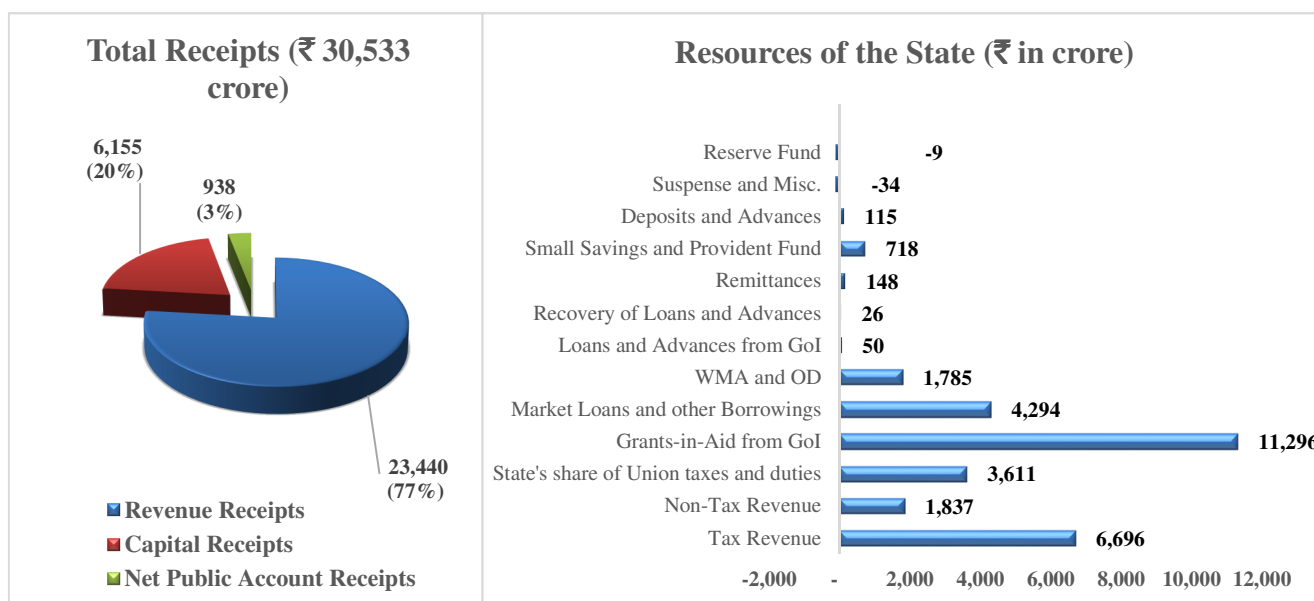
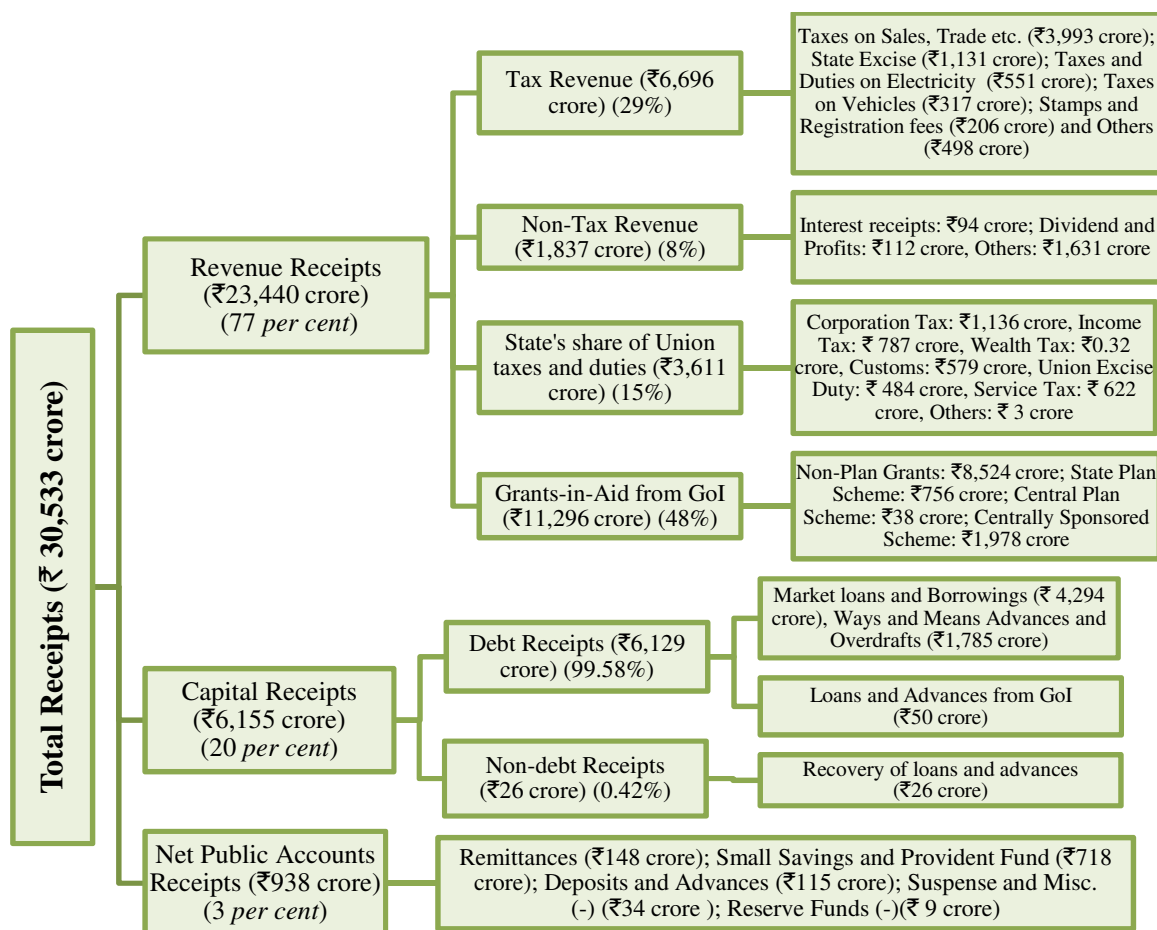
Sr. No.	Name of the Scheme	Budget estimates	Revised estimates	Actual budget received	Expenditure	Percentage of expenditure to actual budget received
1	Skill Development Allowances	100	--	100	40.92	41
2	Integrated Watershed Management Programme (IWMP)	50	8	8	2.36	30
3	Conversion of Cold Stores into CA Stores	5	--	Nil	13.61	--

Source: Departmental figures

As seen from the above table, against the budget provision/received in first two schemes, 60 to 70 *per cent* amount were lying unspent with the department defeating the very purpose of the Scheme. In other Scheme 'Conversion of Cold Stores into CA Stores', though a budget provision of ₹ 5 crore was made in the State budget, the same was not released by the Government. Department attributed that the scheme has already been completed and successfully commercialised but liability is still payable with State Government.

1.2 Resources of the State

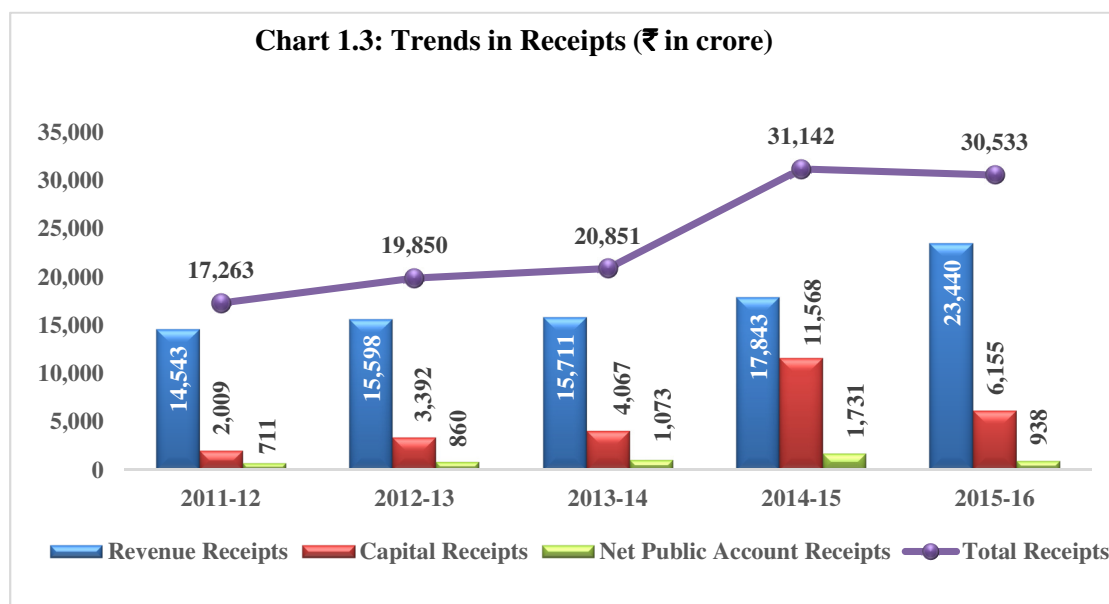
Chart 1.2 depicts the components and sub-components of receipts during the year 2015-16



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 2015-16 as recorded in its Annual Finance Accounts while **Chart 1.3** depicts the trends in various components of the receipts of the State during 2011-16.

As evident from **Chart 1.2**, revenue receipts comprise 77 per cent, capital receipts 20 per cent and net public account receipts 3 per cent of the total receipts of ₹ 30,533 crore during 2015-16. 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 48 per cent, 29 per cent, 15 per cent and 8 per cent respectively.



As would be evident from Chart 1.3 above, the total receipts of the State Government slightly decreased by 2 per cent point from ₹ 31,142 crore to ₹ 30,533 crore during 2015-16 over the previous year due to less receipts in Capital and Net Public Account.

