

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large Revenue and Fiscal deficits year after year indicate continued macro imbalances in the State.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs 3,046 crore in 2000-2001 to Rs 4,635 crore in 2004-2005 at an average trend rate of 5.56 *per cent*. There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 16.43 *per cent*. Arrears of revenue were of Rs 299 crore and represented 16.05 *per cent* of tax and non-tax revenue receipts of the current year. On an average 40 *per cent* of the revenue came from the State's own resources.

Total expenditure of the State increased from Rs 4,918 crore in 2000-2001 to Rs 6,471 crore in 2004-2005 at an average trend rate of 8.37 *per cent*. The rate of growth of expenditure in 2004-2005 was 1.22 *per cent* which was lower than the average trend rate (8 *per cent*) for five years.

The interest payments during 2004-2005 were Rs 1,641 crore and the same grew by 11.41 *per cent* over the last year. The average growth rate of interest payment during the period 2000-2005 was 21.08 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2004-2005 was Rs 16,533 crore, up by 14.52 *per cent* over the previous year. The finances of the State continued to be dependent on the ways and means advances/overdraft from Reserve Bank of India for day to day expenditure.

The State Government entered into a Memorandum of Understanding (MOU) with the Central Government in May 2004. As per MOU, Government was to take necessary steps for compression of revenue expenditure, enhancement of revenue receipts and generation of non-debt capital receipts. Government failed to do so.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap.

1.1 Introduction

The Finance Accounts of the Government of Himachal Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in the Box 1.1.

Box 1.1

Lay out of the Finance Accounts

Statement No. 1: presents the summary of transactions of the State Government—receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2: contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3: gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4: indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5: gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in the arrears, etc.

Statement No. 6: gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7: gives the summary of cash balances and investments made out of such balances.

Statement No. 8: depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9: shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10: indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11: indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head-wise.

Statement No. 13: depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14: shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.

Statement No. 15: depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16: gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

Statement No. 17: presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18: provides the detailed account of loans and advances given by the Government of Himachal Pradesh, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19: gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to the previous year

Finances of the State Government during the current year compared to previous year were as under:

(Rupees in crore)

2003-2004	Sr. No.	Major Aggregates	2004-2005
3,981	1.	Revenue Receipts (2+3+4)	4,635
984	2.	Tax Revenue	1,252
292	3.	Non-Tax Revenue	611
2,705	4.	Other Receipts	2,772
28	5.	Non-Debt Capital Receipts	26
28	6.	Of which Recovery of Loans	26
4,009	7.	Total Receipts (1+5)	4,661
4,754	8.	Non-Plan Expenditure (9+11+12)	4,840
4,748	9.	On Revenue Account	4,815
1,473	10.	Of which, Interest Payments	1,641
04	11.	On Capital Account	24
02	12.	On Loans disbursed	01
1,639	13.	Plan Expenditure (14+15+16)	1,631
840	14.	On Revenue Account	978
781	15.	On Capital Account	630
18	16.	On Loans disbursed	23
6,393	17.	Total Expenditure (8+13)	6,471
2,384	18.	Fiscal Deficit (17-1-5)	1,810
1,607	19.	Revenue Deficit (9+14-1)	1,158
911	20.	Primary Deficit (18-10)	169

1.3 Summary of Receipts and Disbursements for the year

Table-1.1 summarises the finances of the State Government of Himachal Pradesh for the year 2004-2005 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public accounts receipts and disbursements made during the year as emerging from Statement-I of the Finance Accounts and other detailed Statements.

Table-1.1: Summary of Receipts and disbursements for the year 2004-2005

(Rupees in crore)

2003-2004	Receipts	2004-2005	2003-2004	Disbursements	2004-2005		
Section-A: Revenue							
					Non-Plan	Plan	Total
3,980.92	I. Revenue receipts	4,634.51	5,588.08	I. Revenue expenditure	4,814.87	978.06	5,792.93
984.33	Tax revenue	1,251.89	2,483.30	General Services	2,698.94	23.64	2,722.58
291.76	Non-tax revenue	610.77	1,932.46	Social Services	1,314.74	575.75	1,890.49
449.54	Share of Union Taxes/Duties	537.32	1,169.45	Economic Services	798.32	378.67	1,176.99
2,255.29	Grants from Government of India	2,234.53	2.87	Grants-in-aid/Contributions	2.87	--	2.87
Section-B: Capital							
	II. Miscellaneous Capital Receipts		784.84	II. Capital Outlay	24.14	629.84	653.98
28.29	III. Recoveries of Loans and Advances	25.79	19.91	III. Loans and Advances disbursed	0.50	23.28	23.78
3,762.32	IV. Public debt receipts	2,676.92	1,854.82	IV. Repayment of Public Debt			1,659.22
--	V. Contingency Fund	--	--	V. Contingency Fund	--	--	--
5,033.31	VI. Public account receipts	5,029.65	4,788.35	VI. Public account disbursements			4,026.94
(-) 87.29	Opening Balance	(-) 318.45	(-) 318.45	Closing Balance			(-) 108.43
12,717.55	Total:	12,048.42	12,717.55	Total:			12,048.42

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and, from the statements of the Finance Accounts for the year 2004-2005 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources (ii) Application of resources (iii) Assets and Liabilities and (iv) Management of deficits. Audit

observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the Box-1.2.

