

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account (**Appendix-I-Part-A**). 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. The lay out of the Finance Accounts is depicted in **Appendix-I-Part-B**.

##### 1.1.1 Summary of Receipts and Disbursements

**Table-1.1** summarises the finances of the State Government for the year 2007-08, covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of the Finance Accounts and other detailed statements.

*Table-1.1: Summary of Receipts and Disbursements for the year 2007-08*

(Rupees in crore)							
2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue							
					Non-Plan	Plan	Total
7,835.22	<b>I. Revenue Receipts</b>	9,141.55	7,644.11	<b>I. Revenue Expenditure</b>	7,089.58	1,202.17	8,291.75
1,656.38	Tax revenue	1,958.18	3,299.85	General Services	3,406.17	23.21	3,429.38
1,336.85	Non-tax revenue	1,822.43	2,585.95	Social Services	2,147.16	728.38	2,875.54
629.16	Share of Union Taxes/Duties	793.64	1,755.44	Economic Services	1,533.10	450.58	1,983.68
4,212.83	Grants from Government of India	4,567.30	2.87	Grants-in-aid/Contributions	3.15	---	3.15
Section-B: Capital							
--	<b>II. Miscellaneous Capital Receipts</b>	--	1,109.81	<b>II. Capital Outlay</b>	100.34	1,313.15	1,413.49
23.41	<b>III. Recoveries of Loans and Advances</b>	26.04	25.75	<b>III. Loans and Advances disbursed</b>	2.89	11.04	13.93
2,079.75	<b>IV. Public Debt receipts<sup>1</sup></b>	1,849.12	1,269.19	<b>IV. Repayment of Public Debt<sup>1</sup></b>	936.60	--	936.60
--	<b>V. Contingency Fund</b>	--	--	<b>V. Contingency Fund</b>	--	--	--
5,265.12	<b>VI. Public Account receipts</b>	6,223.40	5,370.04	<b>VI. Public Account disbursements</b>	5,737.21	--	5,737.21
191.26	Opening Balance	(-)24.14	(-) 24.14	Closing Balance			822.99
15,394.76	<b>Total</b>	17,215.97	15,394.76	<b>Total</b>			17,215.97

<sup>1</sup> Excluding Ways and Means Advances and Overdraft

Following are the significant changes in receipts and expenditure/disbursements during 2007-08 over the previous year (2006-07):

- The revenue receipts have increased by Rs 1,307 crore during 2007-08 over the previous year. The increase was mainly contributed by tax revenue (Rs 302 crore), non tax revenue (Rs 486 crore), Grants from Government of India (GOI) (Rs 354 crore) and Central tax transfers (Rs 165 crore).
- The revenue expenditure increased by Rs 648 crore during 2007-08 over the previous year. The NPRE component increased by Rs 771 crore while the PRE decreased by Rs 123 crore in 2007-08 relative to the previous year.
- Recoveries of loans and advances increased marginally by Rs 3 crore against the decrease of Rs 12 crore in disbursements of loans and advances.
- Public Debt receipts and its repayments decreased by Rs 231 crore and Rs 333 crore respectively.
- Public Account receipts increased by Rs 958 crore against the disbursements of Rs 367 crore during the year resulting in a net increase of receipts by Rs 591 crore during the year.
- The excess receipts over the expenditure led to an increase in the closing cash balance from (-) Rs 24.14 crore during 2006-07 to (+) Rs 823 crore at the end of 2007-08.

### **1.1.2 Fiscal Responsibility and Budget Management (FRBM) Act, 2005**

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in April 2005 to ensure prudence in fiscal management and fiscal stability, by progressive reduction in revenue deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles as laid down in the Act and the rules framed thereunder, the Act prescribed the following fiscal targets for the State Government:

- reduce revenue deficit as a percentage of total revenue receipts by at least two percentage points each financial year, compared to previous year, to eliminate revenue deficit by 31<sup>st</sup> March 2009;
- progressively reduce fiscal deficit to bring it to three *per cent* of Gross State Domestic Product (GSDP) by 31<sup>st</sup> March 2009; and
- progressively reduce its outstanding guarantees on long term debt, until it can cap outstanding risk weighted guarantees at 80 *per cent* of the total revenue receipts in the preceding financial year.

### 1.1.3 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates for implementation during the period from 2004-05 to 2009-10 (**Appendix-I-Part-D**), detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the FRBM Act.

As prescribed in the Act, the State Government laid the Medium Term Fiscal Plan Statement (MTFPS) alongwith the budget before the Legislature in March 2007. As per MTFPS, the revenue deficit for 2007-08 was estimated at 3.42 per cent of revenue receipts while fiscal deficit as a percentage of the GSDP was budgeted at 4.06 per cent. Total guarantees were budgeted at 60.81 per cent of the total revenue receipts of the preceding financial year.

The trends in major fiscal parameters/variables vis-à-vis projections made in FCP and MTFPS for 2007-08 are summarised in the table below:

Table 1.1A

(Rupees in crore)

Fiscal forecasts	Projections in FRBM Act/TFC	Projections made by State Government in		Actual	Percentage variation of actuals over		
		MTFPS	FCP		TFC <sup>2</sup>	MTFPS	FCP
Own Tax Revenue	1,888	1,951	1,638	1,958	3.71	0.36	19.54
Own Non Tax Revenue	499	803	713	1,823	265.33	127.02	155.68
NPRE	5,135	7,361	5,788	7,090	38.07	*	22.49
Capital Expenditure	--	1,094	832	1,414	--	29.25	69.95
Revenue Deficit (-) Surplus (+) as per cent of RRs	0.0 (By 2008-09)	3.42	3.11	9.30	*	*	*
Fiscal Deficit(-)/ Surplus (+) as per cent of GSDP	3.0 (By 2008-09)	4.06	(-) 3.56	(-) 1.73	*	*	*
Consolidated debt (including Guarantees) as per cent of GSDP	31 (By 2009-10)	60.76	83.60	68.97			
Outstanding guarantees as percentage of the State's RRs of preceding financial year	80	60.81	72.86	33.59	*	*	*

\* Targets were achieved.

The comparative position presented in the Table above reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in FRBM Act as well as in MTFPS, FCP and TFC for the year 2007-08. The State has achieved the fiscal targets laid down in the FRBM Act/Rules and TFC earlier than the timeline indicated in them with the current year ending in revenue surplus of Rs 850 crore and fiscal deficit of Rs 552 crore i.e. 1.73 per cent of GSDP. Because of consistent performance, the State Government received a

<sup>2</sup> TFC: Twelfth Finance Commission.

debt waiver of Rs 45.29 crore from the GOI during 2007-08 linked to its fiscal performance under Debt Consolidation and Relief Facility (DCRF)<sup>3</sup>.

#### **1.1.4 Mid-Term Review of Fiscal Situation**

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2005, the Finance Minister is to review, after every six months, the trends in receipt and expenditure in relation to the budget and place before the Legislative Assembly, the outcome of such a review and the remedial measures the State Government proposes to take. However, the Finance Minister had not presented the status due to elections conducted in December 2007 and no session of the Vidhan Sabha was convened until March 2008.

### **1.2 Overview of Fiscal Situation of the State**

#### **1.2.1 Trends in Fiscal Aggregates**

The fiscal position of the State during the current year, as compared to the previous year, is given in **Table-1.2**.

*Table: 1.2*

(Rupees in crore)

2006-07	Sl. No.	Major Aggregates	2007-08
<b>7,835</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>9,142</b>
1,656	2.	Tax Revenue	1,958
1,337	3.	Non-Tax Revenue	1,823
4,842	4.	Other Receipts	5,361
<b>23</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>26</b>
23	6.	<i>Of which, Recovery of Loans</i>	26
<b>7,858</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>9,168</b>
<b>6,388</b>	<b>8.</b>	<b>Non-Plan Expenditure</b>	<b>7,194</b>
6,319	9.	On Revenue Account	7,090
1,669	10.	<i>Of which, Interest Payments</i>	1,703
67	11.	On Capital Account	101
2	12.	On Loans disbursed	3
<b>2,392</b>	<b>13.</b>	<b>Plan Expenditure</b>	<b>2,526</b>
1,325	14.	On Revenue Account	1,202
1,043	15.	On Capital Account	1,313
24	16.	On Loans disbursed	11
<b>8,780</b>	<b>17.</b>	<b>Total Expenditure (13+8)</b>	<b>9,720</b>
<b>(+) 191</b>	<b>18.</b>	<b>Revenue surplus (1-(9+14))</b>	<b>(+) 850</b>
<b>(-) 922</b>	<b>19.</b>	<b>Fiscal Deficit (17-(1+5))</b>	<b>(-) 552</b>
<b>(+) 747</b>	<b>20.</b>	<b>Primary surplus (19-10)</b>	<b>(+) 1,151</b>

<sup>3</sup> In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated a scheme "The States' DCRF (2006-07 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

During the current year, revenue receipts increased by 17 per cent (Rs 1,307 crore) while the revenue expenditure increased only by 8 per cent (Rs 648 crore) over the previous year, resulting in an improvement in revenue surplus by Rs 659 crore during 2007-08. The increase in revenue surplus and the marginal increase of Rs 3 crore in non-debt capital receipts alongwith a combined increase of Rs 292 crore in capital expenditure and loans and advances disbursed during 2007-08 over the previous year, led to decline in fiscal deficit by Rs 370 crore during the current year. The decline in fiscal deficit accompanied by an increase of Rs 34 crore in interest payments during 2007-08 over the previous year, led to an increase in primary surplus by Rs 404 crore.

