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EXECUTIVE SUMMARY OF THE STUDY ON FINANCES OF HIMACHAL PRADESH FOR FIFTEENTH FINANCE COMMISSION

BACKGROUND OF THE STUDY:

Independent evaluation studies of the State finances were assigned for the first time by the Fourteenth Finance Commission. The Fourteenth Finance Commission, in its report, mentioned that these studies provided useful insight in understanding the problems of the States and also provided useful inputs for better appreciation of the problems of the States. It was understandably in the light of the past experience that the Fifteenth Finance Commission also decided to commission such studies for all the States. Among other things, the study was required to primarily look at the State finances in the context of the recommendations of the Fourteenth Finance Commission and see whether the State could move on to a sustainable debt road map in the 2020-25 period after duly considering the impact of the introduction of the Goods and Services Tax (GST) and other tax and non-tax trend forecasts. The underlying idea was to have an independent view of the finances of the State so that the revenue receipts and revenue expenditure forecasts of the State as projected by the State Government are validated externally and other aspects of performance of the State owned enterprises, subsidies, debt, interest burden etc. are also looked at critically and integrated into the overall scenario for the forecast period of the Fifteenth Finance Commission.

OBJECTIVES OF THE STUDY:

The objectives of the study, as embodied in the said agreement were as under:

1. Estimating revenue capacities and measures to improve the tax:GDP ratio.
2. Analysis of the State’s tax and non-tax revenues and improving the cost recovery from the services provided by the State Government.
3. Analysis of the pattern and trends in expenditure, specifically the revenue expenditure.
4. Analysis of revenue and fiscal deficits.
5. Level of debt and its ratio to GDP and composition of the State’s debt.
6. Implementation of the FRBM Act.
7. Analysis of the State’s transfers to the rural and urban local governments and decentralisation initiatives.
8. Impact of the State Public Enterprises on the finances of the State and measures taken to improve their performance.
9. Power sector reforms.
10. Contingent liabilities of the State Government.
11. Analysis of the State administered subsidies.

12. Evaluation of State finances in the context of the recommendations of the Fourteenth Finance Commission.

13. Determination of a sustainable road map for debt.

In addition to the above, the study also afforded sufficient opportunity to add on such relevant facts and material which could add value to the study. Accordingly, the specific issues relating to the problems of development of the mountain States and areas were added to the scope of the study by the assignee.

METHODOLOGY FOR THE STUDY:

The methodology followed for the conduct of the study is outlined as under:

1. Collect data from the relevant sources to meet the basic objectives. In this context, it is important to mention that the study has been limited to the secondary data from publications of the State Government and other allied publications containing relevant data.
2. Tabulate the data for the required time period for the study in a time series of about ten years i.e. 2005-06 to 2015-16. Time horizon for the data could also be extended
3. Analyse the compiled data for growth rates, aggregate weighted averages wherever required and any other outcomes relevant to the objectives of the study.
4. Normalise the data wherever outliers were observed and then accordingly normalising the growth trends.
5. Hold meetings with the officials of the State Finance Department and other departments with whom certain chapters had direct linkage.

In addition to the above, the proposed study took into account the evolution of Himachal Pradesh as a full-fledged State and its fiscal capacities at the time of attainment of statehood. It also includes a view of the growth of the fiscal capacity of the State over time. In doing so, it will attempt an analysis of the resource raising capabilities of the State and also the expenditure needs for administration of the State.

A snapshot of the financial aspects of the State would remain incomplete without a quick overview of the developmental performance of the State and how well or otherwise it has acquitted itself in the context of development – both economic and social. The methodology also included an appreciation of the causes of higher costs of administration of regulatory and developmental services in the context of a typical hill state like Himachal Pradesh.

DATA SOURCES:

Needless to emphasize, any such study would heavily lean on the successive Budget documents of the State, any allied data sources which could help in better appreciation of the issues as listed out in the objectives elaborated above. By implication, the study has leaned on the secondary data. The following documents and data sources were used for the study: -

1. Annual Financial Statements for the respective years.
2. Estimates of the receipts and expenditure of the State for respective years.
3. Explanatory Memorandum to the Budget for the respective years.
4. Budget in Brief of the Government for the relevant years.
5. Compliance Reports on the Fiscal Responsibility and Budget Management Act tabled in the State Legislative Assembly by the State Finance Department for the respective years.
6. Reports on the working of the Government owned Public Sector Undertakings for the respective years tabled by the State Finance Department for the respective years.
7. Decisions of the State Government in regard to the rationalisation of subsidies.
8. Decisions of the State Government for rationalising the functioning of the public sector undertakings of Himachal Pradesh.
9. Economic Reviews of the State Government for the respective years.
10. State Statistical Abstract and other publications brought out by the State Directorate of Economics and Statistics.
11. Annual and Five year plans of Himachal Pradesh for the respective years.
12. Reports of the previous Finance Commissions, Government of India.
13. Reports of the State Finance Commissions of Himachal Pradesh, since inception.

REFERENCE PERIOD OF THE STUDY:

Generally, the study covers the period starting from 2005-06 to 2015-16. However, data for the previous years and the latest years has also been incorporated in the trend analyses wherever it was available. In the introductory chapters, the data relates to the time period when the present State came into being as a centrally administered territory and then became a full-fledged State in 1971. Going back in time was necessitated due to the changing scenario of the revenue raising capacity overtime and redundancy of the historical sources of revenues in the current context.

FINAL CHAPTER SCHEME FOR THE STUDY:

In pursuance of the objectives outlined above as contained in the terms of reference of the study, the final chapter scheme of the study emerged as follows:

1. AN INTRODUCTION OF HIMACHAL PRADESH:
   Brief history of the State of Himachal Pradesh, Conferment of Statehood, its fiscal capabilities and needs of development, tracing the overall path of development of the State and its reliance on the central transfers for developmental and regulatory functions and changes in the structure of major sources of the State's tax and non-tax revenues over time.
2. RAISING RESOURCES IN HIMACHAL PRADESH:
   Macro perspective of the limitations in raising of and a quick overview of the future possibilities. Disadvantages of being an end of the line State in the geographical context and inherent infrastructural disabilities.
3. HIGHER EXPENDITURE COMMITMENTS FOR REGULATORY AND DEVELOPMENTAL ADMINISTRATION IN THE MOUNTAINOUS STATES**:** 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.)
4. TRENDS IN STATE'S TAX REVENUES**:**
   Structure and composition of Tax Revenues of Himachal Pradesh, changes in the relative shares of various taxes and duties over 2005-06 to 2015-16 period, growth rates of individual taxes and sources, future potential, additional resource mobilisation measures undertaken by the State government, Tax: GDP ratio.
5. TRENDS IN STATE'S NON-TAX REVENUES:
   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.
6. TRENDS IN REVENUE EXPENDITURE:
   Analysis of Components of Revenue Expenditure, 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.
7. INDEBTEDNESS OF THE STATE, COMPOSITION OF THE DEBT, UTILISATION AND DEBT REDUCTION:
   Analysis of debt scenario, its components, rationale of debt use and possibility of debt reduction.

8. IMPLEMENTATION OF THE FRBM ACT, REVENUE AND FISCAL DEFICITS AND TRENDS IN TOTAL DEBT BURDEN:
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.

9. STATUS OF LOCAL GOVERNMENTS AND THEIR FINANCES: 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.
10. STATE PSU's AND THEIR IMPACT ON STATE FINANCES: 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.
11. SUBSIDIES AND THEIR BURDEN: 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.
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, latest status of performance of power sector in that background, impact of UDAY related borrowings on the State finances and constraints in the speedy development of hydro power potential in Himachal Pradesh
13. LIABILITIES OF THE STATE GOVERNMENT: Liabilities of the State Government, Component analysis of the liabilities, rates of growth and future scenario on limiting the liabilities.
14. FOURTEENTH FINANCE COMMISSION PROJECTIONS AND ACTUAL PERFORMANCE OF THE STATE SO FAR: Assessment of Own Revenue Receipts and Expenditure by the Fourteenth Finance Commission; and Comparison with Actual performance for 2015-16, 2016-17 and Revised Estimates of 2017-18.

15. EXPENDITURE MANAGEMENT MEASURES FOR ECONOMY AND EFFICIENCY.
16. EARLY SIGNALS ON THE GOODS AND SERVICES TAX.

MAIN FINDINGS AND SUGGESTIONS EMERGING FROM THE STUDY:

1. Traditional sources of raising revenues in the State used to be forestry, minerals and water. Over time, the revenue raising capacity from forestry sector has been nearly extinguished due to environmental considerations. Revenues from mining royalties have also behaved in an erratic manner and raising further revenues from minerals is largely in the hands of Central Government because the question of revising the royalty on major minerals is decided by the Central Government. Hydro-electricity emerged as a strong resource, but the policies followed by the State Government have considerably foreclosed the possibilities from this potential resource.
2. The State has depended upon the central resource transfers for meeting a large part of its expenditure commitments because it has a poor financial resource base and its location acts as a disadvantage in attracting big ticket investments in various sectors. Incentives for bringing in industries in the State cannot be carried on interminably. When discontinued, there is a visible fall in investments in the State as has happened in the recent years. Nearly two third of the tax revenues of the State come from VAT.
3. 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 bound to be much higher per unit of population and area. All these aspects deserve to be internalised in the devolution process from Centre to such hill and mountainous States. Appreciation of these peculiarities by the Finance Commissions exists in not so realistic measure when one looks at the devolution design followed by the previous Finance Commissions, but it is not at the desired level to ensure greater equity. The compensation design for mitigating these disabilities probably deserves another realistic and equalising look. Such a levelling exercise has not so far been undertaken in the past and the Fifteenth Finance Commission could examine the feasibility and usefulness of such mechanism.
4. For achieving the above, five facts need to be clearly understood. 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, topography and severely limited working season. 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.

5. The trends in the collections from tax revenue sources and the changes in their relative shares for the study period have been observed as under: -

CHANGES IN THE MAJOR SOURCES OF STATE’S OWN TAX REVENUES OVER STUDY PERIOD (Rs. crore)

Source	2005-06	2015-16	Relative share to total (per cent)		Change in relative share
			2005-06	2015-16	
Stamps and registration fee	82.43	209.16	5.50	2.97	(-)2.53
State Excise	328.97	1307.87	21.97	18.58	(-)3.39
Taxes on sales	726.98	4381.91	48.57	62.26	(+)13.69
Taxes on vehicles	101.51	279.58	6.78	3.97	(-)2.81
Goods and passenger tax	42.61	121.37	2.85	1.72	(-)1.13
Electricity Duty	89.29	371.67	5.96	5.28	(-)0.68
Other taxes and duties	125.23	367.48	8.37	5.22	(-)3.15

6. It is apparent that the share of taxes on sales has relatively increased over the study period and the shares of all other taxes and duties have declined. This pattern will continue into future. Electricity duty could have been a more dynamic resource if the consumption of electricity within the State could rise. This is unlikely to happen for the inherent disadvantages the State suffers from.

7. Based on the factor analysis of the growth rates for various sources of tax revenues, the weighted average of the growth in tax revenues for the study period works out as under: -

WEIGHTED AVERAGE OF THE GROWTH IN VARIOUS COMPONENTS OF TAX REVENUES FOR 2015-16.

Item/Source	Collection 2015-16	Per cent Share	Projected Growth rate for FFC forecast (% per annum)	Weight in the total
Stamps and Reg. fees	209.16	2.97	10	0.297
State Excise	1307.87	18.58	13	2.451
Taxes on Sales	4381.91	62.26	15	9.339
Taxes on Vehicles	279.58	3.97	12	0.476
PGT	121.37	1.72	12	0.206
Electricity duty	371.67	5.28	10	0.528
Other taxes and duties	367.48	5.22	12	0.626
Total	7039.04	100.00	--	13.923

8. The tax to GSDP ratio for the study period has ranged between 5.5 per cent to 6.5 per cent. The normative expectation of the Fourteenth Finance Commission of attaining an 8 per cent ratio has not been possible to be achieved. The projections of the State's tax revenues by the Fifteenth Finance Commission should be in the realm of achievability. For this, historical growth rates should be the pointer for projections rather than any normative prescriptions. Based on the above weighting diagram, a 14 per cent growth rate in tax revenues of the State is suggested for the forecast period. Since GST is an amalgam of taxes on sales and a few other levies, and the fact that early signals on collections under GST are not encouraging, the aggregate tax revenues for the State should be projected at a growth rate of 14 per cent as indicated above.
9. It is expected that the revenue collections under GST will gather momentum and reach the same level of growth as Sales tax/VAT. Accordingly, the tax revenues for the period 2020-25 have been projected as given below:

Projections of tax revenues for 2020-25 period (Rs. crore)

Year	Projected tax revenue
2020-21	11889
2021-22	13553
2022-23	15450
2023-24	17614
2024-25	20079

10. Coming to the non-tax revenues of Himachal Pradesh for the forecast period of the Fifteenth Finance Commission, it is anticipated that these would behave in a static manner, indicating no sustained pattern of growth. The weighted average for the growth in non-tax revenues works out as under: -

Weighted growth rate for non-tax revenues

Sr. No.	Sector	2015-16	2016-17	Average for two years	Per cent share	Assumed growth rate (%)	Weighted growth rate
1	Forestry	34.47	18.50	26.485	1.49	0	0.00
2	Power	923.68	650.93	787.305	44.30	10	4.43
3	Mining	155.08	176.22	165.650	9.32	15	1.40
4	Others	723.92	871.59	797.755	44.89	7	3.14
5	Total	1837.15	1717.24	1777.195	100.00	--	8.97

11. In view of the above, the non-tax revenues could be projected for the forecast period of the Fifteenth Finance Commission at an annual growth rate of 9 per cent. The projected non-tax revenues for 2020-25 period work out as under:

Projections of non-tax revenues for 2020-25 period (Rs. crore)

Year	Projected non-tax revenue
2020-12	2424
2021-22	2642
2022-23	2880
2023-24	3139
2024-25	3422

On the revenue expenditure front, the analysis of the data for the study period gives some positive indications. The expenditure on salaries, pensions and interest payments accounted for about 84 per cent of the total revenue expenditure for the year 2005-06. It came down to about 73 per cent in 2009-10. Thereafter, it has been about 61 per cent of the total revenue expenditure for 2015-16 and 2016-17. The State Government appears to have performed well in containing the number of employees and the expenditure on salaries during the study period. 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 shown 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 Fifteenth Finance Commission takes as realistic 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. There are sufficient indications available that the State Government is committed to expenditure compression on salaries and the details of these indications and measures have been given in a separate chapter. 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. In this behalf, the data given below deserves appreciation: -

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

SOE	2005-06	2009-10	2015-16	2016-17
Salaries	44.69	40.41	30.51	31.98
Pensions	14.50	13.60	17.20	16.23
Interest	26.76	19.76	14.15	13.25
Maintenance	2.89	8.34	7.39	7.03
Subsidies	1.72	3.14	6.04	3.01
Others	9.44	14.75	24.71	28.47
Total	100.00	100.00	100.00	100.00

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

12. The above data is indicative of the fact that the salary and pensions expenditure now account for about 47 per cent of the revenue expenditure during the for the year 2016-17. The salary burden will keep rising due to DA increases and full impact of the pay revision of 2016 and the pension burden will continue to increase due to dearness relief, pension revision and increase in the number of pensioners. These two major lumps of revenue expenditure and the interest burden need to be provided for on the basis of actual numbers

rather than any normative prescriptions because these items of expenditure need treatment on the basis of actuals with an embargo on the State for any fresh hiring on the one hand and attempting a draw down in the aggregate number of employees in the State over the forecast period, on the other. Increase in the relative share of expenditure on maintenance over the study period is a good sign as it can lead to better maintenance of the existing stock of infrastructure.

13. The average annual growth rate for revenue expenditure for the period 2005-06 to 2016-17 works out to 13.43 per cent. The corresponding rate for 2011-12 to 2016-17 comes to 12.8 per cent. It is felt that the revenue expenditure should be forecast on this basis given the fact that the number of employees in the recent years has remained almost constant. The projected revenue expenditure for 2020-25 period on this assumption is given below:

Projected revenue expenditure for 2020-25 (Rs. crore)

Year	Projected revenue expenditure
2020-21	41031
2021-22	46283
2022-23	52207
2023-24	58890
2024-25	66427

14. Various parameters for debt of the State and its components as also the contingent liabilities of the State indicate a healthy and manageable trend. In this behalf, the debt cap mechanism should be strictly enforced and there should be no loosening of the revenue deficit and fiscal deficit bounds.

15. As regards performance against the MTFP rolling targets with respect to the implementation of the FRBM Act, the data for some recent years is presented below: -

Year	Revenue Deficit/surplus (- / +)			Fiscal Deficit		
	BE	RE	Actual	BE	RE	Actual
2006-07	(-) 3.90	(-) 0.78	(+)1.33	3.90	3.79	3.39
2007-08	(-)3.42	(-) 0.57	(+)9.30	4.06	4.18	1.82
2008-09	(+) 0.74	(+) 3.29	(-)1.40	5.37	4.44	6.71
2009-10	(+) 2.45	(-) 1.47	(-)7.71	3.54	5.42	6.71
2010-11	(-) 4.36	(-) 1.25	(+)4.21	5.08	3.47	5.26
2011-12	(+) 0.36	(+) 3.17	(+)4.43	2.70	2.92	2.87

2012-13	(+) 2.29	(+) 2.12	(-)3.69	2.88	2.79	4.48
2013-14	0.30	(-)10.86	(-)10.45	12.85	4.85	5.26
2014-15	(-)19.74	(-)8.13	(-)10.89	5.74	4.01	4.89
2015-16	0.20	(-)1.02	(+)4.85	2.19	3.40	2.26

16. It is revealed 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. The vast divergence in the budget estimates, revised estimates and the actuals 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 realistic and consistent picture unless there are events and circumstances entirely beyond control of the State Government and beyond any reasonable expectation or explanation. One noteworthy occurrence is that the State has a revenue account surplus in the initial years of the onset of a Finance Commission award and then in the closing years of the award period, it ends up being hugely revenue deficit. The fiscal deficit data in the above table also underlines the fact that the State Government has observed this parameter of the FRBM legislation more in violation than in adherence. Fiscal prudence demands that whenever the State has a revenue account surplus situation, it must compress its fresh borrowings to that extent so that the management of debt is eased to some extent. The estimates of revenue deficit with three alternative scenarios are given below:

Estimates of the revenue deficit for the period 2020-25 (Rs. crore)

Year	Total revenues	Total revenue expenditure	SCENARIO I: Revenue deficit without assuming any central transfers	SCENARIO II: Revenue deficit assuming estimated central transfers for 2018-19 BEs being kept constant at Rs. 20171 crore	SCENARIO III: Revenue deficit with central transfers growing at 10.7 per cent on 2018-19 BEs
2020-21	14313	41031	26718	6547	2000
2021-22	16195	46283	30088	9917	2725
2022-23	18330	52207	33877	13706	3586
2023-24	20753	58890	38137	17966	4605
2024-25	23501	66427	42926	22755	5806
Total	93092	264838	171746	70891	18722

Source: Estimates given in Chapters on revenue receipts and revenue expenditure in this study.

17. As to the ratio of the estimated revenue deficit to the projected GSDP at current prices, the percentages for scenario I and scenario II are given in the following table and it is revealed that the revenue deficit would decline from 13.81 per cent of the GSDP in 2020-21 to 13.60 per cent of the GSDP in 2024-25 without assuming any central transfers. With central transfers at the level of 2018-19 budget estimates being assumed as constant for the forecast period, the revenue deficit is estimated at 3.38 per cent in 2020-21 and would worsen to 7.21 per cent of the GSDP in 2024-25. For balancing the revenue account, additional revenue deficit grants would merit to be recommended for the State.

Revenue Deficit to GSDP at current prices ratio (Per cent) for 2020-25 period

Year	RD Scenario I	RD Scenario II	Estimated GSDP at current prices	Percentage of	
				Col.2 to 4	Col.3 to 4
1	2	3	4	5	6
2020-21	26718	6547	193507	13.81	3.38
2021-22	30088	9917	218662	13.76	4.53
2022-23	33877	13706	247088	13.71	5.54
2023-24	38137	17966	279210	13.66	6.43
2024-25	42926	22755	315507	13.60	7.21

Source: Estimates given in Chapters on revenue receipts and revenue expenditure in this study.

18. It would not be an overstatement to say that the decentralisation in Himachal Pradesh has not progressed on the 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 and executive authority and in doing so, not to effectively decentralise the functions, funds, and functionaries to meet the spirit of the Constitutional amendments.

19. A review of the status of implementation of the reports of the State Finance Commissions revealed 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 a decade now but have not been adopted or adopted with reasoned modifications. These need to be looked into with urgency towards promoting decentralisation and enhancing answerability at the local level. The State Government needs to understand that decentralisation enhances efficiency of use of both financial and manpower resources.

20. 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 has followed a tight fisted policy and should continue on the same path by not providing any budgetary support and increasingly privatising the trading activity to afford competition and cost efficiency, besides totally dis-intermediating itself in regard to the finances of the State owned PSU's.
21. The overall expenditure on subsidies as a percentage of the revenue expenditure in the State has hovered around 3 to 3.5 per cent as a trend. Rationalisation and better targeting of the two major subsidy schemes namely subsidised supply of electricity to domestic consumers and across the board subsidised supply of pulses and cooking oil could easily reduce their annual burden by about Rs. 400 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 and containing the budgetary outgo on this account. It is necessary that the State Government maintains its stiff policy on introducing new subsidies and seriously attempt targeting the existing subsidies on a meritorious basis.

22. Power sector reforms have been implemented in the State in accordance with the national policy. The physical performance parameters of the Himachal Pradesh State Electricity Board Limited despite the fact that it has extensive network of the transmission lines over most inhospitable terrain is a cause of envy for other States across the country. The UDAY related borrowings by the State amounting to Rs. 2890.50 crore were picked up in 2016-17. These have led to worsening of the debt to GSDP ratio in 2016-17 by 2.33 per cent at current prices. During the forecast period of 2020-25, additional interest servicing burden on this account would amount to Rs. 1072.83 crore and would result in marginal further worsening of the revenue deficit.
23. At an overall level, an increase in the debt stock may not be viewed adversely till the permissible fresh borrowings are devoted to capital investment and asset formation by the State Government. However, in the case of Himachal Pradesh, what is seriously worrying is that a sizeable part of the fresh debt is being consumed by the ever-growing revenue expenditure which is basically consumption expenditure. This has been brought out in an earlier chapter and it should be a cause of worry for the governments of the day in coming times. There is historical data over the last few years indicating that the State Government has been having a revenue account surplus. Prudence demands that in such years the State Government could do well by not contracting additional debt beyond what is inescapable towards repayments of the past debt and use the revenue surplus to meet such liability. This would demand self-discipline and restraint and the Fifteenth Finance Commission could set such conditions which facilitate such a process.
24. As to the evaluation of the State finances with respect to the recommendations of the Fourteenth Finance Commission, the analysis for the first three years of the award period reveals that the actual performance against the projections of the Fourteenth Finance Commission falls way short of the projections both in the case of State's tax revenues and the revenue expenditure. It appears that using normative prescriptions as against the historical data trends in the case of mountainous States may not be the correct perspective. In the case of Himachal Pradesh and other mountainous States, building projections for the forecast period of the Fifteenth Finance Commission on the basis of historical data may serve the ends of fiscal justice better.

CHAPTER 1

AN INTRODUCTION OF HIMACHAL PRADESH

Synopsis: Brief history of the State of Himachal Pradesh, Conferment of Statehood, its fiscal capabilities and needs of development, tracing the overall path of development of the State and its reliance on the central transfers for developmental and regulatory functions and changes in the structure of major sources of the State's tax and non-tax revenues over time.

Himachal Pradesh was constituted as a centrally administered territory on the 15th April, 1948 by merger of 30 odd erstwhile princely hill states. After a series of changes in its geographical configuration, it attained Statehood on the 25th January, 1971 to become the eighteenth State of India. Having inherited a massive backlog of development due to the feudal administration in the amalgamating princely States prior to attaining of independence, the State of Himachal Pradesh has come a long way on its arduous path of development, braving paucity of financial resources, surmounting topographic hurdles and climatic extremities. 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. At the same time, its fiscal capacity was extremely poor due to the fact that erstwhile rulers had precious little concern for enabling creation of revenue raising capacities or intensifying socio-economic development of the common man.

Conferment of Statehood on Himachal Pradesh was more in the nature of recognition and 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 lead to a slowdown of the pace of development and also limit the development of revenue raising capabilities, widening the gap between the mainstream States and a typical Himalayan mountainous State like Himachal Pradesh.

Himachal Pradesh is largely a mountainous State having a deeply dissected topography and complex geological structure. It has an area of 55,673 square kilometres. Five major river systems of north and north-western India flow through it. It is also the most rural State in the country with about 90 per cent of its population living in the villages. Most of the towns are like large villages in the country elsewhere. The State is administratively divided into twelve districts. It has over

18,000 villages and 59 urban settlements. Himachal's social indicators are among the best in the country. It's per capita income in above the national average.

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 one could appreciate, 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 internal 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" from the beginning of the Fifth Five Year Plan (1974-79). 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 for regulatory as well as developmental administration. The revenue expenditure commitments would generally 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. On the receipts side, considerations like low population density, poor industrialisation, distance from the markets and subsistence level agrarian economy would render the State to have poor revenue base.

A quick look at the time series data on 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 of funds has been very heavy. Needless to mention, Himachal Pradesh continued to be funded as a centrally administered territory till 1973-74, and hence this low percentage for 1970-71. 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. Given the financial 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 transfer of funds from the Central Government. In the current scenario, the transfers to States are largely through the Finance Ministry based on the recommendations of the Central Finance Commissions.