Box-1.2: Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series as base as supplied by the Economics and Statistics Department of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure, etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 2000-2005 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in **Appendix-I**.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

Box-1.3: State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc., are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

1.5 State finances by key indicators

1.5.1 Resources by volumes and Sources: Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from financial institutions commercial banks, etc., and loans and advances from Government of India as well as accruals from Public account.

Table-1.2 shows that the total receipts of the State Government for the year 2004-2005 were Rs 12,368 crore. Of these, the revenue receipts of the State Government were Rs 4,635 crore only, constituting 37 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table-1.2: Resources of Himachal Pradesh

(Rupees in crore)

I.		Revenue Receipts		4,635
II.		Capital Receipts		2,703
	(a)	Miscellaneous Receipts	--	
	(b)	Recovery of Loans and Advances	26	
	(c)	Public Debt Receipts	2,677	
III.		Contingency Fund Receipts	--	--
IV.		Public Account Receipts		5,030
	(a)	Small Savings, Provident Fund, etc.	922	
	(b)	Reserve Fund	53	
	(c)	Deposits and Advances	1,323	
	(d)	Suspense and Miscellaneous	205	
	(e)	Remittances	2,527	
		Total Receipts		12,368

1.5.2 Revenue Receipts: Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table-1.3.

Table-1.3: Revenue Receipts–Basic Parameters (Revenue Receipts in Rupees in crore)

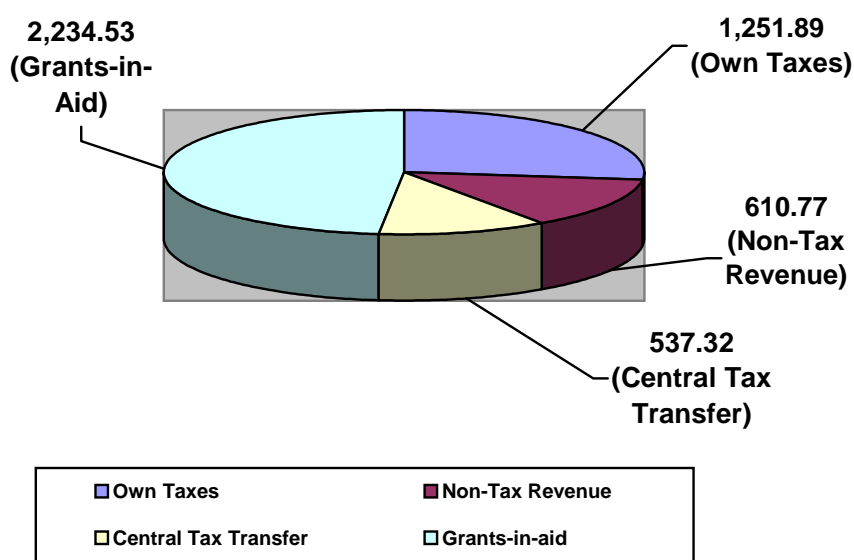
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Revenue Receipts	3,046	3,716	3,659	3,981	4,635	3,807
Own Taxes (%)	23.93	24.65	24.32	24.72	27.01	25.06
Non-Tax Revenue (%)	5.81	5.33	4.78	7.33	13.18	7.63
Central tax Transfers (%)	10.83	8.74	9.46	11.30	11.59	10.44
Grants-in-aid (%)	59.42	61.28	61.44	56.65	48.22	56.87
Rate of Growth (%)	(-) 18.01	22.00	(-) 1.53	8.80	16.43	5.56
Revenue Receipt/GSDP	22.41	24.82	22.76	22.19	23.28	23.08
Revenue Buoyancy	*	2.167	*	0.759	1.494	0.555
Own Tax Buoyancy	1.58	2.53	*	0.91	2.48	1.33
GSDP Growth	11.13	10.15	7.39	11.59	11.00	10.02

* Rate of growth of Revenue Receipts was negative.

The revenue receipts of the State increased from Rs 3,046 crore in 2000-2001 to Rs 4,635 crore in 2004-2005 at an average trend rate of 5.56 *per cent*. There were, however, significant inter-year variations in the growth rates. During the five year period 2000-2005, the State had a buoyant economy with its GSDP growth averaging 10.02 *per cent*. Revenue growth exceeded GSDP growth rates during 2001-2002 and 2004-2005 and buoyancy of revenue receipt during this period was greater than one. There was increase in revenue buoyancy to 1.494 due to growth in revenue receipt during 2004-2005 relative to GSDP.

While 40 *per cent* of the revenue receipts during 2004-2005 have come from State's own resources comprising taxes and non-taxes, central tax transfers and grants-in-aid together contributed 60 *per cent* of the total revenue. Sales Tax was the major contributor (43 *per cent*) of State's own tax revenue followed by State Excise (24 *per cent*) and taxes on vehicles (nine *per cent*). Of non-tax revenue sources, Power (47 *per cent*) and Non-ferrous Mining and Metallurgical Industries (6 *per cent*) were principal contributors.

**Revenue Receipts for 2004-2005
(Rupees in crore)**



The arrears of revenue increased by 40 *per cent* from Rs 261 crore in 2000-2001 to Rs 365 crore at the end of 2004-2005. Of these, Rs 88 crore (24 *per cent*) were more than five years old.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 1.21 *per cent* for health and family welfare, and 3.04 *per cent* for general education.