Revenue receipts show an increase during 2011-15. However, it increased by ₹ 5,597 crore as result of implementation of recommendation of XIV Finance Commission during 2015-16 mainly due to increase of ₹ 5,085 crore increase in share of Union Taxes/duties and Grants from GoI. The share of revenue receipts in the total receipts of the State jumped from 57 per cent in 2014-15 to 77 per cent in 2015-16.

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.

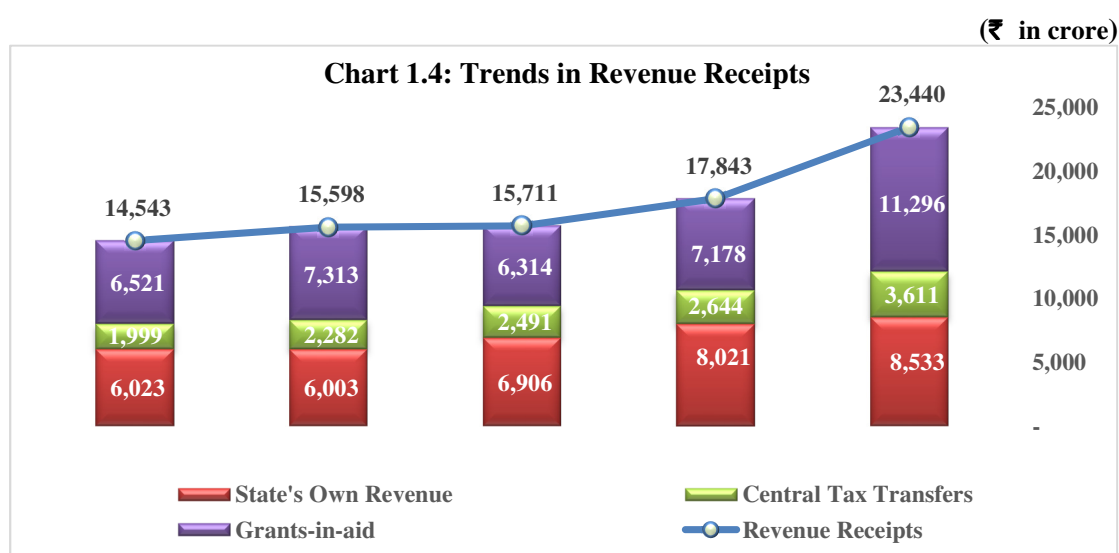
In spite of Central Government decision to route these funds through budget from 2014-15, funds were still transferred directly to the State Implementing agencies during 2014-16.

During 2015-16, these direct funds increased from ₹ 278.55 crore to ₹ 364.57 crore over the previous year. These funds were transferred mainly to Transport Subsidy Scheme (HPSIDC) (₹ 153.68 crore), MPLAD (₹ 42.50 crore), Off Grid DRPS (Himachal Pradesh Energy Development Agency) (₹ 41.03 crore) and other miscellaneous agencies (₹ 127.36 crore) (**Appendix 1.6**).

Thus, with the transfer of ₹ 364.57 crore funds during 2015-16 by GoI directly to the State implementing agencies, the total availability of the State resources increased from ₹ 41,110 crore to ₹ 41,475 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 2011-16 are presented in **Appendix 1.3** and also depicted in **Chart 1.4**.



- Revenue receipts steadily increased from ₹ 14,543 crore in 2011-12 to ₹ 23,440 crore in 2015-16 at an annual average growth rate of 13.46 per cent but during 2015-16 it increased by ₹ 5,597 crore recording an increase of 31.36 per cent over the previous year.

- During 2015-16, only 37 per cent of the Revenue receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 63 per cent were contributed by central transfers comprising the State's share in central taxes and duties (15 per cent) and grants-in-aid from GoI (48 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

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR) (₹ in crore)	14,543	15,598	15,711	17,843	23,440
Rate of growth of RR (per cent)	14.41	7.25	0.72	13.57	31.36
State's Own Taxes (₹ in crore)	4,108	4,626	5,121	5,940	6,696
Rate of growth of Own Taxes (per cent)	12.76	12.61	10.70	15.99	12.73
State's GSDP (in crore)	72,720	82,294	92,589	1,01,108	1,10,511
Growth rate of GSDP (percentage)	--	13.16	12.51	9.20	9.30
R R/GSDP (per cent)	20.00	18.95	16.97	17.65	21.21
Buoyancy Ratios³					
Revenue Buoyancy w.r.t. GSDP	--	0.55	0.06	1.48	3.37
State's Own Taxes Buoyancy w.r.t. GSDP	--	0.96	0.86	1.74	1.37

- The growth rate of revenue receipts consistently decreased from 14.41 per cent in 2011-12 to 0.72 per cent in 2013-14 but it showed a positive trend during previous two years (2014-16). During 2015-16, the revenue receipts increased to 31.36 per cent from 13.57 per cent in 2014-15. This was the impact of XIVth FC recommendation of high devolution of central transfers.
- The growth rate of GSDP has declined from 13.16 per cent in 2012-13 to 9.20 per cent in 2014-15 but marginally increased by 0.1 per cent in 2015-16 over the previous year.
- The revenue buoyancy with reference to GSDP which decreased from 0.55 to 0.06 during 2012-14 went up to 1.48 in 2014-15 and 3.37 in 2015-16 due to increase in revenue receipts and declining rate of GSDP growth.
- The State's own tax buoyancy with reference to GSDP showed inter year variation which came down to 1.37 in 2015-16 from 1.74 in 2014-15 due to decrease in own revenue receipts of the State.

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 2015-16 *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	7,820	6,341	6,696	(-) 14.37	5.60
Non-tax revenue	1,698	1,507	1,837	8.19	21.90

Source: Finance Department and Finance Accounts

³ Refer glossary in Appendix 4.

The actual realisation of tax revenue was less by ₹ 1,124 crore (14.37 per cent) while Non-tax Revenue (NTR) was 8 per cent more than the XIVth Finance Commission projections. Both the tax revenue and NTR were also more by 5.60 and 21.90 per cent respectively when compared to the budget estimates/MTFPS for the year 2015-16. It also indicates that MTFPS projections regarding tax revenue and NTR were on lower side.

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	2011-12	2012-13	2013-14	2014-15	2015-16
Taxes on sales, trades etc.	2,477 (18)	2,728 (10)	3,141(15)	3,661(17)	3,993 (9)
State excise	707 (26)	810 (15)	952(18)	1,044(10)	1,131 (8)
Taxes on vehicles	176 (8)	196 (11)	208 (6)	220 (6)	317(44)
Stamp duty and registration fees	155 (17)	173 (12)	188 (9)	190 (1)	206 (8)
Taxes and duties on electricity	185(-39)	262 (42)	191(27)	333(74)	551(65)
Land revenue	18(260)	24 (33)	10(-58)	17(70)	7(-59)
Taxes on goods and passengers	94 (1)	101 (7)	105 (4)	110(5)	115 (5)
Other taxes	296 (4)	332(12)	326(-2)	365(12)	376 (3)
Total	4,108 (13)	4,626 (13)	5,121 (11)	5,940 (16)	6,696 (13)

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

Tax revenue increased by ₹ 2,588 crore (63 per cent) during 2011-16 and ₹ 756 crore (13 per cent) during 2015-16 over the previous year. All the major taxes and duties recorded increase in the tax revenue mainly under: (a) Taxes and duties on electricity by ₹ 218 crore (65 per cent); (b) taxes on vehicles by ₹ 97 crore (44 per cent); (c) taxes on sales, trades, etc. by ₹ 332 crore (9 per cent) due to increase in tax collection under 'VAT' and (d) State excise by ₹ 87 crore (8 per cent).

1.3.1.2 Non-tax revenue

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

Table 1.8: Components of Non-Tax Revenue

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16
Interest receipts	115 (64)	70 (-39)	119 (70)	101(-15)	94(-7)
Dividends and profits	86 (34)	100 (16)	103 (3)	171(66)	112(-35)
Other non-tax receipts, of which-	1,714 (10)	1,207(- 30)	1,563 (29)	1,809(16)	1,631(-10)
Misc. General Services	40 (1900)	9(-78)	6(-33)	3(-50)	19(533)
Education, Sports, Arts and Culture	104(27)	112(8)	157(40)	161(3)	206(28)
Forestry and Wild life	107(65)	64(-40)	358(459)	116(-68)	34(-71)
Other Administrative Services	26(-16)	46(77)	26(-43)	36(38)	33(-8)
Non-ferrous mining and metallurgical Industries	120(5)	148(23)	111(-25)	162(46)	155(-4)
Power	1,146(5)	637(-44)	696(9)	1,122(61)	924(-18)
Others	171(-2)	191(12)	209(9)	209 (-)	260(24)
Total	1,915 (13)	1,377 (-28)	1,785 (30)	2,081(17)	1,837(-12)

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

The NTR decreased by ₹ 244 crore (12 per cent) in 2015-16 over the previous year. Other non-tax receipts showed a decline of 10 per cent in 2015-16. The decrease in NTR was mainly under Forestry and Wildlife by ₹ 82 crore (71 per cent), Power by ₹ 198 crore (18 per cent), dividends and profits and interest receipts by ₹ 66 crore (24 per cent).

1.3.1.3 Cost of collection

Expenditure on collection of taxes on Sales, trade was ₹ 3.92 crore, State excise ₹ 4.15 crore, goods and passengers ₹ 34.30 crore, stamp duty and registration fee ₹ 2.20 crore, vehicles ₹ 6.41 crore and electricity ₹ 1.79 crore during 2015-16. Percentage of expenditure to gross collection of revenue was 0.10, 0.37, 29.83, 1.07, 2.02 and 0.32 respectively. The percentage of collection charges in respect of goods and passenger tax (29.83) was comparatively higher than collection charges for other heads of revenue.

1.3.2 Transfers from GoI to State

Total transfers from GoI to the State for the period 2011-12 to 2015-16 shows continuous increase (except 2013-14) as given in **Table 1.9**.

