

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large Revenue and Fiscal deficits year after year indicate continued macro imbalances in the State. In Himachal Pradesh Revenue deficit had increased from Rs 1,482 crore in 2002-03 to Rs 1,607 crore in 2003-04 (current year).

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 3,715 crore in 1999-2000 to Rs 3,981 crore in 2003-04 at an average trend rate of 8.55 *per cent*. There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 8.80 *per cent*. Arrears of revenue were at a high of Rs 405 crore and represented 31.74 *per cent* of tax and non-tax revenue receipts of the current year. On an average 32 *per cent* of the revenue came from State's own resources.

Total expenditure of the State increased from Rs 4,435 crore in 1999-2000 to Rs 6,393 crore in 2003-04 at an average trend rate of 10 *per cent*. The rate of growth of expenditure in 2003-04 was 6.04 *per cent* which was lower than the average trend rate (10 *per cent*) for five years.

The interest payment during 2003-04 was Rs 1,473 crore and the same grew by 25.68 *per cent* over the last year. The average growth rate of interest payment during the period 1999-2004 was 18.80 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2003-04 was Rs 14,437 crore, up by 16.49 *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.

State Government has not yet passed any Fiscal Responsibility Act but entered into Memorandum of Understanding with Government of India in May 2004.

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 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 2004.

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 Previous year

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

(Rupees in crore)

2002-03	Sr. No.	Major Aggregates	2003-04
3659	1.	Revenue Receipts (2+3+4)	3981
890	2.	Tax Revenue	984
175	3.	Non-Tax Revenue	292
2594	4.	Other Receipts	2705
29	5.	Non-Debt Capital Receipts	28
29	6.	Of which Recovery of Loans	28
3688	7.	Total Receipts (1+5)	4009
3753	8.	Non-Plan Expenditure (9+11+12)	4754
3755	9.	On Revenue Account	4748
1172	10.	Of which, Interest Payments	1473
(-) 02	11.	On Capital Account	04
--	12.	On Loans disbursed	02
2276	13.	Plan Expenditure (14+15+16)	1639
1386	14.	On Revenue Account	840
862	15.	On Capital Account	781
28	16.	On Loans disbursed	18
6029	17.	Total Expenditure (8+13)	6393
2341	18.	Fiscal Deficit (17-1-5)	2384
1482	19.	Revenue Deficit (9+14-1)	1607
1169	20.	Primary Deficit (18-10)	911

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 2003-04 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 Finance Accounts and other detailed Statements.

Table-1.1: Summary of Receipts and disbursements for the year 2003-04

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section-A: Revenue							
					Non-Plan	Plan	Total
3658.75	I. Revenue receipts	3980.92	5141.15	I. Revenue expenditure	4748.21	839.87	5588.08
889.71	Tax revenue	984.33	2130.67	General Services	2467.36	15.94	2483.30
175.49	Non-tax revenue	291.76	1608.86	Social Services	1384.56	547.90	1932.46
345.46	Share of Union Taxes/Duties	449.54	1345.99	Economic Services	893.42	276.03	1169.45
2248.09	Grants from Government of India	2255.29	55.63	Grants-in-aid/Contributions	2.87	--	2.87
Section-B: Capital							
	II. Miscellaneous Capital Receipts		859.74*	II. Capital Outlay	4.00	780.84	784.84
28.95	III. Recoveries of Loans and Advances	28.29	28.37	III. Loans and Advances disbursed	1.94	17.97	19.91
2198.74**	IV. Public debt receipts*	3762.32	684.41	IV. Repayment of Public Debt			1854.82
	V. Contingency Fund	--		V. Contingency Fund			--
4155.69	VI. Public account receipts	5033.31	3461.52	VI. Public account disbursements			4788.35
45.77	Opening Balance	(-) 87.29	(-) 87.29	Closing Balance			(-) 318.45
10087.90	Total:	12717.55	10087.90	Total:			12717.55

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 2003-04 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.

* These are net figures exclusive of recoveries adjusted in reduction of capital expenditure.

** Includes Rs 197.78 crore being the share of small savings collections for the year 1999-2001 transferred from the head 6004-01-102.

