CHAPTER-I

OVERVIEW

CHAPTER I

Overview

1.1 Profile of State

State of Himachal Pradesh is located in the Himalayan region of the northern part of India. The altitude of the different areas of the State varies from 350 to 6,975 meters above the mean sea level, rendering the climate from humid sub-tropical to dry temperate alpine. State is the 17th largest State in terms of geographical area (55,673 sq. km.) and 21st by population (as per 2011 census).

Himachal Pradesh is a Special Category State (SCS), accordingly, it is entitled to 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. The social indicators, *viz.* literacy rate and rate of infant mortality at birth, indicate that the State had better literacy rate and infant mortality rate than the All India Average. The percentage of below poverty line (BPL) population in the State was also well below the All India Average **(Appendix-1)**.

1.1.1 Gross State Domestic Product of Himachal Pradesh

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time as shown in **Table-1.1**.

Table 1.1: Trends in GSDP compared to the national GDP (at Current Prices)

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP (2011-12 Series) (*₹in crore*)	1,37,71,874.00	1,53,91,669.00	1,70,98,304.00	1,89,71,237.00	2,03,39,849.00
Growth rate of GDP over previous year (in *per cent*)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series) (*₹in crore*)	1,14,239.41	1,25,633.65	1,38,351.06[a]	1,53,844.80[b]	1,65,472.39[c]
Growth rate of GSDP over previous year (in *per cent*)	10.09	9.97	10.12	11.20	7.56

Source: Department of Economics and Statistics, Himachal Pradesh and Central Statistics Office.
a – Second Revised Estimate, b- First Revised Estimate, c- Advance Estimate

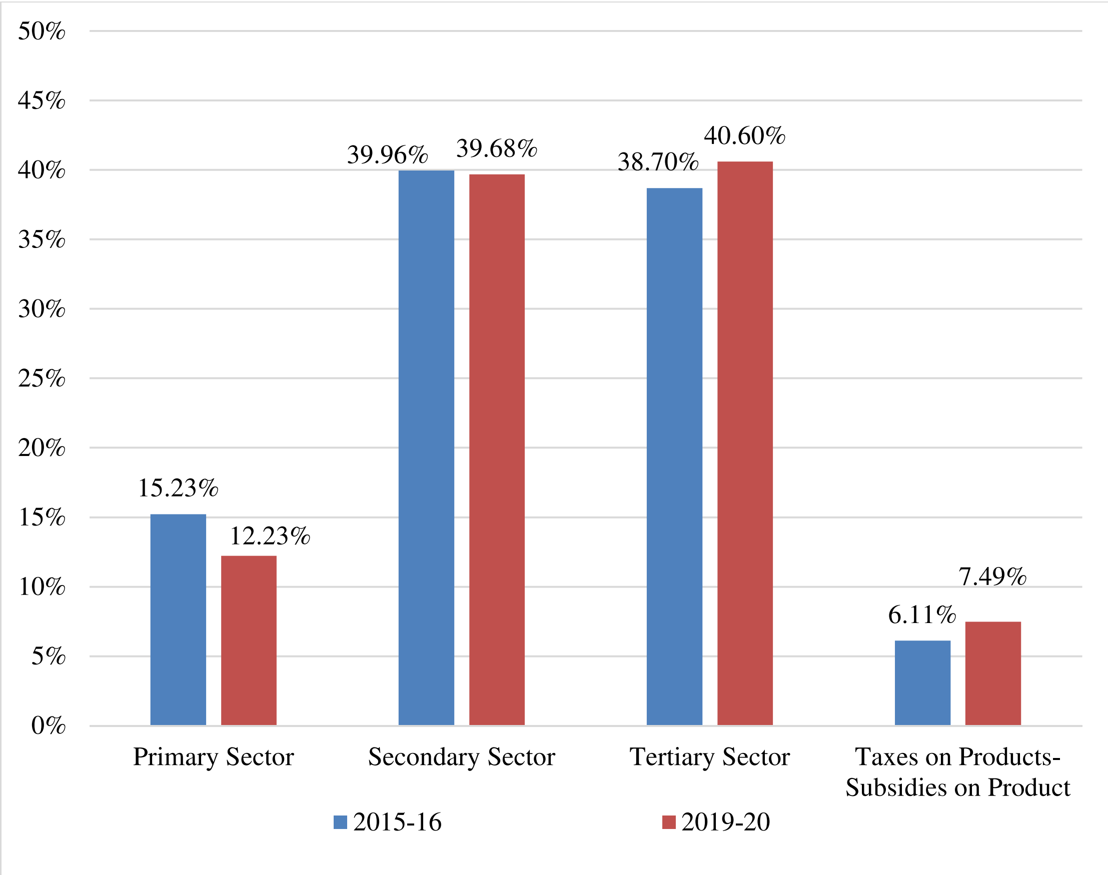
Growth rate of GSDP during 2019-20 came down to 7.56 *per cent,* due to decline in growth rate under industry and service sector as compared to 2018-19. The Compound

