

EXECUTIVE SUMMARY

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Background

This Report on the finances of the Government of Himachal Pradesh presents an assessment of the financial performance of the State during the year 2020-21 *vis-à-vis* the Budget Estimates and targets prescribed under the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 amended in 2011; and analysis of the dominant trends and structural profile of State Government's receipts and disbursements.

Based on the audited accounts of the Government of Himachal Pradesh for the year ended 31 March 2021 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 five Chapters.

Chapter-I describe the basis and approach to the Report and the underlying data, providing an overview of the structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including deficits/surplus.

Chapter-II is based on the audit of Finance Accounts and provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the last five years, debt profile of the State and key Public Account transactions.

Chapter-III is based on the audit of Appropriation Accounts and gives a grant-wise description of appropriations. It contains observations on financial accountability and budget management, deficiencies in working of treasuries and results of review of selected grants.

Chapter-IV presents a description of the State Government's compliance with various reporting requirements and financial rules, and quality of accounts rendered by different authorities of the State Government.

Chapter-V contains audit observations on financial statements/performance of Government Companies (GCs), Government Controlled Other Companies (GCOCs) and Statutory Corporations (SCs) as per their accounts.

Audit findings

Chapter I: Overview

- The State Government passed the Himachal Pradesh Fiscal Responsibility and Budget Management (HP-FRBM) Act in April 2005 and provided for quantitative targets to be adhered to by the State with regard to deficit measures and debt levels. The HP-FRBM Act was required to be amended to prescribe revised targets for

deficit and debt levels. However, the same had not been done by the State Government.

- Against the target of maintaining the revenue surplus prescribed by the 15th FC and in HP-FRBM Act, there was revenue deficit (₹ 97 crore) during 2020-21. Actual Fiscal Deficit at 3.64 *per cent* of GSDP remained within the 15th FC target, but exceeded the targets set in the FRBM Act. The total outstanding debt / GSDP ratio, which stood at 42.91 *per cent*, was above the targets set by the 15th FC (36 *per cent*)

(Paragraph 1.5.1)

- During the year 2020-21, there was a revenue deficit of ₹ 97 crore, as against the previous year's revenue surplus of ₹ 12 crore. The fiscal deficit (₹ 5,700 crore) increased by ₹ 103 crore over the previous year (₹ 5,597 crore). Primary deficit decreased to ₹ 1,228 crore during 2020 21 from ₹ 1,363 crore in 2019-20.

(Paragraph 1.5.3)

Chapter II: Finances of the State

- During the year 2020-21, there was an increase of 8.77 *per cent* (₹ 2,695.86 crore) in Revenue Receipts over the previous year. Only 31 *per cent* of the Revenue Receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 69 *per cent* were contributed by central transfers comprising the State's share in central taxes and duties (14 *per cent*) and Grants-in-Aid from GoI (55 *per cent*).

(Paragraph 2.3.2.1)

- Total expenditure increased by ₹ 7,031.31 crore (21.88 *per cent*) over a period of five years (2016-21). During 2020-21, total expenditure (₹ 39,164.25 crore) of the State increased by ₹ 2,801.70 crore (7.70 *per cent*) over the year 2019-20. Share of Revenue expenditure in total expenditure ranged from 78.9 *per cent* to 86.7 *per cent* during the period 2016-21. Rate of growth of revenue expenditure has displayed fluctuating trend over the same period. The committed expenditure accounted for a dominant share (67-71 *per cent*) of revenue expenditure and revenue receipts (65-70 *per cent*) of the State during the five-year period 2016-21.

(Paragraphs 2.4.1, 2.4.2 and 2.4.2.2)

- During 2020-21, capital expenditure (₹ 5,309 crore) increased by ₹ 136 crore (2.62 *per cent*) over the previous year 2019-20 (₹ 5,174 crore), and constituted 13.56 *per cent* of total expenditure as compared to 14.23 *per cent* during 2019-20.

(Paragraph 2.4.3)

- The overall fiscal liabilities at the end of year were ₹ 67,164.75 crore, after excluding ₹ 1,717 crore received as back-to-back loans to State from GoI in lieu of GST compensation shortfall. These had increased by 7.96 *per cent* in 2020-21 as compared with 14.57 *per cent* in the previous year. The ratio of fiscal liabilities to

GSDP in 2020-21 was 42.91 *per cent* (calculated by excluding ₹ 1,717 crore received as back-to-back loans).

(Paragraph 2.6.1)

- The maturity profile of outstanding stock of public debt of ₹ 43,845 crore (excluding ₹ 1,717 crore as back-to-back loans and ₹ 618 crore whose maturity was uncertain) as on 31 March 2021, showed that annual outgo on public debt repayment and interest will be approximately ₹ 6,416 crore during the next five years up to 2025-26. Annual outgo on market loan repayment and interest will be approximately ₹ 4,211 crore during the next five years up to 2025-26.