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 1999-2004 has been indicated. The ratios with respect of 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 2003-04 were Rs 12,804 crore. Of these, the revenue receipts of the State Government were Rs 3,981 crore only, constituting 31 *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		3,981
II.		Capital Receipts		3,790
	(a)	Miscellaneous Receipts	--	
	(b)	Recovery of Loans and Advances	28	
	(c)	Public Debt Receipts	3762	
III.		Contingency Fund Receipts	--	--
IV.		Public Account Receipts		5,033
	(a)	Small Savings, Provident Fund, etc.	833	
	(b)	Reserve Fund	140	
	(c)	Deposits and Advances	1375	
	(d)	Suspense and Miscellaneous	172	
	(e)	Remittances	2513	
		Total Receipts		12,804

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.

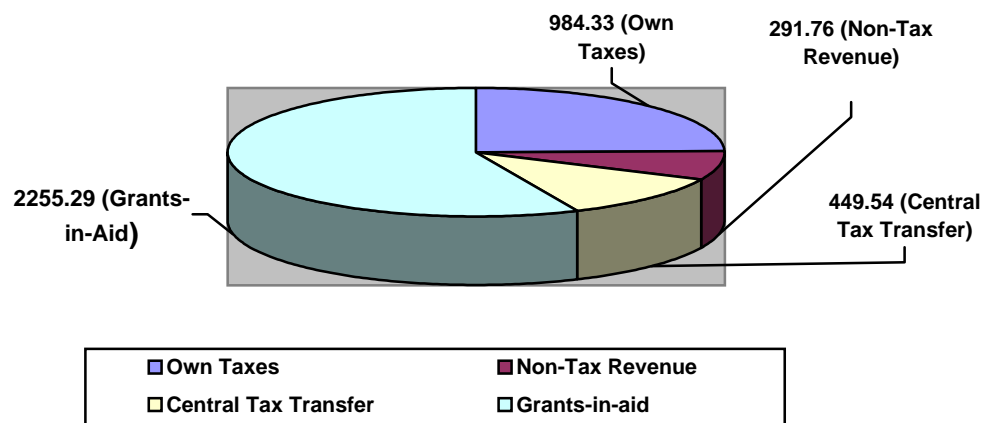
Table-1.3: Revenue Receipts–Basic Parameters (Values in Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts	3715	3046	3716	3659	3981	3623
Own Taxes	16.69	23.93	24.65	24.32	24.72	22.85
Non-Tax Revenue	28.43	5.81	5.33	4.78	7.33	10.48
Central tax Transfers	24.79	10.83	8.74	9.46	11.30	13.09
Grants-in-aid	30.09	59.42	61.28	61.44	56.65	53.59
Rate of Growth	60.68	(-) 18.01	22.00	(-) 1.53	8.80	8.55
Revenue Receipt/GSDP	30.38	22.56	24.87	22.95	22.09	24.27
Revenue Buoyancy	4.234	*	2.065	*	0.677	0.811
GSDP Growth	14.33	10.43	10.66	6.71	13.00	10.53

* Rate of growth of Revenue Receipts was negative.

The revenue receipts of the State increased from Rs 3,715 crore in 1999-2000 to Rs 3,981 crore in 2003-04 at an average trend rate of 8.55 *per cent*. There were, however, significant inter-year variations in the growth rates. During the five year period 1999-2004, the State had a buoyant economy with its GSDP growth averaging 10.53 *per cent*. Revenue growth exceeded GSDP growth rates during 1999-2000 and 2001-2002 and buoyancy of revenue receipt during this period was greater than one. There was sharp decline in revenue buoyancy to 0.677 due to a moderate growth in revenue receipt during 2003-04 relative to GSDP.

While 32 *per cent* of the revenue receipts during 2003-04 have come from State's own resources comprising of taxes and non-taxes, central tax transfers and grants-in-aid together contributed 68 *per cent* of the total revenue. Sales Tax was the major contributor (44 *per cent*) of State's own tax revenue followed by State Excise (29 *per cent*) and taxes on vehicles (8 *per cent*). Of non-tax revenue sources, Non-ferrous Mining and Metallurgical Industries (13 *per cent*) and Power (12 *per cent*) were principal contributors.



