CHAPTER – 1

Finances of the State Government

Himachal Pradesh is a Special Category State (SCS) based upon categorisation of States made by Government of India. The special privileges given to Himachal Pradesh includes financial assistance from Government of India (GoI) in the ratio of 90 *per cent* grant and 10 *per cent* loan unlike Non- Special Category States which get Central aid in the ratio of 30 *per cent* grant and 70 *per cent* loan.

Despite this, the State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product (GSDP) for the period 2002-03 to 2011-12 has been almost 15 *per cent* ***(Appendix-1)***. During 2001-11, its population has grown by 13 *per cent* and the per capita income growth has been at 12 *per cent* during 2011 and 2012.

This chapter provides a broad perspective of the finances of the Himachal Pradesh Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The major changes in the key fiscal aggregates of the State were the revenue surplus which had turned into revenue deficit during the year 2008-09. It again turned into revenue surplus (₹ 645 crore) in the year 2011-12. Fiscal deficit at ₹ 1,633 crore in the year 2011-12 was pegged at around 2.59 *per cent* of the GSDP which is well below the normative assessment made by the Thirteenth Finance Commission (*Th FC)*.

1.1 Summary of Current Fiscal Transactions during the year 2011-12

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) vis-à-vis the previous year (2010-11) while the ***Appendix-1.4*** provides details of receipts and disbursements as well as overall fiscal position during the current year as compared to the previous year.

Table-1.1
Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
Various items	2010-11	2011-12	Various items	2010-11	2011-12		
	Total	Total		Total	Non Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	**12,711**	**14,543**[1]	**Revenue expenditure**	**13,946**	**12,197**	**1,701**	**13,898**
Tax revenue	3,643	4,108	General services	5,279	5,655	35	5,690
Non tax revenue	1,695	1,915	Social services	4,979	4,209	938	5,147
Share of Union Taxes/ Duties	1,715	1,999	Economic services	3,682	2,321	728	3,049
Grants from Government of India	5,658	6,521	Grants-in-aid and Contributions	6	12	--	12

[1] Includes an amount of ₹ 32.43 crore by way of book adjustment.

Various items	2010-11	2011-12	Various items	2010-11	2011-12		
	Total	Total		Total	Non Plan	Plan	Total
Section-B: Capital							
Misc. Capital Receipts	646	--	Capital Outlay	1,789	46	1,764	1,810
Recoveries of Loans and Advances	73	25	Loans and Advances disbursed	227	15	478	493
Public Debt receipts	2,411	1,984	Repayment of Public Debt	870	--	1,128	1,128
Contingency Fund	--	--	Contingency Fund	--	--	--	--
Public Account receipts	8,507	9,237	Public Account disbursements	7,162	--	--	8,526
Opening Cash Balance	281	635	Closing Cash Balance	635	--	--	569
Total	24,629	26,424	Total	24,629			26,424

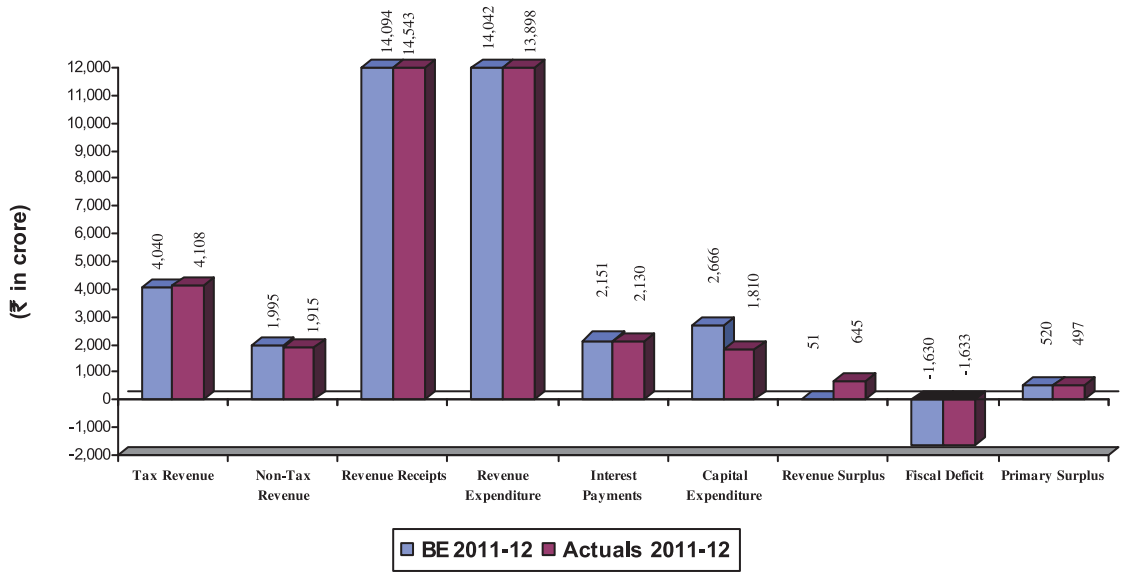
Following are the significant changes during 2011-12 over the previous year.

- **Revenue receipts** grew by ₹1,832 crore (14.41 *per cent*) over the previous year. The increase was the net effect of increase in Tax Revenue (₹465 crore), Non-Tax Revenue (₹220 crore), Share of Union Taxes and Duties (₹284 crore) and Grants-in-aid (₹863 crore).
- Being a special category State 44.84 *per cent* of the revenue receipts are in the form of grants from GoI. The revenue receipts in 2011-12 increased by 14.41 *per cent* over the previous year, whereas revenue expenditure decreased by 0.34 *per cent*.
- **Revenue expenditure** decreased by ₹48 crore (0.34 *per cent*) over the previous year. The decrease was net effect of decrease in Non-Plan expenditure (₹97 crore) and increase in Plan expenditure (₹49 crore). The revenue expenditure under General Services, Social Services and Grants-in-aid increased by ₹411 crore, ₹168 crore and ₹6 crore respectively while expenditure under Economic Services decreased by ₹633 crore.
- **Capital expenditure** increased by ₹21 crore (1.16 *per cent*) over previous year. The increase was on account of increase under Economic Services (₹260 crore) and decrease in Social Services (₹239 crore) whereas expenditure under General Services remained static.
- Recoveries of Loans and Advances decreased by ₹48 crore (66 *per cent*) whereas disbursement increased by ₹266 crore (117.18 *per cent*).
- While the receipts under Public debt decreased by ₹427 crore (17.71 *per cent*), the disbursement under Public debt increased by ₹258 crore (29.65 *per cent*).
- The Public Account receipts and disbursements increased by ₹730 crore (8.58 *per cent*) and ₹1364 crore (19.04 *per cent*), respectively, during the year.
- Opening cash balance increased by ₹354 crore while Closing cash balance decreased by ₹66 crore.

1.2 Budget Estimates and Actuals

The budget estimates and actuals for some important fiscal parameters are given in **Chart 1.1** below:

Chart-1.1: Selected Fiscal Parameters: Budget Estimates vis-a-vis Actuals



Source: Review of receipt and expenditure (December 2011) and Finance Accounts.

It may be seen from **Chart 1.1,** that there were variations between Budget estimates and Actuals in case of several parameters. The Revenue receipt increased by ₹449 crore (3.18 *per cent*) and Revenue expenditure decreased by ₹144 crore (1.02 *per cent*) resulting in revenue surplus of ₹594 crore over the budget estimates. Fiscal deficit increased by ₹ three crore while primary surplus decreased by ₹23 crore. The actual realisation of non-tax revenue (NTR) was less by ₹80 crore (4 *per cent*) during 2011-12 against the estimated NTR of ₹1,995 crore. *Against the estimated interest payments of* ₹ 2,151 *crore, the actual payments made were* ₹*2,130 crore during the current year.*

The performance of the State during 2011-12 in terms of key fiscal targets set for selected variables laid down in HPFRBM (Amendment) Act, 2011[2] as well as projections made in Medium Term Fiscal Plan Statement (MTFPS) vis-à-vis achievements for 2011-12 are summarised in **Table-1.1A** below:

[2] Amended by Act Number 25 of 2011.

Table-1.1A
Key fiscal targets for selected variables

(₹ in crore)

Fiscal forecasts	Projections in (FRBM Act)/ Th FC	Projections made by State Government in MTFPS	Actual	Percentage variation of actual over	
				Th FC	MTFPS
Tax Revenue	3,543	4,040	4,108	*	*
Non Tax Revenue	1,278	1,995	1,915	*	4.01
Non-Plan Revenue Expenditure (NPRE)	8,744	12,572	12,197	39.49	*
Capital Expenditure	---	1,498	1,810	--	--
Revenue Deficit (-) Surplus (+) as *per cent* of RRs	0.0 (2011-12)	(+)0.36	(+) 4.44	*	*
Fiscal Deficit(-)/ Surplus (+) as *per cent* of GSDP	(-) 3 (2011-12)	(-)2.70	(-) 2.59	*	*
Outstanding debt as *per cent* of GSDP	47 (By 2011-12)	44	31	*	*
Outstanding guarantees as percentage of the State's RRs of preceding financial year	Below 40 percent	25	26	*	1

* Targets were achieved.

- The State achieved revenue surplus of ₹645 crore which was 4.44 *per cent* against the target to maintain revenue surplus by Th FC and MTFPS, respectively.
- The State also maintained the target of fiscal deficit set by Th FC and MTFPS, respectively.

Commitments made in the Budget Speech 2011-12

In the budget speech, the Finance Minister had made the following commitments for fiscal consolidation in the year 2011-12:

- Total revenue expenditure was estimated at ₹ 14,042 crore and the total expenditure at ₹ 16,708 crore;
- Total expected capital receipts were ₹ 2,077 crore and the total capital expenditure including loan repayments was estimated at ₹ 2,666 crore;
- Total estimated interest payments were ₹ 2,151 crore and pension payment expenditure was ₹ 2,210 crore;
- The fiscal deficit was expected to be 2.7 *per cent* of Gross State Domestic Product (GSDP) whereas state expected to remain in revenue surplus of ₹51 crore during the year 2011-12.

However, at the close of financial year 2011-12 revenue expenditure and total expenditure stood at ₹ 13,898 crore and ₹ 16,201 crore, respectively, which were less as compared to budgetary projections by ₹ 144 crore and ₹507 crore, respectively.

Capital receipts remained at ₹ 2,009 crore which were lesser than the estimations by ₹ 68 crore. The pension expenditure exceeded the budget by ₹ 7 crore and stood at ₹ 2,217 crore. Thus, these expectations as per the budgetary assumptions were not achieved to the targetted level.