### 1.3 Methodology adopted for the assessment of fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the last five years (2003-04 to 2007-08) and observations have been made on their behaviour as per **Appendix-II to IV** and Time Series Data (**Appendix-V**). In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, the TFC also recommended that all States enact the Fiscal Responsibility Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FRBM Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates alongwith the commitments/projections made by the State Governments in their FRBM Acts and in other Statements required to be laid in the legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure, etc., are keeping pace with the change in the base or these fiscal aggregates are affected by factors other than GSDP. The trends in the growth of GSDP are given in **Table-1.3**.

**Table-1.3: Composition of GSDP and Trends in Growth**

	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP (Rs in crore)	20,721	23,066	25,471	28,358	31,974
Rate of Growth of GSDP (in per cent)	9.61	11.32	10.43	11.33	12.75

**Source:** Department of Economics and Statistics, Government of Himachal Pradesh  
GSDP figure for the year 2007-08 is provisional.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and composition of aggregate receipts; (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. The 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 definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix-I Part-C**.

#### **1.4 Trends and composition of aggregate receipts**

**1.4.1** The resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenue, State's share of union taxes, duties, and grants-in-aid from the GOI. Capital receipts comprise recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account and miscellaneous capital receipts such as proceeds from disinvestments.

**Table-1.4: Trends in Growth and Composition of Aggregate Receipts**  
(Rupees in crore)

Sources of State's receipts		2003-04	2004-05	2005-06	2006-07	2007-08
<b>I.</b>	<b>Revenue Receipts</b>	<b>3,981</b>	<b>4,635</b>	<b>6,559</b>	<b>7,835</b>	<b>9,142</b>
<b>II.</b>	<b>Capital Receipts</b>	<b>3,790</b>	<b>2,703</b>	<b>1,803</b>	<b>2,103</b>	<b>1,875</b>
	Public Debt Receipts	3,762	2,677	1,781	2,080	1,849
	Recovery of Loans and Advances	28	26	22	23	26
	Miscellaneous Capital Receipts	--	--	--	--	--
<b>III.</b>	<b>Contingency Fund</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>IV.</b>	<b>Public Account Receipts</b>	<b>5,033</b>	<b>5,030</b>	<b>4,933</b>	<b>5,265</b>	<b>6,223</b>
(a)	Small Savings, Provident Fund, etc.	833	922	1,026	1,112	1,450
(b)	Reserve Fund	140	53	214	129	391
(c)	Deposits and Advances	1,375	1,323	708	790	986
(d)	Suspense and Miscellaneous	172	205	219	148	183
(e)	Remittances	2,513	2,527	2,766	3,086	3,213
	<b>Total Receipts</b>	<b>12,804</b>	<b>12,368</b>	<b>13,295</b>	<b>15,203</b>	<b>17,240</b>

**Table-1.4** shows that the total receipts of the State Government increased by 35 *per cent* from Rs 12,804 crore in 2003-04 to Rs 17,240 crore in 2007-08. Of these, the revenue receipts were Rs 9,142 crore, constituting 53 *per cent* of the total receipts. The balance came from borrowings (11 *per cent*) and receipts from Public Account (36 *per cent*).

### 1.4.2 Revenue Receipts

**Statement-11** of the Finance Accounts details the revenue receipts of the Government consisting of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and buoyancies are indicated in **Table-1.5**.

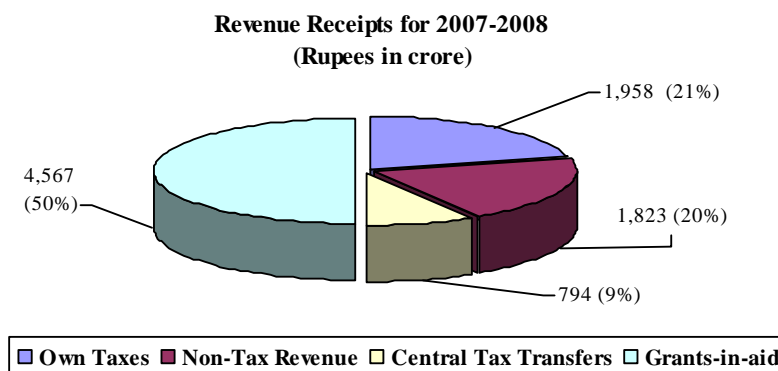
**Table-1.5: Revenue Receipts - Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts (RR) (Rupees in crore)</b>	<b>3,981</b>	<b>4,635</b>	<b>6,559</b>	<b>7,835</b>	<b>9,142</b>
Own Taxes ( <i>per cent</i> )	984 (25)	1,252 (27)	1,497 (23)	1,656 (21)	1,958 (21)
Non-Tax Revenue ( <i>per cent</i> )	292 (7)	611 (13)	690 (11)	1,337 (17)	1,823 (20)
Central Tax Transfers ( <i>per cent</i> )	450 (11)	537 (12)	493 (8)	629 (8)	794 (9)
Grants-in-aid ( <i>per cent</i> )	2,255 (57)	2,235 (48)	3,879 (59)	4,213 (54)	4,567 (50)
<b>Rate of Growth of RR (<i>per cent</i>)</b>	<b>8.80</b>	<b>16.43</b>	<b>41.51</b>	<b>19.45</b>	<b>16.68</b>
<b>RR/GSDP (<i>per cent</i>)</b>	<b>19.21</b>	<b>20.09</b>	<b>25.75</b>	<b>27.63</b>	<b>28.59</b>
<b>Revenue Buoyancy w.r.t. GSDP</b>	<b>0.916</b>	<b>1.451</b>	<b>3.980</b>	<b>1.717</b>	<b>1.308</b>
<b>State's own taxes Buoyancy w.r.t. GSDP</b>	<b>1.10</b>	<b>2.41</b>	<b>1.88</b>	<b>0.94</b>	<b>1.43</b>
<b>Revenue Buoyancy with reference to State's own taxes (ratio)</b>	<b>0.83</b>	<b>0.60</b>	<b>2.12</b>	<b>1.83</b>	<b>0.91</b>
<b>GSDP Growth (<i>per cent</i>)</b>	<b>9.61</b>	<b>11.32</b>	<b>10.43</b>	<b>11.33</b>	<b>12.75</b>

### 1.4.3 General Trends

Revenue receipts have shown a progressive increase over the period 2003-08 with noticeable changes in the share of non-tax revenue and grants-in-aid from GOI while the share of own taxes and Central transfers exhibited marginal variations over the period. While 41 *per cent* of the revenue receipts during 2007-08 have come from the State's own resources comprising taxes and

non-taxes, the remaining 59 per cent were contributed by Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI. The share of non-tax revenue in the total revenue receipts of the State has increased by 13 per cent while that of grants-in-aid declined by 7 percentage points during the period 2003-08 with slight inter year variations.



#### 1.4.4 Tax Revenue

**Table-1.6** below shows the trend in the composition of Tax Revenue of the State during 2003-08.

**Table-1.6: Tax Revenue**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Sales Tax	437	542	727	914	1,092
State Excise	280	300	329	342	389
Taxes on Vehicles	78	108	102	106	114
Stamps and Registration	52	75	82	93	87
Electricity	17	88	89	30	82
Other Taxes <sup>4</sup>	120	139	168	171	194
<b>Total:</b>	<b>984</b>	<b>1,252</b>	<b>1,497</b>	<b>1,656</b>	<b>1,958</b>

The tax revenue has increased by 18 per cent from Rs 1,656 crore in 2006-07 to Rs 1,958 crore during 2007-08. The revenue from sales tax not only contributed a major share of the tax revenue (56 per cent), but also increased by 19 per cent (Rs 178 crore) over the previous year. The value added tax (VAT) was introduced in April 2005 and the efforts of the Government to ensure compliance with VAT had enhanced the buoyancy of sales tax revenue and generated higher collection. A steep increase in receipts (Rs 52 crore) from taxes and duties on electricity in 2007-08 over the previous year was mainly because the receipts of electricity duty due for 2006-07 from HPSEB were received in 2007-08.

<sup>4</sup> Other taxes include land revenue, taxes on goods and passengers and other taxes and duties on commodities and services.



### 1.4.5 Non-Tax Revenue

**Table-1.7** below shows the trend in the composition of non-tax revenue of the State during 2003-08:

**Table-1.7: Non-Tax Revenue**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Interest Receipts, Dividends and Profits	12	43	78	89	68
General Services	37	58	47	125	110
Social Services	62	57	72	72	87
Economic Services	181	453	492	1,051	1,558
<b>Total:</b>	<b>292</b>	<b>611</b>	<b>690</b>	<b>1,337</b>	<b>1,823</b>

The non-tax revenue of the State constituted 20 *per cent* of total revenue receipts and recorded an increase of Rs 486 crore (36 *per cent*) over the previous year. It is observed that 85 *per cent* of the non-tax revenue was received from economic services and within this category, power sector alone contributed 91 *per cent* (Rs 1414 crore) during the current year. This was due to enhancement in the sale of electricity to Power Trading Corporation by Himachal Pradesh State Electricity Board which is received free of cost from various hydel power projects as per the agreements. The trends in interest receipts and dividends and profits reveal wide fluctuations mainly because of variation in interest receipts during the period 2003-08. The non-tax revenue of the Government is also inclusive of Rs 45.29 crore received as debt waiver under DCRF.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of goods and services by Government are 1.76 *per cent* for Health and Family Welfare, 0.25 *per cent* for Minor Irrigation, 0.67 *per cent* for Secondary Education and 3.41 *per cent* for University and Higher Education. The receipts from these services not only remained almost static during 2007-08 relative to the previous year, but were also below the normative rates of growth projected by the TFC for the year.