**Revenue Receipts for 2003-04
(Rupees in crore)**

The arrears of revenue increased by 114 *per cent* from Rs 189 crore in 1999-2000 to Rs 405 crore at the end of 2003-04. Of these, Rs 35 crore (9 *per cent*) were more than five years old. Of the total increase of Rs 216 crore during the period, increase of Rs 209 crore (97 *per cent*) was mainly under “Taxes on Sales, Trade, etc. (Rs 84 crore)”, “Taxes on Vehicles (Rs 52 crore)”, “Forestry and Wild Life (Rs 42 crore)” and “Taxes and Duties on Electricity (Rs 31 crore)”.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 1.28 *per cent* for health and family welfare, 2.53 *per cent* for water supply and sanitation and 4.13 *per cent* for education.

The source of total receipts under different heads and GSDP during 1999-2004 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		
1999-2000	3715	531	1477	4932	10655	12229
2000-2001	3046	27	1557	3878	8508	13504
2001-2002	3716	29	1588	3733	9066	14943
2002-2003	3659	29	2199	4156	10043	15946
2003-2004	3981	28	3762	5033	12804	18019

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 4,435 crore in 1999-2000 to Rs 6,393 crore in 2003-04 at an average trend rate of 10 *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 and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure	4435	4918	5256	6029	6393	5406
Rate of Growth	10.79	10.89	6.87	14.71	6.04	9.98
TE/GSDP Ratio	36.27	36.42	35.17	37.81	35.48	36.21
Revenue Receipts/TE Ratio	83.77	61.94	70.70	60.69	62.27	67.02
Buoyancy of Total Expenditure with						
GSDP	0.753	1.044	0.645	2.192	0.465	0.947
Revenue Receipts	0.178	*	0.312	*	0.686	1.167

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 1999-2004 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 2003-04 has increased by Rs 364 crore over previous year its ratio as a percentage of GSDP has shown a decline. The increase in total expenditure in 2003-04 was due to increase in interest payment by Rs 301 crore which was nearly 83 *per cent* of net increase of total expenditure over previous year.

In terms of the 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
General Services	19.93	16.98	17.28	16.09	16.17	17.13
Interest Payments	13.46	16.22	19.82	19.44	23.04	18.80
Social Services	35.56	36.38	34.49	30.74	34.98	34.29
Economic Services	29.25	29.20	27.44	32.36	25.46	28.68
Loans and Advances	1.35	0.81	0.57	0.46	0.31	0.66
Grants-in-aid	0.45	0.41	0.40	0.91	0.04	0.44

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 39.21 per cent in 2003-04 as against 33.39 per cent in 1999-2000. On the other hand, development expenditure i.e., on Social and Economic Services together accounted for only 60.44 per cent in 2003-04 as against 64.81 per cent in 1999-2000. 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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Expenditure (Rupees in crore)	3821	4329	4576	5141	5588	4691
Rate of Growth (per cent)	14.61	13.29	5.71	12.35	8.69	10.61
RE/GSDP	31.25	32.06	30.62	32.24	31.01	31.42
RE as percentage of TE	86.16	88.02	87.06	85.27	87.41	86.77
RE as percentage of RR	102.85	142.12	123.14	140.50	140.37	129.46
Buoyancy of Revenue Expenditure with (per cent)						
GSDP	1.019	1.275	0.536	1.840	0.668	1.007
Revenue Receipts	0.241	*	0.259	*	0.987	1.241

* Revenue receipts had a negative growth.

Overall revenue expenditure of the State increased at an average trend rate of 10.61 per cent. Rate of growth of revenue expenditure which was 14.61 per cent in 1999-2000 decelerated since then. As a result revenue expenditure-GSDP ratio declined from 31.25 per cent in 1999-2000 to 31.01 per cent in 2003-04. On an average 86.77 per cent of the total expenditure was on current consumption.

(i) High Salary expenditure: Expenditure on salaries including grants-in-aid towards salaries accounted for 60 per cent of the revenue receipts and 43 per cent of the revenue expenditure of the State during 2003-04. The expenditure on salaries increased from Rs 1,677 crore in 1999-2000 to Rs 2,382 crore in 2003-04 at an average annual rate of 9.25 per cent as indicated in the Table-1.8.