The sources of total receipts under different heads and GSDP during 2000-2005 is indicated in Table-1.4.

Table-1.4: Sources of receipts - Trends

(Rupees in crore)

Year	Revenue Receipts	Capital receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-2001	3,046	27	1,557	3,878	8,508	13,590
2001-2002	3,716	29	1,588	3,733	9,066	14,969
2002-2003	3,659	29	2,199	4,156	10,043	16,075
2003-2004	3,981	28	3,762	5,033	12,804	17,938
2004-2005	4,635	26	2,677	5,030	12,368	19,911

1.6 Application of resources

1.6.1 Trend of growth: Statements 12 and 13 of the Finance Accounts depict the detailed revenue expenditure by minor heads and capital expenditure by major heads respectively. The total expenditure of the State increased from Rs 4,918 crore in 2000-2001 to Rs 6,471 crore in 2004-2005 at an average trend rate of eight *per cent* per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during this period.

Total expenditure of the State, its trend and annual growth, ratio of expenditure of the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-1.5 below:

Table-1.5: Total Expenditure-Basic Parameters (value in Rs crore)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Total Expenditure (Rs in crore)	4,918	5,256	6,029	6,393	6,471	5,813
Rate of Growth (%)	10.89	6.87	14.71	6.04	1.22	8.37
TE/GSDP Ratio	36.19	35.11	37.51	35.64	32.50	35.24
Revenue Receipts/TE Ratio	61.94	70.70	60.69	62.27	71.63	65.49
Buoyancy of Total Expenditure with						
GSDP	0.978	0.677	1.990	0.521	0.111	0.835
Revenue Receipts	*	0.312	*	0.686	0.074	1.505

Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.
* Revenue receipts had a negative growth.

Consistent increase of total expenditure over a five-year period 2000-2005 showed a fluctuating trend in percentage of total expenditure to GSDP and also revenue receipts to total expenditure. Though in monetary terms, total expenditure in 2004-2005 has increased by Rs 78 crore over previous year, its ratio as a percentage of GSDP has shown a decline. The increase in total expenditure in 2004-2005 was due to increase in interest payment by Rs 168 crore.

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services, interest payments, Social and Economic Services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in Table-1.6.

Table-1.6: Components of Expenditure – Relative Share (in *per cent*)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
General Services	16.98	17.28	16.09	16.17	17.18	16.71
Interest Payments	16.22	19.82	19.44	23.04	25.36	21.08
Social Services	36.38	34.49	30.74	34.98	34.31	34.10
Economic Services	29.20	27.44	32.36	25.46	22.73	27.27
Loans and Advances	0.81	0.57	0.46	0.31	0.37	0.49
Grants-in-aid	0.41	0.40	0.91	0.04	0.05	0.35

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services and interest payments which are considered as non-developmental, together accounted for 42.54 *per cent* in 2004-2005 as against 33.20 *per cent* in 2000-2001. On the other hand, development expenditure i.e., on Social and Economic Services together accounted for only 57.04 *per cent* in 2004-2005 as against 65.58 *per cent* in 2000-2001. This indicated declining priority for developmental expenditure.

1.6.2 Incidence of Revenue expenditure: In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table-1.7.

Table-1.7: Revenue Expenditure - Basic Parameters

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Revenue Expenditure (Rupees in crore)	4,329	4576	5,141	5,588	5,793	5,085
Rate of Growth (<i>per cent</i>)	13.29	5.71	12.35	8.69	3.67	8.83
RE/GSDP	31.85	30.57	31.98	31.15	29.09	30.83
RE as percentage of TE	88.02	87.06	85.27	87.41	89.52	87.47
RE as percentage of RR	142.12	123.14	140.50	140.37	124.98	133.57
Buoyancy of Revenue Expenditure with (<i>per cent</i>)						
GSDP	1.194	0.563	1.671	0.750	0.334	0.882
Revenue Receipts	*	0.259	*	0.987	0.223	1.589

* Revenue receipts had a negative growth.

Overall revenue expenditure of the State increased at an average trend rate of 8.83 *per cent*. Rate of growth of revenue expenditure which was 13.29 *per cent* in 2000-2001 decelerated since then. As a result revenue expenditure-GSDP ratio declined from 31.85 *per cent* in 2000-2001 to 29.09 *per cent* in 2004-2005. On an average 87.47 *per cent* of the total expenditure was on current consumption.

(i) High Salary expenditure: Expenditure on salaries excluding grants-in-aid towards salaries accounted for 48 *per cent* of the revenue receipts and 38 *per cent* of the revenue expenditure of the State during 2004-2005. The expenditure on salaries increased from Rs 1,900 crore in 2000-2001 to Rs 2,204 crore in 2004-2005. It ranged between 11.07 and 14.13 *per cent* of GSDP during the periods from 2000-2001 to 2004-2005.

Table: 1.8

Heads	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Salary expenditure (Rupees in crore)	1,900	2,005	2,271	2,382	2,204*
As a percentage of GSDP	13.98	13.39	14.13	13.28	11.07
As a percentage of Revenue Receipts	62.38	53.96	62.07	59.83	47.55
As a percentage of Revenue expenditure	43.89	43.82	44.17	42.63	38.05

* Does not include grants-in-aid towards salaries

(ii) Huge expenditure on pension payments: Pension payments have increased by 39.81 *per cent* from Rs 422 crore in 2000-2001 to Rs 590 crore in 2004-2005 (average annual rate of 7.96 *per cent*). Year-wise break-up of expenditure incurred on pension payments during the years 2000-2001 to 2004-2005 was as under:

Table: 1.9

Year	Expenditure (Rupees in crore)	Percentage to total revenue expenditure
2000-2001	422	9.75
2001-2002	440	9.62
2002-2003	489	9.51
2003-2004	575	10.29
2004-2005	590	10.18

With the increase in number of retirees, the pension liabilities are likely to increase further in future.

