CHAPTER 1

AN INTRODUCTION OF HIMACHAL PRADESH

Synopsis: A snapshot of the State of Himachal Pradesh, Formation of Himachal Pradesh as a full-fledged state of the Indian Union, its fiscal capabilities and needs of development, tracing the overall path of development of the state and its reliance on the central transfers from the Finance Commissions and the Planning Commission and changes in the structure of major sources of the State's tax and non-tax revenues over time.

Having started off as a centrally administered territory in 1948 by merger of 30 erstwhile princely hill states and attaining statehood in early 1971, Himachal Pradesh has come along way on its arduous path of development. In 1948, when the geo-political territory of Himachal Pradesh was constituted, it was the most under-developed entity in the country and had a huge developmental backlog inherited from the erstwhile princely States. At the same time, its fiscal capacity was extremely poor due to the fact that erstwhile rulers had precious little concern for socio-economic development of the common man. Conferment of Statehood on Himachal Pradesh was more in the nature of fulfilment of the popular aspirations and political ambitions and defining distinctive identity for the hill people in the western Himalayas, rather than the consideration of the fiscal viability of the State as a self-sustaining geo-political territory. Financially, the State could not fend for its developmental needs and the extremely dissected topography coupled with the mountainous terrain and climatic extremities were, and even today remain, formidable constraints in attracting inflow of developmental capital. Simultaneously, these factors also implicitly decelerate the pace of development and retard the development of revenue raising capabilities. At the time of formation of State, the fledgling State had a very poor resource base and the principal revenue resource was its forests. This, as we would observe, would change as we move on in the time line in overall national interest and environmental considerations. In terms of connectivity, the State's integration with the mainstream remains almost at the same level of evolution as in the beginning and the only significant development over time has been that it has developed a fairly good network of roads to connect its innumerable habitations with the centres of administration and possibly the markets which led to diversification of its subsistence level agriculture.

It was inherent in the design of creation of this State that it would, like other mountainous States, bank upon central resource flows for not only dealing with the enormous backlog of development and rampant poverty but also towards charting its own typical path of development. It was accordingly included in the comity of the "Special Category States". By design, the Special Category States would suffer from the problem of chronic revenue account deficits as their revenue receipts would fall way short of the revenue expenditure commitments. The revenue expenditure commitments would tend be much higher than in the plains States due to easily understood logic that the sparse population density, long distances, difficult topography, severity of climatic conditions and variations in climate, would all add up to push the per capita cost of developmental and regulatory services to a level far higher than the States located in the plains.

An interesting observation needs to be made here. The quantum of central transfers and the aggregate budget size for Himachal Pradesh will indicate the dependence the State has had on central transfers. The data for a few selected years over time is presented in the following table:-

Table 1.1 : Budget size and Central transfers (Rs. crore)

Year	Finance Commission transfers	Planning Commission transfers	Total transfers without CSS	Budget size	Col. 5 as per cent of Col.6
1	2	3	4	5	6
1970-71	12.78	6.29	19.07	80.18	23.78
1980-81	40.54	68.59	109.13	235.04	46.43
1990-91	312.69	212.68	525.37	1221.71	43.00
2000-01	1219.24	726.68	1945.92	4965.94	39.19
2010-11	4330.47	2680.22	7010.69	15078.92	46.49

Source : Budget documents of the State Government for the respective years.

The above data reveals that except for the year 1970-71 when Himachal Pradesh was granted Statehood, the dependence on central transfers has been very heavy. Except for the year 2000-01, when central transfers accounted for a little less than a quarter of the budget size, the level of dependence has varied between about 40 per cent to about 46.5 per cent. We would discover subsequently that the resources for financing the State Plan also go to fund the non-plan revenue expenditure. Given the resources scenario of the State, it is highly unlikely that it would be

possible for it to wean itself away from the situation of over-dependence on the central transfers.

It goes without saying that the State of Himachal Pradesh cannot meet its regulatory expenditure commitments from its own resources (tax and non-tax revenues as also the transfers by way of share in central taxes) and that is why it has been receiving the revenue deficit grants from the successive Finance Commissions. This aspect of central transfers will be dealt with subsequently but a quick look at the central transfers for financing of the State plans for the past few years also reveals the fact that Himachal Pradesh leans heavily on the central government to finance its developmental needs as well. The data presented below substantiates the fact:-

Table 1.2 : Plan financing in Himachal Pradesh (Rs. crore)

Sl. No.	Plan period	Central Assistance*	Plan size*
1.	1992-93	350.93	486.00
2.	1993-94	405.83	560.00
3.	1994-95	360.42	650.00
4.	1995-96	450.85	750.00
5.	1996-97	527.70	900.50
6.	1997-98	640.30	1008.00
7.	1998-99	915.41	1440.00
8.	1999-2000	809.71	1600.00
9.	2000-01	810.89	1382.00
10.	2001-02	1251.08	1720.00
11.	2002-03	1191.52	1840.00
12.	2003-04	1445.32	1335.00
13.	2004-05	1485.59	1400.38
14.	2005-06	1400.89	1600.00
15.	2006-07	1517.92	1800.00
16.	2007-08	1546.72	2100.00
17.	2008-09	1739.25	2400.00
18.	2009-10	2132.29	2700.00
19.	2010-11	2588.35	3000.00
20.	2011-12	3029.59	3300.00
21.	2012-13	3858.72	3700.00

* : Originally approved plan outlays and agreed quantum of total central assistance for financing the approved outlay.

Historically, Jammu and Kashmir was the only state which received central assistance in excess of its annual plan size. Similar

situation obtained in Himachal Pradesh in the year 2004-05 for the first time and in the annual plan for 2012-13 again, the quantum of central assistance was larger than the size of the annual plan. It will not be out of place to mention that the borrowings and the central assistance for plan financing go to finance the non-plan revenue gap to a significant extent over and above the revenue deficit grant from the Finance Commission. Does it mean that the assessment of the Finance Commissions in balancing the revenue account has missed out something critical leading to a huge negative balance from current revenues or the State Government has been profligate in spending beyond its means?

That the economy of the State has followed a natural course of diversification would be amply demonstrated by the following data on changes in the sectoral contribution to State Domestic Product of Himachal Pradesh:-

Table 1.3 : Changes in the Sectoral Contribution in the SDP over time

(Percent)

(Percent) Year	Primary sector	Secondary sector	Tertiary sector
1950-51	71	10	19
1960-61	63	10	27
1970-71	59	17	24
1980-81	50	19	31
1990- 91	35	27	38
2000-01	25	36	39
2010-11	18	42	40

Source : 1. Commerce, Volume 121, Number 3093, Aug.,1970.
2. Directorate of Economics and Statistics, Himachal Pradesh.

This data indicates that the diversification followed by the State has moved in the right direction and overwhelmingly significant contribution of primary sector has yielded its place to the secondary and tertiary sectors. Such a diversification affords a greater scope for financial resource generation as compared to preponderantly agrarian economies, on the one hand, and imparts structural strength to the economy to stay on course of a sustainable high growth path, on the other. That despite such a movement of the State Domestic Product, the resource raising capacity is severely limited in Himachal Pradesh would be seen as a function of the population, its consumption needs and allied factors like the overwhelmingly large share of government spending on salaries and pensions in the contribution to the services sector.

Himachal Pradesh was given the status of a Special Category State right from the time it became a full-fledged State in recognition of its developmental backlog and degree of difficulty in the path of development coupled with its limited resource raising capacity. It has, from 1974-75 onwards, received central plan assistance on 90 per cent grant and 10 per cent loan basis. As to the transfers recommended by the successive Finance Commissions, Himachal Pradesh has been assessed as a revenue deficit State after transfer of the share in central taxes all the way through from the Sixth Finance Commission till the Thirteenth Finance Commission and given the current scenario, it is likely to continue in the same status.

It is of intrinsic interest to look at the changing structure of the state's revenues, especially between the tax and non-tax revenue sources. The data for the study period is presented on the next page:-

Table 1.4 : Revenues of Himachal Pradesh (Rs. crore)

Year	Tax revenues	Non-tax revenues
2002-03	887.54	175.49
2003-04	984.33	291.76
2004-05	1251.87	610.78
2005-06	1497.04	689.68
2006-07	1656.37	1336.85
2007-08	1958.18	1822.43
2008-09	2242.49	1756.24
2009-10	2574.52	1783.66
2010-11	3642.38	1695.31
2011-12	4107.92	1575.13

Source : State Budgets.

The above data reveals that the relative shares of the tax and non-tax revenues of the State have shown extremely erratic trend over the 10 year study period. For the year 2002-03, the tax revenues accounted for 83.5 per cent of the total own revenues of the state and the non-tax revenues constituted only 16.5 per cent of the total. For the year 2007-08, the corresponding shares were of the order of 51.8 per cent and 48.2 per cent, respectively. For 2011-12, these became 72.3 per cent for tax revenues and 27.7 per cent for the non-tax revenues. It is, therefore, difficult to perceive any trend in the shares of the tax and non-tax revenues at an overall level and use such trend for future forecasting.

However, as the non-tax revenues from the power sector would increase with the installation of additional capacity in future, this ratio between tax revenue and non-tax revenue would stay around 70:30.

As mentioned above, forestry sector was one of the principal contributors to the State revenues as also to the State Domestic Product and has declined to insignificant levels in the overall context over time. The data presented in the table below bears testimony to it:-

Table 1.5 : Share of forestry sector in the state revenues and state domestic product (% to total)

Year	Share in total State revenues	Share in State Domestic Product
1970-71	30.95	7.78
1978-79	24.47	9.53
2002-03	2.97	6.99
2011-12	1.41	5.10

Source : 1. Commerce, Volume 121, Number 3093, Aug.,1970.
2. Directorate of Economics and Statistics, Himachal Pradesh.

This data shows that forestry sector is no longer a significant component of the State's own revenues. It has now become inconsequential in the revenue scenario of the state. This resulted from a conscious decision of the State Government in 1980-81 when it started the policy of progressive cut down on commercial felling at the rate of 25 per cent per annum to reach 100 per cent moratorium on commercial harvesting from the forests. From 1984-85, the removal from forests has been only in the nature of salvage extraction. Since the forests in Himachal Pradesh lie in the catchment of five major river systems of India, this moratorium has served the overall national interest of flood protection, environmental preservation and conservation of Himalayan ecology as the green cover as also the density of forests have been increasing.

The second major resource which the nature has endowed the state with is the water flowing in its rivers. This was understood as a major source of revenues through actualisation of the hydro-electric potential from early times in the 1950's but its exploitation was severely constrained by lack of developmental resources and competing priorities till the end of 1980's when the State decided to open this sector for private investment. The revenue earning capacity of this sector was further enhanced by the policy of free power to the States where the hydro-electric projects were going to be located in lieu of the stress

caused and loss of rights for exploitation by the State in future was accepted by the Central Government in 1990. Thereafter, exploitation of power potential stared with accelerated pace and the results are now visible. Power sector has lately emerged as a major contributor to state revenues in the recent decade only and the pattern of revenues is depicted below:-

Table 1.6 : Revenues from power sector and its share to total State's own revenues

Year	Power sector revenues (Rs. crore)			Per cent share to State's own revenues
	Tax	Non-tax	Total	
2002-03	0.25	-0.08	0.17	Negligible
2006-07	30.43	910.08	940.51	31.42
2007-08	81.57	1414.52*	1495.82	39.56
2012-13	262.63	527.29	789.92	13.47

Source : Estimates of Receipts, Himachal Pradesh.

*: This quantum jump was as a result of one time upfront premium paid by the private developers and can not be considered as a part of the trend growth.

One could take note of the fact that from a negligible level of contribution, the power sector now accounts for about one-sixth of the State's own revenues and this share is likely to slow down into future as the energy prices have shown a downward swing in the last couple of years. The revenue would nominally increase in the future as more and more of the allotted projects come to actualisation and the State starts getting free power share as per the agreements with the independent power producers or the central/ state utilities. The standard growth rate projections for this sector, therefore, would not apply and one should take a realistic assumption on this account.

We thus see that the traditional revenue raising sector of forestry has now become redundant whereas a new avenue has arisen in the power sector which can give sustained revenues over a long term (40 years from the date of commissioning for each project to begin with by way of progressive free power share and thereafter by way of transfer of the ownership of the projects to State). At this stage, comment on other revenue raising capabilities is not relevant and is saved for the main chapter on tax and non-tax revenues.

CHAPTER 2

LIMITATIONS AND POSSIBILITIES OF RAISING RESOURCES IN HIMACHAL PRADESH

Synopsis : Macro perspective of the limitations in raising of resources in the present context and a quick peep into future possibilities. Disadvantages of being an end of the line State in the geographical context and inherent infrastructural disabilities.

Chapter 1 presented a brief summary of the developmental story of Himachal Pradesh along with the changing structure of the potential resource raising opportunities. In this chapter, we attempt a quick appraisal of the limitations of raising resources in a State which is an "end of the line State" geographically and is also severely constrained by lack of mainstream connectivity.

For any state to develop and muster resources for its development, it must have a sound industrial base and simultaneously should have the possibility of capitalising on the services sector for combined expansion of employment and incomes. Till very recently, the industrial base of Himachal Pradesh was very weak. The contribution of the mining and manufacturing sector to the total State Domestic Product in Himachal Pradesh was below 6 per cent till 1970-71 and it grew to 6.9 per cent in 1978-79. It reached the double digit contribution in 2002-03. The contribution of the mining and manufacturing sector reached 11.51 per cent in the year 2003-04 on the eve of announcement of a special package of incentives for industrial development by the Government of India for Himachal Pradesh along with Uttarakhand. The contribution reached the highest level of 18.6 per cent in 2009-10 where after it has been more or less constant or on the decline. The latest data indicates that mining and manufacturing sector accounts for 17.98 per cent of the State's GDP in 2012-13. The major incentives have since been discontinued and it is apprehended that a sizeable component of the promised industrial investments may not materialise. Thus the boom period in industrial investments and expansion seems to be petering off. Given this comment, the chances of raising more resources through industrialisation seem bleak into the near future.

It is generally understood that fiscal incentives drive the growth in industrial sector to a certain extent but it is also true that more sustainable

and lasting growth in this sector comes as a result of raw material availability, proximity to markets, peaceful industrial climate, easy and assured quality power availability, efficient connectivity and transport and above all, the ease of doing business. A hard look at these pre-requisites in the context of Himachal Pradesh reveals that the State is in a disadvantageous situation on most counts. Therefore, rapid industrial growth leading to more financial resources for development of the state seems a weak possibility.

As regards the services sector, the State can not expect much due to the fact that the same constraint of difficult accessibility by fast means of transport and communications hampers the possibilities in this sector. The limitations of the farm sector possibilities in accelerating the growth also need to be appreciated. The contribution of primary sector to the total State Domestic Product is around 17- 18 per cent. Despite excellent track record of the State in farm diversification, the over-bearing constraints which limit future possibilities include fragmented small farm holdings; poor irrigation availability and limitations on future expansion of irrigation due to the prohibitively high costs of setting up this infrastructure as also very high operation and maintenance costs accompanied by very poor cost recovery scenario; low productivity in the horticulture sector resulting from horticulture on marginal lands; inadequate cold chain support and concomitant marketing issues due to highly perishable nature of the produce; and reduction in the area availability for the farm sector. Attempts to surmount these constraints have been made with sub-optimal gains and expecting that farm sector will provide opportunities for raising resources will be expecting a little too much.

The growth in the contribution of services sector to the State's GDP also needs to be analysed. What the government is spending on the salaries and wages and what component of the services sector GDP it comprises needs to be appreciated. The contribution of the services sector was 22.8 per cent in 1970-71 and has grown to about 40 per cent for 2011-12. One would surmise that the growth of services sector has been remarkable in the State. However, when one looks into the contribution of government spending on salaries and wages, it emerges that a significant part of the growth in services sector is basically coming from increasing salaries and wages bill. Of the total GSDP of about Rs. 42000 crore for 2011-12, the services sector accounts for about Rs. 16775 crore. The State Government spending on salaries, wages and pensions is about Rs. 7330 crore. Hence about 44 per cent of the services sector contribution is due to the government spending on salaries and pensions.

Analysis of time series data on these two would reveal a very strong correlation between them. It could not be labelled as an indicator of real growth of the services sector!

We would, at a later stage in this study, observe that the switchover from the traditional State sales tax to value added tax resulted in a spurt in tax revenues of the state. The growth rates in the revenue from taxes on sales were in excess of 25 per cent per annum during the three year period immediately after switchover to the value added tax. Revenues from this traditional source would continue to grow at good rates due to the fact that the GDP would rise, in general, and the GDP contribution from the government spending in the services sector would rise substantially, in particular. In the years to come, revenues in this area of taxation could even rise faster than in the recent years after the introduction of the composite goods and services tax.

Non-tax revenues of the State will be expected to rise in tandem with the additional capacity installation of hydro-electric installations which are in pipe line as the State will get free power in a progressive manner. The realisation from the older installations will increase from 12 to 18 per cent after 12 years of installation of the capacity and further on to 30 per cent after another 18 years whereas the new installations will give 12 per cent of the generating capacity as free power in the short term coinciding with the forecast period of the Fourteenth Finance Commission. This is raising revenues without tears in the immediate context as also in the medium term whereas it will result in a quantum increase after all the projects get vested in the State after completion of 40 years of installation. This, perhaps, is the most significant of the avenues for raising resources without much financial commitment from the State Government. The local population will also benefit from the free power equivalent to 1 per cent of the generation in perpetuity, raising their incomes and resultantly raising the tax revenues by higher spending for a better quality of life.

Another issue which needs to be flagged is the question of the assumption about the State Domestic Product growth which will have an overbearing impact on the assessment and projections of the tax revenues for the forecast period. The State Government has argued in its memorandum and the presentation to the Fourteenth Finance Commission that it would not be rational to use the projected growth rate for the entire GSDP of the State a also the per capita income estimates based thereon in the devolution design. The reason given is that the GSDP in the sectors of power and industry does not actually accrue to the population of the

State. The revenues that come to the State directly in these sectors would include the nominal State electricity duty on the power consumed in the State as for the power sector and some indirect gain in the central tax accruals for the industries sector. This is true to a very significant extent in the case of Himachal Pradesh and might hold good for the similarly situated hill or mountain States. Whereas it may not be possible to totally divorce the usage of these parameters in the devolution design, it may serve some purposes of equity if the weightage to the total GSDP and per capita income based thereon was moderated to some extent and the amount of moderation could be assigned as a weight for the GSDP from the farm sector and the per capita income derived from the same, specially for the special category States.

CHAPTER 3

HIGHER EXPENDITURE COMMITMENTS FOR REGULATORY AND DEVELOPMENTAL ADMINISTRATION IN THE MOUNTAINOUS STATES

Synopsis: Expenditure commitments for regulatory and developmental administration- their nature (habitations, scatter on plane table area, scatter on actual area including the area of slopes, topographic and climatic constraints, etc.)

Mountains and mountainous States or areas suffer from a variety of inherent problems of remoteness, inaccessibility, rugged terrain, deeply dissected topography, climatic extremities and sparse population. The task of development in such areas is a very complex process and tedious to carry through besides demanding financial resources of a very tall order. Various agencies in the Central Government, Planning Commission and the Finance Commissions have been appreciative of this difficulty and the instrumentalities put in place by these agencies have, to a certain extent, redressed or mitigated the problems in the course of development for mountainous and hilly areas.

For any prescription to work well, the task of development in the mountains presupposes that the prescribers have an appropriate appreciation of the four basic facts. These include the actual area of the slopes; the gradient of the slopes and physical barriers in accessibility; climatic extremities; and scattered habitations. These factors also push the costs of development manifold as compared to the plain areas and States. Not only that, the cost of maintaining the infrastructure is also prohibitively high as the variations in the climate render infrastructure like roads, water supply, irrigation, etc. in a state of severe disruption year after year.

The calculation of actual area of the slopes in mountains has been a problem till recently but with the use of Triangular Integration Networks (TIN) approach, it has become possible to know the actual area of the mountains inclusive of the slopes. An exercise in this behalf was entrusted by the State Planning Department to the CSK Krishi Vishwa Vidyalaya, Palampur in the year 2005. The study revealed that the actual area of the slopes of the entire state is about 86,385 square kilometres as against the plane table area of 55,673 square kilometres as determined by the Surveyor General of India. This area is 55.2 per cent higher than the conventional area figure used for devolution of resources based on area.

It, therefore, needs to be appreciated that any compensation with a premium of less than 55 per cent leaves such States or areas still in disability versus the plain areas. The second factor which deserves appreciation is that the need for infrastructure becomes higher due to the slope factor. The road distance between any two points in a plain area could be just one kilometre whereas in a mountainous terrain, the road length to connect two points which are one kilometre away as the crow flies shall be a function of the slope and terrain. It could be double or more than double the length. This would certainly need a higher premium than the mere 55 per cent based on area alone. A paper published in the journal "Man and Development" brings out this aspect succinctly and the same is appended to this chapter as Appendix I.

There are no straight methods available for assessing then premium or compensation necessary for physical barriers and extremes of climate. It would, therefore, be appropriate to leave this aspect at the mentioning level. Last but not the least, is the issue of scattered habitations. There are close to 17500 inhabited villages in Himachal Pradesh. On an average, each village accounts for about 5 square kilometres of rugged mountainous terrain. Since these villages are scattered and remote, these need schools, health facilities, road connectivity, drinking water, irrigation, and so on, on an individual village level. This pushes the cost of development even further.

Coming to the question of connectivity, out of the 12 districts in the State, only one district headquarter, namely Una, is connected with a broad guage rail network. Two other district headquarters i.e. Solan and Shimla are connected by a metre guage railway line which was constructed by the Britishers. A narrow guage railway line passes through Kangra district and touches Mandi district. The most industrialised areas of the State in Solan, Una, Sirmaur and Kangra do not have rail connectivity and actually need a broad guage connection. As of now, there is no air connectivity to the State despite the existence of three small airstrips in Kullu, Kangra and Shimla which have largely been developed form out of the State Plan funds and have remained operational in the past for varying lengths of time. Given these limitations, development process gets retarded and also adds to the high costs through road network which has its known negative effects on environment and its ambient quality.

Unlike in the plains, the size of the regulatory administrative units like districts, civil sub-divisions, tehsils, and revenue patwar circles tends to be much smaller in the mountains or hills as compared to the plains.

Therefore, the costs of regulatory administration functions in the hills are much higher per unit of population and area.

All the above aspects deserve to be internalised in the devolution process from Centre to the State as far as the hill and mountain states are concerned. Appreciation of these peculiarities is already there by the Finance Commissions and Planning Commission but it is not at the desired level. The compensation design for mitigating these disabilities probably deserves another equitable and realistic look. Such a levelling exercise has not so far been undertaken in the past and the Fourteenth Finance Commission could examine the feasibility and usefulness of such mechanism.

APPENDIX I

DEVELOPMENT OF HILLY AND MOUNTAINOUS AREAS : A NEW DIMENSION EXPLORED AND ITS IMPLICATIONS

D. K.SHARMA*

ABSTRACT

It is known that the geographical area calculations by the Surveyor General of India are based on the plane table assumptions. In the case of mountainous areas, therefore, this appreciation of the geographical area does not capture the area of the slopes. In this manner, the area estimates ignore the fact that the actual developmental infrastructure is to be placed on the actual area (mostly on the steep slopes) and not on the proverbial plane table area and that the disparities in the levels of availability of infrastructure and consequentially the actual levels of development are far greater than have so far been understood or appreciated. This paper attempts to bring out this fact with the help of a study conducted by the Centre for Geo-Informatics, Research and Training of the CSK Himachal Pradesh Agricultural University at the behest of the State Planning Department, Government of Himachal Pradesh and compares the heightened disparities as one moves from the usual concept of plane table area or the 2-dimensional approach to the 3-dimensional approach used to estimate the actual area of the slopes in the above mentioned study. The paper, thereafter attempts to suggest the urgency for adoption of this methodology for area estimation in the case of mountainous areas and establish a new concept of development towards reducing the actual disparities rather than the commonly perceived disparities and makes out a case for more preferential fiscal resource transfers to the mountainous States than has existed so far.

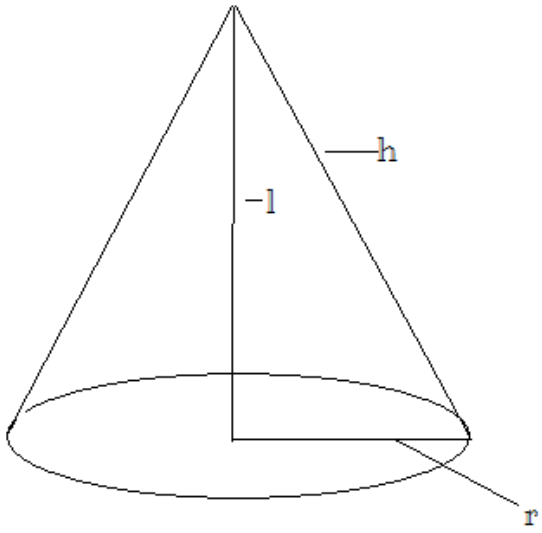
It was the early 1970s when I moved from Ludhiana to Shimla to join the Government of Himachal Pradesh. When I travelled to Shimla to join the State Government in the Bureau of Economics and Statistics, the journey from Kalka to Shimla was a true test of the grit since it not only involved rising high to about 7,000 feet above the mean sea level from about 2,000 feet but also involved a distance of about 86 kilometres of winding, narrow and serpentine single lane narrow road taking close to 5 hours in a public transport bus. After reaching Shimla, I told a colleague that Shimla was tucked up in the Himalayas far too away and it needed enormous effort to travel to this place. In response, I was told by him that the actual distance between Kalka and Shimla, as the crow flies, was only 16 miles (or about 26 kilometres) instead of the actual distance of 86 kilometres by road. Initially, I did not believe him but once I had a hard look at the map, I gradually gravitated to believe in what he had said. With this, the seed of a question about the actual surface area of the mountainous territories was sown in my mind.