Table: 1.8

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure	1677	1900	2005	2271	2382
As a percentage of GSDP	13.71	14.07	13.42	14.24	13.22
As a percentage of Revenue Receipts	45.14	62.38	53.96	62.07	59.83
As a percentage of Revenue expenditure	43.89	43.89	43.82	44.17	42.63

(ii) Huge expenditure on pension payments: Pension payments have increased by 21.31 per cent from Rs 474 crore in 1999-2000 to Rs 575 crore in 2003-04 (average annual rate of 5.33 per cent). Year-wise break-up of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

Table: 1.9

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
1999-2000	474	12.41
2000-2001	422	9.75
2001-2002	440	9.62
2002-2003	489	9.51
2003-2004	575	10.29

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 2000-2004 as shown below:

Table: 1.10

(Rupees in crore)

Year	Interest payments	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	597	16.07	15.62
2000-2001	798	26.20	18.43
2001-2002	1042	28.04	22.77
2002-2003	1172	32.03	22.80
2003-2004	1473	37.00	26.36

Interest payments increased steadily by 147 *per cent* from Rs 597 crore in 1999-2000 to Rs 1,473 crore in 2003-04 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs 944 crore), loans received from Central Government (Rs 335 crore) and Small Savings, PF, etc. (Rs 194 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	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Fertiliser subsidy	4.21	3.78	0.07	5.37	1.42
2.	Subsidy on Transportation	48.19	43.80	23.11	24.05	12.98
3.	ICDP on Cooperative Societies	0.49	Nil	Nil	0.98	0.75
4.	Fruit Procurement/Plant Protection	1.35	2.47	2.13	2.78	2.23
5.	Others	54.76	65.62	94.37	114.99	66.40
	Total:	109.00	115.67	119.68	148.17	83.78
	Percentage of increase (+)/ decrease (-) over previous year	(+) 7.28	(+) 6.12	(+) 3.47	(+) 23.81	(-) 43.46
	Percentage of subsidy in total expenditure*	2.49	2.37	2.29	2.47	1.31

* Total expenditure excludes Loans and Advances

During the current year subsidies constituted one *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. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table-1.12 gives these ratios during 1999-2004, as follows.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Plan Expenditure	37.26	37.64	35.44	37.46	25.43	34.21
Capital Expenditure	12.66	11.25	12.44	14.33	12.32	12.65
Developmental Expenditure	65.69	66.11	62.28	63.39	60.63	63.39

(Total expenditure does not include Loans and Advances).

All the three components of quality of expenditure indicated inter year variations. In the year 2003-04, Plan expenditure decreased substantially when compared to 1999-2000. The decline in developmental expenditure (expenditure on Economic and Social Services) compared to 1999-2000 is disturbing.

Out of the developmental expenditure of Rs 3,864 crore, during the year, social services accounted for 58 per cent (Rs 2,237 crore). Expenditure on General Education, Health and Family Welfare, Water Supply and Sanitation constituted 91 per cent of the expenditure on Social sector.

Table-1.13: Social Sector Expenditure

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	837	905	919	957	1006
Health and Family Welfare	275	300	278	297	346
Water Supply and Sanitation	321	400	415	402	682
Total:	1433	1605	1612	1656	2034
As a percentage of expenditure on Social sector	90.87	89.71	88.91	89.37	91.00

Similarly, the expenditure on Economic Services (Rs 1,627 crore) accounted for 42 per cent of the developmental expenditure. Of which, Transport, Agriculture and Allied Services, Energy and Irrigation and Flood Control accounted for 88 per cent.