Annual Growth Rate (CAGR) of its GSDP at current prices for the period 2011-12 to 2019-20 was 10.82 *per cent*, marginally below the CAGR of SCS of 11.24 *per cent.*

1.1.2 Sectoral contribution to GSDP

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors. The Primary sector mainly corresponds to Agricultural activities along with other economic activities of primary nature viz. forestry, animal husbandry, fishing and mining. The Secondary Sector corresponds to manufacturing, construction and services related to supply electricity, gas, etc. whereas the Tertiary Sector corresponds to Service sectors. Changes in sectoral contribution to GSDP and sectoral growth in GSDP during 2015-16 to 2019-20 is depicted in **Charts 1.1 and 1.2**.

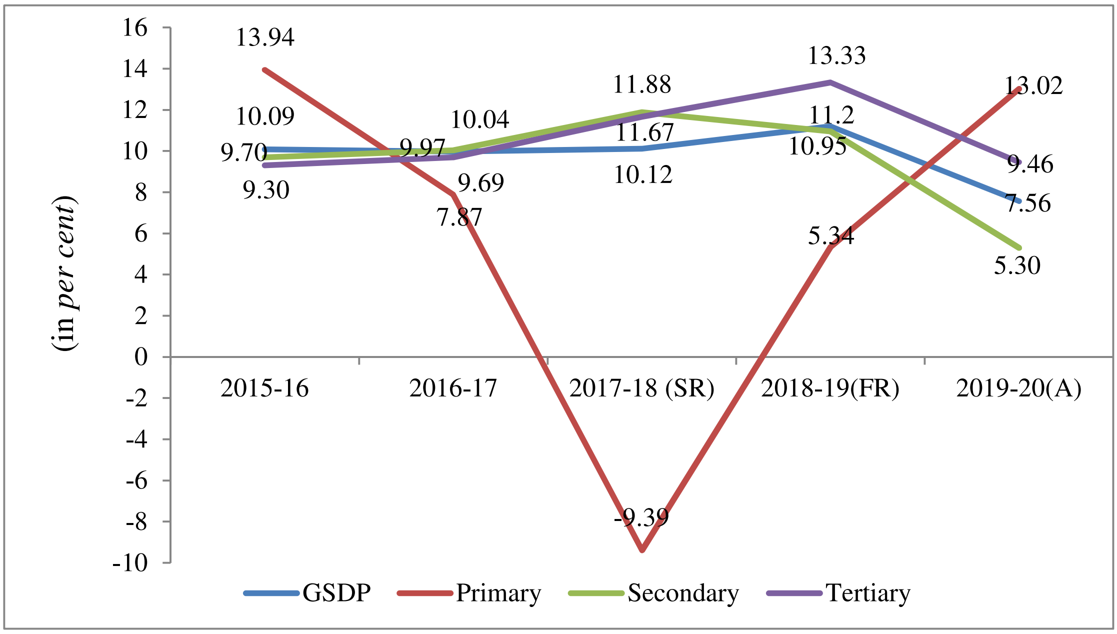
Chart-1.1: Change in sectoral contribution to GSDP (2015-16 to 2019-20)



Source of data: Department of Economics and Statistics, Himachal Pradesh

During 2019-20, there was a decline in the growth rate of Secondary and Tertiary sectors against increase in Primary Sector in comparison with the previous year, as can be seen from **Chart-1.2**:

Chart-1.2: Sectoral growth in GSDP



Source: Department of Economics and Statistics, Himachal Pradesh

The steep decline in the percentage share of Primary Sector in 2017-18 as compared to 2016-17 was due to decrease in the contribution on account of Forestry and logging. In 2016-17, the contribution of Forestry and logging to Primary sector was ₹ 6,731.02 crore while in 2017-18 it was ₹ 4,762.35 crore, which was 29.25 *per cent* less compared to 2016-17. After comparing the volume of various trees and herbs between the year 2016-17 and 2017-18, it was noticed that there is a major fall in the computation of volume[1] of trees and herbs. The reason behind shortfall in volumes was weather conditions i.e. rain, snowfall and other natural factors, which were not so supportive in the year 2017-18.