(iii) Interest payments: The Eleventh Finance Commission (August 2000) has recommended that as a medium term objective, states should endeavour to keep interest payment, as a ratio to revenue receipts at

18 per cent. It was, however, observed that the interest payments were more than 18 per cent of revenue receipts during 2001-2005 as shown below:

Table: 1.10

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2000-2001	798	26.20	18.43
2001-2002	1,042	28.04	22.77
2002-2003	1,172	32.03	22.80
2003-2004	1,473	37.00	26.36
2004-2005	1,641	35.40	28.33

Interest payments increased steadily by 106 per cent from Rs 798 crore in 2000-2001 to Rs 1,641 crore in 2004-2005 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs 1,158 crore), loans received from Central Government (Rs 272 crore) and Small Savings, PF, etc. (Rs 211 crore).

(iv) **Subsidies by the Government:** Though the finances of the State are under strain, the State Government has been paying subsidies on various items. During the last five years, State Government paid subsidies as under:

Table: 1.11

(Rupees in crore)

Sr. No.	Particulars	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
1.	Fertiliser subsidy	3.78	0.07	5.37	1.42	--**
2.	Subsidy on Transportation	43.80	23.11	24.05	12.98	--
3.	ICDP on Cooperative Societies	Nil	Nil	0.98	0.75	--
4.	Fruit Procurement/Plant Protection	2.47	2.13	2.78	2.23	--
5.	Others	65.62	94.37	114.99	66.40	--
	Total subsidy:	115.67	119.68	148.17	83.78	158.98
	Percentage of increase (+)/ decrease (-) over previous year	(+) 6.12	(+) 3.47	(+) 23.81	(-) 43.46	(+) 89.75
	Percentage of subsidy in total expenditure*	2.37	2.29	2.47	1.31	2.47

* Total expenditure excludes Loans and Advances.

** Details of subsidies have not been supplied by the State Government.

During the current year subsidies constituted two *per cent* of the total expenditure.

1.7 Expenditure by Allocative Priorities

The expenditure of the State in the nature of Plan expenditure, capital expenditure and development expenditure reflects its quality. The higher the ratio of these components to total expenditure, the better is the quality of expenditure. Table-1.12 gives these ratios during 2000-2005, as follows.

Table-1.12: Quality of Expenditure (*per cent* to total expenditure)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Plan Expenditure	37.64	35.44	37.46	25.43	24.94	31.68
Capital Expenditure	11.25	12.44	14.33	12.32	10.14	12.09
Developmental Expenditure	66.11	62.28	63.39	60.63	57.25	61.67

(Total expenditure does not include Loans and Advances).

There were inter year variations in different components of quality of expenditure. In the year 2004-2005, Plan expenditure decreased substantially when compared to 2000-2001. The decline in developmental expenditure (expenditure on Economic and Social Services) compared to 2000-2001 is disturbing.

Out of the developmental expenditure of Rs 3,691 crore, during the year, social services accounted for 60 *per cent* (Rs 2,220 crore). Expenditure on General Education, Health and Family Welfare, Water Supply and Sanitation constituted 89 *per cent* of the expenditure on Social sector.

Table-1.13: Social Sector Expenditure

(Rupees in crore)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
General Education	905	919	957	1,006	1,085
Health and Family Welfare	300	278	297	346	372
Water Supply and Sanitation	400	415	402	682	529
Total:	1,605	1,612	1,656	2,034	1,986
As a percentage of expenditure on Social sector	89.71	88.91	89.37	91.00	89.46

Similarly, the expenditure on Economic Services (Rs 1,471 crore) accounted for 40 *per cent* of the developmental expenditure, of which, Transport, Agriculture and Allied Services, Energy and Irrigation and Flood Control accounted for 83 *per cent*.

Table-1.14: Economic Sector Expenditure**(Rupees in crore)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Transport	466	448	534	620	600
Agriculture and Allied Services	458	456	608	411	397
Energy	135	251	489	246	75
Irrigation and flood control	98	96	116	153	143
Total:	1,157	1,251	1,747	1,430	1,215
As a percentage of expenditure on Economic sector	80.63	86.75	89.54	87.89	82.60

1.7.1 Financial Assistance to Local Bodies and other Institutions

(i) **Extent of assistance:** The quantum of assistance provided by way of grants to different local bodies, etc., during the period of five years ending 2004-2005 was as follows:

Table-1.15: Economic Sector Expenditure**(Rupees in crore)**

Name	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
University and other Educational Institution	74.13	88.47	78.44	94.58	103.24
Municipal Corporation and Municipalities	29.99	18.66	45.15	19.50	28.83
Zila Parishads and Panchayati Raj	85.75	36.25	42.87	48.82	63.28
Development Agencies	8.14	9.84	10.45	77.47	52.62
Hospital and other charitable Institutions	0.10	Nil	0.05	0.21	0.06
Other Institutions (including Statutory Bodies)	14.67	15.87	8.73	32.83	27.50
Total:	212.78	169.09	185.69	273.41	275.53
Percentage of Increase (+)/decrease (-) over previous year	(+) 27.09	(-) 20.53	(+) 9.82	(+) 47.24	(+) 0.78
Assistance as a percentage of revenue (expenditure)	4.92	3.69	3.62	4.89	4.76

The total assistance at the end of 2004-2005 had grown by 29 per cent over the level of 2000-2001. The assistance to local bodies as a percentage of total revenue expenditure had decreased from 4.92 in 2000-2001 to 4.76 in 2004-2005.