Table-1.14: Economic Sector Expenditure

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Transport	457	466	448	534	620
Agriculture and Allied Services	416	458	456	608	411
Energy	98	135	251	489	246
Irrigation and flood control	97	98	96	116	153
Total:	1068	1157	1251	1747	1430

As a percentage of expenditure on Economic sector	82.28	80.63	86.75	89.54	87.89
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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 2003-04 was as follows:

Table-1.15: Economic Sector Expenditure

(Rupees in crore)					
Name	1999-2000	2000-01	2001-02	2002-03	2003-04
University and other Educational Institution	68.84	74.13	88.47	78.44	94.58
Municipal Corporation and Municipalities	16.77	29.99	18.66	45.15	19.50
Zila Parishads and Panchayati Raj	20.57	85.75	36.25	42.87	48.82
Development Agencies	21.94	8.14	9.84	10.45	77.47
Hospital and other charitable Institutions	0.11	0.10	Nil	0.05	0.21
Other Institutions (including Statutory Bodies)	39.20	14.67	15.87	8.73	32.83
Total:	167.43	212.78	169.09	185.69	273.41
Percentage of Increase (+)/decrease (-) over previous year	(-) 4.17	(+) 27.09	(-) 20.53	(+) 9.82	(+) 47.24
Assistance as a percentage of revenue (expenditure)	4.37	4.92	3.69	3.62	4.89

The total assistance at the end of 2003-04 had grown by 63 per cent over the level of 1999-2000. The assistance to local bodies as a percentage of total revenue expenditure had, also increased from 4 in 1999-2000 to 5 in 2003-04.

(ii) **Delay in furnishing Utilisation Certificates:** At the end of March 2004, a total number of 2,810 utilisation certificates (UCs) relating to Rs 369.20 crore in respect of grants released up to March 2003 and due by March 2004 from 14 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	1426	136.60	2000-01
2.	Education	191	54.76	1994-95
3.	Urban Development/Local Self Government	149	58.54	2000-01
4.	Animal Husbandry	5	1.04	1994-95
5.	Co-operation	133	1.78	1999-2000
6.	Sports and Youth	84	3.50	1997-98
7.	Tourism	12	2.23	1994-95
8.	Industries	259	10.09	1993-94
9.	Agriculture	139	98.16	2000-01
10.	Forests	4	0.06	1998-99

11.	Science and Technology	6	0.69	2001-02
12.	Art and Culture	391	1.14	1998-99
13.	Medical and Public Health	10	0.56	1996-97
14.	Other Administrative Services	1	0.05	1995-96
	Total:	2810	369.20	

(iii) Delay in submission of accounts: Submission of 98 accounts from 49 Municipal Corporations/Municipal Committees and Nagar Panchayats to the AG up to 31 March 2004 were due as of September 2004, in order to examine to what extent they attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

Accounts of two autonomous bodies covered under Section 19 (2) and 19 (3) of the Act, up to 2002-03 were due for periods ranging from one to two years as detailed in **Appendix-II**.

1.7.2 Misappropriation, losses, etc.

Out of 75 cases of misappropriation amounting to Rs 138.13 lakh reported by the State Government to end of March 2004, six cases amounting to Rs 4.71 lakh were disposed off with 69 cases amounting to Rs 133.42 lakh outstanding to the end of June 2004. The year-wise details are given in **Appendix-III**.

1.8 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings, etc., 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 by the Government. **Appendix-IV** gives an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. 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 19 *per cent*, the assets increased only by 11 *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 2003-04 and Sources and Application of Funds respectively. **Appendix-VII** depicts the Time series data on State Government Finances for the period 1999-2004.

1.8.1. Investments and returns: As of 31 March 2004, Government had invested Rs 1,922 crore in its Statutory Corporations,

Government companies, Joint Stock Companies and Co-operative Societies. Average return on this investment was less than 0.06 *per cent* in the last five years. With an average interest rate of 10.28 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 10.23 *per cent* and the implicit subsidy during the period 1999-2004 was Rs 764 crore.

Table-1.17: Return of investment

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Investment (Rs in crore)	1105	1179	1384	1796	1922	1477
Return (Rs in crore)	0.59	0.61	0.89	0.61	0.50	0.64
Percentage of return	0.05	0.05	0.06	0.03	0.03	0.05
Average interest rate paid by the Government	8.83	10.15	11.06	10.37	10.98	10.28
Difference between interest rates and return	8.78	10.10	11.00	10.34	10.95	10.23
Implicit subsidy (Rs in crore)	97	119	152	186	210	151

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 2004 was Rs 245 crore. Interest received on such loans had varied from 2.72 *per cent* to 33.33 *per cent* during 1999-2004 (Table-1.18). Total implicit subsidy during 1999-2004, on such loans was Rs 242 crore.