Thus, due to lesser volume of trees, medicinal herbs, etc. under Forestry and Logging during 2017-18, there was a downfall in GSDP in Primary sector. The situation improved in the subsequent year 2018-19, due to favourable conditions along with a better than expected contribution by Livestock in that year.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Himachal Pradesh for the year ended 31 March 2020 has been prepared by the CAG for submission to the Governor of the State under Article 151 (2) of the Constitution of India.

[1] In DEODAR trees there was a downfall from 60,600 mtr. cube in 2016-17 to 26,009 mtr. cube in 2017-18 and in the volume of others for e.g. KAIL, FIR/SPRUCE, etc., increase/decrease has been seen during 2017-18 over the previous year. Shortfall also seen in the volume of medicinal herbs which decreased from 4,240 tons in 2016-17 to 1,791 tons in 2017-18.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State for the year 2019-20 constitute the core data for this report. Other sources include the following:

- Budget of the State for the year 2019-20 forms an important source of data: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Pr. Accountant General (Audit), Himachal Pradesh;
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS),
- GSDP data and other State related statistics; and
- Various Audit Reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (14th FC), State Financial Responsibility and Budget Management (FRBM) Act, best practices and guidelines of the Government of India. The draft State Finance Audit Report was forwarded to the State Government in March 2021 for comment; replies/viewpoint of the Government had not been received (May 2021). However, an exit conference was held on 28th June 2021 with the Additional Chief Secretary (Finance), State Government; their replies have been incorporated at appropriate places.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - I	**Overview** This Chapter 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	**Finances of the State** This chapter 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, based on the Finance Accounts of the State.

Chapter - III	**Budgetary Management** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - IV	**Quality of Accounts and Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

Part I: Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

Part II: Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorization of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

Part III: Public Accounts of the State (Article 266(2) of the Constitution of India)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union Taxes/ Duties, and grants from Government of India.

Revenue expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital receipts consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, etc.;
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances.

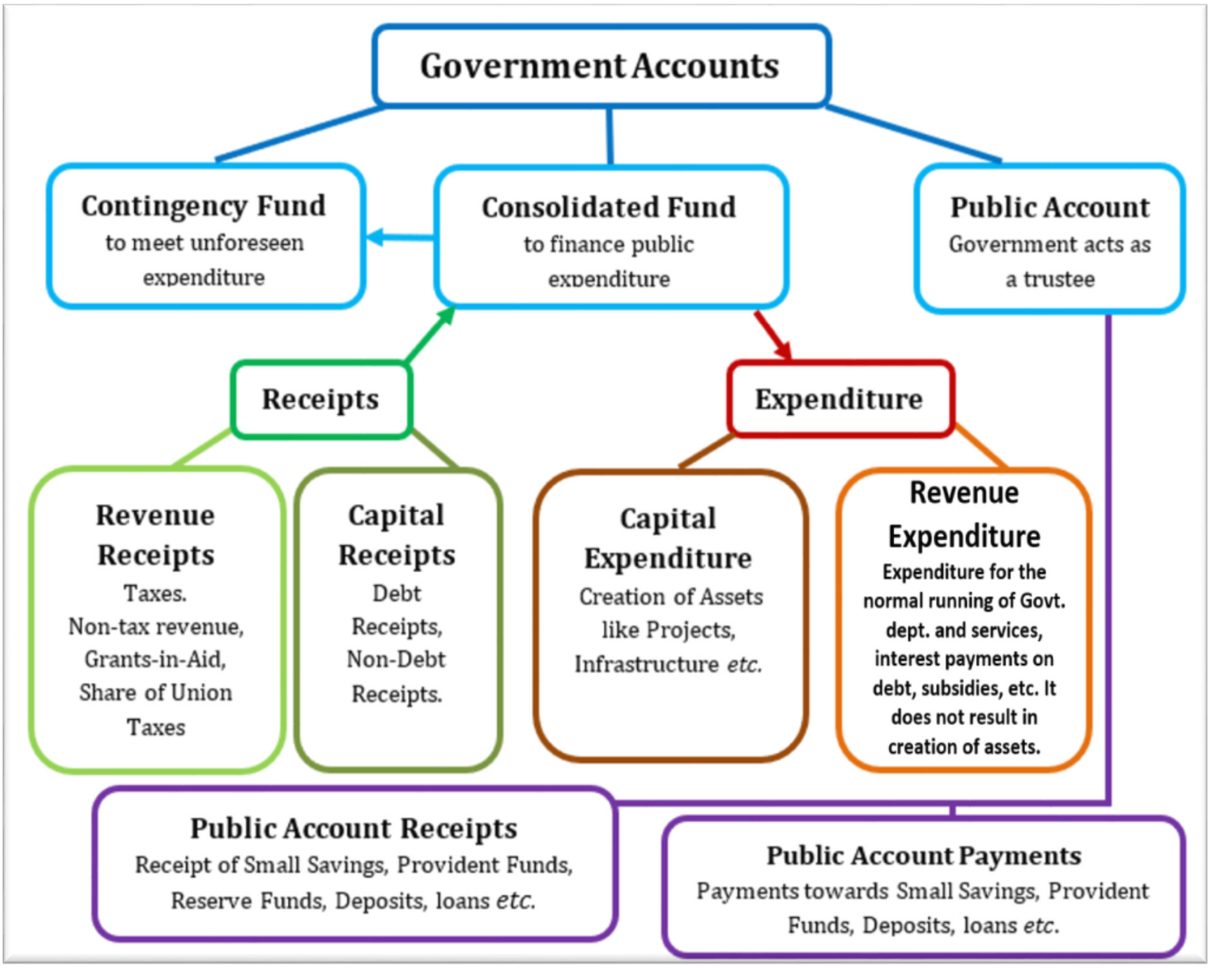
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