1.3 Resources of the State

1.3.1 *Resources of the State as per Annual Finance Accounts*

Revenue receipts, Capital receipts and Public Account receipts are the three streams of the Total receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid received from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial Institutions/commercial banks) and loans and advances from GoI. The other area of receipts is accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts (**Appendix-1.1**) while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart-1.2: Trends in Receipts

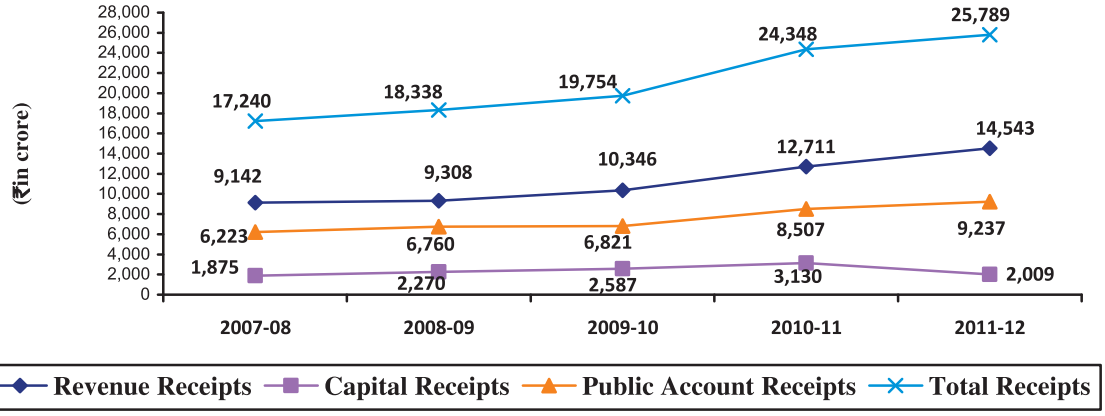
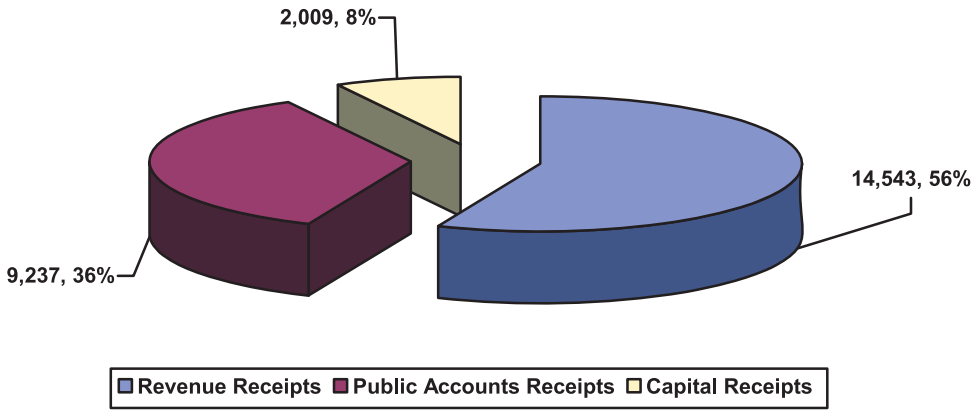


Chart-1.3: Composition of Receipts during 2011-12



The above charts show that the total receipts of the State Government increased by 6 *per cent* from ₹ 24,348 crore to ₹ 25,789 crore in 2011-12 over the previous year. Of which, 56 *per cent* (₹ 14,543 crore) came from revenue receipts, the balance 44 *per cent* from borrowings. The share of Revenue receipts in the total receipts of the State remained almost static during 2007-11 but increased by 4 *per cent* during the current year. On the other hand, the Capital receipts (market borrowings and special securities issued to NSSF) together with Public account receipts ranged between 44 and 49 *per cent* of total receipts during 2007-12.

Revenue receipts increased steadily by 59 *per cent* from ₹ 9,142 crore in 2007-08 to ₹14,543 crore in 2011-12, whereas the debt Capital receipts increased from ₹1,875 crore in 2007-08 to ₹ 2,009 crore in 2011-12. Public account receipts increased steadily from ₹6,223 crore in 2007-08 to ₹9,237 crore in 2011-12 ranging between 35 and 37 *per cent* of total receipts.

1.3.2 Funds Transferred by the GoI directly to State Implementing Agencies

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[3] for the implementation of various schemes/ programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. During 2011-12, the GoI has transferred an amount of ₹1,416 crore directly to State Implementing Agencies (details in ***Appendix-1.5***). Significant amounts given to the major programmes/schemes are presented in **Table 1.2** below:

[3] Refer glossary in Appendix 4.

Table-1.2
Funds Transferred Directly to State Implementing Agencies by GoI

(₹ in crore)

Sl. No.	Name of the Programme/ Scheme	Name of the Implementing Agency in the State	Total funds released by the GoI during 2011-12
1.	National Rural Employment Guarantee Scheme (NREGA)	Project Director, District Rural Development Agency	**311.38**
2.	Pradhan Mantri Gram Sadak Yojana	Engineer-in-Chief	**310.30**
3.	Hospital and Dispensaries (under NRHM))	Society for Development of AYUSH Institutions in Himachal Pradesh	**174.07**
4.	Sarva Siksha Abhiyan (SSA)	Mission Director, SSA	**141.93**
5.	Integrated Watershed Management Programme	Project Director, District Rural Development Agency	**67.78**
		Total:	**1,005.46**

Source: Finance Accounts.

Table 1.2 shows that an amount of ₹ 311.38 crore (21.99 *per cent* of the total funds transferred) was given for National Rural Employment Guarantee Scheme, ₹ 141.93 crore (10 *per cent*) for Sarva Siksha Abhiyan (SSA) and ₹ 310.30 crore (21.91 *per cent*) for Pradhan Mantri Gram Sadak Yojna (PMGSY). Thus, with the transfer of ₹1,416 crore during 2011-12 directly by GoI to the State Implementing Agencies, the total availability of State resources increased from ₹25,789 crore to ₹27,205 crore. It is evident from the above that there is no single agency monitoring the funds directly transferred by the GoI and data is not readily available as to how much money has actually been spent in a particular year on major flagship schemes and other important schemes which are being implemented by State Implementing agencies and funded directly by the GoI.

1.4 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the State Government. The revenue receipts consist of State's own tax and non tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2007-12 are presented in ***Appendix-1.3*** and also depicted in **Chart 1.4** and **1.5** respectively.

Chart-1.4: Trends in Revenue Receipts

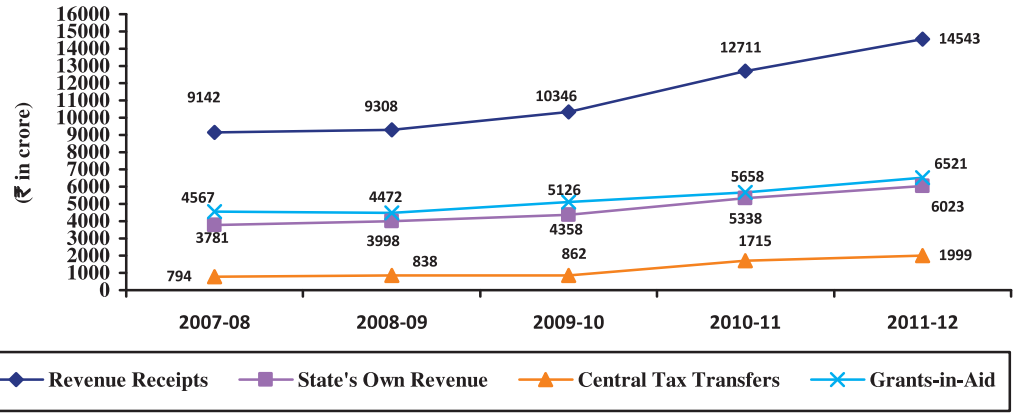
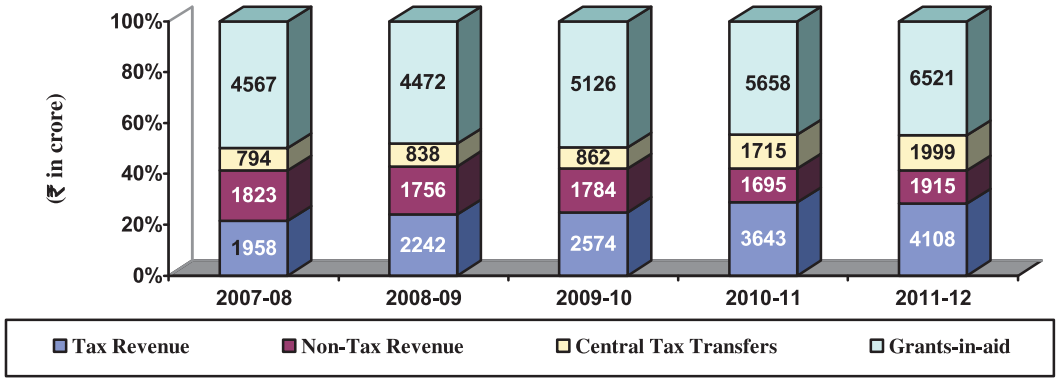


Chart-1.5: The composition of Revenue Receipts during 2007-12



Revenue receipts steadily increased from ₹ 9,142 crore in 2007-08 to ₹ 14,543 crore in 2011-12 at an annual average rate of 13 *per cent* but during 2011-12 it recorded an increase of 14 *per cent* over the previous year. The share of non tax revenues exhibited an increase of 13 *per cent* and Grant-in-aid from GoI increased by 15 *per cent* over the previous year. 41 *per cent* of the revenue receipts during 2011-12 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 (14 *per cent*) and grants-in-aid from GoI (45 *per cent*).

Central Tax transfers: Central tax transfers increased by ₹ 284 crore (17 percent) from ₹ 1,715 crore in 2010-11 to ₹ 1,999 crore in 2011-12 and constituted 14 *per cent* of the revenue receipts during the year. The increase was mainly due to increase in Corporation tax (₹ 116 crore), taxes on income other than corporation tax (₹ 45 crore), customs (₹ 47 crore) and service tax (₹ 67 crore).

Grants-in-Aid: Grants-in-aid from the GoI increased by ₹ 863 crore (15 *per cent*) from ₹ 5,658 crore in 2010-11 to ₹ 6,521 crore in 2011-12.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table-1.3

Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	9,142	9,308	10,346	12,711	14,543
Rate of growth of RR (*per cent)*	16.68	1.82	11.15	22.86	14.41
R R/GSDP* (*per cent)*	26.91	22.44	22.03	23.24	23.05
Buoyancy Ratios[4]					
Revenue Buoyancy w.r.t GSDP	1.36	0.08	0.84	1.39	0.94
State's Own Tax Buoyancy w.r.t GSDP	2.16	0.27	0.68	1.37	0.84

* GSDP at 2004-05 base price

It is evident from the table above that there was consistent decline in the growth rates during 2007-10 from 16.68 *per cent* in 2007-08 to 11.15 *per cent* in 2009-10 and with sharp decline of 1.82 *per cent* in 2008-09 due to decrease in non tax revenues and

[4] Refer glossary in **Appendix 4**.

grants-in-aid ratio of revenue receipts. However, during 2008-11 it showed increasing trend and rose from 1.82 *per cent* to 22.86 *per cent* but again decreased to 14.41 *per cent* during 2011-12. There were less receipts in taxes and duties on electricity (₹ 116.12 crore) and co-operation (₹ 7.29 crore) during the current year. Besides this, buoyancy ratio of State's own taxes with reference to GSDP increased from 0.27 in 2008-09 to 1.37 in 2010-11 but decreased to 0.84 *per cent* during 2011-12. The State's own tax buoyancy with respect to GSDP was higher than revenue buoyancy during 2007-09 and from 2009-10 to 2011-12, it was less by 0.16, 0.02 and 0.10, respectively.