The State's own revenue receipts *vis-à-vis* assessments made by TFC and the State Government in FCP and MTFPS for 2007-08 are given below:

**Table-1.8: Comparative statement**

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in		Actuals
		Fiscal Correction Path	Medium Term Fiscal Plan Statement	
Tax Revenue	1,888	1,638	1,951	1,958
Non-Tax Revenue	499	713	803	1,823

**Table-1.8** reveals that the actual realisation of State's own taxes and non-tax revenue receipts during 2007-08 was higher than the normative assessment of TFC as well as projections made in MTFPS and FCP by the State Government. The State's own tax revenue was higher by 3.71 *per cent* and the non-tax revenue by 265 *per cent* over the assessments made by the TFC.

#### **1.4.6 Arrears of revenue**

Arrears of revenue have increased by 19.14 *per cent* from Rs 430.10 crore in 2006-07 to Rs 512.43 crore at the end of 2007-08. Of these, Rs 125.10 crore (24.41 *per cent*) were more than five years old. The department-wise status of arrears of revenue during 2007-08 relative to 2006-07, alongwith the reasons for the same is given in **Appendix-VI**. A major proportion of arrears is pending with the Government agencies/State Corporations. Specific action taken to effect the recovery and reasons for arrears of revenue have not been intimated (August 2008) by the departments concerned.

#### **1.4.7 Central Tax Transfers**

The Central tax transfers increased by Rs 165 crore over the previous year and constituted 9 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 56 crore), customs duties (Rs 27 crore), Union excise duties (Rs 13 crore) and income other than corporation tax (Rs 50 crore).

#### **1.4.8 Grants-in-aid**

Grants-in-aid from GOI have increased by 8.4 *per cent* from Rs 4,213 crore in 2006-07 to Rs 4,567 crore in 2007-08. Within the plan grants, while grants for the Centrally Sponsored Schemes decreased by 4 *per cent*, grants for State plan schemes increased by 26 *per cent* (Rs 381 crore) during 2007-08. The major increase under State plan schemes was in the form of increase in 'Block Grants' (Rs 384.37 crore). The Non-Plan grants (Rs 2,403 crore) to the State constituted 53 *per cent* of the total grants during the year, of which, 88 *per cent* (Rs 2,121 crore) were primarily for meeting the Non-Plan revenue deficit owing to the recommendation of TFC. The composition of Grants-in-aid received from GOI during the period 2003-08 is given in **Table-1.9**.

**Table-1.9: Grants-in-aid from GOI**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	1,335	1,215	1,173	1,465	1,846
Non-Plan grants	760	830	2,412	2,416	2,403
Grants for Central Schemes/Centrally Sponsored Schemes	160	190	294	332	318
<b>Total:</b>	<b>2,255</b>	<b>2,235</b>	<b>3,879</b>	<b>4,213</b>	<b>4,567</b>
Percentage of increase/decrease over the previous year	0.31	(-) 0.89	73.56	8.61	8.40

## 1.5 Application of Resources

### 1.5.1 Growth of Expenditure

**Statement-12** of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge their debt service obligations. The total expenditure of the State increased at an average growth rate of 10 *per cent* from Rs 6,393 crore in 2003-04 to Rs 9,720 crore in 2007-08. The total expenditure, its annual growth rate and its ratio to the State GSDP, to revenue receipts, and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.10**.

**Table-1.10: Total Expenditure – Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE) <sup>5</sup> (Rupees in crore)	6,393	6,471	7,301	8,780	9,720
Rate of Growth ( <i>per cent</i> )	6.04	1.22	12.83	20.26	10.71
TE/GSDP Ratio ( <i>per cent</i> )	30.85	28.05	28.66	30.96	30.40
Revenue Receipts/TE Ratio ( <i>per cent</i> )	62.27	71.63	89.84	89.24	94.05
<b>Buoyancy of total expenditure with</b>					
GSDP (ratio)	0.629	0.108	1.230	1.788	0.840
RR (ratio)	0.686	0.074	0.309	1.042	0.642

The total expenditure during the current year has increased by Rs 940 crore over the previous year, of which increase in revenue expenditure shared Rs 648 crore; increase in capital expenditure contributed Rs 304 crore while a decline of Rs 12 crore in disbursements of loans and advances was observed during the year. The trends in total expenditure in the form of Plan and Non-Plan expenditure during 2007-08 reveal that Non-Plan expenditure contributed a dominant share of Rs 7,194 crore (74 *per cent*) while the remaining Rs 2,526 crore (26 *per cent*) was in the form of plan expenditure. Moreover, of the increase of Rs 940 crore in total expenditure during 2007-08, the Non-Plan expenditure accounted for 86 *per cent* (Rs 806 crore) and Plan expenditure contributed only 14 *per cent* (Rs 134 crore). The ratio of revenue receipts to total expenditure increased from 62 *per cent* in 2003-04 to 94 *per cent* in 2007-08 indicating the increasing reliance on the State's own and mandated resources for meeting the expenditure requirements of the State.

<sup>5</sup> Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

### 1.5.2 Trends in Total Expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in **Table-1.11**.

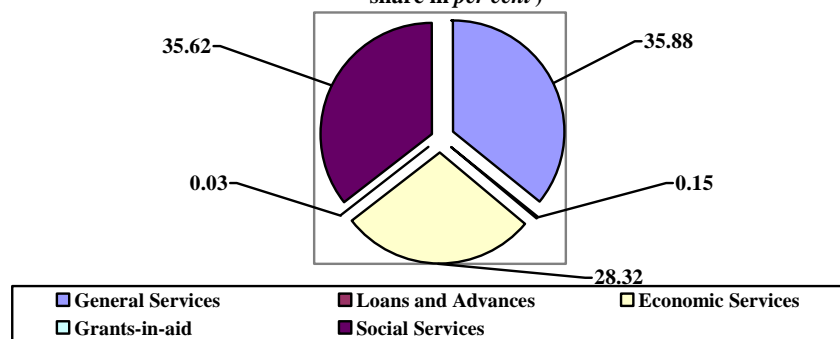
**Table-1.11: Components of Expenditure – Relative Share**

(In per cent)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>General Services</b>	<b>39.21</b>	<b>42.54</b>	<b>39.31</b>	<b>38.28</b>	<b>35.88</b>
Of which, Interest payments	23.04	25.36	21.41	19.01	17.52
<b>Social Services</b>	<b>34.98</b>	<b>34.31</b>	<b>36.68</b>	<b>35.99</b>	<b>35.62</b>
<b>Economic Services</b>	<b>25.46</b>	<b>22.73</b>	<b>23.74</b>	<b>25.40</b>	<b>28.32</b>
<b>Grants-in-aid</b>	<b>0.05</b>	<b>0.05</b>	<b>0.08</b>	<b>0.03</b>	<b>0.03</b>
<b>Loans and Advances</b>	<b>0.31</b>	<b>0.37</b>	<b>0.19</b>	<b>0.30</b>	<b>0.15</b>

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 is considered as non-developmental, together decreased from 38.28 *per cent* in 2006-07 to 35.88 *per cent* in 2007-08. On the other hand, developmental expenditure i.e. on Social and Economic Services together accounted for 63.94 *per cent* in 2007-08 as against 61.39 *per cent* in 2006-07. The increase in share of Economic Services was mainly on account of increase in expenditure on Roads and Bridges (Rs 154 crore). The share of Social Services remained almost stable with minor inter-year variations while the share of loans and advances declined during 2007-08 over the previous year.

**Allocative Priorities - Trends in Total Expenditure 2007-08 (Relative share in per cent)**



### 1.5.3 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. It is incurred to maintain the current level of services and payments, 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 to revenue receipts and its buoyancy are indicated in **Table-1.12**.

**Table-1.12: Revenue Expenditure: Basic Parameters**

	(Rupees in crore)				
	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Revenue Expenditure (RE)	5,588	5,793	6,466	7,644	8,292
Rate of Growth (per cent) RE	8.69	3.67	11.62	18.22	8.48
Non-Plan Revenue Expenditure (NPRE)	4,748	4,815	5,284	6,319	7,090
Rate of Growth (per cent) NPRE	26.44	1.41	9.74	19.59	12.20
Plan Revenue Expenditure (PRE)	840	978	1,182	1,325	1,202
Rate of Growth (per cent) PRE	(-) 39.39	16.43	20.86	12.10	(-) 9.28
NPRE/GSDP (per cent)	22.91	20.87	20.75	22.28	22.17
RE/TE <sup>6</sup> (per cent)	87.68	89.86	88.73	87.32	85.43
NPRE as per cent of TE	74.27	74.41	72.37	71.97	72.94
NPRE as per cent of RR	119.27	103.88	80.56	80.65	77.55
Percentage of NPRE to RE	84.97	83.12	81.72	82.67	85.50
PRE to RE	15.03	16.88	18.28	17.33	14.50
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP (ratio)	0.90	0.32	1.11	1.61	0.67
RRs (ratio)	0.99	0.22	0.28	0.94	0.51
NPRE	0.32	2.60	1.19	0.93	0.70
PRE	(-) 0.22	0.22	0.56	1.51	(-) 0.91

<sup>6</sup> Total expenditure excludes loan and advances.

The revenue expenditure increased by 48 *per cent* from Rs 5,588 crore in 2003-04 to Rs 8,292 crore in 2007-2008 and eight *per cent* over the previous year. The NPRE has shown a consistent increase at an average rate of 13.9 *per cent* over the period and continued to share a dominant proportion varying in the narrow range of 82-86 *per cent* of the revenue expenditure. The increase in NPRE by Rs 771 crore during the current year was mainly due to increase in pension (Rs 37 crore), salaries and wages (Rs 520 crore) and assistance to Zilla Parishads (Rs 34 crore).

