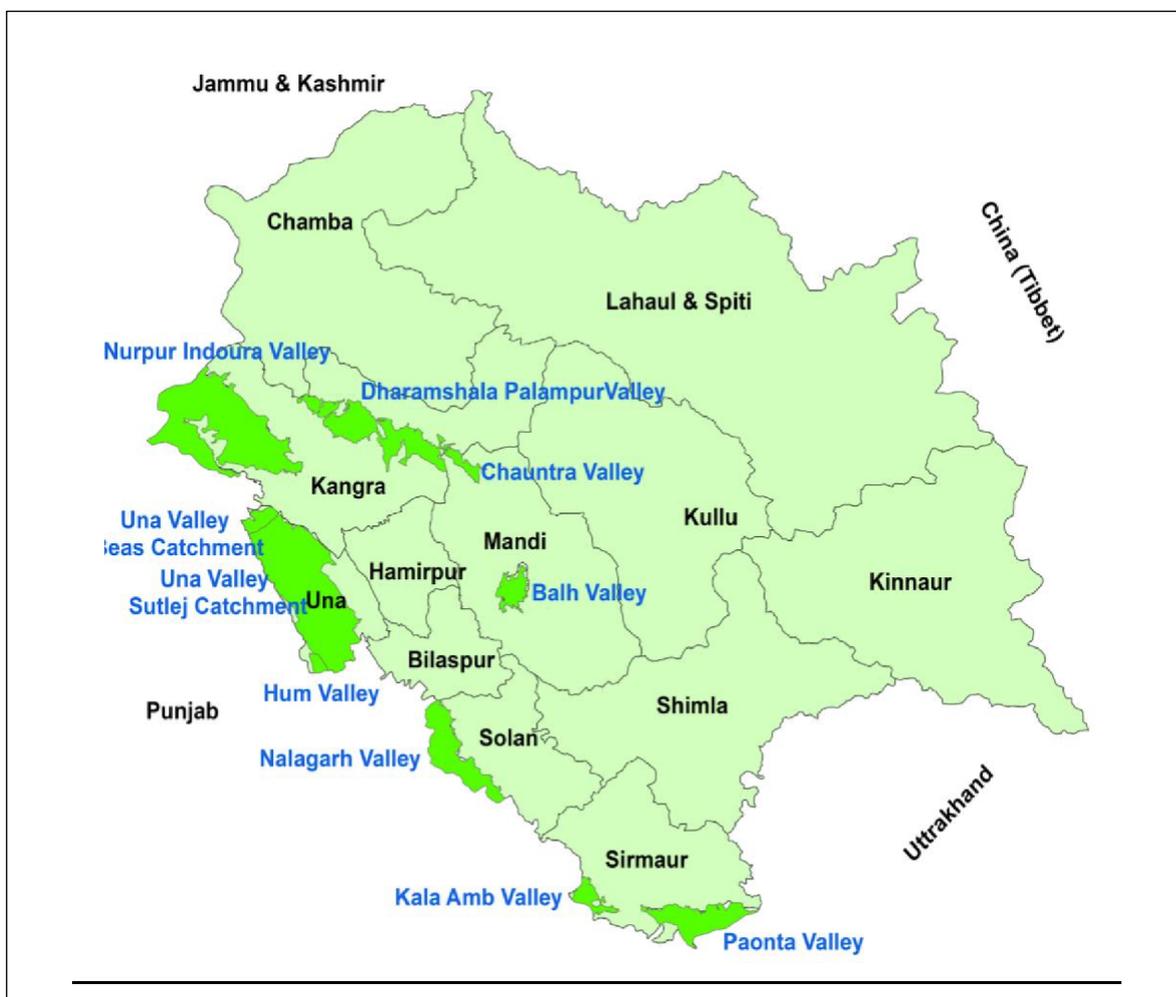


Evaluation of Finances of the State of Himachal Pradesh

An Analysis for the XVI Finance Commission of India



Map Source: CGWB and GoHP, 2022

National Academy of Audit and Accounts, Shimla
2025

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Evaluation of Finances of the State of Himachal Pradesh

The Backdrop

This study was conducted for the purpose of providing policy inputs to the XVI Finance Commission of India on the Finances of Himachal Pradesh, in accordance with the Terms of Reference (ToR). The study was based on Government Reports, Budget documents, Audit Reports of the Comptroller and Auditor General of India, and other research reports and papers. This study has considered the financial positions of the State of Himachal Pradesh from the year 2012-13 and in some cases, data of last five years have been analysed to focus on detailed review of some financial indicators. Simple linear forecast models have also been used in some cases, only to provide some statistical direction with respect to relevant indicators.

Terms of Reference and Chapters

The **Terms of Reference (ToR)** for this study have been detailed below:

- i. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.
- ii. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
- iii. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
- iv. Analysis of deficits – fiscal and revenue
- v. The level of debt to GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, off- budget borrowings, Central government debt (including those from bilateral/ multilateral lending agencies routed through the Central Government), liabilities in public account (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.
- vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
- vii. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.

- viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
- ix. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
- x. Analysis of contingent liabilities of the State.
- xi. Subsidies given by the States (Other than Central subsidies), their costs and benefits, targeting and evaluation.
- xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th and 15th FC, in particular
 - (a) analysis of the flow of resources from Centre to States through various schemes, the expenditure of States in those schemes, resources of States channelled towards these schemes and the overall impact on development spending of the States;
 - (b) States' own schemes for different development objectives
- xiii. Determination of a sustainable debt roadmap for 2026-31, taking into account tax/non-tax trend forecasts.

To reflect on the different aspects of the above ToR, this study has been divided into the following chapters:

1. An Overview of the State of Himachal Pradesh
2. Receipt Scenario and Mobilisation in the State: Tax, Non-Tax and Capital
3. Expenditure Scenario in the State: Revenue, including Subsidy and Capital
4. Deficit Scenario, Contingent Liabilities (Guarantees) and Sustainable Debt Road Map
5. Performances of State Public Sector Enterprises and Power Sector
6. State's Transfers to Urban and Rural Local Bodies and Evaluation of State Finances with a Special Focus on 14th and 15th FC Recommendations
7. Disaster Management in the State
8. Recommendations for improving the Financial Performance of the State

Chapter 1 An Overview of the State of Himachal Pradesh

Situated in India's northern Himalayas, Himachal Pradesh spans 55,673 square kilometres, ranking 17th largest in the country. Its elevation varies dramatically, from 350 to 6,975 meters, influencing a climate that transitions from humid subtropical to dry temperate alpine. With a population of 6.8 million (2011 census), it had around 6.1 million people living in rural areas and 0.7 million people in urban areas in 2011. Around 90% of the State's population resides in the rural areas. The rural population in the State has grown to 7.6 million in 2024 (Ministry of Jal Sakti, GoI 2024) while urban areas now have around 0.8 million people (Urban Development Department, Govt. of Himachal Pradesh 2024). The state's economy has shown robust growth, with an 8.2% increase in Gross State Domestic Product (GSDP) between 2022-23 and 2023-24 at current prices (Ministry of Statistics and Programme Implementation, GoI 2024). While the State have resemblances given its rugged and hilly terrain, with the North-Eastern States, its overall growth rate over the last decade lags slightly behind the average for NE&H states (C&AG of India 2023).

Himachal Pradesh's economy has demonstrated robust growth in recent years. The Gross State Domestic Product (GSDP) at current prices surged to ₹ 207,430 crore in 2023-24, growing at 8.2% in FY 2023-24, and at 11.4% in FY 2022-23 on a year-to-year basis. While this nominal growth has been impressive, a more accurate reflection of economic expansion is seen in constant price GSDP, which increased only by 7.1% to ₹1,42,800 crore in 2023-24 (compared to FY 2022-23). This growth was evenly distributed across primary, secondary, and tertiary sectors.

Himachal Pradesh has undergone a significant economic transformation, shifting its focus from agriculture to industries and services. While the agriculture sector's contribution to the state's Gross State Domestic Product (GSDP) has decreased dramatically from over half in 1950-51 to less than 10% in FY 2022-23, it remains a vital component of the state's economy. At the same time the contributions of secondary sector and services have increased from a combined 7% to around 42% and 44% respectively (Economics and Statistics Department, Govt. of Himachal Pradesh 2024).

Despite its diminished share, agriculture and horticulture continue to drive the primary sector's growth. These sectors play a crucial role in the state's overall economic development, influencing other sectors through input linkages, employment opportunities, trade, and transportation. However, the region's agricultural production remains heavily reliant on timely rainfall due to limited irrigation infrastructure.

The state has achieved notable success in horticulture, leveraging its diverse topography and suitable soil conditions to cultivate a wide range of temperate and subtropical fruits. Additionally, Himachal Pradesh has become a significant producer of ancillary horticultural products such as flowers,

mushrooms, honey, and hops.

The tourism sector is vital to the economy of the State, significantly contributing to the State's GDP. Tourism constitutes 7.0 per cent of Himachal's GDP and contributes around 14.42 per cent of direct and indirect employment to the total employment in the State (Economics and Statistics Department, Govt. of Himachal Pradesh 2024)¹. Himachal Pradesh offers rich resources for tourism, including diverse geography and culture, a clean environment, picturesque streams, sacred sites, historical monuments, and hospitable people. After being seriously hit by the COVID pandemic, the State has seen a rebound in tourist influx between 2021 and 2023. In the year 2023 (January to December), total tourist influx was slightly more than 16 million, compared to 17.2 million incoming tourists in pre-pandemic year (2019), which went down to just 3.2 million in the pandemic year (2020) (Himachal Pradesh Govt., 2024)². Tourism sector, although is mostly linked to the hotel, hospitality industries, travels and related employments, the actual contribution of tourism, due to its multiplier effect on all the sectors, are difficult to measure.

Although the public sector in the State is marred with financial issues, the power sector has undergone significant development in the State in the recent past. Hydropower, a clean energy source, has been prioritized. The state government has encouraged private investment in the sector, especially for smaller projects. The State is also promoting other renewable energy sources like solar, wind, biomass and waste- to-energy plants (Government of Himachal Pradesh 2021).

In recent times, the state is facing frequent natural disasters, with severe natural calamity being experienced in 2023 and 2024, in the form of cloudburst and landslides. Further, such disasters also had a great toll on the tourism industry in the State. This is disrupting the State's ability to provide timely citizens' services and forcing it to reorient its developmental focus.

¹ Government of Himachal Pradesh, Economics and Statistics Department. 2024. *Economic Survey 2023-24*.

² Department of Tourism, Government of Himachal Pradesh. 2024. As accessed from <https://himachaltourism.gov.in/wp-content/uploads/2024/02/Tourist-Statistics.pdf> on 22 February 2025.

Chapter 2 Receipt Scenario and Mobilisation in the State: Tax, Non-Tax and Capital

2.1 Revenue Receipts in the State

The State Government mobilizes financial resources through direct and indirect taxes, non-tax revenue, share of central taxes and grants-in-aid from the Central Government to meet the expenditure for administrative and developmental activities. The major tax receipt including Central share for the State between 2012-13 and 2023-24 are given in Annexure-I.

The revenue receipt of the State of Himachal Pradesh in 2023-24 was ₹ 40,446.31 crore (Revised Estimate), which has experienced a growth of 6.9% from the year 2022-23. As shown in Table 2.1, State's Own Tax and Non-tax revenue as a percentage of total revenue receipt has improved during the last two years (2022- 24), mainly due to increase in collection of own tax and non-tax revenue and slight decline in Central Grant- in-aid during this period. Thus, the share of State's own revenue receipts in the total revenue receipt has increased from 31% in 2020-'21 to 40% in 2023-'24. By and large, it takes the State around nine years to double its revenue receipts.

Table 2.1: Trends in Revenue Receipts during the last Twelve years (2012-13 to 2023-24)

Years	Revenue Receipts (RR) (₹ in crores)	Own Tax Revenue (OTR) (₹ in crores)	Non-Tax Revenue (NTR) (₹ in crores)	State's Own Revenue (OTR + NTR)	(OTR+NTR) to Total RR (per cent)	Gross State Domestic Product-Current (2011-12 Series, in ₹crores)	RR/GSDP (per cent)
2012-13	15598	4626	1377	6003	38	82820	18.8
2013-14	15711	5121	1785	6906	44	94764	16.6
2014-15	17843	5940	2081	8021	45	103772	17.2
2015-16	23440	6696	1837	8533	36	114239	20.5
2016-17	26264	7039	1717	8756	33	125634	20.9
2017-18	27367	7108	2364	9472	35	138551	19.8
2018-19	30950	7573	2830	10403	34	148383	20.9
2019-20	30742	7624	2502	10125	33	159164	19.3
2020-21	33438	8083	2188	10272	31	151601	22.1
2021-22	37309	9715	2612	12327	33	172162	21.7
2022-23	38090	10595	2876	13472	35	191728	19.9
2023-24	40446	12769	3325	16094	40	207430	19.5

N.B. The figures for 2023-24 (Revised) are from the RBI Report on State Finances (2024) and the remaining years' data are from the State Finance Audit Report of the C&AG of India (2016, 2019, 2021 and 2024). The GSDP figure (at current prices) are from the MoSPI, 2024 (<https://mospi.gov.in/data>).