At present, we have an accounting classification system in government that is both functional and economic.

	Attribute of transaction	Classification
Standardized in List of Major and Minor Heads by Controller General Account	Function- Education, Health, etc. / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt, etc. classification of Government Accounts is depicted in **Chart 1.3**.

Chart 1.3: Structure of Government Accounts



Source: Budget Manual

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State will cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2019-20, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Child Budget, Agriculture Budget, Weaker sections (SC/ST) Budget, Disability Budget, etc.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Snapshot of Finances

The **Table-1.2** provides the details of actual financial results vis-a-vis Budget Estimates for the year 2019-20 *vis-a-vis* actual of 2018-19:

Table-1.2: Actual Financial Results vis-a-vis Budget Estimates

(₹in crore)

Sr. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimates)	2019-20 (Actuals)	Percentage of Actual to BE	Percentage of Actual to GSDP
1	Tax Revenue	7,573	7,921	7,624	96	5
2	Non-Tax Revenue	2,830	2,443	2,501	102	2
3	Share of Union taxes/duties	5,430	7,398	4,678	63	3
4	Grants-in-aid and Contributions	15,117	15,985	15,939	100	10
5	**Revenue Receipts (1+2+3+4)**	**30,950**	**33,747**	**30,742**	**91**	**19**
6	Recovery of Loans and Advances	22	27	21	78	0
7	Other Receipts	9	-	2		0
8	Borrowings and other Liabilities [(a)]	3,512	1,536	5,597	364	3
9	**Capital Receipts (6+7+8)**	**3,543**	**1,563**	**5,620**	**360**	**3**
10	**Total Receipts (5+9)**	**34,493**	**35,310**	**36,362**	**103**	**22**
11	**Revenue Expenditure Of which,**	**29,442**	**36,089**	**30,730**	**85**	**19**
12	Interest payments	4,022	4,552	4,234	93	3
13	**Capital Expenditure**	**5,051**	**5,037**	**5,632**	**112**	**3**
14	Capital outlay	4,583	4,580	5,174	113	3
15	Disbursement of Loans and advances	468	457	458	100	0
16	**Total Expenditure (11+13)**	**34,493**	**41,126**	**36,362**	**88**	**22**

Sr. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimates)	2019-20 (Actuals)	Percentage of Actual to BE	Percentage of Actual to GSDP
17	**Revenue Deficit(-)/ Revenue Surplus(+) (5-11)**	**1,508**	**(-) 2,342**	**12**	**(-)1**	**0**
18	**Fiscal Deficit {16-(5+6+7)}**	**3,512**	**7,352**	**5,597**	**76**	**3**
19	**Primary Deficit (18-12)**	**-510**	**2,800**	**1,363**	**49**	**1**