The plan revenue expenditure (PRE) on the other hand has displayed wild fluctuations varying from a decrease of 39.39 *per cent* in 2003-04 to an increase of 20.86 *per cent* in 2005-06, which again turned negative ((-) 9.28 *per cent*) during the current year. The PRE decreased by Rs 123 crore during 2007-08 mainly on account of fall in expenditure under Tribal Area Sub plan, water supply programmes, Government secondary schools and withdrawal of one time Central assistance given in the previous year to Universities, Government colleges and Institutes as well as to State Electricity Board.

The actual NPRE vis-à-vis assessments made by TFC and State Government are given below:

**Table-1.13: Actual NPRE vis-à-vis projections**

(Rupees in crore)

		Assessment made by State Government in		
	Assessment made by TFC	Fiscal Correction Path	MTFPS	Actual
<b>Non-plan revenue expenditure</b>	5,135	5,788	7,361	7,090

During the current year, the NPRE not only exceeded the assessment made by the State Government in FCP, but also exceeded the normative assessment made by TFC by Rs 1,955 crore (38 *per cent*), while it was marginally less than the projection made by the State Government in its MTFPS for 2007-08.

## **1.5.4 Committed Expenditure**

### **1.5.4.1 Salaries and Wages**

The expenditure on salaries and wages increased by 50 *per cent* from Rs 2,382 crore in 2003-04 to Rs 3,577 crore in 2007-08

as indicated in **Table-1.14**.

**Table-1.14: Expenditure on Salaries and Wages**

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries and wages of which,	2,382	2,204	2,515	3,057	3,577
Non-Plan Head	Plan/Non-Plan-wise break up of salaries is not available for this period		2,115	2,577	3,173
Plan Head			400	480	404
As per cent of GSDP	11.50	9.57	9.89	10.80	11.19
As per cent of RR	59.83	47.55	38.34	39.02	39.13

Expenditure on salaries and wages under Non-plan and Plan during the current year is Rs 3,173 crore and Rs 404 crore respectively, recording a growth rate of 23 per cent under Non-plan head and a decrease of 16 per cent under Plan head relative to the previous year. The increase in non-plan salary expenditure was stated to be due to release of two installments of dearness allowances on the pattern of Central Government, release of interim relief with effect from November 2006, enhancement in the rate of daily wages and transfer of committed liabilities under Plan schemes to Non-plan side. The salary expenditure during the current year exceeded the projections made in MTFPS (Rs 2,615 crore) and the Fiscal Correction Path (Rs 2,455 crore). The salary expenditure is 63 per cent of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 per cent recommended by the TFC.

#### 1.5.4.2 Pension Payments

The expenditure on pension payments increased by 78 per cent from Rs 533 crore in 2003-04 to Rs 949 crore in 2007-08 as indicated in **Table-1.15**.

**Table-1.15: Expenditure on Pensions**

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on pension	533	591	670	912	949
Rate of growth	8.78	10.88	13.37	36.12	4.06
As per cent of GSDP	2.57	2.56	2.63	3.22	2.97
As per cent of RR	13.39	12.75	10.21	11.64	10.38
As per cent of RE	9.54	10.20	10.36	11.93	11.44

Source: Finance Accounts.

**Table-1.15** indicates that pension payments increased by Rs 37 crore during the current year, recording a growth rate of 4.06 *per cent* over the previous year. Increase in pension payments during and after 2005-06 was mainly due to implementation of the recommendations of the 5<sup>th</sup> Central Pay Commission relating to family pension consequent to the orders of the High Court of Himachal Pradesh. The actual expenditure for the current year exceeded the projections made in the TFC, FCP and MTFPS respectively as shown below:

**Table-1.16: Actual Pension Payments vis-à-vis Projections**

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actual Expenditure on pensions
		Fiscal Correction Path	MTFPS	
Pension payments	880	754	880	949

The State Government introduced Contributory Pension Scheme for employees recruited on or after May 2003 to mitigate the impact of rising pension liabilities in future.

#### 1.5.4.3 Interest Payments

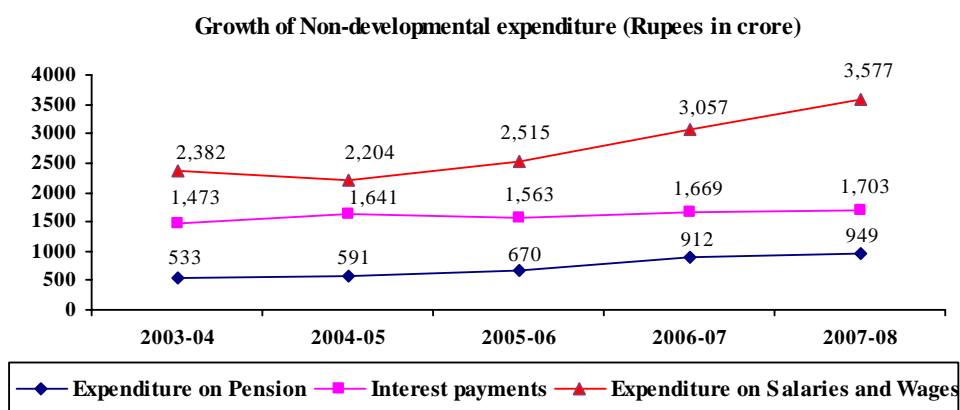
The trends in interest payments and their percentages against the total revenue receipts and revenue expenditure during the period 2003-08 are depicted in **Table-1.17**.

**Table-1.17: Interest payments**

Year	Total Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2003-2004	3,981	1,473	37.00	26.36
2004-2005	4,635	1,641	35.40	28.33
2005-2006	6,559	1,563	23.83	24.17
2006-2007	7,835	1,669	21.30	21.83
2007-2008	9,142	1,703	18.63	20.54



The major source of borrowings is market loans at interest rates varying from 7.74 to 8.35 *per cent*. The marginal increase of 2.04 *per cent* over the previous year in interest payments was mainly due to payment of interest on special GOI securities issued against net collection of small savings, insurance, pension fund, etc. Interest payments exceeded the TFC projections (Rs 1,545 crore) for the year 2007-08, but remained marginally lower than the projections made in FCP (Rs 1,736 crore) and MTFPS (Rs 1,778 crore).



#### 1.5.4.4 Subsidies

The State Government has been paying subsidies to various institutions/bodies/Corporations, etc. The trends in the subsidies given during the last five years are given in **Table-1.18**.

**Table-1.18: Subsidies**

(Rupees in crore)

Year	Amount	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy to total expenditure excluding loans and advances
2003-2004	83.78	(-) 43.46	1.31
2004-2005	158.98	(+) 89.75	2.47
2005-2006	142.09	(-) 10.62	1.95
2006-2007	343.44	(+) 141.71	3.92
2007-2008	328.04	(-) 4.48	3.38

**Source:** VLC/Finance Accounts.

During the current year, subsidies constituted about 3.38 *per cent* of the total expenditure. The major components of subsidies were food items (Rs 63 crore); transport (Rs 40 crore) and electricity (Rs 168 crore). The power subsidy at Rs 168 crore in 2007-08 was higher than the projections made both in FCP (Rs 90 crore) and MTFPS (Rs 150 crore). Besides, general

subsidy at Rs 160 crore was also much higher than its projection in FCP (Rs 82 crore) and MTFPS (Rs 40 crore).

## **1.6 Expenditure by Allocative Priorities**

### **1.6.1 Quality of Expenditure**

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively, would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-1.19** gives these ratios during 2003-08.

**Table-1.19: Indicators of Quality of Expenditure**

(Rupees in crore)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-08
<b>Capital Expenditure</b>	<b>785</b>	<b>654</b>	<b>821</b>	<b>1,110</b>	<b>1,414</b>
<b>Revenue Expenditure</b>	<b>5,588</b>	<b>5,793</b>	<b>6,466</b>	<b>7,644</b>	<b>8,292</b>
<i>Of which, Social and Economic Services</i>	3,102 (56)	3,067 (53)	3,642 (56)	4,341 (57)	4,858 (59)
<i>(i) Salary and Wage Component</i>	1,617 (28.94)	1,830 (31.59)	2,023 (31.29)	2,497 (32.67)	2,963 (35.73)
<i>(ii) Non-Salary and Wage component</i>	1,485 (26.57)	1,237 (21.35)	1,619 (25.04)	1,844 (24.12)	1,895 (22.85)
<b>As per cent of total expenditure</b>					
Capital expenditure	12.32	10.14	11.27	12.68	14.57
Revenue expenditure	87.68	89.86	88.73	87.32	85.43
<b>As per cent of GSDP</b>					
Capital expenditure	3.79	2.84	3.22	3.91	4.42
Revenue expenditure	26.97	25.11	25.39	26.96	25.93

**Note:** Total expenditure excludes loans and advances. Figures in parenthesis indicate percentage.

Though no specific norms for prioritisation of capital expenditure have been laid down in FRBM Act, there was an increase in capital expenditure by 27 per cent (Rs 304 crore) during 2007-08 over the previous year. Relative share of capital expenditure to total expenditure and GSDP increased from 10 to 15 per cent and 2.8 to 4.4 per cent respectively during the period 2004-08. Water Supply and Sanitation<sup>7</sup>, Irrigation and Flood Control<sup>8</sup> and Education<sup>9</sup> were beneficiary sectors where capital expenditure was absorbed. The revenue expenditure incurred on social and economic services (salary and non-salary component) increased by two percentage points during 2007-08 mainly due to increase in salary component which was increased by three percentage points in 2007-08 over the previous year. The salary component has consistently increased at an average rate of 32 per cent during 2003-08 while the non-salary component exhibited relative stability during the period and decreased by little more than one percentage point in 2007-08. These trends indicate need for changing the allocative priorities for improving the quality of expenditure in ensuing years.

### 1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion of and efficient provision of these services in the State. **Table-1.20** summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2003-08.