The latitude for Kalka in Haryana is 30 degrees, 50 minutes and 17.19 seconds north whereas that of Shimla is 31 degrees, 6 minutes and 14.08 seconds north. In the latitudes of thirties in the north, one degree indicates a distance of 68.88 miles, one minute of 1.15 miles and one second of 101.02 feet. Therefore, the actual aerial distance between Kalka and Shimla works out to 18.338 miles or about 29.5 kilometres. Subsequently, when I got the opportunity of serving the State Government in the Planning Department in various capacities, I decided to vigorously pursue this curiosity to some logical conclusion.

In the inter-regnum, on various occasions, the issue of calculating the actual area of the mountain slopes was raised by me with the authorities responsible for determining the geographical area but without an avail. Appropriate technologies to determine the actual area of the slopes of a mountain had become known and were being tried out in several places with limited applications. Attempts were also made by the author to raise this matter with the successive Central Finance Commissions and the National Planning Commission that the important fact of the actual area being far more than the usual plan table area could only be ignored to the gross disadvantage of the mountainous areas without appropriate appreciation. Since area or the surface area was one of the most important denominators of determining the levels of development, especially in the mountainous areas, it was really putting these underdeveloped areas at a perennial disadvantage by ignoring this aspect or input into the developmental experiment. This was truer for more mountainous areas. Moreover, it needed to be appreciated that since

the entire developmental infrastructure was to be laid on the actual surface area, the unit costs as well as the total costs could be very high and needed to be factored into the developmental matrix.

Presuming that the actual surface area in a mountainous terrain is far more than the plane table area as is presently understood, what can be the implications in terms of disparities of development, harshness and quality of life, per unit cost of putting up developmental infrastructure, relative costs of bringing about parity in the levels of development at an aggregate level and the relationship of all these ramifications to the question of poverty and incomes? If a mountain were a perfect conical structure, the ratio of its conical surface area to its basal area would be the ratio of the length of the slope to the radius of the base of the cone. We could appreciate it better with the help of the following diagram:



Area of the base of the cone $= \pi r^2$

Surface area of the conical surface $= \pi rh$

Ratio of the conical surface area to the basal area of the cone $= \pi rh/\pi r^2$

$= h/r$

Where $h=(r^2 + l^2)^{1/2}$

With this simple diagram, we demonstrate that the area of the conical surface of a mountain will be proportional to the length of the slope. Higher the mountain, longer will be the slope and thus the area of the slope keeps getting larger with the higher altitudes. Here we are presuming that the conical surface of the mountain is a perfect surface

with no folds. If it has folds, it is implicit that the surface area will continue to become larger. This is a simple mathematical illustration to further the cause of the issue under discussion in this paper.

It was with this background that a study was farmed out by the State Planning Department to the Centre for Geo-informatics, Research and Training of the Chaudhary Sarvan Kumar Himachal Pradesh Agricultural University, Palampur in the year 2005 to develop a scientific calculation of the actual surface area of Himachal Pradesh by measuring the three dimensional area of the land surface of the State. Such a scientific study was extremely necessary to drive home the point that the entire area based perception of development of mountainous areas in general, and that of Himachal Pradesh, in particular, needed a different view and also exhibited the intra-state as well as inter-State disparities in a more profound and sensitive manner. It was a matter of sustained learning and great satisfaction for the author to have in-depth interaction with the research team and help sharpen the objectives of the study on the one hand, and to reach the most appropriate estimation of the surface area to translate the actual levels of development in the different districts of the State, on the other. When such scientific data was carefully looked at with reference to different districts, it came home that the districts with more dissected topography and higher altitudes were at a much greater disadvantage as compared to other districts which had less dissected topography and comparatively lower altitudes. In this paper, we shall go to look at these ramifications in real life situations and present a different picture of comparative development in its spatial dimension in Himachal Pradesh than is commonly perceived.

For the purposes of this study, we will take the actual plane table area of different districts, the surface area of different districts and certain physical attributes of development for comparison purposes. But before doing that, let us visit some technical aspects of the need for this study.

For firming up the strategies for sustainable development in the mountain areas, the development planners and administrators must factor in as accurately as possible the area on which the developmental exercise has to be carried out. In the case of the plain areas or States, estimation of the actual area is much simpler an exercise because the two dimensional measurements of the flat lands are easy to be taken into cognizance with fairly high precision. However, for the mountain areas, where severely dissected topography, undulating terrain and extremely variable altitudes make it extremely difficult to make fair estimates of the actual surface

area, the entire developmental exercise appears to have been set at nought ab initio as the present procedures and developmental practice ignores this most important dimension. Therefore, it is necessary to use the GIS technology to make area estimation for the mountain States to make more sense of the developmental exercise.

Triangular Irregular Networks (TIN) approach using vector data sets and polygons for generating surface area in such mountainous situations in inherently more accurate than any other methodology presently known. For conducting this exercise of estimating the actual surface area of the State of Himachal Pradesh, three dimensional TIN models were created from the contour lines by the team of researchers of the University at Palampur. The contour lines were digitised from the Survey of India topographic sheets of the study area. The contours were utilised for the creation of the triangular irregular network surface. The TIN model represents the surface as a set of contiguous, non-overlapping triangles and within each triangle the surface is represented by a plane. Detailed estimates of the district-wise area and the technical details of the methodology can be seen in the report published by the State Planning Department, Government of Himachal Pradesh titled "Developing District-wise Surface Area of Himachal Pradesh" which has been brought out in collaboration with the Centre for Geo-Informatics, Research and Training of the CSK Himachal Pradesh University, Palampur, Kangra district. Based on this methodology, comparative data on the actual surface area estimates by two dimensional approach and the three dimensional approach vis-à-vis the area notified by the Surveyor General of India are presented in the following table:-

Table 1 : Comparative Area figures by different measurement concepts for Himachal Pradesh

(Square Kms.)

Sl. No.	Districts	Area according to SGI	Area according to 2-D calculation	Area according to 3-D calculation	Per cent increase in area
1.	Bilaspur	1167	1160	1327	13.7
2.	Chamba	6528	6480	11675	78.8
3.	Hamirpur	1118	1111	1147	2.6
4.	Kangra	5739	5567	7088	23.5
5.	Kinnaur	6401	6242	11762	83.8
6.	Kullu	5503	5495	9694	76.2

7.	Lahaul-Spiti	13835	14002	22893	65.5
8.	Mandi	3950	3960	5403	36.8
9.	Shimla	5131	5084	7888	55.2
10.	Sirmaur	2825	2864	3654	29.3
11.	Solan	1936	1839	2285	18.0
12.	Una	1540	1538	1569	1.9
Total H.P.		55673	55342	86385	55.2

Even though the above effort may have some methodological or calculation inaccuracies and certain members of scientific community may find minor technical flaws with the methodology, it certainly indicates that the actual surface area of the mountainous terrain can be and is certainly far more than the usual plane table approach followed so far and throws up new challenges for a closer appreciation of the developmental aspirations of the mountain areas. On the face of it, there appear to be no shortcomings in terms of technological aspects followed for the above estimation. It is important to underline that the area according to the Surveyor General of India and the 2-dimensional approach is almost the same.

Given this outcome of the study, we understand that the actual surface area of Himachal Pradesh after we factor in the area of the slopes of the mountains is 55.2 per cent more than what is conventionally known to us. What are the overall and district-wise implications of the above findings? We analyse the available data on development in some selected sectors to drive home the point of real versus the commonly perceived or traditionally known disparities.

Let us first of all look at the scatter of the habitations from the conventional view and from the three dimensional aspect of the surface area. The relevant data is presented in the table given below:-

Table 2 : Average area per habitation in square kilometres

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	No. of villages 2001 census	Area per village in sq. kms.	
					SGI area	3-D area
1.	Bilaspur	1167	1327	965	1.209	1.375
2.	Chamba	6528	11675	1118	5.839	10.443
3.	Hamirpur	1118	1147	1635	0.684	0.701
4.	Kangra	5739	7088	3619	1.586	1.959
5.	Kinnaur	6401	11762	234	27.355	50.265
6.	Kullu	5503	9694	172	31.994	56.360
7.	L-Spiti	13835	22893	287	48.206	79.767
8.	Mandi	3950	5403	2833	1.394	1.907
9.	Shimla	5131	7888	2520	2.036	3.130
10.	Sirmaur	2825	3654	966	2.924	3.782
11.	Solan	1936	2285	2388	0.811	0.957
12.	Una	1540	1569	758	2.031	2.070
13.	HP	55673	86385	17495	3.182	4.938

Note: The number of villages is the number of inhabited villages

A quick look at the above data throws up interesting aspect of the theme of this study. By the conventional area approach, the range of the area per habitation is from 0.684 square kilometres to 48.206 square kilometres in Hamirpur and Lahaul-Spiti districts, respectively. Assuming that all habitations are evenly dispersed on the area, this implies that the average distance between two habitations in case of Hamirpur is 0.61 kilometres as against the corresponding figure of 5.12 kilometres based on the conventional appreciation of the geographical area. Opposed to this, with the 3-dimensional approach to the surface area, the mean distance for habitations in Hamirpur comes to 0.62 kilometres and that for Lahaul-Spiti comes to 6.60 kilometres. In this manner, the ratio for the average distance between the least and the farthest spaced habitations by conventional approach is 1:8.39, whereas the same ratio by the 3-dimesional appreciation of the area becomes 1:10.64. These ratios open up a question. The formidability of the developmental exercise in terms

of implementation is at least 30 per cent higher in case of the approach by the 3-dimensional area as compared to the plane table approach.

From the pure perspective of the dispersal of the habitations, one could look at the situation on the basis of density of population by the two area approaches. The data in this behalf is presented in the following table:

Table 3 : Density of population (persons per sq. kilometre of area)

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	Population by 2001 census	Density	
					SGI area	3-D area
1.	Bilaspur	1167	1327	340885	292	257
2.	Chamba	6528	11675	460887	71	39
3.	Hamirpur	1118	1147	412700	369	360
4.	Kangra	5739	7088	1339030	233	189
5.	Kinnaur	6401	11762	78334	12	7
6.	Kullu	5503	9694	381571	69	39
7.	L-Spiti	13835	22893	33224	2	1
8.	Mandi	3950	5403	901344	228	167
9.	Shimla	5131	7888	722502	141	92
10.	Sirmaur	2825	3654	458593	162	125
11.	Solan	1936	2285	500557	258	219
12.	Una	1540	1569	448273	291	286
13.	HP	55673	86385	6077900	109	70

The data on density of population again indicates that the districts which have high altitudes and also have deeply dissected topography see a drastic decline in the number depicting the density of population per square kilometre by the 3-dimensional area approach whereas the districts which have much lower altitudes and are more or less plain do not witness a drastic fall in the density of population even after the 3-dimensional area approach is used to denominate the total population. Sparseness of population increases with the use of 3-dimensional area measurement in the case of high altitude districts with dissected

topographical relief and therefore, renders the task of development more difficult in such areas.

Whenever one talks about the development in the mountainous areas, the core element of all variants of strategies is the availability of roads. And since the habitations tend to be sparsely scattered, the density of roads per unit of area is considered one of the most important indicators of development. Roads are called the very life-lines in the hills and mountainous areas and therefore, denominating the available road length with the actual area rather than the plane table area can explain the disparities inter-State as well as intra-State. The data on the road density per hundred square kilometres of area district-wise in Himachal Pradesh is presented in the following table:

Table 4 : Average road length per 100 square kilometres of area

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	Road length in Kms. 2007-08	Road length per 100 sq. kms. Of	
					SGI area	3-D area
1.	Bilaspur	1167	1327	1439	123.30	108.44
2.	Chamba	6528	11675	3009	46.09	25.77
3.	Hamirpur	1118	1147	1665	148.93	145.16
4.	Kangra	5739	7088	5140	89.56	72.52
5.	Kinnaur	6401	11762	978	15.27	8.31
6.	Kullu	5503	9694	1512	27.46	15.60
7.	L-Spiti	13835	22893	1172	8.47	5.12
8.	Mandi	3950	5403	4966	125.72	91.91
9.	Shimla	5131	7888	4672	91.05	59.23
10.	Sirmaur	2825	3654	2809	99.43	76.87
11.	Solan	1936	2285	2540	131.19	111.16
12.	Una	1540	1569	1610	104.55	102.61
13.	HP	55673	86385	31512	56.60	36.48

Since Lahaul-Spiti district is a typical case with nearly 25 per cent of the State's area, we may like to ignore it for the comparative purposes or for analysing the impact of the area increase by the 3-dimensional approach. Districts like Hamirpur and Una where the difference in area by the two approaches is non-significant, do not witness any reduction of consequence in the road density. On the other hand, for districts like Chamba, Kinnaur, Kullu and Shimla which have a vast difference in the area measurement by the two approaches, the density of roads gets reduced to about half the level when the road length is denominated by the 3-dimensional area. This drastic reduction in the level of this crucial indicator leads to heightening the inter-district disparities in the levels of development. The ratio of the minima and maxima of the road density by the area based on Surveyor General of India's assessment is 1:17.58 whereas the same by the area based on the 3-dimensional approach becomes 1:28.35. Therefore, the inter-district disparities are seen to be more pronounced when we assess the development index of the road density based on the actual surface area of the mountain slopes. One of the latent disabilities which the numbers or numerical indicators can not capture relates to the physical difficulty of the task of road construction. Road construction in the high mountainous areas is not only arduous due to the altitudinal aspect; slope and geological strata encountered, but is also severely constrained by the extremities of climate and very short working season. All these factors compound the disparity for the already under-privileged district by rendering the task of catching up far more formidable than what could be managed by mere adequacy of resource flows.

From the important aspect of road density which is the central input for development in the mountainous areas, we now come to look at the two most important social inputs into development and how these get impacted by the enormous increase in the actual surface area through the 3-dimensional approach. These are the scatter of the educational and health institutions. The following text deals with the data on these sectors.

Table 5 : Average area served per educational institution

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	Total schools 2007-08	Area served per school	
					SGI area	3-D area
1.	Bilaspur	1167	1327	846	1.379	1.569
2.	Chamba	6528	11675	1526	4.278	7.651
3.	Hamirpur	1118	1147	862	1.297	1.331
4.	Kangra	5739	7088	2583	2.222	2.744
5.	Kinnaur	6401	11762	271	23.620	43.402
6.	Kullu	5503	9694	977	5.632	9.922
7.	L-Spiti	13835	22893	267	51.816	85.742
8.	Mandi	3950	5403	2418	1.633	2.342
9.	Shimla	5131	7888	2307	2.224	3.419
10.	Sirmaur	2825	3654	1325	2.132	2.758
11.	Solan	1936	2285	1074	1.803	2.128
12.	Una	1540	1569	764	2.015	2.054
13.	HP	55673	86385	15220	3.658	5.676

When we analyse the school infrastructure availability based on the area according to the Surveyor General of India (the plane table approach), we find that the area served per school ranges from 1.297 square kilometres in Hamirpur to 51.816 square kilometres in the case of Lahaul-Spiti. On the other hand, when we look at the area served per school by the 3-dimensional approach (actual surface area of the slopes), the range becomes from 1.331 square kilometres for Hamirpur to 85.742 square kilometres for Lahaul-Spiti. This clearly means that the backward districts appear to further slide down the scale when we compare the density of educational infrastructure based on the 3-dimensional area measurement approach. Same analysis and conclusions hold true in the case of the availability of health infrastructure. The comparative data on the area served per health institution by the two area measurement approaches is presented in the following table:

Table 6 : Average area served per health institution

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	Total health instns. 2006-07	Area served per institution	
					SGI area	3-D area
1.	Bilaspur	1167	1327	220	5.304	6.032
2.	Chamba	6528	11675	324	20.148	36.034
3.	Hamirpur	1118	1147	255	4.384	4.498
4.	Kangra	5739	7088	768	7.473	9.229
5.	Kinnaur	6401	11762	87	73.575	135.195
6.	Kullu	5503	9694	191	28.811	50.754
7.	L-Spiti	13835	22893	75	184.467	305.240
8.	Mandi	3950	5403	551	7.715	9.806
9.	Shimla	5131	7888	512	10.021	15.406
10.	Sirmaur	2825	3654	273	10.348	13.384
11.	Solan	1936	2285	302	6.411	7.566
12.	Una	1540	1569	230	6.696	6.822
13.	HP	55673	86385	3788	14.697	22.805

Banks are another developmental infrastructure playing a key role in the programmes relating to poverty amelioration as also for promoting the development of farm based economies in the mountainous areas. Since the area of Himachal Pradesh increases by about 55.2 per cent and that for Chamba, Kinnaur, Kullu and Lahaul-Spiti by 78.8 per cent, 83.8 per cent, 76.2 per cent and 65.5 per cent, respectively; these districts are bound to suffer from greater developmental lag when we visualise the picture through the area assessment by the 3-dimensional approach. The data on area served per scheduled commercial bank by the two area approaches is compared in the following table:

Table 7 : Average area served per scheduled commercial bank

Sl. No.	Districts	Area according to SGI	Area according to 3-D calculation	Total banks Dec. 2006	Area served per institution	
					SGI area	3-D area
1.	Bilaspur	1167	1327	46	25.370	28.848
2.	Chamba	6528	11675	53	123.170	220.283
3.	Hamirpur	1118	1147	58	19.276	19.776
4.	Kangra	5739	7088	157	36.554	45.146
5.	Kinnaur	6401	11762	19	336.895	619.053
6.	Kullu	5503	9694	51	107.902	190.078
7.	L-Spiti	13835	22893	9	1537.222	2543.667
8.	Mandi	3950	5403	104	37.981	51.952
9.	Shimla	5131	7888	137	37.453	57.577
10.	Sirmaur	2825	3654	49	57.653	74.571
11.	Solan	1936	2285	91	21.275	25.110
12.	Una	1540	1569	56	27.500	28.018
13.	HP	55673	86385	830	67.076	104.078

As for the inter-State comparisons, just one illustration would be sufficient to drive home the point. It is common knowledge that the surface area of the States of Punjab and Haryana by the conventional methodology and that by the 3-dimensional approach would not be much different from each other because both the States are plain area. Let us take the data for the total number of allopathic health institutions up to the level of Community Health centres in the three States of Punjab, Haryana and Himachal Pradesh and reduce it to the indicator of area served per institution for the comparison purposes with reference to the question of worsening of the disparities. The data in this regard is contained in the following table:

Table 8 : Inter-State comparison of health infrastructure availability

Sr.No.	Item	Punjab	Haryana	Himachal Pradesh
1.	Health Institutions	3612	2939	2593
2.	Geographic area SGI data sq. kms.	50362	44212	55673
3.	Area by 3-D approach sq.kms.	50362*	44212*	86385**
4.	Area per Institution in sq. kms.	13.94	15.04	21.47 (SGI based) 33.31 (3-D based)

Note : * :Area for Punjab and Haryana by the 3-D approach has been assumed to be the same as the plane table area.
** : Area for Himachal Pradesh is based on the study referred to above in this paper.

A cursory look at the data in the above table reveals that even on the basis of the area according to the Surveyor General of India, Himachal Pradesh lags behind the plain States of Punjab and Haryana in the physical availability of health institutions. But when one goes to compare the States by using the estimated 3-D area for Himachal Pradesh, the inter-State disparity widens considerably. It should also be remembered that the geographical area in Himachal Pradesh represents high altitudes and dissected topography accompanied by complex geological structures and therefore, a much larger area per institution for this State presents a greater disparity when the ease of transportation along with higher road densities for the plain States is also factored in.

The above analysis and the findings need to be understood and appreciated. The first and foremost fact is that the geographical area or the actual surface area of the mountainous territories is larger than the plain territories. The second fact is that the area tends to be larger for those territories which are manifested by extreme variations in altitudes and also by higher altitudes. The factor of increase of area is a function of altitudinal variations, dissected topography and variable relief. The third fact is that degree of difficulty of living and sustenance increases with higher altitudes. The fourth fact is that cost of development rises telescopically as the altitudes get higher and the pace of development is

severely constrained by extremities of climate. The fifth and overarching fact is that most of the "more" mountainous areas in India are located in the Himalayas and these areas or States have a great responsibility for ecological conservation and improvement of forest cover so that the riparian States can live well, have sustained access to natural resources and contribute to the overall goal of national development.

One final comment requiring a specific mention is that all the Himalayan States are classified as "Special Category States" for the purposes of development. The national Planning Commission treats them with preference for meeting their developmental aspirations by "Lumpsum Allocation" system of central plan assistance and the assistance thus determined is passed on to these States on a special dispensation of 90 per cent grant and 10 per cent loan basis. The successive Finance Commissions have been treating these States with preference inasmuch as the fact that their revenue account deficits are largely met by "Gap Filling" revenue deficit grants and in addition, the cost norms for maintenance of physical infrastructure as also for putting up new infrastructure towards upgradation of the standards of administration are provisioned at a 30 per cent premium vis-à-vis the other non-hilly or non-mountainous States. The central fiscal transfers by way of central sector or centrally sponsored schemes are also effected on a more favourable basis than the other States. All these measures are integral parts of a fiscal transfer system which furthers equity in the federal context. However, practice of this "favourable" treatment for nearly four decades for plan purposes and for six decades for statutory Finance Commission transfers has not really achieved the desired equity. One of the important elements which could go a long way in the achievement of this equity is the realisation and usage of the actual surface area of these States for administering developmental dispensation. Now that the methodology for estimating the actual surface area of the mountainous slopes is available, it is high time that the practitioners of development start using it to deal with the disparities of development between the mountainous States and other "plain States" of India.

As to the question of more preferential system of fiscal transfers than being practiced at present, one could think of the central plan assistance to be transferred to these States on a cent per cent grant basis rather than the 90:10 dispensation. This would go a long way in reducing the indebtedness of these States to a certain extent. Similarly the assistance on account of the centrally sponsored schemes could also be considered to be transferred to these States entirely as grants. Since the tough topography, extremities of climate and the concomitant disabilities

that come with these conditions are a common problem for these areas, instead of population based norms for several socio-economic services and infrastructure, the appropriate equalising equation could have the norms based on the actual area as explained in the paper. The Finance Commissions presently accept an allowance of 30 per cent in the cost norms for the hill areas. This could be considered to be raised to 60 per cent because the area alone increased by over 55 per cent for Himachal Pradesh. The additional 5 per cent allowance is being suggested to neutralise the higher physical constraints like slope, temperatures, etc.

As regards the policy implications for the individual States, it is high time that the State Governments recognise this fact and use it for more equitable allocation of resources to districts based on the actual area. The normative exercises could also follow the area basis rather than the population basis. More equitable process could involve the area as well as population basis in an appropriate weighting diagram to do more justice for dealing with the intra-State inter-district disparities.

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CHAPTER 4

TRENDS IN STATE'S TAX REVENUES

Synopsis : Changes in the relative shares of various taxes and duties over 2002-03 to 2011-12 period, growth rates of individual tax sources, future potential, additional resource mobilisation measures undertaken by the state government, tax:GDP ratio.

Before one looks at the performance of collections under various taxes and duties in Himachal Pradesh, it is important to appreciate and keep in mind the changes in the structure of tax and non-tax sources of revenues in the State as brought out in Chapter 1 earlier. The comparative position for the years 2002-03, 2005-06 and 2011-12 is depicted in the following table:-

Table 4.1 : MACRO PICTURE OF TAX AND NON-TAX REVENUES OF HIMACHAL PRADESH (Rs. crore)

Year	Tax revenues	Non-tax revenues	Total
2002-03	887.54	175.49	1063.03
2005-06	1497.04	689.68	2186.72
2011-12	4107.92	1575.13	5682.75
Increase for 2011-12 over 2002-03	362.8 %	796.5 %	434.6 %
Average annual increase (2002-03 to 2011-12)	40.3 %	88.5 %	48.3 %
Increase for 2011-12 over 2005-06	174.4 %	128.4 %	159.9 %
Average annual increase (2005-06 to 2011-12)	29.1 %	21.4 %	26.6 %

Source : Budget documents of Himachal Pradesh for the relevant years.

It could be safely concluded that the growth in the tax as well as non-tax receipts of the State government has been unusually strong and robust over the 10 year period under study. The simple average annual growth in the tax revenues was of the order of 40.3 per cent whereas the corresponding figure for the non-tax revenues was 88.5 per cent for the period 2002-03 to 2011-12. For the period 2005-06 to 2011-12, the tax

revenues increased by 29.1 per cent of simple average annual growth rate and the non-tax revenues increased by 21.4 per cent. The rate of increase for the non-tax revenues was of a much higher order than the rate for overall own revenues of the State for the period 2002-03 to 2011-12. For the period 2005-06 to 2011-12, the growth in tax revenues has been slightly higher than the non-tax revenues. One would like to argue as to why the year 2005-06 has been chosen to look at the trends in the growth of revenues? The reason is that it was in this year that the State Government realised the growth in revenues from switchover to VAT on the one hand, and the non-tax revenues from the free power, sale of power from the state share in various projects and the upfront premium on allotment of hydro-electric projects came to be realised in a significant manner than in the past, on the other. We would subsequently observe that the power revenues on the non-tax front have peaked in the year 2007-08 and have been on the decline since then. We would also see that the growth in the revenues from VAT has been gathering momentum since 2005-06 and continues strongly till the last year under study. Such strong showing of growth can occur from sudden one time impacts and is generally non-sustainable at such high levels over a longer time frame, even though the revenues would keep growing, albeit at a slower level.