From the year 2015-16, as a result of the implementation of the Fourteenth Finance Commission recommendations, the transfer of central plan grants by way of central assistance for financing the State Plans was discontinued. The available data for the years 2015-16 to 2018-19 has been compiled to see whether the old over-dependence continued or there was any change in the financing structure of the State Budget for Himachal Pradesh.

Table 1.2: Central Transfers and Budget Size for Himachal Pradesh (Rs. Crore)

Year	Central Transfers	Budget size	Percentage of Col. 2 to Col 3
1	2	3	4
2015-16(A)	14904.56	29578.20	50.39
2016-17(R)	17948.81	33988.67	52.81

2017-18(B)	18166.06	33201.96	54.71
2018-19(B)	20171.09	41439.93	48.68

Note: A stands for Actuals, R stands for revised estimates and B stands for Budget Estimates.
Source: Budget in brief of Himachal Pradesh Government.

The above data indicates that the over-dependence of the State of Himachal Pradesh on central transfers for meeting its expenditure commitments has continued to deepen further even after the implementation of the recommendations of the Fourteenth Finance Commission. As a trend, it does not bode well for the State. Instead of gaining fiscal strength to fend for itself, it has continued to lean further on the central transfers to meet its committed revenue expenditure on salaries, pensions and interest payments, among other items of committed revenue expenditure because its capacity to raise revenues has continued to shrink as would be elaborated in the following text.

Since the above data includes certain transfers from the Central Government which are in the nature of State's share in central taxes, a better appreciation will emerge if one looks at the transfers from Centre by way of grants of different shades and nomenclature. The data in this behalf is presented in the following table: -

Table 1.3: Grants from Centre in crore rupees (Rounded to the nearest crore)

Year	Non FC grants	CSS grants out of Col.2	FC grants	RDG out of Col.4	Other Grants	Total Grants (Col.2+4+6)	Col.4 as % of Col.7
1	2	3	4	5	6	7	8
2010-11	3007	343	2465	2232	185	5657	43.57
2011-12	3849	505	2563	2055	109	6521	39.30
2012-13	4787	579	2438	1883	89	7314	33.33
2013-14	4289	507	1884	1312	141	6314	29.84
2014-15	5979	1615	1109	406	90	7178	15.45
2015-16	2677	1979	8436	8009	183	11296	74.68
2016-17	4232	3055	8796	8232	137	13165	66.81
2017-18*	4596	4596	8938	8311	169	13703	65.22
2018-19#	4806	4806	8905	8206	72	13783	64.61

Source: State Finance Department, Government of Himachal Pradesh.

The data from 2010-11 to 2014-15 has been included in the table more for historic purposes. The data from 2015-16 onwards represents the current reality. It becomes clear that after the implementation of the award of the Fourteenth Finance Commission, the grants through the award of the Finance Commission account for two-third of all the grants from Centre, the remaining one-third being the grants from the Centre through the centrally sponsored schemes. Also, the other grants from the Finance Commission are a minute fraction of the total grants. This means that almost all the grants from the Finance Commission are by way of the revenue deficit grants. It is safe to presume that even in future, the tax share of Himachal Pradesh will remain a small devolution, the larger part of transfers will have to be through the revenue deficit grants. Given this, it seems imperative that the mechanism of revenue deficit grants needs to be strengthened and institutionalised for the fiscally weak mountain States in the philosophy of the Finance Commissions for future.

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 1.4: 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
2013-14	17	40	43
2015-16	15	37	48

Source: 1. Commerce, Volume 121, Number 3093, Aug.,1970.

2. Directorate of Economics and Statistics, Himachal Pradesh.

On a theoretical plane, the track of diversification followed by Himachal Pradesh is an ideal text book case, creating a greater scope for generation of financial resources and imparting structural strength to the economy to stay on course of a sustainable high growth path. 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 on the one hand, and a large part of the State GDP originating here but accruing of be consumed elsewhere outside the State.

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 till 2014-15, 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 Fourteenth Finance Commission and given the current scenario, it is likely to continue in the same status of being a massively revenue deficit State. As would be seen later on in this study, a significantly large part of the fresh borrowings is also being diverted or getting dedicated to meeting the committed revenue expenditure which would inevitably take the State to a severe debt trap.

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 below:-

Table 1.5: Revenues of Himachal Pradesh (Rs. crore)

Year	Tax revenues	Non-tax revenues	Total State's own revenues	% change over previous year
2002-03	887.54	175.49	1063.03	..
2003-04	984.33	291.76	1276.09	20.04
2004-05	1251.87	610.78	1862.65	45.97
2005-06	1497.02	689.68	2186.70	17.40
2006-07	1656.37	1336.86	2993.23	10.64
2007-08	1958.18	1822.44	3780.62	18.22
2008-09	2242.49	1756.24	3998.73	14.52
2009-10	2574.52	1783.66	4358.18	14.80
2010-11	3642.38	1695.31	5737.69	41.47
2011-12	4107.92	1915.20	6023.12	12.78

2012-13	4626.15	1376.88	6003.03	12.61
2013-14	5120.91	1784.53	6905.44	10.69
2014-15	5940.16	2081.45	8021.61	16.00
2015-16	6695.81	1837.15	8532.96	12.74
2016-17	7039.04	1717.24	8756.28	2.61

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 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. For the year 2016-17, the share of tax revenues to total own revenues came to 80.38 and the rest 19.62 per cent was contributed by the non-tax revenues. The component analysis subsequently will reveal that he villain of the piece is the non-tax revenue from the power sector. 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. The quantum increases in the tax revenues witnessed in the first half of the decade 2001-10 is undoubtedly attributable to the introduction of tax reform by switching over from the conventional sales tax to the value added tax. Whether such a significant and sustained increase would materialize after the implementation of the goods and services tax, is a moot question which is difficult to be answered at this stage, given the early signals on this matter as exhibited in another chapter in this study.

The trend in the ratios of State's own revenues to the GSDP and that of tax revenues to the GSDP over the study period does not reveal a progressive picture as would be evidenced by the data in the following table: -

Table 1.6: Percentage of State's tax revenues and State's total own revenues to the Gross State Domestic Product for 2006-07 to 2015-16 (Rs. crore)

Year	Total Revenues	Tax Revenues	GSDP	Col. 2 as per cent of Col.4	Col. 3 as per cent of Col.4
1	2	3	4	5	6
2006-07	2993.23	1656.37	28841.38	10.38	5.74
2007-08	3780.62	1958.18	32416.96	11.66	6.04
2008-09	3998.73	2242.49	39452.21	10.14	5.68

2009-10	4358.18	2574.52	45893.40	9.50	6.00
2010-11	5737.69	3642.38	54400.45	10.54	6.70
2011-12	6023.12	4107.92	63509.69	8.67	6.47
2012-13	6003.03	4626.15	72259.38	8.31	6.40
2013-14	6905.44	5120.91	81169.79	8.51	6.31
2014-15	8021.61	5940.16	88238.61	9.09	6.73
2015-16	8532.96	6695.81	97405.45	8.76	6.87
2016-17	8756.28	7039.04	108120.05	7.89	6.51

Source: State Budgets and Directorate of Economics and Statistics, Himachal Pradesh.

The data presented above does not indicate any trend. The tax: GDP ratio for the State has ranged from 5.68 per cent in 2008-09 to 6.87 per cent for 2015-16 and 6.51 per cent for 2016-17. The reality is vastly different from what the Fourteenth Finance Commission had projected in estimating the yield of State's tax revenues. The ratio of total own revenues to the GSDP has been even more erratic as it ranges between 7.89 per cent for 2016-17 at the lowest to 11.66 per cent for 2007-08. The unusually jumpy trend in the non-tax revenue accruals is attributable to the revenues from the power sector and its components will be brought out in the following text.

As mentioned earlier, 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 1.7: Share of forestry sector in the State revenues and State domestic product

Year	Per cent share in total State revenues	Per cent 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
2015-16	0.40	3.19

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

The above data clearly demonstrates that forestry sector is no longer a significant component of the State's own revenues. It has not only lost its significance in being a major source of revenues to the State, but has also become inconsequential in its contribution to the GSDP. This drastic decline has manifested as a consequence of a conscious and far reaching decision of the State Government in 1980-81 when it started the policy of progressive draw 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. For this, it may be high time that some special compensation mechanism is evolved for helping States do this on a voluntary basis.

The other 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 September, 1990. Thereafter, exploitation of power potential stared with accelerated pace and the results started becoming visible. Power sector lately emerged as a major contributor to state revenues in the recent decade only and the pattern of revenues is depicted below:-

Table 1.8: 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
2015-16	551.06	923.68	1474.74	17.23

Source: Estimates of Receipts as presented with the respective Budgets, Himachal Pradesh.

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

It is important to note that from an inconsequential contribution, the power sector now accounts for a little over one-sixth of the State's own revenues and this share is likely to stabilise around that level because the growth in consumption of electricity within the State is highly dependent upon rapid industrialisation. It would be relevant to make a mention of the freak years of 2006-07 and 2007-08 when the Sate policy resulted in such one-time bonanza as would never be replicated in future. The future revenue growth will also be determined by the emergence of other sources of energy like solar energy becoming competitive in pricing as also its ease of exploitation. The revenue would nominally increase in the future hopefully 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.

It is thus apparent that the traditional revenue raising sector of forestry has now become redundant whereas a new avenue has arisen in the power sector which could 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). However, the growth in revenues to the State from the allotted power projects has a question mark on its face because the developers are increasingly shying away from investment and early actualisation due to a wide range of factors.

The above macro picture indicates that the possibility of raising revenues by the State of Himachal Pradesh is severely constrained due to a wide variety of factors as have been mentioned in the early part of this chapter. This coupled with the juggernaut of ballooning revenue expenditure on salaries and pensions on the one hand, and increasing burden of interest liabilities, on the other, indicates to a scenario in which the State will increasingly depend upon transfers from centre to sustain itself because it has precious little control on the incremental burden of future pay revisions, dearness allowance and the like. The picture is dismal and disheartening. Expecting a significant mark up in its own revenue raising capacity will be asking for a little too much and revenue forecasts should be in the realm of realities.

CHAPTER 2

RAISING RESOURCES IN HIMACHAL PRADESH

Synopsis: Macro perspective of the limitations in raising of and a quick overview of the 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 also have the possibility of capitalising on the services sector for combined expansion of employment and incomes. The share of manufacturing activity in the Gross State Domestic Product has witnessed increases over time. Till very recently the industrial base of Himachal Pradesh was very weak. The contribution of the 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. A quick look at the share of manufacturing sector in the GSDP would outline the story how incentives work in promoting a sectoral activity, especially in the backward regions. The time series data on this aspect is exhibited in the following table:-

Table 2.1: Share of Manufacturing sector in the GSDP of Himachal Pradesh

Year	GSDP (Rs. crore)	Contribution of Manufacturing sector (Rs. crore)	Percentage of Column 3 to Column 2
2004-05	24076.58	2772.10	11.51
2008-09	41483.10	6612.90	15.94
2011-12	66448.35	13327.46	20.06
2014-15	95586.71	17448.08	18.25

Source: Estimates of GSDP, Directorate of Economics and Statistics, Government of Himachal Pradesh.

Special incentives for promoting industrialisation were announced and implemented in the year 2003-04 for Himachal Pradesh. The growth of manufacturing sector after these incentives were put in place by the Government of India is clearly visible from the data presented in the above table. There has been a strong improvement in the industrial sector in Himachal Pradesh and the share of manufacturing in the GSDP has risen to around 20 per cent. This growth also had its impact on the revenues to a certain extent and significant gains in employment were also discernible. 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 distant possibility in the short run period of the Fifteenth Finance Commission award (2020-25).

The limitations of possibilities of the farm sector 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 an encouraging track record of the State in farm diversification, the over-bearing constraints which limit future possibilities include fragmented small farm holdings where close to 90 per cent of the farms are small and marginal; 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 being practiced on marginal lands; aging orchards and old rootstock; 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.

As regards the services sector, the State cannot 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 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 24 per cent in 1970-71 and has grown to about 48 per cent for 2015-16. 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. 97405 crore for 2015-16, the services sector accounts for about Rs. 46479 crore. The State Government spending on salaries, wages and pensions is about Rs. 12534 crore. Hence about 22 per cent of the services sector contribution is due to the government spending on salaries, wages 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!

It would be revealed at a later stage in this study, 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 theoretically but very early signals are a bit discouraging.

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 or a higher percentage (if the allotted projects promising much higher free power to the State materialize, which seems a very remote possibility) of the generating capacity as free power in the short term coinciding with the forecast period of the Fifteenth 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. Even though that is like light at the end of the tunnel scenario, yet 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. For accelerating the actualisation of the allotted potential before it becomes uncompetitive vis-a-vis other renewable sources of energy, the State Government is required to hastily revisit the hydro-electric policy and free it from the constraints and undesirable hurdles in speedy implementation of hydro-electric and efficient evacuation of the generated power.

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 the past 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 as 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 within the State as for the power sector and some indirect gain in the 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 purpose 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 mountainous and hilly 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 alongside demanding financial resources of a very tall order. Various agencies in the Central Government, Planning Commission till 2014-15 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 to an appreciable extent. Yet the disparities continue to accentuate because the other States have also moved faster due to inherent advantages of location, connectivity, easy topography and favourable climatic conditions.

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 because other factors like slope, difficulty in putting down infrastructure and like do not get addressed at all. 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. There are no straight methods available for assessing such 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 18500 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 gauge 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, Sirmaur and Kangra do not have rail connectivity and actually need a broad gauge 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. Except for the large water bodies created by the reservoir based hydro-electric projects which offer little scope for water based transport systems, the rivers in Himachal Pradesh have steep gradient and rocky surfaces and winding banks and thus severely limit any economic development of waterways for passenger or goods transport. 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 besides the seasonal constraints of extreme rainfall and snowfall leading to deterioration of the quality of infrastructure.

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 bound to be much higher per unit of population and area.

All the above aspects deserve to be internalised in the devolution process from Centre to such hill and mountainous States. Appreciation of these peculiarities by the Finance Commissions exists in not so realistic measure when one looks at the devolution design followed by the previous Finance Commissions, but it is not at the desired level to ensure greater equity. The compensation design for mitigating these disabilities probably deserves another realistic and equalising look. Such a levelling exercise has not so far been undertaken in the past and the Fifteenth Finance Commission could examine the feasibility and usefulness of such mechanism.

A paper titled “Challenges of Regional Planning and Development Costs in the Mountains” was attempted by the author of this study and has been published in a book titled “Massive Urbanisation : Challenges, Pedagogy and Research” brought out by the Institute for Spatial Planning and Environment Research , Panchkula, India. It deals with the issues flagged above and is appended to this chapter as Appendix I. This could be used as a supportive input for furthering the cause of equity in fiscal federalism at the hands of the Fifteenth Finance Commission. It is high time that such a differential as favours mountain States and territories is attempted to be built into the overall devolution design by the Fifteenth Finance Commission.

APPENDIX I

CHALLENGES OF REGIONAL PLANNING AND DEVELOPMENT IN THE MOUNTAINS

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Abstract

Appreciation of geographical area and topography for mountainous regions has an entirely different perspective as compared to the plains. On top of this, we understand the data constraint on and lack of appreciation about the geographical area i.e. the measurement is based on plane table assumption and not on the actual surface area. The available area data, thus does not factor in the dimensions of altitude and slopes which are inseparable components of the process of regional planning and development for the mountain regions. The unit costs of all infrastructural and other developmental inputs end up being much higher and need to be supported by rationally determined higher unit costs to carry out the task of development and favourable devolution of funds towards surmount ting these difficulties. In addition, the climatic extremities; limited working season resulting from limited number of days; fewer hours in a working day; and unusually long and expensive haulage of physical inputs for infrastructural development become overbearing variables in the developmental equation and need to be addressed appropriately. This paper is an attempt to bring into focus these parametric constraints faced by the mountain regions in the process of development and make out a case for preferential fiscal resource transfers to mountain regions and States towards ameliorating the backlog of development and backwardness, in general, and reduction of disparities vis-a-vis the non-mountainous or plain regions, in particular.

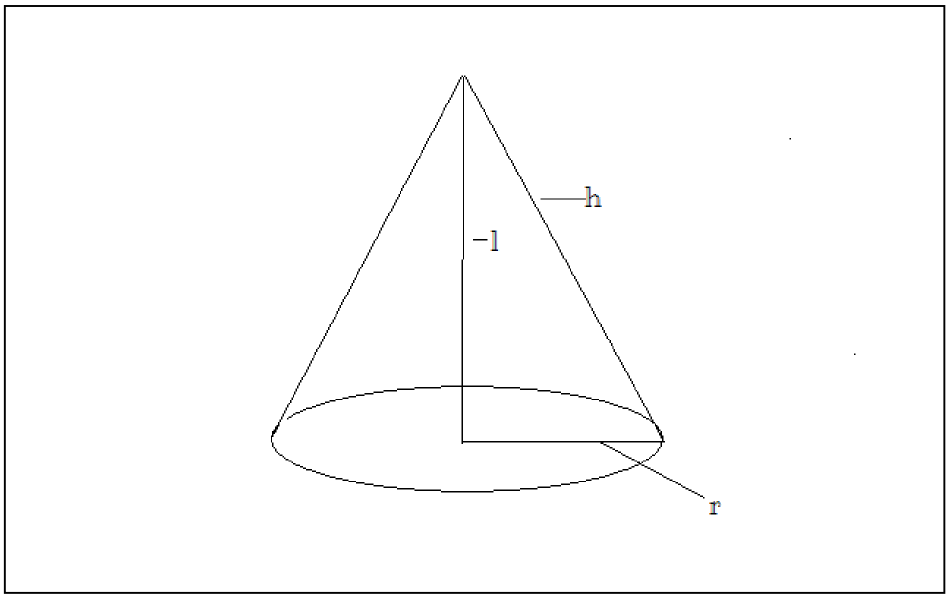
Introduction

It was the early 1970s when the author moved from Ludhiana to Shimla to join the Government of Himachal Pradesh. When the author travelled to Shimla to join the State Government in the Bureau of Economics and Statistics in January, 1972, 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, the author told a colleague that Shimla was tucked up in the Himalayas far too away, it needed enormous effort to travel to this place and development here would be a difficult and challenging task. In response, the author was told by his colleague that the 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, the author did not believe his colleague but once he had a hard look at the map, he gradually gravitated to believe what was told to him. With this, the seed of a question about the actual surface area of the mountainous territories was sown in the mind of the author.

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 or 110.83 kilometres, one minute equals 1.15 miles or 1.85 kilometres and one second equals 101.02 feet or 30.83 metres. Therefore, the actual crow-flight or plane table distance between Kalka and Shimla worked out to 18.338 miles or about 29.5 kilometres. Subsequently, when the author got the opportunity of serving the State Government in the Planning Department in various capacities, he 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 questioned for determining the geographical area with the authorities responsible for this function but without an avail. The technologies to determine the actual area of the slopes of mountains had become known and were being tried out in several places with limited applications. The issue was raised with the successive Central Finance Commissions and the National Planning Commission that the actual area in the mountains was far more than the usual plane table area but did not get adequate appreciation. Since the surface area was one of the most important denominators of determining the levels of development, especially in the mountainous regions, it was really putting these regions 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. The climatic extremities, limited working season and unusually long haulage of physical inputs of infrastructural development were additional variables in the developmental equation which needed to be addressed appropriately.

Since 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, it is reasonably easy to 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, it is presumed 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 and the degree of difficulty and the cost of landing the developmental infrastructure will keep becoming greater. This is a simple mathematical illustration to further the cause of the issues 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. This paper looks at these ramifications in real life situations and presents a different picture of comparative development in its spatial dimension in Himachal Pradesh than is commonly perceived.

For the purposes of this study, the actual plane table area of different districts, the surface area of different districts and certain physical attributes of development will be considered for comparison purposes. But before doing that, it is necessary and imperative to 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 become irrelevant since the present procedures and developmental practice ignore this most important dimension. Therefore, it becomes necessary to use the GIS technology to make area estimation for the mountain States or regions 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.	District	Area according to SGI	Area according to 2-D calculation	Area according to 3-D calculation	Per cent increase in area in col.5 over col.3
1	2	3	4	5	6
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

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

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 regions. 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, the variation being only 331 square kilometres and constituting 0.59 per cent of the area according to the estimates of the Surveyor General of India.

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

Since all development has to be population-centric, a comparative look at the scatter of the habitations from the conventional view and from the three dimensional aspect of the surface area can reveal the story behind the disparities of development. 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 2011 census	Area per village in sq. km.	
					SGI area	3-D area
1.	Bilaspur	1167	1327	953	1.224	1.392
2.	Chamba	6528	11675	1110	5.881	10.518

3.	Hamirpur	1118	1147	1671	0.669	0.686
4.	Kangra	5739	7088	3617	1.587	1.960
5.	Kinnaur	6401	11762	241	26.560	48.805
6.	Kullu	5503	9694	314	17.525	56.360
7.	L-Spiti	13835	22893	280	49.411	81.761
8.	Mandi	3950	5403	2850	1.386	1.896
9.	Shimla	5131	7888	2705	1.897	2.916
10.	Sirmaur	2825	3654	968	2.918	3.775
11.	Solan	1936	2285	2383	0.812	0.934
12.	Una	1540	1569	790	1.949	1.986
13.	HP	55673	86385	17882	3.113	4.831

Note: The number of villages is inhabited villages according to the 2011 census.
Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

A quick look at the above data throws up an interesting aspect about the theme of this study. By the conventional area approach, the range of the area per habitation is from 0.669 square kilometres to 49.411 square kilometres in Hamirpur and Lahaul-Spiti districts, respectively. On the other hand, when one looks at the range for the per habitation area by the three dimensional approach, it is 0.686 square kilometres for Hamirpur and 81.761 square kilometres for Lahaul-Spiti district. Assuming that all habitations are evenly dispersed on the area, this implies that the average distance between two habitations in case of Hamirpur is 0.92 kilometres as against the corresponding figure for Lahaul-Spiti at 7.94 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 0.94 kilometres and that for Lahaul-Spiti comes to 10.20 kilometres. In this manner, the ratio for the average distance between the least and the farthest spaced habitations according to the conventional approach in the State works out to 1:8.63, whereas the same ratio by the 3-dimesional appreciation of the area becomes 1:10.85. These ratios throw up an issue. The formidability of the developmental exercise in terms of implementation is at about 26 per cent higher in case of the approach by the 3-dimensional area as compared to the plane table approach, just by taking into account the area alone. Other factors like slope, climatic adversity, and long leads for haulage in the absence of appropriate surface connectivity would deserve a much higher premium.

Once having appreciated the nature of dispersal of villages of habitations leaving aside the other impinging factors like slope, relative altitude, etc., the density of population is another aspect which bears down on costs of development. Therefore, apart 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 2011 census	Density	
					SGI area	3-D area
1.	Bilaspur	1167	1327	381956	327	288
2.	Chamba	6528	11675	519080	80	44
3.	Hamirpur	1118	1147	454768	407	396
4.	Kangra	5739	7088	1510075	263	213
5.	Kinnaur	6401	11762	84121	13	7
6.	Kullu	5503	9694	437903	80	45
7.	L-Spiti	13835	22893	31564	2	1
8.	Mandi	3950	5403	999777	253	185
9.	Shimla	5131	7888	814010	159	103
10.	Sirmaur	2825	3654	529855	188	145
11.	Solan	1936	2285	580320	300	254
12.	Una	1540	1569	521173	338	332
13.	HP	55673	86385	6864602	123	79

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

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.

Another important aspect in the effort of development of mountainous regions is the bare fact that a certain and significant proportion of the area by the three dimensional approach is uninhabited, being above the tree line. It is relevant to the context of this study that one appreciates the magnitude of such area for the State of study, i.e. Himachal Pradesh. Himachal Pradesh comprises of a total of nine river basins and the basin-wise details of the geographical area are given below:

Table 4: River basin-wise area of Himachal Pradesh (Square kilometres)

Sr.No.	River Basin	Area in Square Kilometres	
		Total	Above 4115 metres
1	Satluj	20398	8283
2	Beas	13663	1364
3	Yamuna	5872	217
4	Ravi	5528	405
5	Indus	1450	1450
6	Chenab	7850	5161
7	Ghaggar	262	-
8	Gangos	290	245
9	Markanda	360	-
10	Total	55673	17125

Source: Forestry Statistics of Himachal Pradesh published by the Forest Department, Government of Himachal Pradesh and Perspectives of Development in Himachal Pradesh, Planning Department, Himachal Pradesh.

The area of the river basins can be divided into three categories in the mountainous regions, namely:

1. Areas above the tree line,
2. Habitable and economically active area, and
3. Area along the river banks.

It needs to be understood that the area above the tree line is generally barren, hostile and un-inhabited. The remaining area under the other categories above is what will largely be the focus of development which includes habitations, roads, bridges, hydro-electric projects, educational institutions, health institutions, irrigation, water supply on the one hand, and the economic activities like agriculture, horticulture, forestry, industrialisation , etc., on the other. Before attempting any analysis or commentary on various aspects of comparative development, both infrastructural and social, on the basis of 2-D or 3-D area estimates, it would be of great interest for this study to focus on the actual area located at different altitudes in the State. The data in this behalf is presented in the following table:

Table 5: Altitudinal classification of the area of Himachal Pradesh

Sr. No.	Altitude in metres	Area in Sq. Kilometres	Per cent to total
1	Below 915	8306	14.92
2	915-1525	8433	15.15
3	1525-2440	7633	13.71
4	2440-3200	5738	10.31
5	3200-4115	8434	15.15
6	Above 4115	17125	30.76
7	Total	55673	100.00

Source: Forestry Statistics of Himachal Pradesh published by the Forest Department, Government of Himachal Pradesh and Perspectives of Development in Himachal Pradesh, Planning Department, Himachal Pradesh.

