

EXECUTIVE SUMMARY

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Background

This Report on the finances of the Government of Himachal Pradesh presents an assessment of the financial performance of the State during the year 2019-20 *vis-à-vis* the Budget Estimates and targets prescribed under the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 amended further by Act No. 25 of 2011; and analysis of the dominant trends and structural profile of State Government's receipts and disbursements.

Based on the audited accounts of the Government of Himachal Pradesh for the year ended 31 March 2020 and additional data collated from several sources such as the Economic Survey (brought out by the State government) and Census, this Report provides an analytical review of the Annual Accounts of the State Government in four Chapters.

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

Chapter-II is based on the audit of Finance Accounts and provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key public Account transactions.

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

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

Audit findings

Chapter I: Overview

➤ The State passed FRBM Act, 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue deficit. However, the FRBM has not been amended as per the recommendations of the 14th Finance Commission.

(Paragraph 1.5.1)

➤ During 2016-20, the State had continuously reported revenue surplus due to increase in central devolutions on the recommendations of 14th Finance Commission. However, the revenue surplus consistently declined from 2016-17 to 2019-20 (except 2018-19) to ₹ 12 crore during 2019-20.

➤ The fiscal deficit (₹ 5,597 crore) was 3.38 *per cent* of GSDP against the target as per the 14th Finance Commission and FRBM Act of three *per cent* or less during 2019-20. Primary surplus of ₹ 510 crore in 2018-19 turned into primary deficit of ₹ 1,363 crore in 2019-20. Projections made in budget/Medium term fiscal plan were not in line with the recommendations of the 14th FC and actuals for the year 2019-20 were significantly at variance with the targets.

(Paragraph 1.5.3)

Chapter II: Finances of the State

➤ During 2019-20, State had negative growth (-0.67 *per cent*) in revenue receipts over the previous year which was a significant reduction from 2015-16 (31.37 *per cent*). Only 33 *per cent* of the revenue receipts came from the State's own resources comprising taxes and non-taxes, while the remaining 67 *per cent* was contributed by central transfers comprising the State's share in central taxes and duties (15 *per cent*) and grants-in-aid from GoI (52 *per cent*).

(Paragraph 2.3.2.1)

➤ During 2019-20, total expenditure (₹ 36,362 crore) of the State increased by ₹ 1,869 crore (5.42 *per cent*) over the year 2018-19. Revenue expenditure constituted an average of 84.4 *per cent* (ranging from 78.9 *per cent* to 87.0 *per cent*) of the total expenditure during the period 2015-20. Rate of growth of revenue expenditure has displayed fluctuating trend over the last five year period 2015-20. The committed expenditure ranged between 68 and 71 *per cent* of revenue expenditure, while it accounted for 65 to 70 *per cent* of the revenue receipts of the State during the five-year period 2015-20.

(Paragraphs 2.4.1, 2.4.2 and 2.4.2.2)

➤ During 2019-20, capital expenditure (₹ 5,174 crore) increased by ₹ 591 crore (13 *per cent*) over the previous year 2018-19 (₹ 4,583 crore) and constituted 14 *per cent* in total expenditure.

(Paragraph 2.4.3)

➤ Overall fiscal liabilities at the end of the year were ₹ 62,212 crore with growth of 14.57 *per cent* over the previous year. The total fiscal liabilities-GSDP ratio in 2019-20 increased by 2.31 *per cent* over the previous year and stood at 37.60 *per cent*, which was above the target of 14th FC. Internal debt of the Government increased to ₹ 39,528 crore (11.78 *per cent*) during 2019-20 from ₹ 35,363 crore in 2018-19.

(Paragraph 2.6.1)

➤ Maturity profile of outstanding stock of public debt and interest of ₹ 62,234 crore (principal: ₹ 40,572 crore and interest: ₹ 21,662 crore), as on 31 March 2020 indicates that the annual outgo in shape of public debt repayment and interest will be approximately ₹ 6,207 crore during next five years up to 2024-25.

(Paragraph 2.6.2)

Chapter III: Budgetary Management

➤ During 2019-20, expenditure of ₹ 45,528 crore (84.77 per cent) was incurred against total grants and appropriations of ₹ 53,708 crore. Overall savings of ₹ 8,179.45 crore were the net of savings (₹ 8,229.36 crore) and excess expenditure (₹ 49.91 crore) in various grants/appropriations. Further, excess expenditure of ₹ 9,154.31 crore for the period 2013-14 to 2018-19 and ₹ 49.91 crore (2019-20) required regularisation of the State Legislature under Article 205 of the Constitution of India.

(Paragraphs 3.1.1, 3.3.8.1 and 3.3.8.3)

➤ Supplementary provision of ₹ 438.61 crore in 18 sub-heads (₹ one crore or more in each case) under 16 grants (Revenue/Capital-Voted and Charged-Voted) proved unnecessary/ unutilised as the expenditure did not come up even to the level of original provision. Re-appropriation of funds of ₹ 6.82 crore (71 per cent) in four cases (under three grants) was made from Supplementary Grants/ provisions (₹ 9.63 crore), without prior approval of the State Legislature.

(Paragraphs 3.3.4 and 3.3.5)

➤ The Re-appropriation in seven cases out of eight cases proved unnecessary, as the savings under these cases was more than re-appropriated amount. And in one case Re-appropriation proved insufficient as the expenditure resulted in excess. In 24 cases, there was surrender of ₹ 6,706 crore which was 15 per cent of the original budget.

(Paragraphs 3.3.6 and 3.3.7)

Chapter IV: Quality of Accounts and Financial Reporting Practices

➤ Non-submission of Utilisation Certificates indicated lack of monitoring as regards utilisation of grants released by the departments to the grantees, and entailed risk of non-utilisation, misutilisation or diversion of funds released for various works/schemes/programmes. A total number of 2,482 UCs of various departments amounting to ₹ 2,847.94 crore was pending as of March 2020. Out of total 2,482 outstanding UCs, 1,083 UCs for grants of ₹ 1,062.58 crore pertain to the period 2009-10 to 2017-18. Further, 58 per cent of the total outstanding amount pertain to two departments (41.15 per cent Panchayat Raj Department: ₹ 1,171.90 crore and 16.72 per cent Urban Development Department: ₹ 476.19 crore).

(Paragraph 4.6)

➤ During 2019-20, an amount of ₹ 1,275 crore constituting 3.55 per cent of expenditure (₹ 35,904 crore) was classified under the Minor Head-800 'Other Expenditure'. Similarly, ₹ 1,637 crore constituting 5.33 per cent of receipts (₹ 30,744 crore) was booked under the Minor Head-800 'Other Receipts'. Operation of omnibus Minor Head 800-Other Expenditure/Other Receipts affects transparency in financial reporting, and obscured proper analysis of allocative priorities and quality of expenditure.

(Paragraph 4.9)

➤ The State Government is yet to fully implement the notified IGAS- 2 and 3 rules in the State, thereby, compromising on the quality of financial reporting. Institution wise break-up of the Grants-in-aid was not provided (IGAS-2). Detailed information regarding repayment in arrears from other loanee entities and fresh loans and advances made during the year to the loanee entities from whom repayments of earlier loans are in arrears was not furnished (IGAS-3).

(Paragraph 4.13)