The trend in own Revenue Receipts, i.e. the Own Tax and Non-Tax components, in Himachal Pradesh is shown in the Figure 2.1 below:

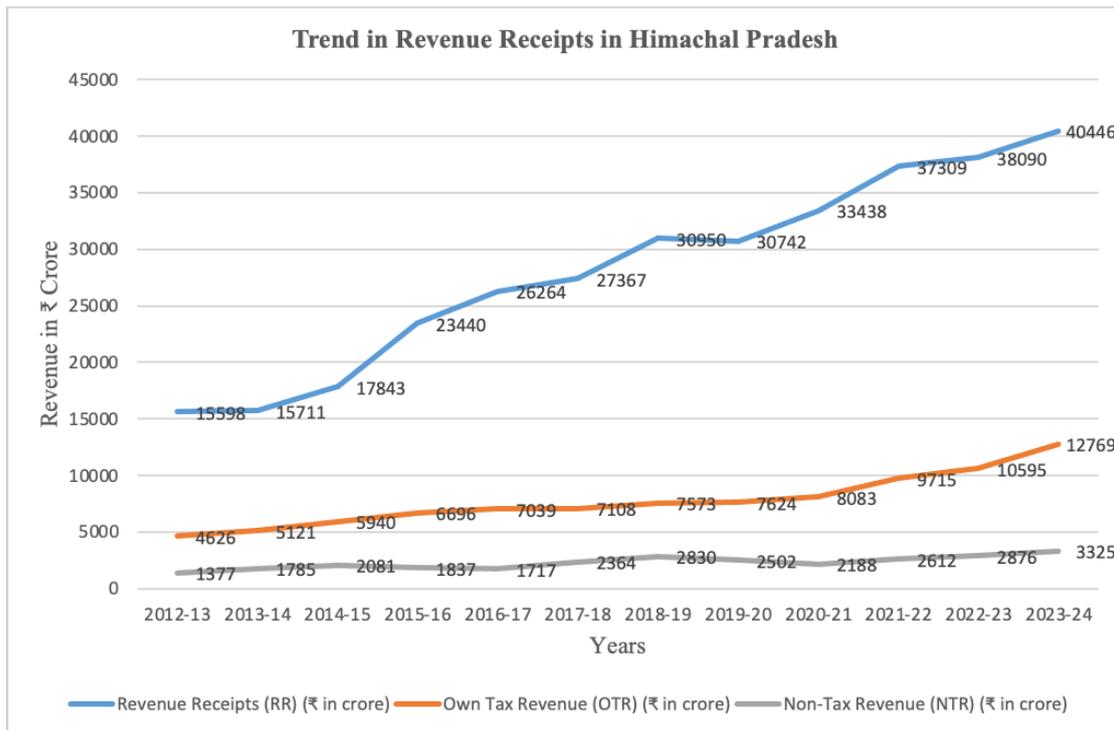


Figure 2.1: Trend in Revenue Receipts in Himachal Pradesh
(Source: Same as Table 2.1)

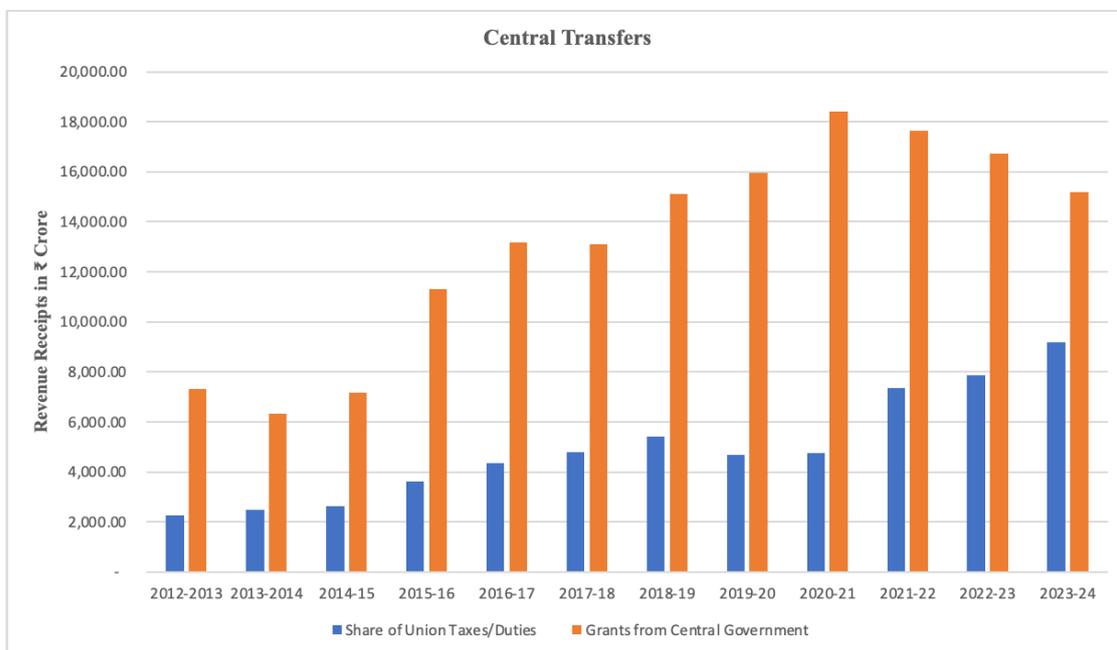


Figure 2.2: Share in Union Taxes/Duties and Grants to Himachal Pradesh
(Source: Same as Table 2.1)

While over the last 12 years (Figure 2.2), proceeds from Union taxes have steadily increased (except in 2019-20 and 2020-21), a closer look at the trend of grants received from the Union Government would reveal that quantum of Union grant has reduced during the last three years and would further reduce in the remaining period until 2026. The Department of Expenditure, Government of India, releases the

grants to the State Governments based on the recommendations from the concerned Nodal Ministry/Departments upon fulfilment of the conditions stipulated by the Finance Commission. Details of grants recommended by the 15th Finance Commission for the State of Himachal Pradesh in its final report and the amount disbursed to the States in the financial year 2021-22, 2022-23 and 2023-24 are given in the Table 2.2:

Table 2.2: 15th FC Recommended Grants for Himachal Pradesh and Actual Releases

Types of Grants	Total Recommended Grant (2021-26)	Year	Grant Released (in ₹ Crore)	Total Released (in ₹ Crore)	Remaining to be released up to 31-03-2026*
Post Devolution Revenue Deficit Grant	37199	2021-22	10249	27,684	9,515
		2022-23	9377		
		2023-24 (RE)	8058		
Local Bodies Grant	3049	2021-22	386.3	1,719.9	1329.1
		2022-23	727.5		
		2023-24 (RE)	606.1		
Disaster Management Grant	2258	2021-22	409	1,245.2	1012.8
		2022-23	385.2		
		2023-24 (RE)	451		
Health Sector Grant through local Governments	377	2021-22	98.01	98.01	278.99
		2022-23	0		
		2023-24 (RE)	0		

*This column is a calculated field. Local Bodies Grant amount is to be released on fulfilment of the conditions, like online availability of both provisional accounts of the previous year and audited accounts of the year prior to that etc., of the 15th Finance Commission (Para 7.77). Source: (Ministry of Finance, Govt. of India 2023) and Finance Department, Govt. of Himachal Pradesh (2024).

It can be seen from above that a large quantum (74%) of total revenue deficit grant recommended by the 15th Finance Commission for the 2021-26 period, has already been disbursed 2023-24. The tapering revenue deficit grant until 2026 would be a further cause for concern to the State, as the State struggles to eliminate revenue deficit.

2.2 Analysis of Revenue Buoyancy

Revenue Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The Revenue Buoyancy in this study has been calculated by taking the ratio of growth in State's Own Revenue Receipts and growth in GSDP. Revenue buoyancy with respect to GSDP at 1.0 implies that State's Own Revenue Receipts tend to increase by one percentage points, if the GSDP increases by one per cent (C&AG of India, 2023). An analysis of Revenue buoyancy for the last eleven years is shown below:

Table 2.3: Revenue Buoyancy of the State of Himachal Pradesh

Years	State's Own Revenue (OTR + NTR)	Rate of Growth of State's Own Revenue Resource	Gross State Domestic Product (2011-12 Series, in crore)	Rate of growth of GSDP (<i>per cent</i>)	Revenue Buoyancy
2012-13	6003	-0.003	82820	13.9	0.0
2013-14	6906	15.0	94764	14.4	1.0
2014-15	8021	16.1	103772	9.5	1.7
2015-16	8533	6.4	114239	10.1	0.6
2016-17	8756	2.6	125634	10.0	0.3
2017-18	9472	8.2	138551	10.3	0.8
2018-19	10403	9.8	148383	7.1	1.4
2019-20	10125	-2.7	159164	7.3	-0.4
2020-21	10272	1.5	151601	-4.8	NC
2021-22	12327	20.0	172162	13.6	1.5
2022-23	13472	9.3	191728	11.4	0.8
2023-24	16094	19.5	207430	8.2	2.4

N.B.: Revenue Buoyancy for the year 2020-21 was Not Calculated (NC) as the growth rate of GSDP was negative.

Source: Same as Table 2.1. The fields Growth Rate and Revenue Buoyancy are calculated fields.

There was wide fluctuation in the revenue buoyancy of the State, as extraneous factors such as implementation of GST (in 2017-18), impacted the actual revenue receipts of the State. During 2019-20, the revenue buoyancy with respect to GSDP turned negative due to decrease in revenue receipts. However, 2021-22 onwards, it has turned positive, with 2021-22 and 2023-24 having revenue buoyancy of more than 1, signifying the fact that the State's resource mobilisation has been higher than the growth in GSDP.

2.3 Analysis of Tax Revenue

A breakdown of the tax collection of the State is shown below (table 2.4).

Table 2.4: Components of State's Own Tax Revenue (in ₹ Crores)

Revenue Head	State Goods and Services Tax (SGST)	Taxes on Sales, Trades, etc. (VAT)	State Excise	Taxes on Vehicles	Stamp Duty and Registration Fees	Taxes and Duties on Electricity	Land Revenue	Taxes on Goods and Passengers	Other Taxes
2012-13	0	2728	810	196	173	262	24	101	332
2013-14	0	3141	952	208	188	191	10	105	326
2014-15	0	3661	1044	220	190	333	17	110	365
2015-16	0	3993	1131	317	206	551	7	115	375
2016-17	0	4382	1308	280	209	372	8	121	360
2017-18	1833	2526	1311	367	229	361	17	112	352
2018-19	3343	1185	1482	408	251	487	8	104	305
2019-20	3550	1170	1660	466	260	101	5	104	309
2020-21	3467	1630	1600	380	253	402	7	84	261
2021-22	4482	1592	1981	510	319	394	5	99	333
2022-23	5259	1370	2216	675	399	252	8	69	347
2023-24	5600	1825	2575	800	594	404	18	69	884

Source: Same as Table 2.1.

An analysis of Revised Estimate of 2023-24 would further reveal that SGST, Sales Tax (including VAT) and State Excise constitute the majority of OTR of the State, with Taxes on vehicles, Stamp Duty and Registration Fees and Taxes/Duties on Electricity contribute some minor part of the total OTR collection (Figure 2.3).

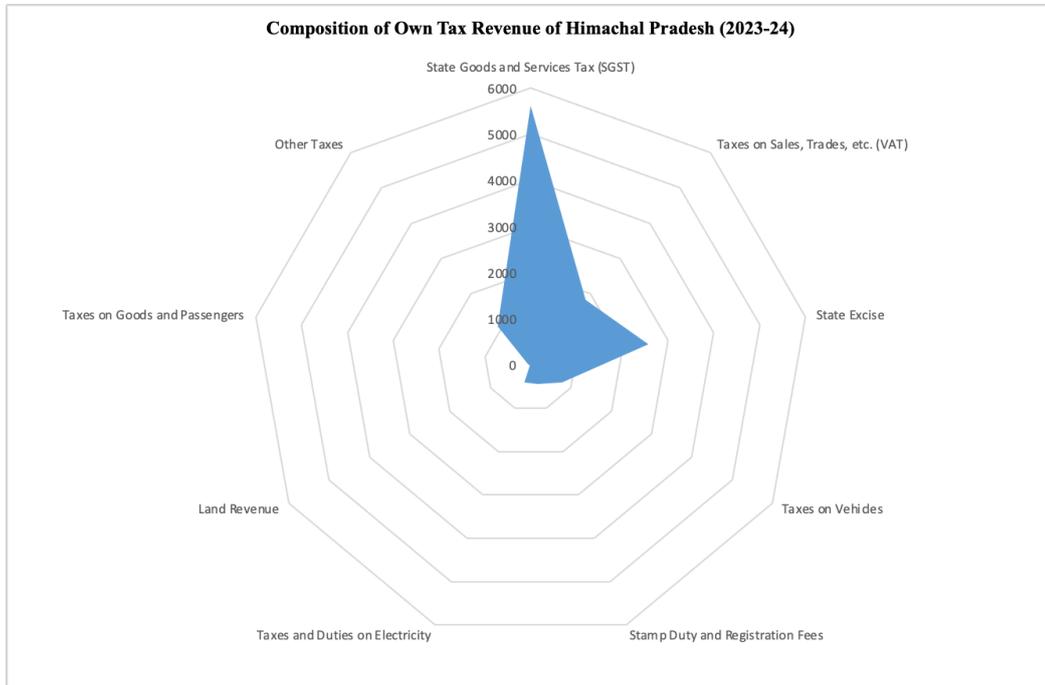


Figure 2.3: Composition of Own Tax Revenue (in ₹ Crore) of Himachal Pradesh (2023-24 RE)
Data Source: H. P. Budget of 2024-25

Overall, it is seen that the OTR has grown at the rate of 20% in two of the last three years. A breakdown of different components shows that growth of Duties on Electricity, Stamp and Registration Duty, Sales Tax (VAT), and Taxes on Vehicles have been growing at a modest rate during recent years, although the pattern is not consistent between 2012-13 and 2023-24 (Figure 2.4).

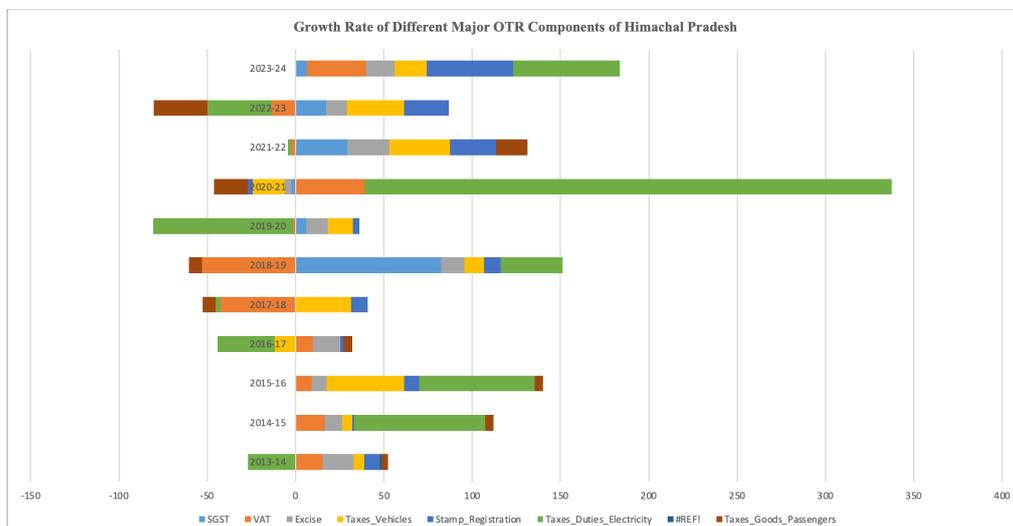


Figure 2.4: Growth Rate of Own Tax Revenue of Himachal Pradesh
Source: Same as Table 2.1

2.4 Impact of Introduction of GST on the State

There have been reports that introduction of GST has caused hardship to the State and has dent its revenue receipts. An analysis in this regard has been attempted in this chapter to evaluate the impact of introduction of GST. For the analysis, data on collection of tax from the Taxes on Sales, Trades, including VAT etc. have been considered from the year 2012-13 to 2023-24 (Table 2.5). The analysis of the Impact of Introduction of GST on the State brings out several important pointers:

1. There was a dip in the collection of Taxes on Sales, Trades, including VAT etc. from the FY 2017- 18, after the introduction of GST from ₹4382 crores to ₹2526 crores in the next FY (2018-19) and years afterward.
2. The State received a GST compensation of ₹8677 Crore between the FY 2017-18 and FY 2022-23. This increased the revenue growth in the State between 2017-18 to 2022-23, albeit with several fluctuations.
3. Besides, Central government had released loans to the States and UTs with Legislature on a back-to-back basis to meet the resource gap due to the short release of Compensation on account of inadequate amount in the Compensation Fund. This was also to help States to effectively respond to and manage the COVID-19 pandemic and for a step-up in capital expenditure all States and UTs. Accordingly, the State also received a back-to-back loan of ₹4412.22 crore (₹1717 and 2695 crore in 2020-21 and 2021-22 respectively). This had improved the revenue collection in the State (as this was not to be treated as debt of the State for any norms prescribed by the Finance Commission). This loan proved to be a big boost to the overall receipt of the State in 2020-21 and 2021-22, registering a total growth rate of 30% and 16% respectively. However, on stoppage of the back-to-back loan, the revenue collection has slipped back in the negative in the year 2022-23 onwards.
4. Before introduction of GST, collection of Taxes on Sales, Trades, including VAT etc. grew at the annual rate of 15%, 17%, 9% and 10% respectively from 2013-14 onwards. This roughly average to an annual growth rate of 13%, in the pre-GST period. An estimate of collection of GST and collection of Taxes on Sales, Trades, including VAT etc. has been made taking this average rate of growth of tax-revenue of 13% and the projected revenue under these taxes have been found to be higher than the combined tax under this category in 2022-23 (₹9123 crore against actual of ₹7922 crore) and 2023-24 (₹10309 crore against actual of ₹7425 crore). ***Thus, the actual growth rate of tax under this category has come down by 20% and 6% respectively in the last two financial years. This has happened when the Overall Own Tax Revenue of the State has grown at a rate of 9.1% and 20.5% respectively in the last two years.***

Table 2.5: Scenario of Collection of GST, Sales Tax, VAT etc. and Back-to-Back Loan in Himachal Pradesh (in ₹ Crore)

Revenue Head	State Goods and Services Tax (SGST)	GST Compensation Cess	Back-to-Back-Loan	Taxes on Sales, Trades, etc. (VAT)	Total_GST_Sales_tax_Comp_Loan	Annual Growth Rate (in per cent)	Projection with pre-GST Tax Growth Rate
2012-13	0	0	0	2728	2728	NC	NA
2013-14	0	0	0	3141	3141	15	NA
2014-15	0	0	0	3661	3661	17	NA
2015-16	0	0	0	3993	3993	9	NA
2016-17	0	0	0	4382	4382	10	NA
2017-18	1833	539	0	2526	4898	12	4952
2018-19	3343	2037	0	1185	6565	34	5595
2019-20	3550	1877	0	1170	6597	0	6323
2020-21	3467	1763	1717	1630	8577	30	7145
2021-22	4482	1168	2695	1592	9937	16	8074
2022-23	5259	1293	0	1370	7922	-20	9123
2023-24	5600	0	0	1825	7425	-6	10309
Total (2017-18 to 2022-23)	21934	8677	4412	9473	44496		41212
Total (2017-18 to 2022-23)	27534	8677	4412	11298	51921		51521

Source: Same as Table 2.1. Columns on Total, Growth Rate and Projection are Calculated. NA: Not Applicable, NC: Not Calculated.

Table 2.6: Scenario of Collection of GST, Sales Tax, VAT etc. sans Back-to-Back Loan in Himachal Pradesh (in ₹ Crore)

Revenue Head	State Goods and Services Tax (SGST)	GST Compensation Cess	Taxes on Sales, Trades, etc. (VAT)	Total_GST_Sales_tax_Comp_Loan	Annual Growth Rate	Projection with pre-GST Tax Growth Rate (avg 13%)
2012-13	0	0	2728	2728	NC	
2013-14	0	0	3141	3141	15	
2014-15	0	0	3661	3661	17	
2015-16	0	0	3993	3993	9	
2016-17	0	0	4382	4382	10	
2017-18	1833	539	2526	4898	12	4952
2018-19	3343	2037	1185	6565	34	5595
2019-20	3550	1877	1170	6597	0	6323
2020-21	3467	1763	1630	6860	4	7145
2021-22	4482	1168	1592	7242	6	8074
2022-23	5259	1293	1370	7922	9	9123
2023-24	5600	0	1825	7425	-6	10309
Total (2017-18 to 2022-23)	21934	8677	9473	40084		41212
Total (2017-18 to 2023-24)	27534	8677	11298	47509		51521

Source: Same as Table 2.1. Columns on Total, Growth Rate and Projection are Calculated. NA: Not Applicable, NC: Not Calculated.

5. The scenario becomes worse if the impact of back-to-back loan is nullified. As per Section 12 (d) of GST (Compensation to States) Act, 2017, Notification No. 1/2022-Compensation Cess dated 24.06.2022 has been issued to continue levy and collection of GST compensation cess till March, 2026 to repay amount of back to back loan released to States in 2020-21 and 2021-22 in lieu of GST Compensation shortfall and for payment of GST compensation for the month of June, 2022 and arrears of previous FYs based upon AG reconciled figures (Ministry of Finance, GoI 2022). Therefore, the State have to pay back the back-to-back loan of ₹4412 (after adjustment of AG's certified amount, if different) by 2026, when its actual collection of combined GST and VAT etc. has actually been less than the projected tax growth (at an annual growth rate of 13%) under these heads in the last few years (Table 2.6).
6. The estimated tax revenue under these heads between 2017-18 to 2023-24, taking an average annual growth rate of 13%, would have yielded the State ₹51521 crores, while the actual receipt during this period has been ₹47509 crore.

Therefore, it may be concluded that the State is faced with an uncertain revenue growth under this head (SGST, Sales Tax, VAT etc.), as especially seen during the last two financial years. The situation is to get worse until 2026, by when the State is supposed to pay back the back-to-back loan of ₹4412 crores after 2026, provided by the Centre during 2020- 21 and 2021-22. This will cause further strain in the State's finances in the next few financial years.

Slower growth of GST collections in Himachal Pradesh are attributed to following reasons during recent times:

1. **Incorrect interpretation of the place of supply of goods:** Adjoining states misinterpret the place of supply, leading to significant revenue loss for Himachal Pradesh (49th GST Council Meeting, 18 February 2023). The state suggested amending Section 10(1) of the IGST Act, to which Law Committee has recommended a new formulation where the unregistered consumers could declare their address on the tax invoice, which would determine the Point of Supply (PoS) for the said supply. In cases of in-migration, the State may gain but in out-migration it would lose. It is a zero-sum gain. Other than for major goods like automobiles, consumers will not mention their address. So, overall, the losses and gains would not be substantial. This issue particularly affects vehicle sales where vehicles purchased in neighbouring states are registered in Himachal Pradesh, but the GST revenue is collected by the incorrect state.
2. **High GST rate on apple carton boxes:** The 18% GST rate on specific sized corrugated apple boxes is considered detrimental to the apple industry, a major contributor to the state's economy. Himachal Pradesh repeatedly requested a reduction to 12% (or even 5%) in multiple GST Council meetings (49th, 50th and 51st GST Council Meetings), but the Council deferred or did not take immediate action. This is a significant concern because of its impact on a key industry.

Besides, factors like the following usually are responsible for less GST collection:

- **Economic Structure:** Himachal Pradesh's economy is heavily reliant on tourism, agriculture, and small-scale industries. These sectors usually have lower GST contributions compared to manufacturing or large-scale service industries prevalent in other states. Tourism, for instance, is susceptible to seasonal

fluctuations, impacting tax collection. Furthermore, a significant portion of agricultural income might fall below the GST threshold.

- **Informal Economy:** A substantial portion of Himachal Pradesh's economy might operate informally, avoiding GST registration and payment. This is common in smaller businesses and agricultural activities.
- **Tax Evasion:** While difficult to quantify precisely, tax evasion undoubtedly plays a role. This could involve underreporting income, claiming false input tax credits, or employing other methods to reduce GST liability.
- **Geographical Challenges:** The mountainous terrain and dispersed population of Himachal Pradesh pose logistical challenges for GST collection, making monitoring and enforcement more difficult.
- **E-commerce penetration:** Although e-commerce is growing, its penetration may be lower in Himachal Pradesh compared to other states, leading to lower GST collection from online transactions.

A comparison of multiplication of different types of State taxes, between 2017-18 and 2023-24, reveals that while GST and Taxes on Sales, Trades and VAT in Himachal Pradesh increased by only 1.7 times, Excise, Taxes on Vehicles, Stamp Duties and Registration Fees and Other taxes increased by two or more than two times during the last six years (Table 2.7).

Table 2.7: Multiplication of Collection of GST, Sales Tax, VAT etc. in Himachal Pradesh in Last Six years

Revenue Head	Growth of Taxes between 2017-18 to 2023-24
SGST and Taxes on Sales, Trades, etc. (VAT)	1.7
State Excise	2.0
Taxes on Vehicles	2.2
Stamp Duty and Registration Fees	2.6
Taxes and Duties on Electricity	1.1
Land Revenue	1.1
Taxes on Goods and Passengers	0.6
Other Taxes	2.5

Source: Calculated from table 2.6 above

2.5 Trend in Non-Tax Revenue of the State

Non-Tax Revenue consists of interest receipts, dividends and profits from the State-owned enterprises, mining receipts, departmental receipts like from general, social and economic services, etc. As per Revised Estimate of 2023-24, the total Non-Tax Revenue (NTR) of Himachal Pradesh was ₹3325 Crore (table 2.8). It can be seen that NTR has not even doubled in the last ten years, while the total revenue receipt of the State has seen a doubling rate of around eight years. This highlights the difficulties faced the State in improving its NTR sources and collection mechanism. After experiencing decline in growth during two spells in 2015-16/2016-17 and 2019-20/2020-21, the NTR growth rate has caught pace in recent times, but such growth is still lesser than that of OTR.

Table 2.8 Total Non-Tax Revenue of Himachal Pradesh (in ₹Crores)

Years	Revenue Receipts (RR) (₹ in crore)	Non-Tax Revenue (NTR) (₹ in crore)	Growth Rate of NTR	State's Own Revenue (OTR + NTR)	Proportion of NTR to Total Own Revenue
2012-13	15598	1377	-28.09	6003	22.94
2013-14	15711	1785	29.63	6906	25.85
2014-15	17843	2081	16.58	8021	25.94
2015-16	23440	1837	-11.73	8533	21.53
2016-17	26264	1717	-6.53	8756	19.61
2017-18	27367	2364	37.68	9472	24.96
2018-19	30950	2830	19.71	10403	27.20
2019-20	30742	2502	-11.59	10125	24.71
2020-21	33438	2188	-12.55	10272	21.30
2021-22	37309	2612	19.38	12327	21.19
2022-23	38090	2876	10.11	13472	21.35
2023-24	40446	3325	15.61	16094	20.66

N.B. Same as Table 2.1 (except the last three calculated fields).

The trend in interest receipt shows that since 2020-21, there has been a continuous decline in interest receipt attributed mainly due to less receipts from interest accrued from loans to Cooperative societies and less interest realised on investment of cash balances. Similarly, dividend payment in Himachal Pradesh peaked in 2016-17 at ₹290 Crores and it never reached the level again since then. Dividend received from Sutlej Jal Vidyut Nigam Ltd determines a large part of this section of receipt. Despite these, the growth in revenue from power sector has helped the NTR grow during the last three years (Table 2.9).

Table 2.9: Different Components of Non-Tax Receipts in Himachal Pradesh (in ₹Crores)

Year	Interest receipts	Dividends & profits	Other non-tax receipts, of which-	Misc. General Services	Education, Sports, Arts and Culture	Forestry and Wildlife	Other Administrative Services	Non-ferrous mining and metallurgical Industries	Power	Others
2010-11	70.0	64.0	1561.0	2.0	82.0	65.0	31.0	114.0	1093.0	174.0
2011-12	115.0	86.0	1714.0	40.0	104.0	107.0	26.0	120.0	1146.0	171.0
2012-13	70.0	100.0	1207.0	9.0	112.0	64.0	46.0	148.0	637.0	191.0
2013-14	119.0	103.0	1563.0	6.0	157.0	358.0	26.0	111.0	696.0	209.0
2014-15	101.0	171.0	1809.0	3.0	161.0	116.0	36.0	162.0	1122.0	209.0
2015-16	94.0	112.0	1631.0	19.0	206.0	34.0	33.0	155.0	924.0	260.0
2016-17	146.0	290.0	1281.0	2.0	112.0	19.0	43.0	176.0	651.0	278.0
2017-18	340.5	255.6	1767.0	5.5	180.8	46.9	40.5	441.5	687.6	364.4
2018-19	385.9	181.9	2262.3	20.8	214.6	76.3	51.3	221.1	1134.3	543.9
2019-20	245.4	248.4	2007.7	5.2	238.6	83.6	49.7	246.3	1021.7	362.7
2020-21	306.4	245.4	1636.6	11.4	196.1	49.6	37.1	252.2	749.1	341.2
2021-22	174.0	166.5	2271.9	14.1	257.7	106.3	104.9	230.8	1183.5	374.6
2022-23	85.3	180.9	2610.1	7.5	161.8	81.8	90.1	286.3	1428.3	2954.4
2023-24	74.7	201.7	3048.5	2.8	67.2	73.8	66.1	303.6	1763.5	771.6

Source: The figures 2023-24 (Revised) are from the H. P. Budget of 2024-25 and the remaining years' data are from the State Finance Audit Report of the C&AG of India (2016, 2019, 2021 and 2024).

The most important source of non-tax revenues has always been the power sector (53% of total NTR) followed by non-ferrous mining and metallurgical industries (9% of the NTR) (Table 2.10). The power sector revenues are governed by the Himachal Pradesh Electricity (Duty) Act 2009 (C&AG of India, 2023). However, there was a sharp decline during the Covid years, due to lesser demand in industries and businesses. Reforms in power sector brought through Energy Policy 2021 might be a factor behind its growth revival during the last three years.