The above data clarifies that about 30.76 per cent of the geographical area of Himachal Pradesh lies above the altitude of 4115 metres (13500 feet) above the mean sea level. With the exception of a few habitations in the State which could be counted on the fingers, this entire area is un-inhabitable being above the tree line and largely perennially snow covered and should, therefore, count little in the matter of development except for communications by roads. The remaining 69.24 per cent of the State's area is what supports the population, agriculture, horticulture and forestry and other economic activities. It also has the entire social infrastructure like schools, health institutions, welfare activities and centres. If one were to apply this factor of 69.24 per cent to the estimated three dimensional area, one would realise that the remaining area works out to 59812 square kilometres, which is fairly close to the plane table two dimensional area of 55673 square kilometres. With this appreciation at the back of one's mind, let us proceed to analyse the existing infrastructure according to the two dimensional and three dimensional concepts of geographical area. One would like to stick to the conventional indicators followed across the country for this purpose and attempt conclusions towards disparities in various socio-economic sectors.

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 sparse and scattered, the density of roads per unit of area is considered as one of the most important indicators of development. For analysing the road density, the entire area - above as well as below 4115 metres height above the mean sea level - shall require to be taken into cognizance as the roads go over these altitudes as well. 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 in the availability of this most critical infrastructure 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 6: Average road length per 100 square kilometres of area

Sl. No.	Districts	Area by SGI	3-D Area	Road length in Kms.		Road length per 100 sq. kms. Of	
				2007-08		SGI area	3-D area

					2016-17	2007-08	2016-17	2007-08	2016-17
1.	Bilaspur	1167	1327	1439	1731	123.3	148.3	108.4	130.4
2.	Chamba	6528	11675	3009	3299	46.1	50.5	25.8	28.2
3.	Hamirpur	1118	1147	1665	1914	148.9	171.2	145.2	166.9
4.	Kangra	5739	7088	5140	6030	89.56	105.1	72.5	85.1
5.	Kinnaur	6401	11762	978	1098	15.3	17.2	8.3	9.3
6.	Kullu	5503	9694	1512	1937	27.5	35.2	15.6	20.0
7.	L-Spiti	13835	22893	1172	1262	8.5	9.1	5.1	5.5
8.	Mandi	3950	5403	4966	5740	125.7	145.3	91.1	106.2
9.	Shimla	5131	7888	4672	5519	91.1	107.6	59.2	70.0
10.	Sirmaur	2825	3654	2809	3110	99.4	110.1	76.9	85.1
11.	Solan	1936	2285	2540	3006	131.2	155.3	111.2	131.6
12.	Una	1540	1569	1610	1977	104.6	128.4	102.1	126.0
13.	HP	55673	86385	31512	36623	56.6	65.8	36.5	42.4

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

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 based on three-dimensional approach. 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. For the year 2007-08, 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. Similar ratios for the year 2016-17 are 1:18.80 and 1.30.35. Slight worsening of these ratios over the time period under study indicates that the pace of improvement of this critical developmental infrastructure is faster in the relatively less mountainous districts as compared to the more mountainous districts. One of the latent disabilities which the numbers or numerical indicators cannot 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 districts 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. It has been seen earlier on in this paper that the factor of density of population becomes a greater constraint in those districts which are highly mountainous. Since the location of educational and health institutions has to be population centric generally, the area served per institution can serve as a good indicator for the purposes of analysis. It however, needs to be kept in mind that population alone cannot be a sufficient indicator for locating schools and health institutions in the areas which have very low density of population. The following text deals with the data on these sectors.

Table 7: 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

Note : As compared to 2007-08, the number total educational institutions increased to 15,429 in 2016-17. This is not an increase which would impact the indicator of area served per institution. The district-wise spread has also not changed much. Hence the data for 2007-08 has been retained for analysis and presentational purposes.

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

When the data the school infrastructure availability is denominated by the area according to the Surveyor General of India (the plane table approach), it is found 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 the area served per school by the 3-dimensional approach (including the actual surface area of the slopes) is looked at, the range becomes from 1.331 square kilometres for Hamirpur to 85.742 square kilometres for Lahaul-Spiti. The ratio of the minimum to maximum area served per institution for the plane table area among districts is 1:39.95 and it becomes 1:64.41 for the three dimensional area. 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. It is probably for this precise reason that the more mountainous districts fare poorer in terms of educational achievements. 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 8: 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

Note: As compared to 2006-07, the number total health institutions increased to 3,999 in 2016-17. The district-wise spread has also not changed much. Hence the data for 2006-07 has been retained for analysis and presentational purposes. The indices do not change significantly.

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.
2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

The conclusions arrived at in the case of educational institutions also hold true for the health institutions. The ratio of the minimum to maximum area served per institution for the plane table area among districts is 1:42.08 and it becomes 1:67.86 for the three dimensional area. This clearly means that the backward districts appear to further slide down the scale when we compare the density of health infrastructure based on the 3-dimensional area measurement approach.

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 9: Average area served per scheduled commercial bank

Sl. No.	District	Area by SGI	3-D Area	Total banks		Area served per institution December, 2006	
				Dec. 2006	March, 2017	SGI area	3-D area
1.	Bilaspur	1167	1327	46	80	25.370	28.848
2.	Chamba	6528	11675	53	81	123.170	220.283
3.	Hamirpur	1118	1147	58	66	19.276	19.776
4.	Kangra	5739	7088	157	292	36.554	45.146

5.	Kinnaur	6401	11762	19	30	336.895	619.053
6.	Kullu	5503	9694	51	98	107.902	190.078
7.	L-Spiti	13835	22893	9	16	1537.222	2543.667
8.	Mandi	3950	5403	104	184	37.981	51.952
9.	Shimla	5131	7888	137	241	37.453	57.577
10.	Sirmaur	2825	3654	49	101	57.653	74.571
11.	Solan	1936	2285	91	205	21.275	25.110
12.	Una	1540	1569	56	112	27.500	28.018
13.	HP	55673	86385	830	1546	67.076	104.078

Source: 1. Statistical Outline of Himachal Pradesh, Directorate of Economics and Statistics, Government of Himachal Pradesh.

2. Developing District-wise Area of Himachal Pradesh: A study published by the Planning Department, Himachal Pradesh.

The range of disparities continues to manifest itself as a function of the intensity of mountainous nature of the districts. The data for 2017 has been added to the table with a view to indicate that opening of bank branches is more a function of the level of economic activity than the geographical area only.

The above analysis and the findings need to be understood and appreciated. For that, five facts need to be clearly understood. 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 were classified as “Special Category States” for the purposes of development. The national Planning Commission used to treat them with preference for meeting their developmental aspirations by “Lumpsum Allocation” system of central plan assistance and the assistance thus determined was passed on to these States on a special dispensation of 90 per cent grant and 10 per cent loan basis. This has since changed. The Planning Commission has been abolished. 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. Now all the fiscal transfers are governed by the Finance Commission dispensation. However, the mountainous States will continue to get revenue gap funding till 2019-20. The central fiscal transfers by way of central sector or centrally sponsored schemes are also administered on a more favourable basis than the other States. All these measures are an integral part 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 coupled with the topographic and climatic constraints. Mere area will not serve the purposes of equity. 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 and non-mountainous regions in the country.

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 as also the altitudinal difficulty coupled with climatic adversity. 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: Structure and composition of Tax Revenues of Himachal Pradesh, changes in the relative shares of various taxes and duties over 2005-06 to 2015-16 period, growth rates of individual taxes and sources, future potential, additional resource mobilisation measures undertaken by the State government, Tax: GDP ratio.

Before analysing the trends in tax revenue receipts, it would be of use to look at the trends in overall receipts of the State Government for the ongoing decade. The National Institute of Public Finance and Policy has conducted an analysis of the State finances for the current decade and the relevant findings about the trends in revenue receipts are depicted in the following table: -

Table 4.1: Revenue Receipts (% of GSDP)

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
A	**Total Revenue Receipts (B+C)**	**20.00**	**18.83**	**16.58**	**17.10**	**20.62**	**21.40**	**19.61**
B	**Own Revenue Receipts**	**8.28**	**7.25**	**7.29**	**7.69**	**7.51**	**7.00**	**6.76**
	Own Tax Revenue	5.65	5.59	5.40	5.69	5.89	5.79	5.62
	Own Non-Tax Revenue	2.63	1.66	1.88	1.99	1.62	1.21	1.13
C	**Central Transfers**	**11.72**	**11.59**	**9.29**	**9.41**	**13.12**	**14.40**	**12.86**
	Tax Devolution	2.75	2.76	2.63	2.53	3.18	3.48	3.41
	Grants-in-aid	8.97	8.83	6.66	6.88	9.94	10.92	9.45
D	Grants outside State budget	2.15	1.45	1.76	0.27	0.32	--	--
	All Grants	11.12	10.28	8.43	7.14	10.26	10.92	9.45
E	**All Central Transfers (C+D)**	13.86	13.04	11.06	9.68	13.44	14.40	12.86

Source: Study of State Finances of Himachal Pradesh conducted by the National Institute of Public Finance and Policy.

A careful look at the above data would reveal that the State's own revenue receipts as per cent of the Gross State Domestic Product have seen an erratic trend or marginally declining trend for the period under study. This implies that the growth in revenues has not kept pace with the growth in the GSDP. If the GSDP was growing at a certain rate in real terms, the percentage of revenue receipts should also have grown, though at a rate lower than the growth in the GSDP because the revenues are a function of the consumption and the marginal propensity to consume generally ranges between 0 and 1 according to the Keynesian theory. At an overall level, this is not a happy trend. Own tax revenues as per cent of GSDP have shown a near static trend whereas the non-tax revenues as per cent of the GSDP a declining trend. With this preview, a detailed analysis has been presented in the following text.

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 relative share of tax and non-tax sources of revenues in the State as also their growth as brought out in Chapter 1 earlier. The comparative position for the years 2005-06, 2010-11 and 2015-16 is depicted in the following table: -

Table 4.2: MACRO PICTURE OF TAX AND NON-TAX REVENUES OF HIMACHAL PRADESH (Rs. crore)

Year	Tax revenues	Non-tax revenues	Total
2005-06	1497.04	689.68	2186.72
2010-11	3642.38	1695.31	5337.69
2015-16	6695.81	1837.15	8532.96
Increase for 2015-16 over 2005-06	347.28%	166.38%	290.22 %
Average annual increase (2005-06 to 2015-16)	34.73 %	16.64 %	29.02 %

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

The data presented in the above table reveals that the growth in the tax as well as non-tax receipts of the State government has been strong and robust over the ten-year period under study. The simple average annual growth in the tax revenues was of the order of 34.73 per cent whereas the corresponding figure for the non-tax revenues was 16.64 per cent over the study period. One would like to specifically underline the fact that it was in the year 2005-06 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. It would be subsequently observed that the revenues from power on the non-tax front have peaked in the year

2007-08 and have been on the decline since then. It would also be seen 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. The other aspect is that the share of tax revenues to the State's total own revenues was about 68 per cent and that for the non-tax revenues was 32 per cent. In 2015-16, the share of tax revenues rose to 78 per cent and that for the non-tax revenues declined to 22 per cent. Going by the immediate prognosis of the scenario, the relative shares of the tax and non-tax revenues are likely to hover around 80 and 20 per cent, respectively. This needs to be kept in view for blowing up the forecast for 2020-25.

The trends in the collections from tax revenue sources and the changes in their relative shares for the study period are presented in the following table: -

TABLE 4.3: CHANGES IN THE MAJOR SOURCES OF STATE'S OWN TAX REVENUES OVER STUDY PERIOD (Rs. crore)

Source	2005-06	2015-16	Relative share to total (per cent)		Change in relative share
			2005-06	2015-16	
Stamps and registration fee	82.43	209.16	5.50	2.97	(-)2.53
State Excise	328.97	1307.87	21.97	18.58	(-)3.39
Taxes on sales	726.98	4381.91	48.57	62.26	(+)13.69
Taxes on vehicles	101.51	279.58	6.78	3.97	(-)2.81
Goods and passenger tax	42.61	121.37	2.85	1.72	(-)1.13
Electricity Duty	89.29	371.67	5.96	5.28	(-)0.68
Other taxes and duties	125.23	367.48	8.37	5.22	(-)3.15
Total	1497.02	7039.04	100.00	100.00	--

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

A look at the absolute numbers of revenue collections from various sources would indicate that each individual item of taxation has increased over the study period in absolute terms. However, the analysis of relative share of each source has seen a decline except for the taxes on sales. The decline in the relative share of various taxes has resulted from a strong showing in the case of the taxes on sales which accounts for over 62 per cent of the total tax revenues of Himachal Pradesh. There has been a sustained significant increase in the taxes on sales after the switchover from conventional sales tax to the Value Added Tax. It is not that the tax administration machinery got efficient overnight, but it is the prevention of evasion and improved system of collection as well as assessment that helped a big increase in the revenue collections. One sincerely hopes that the same story could be repeated with the introduction of the Goods and Services Tax.

A look at the time series data on the aggregate revenue collections and the growth trend is necessary to take home the above conjecture. The relevant data is presented in the following table: -

TABLE 4.4: 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
2012-13	4626.15	12.61
2013-14	5120.91	10.69
2014-15	5940.16	16.00
2015-16	6695.81	12.71
2016-17	7039.04	5.13

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

The average annual growth rate of tax revenues of Himachal Pradesh for the period 2005-06 to 2015-16 stands at 16.44 per cent and this represents a realistic estimate of compound growth. The corresponding figure for 2002-03 to 2015-16 stands at 17.06 per cent. The study period of 2005-06 to 2015-16 has an outlier in the year 2010-11 when the growth over the previous year came to 41.47 per cent. The specific reason for this spike is the revenues from electricity duty as would be seen in the following component analysis. For the present, the average annual growth rate for the tax revenues of the State would be best pegged at about 16.5 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, one could 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 table below: -

TABLE 4.5: TAX: GSDP RATIO (Base year for GSDP is 2004-05)

Year		State’s own taxes (Rs. crore)	GDP at current prices (Rs. cr.)	Tax/GDP ratio(Per cent)
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	56980	6.39
2011-12		4107.92	66448	6.18
2012-13		4626.15	76258	6.06
2013-14		5120.91	85840	5.96
2014-15		5940.16	95587	6.21
2015-16		6695.81	104200	6.43

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

The above data indicates that the tax effort as per cent of the GDP at current prices has increased from 5.2 in 2004-05 to 6.43 in 2015-16. 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, even though it may not be progressive enough. Another important fact that requires to be understood by a look at the data for the last three years is that the tax: GSDP ratio appears to have gone up from 5.96 per cent for 2013-14 to 6.43 per cent for 2015-16, which is a progression keeping in view that fact that the outliers or one-time spurts in tax collection have been left behind. Given the above medium term time series data, hoping that the tax to GSDP ration could climb to 8 per cent or even higher would appear to be very unrealistic. Hence, infeasible normative projections of tax revenues of the States in general, and for mountain States manifesting poor fiscal capacity, in particular, would end up being far removed from reality.

Consistently growing tax revenues coupled with near stabilised population growth are a pointer to the fact that per capita tax revenues in Himachal Pradesh have grown faster than many States. 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 as compared to the all-India average, on the other. It, however, needs to be remembered that the increasing per capita revenues are also a function of the population growth. Himachal Pradesh has contained the population growth more effectively than most States of the country and hence the growth in revenues has a slow growing denominator to result in higher growth in per capita revenues. 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. The incentives have since been discontinued and the allotted power potential is expected to be actualised. It is, therefore, implicit that the growth rates of revenues might plateau out. The forecast period of the Fifteenth Finance Commission will probably witness this kind of slow-down in the growth in revenues.

As to the question of any special measures taken by the State Government to improve the tax to GSDP ratio towards being in sync with the forecast and assumptions made by the Fourteenth Finance Commission for the period 2015-20, there is nothing on record in tangible terms that any such effort has been made. Keeping in view the fact that the per capita incomes in the State are rising at a rapid rate as compared to many States in the country, such a rise should either result in incremental consumption leading to better tax collection or should lead to rapid rise in saving rate and capital formation. There is precious little evidence that any such phenomenon is manifesting. This should be an area of study for the economic and financial administration in the State. As stated above, the famous Keynesian law of the relationship of consumption and incomes holds true globally. If consumption rises at a rate slower than the income, there is little merit in assuming that the tax elasticity will be higher than the rate of growth in GSDP. The Fifteenth Finance Commission may merit a look at the tax elasticity assumption being lower than the rate of growth in per capita incomes.

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 2005-06 to 2015-16 on this item is presented in the table given below: -

TABLE 4.6: REVENUES FROM STAMPS AND REGISTRATION FEES

YEAR	(Rs. crore)	Per cent Change over the previous year
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
2012-13	172.60	11.29
2013-14	187.50	8.63
2014-15	190.58	1.64
2015-16	205.52	7.84

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

The collections from stamps and registration fees have grown at an average growth rate of 9.79 per cent per annum during the study period. 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 2008-09 to 20011-12 may not be sustained into future. Given these facts, the growth rate of about 10 per cent in this item would seem optimistic and reasonable for the forecast period of 2020-25.

For the year 2015-16, the State excise duties account for a about 18.6 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 4.7: REVENUES FROM STATE EXCISE DUTIES ETC.

YEAR	(Rs. crore)	Per cent Change
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
2012-13	809.97	14.51
2013-14	951.96	17.53
2014-15	1044.14	9.68
2015-16	1132.22	8.34

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 13.29 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 and the increase in population. Per capita income of the State is above the all-India average and according to an old study by NIPFP, Himachal Pradesh ranked 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. The growth in 2012-13 over 2011-12 has been of the order of 14.51 per cent which appears to be the overhang effect of the additional resource mobilisation measures of 2011-12. Therefore, it would be optimistic to assume around 13 per cent growth for the forecast period given the fact that the population growth has been slowing down in the State and the prices of various brands of alcohol have reached an inelastic level compared with the prices in the region.

Taxes on sales account for a little over 62 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. Movement to the Value Added Tax led to significant improvement in tax compliance and plugging of leakages. Data for the study period on the collections from taxes on sales is depicted below: -

TABLE 4.8: REVENUES FROM TAXES ON SALES

YEAR	(Rs. crore)	Per cent Change
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
2012-13	2728.22	10.15
2013-14	3141.09	15.13
2014-15	3660.57	16.54
2015-16	3992.99	9.08

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 18.83 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 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 was 61835, an increase of about 2 per cent over the figure for 2010-11. The number of dealers for 2015-16 stood at 62549 and increased to 70065 for 2017-18. It is early days to make a comment on the number of dealers who will get under the umbrella of the Goods and Services Tax reflecting the improved compliance. The latest data indicates that the number of dealers registered under the Goods and Services Tax is 92651. Because of these explanations, it would not be realistic to assume a growth rate for the forecast period based on the average growth of revenues from taxes on sales. The trend in the last five years of the study period is a pointer to take the projections for the forecast period of 2020-25 at 15 per cent per annum.

Taxes on vehicles account for 3.97 per cent of the total State's own tax revenues for the year 2015-16. The time series data on this item of taxation is depicted in the following table:-

TABLE 4.9: REVENUES FROM TAXES ON VEHICLES

YEAR	(Rs. crore)	Per cent Change
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
2012-13	196.13	11.42
2013-14	207.81	5.96
2014-15	220.10	5.91
2015-16	317.05	44.05

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 consistent pattern of growth. The average growth rate for the study period comes to 12.09 per cent per annum. Given the erratic trend over the last 10 years, it would be safe to assume a growth rate of 12 per cent for taxes on vehicles for the forecast period of the Fifteenth Finance Commission.

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 4.10: REVENUES FROM GOODS AND PASSENGERS TAX

YEAR	(Rs. crore)	Per cent Change
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
2012-13	101.39	7.45
2013-14	104.95	3.51
2014-15	110.05	4.86
2015-16	115.28	4.75

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 cannot 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.

Based on the data presented above, the average annual growth rate for passengers and goods tax for the study period works out to 12.11 per cent even after inclusion of the outlier growth rate for 2009-10. It accounts for only 1.72 per cent of the State's own tax revenues for the year 2015-16. Based on this average, it would be fair to assume a growth rate of 12 per cent for this item for the forecast period. However, it is not really relevant since the tax on goods part of this composite source of revenue has been subsumed into the GST for the purposes of the forecast period of the Fifteenth Finance Commission.

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 5.28 per cent in 2015-16. The revenues from electricity duty are a function of the electricity consumption within the State and not of the aggregate generation of electricity in 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 further on to 7951.09 million units for 2015-16. It is likely to increase at the same tempo in future due to the domestic supplies being subsidised by the State Government. Another possibility of increase in the revenues from electricity duty is increase in the rates of duty. However, the actual revenue accruals on electricity duty for the study period are presented in the following table: -

TABLE 4.11: REVENUES FROM ELECTRICITY DUTY

YEAR	(Rs. crore)	Per cent Change
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
2012-13	262.62	41.60
2013-14	191.36	(-)27.13
2014-15	332.82	73.92
2015-16	551.06	65.57

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 cannot 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 future increase in the revenues from electricity duty is highly dependent upon the future pace of industrialisation. With the closure of tax holiday in industries sector in Himachal Pradesh, the likelihood of sustained increase in revenue accrual from electricity duty becomes weak.

All other tax levies have been proposed to be grouped as “Other taxes and duties” and the data on this lump for the study period is presented in the following table: -

TABLE 4.12: REVENUES FROM OTHER TAXES AND DUTIES

YEAR	(Rs. crore)	Per cent Change
2005-06	124.24	--
2006-07	118.69	(-)4.47
2007-08	137.16	15.56
2008-09	168.99	23.20
2009-10	197.14	16.65
652010-11	284.21	44.17

2011-12	294.97	3.78
2012-13	331.72	12.45
2013-14	326.26	(-)1.65
2014-15	365.02	11.88
2015-16	375.26	2.80

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

The average growth rate for other taxes and duties for the study period works out to 12.44 per cent. As the data clearly exhibits, there is no discernible trend in the revenue collections under this lumped category. For the purposes of the Finance Commission, it would be safe to assume a growth rate of 12 per cent for the forecast period of the Fifteenth Finance Commission.

Based on the factor analysis of the growth rates for various sources of tax revenues, it would be interesting to look at a weighted average of the growth in tax revenues because the Finance Commissions usually assume a singular number for the growth rate for total tax revenues during the forecast period. The picture is presented in the following table: -

TABLE 4.13: WEIGHTED AVERAGE OF THE GROWTH IN VARIOUS COMPONENTS OF TAX REVENUES FOR 2015-16.

Item/Source	Collection 2015-16	Per cent Share	Projected Growth rate for FFC forecast (% per annum)	Weight in the total
Stamps and Reg. fees	209.16	2.97	10	0.297
State Excise	1307.87	18.58	13	2.451
Taxes on Sales	4381.91	62.26	15	9.339
Taxes on Vehicles	279.58	3.97	12	0.476
PGT	121.37	1.72	12	0.206
Electricity duty	371.67	5.28	10	0.528
Other taxes and duties	367.48	5.22	12	0.626
Total	7039.04	100.00	--	13.923

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

The weighted average on the above basis works out to 13.92 per cent. It will, therefore, be fair to use an annual growth rate of 14 per cent for the growth in the

State's tax revenues during the forecast period with appropriate determination of the base year for the tax revenue collections. Such a projection would be justified in view of the growth of the State economy witnessed in the recent years and the fact that Himachal Pradesh is an end of the line consuming State where aggregate consumption is not a real function of the per capita incomes due to methodological issues and therefore, it is not necessary that such growth results in good showing in collections under the Goods and Services tax. A separate chapter on the current status of the collections under the Goods and Services Tax does not indicate possibilities of higher growth. Keeping this in view, the aggregate tax revenues of the State inclusive of the GST should not be projected at a rate higher than 14 per cent. Assumption of a higher growth rate will be far removed from the reality. The projected tax revenue of the State for the period 2020-25 on the above basis applied to 2016-17 actuals works out as under:

Table 4.14: Projections of tax revenues for 2020-25 period (Rs. crore)

Year	Projected tax revenue
2020-21	11889
2021-22	13553
2022-23	15450
2023-24	17614
2024-25	20079

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 due to proactive policies for environmental conservation of the fragile Himalayan eco-system followed by the Government of Himachal Pradesh starting early 1980's, this has become an insignificant 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, even though some of these have been one-time events with no recurrence into future. It, however, needs to be understood that once the potential of hydro-electricity in the State is realised, 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	Per cent of total own revenues of the State
2005-06	689.68	12.92	31.54
2006-07	1336.85	93.84	44.66
2007-08	1822.43	36.32	48.20
2008-09	1756.24	-3.63	43.92
2009-10	1783.66	1.56	40.92
2010-11	1695.31	-4.95	31.76
2011-12	1915.20	12.97	31.79
2012-13	1376.88	(-)28.11	22.94

2013-14	1784.53	29.61	25.84
2014-15	2081.45	16.63	25.95
2015-16	1837.15	(-)11.74	21.53

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

Above data clearly exhibits that the relative share of the non-tax revenues to the total own revenues of the State has significantly declined over time during the study period. The two major factors which are responsible for this decline are the forestry revenues becoming insignificant and the power sector component tapering off to the natural levels after spikes of one-time accrual of upfront premium on allotted projects. The share of non-tax revenues to total own revenues peaked at 48.2 per cent in 2007-08 and came down to only 21.53 per cent for the year 2015-16. This decline points to limiting possibilities of revenue raising from non-tax sources because one-time revenue accrual from allotment of power potential by way of upfront premium will not be repeated. The above data also 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, if such trends exist at all. 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.