Source: Finance Account and State's budget documents

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

1.4.2 Snapshot of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. Summarised position of Assets and Liabilities of the State is given in **Table-1.3** below:

Table-1.3: Summarized position of Assets and Liabilities

(₹in crore)

Liabilities as on					Assets as on				
		31 March 2019	**31 March 2020**	***Percent increase***			**31 March 2019**	**31 March 2020**	***Percent increase***
Consolidated Fund									
A	Internal Debt	35,363.18	39,527.78	12	A	Gross Capital Outlay	38,946.98	44,120.89	13
B	Loans and Advances from GoI	1,061.77	1,043.82	(-)2	B	Loans and Advances	6,953.33	7,390.50	6
Contingency Fund									
A	Contingency Fund	5.00	5.00	--		--	--	--	
Public Account									
A	Small Savings, Provident Funds, etc.	14,349.52	15,537.13	8	A	**Cash balance (including investment in Earmarked Fund)**	52.70	1,060.18	1912
B	Deposits	3,206.58	3,380.30	5					
C	Reserve Funds	317.60	2,722.31	757					
D	Remittances	509.49	606.29	19					
E	Suspense and Miscellaneous	74.49	(-) 1,330.44	(-) 1,886		**Cumulative excess of expenditure over receipts**	8,934.62	8,920.62	--
Total:		**54,887.63**	**61,492.19**	**12.03**	**Total:**		**54,887.63**	**61,492.19**	**12.03**

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Deficits must be financed by borrowings giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

1.5.1 FRBM Targets on Key Fiscal Parameters and Achievements thereon

The State Government had passed Fiscal Responsibility and Budget Management Act (FRBM) in April 2005 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

As per the amendment to the FRBM Act 2011, the State Government was to eliminate Revenue deficit by 2011-12 and maintain Revenue surplus thereafter, reduce Fiscal

Deficit to three *per cent* of the estimated GSDP and maintain the same level thereafter. Further, the Act also envisaged that the State Government would limit the total outstanding debt to GSDP to 40.1 *per cent* in 2014-15.

The FRBM Act was required to be further amended as per the recommendation of the 14th FC, however, the State Government had not yet amended the FRBM Act.

Performance of the State Government on major fiscal variables against the 14th Finance Commission targets are given in **Table-1.4**:

Table-1.4: Compliance with provisions of 14th Finance Commission and FRBM Act

Fiscal Parameters	Fiscal targets set in the FRBM Act	Fiscal targets set in the 14th FC	Achievement (₹ in crore)				
			2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Surplus	Maintain Revenue Surplus	1,137	920	314	1,508	12
			✓	✓	✓	✓	✓
Fiscal Deficit (-)/ Surplus (+) (as *per cent of GSDP*)	Three or less	Three or less	-1.90	-2.35	-2.80	-2.28	-3.38
			✓	✓	✓	✓	✗
Ratio of total outstanding debt to GSDP (in *per cent*)	Not Available	31.11*	36.06	37.60	36.88	35.29	37.60
			✗	✗	✗	✗	✗

* *Source: Targets taken from the 14th FC Report, because the FRBM Act had not yet been amended by the State Government.*

1.5.2 Medium Term Fiscal Plan

As per the FRBM Act, the State Government is required to lay before the legislative Assembly in every financial year, the Medium Term Fiscal Plan Statement (MTFPS) along with the budget. The MTFPS sets forth the fiscal objectives, strategic priorities of the State Government and a three-year rolling target for fiscal management.

Table-1.5 indicates the variation between the projections made for 2019-20 in MTFPS presented to the State Legislature along with the Annual Budget and Actuals for the year 2019-20.

Table-1.5: Actuals *vis-à-vis* projection in MTFPS for 2019-20

(₹in crore)

Sl. No.	Fiscal Variables	Target/projection as per MTFPS	Actuals (2019-20)	Variation (in *per cent*)
1	Own Tax Revenue	7,921	7,624	-3.75
2	Non-Tax Revenue	2,443	2,501	2.37
3	Share of Central Taxes	7,398	4,678	-36.77
4	Grants-in-aid from GoI	15,985	15,939	-0.29
5	Revenue Receipts (1+2+3+4)	33,747	30,742	-8.90
6	Revenue Expenditure	36,089	30,730	-14.85
7	Revenue Deficit (-)/ Surplus (+) (5-6)	-2,342	12	100.51
8	Fiscal Deficit (-)/ Surplus (+)	7,352	5,597	-23.87