We now approach a detailed look at the various sources of tax revenues and the changes in their relative shares between 2002-03 and 2011-12. The relevant data in presented in the following table:-

TABLE 4.2 : CHANGES IN THE MAJOR SOURCES OF STATE'S OWN TAX REVENUES OVER STUDY PERIOD (Rs. crore)

Source	2002-03	2011-12	Relative share to total(per cent)		Change in relative share
			2002-03	2011-12	
Stamps and registration fee	37.40	155.09	4.21	3.77	(-)0.44
State Excise	273.42	707.36	30.82	17.23	(-)13.59
Taxes on sales	383.33	2476.78	43.20	60.29	(+)17.09
Taxes on vehicles	81.98	176.03	9.23	4.28	(-4.95)
Goods and passenger tax	31.45	94.36	3.54	2.30	(-)1.24
Electricity Duty	0.25	185.47	0.03	4.51	(+)4.48
Luxury tax	8.56	59.36	0.96	1.45	(+)0.49
Others	71.15	253.47	8.01	6.17	(-)1.84
Total	887.54	4107.92	100.00	100.00	--

Source : Budget documents of Himachal Pradesh for the relevant years.

We observe that the relative shares of various tax revenue sources have undergone a drastic change over the study period. Taxes on sales account for a little over 60 per cent of all tax revenues in 2011-12 and

their share has gone up by 17.09 per cent as compared to the base year. The other levies where the relative share has shown improvement in 2011-12 over 2002-03 in the order of gain are electricity duty and luxury tax. The relative shares of all other taxes have declined. This data is indicative of the future trends in growth of tax revenues and would need to be kept in mind while making assumptions about the projected rates of growth for the period of 2015-20. Let us now take a look at the growth trend in the overall "Own tax revenues" of the state, the time series data for which is as under:-

TABLE 4.3 : TOTAL OWN TAX REVENUE OF THE STATE

YEAR	Rs. crore	Per cent Change over the previous year
2002-03	887.54	--
2003-04	984.33	10.91
2004-05	1251.87	27.18
2005-06	1497.04	19.58
2006-07	1656.37	10.64
2007-08	1958.18	18.22
2008-09	2242.49	14.52
2009-10	2574.52	14.80
2010-11	3642.38	41.47
2011-12	4107.92	12.78

Source : Budget documents of Himachal Pradesh for the relevant years.

The average of the annual growth rates (which is a more realistic estimate of the compound growth rate) works out to 18.90 per cent. There is, however, an outlier in the year 2010-11 in which case the growth over the previous is of the order of 41.47 per cent. By ignoring this outlier, the average annual compound growth rate comes to 16.08 per cent. As per the latest actuals, the growth for 2012-13 over 2011-12 has been 12.61 per cent. This, however, is not an accurate way to look at the future trends and a more appropriate view would emerge from the analysis of the individual tax levies, their projections and finally aggregation of the forecast thus arrived at to get an overall view. With this premise, we would go on to look at the growth trends in various tax levies over the study period.

Tax effort to GDP ratio is considered an important statistic to measure the efficacy of the tax system towards getting an aggregate projection. The ""State's own tax collection to GDP ratio for the study period is presented in the following table:-

TABLE 4.4 : TAX : GSDP RATIO

Year	State's own taxes(Rs. crore)	GDP at current prices (Rs. cr.)	Tax/GDP ratio(Per cent)
2002-03	887.54	19685	4.51
2003-04	984.33	21777	4.52
2004-05	1251.87	24076	5.20
2005-06	1497.04	27127	5.52
2006-07	1656.37	30280	5.47
2007-08	1958.18	33962	5.77
2008-09	2242.49	41483	5.40
2009-10	2574.52	48189	5.34
2010-11	3642.38	56355	6.46
2011-12	4107.92	63812	6.44

Source : Budget documents and the Directorate of Economics and Statistics, Himachal Pradesh.

The above table reveals that the tax effort as per cent of the GDP at current prices has increased from 4.51 in 2002-03 to 6.44 in 2011-12. This is a pointer to the fact that the tax system at an overall level has shown improvement vis-à-vis the increase in the GDP for the State. A comparative study of the State finances by the Reserve Bank of India for the year 2010-11 has shown the per capita tax effort for Himachal Pradesh to be the highest among the Special Category States and also much higher than the all-India average. Therefore, it goes without saying that on a comparative basis Himachal Pradesh has a more efficient tax system than the Special Category States on the one hand, and also as compared to the all-India average, on the other. In this perspective, the projections of State's own tax revenues by the State Government in their memorandum to the Fourteenth Finance Commission deserve to be given due consideration. Consistently high growth rates do not sustain for long periods and are also impacted by special conditions like industrial promotion incentives in the State in the past decade and spurt in the exploitation of the untapped hydro-electric potential in the State. Once the incentives are discontinued and the power potential developed, the growth rates of revenues will plateau out. The forecast period of the FFC will probably witness this kind of slow down in the growth.

Coming to the individual tax items, the stamps and registration fees account for about 4 per cent of the total own tax revenues of the State. Time series data for 2002-03 to 2011-12 on this item is presented in the table given below:-

TABLE 4.5 : REVENUES FROM STAMPS AND REGISTRATION FEES

YEAR	(Rs. crore)	Per cent Change
2002-03	37.40	--
2003-04	52.37	40.03
2004-05	75.34	43.86
2005-06	82.43	9.41
2006-07	92.47	12.18
2007-08	86.99	(-)5.93
2008-09	98.33	13.04
2009-10	113.40	15.33
2010-11	132.69	17.01
2011-12	155.09	16.88

Source : Budget documents of Himachal Pradesh for the relevant years.

The growth rates for 2003-04 and 2004-05 above appear to be out of sync with the general trend for other years under study. Discussion with the officials of the Industries and Power departments revealed that the spurt in land transactions was a result of the liberalised industrial incentives in the early part of the study period and the trend appeared to have not only plateaued but is on the decline. Future growth in the realisation from the stamps and registration fees would be from the normal land transactions and registrations and the growth tempo of 2002-03 to 2011-12 may not be maintained into future. The average annual growth rate above works out to 17.97 for all the years taken into consideration. If the outlier figures for 2003-04 and 2004-05 are taken out of consideration, the average growth rate works out to 11.12 per cent. The growth for 2012-13 over 2011-12 has been of the order of 11.30 per cent. Taking an assumption of the order of 11 per cent growth rate for the forecast period of 2015-20 would be fair and reasonable.

For the year 2011-12, the State excise duties account for a little over 17 per cent of the State’s own tax revenues. Collections from State excise are an important source of revenue. The time series data for the study period is presented below:-

TABLE 4.6 : REVENUES FROM STATE EXCISE DUTIES ETC.

YEAR	(Rs. crore)	Per cent Change
2002-03	273.42	--
2003-04	280.12	2.42
2004-05	299.90	7.06
2005-06	328.98	9.69
2006-07	341.86	3.91
2007-08	389.57	13.96
2008-09	431.83	10.85
2009-10	500.26	15.85
2010-11	561.53	12.25
2011-12	707.36	25.97

Source : Budget documents of Himachal Pradesh for the relevant years.

The average annual growth rate for the study period for State excise revenues works out to 11.32 per cent. Given the constraints of regional parity in the excise rates to avoid diversion of trade and unfair practices, the revenue growth in this item would remain a bit suppressed in the future. The consumption of alcohol is a function both of the per capita incomes and climatic requirements. Per capita income of the State is above the all-India average and according to the NIPFP study, Himachal Pradesh ranks 7th highest in per capita liquor consumption in the country. Effort made to analyse the high growth trend in the years 2009-10 to 2011-12 revealed that the growth came about as a result of quota enhancement of all excise commodities e.g. country liquor, Indian made foreign spirits and beer on the one hand, and across the board revision of the levies and license fees, on the other. The extent of additional resource mobilisation in 2010-11 was of the order of Rs. 55.89 crore and that for the year 2011-12 was Rs. 171.14 crore. These measures resulted in an average growth rate of about 14.6 per cent during 2009-10, 2010-11 and 2011-12. After removing the impact of additional resource mobilisation, the average growth rate for the study period would come to about 7 per cent per annum. . The future growth would , therefore, be a function of increase in incomes, population growth and the inflation. Therefore, it would be fair to assume around 11 per cent growth for the forecast period.

Taxes on sales account for a little over 60 per cent of the total State's own tax revenues. This, therefore, is the biggest contributor to the State's revenues. As was mentioned above, there has been a significant increase in the collections from this source of revenue after introduction of the value added tax. This fact has strengthened the viewpoint that the extent of evasion under the old dispensation of State's sales tax was

considerable. The data for the study period on the collections from taxes on sales is depicted below:-

TABLE 4.7 : REVENUES FROM TAXES ON SALES

YEAR	(Rs. crore)	Per cent Change
2002-03	383.33	--
2003-04	436.75	13.94
2004-05	542.37	24.18
2005-06	726.99	34.04
2006-07	914.15	25.74
2007-08	1092.16	19.47
2008-09	1246.31	14.11
2009-10	1487.40	19.34
2010-11	2101.10	41.25
2011-12	2476.78	17.88

Source : Budget documents of Himachal Pradesh for the relevant years.

The average annual growth rate for the study period in the collections from taxes on sales has been of the order of 23.33 per cent. It is, however, important to see the components of unusually high rates of growth for some years in the time series data. Growth rates of 24.18 per cent in 2004-05, 34.04 per cent in 2005-06 and 25.74 per cent in 2006-07 resulted from the switchover from the traditional sales tax to Value Added Tax and the industrial concessions announced by the Government of India for a period of five years in terms of central excise duty and income tax exemptions. Subsequently, similar spurt in growth was not sustained as is evidenced by the data. Another abnormal year is 2010-11 with a growth of 41.25 per cent over the previous year. This resulted from introduction of entry tax with effect from 8th April, 2010. The rates for this levy were raised from 4 per cent to 5 per cent in March 2010 and from 12.5 per cent to 13.75 per cent in July, 2010. The single year increase in the collections was of the order of Rs.117 crore which could not be sustained in the coming years. Introduction of VAT also resulted in considerably raising the number of registered dealers in the State. Between 2006-07 and 2011-12, the number of dealers increased from 39980 to 60558, an increase of over 50 per cent. The number of dealers for 2011-12 is 61835, an increase of about 2 per cent over the figure for 2010-11. On account of these explanations, it would not be realistic to assume a growth rate for the forecast period based on averages.

This is the most important source of State revenues. The tax rates for different commodities appear to have reached a peak level as also the

requisite regional parity and the scope for the future growth will appear to be limited to the general growth in consumption as a function of the growth in incomes. Since gross consumption will grow at a rate lower than the growth in the GDP, the revenue from tax on sales will obviously grow at a rate slower than the GDP growth. Given the assumption that the GDP at constant prices has been projected to grow at 8 per cent per annum in the forecast period, a very conservative estimate of the inflation rate at 5.5 per cent per annum has been assumed and accordingly, the GDP at current prices has been projected to grow at 13.5 per cent in the 2015-20 period by the state government. In this situation, the growth at 12.5 per cent per annum during the forecast period projected by the State Government appears to be a slightly high and a little over-optimistic estimate because the ratio of 0.92:1 between the growth in revenues and the GDP growth is not realistic. Even in the most "conspicuous consumption" status economy like that of the United States, consumption increases by about 0.70 units for every unit increase in the GDP and the taxes rise at a rate lower than that for a unit increase in the incomes. This item of tax revenue has an overbearing weight in the State's own tax revenue areas, and thus, it will also have a significant impact on the overall forecast numbers for the State's own tax revenues. In this perspective, it would be reasonable to assume about 10 per cent per annum growth during the forecast period for this item.

Taxes on vehicles account for 4.28 per cent of the total State's own tax revenues for the year 2011-12. The time series data on this item of taxation is depicted in the following table:-

TABLE 4.8 : REVENUES FROM TAXES ON VEHICLES

YEAR	(Rs. crore)	Per cent Change
2002-03	81.98	--
2003-04	78.37	(-) 4.40
2004-05	107.82	37.58
2005-06	101.51	(-) 5.85
2006-07	106.35	4.77
2007-08	113.72	6.93
2008-09	135.53	19.18
2009-10	133.97	(-) 1.15
2010-11	163.02	21.68
2011-12	176.03	7.98

Source : Budget documents of Himachal Pradesh for the relevant years.

As is evident from the above data, the revenues from taxes on vehicles do not exhibit a pattern of growth. The average growth rate for the study period comes to 9.63 per cent per annum, against which the state forecast to the Finance Commission has assumed a growth rate of 11 per cent per annum. One would tend to comment that the assumption is optimistic given the erratic trend over the last 10 years.

Another important area of taxation is the passengers and goods tax for which the time series data for the study period is given in the following table:-

TABLE 4.9 : REVENUES FROM GOODS AND PASSENGERS TAX

YEAR	(Rs. crore)	Per cent Change
2002-03	31.45	--
2003-04	33.96	7.98
2004-05	38.32	12.84
2005-06	42.61	11.20
2006-07	50.22	17.86
2007-08	55.12	9.76
2008-09	62.39	13.19
2009-10	88.74	42.23
2010-11	93.46	5.32
2011-12	94.36	0.96

Source : Budget documents of Himachal Pradesh for the relevant years.

Whereas collections for all the years except for 2009-10 appear to fall into a pattern, the collections for 2009-10 are indicative of an unusually high growth of 42.5 per cent over the previous year. Further data mining from the collecting agency revealed that there was a realisation of one time arrear of about Rs. 8 crore due from the State Road Transport Undertaking during the year; and enhancement in the rates of additional goods tax on items like conductors and aluminium wires, lime stone, fly ash, iron and steel and plastic goods in the range of 40 to 50 per cent effected in February, 2009; and the rates of goods tax were also enhanced in the range of 18 to 24 per cent effective from October, 2009. These measures resulted in this spiking of the collections which can not be sustained into future. Also, the consumption of conductors and aluminium wires and iron and steel would not grow as more and more hydro-electric projects get completed.

On the basis of the data presented above, the average annual growth rate for passengers and goods tax for the study period works out

to 13.48 per cent even after inclusion of the outlier growth rate for 2009-10. It accounts for only 2.30 per cent of the State's own tax revenues for the year 2011-12. Based on this average, the assumption of 11 per cent growth made by the State Government for the forecast period seems fairy optimistic.

Electricity duty has lately emerged as an important source of revenue as its share in the total own tax revenues has increased from 0.03 per cent in 2002-03 to 4.51 per cent in 2011-12. The revenues from electricity duty are a function of the electricity consumption within the State. The total energy sale within the State has increased from 3640.85 million units in 2002-03 to 6918.16 million units in 2011-12 and is likely to increase at the same tempo in future as a result of the domestic supplies being subsidised by the State Government. However, the actual revenue accruals on electricity duty for the study period are presented in the following table:-

TABLE 4.10 : REVENUES FROM ELECTRICITY DUTY

YEAR	(Rs. crore)	Per cent Change
2002-03	0.25	--
2003-04	16.67	6568.0
2004-05	88.00	427.89
2005-06	89.29	1.47
2006-07	30.43	(-)65.92
2007-08	81.57	168.06
2008-09	78.83	(-)3.36
2009-10	39.08	(-)50.42
2010-11	301.59	671.12
2011-12	185.47	(-)38.50

Source : Budget documents of Himachal Pradesh for the relevant years.

The above data indicates an extremely erratic pattern of revenue accruals from electricity duty which can not be used as a basis for forecasting revenues on this account into future. The erratic trend is entirely due to the fact that the HPSEBL – the electricity utility responsible for distribution and sale of energy collects the electricity duty from the consumers but does not pass on the actual collection to the State Government on a year to year basis. Considering the pattern of increase in the actual quantum of energy sales within the State, it would be safe to assume about 10 per cent growth rate. The State Government forecast has assumed a growth rate of 11 per cent on this item which appears to be fairly optimistic.

Another important area of taxation is the luxury tax in the tourism industry. The following data would reveal that the revenues from luxury tax have seen a near eight fold increase in the study period:-

TABLE 4.11 : REVENUES FROM LUXURY TAX

YEAR	(Rs. crore)	Per cent Change
2002-03	8.56	--
2003-04	10.43	21.85
2004-05	12.26	17.55
2005-06	13.77	12.32
2006-07	16.23	17.86
2007-08	24.28	49.60
2008-09	21.14	(-) 12.93
2009-10	26.10	23.46
2010-11	33.19	27.16
2011-12	59.36	78.85

Source : Budget documents of Himachal Pradesh for the relevant years.

The annual growth rate data in the above table presents an erratic trend. The number of hotels increased from 1816 in 2010-11 to 1967 in 2011-12 and 2143 in 2012-13. Sudden spurt in the collections in some years has been analysed to emerge from diversion of tourist traffic from the neighbouring State of Jammu and Kashmir to Himachal Pradesh. Keeping in view the limited possibility of further expansion in the number of hotels and the resumption of normal tourist traffic to Jammu and Kashmir, sustaining the growth trends observed in the past into future would be difficult. However, keeping in view the pace of expansion of beds in hotels, the rate of growth for future can not be sustained at the level observed for 2009-10 to 2011-12. The data on tourist arrivals would be a safe basis for assumption of the future growth rate for luxury tax, which is about 11 per cent. This should be a safe assumption for future forecast of revenues from luxury tax.

The other minor levies classified as “other taxes and duties” are of a minor consequence and therefore, it would be realistic to go along with the projections made by the State Government which is a growth rate of 11 per cent per annum in the forecast period.

CHAPTER 5

TRENDS IN STATE'S NON-TAX REVENUES

Synopsis : Analysis of the State's non-tax revenues with individual focus on the major areas of accruals and changes in the relative share of these sources, with specific comment on the forests and power sectors. Cost recovery system for various services and goods provided by the State, its weaknesses and improvement possibilities.

As mentioned earlier, the traditional major source of non-tax revenues in Himachal Pradesh used to be the forestry sector but as a result of proactive policies for environmental conservation of the fragile Himalayan eco-system followed by the Government of Himachal Pradesh, this has become a minor contributor to the non-tax revenues of Himachal Pradesh. Simultaneously, the State share in Nathpa Jhakri hydro-electric project, free power revenues from various projects commissioned in the post-1990 period and other revenues accruing to the government by way of upfront premium on allotment of projects to the private developers have very significantly contributed to the non-tax revenue base of the State. It, however, needs to be understood that once the potential of hydro-electricity in the State is actualised, the future growth will only come through the increase in the rate of sale of electricity. The details in this behalf will be elaborated in the relevant section in this chapter.

Let us take a look at the growth of total non-tax revenues of Himachal Pradesh over the study period. The data in this behalf is presented in the following table:-

TABLE 5.1 : TOTAL NON-TAX REVENUES OF THE STATE

YEAR	(Rs. crore)	Per cent Change
2002-03	175.49	--
2003-04	291.76	66.25
2004-05	610.78	109.34
2005-06	689.68	12.92
2006-07	1336.85	93.84
2007-08	1822.43	36.32
2008-09	1756.24	-3.63
2009-10	1783.66	1.56
2010-11	1695.31	-4.95
2011-12	1575.13	-7.09

Source : Budget documents of Himachal Pradesh for the relevant years.

The above data reveals that the annual growth rates observed in the total non-tax revenues are erratic and do not indicate of any trend. This has happened due to the fact that the revenues from power sector have been fluctuating widely and violate the trend analysis. The components of the aggregate of the non-tax revenues need to be individually gone into for each source to understand the trends, wherever relevant. It would not be reasonable to assume a growth rate for the entire aggregate and therefore, one should look at each one of the sectoral components of the non-tax revenues of the State to see if trends in major contributors could be used for future forecast.

In the overall context, it is important to see that the accrual from the power sector has been the major contributor to the non-tax revenues of the state and the following data underscores the context:-

TABLE 5.2 : POWER SECTOR NON-TAX REVENUES AND TRHE TOTAL NON-TAX REVENUES OF HIMACHAL PRADESH

YEAR	Total non tax revenues(Rs. crore)	Revenues from power sector (Rs. crore)
2002-03	175.49	-0.08
2003-04	291.76	35.01
2004-05	610.78	284.71
2005-06	689.68	251.47
2006-07	1336.85	910.08
2007-08	1822.43	1414.52
2008-09	1756.24	1255.43
2009-10	1783.66	1214.80
2010-11	1695.31	1093.21
2011-12	1575.13	805.62

Source : Budget documents of Himachal Pradesh for the relevant years.

We observe that the share of power sector revenues to total non-tax revenues was only 12 per cent in 2003-04 and it reached a very high level of 77.6 per cent in 2007-08. It has since been falling and came down to 51.1 per cent for 2011-12. The revenues from power sector have peaked in the period 2006-07 to 2010-11 and are unlikely to regain the same levels of growth or realisation on account of the fact that the upfront premium for various projects is a one time accrual and about 98 per cent of the total assessed potential already stands allotted. Also, the rate of sale of energy has been fluctuating and fallen significantly as compared to the

years 2006-07 to 2008-09 as a result of the additional capacity coming up in the northern region States. The projection for additional installation of capacity have been made in the State forecast but if one takes stock of what has happened in the past decade, it would be reasonable to take a constrained view of new installations for the revenues from free power. Extra allocation of free power from various installations would come after 12 years of the start of generation on various projects when the free power share will go up from the existing 12 per cent to 18 per cent. After another period of 18 years, it will go up to 30 percent which will continue till 40 years of the project are completed. A very significant part of the gain would accrue after the award period of the Fourteenth Finance Commission and therefore, is of not of much consequence in the current context.

We now look at the various components of the non-tax revenues of the state for the study period. Revenue accrual from the general services currently accounts for about 9-10 per cent of the total non tax revenues. The time series data for the study period on this head is depicted in the table below:-

TABLE 5.3 : NON-TAX REVENUES FROM GENERAL SERVICES

YEAR	(Rs. crore)	Per cent Change
2002-03	36.92	--
2003-04	37.09	0.46
2004-05	57.86	55.99
2005-06	47.28	(-) 18.29
2006-07	126.40	167.34
2007-08	109.59	(-) 13.30
2008-09	71.57	(-) 34.69
2009-10	76.71	7.18
2010-11	102.75	33.95
2011-12	143.33	39.49

Source : Budget documents of Himachal Pradesh for the relevant years.

Some of the major activities included in this category are in the regulatory nature like elections and deployment of police force and are, therefore, not amenable to appreciable trend growths. The annual changes bear testimony to this assumption. The years 2006-07, 2007-08 and 2011-12 have unusual increment over the previous years due to high contributions from miscellaneous general services as a one time entry. Similarly, the increase in 2010-11 is due to unusually high contributions

from police and elections. These are non-trend data and therefore, it would be safe to exclude these and assume a trend growth of about 7 per cent per annum for the forecast period.

Education is another sector/activity where non-tax collections by way of fees of various kinds are collected. The collections in this item of non-tax revenue area function of the rates and the student population. Himachal Pradesh has already achieved near universal enrolment ratios at various levels. Girls account for around 50 per cent of the student population and the State Government has already made education at all levels for girls free. The future growth, therefore, can only come from levy of higher fees which would appear to militate against the spirit of promoting education. The data on collections for the study period is depicted in the following table.

TABLE 5.4 : NON-TAX REVENUES FROM EDUCATION

YEAR	(Rs. crore)	Per cent Change
2002-03	14.62	--
2003-04	41.85	186.25
2004-05	30.99	(-) 25.95
2005-06	41.64	34.37
2006-07	42.33	1.66
2007-08	52.72	24.55
2008-09	56.84	(-) 32.02
2009-10	83.61	47.10
2010-11	81.93	(-) 2.01
2011-12	103.85	26.75

Source : Budget documents of Himachal Pradesh for the relevant years.

As is made out by the above data, the growth trend has been very erratic and can not be used for future forecast. Further investigations on this erratic behaviour of data and the resultant growth rates revealed that it emerged from irregular accrual of salary disbursements for the teachers engaged in the Sarva Shiksha Abhiyan. Given the demographic scenario of the State, it would be optimistic even to project 7 per cent per annum growth for the forecast period. The question of cost recovery in this sector bearing any relationship or correlation to the expenditure incurred would, therefore, be misplaced.

The data on user charge collections from health and water supply and sanitation activities contained in the following table indicate that these are historically nominal collections and are not of significance in

the context of analysis. One would tend to agree with the state government's projection at the rate of 7 per cent into future. But at the same time, the State Government should progressively increase, albeit at a steady pace, the cost recovery of these services, especially in the urban sector where the costs are astronomically high as compared to the rural areas and the gap between the cost and recovery enormous on the one hand, and people have better paying capacity, on the other.