Table 1.9: Transfer from GoI

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Grants-in-Aid from Government of India	6,521	7,313	6,314	7,178	11,296
State's share of Union Taxes and Duties	1,999	2,282	2,491	2,644	3,611
Total Central Transfer to State	8,520	9,595	8,805	9,822	14,907

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 1.9 (A)**.

Table 1.9 (A): Grants-in-aid from GoI

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Non-Plan Grants	2,647	2,526	2,025	1,199	8,524
Grants for State Plan Schemes	3,342	4,179	3,765	4,333	756
Grants for Central Plan Schemes	27	28	17	31	38
Grants for Centrally Sponsored Plan Schemes	505	580	507	1,615	1,978
Total	6,521	7,313	6,314	7,178	11,296
Percentage of increase over previous year	15.25	12.15	(-)13.66	13.68	57.36
Percentage of Revenue Receipts	45	47	40	40	48

Total grants-in-aid from GoI increased from ₹ 6,521 crore to ₹ 7,313 crore during the period 2011-13 (**Tables 1.9 and 1.9 (A)**). But it decreased by ₹ 999 crore to ₹ 6,314 crore during the year 2013-14 mainly due to decrease of ₹ 554 crore in Th FC grants and ₹ 414 crore in grants for State Plan schemes. During 2014-15 grants-in-aid from GoI increased by ₹ 864 crore, recording a growth of 14 per cent over the

previous year. However, in 2015-16 it increased significantly by ₹ 4,118 crore (57 per cent) due to net increase of ₹7,325 crore in XIVth FC Non-plan Grants and decrease of ₹3,577 crore in State Plan Schemes over the previous year. Its percentage to revenue receipts ranged between 40 and 48 per cent during the period 2011-16. In total grants-in-aid from GoI, the share of Non-plan grants was 75 per cent, State and Central Plan Schemes was 7 per cent and Centrally Sponsored Plan schemes was 18 per cent during the year 2015-16.

1.3.2.2 Central tax transfers

Central tax transfers increased by ₹ 967 crore (37 per cent) on the recommendations of the XIVth FC from ₹ 2,644 crore in 2014-15 to ₹ 3,611 crore in 2015-16 as given in Table 1.10.

Table 1.10: Central tax transfers during 2014-15 and 2015-16

(₹ in crore)				
Name of Tax	Recommendation of XIV th FC	Actual for 2014-15	Actual for 2015-16	Variation
Corporation Tax	States' share in the net proceeds of Union tax revenues increased to 42 per cent in 2015-16 from 32 per cent upto 2014-15	923.41	1,135.61	212.20
Income Tax		659.41	786.68	127.27
Wealth Tax		2.50	0.32	(-) 2.18
Customs		427.66	579.13	151.47
Union Excise Duty		241.48	484.57	243.09
Other Taxes and Duties on Commodities and Services		--	2.93	2.93
Service Tax		389.69	621.90	232.21
Other Taxes on Income and Expenditure		0.02	0.03	0.01
Total		2,644.17	3,611.17	967.00

1.4 Capital Receipts

The trends in growth and composition of capital receipts are presented in Table 1.11.

Table 1.11: Trends in growth and composition of capital receipts

(₹ in crore)					
Sources of State's Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Capital Receipts (CR)	2,009	3,392	4,067	11,568	6,155
Rate of growth of CR (per cent)	(-) 35.81	68.84	19.89	184.44	(-) 46.79
Miscellaneous Capital Receipts	--	--	--	650	--
Recovery of Loans and Advances	25	21	17	41	26
Rate of growth of non-debt capital receipts (Loans and Advances only)	(-) 65.75	(-) 16.00	(-) 19.05	141.18	(-) 36.83
Public Debt Receipts	1,984	3,371	4,050	10,877	6,129
Rate of growth of debt capital receipts	(-) 17.71	69.91	20.14	168.57	(-) 43.65

Above table shows that the capital receipts increased from ₹ 2,009 crore in 2011-12 to ₹ 6,155 crore in 2015-16. During 2015-16, capital receipts recorded decrease of ₹ 5,413 crore over the previous year (2014-15) with growth rate declining to 46.79 per cent. It was due to decrease in public debt receipts by ₹ 4,748 crore (43.65 per cent) and recovery of loans and advances by ₹ 15 crore during 2015-16. 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 SC/ST development Corporation, HP State Co-operative Marketing and Consumer Federation (HIMFED), HP Power Transmission Corporation, HP State Financial Corporations, etc. As on 31 March 2016, the total outstanding loans and advances amounted to ₹ 2,784 crore. Against this, the State Government recovered only ₹ 26 crore during 2015-16. Besides, ₹ 53 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 2011-12 to 2015-16 continued to be a source of receipts of the State Government.

Table 1.12: Details of debt receipts from internal sources

	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Market Loans	1,325 (70)	2,359 (73)	2,367 (59)	2,345 (22)	2,450 (40)
Special Securities issued to National small Savings fund of the Central Government (NSSF)	279 (14)	471 (15)	617 (15)	1,102 (10)	1,307 (22)
Ways and means advances (including overdrafts) (WMA including OD)	--	--	629(16)	6,860 (64)	1,785 (29)
Loans from National Bank for Agricultural and Rural Development (NABARD)	300 (16)	400 (12)	350 (9)	400 (4)	500 (8)
Loans from Other Financial Institutions	--	9 (--)	28 (1)	45 (--)	37 (1)
Internal Debt Receipts	1,904	3,239	3,991	10,752	6,079
Internal Debt Repayment	1,034	2,056	1,639	8,193	3,876

Figures in brackets indicate the percentage of internal debt receipts

As is evident from the above table, during 2015-16, internal debt receipts decreased from the previous year due to less need for Ways and Means Advances and Overdraft. The major components of internal debt over the last five years were market loans, NSSF and NABARD. In 2015-16, market loans increased by ₹ 105 crore (4 per cent), loans from NSSF increased by ₹ 205 crore (19 per cent) over the previous year. During 2015-16, internal debt receipts decreased by ₹ 4,673 crore (43 per cent) from ₹ 10,752 crore to ₹ 6,079 crore and internal debt repayments also decreased by ₹ 4,317 crore from ₹ 8,193 crore to ₹ 3,876 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 1.13**.

Table 1.13: Position of Loans and advances from GoI

	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Balance	961	947	1,018	1,012	1,070
Addition during the year	80	132	59	125	50
Discharge during the year	94	61	65	67	71
Closing Balance	947	1,018	1,012	1,070	1,049
Percentage of total expenditure	6	5	5	5	4

During the year 2015-16, the receipt of loans and advances for State plan schemes from GoI (₹ 49.52 crore) decreased by 60 *per cent* which was lowest over the last five years.

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 2014-15 and 2015-16 are given in **Table 1.14**.

Table 1.14: Trends in Public Accounts Receipts and Disbursements during 2014-15 and 2015-16
(₹ in crore)

Resources under various heads	Public Account Receipts		Public Account Disbursements		Excess of Receipts over Disbursements	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Small Savings, Provident Fund etc.	3,153	3,116	1,968	2,397	1,185	719
Reserve fund	161	235	159	244	02	(-) 9
Deposits and Advances	2,222	2,408	1,718	2,293	504	115
Suspense and Miscellaneous	487	617	459	651	28	(-) 34
Remittances	4552	5,139	4,540	4,992	12	147
Total	10,575	11,515	8,844	10,577	1,731	938

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

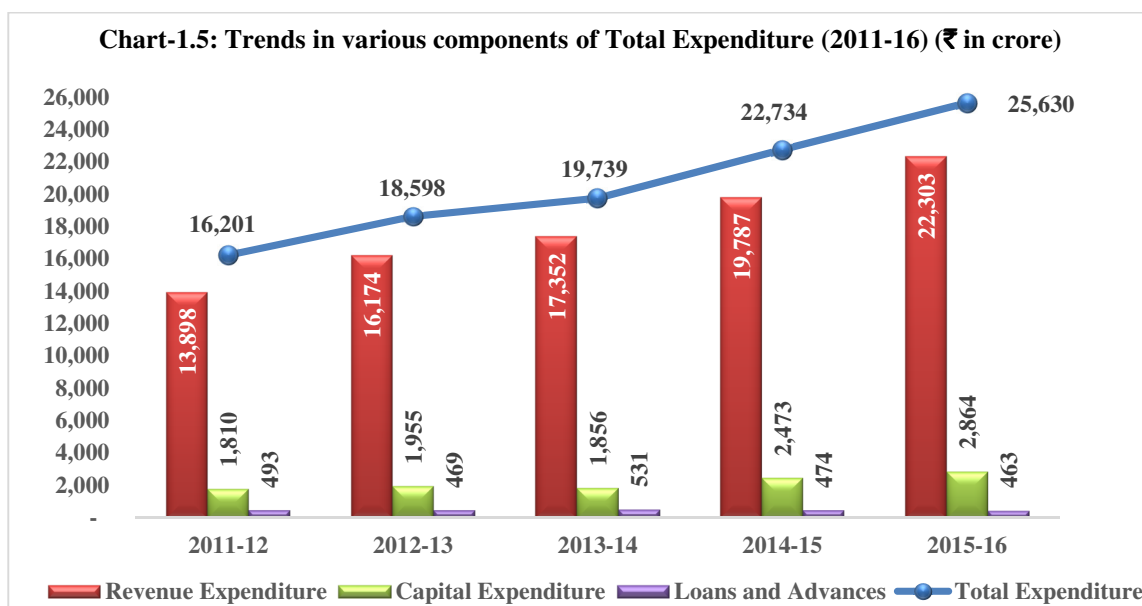
As is evident from the above table, net public account receipts (excess of receipts over disbursements) decreased by ₹ 793 crore from ₹ 1,731 crore in 2014-15 to ₹ 938 crore in 2015-16. The decrease was mainly under Small Savings, Provident Fund, etc. by ₹ 466 crore and under deposits and advances by ₹ 389 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.