Sl. No.	Fiscal Variables	Target/projection as per MTFPS	Actuals (2019-20)	Variation (in *per cent*)
9	Debt-GSDP ratio (*per cent*)	34.04	37.60	3.56
10	GSDP growth rate at current prices (*per cent*)	11.50	7.56	-3.94

Source: Finance Account and Budget document

The projections made for the fiscal parameters (Revenue deficit, Fiscal deficit to GSDP and Debt-GSDP ratio) by the State in the MTFPS were not in line with the projections of the 14th Finance Commission and the FRBM Act. As against the target of maintaining revenue surplus in the 14th FC, the MTFPS stipulated revenue deficit for the year 2019-20. Similarly, the targets for Fiscal deficit to GSDP ratio and debt-GSDP ratio were fixed at 4.35 *per cent* and 34.04 *per cent* or less respectively, in contrast to the corresponding targets[2] fixed in the 14th Finance Commission and the FRBM Act.

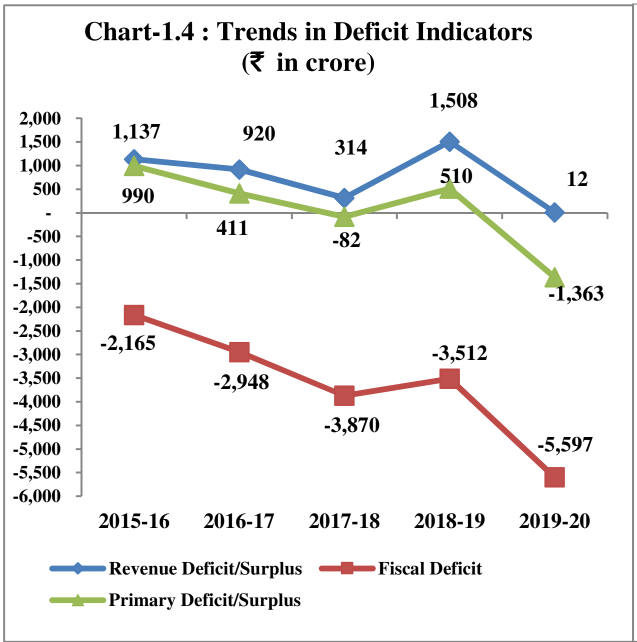
Further, there was a significant variation between the targets projected in the MTFPS and the actual figures for revenue deficit/surplus and fiscal deficit: revenue surplus of ₹ 12 crore against projected revenue deficit of ₹ 2,342 crore in Budget/MTFPS; fiscal deficit of ₹ 5,597 crore against projected fiscal deficit of ₹ 7,352 crore in the Budget/MTFPS.

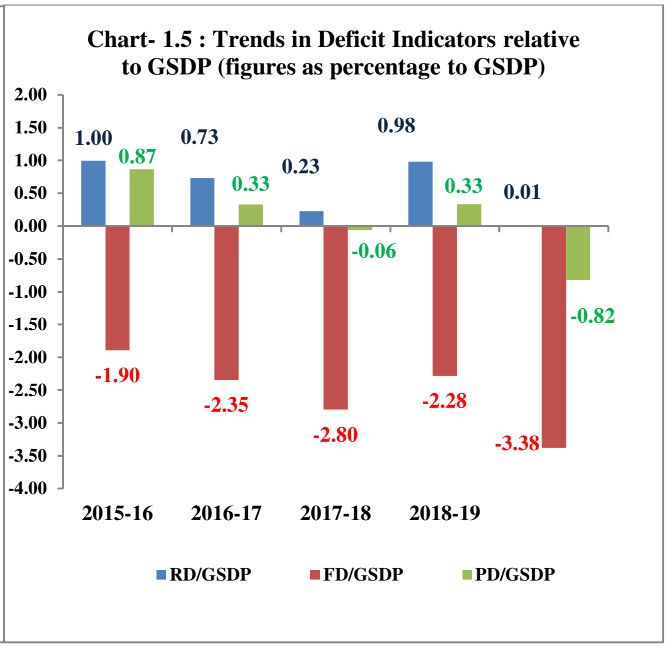
The large difference between projected and actual figures for revenue deficit/surplus was due to incurring of substantially less amount of development revenue expenditure than the budget estimates. This indicated either that the State Government had not properly assessed the estimated expenditure at the time of budget preparation, or that the State Government lacked the capacity to spend.