TABLE 5.5 : NON TAX REVENUES FROM HEALTH AND WATER SUPPLY AND SANITATION

YEAR	(Rs. crore)		Per cent Change	
	Health	Water supply & sanitation	Health	Water supply & sanitation
2002-03	3.10	9.75	--	--
2003-04	3.36	1105	8.39	13.33
2004-05	3.70	11.79	10.12	6.70
2005-06	5.31	13.00	43.51	10.26
2006-07	5.39	13.40	1.51	3.08
2007-08	7.68	14.74	42.49	10.00
2008-09	8.19	18.18	6.64	23.34
2009-10	5.81	19.61	(-) 29.06	7.87
2010-11	8.40	25.97	44.58	32.43
2011-12	8.66	31.35	3.09	20.72

Source : Budget documents of Himachal Pradesh for the relevant years.

A similar view could be taken for the collections from the irrigation sector, the data on which is presented in the table below. It is important to mention here that the State Government does not provide free electricity for irrigation purposes but the energy charges are levied at the lowest slab rate applicable to domestic consumers. The difference in pricing determined by the Regulator and the actual cost recovery is being subsidised by the State Government. Similarly, the water rates for irrigation water are nominal and also suffer from problems of collection due to near absence of collection machinery. Given these circumstances, assumption of 7 per cent growth made by the State Government paints an ambitious and optimistic scenario.

TABLE 5.6 : NON-TAX REVENUES FROM MAJOR, MEDIUM AND MINOR IRRIGATION

YEAR	(Rs. crore)	Per cent Change

2002-03	0.36	--
2003-04	0.30	(-) 16.67
2004-05	0.46	53.33
2005-06	0.98	(-) 53.06
2006-07	0.69	(-) 29.06
2007-08	0.58	(-) 15.94
2008-09	0.73	25.86
2009-10	0.89	21.92
2010-11	7.55	748.31
2011-12	0.93	(-) 87.68

Source : Budget documents of Himachal Pradesh for the relevant years.

As mentioned in the foregoing chapter, forestry sector has ceased to be a major source of revenue as it used to be in the earlier years after formation of the State. The data below indicates the actual collection over the study period:-

TABLE 5.7 : NON-TAX REVENUES FROM FORESTRY AND WILD LIFE

YEAR	(Rs. crore)	Per cent Change
2002-03	31.52	--
2003-04	76.94	144.10
2004-05	102.17	32.79
2005-06	149.63	46.45
2006-07	45.55	(-) 69.56
2007-08	53.60	17.67
2008-09	55.40	3.35
2009-10	72.11	30.16
2010-11	65.44	(-) 9.25
2011-12	106.54	62.81

Source : Budget documents of Himachal Pradesh for the relevant years.

The forestry revenues constitute about 4 to 6 per cent of the total non-tax collections now. Any assumption of future growth in this sector will be misplaced as the policy of the State is to restrict the removals from forests to salvage extraction only. It would be fair to assume that the revenues will behave to stay at the constant level in future as green commercial felling shall not be taken up.

As has been brought out in the earlier part of this study, power sector has assumed a lead role as a new revenue earning source in the State. However, it needs to be appreciated that the flux of growth witnessed in the past decade is a one-time affair and is not sustainable. The revenues from this sector will increase in the future as the allotted projects come into generation and the State Government starts getting its share of free power in such projects. Let us have a look at the data of non-tax revenue accruals from power sector in the study period as depicted in the sub-joined table:-

TABLE 5.8 : NON-TAX REVENUES FROM POWER

YEAR	(Rs. crore)	Per cent Change
2002-03	-0.08	--
2003-04	35.01	Not relevant
2004-05	284.71	713.22
2005-06	251.47	(-) 12.68
2006-07	910.08	261.90
2007-08	1414.52	55.43
2008-09	1255.43	(-) 11.25
2009-10	1214.80	(-) 3.24
2010-11	1093.21	(-) 10.01
2011-12	805.62	(-) 26.31

Source : Budget documents of Himachal Pradesh for the relevant years.

The data exhibits a quantum leap in 2004-05 over 2003-04 and a further quantum leap in 2006-07 over 2005-06. These have resulted from upfront premium on allotment of projects, high rates of sale of power in the initial years and availability of free power from the new generating utilities coming into being. After 2007-08, the accrual has seen a downward trend continuously. The reasons for this slide are as follows:-

1. The surge resulting from collections through the payment of upfront premium by the private developers or IPPs has since abated and there are no fresh accruals now onwards.
2. The rate of sale of power has seen a steep decline in the region due to additional generation capacity coming up in the region severely affecting the revenue accrual to Himachal Pradesh.
3. There has been a deceleration in actualisation of additional generating capacity and resultant free power availability to the state as against the anticipations of faster installation of additional

capacity due to a slump in the national economy and certain unforeseen delays in project execution.

Due to these reasons, assumption of over 11 per cent growth for sale of power made by the State Government for the forecast period sounds optimistic basically on account of the fact that projected generation is conditional to addition of generating capacity on a year to year basis and such assumptions suffer from inherent disabilities of delays in actualisation of new capacity due to geological and climatic surprises. Even the current quantum of free power is a function of the snow and rainfall pattern which is difficult to predict. Given these constraints, it may be close to reality if the projections for the forecast period are made on a conservative scale as compared to the assumption taken by the State Government. It may be appropriate to project about 7 per cent growth during the forecast period.

Royalty on minerals is another important area of non-tax revenues. The data on this aspect is tabulated below for the study period:-

TABLE 5.9 : NON-TAX REVENUES FROM ROYALTY ON MAJOR AND MINOR MINERALS

YEAR	(Rs. crore)	Per cent Change
2002-03	35.46	--
2003-04	36.83	3.86
2004-05	37.24	1.11
2005-06	41.61	11.73
2006-07	46.06	10.69
2007-08	53.48	16.11
2008-09	72.10	34.82
2009-10	79.44	10.16
2010-11	107.48	35.30
2011-12	112.88	5.02

Source : Budget documents of Himachal Pradesh for the relevant years.

Accruals to the royalty on minerals largely come from limestone in Himachal Pradesh. The authority to revise the royalty on major minerals of which limestone is one, vests in the Central Government. The royalty rates for limestone were last revised in mid 2009-10 by the Government of India leading to an unusually high growth rate for 2010-11 over 2009-10.The spurt is seen to have levelled off for 2011-12. The trend average growth rate for the entire study period comes to 14.3 per cent but it

should be only fair to exclude the growth for 2011-12 and then come to an average growth rate for forecasting purposes. This works out to about 11 per cent. Since the chances of any growth from minor minerals are remote given the environmental over-enthusiasm, it is felt that such forecast assumption would be more close to reality than any other scenario for the 2015-20 period.

CHAPTER 6

TRENDS IN REVENUE EXPENDITURE

Synopsis : Analysis of Expenditure (plan/non-plan, revenue/capital, developmental/non-developmental), steps taken, if any, for enhancing the allocative and technical efficiency of major items of expenditure and major components of expenditure including the growth patterns of such major components, specific focus on the maintenance expenditure for capital assets and quality of expenditure.

In the case of a Special Category State, the revenue expenditure tends to be much higher than the fiscal capacity of the State on account of a variety of reasons which are well known. The structure of revenue expenditure should be gone into to see if the expenditure is meritorious or not. The revenue expenditure which goes into building strong social structure and benefits the population across the board like expenditure in education, health, water supply and sanitation, etc., should be considered productive revenue expenditure as it results in building the human capital which, in turn, leads to better productivity. Expenditure on maintenance on law and order is also inescapable. Trends in expenditure in these categories would be analysed in this chapter vis-à-vis the stance indicated by the State Government to the Fourteenth Finance Commission and comments made.

Let us first of all look at the total revenue expenditure and its spread in the non-pan and plan head classifications. The data in this behalf is presented in the following table:-

TABLE 6.1 : REVENUE EXPENDITURE BY PLAN/NON-PLAN CATEGORISATION

(Rs. crore)

YEAR	Non-plan	Plan	Total revenue expenditure
2002-03	3746.50 (--)	1394.65 (--)	5141.15 (--)
2003-04	4744.61 (26.64)	843.47 (- 39.52)	5588.08 (8.70)
2004-05	4807.06 (1.32)	985.87 (16.88)	5792.93 (3.67)
2005-06	5086.44 (7.20)	1379.71 (39.95)	6466.15 (11.62)
2006-07	6237.42 (22.63)	1406.69 (1.96)	7644.11 (18.22)
2007-08	7089.59 (13.66)	1202.17 (- 14.54)	8291.75 (8.47)
2008-09	8560.66 (20.75)	877.48 (- 27.01)	9478.14 (14.31)
2009-10	9913.45 (15.80)	1237.56 (41.03)	11151.01 (17.65)
2010-11	12294.34 (24.02)	1651.71 (33.47)	13946.05 (25.07)
2011-12	12197.03 (- 0.79)	1700.94 (2.98)	13897.97 (- 0.34)

Note : Figures in brackets are annual increase or decrease over the previous year.

Source : Budget documents of Himachal Pradesh for the relevant years.

A cursory look at the data in the above table reveals that the average annual growth in the non-plan revenue expenditure during the study period has been of the order of 14.58 per cent. A similar figure for the plan revenue expenditure will be irrelevant because it does not follow a trend growth; it also fluctuates due to committed liability transfers; and sudden introduction of subsidy schemes. The trend growth rate for the overall revenue expenditure for the period from 2002-03 to 2011-12 comes to 11.93 per cent per annum. These growth rates are more in the nature of being indicative and it may not be realistic to assume these for future forecast of revenue expenditure as such without going into various components of specifically the non-plan revenue expenditure.

In the context of looking at the revenue expenditure by end uses, the data in the following table disaggregates the total into general services, social services, economic services and the local body grants.

TABLE 6.2 : REVENUE EXPENDITURE BY END USE (Rs. crore)

YEAR	General Services	Social Services	Economic Services	Local body grants	Total
2002-03	2079.75	1659.75	1346.02	55.63	5141.15
2003-04	2433.41	1982.35	1169.45	2.87	5588.08
2004-05	2683.87	1929.20	1176.99	2.87	5792.93
2005-06	2746.59	2379.99	1333.38	6.19	6466.15
2006-07	3166.42	2719.39	1755.43	2.87	7644.11
2007-08	3290.66	3014.26	1983.68	3.15	8291.75
2008-09	3789.77	3460.13	2184.26	3.97	9438.13
2009-10	4185.08	4093.42	2868.22	4.29	11151.01
2010-11	5100.99	5157.15	3682.16	5.75	13946.05
2011-12	5484.80	5392.65	3048.54	11.97	13897.97

Source : Budget documents of Himachal Pradesh for the relevant years.

With the exception of the year 2002-03, the structure of revenue expenditure by end uses has not changed drastically. The expenditure on general services varies between 36 to 45 per cent whereas the range for the expenditure for social services 33 to 39 per cent of the total revenue expenditure. The share of revenue expenditure on economic services has been between 20 to 26 per cent of the total. The grants to the local government institutions have an insignificant share in the overall revenue expenditure which is significantly indicative of the fact that decentralisation of financial authority to the local governments has not received desired attention of the successive Governments in the State.

Given this overall appreciation of the revenue expenditure for the ten year study period, it will be of importance to look at the trends in non-plan revenue expenditure by standard objects of expenditure towards firming up the basis of projecting expenditure. The data in this behalf is presented in the table below:

TABLE 6.3 : SOE-WISE ACTUAL EXPENDITURE ON MAJOR STANDARD OBJECTS OF EXPENDITURE UNDER NON-PLAN

(Rs. crore)

SOE	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries	2063.92	2256.60	2659.47	3233.02	4005.72	5039.28	5115.42
Pensions	669.76	911.77	949.32	1153.92	1348.46	2105.39	2216.87
Interest	1236.01	1672.85	1708.02	1897.91	1958.92	1949.77	2129.70
Maintenance	133.45	496.31	634.52	772.44	826.49	925.77	1058.29
Subsidies	79.34	300.14	276.41	100.41	311.52	315.14	338.61
Others	435.62	708.77	861.85	1199.95	1462.34	1259.03	1338.20
Total	4618.10	6346.44	7089.59	8560.65	9913.45	11594.38	12197.03

Source : Budget documents of Himachal Pradesh for the relevant years.

During the period from 2005-06 to 2011-12, the expenditure on salaries increased from Rs. 2063.92 crore to Rs. 5115.42 crore. This represents an increase of about 148 per cent. It may also be seen that there has been a quantum jump in the salary expenditure from the year 2009-10 onwards. This is entirely due to the implementation of the pay revision following the Punjab Pay Commission recommendations which was to take effect from 1.1.2006. The main burden of impact came through the years 2009-10 and 2010-11 as in clear from the above data. It is also important to look at the salary expenditure for 2011-12 against 2010-11. It appears that there has been literally no growth. Verification of facts revealed that the State Government did not release any dearness allowance instalments during the year 2011-12 which led to almost constant expenditure on this item in the two successive years. It is important to mention here that the total number of government employees in the state has nearly plateaued and has been around 2.25 lakh for the last few years as explained in the chapter on FRBM compliance.

The pension burden has been on the increase as the number of pensioners is increasing year after year. As there has been an increase in the life expectancy, the number of pensioners will continue to increase. In this behalf, the projections made by the State Government for the number of pensioners increasing by about six to seven thousand per annum seem to be reasonable. Since the pension expenditure content will be governed by the increases in the cost of living as with the regular employees, the expenditure on pensions will grow by about 6 per cent on the base figure of 2011-12 on an annual basis for the existing pensioners (presuming an average 12 per cent annual increase in the consumer price index for industrial workers which governs the grant of dearness allowance and dearness relief. The assumption of 6 per cent is based on

the macro assumption that the total pension burden comprises of about an equal share of basic pension and the dearness relief in the year 2013-14). In addition, the increase in the number of pensioners will contribute to about 6 per cent increase in the overall burden. Thus the pension expenditure at current dispensation will increase by at least 12 per cent per annum. In case one were to take into reckoning the next pay and pension revision due in 2016, the pension burden in likely to further increase during the forecast period of the Fourteenth Finance Commission.

The expenditure on interest payments is a function of the borrowings contracted by the State Government for financing the plan. However, the principles governing the fiscal deficit under the FRBM Act make it eminently possible to take a call on the likely growth of this item of expenditure. The outgo on this item has been nearly static for the years 2008-09, 2009-10 and 2010-11 and has increased by about 7 per cent for the year 2011-12. The trend for the forecast period of 2015-20 could assume a growth rate of about the same order.

The expenditure on salaries, pensions and interest payments accounts for about 75 to 80 per cent of the total revenue expenditure. The expenditure on salaries in future will more be a function of the salary revisions and grant of dearness allowance from time to time. Experience has proved that inappropriate appreciation of this item of expenditure by the Finance Commission can upset the entire expenditure assessment and adversely impact the finances of the State Government. It would be highly relevant that the Fourteenth Finance Commission takes as accurate a view on this item of expenditure as possible within the overall framework of the guidelines it has for expenditure assessment. The State Government on its part should do well to contain the growth on the regular State Government employees in future and reduce the incidence of salary related revenue expenditure to be financed from borrowing. Similarly, the expenditure on pensions will continue to rise faster than it has grown in the past as it will also be a function of the salary revisions, dearness relief and increase in the number of pensioners.

TABLE 6.4 : PER CENT SHARE OF VARIOUS STANDARD OBJECTS OF EXPENDITURE UNDER NON-PLAN REVENUE EXPENDITURE

SOE	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries	44.69	35.56	37.51	37.77	40.41	43.46	41.94
Pensions	14.50	14.37	13.39	13.48	13.60	18.16	18.17
Interest	26.76	26.36	24.09	22.17	19.76	16.82	17.46

Maintenance	2.89	7.82	8.95	9.02	8.34	7.98	8.67
Subsidies	1.72	4.73	3.90	3.51	3.14	2.72	2.78
Others	9.44	11.165	14.40	14.05	14.75	10.86	10.98
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source : Budget documents of Himachal Pradesh for the relevant years.

The above data is indicative of the fact that the salary and pensions expenditure will account for about 60 per cent or even more of the total non-plan revenue expenditure during the forecast period of 2015-20 as the salary burden will keep rising due to DA increases and impending pay revision of 2016 and the pension burden will continue to increase due to dearness relief, pay revision and increase in the number of pensioners.

In the context of the revenue account deficit presented in the state budget on a year to year basis, a corresponding figure which needs to be looked at is the balance from current revenues presented by the state government to the Planning Commission and the Union Finance Ministry towards firming up the plan financing. The comparative time series data for the study period is depicted in the following table:-

TABLE 6.5 : BALANCE FROM CURRENT REVENUES FOR STATE PLAN FINANCING AND THE ACTUALS OF THE REVENUE DEFICIT FIGURES (Rs. crore)

YEAR	Revenue Deficit	Balance from current revenues for plan financing
2002-03	(-) 1482.40	(-) 1467.37
2003-04	(-) 1607.17	(-)2253.13
2004-05	(-) 1158.42	(-)1574.41
2005-06	(+) 92.48	(-)135.48
2006-07	(+)191.10	(-)296.73
2007-08	(+) 849.79	(-)112.78
2008-09	(-) 130.14	(-)1414.00
2009-10	(-) 804.65	(-)2641.56
2010-11	(-) 1235.44	(-)2608.22
2011-12	(+) 304.83	(-)1868.75

Source : Budget documents of Himachal Pradesh and Estimates of Resources for plan financing submitted to the Planning Commission for the relevant years.

Conceptually, the revenue deficit figure for a particular year should be smaller than estimate for the balance from current revenues because the former includes the grant portion of the central assistance for plan financing. We should look at the above data in this perspective.

It would be seen that the figures for the years 2002-03, 2003-04 and 2004-05 bear similarity to a certain extent that these are all negative but the revenue deficit figure for 2002-03 is a worsened balance as compared to the balance from current revenues, which obviously is contrary to the concept. The figures for the balance from current revenues for 2003-04 and 2004-05 presented to the Planning Commission are vastly different from the actual revenue deficits in the budget documents and the variation is not explained by the receipt of central assistance for plan financing.

For the other years, not only does the revenue account surplus presented in the State budgets for 2005-06 and 2006-07 differ from the negative balance from current revenues by small margins as compared to the grant portion of the central assistance and, therefore, the variations are point to inconsistency in the data management. The figures for the year 2007-08 reflect a possible set of numbers and yet are different by a wide margin of about Rs. 500 crore. Congruency of a fairly high order in these two sets of figures is what would mean realistic budgeting and accounting. Both the sets of figures can not be wrong or correct at the same time.

The variation in the figures for 2008-09 approximates to a reality in the fact that the difference is of the order of about Rs. 1300 crore whereas the central assistance is of the order of about Rs. 1739 crore. The data for the years 2009-10 to 2011-12 is again reflective of inconsistency of a large magnitude and points to on poor coordination in estimation and the budgeting practices. It would not be an overstatement that exercise to determine these two numbers – namely the revenue deficit or surplus for the budget and the assessment of the balance from current revenues is probably carried out in isolation from each other and it needs to be done concurrently at one time. This would lend greater credibility to the resource estimation process for plan financing as also for the estimation of the revenue deficit to be exhibited in the State budget.

CHAPTER 7
INDEBTEDNESS OF THE STATE, COMPOSITION OF THE DEBT, UTILISATION AND DEBT REDUCTION

Synopsis : Analysis of debt scenario, its components, rationale of debt use and possibility of debt reduction.

Raising of loans for financing developmental expenditure of a State Government, leading to capital formation, is inherent in the federal fiscal design in India. However, the State Governments are bound to embark upon such borrowing programmes only after availability of express consent of the Union Government to do so. The Union Government regulates the overall borrowing by States under the provisions of Article 293 of the Constitution of India. Given these arrangements in the federal fiscal structure, it is inherent that the State Governments will have a certain debt burden unto the Union Government and any such lenders as are permitted by the Government of India. Although there is an apparent cap in the limit of borrowings the States can raise due to the Constitutional provisions, yet the gross borrowings by the States like Himachal Pradesh have been known to exceed the limits of prudence in the past, specially during the 1990's.

The recourse by the State Governments to non-SLR based borrowings with or without the permission of the Central Government towards meeting their consumption needs or the so called inescapable and committed revenue expenditure led to worsening of the debt scenario all over. This gave rise to the thinking that borrowing by the States as also the Union Government should be capped legally. Not only this a cap on the quantum of guarantees being given by the State governments for raising loans by the various Public Sector Undertakings, Boards and Corporations of the State had also come to be prescribed since such guarantees are in the nature of the contingent debt on the State Governments.

For analyzing the debt burden and the causes of its worsening, the data on debt stock needs to be seen in long tern time series over the past. The data in this behalf on gross borrowing each year, debt servicing by way of repayment of principal and the cumulative debt at the end of each year for Himachal Pradesh is presented in the following table:-

TABLE 7.1 : INDEBTEDNESS OF HIMACHAL PRADESH

(Rs. crore)

Year	Gross Debt raised during the year	Repayment of principal	Net increase in the debt stock	Cumulative total
Pre 1974-75	..	..	..	340.39
1974-75	30.95	10.88	20.07	360.46
1975-76	35.38	16.29	19.09	379.55
1976-77	-12.94	7.66	-20.60	358.95
1977-78	15.67	12.49	3.18	362.13
1978-79	22.41	7.13	15.28	377.41
1979-80	24.79	1.19	23.60	401.01
1980-81	34.72	79. 46	-44.74	356.27
1981-82	35.60	3.97	31.63	387.90
1982-83	76.44	4.55	71.89	459.79
1983-84	46.66	6.45	40.21	500.00
1984-85	62.63	10.57	52.06	552.06
1985-86	82.61	26.08	56.53	608.59
1986-87	88.98	19.44	69.54	678.13
1987-88	138.12	19.00	119.12	797.25
1988-89	153.52	22.67	130.85	928.10
1989-90	201.67	25.35	176.32	1104.42
1990-91	311.32	27.66	283.66	1388.08
1991-92	170.08	61.88	108.20	1496.28
1992-93	240.84	61.91	178.93	1675.21
1993-94	257.44	62.51	194.93	1870.14
1994-95	681.14	63.41	617.73	2487.87
1995-96	469.75	44.99	424.76	2912.63
1996-97	846.44	52.90	793.54	3706.17
1997-98	1321.35	60.60	1260.75	4966.92
1998-99	993.90	75.62	918.28	5885.20
1999-00	1893.37	95.34	1798.03	7683.23
2000-01	1702.41	130.48	1571.93	9255.16
2001-02	1607.90	413.08	1194.82	10449.98

As is evident from the above data, the debt has been rising gradually over the years. The increase has been very pronounced in the post 1989-90 period. The cumulative debt at the end of 1973-74 stood at Rs. 340 crore. It kept hovering between Rs. 350 crore to Rs. 400 crore till the year 1981-82. After 1981-82, the debt stock has been on the rise

consistently. The average annual increase in the debt burden in the period 1981-82 to 1989-90 was about Rs. 90 crore which increased to about Rs. 188 crore annually for the period 1989-90 to 1993-94. Even at this level, it was not unsustainable but manageable. However, the debt stock rose rapidly during 1993-94 to 1997-98 period at an average of Rs. 775 crore per annum. A large part of this debt went into promoting expenditure into social sectors which could prove to be good in the long run but it did not meet the objective of additional capital formation. The debt situation kept worsening at a faster rate than ever between 1997-98 and 2002-03. The average annual increase in the cumulative debt stock in this period was about Rs. 1523 crore. Needless to say, a very significant part of this debt went to meet the ballooning revenue expenditure on salaries, wages, pensions and interest payments due to revision of pay and pension on Punjab and central pattern on the one hand, and the incremental interest outgo due to higher borrowings contracted at high rates of interest in the past, on the other. Himachal Pradesh is in a classical debt trap where the debt as a ratio of the Gross State Domestic Product hit a level of 82.5 per cent at the end of 2002-03.

To get a better appreciation of the situation, it would be appropriate to look at the overall revenue account and the capital account and then attempt to relate the plan expenditure (because borrowings are generally understood to finance the plan activity, more so, the capital content of the plan) with the capital expenditure and the capital account surplus or deficit. The data for the period 1981-82 to 2002-03 on these aspects is depicted in the following table:-

TABLE 7.2 : SUMMARY OF REVENUE AND CAPITAL ACCOUNTS OF THE GOVERNMENT OF HIMACHAL PRADESH

(Rs. crore)

Year	Budgetary expen-diture	Plan outlay	Capital expenditure	Revenue Surplus (+)/ Deficit (-)	Capital Surplus(+) /Deficit (-)
1981-82	297	101.00	84	+21.81	-46.40
1982-83	344	120.00	80	+ 9.07	- 0.55
1983-84	383	143.00	99	+32.71	-50.07
1984-85	478	168.17	134	+37.57	-67.67
1985-86	586	177.00	174	+107.81	-87.11
1986-87	655	205.00	191	+69.76	-96.87
1987-88	793	239.70	185	+41.01	-42.18
1988-89	988	260.00	220	-69.84	-57.50
1989-90	992	300.00	209	-61.27	+10.78
1990-91	1125	360.00	223	-94.84	+93.88
1991-92	1244	410.00	261	+9.86	-83.66
1992-93	1434	486.00	288	-93.08	-28.03
1993-94	1714	560.00	363	+113.63	-97.09
1994-95	2022	650.00	407	-307.92	+73.66
1995-96	2367	750.00	463	-150.33	-52.17
1996-97	2663	900.50	516	-154.86	+42.60
1997-98	3473	1008.00	774	-593.69	+260.95
1998-99	4073	1440.00	739	-1083.01	+266.72
1999-00	4714	1600.00	892	-971.33	+1393.06
2000-01	5053	1720.00	677	-1330.60	+1057.72
2001-02	5444	1720.00	732	-860.46	+730.93

It may be seen from the above data that the State of Himachal Pradesh had a revenue account surplus up to the end of 1987-88 where after it has continuously slipped into a revenue deficit situation with the exception of the year 1993-94 for the above time period. The State had a surplus on the revenue account in 1993-94 because it received an advance plan assistance of the order of Rs. 270 crore which was adjusted in the following three years in equal instalments of about Rs. 90 crore against the State's entitlement of central plan assistance during the Eighth Five Year Plan and the grant part of this amounting to Rs. 243 crore was a revenue account receipt. The State had a deficit on capital account up to 1988-89 which implies that the revenue account surplus was used to

finance the capital account up to this year consistently. No doubt, the capital infrastructure expanded rapidly in this period. Thereafter, it had been fluctuating from deficit to surplus till 1996-97. After 1996-97, there was a consistent surplus on the capital account. This clearly implied that the State Government took recourse to heavy borrowings to meet its revenue expenditure commitments. Clearly, this kind of pattern of receipts and expenditure could not be sustained.