Table 2.10: Proportion of Different Components of Non-Tax Revenue in Himachal Pradesh (In per cent)

Year	Interest receipts	Dividends & profits	Misc. General Services	Education, Sports, Arts and Culture	Forestry and Wildlife	Other Administrative Services	Non-ferrous mining and metallurgical Industries	Power	Others
2010-11	4.1	3.8	0.1	4.8	3.8	1.8	6.7	64.5	10.3
2011-12	6.0	4.5	2.1	5.4	5.6	1.4	6.3	59.8	8.9
2012-13	5.1	7.3	0.7	8.1	4.6	3.3	10.7	46.3	13.9
2013-14	6.7	5.8	0.3	8.8	20.1	1.5	6.2	39.0	11.7
2014-15	4.9	8.2	0.1	7.7	5.6	1.7	7.8	53.9	10.0
2015-16	5.1	6.1	1.0	11.2	1.9	1.8	8.4	50.3	14.2
2016-17	8.5	16.9	0.1	6.5	1.1	2.5	10.3	37.9	16.2
2017-18	14.4	10.8	0.2	7.6	2.0	1.7	18.7	29.1	15.4
2018-19	13.6	6.4	0.7	7.6	2.7	1.8	7.8	40.1	19.2
2019-20	9.8	9.9	0.2	9.5	3.3	2.0	9.8	40.8	14.5
2020-21	14.0	11.2	0.5	9.0	2.3	1.7	11.5	34.2	15.6
2021-22	6.7	6.4	0.5	9.9	4.1	4.0	8.8	45.3	14.3
2022-23	3.0	6.3	0.3	5.6	2.8	3.1	10.0	49.7	19.3
2023-24	2.2	6.1	0.1	2.0	2.2	2.0	9.1	53.0	23.2

N.B. These are calculated fields. The figures 2023-24 (Revised) are from the H. P. Budget of 2024-25 and the remaining years' data are from the State Finance Audit Report of the C&AG of India (2016, 2021 and 2024).

A Ratio analysis between the NTR and the OTR, NTR and total Revenue Receipt and NTR and GSDP would further portray the comparative stagnation of NTR over the OTR and GSDP.

Table 2.11: Non-Tax Receipt vs. Own Tax Receipt and GSDP in Himachal Pradesh

Years	NTR to RR Ratio (%)	NTR to OTR Ratio (%)	NTR/GSDP Ratio (%)
2012-13	8.83	22.94	1.66
2013-14	11.36	25.85	1.88
2014-15	11.66	25.94	2.01
2015-16	7.84	21.53	1.61
2016-17	6.54	19.61	1.37
2017-18	8.64	24.96	1.71
2018-19	9.14	27.20	1.91
2019-20	8.14	24.71	1.57
2020-21	6.54	21.30	1.44
2021-22	7.00	21.19	1.52
2022-23	7.55	21.33	1.50
2023-24	8.22	20.64	1.60

Source: Fields are calculated. Data source is same as Table 2.1.

During the last twelve years, contribution of NTR to the total Revenue Receipt came down from 8.83 % to 8.22%. During the same period the NTR did not increase as much as OTR did and therefore the ratio between NTR and OTR decreased from 22.94% to 20.64%. Similarly, the ratio between NTR and GSDP declined from 1.66% to 1.60% during the last twelve years (Table 2.11).

In the above context of uneventful growth of NTR, it is emphasised that the State shall raise revenue from user charges and fees and urban areas to fulfil its service obligations. The slow growth is partly related to stagnation of rates and largely related to non-recovery of costs relating to essential services like waste management, water supply etc. An analysis with respect to the recommendations of the previous State Finance Commissions has been provided in Annexure II. Besides, the scenario and scope for the State for collection of royalties from mineral resources is given in Annexure III. By implementing these recommendations, Himachal Pradesh ULBs can improve their financial performance and better serve their communities. The State can equally benefit as the ULBs would become financially independent through these measures.

Tourism in Himachal Pradesh: Scope and Challenges

Himachal Pradesh boasts a vibrant tourism sector significantly contributing to its economy and employment. However, the sector faces challenges related to infrastructure limitations, seasonal dependence, and environmental sustainability. This analysis examines the current state of tourism in Himachal Pradesh, highlighting its strengths, weaknesses, opportunities, and threats (SWOT analysis). The analysis is largely based on the Asian Development Bank (ADB) project in supporting sustainable and inclusive tourism development in the region³.

³ Asian Development Bank (2024). Sustainable and Inclusive Tourism Development Project in Himachal Pradesh. Accessed

Current State of Tourism in Himachal Pradesh:

The tourism sector in Himachal Pradesh is a crucial component of the state's economy, contributing approximately 7.07% to its GDP and employing 14.42% of the direct and indirect workforce in 2022-23. This makes it the second-largest employer after agriculture (13.57% of GDP and 58.37% employment). The state's diverse tourism offerings include adventure tourism, ecotourism, cultural tourism, religious tourism, and spiritual retreats. These attractions draw a significant number of tourists annually, particularly during peak seasons.

Demand Analysis:

Tourist arrivals in Himachal Pradesh are heavily influenced by seasonal factors, with the summer months experiencing a concentrated influx of visitors from neighbouring states seeking respite from the heat. This high season creates challenges such as traffic congestion, parking shortages, environmental strain, and water scarcity. The lack of diversified activities and limited infrastructure also leads to shorter tourist stays and lower overall spending. While the state experienced a significant drop in tourism during the COVID-19 pandemic (with arrivals dropping by 80-90%), the sector has shown a remarkable recovery, surpassing pre-pandemic levels in early 2023. However, international tourism remains significantly below its 2019 peak. The projected increase in tourist arrivals (to 7.2 million by 2032, with an annual increase of 5.3%) signals a positive outlook, but careful planning and investment are crucial to manage the anticipated growth effectively.

Economic Analysis:

The economic analysis done by ADB highlights the economic viability of investments in tourism infrastructure and development. The calculated economic internal rate of return (EIRR) is 11.2%, exceeding the opportunity cost of capital (9%), indicating a strong return on investment. This analysis also quantifies the economic benefits generated from increased tourist spending, including incremental and non-incremental benefits accruing to local residents. The significant poverty impact ratio of 17.6% underscores the potential for poverty reduction through inclusive tourism development.

Cost-Benefit Analysis:

The cost-benefit analysis considers various factors, including investment costs, operation and maintenance (O&M) expenditures, and the shadow exchange and wage rates to reflect market imperfections. The ADB analysis projects an increase in average tourist spending, reaching ₹13,234 for domestic tourists and ₹41,020 for international tourists by 2024. This economic analysis provides crucial data for informing sustainable and equitable tourism development strategies.

Alternative Designs and Cost-Effectiveness:

The ADB project design incorporated a cost-effective approach by considering alternative designs and optimizing choices in various aspects. For instance, the selection of electric buses over diesel buses

prioritizes both environmental sustainability and long-term cost-effectiveness. The consideration of technology, structural aspects, substructure options, local materials, labour, and environmental suitability contributes to the overall cost-efficiency of the project.

SWOT Analysis:

Strengths:

- Diverse tourism offerings attracting both domestic and international tourists.
- Significant contribution to the state's economy and employment.
- High potential for economic growth and poverty reduction.
- Increasing tourist arrivals post-COVID-19 recovery.
- Government initiatives to promote sustainable tourism.

Weaknesses:

- Inadequate infrastructure to handle peak season demands.
- Seasonal dependence limiting economic benefits to local communities.
- Overcrowding leading to shorter tourist stays.
- Limited private sector participation and investment.
- Weak institutional capacity for tourism management.
- Challenges in managing the impact of climate change.

Opportunities:

- Development of sustainable infrastructure to accommodate increased tourist arrivals.
- Diversification of tourism activities to reduce seasonality.
- Promoting eco-tourism and community-based tourism.
- Improving gender equality and women's empowerment in the tourism sector.
- Enhancing private sector investment through supportive policies.
- Strengthening institutional capacity for tourism management.

Threats:

- Climate change impacts on natural resources and tourism destinations.
- Overtourism and its negative consequences.
- Lack of awareness of sustainable tourism practices among local communities and businesses.
- Competition from other tourist destinations.
- Dependence on domestic tourism, limiting resilience against external shocks.

Conclusion:

Tourism in Himachal Pradesh holds immense potential for economic growth and development. However, addressing the challenges associated with infrastructure, sustainability, and governance is crucial to fully realize this potential. The ongoing impacts of climate change also necessitate continued monitoring and adaptation strategies within the tourism sector.

Avenue for Enhancing Revenue from Duty on Horticulture

Himachal Pradesh is bestowed with varied climatic conditions ranging from arid to tropical climate and the varied topographical setup ranging from Shivalik foothills to high up Himalayas. The rich diversity of agro-climatic conditions, topographical variations and altitudinal difference with fertile, deep and well drained soils favour the cultivation of temperate to sub-tropical to tropical horticultural crops.

The suitability of Himachal for diverse varieties of horticultural crops has resulted in shifting of land use pattern from agriculture to fruit crops in the past few decades. The area under fruits was 163330 hectares in 1990-91 with total production of 386314 tonnes. This increased to 236466 hectares (increase of 45%) during 2022-23 with total production of 814611 tonnes (increase of 111%).

Given the potentialities of horticulturist in payment of meagre amount on their produce, the state government can consider imposing a duty of Rs. 2 per KG of produce, which can generate a significant revenue. Based on the total production of 814,611,000 kgs in 2022-23, the revenue generation is work out to be Rs. 1,629,222,000 i.e. Rs. 163 crore. This revenue can be utilized mainly for supporting various developmental activities relating to agriculture, horticulture and rural development, environmental conservation, and social welfare programs.

(data source: HP Horticulture Department)

Avenue for Enhancing Revenue through Increased VAT on Petroleum

The consumption of petroleum (petrol and diesel) in the state of Himachal Pradesh was 320,000 tonnes and 795,000 tonnes, respectively, according to data from NITI Aayog (source: <https://iced.niti.gov.in/energy/fuel-sources/oil/consumption>). A comparative picture of VAT, additional Tax and other Cess as imposed in the three different States are highlighted in the table below:

The VAT on petrol and diesel in the states of Haryana and Punjab vis-à-vis Himachal Pradesh, after considering all tax components, is depicted in table below (source: <https://ppac.gov.in/prices/vat-sales-tax-gst-rates>). If Himachal Pradesh increases its tax on petrol and diesel to the levels of Punjab, there would be an additional increase in revenue of around Rs. 255.3 crores and if it increases its tax on petrol and diesel to the levels of Haryana, there would be an additional increase in revenue of around Rs. 287.2 crores.

Petrol Pricing					
Tax Components	Punjab	Tax Components	Haryana	Tax Components	Himachal Pradesh
Cess/litre	2	VAT 18.2%	18.2		17.5
Urban Transport Fund	0.1	Addl. 5%	0.91		
Special Infra Dev Fund	0.25				
VAT 16.58% (assumed petrol price 100)	16.58				
10% additional tax	1.658				
Total Tax/litre	20.6		19.1		17.5
Additional Revenue	1006267202		524640607		0

(considering total petrol consumption of 320,000 tonne in HP)					
Diesel Pricing					
Tax Components	Punjab	Tax Components	Haryana	Tax Components	Himachal Pradesh
Cess/litre	1.05	VAT 16.0%	16		13.9
Urban Transport Fund	0.1	Addl. 5%	0.8		
Special Infra Dev Fund	0.25				
VAT 13.1% (assumed diesel price 100)	13.1				
10% additional tax	1.31				
Total Tax/litre	15.8		16.8		13.9
Additional Revenue (considering total diesel consumption of 795,000 tonne in HP)	1546274321		2347746351		0
Total Additional Revenue at Punjab level tax (in crore)	255.3				
Total Additional Revenue at Haryana level tax (in crore)			287.2		
N.B. this calculation is to highlight the scope for Himachal to enhance VAT on petroleum, not to depict the exact amount of additional revenue from such a move. The pre-tax price of both petrol and diesel has been taken as 100 for simplification of the calculation. Therefore, actual revenue earned may vary depending on the base price. This is an approximated analysis.					

2.6 Recent Initiatives by the State Government to Augment Revenue Receipts

The recent growth in collection of OTR, is in line with the recent initiatives to augment State's own revenue receipt, as announced in the 2023-24 Budget and other documents are detailed below (Finance Department, Govt. of H.P. 2023):

1. Goods and Services Tax (GST), introduced in India w.e.f. 1st July 2017 assured the States for compensation for loss of any revenue arising on account of implementation of GST as per the provisions of the GST (Compensation to States) Act, 2017 for a period of five years. A Cess was being levied on certain goods and the amount of Cess collected was being credited to a Compensation Fund. Compensation to States was paid out of the Compensation Fund w.e.f. 1st July 2017 (Ministry of Finance 2022). Therefore, compensation to States were only payable up to June 2022. To avoid loss from stoppage of GST compensation, Himachal Pradesh introduced the "GST Revenue Enhancement Project" in 2023-24 (Government of Himachal Pradesh 2023). The project seeks to adopt advanced data analytics to detect fraudulent GST registration, claim for Input Tax Credit, cases of tax evasion etc.
2. 'Sadbhavna Yojana 2023' was introduced to settle pending cases under various Acts of traders, manufacturers, wholesalers and retailers. The main objective of the scheme is to increase the income of the state by resolving all the old cases of tax liability in the state. This scheme is also known as "Himachal Pradesh Sadbhavna Inheritance Cases Resolution Scheme". The scheme is

being operated by the State Tax and Excise Department of the Government of Himachal Pradesh. With this, the tax liability of traders will be paid by paying less fee and the income of Himachal Pradesh government will also increase. To avail the benefits of the scheme, traders of the state will have to calculate their tax liability and pay the old tax by paying settlement fees.

3. Changes in Excise Policy were made in 2023-24 with following key provisions:
 - **Auction-cum-tender for liquor vends:** This approach has significantly increased revenue by introducing healthy competition and ensuring transparency in the bidding process.
 - **Increased fixed quotas:** The fixed quotas for country liquor and Indian Made Foreign Liquor (IMFL) have been raised, leading to higher sales and consequently increased revenue.
 - **Higher license fees:** The annual fixed license fee for wholesale vends has been increased from ₹20 lakhs to ₹35 lakhs.
 - **Incentives for lifting additional quota:** Licensees are encouraged to lift additional quota beyond the Minimum Guaranteed Quantity (MGQ), which can boost revenue.
 - **Mandatory CCTV surveillance:** All stakeholders are required to install CCTV cameras to monitor manufacturing operations, liquor dispatch, and retail sales, helping to curb smuggling and ensure compliance.
 - **Bottling of imported wine:** Allowing the bottling of imported wine in local wineries makes high- range wine brands more accessible to consumers, potentially increasing sales and revenue.
 - **Mini bars in hotels:** The provision of mini bars in three-star hotels and above is expected to boost tourism and generate additional revenue.
 - Milk Cess of ₹10 per bottle of liquor was imposed, to increase the income of milk producers.
4. Imposition of 'Water Cess' in 2023 on the water used for power generation. However, this has been recently turned down as 'unconstitutional' by the Hon'ble Himachal Pradesh High Court (State of H.P. & Ors 2024).