1.4.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

Tax revenue of the State increased from ₹ 1,958 crore in 2007-08 to ₹ 4,108 crore in 2011-12 at an annual average rate of 21 *per cent*. The major contributors in the State's own tax during 2011-12 are taxes on Sales, Trades, etc., (₹ 2,477 crore-60 *per cent* of tax revenue), State Excise (₹ 707 crore-17 *per cent* of tax revenue), taxes and duties on electricity (₹ 185 crore-5 *per cent* of tax revenue), taxes on vehicles (₹ 176 crore-4 *per cent* of tax revenue), Stamps and Registration fees (₹ 155 crore-4 *per cent* of tax revenue) and taxes on goods and passengers (₹ 94 crore-2 *per cent* of tax revenue). Collection of taxes on sales, trade, etc. and state excise increased by ₹ 376 crore and ₹ 145 crore, respectively, in 2011-12 over the previous year.

Non-tax revenue

Non-tax revenue increased to ₹ 1,915 crore (13 *per cent*) in 2011-12 from ₹ 1,695 crore during the previous year. The major contributors in State's non tax revenue during 2011-12 were power sector: ₹ 1,146 crore (60 *per cent* of non tax revenue) and interest receipts, dividends and profits: ₹ 201 crore (10 *per cent* of non tax revenue) and it showed an increase in power sector and interest, dividends and profits by ₹52 crore and ₹ 67 crore, respectively, over the previous year (2010-11).

The actual realisation of State's NTR (₹ 1,915 crore) was marginally less by ₹ 80 crore (four *per cent*) than the projections made in MTFPS of ₹ 1,995 crore. The tax revenue and non tax revenue were higher by 16 *per cent* and 50 *per cent,* respectively, than the projections made in the Th FC (₹3,543 crore and ₹1,278 crore, respectively). The current level of cost recovery (revenue receipts as percentage of

revenue expenditure) in supply of goods and services is depicted in the **Table 1.4** below:

Table-1.4
Current level of cost recovery

(₹ in crore)

S. No.	Departments	2007-08			2011-12		
		Receipt	Expenditure	Percentage	Receipt	Expenditure	Percentage
1.	Health and Family Welfare	7.71	470.55	1.64	8.73	826.49	1.06
2.	Minor Irrigation	0.45	269.11	0.17	0.62	382.14	0.16
3.	Secondary Education	3.01	484.89	0.62	3.56	966.39	0.37
4.	University & Higher Education	3.20	146.03	2.19	3.59	247.94	1.45
5.	Power	1,414.52	303.49	466.08	1,145.70	357.38	320.58
6.	Road Transport	0.33	95.68	0.34	0.67	121.52	0.55
Source: Finance Accounts.							

Expenditure-receipt ratio for major departments of the State indicated that between 2007-08 and 2011-12, in all the above departments, the situation had deteriorated because the expenditure had drastically increased whereas the receipts had increased only marginally except under power.

1.4.2 Loss of revenue due to evasion of taxes and refunds

Evasion of tax

The detail of cases of evasion of tax deducted, assessments completed and pending cases during the year are as follows:

Table-1.5

Evasion of Taxes

Sr. No	Head of revenue	Cases pending as on 31 March 2011	Cases detected during the year	Total as on 31 March 2012	Number of cases in which assessments/ investigations completed and additional demand including penalty etc. raised		Number of pending cases as on 31 March 2012
					Number of cases	Amount of demand (₹ in lakh)	
1.	Taxes on sales, trade etc.	110	25319	25429	25316	1041.94	113
2.	State excise	4	42	46	43	2.76	3
3.	Passengers and goods tax	296	1680	1976	1683	68.12	293
4.	Other taxes and duties on commodities and services	19	313	332	305	22.57	27
	Total	**429**	**27354**	**27783**	**27347**	**1135.39**	**436**

Thus, 436 numbers of cases were pending for their settlement. Therefore, action needs to be taken to finalise these cases at the earliest.

Refunds

The number of refund cases pending at the beginning of the year 2011-12, claims received, refunds allowed and cases pending at the close of the year 2011-12 were as given in **Table 1.6** below:

Table-1.6

Refund Cases

(₹ in crore)

Sr. No.	Particulars	Sales tax/VAT		State excise	
		No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	37	7.28	02	0.11
2	Claims received during the year	52	10.80	18	0.11
3	Refunds made during the year	36	6.40	18	0.18
4	Balance outstanding at the end of the year	53	11.68	02	0.04

Cost of collection

Expenditure on collection of taxes on Sales, Trade, etc., was ₹5.16 crore, State Excise ₹2.58 crore, Taxes on Vehicles, Goods and Passengers ₹ 26.83 crore and Stamp Duty and Registration Fee ₹ 1.14 crore during 2011-12. Percentage of expenditure to gross collection was 0.21, 0.36, 9.92 and 0.74, respectively. Percentage of expenditure to gross collection in the State was below the all India average except in the case of taxes on Vehicles, Goods and Passengers, which was 6.21 *per cent* higher than the all India average percentage of collection for the year 2011-12. Efforts need to be made to reduce the expenditure *ibid*, in order to achieve all India average.

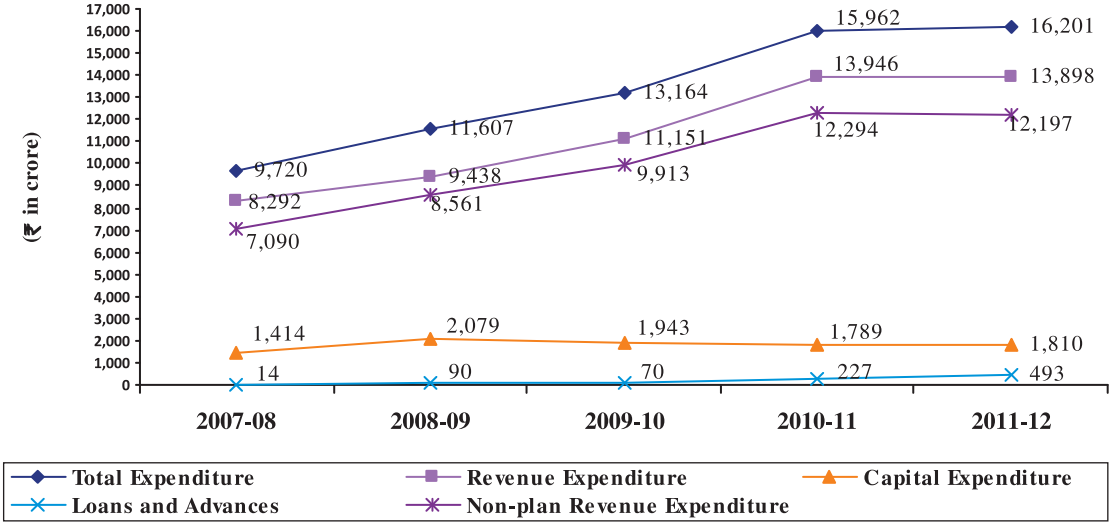
1.5 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, directed towards development and social sectors. An analysis of allocation of expenditure is discussed below:

1.5.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-12) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7** and **1.8,** respectively.

Chart-1.6: Total Expenditure: Trends and Composition



- **The Total Expenditure (TE)** of the State increased from ₹ 9,720 crore in 2007-08 to ₹ 16,201 crore in 2011-12 at an annual average rate of 14 *per cent*. The increase during the year was ₹239 crore only (2 *per cent*) over the previous year. The increase in total expenditure was due to increase in loans and advances and capital expenditure of ₹ 266 crore and ₹ 21 crore, respectively, whereas revenue expenditure decreased by ₹ 48 crore.

- **Revenue Expenditure (RE) :** Although revenue expenditure increased at an annual average rate of 14 *per cent* from 2007-08 to 2011-12 it decreased by ₹ 48 crore (0.34 *per cent*) to ₹ 13,898 crore during the current year. The revenue expenditure during current year as compared to previous year increased in Social Services by ₹168 crore whereas under Economic Services it decreased by ₹633 crore. Major services under Social sector where less expenditure was incurred were Water Supply, Sanitation, Housing and Urban Development (₹ 126 crore) and Social Welfare and Nutrition (₹ 81 crore) and under Economic Sector in Energy (₹646 crore) and Transport (₹56 crore).

- **Capital Expenditure (CE) :** *Capital expenditure increased from ₹1,414 crore in 2007-08 to ₹2,079 crore in 2008-09 by 47 per cent but decreased during the years 2009-10 and 2010-11 by ₹136 crore (7 per cent) and ₹154 crore (8 per cent) over the corresponding previous years.* Capital investments in 2011-12 increased marginally by ₹21 crore (1 *per cent*) from ₹ 1,789 crore to ₹ 1,810 crore as compared to previous year. No specific norms for prioritisation of capital expenditure have been laid down in FRBM

Act. Transport (₹ 222 crore), Irrigation and Flood Control (₹ 15 crore) and Power Projects (₹ 47 crore) in Economic sector were the beneficiary sectors where capital expenditure was made.

- Loans and advances constituted ₹493 crore (3.04 *per cent*) of the total expenditure which increased by ₹266 crore over the previous year due to loans given to Power Projects (₹281 crore).

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 are indicated in **Charts 1.7** and **1.8,** respectively.