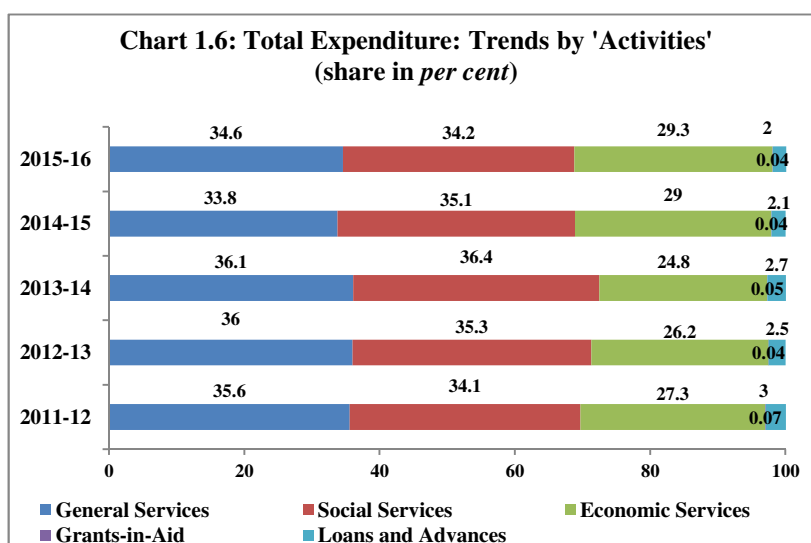
1.6.1 Growth and Composition of Expenditure

Chart 1.5 presents the trends and composition of total expenditure over the last five years (2011-16) 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 ₹ 16,201 crore in 2011-12 to ₹ 25,630 crore in 2015-16 at an annual average rate of 10 per cent. During current year it increased by ₹ 2,896 crore (13 per cent) over the previous year. The increase in total expenditure was on account of increase in revenue expenditure by ₹ 2,516 crore and capital expenditure by ₹ 391 crore.

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

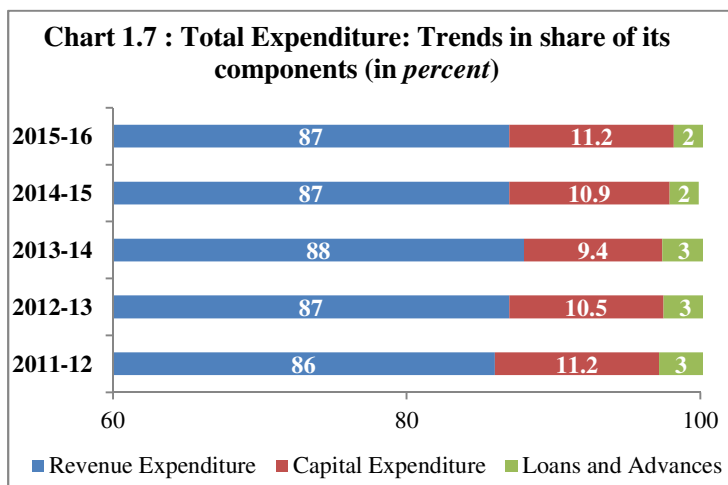


major components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental increased from 35.6 per cent in 2011-12 to 36.1 per cent in 2013-14 but gradually decreased to 34.6 per cent in 2015-16. The expenditure under

General Services was mainly on account of Interest Payments (36 per cent) and Pension and Other Retirement Benefits (43 per cent). On the other hand, developmental expenditure⁴ i.e. on Social and Economic Services together accounted for 63.5 per cent in 2015-16 against 64.1 per cent during 2014-15.

⁴ Refer Glossary in Appendix 4.

- **Revenue Expenditure (RE):** The revenue expenditure increased by ₹ 2,516 crore (13 per cent) from ₹ 19,787 crore in 2014-15 to ₹ 22,303 crore in 2015-16. The increase was mainly on General Services, Social Services and Economic Services by ₹ 1,184 crore (16 per cent), ₹ 529 crore (7 per cent) and ₹ 801 crore (17 per cent) respectively. The overall increase is the result of significant increase under the heads Interest payments (₹ 306 crore), Power (₹ 306 crore), Rural Employment



(₹ 64 crore) and Health and Family Welfare (₹ 49 crore). The revenue expenditure continued to constitute a dominant proportion (86 to 88 per cent) of total expenditure during the years 2011-16 and increased at an annual average rate of 10 per cent. During 2015-16, the revenue expenditure constituted 87 per cent of the total expenditure.

The Plan Revenue Expenditure increased by ₹ 289 crore (9 per cent) in 2015-16 as compared to the previous year and contributed just 12 to 16 per cent of the total revenue expenditure during 2011-16. The non-plan revenue expenditure (NPRE) increased by ₹ 2,227 crore (13 per cent) in 2015-16 as compared to the previous year and constituted a dominant share of 84 to 88 per cent of revenue expenditure during the period 2011-16. The Non-Plan Revenue Expenditure consumed a dominant proportion (**Appendix-1.3**) of Revenue Receipts and ranged between 80 to 95 per cent during 2011-16.

State's revenue receipts and revenue expenditure stood at 21.21 per cent and 20.18 per cent to GSDP respectively during 2015-16. The State had revenue surplus of ₹ 1,137 crore which was 1.03 per cent of GSDP during the current year.

- **Capital Expenditure (CE):** Capital expenditure increased by ₹ 145 crore from ₹ 1,810 crore to ₹ 1,955 crore during 2011-13 but decreased by ₹ 99 crore in 2013-14 to ₹ 1,856 crore. During 2015-16, Capital expenditure (₹ 2,864 crore) increased by ₹ 391 crore (16 per cent) over the previous year 2014-15 (₹ 2,473 crore). Education, Sports, Arts and Culture (₹ 299 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 354 crore) under Social Services, Power Projects (₹ 265 crore), Irrigation and Flood Control (₹ 142 crore) and Transport (₹ 1327 crore) under economic services were the major beneficiary sectors where capital expenditure had been made during 2015-16. 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.
- **Loans and Advances:** constituted ₹ 463 crore (2 per cent) of the total expenditure in 2015-16 which decreased by ₹ 11 crore over the previous year.

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. As evident from **Table 1.15**, there is a consistent rise in committed expenditure of the State. The increase in committed expenditure was ₹ 1,529 crore (10 per cent) during 2015-16 over the previous year. It consistently constituted a dominant share of 79, 80, 77, 76 and 74 per cent of revenue expenditure respectively during 2011-16. **Chart 1.8** presents the trends in the expenditure on these components during 2011-16.

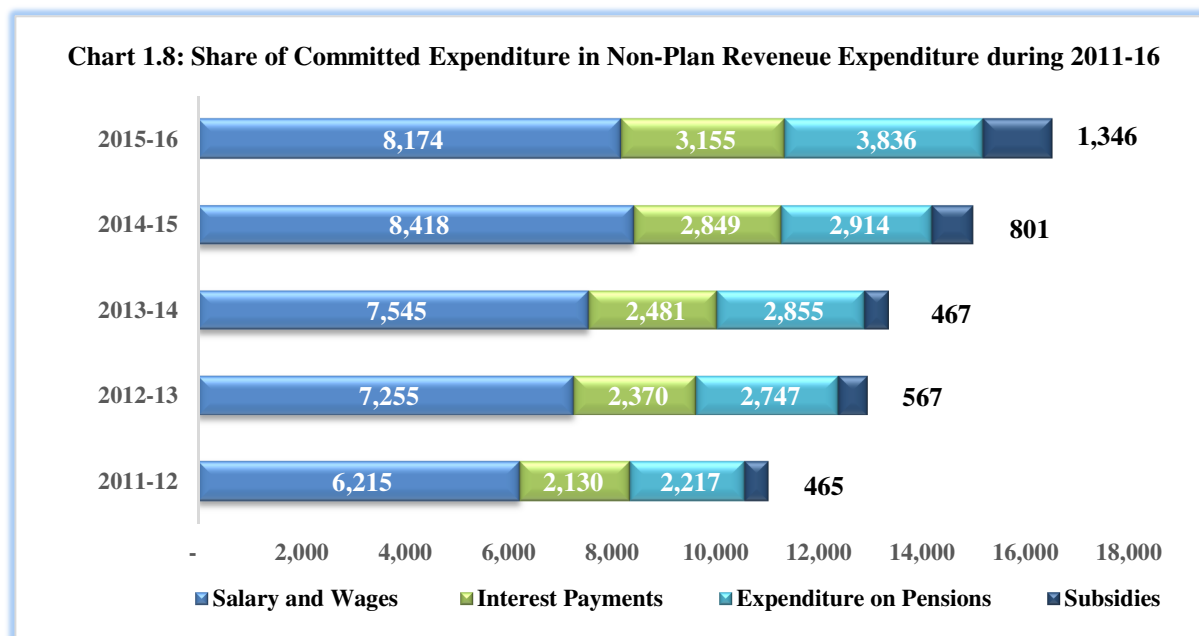
Table 1.15: Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
Salaries and Wages, of which	6,215 (43)	7,255 (47)	7,545 (48)	8,418 (47)	8,174* (35)
Non-Plan Head	5,981	6,999	7,289	8,159	7,826
Plan Head	234	256	256	259	348
Interest Payments	2,130 (15)	2,370 (15)	2,481 (16)	2,849 (16)	3,155 (13)
Pensions	2,217 (15)	2,747 (18)	2,855 (18)	2,914 (16)	3,836 (16)
Subsidies	465 (3)	567 (4)	467 (3)	801 (4)	1,346 (6)
Total	11,027	12,939	13,348	14,982	16,511
Percentage to RE	79	80	77	76	74

* Salary: ₹ 7,950 crore; wages: ₹ 224 crore.