(ii) **Delay in furnishing Utilisation Certificates:** At the end of March 2005, a total number of 2,859 utilisation certificates (UCs) relating to Rs 355.27 crore in respect of grants released up to March 2004 and due by March 2005 from 19 departments were outstanding as detailed below:

Table: 1.16

(Rupees in crore)

Sr. No.	Department	Number of UCs outstanding	Amount	Earliest year of pendency
1.	Rural Development	1,679	169.74	2000-2001
2.	Education	168	47.91	2000-2001
3.	Urban Development/Local Self Government	10	3.85	2000-2001
4.	Animal Husbandry	20	6.30	1994-1995
5.	Co-operation	79	0.51	2002-2003
6.	Sports and Youth	02	0.12	2003-2004
7.	Tourism	11	2.17	1997-1998
8.	Industries	247	9.72	1997-1998
9.	Agriculture	159	70.86	2000-2001
10.	Forests	03	0.12	1998-1999
11.	Art and Culture	372	2.09	2001-2002
12.	Medical and Public Health	16	0.22	1997-1998
13.	Other Administrative Services	01	0.02	1995-1996
14.	Vidhan Sabha	02	0.07	2003-2004
15.	General Administrative Services	06	0.31	2003-2004
16.	Social Security and Welfare	13	10.11	2003-2004
17.	Horticulture	52	30.11	2002-2003
18.	Fisheries	17	0.53	2002-2003
19.	Planning	02	0.51	2003-2004
	Total:	2,859	355.27	

(iii) **Delay in submission of accounts:** Accounts of two autonomous bodies covered under Section 19 (2) and 19 (3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service Act) up to 2003-2004 were due for periods ranging from one to two years as detailed in **Appendix-II**.

1.7.2 Misappropriation, losses, etc.

Out of 71 cases of misappropriation amounting to Rs 143.89 lakh reported by the State Government upto the end of March 2005, three cases amounting to Rs 0.33 lakh were disposed off with 68 cases amounting to Rs 143.56 lakh outstanding to the end of June 2005. The year-wise details are given in **Appendix-III**.

1.8 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings, etc., owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. **Appendix-IV** gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. While the liabilities grew by 12 *per cent*, the assets increased only by 8 *per cent* widening the gap between assets and liabilities and increasing the proportion of liabilities which did not have an asset back up. This shows a continuous deterioration of the financial condition of the State. The liabilities of Government of Himachal Pradesh depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to retired state employees. **Appendices-V** and **VI** give an Abstract of Receipts and Disbursements for the year 2004-2005 and Sources and Application of Funds respectively. **Appendix-VII** depicts the Time series data on State Government Finances for the period 2000-2005.

1.8.1 Investments and returns: As of 31 March 2005, Government had invested Rs 1,943 crore in its statutory corporations, Government companies, joint stock companies and co-operative societies. Average return on this investment was less than 0.04 *per cent* in the last five years. With an average interest rate of 10.63 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 10.59 *per cent* and the implicit subsidy during the period 2000-2005 was Rs 872 crore.

Table-1.17: Return of investment

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Investment (Rs in crore)	1,179	1,384	1,796	1,922	1,943	1,645
Return (Rs in crore)	0.61	0.89	0.61	0.50	0.58	0.64
Percentage of return	0.05	0.06	0.03	0.03	0.03	0.04
Average interest rate paid by the Government	10.15	11.06	10.37	10.98	10.60	10.63
Difference between interest rates and return	10.10	11.00	10.34	10.95	10.57	10.59
Implicit subsidy (Rs in crore)	119	152	186	210	205	174

1.8.2 Loans and advances by State Government: In addition to investments in co-operatives, corporations and companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2005 was Rs 242 crore. Interest received on such loans varied between 2.72 and 11.11 per cent during 2000-2005 (Table-1.18). Total implicit subsidy during 2000-2005 on such loans was Rs 67 crore.

Table-1.18: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Opening Balance	239	252	253	252	244
Amount Advanced during the year	40	30	28	20	24
Amount repaid during the year	27	29	29	28	26
Closing Balance	252	253	252	244	242
Net Addition (+)/decrease (-)	(+) 13	(+) 01	(-) 01	(-) 08	(-) 02
Interest Received	15	07	08	09	27
Interest Received as <i>per cent</i> to Loans advanced	5.93	2.72	3.31	3.63	11.11
Average interest paid by the State (<i>per cent</i>)	10.15	11.06	10.37	10.98	10.60
Difference between interest paid and received (percentage)	4.22	8.34	7.05	7.35	(-) 0.51
Implicit subsidy	10	21	18	19	(-) 01

1.8.3 Management of cash balances: It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. WMA facilities were used for 93 days during 2004-2005 as against 133 days in previous year. As regards overdraft, the State Government has used this facility for 27 days only in 2004-2005, signifying improvement in cash management.