In the period 1981-82 to 1987-88, the revenue account surplus was used to offset the capital account deficit. This was an ideal situation when the surplus on the revenue account went into capital formation. The story was reversed from 1993-94 onwards. It revealed huge revenue account deficits and these were met by the surplus created by recourse to huge borrowings on a year to year basis.

One would briefly need to go into the reasons of the severe decline in the revenue account. The revenue deficit is seen to have burgeoned after 1996-97. One could identify two reasons for such a decline. One related to the revision in the pay scales of the employees of the State Government and employees of the para-statal organisations of the State Government on Punjab pattern and consequent revision in the pensions. The other related to mass regularization of the daily waged workers in the departments of PWD, IPH, Forest and all other government departments. The process of regularization of daily wagers was extended to the daily waged workers of the Universities; State owned PSUs and other para-statal agencies. The annual incremental burden on account of salary revision came to Rs. 350 crore and that on pensions comes to about Rs. 200 crore. Similarly, the incremental burden on account of regularization of daily wagers was estimated at over Rs. 210 crore. Against these quantum jumps, the revenue receipts of the State kept up a historical growth rate which was grossly inadequate to meet the bill. Also, there had been some expansion in the number of State Government employees over these years largely due to the much needed expansion of the social and economic infrastructure. To keep the growth in the number of employees in the correct perspective, it would be necessary to look at the numbers over the nineties. The data in this regard is presented in the following table:-

TABLE 7.3 : NUMBER OF THE STATE GOVERNMENT EMPLOYEES AS ON 31ST MARCH

Year	Regular and Work Charged	Daily waged and part time	Total
1989	113460	72446	185906
1990	117789	62834	180623
1991	119285	62637	181922
1992	120957	69908	190865
1993	119341	64974	184315
1994	119494	65550	185044
1995	127516	62429	189945
1996	135660	64274	199934
1997	139997	62626	202623
1998	144665	62225	206890
1999	155697	62908	218605
2000	163912	61430	225342
2001	170883	56249	227132

The above data reveals that the total number of employees over the years 1989 to 2001 increased at a simple annual growth rate of 2.21 per cent. Since the population also increased at about the same rate and the social and economic infrastructure expanded enormously over these years, the overall increase does not seem to be too much. However, if one looked at the growth in the number of regular and work charged employees over the above period, the picture becomes altogether different. The witnessed growth rate came 5.06 per cent. This growth was obviously high and significantly contributed to the ballooning of the overall salary bill of the State. Similar story holds true for the pension burden as the rates of pension increased after pay revision and the number of pensioners also increased at a faster rate than in the past.

In a separate chapter, we have looked at the salary and pension expenditure and its growth during the 2002-03 to 2011-12 period. Despite the fact that the number of government employees has now become nearly static, the increase in the salary expenditure in future will come from pay revision and dearness allowance. On the pension front, the burden will continue to rise at a faster rate as explained in the chapter relating to the revenue expenditure.

Given this scenario, it is extremely difficult to envisage a situation where the policy of revenue expenditure compression could be meaningfully pursued in the context of Himachal Pradesh for balancing

the revenue receipts and revenue expenditure. This implies that the revenue deficits will continue growing unless some wide ranging measures are taken on the side of expenditure compression like drastic reduction in the size of the government, restructuring the pension scheme to make it pay for itself (which has already been put into place for employees hired after May, 2003), reducing subsidies and grants and better targeting of the expenditure. Such measures also need to be accompanied by new revenue raising measures like the imposition of a generation tax on electricity, besides enhancing the scope of revenue collection from the existing imposts.

Up to 1996-97, the gross borrowings by the State Government were generally less than the approved plan size. From 1997-98 onwards, the gross borrowings have either been nearly equal to or greater than the approved plan size. During the year 2002-03, the borrowings reached a level of over Rs. 2700 crore against an approved plan size of Rs. 1840 crore. The calling order for new debt each year reached absolutely unsustainable levels. This subsequently led to the Government of India accepting the recommendations of the Finance Commission for having a Fiscal Responsibility and Budget Management legislation at the Centre and the States. The Government of Himachal Pradesh enacted its FRBM Act in the year 2005-06.

Let us also look at the direct debt of the State and its relationship with the GSDP. The data for the last few years is presented in the following table:-

TABLE 7.4 : DEBT TO GSDP RATIO FOR HIMACHAL PRADESH

(Rs. crore)

Year	Cumulative Direct Debt	GSDP at current prices	Debt: GSDP ratio (%)
1993-94	1870.14	4683	39.93
1994-95	2487.87	5696	43.68
1995-96	2912.63	6487	44.90
1996-97	3706.17	7486	49.51
1997-98	4966.92	8510	58.37
1998-99	5885.20	9920	59.33
1999-00	7683.23	12229	62.83
2000-01	9255.16	13329	69.44
2001-02	10449.98	14717	71.01

This data indicates a typical situation of the State having run in to a self-fuelling debt trap. With this background of the story of the rising

debt stock, we approach the study period of 2002-03 to 2011-12. A brief introduction to the debt scenario for this period has been given in the chapter on the compliance of the Fiscal Responsibility and Budget Management Act by the state government. The composition of the debt also merits a look. The table below indicates the composition of the debt of Himachal Pradesh for the study period of 2002-03 to 2011-12:-

TABEL 7.5 : LIABILITIES OF THE GOVERNMENT OF HIMACHAL PRADESH

(Rs. crore)

Source	2002-03	2003-04	2004-05	2005-06	2006-07
Govt. of India loans	2548.31	1898.35	1148.60	1110.22	1110.22
Open Market loans	1983.55	2839.49	3690.63	4115.78	4115.78
Special securities to NSSF	849.17	1426.47	2211.47	3024.07	3024.07
Loans from LIC	708.58	744.80	692.50	607.18	607.18
Loans from NCDC/GIC	32.28	17.04	19.59	22.35	22.35
Floating debt	270.00	117.94	22.49	---	---
Other loans	2550.42	3805.70	4082.23	3461.36	3461.36
State Provident fund	2484.41	2720.18	2981.02	3291.11	3291.11
Reserve funds	257.25	225.44	156.25	169.02	169.02
Other deposits	969.26	1241.61	1846.12	2114.75	2114.75
Contingent funds	5.00	5.00	5.00	5.00	5.00
Total	12658.23	15042.02	16855.90	17920.84	17920.84
Debt:GSDP ratio					

The above data indicates that there was a decline in the quantum of central government loans on the State between 2002-03 to 2006-07 which basically resulted from the policies of debt relief; debt reset; and debt swap followed by the central government to mitigate the debt burden of the states which were in a sort of a debt trap as also moving the loan part of the central assistance to the State Government borrowings permitted under the debt cap prescription. The cumulative burden of the open market borrowings has been increasing during this time due to the fact that the funds under this source for plan financing were comparatively cheaper as compared to the other sources. As to the small savings loans to finance the plan, the state could do precious little to mitigate the accumulation because of the historic fact that people in Himachal Pradesh

have a habit of saving. One would see a decline in the loans availed from the LIC or the NCDC etc., because the cost of funds in higher on the one hand, and the need for purpose specific negotiated loans for housing and urban water supply etc., was not there. Loans against the State provident fund collections have also been rising at about Rs. 200 crore each year for the above period. The average simple annual growth in the total liabilities of the State Government in this period has been of the order of about 10 per cent.

TABEL 7.6 : LIABILITIES OF THE GOVERNMENT OF HIMACHAL PRADESH

(Rs. crore)

Source	2007-08	2008-09	2009-10	2010-11	2011-12
Govt. of India loans	1014.87	970.97	983.95	960.48	947.30
Open Market loans	5905.62	7658.02	8835.05	9224.29	10146.68
Special securities to NSSF	3828.92	3889.21	4285.64	4935.51	5063.00
Loans from LIC	469.71	426.68	378.28	329.91	281.56
Loans from NCDC/GIC	26.00	21.13	14.73	32.39	24.26
Floating debt	0.00	0.00	0.00	0.00	0.00
Other loans	2818.92	2461.23	2615.30	3171.78	3047.90
State Provident fund	4005.47	4510.12	5044.55	5920.55	6546.23
Insurance and pension fund	148.09	158.32	169.56	181.81	191.66
Reserve funds	435.24	740.65	138.30	77.35	220.58
Other deposits	765.44	982.12	1247.18	1580.14	1757.82
Contingent funds	5.00	5.00	5.00	5.00	5.00
Suspense & Misc.	1.40	54.05	170.73	309.68	191.00
Remittances & balance	424.57	404.65	479.72	527.67	400.49
Total	19849.25	22282.14	24367.99	27256.56	28823.48
Debt:GSDP ratio					

The trends indicated above for 2002-03 to 2006-07 period have been continuing in the period from 2007-08 to 2011-12 for various components of the debt. The average simple annual growth rate for the total quantum of liabilities in this period has been slightly higher than 2002-03 to 2006-07 period. A comment on the utilisation of the fresh

debt contracted each year would emerge from the look at the following date on plan size, balance from current revenues, central assistance for plan financing and the total fresh debt raised by the State Government.

TABLE 7.7 : PLAN FINANCING OF HIMACHAL PRADESH

(Rs. crore)

Year	Plan size	BCR	Central Assistance	Borrowings for plan
2002-03	1840.00	(-) 1467.37	1191.52	2328.56
2003-04	1335.00	(-)2253.13	1445.32	3708.56
2004-05	1400.38	(-)1574.41	1485.59	2704.79
2005-06	1600.00	(-)135.48	1400.89	2063.51
2006-07	1800.00	(-)296.73	1517.92	2363.57
2007-08	2100.00	(-)112.78	1546.72	2338.89
2008-09	2400.00	(-)1414.00	1739.25	2751.63
2009-10	2700.00	(-)2641.56	2132.29	3029.18
2010-11	3000.00	(-)2608.22	2588.35	3260.50
2011-12	3300.00	(-)1868.75	3029.59	2539.41

The above data points to certain inconsistencies in the sense that the central assistance and borrowings for plan financing with the exception of 2009-10 are generally much higher than the plan size and the BCR figure put together. There is a certain element of the MCR in the plan financing scheme which may be ignored for the present purpose. The excess of central assistance and borrowings put together over the plan size plus the BCR ranges between Rs. 200 crore to Rs. 1700 crore for other years. Clearly, the plan resources have been used to finance the further erosion in the non-plan account of the State.

We have so far looked at the capital side impact of the debt. It would be important to elaborate the revenue side burden of the debt as well. The following table depicts data on the interest payments over the last few years and their relationship to total revenue receipts and total revenue expenditure:-

TABLE 7.8 : REVENUE RECEIPTS, REVENUE EXPENDITURE AND INTEREST PAYMENTS FOR HIMACHAL PRADESH

(Rs. crore)

Year 1	Revenue Receipts 2	Revenue Expenditure 3	Interest 4	4 / 2 Percent	4 / 3 Percent
1993-94	1465.13	1351.50	209.65	14.31	15.51
1994-95	1306.36	1614.28	263.24	20.15	16.31
1995-96	1754.02	1904.35	322.56	18.39	16.94
1996-97	1992.02	2146.88	346.98	17.42	16.16
1997-98	2105.45	2699.14	455.75	21.65	16.89
1998-99	2250.95	3333.96	604.25	26.84	18.12
1999-00	2850.21	3821.54	736.76	25.85	19.28
2000-01	3045.58	4376.18	979.17	32.15	22.38
2001-02	3715.80	4576.26	1197.92	32.24	26.18
2002-03	3658.75	5141.15	1171.52	22.79	32.01
2003-04	3980.91	5588.08	1472.78	26.35	35.88
2004-05	4634.51	5792.93	1641.14	28.33	35.41
2005-06	6558.63	6466.15	1562.78	24.17	23.82
2006-07	7835.21	7644.11	1669.43	21.30	21.84
2007-08	9141.54	8291.75	1702.72	18.62	20.53
2008-09	9307.99	9478.14	1893.57	20.34	19.98
2009-10	10346.36	11151.01	1955.85	18.90	17.53
2010-11	12710.61	13946.05	1949.77	15.34	13.98
2011-12	14202.79	13897.97	2129.71	15.00	15.32

The above data reveals that the ratio of interest burden to the revenue receipts has increased from 14.31 percent to 32.24 per cent over the period up to 2001-02. On the other hand, the ratio of interest burden to revenue expenditure has worsened from 15.51 per cent to 26.18 per cent over the same period. This rate of deterioration accelerated after 1997-98 since the overall size of the fresh borrowings has been galloping away and the cost of funds till very recently has also been exorbitant. The ratios for 2011-12 are almost at the same level as these were for 1993-94, the year when the slide began.

The interest burden can be contained either by retiring the expensive debt if the State’s resources so permit or by swapping the expensive debt with comparatively lower cost debt. Another possibility is that the growth in the borrowings is arrested even though it may mean a severe deceleration in the process of planned development. The Government of India had come up with a debt swap programme through the Union Budget where old expensive debt of the States to the

Government of India was swapped with low cost debt. Under this dispensation, the State of Himachal Pradesh has got a swap of about Rs. 290 crore during the year 2002-03 and the interest burden as a result of this went down by about Rs. 21 crore per annum. Similarly the debt reset also gave the state a small breather against the mounting debt. After the enactment of the State specific FRBM Act, various debt adjustment measures, debt reset and imposition of a debt cap on the State Government, there has been a sustained improvement in the ratio of interest burden to the revenue receipts as also the revenue expenditure. For future, it appears that the State Government may have to consider serious improvements in this behalf because a significant part of the quantum of central assistance for plan financing and the borrowings for financing the approved plan size are basically financing the consumption expenditure of the State Government. Such a situation can not sustain for long and the correctives are an imperative scenario.

It is imperative that the debt situation of Himachal Pradesh is treated with all seriousness not only at the State level but also at the national level. It is likely that the debt scenario in most of the Special Category States may be in a critical stage. Keeping this in view, it is necessary that the Fourteenth Finance Commission takes a realistic view on the question of debt relief to the Special Category States so that the management of fiscal as well as revenue deficits of the State for complying with the FRBM Act thresholds.

CHAPTER 8

IMPLEMENTATION OF THE FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, REVENUE AND FISCAL DEFICITS AND OVERALL DEBT BURDEN

Synopsis : Analysis of the performance of the State vis-à-vis the FRBM Act, trends in revenue deficit and their linkage with the legislation on fiscal responsibility, analysis of various components of revenue deficit and their performance against the assumption, trends in fiscal deficit and use of capital receipts, trends in the number of government employees, trends in guarantees on long term liabilities of the state government, performance against the MTFP targets, debt and contingent liabilities.

Himachal Pradesh Fiscal Responsibility and Budget Management (FRBM) Act was adopted in the year 2005 in consequence of the recommendations of the Twelfth Finance Commission. Himachal Pradesh was among the first few States to have accepted the need to have State FRBM legislation. Since then, year after year, the Government has been tabling the Status reports on the finances of the State in the Legislative Assembly. Comment on the fiscal situation will follow after we take a quick look at the overall position of the State Finances as exhibited in the following table:-

TABLE 8.1 : OVERALL FISCAL SCENARIO IN HIMACHAL PRADESH

(Rs. crore)

Year	Opening Balance*	Revenue Receipts$	Revenue Expenditure	Revenue Account Net	Closing Balance*
2006-07 Actuals	(-)169.16	7747.96	7643.83	(+)104.13	(-)124.09
2007-08 Actuals	(-)37.11	9141.55	8291.75	(+)849.80	(+)1121.75
2008-09 Actuals	(+)1121.75	9307.99	9438.12	(-) 130.13	(+)1121.98
2009-10 Actuals	(+)1121.98	10436.36	11151.01	(-) 804.65	(+)582.60
2010-11 Actuals	(+)582.60	12710.61	13246.09	(-) 535.48	(+) 906.53
2011-12 Actuals	(+) 906.53	14542.86	13897.97	(+) 644.89	(+)948.67

SOURCE: Budget Documents of the Government of Himachal Pradesh for the respective years.

NOTES:

- *: This is after taking into account the capital account, loans and advances, etc.
- **$:** Revenue receipts include State's own tax and non-tax revenues; the share in central taxes and revenue deficit grants from the Finance Commission dispensation; grant part of the central assistance for plan financing; and the grant part of the transfers on account of the centrally sponsored schemes channelized through the State budget.

The data presented in the above table starts from the year 2006-07 which was the first year after the state enacted the FRBM Act. Except for 2008-09, 2009-10 and 2010-11, the State Government presented a revenue account surplus budget. As to the overall position, the closing balance has consistently been positive. There has been an increase in the closing balance year after year from 2009-10 even when there was a revenue account deficit during 2009-10 and 2010-11. Looking at the overall data, it appears that the state finances are on sound footing and the FRBM parameters would have been complied with. The revenue deficit and the fiscal deficit parameters have been as under for the above period:-

TABLE 8.2 : REVENUE ACCOUNT BALANCE VERSUS TOTAL REVENUE RECEIPTS FOR HIMACHAL PRADESH

(Rs. crore)

Year	Revenue surplus(+) or deficit(-)	Total revenue receipts	Percentage of column 2 to column 3
1	2	3	4
2006-07 Actuals	(+)104.13	7747.96	(+)1.34
2007-08 Actuals	(+)849.80	9141.55	(+)9.30
2008-09Actuals	(-) 130.13	9307.99	(-)1.40
2009-10Actuals	(-) 804.65	10436.36	(-)7.71
2010-11Actuals	(-) 535.48	12710.61	(+)4.21
2011-12Actuals	(+) 644.89	14542.86	(+)4.43
2012-13REs	(+) 354.82	16735.82	(+)2.12
2013-14BEs	(+) 53.97	17700.94	(+)0.30

SOURCE: Budget Documents of the Government of Himachal Pradesh for the respective years.

The FRBM Act compliance demands that the State should have a zero revenue deficit. We observe that there was a revenue deficit of 1.40 per cent in 2008-09 and 7.71 per cent in 2009-10. One could go into examining the details of this erosion but as it happens historically with most of the revenue deficit (own revenues account) Special Category

States, the last years of a finance commission dispensation tend to be of greater fiscal stress. For the 2010-15 period (the 13th Finance Commission award tenure), the revenue surplus of over 4 per cent has shrunk to 0.30 per cent and is likely to become a large revenue deficit for 2013-14 as the actuals for the year emerge. Although it can be said that the state has been complying with the revenue account threshold for the purposes of FRBM Act over the recent years, yet it could end up with a revenue deficit this year and the next year. As always, the mounting salary and pension expenditure and interest payments due to increasing debt stock would be the prime reasons for erosion of the revenue account.

In this context, it will be of interest to look at the total number of employees and pensioners in Himachal Pradesh, the data on which is presented in the following table:-

TABLE 8.3 : GOVERNMENT EMPLOYEES AND PENSIONERS IN HIMACHAL PRADESH

Year(as on 31st March)	Government employees		Pensioners	
	Number	Expenditure (Rs. crore)	Number	Expenditure (Rs. crore)
2005	230968	2228.00	--	--
2006	229641	2615.42	91209	667.32
2007	207691	3376.52	97086	909.82
2008	225211	3748.44	85766	946.70
2009	227527	4454.59	92774	1150.74
2010	228136	5881.65	96818	1342.49
2011	225113	6285.10	93962	2101.24
2012	228409	6956.41	104622	2211.81

Source : FRBM Act compliance reports of the Government of Himachal Pradesh tabled in the State Vidhan Sabha for the number of government employees and Information on topics and statements submitted by the State Government to the Fourteenth Finance Commission for the number of pensioners.

It may be seen that the total number of government employees (other than the employees of the public undertakings and the local government institutions) has not increased from 2005 level in any year. This trend will hold likely into future because the institutional expansion for socio-economic infrastructure has reached saturation levels and is now in the consolidation phase. Similarly, there is a limited likelihood of expansion and additional employment in the regulatory functions and law and order enforcement machinery. As a result of these assumptions, the incremental expenditure on salaries will come from the pay revisions and

the additional dearness allowance burdens. This is a committed expenditure and any unrealistic normative prescriptions for its future management or projections will only lead to severe financial stress on the State's resources and its capacity to adhere to the FRBM parameters will also be severely hampered. The real impact of the last pay revision came in the year 2009-10 after which it has seen the normal growth pattern as exhibited by the data in the above table. Similar story holds true for the pension burden. Its full scale impact came in the year 2010-11 due to a certain time lag in the implementation process vis-à-vis the serving government employees. Data for the years 2010-11 and 2011-12 should be used for forecasting the salary and pension burden for the future. Simultaneously, the possible impact of the next pay revision should also be factored into the expenditure forecast for 2015-20 period. As regards pensioners, it needs to be appreciated that with continuous increase in the life expectancy, their number is likely to see a sustained growth in the forecast period of the Fourteenth Finance Commission. This number is likely to cross 1.50 lakh by the end of the forecast period as projected in the information on topics and statements submitted by the State Government to the Fourteenth Finance Commission.

We have seen that the subsidy outgo and the budgetary support to the public sector undertakings in the State do not constitute a major share in the overall revenue expenditure. Other than the salary and pension expenditure, the interest payments are another overbearing item to impact the revenue account. The data on the interest implication for the last few years is presented in the following table:-

TABLE 8.4 : TIME SERIES DATA ON INTEREST LIABILITY OF HIMACHAL PRADESH

Year	Interest liability actuals (Rs. crore)
2002-03	1171.52
2003-04	1472.78
2004-05	1641.44
2005-06	1562.72
2006-07	1669.43
2007-08	1802.72
2008-09	1893.57
2009-10	1955.85
2010-11	1949.77
2011-12	2129.71

Source : Information on topics and statements submitted by the state government to the Thirteenth and the Fourteenth Finance Commission.

Interest payments are a function of the existing debt stock and the annual fresh borrowings. With the debt cap in position, the State Government can not borrow beyond the prescribed limits and therefore, the growth in the interest liability will not be an area of serious concern in the context of maintaining the revenue account on a balanced or surplus situation.

In this context, a quick look at the fresh borrowings raised by the State Government for plan financing would also be relevant to link the interest liability to these. The data in this behalf is given below:-

TABLE 8.5 : FRESH BORROWINGS FOR PLAN FINANCING

(Rs. crore)

YEAR	Market borrowings	Small savings	State Provident Fund	Negotiated loans	Central assistance loans	Total borrowings
2002-03	697.84	375.50	276.12	979.10	137.29	2465.85
2003-04	881.82	577.30	235.77	2013.67	158.84	3867.40
2004-05	885.61	788.44	260.84	769.90	128.88	2833.67
2005-06	468.85	816.04	310.09	468.53	24.08	2087.59
2006-07	511.47	679.98	322.03	850.09	18.69	2382.26
2007-08	1399.01	158.45	540.42	241.01	45.82	2384.71
2008-09	1912.01	102.75	514.88	221.99	10.36	2761.99
2009-10	1420.00	467.75	545.68	595.75	66.54	3095.72
2010-11	644.89	760.61	888.24	966.76	38.78	3299.28
2011-12	1325.00	278.87	635.54	300.00	80.18	2619.59

Source : Information on topics and statements submitted by the state government to the Thirteenth and the Fourteenth Finance Commission.

Since there has been a consistent phenomenon of the closing balance being positive over the recent years, prudence requires that the State should restrict itself to raise only that quantum of fresh loans as are absolutely inescapable so that the interest liability is contained.

Coming to the fiscal deficit front, the data on this aspect is presented in the subjoined table:-

TABLE 8.6 : FISCAL DEFICIT AND GSDP FOR HIMACHAL PRADESH

(Rs. crore)

Year	Fiscal deficit	GDP at current prices	Percentage of col.2 to 3
1	2	3	4
2002-03	5768.86	18905	30.51
2003-04	7112.57	20721	34.32
2004-05	5367.96	23066	23.67
2005-06	2261.25	25471	8.88
2006-07	2232.24	28538	7.82
2007-08	551.58	33962	1.62
2008-09	2277.84	41483	5.49
2009-10	2783.92	48189	5.78
2010-11	2532.54	56355	4.49
2011-12	1633.04	63812	2.56

Source : Information on topics and statements submitted by the state government to the Thirteenth and the Fourteenth Finance Commission.