Figures in brackets indicate per cent to Revenue Receipts

(₹ in crore)



Salaries and Wages

The expenditure on salaries and wages decreased by ₹ 244 crore (3 per cent) over the previous year and constituted 35 per cent of revenue receipts of the State during 2015-16. The salary expenditure in the current year (₹ 7,950 crore) was within the projections made in Medium Term Fiscal Plan Statement (MTFPS) (₹ 8,285 crore).

Pension Payments

The expenditure on pension payments increased from ₹ 2,217 crore in 2011-12 to ₹ 3,836 crore in 2015-16 and by ₹ 922 crore (32 per cent) during the current year over the previous year. Salary and pension payments together accounted for 51 per cent of the revenue receipts. The actual expenditure on pension payments for the current year was within the projections made in the XIVth FC (₹ 3,846 crore).

Interest Payments

The interest payments increased by 48 per cent from ₹ 2,130 crore in 2011-12 to ₹ 3,155 crore in 2015-16 and increased by ₹ 306 crore (11 per cent) during 2015-16 over the previous year. Interest payments exceeded the normative assessment made by the XIVth FC (₹ 3,088 crore) and from the projections made by State Government in MTFPS (₹ 2,950 crore) for the current year by 2 and 7 per cent respectively. 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 1.15** depicts the rise in subsidies given by the government for the last five years (except 2013-14). Subsidies increased by ₹ 545 crore during 2015-16 and constituted about 6 per cent of the revenue receipts. The major components of subsidies were Energy (₹ 784 crore), Transport (₹ 235 crore), Food and Supply (₹ 168 crore) and Horticulture (₹ 53 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 2011-12 to 2015-16 by the State Government is given in **Table 1.16**.

Table 1.16: Detail of Grants-in-aid released to Local Bodies and other institutions

(₹ in crore)						
Sr. No.	Name of Institution	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Universities and Educational Institutions	314.89 (1)	405.62 (29)	451.55 (11)	601.03(33)	663.67 (10)
2.	Municipal Corporations and Municipalities	122.94 (33)	174.09 (42)	282.33 (62)	211.65 (-25)	321.63 (52)
3.	Panchayati Raj Institutions	263.95(3)	282.09 (7)	353.54 (25)	810.37(129)	926.72 (14)
4.	Development Agencies	46.72(-10)	38.72 (-17)	65.96 (70)	63.52(-4)	80.53 (27)
5.	Hospitals and other Charitable Institutions	69.70 (45)	87.77 (26)	94.63 (8)	216.24 (129)	277.14 (28)
6.	Other Institutions	162.89 (82)	214.82 (32)	189.87 (-12)	253.37 (33)	342.58 (35)
	Total	981.09 (16)	1,203.11 (23)	1,437.88 (20)	2,156.18 (50)	2,612.27 (21)
	Assistance as percentage of Revenue Expenditure	7.06	7.43	8.28	10.90	11.71

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 over the period 2011-16. It increased by ₹ 456.09 crore (21.15 per cent) during current year (2015-16) over the previous year. The increase in grants-in-aid during 2015-16 was mainly due to release of more grant to Municipal Corporations and Municipalities (₹ 109.98 crore) (52 per cent), Hospitals and other

Charitable Institutions (₹ 60.9 crore) (28 per cent), Development Agencies (₹ 17 crore) (27 per cent) and Panchayati Raj Institutions (₹ 116 crore) (14 per cent).

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 in 2012-13, 2014-15 and the current year 2015-16.

Table-1.17(A): Fiscal Priority of the State during 2012-13, 2014-15 and 2015-16

(in per cent)							
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*	22.23	69.92	38.42	31.50	15.53	20.86	5.58
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) 2014-15*	23.80	71.77	40.29	31.49	15.27	21.04	5.90
Himachal Pradesh's Average (Ratio) 2014-15	22.48	66.15	35.08	31.07	10.88	18.81	5.71
Special Category States' Average (Ratio) 2015-16*	21.66	70.41	39.78	30.63	13.95	20.63	6.41
Himachal Pradesh's Average (Ratio) 2015-16	23.19	65.27	34.22	31.04	11.17	17.29	5.53

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.
 * Exclude Jammu and Kashmir
 Source: The information as available on CSO website as on 29th July 2016 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 2015-16 with that in 2012-13 and 2014-15 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 22.48 per cent in 2014-15. However, it was 23.19 per cent in 2015-16 which is higher by

0.71 percentage point over the previous year and higher by 1.53 percentage point from SCS (21.66 per cent).

- Development expenditure as a percentage of aggregate expenditure increased by 2.22 percentage point in 2014-15 from 63.93 per cent in 2012-13 but decreased by 0.88 percentage point in 2015-16 (65.27 per cent) which is lower than the SCS of 70.41 per cent is a matter of concern.
- Social sector expenditure as a proportion of aggregate expenditure in the State was lower than that of SCS by 3.11, 5.21 and 5.56 percentage points in 2012-13, 2014-15 and 2015-16 respectively.
- The ratio of Capital expenditure as a proportion of aggregate expenditure slightly increased by 0.29 percentage point in 2015-16 over the previous year but was below the average of SCS by 2.78 percentage point.
- The ratio under Education sector was below the average of SCS during the period 2012-13, 2014-15 and 2015-16.

1.7.2 Efficiency of expenditure use and its effectiveness

As per **Table 1.17(B)**, salary and wages expenditure decreased by ₹ 106 crore (2 per cent) and ₹ 95 crore (5 per cent) in social services and economic services respectively during the current year 2015-16 as compared to previous year, whereas operation and maintenance expenditure increased by ₹ 186 crore (25 per cent) in social services and decreased by ₹ 19 crore (2 per cent) in economic services. The ratio of capital expenditure to total expenditure in social services and economic services was 0.03 and 0.08 respectively during the period 2015-16 which is a matter of concern.

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
2014-15	22,734	Social Services	7,451	522	0.02	4,882	744
		Economic services	4,723	1,868	0.08	2,006	1,166
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

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

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 2016 is given in **Table 1.18**. Only those projects where the scheduled date of completion is already over as of 31 March 2016 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 2016
Irrigation and Public Health	10	95.54	58.69	121.34
Building and Roads (Public Works)	02	24.60	--	21.21
Total	12	120.14		142.55

Source: Finance Accounts

In respect of the incomplete projects, revised costs of only five projects of Irrigation and Public Health Department were available where the cost overrun was to the tune of ₹ 3.98 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 75 per cent to 99 per cent with time overrun ranging upto 11 years.

1.8.2 Investment and returns

The Government as on 31 March 2016 had invested ₹ 3,041 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (**Table 1.19(A)**). The average return on investment was 4.10 per cent while the government paid an average rate of interest as 7.89 per cent on its borrowings during 2011-16.

Table 1.19(A): Return on Investment

(₹ in crore)						
Investment/ Return/ cost of Borrowing	2011-12	2012-13	2013-14	2014-15	2015-16	Average 2011-16
Investment at the end of the year	2,448	2,767	3,025	2,732	3,041	--
Return (Dividend/interest)	85.65	100.09	103.42	171.00	111.94	--
Return (per cent)	3.50	3.62	3.42	6.26	3.68	4.10
Average rate of interest on government borrowings (per cent)	7.80	8.08	7.71	7.91	7.95	7.89
Difference between interest rate and return (per cent)	4.30	4.46	4.29	1.65	4.27	3.79

Source: Finance Accounts

While the Government investments increased by 11.31 per cent in 2015-16 over (₹3,041 crore) the previous year 2014-15 (₹2,732 crore), the return from investments showed increase during the period 2011-15 from ₹ 85.65 crore in 2011-12 to ₹ 171 crore in 2014-15 but decreased by ₹ 59.06 crore during 2015-16. The main contributor of dividend was Satluj Jal Vidyut Nigam Limited over the last five years (2011-16) period. The major recipients of investments amongst Government Companies, which had accumulated losses as per latest finalised accounts, were

Himachal Pradesh State Electricity Board Limited (₹ 1,875.61 crore), Himachal Road Transport Corporation (₹ 1020.37 crore), Himachal Pradesh Agro-Industrial Packaging India Limited (₹ 78.23 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹ 77 crore), Himachal Pradesh State Forest Corporation Limited (₹ 48.27 crore) and Himachal Pradesh Power Corporation (₹ 41.06 crore).

1.8.2.1 Implementation of UDAY Scheme

The Scheme – UDAY (Ujwal Discom Assurance Yojna) has been launched by Government of India 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. A Tripartite Memorandum of Understanding (MoU) has to be signed between the Ministry of Power (MoP) GOI, Government of Himachal Pradesh (GoHP) and Himachal Pradesh State Electricity Board Limited (HPSEBL) (A Government sector Undertaking).

The accumulated loss of HPSEBL amounted to ₹ 2,218 crore at the end of financial year 2015-16, while the outstanding DISCOM debt level reached to ₹ 4,617.85 crore as on 30.09.2015.

In this regard, the GoHP has agreed to sign MoU (August 2016) and implement UDAY Scheme from the financial year 2016-17, by restructuring 75 per cent of debt of HPSEBL outstanding as of September 2015 on back to back loan basis, wherein all the GoHP UDAY bond proceeds will be transferred to HPSEBL as State Government Loan. HPSEBL will be under obligation to service the State loan as per time schedule of repayment.

Since the UDAY scheme is to be taken up by the GoHP from 2016-17, hence no financial impact is observed during 2015-16 on the fiscal indicators of the State.