Chapter 3 Expenditure Scenario in the State: Revenue, including Subsidy and Capital

3.1 Analysis of Expenditure Trends of Himachal Pradesh Government

The expenditure of the state governments is classified under two major categories, revenue and capital, and within each of these, under three major services — General Services, Social Services and Economic Services. Apart from revenue expenditure and capital outlay on these services, the other areas of spending are repayment of loans and advances on the capital account and grants to local bodies and autonomous institutions under the state government. The state government also gives loans for various purposes to its public sector undertakings, urban local bodies, Panchayati Raj Institutions and to its own employees as well. It is to be noted that while the repayments of principal amounts of loans are made from the capital account, interest payment is made from the revenue account of expenditure, under the General Services.

An analysis of the expenditure of the state government under different heads for the period from 2012-13 to 2023-24, their percent contributions and the annual growth rates have been carried out in the following sections.

Table 3.1: Expenditure of the State Government (in ₹ Crore)

Expenditure Heads	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 (RE)
Revenue Expenditure, of which	16,174	17,352	19,787	22,303	25,344	27,053	29,442	30,730	33,535	36,195	44,425	46,176
General Services	6,618	7,047	7,604	8,788	9,728	11,010	11,438	12,335	13,454	13,900	17,763	18,327
Social Services	6,131	6,706	7,452	7,980	9,610	10,337	11,482	12,047	12,844	13,882	17,408	18,671
Economic Services	3,418	3,590	4,723	5,524	5,996	5,697	6,512	6,338	7,227	8,405	9,247	9,168
Grants & Contributions	7	9	9	10	10	10	9	10	9	8	6	11
Capital Expenditure, of which	1,955	1,856	2,473	2,865	3,499	3,756	4,583	5,174	5,309	6,029	6,029	6,913
Capital Outlay, of which	1,955	1,856	2,473	2,864	3,499	3,756	4,583	5,174	5,309	6,029	6,029	6,913
General Services	74	81	83	89	208	192	227	204	170	390	297	380
Social Services	436	477	522	792	1,041	1,135	1,187	1,258	1,736	1,925	1,962	1,985
Economic Services	1,455	1,297	1,868	1,984	2,250	2,429	3,169	3,712	3,403	3,714	3,769	4,548
Total	18,129	19,208	22,260	25,167	28,843	30,809	34,026	35,904	38,844	42,224	50,454	53,089

Source: The figures for 2023-24 (Revised) are from the RBI Report on State Finances (2024) and the remaining years' data are from the State Finance Audit Report of the C&AG of India (2016, 2019, 2021 and 2024). N.B. The Disbursement figures of 2016-17 abnormally high as it includes ₹2,890.50 crore on account of UDAY Scheme.

Over the twelve-year period 2012-24, the total expenditure of the State Government has increased from ₹18,129 crore to ₹53,089 crore, growing about three times during the last twelve years. Revenue expenditure has also increased by about three times, from ₹16,174 crore to ₹46,176 crore during the same period (Table 3.1 and Figure 3.1).

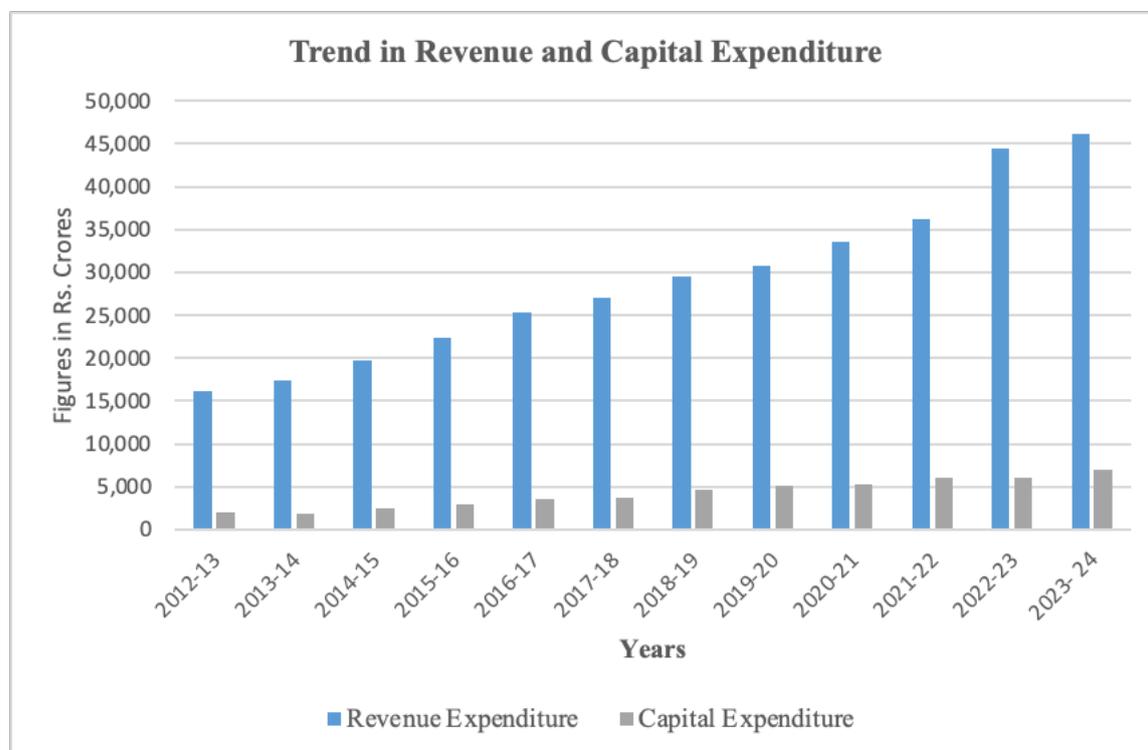


Figure 3.1: Trend in Revenue and Capital Expenditure in ₹ Crore (2012-24)

Source: Same as table 3.1

An analysis of the composition of Revenue Expenditure shows that proportional expenditure on General and Economic Services have reduced in recent years, while that of Social Services has gone up especially during the last three years, mainly because of rise in new welfare schemes (Figure 3.2)⁴. Over these last twelve years, the respective shares of revenue and capital expenditure in total expenditure have remained almost constant with the former claiming more than 85% of the total expenditure throughout. Within the revenue expenditure, expenditure on General and Social Services now constitutes about 40 percent each, followed by expenditure on Economic Services. Salaries, Pension, Interest payment, maintenance expenditure, Grant-in-Aid to other bodies and for capital projects, subsidy, social security pension etc. constitute the largest components of revenue expenditure of the State, with only salary and pension payment constituting around 55% of the total revenue expenditure during the last two years. The disproportionate proportion of salary and pension expenditure has dwarfed other revenue expenditure on social security schemes and general maintenance (Figure 3.3).

⁴ General Services cover pensions and other retirement benefits, Interest Payments, Police, Elections etc.; Social Services include General Education, Social Security and Welfare, Other Rural Development Programmes, Medical and Public Health, Water Supply and Sanitation, Housing etc.; Economic Services include Power, Rural Employment etc.

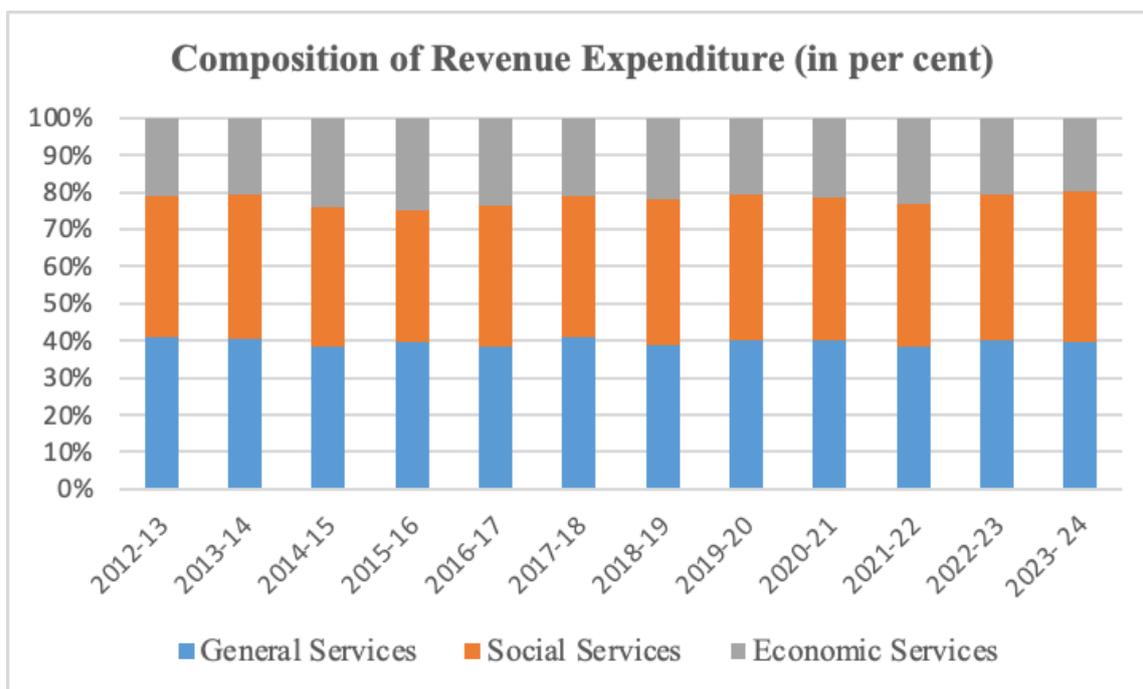


Figure 3.2: Composition of Revenue Expenditure in per cent (2012-24)

Source: Same as table 3.1

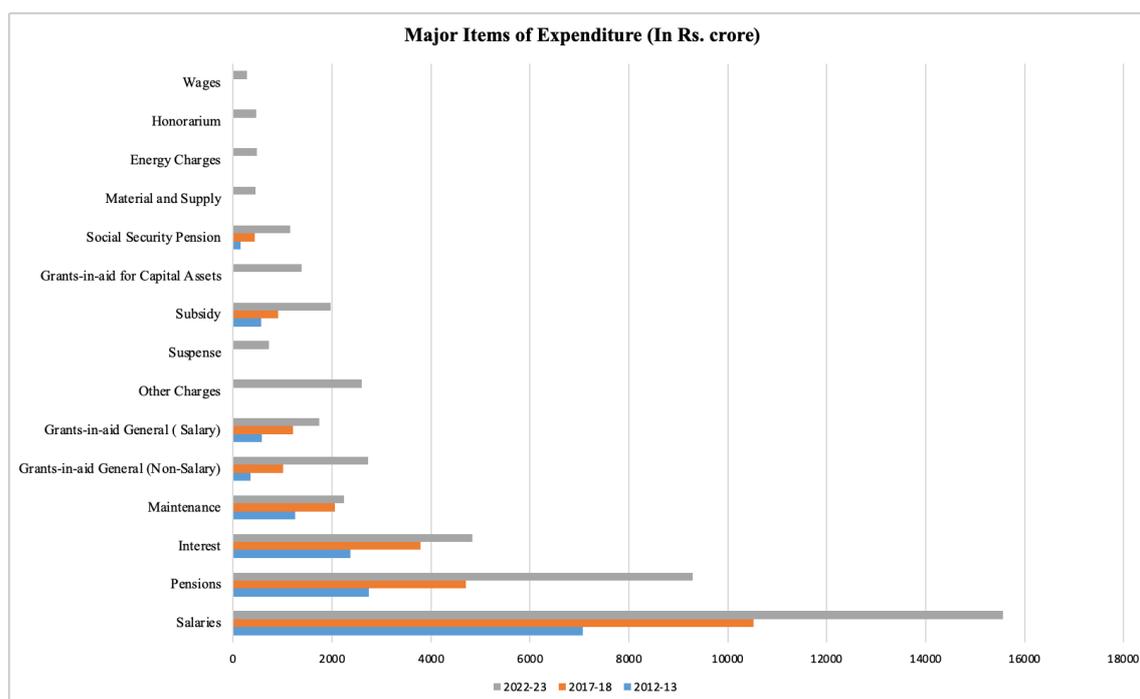


Figure 3.3: Major Items of Revenue Expenditure in ₹Crores (2012-23)

Source: Data obtained from the Finance Accounts of Respective years (C&AG of India).

Within the category of revenue expenditure, starting at ₹6,131 crore in 2012-13, social service spending more than tripled to ₹18,671 crore in 2023-24. This sharp rise, especially post-2021-22, suggests a substantial increase in allocations in response to emergent social needs, in the post-COVID-19 pandemic scenario including increases in allocations for subsidies. Economic services also show a steady increase but at a slower rate than social services, rising from ₹3,418 crore in 2012-13 to ₹9,168 crore in 2023-24. Despite a period of slower growth between 2015 and 2019, the expenditure picked up

significantly thereafter (Figure 3.4).

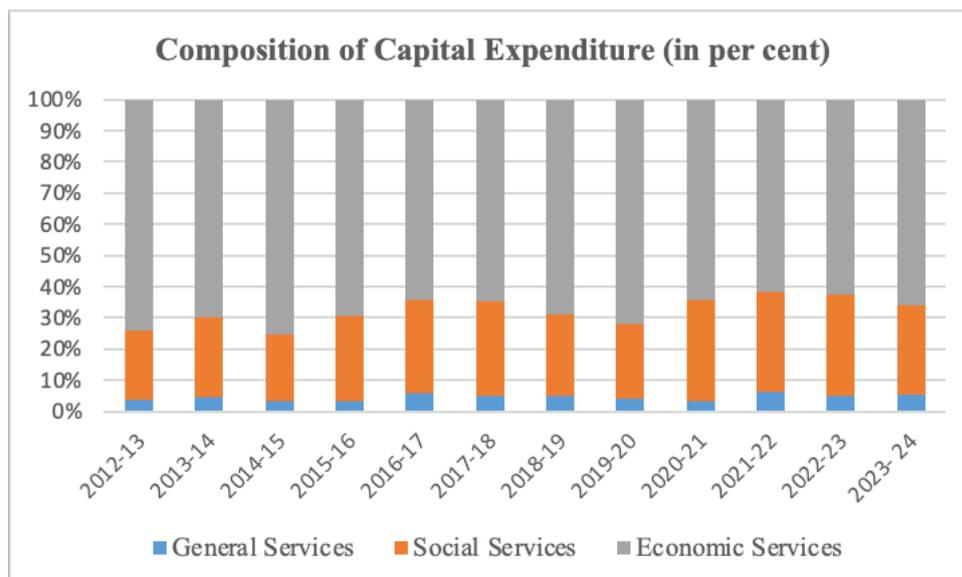


Figure 3.4: Composition of Capital Expenditure in per cent (2012-24)

Source: Same as table 3.1

The composition of Capital Expenditure shows that Economic Services constituted between 60 and 75% of the total Capital Expenditure, with other large part being constituted by the Social Services (Figure 3.4). Composition of different Services within the Revenue and Capital Expenditure and the growth rate of different components are provided in Annexure-IV.