**Table-1.20: Expenditure on Social Services**  
(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
1.	2.	3.	4.	5.	6.
<b>Education, Sports, Art and Culture</b>					
Revenue expenditure	969	1,037	1,172	1,325	1,484
of which,					
(a) Salary and Wage component	861	907	1,004	1,154	1,264
(b) Non-Salary and Wage component	108	130	168	171	220
Capital expenditure	37	48	41	99	152
<b>Total:</b>	<b>1,006</b>	<b>1,085</b>	<b>1,213</b>	<b>1,424</b>	<b>1,636</b>

<sup>7</sup> Shah Nehar Project: Rs 51.66 crore; Changer Area Irrigation Project: Rs 30.43 crore; Flow Irrigation Scheme, Sadhata (District Kangra): Rs 13.56 crore, other schemes (each costing Rs 1 crore and less): Rs 77.62 crore; Flood Control Projects and others expenditure: Rs 22.88 crore.

<sup>8</sup> Urban Water Supply Scheme: Rs 7.67 crore, other schemes and Government Residential Buildings (each costing Rs 1 crore and less): Rs 306.86 crore, Rural water supply schemes: Rs 16.66 crore and Urban Development schemes: Rs 20 crore.

<sup>9</sup> Elementary Education: Rs 24.20 crore; Secondary Education: Rs 38.42 crore; Polytechnics/ Engineering/ Technical Colleges and Institutes: Rs 14.72 crore and other schemes (each costing Rs 1 crore and less): Rs 61.22 crore.

*Audit Report (Civil) for the year ended 31 March 2008*

1.	2.	3.	4.	5.	6.
<b>Health and Family Welfare</b>					
Revenue expenditure of which,	296	311	345	397	438
(a) Salary and Wage component	243	256	284	330	357
(b) Non-Salary and Wage component	53	55	61	67	81
Capital expenditure	50	61	48	44	33
<b>Total:</b>	<b>346</b>	<b>372</b>	<b>393</b>	<b>441</b>	<b>471</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>					
Revenue expenditure of which,	470	321	404	518	557
(a) Salary and Wage component	69	73	94	181	239
(b) Non-Salary and Wage component	401	248	310	337	318
Capital expenditure	212	209	244	412	388
<b>Total:</b>	<b>682</b>	<b>530</b>	<b>648</b>	<b>930</b>	<b>945</b>
<b>Other Social Services</b>					
Revenue expenditure of which,	197	221	387	346	396
(a) Salary and Wage component	35	37	42	50	54
(b) Non-Salary and Wage component	162	184	345	296	342
Capital expenditure	5	12	36	19	13
<b>Total:</b>	<b>202</b>	<b>233</b>	<b>423</b>	<b>365</b>	<b>409</b>
Revenue expenditure of which,	1,932	1,890	2,309	2,586	2,875
(a) Salary and Wage component	1,208	1,273	1,425	1,715	1,914
(b) Non-Salary and Wage component	724	617	884	871	961
Capital expenditure	304	330	369	574	586
<b>Total: (Social Services)</b>	<b>2,236</b>	<b>2,220</b>	<b>2,678</b>	<b>3,160</b>	<b>3,461</b>

**Source:** VLC/Finance Accounts and Departmental figures.

The allocation to Social Sector increased by 55 *per cent* from Rs 2,236 crore in 2003-04 to Rs 3,461 crore in 2007-08 indicating the Government's commitment to improve social well being of the society.

Expenditure on Social Services sector during the current year (Rs 3,461 crore) accounted for 36 *per cent* of total expenditure, 56 *per cent* of developmental expenditure<sup>10</sup> (Rs 6,213 crore) and increased by 9.5 *per cent* (Rs 301 crore) over the previous year. General Education received the major share of 47 *per cent* (Rs 1,636 crore), Health and Family Welfare sector shared only 14 *per cent* (Rs 471 crore) and 27 *per cent* (Rs 945 crore) was spent on Water Supply, Sanitation, Housing and Urban Development sector.

<sup>10</sup> Development expenditure is defined as the total expenditure on social and economic services.

Recognising the need to improve the quality of education and health services, the TFC recommended that the salary expenditure under Education and Health and Family Welfare sectors should increase only by five to six *per cent* while non-salary expenditure should increase by 30 *per cent* per annum during the award period. The expenditure pattern (taking plan and non-plan heads together) of the State revealed that the salary component has increased by 10 *per cent* and non-salary component by 29 *per cent* under Education while under Health and Family Welfare sector, the salary component increased by eight *per cent* and non-salary component by 21 *per cent* in 2007-08 over the previous year. These trends however do not represent the complete picture as it is exclusive of salary components of grants-in-aid given by the State government to its institutions.

### 1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs 2,752 crore) accounted for 28 *per cent* of the total expenditure. Of this, Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport consumed nearly 88 *per cent* as can be seen from **Table-1.21** given below:

**Table-1.21: Expenditure on Economic Services**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
1.	2.	3.	4.	5.	6.
<b>Agriculture and Allied Activities</b>					
Revenue expenditure of which,	394	386	470	498	631
(a) Salary and Wage component	223	220	243	287	319
(b) Non-Salary and Wage component	171	166	227	211	312
Capital expenditure	17	12	10	25	40
<b>Total:</b>	<b>411</b>	<b>398</b>	<b>480</b>	<b>523</b>	<b>671</b>
<b>Irrigation and Flood Control</b>					
Revenue expenditure of which,	70	69	90	130	186
(a) Salary and Wage component	34	36	46	88	137
(b) Non-Salary and Wage component	36	33	44	42	49
Capital expenditure	82	73	104	176	213
<b>Total:</b>	<b>152</b>	<b>142</b>	<b>194</b>	<b>306</b>	<b>399</b>
<b>Power and Energy</b>					
Revenue expenditure of which,	152	73	123	314	175
(a) Salary and Wage component	1	1	1	2	2
(b) Non-Salary and Wage component	151	72	122	312	173
Capital expenditure	94	2	--	--	132
<b>Total:</b>	<b>246</b>	<b>75</b>	<b>123</b>	<b>314</b>	<b>307</b>

*Audit Report (Civil) for the year ended 31 March 2008*

1.	2.	3.	4.	5.	6.
<b>Transport</b>					
Revenue expenditure of which,	363	400	412	512	659
(a) Salary and Wage component	91	236	238	325	505
(b) Non-Salary and Wage component	272	164	174	187	154
Capital expenditure	257	200	274	243	375
<b>Total:</b>	<b>620</b>	<b>600</b>	<b>686</b>	<b>755</b>	<b>1,034</b>
<b>Other Economic Services</b>					
Revenue expenditure of which,	190	249	238	301	332
(a) Salary and wage component	60	64	70	80	86
(b) Non-Salary and Wage component	130	185	168	221	246
Capital expenditure	8	7	12	30	9
<b>Total:</b>	<b>198</b>	<b>256</b>	<b>250</b>	<b>331</b>	<b>341</b>
Revenue expenditure of which,	1,169	1,177	1,333	1,755	1,983
(a) Salary and Wage component	409	557	598	782	1,049
(b) Non-Salary and Wage component	760	620	735	973	934
Capital expenditure	458	294	400	474	769
<b>Total: (Economic Services)</b>	<b>1,627</b>	<b>1,471</b>	<b>1,733</b>	<b>2,229</b>	<b>2,752</b>

**Source:** VLC/Finance Accounts and Departmental figures

The expenditure on Economic Services increased by 87 per cent from Rs 1,471 crore in 2004-05 to Rs 2,752 crore in 2007-08 and by 23 per cent (Rs 523 crore) over the previous year. Out of total expenditure on Economic Services during 2007-08, 24 per cent on Agriculture and Allied Activities, 14 per cent on Irrigation and Flood Control, 11 per cent on Power and Energy and 38 per cent on Transport was incurred. The salary and wage component in revenue expenditure on Economic Services ranged between 35 and 53 per cent during 2003-04 to 2007-08.

The share of capital expenditure on Economic Services relative to total expenditure varied in the narrow range of 20-28 per cent during the period indicating that revenue expenditure continued to share a dominant proportion of total expenditure on Economic Services. Within the revenue expenditure, the share of non-salary component decreased to 47 per cent in 2007-08 from 65 per cent in 2003-04 while that of salary component has correspondingly increased during the period. These trends indicated that correction needs to be effected in expenditure pattern for improving the quality of expenditure on Economic Services.

## 1.6.4 Financial Assistance to local bodies and other institutions

### 1.6.4.1 Extent of assistance

The quantum of assistance provided by the State Government by way of grants to different local bodies, etc., during the five year period 2003-08, is presented in **Table-1.22**.