The data above reveals that the State Government has been able to stay within the prescribed parameter for fiscal deficit for the years 2007-08 and 2011-12 when we look at the actual figures. As compared to the figures for 2002-03 to 2004-05 when the fiscal deficit was ranging from 23 per cent to 35 per cent, the fiscal deficit appears to have been reined in from 2005-06 onwards. This is largely attributable to the debt cap enforcement by the central government. In this context, attention is required to be given to the closing deficit figures presented in this chapter earlier which bear strong testimony to the fact that the State Government was largely running revenue account surpluses and therefore, it should have restrained itself from taking recourse to the fresh borrowings and use the revenue account surplus to finance capital expenditure. In this manner, it could have attained the fiscal deficit parameter required under the FRBM Act.

As regards the trends in guarantees on long term liabilities of the state government, the data from 2005 onwards is depicted in the following table:-

TABLE 8.7 : OUTSTANDING GUARANTEES OF HIMACHAL PRADESH GOVERNMENT

(Rs. crore)

As on	Maximum amount guaranteed	Amount outstanding against the guarantees	Guarantees outstanding as at the end of previous fiscal	Additional guarantees during the next fiscal	Outstanding guarantees as per cent of the revenue receipts
31.3.2005	6409.32	4315.49	4609.75	6.50	70.34
31.3.2006	5525.83	3553.32	4315.49	63.75	63.05
31.3.2007	4071.35	2129.50	3553.32	7.70	27.18
31.3.2008	6435.17	2593.37	2129.50	--	25.79
31.3.2009	4132.30	1960.52	2593.27	--	18.61
31.3.2010	6131.54	3458.26	1960.52	16.05	28.00
31.3.2011	5701.45	2683.47	3458.26	1130.00	24.44
31.3.2012	5703.16	2761.75	2836.46	1200.00	19.00

It is evident from the above data that the outstanding guarantees on long term liabilities of the State Government over the period under study after the enactment of the FRBM Act have all along stayed within the prudential limits. The ceiling for this is 80 per cent of the revenue receipts whereas the actual level has been below 30 per cent ever after 2007. It is amply clear that the State Government is unlikely to go into a default situation on this count.

Let us now look at the total liabilities of the State over the study period. The data in this behalf is presented in the following table:-

TABLE 8.8 : LIABILITIES OF THE STATE AS AT THE END OF THE YEAR

(Rs. crore)

YEAR	Liabilities as projected to TFC/FFC	Liabilities as in the Explanatory Memo to State Budget	Of which total public debt
2002-03	12658.23	13209.47	8914.50
2003-04	15042.02	14977.56	11026.83
2004-05	16855.90	17658.40	13397.40
2005-06	17920.84	18672.98	13939.06
2006-07	17920.84	19798.31	14495.56
2007-08	19849.25	21241.84	14823.24
2008-09	22282.14	23151.39	16189.88
2009-10	24367.99	23163.74	17595.55

2010-11	27256.56	24960.85	18492.78
2011-12	28823.48	26494.07	19375.40

The data in the above table reveals some inconsistencies in the figures projected to the Thirteenth or the Fourteenth Finance Commissions and the figures presented in the budget documents. For the purposes of this study, the data as presented in the State Budgets is being taken. It reveals that the total liabilities of the State have doubled between 2002-03 and 2011-12 (a growth of 100.5 per cent). On the other hand, the public debt has increased by 117.3 per cent. Therefore, the public debt has grown at a faster rate as compared to the overall liabilities. The other aspect is the ratio of the public debt to the total liabilities. It stood at 67.7 per cent for the year ending 31st March, 2003 and increased to 75.96 per cent in 2009-10. However, this ratio has hovered around 73 per cent in the overall perspective.

As regards performance against the MTFP rolling targets, the data for some recent years is presented in the following table:-

TABLE 8.9 : PERFORMANCE AGAINST THE ROLLING TARGETS OF REVENUE AND FISCAL PARAMETERS UNDER FRBM ACT

Year	Revenue Deficit/surplus (- / +)			Fiscal Deficit		
	BE	RE	Actual	BE	RE	Actual
2006-07	(-) 3.90	(-) 0.78	(+)1.34	3.90	3.79	7.82
2007-08	(-)3.42	(-) 0.57	(+)9.30	4.06	4.18	1.62
2008-09	(+) 0.74	(+) 3.29	(-)1.40	5.37	4.44	5.49
2009-10	(+) 2.45	(-) 1.47	(-)7.71	3.54	5.42	5.78
2010-11	(-) 4.36	(-) 1.25	(+)4.21	5.08	3.47	4.49
2011-12	(+) 0.36	(+) 3.17	(+)4.43	2.70	2.92	2.56
2012-13	(+) 2.29	(+) 2.12	NA	2.88	2.79	NA

The above data reveals that the rolling targets of the revenue and fiscal deficit under the budget estimates and the revised estimates are inconsistent as compared to the actuals for almost all the years except 2011-12. The vast divergence in the budget estimates, revised estimates and the actuals for the years 2007-08, 2009-10 and 2010-11 in regard to the revenue deficit numbers should be a cause of concern for the State Government and points out to the need for stricter monitoring of the revenue receipts and revenue expenditure. The budgeting process should be streamlined so as to get a consistent picture unless there are events and

circumstances entirely beyond control of the State Government and beyond any reasonable expectation. The fiscal deficit data, on the other hand, has exhibited consistency of a good order.

CHAPTER 9

STATUS OF LOCAL GOVERNMENTS AND THEIR FINANCES

Synopsis : Local government institutions; status of decentralisation; status of local bodies' finances and transfers from the Central Finance Commissions, State Finance Commissions and other sources; and implementation of the SFC reports.

Himachal Pradesh has 17495 inhabited villages in the rural sector which are further organised into 3243 Gram Panchayats. Himachal Pradesh happens to be the least urbanised State in the country and is overwhelmingly rural in character. Even the 50 odd urban local government institutions in the State are more of a rural continuum rather than being typical urban settlements. Average population per Gram Panchayat according to 2001 census comes to 1874. This gives, on an average, about 360 households in a Gram Panchayat. Average area per unit comes to a little over 17 square kilometres spread over difficult mountainous terrain. Average area per inhabited village comes to 3.18 square kilometres. This severely restricts the possibility of raising financial resources at the Gram Panchayat level whereas the need for developmental requirements is enormous. These Gram Panchayats are further organised into 77 Panchayat Samitis (Block Panchayats) under 12 Zila Parishads (District Panchayats).

The State Panchayati Raj Act provides powers to raise financial resources only at the Gram Panchayat level, meaning thereby that the Block and District Panchayats will have to look up to the State Government even for running their day to day affairs. Elections to these rural local government institutions have been held on a regular basis after the amendments to the Constitution of India. Elections to Gram Panchayats were held regularly even before the Constitutional amendments came about. There is a single Himachal Pradesh Panchayati Raj Act to administer the affairs of all the three levels of Panchayati Raj system.

As to the question of delegation of functions to the PRIs, 26 out of 29 functions listed in the 11th schedule to the amendment stand delegated to the PRIs way back in July, 1996. However, no transfer of staff/functionaries has so far been affected. Similarly, budgetary control of the relevant parts of the Consolidated Fund of the State for performance of the delegated functions by the PRIs has not so far been ordered. Transfer of functions on paper without transfer of funds and

functionaries has, therefore, no meaning in the context of furthering the process of decentralisation of governance to the third level of constitutional design.

Talking of the urban local government establishments, Himachal Pradesh has one municipal corporation, 25 municipal councils and 24 Nagar Panchayats. The average area for a Nagar Panchayat is 2.88 square kilometres and that for the municipal council is 5.46 square kilometres. Thus, on an average, the Nagar Panchayats are smaller in area as compared to a village and the municipal councils are roughly one third in size by area as compared to a Gram Panchayat. The only one municipal corporation has been in existence for Shimla from the British times.

There are three distinct Acts for the three different types of urban local governments. The data supplied by the State Government to the Fourteenth Finance Commission under the relevant topic notes indicates the status of functions having been delegated to the urban local bodies as back as August, 1994. It would however, not be out of place to mention that with the exception of the Municipal Corporation to a certain extent, most of the other urban local bodies have extremely poor wherewithal to perform the delegated functions. Some authority was delegated to the Municipal Corporation and the Municipal Councils in 2011 to raise resources at their own level. Sections 66 and 85 of the Municipal Corporation Act were amended in 2011 to provide for "imposition of fee, tolls and user charges by the Municipality for the services provided by it at such rate and in such manner as may be determined by it from time to time". The topic notes submitted by the State government to the Fourteenth Finance Commission contain the latest details about the status of house/property tax, electricity tax, liquor cess, etc. However, this delegation has not been operationalized by the urban local governments so far to any mentionable extent.

A picture of the local bodies' finances will be amply clear from the summary of their receipts and expenditure over the study period. The data in this behalf for the Panchayati Raj institutions is presented in the following table:-

TABLE 9.1 : FINANCES OF PRI's IN HIMACHAL PRADESH

(Rs. in lakh)

Year	Own revenues	Transfers	Total revenues	Total expenditure	Surplus(+) Or deficit(-)
ZILA PARISHADS					
2002-03	21.40	71.04	92.44	92.44	Nil

2003-04	21.62	74.18	95.80	95.80	Nil
2004-05	20.26	74.00	94.26	94.26	Nil
2005-06	22.29	532.16	554.45	113.45	(+)441.00
2006-07	24.52	546.28	570.80	129.80	(+)441.00
2007-08	260.00	832.00	1092.00	940.00	(+)152.00
2008-09	230.00	802.00	1032.00	1123.00	(-)91.00
2009-10	250.00	822.00	1072.00	1164.00	(-)92.00
2010-11	203.00	775.00	978.00	1016.00	(-)38.00
2011-12	213.00	4253.00	4466.00	4477.00	(-)11.00
PANCHAYAT SAMITIS					
2002-03	28.61	209.01	237.62	237.62	Nil
2003-04	37.05	196.00	233.05	233.05	Nil
2004-05	37.70	190.00	227.70	225.70	(+)2.00
2005-06	39.27	514.17	553.44	259.44	(+)294.00
2006-07	43.59	636.30	679.89	429.48	(+)294.00
2007-08	280.00	1136.00	1416.00	1456.00	(-)40.00
2008-09	260.00	1116.00	1376.00	2534.00	(-)1158.00
2009-10	300.00	1156.00	1456.00	2422.00	(-)966.00
2010-11	310.00	1166.00	1476.00	3192.00	(-)1716.00
2011-12	370.00	2794.00	3164.00	5269.00	(-)2105.00
GRAM PANCHAYATS					
2002-03	638.61	10067.30	10705.91	10695.91	(+)10.00
2003-04	441.09	12275.26	12716.35	12716.75	(-)0.40
2004-05	564.52	15668.53	16233.05	16232.87	(+)0.18
2005-06	526.82	17753.64	18280.46	18276.16	(+)4.30
2006-07	542.62	19787.46	20330.08	20330.08	Nil
2007-08	764.00	12843.00	13607.00	13470.00	(+)137.00
2008-09	770.00	16696.00	17466.00	17460.00	(+)6.00
2009-10	899.00	19345.00	20244.00	20190.00	(+)54.00
2010-11	1166.00	19462.00	20628.00	20581.00	(+)47.00
2011-12	1633.00	21267.00	22900.00	22875.00	(+)25.00

It is amply clear from the above data on the finances of Panchayati Raj Institutions that they have very poor resource base of their own. The improvement noticed from 2007-08 in their own revenues is a result of the enhancement of the liquor cess. Coming to the latest year i.e. 2011-12, per Panchayat own revenue stands at about Rs. 0.50 lakh. With this, it is well nigh impossible to imagine a strong local government structure at the Panchayat level or higher levels of rural local government without a sizeable transfer of resources from the Centre or the States. The data above would indicate that each Panchayat had about Rs. 7.05 lakh for various developmental works as also for meeting the committed liabilities of the personnel and the elected representatives.

A major component of the resources is tied to specific programmes in the basket of the activities of the Central Rural Development Ministry. It, therefore, leaves little leeway for development of local level led and perceived developmental priorities. Since these bodies have virtually no control over the bureaucracy responsible for implementation of various schemes or programmes, pushing the governance to the third level (the PRIs below the State and Centre) is more of a philosophy rather than a reality even after two decades of the amendment to the Constitution of India to provide space for fostering this level.

With this brief view of the rural scenario, we now come to look at the finances of the urban local government. The data in this respect is contained in the sub-joined table:-

TABLE 9.2 : FINANCES OF URBAN LOCAL BODIES IN HIMACHAL PRADESH

(Rs. in lakh)

Year	Own revenues	Transfers	Total revenues	Total expenditure	Surplus(+) Or deficit(-)
MUNICIPAL CORPORATION					
2002-03	843.04	692.08	1535.12	1630.96	(-)95.84
2003-04	1073.98	260.25	1334.23	1548.22	(-)213.99
2004-05	1671.07	418.82	2090.52	2052.97	(+)37.55
2005-06	1793.15	407.62	2200.77	1972.50	(+)228.27
2006-07	1944.85	810.17	2755.02	2745.33	(+)9.69
2007-08	1812.00	1727.00	3539.00	2554.00	(+)985.00
2008-09	1943.00	2392.00	4335.00	3648.00	(+)687.00
2009-10	2001.00	5451.00	7442.00	4692.00	(+)2750.00
2010-11	2058.00	2540.00	4598.00	4746.00	(-)148.00
2011-12	2201.00	1939.00	4130.00	5221.00	(-)1091.00
MUNICIPAL COUNCILS					
2002-03	1106.68	1807.77	2914.45	2567.19	(+)347.26
2003-04	1078.55	1037.69	2116.24	2566.89	(-)450.65
2004-05	1110.74	1600.28	2719.02	2914.74	(-)195.72
2005-06	1304.77	1601.43	2906.20	3220.61	(-)314.41
2006-07	1553.72	2670.84	4224.56	3646.58	(+)577.98
2007-08	2011.00	3562.00	5573.00	5076.00	(+)497.00
2008-09	2179.00	3600.00	5779.00	6145.00	(-)366.00
2009-10	2482.00	4684.00	7146.00	6574.00	(+)572.00
2010-11	2764.00	5260.00	8024.00	7715.00	(+)309.00
2011-12	2960.00	5512.00	8472.00	8485.00	(-)13.00

NAGAR PANCHAYATS					
2002-03	397.01	642.32	1039.33	1180.84	(-)141.51
2003-04	433.08	575.88	1008.96	1272.62	(-)263.66
2004-05	519.44	844.73	1364.17	1414.46	(-)50.29
2005-06	550.11	729.43	1279.54	1290.25	(-)10.71
2006-07	590.17	986.15	1576.32	1840.07	(-)236.75
2007-08	301.00	1408.00	1709.00	960.00	(+)749.00
2008-09	390.00	1328.00	1718.00	1317.00	(+)401.00
2009-10	475.00	912.00	1387.00	1433.00	(-)46.00
2010-11	528.00	1371.00	1899.00	2089.00	(-)190.00
2011-12	570.00	3547.00	4117.00	2317.00	(+)1800.00

In the case of the Municipal Corporation, the ratio of its own resources to the transfers from various sources for the year 2011-12 is roughly 53 : 47 whereas the corresponding ratio for Municipal Councils and the Nagar Panchayats is 35 : 65 and 14 : 86, respectively. These ratios basically indicate the strength of resource base of these three types of bodies. It would, however, not be out of place to mention that the urban local bodies on their own can not even pay the salaries of their employees without the financial support of the State Government, leave aside the question of development of any sort.

Here too, even when a sizeable financial support is available from the window of centrally sponsored schemes like JNNURM or the IDSMT, the pace at which the local bodies are able to use these resources is very poor. No wonder, in an evaluation of the implementation of the JNNURM, Himachal Pradesh has been assessed as the worst performer. The root cause is that these bodies do not have the requisite financial strength to meet their nominal share towards full financing and becoming eligible to use the advantage of the schemes.

In both the cases above, the overarching dependence of the local government institutions on the State and the Central Governments for making their both ends meet towards fulfilling their inescapable expenditure commitments is clearly visible. It would, therefore, be not an overstatement to say that the decentralisation in Himachal Pradesh has not progressed on the desired lines as envisioned in the Constitutional amendments. One of the less mentioned gains of this process is creation of an army of grassroots level politicians who quickly become aware of their rights but not of their responsibilities. On the other end, there is a resistance on the part of the State Government here like everywhere in other States, not to part with the political authority and in doing so, not to effectively decentralise the functions, funds, and functionaries to meet the

spirit of the Constitutional amendments.

A review of the status of implementation of the reports of the State Finance Commissions reveals that the recommendations of the State Finance Commissions towards providing greater financial autonomy have not been implemented. In fact, the report of the Third State Finance Commission contained a detailed review of the provisions in the respective State Acts for enhanced financial autonomy and specific recommendations to further the cause of decentralisation and delegation. These recommendations have been under consideration for nearly half a decade now but have not been substantively adopted or adopted with reasoned modifications. These need to be looked into with urgency towards promoting decentralisation and enhancing answerability at the local level.

CHAPTER 10

STATE PSU's AND THEIR IMPACT ON STATE FINANCES

Synopsis : Performance of the State PSUs and their impact on the overall state finances, Changes in the scheme of budgetary support to the PSUs, Reform efforts by the State Government and brief outcomes.

The fact that the financial rot besetting the state owned public sector undertakings is rampant, difficult to overcome and these continue to be a drain on the public resources is well known. The idea of commanding heights has generally not been realised by these entities has been particularly true for Himachal Pradesh. Whereas there is no conflict with the objectives for which these entities were established and continue to be established by the Central and State governments, the realisation of those objectives has come very expensive to the national and State exchequer.

In the late 1990's, the Comptroller and Auditor General of India commissioned a study to be conducted through the Indian Institute of Cost Management Studies and Research on the 20 state owned undertakings for Himachal Pradesh. The analysis in their report was mainly financial, although some indicators such as gross value added per rupee of wages paid, contribution to exchequer, turnover as percentage of the GDP, employment provided by these entities, etc. The conclusions drawn in that report reflected a very dismal picture about the performance and contribution to the state economy, the major highlights of which were pointed out as under:-

a) The undertakings accounted for 1 per cent contribution to the state GDP,

b) They accounted for 5 per cent of the employment in the organised sector,

c) Their asset base of the order of Rs.3068 crore in 1997-98 was grossly underutilised and of unproductive nature,

d) The undertakings were responsible for consuming Rs. 152 crore of implied subsidies in 1997-98.

On the basis of conclusions in the study and further examination of those by the State Government, the entire issue of reforms in this context was considered by the Council of Ministers and a detailed government order was issued for attaining the reform agenda thus agreed to be implemented by the State Government. Highlights of the government order dated the 20th October, 2000 are as under:-

1. Continued existence as partially or wholly owned PSUs beyond a medium term period may be projected only in the case of HPSEB, HRTC, State Forest Corporation, Civil Supplies Corporation, MILKFED, State Khadi Board, HP Financial Corporation, two development finance corporations of the Welfare department (one for SC/ST and the other for OBCs) and one combined entity for Housing Board and the Nagar Vikas Pradhikaran. However, even these organisations must restructure for cost effectiveness.
2. Phasing out through disinvestment should begin in the case of HPTDC, HPGIC, HPMC, HPAIC and AIPIL in a targetted manner. For the others, a similar decision "in principle" is required.
3. Process of restructuring to merge/amalgamate/rehabilitate/close down should be started by the administrative departments in a time bound manner with regard to Handicrafts and Handloom Corporation, HP MVN, HPMDFC, HPBCFDC, HPFC, HPSIDC and HPSSIEC.(In case of three welfare corporations, a decision to merge them into one entity has been taken. This may be expedited).
4. Early winding up of Nahan Foundry, Worsted Mills and HESCO must be pursued more vigorously and in a time-bound manner.
5. Budgetary support for various PSUs shall be based on the following principle:
    i) Those PSUs which have been used for raising Non-SLR borrowings by the state

government, shall be assisted to service or repay the same;

ii) In the case of untied budgetary support to any PSU, it will be frozen at current levels as a ceiling and in most cases phased out over a medium term period.

iii) Any other budgetary support to PSUs will be only as a pass through of any special or additional assistance under externally funded or centrally funded through the central sector or centrally sponsored schemes.

A copy of the government order and the comprehensive action taken report as cumulated up to date is added as Appendix I and II, respectively, to this chapter. It would be seen from a close perusal of the action taken report that some movement has taken place towards implementing the decisions on PSU restructuring and reforms by the successive governments in the State. The guidelines framed after the decision by the Council of Ministers on budgetary support have seen a mixed implementation. The budgetary support has, by and large, been restricted which has meant that the State finances are not adversely impacted on this account.

Given this situation, it would be of material interest to look at the present situation obtaining in Himachal Pradesh. In the year 2003-04, there were 23 State owned public sector undertakings in Himachal Pradesh. The State Government investment in these entities as on 31st March, 2004 stood at Rs. 705.17 crore whereas their cumulative losses were of the gigantic order of Rs. 817.13 crore. By 31st March, 2010, the number of undertakings increased to 25 as a result of power sector reforms by way of unbundling the loss making State Electricity Board. The aggregate State investment stood at Rs. 1792.46 crore with cumulative losses mounting to Rs. 1124.39 crore. Appendix III and IV, respectively, contain the data for all the PSU's for 2004-04 and 2009-10. Only three public undertakings need a specific mention in the context of losses or investment, namely HPSEB (Electricity), HRTC (Transport) and HPFC (Finance-Industrial), with reference to the capital invested and losses cumulatively incurred. The comparative data for the above two reference years is depicted in the following table:-

TABLE 10.1 : INVESTMENT IN AND LOSSES OF MAJOR STATE OWNED UNDERTAKINGS IN HIMACHAL PRADESH

PSU	Total investment (Rs. crore)		Cumulative losses (Rs. crore)	
	2003-04	2009-10	2003-04	2009-10
HPSEB	280.00	396.53	222.39	383.18
HRTC	240.21	387.85	335.23	549.73
HPFC	21.58	92.98	80.25	102.84
Total for three above	542.78	877.36	637.87	1035.75
% to total for all PSU's	76.97	48.95	78.06	92.12

Source: HP Public Sector Undertakings Report for Budget of Himachal Pradesh for 2006-06 and 2011-12.

From what has been stated above, it is apparent that the cumulative losses were a larger quantity in 2003-04. In case one excludes the two new undertakings created in the power sector, namely the transmission entity and the generation entity which have a total investment of Rs. 692.47 crore for purposes of comparison, then the total investment is of the order of Rs. 1099.99 crore. Since these two entities do not have any losses so far (as the investment is being capitalised presently), the cumulative losses for all others amounting to Rs. 1124.39 crore also outpace the total investment. One would tend to conclude that the losses of these three major undertakings have increased at an accelerated pace between 2003-04 and 2009-10. Looking at these two major financial benchmarks, one would conclude easily that the public sector undertakings' reform efforts have not borne any tangible outcome. Such a sweeping statement may not be well placed if one does not go into the primary causes for such state of affairs.

It would be significant to mention here at the outset that the HPSEB can not be faulted in terms of the physical parameters. Himachal Pradesh is probably the only hill State to have provided electricity to all of its villages despite very demanding topography and climatic conditions. Not only that, the State has also reached 100 per cent rural household electrification. Entire 100 per cent of the energy sale is metered. The State has one of the most extensive transmission and distribution net work of about 32500 km. length of HT/LT lines. Despite this scatter of distribution activity, the transmission and distribution losses in 2011-12 stood at 13.65 per cent. All these formidable physical

performance parameters need to be kept in view while commenting on the financial performance of the State Electricity Board.

Given the above premise, the losses can be incurred by the State Electricity Board in case the distribution business is extremely inefficient or the tariff in uneconomical. The question of tariff being uneconomical vis-a-vis the cost of generation and distribution (including transmission) does not arise as the regulator takes care of pricing of energy by different end-users. The State Government considerably subsidises the domestic consumption of electricity and electricity consumption for agricultural purposes. The gap between the tariff determined by the regulator and the actual cost recovery from the consumers is provided as budgetary support to the HPSEBL by the State Government. If this is true, then the losses could only come from exorbitant increase in the salary bill of the electricity board and inaccurate determination and/or insufficient budgetary support of the subsidy burden arising out of differential pricing imposed by the State Government. One would tend to agree with this conclusion because the subsidy support for the last few years has been out of sync with the consumption and number of domestic consumers as would be borne out by the following data:-

TABLE 10.2 : POWER SECTOR DOMESTIC CONSUMERS AND THE SUBSIDY UNDERWRITTEN BY THE STATE GOVERNMENT

Year	No. of Domestic consumers	Domestic consumption (Mill. kwh)	State subsidy (Rs. crore)	Consum-ption/ Consumer (kwh)	Subsidy/ consumer (Rs.)
2007-08	1565173	1051.15	168.00	671.59	1073
2008-09	1591315	1089.12	102.00	684.41	641
2009-10	1625175	1112.13	140.00	683.31	861
2010-11	1668261	1281.96	140.00	768.44	839
2011-12	1719673	1407.29	140.00	818.35	814

Source:- Directorate of Economics and Statistics and Information on topics and statements submitted by the state government to the Fourteenth Finance Commission.