Table-1.19: Ways and means and overdrafts of the State and Interest paid thereon
(Rupees in crore)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Ways and Means Advances						
Taken in the year	848.22	586.57	1,109.00	1,728.85	1,578.54	1,170.24
Outstanding	92.00	92.00	135.00	117.94	22.49	91.89
Interest paid	2.60	5.36	5.47	5.19	1.85	4.10
Number of days	82	71	92	133	93	94
Overdraft						
Taken in the year	728.73	2,227.75	1,634.05	1,145.28	319.80	1,211.12
Outstanding	26.55	275.27	135.00	--	--	87.37
Interest paid	2.36	3.80	2.18	1.94	0.49	2.15
Number of days	103	229	179	117	27	131

1.8.4 Undischarged liabilities

Fiscal liabilities – public debt and guarantees: The Constitution of India provides that a state may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table-1.20 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect of these parameters.

Table-1.20: Fiscal Liabilities–Basic Parameters (value in Rs crore and ratios in per cent)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Fiscal Liabilities \$	8,621	1,0220	12,393	14,437	16,533	12,441
Rate of Growth	21.35	18.55	21.26	16.49	14.52	18.57
Ratio of Fiscal Liabilities to						
GSDP	63.44	68.27	77.09	80.48	83.03	75.41
Revenue Receipt	283.03	275.03	338.70	362.65	356.70	326.75
Own Resources	951.55	917.41	1,163.66	1,131.43	887.44	999.42
Buoyancy of Fiscal Liabilities to						
GSDP	1.918	1.828	2.877	1.423	1.320	1.854
Revenue Receipt	*	0.843	*	1.874	0.884	3.341
Own resources	*	0.808	*	0.832	0.316	4.210

\$ Includes internal debt, loans and advances from Government of India and other obligations.

* Revenue receipts and own resources had a negative growth.

Overall fiscal liabilities of the State increased from Rs 8,621 crore in 2000-2001 to Rs 16,533 crore in 2004-2005 at an average rate of 18.57 *per cent* in 2000-2005. The ratio of these liabilities to GSDP also increased from 63.44 *per cent* in 2000-2001 to 83.03 *per cent* in 2004-2005. These liabilities stood at 3.57 times of its revenue receipts and 8.87 times of its own resources.

In addition to these liabilities, Government have guaranteed loans raised by various corporations and others which at the end of 2004-2005 stood at Rs 4,751 crore. The guarantees are in the nature of contingent liabilities and currently exceed the revenue receipts of the State (Rs 4,635 crore). No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

The fiscal liabilities had grown faster than the State's GSDP, revenue receipts and own resources. Average buoyancy of these liabilities with respect to GSDP was 1.854 indicating that for each one *per cent* increase in GSDP, fiscal liabilities were growing at the rate of 1.85 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Himachal Pradesh, increasing interest rates and declining trend of GSDP growth has resulted in negative interest spread in two out of five years (Table-1.21). This negative spread of interest may endanger debt sustainability.

Table-1.21: Debt Sustainability– Interest Rate and GSDP Growth (in *per cent*)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Weighted Interest Rate	10.15	11.06	10.37	10.98	10.60	10.63
GSDP Growth	11.13	10.15	7.39	11.59	11.00	10.02
Interest spread	0.98	(-) 0.91	(-) 2.98	0.61	0.40	(-) 0.61

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table-1.22 below gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including public account) increased from 28.50 *per cent* in 2000-2001 to 34.49 *per cent* in 2004-2005.

Table-1.22: Net Availability of Borrowed Funds (Rs in crore)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Internal debt						
Receipt	1,227	1,465	2,053	3,473	2,444	2,132
Repayment (Principal+Interest)	311	503	512	1030	1076	686
Net Fund Available	916	962	1541	2443	1368	1,446
Net Fund Available (<i>per cent</i>)	74.65	65.67	75.06	70.34	55.97	68.34
Loans and Advances from Government of India						
Receipt	221	(-) 64	146	289	233	165
Repayment (Principal+Interest)	464	515	779	1379	1145	856
Net Fund Available	(-) 243	(-) 579	(-) 633	(-) 1090	(-) 912	(-) 691
Net Fund Available (<i>per cent</i>)	-	--	--	--	--	--
Other obligations						
Receipt	1,777	1,547	1,685	2,226	2,382	1,923
Repayment (Principal+Interest)	1,531	1,557	1,225	2,090	1,093	1,499
Total liabilities						
Receipt	3,225	2,948	3,884	5,988	5,059	4,221
Payments	2,306	2,575	2,516	4,499	3,314	3,042
Net receipts	919	373	1,368	1,489	1,745	1,179
Net Funds Available (<i>per cent</i>)	28.50	12.65	35.22	24.87	34.49	27.93

1.9 Management of deficits

1.9.1 Fiscal imbalances: The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 so raised are applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, slightly decreased from Rs 1,283 crore in 2000-2001 to Rs 1,158 crore in 2004-2005. The revenue deficit of the State Government, however, does not include the net deficit on account of power sector (Rs 37 crore). Hence, the effective revenue deficit would come out to Rs 1,195 crore (**Appendix-VIII**). The fiscal deficit which represents the total borrowings of the Government and the total resource gap also decreased from Rs 1,845 crore in 2000-2001 to Rs 1,810 crore in 2004-2005.