An analysis of Revenue Expenditure (RE) from 2012-13 to 2022-23, over the last two five yearly periods (2012-13 to 2017-18 and 2017-18 to 2022-23) have been carried out. The major areas which have experienced high Growth Rate (GR) in both the two five-yearly periods have been shown in the table 3.2 below:

Table 3.2: Areas with High Growth rate in Revenue Expenditure in the last Ten Years

Item	Revenue Expenditure (₹ Lakh)			5 yearly growth rate (in Per cent)		If RE is >10 crore and 5 yearly GR>100, then “High growth”		If both 5 year period GR shows “High growth”, then “Selected”
	2012-13	2017-18	2022-23	2017-18	2022-23	Growth (2012-17)	Growth (2017-22)	
Labour and Labour Welfare	5,124.0	15,588.9	38,010.9	204.2	143.8	High growth	High growth	Selected
Social Security and Welfare	42,642.0	87,438.9	187,055.9	105.1	113.9	High growth	High growth	Selected
Rural Development	36,694.0	92,179.0	1,99,962.6	151.2	116.9	High growth	High growth	Selected

N.B. If the expenditure under any item or area is more than ₹10 crores and growth rate is more than 100% (i.e. having an average annual growth rate of 20%) in the both the last 5-yearly period, then the same has been shown as selected. 31
Source: Calculated from the RBI Report on State Finances of 2014, 2019 and 2024.

The above table shows the areas like, labour and labour welfare; social security and welfare and rural development, where revenue expenditure has seen high growth during the last ten years with over 20% annual average growth rate. However, if focus is concentrated only on the last 5-year period then some more areas like urban development, welfare of SCs, STs and OBCs, relief on account of natural calamities, crop husbandry, dairy development, energy, industry and minerals show high growth in the last five years (between 2017-18 and 2022-2023), as shown in table 3.3 below:

Table 3.3: Areas with High Growth rate in Revenue Expenditure in the last Five Years

Item	Expenditure (in ₹Lakhs)			GR_2017-2022 (in per cent)
	2012-13	2017-18	2022-23	
Urban Development	17,199.0	23,850.8	90,513.1	279.5
Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	6,656.0	5,614.8	13,693.8	143.9
Labour and Labour Welfare	5,124.0	15,588.9	38,010.9	143.8
Social Security and Welfare	42,642.0	87,438.9	1,87,055.9	113.9
Relief on account of Natural Calamities	19,230.0	32,425.6	68,586.0	111.5
Dairy Development	1,513.0	1,703.5	3,520.1	106.6
Rural Development	36,694.0	92,179.0	1,99,962.6	116.9
Energy	23,125.0	37,260.4	1,10,539.9	196.7
Industry and Minerals (i to iii)	6,877.0	10,581.1	26,413.9	149.6
i) Village and Small Industries	5,510.0	9,048.6	20,201.4	123.3
ii) Industries	1,367.0	1,532.5	6,212.6	305.4
iii) Civil Supplies	821.0	1,165.5	3,663.9	214.4

N.B. If the expenditure under any item or area is more than Rs 10 crore and growth rate is more than 100% (i.e. having an average annual growth rate of 20%) in the last 5-yearly period, then the same has been shown in the above table. Source: RBI Report on State Finances of 2014, 2019 and 2024.

Under the category of capital expenditure, social services grew from ₹436 crore in 2012-13 to ₹1,985 crore in 2023-24, with significant acceleration noticeable from 2016-17 onwards. This indicates an increased focus on development-oriented social spending. Besides, economic services within this category also experienced substantial growth, increasing from ₹1,455 crore to ₹4,548 crore over the same period. This sector saw a sharp increase particularly in 2018-19 and 2019-20. The relatively higher rate of increase in social services expenditures, suggests a shifting priority towards enhancing social welfare, including health and education.

An analysis of capital expenditure from 2012-13 to 2022-23, over the last two five yearly periods (2012-13 to 2017-18 and 2017-18 to 2022-23) have been carried out. The major areas which have experienced high growth in both the two five-yearly periods have been shown in the table 3.4 below:

Table 3.4: Areas with High Growth rate in Capital Expenditure in the last Ten Years

Item	Expenditure (in ₹Lakhs)			GR 2012-2017	GR 2017-2022	GR 2012-17	GR 2017-22	High GR in Both 5-yearly period
	2012-13	2017-18	2022-23					
Medical and Public Health	5,479.0	26,286.5	55,163.5	379.8	109.9	High growth	High growth	Selected
Crop Husbandry	302.0	1,285.9	3,241.8	325.8	152.1	High growth	High growth	Selected
Village and Small Industries	1,583.0	7,282.8	19,828.5	360.1	172.3	High growth	High growth	Selected
Transport_Others	4,539.0	16,272.0	48,599.2	258.5	198.7	High growth	High growth	Selected

N.B. If the expenditure under any item or area is more than ₹10 crores and growth rate is more than 100% (i.e. having an average annual growth rate of 20%) in the both the last 5-yearly period, then the same has been shown as selected. Source: Calculated from the RBI Report on State Finances of 2014, 2019 and 2024.

The above table shows the areas like, medical and public health, crop husbandry, village and small industries and transportation other than roads and bridges (include outlay on Indian Railway Commercial Lines, Indian Railway Strategic Lines, Ports and Light Houses, Shipping, Civil Aviation, Road Transport, Inland Water Transport, Other Transport, etc.), where capital outlay/disbursements has seen high growth during the last ten years with over 20% annual average growth rate. However, if focus is concentrated only on the last 5-year period then some more areas like urban development, animal husbandry, forest and wildlife, rural development, tourism, discharge of internal debt, disbursement in Reserve Funds etc. show high growth in the last five years (between 2017-18 and 2022-2023), as shown in table 3.5 below:

Table 3.5: Areas with High Growth rate in Capital Outlay/Disbursements in the last Five Years

Item	Expenditure (in ₹Lakhs)		GR 2017-2022
	2017-18	2022-23	
Medical and Public Health	26,286.5	55,163.5	109.9
Urban Development	127.2	13,946.1	10863.9
Crop Husbandry	1,285.9	3,241.8	152.1
Animal Husbandry	712.9	1,616.7	126.8
Forestry and Wild Life	741.3	1,967.6	165.4
Rural Development	226.2	4,171.1	1744.0
Village and Small Industries	7,282.8	19,828.5	172.3
Transport_Others	16,272.0	48,599.2	198.7
Tourism	264.0	8,908.6	3274.5
Discharge of Internal Debt	3,42,095.4	10,03,286.2	193.3
Reserve Funds	31,482.6	78,063.0	148.0

Source: Same as table 3.4

Recent increase in disbursement of salary and pension owing to implementation of Himachal Pradesh Civil Services Revised Pay Rules, 2022 has increased the revenue expenditure of the State. Between 2021-22 and 2022-23, payment of Salaries and Wages as a percentage of Revenue Receipts has grown from 32.68 per cent to 41.61 per cent, while Pension payment as a percentage of Revenue Receipts has grown from 17.15 per cent to 24.37 per cent during this period. Increase in revenue expenditure has mainly been led by increase in pension payment in the recent years. The Govt. of Himachal Pradesh,

Dept of Finance (Pension) vide order dated 17 September 2022, announced revision of pension w.e.f 01.01.2016. Arrears payment after such revision have been paid in several instalments, starting September 2022 and there remains some arrears to be paid towards such revision, as in December 2024. However, what would be the impact of introduction of OPS, has been separately analysed in the subsequent section. Recently, the Himachal Pradesh Government decided to reintroduce the Old Pension Scheme, vide notifications No. Fin (Pen)A (3)-1/2023 dated 4h May 2023, replacing the National Pension Scheme (NPS) with effect from 1 April 2023. While this could be beneficial in the short-term for the Government of Himachal Pradesh as the government does not need to cater for the employer's share of the pension contribution from 2023-24 onwards, this could prove to be burdening for the Government in the long-term when majority of entrants who joined on or after 15 May 2003 (date of implementation of hitherto NPS) start retiring after 2030s. An analysis of this impact until the year 2034-35 has been done in the following sections.

3.2 Impact of Introduction of Old Pension Scheme (OPS) in the State

Following steps have been followed for this analysis:

1. To estimate the number of new entrants, the number of regular employees (who could become eligible for pension) since 2012 have been analysed (table 3.6). It is seen that there is slight negative change in the number of employees until 2023 since 2012. Hence, while calculating impact of OPS introduction, the figure of employees as in 2023 has been taken for analysis done until 2034-35.

Table 3.6: Number of Regular Employees in the State (2012-2023)

As on 31st March	Regular Employees	Change in no. of Employees
2012	1,87,419	-185
2013	1,84,761	-2,658
2014	1,83,600	-1,161
2015	1,82,049	-1,551
2016	1,78,744	-3,305
2017	1,77,338	-1,406
2018	1,81,376	4,038
2019	1,81,231	-145
2020	1,81,379	148
2021	1,87,899	6,520
2022	1,90,137	2,238
2023	1,85,698	-4,439
Average change		-159

Source: Calculated from H.P. Economic Survey 2023-24

2. From the year 2012-13 until 2022-23, the total Government Contribution to the NPS Pension Fund has been ₹4200.76 crore, which is being returned by the State Government employees, who are opting to switch over to the OPS (table 3.7). Therefore, the Government would have

inflated revenue (booked under the Major Head 0071) or a reduction in revenue expenditure (minus debited under the Major Head 2071) for a brief period in 2023-24 and 2024-25, in addition to the savings that would be made due to non-contribution of employer's contribution henceforth.

Table 3.7: Details of contribution and investment (in ₹Crore) under DCPS (period 2012-13 to 2022-23)

Years	Receipts			Total	Disbursement (Transferred to Pension Fund)	Short transfer (-)/ Excess transfer (+)
	Employees' share	Government contribution	Interest			
1	2	3	4	5 (2+3+4)	6	7 (6-5)
2012-13	160.47	160.47	Employee and Employer contribution is invested by CRA-NSDL and there is no interest component in the investment as there is NAV on investment.	320.94	320.94	--
2013-14	154.51	154.51		309.02	309.02	--
2014-15	180.2	180.2		360.4	360.4	--
2015-16	195.69	195.69		391.38	391.38	--
2016-17	226.66	226.66		453.32	453.32	--
2017-18	264.81	264.85		529.66	529.66	*
2018-19	303	303		606	606	--
2019-20	348.72	471.3		820.02	820.02	--
2020-21	395.86	552		947.86	947.86	--
2021-22	470.26	655.99		1,126.25	1,126.25	--
2022-23	746.1	1,033.09		1,779.19	1,779.19	--
Total	3,448.28	4,200.76		7,644.04	7,650.04	

*Government contribution of ₹ 4,04,310 was paid to PRANs of NPS subscribers, as interest on legacy amount.
Source: State Finance Audit Report of the C&AG of India (2016, 2019, 2021 and 2024).

- The number of employees who have switched over to the NPS fold post 2023-24, have been obtained (table 3.8). Cumulative number of retirees until 2034-35 is estimated to be around 50,234. These figures may go up once the complete data on switching employees are made available.

Table 3.8: Number of Retiring Employees Opting for NPS (2023-24 to 2034-35)

Years	Retiring no of NPS employee who shifted to OPS (Actuals)	Cumulative retiree
up to 2023-24	5945	5945
2024-25	2,773	8,718
2025-26	2,617	11,335
2026-27	3,203	14,538
2027-28	3,512	18,050
2028-29	3,742	21,792
2029-30	3,967	25,759
2030-31	4,373	30,132
2031-32	4,657	34,789
2032-33	4,980	39,769
2033-34	5,201	44,970
2034-35	5,264	50,234

Source: Data obtained from the Office of the PAG (A&E), Himachal Pradesh

4. Trend of growth of salary of the employees of the State has been estimated to make a projection of salaries until 2034-35, which would in turn be used to calculate projected pension liability for the State. Average annual salary growth during the last eleven years (2012-13 to 2021-22) was found to be 6.97% (Table 3.9).

Table 3.9: Trend in growth of Salary in Himachal Pradesh (in ₹Crore)

Year	Total salary (actuals)	Growth	Average growth of salary in 12 years
2011-12	6,055.44	3.97	6.97
2012-13	7,066.79	16.70	
2013-14	7,323.04	3.63	
2014-15	8,195.49	11.91	
2015-16	7,950.27	-2.99	
2016-17	9,356.07	17.68	
2017-18	10,519.04	12.43	
2018-19	10,955.94	4.15	
2019-20	11,477.37	4.76	
2020-21	11,641.16	1.43	
2021-22	11,990.28	3.00	
2022-23	15,569.01	29.85	

N.B. The salary of 2022-23 has not been included in the estimation as it includes the arrear salary paid on account of implementation of Himachal Pradesh Revised Pay Rules, 2022 effecting pay revision with effect from 01.01.2016. This is an outlier and may distort the calculation. Source: State Finance Audit Report of the C&AG of India of respective years.

5. The above information has been used to project the future salary and pension liability of the State Government (Table 3.10). Projected Salary (including DA) has been calculated taking annual growth rate of 6.97%. Projected pension has been estimated to be 50% of the projected salary (including DR). As mentioned before, number of employees as in 2023 has been taken as constant for the next ten years. Average pension of an employee has been calculated by dividing the projected pension by number of regular employees. Government liability on pension has been calculated by taking the number of retiring employees who have shifted to NPS. Subsequently, the total government liability over three periods (2023-26, 2026-2031 and 2031-2035) have been obtained.

Table 3.10: Calculation of Government Liability on Pension (in Crore)

Years	Projected salary	Projected pension	Total no of employee	Average pension of an employee (total/proj.)	Govt. liability on pension (Retirement*Avg)	Total Liability
2023-24	13,719.97	6,859.99	1,85,698	0.04	219.62	1043.26
2024-25	14,676.26	7,338.13	1,85,698	0.04	344.50	
2025-26	15,699.19	7,849.60	1,85,698	0.04	479.14	
2026-27	16,793.43	8,396.71	1,85,698	0.05	657.37	5867.53
2027-28	17,963.93	8,981.96	1,85,698	0.05	873.05	
2028-29	19,216.01	9,608.01	1,85,698	0.05	1,127.52	
2029-30	20,555.37	10,277.68	1,85,698	0.06	1,425.66	

2030-31	21,988.08	10,994.04	1,85,698	0.06	1,783.93	12,050.14
2031-32	23,520.65	11,760.32	1,85,698	0.06	2,203.20	
2032-33	25,160.04	12,580.02	1,85,698	0.07	2,694.13	
2033-34	26,913.69	13,456.85	1,85,698	0.07	3,258.81	
2034-35	28,789.58	14,394.79	1,85,698	0.08	3,894.00	

Source: Calculated fields from the previously explained points.