Chart-1.7: Total Expenditure: Trends in share of its components

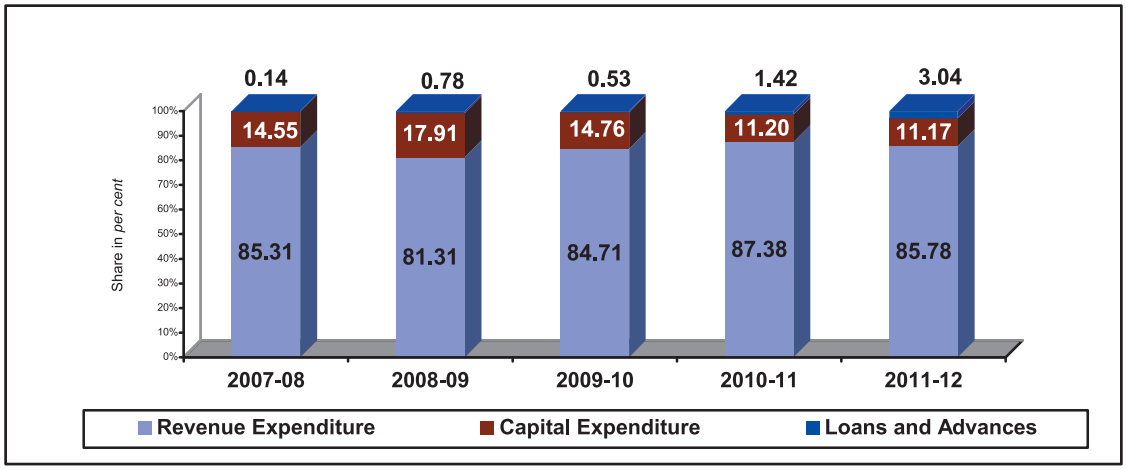
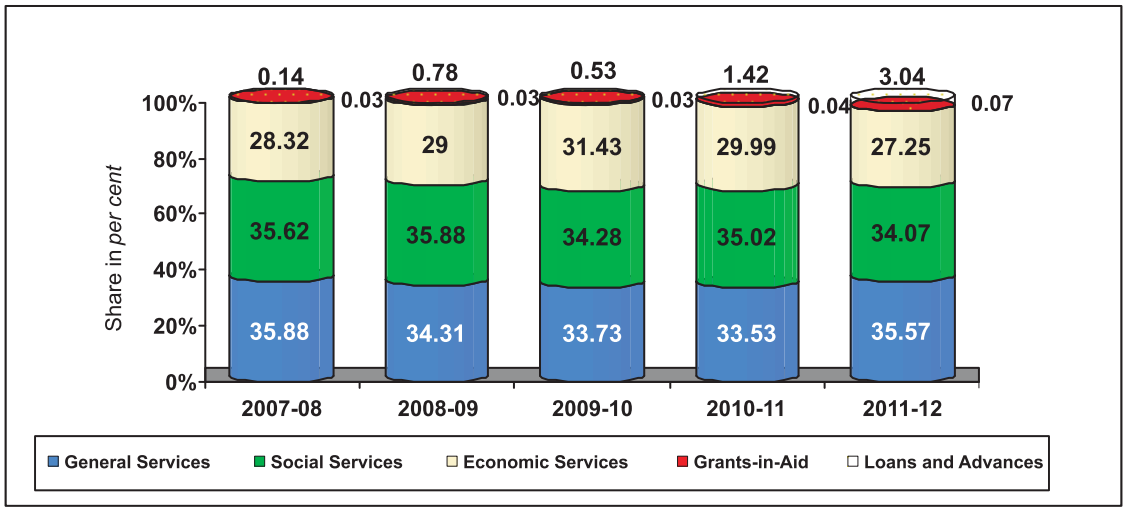


Chart-1.8: Total Expenditure: Trends by 'Activities'



The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Expenditure on General Services (including interest payments) which is considered as non-developmental,

consistently decreased from 35.88 *per cent* in 2007-08 to 33.53 *per cent* in 2010-11 but increased to 35.57 *per cent* in 2011-12. On the other hand, developmental expenditure i.e., on Social and Economic Services together accounted for 61.32 *per cent* in 2011-12. The share of General Services and Social Services was mainly on account of increase in expenditure on General Education (₹303 crore), Pension and other retirement benefits (₹111 crore) and Public Works Department (₹67 crore). The expenditure on Economic Services significantly decreased in energy (₹646 crore) and Transport (₹56 crore) but in Agriculture and Allied Activities increased marginally (₹34 crore).

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 covering its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in ***Appendix-1.3***. Non-plan revenue expenditure (NPRE) increased from ₹ 7,090 crore in 2007-08 to ₹ 12,197 crore in 2011-12 at an annual average rate of 14 *per cent* and the Plan Revenue Expenditure (PRE) increased from ₹ 877 crore in 2008-09 to ₹ 1,701 crore (94 *per cent*) in 2011-12.

The break up of total expenditure during 2011-12 in terms of Plan and Non-Plan expenditure revealed that Non-Plan expenditure contributed a dominant share of ₹ 12,258 crore (76 *per cent* of the total expenditure) while the remaining ₹ 3,943 crore (24 *per cent)* was in the form of plan expenditure.

The revenue expenditure decreased by 0.34 *per cent* from ₹ 13,946 crore in 2010-11 to ₹ 13,898 crore in 2011-12. The NPRE has shown an inter year variation at an average rate of 14 *per cent* over the period of 2007-12 and continued to share a dominant proportion varying in the range of 86-91 *per cent* of the revenue expenditure. The decrease in NPRE by ₹ 97 crore during the current year was mainly due to less expenditure on education (₹303 crore), pension (₹111 crore) and assistance to Local Bodies (₹132 crore).

The ratio of NPRE to GSDP showed an inter year variation ranging between 19.33 *per cent* and 22.48 *per cent* during 2007-12. The buoyancy of revenue expenditure to NPRE decreased from 0.70 *per cent* in 2007-08 to 0.67 *per cent* in 2008-09, but increased to 1.15 *per cent* in 2009-10. It was further decreased to 1.04 and (-) 0.43 *per cent* during 2010-11 and 2011-12, respectively, while with reference to Revenue Receipts it decreased from 7.59 in 2008-09 to (-) 0.02 in 2011-12. In other words, in 2011-12 for every one *per cent* increase in Revenue receipt, NPRE decreased by less than one *per cent* i.e. 0.43 *per cent*. The NPRE (₹ 12,197 crore) exceeded the normative assessment made by Th FC (₹ 8,744 crore) by ₹ 3,453 crore in 2011-12.

The PRE on the other hand has displayed fluctuations varying from negative (9.28 *per cent*) in 2007-08 and (27.04 *per cent*) during 2008-09 which increased to 41.16 *per cent* in 2009-10 and thereafter it consistently decreased to 33.44 *per cent* in 2010-11 and 2.97 *per cent* during 2011-12 over the previous years.

1.5.4 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** and **Chart 1.9** below present the trends in the expenditure on these components during 2007-12 and 2009-12, respectively.

Table-1.7

Components of Committed Expenditure

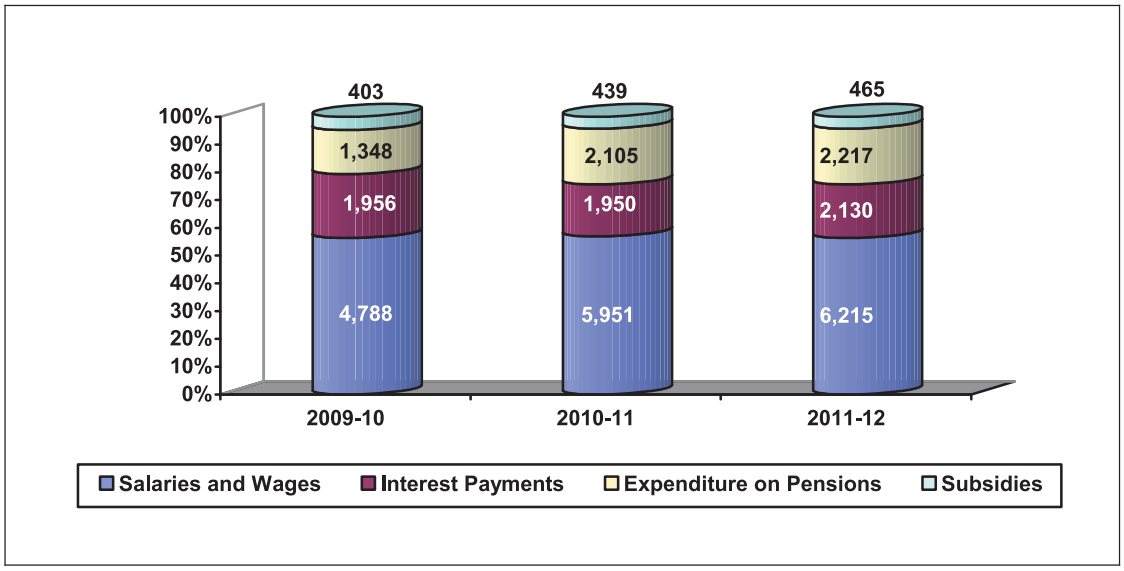
(₹ in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Salaries & Wages, of which	3,577 (39)	3,940 (42)	4,788 (46)	5,951 (47)	6,044	**6,215 (43)**
Non-Plan Head	3,173 (35)	3,813 (41)	4,645 (45)	5,784 (46)		**5,981 (41)**
Plan Head*	404 (4)	127 (1)	143 (1)	167 (1)		**234 (2)**
Interest Payments	1,703 (17)	1,894 (20)	1,956 (19)	1,950 (15)	2,151	**2,130 (15)**
Expenditure on Pensions	949 (10)	1,154 (12)	1,348 (13)	2,105 (17)	2,210	**2,217 (15)**
Subsidies	328 (4)	369 (4)	403 (4)	439 (3)	423	**465 (3)**
Total	**6,557**	**7,357**	**8,495**	**10,445**		**11,027**

Source: Accountant General (Accounts & Entitlement) office
Figures in the parentheses indicate percentage to Revenue Receipts
Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Chart-1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2009-12

(Value in labels in crore)



- **Salaries and Wages**

The expenditure on salaries and wages alone was more than 43 *per cent* of revenue receipts of the State during 2011-12. It increased by four *per cent* from ₹ 5,951 crore in 2010-11 to ₹ 6,215 crore in 2011-12. Salary expenditure under Non-plan head during 2011-12 increased by ₹197 crore (three *per cent*) over the previous year whereas the salary expenditure on plan head increased by ₹67 crore (40 *per cent*) over the previous year. Non-plan salary expenditure ranged between 89 and 97 *per cent* of total expenditure on salaries during 2007-12. The salary expenditure during the current year exceeded by ₹ 173 crore from the projections made in MTFPS (₹ 5,882 crore), requiring attention of the State Government.

- **Pension Payments**

The expenditure on pension payments increased from ₹ 949 crore in 2007-08 to ₹ 2,217 crore in 2011-12 and by ₹ 112 crore during the current year over the previous year, recording a growth rate of five *per cent* over the previous year. Pension payments accounted for nearly 15 *per cent* of revenue receipts of the State during 2011-12. The actual expenditure on pension payments for the current year exceeded the projections made in the Th FC (₹ 1,590 crore) and MTFPS (₹ 2,210 crore).

- **Interest Payments**

The interest payments increased by 25 *per cent* from ₹ 1,703 crore in 2007-08 to ₹ 2,130 crore in 2011-12 and increased by ₹ 180 crore during the current year. The major source of borrowings is market loans at interest rates varying from five to 13.99 *per cent*. Interest payments exceeded the Th FC projections (₹ 1,899 crore) but were less than projections made in MTFPS (₹ 2,151 crore) for current year.

- **Subsidies**

The State Government has been paying subsidies to various institutions/ bodies/corporations, etc. The subsidies increased by 42 *per cent* from ₹ 328 crore in 2007-08 to ₹ 465 crore in 2011-12 and by 6 *per cent* over the previous year and constituted about 3 *per cent* each of the revenue receipts and total expenditure, respectively. The major components of subsidies were food and supply items (₹106 crore); transport (₹90 crore); electricity (₹140 crore); Horticulture (₹59 crore) and Agriculture (₹51 crore). The subsidy at ₹ 465 crore in 2011-12 was higher than the projections made in MTFPS (₹ 423 crore).

1.5.5 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.8**.

Table-1.8
Financial Assistance to Local Bodies, etc.