The ratio of revenue deficit to fiscal deficit had decreased from 69.54 *per cent* in 2000-2001 to 63.98 *per cent* in 2004-2005 indicating that more than 64 *per cent* of the borrowed funds were used for current consumption. The ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and, increasingly, a large part of borrowings (fiscal liabilities) were not having an asset backup. As proportion to the State's GSDP,

the revenue deficit had reached 5.82 *per cent* and fiscal deficit 9.09 *per cent* in 2004-2005.

Table-1.23: Fiscal Imbalances – Basic Parameters (Values in Rs crore and ratios in *per cent*)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
Revenue Deficit	(-) 1,283	(-) 860	(-) 1,482	(-) 1,607	(-) 1,158	(-) 1,278
Fiscal Deficit	(-) 1,845	(-) 1,511	(-) 2,341	(-) 2,384	(-) 1,810	(-) 1,978
Primary Deficit	(-) 1,047	(-) 469	(-) 1,169	(-) 911	(-) 169	(-) 753
RD/GSDP	(-) 9.44	(-) 5.75	(-) 9.22	(-) 8.96	(-) 5.82	(-) 7.75
FD/GSDP	(-) 13.58	(-) 10.09	(-) 14.56	(-) 13.29	(-) 9.09	(-) 11.99
PD/GSDP	(-) 7.70	(-) 3.13	(-) 7.27	(-) 5.08	(-) 0.85	(-) 4.56
RD/FD	69.54	56.92	63.31	67.41	63.98	64.60

(Negative figures indicate deficit)

1.10 Fiscal Reforms Programme

To bring about restructuring of the Public Finances so as to restore budgetary balance and maintain macro-economic stability, the Eleventh Finance Commission (EFC) had recommended (July 2000) certain broad parameters of fiscal correction in the state sector. Starting with the base year as 1999-2000, each state was expected to take effective steps for revenue augmentation and expenditure compression over the five year period so as to broadly achieve the following objectives:

- Gross fiscal deficit of the state as an aggregate to fall to 2.5 *per cent* of Gross State Domestic Product (GSDP).
- Revenue deficit of all states in an aggregate falling to zero.
- Interest payments as a percentage of revenue receipts of state sector as a whole was to be maintained at 18 to 20 *per cent*.

Further, the EFC in their Supplementary Report of August 2000, suggested the following objectives.

- Increase in interest payments (in absolute terms) to be limited to 10 *per cent* per year.
- Explicit subsidies to be brought down by 50 *per cent* over the next five year period with a view to eliminate subsidies altogether by 2009-2010.

Action taken by the State Government on the recommendations of the EFC was reviewed (April-May 2005) in audit and the following points were noticed:

◆ The percentage of gross fiscal deficit of the State to GSDP was 9.09 ending March 2005. The recommended decrease (2.5 *per cent*) was thus not achieved by the State Government.

◆ Revenue deficit of the State increased from Rs 106 crore (March 2000) to Rs 1,158 crore at the end of 2004-2005. The target fixed by the EFC was thus not achieved even though the State Government received Revenue Deficit Grants (RDG) totalling Rs 3,978.07 crore and incentive fund of Rs 156.96 crore during the aforesaid period. It was also noticed in audit that total non-plan revenue grants admissible to the State during 2000-2005 were assessed at Rs 4,549.26 crore by the EFC. Grants of Rs 414.23 crore could, thus not be availed by the State Government because of non-achievement of objectives laid down by the EFC.

◆ Total interest payments of the State Government increased from Rs 597 crore in 1999-2000 to Rs 1,641 crore in 2004-2005. The revenue receipts of the State Government increased from Rs 3,715 crore to Rs 4,634.51 crore during the corresponding period. The percentage of interest payments to revenue receipts ending 2004-2005 worked out to 35.40 against the target of 18 to 20 *per cent*. The State Government could thus not bring about the recommended improvement.

◆ Increase in interest payments during 2000-2005 over 1999-2000 was 175 *per cent* compared to the overall recommended limit of 50 *per cent* during the five year period ending March 2005.

◆ Explicit subsidies paid by the Government on various items increased from Rs 109 crore in 1999-2000 to Rs 158.98 crore in 2004-2005 showing an increase of 45.85 *per cent* against the recommended decrease of 50 *per cent* over 1999-2000.

The State Government entered into a Memorandum of Understanding (MOU) with the Government of India in May 2004. As per MOU, Government was to take necessary steps for compression of revenue expenditure, enhancement of revenue receipts and generation of non-debt capital receipts. Government failed to do so as discussed below:

Compression of Revenue expenditure

◆ Only eight posts lying vacant were abolished in August 2004 against the minimum target of 2000 posts lying vacant for the last three years;

◆ No amendment to the existing policy of providing compassionate employment to kith and kin of Government employees had been made;

◆ Existing policy of regularisation of daily wagers notified in August 2002 had not been amended;

- ◆ Action taken to carry out comprehensive review of existing allowances asked for by audit in April 2005 had not been intimated by the Finance Department as of July 2005;
- ◆ Voluntary retirement scheme for Government employees on the Central Government pattern had not been implemented;
- ◆ Orders for not making any commitment for providing fresh grant-in-aid had not been issued. Further, the existing grant-in-aid commitments were also not reviewed either to reduce or to freeze them in real term. Statutory and procedural amendments in this regard had also not been made;
- ◆ Subsidies to the State Transport Corporation were to be frozen at current budgetary level. However, against the budget provision of Rs 27 crore, subsidy amounting to Rs 42 crore was provided during 2004-2005. Orders on reducing the concessions had also not been issued. Action to modify all State schemes of input subsidies in Agriculture and Horticulture sectors, required to be phased out over a period of five years, had not been taken.