Hydro-electricity has been mentioned as the prime resource of Himachal Pradesh for over half a century. Its exploitation did not gather the desired momentum till 1990's. The pace of exploitation has picked up after that because of opening up of the sector to the private investment. It may be of significant interest to look at the status of hydro-electric potential in the State as of now. Out of this, about 4200 MW potential is nowhere on the drawing board so far. The data in this behalf is presented in the following table: -

Table 5.2: Status of Hydro power potential in the State (MW)

Sr. No.	Project Status	State/ State PSUs	Central/ Joint Sector	Private Sector above 5MW	Private Sector up to 5 MW	Yamuna Share	RSD Share	Total
1	Commissioned	660	7457	1942	281	132	28	10500
2	Under execution	791	800	687	135	-	-	2413
3	Various stages of clearances and investigation	2426	1280	3897	1371	-	-	8974

4	Under dispute or cancelled	-	-	576	-	-	-	576
5	Foregone projects	20	-	735	-	-	-	755
6	Total	3897	9537	7837	1787	132	28	23218

Source: Presentation made by HPSEBL to the Chief Minister of Himachal Pradesh, 2018, regarding power potential of Himachal Pradesh.

It may be seen that of the total potential exploited so far, about 71 per cent is owned by the central sector or Centre-State joint ventures. The State Government does not get 12 per cent free power on about half of this actualised capacity because these installations were commissioned prior to September, 1990, when such a principle was conceded by the Central Government. On the remaining capacity, the State gets 12 per cent free power in eternity. Under the private sector, there are installations adding up to about 1300 MW out of 2223 MW on which the State Government will get 12 per cent free power in eternity. On the other private sector projects, the State will get free power on an incremental scale as explained in the following text. The free power revenues are not on the installed capacity but on the aggregate bus bar generation on a year to year basis which implies that such revenues are highly dependent upon hydrological fluctuations on a year to year basis. The increase in revenues from free power in future will come from projects in pipeline aggregating to about 9000 MW. Of this, a possible capacity addition of 3706 MW lies in the State or State and Central joint venture projects on which the free power will accrue to an extent of 12 per cent of the generation during 2020-25 period subject to installation of this potential. Projects aggregating to 5268 MW stand allotted to the private sector. A sizeable component of this potential is highly unlikely to be realised because of extremely unrealistic free power promises made by the private investors at the time of allotment via the competitive bidding route. The reason for this statement is that such projects will not become financially viable under any circumstances of energy pricing. Given this fact, the forecast of non-tax receipts from this source needs to be made on a realistic basis and not on trend growth or any unrealisable assumptions.

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 5.3: POWER SECTOR NON-TAX REVENUES AND TOTAL NON-TAX REVENUES OF HIMACHAL PRADESH

YEAR	Total non tax revenues(Rs. crore)	Revenues from power sector (Rs. crore)	Percentage of power revenues to total non-tax revenues
2005-06	689.68	251.47	36.46
2006-07	1336.85	910.08	68.08
2007-08	1822.43	1414.52	77.62
2008-09	1756.24	1255.43	71.48
2009-10	1783.66	1214.80	68.10
2010-11	1695.31	1093.21	64.48
2011-12	1915.20	1145.70	59.82
2012-13	1376.88	637.15	46.27
2013-14	1784.53	696.29	39.02
2014-15	2081.45	1121.51	53.88
2015-16	1837.15	923.68	50.28

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

It can be observed from the above data that the share of power sector revenues to total non-tax revenues has fluctuated between about 36 per cent for 2005-06 to about 78 per cent in 2007-08. It has since been falling and came down to about 39 per cent for 2013-14. 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 because of the upfront premium for various projects being 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 due to additional capacity coming up in the northern region States.

The data above shows spikes and dips in revenue accrual from power from 2007-08 to 2015-16 but the share of revenues from power appears to have stabilised around 50 per cent of total non-tax revenues. This is a pointer to the fact that power sector non-tax revenues will have an overbearing effect on the total collections under the non-tax revenues into future for the forecast period of the Fifteenth Finance Commission with half the weightage.

The projection for additional installation of capacity has 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. Most of the allotted projects are highly unlikely to come to generation and contribute to the non-tax revenue contribution to the State coffers, given the current pace of addition of new generating capacity. 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 Fifteenth Finance Commission and therefore, is of not of much consequence in the current context.

One would observe that there has been a spiking of the revenues from power during the period 2007-08 to 2009-10. This has 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.

Given the above scenario, it would be prudent to assume a growth rate of about 10 per cent per annum in revenues from power sector for the forecast period of the Fifteenth Finance Commission.

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 5.4: NON-TAX REVENUES FROM FORESTRY AND WILD LIFE

YEAR	(Rs. crore)	Per cent Change
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
2012-13	63.90	(-)40.03
2013-14	357.83	459.98
2014-15	115.78	(-)67.64
2015-16	34.47	(-)70.23

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

The forestry revenues constitute only 1.87 per cent of the total non-tax collections for 2015-16 and account for 0.4 per cent of the State's own revenues. 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. A greater purpose will be served if an assumption of zero revenues from forestry for Himachal Pradesh is taken keeping in view the State policy and recognition of the fact by the Fourteenth Finance Commission that forest assets in the State deserve better maintenance.

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

TABLE 5.5: NON-TAX REVENUES FROM ROYALTY ON MAJOR AND MINOR MINERALS

YEAR	(Rs. crore)	Per cent Change
2005-06	42.90	--
2006-07	48.39	12.80
2007-08	56.59	16.94
2008-09	76.57	35.29
2009-10	85.09	11.14
2010-11	113.84	33.79
2011-12	120.12	5.51
2012-13	147.90	23.13
2013-14	111.03	(-)24.93
2014-15	161.52	45.47
2015-16	155.08	(-)3.99

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. For 2014-15, the revenues have again shown significant increase. The trend average growth rate for the entire study period comes to 15.5 per cent. Since the chances of any growth from minor minerals are remote given the environmental over-enthusiasm, it is felt that the forecast assumption for 2025-25 would be closer to reality if assumed at about 15 per cent, only if the rates of royalty are revised by the Central Government or new cement plants come up. Needless to say, new cement plants are not any longer in fashion, especially for fragile eco-systems like Himachal Pradesh.

All other non-tax revenue receipts belong to the areas of general services, social services and to a limited extent to economic services like irrigation. Education and health account for a lion's share of public spending in the State but the cost recovery from these services is negligible as these are considered free of cost services. Similarly, the drinking water supply in the rural areas is a nearly free public good and recovery mechanisms do not even cover a small part of the operation and maintenance costs. In the urban areas, the cost recovery for drinking water barely covers about 8 to 10 per cent of the cost. The operation and maintenance costs for irrigation and drinking water are prohibitively high and make the task of actual cost recovery of these services impossible. Lumped together, the revenue accrual from these areas for the forecast period could be best assumed around 7 per cent.

Given the above scenario, the non-tax revenues of Himachal Pradesh for the forecast period of the Fifteenth Finance Commission would behave in a static manner, indicating no sustained pattern of growth. The weighted average for the growth in non-tax revenues works out as under: -

Table 5.6: Weighted growth rate for non-tax revenues for Finance Commission

Sr. No.	Sector	2015-16	2016-17	Average for two years	Per cent share	Assumed growth rate (%)	Weighted growth rate
1	Forestry	34.47	18.50	26.485	1.49	0	0.00
2	Power	923.68	650.93	787.305	44.30	10	4.43
3	Mining	155.08	176.22	165.650	9.32	15	1.40
4	Others	723.92	871.59	797.755	44.89	7	3.14
5	Total	1837.15	1717.24	1777.195	100.00	--	8.97

Keeping the above table in view, the non-tax revenues could be blown up for the forecast period of the Fifteenth Finance Commission at an annual growth rate of

9 per cent. Based on this, the projections of the non-tax revenues of the State for 2020-25 work out as under:

Table 5.7: Projections of non-tax revenues for 2020-25 period (Rs. crore)

Year	Projected non-tax revenue
2020-21	2424
2021-22	2642
2022-23	2880
2023-24	3139
2024-25	3422

Suggestions for enhancing the revenue productivity of the State:

A brief comment on the suggestions for enhancing the revenue productivity of the State needs to be made keeping in view the limitations or constraints. As has been mentioned earlier in the chapter on tax revenues, the tax on sale of goods or the VAT accounted for over two third of the total tax revenues of the State. Various Acts the taxes under which have been subsumed in the Goods and Services tax include the State Value Added Tax Act, 2005; the State Entertainment Act, 1968; the State Entertainments Duty Act, 1968; the State Tax on Luxuries Act, 1979; and the State Tax on Entry of Goods into Local Area Act, 2010. With these having been subsumed into the GST, the only potential areas of raising revenues which remain with the State are Excise and Electricity Duty. The growth in excise revenues is severely limited by the regional environment and the tax regime prevailing in the neighbouring States. Similarly, the growth in revenues from electricity duty is entirely dependent upon the levels of consumption of electricity within the State. This potential area of revenue raising is also severely constrained for possibilities of growth due to the fact that the State attained universal electrification of households and the energy consumption has lately been rising slowly in the domestic sector. Large scale growth can come from expansion of industrial activity but the same is on the decline rather than expansion due to cessation of the concessional tax regime for new industries. Maintenance of the present rates of growth in future for these levies would be a welcome scenario.

As regards improvement in the non-tax revenue collections, the details have been given in this chapter above. Given these facts, the only possibility of raising revenues into future lies in the domain of the Goods and Services tax. The available data on GST collections, however, indicates sluggish growth in short term and decline in revenues after the regime of protected revenues comes to an end, as per the forecast made by the State Government. Details in this regard are contained in the chapter on the GST in this study.

CHAPTER 6

TRENDS IN REVENUE EXPENDITURE

Synopsis: Analysis of Components of Revenue Expenditure, 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.

The National Institute of Public Finance and Policy has conducted an analysis of the State finances for the current decade and the relevant findings about the trends in revenue expenditure are depicted in the following table: -

Table 6.1: Trends in Expenditure (% of GSDP)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17 RE**	**2017-18 BE**
Revenue Expenditure	19.11	19.53	18.31	18.96	19.62	22.15	20.35
Capital Expenditure	2.49	2.36	1.96	2.37	2.52	3.26	2.46
Total Expenditure, *of which*	21.60	21.89	20.27	21.33	22.14	25.41	22.81
Economic Services	6.07	5.87	5.16	6.31	6.61	7.55	6.44
Social Services	7.59	7.93	7.58	7.64	7.72	9.71	8.54
Education	4.25	4.33	4.00	4.10	3.90	4.92	4.55
Medical & Public Health	1.00	1.07	0.99	1.02	0.99	1.38	1.08
Interest Payment	2.93	2.86	2.62	2.73	2.78	2.67	2.48

Source: Study of State Finances of Himachal Pradesh conducted by the National Institute of Public Finance and Policy.

From the examination of key deficit indicators of the State, it is apparent that the surplus on the revenue account in 2011-12 turned into deficit in the following year and there is re-emergence of deficit in the revenue account from 2012-13. A detailed comment on this aspect will be made in the chapter on implementation of the fiscal responsibility and budget management legislation in the State. The venue account has been in deficit since then with revenue deficit shooting up to 1.86 percent in 2014-15. However, in 2015-16 the State achieved a surplus in the revenue account to the tune of 1 percent of its GSDP. In both 2016-17(RE) and 2017-18(BE), the State has budgeted a revenue deficit of 0.74 percent of GSDP.

As has been brought out in the Appendix to chapter 3 earlier, the development costs as also the costs for setting up regulatory administration in the case of mountainous terrain or entirely hilly and mountainous States tend to be much higher than the fiscal capacity of the State. Given this basic constraint, 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.

The data on major components of revenue expenditure for the initial year and the last year, i.e. 2005-06 and 2015-16 is depicted in the following table: -

Table 6.2: Components of Revenue Expenditure for 2005-06 and 2016-17

Standard Object of Expenditure	2005-06	2015-16	2016-17	Per cent share to total for the year			Change over 2005-06 for	
				2005-06	2015-16	2016-17	2015-16	2016-17
Salaries	2362.96	6806.64	8106.91	36.54	30.51	31.98	(-)6.04	(-)4.56
Wages	81.52	212.02	313.67	1.26	0.95	1.23	(-)0.31	(-)0.03
Maintenance	481.53	1647.22	1782.76	7.45	7.39	7.03	(-)0.06	(-)0.42
Interest payments	1562.72	3155.00	3358.91	24.17	14.15	13.25	(-)10.02	(-)10.98
Pensions	668.76	3836.44	4114.17	10.35	17.20	16.23	(+)6.85	(+)5.88
Subsidies	142.00	1346.08	763.96	2.20	6.04	3.01	(+)3.84	(+)0.81
Others	1165.66	5299.22	6903.84	18.03	23.76	27.24	(+)5.73	(+)9.21
Total	6466.15	22302.81	25344.22	100.00	100.00	100.00	--	--

Source: State Budgets for the respective years, Finance Department, Government of Himachal Pradesh.

The most significant aspect of the above data is that the relative share of expenditure on salaries, wages and interest payments has declined to a significant extent over the ten-year period under study. This shift is a welcome sign that the State Government has contained the expenditure on salaries to about 30 per cent. This was one of the areas of concern expressed by the Fourteenth Finance Commission that the State must reduce relative share of expenditure on salaries. The relative share of expenditure on interest payments has also shown a significant improvement as it has come down from a little over 24 per cent to a little over 14 per cent.

In the context of Himachal Pradesh, the relative share of revenue expenditure on subsidies and "Others" has increased over the study period. These increments of the order of 3.84 per cent for subsidies and 5.73 per cent for "Others" are in fact merit expenditure in the context of Himachal Pradesh. As for subsidies, there are three major subsidy outgoes on domestic power consumption, enlarging the food safety net and subsidised public transport specially for school going children, physically challenged or differently abled persons and some other similarly situated segments of population.

While most of what is stated in the above paragraphs holds true for 2016-17 as well, the year 206-17 was added into this analysis because the expenditure on subsidies for 2015-16 had a kink. At a later stage in this chapter, the time series data on subsidies would reveal that no expenditure was booked under subsidies for the year 2013-4 and the lumped expenditure was shown under 2015-16 when the actual outgo occurred in favour of the State Electricity Board Limited. Thus, a share of over 6 per cent of the aggregate expenditure going for subsidies is a factual inaccuracy. It, therefore, needs to be noted that the expenditure on all subsidies in the State hovers around 3 per cent of the total 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 6.3: REVENUE EXPENDITURE BY END USES (Rs. crore)

YEAR	General Services	Social Services	Economic Services	Local body grants	Total
2006-07	3299.85	2585.95	1755.44	2.88	7644.11
2007-08	3429.38	2875.54	1983.68	3.15	8291.75
2008-09	3789.77	3460.13	2184.26	3.97	9438.13
2009-10	4376.77	3901.72	2668.23	4.29	11151.01
2010-11	5279.25	4978.89	2982.20	5.75	13246.09
2011-12	5690.00	5147.44	3048.55	11.97	13897.97
2012-13	6618.18	6131.08	3417.81	7.18	16174.25
2013-14	7046.82	6706.12	3590.46	9.09	17352.49
2014-15	7603.65	7451.52	4722.75	9.13	19787.05
2015-16	8788.46	7979.92	5524.47	9.96	22302.81
2017-17	9727.95	9609.92	5996.32	10.03	25344.22

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

The structure of revenue expenditure by end uses has not changed drastically. The expenditure on general services has declined from 43.17 per cent in 2005-06 to 38.38 per cent in 2016-17. This is a decline of close to 5 percentage points. The expenditure for social services on the other hand has gone up by over 4 percentage points from 33.82 per cent in 2005-06 to 37.92 per cent in 2016-17. The share of revenue expenditure on economic services has marginally increased from 22.96 per cent in 2005-06 to 23.66 per cent for 2016-17. The grants to the local government institutions have an insignificant share in the overall revenue expenditure which is sufficiently indicative of the fact that decentralisation of financial and functional authority to the local governments has not received desired attention of the successive Governments in the State.

It may be worth its while to look at the time series data of major items of revenue expenditure. In that context, the time series data on salaries and pensions is presented in the following table: -

TABLE 6.4: EXPENDITURE ON SALARIES AND PENSIONS (Rs. Crore)

Year	Expenditure on Salaries	Expenditure on Pensions	Total
2005-06	2362.96	669.76	3032.72
2006-07	2683.33	911.77	3595.10
2007-08	3014.87	949.32	3964.19
2008-09	3314.89	1153.92	4468.81
2009-10	3973.03	1348.46	5321.49
2010-11	5166.39	2105.39	7271.78
2011-12	5305.51	2216.81	7522.32
2012-13	6129.73	2746.84	8876.57
2013-14	6278.39	2855.08	9133.47
2014-15	6966.54	2914.49	9881.03
2015-16	6806.84	3836.44	10643.28
2016-17	8106.91	4114.47	12221.38

Source: Budget documents of the Government of Himachal Pradesh.

The data above speaks for itself. The expenditure on salaries and pensions has moved over time to outpace the State's own tax and non-tax revenues. The expenditure on salaries has increased by 243 per cent for the study period, implying an average annual increase of 22 per cent. The pension expenditure has multiplied faster than the salaries' expenditure and showed an increase of 514.77 per cent for the above study period. This is an average increase of about 46.8 per cent per annum. The reason for this is that the number of State Government Employees has remained nearly static or even marginally declined whereas the number of pensioners has been growing due to enhanced life expectancy. The expenditure on both these major items will increase significantly after the implementation of the pay and pension revisions based on the Seventh Pay Commission despite that fact that the State Government has already released a certain quantum of interim relief to both its employees and pensioners.

Successive pay revisions have adversely impacted the revenue expenditure of the State in the past. The salaries of the State Government employees are due for revision with effect from 1.1.2016. The report of the Sixth Punjab Pay Commission was due, but the Government of Punjab has extended the tenure of the Commission further to 31.12.2019. In this behalf, the data presented by the State Finance Department in regard to the impact of the salary revision was gone into. The set of assumptions made by the State Government and presented to the Finance Commission seem fairly realistic. The growth in salary expenditure for 2017-18 over the previous year has been of the order of 22.8 per cent and that for the BEs for 2018-19 over 2017-18 has been 13.13 per cent. The projected growth for 2019-20 assumes a growth rate of 12.8 per cent. For the tenure of the Fifteenth Finance Commission, a growth rate 13.3 per cent for 2020-21, 8.7 per cent for 2021-22, 8.4 per cent for 2022-23, 8.3 per cent for 2023-24 and 8.1 per cent for 2024-25 over the base figure for 2018-19 BEs. Considering the historical growth rates witnessed in the past, these projections seem realistic.

The set of assumptions for working out the pension liability for the forecast period adopted by the State Government are similar to the ones used for the salaries. The actual pension liability for 2017-18 has been of the order of Rs. 4950 crore. Heavy Interim Relief outgo during 2018-19 has resulted in a 19 per cent increase in the total pension liability for 2018-9 over the previous year. Similar trend continued during 2019-20 with a growth in the pension bill amounting to 13 per cent over the previous year. The growth in the total pension liability for the forecast period ranges between 3.37 to 7.28 per cent in the forecast submitted by the State Government.

The expenditure on wages and maintenance is not as large a component as salaries and pensions but is significant in the context of effective maintenance and upkeep of the stock of physical infrastructure. The data in this behalf is presented in the following table: -

Table 6.5: Expenditure on wages and maintenance (Rs. Crore)

Year	Expenditure on Wages	Expenditure on Maintenance
2005-06	81.52	481.53
2006-07	92.44	589.94
2007-08	107.31	663.46
2008-09	120.26	814.31
2009-10	121.75	979.23
2010-11	126.16	1051.19
2011-12	157.81	1180.78
2012-13	160.98	1259.22
2013-14	198.31	1503.75
2014-15	201.66	1752.76
2015-16	212.02	1647.22
2016-17	313.67	1782.76

Source: Budget documents of the State Government.

The expenditure on wages has increased by 288.45 per cent over the above study period. This increase has not been due to increase in the number of daily waged employees but successive revisions in the minimum daily wage rate over time. The expenditure on maintenance has gone up by about 270 per cent. This represents an average annual increase of about 24.5 per cent. This would be considered inadequate because the costs of maintaining the older infrastructure tend to be much higher and in addition to that, the stock of infrastructure has been expanding. The price increase for the inputs also needs to be catered to. Keeping all these factors in view, it appears that the State Government has not been paying desired attention to the physical maintenance of the created infrastructure. The results are visible as one travels across the State. The condition of roads other than the national highways is progressively deteriorating. The drinking water supply and irrigation schemes suffer from sub-optimal capacity utilisation. For these schemes, the commercial cost of energy eats up a significant part of incremental budgetary provisions. These are critical areas which should deserve greater attention of the State Government.

The other two most important objects of revenue expenditure are interest payments and subsidies. The time series data on these is depicted in the following table: -

Table 6.6: Expenditure on Interest Payments and Subsidies (Rs. Crore)

Year	Expenditure on Interest payments	Per cent Increase over previous year	Expenditure on Subsidies	Per cent Increase over previous year
2005-06	1562.72	--	142.00	--
2006-07	1669.43	6.82	343.44	141.55
2007-08	1708.02	2.31	327.69	(-)4.59
2008-09	1897.91	11.12	368.45	12.43
2009-10	1951.92	2.85	403.51	9.52
2010-11	1949.77	2.73	438.67	8.71
2011-12	2129.71	9.23	465.21	6.05
2012-13	2369.90	11.28	566.93	21.86
2013-14	2480.86	4.68	467.15	(-)17.61
2014-15	2849.14	14.84	801.34	71.53
2015-16	3155.00	10.74	1346.08	67.98
2016-17	3358.91	6.46	763.96	(-)43.25

Source: Budget documents of the State Government.

The expenditure on interest payments is a function of the borrowings contracted by the State Government for financing the plan (till 2014-15) and thereafter on borrowings contracted for capital expenditure. 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 average annual growth rate for interest payments over the above study period has been 7.55 per cent. This growth rate will be compared with the growth of total debt of the State to see whether these two numbers move in tandem or not. With the interest rates having softened in the recent times, the growth in the interest burden is also expected to slow down. As for the growth in the subsidy burden, the data is erratic due to the actual outgo on power subsidy not being released on time. The other two major components of subsidy behave in a genuine time series manner.

The expenditure on salaries, pensions and interest payments accounted for about 84 per cent of the total revenue expenditure for the year 2005-06. It came down to about 73 per cent in 2009-10. Thereafter, it has been about 61 per cent of the total revenue expenditure for 2015-16 and 2016-17. 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 shown 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 Fifteenth 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. There are sufficient indications available that the State Government is committed to expenditure compression on salaries and the details of these indications and measures will be given in a subsequent chapter. 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 6.7: PER CENT SHARE OF VARIOUS STANDARD OBJECTS OF EXPENDITURE UNDER NON-PLAN REVENUE EXPENDITURE

SOE	2005-06	2009-10	2015-16	2016-17
Salaries	44.69	40.41	30.51	31.98
Pensions	14.50	13.60	17.20	16.23
Interest	26.76	19.76	14.15	13.25
Maintenance	2.89	8.34	7.39	7.03
Subsidies	1.72	3.14	6.04	3.01
Others	9.44	14.75	24.71	28.47
Total	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 now account for about 47 per cent of the revenue expenditure during the for the year 2016-17. The salary burden will keep rising due to DA increases and full impact of the pay revision of 2016 and the pension burden will continue to increase due to dearness relief, pension revision and increase in the number of pensioners. These two major lumps of revenue expenditure need to be provided for based on the actual numbers rather than any normative prescriptions because these items of expenditure need treatment on the basis of actuals so far with an embargo on the State for any fresh hiring on the one hand and attempting a draw down in the aggregate number of employees in the State over the forecast period.

PROJECTING REVENUE EXPENDITURE FOR 2020-25 PERIOD:

Like the projections for tax and non-tax revenue receipts on the basis of relative weighting diagram, the relative weights of various components of revenue expenditure, the average annual growth rates and the resultant overall growth rate for revenue expenditure are presented in the following table:

Table 6.8: Estimating the weighted growth rate for revenue expenditure for 2005-06 to 2016-17

Category of expenditure	Relative share for 2016-17	Annual Growth rate average for 2005-06 to 2016-17	Weighted average growth rate
Salary	31.98	12.19	3.89
Pension	16.23	18.99	3.08
Interest payments	13.25	7.55	1.00
Maintenance	7.03	18.00	1.26
Wages	1.23	18.00	0.22
Subsidies	3.01	25.29	0.76
Other	27.24	18.33	4.99
Total	100.00	---	15.20

Source: Data on various objects of expenditure presented in this chapter.

It may also be appropriate to look at other ways to project the revenue expenditure for the forecast period. The data for actual revenue expenditure for the period 2005-06 to 2016-17 is depicted in the following table:

Table 6.9: Total revenue expenditure of Himachal Pradesh (Rs. core)

Year	Revenue Expenditure (Rs. crore)	Per cent growth over the previous year
2005-06	6466.15	-
2006-07	7644.11	18.21
2007-08	8291.75	8.47
2008-09	9438.13	13.82
2009-10	11151.01	18.14
2010-11	13946.05	25.06
2011-12	13897.97	(-)0.01
2012-13	16174.25	16.37
2013-14	17352.49	7.28
2014-15	19787.05	14.03

2015-16	22302.81	12.71
2016-17	25344.22	13.64

Source: Budgets of the State Government for the respective years.

The data presented in the above table indicates fairly erratic annual growth rates in the total revenue expenditure of the State. However, the average of these annual growth numbers can give us a fair estimate at which the revenue expenditure of the State has grown over the study period. The average annual growth rate comes to 13.43 per cent. The average annual rate of growth for the period 2011-12 to 2016-17 works out to 12.8 per cent. The data for the period 2005-06 to 2016-17 has the full impact of the pay revision of the previous pay commission, but the base being smaller, the growth rates tend to be a little higher. In that context, taking the average annual growth rate for the period 2011-12 to 2016-17 would seem more reasonable for the purposes of expenditure projection for the 2020-25 period.

Instead of blowing up different components of the revenue expenditure and then adding up, it would be reasonable to use this growth rate instead of the weighted average growth rate worked out above for forecasting the revenue expenditure for the period 2020-25 which, inter alia, takes care of the impact of salary revision as well the tenure of the Fifteenth Finance Commission. Based on this, the projected revenue expenditure for 2020-25 works out as presented in the following table:

Table 6.10: Projected revenue expenditure for 2020-25 (Rs. crore)

Year	Projected revenue expenditure
2020-21	41031
2021-22	46283
2022-23	52207
2023-24	58890
2024-25	66427

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 to lend to these States. 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, especially 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	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

Source: Explanatory Memoranda to Budget for the respective years, Government of Himachal Pradesh.