The annual losses of HPSEBL for 2007-08, 2008-09 and 2009-10 were of the order of Rs. 25.38 crore, Rs. 30.32 crore and Rs. 152.82 crore, respectively. When the per capita consumption is rising and the number of consumers is also increasing, even in a static pricing situation, the budgetary support for subsidy on domestic consumption should keep pace with such increase. Although one would also point to HPSEB about

possible overstaffing and high staff costs, yet the mounting losses would tend to be left at the door of the State Government for their inaccurate assessment of the subsidy burden.

Coming to the question of merit of such a subsidy being introduced and perpetuated, there are two aspects to it. One is the question of promoting clean energy consumption in the domestic sector to save environment and reduce the burden on forest removals for fuel requirements along with the reduction in the consumption of fossil fuels. This certainly is a laudable objective and deserves promotion. The other is the question of the paying capacity of the consumers. Per capita income in Himachal Pradesh has been rising phenomenally and is among the best to do states of the country. Underestimating the paying capacity of the consumers in a state where the number of organised sector employees is over three lakh is certainly questionable. It would, therefore, be appropriate to restrict this environmentally sound subsidy to those with limited paying capacity. More merit would be served by this measure if it were restricted to the families living below poverty line. Such a structural reform for better targeting of subsidy would simultaneously lead to a drastic draw-down of the financial outgo for subsidising this from the State budget.

Coming to the State Transport Undertaking, its cumulative losses are the highest among all the PSU's in the state. The annual losses for the years 2007-08, 2008-09 and 2009-10 were of the order of Rs. 40.09 crore, Rs. 34.18 crore and Rs. 37.50 crore, respectively. These need to be viewed in the perspective of a few important considerations. Himachal Pradesh is a State in the western Himalayas where other than the road transport; there are no means of communication and transport. Everything moves by road in the near total absence of railways, waterways or air transport. Being extremely mountainous, the transport operations are performed in the most adverse conditions. Looking at the physical performance parameters of HRTC – the State owned transport undertaking, one can easily see very little for improvements. The fleet utilisation stands at 98 per cent, per bus staff ratio at 4.42, per bus kilometres per day at 242, accident incidence among the lowest, etc. are all pointers to a satisfactory condition of operations. However, the gap between the per bus kilometre earning and per bus kilometre expenditure keeps widening leading to losses. The gap comes from free or subsidised transport facility provided by the State Government, spiralling staff costs and the general resistance to recover cost of operations from general public. The State Government mitigates the gap to a significant extent by providing non-plan budgetary grants to the HRTC on a year to year basis

and these grants are more determined by historicity and elbow room in the State exchequer rather than actual burden of subsidised transport facility to various categories and the efficient cost recovery from consumers. It may be a good idea to institute a regulator in the transport sector to determine fares and also rationalise the burden of passenger and goods tax per unit of fare.

As for the other public sector undertakings, the State Government has since long stopped the budgetary support to Ex-servicemen corporation, state forest corporation, small industries and export corporation, electronics development corporation, agro-industrial packaging India limited, tourism development corporation, milkfed and Nahan foundry. The corporations engaged in social welfare activities continue to get budgetary support for basically meeting the mandated activities.

In terms of the total staff employed by the PSU's in Himachal Pradesh, there has not been an increase which can not be justified or substantiated based on the expansion or constriction of activities. At an overall level, the total number of employees in the PSU's in the State has been on the decline after the implementation of the government order contained in appendix I to this chapter. The data in this behalf is presented in the following table:-

TABLE 10.3 : EMPLOYEES IN PSU's

Year	Total employees in the PSU's as on 31st March
2003	44,698
2008	43,768
2010	43,449
2012	39,151

Source : Directorate of Economics and Statistics, HP.

Given the excess baggage of history of PSU's, the present status indicates that these entities do not now adversely impact the State finances. While making this comment, one pre-supposes that the new utilities of generation and transmission in the State would not incur any losses as similarly situated existing utilities have shown to make sizeable profits after the debt for capital infrastructure is serviced. Some of the major losses like the ones in electricity and transport sector are eminently amenable to reform process by rationalisation of power sector subsidy for domestic consumption to poorer people and by linking bus fare hikes to fuel costs along with reducing the free loaders' impact by raising the

number of bus fares charged per month in a calibrated manner. For the other PSU's, the State Government should continue its tight fisted policy on budgetary support and increasingly privatising the trading activity to afford competition and cost efficiency.

APPENDIX – I

Copy of the Government order conveying decisions about reforms in public sector undertakings in H.P. bearing No.Fin-IF (C)1-1/99 dated 20th Oct., 2000, issued by Additional Secretary (Finance) to the Government of Himachal Pradesh.

The CAG of India has got a study conducted on the performance of State Public Sector Undertakings in the year 1999 and recently submitted its report to Govt. It has been examined and considered by the Govt. in Cabinet, and following decisions have been taken:-

i) Continued existence as partially or wholly owned PSUs beyond a medium term period term may be projected only in the case of HPSEB, HRTC, H.P. State Forest Corporation, Civil Supplies Corporation, MILKFED, H.P. Khadi Board, HPFC, two Development Finance Corporations of Welfare Deptt. and one combined entity comprising H.P. Housing Board and Nagar Vikas Pradhikaran. However, even these organizations must restructure for cost effectiveness.

ii) Phasing out through disinvestment should begin in case of HPTDC, HPGIC, HPMC, HPAIC, AIPIL in a targeted manner. For the others, a similar in principle, decision is required.

iii) Process of Restructuring to merge/amalgamate/rehabilitate/ close down should be started by ADs in a time bound manner with regard to HPSHHC, HPMVN, HPMDFC, HPBCFDC, HPFC, SIDC and HPSSIEC. (In case of three Welfare Corporations, a decision to merge them into one entity has been taken. This may be expedited.)

iv) Early winding up of Nahan Foundry, Worsted Mills and HESCO must be pursued more vigorously and in a time bound manner.

In order to bring accountability and cost effectiveness to the forefront in the case of PSUs, which are likely to continue in the medium term and beyond a hard budget constraint needs to be explicitly imposed. Budget support to various PSUs shall be based on the following principles:

a) Those PSUs which have been used to raise Non-SLR borrowings by the State Govt., will be assisted to service or repay the same.

b) In the case of untied budgetary support to any PSU, it will be frozen at current levels as a ceiling and in most cases phased out over a medium term.
c) Any other budgetary support to PSUs will be only as a pass through of any special or additional assistance under externally funded or central sector or centrally sponsored schemes.

The position for different Corporations would be as under:-

1. H.P. Khadi Board receives assistance in the shape of grant in aid for administrative expenses and for rebate on sale of Khadi. It has been decided to freeze this assistance at current levels for administrative purposes and Rs. 18 lakh for rebate. The Industries Department will restructure its existing schemes of grants to KVIB accordingly.
2. There is no provision to provide GIA to Handloom & Handicrafts Corporation, but for specific purposes aid is provided through SCA under Tribal Sub Plan or as rebates on sale of products. While SCA funding will continue, rebate assistance from the State will be frozen as in the case of KVIB. There is a token provision of Rs. 1.00 lakh for share capital which would be stopped next year.
3. It has been decided that grant in aid to MILKFED will be governed by current agreement till the end of this plan period. Thereafter a phased reduction will come into effect over next plan period.
4. Budgetary support amounting to Rs. 1170 lakh is being given to HRTC under the plan. Out of which Rs. 990 lakh (share capital) and Rs. 180 lakh as assistance for special purposes. It has been decided to keep this constant during the Ninth Five Year Plan. While formulating Tenth Five Year Plan, this support will be phased out. Non Plan Grant of Rs. 27.00 crore has been kept in current year's budget for HRTC. It has been decided to reduce this by 10% each year, henceforth.
5. GIA to HPTDC is provided under Non Plan for maintaining Himachal Bhawan, New Delhi and Sectt. Canteen. Current budgetary Level is Rs. 143.63 lakh. It has been decided to phase out this support over the next 3 years. GAD/SAD should restructure management arrangements of these entities accordingly.
6. There is a provision of Rs. 137.00 lakh under plan for Backward Classes Corporation, Mahila Vikas Nigam and Minorities Dev.

Corporation. It has been decided to phase out this assistance over a period of five years.

7. Share capital is provided under Plan to SC/ST Dev. Corporation and almost equal amount is received from Govt. of India. Budget provision has been at Rs. 143 lakh including Rs. 12 lakh assistance under Tribal Sub Plan and Rs. 5.00 lakh for interest subsidy. It has been decided to phase out the interest subsidy during the Ninth Plan. The other provisions will be kept at level which are matched by Govt. of India share during Ninth Plan. For the tenth plan period, no State support will be projected and Govt. of India alone will be requested to give support.
8. The following corporations no longer get budgetary support and it has been decided to maintain this position except to support VRS or retrenchment payments where required:-

   i) HPSSIEC ii) HPSIDC iii) HPFC (iv) HPSEDC
   v) HPSCSC vi) Agro Industries Corporation

   Support for VRS/retrenchment will be available to other Corporations also on the basis of the policy circulated separately vide No.Fin(F)I-A(4)-2/2000 dated 26/9/2000.

9. The HPSEB, HPSFC and Housing Board will receive only such amounts as are necessary to service or repay non-SLR borrowings or payments to HUDCO for works undertaken on behalf of the State Govt. This position will continue as such.
10. HPMC and AIPIL will receive only such support as is provided under support price or carton subsidy schemes.

You are requested to take necessary action on the basis of above mentioned guidelines while formulating plans/schemes/budgets of PSUs under your control.

APPENDIX-II

STATUS OF IMPLEMENTATION OF CABINET DECISIONS OF 2000 FOR REFORMS IN PUBLIC SECTOR UNDERTAKINGS.

S. NO.	CABINET DECISIONS-2000	LATEST STATUS
1.	Continued existence as partially or wholly owned PSUs beyond a medium term period term may be projected only in the case of HPSEB, HRTC, H.P. State Forest Corporation, Civil Supplies Corporation, Milkfed, H.P. Khadi Board, HPFC, two Development Finance Corporations of Welfare Deptt. and one combined entity comprising H.P. Housing Board and Nagar Vikas Pradhikaran. However, even these organizations must restructure for cost effectiveness.	Nagar Vikas Pradhikaran has been merged with HP Housing Board and after its merger the name of the Board has been changed as H.P. Housing and Urban Dev. Authority.
2.	Phasing out through disinvestment should begin in case of HPTDC, HPGIC, HPMC, HPAIC, AIPIL in a targeted manner. For the others, a similar in principle, decision is required.	Disinvestment has been started in HPMC, HPAIC and TDC. The HPMC has sold its property at Chennai and HPAIC has sold its property at Shimla and Amb in Distt. Una. The TDC closed down its following units:- 1. Café Shradhanjali, Panchpulla, Dalhousie, Chamba. 2. Café Geetanjali, Dalhousie, Chamba. 3. Café Bhairav, Baijnath, Kangra. 4. Café Pancham Trilokpur, Kangra. 5. Carfe Jaldhara, Bhagsu, Kangra. 6. Café Aabshar, Dedgharat,

		Kandaghat, Distt. Solan. 7. Hotel Deotsidh, Shahtalai, Bilaspur. The Corporation has also decided to lease out the Anglan Bungalow, Katrain and Tourist Inn, Rajgarh property for longer period.
3.	Process of Restructuring to merge/amalgamate/rehabilitate/ close down should be started by ADs in a time bound manner with regard to HPSHHC, HPMVN, HPMDFC, HPBCFDC, HPFC, SIDC and HPSSIEC. (In case of three Welfare Corporations, a decision to merge them into one entity has been taken. This may be expedited.)	AIPIL has been declared a defunct company and all its staff have been adjusted in other departments. The plant and machinery at Pragti Nagar has been disposed off.
4.	Early winding up of Nahan Foundry, Worsted Mills and HESCO must be pursued more vigorously and in a time bound manner.	Nahan Foundry Ltd., Nahan and H.P. State Small Industries and Export Corporation has been merged with H.P. State Industrial Dev. Corporation.

1.	H.P. Khadi Board receives assistance in the shape of grant in aid for administrative expenses and for rebate on sale of Khadi. It has been decided to freeze this assistance at current levels for administrative purposes and Rs. 18 lakh for rebate. The Industries Department will restructure its existing schemes of grants to KVIB accordingly.	Khadi Board is given Administrative grant for the purpose of salary etc. GIA for rebate on sale of khadi has been restricted to 5% of the sale with a maximum Rs. 8.00 lakh per year. Budget provision for Administrative grant is Rs. 4.30 crore for the year 2013-14.
2.	There is no provision to provide GIA to Handloom & Handicrafts Corporation, but for specific purposes aid is provided through SCA under Tribal Sub Plan or as rebates on sale of products. While SCA funding will continue, rebate assistance from the State will be frozen as in the case of KVIB. There is a token provision of Rs. 1.00 lakh for share capital which would be stopped next year.	No GIA is being provided to H.P. State Handicrafts & Handloom Corporation by the State Govt. Only the central share under various schemes is being released.
3.	It has been decided that grant in aid to MILKFED will be governed by current agreement till the end of this plan period. Thereafter a phased reduction will come into effect over next plan period.	No reduction has been made in GIA to MILKFED. The GIA for the year 2013-14 has been fixed at Rs. 1350.00 lakh.
4.	Budgetary support amounting to Rs. 1170 lakh is being given to HRTC under the plan. Out of which Rs. 990 lakh (share capital) and Rs. 180 lakh as assistance for special purposes. It has been decided to keep this constant during the Ninth Five Year Plan. While formulating Tenth Five Year Plan, this support will be phased out. Non Plan Grant	Subsidy is being provided to HRTC. The budget provided for the year 2013-14 is Rs. 120.00 crore in additionally of Rs. 35.00 crore has also been provided. The budget provision equity in demand No.25, 31 and 32 is Rs. 40.00 crore.

	of Rs. 27.00 crore has been kept in current year's budget for HRTC. It has been decided to reduce this by 10% each year, henceforth.	
5.	GIA to HPTDC is provided under Non Plan for maintaining Himachal Bhawan, New Delhi and Sectt. Canteen. Current budgetary Level is Rs. 143.63 lakh. It has been decided to phase out this support over the next 3 years. GAD/SAD should restructure management arrangements of these entities accordingly.	The budget provision of GIA to Himachal Bhawan has been fixed at Rs. 2.30 crore for the year 2013-14. GIA to H.P. Sectt. Canteen has been discontinued.
6.	There is a provision of Rs. 137.00 lakh under plan for Backward Classes Corporation, Mahila Vikas Nigam and Minorities Dev. Corporation. It has been decided to phase out this assistance over a period of five years.	
7.	Share capital is provided under Plan to SC/ST Dev. Corporation and almost equal amount is received from Govt. of India. Budget provision has been at Rs. 143 lakh including Rs. 12 lakh assistance under Tribal Sub Plan and Rs. 5.00 lakh for interest subsidy. It has been decided to phase out the interest subsidy during the Ninth Plan. The other provisions will be kept at level which are matched by Govt. of India share during Ninth Plan. For the tenth plan period, no State support will be projected and Govt. of India alone will be requested to give support.	
8.	The following corporations no longer get budgetary support	Voluntary Retirement Scheme is being implemented in public

	and it has been decided to maintain this position except to support VRS or retrenchment payments where required:- i) HPSSIEC ii) HPSIDC iii) HPFC (iv) HPSEDC v) HPSCSC vi) Agro Industries Corporation Support for VRS/ retrenchment will be available to other Corporations also on the basis of the policy circulated separately vide No.Fin(F)I-A(4)-2/2000 dated 26/9/2000.	sector undertakings since 1993 under which an amount of Rs. 2608.24 lakh as ex-gratia has been released by the State Government in favour of Public Sector Undertakings to retire 754 employees as on 31.3.2012 and an equal number of posts have been abolished. Now VRS to the employees of PSUs is given only in case of closure of the organization/branch units.
9.	The HPSEB, HPSFC and Housing Board will receive only such amounts as are necessary to service or repay non-SLR borrowings or payments to HUDCO for works undertaken on behalf of the State Govt. This position will continue as such.	The system for repay Non-SLR borrowings or payment to HUDCO for works undertaken on behalf of State Govt. has been discontinued.
10.	HPMC and AIPIL will receive only such support as is provided under support price or carton subsidy schemes.	Carton subsidy has been discontinued. Support price under market intervention scheme for procurement of fruits is being provided to growers through HPMC/HIMFED. Budget provided for the year 2013-14 under the scheme is Rs. 1180.00 lakh.

APPENDIX-III

STATEMENT SHOWING PROFIT/LOSS(AFTER TAX) OF STATE PUBLIC SECTOR UNDERTAKKINGS AND CUMULATIVE INVESTMENT BY STATE GOVERNMENT (INCLUDING CENTRAL SHARE RELEASED THROUGH STATE ACCOUNTS) IN THE FORM OF SHARE CAPITAL/CAPITAL.

(Rs. in lakh)

Sr. No.	Name of Public Sector Undertaking	Profit/Loss during			Cumulative as on 31.3.2004	Cumulative investment as share capital as on 31.3.2004
		2001-02	2002-03	2003-04		
1	2	3	4	5	6	7
1.	Himachal Pradesh Financial Corporation, Shimla.	(238.50)	(503.45)	(236.14)	(8,025.13)	2,157.79
2.	Himachal Pradesh State Electricity Board, Shimla.	(10655.78)	(5224.37)	(4,621.88)	(22,239.41)	28,000.00
3.	Himachal Road Transport Corporation, Shimla.	(2885.43)	(2986.32)	(2,755.40)	(33,523.45)	24,020.76
4.	Himachal Pradesh Housing & Urban Development Authority, Shimla.	-	-	-	-	-
5.	Himachal Pradesh SC/ST Dev. Corporation, Solan.	(43.40)	21.45)	(82.11)*	(297.33)	2,848.74
6.	Himachal Pradesh Ex-Servicemen Corporation, Hamirpur	15.18	26.24	64.60	98.97	393.81
7.	Himachal Pradesh State Industrial Development Corporation, Shimla.	(275.69)	182.13	195.83	(2,424.58)	2,959.40
8.	Himachal Pradesh	4.32	(68.79)	17.34	(107.62)	479.79

	General Industries Corporation, Shimla					
9.	Himachal Pradesh Agro Industries Corporation Ltd., Shimla.	(4.57)	(41.92)	(10.68)	(471.11)	1180.08
10.	Himachal Pradesh Horticulture Produce Marketing & Processing Corporation Ltd., Shimla	(114.91)	85.95	128.06	(2,616.32)	1,023.50
11.	Himachal Pradesh State Forest Corporation, Shimla	22.88	(1990.35)	(1,144.63)*	(4062.78)	1,171.12
12.	Himachal Pradesh State Civil Supplies Corpn. Ltd., Shimla	69.34	97.62	346.29	616.48	351.50
13.	Himachal Pradesh State Small Industries & Export Corporation Ltd., Shimla	16.73	24.78	12.68	(209.80)	246.08
14.	Himachal Pradesh State Handicrafts & Handloom Corporation Ltd., Shimla	(56.75)	(62.46)	(92.91)	(850.34)	411.15
15.	Himachal Pradesh Tourism Development Corporation Ltd., Shimla	(113.37)	(188.96)	(36.75)	(903.70)	1,229.86
16.	Himachal Pradesh State Electronics Development Corporation Ltd., Shimla	(50.62)	(40.34)	(34.92)	(386.45)	371.67
17.	Agro-Industrial Packaging India Ltd., Shimla	(201.01)	(329.27)	(389.72)	(4505.02)	1772.00

18.	Himachal Pradesh Mahlia Vikas Nigam, Solan	0.51	(1.40)	(1.98)*	(1.98)*	196.92
19.	Himachal Pradesh Khadi & Village Industries Board, Shimla	(3.47)	(0.68)	1.35	8.72	-
20.	Himachal Pradesh State Co-operative Milk Producers Federation Ltd., Shimla	(134.60)	(171.44)	(21.20)	(1346.22)	638.32
21.	Nahan Foundry, Nahan	422.02	16.87	2.80	(431.84)	387.00
22.	Himachal Backward Classes Finance & Development Corporation, Kangra	29.94	36.41	(78.86)*	78.86*	479.59
23.	Himachal Pradesh Minorities Finance & Development Corporation, Shimla	(21.49)	(19.11)	(28.02)	(112.73)	197.42)
	Total	(14218.67)	(11137.41)	(8766.25)	(81,712.78)	70516.50

NB : 1. * Figures are provisional in respect of the year as these are unaudited.
2. Figures in brackets denote loss.
3. H.P. Housing & Urban Dev. Authority runs on no profit no loss basis.

APPENDIX-IV

STATEMENT SHOWING PROFIT/LOSS (AFTER TAX) OF STATE PUBLIC SECTOR UNDERTAKKINGS AND CUMULATIVE INVESTMENT BY STATE GOVERNMENT (INCLUDING CENTRAL SHARE RELEASED THROUGH STATE ACCOUNTS) IN THE FORM OF SHARE CAPITAL/CAPITAL.

(Rs. in lakh)

S. No.	Name of Public Sector Under-taking	Profit/Loss during			Cumula-tive Profit/ loss as on 31.3.2010	Investment as share capital as on 31.3.2010	No. of employees as on 31.3.2010
		2007-08	2008-09	2009-10			
1	2	3	4	5	6	7	8
1.	Himachal Pradesh Financial Corporation, Shimla	(185.17)	(416.18)	(605.61)	(10283.98)	9297.79	92
2.	Himachal Pradesh State Electricity Board, Shimla	(2538.23)	3230.86	(15282.42)	(38318.16)	39653.18	25621
3.	Himachal Road Transport Corporation, Shimla	(4009.49)	(3418.19)	(3749.82)	(54972.65)	38784.76	8416
4.	Himachal Pradesh Power Corporation Ltd.	-	-	-	-	63617.13	993
5.	Himachal Pradesh Power Transmission Corporation Ltd.	-	-	-	-	5670.00	149
6.	Himachal Pradesh Housing and Urban Development Authority, Shimla	63.27	44.32	24.10	12100.87	-	752
7.	H.P. Scheduled Castes & Scheduled Tribes Development Corporation, Solan	(20.86)	(1.45)	30.25	(215.11)	5034.85	160
8.	Himachal Pradesh Ex-Servicemen Corporation, Hamirpur	196.49	203.85	233.40	1013.16	413.81	40
9.	Himachal Pradesh State Industrial Development Corporation Ltd., Shimla	680.90	685.35	62.09	1216.98	2959.40	175
10.	Himachal Pradesh General Industries Corporation Ltd., Shimla	(73.64)	(1156.06)	(212.56)	(386.18)	703.96	180
11.	Himachal Pradesh Agro Industries Corporation Ltd., Shimla	(111.25)	(267.12)	(50.47)	(1362.88)	984.08	217
12.	Himachal Pradesh Horticulture Produce Marketing	(394.04)	(333.72)	(670.73)	(5304.64)	3119.70	418

	& Processing Corporation						

13.	Himachal Pradesh State Forest Development Corporation, Shimla	(88.16)	197.72	771.44	(4095.26)	1171.12	2769
14.	Himachal Pradesh State Civil Supplies Corporation, Shimla	128.12	213.10	189.55	1751.01	351.50	953
15.	Himachal Pradesh State Small Industries & Export Corporation Ltd., Shimla	1.34	4.41	2.37	(122.28)	246.08	23
16.	Himachal Pradesh State Handicrafts & Handloom Corporation Ltd., Shimla	(48.00)	(621.30)	(200.10)	(1998.45)	872.46	123
17.	Himachal Pradesh Tourism Development Corporation Ltd., Shimla	(57.96)	(675.08)	308.49	(1853.09)	1229.86	1721
18.	Himachal Pradesh State Electronics Development Corporation Ltd., Shimla	151.96	85.87	10.07	20.56	371.67	74
19.	Agro-Industrial Packaging India Ltd., Shimla	(819.06)	(137.45)	(160.95)	(7618.33)	1675.00	5
20.	Himachal Pradesh Mahila Vikas Nigam, Solan	5.76	15.70	16.90	25.44	575.22	6
21.	Himachal Pradesh Khadi & Village Industries Board, Shimla	12.22	4.02	2.04	39.15	-	142
22.	Himachal Pradesh State Co-operative Milk Producers Federation Ltd., Shimla	(75.06)	(9.00)	(102.36)	(1762.11)	619.26	378
23.	Nahan Foundry, Nahan	(27.62)	(4.21)	4.14	(477.04)	350.14	8
24.	Himachal Backward Classes Finance & Development Corporation, Kangra	64.32	31.88	54.80	431.83	949.59	19
25	Himachal Pradesh Minorities Finance & Development Corporation	(33.19)	(3.63)	(42.60)	(278.30)	595.44	15
	Total	(7177.35)	(1285.36)	(19422.88)	(112439.46)	179246.00	43449

NB : Figures in brackets denote loss.

CHAPTER 11

SUBSIDIES AND THEIR BURDEN

Synopsis : Subsidies in the State and their impact on the state finances, attempts at rationalisation and better targeting. Focus on major areas of subsidy outgo in the State. Merit consideration on subsidies and need for better targeting.

Financial subsidisation of certain developmental activities is introduced by the governments from time to time with the objective of promoting a specified activity or for benefitting a specified target group towards achieving greater social equity. Many State Governments at times introduce subsidies with populist objectives and ignore the merit consideration in such cases. If not well considered and well targetted, the subsidy outgoes from budget end up being unproductive and perpetuate vested interests in continuation of such subsidies.