Enhancement of Revenue Receipts

- ◆ Regulatory Authority to revise passenger tariff had not been constituted.
- ◆ Policy to enhance user charges in proportion to annual price level had not been formulated.

Generation of non-debt capital receipts

With a view to redeem high cost debt due for repayment, disinvestment exercise of tourism assets was to be completed by August 2004. Other projects to be disinvested were to be identified and approved by December 2004. Against this, three tourism assets were disinvested (July 2004) for Rs 56.54 lakh. The State Tourism Development Corporation was allowed to utilise the sale proceeds instead of crediting them to the Government accounts. No other assets had been identified for disinvestment as of March 2005.

The matter was referred to the Government in August 2005; their reply had not been received (July 2005).

1.11 Fiscal ratios

The finances of the State should be sustainable, flexible and non-vulnerable. Table-24 below presents a summarised position of Government finances over 2000-2005, with reference to certain key indicators that help assess the

adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

Table-1.24: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
I. Resource Mobilisation						
Revenue Receipt/GSDP	22.41	24.82	22.76	22.19	23.28	23.08
Revenue Buoyancy	*	2.167	*	0.759	1.494	0.555
Own tax/GSDP	5.364	6.119	5.537	5.486	6.288	5.784
II. Expenditure Management						
Total Expenditure/GSDP	36.19	35.11	37.51	35.64	32.50	35.24
Revenue Receipt/Total Expenditure	61.94	70.70	60.69	62.27	71.63	65.49
Revenue Expenditure/Total Expenditure	88.02	87.06	85.27	87.41	89.52	87.47
Plan Expenditure/Total Expenditure	37.64	35.44	37.46	25.43	24.94	31.68
Capital Expenditure/Total Expenditure	11.25	12.44	14.33	12.32	10.14	12.09
Development Expenditure/Total Expenditure	66.11	62.28	63.39	60.63	57.25	61.67
Buoyancy of TE with RR	*	0.312	*	0.686	0.074	1.505
Buoyancy of RE with RR	*	0.259	*	0.987	0.223	1.589
III. Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	(-) 1,283	(-) 860	(-) 1,482	(-) 1,607	(-) 1,158	(-) 1,278
Fiscal deficit (Rs in crore)	(-) 1,845	(-) 1,511	(-) 2,341	(-) 2,384	(-) 1,810	(-) 1,978
Primary deficit (Rs in crore)	(-) 1,047	(-) 469	(-) 1,169	(-) 911	(-) 169	(-) 753
Revenue deficit/Fiscal Deficit	69.54	56.92	63.31	67.41	(-) 63.98	64.60
IV. Management of Fiscal Liabilities (FL)						
Fiscal liabilities/GSDP	63.44	68.27	77.09	80.48	83.03	75.41
Fiscal liabilities/RR	283.03	275.03	338.70	362.65	356.70	326.75
Buoyancy of FL with RR	*	0.843	*	1.874	0.884	3.341
Buoyancy of FL with OR	*	0.808	*	0.832	0.316	4.210
Interest spread	0.98	(-) 0.91	(-) 2.98	0.61	0.40	(-) 0.61
Net Funds Available	28.50	12.65	35.22	24.87	34.49	27.93
V. Other Fiscal Health Indicators						
Return on Investment	0.05	0.06	0.03	0.03	0.03	0.04
BCR (Rs in crore)	(-) 921	(-) 810	(-) 1,470	(-) 2,262	(-) 1,585	(-) 1,410
Financial Assets/Liabilities	0.64	0.61	0.56	0.53	0.51	0.57

* Revenue receipts and own resources had a negative growth.

The ratio of own taxes to GSDP had shown continuous improvement in the five year period. The ratio of revenue receipt to GSDP showed fluctuating trend during 2000-2005. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. Revenue expenditure is on the increasing trend over the five year period 2000-2005 and comprises 90 *per cent* of total expenditure in 2004-2005 leaving very little for capital formation or asset creation. The development expenditure to total expenditure was on a declining trend and its ratio has fallen significantly in 2004-2005 over previous year. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities. Persistent revenue and fiscal deficits indicates growing fiscal imbalances of the State.

Increasing ratio of fiscal liabilities to GSDP and revenue receipts due mainly to persistent revenue deficit and increased interest payments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resources indicate its increasing unsustainability. The State's insignificant return on investment indicates huge implicit subsidy and utilisation of high cost borrowings for investments that yield little. The ratio of State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset backup. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.

1.12 Impact of Government policies

Appendix-IX, depicts the progress achieved, as stated by various departments of the State Government, during the year 2003-2004 as compared to 2002-2003 in various sectors. In the Health and Family Welfare Sector the infant mortality rate has decreased from 58 to 52 per thousand. No new institution was opened in the Technical Education sector. In the Power Sector the position of generation has improved but again necessitated more purchase of power to meet the requirements of consumers during 2003-2004. In the Agriculture sector there was decline in foodgrain production, but slight increase in fruit production.