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. Based on the data contained in the Explanatory Memoranda to Budget for the respective years, the situation of worsening of debt for the subsequent period is presented in the following table: -

Table 7.2: DEBT OF THE GOVERNMENT OF HIMACHAL PRADESH

(Rs. in crore)

Year	Capital Receipt	Repayment	Net	Cumulative total
2002-03	3105.47	774.27	2331.20	12821.18
2003-04	3609.21	1841.12	1768.09	14586.27
2004-05	4298.64	1617.80	2680.84	17267.1
2005-06	2400.84	1386.26	1014.58	18281.69
2006-07	2121.85	996.52	1125.33	19407.02
2007-08	2385.71	942.19	1443.52	20850.54
2008-09	2829.99	920.44	1909.55	22760.09
2009-10	2877.91	1027.39	1850.52	24610.61
2010-11	2683.49	886.39	1797.10	26407.71
2011-12	2674.69	1141.47	1533.22	27940.93
2012-13	4333.23	2119.98	2213.25	30154.08
2013-14	4267.06	1531.81	2735.25	32889.33
2014-15	5187.04	1478.01	3709.03	36598.36
2015-16	5048.31	1632.09	3416.22	40014.58
2016-17	8136.78	2281.88	5854.90	45869.48

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.

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 State owned public undertakings and other assisted 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 assisted 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

Source: Census of Himachal Pradesh Government Employees, Directorate of Economics and Statistics, Himachal Pradesh.

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. 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 deficit 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 and using the advanced technologies to enhance efficiency, restructuring the pension scheme to make it pay for itself (which has already been put into place for employees hired after May, 2003), reducing non-merit content of 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 and adopting progressive decentralisation measures to hand over certain functions to the local governments both in terms of implementation of programmes and raising resources.

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

Source: Budget documents of Himachal Pradesh and GSDP Estimates by Directorate of Economics and Statistics, Himachal Pradesh.

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
GSDP	18905	20721	24077	27127	30281
Debt: GSDP Ratio (%)	66.95	72.59	70.00	66.06	59.18

Source: Explanatory Memoranda to State Budget for respective years, Government of Himachal Pradesh.

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
GSDP	33962	41483	48189	56355	63812
Debt: GSDP Ratio (%)	58.44	53.71	50.57	48.37	45.17

Source: Explanatory Memoranda to State Budget for respective years, Government of Himachal Pradesh.

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. Redeeming feature of the debt: GSDP ratio during the study period has been that it has continued to improve. The ratio has come down from over 70 per cent in 2004-05 to about 45 per cent in 2011-12. A larger part of the credit for this improvement is obviously due to the regime of debt cap set by the prescriptions of the Finance Commission. There is a further need for squeeze on the contracting of fresh debt by the State Government as a quick review of the data on plan financing would reveal.

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 7.7: 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	14542.86	13897.97	2129.71	14.64	15.32
2012-13	15598.12	16174.26	2369.90	15.19	14.65
2013-14	15711.07	17352.49	2480.86	15.79	14.30
2014-15	17843.45	19787.05	2849.14	15.97	14.40
2015-16	23440.48	22302.81	3155.00	13.46	14.17
2016-17	26264.34	25344.22	3358.91	12.79	13.25

Source: State Budgets for the respective years, Government of Himachal Pradesh.

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 ratios have, however, further declined largely due to lowered rates of interest and the capped limits of borrowings. For future, interest liability as a percentage of revenue expenditure is certainly bound to decline further. It is simultaneously felt that the percentage of interest liability to total revenue receipts may witness an increase, though of a softer nature due to deceleration in revenue collections post GST implementation.

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 development, specifically after planning process having been given away and the space for borrowing being dedicated to capital formation shrinking due to extreme pressure of mounting revenue expenditure, particularly on salaries and pensions. Earlier on, 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 had got a debt 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.

IMPACT OF BORROWINGS UNDER UDAY SCHEME ON TNE FISCAL DEFICIT AND INDEBTEDNESS OF THE STATE:

Government of Himachal Pradesh joined UDAY on 8th December,2016. The outstanding debt of the DISCOMs in Himachal Pradesh as on 30.09.2015 was Rs. 3854 crore. As per UDAY, Government of Himachal Pradesh was required to take over 75% of the DISCOM debt as on end September 2015 which worked out to Rs. 2890.50 crore in the year 2016-17.

According to the structure of UDAY, the borrowing made by the State government to take over the DISCOM debt during 2016-17 were not to be reckoned against the normal permissible net borrowing ceiling of the state determined by the Department of Expenditure, Ministry of Finance under the recommendations of the Fourteenth Finance Commission. However, any borrowing made by the State after 31.03.2017 to take over DISCOM debt shall be reckoned as part of the net borrowings ceiling of the State.

The Himachal Pradesh government could raise funds for providing Grant/loan/equity to the DISCOM by issuing non-SLR bonds including SDL bonds.

The Government of Himachal Pradesh raised an amount of Rs. 2890.50 crore under the above dispensation on 28th February, 2017 at an interest rate of 7.49 per cent to 8.19 per cent per annum. The repayment stared from 2017-18 itself. The dispensation envisaged no repayment of principal for the first five years during which the State Government has to pay interest amounting to Rs. 227.78 crore per annum. In the sixth year, the principal repayment of an equated instalment amounting to Rs. 289.05 crore would start and continue till 2031-32 when the amount is fully repaid. During this period, the interest payments would aggregate to Rs. 2401.97 crore; and would result in worsening of the revenue deficit to that extent. From 2023-24, the interest burden will start declining as the principal gets repaid.

Coming to the impact of the borrowings contracted by the State Government for implementation of UDAY scheme, in terms of 2016-17 GSDP data, the aggregate liability of the State amounting to Rs. 2890.50 crore would have constituted about 2.5 per cent during that year. Since this was a one time off dispensation offered by the Government of India, prudence demanded that the State Government liquidated it in one go and it did so. The data presented in this chapter in table 7.2 earlier indicates that this additional debt has been considered while depicting the cumulative debt of the State. The impact of UDAY related borrowings on the debt to GSDP ratio is depicted in the following table:

Table 7.8: Impact of UDAY related borrowings on the debt to GSDP ratio

Sr. No.	Item detail	2015-16	2016-17 with UDAY	2016-17 without UDAY
1	Cumulative debt Rs. crore	40014.58	45869.48	42978.98
2	GSDP at current prices Rs. crore	113355	124236	124236
3	GSDP at constant prices (2011-12 series) Rs. crore	96274	102594	102594
4	Percentage of 1 to 2	35.30	36.92	34.59
5	Percentage of 1 to 3	41.56	44.70	41.89

Source: State Finance Department.

The above table reveals that the burden of UDAY related borrowings has resulted in worsening the debt to GSDP ratio (GSDP at current prices) by 2.33 per cent whereas in terms of debt to GSDP ratio at constant prices (2011-12 series), the extent of worsening is of the order of 2.81 per cent.

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 erstwhile Special Category States may be in a critical stage. Keeping this in view, it is necessary that the Fifteenth 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 or remaining within the prescribed limits becomes a reality. One of the suggestions given in the past by the States in this category was to treat the central loans of the past as loans in perpetuity. The debt relief and debt restructuring formulations of the Fifteenth Finance Commission could consider making such a dispensation for the States based on their performance on reduction in incremental debt.

A study of the structure of debt by sources and the interest rates various loans carry could help look at the possibilities of restructuring the debt by way of debt write-off, debt swap and debt reset. The following text would attempt to look at this aspect.

The composition of the internal debt of the State is presented in the following table:

Table 7.9: Structure and maturity span of the Internal Debt as on 31.3.2018

Sr. No.	Source	Amount (Rs. crore)	Maturity span
1	State Development loans / State stock loans	21574.06	2018-19 to 2027-28
2	Loans from LIC	51.10	2018-19 to 2029-30
3	Loans from GIC	0.28	2018-19 to 2020-21
4	Loans from NABARD	2251.10	2018-19 to 2024-25
5	Compensation and other bonds	2890.50	2-022-23 to 2031-32
6	Loans from NCDC	75.03	2018-19 to 2025-26
7	Special securities issued to NSSF of Central Govt.	6635.31	2018-19 to 2038-39
8	Loans from other institutions	114.09	2018-19 to 2023-24
9	Total	33591.47	..

Source: State Finance Department

The interest rates on the above loans vary in the band from 4per cent to 14 percent. The two major components are State Development loans or what we call as open market borrowings and the special securities issued to NSSF of central government. All others are negotiated loans. The only item which is amenable to some treatment for reducing the debt burden of the State Government is the special securities issued to NSSF and incidentally, these carry interest rates in the band of 9 to 10 per cent. If these could be prematurely retired and replaced by relatively cheaper debt under the category of market borrowings which carry a lower rate of interest, it would soften the burden of interest servicing and help the revenue deficit situation of the State. The other alternative is that these are converted into loans in perpetuity and the interest liability is serviced by the State Government as heretofore.

The other category of debt is the loans and advances from the central government. The details as on 31.3.2018 are presented in the following table:

Table 7.10: Structure and maturity span of the loans and advances from the Central Government as on 31.3.2018

Sr. No.	Source	Amount (Rs. crore)	Maturity span
1	Non-plan loans	3.69	2018-19 to 2027-28
2	Loans for plan schemes	1009.38	2018-19 to 2037-38
3	Total	1079.43	..

Source: State Finance Department.

Note: The total includes an amount of Rs. 66.35 crore of loans against the externally aided projects which are interest free and some nominal amount of Rs. 0.13 crore of uncertain maturity.

A little over 67 per cent of the central loans for plan schemes carry interest rate in the band of 9 to 10 per cent. Such high interest rates burden the revenue account of the State Government. Another 26.25 per cent of these loans carry interest in the band of 7 to 8 per cent. The Finance Commission may consider converting all these loans for plan schemes to the Special Category States as grants and suggest a one-time write-off in their favour.

Loans against the plan schemes and the securities issued to the NSSF account for 22 per cent of the total debt of the State per cent of the total cumulative debt burden of the State. If the Finance Commission could consider recommending conversion of these into loans in perpetuity or grants as a one off measure, it could give respite to the State from the existing debt burden. For future, the State Government will be required to exercise sufficient prudence in contracting the permissible borrowings at the lowest rates of interest and also abstain from using the capital receipts for fuelling the revenue expenditure. The debt relief scheme of the Finance Commission could also consider allowing the States to borrow at lower rates of interest and correspondingly retire the expensive debt to reducing the interest servicing liability

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.

According to a study of State finances for Himachal Pradesh by the National Institute for Public Finance and Policy, the fiscal deficit (FD) as percentage of GSDP in Himachal Pradesh was above 3 percent during the period from 2012-13 to 2014-15. These were also the years when the State had revenue deficit. However, in 2015-16, fiscal deficit as percentage of GSDP declined to 1.90 percent. In 2016-17(RE) and 2017-18(BE), the State had budgeted for a fiscal deficit higher than 3 percent. In 2016-17(RE) the FD is expected to be around of 4.42 percent of GSDP while in 2017-18(BE) it is budgeted to be around and 3.50 percent. The Government of Himachal Pradesh joined the UDAY scheme in December 2016. Taking over of DISCOM debt also would have implications for the level of fiscal deficit of the State. The outstanding liabilities of the Government of Himachal Pradesh as a percentage of the GSDP have seen a continuous decline from 2011-12 to 2015-15. The corresponding numbers for 2016-17 and 2017-18 also show declining trend but one will have to wait for the actual outcomes. The data in this behalf has been presented below from the study quoted above: -

Table 8.1: Debt and Deficits (% of GSDP)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17 RE**	**2017-18 BE**
Revenue Deficit	0.89	-0.70	-1.73	-1.86	1.00	-0.74	-0.74
Fiscal Deficit	-2.25	-3.60	-4.23	-4.02	-1.90	-4.42	-3.50
Outstanding Liabilities	38.82	36.76	35.76	36.59	36.24	36.05	34.80

Note: Deficit (-) / Surplus (+)

Source: Study of State finances for Himachal Pradesh by the National Institute for Public Finance and Policy, New Delhi.

Before the further details are given, a brief mention of the adoption of the fiscal responsibility and budget management legislation needs to be brought up. Till the adoption of the said legislation, there were only indicative targets set out yearly during the annual plan negotiations with the Planning Commission and Union Finance Ministry under the mutually agreed fiscal reform path. 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 8.2: OVERALL FISCAL SCENARIO IN HIMACHAL PRADESH

(Rs. crore)

Year	Opening Balance*	Revenue Receipts$	Revenue Expenditure	Revenue Account Net	Closing Balance*
2006-07	(-)169.16	7747.96	7643.83	(+)104.13	(-)124.09
2007-08	(-)37.11	9141.55	8291.75	(+)849.80	(+)1121.75
2008-09	(+)1121.75	9307.99	9438.12	(-) 130.13	(+)1121.98
2009-10	(+)1121.98	10436.36	11151.01	(-) 804.65	(+)582.60
2010-11	(+)582.60	12710.61	13246.09	(-) 535.48	(+) 906.53
2011-12	(+) 906.53	14542.86	13897.97	(+) 644.89	(+)948.67
2012-13	(+)948.67	15598.12	16174.25	(-)576.12	(+)266.47
2013-14	(+)266.47	15711.07	17352.48	(-)1641.41	(-)847.50
2014-15	(-)847.50	17843.45	19787.05	(-)1943.60	(-)746.23
2015-16	(-)746.23	23440.47	22302.81	(+)1137.66	(-)340.75

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. The years 2006-07 and 2007-08 had a revenue account surplus. This became revenue deficit situation for the years 2008-09 and 2009-10. These two years happened to be the last years of the Twelfth Finance Commission award tenure. In the Similar manner the last three years of the Thirteenth Finance Commission award tenure (2012-13, 2013-14 and 2014-15) had a situation of revenue account deficits which kept increasing. The first year of the award tenure of the Fourteenth Finance Commission (2015-16) also had a significant revenue account surplus. One could conclude that the State of Himachal Pradesh historically had a revenue account surplus situation in the initial years of the award period of successive Finance Commissions and as the years roll by, it turns into a deficit situation.

The actual picture needs to be viewed against the parameters set by the State for itself under the State FRBM legislation. The benchmark is that the State should have a balanced revenue account to the minimum extent that it has Zero revenue deficit. The performance against this touchstone has been depicted in the data presented in the following table: -

TABLE 8.3: 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	(+)104.13	7835.22	(+)1.33
2007-08	(+)849.80	9141.55	(+)9.30
2008-09	(-) 130.13	9307.99	(-)1.40
2009-10	(-) 804.65	10436.36	(-)7.71
2010-11	(-) 535.48	12710.61	(+)4.21
2011-12	(+) 644.89	14542.86	(+)4.43
2012-13	(-)576.12	15598.12	(-)3.69
2013-14	(-)1641.41	15711.07	(-)10.45
2014-15	(-)1943.60	17843.45	(-)10.89
2015-16	(+)1137.66	23440.48	(+)4.85

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. In the first ten years of the implementation of the FRBM legislation, the State has defaulted versus the benchmark five times. 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 the first two years turned into a deficit for the last three years. 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 in the closing years of the Fourteenth Finance Commission award. Could one say that the balancing act done by the Finance Commission was a bit removed from the reality? 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 8.4: 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	2362.96	--	669.76
2006	229641	2683.33	91209	911.77
2007	207691	3014.87	97086	949.32
2008	225211	3314.89	85766	1153.92
2009	227527	3973.03	92774	1348.46
2010	228136	5166.39	96818	2105.39
2011	225113	5305.51	93962	2216.81
2012	228409	6129.73	104622	2746.84
2013	226382	6278.39	111710	2855.08
2014	225569	6966.54	118569	2914.49
2015	226637	6806.84	125280	3836.44
2016	222499	8106.91	131940	4114.47

Source: FRBM Act compliance reports of the Government of Himachal Pradesh tabled in the State Legislative Assembly for the number of government employees and Directorate of Economics and Statistics 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. In fact, the number of employees has come down by about 6000 for the year 2016. 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. Because of these assumptions, the incremental expenditure on salaries will largely come from the pay revisions and the additional dearness allowance burden. 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. Another way of looking at the salary expenditure is the per capita cost. For the year 2005-06, the per employee cost was about Rs. 1.14 lakh which increased to about Rs. 4.33 lakh for the year 2015-16. The big 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. About the 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 Fifteenth Finance Commission. This number is likely to cross 1.50 lakh by the end of the forecast period from the current number (for 2015-16) of 131940. The per pensioner burden was of the order of about Rs. 1 lakh in 2005-06 and it increased to Rs. 3.12 lakh for 2015-16. These two major liabilities on the revenue expenditure account need to be vary carefully assessed by the Fifteenth Finance Commission as these can not be taken care of by some normative prescriptions.

It has been 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 8.5: TIME SERIES DATA ON INTEREST LIABILITY OF HIMACHAL PRADESH

Year	Interest liability actuals (Rs. crore)
2005-06	1562.72
2006-07	1669.43
2007-08	1708.02
2008-09	1897.91
2009-10	1951.92
2010-11	1949.77
2011-12	2129.71
2012-13	2369.90
2013-14	2480.86
2014-15	2849.14
2015-16	3155.00

Source: Annual Financial Statements of the State Budget for the respective years.

Interest payments are a function of the existing debt stock and the annual fresh borrowings. With the debt cap in position, the State Government cannot 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. It may be noted that interest payments as a share of total revenue expenditure have come down from about 24 per cent for 2005-06 to about 13 per cent for 2015-16. Such a trend is likely to manifest if the mechanisms for fresh debt quantum each year stay in place or are made a little more stringent. This tightening is necessary keeping in view the fact that the State Government has ben increasingly using the capital borrowings for meeting its committed revenue expenditure. What is necessary is that the revenue account is more realistically balanced by the Fifteenth Finance Commission.

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
2005-06	720.45	24076	2.99
2006-07	921.04	27127	3.39
2007-08	551.58	30280	1.82
2008-09	2277.84	33962	6.71
2009-10	2783.92	41483	6.71
2010-11	2532.54	48189	5.26
2011-12	1633.04	56980	2.87
2012-13	2978.42	66448	4.48
2013-14	4011.58	76258	5.26
2014-15	4200.13	85840	4.89
2015-16	2164.08	95587	2.26

Source: Budget documents of the State Government and Bureau of Economics and Statistics, Himachal Pradesh Government.

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. This was 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	Guarantees outstanding as at the end of previous fiscal	Outstanding guarantees as per cent of the revenue receipts
31.3.2006	5525.83	4315.49	65.79
31.3.2007	4071.35	3553.32	45.35

31.3.2008	6435.17	2129.50	23.29
31.3.2009	4132.30	2593.27	27.86
31.3.2010	6131.54	1960.52	18.78
31.3.2011	5701.45	3458.26	27.20
31.3.2012	5703.16	2836.46	19.50
31.3.2013	6635.82	3116.61	19.98
31.3.2014	7683.60	4405.82	28.04
31.3.2015	9158.29	4281.33	23.99
31.3.2016	4281.33	6359.58	27.13

Source: Explanatory Memorandum to Budget for different years.

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. A look at the components of the outstanding guarantees reveals that there has been a spurt in the liabilities relating to HPSEB after 2013-14. This is one of the res of concern. However, 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 in the Explanatory Memo to State Budget	Of which total public debt	Ratio of Public Debt to total liabilities (%)
2005-06	18672.98	13939.06	74.65
2006-07	19798.31	14495.56	73.21
2007-08	21241.84	14823.24	69.78
2008-09	23151.39	16189.88	69.93
2009-10	23163.74	17595.55	75.96
2010-11	24960.85	18492.78	74.09
2011-12	26494.07	19375.40	73.13
2012-13	28707.29	20642.64	71.91
2013-14	31442.56	22659.48	72.07
2014-15	35151.60	25198.06	80.89

2015-16	38567.82	27919.56	72.39

Source: Explanatory Memorandum to the State Budget for the respective years.

The above data reveals that the total liabilities of the State have more than doubled between 2005-06 and 2015-16 (a growth of 106.5 per cent). On the other hand, the public debt has also increased by 100.3 per cent. Therefore, the overall liabilities of the State Government and the public debt have grown in tandem. The other aspect is the ratio of the public debt to the total liabilities. With the exception of the year 2014-15 when this ratio touched about 81 per cent, it has ranged between 70 to 75 per cent.

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	(+)1.33	3.90	3.79	3.39
2007-08	(-)3.42	(-) 0.57	(+)9.30	4.06	4.18	1.82
2008-09	(+) 0.74	(+) 3.29	(-)1.40	5.37	4.44	6.71
2009-10	(+) 2.45	(-) 1.47	(-)7.71	3.54	5.42	6.71
2010-11	(-) 4.36	(-) 1.25	(+)4.21	5.08	3.47	5.26
2011-12	(+) 0.36	(+) 3.17	(+)4.43	2.70	2.92	2.87
2012-13	(+) 2.29	(+) 2.12	(-)3.69	2.88	2.79	4.48
2013-14	0.30	(-)10.86	(-)10.45	12.85	4.85	5.26
2014-15	(-)19.74	(-)8.13	(-)10.89	5.74	4.01	4.89
2015-16	0.20	(-)1.02	(+)4.85	2.19	3.40	2.26

Source: FRBM Act compliance reports of the Government of Himachal Pradesh tabled in the State Legislative Assembly for the respective years.

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. The vast divergence in the budget estimates, revised estimates and the actuals 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 realistic and consistent picture unless there are events and circumstances entirely beyond control of the State Government and beyond any reasonable expectation. One noteworthy occurrence is that the State has a revenue account surplus in the initial years of the onset of a Finance Commission award and then in the closing years of the award period, it ends up being hugely revenue deficit. The fiscal deficit data in the above table also underlines the fact that the State Government has observed this parameter of the FRBM legislation more in violation than in adherence. Fiscal prudence demands that whenever the State has a revenue account surplus situation, it must compress its fresh borrowings to that extent so that the management of debt is eased to some extent.

ESTIMATES OF REVENUE DEFICIT FOR THE PERIOD 2020-25

In the earlier chapters dealing with the revenue receipts and the revenue expenditure, projections thereof have been given for the forecast period of the Fifteenth Finance Commission. To recap the entire scenario, the assumptions for projections include 14 per cent per annum increase in the tax revenues, 9 per cent per annum increase in the non-tax revenues and 12.8 per cent per annum increase in the revenue expenditure. Scenario one estimate of the revenue deficit has been worked out without assuming any central transfers for the forecast period. Scenario two of the estimate of the revenue deficit is based on the central transfers being kept constant at the level of BEs for 2018-19 and Scenario three of the estimate is based on 10.7 per cent per annum growth given to 2018-19 figures for estimating the number for 2019-20 and the forecast period. The outcomes are as presented in the following table:

Table 8.10: Estimates of the revenue deficit for the period 2020-25 (Rs. crore)

Year	Total revenues	Total revenue expenditure	SCENARIO I: Revenue deficit without assuming any central transfers	SCENARIO II: Revenue deficit assuming estimated central transfers for 2018-19 BEs being kept constant at Rs. 20171 crore	SCENARIO III: Revenue deficit with central transfers growing at 10.7 per cent on 2018-19 BEs
2020-21	14313	41031	26718	6547	2000
2021-22	16195	46283	30088	9917	2725
2022-23	18330	52207	33877	13706	3586
2023-24	20753	58890	38137	17966	4605
2024-25	23501	66427	42926	22755	5806
Total	93092	264838	171746	70891	18722

Source: Estimates given in Chapters on revenue receipts and revenue expenditure in this study.

As to the ratio of the estimated revenue deficit to the projected GSDP at current prices, the percentages for scenario I and scenario II are given in the following table:

Revenue Deficit to GSDP at current prices ratio (Per cent) for 2020-25 period

Year	RD Scenario I	RD Scenario II	Estimated GSDP at current prices	Percentage of	
				Col.2 to 4	Col.3 to 4
1	2	3	4	5	6
2020-21	26718	6547	193507	13.81	3.38
2021-22	30088	9917	218662	13.76	4.53
2022-23	33877	13706	247088	13.71	5.54
2023-24	38137	17966	279210	13.66	6.43
2024-25	42926	22755	315507	13.60	7.21

Source: Estimates given in Chapters on revenue receipts and revenue expenditure in this study.

As regards the fiscal deficit projections, the time series data for 2010-11 to 2018-19 indicates the following trend in the estimates of fiscal deficit as per cent to the GSDP estimates at current prices:

Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2018-19 RE	2019-20 Est.
Fiscal deficit	4.06	2.25	3.59	4.23	4.05	1.62	4.70	6.78	5.16

The projected figures for fiscal deficit for 2020-25 period with the assumption of central transfers assumed at the level of 2018-19 budget estimates (Scenario I) and with the central transfers growing at 10.7 per cent per annum during the forecast period (Scenario II) on the one hand, and revenue and capital expenditure projections assumed in the forecast of the State Government, on the other, have been presented below:

Year	2020-21	2021-22	2022-23	2023-24	2024-25
Scenario I	6.05	6.39	8.02	5.99	5.79
Scenario II	3.70	3.09	3.96	3.79	3.18

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.

I. PANCHAYATI RAJ BODIES:

Himachal Pradesh has 17,882 inhabited villages in the rural sector which are further organised into 3,226 Gram Panchayats. Himachal Pradesh happens to be the least urbanised State in the country and is overwhelmingly rural in character. With the exception of two municipal corporations, even the other 59 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 2011 census comes to 1915. This gives, on an average, about 380 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 78 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. Hence the actual transfer of the functions listed under the 11th Schedule has not taken place. 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.