**Table-1.22: Financial Assistance**

(Rupees in crore)

Name	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	94.58	103.24	132.81	117.50	176.49
Municipal Corporation and Municipalities	19.50	28.83	32.68	46.74	70.66
Zilla Parishads and Panchayati Raj Institutions	48.82	63.28	70.08	100.58	134.13
Development Agencies	77.47	52.62	112.10	93.44	37.74
Hospitals and other charitable Institutions	0.21	0.06	0.40	0.12	0.10
Other Institutions <sup>11</sup>	32.83	27.50	31.56	41.11	47.65
<b>Total:</b>	<b>273.41</b>	<b>275.53</b>	<b>379.63</b>	<b>399.49</b>	<b>466.77</b>
Assistance as a percentage of Revenue Expenditure	4.89	4.76	5.87	5.23	5.63

The grants extended to local bodies and other institutions consistently showed an increasing trend over the years 2003-08. It increased by Rs 67 crore (17 per cent) during current year over the previous year. The share of grants in revenue expenditure indicated inter-year variations ranging between 4.76 per cent and 5.87 per cent during the period 2003-08. Another important trend emerging from **Table-1.22** is that the share of other institutions has consistently increased from Rs 27.50 crore in 2004-05 to Rs 47.65 crore in 2007-08 indicating that huge financial assistance is being given on *ad hoc* basis to various State Government institutions. The sharp increase under different components during 2007-08 was mainly due to release of more grant to Municipal Corporation/Municipalities (Rs 23.92 crore), to Educational Institutions (Rs 58.99 crore) and to Zilla Parishads and Panchayati Raj Institutions (Rs 33.55 crore). Similarly, under the head 'Other Institutions', the increase was due to release of more grant (Rs 6.54 crore) during the current year as compared to 2006-07 mainly to Animal Husbandry (Rs 5.10 crore). Increase in financial assistance to local bodies was stated to

<sup>11</sup> Other institutions include those institutions, which received *ad hoc* or one time grants during the year. Major beneficiaries are Animal Husbandry (Rs 5.10 crore), Industries (Rs 6.40 crore) and Social Justice and Empowerment (Rs 26.41 crore).

be due to implementation of recommendations of Third State Finance Commission.

### **1.6.5 Delay in furnishing Utilisation Certificates**

Of the 12,865 utilisation certificates (UCs) due in respect of grants aggregating Rs 843.79 crore paid upto 2006-07, 11,609 UCs for an aggregate amount of Rs 420.12 crore were in arrears. Details of department-wise break up of outstanding UCs are given in **Appendix-VII**.

### **1.6.6 Write off of losses, etc.**

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc., amounting to Rs 13.46 lakh in six cases were written-off during 2007-08 by the competent authorities.

## **1.7 Assets and Liabilities**

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by 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-II** gives an abstract of such liabilities and the assets as on 31 March 2008. 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 capital outlay and loans and advances given by the State Government and the cash balances. **Appendix-V** depicts the time series data on State Government finances for the period 2003-08.

### **1.7.1 Incomplete projects**

The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in **Table-1.23**:

**Table-1.23: Department-wise Profile of Incomplete Projects**

**(Rupees in crore)**

<b>Department</b>	<b>Total number of incomplete Projects/Initial budgeted cost</b>	<b>Number of incomplete projects of which revised cost available/Initial budgeted cost</b>	<b>Revised cost</b>	<b>Cost over-run</b>	<b>Cumulative actual expenditure as on 31.03.2008</b>
Irrigation and Public Health	16/44.76	11/28.95	92.15	63.20	111.47
Public Works	4/8.82	1/5.27	6.39	1.12	9.81
<b>Total:</b>	<b>20/53.58</b>	<b>12/34.22</b>	<b>98.54</b>	<b>64.32</b>	<b>121.28</b>



The details of incomplete projects pertaining to only two departments are presented in **Table-1.23**. Moreover, the details of revised costs of the incomplete projects relating to both these above departments are not captured in the Finance Accounts. In respect of 12 incomplete projects, of which revised costs are available, the cost overrun was Rs 64.32 crore and significant cost overrun are observed in irrigation projects. An analysis of the delays in completion of these 20 incomplete projects reveal the time overruns ranging between 18 to 105 months in case of major and medium irrigation projects and between 24 to 84 months in respect of the Public Works projects. These projects were lying incomplete due to dispute over site, non-availability of adequate funds, delay in finalisation of design/drawing, court cases, limited working seasons, involvement of forest land, etc.

### 1.7.2 Investments and returns

As of 31 March 2008, the Government invested Rs 2,033 crore in its statutory corporations, rural banks, Government companies, joint stock companies and co-operatives (**Table-1.24**). The average return on this investment was less than 0.3 *per cent* in the last five years, while the Government paid interest at an average rate of 9.09 to 10.98 *per cent* on its borrowings during 2003-08. The increase in the return during 2005-06 was due to redemption of the share value of various Government Companies, etc.

**Table-1.24: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return on investment
	(Rupees in crore)			(per cent)	
2003-2004	1,922	0.50	0.03	10.98	10.95
2004-2005	1,943	0.58	0.03	10.60	10.57
2005-2006	1,842	28.61	1.55	9.20	7.65
2006-2007	1,861	1.80	0.10	9.40	9.30
2007-2008	2,033	0.52	0.03	9.09	9.06

Major investments were made in six Statutory Corporations/Boards (Rs 681 crore), 19 Government Companies (Rs 246 crore) and a Central PSU Himachal Pradesh Satluj Jal Vidyut Nigam (Rs 1,027.20 crore). The two Statutory Corporations/Boards had incurred accumulated loss of Rs 700.62 crore (Himachal Pradesh Road Transport Corporation: Rs 437.95 crore and Himachal Pradesh State Electricity Board: Rs 262.67 crore) at the end of March 2008. The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2008 were, Himachal Pradesh Agro-Industrial Packaging India Limited (Rs 65.01 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (Rs 39.06 crore), Himachal Pradesh

Forest Corporation (Rs 41.92 crore) and Himachal Pradesh Handicrafts and Handloom Corporation Limited (Rs 11.29 crore).

### 1.7.3 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, the Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2008 were Rs 225 crore (**Table-1.25**). Interest received against these loans was meagre and it decreased from 11.11 *per cent* in 2004-05 to 6.93 *per cent* during 2007-08.

**Table-1.25: Average Interest Received on Loans advanced by the State Government**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	252	244	242	234	237
Amount advanced during the year	20	24	14	26	14
Amount repaid during the year	28	26	22	23	26
Closing Balance	244	242	234	237	225
Net Addition (+)/Decrease (-)	(-) 08	(-) 02	(-) 08	(+) 03	(-)12
Interest Received	09	27	10	11	16
Interest Received as <i>per cent</i> to outstanding Loans and Advances	3.63	11.11	4.20	4.66	6.93
Average interest rate (in <i>per cent</i> ) paid on borrowings by State Government	10.98	10.60	9.20	9.40	9.09
Difference between average interest paid and received ( <i>per cent</i> )	7.35	(-) 0.51	5.00	4.74	2.16

Major recipients of loans during 2007-08 were Government servants (Rs 10.34 crore). There were inter-year fluctuations in the interest received over the years 2003-08. There was a huge variation in the average rates of interest being paid by the Government on borrowings vis-à-vis the percentage of interest received on outstanding loans and advances. The shortfall ranged between 2.16 *per cent* and 7.35 *per cent* during 2003-08 except 2004-05. During 2007-08, the Government received 6.93 *per cent* return of interest receipts as *percentage* to outstanding loans against the targeted receipt of

7 per cent fixed by TFC. It, however, paid 9.09 per cent interest on borrowings during this period.

#### 1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources 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 and overdraft from Reserve Bank of India (RBI) has been put in place. The operative limit for Normal Ways and Means Advances is reckoned as the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by RBI from time to time depending on the holding of Government securities. This limit was Rs 190 crore for Himachal Pradesh for Normal Ways and Means Advances. No limit was fixed for Special Ways and Means Advances during 2007-08.

Ways and Means Advances and Overdrafts availed, the number of occasions these were availed and interest paid by the State is detailed in **Table-1.26**.

**Table-1.26: Ways and Means Advances and Overdrafts of the State**  
(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances</b>					
Availed in the year	1,728.85	1,578.54	232.78	42.00	--
Number of occasions	133	93	13	1	--
Outstanding WMAs, if any	117.94	22.49	--	42.00	--
Interest paid	5.19	1.85	0.32	0.01	--
Number of days	133	93	13	1	--
<b>Overdraft</b>					
Availed in the year	1,145.28	319.80	--	--	--
Number of occasions	74	14	--	--	--
Number of days	117	27	--	--	--
Interest paid	1.94	0.49	--	--	--

As can be seen from the above table, the number of occasions when the Government took Ways and Means Advances has been coming down over the last four years. No Ways and Means Advances were availed of during 2007-08. Similarly, the number of occasions when the State Government availed of overdraft facility has been declining progressively indicating comfortable position of cash balances of the State especially during the last three years. The cash balances of the State Government increased from minus Rs 24.14 crore to Rs 822.99 crore in 2007-08 over the previous year. The State Government had invested Rs 1,121.75 crore in the GOI Treasury Bills and earned an interest of Rs 48.62 crore.

## 1.8 Undischarged liabilities

Total liabilities as defined in HPFRBM Act, 2005 mean the liabilities under the Consolidated Fund of the State and the Public Account of the State. The actual liabilities also include borrowings by the Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments including guarantees where liability repayments (Principal and/or interest) are to be serviced out of the State Government budgets.

### 1.8.1 Fiscal liabilities–Public Debt and Guarantees

There are two sets of liabilities viz. public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund-Capital Accounts. It includes market loans, special securities issued by Reserve Bank of India and loans and advances from the Central Government.

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 and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under Small Savings Schemes, Provident Funds and other deposits.