Table-1.18: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	710	239	252	253	252
Amount Advanced during the year	60	40	30	28	20
Amount repaid during the year	531	27	29	29	28
Closing Balance	239	252	253	252	244
Net Addition (+)/decrease (-)	(-) 471	(+) 13	(+) 1	(-) 1	(-) 8
Interest Received	158	15	7	8	9
Interest Received as <i>per cent</i> to Loans advanced	33.33*	5.93	2.72	3.31	3.63
Average interest paid by the State (<i>per cent</i>)	8.83	10.15	11.06	10.37	10.98
Difference between interest paid and received (percentage)	(-) 24.50	4.22	8.34	7.05	7.35
Implicit subsidy	174	10	21	18	19

* The high percentage of interest received during 1999-2000 was mainly due to crediting of Rs 152.28 crore by State Government to the interest head on loans given to HPSEB.

1.8.3 Management of cash balances: It is generally desirable that 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. State has not shown improvement in management of cash balances as WMA facilities were used for 133 days during 2003-04 as against 92 days in previous year. As regards overdraft, the State Government has used this facility for 117 days only in 2003-04, signifying improvement in cash management.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Ways and Means Advances						
Taken in the year	650.58	848.22	586.57	1109.00	1728.85	984.64
Outstanding	59.00	92.00	92.00	135.00	117.94	99.19
Interest paid	3.29	2.60	5.36	5.47	5.19	4.38
Number of days	81	82	71	92	133	92
Overdraft						
Taken in the year	1508.41	728.73	2227.75	1634.05	1145.28	1448.84
Outstanding	76.40	26.55	275.27	135.00	--	102.64
Interest paid	3.40	2.36	3.80	2.18	1.94	2.74
Number of days	172	103	229	179	117	160

1.8.4 Undischarged liabilities

(i) **Fiscal liabilities – public debt and guarantees:** 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Fiscal Liabilities \$	7104	8621	10220	12393	14437	10555
Rate of Growth	10.69	21.35	18.55	21.26	16.49	18.34
Ratio of Fiscal Liabilities to						
GSDP	58.09	63.84	68.39	77.72	80.12	70.71
Revenue Receipt	191.22	283.03	275.03	338.70	362.65	291.30
Own Resources	423.87	951.55	917.45	1163.66	1131.43	874.19
Buoyancy of Fiscal Liabilities to						
GSDP	0.746	2.048	1.741	3.168	1.269	1.741
Revenue Receipt	0.176	*	0.843	*	1.874	2.146
Own resources	0.093	*	0.808	*	10.832	4.771

\$ 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 7,104 crore in 1999-2000 to Rs 14,437 crore in 2003-04 on an average rate of 18.34 *per cent* in 1999-2004. The ratio of these liabilities to GSDP also increased from 58.09 *per cent* in 1999-2000 to 80.12 *per cent* in 2003-04. These liabilities stood at 3.63 times of its revenue receipts and 11.31 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 2003-04 stood at Rs 4,682 crore. The guarantees are in the nature of contingent liabilities and currently exceed the revenue receipts of the State (Rs 3,981 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 1.741 indicating that for each 0.746 *per cent* increase GSDP fiscal liabilities were growing at the rate of 1.741 *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*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Weighted Interest Rate	8.83	10.15	11.06	10.37	10.98	10.28
GSDP Growth	14.33	10.43	10.66	6.71	13.00	10.53
Interest spread	5.50	0.28	(-) 0.49	(-) 3.65	2.02	0.26

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

16.28 per cent in 1999-2000 to 24.87 per cent in 2003-04.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Internal debt						
Receipt	859	1227	1465	2053	3473	1815
Repayment (Principal+Interest)	141	311	503	512	1030	499
Net Fund Available	718	916	962	1541	2443	1316
Net Fund Available (<i>per cent</i>)	83.59	74.65	65.67	75.06	70.34	73.86
Loans and Advances from Government of India						
Receipt	179	221	(-) 64	146	289	154
Repayment (Principal+Interest)	429	464	515	779	1379	713
Net Fund Available	(-) 250	(-) 243	(-) 579	(-) 633	(-) 1090	(-) 559
Net Fund Available (<i>per cent</i>)	--	--	--	--	--	--
Other obligations						
Receipt	2389	1777	1547	1685	2226	1925
Repayment (Principal+Interest)	2299	1531	1557	1225	2090	1740
Total liabilities						
Receipt	3427	3225	2948	3884	5988	3894
Payments	2869	2306	2575	2516	4499	2953
Net receipts	558	919	373	1368	1489	941
Net Funds Available (<i>per cent</i>)	16.28	28.50	12.65	35.22	24.87	24.17