On the question of resources of the rural local governments in Himachal Pradesh, it needs to be highlighted that under the State Panchayati Raj Act, it is only the Gram Panchayats who have the authority to raise financial resources. The major source of tax revenue at the Gram Panchayat level is the house tax or property tax. The rates are abysmally low and the yields inconsequential. Other than this, the sources of revenue assigned from the State Government include cess on sale of liquor; royalty on minor minerals like sand, gravel and slates; land revenue; and cess on electricity consumption. The non-tax revenue sources include birth and death registration fees, teh bazari, etc. The collections from these sources have been so low that the successive State Finance Commissions have taken a view to ignore these in the devolution design. The Panchayat Samitis and the Zila Parishads have no powers to raise revenues under the above mentioned Act.

In the year 2011-12, the per capita revenues of Gram Panchayats from tax as well as non-tax sources was of the order of Rs. 16.33 crore. Since the accounts of these bodies are not clear enough to isolate the tax revenues and non-tax revenues, it is a lumped estimate. This gives a per capita collection of about Rs. 25. The Fifth State Finance Commission has assessed the total income of the Panchayati Raj bodies for the period 2017-22 at Rs. 84.10 crore, which comes to a simple average collection of Rs. 16. 82 crore. In a period of six years, the collections have increased from Rs.16.33 crore to an estimated level of Rs. 16.82 crore per annum. This signifies that the resources of the Gram Panchayats have not seen any improvement over the time period mentioned above.

As to the maintenance of accounts and audit of their accounts, largely these are maintained by contractual Panchayat Secretaries at the Gram Panchayat level, accountants at the Panchayat Samiti level and the Zila Parishad level. As the time passes and the regularly appointed accountants are retiring, these are also being replaced by contractual employees. Under the instructions issued by the State Government, the monthly statements of accounts are prepared and placed before the respective elected bodies. As mentioned in the report of the Fifth State Finance Commission, there are no arrears in the maintenance of accounts by the PRIs.

Article 243J of the Constitution of India requires the provision of a separate and independent audit agency. In Himachal Pradesh, the audit agency has been set up under the control of the Director of Panchayati Raj by making appropriate provision under the State Panchayati Raj Act under section 118 of the said Act. The accounts of the Panchayats are being audited under the technical guidance and supervision of the CAG. The CAG has also trained the audit staff for efficient performance of the function. The audit agency comprises of one deputy director, eleven District Audit Officers and 88 Auditors. An annual target of auditing 60 per cent of the Panchayati Raj institutions has been set up towards bringing qualitative improvement in the audit reports and consequently the accounts.

2. URBAN LOCAL BODIES:

Talking of the urban local government establishments, Himachal Pradesh has two municipal corporations, 25 municipal councils and 24 Nagar Panchayats besides 7 cantonment boards and three census towns. 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 oldest municipal corporation has been in existence for Shimla from the British times and a new corporation has been created by the State Government for Dharamshala recently. There are three distinct Acts for the three different types of urban local governments. The data supplied by the State Government to the 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 Corporations 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 details of the revenue receipts of various urban local bodies in Himachal Pradesh for the period 2011-12 to 2015-16 have been taken from the report of the Fifth State Finance Commission. During this study period, the State had only one Municipal Corporation at Shimla. The details of the revenues of Municipal Corporation Shimla for the above mentioned period are contained in the following table:

Table 9.1 Revenue receipts of Municipal Corporation, Shimla (Rs. crore)

Sr. No.	Item	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Tax revenue	8.71	10.19	11.24	13.05	8.87	24.84
2	Rent	1.91	2.22	2.28	4.86	2.34	2.25
3	Fees and user charges	11.42	13.77	18.02	24.68	22.73	27.70
4	Sale and hire charges	0.05	0.07	0.34	0.14	0.11	0.09
5	Other income	1.32	2.34	2.16	2.50	1.72	3.70
6	Total	23.41	28.59	34.04	45.23	35.87	58.58

Source: Report of the Fifth State Finance Commission, January, 2018.

The data on own revenues for 49 urban local bodies (Other than Municipal Corporation, Shimla) comprising of the Municipal Councils and Nagar Panchayats for the years 2012-13 to 2015-16 is presented in the following table:

Table 9.2: Revenue from own sources for 49 urban local bodies (Rs. crore)

Year	Revenue from tax/non-tax receipts for urban local bodies
2012-13	44.23
2013-14	51.31
2014-15	56.71
2015-16	51.68

Source: Report of the Fifth State Finance Commission, January, 2018.

A review of the provisions about the powers to raise resources by these urban local bodies revealed that adequate decentralisation has not been done by the State Government to allow these local government bodies either to revise the rates of various taxes, duties and fees or to enlarge their tax base by new innovative levies.

As regards the audit of the accounts of the urban local bodies, for all levels, it is the responsibility of the State Local Audit Department, which is an external agency for these bodies. Some sample audit is also done by the CAG. Over the few recent years, there has been a visible improvement in the function of account keeping by these bodies.

Himachal Pradesh has been constituting the State Finance Commissions after enactment of the 73rd and 74th Amendments to the Constitution of India. A quick review of the financial transfers recommended by the successive State Finance Commissions and the actual releases will reveal that the State Government has been religious in its adherence to the recommendations of the of the SFCs. The data in this behalf is presented in the following table.

Table 9.3: Transfers to the local government institutions in Himachal Pradesh

Sr. No.	Commission/Tenure	Panchayati Raj bodies		Urban Local bodies	
		Recommended	Released	Recommended	Released
1	First SFC (1996-2001)	13.87	30.85	74.55	83.97
2	Second SFC (2002-07)	70.05	119.45	159.46	133.66
3	Third SFC (2007-12)	228.28	260.25	223.02	212.05
4	Fourth SFC (20012-17)	476.78	441.45	382.44	382.51

Source: Reports of the State Finance Commissions and Budget Documents of the State Government.

It may be seen from the above table that the State Government has been implementing the recommendations of the State Finance Commissions. There have been minor variations between the recommended transfers and the actual releases from time to time. In the case of rural local governments, except for the Fourth SFC, the amount released has been more than the amount recommended. For the urban local governments, the releases were in excess of the recommended amount for the first and the fourth SFCs but the releases fell short of the recommended amount for the tenures of the Second and the Third SFC. It was revealed that the shortfall occurred due to non-compliance of the conditionalities laid down by the SFCs for raising the user charges towards meeting a certain part of the operation and maintenance expenses. A sizeable part of the expenditure incurred by the local government institutions is devoted to meet the committed liabilities of salaries of the employees and honoraria to the elected representatives.

A review of the release of the grants under the dispensation of the Fourteenth Finance Commission has been presented in the following table:

Table 9.4: Release of Grants under the 14^{th} Finance Commission (Rs. crore)

Transfer	2016-17		2017-18		2018-19	
	Recomm.	Released	Recomm.	Released	Recomm.	Released
Basic grant to ULBs	13.83	13.83	30.98	30.98	35.84	17.92
Performance grant to ULBs	8.60	8.60	8.95	Nil	10.17	Nil

Basic grant to PRIs	270.56	270.56	312.60	312.60	361.63	180.82
Performance grant to PRIs	3,49	35.49	40.16	Nil	45.61	Nil
Total	328.48	328.48	392.69	343.58	453.25	198.74

Source: Finance Department presentation to the Fifteenth Finance Commission.

Note: The data of releases for the year 2018-19 is only for the first half releases. The final quantum of the basic releases will be known after the financial year is over.

The data presented in the above table reveals that the State Government has been releasing the basic grants recommended by the Fourteenth Finance Commission yearly. However, what is worrying is that there has been a problem in the release of the performance grants for the year 2017-18 and a similar problem may be encountered for the year 2018-19 as well. This is worrying that the local governments are defaulting on the availment of the performance grants.

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 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 and executive 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 a decade now but have not been adopted or adopted with reasoned modifications. These need to be looked into with urgency towards promoting decentralisation and enhancing answerability at the local level.

The Fifth State Finance Commission has recommended resource transfers to meet the gap between the assessed expenditure level and the assessed income from various sources for the local government institutions for 2017-22 period, the details of which are contained in the following table:

Table 9.5: Finances of the local government institutions for 2017-2022 (Rs. crore)

Sr. No.	Item	PRIs	ULBs	Total
1	Assessed income	84.10	617.10	701.20
2	Assessed Expenditure	1025.08	1335.54	2322.94
3	Assessed resource gap	940.98	718.44	1659.42
4	Recommended transfer	1025.08	680.76	1705.84

Source: Report of the Fifth State Finance Commission, 2018

It may be seen from the above table that the own revenues of the PRIs have been ignored for calculating the gap and in the case of ULBs, the recommended transfer is marginally short of the assessed resource gap. The releases for 2017-18 have been in tune with the recommendations for both the local government institutions.

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. The cumulative losses of the public sector undertakings in the State as on 31st March, 2017 stood at about Rs. 3585 crore. About half of the public sector undertakings have cumulative losses in excess of the State investment, meaning that their financial base has been completely eroded and they have become a burden and drag on the State finances. Whereas there may not be any conflict with the objectives for which these entities were initially 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 because the objectives have not been realised and the cumulative losses have eaten up the investment base.

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 setting out 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 targeted manner. For the others, a similar decision "in principle" is required.
3. Process of restructuring to merge or amalgamate or rehabilitate or 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 each 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 do not continue to be 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. As at the end of 2016-17, the number of public sector undertakings stood at 23, cumulative investment in these entities stood at Rs. 3681.52 crore and their cumulative losses came to Rs. 3584.91 crore. Appendix III, IV and V, respectively, contain the data for all the PSU's for 2003-04 2009-10 and 2016-17, respectively. 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	2016-17	2003-04	2009-10	2016-17
HPSEB	280.00	396.53	653.28	222.39	383.18	2043.85
HRTC	240.21	387.85	670.49	335.23	549.73	1113.91
HPFC	21.58	92.98	21.98	80.25	102.84	161.06
Total for three above	542.78	877.36	1345.75	637.87	1035.75	3318.82
% to total for all PSU's	76.97	48.95	37.54	78.06	92.12	90.14

Source: HP Public Sector Undertakings Report for Budget of Himachal Pradesh for 2006-06 and 2011-12 and 2017-18.

The above data clearly brings out that for all the three years for which the data has been presented above, the cumulative losses are in excess of the State 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 and continue to compile at a threatening pace. 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 cannot 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 2354 km. length of EHT lines, 33776 km. length of HT lines and about 62838 km. 0f LT lines. Despite this scatter of distribution activity, the transmission and distribution losses in 2011-12 stood at 13.65 per cent and have been declining progressively. For the year 2016-17, the T&D losses came down to 11.43 per cent. The latest data for three quarters of 2017-18 indicates the losses to have come down further to 9.54 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)	Energy per Consumer (kwh)	Subsidy per 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
2014-15	1850155	1893.52	330.00	1022.67	1783
2015-16	1896835	1939.70	783.58	1022.60	4131
2016-17	1945281	1900.47	265.00	976.96	1362

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, 2009-10 and 2015-16 were of the order of Rs. 25.38 crore, Rs. 30.32 crore, Rs. 152.82 crore and Rs. 1999.64 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. As for the data in the last column of the above table, it suffers from severe inconsistency because the subsidy pass on from the State Government on a year to year basis to the utility is not based on the actual consumption and is a function of column 4.

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 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 increased to Rs. 1018.64 crore for 2016-17. 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 cannot 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 the 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
2017	40,908

Source: Directorate of Economics and Statistics, HP.

Given the excess baggage of history of PSU's, the present status indicates that this entity does not now adversely impact the State finances with the exception of the Electricity Board as the fresh debt under the UDAY scheme is an additive not only the aggregate debt stock but also simultaneously impacts the debt to GSDP ratio and the fiscal deficit of the State. 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, besides totally dis-intermediating itself in regard to the finances of the State owned PSU's.

As for the State Transport Undertaking, the losses occur largely due to operational constraints. In a separate chapter on the subsidies burden, the data on grants given to HRTC for offsetting the losses incurred by it on State directed concessional travel would reveal that it is one of the causes of increasing losses in addition to operational constraints.

PSU reforms in Himachal Pradesh should centre around and focus on the two major undertakings, namely the HPSEBL and the HRTC. For the HPSEBL, after the State Government having cleaned off the debt of the utility and the regulator ensuring that its purchase of electricity and sale to consumers fair, the HPSEBL should not be incurring losses on its operations. It needs to push further for reduction of line losses. The budgetary support should be strictly linked to the subsidy burden on sale of energy and no other budgetary support should be provided. Talking of HRTC, as heretofore, it should continue to receive budgetary support for replacement of the overaged fleet and for meeting the revenue losses for concessional travel ordered by the State Government. It is necessary to continue with this arrangement due to almost complete lack of other means of transport in the State.

For all other PSUs, the State Government should dis-intermediate itself from either providing any budgetary support or guaranteeing their borrowings. Last but not the least, the decisions taken by the government for restructuring the PSUs should be expeditiously implemented, their number reduced to the minimum to purely cater to social obligations for the weaker sections. With increasing impact of privatisation, all commercial activities should be best left to private sector. The paternalistic attitude of the State Government to these should cease.

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	Khadi Board is given Administrative grant for the

	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.	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	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.

	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.	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 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.	Voluntary Retirement Scheme is being implemented in public 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.

Source: Directorate of Institutional Finance and Public Undertakings, Finance Department, Government of Himachal Pradesh.

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	(275.69)	182.13	195.83	(2,424.58)	2,959.40

	Corporation, Shimla.					
8.	Himachal Pradesh General Industries Corporation, Shimla	4.32	(68.79)	17.34	(107.62)	479.79
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	(50.62)	(40.34)	(34.92)	(386.45)	371.67

	Electronics Development Corporation Ltd., Shimla					
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.

Source: Working of Government Commercial Undertakings of Himachal Pradesh, Directorate of Economics and Statistics, Himachal Pradesh.

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 & Processing Corporation	(394.04)	(333.72)	(670.73)	(5304.64)	3119.70	418
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	(33.19)	(3.63)	(42.60)	(278.30)	595.44	15

	& Development Corporation						
	Total	(7177.35)	(1285.36)	(19422.88)	(112439.46)	179246.00	43449

NB : Figures in brackets denote loss.

Source: Working of Government Commercial Undertakings of Himachal Pradesh, Directorate of Economics and Statistics, Himachal Pradesh.

APPENDIX-V

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 31.3.2017	Investment as share capital as on 31.3.2017	No. of employees as on 31.3.2010
		2014-15	2015-16	2016-17			
1	2	3	4	5	6	7	8
1.	Himachal Pradesh Financial Corporation, Shimla	(108.96)	(965.61)	(15466.36)	(16106.33)	2197.79	14
2.	Himachal Pradesh State Electricity Board Limited, Shimla	(12467.05)	(1051.10)	(199963.58)	(204384.68)	65328.18	24930
3.	Himachal Road Transport Corporation, Shimla	(17269.87)	172.58	(101863.92)	(111391.36)	67049.15	9232
4.	Himachal Pradesh Power Corporation Ltd.	--	--	--	(10732.61)	171843.34	695
5.	Himachal Pradesh Power Transmission Corporation Ltd.	--	--	--	(1391.48)	25874.50	127
6.	Himachal Pradesh Housing and Urban Development Authority, Shimla	144.42	127.80	123222.17	(135.40)	10246.99	524
7.	H.P. Scheduled Castes & Scheduled Tribes Development Corporation, Solan	(333.87)	(308.62)	(1850.63)	(1715.25)	8223.95	114
8.	Himachal Pradesh Ex-Servicemen Corporation, Hamirpur	313.00	377.00	2484.00	3349.00	413.81	50
9.	Himachal Pradesh State Industrial Development Corporation Ltd., Shimla	647.34	825.36	3277.68	3277.68	3084.44	152
10.	Himachal Pradesh General Industries Corporation Ltd., Shimla	492.56	546.86	1417.65	2116.03	716.27	139

11.	Himachal Pradesh Agro Industries Corporation Ltd., Shimla	(125.05)	(118.31)	(2040.67)	(2127.54)	1180.08	40
12.	Himachal Pradesh Horticulture Produce Marketing & Processing Corporation	(568.72)	(313.81)	(8014.16)	(8311.05)	3876.70	188

13.	Himachal Pradesh State Forest Development Corporation, Shimla	(408.98)	(1027.15)	(6301.75)	(974487)	1171.12	1854
14.	Himachal Pradesh State Civil Supplies Corporation, Shimla	205.94	211.61	3234.92	3368.03	351.50	891
15.	Himachal Pradesh State Handicrafts & Handloom Corporation Ltd., Shimla	132.30	105.73	(1504.10)	(1523.09)	925.46	52
16.	Himachal Pradesh Tourism Development Corporation Ltd., Shimla	19.72	140.05	(2175.03)	(2301.49)	12229.86	1475
17.	Himachal Pradesh State Electronics Development Corporation Ltd., Shimla	100.78	88.10	400.25	543.42	371.67	54
18.	Himachal Pradesh Mahila Vikas Nigam, Solan	4.17	34.51	169.64	232.41	994.22	3
19.	Himachal Pradesh Khadi & Village Industries Board, Shimla	5.86	6.06	73.77	81.76	--	101
20.	Himachal Pradesh State Co-operative Milk Producers Federation Ltd., Shimla	640.23	321.68	(1273.65)	(1033.48)	715.26	209
21.	Himachal Pradesh Kaushal Vikas Nigam	--	--	--	8.14	0.70	37
22.	Himachal Backward Classes Finance & Development Corporation, Kangra	140.87	92.50	914.14	90.12	1300.00	16
23.	Himachal Pradesh Minorities Finance & Development Corporation	(66.07)	(97.23)	(580.16)	(659.01)	1058.84	11
24.	Total	(28501.38)	(831.99)	(316739.78)	(358491.05)	368151.83	40908

Note: Figures in brackets denote loss.

Source: Working of Government Commercial Undertakings of Himachal Pradesh, Directorate of Economics and Statistics, Himachal Pradesh.

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 targeted, 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
2005-06	142.00	2.20	6.49
2006-07	343.44	4.61	11.47
2007-08	327.69	3.95	8.67
2008-09	368.45	3.90	9.21
2009-10	403.51	3.62	9.26
2010-11	438.67	3.15	8.22
2011-12	465.21	3.35	7.72
2012-13	566.93	3.51	9.44
2013-14	467.15	2.69	6.76
2014-15	801.34	4.05	9.99
2015-16	1346.08	6.04	15.77
2016-17	763.96	3.01	8.72

Source: Budget documents of the Government of Himachal Pradesh.

In terms of the total financial burden of the subsidies, it may be seen that it ranges between 3 to 4 per cent of the total revenue expenditure of the State. When viewed against the state's own revenue receipts, the expenditure on subsidies ranges between 7 to 10 per cent. At an overall level, such level of expenditure on subsidies should not be a cause of worry. However, it is imperative that the question of a subsidy being meritorious should be gone into and rationalisation or reform towards targeting these better or making the subsidy outgo reach the deserving should be attempted. Any merit -based reduction in such expenditure would be a step in the right direction towards reducing the revenue deficit.

When one looks at the share of expenditure on various subsidy schemes, it strikes that the major outgo is concentrated on three schemes in the sectors of electricity; food and allied essential commodities; and transport. For 2016-17, these three accounted for 78.5 per cent of the total expenditure on subsidies. The details are as given below: -

TABLE 11.2: MAJOR SUBSIDIES NEEDING ATTENTION

Sector/Scheme	Expenditure (Rs. crore)		
	2007-08	2011-12	2016-17
Power/Domestic consumers	168.00	140.00	265.00
Food/Pulses, edible oil, kerosene oil etc.	63.00	106.00	174.79
Transport	40.00	90.00	160.00

Source: Budget Documents of the State Government.

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 across the board 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.

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
2014-15	1850155	1893.52	330.00	1022.67	1783
2015-16	1896835	1939.70	783.58	1022.60	4131
2016-17	1945281	1900.47	265.00	976.96	1362

Source: - Directorate of Economics and Statistics and Budget documents of the State.

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. 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. The actual burden of subsidised supply to domestic consumers would be better estimated by lumping the data for all the years put together. Although one would also point to HPSEBL 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. About 18.38 lakh ration cards with a population of 77.44 lakh are being covered by this scheme currently. 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 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. However, the State Government could be well advised not to proliferate the subsidy culture at the above pattern where the user has a very limited stake. Such loans are production loans and should be treated as such.

Another major outgo in this category of expenditure is the subsidised transport facility for various categories of commuters in the State. The concessional or free travel schemes in the State Transport Undertaking buses include the Green card scheme under which 25 per cent discount in fare is given to the card holders up to 50 Km. journey; Silver card scheme giving 30 per cent discount for journeys up to 18 Kms.; free facility to women on certain festive occasions; 25 per cent discount to women for travel in the buses within the State; free travel to the students in the Government schools up to class 12 irrespective of the distance travelled; free travel facility to patients suffering from serious diseases along with an attendant; free travel to the persons who are differently abled having disability above 70 per cent along with an attendant; and free travel to the winners of various gallantry awards. There are no firm estimates for loss of revenue to the transport undertaking from these schemes. However, since these schemes are run on the directions of the State Government, the State Government has decided to meet the revenue gap to a certain extent. The quantum of such grants is determined from year to year on an ad-hoc basis and provided as grant to the State Transport Undertaking. This fact is borne out by the time series data on transport subsidy. The outgo for 2014-15 was Rs. 135 crore and the same was raised to Rs.235 crore for 2015-16. It has been scaled down to Rs. 160 crore for 2016-16. This data adequately bears out the ad-hoc nature of this budgetary support from the State Government because the number of the beneficiaries availing these subsidies or concessions would naturally be on increase. It is felt that the State Government should provide for the full revenue loss on this count if it expects the transport undertaking to be run on commercial lines. For that to be achieved, it is imperative that the Transport undertaking provide firm estimates of users and revenue losses for each category. It would not be easy and feasible to switch on to a direct budgetary transfer of subsidy to the users after they have paid the full fare while availing the travel facility due to diversity and spread of the users, but such a pilot experiment could provide robust estimates of the burden and enable accurate determination of the budgetary support.

The question of having an independent regulator for pricing the transport services by the public and private sector transport operators deserves attention. It will achieve the twin objectives of pricing the service provision after taking into the full costs on the one hand, and also eliminate the unfair practices by the private operators, on the other.

As regards the impact of subsidies in transport sector on the State finances, the data presented in the following table would demonstrate the magnitude of the impact:

TABLE 11.4: TRANSPORT SUBSIDY AND TOTAL REVENUE EXPENDITURE OF THE STATE

(Rs. crore)

Year	Expenditure on transport subsidy	Total Revenue Expenditure of the State	Percentage of Col. 2 to Col.3
2011-12	90.00	13897.97	0.64
2012-13	97.40	16174.25	0.60
2013-14	120.00	17352.49	0.69
2014-15	135.00	19787.05	0.68
2015-16	235.00	22302.81	1.05
2016-17	160.00	25344.22	0.63

Source: State Budget documents for the respective years.

It may be seen from the above data that the transport subsidy provided by the State Government to the State Transport Undertaking have hovered around 0.6 to 0.7 per cent, with the exception for the year 2015-16. It is unlikely that this expenditure will have a significant adverse impact on the overall status of State finances as long as the level of burden stays at the current level.

Rationalisation and better targeting of the above subsidy schemes can easily reduce their annual burden by about Rs. 400 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 and containing the budgetary outgo on this account. It is necessary that the State Government maintains its tight-fisted policy on introducing new subsidies and seriously attempt targeting the existing subsidies on a meritorious basis.

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. -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. 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. -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	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. Approved. All the beneficiaries under IRDP will be covered under the uniform pattern prescribed by the Government of India and as in

	followed under IRDP for administering subsidies. -A thorough review of C.M. Gratuity Scheme will be undertaken. Efforts will be made to shift all the burden to Government of India Schemes. Coverage of beneficiaries should be restricted to one Scheme only, rather than multiple benefits/assistance.	vogue in all other States. Approved. Implementation and monitoring of CM Gratuity 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.	Approved.

	-All other Schemes (e.g. MIGH/LIGH) should be merged into Centrally Sponsored Scheme of Credit-cum-Subsidy Housing Scheme.	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.

Source: Planning Department, Government of Himachal Pradesh.

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

Source: HBSEBL.

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. These have further been brought down to 11.43 per cent for 2016-17. 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.

EFFORTS BY HPSEBL TO REDUCE LOSSES

It is important to enumerate the package of initiatives undertaken by the HPSEBL to further reduce the line losses. These are recounted as under: -

i) Replacement of defective DT meters and other defective meters;
ii) Identification of loss prone areas;
iii) Preparation of loss reduction targets at various field levels and making officers accountable for their achievement;
iv) Intensive implementation performance monitoring at all levels;
v) Energy audit and Meter performance analysis;
vi) Undertaking feeder improvement programme for network strengthening and optimisation;
vii) Identification of loss prone feeders and initiation of remedial measures;
viii) Stepping up voltage to ensure reduction in loses;
ix) Balanced loading of the transformers;
x) Digital metering to ensure accurate billing; and
xi) Proactive and efficient working of the Flying Squad units for detection of theft and unauthorised use of electricity.

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 and further on to 11.43 per cent for 2016-17.

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 was slated to be completed in other remaining 7 sub-divisions before 31-3-2014.

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 and Agriculture consumers regularly since 2001. The Government of Himachal Pradesh has released the cumulative roll-over subsidy amounting to Rs. 783.58 crore for the during the fiscal 2016-17.

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

Source: HPSEBL.

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. Appropriate 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. 1718.43 crore in the HPPCL and Rs. 258.75 crore in the HPPTCL as on 31st March, 2017. These investments are in the process of being invested on various projects and it will be only after coming into fruition of the new generation stations and new evacuation lines 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. 2630 crore by the State Government in these three companies. On the contrary, the cumulative losses of the three companies add up to a whopping Rs. 2165 crore. In this manner, the three utilities have nearly reached a stage close to complete erosion of its investment base by the State Government.