6. Subsequently, the savings from NPS contribution adjusted against pension liability has been estimated to finally calculate the net pension liability of the Government during the above three periods (Table 3.11). It is seen that while the State is set to benefit due to reduced contribution of ₹ 1669.98 crores during 2023-26, ₹3655.29 crores during 2026-2031 and ₹3953.23 crores during 2031-2035. When adjusted against the rising pension liability, the State has a short-term saving of ₹626.72 crores between 2023-26, after which the liability gradually increases every year. This should be matter of concern for the State.

Table 3.11: Calculation of Net Government Liability on Pension (in Crore)

Years	Salary of NPS contributor	NPS contribution by govt	NPS contribution by govt	Net liability (Annual)	Net liability (in a Three to Five Years span)	Net liability (Overall until 2035)
2023-24	3,711.45	519.60	1669.98	-299.99	-626.72	9682.43
2024-25	3,970.14	555.82		-211.32		
2025-26	4,246.86	594.56		-115.42		
2026-27	4,542.87	636.00	3655.29	21.36	2212.24	
2027-28	4,859.50	680.33		192.72		
2028-29	5,198.21	727.75		399.77		
2029-30	5,560.53	778.47		647.19		
2030-31	5,948.09	832.73		951.20		
2031-32	6,362.68	890.77	3,953.23	1,312.43	8096.91	
2032-33	6,806.15	952.86		1,741.27		
2033-34	7,280.54	1,019.28		2,239.53		
2034-35	7,788.00	1,090.32		2,803.68		

Source: Calculated fields from the previously explained points.

In the above calculation the impact of death of pensioner, reduced pension amount of family pensioners, commutation of pension etc. have not been considered. In conclusion, it can be pointed out that the State would stand to gain from introduction of the OPS in the short-run, but the situation would get reversed in the long-run (after 2026), when the pension liability is set to increase. To offset such a situation, State may consider continuing its pension contribution on accrual basis into a Pension Fund. The dividend and interest earned from that fund including the principal component would reduce the recurring pension liability of the government in the long run.

In addition to the above, the other area of revenue expenditure which has increased in recent times, is 37 the expenditure on subsidies. This is more prominently reflected in increase in social sector subsidies.

An analysis of the same is provided in the following section.

3.3 A Study on Subsidy in Himachal Pradesh

Himachal Pradesh has budgeted to spend ₹1,189 crores on subsidies in 2024-25, as per the latest FRBM statements. In 2024-25, Himachal Pradesh plans to subsidise energy, farm, transport and food sectors. In 2022-23, Himachal Pradesh spent 53% of its subsidies on the energy sector, followed by 17% on procurement of grains and oils for food supply. The sudden increase in subsidy of ₹785 crores (66.71 *per cent*) from the previous year in 2022-23 was mainly due to increase in subsidy of ₹624.04 crores given to Power projects during the year. Table 3.12 shows that the total amount of subsidy offered in the States had increased about four times during the last ten years.

Table 3.12: Subsidies (in ₹Crore) in Himachal Pradesh

Years	Subsidies	Subsidies as a percentage of Revenue Receipts	Subsidies as a percentage of Revenue Expenditure
2012-13	567	4	3.5
2013-14	467	3	2.7
2014-15	801	4	4
2015-16	1346	6	6
2016-17	764	2.9	3
2017-18	907	3.3	3.4
2018-19	1283	4	4.4
2019-20	1068	3.4	3.5
2020-21	1241	3.7	3.7
2021-22	1188	3.2	3.3
2022-23	1973	5.2	4.4
2023-24 (RE)	1964	4.9	4.3

Source: Finance Accounts of the State of the C&AG of India. Data of 2023-24 is from H.P. FRBM document 2024-25.

While the subsidy as a proportion to Revenue Receipts has varied between 3% to 6% during the last twelve years, the same is hovering around 5% during the recent times. As a proportion to Revenue Expenditure, the same has been between 4.3% to 4.4% during the recent two years (Figure 3.5).

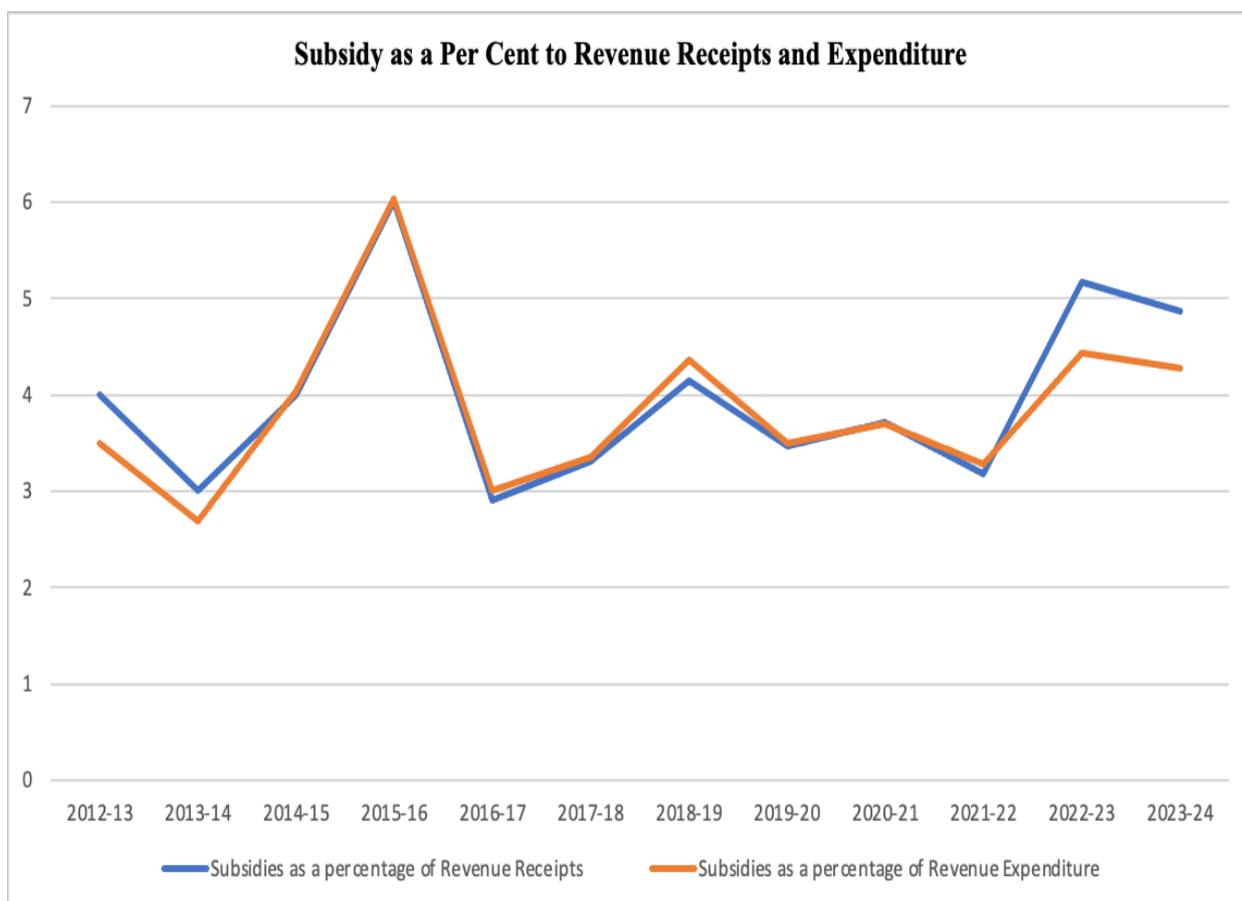


Figure 3.5: Subsidy as Compared to Revenue Receipt and Expenditure

An Analysis of Department-wise subsidies provided over the last three years period, shows that Energy, Agriculture, Food & Supply, Horticulture and Transport are the main sectors where subsidies are being provided (Table 3.13).

Table 3.13: Subsidies (in ₹Crore) in Different Sectors and their Comparison with Fiscal Indicators

Years	2020-21	2021-22	2022-23
Subsidies (₹ in crore)	1240.63	1187.99	1973.32
Power subsidy	520.45	419.99	1,044.03
Power as percentage to total subsidy	41.95	35.35	52.91
Revenue receipts	33438	37309.3	38089.5
Subsidies as a percentage of Revenue Receipts	3.71	3.18	5.18
Revenue expenditure	33534.93	36194.54	44425.26
Subsidies as a percentage of Revenue Expenditure	3.70	3.28	4.44
Total expenditure	39164.25	42601.89	50564.72
Subsidies as percentage of Total Expenditure	3.17	2.79	3.90
Revenue deficit	96.93	*	6335.76
Subsidies as percentage to Revenue Deficit	1283.50	*	31.15
Subsidies on			
Energy	520.45	419.99	1044.03
Food and Supply	239.97	314.53	337.20
Transport	171.20	171.20	201.21
Agriculture	108.18	87.73	126.76
Horticulture	111.20	101.23	118.61

N.B. *Not calculated as the State had Revenue Surplus

Source: Finance Accounts of H.P. and State Finance Audit Reports of the C&AG of India (2022-2024).

Energy subsidy has been receiving between ₹420 crores and ₹1044 crores subsidies in all these years. This had increased during the year 2022-23 owing to introduction of “Zero Electricity Bill” scheme for the domestic consumers (Figure 3.6).

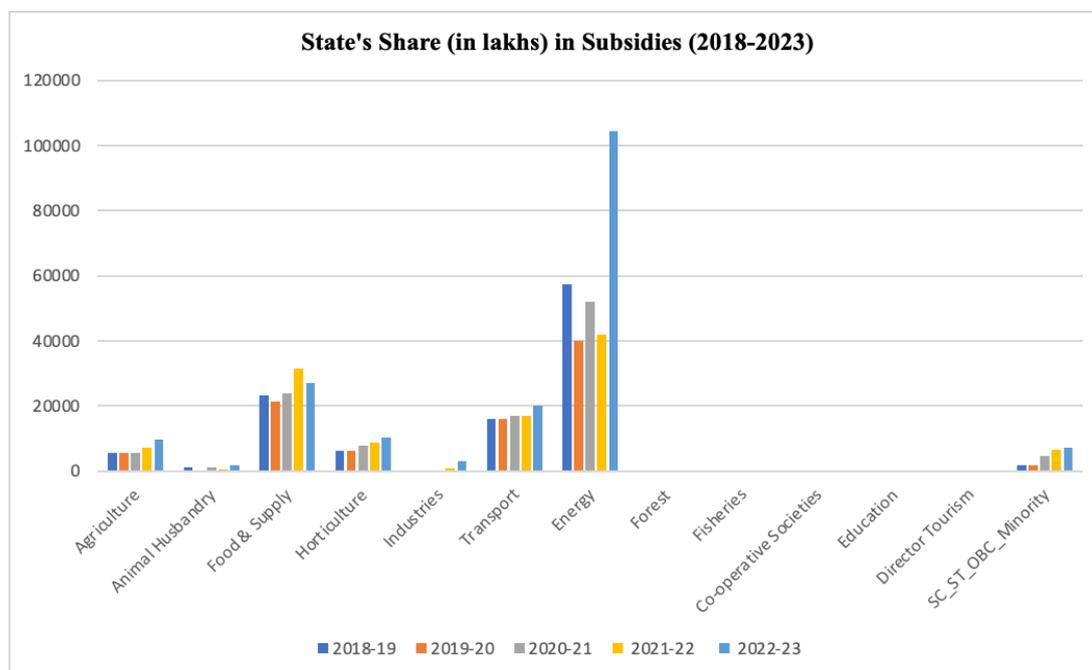


Figure 3.6: Sector-wise Trend in Subsidy Allocation

The State Government in August 2022 decided to provide 125 units free power to the consumers. Out of a total 22,59,645 domestic consumers of the state, over 14,62,130 consumers had started getting zero Electricity bill. On consumption of 125 units power, the consumers earlier had to pay about ₹600. By providing 125 units free power, a subsidy of about ₹600 per month for over 14 lakh consumers was given. This had mainly shot the energy subsidy by ₹624 crores in 2022-23 over 2021-22 (Govt. of Himachal Pradesh 2022). The 125 units of free electricity subsidy scheme for all domestic users in Himachal Pradesh introduced in April 2022 has cost the state exchequer nearly ₹1,247.75 crore over the past two and a half years (Vidhan Sabha, 2024). This needs to be rationalised. Besides, the State also provided subsidy over 90% of actual cost against each unit of electricity consumption to the agricultural consumers⁵.

While present level of power subsidies given in different forms is being reviewed by the State Governments, there are other kinds of subsidies which like those provided in the transport sector dent the State’s capability for developmental spending. There are some 17 types of passengers who get subsidies for travelling in Himachal Road Transport Corporation buses as detailed below (Table 3.14):

Table 3.14: Concessional / Free Traveling Facilities Provided by HRTC⁶

⁵ <https://hperc.org/new1/File1/press%20note%202023.pdf> accessed on 12 January 2025.

⁶ https://www.hrtchp.com/hrtc_info/Social-Obligations.html accessed on 12 January 2025.

Sr. No.	Category	Concession/Free traveling.
1.	Govt. Schools/ College students	Allowed concessional traveling facility for a month against payment of 10 single fare. (In ordinary buses).
2.	Public/Private Schools	Allowed concessional traveling facility for a month against payment of 40 single fare. (In ordinary buses).
3.	Govt. Employees.	Allowed concessional traveling facility for a month against payment of 30 single fare up to a distance of 50 Kms. (In ordinary buses).
4.	Handicapped persons	Allowed free traveling facility within the State & blind personnel are allowed free traveling even outside the State also. (In ordinary buses).
5.	Police Personnel up to the rank of Inspector.	Allowed free traveling facility within and outside the State. (In ordinary buses).
6.	Jail Wardens.	Allowed free traveling facility within and outside the State. (In ordinary buses).
7.	Freedom Fighters with one attendant.	Free traveling facility allowed within and outside the State along with one attendant. (In all type of buses except A.C.).
8.	Gallantry Awards Winners	Free traveling facility allowed within and outside the State. (In all type of buses except A.C.).
9.	War Widows with one attendant free.	Free traveling facility allowed within the State. (In ordinary buses).
10.	Hon'ble M.Ps./M.L.As with one attendant, Ex.M.Ps./ Ex. M.L.As /Press Correspondents.	Free traveling facility allowed within and outside the State. Press Correspondents are not allowed free traveling in VOLVO/AC Buses.
11.	Thalassemic patients	Free traveling within & outside State. (In all type of buses except A.C.).
12.	Orphan Students.	Free traveling up to +2 class. (In ordinary buses)
13.	Cancer/multi fracture injuries.	Free traveling on referral slip. (In ordinary buses)
14.	State Awardees Teachers	Six free pass in a year for traveling within State. (In ordinary buses).
15.	Parent(s) of Un-married posthumous Gallantry Award Winner.	Free traveling in all type of buses except A.C.
16.	Padma Shree Awardees:- i) Sh. Charanjit Singh Sh. Rajinder Kumar	Free traveling in all type of buses except A.C.
17.	Sh. Sunder Lal Bahuguna Social Worker, Sh. Mangal Singh.	Free traveling in all type of buses except A.C.