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, increased from Rs 106 crore in 1999-2000 to Rs 1,607 crore in 2003-04. The Revenue deficit of the State Government, however, does not include the net deficit on account of power sector (Rs 46 crore). Hence, the effective revenue deficit would come out to Rs 1,653 crore **Appendix-VIII**. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs 189 crore in 1999-2000 to Rs 2,384 crore in 2003-04.

The State had persistent revenue deficit. The ratio of revenue deficit to fiscal deficit had increased from 56.08 *per cent* in 1999-2000 to 67.41 *per cent* in 2003-04 indicating that more than 67 *per cent* of the borrowed funds were used for current consumption. Persistently high 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 8.92 *per cent* and fiscal deficit 13.23 *per cent* in 2003-04.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Deficit	(-) 106	(-) 1283	(-) 860	(-) 1482	(-) 1607	(-) 1068
Fiscal Deficit	(-) 189	(-) 1845	(-) 1511	(-) 2341	(-) 2384	(-) 1654
Primary Deficit	(+) 408	(-) 1047	(-) 469	(-) 1169	(-) 911	(-) 638
RD/GSDP	(-) 0.87	(-) 9.50	(-) 5.76	(-) 9.29	(-) 8.92	(-) 7.15
FD/GSDP	(-) 1.55	(-) 13.66	(-) 10.11	(-) 14.68	(-) 13.23	(-) 11.08
PD/GSDP	(+) 3.34	(-) 7.75	(-) 3.14	(-) 7.33	(-) 5.06	(-) 4.27
RD/FD	56.08	69.54	56.92	63.31	67.41	64.55

(Negative figures indicate deficit)

1.10 Fiscal reforms programme

Finance Department

Revenue deficit grant not availed

(a) Mention was made in paragraph 1.4.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil), Government of Himachal Pradesh regarding non-availment of revenue deficit grant of Rs 292.31 crore by the State Government due to non-signing of Memorandum of Understanding (MOU) with the Government of India for bringing about improvement in fiscal performance. Further test-check of records of the Finance Department revealed (May-June 2004) that MOU was actually signed by the State Government with the Government of India in May 2004. It was also noticed that improvement in percentage of revenue deficit to revenue receipt of the State during 2003-04 was only to the extent of 0.14 *per cent* (from 40.50 *per cent* in 2002-03 to 40.36 in 2003-04) against the required minimum improvement of two *per cent* for Special Category States. Failure to sign the MOU and also to bring about the required improvement in revenue deficit deprived the State Government of revenue deficit grant of Rs 125.88 crore. Besides, matching grant of Rs 8.03 crore from the Government of India could also not be obtained for the Incentive Fund. In addition to Ways and Means Advances (Rs 1,728.85 crore), Overdraft from Reserve Bank of India (Rs 1,145.28 crore) and Special Securities issued to National Savings Fund of the Central Government (Rs 577.30 crore), the State Government had raised loans of Rs 2,895 crore during 2003-04 from various sources at interest rates ranging between 5.85 and 6.35 *per cent*. Had the State Government availed this revenue deficit grant after complying with the conditions laid down by the Eleventh Finance Commission, the interest liability of about Rs 3.84 crore (upto September 2004) at the average interest rate of 6.10 *per cent* on the borrowings could have been avoided.

(b) According to the modified guidelines for States' Fiscal Reforms Programme issued the by Government of India in September 2003, assistance in the form of 80 *per cent* Additional Open Market Borrowings (AOMB) was to be provided by the Government of India to the Special Category States for downsizing of Public Sector Undertakings (PSUs) by implementing Voluntary Retirement Scheme (VRS). The State Government incurred an expenditure of Rs 19.03 crore on providing VRS benefits to 524 employees of eight (PSUs) during the period 2000-04¹. The assistance of Rs 15.22 crore could not be claimed by the State Government from the Central Government as of August 2004 due to delay in entering into MOU.