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
University and Educational Institutions	176.49	203.49	231.14	311.25	314.89
Municipal Corporation and Municipalities	70.66	82.46	115.92	92.26	122.94
Zila Parishads and other Panchayati Raj Institutions	134.13	188.45	217.92	256.28	263.95
Development Agencies	37.74	44.45	48.61	52.14	46.72
Hospitals and other charitable Institutions	0.10	4.85	41.25	48.11	69.70
Social Justice and Empowerment	26.41	28.23	31.78	41.09	85.87
Animal Husbandry	5.10	4.93	6.35	25.25	22.91
Industries	6.40	13.69	10.43	10.80	18.15
Agriculture	1.20	1.56	2.96	1.03	8.90
Tourism	0.00	0.45	0.03	0.75	7.06
Fisheries	0.24	0.42	0.23	0.14	6.89
Art and Culture	1.63	2.09	2.34	2.80	2.23
Science and Technology	1.39	1.17	0.98	1.98	4.20
Cooperation	1.30	1.42	1.70	1.40	2.06
Others	3.98	4.59	6.45	4.11	4.62
Total	**466.77**	**582.25**	**718.09**	**849.39**	**981.09**
Assistance as per percentage of Revenue Expenditure	5.63	6.17	6.44	6.09	7.06

Source: Accountant General (Accounts & Entitlement) office

The grants extended to local bodies and other institutions consistently showed an increasing trend over the years during 2007-12. It increased by ₹ 131.70 crore (16 *per cent*) during current year over the previous year. The share of grants in revenue expenditure indicated increasing trend ranging between 5.63 *per cent* and 7.06 *per cent* during the period 2007-12. The sharp increase under certain components during 2011-12 was mainly due to release of more grant to Municipal Corporations and Municipalities (₹31 crore), Hospitals and Other Charitable Institutions (₹22 crore).

1.5.6 Panchayati Raj Institutions(PRIs)

1.5.6.1 Introduction

Seventy third Constitutional Amendment gave constitutional status to Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular elections and regular flow of funds through Finance Commissions, etc. The PRIs were required to prepare plans and implement schemes for economic development and social justice including those included in the Eleventh Schedule of the Constitution. Pursuant to this, the State Government enacted Himachal Pradesh Panchayati Raj Act, 1994 and framed Himachal Pradesh Panchayati Raj (General) Rules, 1997 and Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules, 2002 to work as Third tier of the Government. There are 12 Zila Parishads (ZPs), 77 Panchayat Samities (PSs) and 3243 Gram Panchayats (GPs) in the State.

1.5.6.2 Devolution of functions

- **Inadequate transfer of functions**

The State Government entrusted (July 1996) 26 functions ***(Appendix-1.6)***, out of listed 29 functions in the Eleventh Schedule of the Constitution. Remaining three functions namely Rural electrification, Adult and Non-formal education and Cultural activities were not transferred. The Director (PR) stated (August 2012) that the matter regarding transfer of remaining functions was under process with the line Departments.

1.5.6.3 Devolution of functionaries

The transferred functions were to be accompanied by requisite devolution of functionaries and the State Government was to provide required administrative structure and support to make the institutions and functionaries of the devolved functions accountable to the PRIs. The Director (PR) stated (August 2012) that all the administrative structure i.e. manpower has been devolved to the PRIs to make them accountable to the people.

1.5.6.4 Devolution of funds

The State Government has not devolved funds to departments. Consequently, the respective line departments continued to make separate budget for operation of the schemes.

1.5.6.5 Source of funds

The financial position of PRIs for the last three years is shown in **Table 1.9** and **Chart 1.10** below:

Table-1.9
Financial position of PRIs

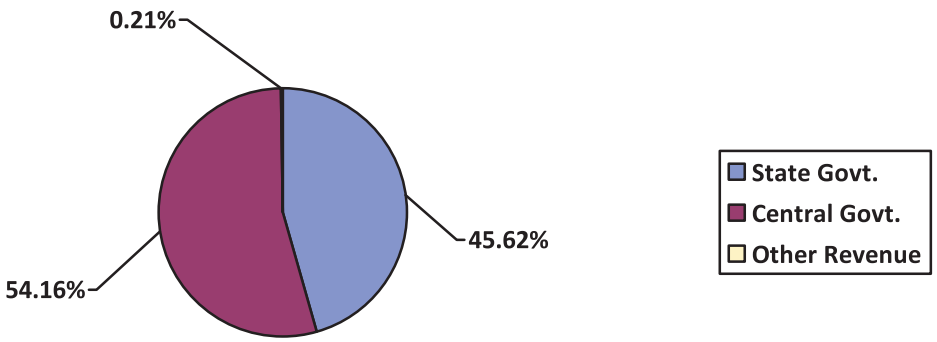
(₹ in crore)

Year	Receipts					Expenditure			Excess (+)/ Saving (-)
	OB	State Govt.	Central Govt.	Other revenue	Total	Capital	Revenue	Total	
2009-10	0.00	69.87	58.57	0.00	128.44	79.67	48.77	128.44	0.00
2010-11	0.00	71.65	82.79	0.00	154.44	95.69	58.75	154.44	0.00
2011-12	0.00	72.87	113.15	1.00	187.02	133.09	53.93	187.02	0.00
Total	**0.00**	**214.39**	**254.51**	**1.00**	**469.90**	**308.45**	**161.45**	**469.90**	**0.00**

Source: Director Panchayati Raj.
Note: GPs are autonomous bodies and are competent to spend their receipts at their own level.

The total receipts during the last three years was ₹469.90 crore which was spent during respective years.

Chart-1.10: Source of Revenue of PRIs during 2009-12



The major source of funds of PRIs during 2009-12 was State Government (45.62%) and Central Government (54.16%) grants. The other revenue (0.21%) was meagre as compared to the Central and State grants.

1.5.6.6 Accounting Arrangement

The PRIs are maintaining their accounts in the proformae prescribed under Himachal Pradesh Panchayati Raj Rules, 1997. To develop database on finances of PRIs specific grants were provided by the GoI. The database had been developed in six districts and in remaining six districts work was in progress.

The Eleventh Finance Commission had recommended for exercising control and supervision over maintenance of accounts of three tiers of PRIs by the CAG. The CAG and Ministry of Panchayati Raj, Government of India had recommended Model Accounting Structure for PRIs in 2009. The Director, Panchayati Raj stated (August 2012) that the accounts of the PRIs were being maintained in Panchayati Raj Institutions Accounting Software.

1.5.6.7 Audit Arrangements

Sub-Section (I) of Section 118 of the Himachal Pradesh Panchayati Raj Act, (HPPRA) 1994 provides for a separate and independent Audit Agency under the control of the Director, Panchayati Raj to audit the accounts of PRIs with a view to have proper financial control on income and expenditure. The position of internal audit conducted during April 2011 to March 2012 was as under:

Table-1.10

Position of Internal Audit

(In numbers)

S. No.	Name of Institution	Total units	Units to be audited	Units audited	Units not audited	Percentage of shortfall
1.	Zila Parishad	12	06	05	01	17
2.	Panchayat Samities	77	56	30	26	46
3.	Gram Panchayats	3243	1940	1053	887	46

Source: Director PRI

The Audit of PRIs, which are significantly financed from the Consolidated Fund of the Union and/or State Governments is conducted by the C&AG under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 wherever applicable. The State Government has also entrusted the Audit of PRIs to C&AG under Technical Guidance and Support Arrangements (TGS) under section 20(1) of CAG's (DPC) Act, 1971. Audit findings arising out of conduct of such audit are conveyed to the State Government in the form of Annual Technical Inspection Report (ATIR) under Rule 155 of the Regulation of Audit and Accounts, 2007.

1.5.6.8 Audit coverage

Audit of accounts of 8 ZPs, 22 PSs and 96 GPs was conducted by Principal Accountant General (Audit) during 2011-12. 1,644 Inspection Reports (IRs) containing 11,005 paras were issued to the concerned PRIs during 2005-12 of which 49 paras could be settled leaving 1,644 IRs and 10,956 paras outstanding (March 2012) as per details given in **Table 1.11** below:

Table-1.11

(In numbers)

Sr. No.	Year of issue of IRs	IRs and Paras issued in respect of GPs		IRs and Paras issued in respect of ZPs and PSs		Total IRs and Paras issued as on 31.03.2012		IRs and paras settled		Outstanding IRs and Paras as on 31-03-2012	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2005-08	528	2539	0	0	528	2539	0	0	528	2539
2.	2008-09	320	2596	0	0	320	2596	0	38	320	2558
3.	2009-10	336	2431	0	0	336	2431	0	04	336	2427
4.	2010-11	334	2396	0	0	334	2396	0	07	334	2389
5.	2011-12	96	790	30	253	126	1043	0	0	126	1043
	Total	**1,614**	**10,752**	**30**	**253**	**1,644**	**11,005**	**0**	**49**	**1,644**	**10,956**

Increasing trend of outstanding Inspection Reports and paras is indicative of non-compliance of audit observations resulting in erosion of accountability.

1.5.7 Urban Local Bodies (ULBs)

1.5.7.1 Introduction

The Seventy Fourth Constitutional Amendment paved the way for de-centralisation of powers and transfer of 18 functions listed in the Twelfth Schedule of the Constitution alongwith funds and functionaries to the Urban Local Bodies (ULBs). Pursuant to this, Government of Himachal Pradesh enacted the Himachal Pradesh Municipal Corporation Act, 1994 and Himachal Pradesh Municipal Act, 1994 for transferring the powers and responsibilities to ULBs. However, some obligatory and discretionary functions like maintenance of roads, streets, street lights, cleanliness, etc. were with ULBs prior to enactment of these Acts.

The Eleventh Finance Commission (EFC) recommended that the C&AG should prescribe the formats for the preparation of budget and keeping of accounts for the ULBs and be entrusted with the responsibility of exercising control and supervision over maintenance of Accounts and their Audit. Accordingly, State Government has

entrusted audit of ULBs to C&AG under Technical Guidance and Supervision (TGS) module by issuing notification (October 2008).

1.5.7.2 Source and allocation of Funds

For execution of various developmental works, the ULBs receive funds mainly from GoI and the State Government in the form of grants. The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission (SFC). Besides, revenue is also mobilised by the ULBs in the form of taxes, rent, fees, issue of licenses, etc.

The position of funds released to the ULBs during 2009-12 is given in **Table 1.12** below:

Table-1.12
Funds released by State and Central Government

(₹ in crore)

Year	Receipts			Expenditure incurred
	State Government	Central Government	Total	
2009-10	63.82	46.35	110.17	110.17
2010-11	85.19	0.62	85.81	85.81
2011-12	109.90	0.55	110.45	110.45

Source: Director ULB

The grants were allocated among the Municipal Corporation, Municipal Committees and Nagar Parishads on the basis of total population and revenue earned by them from their own resources.

1.5.7.3 Audit Arrangement

The recommendations of the Eleventh Finance Commission (EFC) stipulated that the C&AG shall be responsible for exercising control and supervision over proper maintenance of the accounts of ULBs and their audit.

Internal Audit of ULBs is conducted by the Director, Local Fund Audit. The Audit of ULBs which are significantly financed from the Consolidated Fund of the Union and/or State Governments is conducted by the C&AG under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 wherever applicable. The State Government has also entrusted the Audit of PRIs and ULBs to C&AG under Technical Guidance and Support Arrangements (TGS) under section 20(1) of CAG's (DPC) Act, 1971. Audit findings arising out of conduct of such audit is conveyed to the State Government in the form of Annual Technical Inspection Report (ATIR) under Rule 155 of the Regulation of Audit and Accounts, 2007.