1.8.2.2 Investment in Public Sector Undertakings

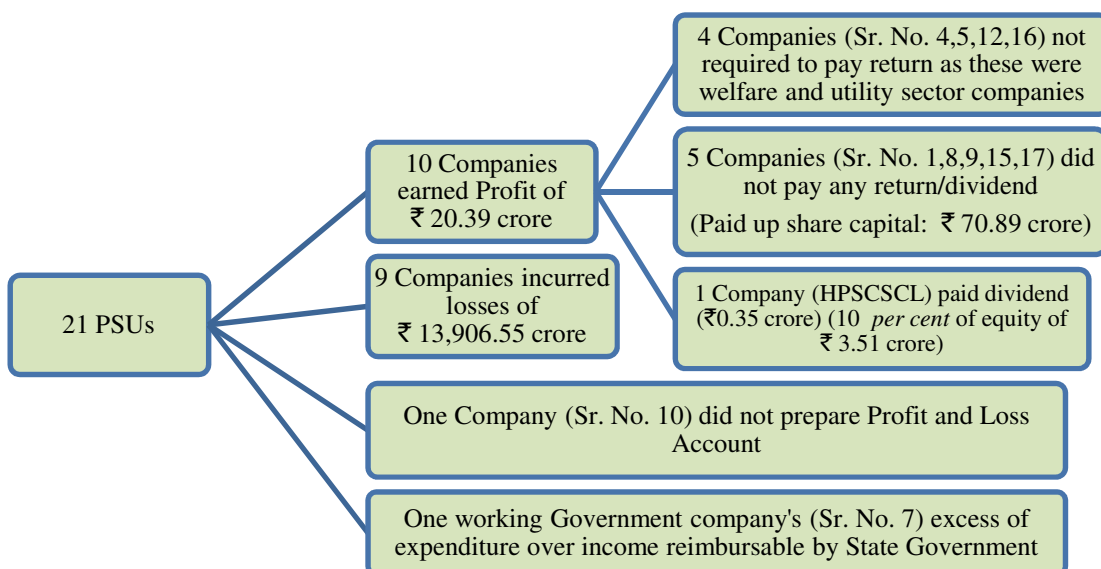
Investment in State Public Sector Undertakings (SPSUs)

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 2015, the paid up share capital of the State Government in 21 PSUs was ₹ 1,807.51 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	1,116.44 (17)	16.75 (2) ⁵	674.32 (2)	1,807.51 (21)

As per latest finalized accounts of the PSUs up to 31 May 2016 the position is given in the following chart and **Appendix 1.7**:



Thus, on the equity of ₹ 1,807.51 crore invested by the State Government in PSUs as on 31 March 2015, it earned only a return of ₹ 0.35 crore which was 0.02 per cent of total paid up share capital as per latest finalized accounts upto May 2016.

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 2016, out of 23 PPP projects undertaken, 9 PPP projects had been completed and under operation and 14 projects were awarded and under implementation as detailed in **Appendix 1.8**.

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 2016, interest receipts *vis-à-vis* interest payments during the last five years is given in **Table 1.20**.

⁵ Out of two Companies (Agro-Packaging India Limited and Himachal Worsteds Mills Limited), one Company viz. Himachal Worsteds Mills Limited was under liquidation.

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

(₹ in crore)					
Quantum of loans/interest receipts/ cost of borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Balance	483	951	1,399	1,913	2,346
Amount advanced during the year	493	469	531	474	463
Amount repaid during the year	25	21	17	41	25
Closing Balance	951	1,399	1,913	2,346	2,784
Net addition	468	448	514	433	438
Interest Receipts	21	14	15	65	53
Interest receipts as <i>per cent</i> to outstanding loans and advances	2.21	1.19	0.78	2.77	1.90
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the previous year	8.06	8.39	8.15	8.41	8.26
Difference between average rate of interest received and interest paid (<i>per cent</i>)	(-) 5.85	(-) 7.20	(-) 7.37	(-) 5.64	(-) 6.36

Source: Finance Accounts

As can be seen from the **Table 1.20**, the total outstanding loans and advances as on 31 March 2016 was ₹ 2,784 crore. Against ₹ 463 crore advanced during 2015-16, only ₹ 25 crore was repaid. Major portion of the loans went to power sector companies (₹ 412.26 crore) and to Crop Husbandry (₹ 26.09 crore) under Economic Sector. 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 2014-15 was 5.64 *per cent* which increased to 6.36 *per cent* during 2015-16. The Government received only 1.90 *per cent* return of interest receipts as percentage to outstanding loans during 2015-16. It, however, paid an average 8.26 *per cent* interest on borrowings during this period.

The position of loans and advances made during the year 2015-16 is given in **Table 1.21**.

Table 1.21: Loans and Advances

Loanee-Entity	Number of Loans	Total Amount of loans (₹ in crore)	Terms and conditions	
			Rate of Interest	Moratorium period, if any
Himachal Pradesh SCs/STs Development Corporation.	3	0.35	Interest free	--
HP State Co-operative Marketing and Consumer Federation	4	26.09	Interest free	--
HP Power Corporation Ltd.	12	327.26	10 <i>per cent</i>	5 years
HP Power Transmission Corporation Ltd.	5	85.00	10 <i>per cent</i>	5 years
HP State Financial Corporation	5	11.05	8.5 <i>per cent</i>	7 years
Government Servants	--	13.42	--	--
Total:-	29	463.17		

Source: Finance Accounts

Out of ₹ 463.17 crore, loans amounting to ₹ 26.44 crore were advanced as interest free, ₹ 412.26 crore at the rate of 10 *per cent* and ₹ 11.05 crore at the rate of 8.5 *per cent*. Besides, ₹ 13.42 crore was advanced to the government servants. The State Government moratorium period ranged between five and seven years.

1.8.3.1 Sanctioning/advancing of loans without finalizing terms and conditions

An amount of ₹ 18.48 crore had been sanctioned as loan during the period 2008-09 to 2013-14 without finalizing the terms and conditions. The details are given in **Table 1.22**.

Table 1.22: Loans granted by the Government for which terms and conditions are yet to be finalised

Sr. No.	Loanee-Entity	Number of Loans	Total Amount (₹ in crore)	Earliest period to which arrears relate
1.	Himachal Pradesh Agro-Industries Corporation	1	2.54	2013-14
2.	Municipal Corporation, Shimla	1	2.00	2008-09
3.	Himachal Pradesh Scheduled Castes and Scheduled Tribes Development Corporation	8	0.76	2013-14
4.	HP Agro-Industries and HPMC	7	13.18	2009-10
	Total	17	18.48	

Source: Finance Accounts

1.8.4 Cash Balances and Investment of Cash Balances

Table 1.23 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.23: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 April 2015	As on 31 March 2016	Increase (+)/ Decrease (-)
(a) General cash balance			
Cash in treasuries	-	-	
Remittance in transit-Local	-	-	
Deposits with RBI	(-) 739.51	(-) 340.76	398.75
Investments held in cash balance Investment account	-	556.80	
(b) Other cash balances and investments			
Cash with departmental officers viz. PWD, etc.	0.16	0.16	
Permanent advances for contingent expenditure with departmental officers	0.03	0.03	
Total (a+b)	(-) 739.32	216.23	955.55
(c) Investment from Cash Balances			
GoI Treasury Bills	-	556.80	
GoI Securities	6,675.64	7,650.79	975.15
(d) Funds-wise break up of investment from earmarked balances			
	-	-	
(e) Interest realised	9.90	39.59	29.69

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 ₹ 285 crore with effect from 11.11.2013. The RBI has also agreed to give special ways and means advances against the pledge of government securities.

As per Statements 2 (Annexure-A) and 17 of Finance Accounts, ₹ 533.77 crore were outstanding on ways and means advances and overdrafts at the end of 2014-15. During 2015-16, State Government could maintain minimum daily cash balance for 334 days. The Government had to take ₹ 1,785.40 crore of ways and means advances

(₹ 884.17 crore) and overdrafts (₹ 901.23 crore) from RBI on 25 and 06 occasions respectively. Out of total ₹ 2,319.18 crore Ways and Means Advances and Overdraft, all were repaid during 2015-16.

It was noticed in audit that cash balance of the State Government at the end of the current year increased by ₹ 955.55 crore from negative balance of ₹ 739.32 crore in 2014-15 to ₹ 216.23 crore in 2015-16. Interest income increased by ₹ 29.69 crore during 2015-16 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 2016, compared with the corresponding position on 31 March 2015. 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 2015-16, the assets grew by ₹ 4,257.29 crore (16.47 per cent) whereas the liabilities increased by ₹ 3,119.62 crore (8.06 per cent) over the previous year. The Financial Assets/Liabilities increased to 72 per cent in 2015-16 from 70 per cent in 2011-12 and 67 per cent in 2014-15.

1.9.2 Fiscal Liabilities

The position of outstanding fiscal liabilities of the State for a five year period viz. 2011-12 to 2015-16 are presented in **Appendix 1.3 and Table 1.24**. The composition of fiscal liabilities during the current year 2015-16 *vis-à-vis* the previous years are presented in **Chart 1.9**.