With a view to enhance the efficiency of financial resources, it becomes imperative that subsidy schemes are reviewed periodically both for continuation and effective targeting.

In Himachal Pradesh, such a review was undertaken at a comprehensive level in the year 1999 in which some of the subsidies were decided to be continued at a frozen budgetary support in rupee terms and the future increments were decided to be passed on to the users; some subsidies were decided to be phased out in a fixed time frame from three to five years; some subsidy schemes were decided to be discontinued; and it was also decided that the procedure for introduction of any new subsidies would be largely merit based. The outcomes of the exercise were implemented which led to a substantial draw down of the incremental financial outgoes into future. A copy of the government orders issued and the decision to set up this review mechanism is placed at Appendix I to this chapter. This comprehensive review and restructuring of subsidies in the State has succeeded in achieving the objective of containing the financial outgo on subsidies on the one hand, and has also restricted the introduction of State supported subsidies. Since then, there have not been many exceptions and the time series data on total budgetary outgo on subsidies proves the point.

In the current context, the macro picture of subsidy burden on state finances for the recent years is depicted in the following table:-

TABLE 11.1 : SUBSIDY EXPENDITURE IN HIMACHAL PRADESH

(Rs. crore)

Year	Expenditure on subsidies	Percentage of expenditure on subsidies to	
		total revenue expenditure	State's own revenues
2007-08	305.06	3.68	8.07
2008-09	340.12	3.60	8.51
2009-10	364.27	3.27	8.36
2010-11	393.77	2.82	7.38
2011-12	434.46	3.13	7.64

Source : Information on topics and statements submitted by the state government to the Fourteenth Finance Commission.

In terms of the total financial burden of the subsidies, it may be seen that it accounts for around 3 per cent of the total revenue expenditure of the state. When viewed against the state's own revenue receipts, the expenditure on subsidies accounts for about 8 per cent.

When one takes a look at the share of expenditure on various subsidy schemes, it strikes that the major outgo is concentrated on four schemes in the sectors of electricity; food and allied essential commodities; transport; and agriculture. The details are as given below:-

TABLE 11.2 : MAJOR SUBSIDIES NEEDING ATTENTION

Sector/Scheme	Expenditure (Rs. crore)	
	2007-08	2011-12
Power/Domestic consumers	168.00	140.00
Food/Pulses, edible oil, kerosene oil etc.	63.00	106.00
Transport	40.00	90.00
Agriculture/inputs, poly-houses, micro-irrigation	21.83	80.58
TOTAL	292.83(96.0%)	416.18(95.9%)

Note : The figures in the brackets above are the percentage to the total subsidy outgo for all schemes.

Source : Information on topics and statements submitted by the state government to the Fourteenth Finance Commission.

Post 1999 review, three major subsidy schemes have been introduced. These are subsidy on domestic consumption of electricity,

subsidised supply of pulses and edible oil and subsidy on establishment of poly houses with micro-irrigation facilities. The first two schemes have been implemented from out of the total resources of the State whereas the third one is under implementation through arranging a loan from NABARD which will understandably phase out latest by 2014-15 after the RIDF tranche under which this was sanctioned comes to conclusion.

Looking at the overbearing impact of the above three schemes on the total subsidy burden in the State, a brief comment on all these is necessary. Talking of the State sponsored subsidy for domestic consumption of electricity, a comment has been made in the chapter on functioning of the PSUs in the State. It is important to revisit the same here even at the sake of repetition, as under:-

The state government considerably subsidises the domestic consumption of electricity and electricity consumption for agricultural purposes. The gap between the tariff determined by the regulator and the actual cost recovery from the consumers is provided as budgetary support to the HPSEBL by the state government. If this is true, then the losses could only come from exorbitant increase in the salary bill of the electricity board and inaccurate determination and/or insufficient budgetary support of the subsidy burden arising out of differential pricing imposed by the state government. One would tend to agree with this conclusion because the subsidy support for the last few years has been out of sync with the consumption and number of domestic consumers as would be borne out by the following data:-

TABLE 11.3 : POWER SECTOR DOMESTIC CONSUMERS AND THE SUBSIDY OUTGO FROM STATE BUDGET

Year	No. of Domestic consumers	Domestic consumption (Mill. kwh)	State subsidy (Rs. crore)	Consum-ption/ Consumer (kwh)	Subsidy/ consumer (Rs.)
2007-08	1565173	1051.15	168.00	671.59	1073
2008-09	1591315	1089.12	102.00	684.41	641
2009-10	1625175	1112.13	140.00	683.31	861
2010-11	1668261	1281.96	140.00	768.44	839
2011-12	1719673	1407.29	140.00	818.35	814

Source:- Directorate of Economics and Statistics and Information on topics and statements submitted by the state government to the Fourteenth Finance Commission.

The annual losses of HPSEB for 2007-08, 2008-09 and 2009-10 were of the order of Rs. 25.38 crore, Rs. 30.32 crore and Rs. 152.82 crore, respectively. When the per capita consumption is rising and the number of consumers is also increasing, even in a static pricing situation, the budgetary support for subsidy on domestic consumption should keep pace with such increase. Subsidy outgo per consumer and per unit of consumption has been declining but it should not be understood to have any element of restructuring the subsidy scheme. In fact, it is the ad-hoc budget number entered as State subsidy which has caused the decline. Although one would also point to HPSEB about possible overstaffing and high staff costs, yet the mounting losses would tend to be left at the door of the government for their inaccurate assessment of the subsidy burden.

Coming to the question of merit of such a subsidy being introduced and perpetuated, there are two aspects to it. One is the question of promoting clean energy consumption in the domestic sector to save environment and reduce the burden on forest removals for fuel requirements along with the reduction in the consumption of fossil fuels. This certainly is a laudable objective and deserves promotion. The other is the question of the paying capacity of the consumers. Per capita income in Himachal Pradesh has been rising phenomenally and is among the best to do states of the country. Underestimating the paying capacity of the consumers in a state where the number of organised sector employees is over three lakh is certainly questionable. It would, therefore, be appropriate to restrict this environmentally sound subsidy to those with limited paying capacity. More merit would be served by this measure if it were restricted to the families living below poverty line. Such a structural reform for better targeting of subsidy would simultaneously lead to a drastic draw-down of the financial outgo for subsidising this from the state budget.

Coming to the second item of subsidised supply of pulses etc. in the State to everyone across the board irrespective of the family income considerations, one could question the merit of the measure in not being selective. The scheme was introduced in the year 2007-08 and its financial impact has been snowballing year after year since then. Though the goodness of the measure may not be in question, yet the way it has been implemented leaves some questions unanswered. The subsidy is across the board, so it is indiscriminate. Such measures have to be discriminatory in the sense that the benefit goes to the most deserving. In this case, everyone benefits and the State takes the burden. The budgetary outgo has nearly doubled in the past 5 years and is likely to grow in future. It would be advisable that the state government restricts the cover

under the scheme to the below poverty line families for better targeting on the one hand, and considerably reducing the financial burden on the state's difficult fiscal situation.

As regards the subsidies in the agriculture sector, discussions with the State Finance department revealed that the State Government started a new subsidy scheme for popularisation of poly/green house cultivation under which it provided subsidies for construction of poly-houses, installation of micro-irrigation systems and accompanying input subsidies for farmers to an extent of about 90 per cent of the project costs in the year ------ by borrowing money under the negotiated loans from NABARD. The State Government raises its debt burden and nearly passes on the entire loan on subsidy without any tangible return to the State exchequer. Discussions also revealed that once the NABARD funding for this measure comes to an end, the likelihood of its continuation is remote, given the pressure on State's resources.

Rationalisation and better targeting of the above three subsidy schemes can easily reduce their annual burden by about Rs. 200 crore. Rest of the subsidies are target specific and have negligible financial implication. In that context, one could say that the State Government has been considerably selective in administering the existing subsidies or introducing new subsidies.

APPENDIX – I

Copy of Government order conveying decisions about rationalization of Latent & Apparent Subsidies issued vide letter No.Yojna (PI)1-47/99 dated 31st May, 2000 by FC.-cum-Secy. (Planning) to the Government of Himachal Pradesh.

As you are aware that vide this office letter of even number dated 21.5.1999 the State Government had set up a Committee under the Chairmanship of Chief Secretary to evaluate all Latent & Apparent Subsidies on the basis of impact analysis.

2. The recommendations of the Committee have been considered by the Government and the decisions against the recommendations in respect of your department are being enclosed for taking further necessary action at your end.

3. You are requested to take requisite action and send report to this department.

* * * * * * *

DEPARTMENT	RECOMMENDATIONS OF THE COMMITTEE TO EVALUATE SUBSIDIES.	DECISION OF THE GOVERNMENT.
AGRICULTURE	-Subsidy on Soil Conservation on Agricultural land should be abolished this year in tribal areas as well. -Subsidy under Water Storage Structures should be confined only to the Government of India Schemes. -Subsidy on all Agricultural inputs should be Frozen at current levels in rupee-terms and any additional burden on account of upward revision of prices of inputs should be passed on to the beneficiaries.	Approved. Approved. Approved.
HORTICULTURE	--Subsidy on all Horticultural inputs should be frozen at current levels in rupee-terms and any additional burden on account of upward revision of prices of inputs should be passed on to the beneficiaries.	Approved.
ANIMAL HUSBANDRY	-Full cost should be recovered from the beneficiaries under the AI Programme. -Inefficient/un-economical Mil Collection routes and Mil Chilling Plants should be abolished so as to reduce the quantum of subsidies to Milkfed.	Approved. Approved. Department will send a fresh proposal to the Cabinet separately.
FOREST	-Latent Subsidy on price of the Saplings should be phased out in a period of five years starting from this financial year.	Approved. Actual costs will be recovered from the target clientele.
CO-OPERATION.	-M/Subsidy and Interest Subsidy to the Co-operatives of two upper tiers should be stopped from this financial year.	Approved.

	-M/Subsidy and Interest Subsidies to PACs will be brought down to Zero level in a period of four years starting from this financial year. -As the terms and conditions of NCDC for financing Co-operative Projects/Schemes apply uniformly throughout the country, matter should be taken up with the NCDC for formulating modalities to shift burden of such financial liabilities to the concerned Co-operatives which is being borne by the State Government currently under the Projects financed through NCDC.	Approved. Co-operation Dept. will take up the matter with NCDEC to ensure that funds are passed on to the Cooperative bodies on the same terms and conditions as they are passed on to the State Govt. by NCDC.
RURAL DEVELOPMENT	-GKY and SRSP already stand abolished and should not be revived. The housing and rural sanitation for the identified rural poor should be provided only through the Central Schemes.	Approved. Rural Development Department will also make efforts to shift maximum of the financial burden to the Government of India Schemes i.e. Indira Awas Yojna and CRSP.
	-The State Government had enhanced the Subsidy rates for beneficiaries other than SC/ST beneficiaries from 25% and 33.3% to 50%. Add on by the State Government to the non-SC/ST beneficiaries be withdrawn and Government of India pattern followed under IRDP for administering subsidies.	Approved. All the beneficiaries under IRDP will be covered under the uniform pattern prescribed by the Government of India and as in vogue in all other States.
	-A thorough review of C.M. Gratuity Scheme will be undertaken. Efforts will be made to shift all the burden to Government	Approved. Implementation and monitoring of CM Gratuity

	of India Schemes. Coverage of beneficiaries should be restricted to one Scheme only, rather than multiple benefits/assistance.	Scheme will rest with Chief Minister's Office henceforth.
HPSEB	-Urban Local Bodies should raise the user charges on drinking water supply in a phased manner. -A programme should be drawn by the HPSEB to achieve internal economies within the Board to bring down cost of production of energy, inclusive of reduction in T&D losses for energy supply within the State.	Approved. Approved.
INDUSTRIES	-GIA to Industrial Area Development Agency to meet enhanced liabilities on account of regularization of daily wagers should be discontinued.	Approved. The GIA to be discontinued from next financial year.
H.R.T.C.	-A thorough review of the facility of concessional fares to various categories should be undertaken.	Approved. It was decided that client departments will be responsible for paying the fare differential to the H.R.T.C. Education Department will draw up a separate scheme for ensuring the payment of fare differential to H.R.T.C. as the clientele of Education Department to H.R.T.C. is pretty large.

HRTC (CONTINUED)	-A detailed programme will be prepared for phased reduction of fleet of buses and improve internal working and the proposal will be brought before the Council of Ministers within a month.	Approved.
FOOD & SUPPLIES.	-All Schemes of giving Food Subsidies should be merged into the Centrally funded TPDS.	Approved.
TOURISM/CIVIL AVIATION.	-Capital Subsidy should be discontinued from the current financial year except in Tribal areas. Past liability will be borne by the State Government and thorough exercise in this regard will be undertaken by the Department.	Approved. The Department will take up an exercise to enlist all the Guest Houses covered under the Scheme "H.P. Paying Guest House Scheme-1993" and explore the possibility of using these Guest Houses for tourist accommodation by suitable integration into the infrastructure date base.
HOUSING.	-Only EWS Housing Scheme should continue in the Urban Areas. -All other Schemes (e.g. MIGH/LIGH) should be merged into Centrally Sponsored Scheme of Credit-cum-Subsidy Housing Scheme.	Approved. Approved.
EX-SERVICEMEN CORPORATION	-Interest Subsidy to Ex-Servicemen Corporation should be phased out in a period of three years starting from this financial year, keeping in view the regime of lowered interest rates.	Approved.
WELFARE	-A detailed exercise to ensure better targeting of the programme should be done by the Department.	Approved.

CHAPTER 12

POWER SECTOR REFORMS AND THEIR IMPACT ON THE STATE FINANCES

Power sector reforms were initiated in Himachal Pradesh after a memorandum of understanding was entered into between the Ministry of Power, Government of India, and the Government of Himachal Pradesh on 31-3-2001 to affirm the joint commitment of the two parties to reform the power sector in Himachal Pradesh State, and to set out the reform measures which the State Government of Himachal Pradesh proposed to implement.

The Himachal Pradesh State Electricity Board (HPSEB) was constituted in the year 1971. Prior to the onset of the reform process, the HPSEB used to carry out functions of Generation, Transmission and Distribution for the State of Himachal Pradesh up to June 10, 2010. In , 2010, Government of Himachal Pradesh transferred the functions of distribution, trading and generation of electricity to Himachal Pradesh State Electricity Board limited (HPSEBL) and the function of evacuation of power by transmission lines to Himachal Pradesh Power Transmission Company Limited, vide the Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010. A separate generation company for execution of new projects in State sector was created in December, 2006. HPSEBL is responsible for the development, (Planning, designing, and construction), operation and maintenance of power distribution system in Himachal Pradesh with inherent trading functions. Ownership and O&M of generating stations of erstwhile HPSEB was also given to HPSEBL. The Power Finance Corporation had contracted the Credit Analysis and Research (CARE) to do a study on the HPSEBL and CARE made over its report in early 2013. The study rates the HPSEBL with an overall score of 52.1 on 100 and its breakup versus the weighting diagram on various parameters is presented in the table below:-

TABLE 12.1 : HPSEBL RATING BY CARE

Parameter	Weight	HPSEBL score
1. Financial Performance	63	35.1
a) Coverage Ratio	15	1.8
b) AT&C losses	12,-5	12.0
c) Subsidy support	10	6.3
d) Interest coverage ratio	5	0.0
e) Debt:Equity ratio	5,-3	5.0
f) Sustainability	9	8.0
g) Receivables	4	4.0
h) Payables	3,-3	-2.0
2. Audited accounts	5,-12	-7.0
3. Cross subsidy	0,-2	0.0
4. Reform measures	0,-5	0.0
5. Regulatory environment	15,-15	8.0
6. Forward looking parameters	5,-1	4.0
7. Incentive/bonus marks	12	12.0
TOTAL	100	52.1

The above ratings indicate that the key areas of concern for HPSEBL on the financial front should include coverage ratio, interest coverage ratio, payables and timely audit of accounts. At an overall level, the performance of the company is better than average and if it manages to deal effectively with the expenditure on debt and interest servicing and the staff costs, it will stand good on the financial front as is the case with physical performance as elaborated in the following text.

Before a view on the financial aspect of the reform process is presented, it would be appropriate to look at the strengths and specific areas of concern of the HPSEBL along with other parameters as per the study referred to above.

KEY STRENGTHS OF HPSEBL

- Relatively low level of AT&C losses and improvement over the years, led by high collection efficiency
- Satisfactory progress in terms of reforms and restructuring, which includes unbundling, adoption of MYT framework and receipt of significant amount of subsidy from the State Government on time
- Moderate capital structure and comfortable receivables cycle
- Implementation/steady progress in key reform measures such as special courts for anti-theft measures, 100 per cent consumer metering, achievement of RPO targets, setting up of call centre etc.
- Significant sourcing of power through hydro power plants, which insulates it from fuel cost escalation risk to an extent.

KEY CONCERNS

- High operating cost primarily due to high employee expenses, which in turn is resulting in low level of cost coverage and interest coverage, continuing net losses, progressive deterioration of net worth and increase in total debt
- Prolonged payable cycle
- Significant delay in making the audited financials available
- Untreated revenue gap
- Slow progress on utilization under R-APDRP scheme.

KEY PHYSICAL IMPACT PARAMETERS OF POWER SECTOR REFORMS ON THE HPSEBL

1. The T&D losses have come down from a fairly high level of 26.61 per cent during 2001-02 to 13.42 per cent during 2011-12, resulting in an improvement of over Rs. 300 crore up to 2011-12. This has been possible by regular energy audits at Sub-Division level, strict adherence to billing cycle, replacement of dead stop meters and installation of electronic meters etc. The parameters of T&D losses are monitored regularly at the Management level and Circle wise targets are fixed regularly. Reasons of Circle-wise losses are continuously analyzed and separate strategy is firmed up for each Circle. To reduce the losses, various activities including those under GOI

funded schemes have been taken up, the details of which are as under:-

(i) Under RGGVY, 2300 DTRs, 162.938 Km HT line, 5890.890 Km LT line and 15278 BPL connections have been completed which will have further effect on reduction of T&D losses.

(ii) Restructured Accelerated Power Development & Reforms Programme (R- APDRP) of Govt. of India is in progress and will be completed shortly. The hardware and networking installation/ configuration has since been completed and I.T. disaster recovery centre has been established. Infrastructural works of part- B of R-APDRP including up to 66 KV line & Sub-Stations are being executed and are expected to be completed by March, 2015. Thus the completion of R-APDRP scheme of Govt. of India is expected to reduce the T&D losses of HPSEBL further.

(iii) It has also been decided that 100% re-conductoring shall be done on the lines having GI wires during the year, so as to reduce T&D losses.

(iv) Electro-mechanical Meters are being replaced by Electronic Meters on a large scale to reduce Distribution losses

(v) Energy audit is being conducted at different level including Head Office. Feeder wise and DTR wise T&D losses are being worked out. Feeders and DTRs having high losses are being identified and reasons are being investigated along with remedial measures.

2. A drive to realize outstanding amount from various consumers including the defaulting Government Departments was undertaken wherein a significant achievement made. The Collection efficiency has been increased from 87 per cent to 96 per cent which has reduced AT&C losses from 48.46 per cent in 2002-03 to 19.38 per cent 2011-12.

3. Large scale I.T. Initiatives have been introduced which includes computerized billing application in 131 Sub-divisions out of about 226 Sub-divisions in the State. Till date IT billing has been completed in 124 sub-divisions and it will be completed in other remaining 7

sub-divisions before 31-3-2014, which are pending due to connectivity issues.

4. Grid discipline is being maintained by following the direction of NRLDC and complying with the Grid Code issued by the Electricity Regulatory Commission.

5. The Government of Himachal Pradesh has been issuing subsidy for rollback of tariff for Domestic & Agriculture consumers regularly since 2001. The Government of Himachal Pradesh has released roll-over subsidy amounting to Rs. 320 crore for the FY- 2013-14, making up for the arrears.

6. HPSEBL has entered into franchise arrangement for billing and related activities covering about 50 per cent consumers in selected rural sub-divisions also, it has entered into collection of payment arrangement with Lok Mitra Kendras, established by the Himachal Pradesh Government which are being run by private franchises.

7. Overall Consumer metering is 100 per cent and all consumers are billed on the basis of metered consumptions, though the consumer billing as per notified billing cycle in few of the rural areas is an issue.

8. Eleven special courts as per the requirement of Act have been designated as per Government of Himachal Pradesh notification dated 21.10.2005.

9. HPSEBL has a centralized call centre working 24x7 and e-payment facilities.

10 The HPSEBL is participating in Financial Restructuring scheme introduced by the Government of India to State Discoms. As per the scheme, 50 per cent of the outstanding short term liabilities as on March, 2012 have to be taken over by the State Government and balance 50 per cent of the short term liabilities shall be rescheduled. The HPSEBL is making efforts to achieve the salient features and milestones of the scheme.

11. Short term Power purchases are being progressively eliminated and winter power deficit is being met through banking out of summer surplus available with HPSEBL.

12. HPSEBL has also decided that in future no capital expenditure works will be undertaken except through capital funding i.e. from loans from financial institutions

after approval of HPERC or grants from GOI under RGGVY or R-APDRP or through special schemes of the State Government under SCSP/BADP/Tribal sub plan etc. Thus own revenues and short term borrowing would be used minimally to fund the capital works and schemes being executed by HPSEBL.

13. The Himachal Pradesh State Electricity Regulatory Commission was established during December, 2000. Since the formation of HPERC the Tariff on year in year basis except for 2003-04 has been regularly determined by the Commission. Tariff Petition for further determination of the tariff has since been filed for next financial year (as on 30th November). Automatic pass through of fuel cost has been made effective in Himachal Pradesh Electricity Regulatory Commission (Terms and conditions for Determination of Wheeling Tariff and Retail Supply Tariff) (First amendment) Regulations, 2012 issued on 30.03.2012. As per the regulation issued, the incremental cost incurred for the quarter due to incremental power purchase for reason stipulated (Variation in fuel surcharge rate, Incremental power required over and above or within the quantum of power purchase approved by the Commission, revision of tariff of generating stations, tariff of intra-State and inter-State transmission system as approved by the Appropriate Commission after notification of retail supply tariff) shall be charged to the consumer from the first month of the following quarter itself, without prior approval of the Commission.

14. There is no denying the fact that HPSEBL has a very high staff cost, on account of a variety of historical reasons, while considering the high staff cost per unit of supply of about Rs. 1.40 per unit, it needs to be kept in mind that HPSEBL has one of the finest track records in the country in maintaining supply and power lines and distribution system especially in rural areas on a 24x7 basis. This is a rare feat, when one looks at the national scenario. Besides this, it is also worth noting that as opposed to other Discoms in the country, almost entire Transmission line network above 66KV along with staff in Electrical Systems was retained in the HPSEBL as per un-bundling scheme. Also, the retirement benefits burden

of the employees in HPPCL & HPPTCL is being borne by HPSEBL resulting in higher staff cost.

CRITICAL FINANCIAL POSITION OF HPSEBL

The financial position of the HPSEBL is extremely precarious. Even managing day to day financial liabilities has become difficult. If payment is required to be made for one expense then the other has to be kept pending. Apart from routine expenses the major financial problem is the soaring debt and interest repayments, which have now piled up to an average of Rs. 200 crore per month. An overview of the anticipated financial status of the HPSEBL during 2013-14 is given in the table below towards indicating the gravity of the situation:

TABLE 12.2 : FINANCIAL STATUS OF HPSEBL

(Rs. crore)

Particulars	Monthly	Annual
A- Projected Receipts (2013-14):		
(a) Sale of Power	340	4081
(b)Capital receipts (only REC/PFC reimbursements and no fresh loans have been assumed)	23.25	279
(C) Total receipts	363.25	4360
B- Projected Expenditure (2013-14):		
(a) Power purchase cost	186	2231
(b) Employees' cost	123	1477
(c) Works and material	29.75	357
(d) Debt and interest servicing	202	2424
(e) Other Misc. Payments (BVPCL)	5.8	70
(f)Total expenditure	546.55	6559
C- Outstanding power purchase liabilities		1200
D- Total out go (B+C)		7759
Annual deficit A-D		3399

A perusal of the above data reveals that the HPSEBL is in a hopeless situation on the financial front. Even if one considers excluding the outstanding power purchase liabilities, the estimated annual deficit is likely to be of the order of about Rs. 2200 crore. Only two items of expenditure namely the staff costs and the interest and debt servicing are amenable to any compression. These account for about Rs. 3900 crore annually. The proposed financial restructuring can go a long way in mitigating the debt and interest servicing burden and the financial burden of the pensions and other related liabilities of the retired and retiring employees of the HPPTCL and HPPCL should be taken over by the respective companies instead of being loaded on to the HPSEBL. The HPSEBL on its part should be ready to downsize the staff in such a manner that the total staff costs comply with the prescriptions applicable to the other utilities in the various States.

As regards the impact of the other two companies namely the Generation utility and the Transmission utility on the State finances is concerned, it is early days to make a comment as these have not really started functioning. The State Government investment in these two companies is of the order of Rs. 636.17 crore in the HPPCL and Rs. 56.70 crore in the HPPTCL as on 31st March, 2010. These investments are to be put into projects and it will be only after that stage when the question of return on investment would arise.

Given the above situation, the impact of power sector reforms on the State finances could be stated to be negative as there are no returns on investment of the order of about Rs. 1100 crore by the State Government in these three companies.