Audit of Municipal Corporation, Shimla, nine Municipal Councils[5] (MCs) and five Nagar Panchayats[6] (NPs) was conducted during 2011-12. In addition, a performance Audit of State scheme namely Backward Region Grant Fund (BRGF) was also conducted covering two out of three ULBs of Chamba district.

---

5 Chamba, Dalhausie, Dharamsala, Ghumarwin,Nagrota Bagwan,Shri Nainadeviji, Palampur, Theog and Una

6 Jawalamukhi, Nadaun, Santokhgarh, Sujanpur Tihra and Talai.

The position of inspection reports and paras issued, settled and outstanding upto the year 2011-12 is given in **Table 1.13** below:

Table-1.13

Position of pending Inspection Reports/paras

(In number)

Year of issue	IRs/Paras issued		Position as on 31.03.11		IRs/Paras settled during 2011-12		IRs/Paras outstanding	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Upto 2008-09	70	724	69	600	0	137	69	463
2009-10	16	222	16	213	0	0	16	213
2010-11	15	157	15	157	0	0	15	157
2011-12	15	194	0	0	0	30	15	164
Total	**116**	**1,297**	**100**	**970**	**0**	**167**	**115**	**997**

Increasing trend of IRs and paras was indicative of inadequate response to audit findings and observations which had resulted in erosion of accountability.

1.5.7.4 Accounting Arrangement

The accounts of the ULBs are maintained on accrual basis as per the instructions issued (April 2009) by Director, UDD. As there was no specific provision in the State Acts/Rules, certification of Annual accounts of ULBs by an independent agency was not in existence in the ULBs. In the absence of provisions for certification, the authenticity of the final accounts could not be vouchedsafe and audit opinion on the true and fair view of the accounts of ULBs could not be given.

1.5.7.5 Devolution of functions

The State Government was required to transfer all the 18 subjects (***Appendix-1.7***) listed in the 12th schedule of the Constitution to ULBs.

The State Government through its notification entrusted (August 1994) only 16 functions to the ULBs out of the 18 functions listed in the schedule. Two functions namely (i) fire Services and (ii) Regulation of land use and construction of buildings were not transferred though mandated for transfer under the Acts. The function of 'Fire Services' was a centralised facility for both urban and rural area and there was no proposal to transfer this function. The Director, UDD stated (August 2012) that there was no change regarding transfer of these functions.

1.5.7.6 Devolution of functionaries

Empowerment of the ULBs cannot be considered as meaningful unless accompanied by the requisite devolution of functionaries. The State Government was, therefore, to provide required administrative structure and support to make the institutions and functionaries accountable to ULBs in respect of devolved functions. The Director, UDD stated (August 2012) that the matter was under consideration of the Government.

- **Inadequate devolution of functionaries**

It was noticed that the State Government has not ensured the manpower required for devolved functions, as in 25 MCs available manpower was 1505 against 1934 sanctioned posts in different categories resulting in shortage of 429 (22 percent) and in 24 NPs, available manpower was only 321 against 537 sanctioned posts resulting in shortage of 216 (40 percent) posts as of September 2011. As such, the available manpower in ULBs was not sufficient to execute the transferred functions.

1.5.7.7 Devolution of funds

In order to perform the devolved functions properly, these institutions require the matching funds/resources. The State Government was, therefore, required to release the assigned funds to the ULBs to enable them to perform the assigned functions effectively. The Director, UDD stated (August 2012) that the matter regarding releasing of funds was under consideration of the Government. Due to non-release of funds, the assigned functions could not be performed. The Government should consider releasing of funds so that assigned functions could be performed effectively.

1.6 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.6.1 Adequacy of Public Expenditure

The fiscal priority of the State Government with regard to Development Expenditure* (DE), Social Sector Expenditure (SSE) and Capital Expenditure (CE) during the current year is given in **Table 1.14** below:

Table-1.14

Fiscal Priority of the State during 2008-09 and 2011-12

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
Himachal Pradesh' Average (Ratio) **2008-09**	27.98	65.56	35.90	17.91
Himachal Pradesh' Average (Ratio) **2011-12**	25.68	64.32	34.10	11.17

The fiscal priority refers to the priority given to a particular category of expenditure by the State. On comparing expenditure patterns of Himachal Pradesh in 2011-12 with 2008-09 it was observed that:

- The Aggregate expenditure (AE) as a proportion of GSDP as compared to 2008-09 decreased by 2 *per cent*.

*Refer glossary in Appendix 4.

- Development expenditure (DE) as a proportion of AE decreased by 1.24 *per cent*. The decrease in expenditure was mainly on Social Services, since the proportion of expenditure of SSE decreased by 2 *per cent*.
- The proportion of Capital Expenditure (CE) decreased by 7 *per cent.*

The above table indicates that due priority was given to developmental expenditure. However, unless the financial outlays are translated into physical assets, the outcome cannot be assessed.

1.6.2 Efficiency of Expenditure Use

The ratio of capital expenditure to total expenditure in Social Sector decreased to 0.06 in 2011-12 from 0.18 in 2007-08. In case of General Education, the ratio of CE to TE decreased from 0.08 in 2007-08 to 0.01 in 2011-12, in Health & Family Welfare, it decreased to 0.04 in 2011-12 from 0.07 in 2007-08 and in Water Supply, Sanitation & Housing and Urban Development, it decreased to 0.26 from 0.41 meaning thereby less priority was given to capital expenditure in 2011-12.

Table-1.15
Efficiency of expenditure use in selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2007-08			2011-12		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	0.08	0.86	--	0.01	0.84	--
Health and Family Welfare	0.07	0.82	--	0.04	0.83	--
WS, Sanitation, & Housing and Urban Development	0.41	0.43	0.57	0.26	0.54	0.69
Total average ratio on SS	**0.18**	**0.75**	**0.13**	**0.06**	**0.80**	**0.10**
Economic Services (ES)						
Agriculture & Allied Activities	0.06	0.51	0.01	0.06	0.50	0.01
Irrigation and Flood Control	0.53	0.75	0.55	0.55	0.77	0.54
Energy (Power)	0.43	0.01	--	0.58	0.03	--
Transport	0.36	0.77	0.53	0.39	0.60	0.69
Total average ratio on ES	**0.32**	**0.58**	**0.27**	**0.33**	**0.54**	**0.34**
Total average ratio of SS+ES	**0.24**	**0.68**	**0.19**	**0.18**	**0.70**	**0.19**

Source: Finance Accounts and Accountant General (Accounts & Entitlement) office
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance

1.6.3 Effectiveness of the Expenditure, i.e. Input-Output-Outcome Relationship

As per data available from Government sources ***(Appendix-1)***, Himachal Pradesh has fared relatively better as compared to other States as far as number of people below poverty line and literacy rate is concerned. However, in order to ensure effectiveness in public expenditure, the State needs to improve the delivery mechanism to achieve the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure.

1.6.4 Migration to New Pension Scheme

As per para 7.122 of the Th FC, Government of India introduced a defined contribution based New Pension scheme (NPS) w.e.f. 1st April 2004 to cover all new

entrants to Government service. The interim Pension Fund Regulatory and Development Authority (PFRDA) had set up the institutional, architecture of the NPS. The National Securities Depository Ltd (NSDL) has been selected as the Central Record Keeping and Accounting Agency (CRA) while three Pension Fund Managers, a custodian and a trustee bank have also been appointed. To facilitate preparation of data base of employees ₹one crore was allotted under the Th FC grants during the year 2011-12.

The State Government has executed an agreement with NSDL and NPS trust in December 2009 and March 2010, respectively. The PFRDA appointed three fund managers and Bank of India as trustee bank. The data bank of the employees and pensioners had been prepared. ₹131.07 crore and ₹145.15 crore relating to employee's and employer share had since been transferred during the year 2010-11 and 2011-12, respectively, to the trustee bank. However, the legacy data from April 2009 to October 2010 had not been transferred to the trustee bank and was under reconciliation which may now be reconciled and transferred immediately.

1.7 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.7.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2012 is given in **Table 1.16** below:

Table-1.16

Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	Number of incomplete Projects	Initial budgeted cost	Revised Total Cost of Projects	Cumulative actual expenditure as on 31.03.2012	Cost overrun
1.	2.	3.	4.	5.	6 (5-3)
Irrigation and Public Health	8	37.88	74.36*	63.49	25.61
B&R (Public Works)	3	62.68	--	40.67	--
Power #	2	481.05	1040.64	826.03	344.98
Total	**13**	**581.61**	**1115.00**	**930.19**	**370.59**

Source: Finance Accounts and #Departmental figures.
* Revised costs of seven projects are available.

In respect of all the incomplete projects, revised costs of which are available, the cost overrun was to the tune of ₹ 371 crore. An analysis of the delays revealed time

overruns upto six years. These projects were lying incomplete due to land disputes, paucity of funds, Court cases, adverse geographical conditions, rescinding of tunnel work, etc.

Efforts need to be made to sort out the pending issues and complete the projects expeditiously in order to avoid further time and cost overruns and also to ensure that the envisaged benefits accrue to the intended beneficiaries at the earliest.

1.7.2 Investment and returns

No norms for investments have been prescribed by the State Government. As on 31 March 2012, the State Government had invested ₹2,448 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Societies (**Table 1.17**). The average return on this investment was 2.46 per cent in the last five years while the Government paid an average interest rate of 8.49 per cent on its borrowings during 2007-12.

Table-1.17
Return on Investment

(₹ in crore)

Investment/ Return/ cost of Borrowing	2007-08	2008-09	2009-10	2010-11	2011-12	Average 2007-12
Investment at the end of the year	2,033	2,369	2,663	2,864	2,448	--
Return	0.52	89.58	73.49	64.11	85.65	--
Return *(per cent)*	0.03	3.78	2.76	2.24	3.50	2.46
Average rate of interest on Government borrowings *(per cent)*	9.09	9.19	8.59	7.78	7.80	8.49
Difference between interest rate and return *(per cent)*	9.06	5.41	5.83	5.54	4.30	6.03

Source : Finance Accounts

Major investments were made in six Statutory Corporations/Boards (₹ 908.64 crore), 21 Government Companies (₹ 396.60 crore) and a Central PSU Satluj Jal Vidyut Nigam (₹ 1068.14 crore). The major recipients amongst Government Companies, which incurred accumulated losses upto 31 March 2012 were Himachal Road Transport Corporation (₹ 80.65 crore), Himachal Pradesh Financial Corporation (₹ 1.42 crore), Himachal Pradesh Agro-Industrial Packaging India Limited (₹ 1.62 crore), Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹ 2.24 crore), Himachal Pradesh Minorities Finance and Development Corporation (₹ 0.43 crore) and Himachal Pradesh State Industrial Development Corporation (₹ 2.42 crore).

On the investments made, Government earned a return of ₹ 85.65 crore in 2011-12 which is more than that of 2010-11 by ₹ 21.54 crore. The average return on investment was 2.46 *per cent* during 2007-12 while the average rate of interest paid on borrowings during the period was 8.49 *per cent*. The difference between interest rate and return was 4.30 *per cent*.