1.5.3 Trends of Deficit/ Surplus

The State was able to achieve the target for revenue surplus specified by the XIV FC during 2019-20. However, the State had a fiscal deficit of ₹ 5,597 crore during the year 2019-20, representing 3.38 *per cent* of the GSDP. The Primary surplus of ₹ 510 crore during 2018-19 turned to deficit to ₹ 1,363 crore during the current year (2019-20). The trend of these deficits over the five-year period from 2015-16 to 2019-20 is depicted in **Chart-1.4** and trend in deficit relative to GSDP is given in **Chart-1.5**. Component and trend of Fiscal Liabilities and its percentage to GSDP is also given in **Chart-1.6**.

[2] Fiscal deficit to GSDP ratio less than 3 *per cent;* Debt-GSDP ratio 31.11 *per cent*





Revenue Deficit

Revenue deficit indicates the excess of revenue expenditure over revenue receipts. As per the FRBM act, the State was to eliminate revenue deficit by financial year 2011-12 and maintain revenue surplus thereafter. Revenue surplus helps to decrease the borrowings. Revenue surplus of ₹ 1,508 crore in 2018-19 decreased to ₹ 12 crore in 2019-20. The high percentage of committed revenue expenditure reduces maneuverability around expenditure decisions by the State and indicates that the State has limited revenue space available after accounting for its committed expenditure needs. Hence, the State Government needs to make medium term corrections on the expenditure side to moderate such committed expenditures and streamline revenue collections.

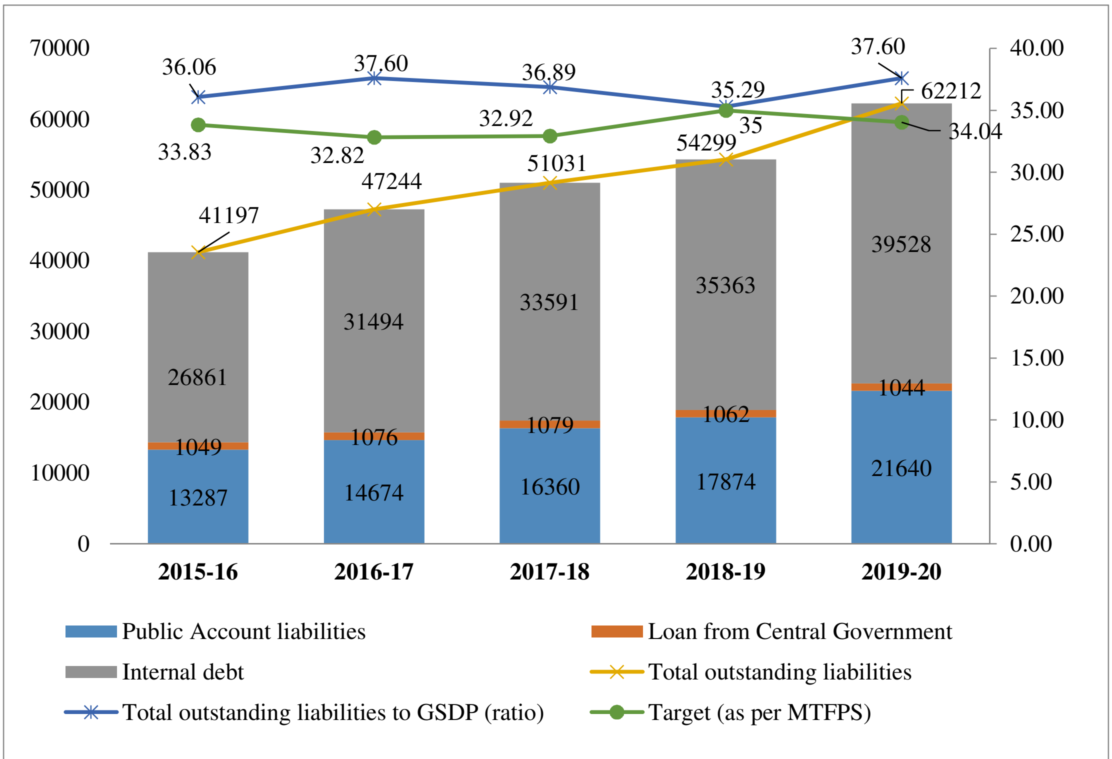
Fiscal Deficit

Fiscal deficit represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. During 2019-20, fiscal deficit (₹ 5,597 crore) increased by ₹ 2,085 crore over the previous year (₹ 3,512 crore). Fiscal Deficit was 3.38 *per cent* of the GSDP, which exceeded the target set by the 14th Finance Commission.

Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments in respect of States having deficit on revenue account. Interest payments represent the expenditure of past obligations and are independent of ongoing expenditure. To look at the imbalances of current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit is thus an important parameter that reflects a State's current financial position. If there is primary deficit it means that the State has a deficit even after netting out interest, and it will have to borrow even to pay interest on its borrowings. Primary surplus of ₹ 510 crore in 2018-19 turned into primary deficit of ₹ 1,363 crore during 2019-20.

Chart-1.6: Trends in Fiscal Liabilities and GSDP (₹ in crore)



As can be seen from the **Chart-1.6**, the total outstanding liabilities increased from ₹ 41,197 crore in 2015-16 to ₹ 62,212 crore during 2019-20. The ratio of total outstanding liabilities to GSDP also increased over the past five years and was well above the State's own target set in the MTFPS during 2015-20.

1.6 Deficits and Total Debt after examination in audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget fiscal operations.

1.6.1 Impact on Revenue and Fiscal deficit

Misclassification of revenue expenditure as capital and off budget fiscal operations impacts deficit figures. Besides, deferment of clear-cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, sinking and redemption funds, etc. also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities was analysed and depicted in the **Table-1.6**.

Table-1.6: Revenue and Fiscal Deficit, post examination by Audit

(₹in crore)

Particulars	Impact on Revenue Surplus (overstated) *(₹in crore)*	Impact on Fiscal Deficit (understated) *(₹in crore)*	Para Reference
Non-contribution to Consolidated Sinking Fund	271.50	271.50	2.5.2.1
Non-contribution to Guarantee Redemption Fund	21.55	21.55	2.5.2.3
Total	**293.05**	**293.05**	

Source: Finance Accounts and audit analysis

1.6.2 Post audit - Total Public Debt

Recently the Union Government expanded its definition of Debt. Debt as per amendments in 2018 in the FRBM Act now includes public debt (internal and external debt), total outstanding liabilities on public account and 'such financial liabilities of anybody corporate or other entity owned or controlled by the Central Government, which the Government has to repay or service from the AFS, reduced by cash balance at the end of that date'.

As per the explanatory note to the Budget, the debt liabilities of the State comprise of Internal debt, loans from Central Government, liabilities on public Account and other debt liabilities of PSUs. There is no explicit definition of total liabilities in the HP-FRBM act. However, it states that borrowing by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments, where the liability for repayment is on the State Government are also to be treated as borrowings of the State Government. The total outstanding public debt for the year ending 2019-20 of the State Government comprising of liabilities upon the Consolidated fund, Public Account liabilities, and other borrowings is shown in **Table-1.7**.

Table-1.7: Components of outstanding debt/liabilities

(₹in crore)

Liabilities upon the Consolidated Fund (Public Debt)	Amount
Internal Debt (A)	**39,527.77**
Market Loans	28,142.16
Loan from Life Insurance Corporation of India	24.77
Loan from NABARD	2,755.76
Loan from National Co-operative Development Corporation	125.40
Compensation and other Bonds	2,890.50
Loans from other Institutions, etc.	61.23
Special Securities issued to the National Small Saving Fund of the Central Government	5,527.95
Loans and Advances from Central Government (B)	**1,043.81**
Non-plan Loans	2.75
Loans for State Plan Schemes	1,040.94
Others	0.12
Liabilities upon Public Accounts (C)	**21,640.25**
Small Savings, Provident Funds, etc.	15,537.13
Deposits	3,380.81
Reserve Funds	2,722.31
Total (A+B+C)	**62,211.83**

There were no cases of off-budget fiscal operations such as borrowings by State PSUs, Special Purpose Vehicles (SPVs) etc., on behalf of the State Government where principal and / or interest are to be serviced out of the State budgets; deployment of own funds by the State PSUs, SPVs, etc., for execution of the deposit work of the State Government which was to be financed by the State Government through borrowings; and non-reimbursement of the Principal/Interest component by the State Government to State PSUs, SVPs, etc., of the loan taken by them on behalf of the State Government. As such, there was no impact of these on overall debt of the State Government.