(Paragraph 2.6.2)

Chapter III: Budgetary Management

- The total budget provision in 2020-21 was ₹ 61,597 crore. The actual expenditure during the year was ₹ 53,139 crore (86 *per cent*). This resulted in savings of ₹ 8,458 crore (14 *per cent*). In five cases (relating to five grants), excess expenditure of ₹ 88.69 crore over budget provision was incurred in 2020-21.

(Paragraphs 3.1.1 and 3.3.8.1)

- During 2020-21, there were 10 cases (₹ one crore or more in each case) under 10 grants (Revenue/Capital-Voted) where supplementary provision of ₹ 140.23 crore proved unnecessary as expenditure did not reach the level of original provision. In three cases, supplementary provision of ₹ 349.83 crore proved insufficient as it was not adequate to meet the requirement, leaving aggregate uncovered excess expenditure of ₹ 88.60 crore.

(Paragraph 3.3.4)

- Re-appropriations in 13 cases (savings of ₹ 10 crore and more in each case) proved unnecessary, as the savings under these cases were more than re-appropriated amount. On the other hand, re-appropriations in 13 cases proved insufficient as there remained excesses under these grants.

(Paragraph 3.3.6)

Chapter IV: Quality of Accounts and Financial Reporting Practices

- Out of total 2,799 outstanding Utilisation Certificates (UCs) for grants of ₹ 3,557.83 crore, 1,487 UCs for grants of ₹ 1,587.07 crore pertained to the period 2015-16 to 2018-19. Out of total amount of ₹ 3,557.83 crore for which UCs were outstanding, 69.43 *per cent* pertained to three departments – 35.68 *per cent* (₹ 1,269.55 crore) to Panchayati Raj; 20.96 *per cent* (₹ 745.69 crore) to Urban Development; and 12.79 *per cent* (₹ 454.98 crore) to Rural Development.

(Paragraph 4.5)

- During 2020-21, an amount of ₹ 970 crore under 41 Major Heads of account, constituting 2.50 *per cent* of total expenditure (₹ 38,844 crore), was classified

under Minor Head-800 'Other Expenditure'. Similarly, ₹ 1,332 crore under 48 Major Heads of Account, constituting 3.98 *per cent* of total receipts (₹ 33,441 crore), was booked under Minor Head-800 'Other Receipts'.

(Paragraph 4.9)

Chapter V: State Public Sector Enterprises

- As on 31 March 2021, there were 29 State Public Sector Enterprises (SPSEs) under the audit jurisdiction of the CAG. These include four Power Sector SPSEs and 25 SPSEs in other sectors. Out of 25 SPSEs (Other than Power Sector), there are 19 Government Companies, two Statutory Corporations and four Government Controlled Other Companies.

(Paragraph 5.3)

- Out of 29 SPSEs, 11 working SPSEs earned profit of ₹ 28.18 crore as per latest finalised accounts as compared to ₹ 36.24 crore earned by 12 SPSEs in 2019-20. Seven SPSEs had either not prepared their first accounts or did not have reportable profit and loss (commercial operations not commenced or excess of expenditure over income is reimbursed by State Government).

(Paragraph 5.5.1)

- Only three SPSEs declared/paid dividend of ₹ 2.25 crore (Himachal Pradesh State Civil Supplies Corporation Limited: ₹ 0.35 crore, Himachal Pradesh State Industrial Development Corporation Limited: ₹ 1.54 crore and Himachal Pradesh General Industries Corporation Limited: ₹ 0.36 crore). Four profit making SPSEs did not pay/provide dividend of ₹ 2.58 crore to the State Government. Remaining four profit making SPSEs were not eligible/required to pay dividend as per State Government policy.

(Paragraph 5.5.2)

- The Return on Equity of the profit earning 11 working SPSEs stood at 17.51 *per cent* as per latest finalised accounts as on 30 November 2021. The RoE in all working 26 SPSEs including eight loss making SPSEs was negative during 2020-21.

(Paragraph 5.7.2)

- Out of total loss of ₹ 518.60 crore incurred during 2020-21 by 10 SPSEs, Himachal Road Transport Corporation reported loss of ₹ 146.43 crore. Besides this, loss of ₹ 185.32 crore and ₹ 105.98 crore is also attributed to Himachal Pradesh State Electricity Board Limited and Himachal Pradesh Power Corporation Limited respectively as per their latest finalised accounts.

(Paragraph 5.8.1)

- There were 13 SPSEs with accumulated losses of ₹ 4,074.85 crore. The net worth of nine out of 13 SPSEs had been completely eroded by accumulated losses and their net worth was either zero or negative.

(Paragraph 5.8.2)