With this presentation of the reforms in the decade after enactment of the new Electricity Supply Act, a view of the present scenario of power sector and its macro performance parameters is presented in the following text.

The data on consumption of electricity within the State and its sale outside the State is presented in the following table: -

Table 12.3: Sale of Energy in Million KWH

Sr. No.	Category	2010-11	2016-17
1	Domestic	1281.96	1937.93
2	Commercial	356.53	528.24
3	Industrial	4195.16	4561.51
4	Agriculture/Irrigation	35.14	57.28
5	Public lighting	12.55	12.94
6	Bulk or grid supply	235.61	150.24
7	Common pool	0	0
8	Sale to NDNC	89.54	136.43
9	Water works and sewerage	409.95	551.06

10	Temporary metered supply	24.64	29.97
11	Sale out of State	1704.60	3578.05
12	Total	8345.68	11537.70

Source: HPSEBL and State Finance Department.

A comment on the above data as to its components is necessary. Whereas the aggregate sale of energy has grown by about 38.25 per cent between 2010-11 1nd 2016-17, the corresponding increase in consumption within the State is 19.85 per cent. The most worrying aspect of sale within the State is very slow growth in the consumption of energy in the industrial sector which grew only by 8.7 per cent in the period reported upon. This does not uphold the scenario being presented by the State Government that it was moving fast on industrialisation by "Single Window approval process". This needs to be looked into by the State Government.

The table below presents the growth in revenues of the HPSEBL between 2010-11 and 2016-17: -

Table 12.4: Revenues of the HPSEBL (Rs. crore)

Sr. No.	Category	2010-11	2016-17
1	Domestic	346.83	802.12
2	Commercial	181.98	306.45
3	Industrial	1568.64	2680.23
4	Agriculture/Irrigation	16.89	55.14
5	Public lighting	6.01	21.32
6	Bulk or grid supply	97.00	118.61
7	Common pool	1.35	0
8	Sale to NDNC	50.78	98.07
9	Water works and sewerage	184.90	399.38
10	Temporary metered supply	12.03	24.65
11	Sale out of State	888.70	1714.58
12	Total	3355.11	6226.55

Source: HPSEBL and State Finance Department.

It may be seen that the aggregate revenues increased by 85.6 per cent during the period under study. The increase in the revenues from sale outside the State was of the order of 92.9 per cent and 82.94 per cent for the sale within the State. The increase in the revenues from industrial consumption was 70.86 per cent. This repeats the story of consumption in this sector as stated in the above paragraph. Based on the data on sale and aggregate realisation of revenues which are respective derivatives for various categories, the average realisation per KWH for various categories is depicted in the following table: -

Table 12.5: Average realisation per Unit (KWH) (Rs. per KWH)

Sr. No.	Category	2010-11	2016-17
1	Domestic	.271	.417
2	Commercial	.510	.580
3	Industrial	.374	.588
4	Agriculture/Irrigation	.481	.963
5	Public lighting	.479	1.641
6	Bulk or grid supply	.417	.789
7	Common pool	.000	.000
8	Sale to NDNC	.567	.752
9	Water works and sewerage	.451	.725
10	Temporary metered supply	.488	.822
11	Sale out of State	.521	.479
12	Total	.402	.540

Source: HPSEBL and State Finance Department.

The data on the growth of consumers in various categories is presented in the following table: -

Table 12.6: Number of consumers by various categories

Sr. No.	Category	2010-11	2016-17
1	Domestic	1668261	1953211
2	Commercial	222936	260372
3	Industrial	34171	34501
4	Agriculture/Irrigation	16861	27197
5	Public lighting	702	905
6	Bulk or grid supply	325	292
7	Common pool	000	000
8	Sale to NDNC	18278	27098
9	Water works and sewerage	4483	6389
10	Temporary metered supply	3380	6650
11	Sale out of State	---	---
12	Total	1969397	2316515

Source: HPSEBL and State Finance Department.

The data presented above presents an interesting picture. The overall growth in the number of consumers in the period under study was of the order of 17.62 per cent. As against this, the number of domestic consumers grew by 17.08 per cent which is close to the overall growth. In fact, the percentage of domestic consumers to total consumers was 84.71 in 2010-11 and stood at 84.32 per cent for 2016-17. Hence, the aggregate growth is weighted down by this category. The highest growth was witnessed in the case of consumers belonging to the category of agricultural/irrigation connections. The point which needs to be emphasised here is that the growth in the number of consumers was pronounced significantly in the case of the categories of subsidised consumers. What is most worrying is that the number of consumers in the industrial category grew only by 0.97 per cent. This is a clear indication that the withdrawal of various concessions for setting up of industries by the Central Government has resulted in a massive slow down on the pace of industrialisation in the State. With this profile, the financial performance of HPSEBL also needs to be looked at. The relevant data is presented in the following tables/text: -

Table 12.7: Overall Financial Performance of HPSEBL (Rs. crore)

Sr. No.	Item	2010-11	2016-17	2018-19(BE)
1	Total Revenues	4026	6620	6978
2	Total Expenditure	4538	6664	7028
3	Profit before tax	(-) 512	(-) 44	(-) 50
4	Profit after tax	(-) 513	(-) 44	(-) 50
5	Subsidy released by the State	145.74	265	475

Source: HPSEBL and State Finance Department.

As mentioned earlier in this chapter, the HPSEBL is a loss making entity. The only way it can turn around is by massive cut back in its staff costs. The entity has been on introduction of IT enabled services for improvement in its functioning on a large scale and this should have resulted in cutting down the staff costs. It is losing much less money on line losses on a continuously declining trend and therefore, it should turn corner towards making profits, rather than piling on losses.

Data on the asset structure of HPSEBL is contained in the subjoined table: -

Table 12.8: Asset Structure of HPSEBL (Rs. crore)

Sr. No.	Item	2010-11	2016-17	2018-19(BE)
1	Net Fixed Assets	4426	5407	5745
2	Capital WIP	1273	828	942
3	Current Assets	1890	3151	3089
4	Investment & other assets	901	488	433
5	Total Assets	8490	9824	10212

Source: HPSEBL and State Finance Department.

The above asset structure has been financed in the following manner and the only comment one would like to make is that the HPSEBL should reduce its leaning on the borrowings. The progression of deficit is a serious concern about which the State Government should concern itself and suggest remedial measures.

Table 12.9: Mode of Financing the Assets of HPSEBL (Rs. crore)

Sr. No.	Item	2010-11	2016-17	2018-19(BE)
1	Equity	972	653	753
2	Reserves & Reserve Funds	526	521	522
3	Deficit/Surplus	(-) 1398	(-) 2043	(-) 2294
4	Working Capital	1105	122	176
5	Loans (FIs, Bonds, Banks)	3073	1828	1917
6	Total Loans	4297	3390	3984
7	Current Liabilities	2086	3530	3577
8	Other Liabilities	2107	2303	2651
9	Total	8490	9824	10212

Source: HPSEBL and State Finance Department.

Despite all that has been stated above, it is important to mention that HPSEBL has been among the better performers in the country in the face of extremely difficult operating conditions. According to the Fifth Integrated Report on DISCOMs, HPSEBL secured 5th rank among all the 40 utilities in the country improving upon its earlier ranking at 11th position and was awarded A grade.

OVERALL SCENARIO OF POWER SECTOR AND THE ROLE OF PRIVATE SECTOR IN GENERATION, TRANMISSION AND DISTRIBUTION:

Prior to 1990, the entire power sector was in the hands of government. It was opened up for private sector realising that the State would not have adequate resources for the speedy actualisation of the enormous potential the State possessed. From then onwards, the role of private sector has been appreciated by the State government, largely towards installation of new projects of varying installed capacity.

The private sector has been involved in the installation of hydro-electric projects at a fairly large level. The private operators have no role in the intra-State distribution of power. The private generating utilities are given the points for connection of their installed projects with the transmission grid which is the sole responsibility of the State utilities like Himachal Pradesh Transmission Corporation Limited and the HPSEBL. Only in the case of one private operator, a dedicated transmission line has been erected to evacuate power, largely outside the State.

The aggregate picture of the generating capacities in the hands of various players as it emerges currently is presented in the following table:

TABLE 12.10: SHARE OF VARIOUS PLAYERS IN THE INSTALLED CAPACITY, PROJECTS UNDER EXECUTION AND ALLOTMENT AT VARIOUS LEVELS OF APPROVALS

Sr. No.	Player	Installed (MW)	Under implementation (MW)	Under various stages of clearance(MW)	Total
1	State (HPSEBL, HPPCL, HIMURJA)	660	791	2426	3877
2	Central Govt. or Joint sector (State and Centre)	7457	800	1280	9537
3	Private sector	2223	822	5268	8313
4	Total	10340	2413	8974	21727

Note: The total potential is 23218 MW which includes 132 MW capacity of Yamuna share for Himachal Pradesh and 28 MW capacity of share in Ranjit Sagar Dam is not included in the above table. In addition, projects worth 755 MW capacity stand foregone on account of environmental and other considerations and projects worth 576 MW are disputed.

The data presented in the above table indicates that 47.59 per cent of the total potential stands actualised by various agencies, 11.11 per cent of the total capacity is under implementation and the remaining 41.30 per cent potential is at a stage of undergoing various statutory clearances. The State Government has 17.84 per cent of the potential, whereas the largest player is the Central sector/ joint venture projects accounting for 43.99 per cent of the total potential. The private players account for 38.26 per cent of the total potential. The pace of actualisation by the private sector is hampered by a wide range of factors/ hurdles and to fast-pace its implementation, the State Government has to play a pro-active role.

Towards fast-pacing the actualisation of the potential in the pipeline and also awaiting various approvals, it is imperative that level playing field is afforded to the public and private sectors by the State as well as the Central Government. Realistic pricing of energy by the regulators is another area which deserves attention in as much as that all the costs which go into setting up the project are considered. Small hydro projects up to 25 megawatt capacity are equated with the solar installations for transmission/wheeling costs which are zero for the solar based generation. Central subsidy for small hydro projects should be identical both for the public and private developers.

CHAPTER 13

LIABILITIES OF THE STATE GOVERNMENT

Synopsis: Liabilities of the State Government, Component analysis of the liabilities, rates of growth and future scenario on limiting the liabilities.

The progression of debt contracted by the State Government is an area of serious concern for the State Government and needs effective management not only in choosing the sources of borrowing but also the use of capital account resources for investment and asset formation. This chapter attempts to do a component analysis of the liabilities of the State and comment upon its progression. Data on various liabilities of the Government of Himachal Pradesh is presented in the following table: -

Table 13.1: Liabilities of the State of Himachal Pradesh (Rs. Crore)

Year	Internal Debt*	Loans and advances from Central Govt.	Total Public Debt (2+3)	GPF/GIS etc. (Public account liabilities)	CPS	Other Obligations (Liabilities of the PSUs)	Total Liabilities (4+5+6+7)
1	2	3	4	5	6	7	8
2002-03	6393.12	2521.38	8914.50	2484.42	Nil	1810.55	13209.47
2003-04	9490.41	1536.42	11026.83	2720.19	Nil	3230.54	14977.56
2004-05	12299.79	1097.61	13397.40	2981.02	Nil	1279.98	17658.40
2005-06	12868.46	1070.60	13939.06	3291.11	Nil	1442.81	18672.98
2006-07	13475.99	1019.57	14495.56	3613.14	1.11	1688.50	19798.31
2007-08	13808.36	1014.78	14823.14	4153.56	28.99	2236.15	21241.84
2008-09	15219.00	970.88	16189.88	4668.44	95.64	2197.43	23151.39
2009-10	16611.70	938.85	17595.55	5214.11	155.99	198.09	23163.74
2010-11	17533.13	959.65	18492.78	6102.36	183.17	182.54	24960.85
2011-12	18428.24	947.16	19375.40	6737.90	238.27	142.50	26494.07
2012-13	19624.27	1018.37	20642.64	7849.64	88.51	126.50	287707.29
2013-14	21647.06	1012.42	22659.48	8336.31	46.77	Nil	31442.56
2014-15	24127.33	1070.73	25198.06	9921.47	32.07	Nil	35151.60
2015-16	26860.87	1058.69	27919.56	10639.90	8.36	Nil	38567.82
2016-17	31493.97	1076.30	32570.27	11844.41	8.05	Nil	44422.73

Source: Explanatory Memoranda to Budget for the respective years, Government of Himachal Pradesh.

It may be seen from the above data that the internal debt of the State which comprises of the borrowings obtained by the State Government from market as SLR based borrowings, and loans from NSSF, NABARD, HDFC, LIC, NCDC, GIC, etc. In addition, the non-SLR based borrowings and the interest-bearing funds placed under the Public Account under head "8448". Needless to mention, this comprises the biggest chunk of the liabilities of the State. For the year 2002-03, it constituted 48.4 per cent of the total liabilities of the State and became about 70.9 per cent for the year 2016-17. Over these years, the internal debt of the State increased nearly by 392.62 per cent, representing an increase of a little over 26 per cent per annum. This is despite the debt cap mechanism having ben in place for all these years.

Coming to loans and advances from the Central Government, there has been no increase over the recent years. This is due to the policy change and the fact that fresh loans from the Central Government in any form either constitute an amount nearly equal to the repayment of the past debt or no new liabilities are being created.

As to the total public debt which is the sum of internal debt of the State and the loans and advances from the Central Government, it resultantly increased by about 265.4 per cent over the study period, an annual increase of a little over 17 per cent. The lower growth of the total public debt is attributable to the near constant burden of the loans and advances from the Central Government.

Liabilities on Public account comprise the liabilities outstanding on account of the General Provident Fund of the employees and the collections under the Group Insurance scheme. As a matter of fact, these moneys are kept in trust with the State Government in Public Account. These, in strict definition, are "Trust" funds and would not constitute debt. However, as the State Government uses these funds and bears interest on these and has also to repay, it is appropriate to consider these as the debt and treat them as liabilities on the State Government. These also account for about a quarter of the total liabilities of the State and have grown by about 376.7 per cent during the period under study, representing an average annual increase of a little over 25 per cent.

In terms of the burden of "Other obligations", which are the liabilities of the State-owned enterprises, these have been phased out and from 2013-14 onwards, the aggregate liabilities of the State Government do not have any such component included in the "Total Liabilities of the State". Over the period under study, these have increased by 236.3 per cent representing an average annual increase of about 15.7 per cent.

At an overall level, such increase in the debt stock may not be viewed adversely till the fresh borrowings are devoted to capital investment and asset formation by the State Government. However, in the case of Himachal Pradesh, what is seriously worrying is that a sizeable part of the fresh debt is being consumed by the ever-growing revenue expenditure which is basically consumption expenditure. This has been brought out in an earlier chapter and it should be a cause of worry for the governments of the day in coming times. There is historical data over the last few years indicating that the State Government has been having a revenue account surplus. Prudence demands that in such years the State Government could do well by not contracting additional debt beyond what is inescapable towards repayments of the past debt and use the revenue surplus to meet such liability. This would demand self-discipline and restraint and the Fifteenth Finance Commission could set such conditions which facilitate the process.

CHAPTER 14

FOURTEENTH FINANCE COMMISSION PROJECTIONS AND ACTUAL PERFORMANCE OF THE STATE SO FAR

Synopsis: Assessment of Own Revenue Receipts and Expenditure by the Fourteenth Finance Commission; and Comparison with Actual performance for 2015-16, 2016-17 and Revised Estimates of 2017-18.

The Fourteenth Finance Commission had made the following forecast about the own revenues of Himachal Pradesh and the revenue expenditure. Whereas it adopted a normative approach in the forecast of the own tax revenues of the State, it had gone by detailed component analysis of the own non-tax revenues and the revenue expenditure. Annexure 7.5 of the report of the Fourteenth Finance Commission is reproduced below as table 14.1: -

Table 14.1: Forecast of own revenues and expenditure by 14th Finance Commission

(Rs. crore)

Year	Gross SDP	Own Tax Rev	Own Non-tax Rev	Own Rev	Rev Exp	Interest payments	Pension
2015-16	120318	7820	1698	9518	21667	3088	3846
2016-17	136914	9438	1876	11314	24324	3391	4230
2017-18	155798	11390	2102	13492	27325	3736	4653
2018-19	177288	13747	2373	16120	30713	4129	5119
2019-20	201742	16591	2685	19277	34541	4575	5630

Source: Report of the Fourteenth Finance Commission.

Forecast of Revenues

It may be recalled that the Fourteenth Finance Commission had followed two step methodology for assessment of the tax revenues of the States. In brief, the first step involved reassessment of the tax to GSDP ratio for the base year 2014-15. For reassessment, State specific trend growth rates of own tax revenue for 2004-05 to 2012-13 were applied to 2012-13 to arrive at the figures for 2013-14 and 2014-15. These estimates were compared with the budget estimates of own tax revenues for 2014-15. The higher of the two was taken as the base figure of the own tax revenues for the State. Thus, the Fourteenth Finance Commission estimated own tax to GSDP ratio both in aggregate and for individual States. The base year tax to GSDP ratio for all States, by this method, worked out to 8.26 per cent. For those States with tax to GSDP ratio below the average of 8.26, the Commission assumed a higher buoyancy of 1.5; and for those States with tax-GSDP ratio of more than 8.26 per cent, the Commission had assumed an own tax buoyancy of 1.05. The Commission had also clearly stated that once a State reaches the ratio of 8.26 in case of the States with lower ratios, the lower buoyancy of 1.05 would be applied for the remaining years of the forecast period and a tax ratio of 8.26 per cent for that particular year would be applied.

For Himachal Pradesh, the above methodology resulted in assessment of growth in tax revenues by over 20.65 per cent each year, which by any yardsticks, was extremely steep, and unattainable in view of the fact that 90 per cent of the population lives in tiny villages, catered to by small markets/shops; and characterised by extremely low trade and commerce activities apart from a very significant part of the GSDP originating in the State but accruing elsewhere and resultantly, the revenues also accruing elsewhere. From the examination of Annexure 7.3 and 7.5 relating to paragraphs 7.20 and 7.47, it is revealed that States which had tax to GSDP ratio of more than 8.26 per cent were large States with much higher trade and commercial activities, for example Tamil Nadu, Gujrat, Maharashtra, Kerala, Madhya Pradesh, Uttar Pradesh etc.

With the above theoretical framework for the forecast, the reality as it has unfolded should be looked at. The performance of the State of Himachal Pradesh for the first three years of the Fourteenth Finance Commission award tenure on the own tax revenue front emerges as under: -

Table 14.2: Assessment of Own Tax Revenue Receipts by Fourteenth Finance Commission: Comparison with Actual performance			
Assumed GDP Growth 13.79% X Tax Buoyancy of 1.5 =20.685% growth in own revenues each year			
Items	**2015-16**	**2016-17**	**2017-18**
GSDP assumed by 14th FC	120318*	136914	155798
Own Tax Revenue as forecast by the Fourteenth Finance Commission	7820	9438	11390
Budget Actuals of Own Tax Revenue for 2015-16 and 2016-17 and REs of 2017-18	6696	7039	7379
Over Assessment (+)/Under Assessment (-)	**1124**	**2399**	**4011**
%age of Over Assessment (+)/Under Assessment (-)	**14.38**	**25.42**	**35.22**

Note: * The latest estimate of the GSDP for this year has turned out to be Rs.104200 crore which is 86.6 per cent of the figure taken by the Fourteenth Finance Commission. With this base, the corresponding figures for the year 2016-17 and 2017-18 based on the growth assumption of the Commission work out to Rs. 118569 crore and Rs. 134920 crore. The own tax revenue forecast would also get deflated to that extent.
Source: Report of the Fourteenth Finance Commission and the State Budgets for the respective years.

The above data clearly indicates that the own revenue forecast by the Fourteenth Finance Commission turned out to be vastly unrealistic and in the first three years of the award period, there has been an actual shortfall of the order of over Rs. 7500 crore in the own tax revenues for the first three years of the award period, indicating an average worsening of about Rs. 1500 crore per annum. This would understandably widen further in the last two years due to progression. Obviously, such a shortfall leads to creating uncovered revenue account deficit presuming that the revenue expenditure forecast holds its ground. It goes without saying that the last two years of the forecast period of the Fourteenth Finance Commission would leave the State with large revenue account gap versus the balanced situation forecast by the Commission.

Coming to the forecast of the non-tax revenues of the State, the following table would clarify the situation about the performance of the State. Before that, it is important to underline the principles adopted by the Fourteenth Finance Commission for forecast of the non-tax revenues of the State. The Commission had adopted distinct forecast methodology for various components of the non-tax revenues. On interest earnings, the Commission had held that the interest earnings and the dividends should at least cover the current cost of the borrowings of the States. As to the revenues from royalty on major minerals, the Commission had adopted the projections made by the Union Ministry of Mines whereas for the residual royalty (minor minerals), it had adopted a growth of 6.5 per cent per annum. As regards the revenues from forestry, the Commission had done the forecast based on the past trends keeping in view the declining revenues from this source. For the residual component of the “General Services”, the commission had adopted State specific trend growth rates. As regards the revenues from Irrigation and Flood Control, the Commission had applied a norm of recovery for projections at 35 per cent of the non-plan revenue expenditure. For the residual component of non-tax revenues not covered above under the specific prescriptions, the Commission had used specific trend growth rates.

Given the above assumptions, the picture of performance emerges as presented in the subjoined table:

Table 14.3: Assessment of Own Non-tax Revenue Receipts by Fourteenth Finance Commission: Comparison with Actual performance			
Items	**2015-16**	**2016-17**	**2017-18**
Own non-tax Revenue as forecast by the Fourteenth Finance Commission	1698	1876	2102
Budget Actuals of Own Tax Revenue for 2015-16 and 2016-17 and REs of 2017-18	1837	1717	2142
Over Assessment (+)/Under Assessment (-)	-139	159	-40
%age of Over Assessment (+)/Under Assessment (-)	**-8.19**	**8.46**	**-1.89**

Source: Report of the Fourteenth Finance Commission and the State Budgets for the respective years.

The above data reveals that the forecast of the non-tax revenues made by the Fourteenth Finance Commission has turned out to be closer to reality. However, it remains to be emphasised that the non-tax revenues form or account for about 18 to 25 per cent of the State's own revenues and therefore, do not lead to correcting the imbalance in the aggregate forecast. The worsening of the revenue gap still stays at about Rs.7500 crore for the first three years of the award period of the Fourteenth Finance Commission. Details are presented in the following table: -

Table 14.4: Assessment of Own Revenue Receipts by Fourteenth Finance Commission: Comparison with Actual performance (Rs. in Crore)			
Items	**2015-16**	**2016-17**	**2017-18**
Own Revenue Receipts as assessed by 14th FC	9518	11314	13492
Budget Actuals of Own Tax Revenue for 2015-16 and 2016-17 and REs of 2017-18	8533	8756	9520
Over Assessment (+)/Under Assessment (-)	**985**	**2558**	**3972**

Source: Report of the Fourteenth Finance Commission and the State Budgets for the respective years.

It would also be relevant to compare the performance of the State against the normative prescription of the tax to GSDP ratio projected by the Fourteenth Finance Commission. The data available so far is as under: -

Table 14.5: Performance on Tax to GSDP ratio (Percentage)

Year	Tax:GSDP ratio projected by 14th Finance Commission	Actual tax:GSDP ratio
2015-16	6.50	6.21
2016-17	6.89	6.43
2017-18	7.31	..

Source: Report of the Fourteenth Finance Commission and the State Budgets for the respective years.

The above data clearly brings out that the State has been significantly behind the normative target of the tax to GSDP ratio set out by the Fourteenth Finance Commission in the first two years for which the data is available. By the time this study is concluded, the data for the year 2017-18 would also become available. It is also brought out that forecast for the own non-tax revenues came pretty close to the emerging actuals mainly because it was based on detailed component analysis.

Revenue Expenditure Forecast

Paragraphs 7.28 to 7.41 of the report of the Fourteenth Finance Commission explain the detailed methodology followed by the Commission in the assessment of the revenue expenditure for the States. It need not be restated here but the important point which requires underlining is that this was largely based upon the historic trends for most of the components rather than any normative misadventure. The comparative data on the assessment made by the Commission and the emerging actuals for the years for which the comparable data is available is presented in the following table: -

Table 14.6: Comparative data about revenue expenditure, interest payments and pensions (actual versus the assessment made by the Fourteenth Finance Commission

Year	Revenue Expenditure		Interest payments		Pensions	
	14th FC	Actual	14th FC	Actual	14th FC	Actual
2015-16	21667	22303	3088	3155	3846	3836
2016-17	24324	25344	3391	3359	4230	4114
2017-18	27325	30651(RE)	3736	3817(RE)	4653	4950(RE)
2018-19	30713	33568(BE)	4129	4260(BE)	5119	5893(BE)
2019-20	34541	36192(Proj)	4575	4509(Proj)	5630	6212(Proj)

Source: Report of the Fourteenth Finance Commission and the State Budgets for the respective years.

It can be seen from the above comparison that the interest payments data based on the assessment made by the Fourteenth Finance Commission is pretty close to the actually emerging scenario. As regards the pensions, the two series of data are fairly close to each other for the first three years, but the divergence appears enlarged for the last two years. This is primarily due to the impact of the salary and pension revisions. A similar trend is discernible in regard to the overall revenue expenditure figures. The actuals vary from the assessment by about Rs. 650 crore in 2015-16, by about Rs. 1000 crore in 2016-17, by about Rs. 3300 crore in 2017-18, by about Rs. 2800 crore in 2018-19 and by about Rs. 1600 crore in 2019-20. The average variation comes to about Rs. 1900 crore, implying a worsening of that order as far as the revenue deficit is concerned. If one adds to it the average worsening of deficit due to shortfall in revenue receipts of the order of about Rs. 1500 crore as brought out in the analysis on revenue receipts in the earlier section of this chapter, the annual worsening comes to about Rs. 3400 crore per annum, leaving an uncovered deficit of that order in the assessment.