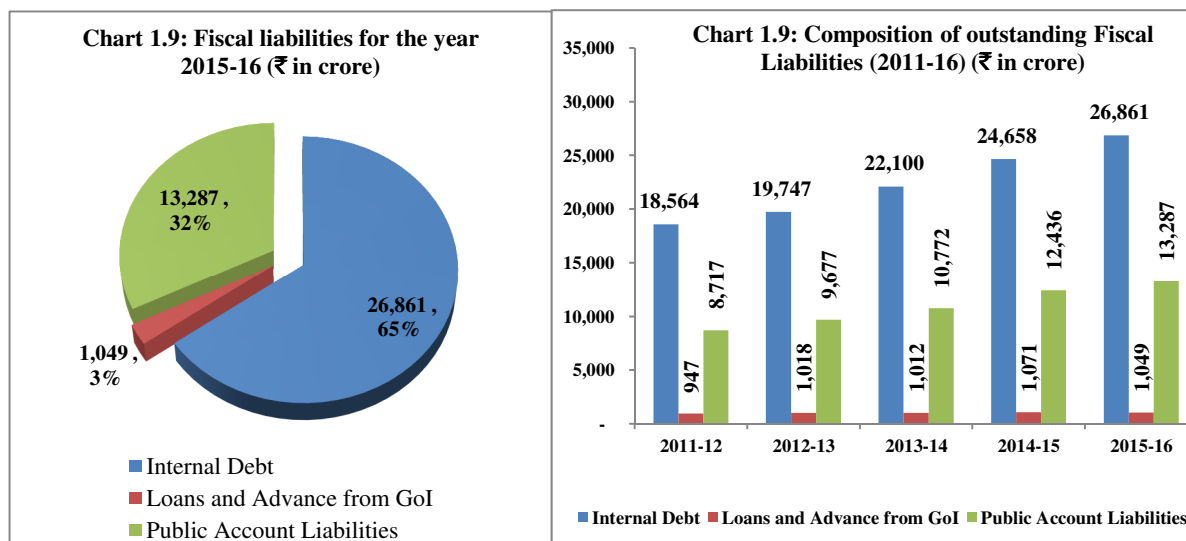
Table 1.24: Fiscal Liabilities – Basic Parameters

	2011-12	2012-13	2013-14	2014-15	2015-16
Fiscal Liabilities (₹ in crore)	28,228	30,442	33,884	38,192	41,197
Rate of Growth (per cent)	6.86	7.84	11.31	12.71	7.87
Ratio of Fiscal Liabilities to					
GSDP* (per cent)	38.82	36.99	36.60	37.77	37.28
Revenue Receipts (per cent)	194.10	195.17	215.67	214.04	175.76
Own resources (per cent)	468.67	507.11	490.65	476.15	482.80
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	--	0.60	0.90	1.38	0.85
Revenue receipts (ratio)	0.48	1.08	15.71	0.94	0.25
Own resources (ratio)	0.53	(-) 23.76	0.75	0.79	1.24

*GSDP revised on base year 2011-12

The overall fiscal liabilities of the State increased by ₹ 12,969 crore (46 per cent) from ₹ 28,228 crore in 2011-12 to ₹ 41,197 crore in 2015-16. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹ 27,910 crore) comprised market loans (₹ 16,860 crore),

loans from GoI (₹ 1,049 crore) and other loans (₹ 10,001 crore, which includes ₹ 7,651 crore on special security issued to NSSF of the GoI).



The Public Account liabilities (₹ 13,287 crore) comprise Small Savings and Provident Funds (₹ 10,640 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹ 2,428 crore) and reserve funds (₹ 219 crore).

The growth rate of fiscal liabilities was 8 per cent during 2015-16. The ratio of fiscal liabilities to GSDP decreased to 36.60 per cent in 2013-14 from 38.82 per cent in 2011-12 but slightly increased to 37.77 per cent in 2014-15. In 2015-16, it decreased to 37.28 per cent from 37.77 per cent in 2014-15. These liabilities stood at 1.76 times the revenue receipts and 4.83 times the own revenue resources at the end of 2015-16. The buoyancy ratio of fiscal liabilities to GSDP stood at 0.85 during 2015-16. This is indicative of the fact that fiscal liabilities growth rate is less 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 ₹ 219.32 crore (Credit). Out of this, reserve fund bearing interest held ₹ 0.71 crore (credit) and the share of the fund not bearing interest was ₹ 218.62 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 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 were ₹ 41,197 crore. Had there been a consolidated sinking fund, the liability of the

State Government towards the fund would have been ₹ 190.96 crore (0.5 per cent of outstanding liabilities) in 2015-16. So 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 ₹ 21.41 crore as on 31 March 2016.

1.9.3.3 Inoperative Reserve Funds

Mention was made in previous Audit Reports on State Finances that two reserve funds with accumulated balance of ₹1.54 crore viz. Major Head 8115-Depreciation/ Renewal Reserve Funds-103-Depreciation Reserve Funds - Government Commercial Departments and Undertakings (₹ 0.01 crore) and the Major Head 8226-Depreciation/ Renewal Reserve Fund-101- Depreciation Reserve Funds of Government Commercial Departments/ Undertakings (₹ 1.53 crore) had remained inoperative since 1971. Thus, the State Government has neither taken any action to make these funds operational or to close them.

1.9.4 Contingent Liabilities

1.9.4.1 Status of Guarantees

Guarantees⁶ 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 1.25**.

Table 1.25: Guarantees given by the Government of Himachal Pradesh

Guarantees	2011-12	2012-13	2013-14	2014-15	2015-16
Outstanding amount of guarantees (₹ in crore)	3,316	3,353	4,333	4,281	3,714
Percentage of outstanding amount of guarantees to total revenue receipts in the preceding financial year	26	23	28	27	21

The outstanding amount ₹ 3,714 crore of guarantees during the current year was in respect of Power Sector (₹ 2,651 crore), three Statutory Boards/Corporations (₹ 707 crore), seven Government Companies (₹ 100 crore), one Co-operative Bank (₹ 227 crore), State Financial Corporation (₹ 24 crore) and one Local/Autonomous Body (₹ 5 crore). No amount of guarantee was invoked during the current year. The State Government had not furnished information regarding issue of letter of comfort during 2015-16.

⁶ Refer Glossary in Appendix 4.

1.10 Debt Management

1.10.1 Debt Profile

Table 1.26: Growth rate and maturity profile of debt

		(₹ in crore)				
Sr. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Internal Debt	18,564 (95)	19,747 (95)	22,099 (96)	24,658 (96)	26,861(96)
	(i) Market Loans	10,147 (52)	11,809 (57)	13,565 (59)	15,196 (59)	16,860(60)
	(ii) Ways and Means Advances from RBI	--	--	285 (1)	285 (1)	--
	(iii) Overdrafts	--	--	171 (1)	249 (1)	--
	(iv) Loans from Financial Institutions	3,354 (17)	2,589 (12)	2,306 (10)	2,252 (9)	2,350(8)
	(v) Special Securities issued to NSSF	5,063 (26)	5,349 (26)	5,772 (25)	6,676 (26)	7,651(28)
2.	Loans from Government of India	947 (5)	1,018 (5)	1,012 (4)	1,071 (4)	1,049(4)
Total Public Debt:		19,511	20,765	23,111	25,729	27,910
Maturity Profile of State Debt (In Years)						
	0 – 1	1,496.44(8)	1,533(8)	1,923(8)	2,046 (8)	2,268(8)
	1 – 3	3,408.68(17)	2,946(14)	3,514(15)	4,837(19)	6,236(22)
	3 – 5	2,853.82(15)	4,349(21)	5,470(24)	4,929(19)	4,331(16)
	5 – 7	4,291.81(22)	4,380(21)	3,162(14)	3,192(12)	4,339(16)
	7 and above	7,459.94(38)	7,557(36)	9,042(39)	10,725(42)	10,736(38)

Figures in brackets indicate the percentage of total public debt

Total public debt increased from ₹ 19,511 crore in 2011-12 to ₹ 27,910 crore in 2015-16 registering annual average growth rate of 8.42 per cent. The share of market borrowings in total public debt consistently went up from 52 per cent in 2011-12 to 60 per cent in 2015-16. During current year (2015-16), total public debt increased by 8.48 per cent over the previous year.

The maturity profile of the State debt indicates that 8 per cent (₹ 2,268 crore) of the public debt is payable in the next year. Thirty eight per cent (₹ 10,567 crore) is payable in the next 1-5 years' time while the remaining 54 per cent (₹ 15,075 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 62 per cent debt within 7 years which is not a very comfortable position and could lead towards 'debt trap'.

A time series analysis of previous five years showing per capita debt is given in Table 1.27.

Table 1.27: Per capita debt

	2011-12	2012-13	2013-14	2014-15	2015-16
Population (In crore)	0.6901	0.6962	0.7023	0.7084	0.7147
Total Debt (₹ in crore)	28,228	30,442	33,884	38,192	41,197
Per capita debt (in ₹)	40,904	43,726	48,247	53,913	57,642

Source: Finance Accounts and Economics and Statistics Department

Table 1.27 shows that per capita debt had shown increasing trend from ₹ 40,904 in 2011-12 to ₹ 57,642 during 2015-16 (an increase of 41 per cent in five years' time). It increased from ₹ 3,729 (7 per cent) during 2015-16 over the previous year.

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 sustainability⁷ of the State. The analysis of variations in debt sustainability indicators of the State for the period of five years beginning from 2011-12 is given in **Table 1.28**.

Table 1.28: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2011-12	2012-13	2013-14	2014-15	2015-16
Rate of Growth of Outstanding Debt	6.86	7.84	11.31	12.71	7.87
Rate of Growth of GSDP	--	13.16	12.51	9.20	9.30
Outstanding Debt/GSDP (<i>per cent</i>)	38.82	36.99	36.60	37.77	37.28
Average Interest Rate of Outstanding Debt (<i>per cent</i>)	7.80	8.08	7.71	7.91	7.95
Burden of Interest Payments (Interest/ Revenue Receipt) (<i>per cent</i>)	14.65	15.19	15.79	15.97	13.46
Debt Repayment/ Debt Receipts (<i>per cent</i>)	56.85	62.80	42.07	75.94	64.42
Net Debt Available to the State (₹ in crore)	(-) 292	(-) 134	961	1,459	(-) 149

From the **Table 1.28** the following is observed:

- The growth rate of outstanding debt has shown increasing trend whereas GSDP showed a declining trend during 2011-15. During 2015-16, the growth rate of outstanding debt decreased by almost 5 *per cent* as the State resorted to less Ways and Means Advances and Overdraft during this period. This was due to heavy Central devolutions to State on the recommendations of the XIVth FC.
- Average interest rate of outstanding debt remained almost static during 2011-16.
- Almost 15-16 *per cent* revenue receipts of the State were utilised for Interest payments during 2011-15. During 2015-16, interest payments accounted for 13.46 *per cent* of the revenue receipts.
- 42.07 to 75.94 *per cent* of debt receipts were used for its repayments during 2011-16 leaving less debt receipt for development activities from the total borrowings, a situation heading towards 'debt trap'.
- The net funds available from debt after providing for repayments (including interest) remained positive and stood at ₹ 961 crore in 2013-14 and ₹ 1,459 crore in 2014-15 against negative availability of funds of ₹ 292 crore and ₹ 134 crore in 2011-12 and 2012-13 respectively. During 2015-16, it again turned to negative (₹ 149 crore) implying that the non-debt receipts of the State were sufficient to meet its interest burden and primary expenditure.