1.7.3 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government had also been providing loans and advances to institutions/ organizations such as Education, Sports, Art and Culture, Animal Husbandry, etc.

The details of outstanding loans and advances as on 31 March 2012, interest receipts vis-à-vis interest payments during the last three years is given in **Table 1.18** below:

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

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	293	329	483
Amount advanced during the year	70	227	493
Amount repaid during the year	34	73	25
Closing Balance	**329**	**483**	**951**
Of which Outstanding balance for which terms and conditions have been settled	--	--	--
Net addition	36	154	468
Interest Receipts	11	11	21
Interest receipts as *per cent* to outstanding Loans and advances	3.5	2.28	2.21
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	9.0	8.22	8.06
Difference between interest payments and interest receipts (*per cent*)	(-) 5.5	(-)5.94	(-) 5.85

Total amount of outstanding loans and advances as on 31 March 2012 was ₹ 951 crore. Against ₹ 493 crore advanced, only ₹ 25 crore was repaid during the current year recording a decrease of ₹ 48 crore in repayment over the previous year. Major recipients of loans during 2011-12 were Power projects (₹ 473.56 crore) and Agriculture and Allied Activities (₹7 crore). There was a huge variation in the average rate of interest being paid by the Government on borrowings vis-à-vis the percentage of interest received on outstanding loans and advances. The shortfall was almost static during 2009-12. *During 2011-12, the Government received 2.21 per cent return of interest receipts as percentage to outstanding loans. It, however, paid 8 per cent interest on borrowings during this period.*

1.7.4 Cash Balances and Investments made

The detail of cash balances and investments made by the State Government out of cash balances during the year is given in **Table 1.19** below:

Table-1.19
Cash Balances and Investments of Cash balances

(₹ in crore)

Particulars	As on 1st April 2011	As on 31st March 2012	Increase (+)//Decrease(-)
Cash Balances	634.86	568.72	(-) 66.14
Investments from Cash Balances			
a. GoI Treasury Bills	906.53	948.67	42.14
b. GoI Securities	4,935.51	5,063.00	127.49
Funds-wise break-up of Investments from Earmarked balances			
Interest realised	49.60	55.83	(+) 6.23

Cash balances of the State Government at the end of the current year decreased by ₹66.14 crore from ₹634.86 crore in 2010-11 to ₹568.72 crore in 2011-12. The State Government invested ₹948.67 crore in GoI Treasury Bills and ₹5,063 crore in GoI Securities and earned an interest of ₹55.83 crore during 2011-12**.** The Government

was able to maintain daily cash balance fixed by the RBI and did not avail ways and means advances ***(Appendix-1.3)***.

To make up the deficiency in the cash balance, government treasury bills for ₹26,739.57 crore were invested on 174 occasions and ₹26,697.43 crore rediscounted on 246 occasions during the current year.

1.8 Assets and Liabilities

1.8.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix-1.4(Part B)*** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances.

1.8.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix-1.3***. However, the composition of fiscal liabilities during the current year vis-à-vis the previous years are presented in **Table 1.20** below:

Table-1.20

Fiscal Liabilities – Basic Parameters

	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities (₹in crore)	19,419	21,819	23,713	26,415	28,228
Rate of Growth (*per cent*)	7.46	12.36	8.68	11.39	6.86
Ratio of Fiscal Liabilities to					
GSDP* (*per cent*)	57.17	52.60	50.48	48.29	44.74
Revenue Receipts (*per cent*)	212.42	234.41	229.20	207.81	194.10

*GSDP revised on base year 2004-05

The overall fiscal liabilities of the State increased from ₹ 19,419 crore in 2007-08 to ₹ 28,228 crore in 2011-12. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (₹ 19,511 crore) comprised market loans (₹ 10,147 crore), loans from GoI (₹ 947 crore) and other loans (₹ 8,417 crore which includes ₹ 5,063 crore on Special Security issued to NSSF of the GoI).

The Public Account liabilities (₹ 8,717 crore) comprise Small Savings and Provident Funds (₹ 6,738 crore), interest bearing obligations and non-interest bearing obligations like deposits (₹ 1,758 crore) and reserve funds (₹221 crore).

The rate of growth of fiscal liabilities was seven *per cent* during 2011-12. The ratio of fiscal liabilities to GSDP consistently decreased to 44.74 *per cent* in 2011-12 from 57.17 *per cent* in 2007-08. These liabilities stood at 1.94 times the revenue receipts at

the end of 2011-12. 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. However, the State Government has not yet set up the sinking fund.

1.8.3 Status of Guarantees[7] – Contingent liabilities

The maximum amount, for which guarantees were given by the State and outstanding guarantees for the last three years as shown in Statement 9 of the Finance Accounts, is given in **Table 1.21** below:

Table-1.21
Guarantees given by the Government of Himachal Pradesh

(₹in crore)

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	4,361	6,232	6,208
Outstanding amount of guarantees	1,949	3,910	3,316
Percentage of maximum amount guaranteed to total revenue receipts of the year	42	49	43

No law has been enacted by the State Legislature under Article 293(1) of the Constitution laying down the limits within which Government may give guarantees on the security of the Consolidated Fund of the State. However, the HPFRBM Act, 2005 amended in March 2011 provides that the total outstanding guarantees are to be limited to 40 *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 upto 2010-11. The outstanding guarantees on the loans raised by various corporations and others stood at ₹3,316 crore at the end of 2011-12 forming 26 *per cent* of the revenue receipts of the previous year was also within the limit of 40 *per cent* prescribed vide amendment to FRBM Act 2005. The major recipients of guarantees against which amounts were outstanding as on 31 March 2012 were six Statutory Boards/Corporations (₹2,937 crore), seven Government companies (₹141 crore), one Co-operative Bank (₹230 crore) and two Local/Autonomous Bodies (₹eight crore). No guarantees were invoked during the 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 Fund so far.

1.9 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability[8] of the State. This section assesses the sustainability of debt of the State Government in terms of debt

[7] Refer glossary in Appendix 4.
[8] Refer glossary in Appendix 4.

stabilisation[9]; sufficiency of non-debt receipts[10]; net availability of borrowed funds[11]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. The analysis of the debt sustainability of the State according to these indicators for the period of three years beginning from 2009-10 is given in **Table 1.22** below:

Table-1.22
Debt Sustainability: Indicators and Trends

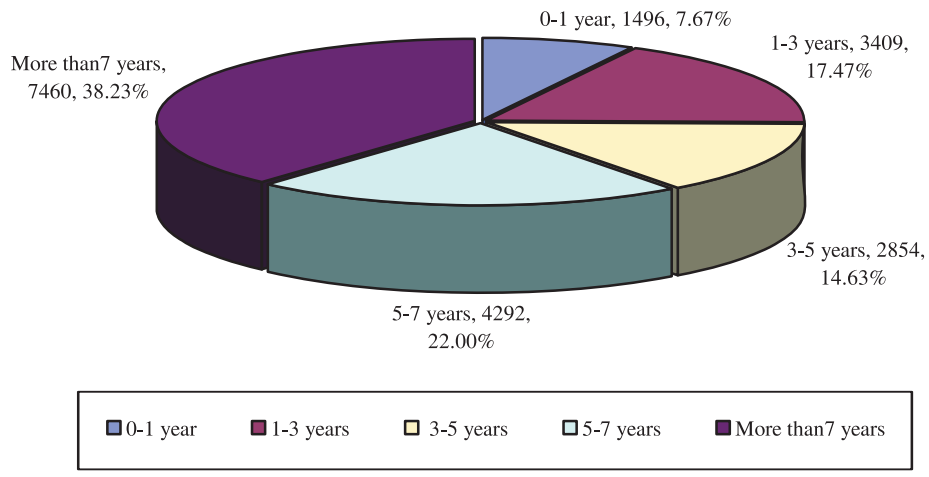
(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	178	1,462	2,481
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 506	252	899
Net Availability of Borrowed Funds	341	752	(-)317
Burden of Interest Payments (IP/RR Ratio)	0.189	0.153	0.146
Maturity Profile of State Debt (In Years)*			
0 – 1	869.69 (5.08)	952.61(5)	1,496.44 (8)
1 – 3	2,444.40(14.29)	3,121.30(17)	3,408.68 (17)
3 – 5	3,238.28(18.92)	3,346.47(18)	2,853.82 (15)
5 – 7	2,568.84(15.01)	3,087.09(16)	4,291.81 (22)
7 and above	7,991.73(46.70)	8,146.89(44)	7,459.94 (38)

Figures in parenthesis indicate percentages

It is observed from the **Table 1.22** above that quantum spread together with primary deficit was positive in the years 2009-10: ₹178 crore, 2010-11: ₹1,462 crore and 2011-12: ₹2,481 crore. The maturity profile of the State Government indicates that 40 *per cent* (₹7,759 crore) of the total Public Debt is repayable within the next five years while the remaining 60 *per cent* (₹11,752 crore) loans are required to be paid in more than five years time. Maturity profile of public Debt in the maturity bucket of seven years and above as on 31 March 2012 is given in **Chart 1.11** below:

Chart 1.11: Maturity Profile of Public Debt (₹ in crore)



Source: Finance Accounts

[9] Refer glossary in Appendix 4.
[10] Refer glossary in Appendix 4.
[11] Refer glossary in Appendix 4.

In order to discharge its expenditure obligations, the government had to borrow further, as fiscal surplus was not available in any of the last five years. The maturity profile of outstanding stock of Public Debt as on 31 March 2012 shows that 38.23 *per cent* of the Public Debt was in the maturity bucket of seven years and above.

1.10 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2011-12.