One needs to bring up the way the expenditure has gone on in the recent past. In the initial years after the attainment of Statehood by Himachal Pradesh, the emphasis in the development profile remained on the infrastructure sector. By mid-1980's, the State Government started pumping financial resources into the social sectors and it kept growing into the future. In a book titled "Participation and Development" by Jean Dreze and Amartya Sen, the story of social development in Himachal Pradesh has been very aptly documented. The costs of providing services in Himachal compared to plain areas are much higher due to harsh topographic, climatic and highly dispersed population as has been adequately brought out in Chapter 3 of this study.

The progression of expenditure in social and infrastructure sectors has been a productive investment in as much as one would look at the human development indices. For example, literacy increased from 31.96 percent in 1971 to 82.80 percent in 2011; and more importantly female literacy during this period increased from 20.23 per cent to 75.93 percent, clearly indicating that the progression in female literacy has been rapid and the gender gap has also been reducing over time. Health indicators (Census 2011) for Himachal are much better on each count compared to All-India averages. Sex Ratio for Himachal is 972 while All India average is 943. All indicators of vital statistics like infant mortality rate, crude birth rate, crude death rate etc. for Himachal Pradesh are way ahead of the All-India averages. Life expectancy for males in Himachal Pradesh is 67.7 years while for All-India it is 64.6 years. Thus, in Himachal the life expectancy of females is about 5 years more than that of males while in All-India Average it is only 3 years more. Because of tough terrain and dispersed population, Primary Schools per lakh of population in

Himachal are 157 while for All-India the figure is 70, Secondary Schools per lakh population in Himachal are 35 while All-India average is 25. In Health sector, a Health Sub-centre in Himachal caters to a population on 2987 while the corresponding All-India average stands at almost the double population of 4624. Whereas a PHC in Himachal covers a population of 13067; at All India level a PHC covers 74876 persons. These figures depict both the focus of the governments; and inherent cost disabilities of Himachal Pradesh.

Himachal has already achieved a coverage of 89.5 percent households with tapped safe drinking water supply while the All-India average was 43.5% (census 2011). Universal rural electrification has gained focus at All India level only in past 2 years. Himachal had achieved total electrification in mid-1980's, all energy supplies are metered. Both T&C and T&D losses are now below 10% which is a landmark achievement. The quality of power supply is extremely good and an envy of the neighbouring affluent States.

The above achievements over last 45 years could not have been achieved but for a visionary and committed political leadership with a long term view of the developmental strategy to be followed by the State and efficient and dedicated team of public servants. These all-round achievements could not have been achieved if the State had not hired Teachers, Doctors, Engineers and spent money for asset creation in social and infra sectors; and on their pro-active maintenance.

Now Himachal Pradesh has not only to maintain the level of services achieved but also has to constantly strive for higher levels of provision and quality of supply in social and infra sectors. The State Government is fully aware and conscious to contain expenses on salaries and pensions. Himachal Pradesh had introduced Contributory Pension Scheme (now NPS) in May, 2003 ahead of the Central Government. Almost all the resultant recruitments are being initially made on contract basis. Many services have been outsourced to Agencies.

The revision of pay scales and pensions are due from 1st January 2016. These revisions have not yet been implemented. However, the revisions cannot be delayed indefinitely for maintaining the morale and motivation of the employees. Therefore, the government intends to implement the revision from 1st of April, 2019; and intends to pay the arrears of pay and pension revision in five equal instalments from 1920-21 to 1924-25. Delayed revision and deferred arrear payments will result in fairly substantial savings. To calculate these savings, one has to discount pay and pension revisions and arrears by the inflation index for the period since 1st January 2016.

The following tables of expenditure patterns clearly bring out the focus and commitment of the government in social and economic services: -

Table 14.7: Expenditure pattern by end uses

					(Rs. in Crore)
Items	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Revenue Section					
General Services	6618.19	7046.82	7603.65	8788.46	9727.95
Social Services	6131.08	6706.12	7451.52	7979.92	9609.92
Economic Services	3417.81	3590.45	4722.75	5524.47	5996.32
Grant-in-Aid and Contribution	7.18	9.09	9.13	9.96	10.03
Total Revenue	**16174.25**	**17352.49**	**19787.05**	**22302.81**	**25344.22**
Capital Section					
General Services	73.56	81.02	82.82	88.51	208.37
Social Services	435.74	477.45	521.97	792.02	1041.07
Economic Services	1445.50	1297.39	1868.11	1983.96	2249.60
Total Capital	**1954.80**	**1855.86**	**2472.89**	**2864.49**	**3499.03**

Source: Budget in brief, Government of Himachal Pradesh for the respective years.

The above data indicates the progression of expenditure. On the revenue account has spurts in expenditure are resulting from the revision in pay scales and pension liabilities. This has been briefly explained above and needs no reiteration.

Given the above analysis, the State Government can not be blamed for deviations from the forecast or assessment made by the Fourteenth Finance Commission. The main reason was unrealistic projection of the State’s own revenues – specially in the domain of own tax revenues, and underassessment of the salary burden.

CHAPTER 15

EXPENDITURE MANAGEMENT MEASURES FOR ECONOMY AND EFFICIENCY

The State Government through the wing of Expenditure Control under the umbrella of the State Finance Department regulates the public spending. The idea of regulation is aimed at most efficient use of scarce public funds while controlling the wasteful expenditure. The Government of India and various State Governments come out with “Economy Instructions” almost every year after the budget is passed by the legislature. In Himachal Pradesh also, economy instructions are issued in the same manner. Till the early 1990’s, issuing such instructions was more in the nature of rituals. However, after the implementation of the recommendations of the Ninth Finance Commission, the State of Himachal Pradesh and almost all the then special category States ran into serious rough weather as the Commission had erred in assessment of their revenue account by a wide margin. All these States got their act together and also grouped together to analyse the situation, think of the possible roadmap to salvage their financial scenario and submit a comprehensive memorandum to the Union Government for looking into the deficiencies. The result was formation of the Rangarajan Committee to look into the problem and suggest the corrective action. The report remains an important study towards understanding the developmental and financial problems of the hilly and mountainous States.

Though an annual ritual, the analysis of expenditure containment measures while not sacrificing the essence of productive and socially useful expenditure and issuance of appropriate instructions, the subject gained gravity in the early 1990’s. Year after year, some effort was made to nudge the State Government towards economy in expenditure. The last comprehensive exercise in issuing such instructions was carried out in Himachal Pradesh in the year 1995 when the financial situation of the State Government was precarious. The government order issued vide letter No. FIN.1-C-(14)1/83 dated the 6th September,1995 containing these comprehensive instructions can be accessed on website of the State Finance Department. These instructions have been modified innumerable number of times over the years the last comprehensive compilation and bringing all the instructions in one government order was carried out in early 2014. These instructions were issued vide letter number Fin-F-(4)-(11)-11/2004 dated the 3rd June, 2014 and can be seen on the website of the State Finance Department. It may be remembered that this was the penultimate year of the Thirteenth Finance Commission and as always happens, the revenue account of the perennially revenue deficit States comes under severe stress. It is in such a situation that issuance of economy instructions becomes relevant. Other than issuance of economy instructions, the State Government of Himachal Pradesh undertook comprehensive exercises to rationalise the subsidies and carry out an exercise for restructuring and evolution of reforms menu for the State public sector undertakings in 1999. Earlier chapters in this study have captured the outcomes of these exercises and need not be repeated here. This history has been captured and placed here in this chapter with a view to underline the fact that the Government of Himachal Pradesh has been alive to the issues relating to useful management of public finances. The economic growth story of the State as also its performance on the social sectors' front bear testimony to the fact the expenditure of public funds has been meaningful all along the existence of the State. The stress on its financial resources emerges from its compulsion to revise salaries and pensions of its employees and retirees to bring it at par in the regional context due to its umbilical cord relationship with the Government of Punjab.

The latest compilation of the economy instructions issued by the State Government in 2014 has also been marginally modified several times in the intervening period. A study of these instructions would reveal that these cover all the objects of expenditure in an all embracing manner, and these meet the requirements of effectively justifying the expenditure on various activities. It needs to be mentioned that the political leadership in the State has, on a few occasions, shown signs of recklessness in creating new revenue expenditure burden by opening new administrative field units and social sector institutions without sufficient justification by exhibiting magnanimity on the eve of elections. And it needs to be noted that no such exercise or effort has ever won elections for a political outfit in the history of Himachal Pradesh. The State today has schools all over without justifiable number of students and the required strength of teachers. To illustrate the point, the State today has 59 primary schools and 38 middle schools with zero enrolment. There are 65 schools where the total enrolment is below 10. The number od schools with less than 20 enrolment runs into thousands. It is high time the State Government undertakes a rigorous rationalisation exercise to optimise expenditure as also the number of teachers.

The State also has a large number of health institutions without adequate provision of medical, para-medical and support staff (because the old institutions still do not have normative staff and availability of such staff support is severely constrained on the supply side) as also the diagnostic tools and equipment without functionaries, resulting in provision of sub-optimal functioning of these institutions. The operation and maintenance of its social and economic infrastructure like drinking water, irrigation, roads, etc. suffers because the mounting staff expenditure is crowding out the useful content of maintenance expenditure.

There is hardly any need for expansion of staff and field units in various sectors because road connectivity has significantly improved over time, the communications have become more effective and technology is coming up with innovations and measures for improved functioning of the government outfits at large. Aadhar, computerisation of land records, direct budgetary transfer of subsidies and government assistance to the bank accounts of beneficiaries and several similar initiatives have been reported to massively improve the public contentment and removal of slag in government functioning. E-tendering of contracts, online procurement of goods and services for various government activities and a whole host of e-governance measures like covering the public distribution system under e-governance have started showing results without much of staff support and plugged leakages significantly. Availability of electronic modes of payments of electricity bills, water bills, property tax and several other initiatives have made the life of average citizen comfortable. The State Government is required to push such initiatives in all spheres of its activity to reduce human interface between providers and users of various services and products as the highest priority on its implementation agenda. Only such a movement will lead to enhancing the value of each rupee the government spends (of course, other than salaries) and attain the objectives of effective management of public finances. As for the expenditure on pensions, it needs to be mentioned here that the reformed pension scheme has been in implementation for over 15 years now. Therefore, the burden on account of pensions should start receding in another decade from now, i.e., by the end of the tenure of the Fifteenth Finance Commission, after the retirements of the staff recruited prior to 2002-03 start plateauing out.

Having made the above comment on the salary expenditure, it is important that the efforts undertaken by the State Government for containing the salary expenditure are put together. The State Government has adopted the policy of hiring the essential employees on contractual basis in several areas which has resulted in savings in expenditure on salaries. In four major categories of employees, namely clerks, JBT and PAT (teachers for primary schools), TGT and C&V teachers for middle schools and high schools and doctors, the total number of employees hired on contract comes to 10,550 and the annual saving on this arrangement as compared to the regular employment at the start of the pay scale comes to Rs.199.57 crore. It may also be noted that this is an illustrative number and not exhaustive number. The actual savings will, therefore, be in excess of Rs. 200 crore per annum. The number of such employees at an overall level is about 20 per cent of the total employment of the State Government. It is also interesting to mention here that the number of regular employees has been shrinking from the year 2010 as is evidenced by the data given below: -

AS on 31st March	Regular employees	Other non-regular employees	Total State Government employees
2010	190560	37576	228136
2011	187604	37509	225113
2012	187419	40990	228409
2013	184761	41621	226382
2014	183600	41969	225569
2015	182049	44585	226634
2016	178744	43755	222499
2017	177338	42877	220215

Source: Directorate of Economics and Statistics Census of Government Employees report.

Another specific aspect that has come into play in public expenditure management is the fact that the State Government has to lean on the Centrally sponsored schemes especially in the field of urban development, rural development, health and education besides recourse to external funding. These schemes are co-financed by more than two agencies and need specific adherence to financial as well as physical thresholds. The framework of these schemes and projects is such that slippage is bound to harm the interests of the final beneficiaries. In view of this, the project management methods ask for rigorous regime of discipline in all fields. In the case of mega projects which involve investments of tall order, the States with constrained resources have no other recourse except for seeking external funding from multi-lateral funding agencies or private sector. In both the cases, adherence to globally accepted procedures for release of funds and implementation schedules is mandatory. Such discipline is bound to improve the utilisation of public funds to the extent of their involvement.

On several occasions, the Central Ministries send directions to the State Governments to add new administrative structures for specified objectives. It is felt that the Central Government should concern itself with the achievement of the objectives of such new introductions and leave the administrative arrangements to the State Governments if they wish to redeploy their existing staff, if necessary, by retraining them. Addition of new administrative arrangements should not be mandatory for implementation of such schemes or programmes.

Some of the other steps which have been taken for effective expenditure management are listed below and these adequately evidence the intent of the State Government towards expenditure containment and more effective management of public finances: -

1. **Salary and Pension deferment:**

   The State Government has deferred the disbursement of arrears and the revised salary and pension to its employees which was due from 1.1.2016.

2. **Savings on account of lower rate of TA/DA and other allowances:**

   The State Government has not revised the rates of TA/DA and other allowances in the State. These rates are very low in the State as compared to the Central Government. Himachal Pradesh is not giving allowances including Children education allowance, Transport allowance and facilities like Child Care leave. The House Rent Allowance being paid to employees is not only much less than central pattern but also much less than the HRA paid in Punjab and Haryana. The State Government is annually saving approximately Rs. 300 crore as a result of these measures.

3. **Savings on account of lower rate of Gratuity and ex-gratia:**

   The State Government has not revised the rates of Gratuity and Ex-Gratia in the State unlike the Central Government. Gratuity ceiling continues to be Rs.10 Lakh.

4. **Reduction in expenditure on Government Vehicles:**

   The State Government has fixed the fleet strength of vehicles for each department besides fixing the fuel quota. More than 200 vehicles have been declared surplus which were either condemned and disposed of or deployed in other departments. The procurement of new vehicles has been made rigorous and no new vehicle purchase is allowed without prior approval of the Finance Department and Cabinet.

5. **Withdrawal of LTC facility:**

   Leave Travel Concession facility has been withdrawn except for those Government employees who are to retire within 2 years resulting in an annual estimated saving of about Rs. 5 crore.

6. **Restriction on Journey by Air:**

   Journey by air for different functionaries has been restricted. Under extreme circumstances journey by air is allowed in economy class.

7. **Reduction in expenditure on residential phones:**

   The State Government has introduced a system of bimonthly fixed charges at nominal rates. This facility has only been extended to field functionaries and keeping in view the nature of the duties. The number of such beneficiaries under this scheme has also been reduced.

8. Maintenance of Surplus Pool of Employees:

Work study of different departments was carried out and surplus employees were identified in all the Government departments including PSUs/Boards for further deployment, where it was necessary to provide the staff. About 1,000 total surplus staff has been deployed in other Government Departments where justified.

9. Policy on outsourcing of employees and hiring contractual employees:

The State Government has framed a policy for outsourcing of employees and hiring employees on contractual basis. This has resulted in an annual saving of the order of over Rs. 200 crore.

10. Economy in Public Sector Undertakings (PSUs):

In addition to the economy measures, which are also applicable to the PSUs, the State Government has also adopted the VRS notified by the Government of India for PSUs. About 985 employees of PSUs/ Boards have already availed of the scheme.

The State Government has also initiated measures for administrative reorganisation and innovation for improved service delivery, efficiency and cost effectiveness. The menu for such measures is understood to have been submitted to the Fifteenth Finance Commission and need not be elaborated here.

In terms of governance, if the governing apparatus is close to the people at large or the stakeholders, the quality of delivery of goods and services as also the extent of answerability gets enhanced. The constitutional amendments for creating legal entities at the grassroot level were brought on statute over two decades ago. However, much remains to be desired when one talks of decentralisation and delegation to the third tier of governance. The local government bodies come into existence as scheduled under the mandatory electoral process, these have precious little in their domain in terms of performance of functions that are supposed to be delegated to them by the State Governments. The Fifteenth Finance Commission can step in and do a yeoman’s job in pushing the actual hand-over of the three proverbial Fs: the functions, funds and functionaries to the local governments.

As has been brought out in the earlier text of this document, the State of Himachal Pradesh is bound to face serious financial constraints for meeting the development agenda to push growth. It will not have enough resources of its own or through the central transfers to invest in large infrastructure projects. The best of the Fifteenth Finance Commission dispensation will, at best, square up the assessed revenue deficit of the State as has been happening in the past. The State will, therefore, have to seek private sector investment in all such ventures, be it in the power, tourism, industry, roads and communications sectors. The inescapable pathway will involve the following: -

1. Improve governance at large;
2. Provide level playing field for private sector players at par with the government entities;
3. Reduce human interface to the minimum by resorting to IT enabled services;
4. Simplify procedures, repeal archaic laws and processes;
5. Enhance ease of doing business by offering ready to implement projects for the private sector so that the prospective investors do not have to run around in circles to get the myriad approvals;
6. Simplify land transfer for projects to avoid victimisation by the government agencies as also the local pressure groups;
7. Ensure full law and order enforcement on project sites to safeguard the life and property of the private investors;
8. Enhance transparency at large, and in the case of tendering/bidding of projects, in particular;
9. Abolish absurd bidding practices ab initio to ensure that projects do not hang fire interminably and block investments as well as the valuable resources of the State;
10. Ensure financial viability for private investors in a manner that the projects become a win-win situation for both the investor and the Government;
11. Enhance investor confidence in the intent and actions of the Government;
12. Decentralise whatever can be passed on to the third level of rural and urban governments;
13. Actions of the Central Government should effectively promote cooperative federalism through the instrument of the Finance Commission and enhance decentralisation; and
14. Make government a “One stop shop” for its customers.

CHAPTER 16

EARLY SIGNALS ON THE GOODS AND SERVICES TAX

The composite Goods and Services Tax was implemented beginning July, 2017. It has been under implementation for one year now. It has turned out to be a mixed fortune for the States when it comes to the collection of revenues. On the positive side, the instrument of the GST Council created by the legislation for its implementation has been functioning effectively and efficiently despite vast diversity in the ideology of political outfits in power in various States. The Council has been able to forge understanding on a wide range of contentious issues which proves that the concept of cooperative federalism has gained currency and it is possible to work for the common good. The collections under the new tax regime, however, leave much to be achieved.

Coming back to the aspects of revenue composition, the data for the period 2011-12 to 2016-7 on the collections of total revenues and the revenues in respect of the non-subsumed and the subsumed taxes under the GST regime reveals that the total collections were of the order of Rs. 29034 crore whereas the collections under the subsumed taxes were Rs. 17282 crore. This means that 59.5 per cent of the State's tax collections have been subsumed into GST design. The annual data is presented in the following table:

Table 16.1: Total revenue and revenue under the taxes subsumed under the GST

Year	Total revenue of subsumed and non-subsumed taxes	Revenues for the taxes subsumed under GST	Percentage of Col. 3 to Col.2
1	2	3	4
2011-12	3573.46	2144.84	60.02
2012-13	3971.35	2403.53	60.52
2013-14	4524.26	2673.18	59.08
2014-15	5179.77	3145.34	60.72
2015-16	5614.75	3330.35	59.31
2016-17	6170.99	3584.90	58.09
Total	29034.58	17282.14	59.52

Source: State Excise and Taxation Department and Finance Department.

It emerges from the above date that about 60 per cent of the historic revenue collections of the State have been subsumed by the Goods and Services Tax.

According to the data available from the State Excise and Taxation Department for the period July, 2017 to May, 2018, there have been major shortfalls on actual bimonthly collections as against the levels of revenue to be protected. For the period July, 2017 to March, 2018, against the amount of Rs. 3541.58 crore of the revenue to be protected, the actual collections have been of the order of Rs.2340.06 crore, indicating a shortfall of Rs. 1201.52 crore. It works out to a shortfall of the order of 34 per cent. Similarly, for the months of April and May, 2018, against the level of Rs. 898 crore of revenue to be protected, the actual collection has been Rs. 453.82 crore indicating a shortfall of about 51 per cent.

According to a report published in the Indian Express dated the 24th July, 2018, the revenues shortfall in collections has been a common phenomenon across the country. The shortfall in collections for the period July, 2017 to March, 2018 ranges from 3 per cent in Maharashtra to 74 per cent in Daman and Diu. The shortfall is 59 per cent in Dadra and Nagar Haveli and 45 per cent in Puducherry. If we leave aside the three union territories mentioned in the prior sentence, then one finds that Himachal Pradesh has the highest shortfall of 42 per cent in collections against the projected levels. This certainly is a cause of worry on the State's own revenue collection front, keeping in view the fact that the number of dealers registered under the GST Act has seen an appreciable increase. This has been a matter of detailed investigation with the State and the analysis has been presented in the following paragraphs.

In order to ascertain the reasons for the shortfall in collections as against the average figure of revenue to be protected, it is important to analyse the composition of the revenue to be protected. The level of revenue to be protected per month comprises of the following components: -

Table 16.2: Revenue to be protected per month for Himachal Pradesh

Sr. No.	Type of levy/ tax	Revenue to be protected per month (Rs. crore)
1	Central Sales Tax	54
2	Entry tax	31
3	Revenue foregone	31
4	M & TP	8
5	Loss due to exemption of foodgrains	2
6	Other subsumed taxes	268

7	Total revenue to be protected	394

Source: Directorate of Excise and Taxation and Finance Department, Himachal Pradesh.

The total anticipated loss of revenue on account of CST, Entry tax and reduction in tax rates for certain commodities amounts to Rs. 126 crore approximately which is about 32 per cent of the revenue to be protected on the basis of revenue figures for the base year with 14 per cent increment according to the compensation formula. Furthermore, the State has lost tax on account of suspension of the TDS provisions as these provisions provided the State the advance tax and audit trail. The above loss could possibly have been neutralised under the GST by the following: -

i) Tax on supply of services hitherto not in the domain of the State;
ii) Buoyancy in tax collections; and
iii) Self -policing mechanism of ITC matching.

Presently, accrual of SGST of new services like banking, insurance, etc. averages about Rs. 2 crore per month. As buoyancy in taxes and the self-policing mechanisms will take some time to make their impact on the revenue collections, presently a loss of only about Rs. 2 crore out of a total of Rs. 126 crore is getting neutralised. Thus, the anticipated net deficit comes to Rs. 124 crore.

The rates of tax under the GST have come down in the case of certain commodities as compared to the rates under the VAT. All items taxed at the rate of 5 per cent earlier are now taxed only at 2.5 per cent. Many FMCG i.e., fast moving consumer goods which had a tax rate of 13.75 under the VAT are now being taxed at 9 per cent. These reductions in the rates of GST will result in further shortfall in revenue collections. Revenue accrual from the 5 per cent bracket under VAT was of the order of Rs.1008 crore which will come down by Rs. 500 crore at current levels of consumption with the lowered rate of 2.5 per cent leading to revenue shortfall of Rs. 500 crore. Similarly, the revenue collection under 13.75 per cent band was of the order of Rs. 1928 crore and after reduction of rate to 9 per cent, the revenue collection will come down to Rs.1260 crore resulting in an annual shortfall of Rs. 628 crore.

The rates of tax on cigarettes and Bidis under the VAT regime were 36 per cent and 22 per cent, respectively. Under the GST, these have been brought down to 14 per cent on both the commodities. The tax rate of 1 per cent is also being levied on seamless flow of ITC whereas the tax was charged on price inclusive of the Central Excise under the earlier regime.

Another point of importance is that there was a provision of reversal of ITC at the rate of 4 per cent under VAT for stock transfer whereas no income is accruing to the State under the GST regime for such transactions.

Also, since the provision for TDS under the GST stands deferred presently, no income is accruing to the State on this count as well.

It is important to underline that there is no monitoring mechanism for monitoring the purchases made from the adjoining markets of Punjab, Haryana and Chandigarh by consumers from Himachal Pradesh. Substantial revenue is not accruing to the State in the absence of such a mechanism. This could be remedied by making the e-way bill compulsory for all inter- State movement of goods except the household goods as was applicable under the VAT regime.

The net revenue inflow is also less because of ITC carried in from VAT (TRAN-I) which is being adjusted against the SGST.

The deficit of revenue will come down from 42 per cent to 37 per cent if the revenue foregone amounting to Rs. 31 crore is taken into consideration. The State has protected revenue of Rs. 394 crore which inter alia includes the revenue foregone. Without the revenue foregone, the protected revenue will come down to Rs. 363 crore. However, it needs to be underlined that the revenue foregone has been decided to be a part of the protected revenues for the Special Category States.

Last but not the least, it is important to mention that the return compliance level in case of Himachal Pradesh has always been better than the national average.

Talking of the revenue shortfalls in the actual realisation of the Goods and Services tax in case of Himachal Pradesh, a view could be taken that the compensation mechanism will take care of such shortfalls till 2022 and hence it would be early days for worrying on the shortfall issue. However, the momentum in tax collections gathered under the VAT regime appears to have fizzled out and it may take a larger effort and longer time than initially anticipated for gathering similar momentum. One has to take a cautious view on the expenditure side because the growth in expenditure will leave larger gaps unfunded even though the Fifteenth Finance Commission takes as reasonable a view as possible in assessment of the revenue gap and its cover over the 2020-25 period.

The growth rate of GSDP for the forecast period has been assumed at 13 per cent per annum. Under normal circumstances, the tax revenues are expected to grow at a rate higher than the GSDP growth. As mentioned in the chapter on the tax revenues of the State, a flat growth rate of 14 per cent should be assumed for the forecast period for all tax revenues put together. As such there is no need for a separate forecast for the GST. For the forecast period of 2020-25, the revenues projected by the State Government are presented in the following table:

Table16.3: Comparative Revenue projections of GST under the protected regime and thereafter (Rs. crore)

Year	Revenue Projections of Finance Department with protected regime up to July,2022
2020-21	6997
2021-22	7976
2022-23	5423
2023-24	5280
2024-25	5966