1.10.3.1 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

⁷ Refer glossary in Appendix 4.

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 2011-12 to 2015-16 is given in **Table 1.29**.

Table 1.29: Details of Market Loans raised and repayments made by the Government during 2011-12 to 2015-16

Year	Amount of market borrowings				
	Raised	For the purpose of repayment		For the purpose of expenditure	
		Amount	Per cent	Amount	Per cent
2011-12	1,325	403	30	922	70
2012-13	2,360	698	30	1,622	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

(₹ in crore)

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 regarding Government using fresh market borrowings to meet the past obligations. In spite of this, during 2015-16, Government also utilised 32 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

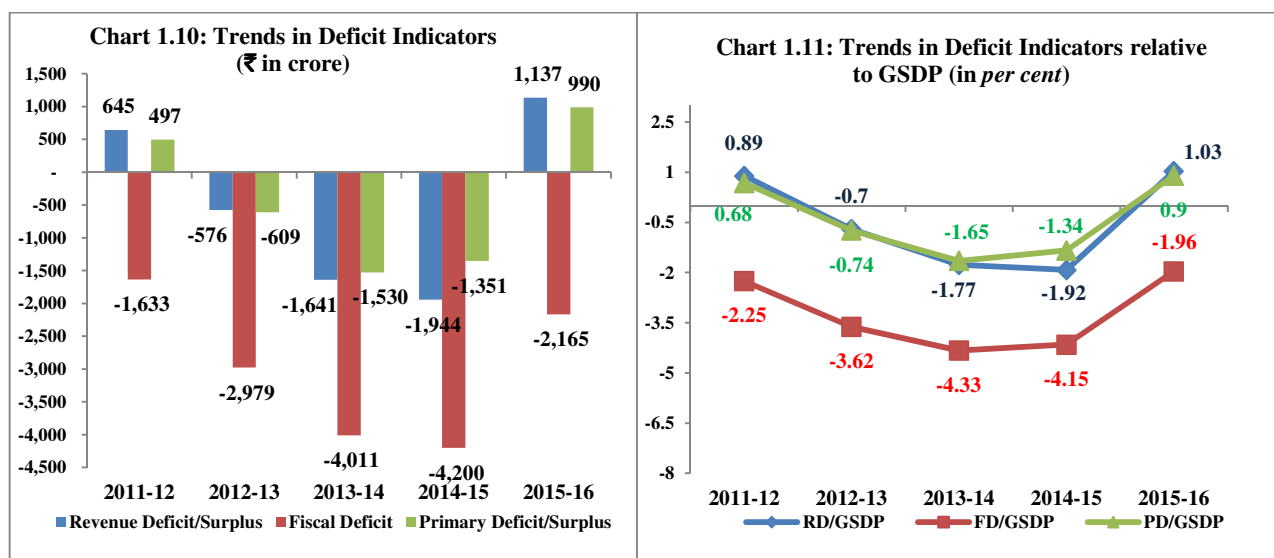
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit 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 2015-16.

1.11.1 Trends in Deficits

Table 1.30 and **Charts 1.10** and **1.11** present the trends in deficit indicators (revenue, fiscal and primary) over the period 2011-16:

Table 1.30: Trends in deficits

	2011-12	2012-13	2013-14	2014-15	2015-16
Deficits (₹ in crore)					
Revenue Deficit(-)/Revenue Surplus (+)	(+) 645	(-) 576	(-) 1,641	(-) 1,944	(+) 1,137
Fiscal Deficit (-)/Fiscal Surplus (+)	(-) 1,633	(-) 2,979	(-) 4,011	(-) 4,200	(-) 2,165
Primary Deficit (-)/Surplus (+)	(+) 497	(-) 609	(-) 1,530	(-) 1,351	(+) 990
Management of Fiscal Imbalances (In per cent)					
Revenue deficit (surplus)/GSDP	(+) 0.89	(-) 0.70	(-) 1.77	(-) 1.92	(+) 1.03
Fiscal deficit/GSDP	(-) 2.25	(-) 3.62	(-) 4.33	(-) 4.15	(-) 1.96
Primary Deficit (surplus) /GSDP	(+) 0.68	(-) 0.74	(-) 1.65	(-) 1.34	(+) 0.90



The revenue deficit was required to be brought down to zero during 2011-12 and maintain revenue surplus thereafter as per the FRBM Act/ Th FC. However, the target of bringing down the revenue deficit to zero had been achieved in 2011-12 but could not be maintained thereafter. The State experienced a situation of huge deficit during 2012-13, 2013-14 and 2014-15 in all deficit indicators.

During 2015-16, the revenue deficit of ₹1,944 crore in 2014-15 turned to revenue surplus of ₹ 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.

The fiscal deficit which represents the total borrowings of Government and is total resource gap, steadily increased from ₹1,633 crore in 2011-12 to ₹4,200 crore in 2014-15 and then decreased to ₹ 2,165 crore during 2015-16 as a result of increase in revenue receipts (₹ 5,597 crore) over the previous year mainly due to increase in share of Union taxes and Grant-in-Aid from GoI. Fiscal deficit was 1.96 per cent of GSDP during current year which was well within the target fixed in FRBM Act and projections made by XIVth FC (i.e. 3 per cent).

Primary deficit during the period 2012-13 (₹ 609 crore), 2013-14 (₹ 1,530 crore) and 2014-15 (₹ 1,351 crore) turned to primary surplus (₹ 990 crore) in 2015-16 due to significant increase in revenue receipts.

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 1.31**.

Table 1.31: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Components of Fiscal Deficit						
1	Revenue Deficit/surplus	(+) 645 (0.89)	(-) 576 ((-) 0.70)	(-) 1,641 ((-) 1.77)	(-) 1,944 ((-) 1.92)	1,137 (1.03)
2	Net Capital Expenditure	1,810(2.49)	1,955(2.38)	1,856(2.00)	1,823(1.80)	2,864(2.59)
3	Net Loans and Advances	468(0.64)	448(0.54)	514(0.56)	433(0.43)	437(0.40)
4	GSDP	72,720	82,294	92,589	1,01,108	1,10,511

	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	922	1,662	1,757	1,631	1,664
2	Loans from GoI	(-) 13	71	(-) 6	59	(-) 22
3	Special Securities Issued to NSSF	127	286	424	904	975
4	Loans from Financial Institutions	(-) 180	(-) 764	173	24	(-) 436
5	Small Savings, PF, etc.	636	1,112	887	1,185	718
6	Deposits and Advances	178	(-) 156	207	504	115
7	Suspense and Misc.	(-) 119	756	267	28	(-) 590
8	Remittances	(-) 127	(-) 174	(-) 23	12	148
9	Others	209	186	325	(-) 147	(-) 407
10	Overall Surplus/Deficit	(-) 1,633	(-) 2,979	(-) 4,011	(-) 4,200	(-) 2,165

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

Table 1.31 shows that the fiscal deficit decreased by ₹ 2,035 crore due to the revenue surplus during 2015-16 over the previous year. The fiscal deficit of ₹ 2,165 crore was financed mainly through borrowings from Market (₹ 1,664 crore), Special Securities issued to National Small Savings Fund (₹ 975 crore), Small Savings, Provident Fund, etc. (₹ 718 crore) and Deposits and Advances (₹ 115 crore).

The net capital expenditure as *per cent* of GSDP declined from 2.49 *per cent* in 2011-12 to 1.8 *per cent* in 2014-15. However, it was 2.59 *per cent* of GSDP in 2015-16.

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 0.49 during 2011-15. During 2015-16, State experienced revenue surplus ₹ 1,137 crore (**Appendix 1.3**).

The bifurcation of the factors resulting into primary deficit or surplus of the Government during the period 2011-16 are indicated in **Table 1.32**.

Table 1.32: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)							
Year	Non-debt receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure	Loans and Advances	Total Primary Expenditure (3+4+5)	Primary revenue surplus (2-3)	Primary deficit (-)/ surplus (+) (2-6)
1	2	3	4	5	6	7	8
2011-12	14,568	11,768	1,810	493	14,071	2,800	(+) 497
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

It may be seen from the table that though the non-debt receipts increased from ₹ 14,568 crore in 2011-12 to ₹ 23,466 crore in 2015-16 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). However, during 2011-12 and 2015-16, non-debt receipts were sufficient to meet the expenditure requirements both under revenue and capital account resulting in primary surplus of ₹ 497 crore and ₹ 990 crore in 2011-12 and 2015-16 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 2012-13. A discussion in the Public Accounts Committee on these Reports is yet to commence.

1.13 Conclusion

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as it reached a revenue surplus during the year 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 fiscal indicators viz. revenue deficit, fiscal deficit and primary deficit.

However, during 2015-16, the revenue deficit of ₹ 1,944 crore of 2014-15 once again turned to revenue surplus and stood at ₹ 1,137 crore due to sharp increase in revenue receipts by 31 *per cent* as against increase of 13 *per cent* in revenue expenditure.

The 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/XIVth FC (i.e. 3 *per cent*). Primary deficit ₹ 1,351 crore in 2014-15 turned to surplus (₹ 990 crore) during 2015-16 due to significant increase in revenue receipts as a result of central transfers on the recommendations of XIVth 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.

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 ₹ 364.57 crore were still being transferred by GoI directly to the State Implementing agencies during 2015-16 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 ₹ 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 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 without routing 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. The State Government should review the working of States Public Sector Undertakings incurring huge losses and take appropriate action.*