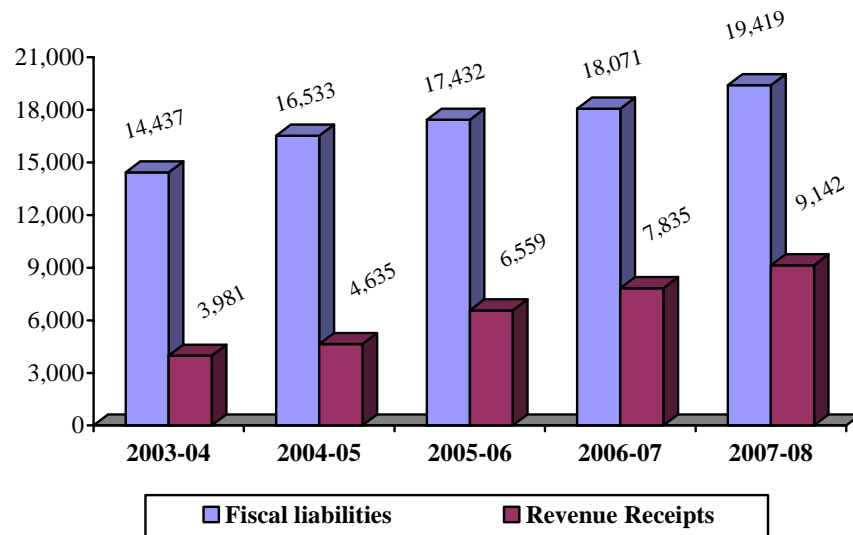
**Table-1.27** gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table-1.27: Fiscal Liabilities – Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rupees in crore)	14,437	16,533	17,432	18,071	19,419
Rate of Growth ( <i>per cent</i> )	16.49	14.52	5.44	3.67	7.46
<b>Ratio of Fiscal Liabilities to</b>					
GSDP ( <i>per cent</i> )	69.67	71.68	68.44	63.72	60.73
Revenue Receipts ( <i>per cent</i> )	362.65	356.70	265.77	230.64	212.42
Own Resources ( <i>per cent</i> )	1,131.43	887.44	797.07	603.78	513.59
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	1.72	1.28	0.52	0.32	0.59
Revenue Receipts (ratio)	1.87	0.88	0.13	0.19	0.45
Own resources (ratio)	0.83	0.32	0.31	0.10	0.28

The fiscal liabilities of the State increased from Rs 14,437 crore in 2003-04 to Rs 19,419 crore in 2007-08. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 14,064 crore) comprised market loans (Rs 5,905 crore), loans from GOI (Rs 1,015 crore) and other loans (Rs 7,144 crore which includes Rs 3,829 crore on Special Security issued to NSSF of the GOI). The Public Account liabilities (Rs 5,355 crore) comprise Small Savings and Provident Funds (Rs 4,154 crore), interest bearing obligations and non-interest bearing obligations like deposits (Rs 766 crore) and reserve funds (Rs 435 crore). The rate of growth of fiscal liabilities was 7.46 per cent during 2007-08 over the previous year. The ratio of fiscal liabilities to GSDP increased from 69.67 per cent in 2003-04 to 71.68 per cent in 2004-05 but consistently decreased to 60.73 per cent during 2005-08. These liabilities stood at 2.12 times the revenue receipts and 5.14 times of the State's own resources at the end of 2007-08. The State Government was required to set up a Consolidated Sinking Fund as recommended by the TFC for amortisation of market borrowings as well as other loans and debt obligations. The State Government, however, stated that keeping in view the expected cash flow problem in the implementation of revised pay scale recommended by the 6<sup>th</sup> Pay Commission, formulation of sinking fund has not yet been found feasible (September 2008).

**Growth of Fiscal Liabilities vis-a-vis Revenue Receipts  
(Rupees in crore)**



### 1.8.2 Status of Guarantees – Contingent liabilities

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

As per **Statement-6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2003-04 are given in **Table-1.28**.

**Table-1.28: Guarantees given by the Government of Himachal Pradesh**

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of outstanding guarantees to total revenue receipts of preceding year
2003-2004	6,144	4,682	127.96
2004-2005	6,409	4,751	119.34
2005-2006	5,526	3,587	77.39
2006-2007	6,347	2,976	45.37
2007-2008	6,450	2,632	33.59

As per the HPFRBM Act, 2005 the total outstanding guarantees are to be limited to 80 *per cent* of revenue receipts in the year preceding the current year. Since the enactment of the FRBM Act, 2005, the outstanding guarantees given by the State Government were within the limit prescribed by the Act. The outstanding guarantees on the loans raised by various corporations and others stood at Rs 2,632 crore at the end of 2007-08 which were only 33.6 *per cent* of the revenue receipts of the previous year. The State Government was required to set up the Guarantee Redemption Fund as recommended by the TFC to meet the contingent liabilities arising from the guarantees given. However, the State Government has not set up such a Fund so far.

### 1.8.3 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

### 1.8.4 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in **Table-1.29** below.

**Table-1.29: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	10.98	10.60	9.20	9.40	9.09
GSDP Growth rate	9.61	11.32	10.43	11.33	12.75
Interest spread	(-) 1.37	0.72	1.23	1.93	3.66
Opening balance	12,393	14,437	16,533	17,432	18,071
Quantum Spread (per cent)	(-)169.78	103.95	203.36	336.44	661.40
Primary deficit(-)/surplus (Rs in crore)	(-) 911	(-) 169	843	747	1,151

**Tables-1.27 and 1.29** reveal that quantum spread together with primary deficit was negative during 2003-04 and 2004-05 indicating rising debt-GSDP ratio during the period. The debt-GSDP ratio has increased from 69.67 per cent in 2003-04 to 71.68 per cent in 2004-05. It was only from 2005-06, that the quantum spread together with primary deficit turned positive, resulting in consistent decline in debt/GSDP ratio to 60.73 in 2007-08. These trends indicate that the State is moving towards debt stabilisation, which in turn may improve the debt sustainability position of the State.

### 1.8.5 Sufficiency of Non-debt Receipts

Another indicator of debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-1.30** indicates the resource gap as defined for the period 2003-08.

**Table-1.30: Incremental revenue receipts and revenue expenditure**

(Rupees in crore)

Period	Non-debt Receipts	Incremental		Total expenditure	Resource Gap
		Primary expenditure	Interest payments		
2003-2004	321	63	301	364	(-) 43
2004-2005	652	(-) 90	168	78	574
2005-2006	1,920	908	(-) 78	830	1,090
2006-2007	1,277	1,373	106	1,479	(-) 202
2007-2008	1,310	906	34	940	370

Negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. Debt sustainability in terms of the resource gap oscillated between the negative and positive phases during the period 2003-08. The positive resource gap between 2004-06 turned negative in 2006-07 mainly because of the steep increase in non-plan revenue expenditure (Rs 1,035 crore) and turned positive in the current year. These trends indicate that the consistent increase in non-debt receipts alongwith the constant vigil on NPRES seems inevitable to retain the positive resource gap and to attain the fiscal and debt sustainability.

### 1.8.6 Net Availability of Borrowed Funds

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e., they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.



**Table-1.31** gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

**Table-1.31: Net Availability of Borrowed Funds**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal debt</b>					
Receipts	3,473	2,444	1,753	2,042	1,798
Repayments (Principal+Interest)	1,700	1,737	2,467	2,492	2,230
Net Funds Available	1,773	707	(-) 714	(-) 450	(-) 432
Net Funds Available (per cent)	51.05	71.07	(-) 40.73	(-) 22.04	(-) 24.03
<b>Loans and Advances from Government of India</b>					
Receipts	165	133	28	38	51
Repayments (Principal+Interest)	1,170	1,145	141	212	133
Net Funds Available	(-) 1,005	(-)1,012	(-) 113	(-) 174	(-) 82
Net Funds Available (per cent)	(-) 609.09	(-)760.90	(-) 403.57	(-)457.89	(-)160.78
<b>Other obligations</b>					
Receipts	2,226	2,171	1,806	1,870	2,655
Repayments (Principal+Interest)	2,283	1,304	1,620	2,317	2,220
Net Funds Available	(-) 57	867	186	(-) 447	435
Net Funds Available (per cent)	(-) 2.56	39.94	10.30	(-) 23.90	16.38
<b>Total liabilities</b>					
Receipts	5,864	4,748	3,587	3,950	4,504
Payments (Principal+Interest)	5,153	4,186	4,228	5,021	4,583
Net Funds available	711	562	(-) 641	(-) 1,071	(-) 79
Net Funds Available (per cent)	12.12	11.84	(-) 17.87	(-) 27.11	(-) 1.75

The net funds available on account of internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments varied from 12.12 per cent in 2003-04 to minus figures for the last three years. The State Government raised internal debt amounting to Rs 1,798 crore through market loans (Rs 1,399 crore), securities issued to National Small Savings Fund (NSSF) (Rs 158 crore) and NABARD and other institutions (Rs 241 crore). Against these receipts, the Government discharged the past debt obligations (principal+interest) amounting to Rs 2,230 crore resulting in negative net funds available under the debt account. During the current year the Government repaid GOI loans including interest amounting to

Rs 133 crore<sup>12</sup> and also discharged other obligations of Rs 2,220 crore alongwith interest obligations which were more than the total receipts, resulting in negative net availability of funds during the year. During 2005-06, 2006-07 and 2007-08, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest. The decreasing trend in the ratio of total debt receipts and debt redemption over the period indicate the State's progress towards debt stabilisation.

### **1.9 Management of Deficits**

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management by the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health.

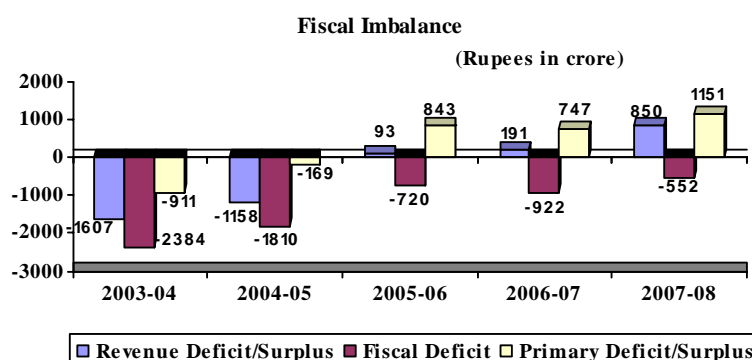
#### **1.9.1 Trends in Deficits**

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table-1.32**.