Government stated (June 2004) that the MOU has been signed in May 2004 between the Central and State Governments and that further action in the matter would be initiated in due course of time. Fact however, remains that delay in signing the MOU deprived the State Government of revenue deficit grant of Rs 125.88 crore, matching grant of Rs 8.03 crore for the Incentive

¹ 2000-01: Rs 3.46 crore; 2001-02: Rs 1.63 crore; 2002-03: Rs 13.42 crore and 2003-04: Rs 0.52 crore.

Fund and assistance of Rs 15.22 crore; interest liability of Rs 3.84 crore could also not be avoided.

The matter was referred to the Government in September 2004; their reply had not been received (September 2004).

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 1999-2004, 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	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
1.	2.	3.	4.	5.	6.	7.
I. Resource Mobilisation						
Revenue Receipt/GSDP	30.38	22.56	24.87	22.95	22.09	24.27
Revenue Buoyancy	4.234	*	2.065	*	0.677	0.811
Own tax/GSDP	5.070	5.398	6.130	5.581	5.461	5.545
II. Expenditure Management						
Total Expenditure/GSDP	36.27	36.42	35.17	37.81	35.48	36.21
Revenue Receipt/Total Expenditure	83.77	61.94	70.70	60.69	62.27	67.02
Revenue Expenditure/Total Expenditure	86.16	88.02	87.06	85.27	87.41	86.77
Plan Expenditure/Total Expenditure	37.26	37.64	35.44	37.46	25.43	34.21
Capital Expenditure/Total Expenditure	12.66	11.25	12.44	14.33	12.32	12.65
Development Expenditure/Total Expenditure	65.69	66.11	62.28	63.39	60.63	63.39
Buoyancy of TE with RR	0.178	*	0.312	*	0.686	1.167
Buoyancy of RE with RR	0.241	*	0.259	*	0.987	1.241
III. Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	(-) 106	(-) 1283	(-) 860	(-) 1482	(-) 1607	(-) 1068
Fiscal deficit (Rs in crore)	(-) 189	(-) 1845	(-) 1511	(-) 2341	(-) 2384	(-) 1654
Primary deficit (Rs in crore)	408	(-) 1047	(-) 469	(-) 1169	(-) 911	(-) 638
Revenue deficit/Fiscal Deficit	56.08	69.54	56.92	63.31	67.41	64.55

1.	2.	3.	4.	5.	6.	7.
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IV. Management of Fiscal Liabilities (FL)						
Fiscal liabilities/GSDP	58.09	63.84	68.39	77.72	80.12	70.71
Fiscal liabilities/RR	191.22	283.03	275.03	338.70	362.65	291.30
Buoyancy of FL with RR	0.176	*	0.843	*	1.874	2.146
Buoyancy of FL with OR	0.093	*	0.808	*	0.832	4.771
Interest spread	5.50	0.28	(-) 0.46	(-) 3.66	2.02	0.26
Net Funds Available	16.28	28.50	12.65	35.22	24.87	24.17
V. Other Fiscal Health Indicators						
Return on Investment	0.053	0.052	0.064	0.034	0.023	0.05
BCR (Rs in crore)	(-) 114	(-) 921	(-) 810	(-) 1470	(-) 2262	(-) 1115
Financial Assets/Liabilities	0.74	0.64	0.61	0.56	0.53	0.62

* 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 and its buoyancy showed a declining trend from 1999-2000 to 2003-04. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Revenue expenditure is on the increasing trend over the five year period 1999-2004 and comprises 87 per cent of total expenditure in 2003-04 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 2003-04 over previous year. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities. Increasing revenue and fiscal deficit over last year indicates growing fiscal imbalances of the State. Similarly increase in the ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds was largely to meet current consumption.

Increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit on account of 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 borrowing 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

1.12.1 Appendix-IX, depicts the progress achieved by the Government during 2002-2003 as compared to 2001-2002 in various sectors. In Health and Family Welfare Sector the infant mortality rate has slightly increased from 54