1.10.1 Trends in Deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2007-12:

Chart-1.12: Trends in Deficit Indicators (₹ in crore)

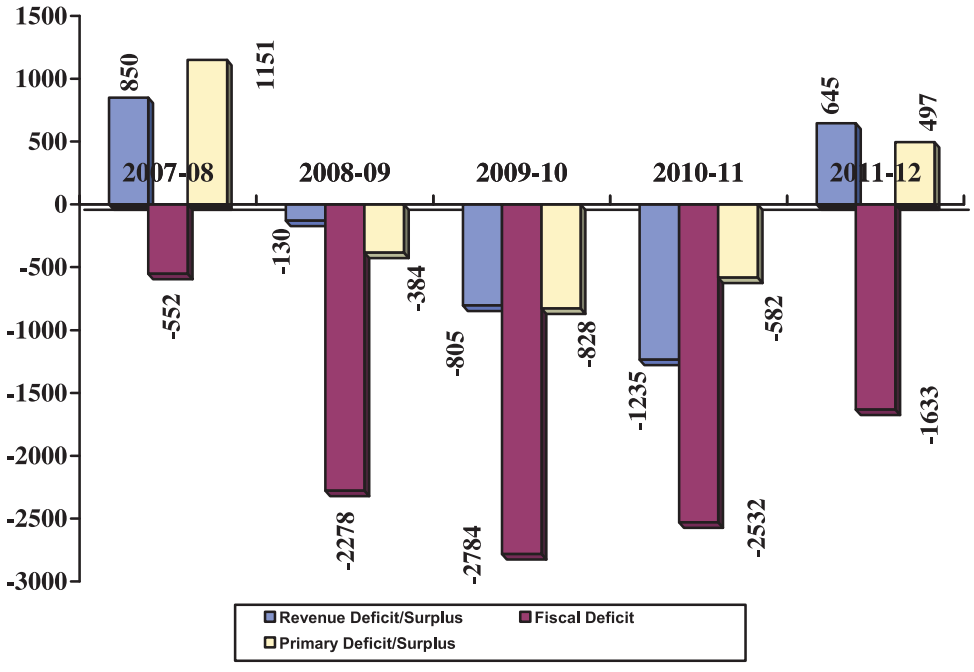
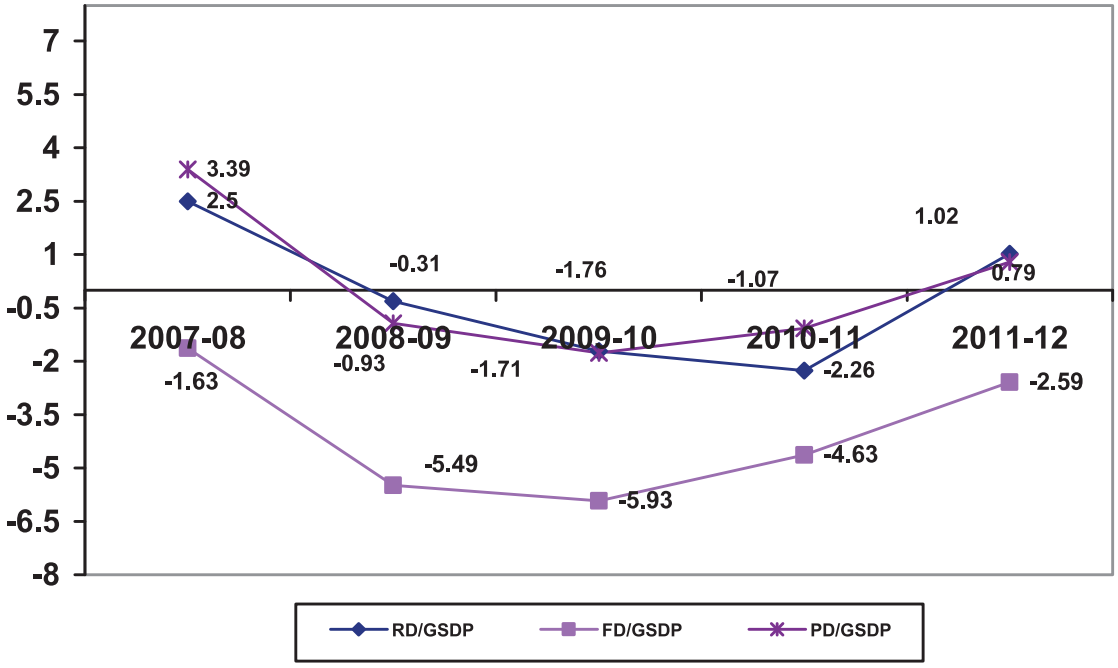


Chart-1.13: Trends in Deficit Indicators relative to GSDP (figures as percentage to GSDP)



Charts 1.12 and **1.13** reveal that all accounts of revenue, fiscal and primary experienced a situation of huge deficit during 2008-11. The fiscal deficit was 2.59 *per cent* of GSDP during the year which was within the projections made by Th FC (i.e. three *per cent*). From a revenue surplus position in 2007-08, the State had a revenue deficit of ₹130 crore in 2009-10 which further deteriorated and rose to ₹1,235 crore in 2010-11 indicating an increase of 850 *per cent but in the current year the state economy earned a revenue surplus of* ₹645 *crore (152 per cent)*. The reason for revenue surplus during the current year was mainly because of an increase of ₹ 1,832 crore (14.41 *per cent*) in revenue receipts and the decrease of ₹48 crore (0.34 *per cent*) in revenue expenditure over the previous year. The NTR increased by ₹220 crore whereas the tax revenue increased by ₹465 crore, increase in share of union taxes/duties was ₹284 crore and GIA received from GoI increased by ₹863 crore over the previous year which accounted for ₹1,832 crore net increase in revenue receipts during 2011-12. Further, fiscal deficit decreased by ₹899 crore from ₹2,532 crore in 2010-11 to ₹1,633 crore during 2011-12. The primary deficit of ₹582 crore in 2010-11 decreased and turned into surplus to ₹ 497 crore in 2011-12 indicating a decrease of 185 *per cent.* The interest payments increased by ₹180 crore. The fiscal deficit was 2.59 *per cent* of GSDP during the year which was within the projections made by Th FC (i.e. three *per cent*).

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.23** below:

Table-1.23
Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit						
1	Revenue Deficit	(+) 850 (2.64)	(-) 130 ((-) 0.31))	(-) 805 ((-) 1.71)	(-)1,235 ((-)2.26)	(+) 645 (1.02)
2	Capital Expenditure	1,414 (4.39)	2,079 (5.61)	1,943 (4.14)	1,789 (3.27)	1,810 (2.87)
3	Net Loans and Advances	(-)12 (0.04)	69 (0.19)	36 (0.09)	154 (0.29)	468 (0.74)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1,322	1,752	1,177	389	922
2	Loans from GoI	(-) 5	(-) 44	13	(-)23	(-) 13
3	Special Securities Issued to NSSF	134	60	396	650	127
4	Loans from Financial Institutions	(-) 599	(-) 406	78	526	(-) 180
5	Small Savings, PF, etc.	540	515	546	888	636
6	Deposits and Advances	(-) 366	217	265	333	178
7	Suspense and Misc.	2	53	117	137	(-) 119
8	Remittances	50	(-) 2	75	48	(-) 127
9	Others	(-) 526	151	117	(-)416	209
10	Overall Surplus/Deficit	(-) 552	(-) 2,278	(-) 2 ,784	(-)2,532	(-) 1,633

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

Source: Finance Account

Table 1.23 reveals that fiscal position of the State had plunged to a huge deficit during 2008-09, 2009-10, 2010-11 and 2011-12. During 2011-12, the fiscal deficit of ₹1,633 crore was mainly due to borrowings from market (₹922 crore), small savings, PF, etc. (₹636 crore), special securities issued to NSSF (₹127 crore) and deposits and advances (₹178 crore). During 2011-12, the market borrowings and small savings, PF, etc. together contributed 95 *per cent* of the deficit which will increase the interest burden in future.

1.10.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the revenue 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. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.24**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table-1.24

Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure (PRE)	Capital Expenditure	Loans and Advances	Total Primary Expenditure (3+4+5)	Primary revenue surplus (2-3)	Primary deficit (-)/ surplus (+) (2-6)
1	2	3	4	5	6	7	8
2007-08	9,168	6,589	1,414	14	8,017	2,579	1,151
2008-09	9,329	7,544	2,079	90	9,713	1,785	(-) 384
2009-10	10,380	9,195	1,943	70	11,208	1,185	(-) 828
2010-11	13,430	11,996	1,789	227	14,012	1,434	(-)582
2011-12	14,568	11,768	1,810	493	14,071	2,800	(+) 497

- From 2007-08 onwards, non-debt receipts of the State were higher than the PRE which was sufficient to meet this expenditure. From 2007-08, the non-debt receipts as compared to PRE continued to fall from ₹ 2,579 crore in 2007-08 to ₹ 1,185 crore in 2009-10 but showed consistent increase of ₹ 1,434 crore in 2010-11 and ₹ 2,800 crore during current year 2011-12.

- Total primary expenditure increased by ₹ 6,054 crore from ₹ 8,017 crore to ₹ 14,071 crore during the period 2007-12 which was due to increase of primary revenue expenditure to the extent of ₹ 5,179 crore from ₹ 6,589 crore in 2007-08 to ₹ 11,768 crore in 2011-12 and capital expenditure by ₹ 396 crore from ₹ 1,414 crore in 2007-08 to ₹ 1,810 crore in 2011-12 and increased by one *per cent* over the previous year.

- During the period 2007-08 the State had primary surplus but it plunged into deficit of ₹ 384 crore in 2008-09 which further increased to ₹ 828 crore in 2009-10 but has shown improvement in 2010-11 and stood at ₹582 crore which turned into surplus of ₹ 497 crore during 2011-12. The primary surplus during

2011-12 was mainly due to significant increase in non-tax revenue by ₹ 220 crore *(12.98 per cent)* and increase in disbursement of loans and advances i.e. by ₹ 266 crore *(117 per cent)* over the previous year.

1.11 Conclusion

The fiscal position of the State is viewed in terms of key fiscal parameters viz; Revenue, fiscal and primary deficits. During the year it earned revenue surplus relative to revenue deficit of previous year. The revenue receipts (₹14,543 crore) of the State grew by (₹1,832 crore) 14 *per cent* while the revenue expenditure decreased by ₹48 crore (0.34 *per cent*) over the previous year. This resulted in revenue surplus of ₹ 645 crore[12], as compared to revenue deficit of ₹ 1,235 crore registered during the year 2010-11. The revenue account resulted in line with the projections in the Th FC and FRBM Act.

The increase in revenue surplus combined with increase in capital expenditure and increase in disbursement of net loans and advances resulted in a fiscal deficit of ₹1,633 crore in 2011-12. The primary deficit of ₹582 crore of previous year showed this year surplus of ₹497 crore. The fiscal deficit as a percentage of GSDP was 2.59 *per cent* in 2011-12 which was well within the FRBM Act target of 3 *per cent*.

The revenue expenditure constituted 86 *per cent* of the total expenditure during 2011-12 while the Non-Plan Revenue Expenditure (NPRE) constituted 88 *per cent* of revenue expenditure. The Plan Revenue Expenditure increased by 3 *per cent* over the previous year whereas the Capital Expenditure increased by one *per cent* (₹ 1,810 crore) over the previous year. Low rate of return on Government investments and inadequate interest cost recovery on loans and advances is a cause for concern. The salary expenditure during the current year exceeded the projections made in the budget estimates (₹ 6,044 crore).

During 2011-12, GoI directly transferred ₹ 1,416 crore to the State Implementing Agencies without routing through the budget. There is no single agency monitoring the expenditure out of these funds.

Fiscal liabilities at the end of the current year work out to ₹ 28,228 crore with growth of seven *per cent* over the previous year and stood at 45 *per cent* of GSDP.

[12] Includes an amount of ₹ 32.43 crore by way of book adjustment.

Out of 29 and 18 functions mentioned in the Eleventh and Twelfth Schedules of the Constitution, the State Government entrusted 26 and 16 functions to the PRIs and ULBs, respectively. Available manpower in ULBs was also not sufficient to execute the transferred functions. As of 31st March 2012, there were 13 incomplete projects in which ₹930 crore were blocked. Efforts need to be made to expedite completion of incomplete projects in order to avoid further time and cost overruns and denial of accruing benefits to the beneficiaries.

1.12 Recommendations

The Government may:

- prepare an effective action plan to complete all projects promptly so that people derive envisaged benefits in time;
- consider taking appropriate measure to ensure better value for money in investments.