**Table-1.32: Fiscal Imbalances–Basic Parameters (Values in crore of rupees and ratios in per cent)**

Parameters	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Deficit/Surplus	(-) 1,607	(-) 1,158	(+) 93	(+) 191	(+) 850
Fiscal Deficit	(-) 2,384	(-) 1,810	(-) 720	(-) 922	(-) 552
Primary Deficit/Surplus	(-) 911	(-) 169	(+) 843	(+) 747	(+) 1,151
RD/GSDP	(-) 7.76	(-) 5.02	(+) 0.37	(+) 0.67	(+) 2.66
FD/GSDP	(-) 11.51	(-) 7.85	(-) 2.83	(-) 3.25	(-) 1.73
PD/GSDP	(-) 4.40	(-) 0.73	(+) 3.31	(+) 2.63	(+) 3.60
RD/FD	(+) 67.41	63.98	(-) 12.92	(-) 20.72	(-) 153.99

(Negative figures indicate deficit).



<sup>12</sup> Includes Rs 45.29 crore debt relief from GOI under DCRF to States.

The improvement in revenue surplus during the current year was mainly because of an increase of Rs 1,307 crore (17 per cent) in revenue receipts against the increase of Rs 648 crore (8 per cent) in revenue expenditure over the previous year. The increase in revenue receipts during 2007-08 was mainly on account of increase in non-tax revenue (Rs 486 crore) and Central transfers (Rs 519 crore).

Given the increase of Rs 659 crore in revenue surplus, the fiscal deficit decreased by Rs 370 crore on account of a combined increase of Rs 292 crore in capital expenditure and loans and advances disbursed during 2007-08 over the previous year. This decline in fiscal deficit accompanied by an increase of Rs 34 crore in interest payments during 2007-08 over the previous year led to an increase in primary surplus by Rs 404 crore during the year.

### ***1.10 Quality of Deficit/surplus***

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit<sup>13</sup> and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD was around 64 per cent in 2004-05 indicating that significant portion of borrowed funds was being applied to meet the current expenditure requirements. The revenue deficit was completely wiped out in 2005-06 and it turned into a surplus during the year, which further consistently increased during 2006-07 and 2007-08. This trajectory shows a consistent improvement in the quality of deficit during 2005-06, 2006-07 and 2007-08. All borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting in primary deficit or surplus during the period 2003-08 reveals (**Table-1.33**) that except for the year 2003-04, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>14</sup> requirements in the revenue account, rather left some receipts to meet

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<sup>13</sup> Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

<sup>14</sup> Primary expenditure of the State defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

the expenditure under the capital account except in 2003-04.

**Table-1.33: Primary deficit/surplus – Bifurcation of factors**

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/surplus (+)
1.	2.	3.	4.	5.	6. (3+4+5)	7. (2-3)	8. (2-6)
2003-2004	4,009	4,115	785	20	4,920	(-) 106	(-) 911
2004-2005	4,661	4,152	654	24	4,830	509	(-) 169
2005-2006	6,581	4,903	821	14	5,738	1,678	843
2006-2007	7,858	5,975	1,110	26	7,111	1,883	747
2007-2008	9,168	6,589	1,414	14	8,017	2,579	1,151

### 1.11 Fiscal ratios

The finances of the State should be sustainable, flexible and non-vulnerable. **Table-1.34** below presents a summarised position of Government finances over 2003-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of the available resources and their application, highlight areas of concern and capture its important facts.

**Table-1.34: Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
1.	2.	3.	4.	5.	6.
<b>I.</b>	<b>Resource Mobilisation</b>				
Revenue Receipts/GSDP	19.21	20.09	25.75	27.63	28.59
Revenue Buoyancy	0.92	1.45	3.99	1.72	1.31
Own tax/GSDP	4.75	5.43	5.88	5.84	6.12
<b>II.</b>	<b>Expenditure Management</b>				
Total Expenditure/GSDP	30.85	28.05	28.66	30.96	30.40
Revenue Receipts/Total Expenditure	62.27	71.63	89.84	89.24	94.05
Revenue Expenditure/Total Expenditure	87.41	89.52	88.56	87.06	85.31
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	28.94	31.59	31.29	32.73	35.73
Non-Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	26.56	21.35	25.04	24.12	22.85
Capital Expenditure/Total Expenditure <sup>15</sup>	12.32	10.14	11.27	12.68	14.57
Development Expenditure/Total Expenditure <sup>15</sup>	60.63	57.25	60.53	61.57	64.03

<sup>15</sup> Total expenditure does not include Loans and Advances.

1.	2.	3.	4.	5.	6.
Capital Expenditure on Social and Economic Services/Total Expenditure	11.92	9.64	10.53	11.95	13.94
Buoyancy of TE with RR	0.69	0.07	0.31	1.04	0.64
Buoyancy of RE with RR	0.99	0.22	0.28	0.94	0.51
<b>III.</b>	<b>Management of Fiscal Imbalances</b>				
Revenue deficit (-) surplus (+) (Rs in crore)	(-) 1,607	(-) 1,158	93	191	850
Fiscal deficit (Rs in crore)	(-) 2,384	(-) 1,810	(-) 720	(-) 922	(-) 552
Primary deficit(-) surplus (+) (Rs in crore)	(-) 911	(-) 169	(+) 843	(+) 747	(+) 1,151
Revenue deficit/Fiscal deficit	67.41	63.98	(-) 12.92	(-) 20.72	(-) 153.99
<b>IV.</b>	<b>Management of Fiscal Liabilities (FL)</b>				
Fiscal liabilities/GSDP	69.67	71.68	68.44	63.72	60.73
Fiscal liabilities/RR	362.65	356.70	265.77	230.64	212.42
Buoyancy of FL with RR	1.87	0.88	0.13	0.19	0.45
Buoyancy of FL with Own Receipts	0.83	0.32	0.31	0.10	0.28
Net Funds Available	12.12	11.84	--	--	--
<b>V.</b>	<b>Other Fiscal Health Indicators</b>				
Return on Investment	0.03	0.03	1.55	0.10	0.03
Balance from Current Revenue (Rs in crore)	(-) 2,262	(-) 1,585	(-) 191	(-) 281	(+) 113
Financial Assets/Liabilities	0.53	0.51	0.54	0.57	0.60

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources to the State. Revenue receipts comprised not only of the tax and non-tax resources but also transfers from the Union Government. The ratio of revenue receipts to GSDP during the current year was 28.6 *per cent*, an increase of one percentage point over the previous year. During 2003-08, the ratio of own taxes to GSDP hovered within the narrow range of 4.7 and 6.1 *per cent*. The ratio at 6.1 *per cent* in 2007-08 is below the budget estimate of 7.81 *per cent* for the year indicating that tax efforts need to be stepped up in the State.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure exhibited relative stability and with minor inter year variations it was 85 *per cent* in 2007-08. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to capital expenditure among others. Increasing reliance on revenue receipts to finance the total expenditure, which accounts for 94 *per cent* during 2007-08, indicates decreasing dependence on borrowed funds. This is also reflected in the decreasing ratio of financial liabilities to revenue receipts. Maintaining the proportion of capital expenditure in the total expenditure within the range of 12 to 14 *per cent* or more with inter year variations indicates improvement in the quality of expenditure. But the negligible return

on the Government investment continued to be a cause of concern and low productivity of capital expenditure would not only put strain on the Government budget but might also adversely affect the maintenance and upkeep as well as efficiency in delivery of social and economic services in the State.

Revenue surplus and significant decline in fiscal deficit to keep it within 3 *per cent* indicates an improvement in fiscal position of the State. The balance from current revenue (BCR), declined steeply during 2005-06 and 2006-07 and turned positive during 2007-08 and stood at Rs 113 crore. The improved fiscal position and BCR is also reflected in the improvement in the asset backup of the liabilities during the last three years.

### **1.12 Conclusion**

The fiscal position of the State viewed in terms of key fiscal parameters-revenue, fiscal and primary deficits has indicated a significant improvement during 2005-08. The State has eliminated the revenue deficit before the target date set in the HPFRBM Act 2005 and is on the trajectory of achieving the fiscal deficit target. The improvement in the fiscal position of the State was mainly on account of increase in revenue receipts by Rs 1,307 crore (17 *per cent*) against an increase of only Rs 648 crore (8 *per cent*) in revenue expenditure resulting in a steep increase of Rs 659 crore in revenue surplus during the current year. The improvement in revenue surplus may, however, be viewed in the context of about 40 *per cent* of the incremental revenue receipts of the State during 2007-08 being contributed by Central transfers comprising of the State's share in Union taxes and duties and grants-in-aid from GOI. Moreover, receipts on account of sale of electricity to Power Trading Corporation, etc., which the State receives free of cost from various hydel power projects as per the agreements also contributed more than 100 *per cent* in the incremental non tax receipts of the State during the current year. The expenditure pattern of the State revealed that although fiscal position has shown improvement, the NPRE at Rs 7,090 crore (86 *per cent* of total revenue expenditure) during 2007-08 was higher than the normatively assessed level of Rs 5,135 crore by the TFC for the year. Within NPRE, the ratio of salary expenditure to revenue expenditure (net of interest payments and pensions) at 63 *per cent* needs to be brought down to the norm of 35 *per cent* as recommended by the TFC. Furthermore, the salaries and wages, pensions, interest payments and subsidies continued to consume on an average 94 *per cent* of the NPRE during the period 2003-08. The increasing fiscal liabilities of the State which stood at 61 *per cent* of GSDP in 2007-08 are high especially if compared with the TFC norm of 31 *per cent* to be achieved by all the States by the terminal year of its award period. The increasing fiscal liabilities accompanied by a negligible rate of return (being less than one *per cent*) on Government's investment and inadequate interest cost recovery on loans and advances continue to be a cause for concern and need attention.