Source: www.htchp.com

The State has been taking some actions to roll-back several individual beneficiary oriented subsidies. It has decided to remove the subsidised electricity for hotel owners. However, schemes like the Indira Gandhi Pyari Behna Sukh-Samman Nidhi Yojna, which was introduced by the State in the month of 41 March 2024, through which women from age 18 to 59 would be given monthly assistance of ₹1500 is

expected to cost the State very high⁷. The impact of the scheme is to be visible from the FY 2024-25, although budget provision was not initially made as the decision was made after the presentation of budget in February 2024. Around 5 lakh women are expected to benefit from the scheme and over ₹800 crores would be spent annually under the scheme (Govt. of Himachal Pradesh, 2024)⁸.

In addition to that, the States also introduced in January 2024, the Rajiv Gandhi Self-Employment Startup Scheme to provide self-employment opportunities to the youth. The first phase was initiated with ₹680 crores, under which 50 percent subsidy was being provided on the purchase of e-taxi with a motive to get attached these e-taxis with government offices (Govt. of Himachal Pradesh, 2024)⁹. This will further burden the State exchequer and worsen the Revenue Deficit scenario

3.4 A State-wise Comparative Analysis of Subsidy

RBI, in its analysis of State Finances and Budgets, has highlighted the State-wise quantum of subsidies in recent years (Table 3.15)

Table 3.15: Subsidies (in ₹ Crores) in Different States and UTs in India

State/UT	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 (RE)
1. Andhra Pradesh	2,351.80	6,342.60	4,948.00	14,689.00	14,689.00	19,430.80
2. Arunachal Pradesh	2.4	157.8	17.9	116.6	456.1	500.5
3. Assam	1,323.80	996.1	1,966.20	2,005.70	1,662.60	—
4. Bihar	8,324.00	7,121.30	8,167.40	10,256.00	14,827.80	15,748.90
5. Chhattisgarh	8,323.00	20,328.70	26,137.60	22,164.30	26,946.30	58,257.20
6. Goa	300.8	262.6	425.8	—	—	—
7. Gujarat	17,268.00	18,420.00	22,155.00	22,335.00	25,636.00	28,003.00
8. Haryana	8,549.10	8,105.20	7,597.20	9,626.00	9,359.90	11,005.70
9. Himachal Pradesh	1,282.60	1,067.80	1,240.60	1,188.00	1,973.30	1,964.40
10. Jharkhand	—	4,274.90	3,208.10	5,652.80	4,087.20	5,551.90
11. Karnataka	23,330.00	25,649.90	25,765.00	36,306.00	31,926.00	41,881.00
12. Kerala	1,651.60	1,378.20	6,300.40	3,892.90	1,542.50	1,512.20
13. Madhya Pradesh	—	12,641.50	13,457.50	34,541.70	40,305.90	36,330.20
14. Maharashtra	27,397.80	28,386.00	40,861.60	29,137.20	43,158.40	—
15. Manipur	—	120	120.1	120.3	120.2	358.5
16. Meghalaya	58.8	41.7	37.9	31.1	44.3	62.5
17. Mizoram	12.4	21.8	0.2	83.8	109.3	158.6
18. Nagaland	—	128.2	25.1	25.1	33.1	25.1
19. Odisha	2,583.30	2,697.20	3,510.50	4,367.30	3,642.60	3,760.40
20. Punjab	13,359.90	10,161.00	9,747.60	14,515.60	20,607.10	20,852.90

⁷ Govt. of Himachal Pradesh. 2024.

<http://esomsa.hp.gov.in/sites/default/files/PDF/Notification%20Indira%20Gandhi%20Pyari%20Behna%20Sukh-Samman%20Nidhi%20Yojna.pdf> accessed on 8 September 2024.

⁸ <http://himachalpr.gov.in/OnePressRelease.aspx?Language=1&ID=34500> accessed on 8 September 2024.

⁹ <http://himachalpr.gov.in/OneNews.aspx?Language=1&ID=32586> accessed on 8 September 2024.

21. Rajasthan	21,539.60	18,990.00	14,828.50	23,363.90	26,166.10	31,450.40
22. Sikkim	—	1.1	2.8	2.7	2.8	4.9
23. Tamil Nadu	18,922.20	20,143.90	1,07,005.00	1,15,982.10	1,20,475.00	1,38,171.50
24. Telangana	6,303.60	6,838.70	12,022.90	13,186.80	12,612.60	12,500.60
25. Tripura	133.2	56.6	145.8	132.3	161.8	133.1
26. Uttar Pradesh	14,052.50	14,092.20	11,676.80	20,144.60	21,266.60	29,577.80
27. Uttarakhand	173.5	34.6	138.6	145.1	289	494
28. West Bengal	10,015.50	—	12,376.90	16,660.00	17,086.80	14,314.60
29. Jammu and Kashmir	—	700	—	—	—	—
30. NCT Delhi	—	3,592.90	4,176.90	4,690.20	4,632.90	5,119.90
31. Puducherry	173.4	223.3	281.8	279.9	320.3	355.2
All States and UTs	1,87,432.80	2,12,975.70	3,38,345.70	4,05,642.10	4,44,141.40	4,77,525.70

Source: RBI Report on State Finances 2024: A Study of Budgets (the data considers RE for 2023-24).

An analysis has been done to study the annual growth rate of subsidies in few selected States in India (Table 3.16). The table shows that many States are experiencing higher rate of growth in subsidies in recent years. Except in 2022-23, when Himachal had a sharp increase in energy sector subsidy, the State has by and large kept its subsidy growth at low level (even had negative growth in last three of the five years).

Table 3.16: Growth Rate of Subsidies in Last Five Years in Selected States

State/UT	2019-20	2020-21	2021-22	2022-23	2023-24 (RE)
1	2	3	4	5	6
Andhra Pradesh	169.69	-21.99	196.87	0.00	32.28
Assam	-24.75	97.39	2.01	-17.11	
Bihar	-14.45	14.69	25.57	44.58	6.21
Gujarat	6.67	20.28	0.81	14.78	9.23
Haryana	-5.19	-6.27	26.70	-2.76	17.58
Himachal Pradesh	-16.75	16.18	-4.24	66.10	-0.45
Karnataka	9.94	0.45	40.91	-12.06	31.18
Madhya Pradesh		6.45	156.67	16.69	-9.86
Maharashtra	3.61	43.95	-28.69	48.12	
Odisha	4.41	30.15	24.41	-16.59	3.23
Punjab	-23.94	-4.07	48.91	41.97	1.19
Rajasthan	-11.84	-21.91	57.56	11.99	20.20
Tamil Nadu	6.46	431.20	8.39	3.87	14.69
Uttar Pradesh	0.28	-17.14	72.52	5.57	39.08
West Bengal			34.61	2.56	-16.22
All States and UTs	13.63	58.87	19.89	9.49	7.52

N.B. When Annual Growth Rate of Subsidies is more than 50%, cells have been highlighted in light red.

Source: Analysed from RBI Report on State Finances. 2024.

An analysis has been carried out to compare the subsidy situation in Himachal Pradesh with North-Eastern and Hilly States during recent years (Table 3.17). As can be seen, except Nagaland, all other States have experienced high growth in subsidy at least in one in five of the recent years. The growth rate of Himachal Pradesh is 43 comparatively less.

Table 3.17: Growth Rate of Subsidies in Last Five Years in North-Eastern and Hilly States

State/UT	2019-20	2020-21	2021-22	2022-23	2023-24 (RE)
1	2	3	4	5	6
Himachal Pradesh	-16.75	16.18	-4.24	66.10	-0.45
Arunachal Pradesh	6,475.00	-88.66	551.40	291.17	9.73
Manipur		0.08	0.17	-0.08	198.25
Meghalaya	-29.08	-9.11	-17.94	42.44	41.08
Mizoram	75.81	-99.08	41,800.00	30.43	45.11
Nagaland		-80.42	0.00	31.87	-24.17
Sikkim		154.55	-3.57	3.70	75.00
Tripura	-57.51	157.60	-9.26	22.30	-17.74
Uttarakhand	-80.06	300.58	4.69	99.17	70.93

N.B. When Annual Growth Rate of Subsidies is more than 50%, cells have been highlighted in light red.

Source: Analysed from Data from RBI Report on State Finances. 2024.

Some of the **recent schemes** (2023-24 and 2024-25) introduced by the State are provided below:

Indira Gandhi Pyari Behna Sukh-Samman Nidhi Yojna

The Department of Social Justice and Empowerment, Government of Himachal Pradesh launched the "Indira Gandhi Pyari Behna Sukh-Samman Nidhi Yojana" scheme. The scheme recognizes the significant contributions of women in household work, cultural preservation, and family economy by providing a monthly assistance. **The scheme provides a monthly allowance of ₹1500 to the following categories of women in the State.**

1. The women's age should be between 18-59 years.
2. The applicant should be a permanent resident of Himachal Pradesh.
3. The applicant's family members do not fall into the following categories:
 - Central/State Government employees/pensioners, contract/outsourced/daily wage earners/part- time, etc.
 - Category employees, serving/ex-servicemen and military widows, honorarium receiving Anganwadi workers/helpers/ Asha Workers/Mid-Day Meal Workers, Multi-Task Workers, Social Security Pension Beneficiaries, Employees of Panchayat Raj Institutions/Urban Local Bodies, Pensioners/Pensioners working in various Public Undertakings/Boards/Councils/Agencies under Central/State Government, for Goods and Services Tax Be a registered person and income tax payer etc.
 - Buddhist nuns (Chomo) living permanently in Buddhist monasteries.

Him Unnati Scheme

The Himachal Pradesh government has launched a new initiative in 2023-24, Him-Unnati, with the aim of promoting natural farming and improving the livelihoods of farmers in the state. This scheme, with a budget of ₹150 crores, will provide support to over 1.92 lakh farmers who are already engaged in chemical-free farming.

The Him-Unnati scheme will focus on making agriculture economically viable by adopting a cluster-based development model. By consolidating smallholding farmers into clusters, the government aims to enable bulk

production and ensure a sufficient marketable surplus. The scheme will also integrate various existing agricultural initiatives and collaborate with other relevant departments to maximize its impact.

The scheme will particularly benefit small and marginal farmers, women farmers, and those belonging to weaker sections of society, including Scheduled Castes (SC), Scheduled Tribes (ST), and Below Poverty Line (BPL) families. Him-Unnati is expected to generate self-employment opportunities for approximately 50,000 farmers through the creation of 2,600 focused agricultural clusters.

The government has allocated ₹50 crores for the current fiscal year to establish 10 new Farmer Producer Organizations (FPOs) and an additional ₹10 crores for assistance with wire mesh and barbed wire. To promote natural farming, the state government will also procure up to 20 quintals of naturally grown grains per family at a rate of ₹40 per kg for wheat and ₹30 per kg for maize.

The scheme will provide essential capacity-building training and financial assistance to farmers, empowering them to adopt natural farming practices and improve their economic conditions. Him-Unnati is expected to increase productivity in vegetables and cereals by 15-20 percent, contributing to the state's goal of self-reliance and fostering agricultural entrepreneurship in Himachal Pradesh.

Mukhya Mantri Harit Vikas Chhatravriti Yojana

Announced in the Budget 2024-25, under this scheme, in the next 4 years, 2 villages will be selected in each Legislative Assembly Constituency and the Science Postgraduates and Engineering Graduates will be given scholarship for 2 years for **research on climate change and environmental protection in those villages**.

Mukhya Mantri Sukh-Shiksha Yojana

Announced in the Budget 2024-25, under this, the State Government will bear the expenses of the education of children up to 27 years of age of all such widows in the State, whose annual income from all sources is less than ₹1 lakh. This assistance will be provided to these children after they get admission in medical college, engineering college, NIT, IIM, IIT, Nursing, graduation/ postgraduation courses. Apart from this, ₹1,000 per month will be deposited in the RD accounts of all eligible children of widows, destitute, divorced and disabled parents till they attain the age of 18 years. The annual premium for health insurance of all eligible women will be borne by the State Government. Approximately ₹41 crore additional expenditure will be made on this.

Mukhyamantri Sukh Arogya Yojana

Free medical facilities will be provided to all such farmers and elderly people above 70 years of age in the State who are not paying income tax or do not get any pension.

3.5 Suggestions for Improving Efficiency in Public Spending

1. The state of Himachal Pradesh has observed a relatively high proportion of its revenue expenditure being allocated to pension payments over the years (Table 3.18). The pension payments will likely continue to grow, especially with the state's decision to revert to the old pension scheme, further straining the financial resources of the state in the future.

Table 3.18: Pension as per cent to Total Revenue Expenditure

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Pension as per cent Revenue Expenditure	16.90	17.86	18.16	17.68	20.92

Source: State Finance Audit Report of the C&AG of India (2024).

To address the increasing pension liabilities, the Himachal Pradesh government may consider establishing a contributory pension fund like the Unified Pension Scheme (UPS)¹⁰, which would ensure a steady outflow of Government contribution to avoid any accumulation of future responsibility at the cost of present-day convenience. This fund would require contributions from both the government and its employees, helping to distribute the financial responsibility and potentially reduce future liabilities. By incorporating this fund into the public account of the state rather than the consolidated fund, the government can ensure better management of its finances and more sustainable long-term planning for pension obligations. This strategic shift would mitigate the financial burden on the state's resources while securing the pension benefits for future retirees.

2. The trend of increasing capital outlay must be continued. The spending plans and objectives should be made transparent to public scrutiny along with reporting of actual outcomes.
3. To enhance the efficiency of public expenditure, the government of Himachal Pradesh should consider structural reforms or even the winding up of its some of its SPSEs. These issues have been discussed in detail in subsequent chapter relating to the SPSEs.

¹⁰ The salient features of the UPS are:

1. Assured pension: 50% of the average basic pay drawn over the last 12 months prior to superannuation for a minimum qualifying service of 25 years. This pay is to be proportionate for lesser service period up to a minimum of 10 years of service.
2. Assured family pension: @60% of pension of the employee immediately before her/his demise.
3. Assured minimum pension: @10,000 per month on superannuation after minimum 10 years of service.
4. Inflation indexation: on assured pension, on assured family pension and assured minimum pension Dearness Relief based on All India Consumer Price Index for Industrial Workers (AICPI-IW) as in case of service employees
5. lump sum payment at superannuation in addition to gratuity 1/10th of monthly emoluments (pay + DA) as on the date of superannuation for every completed six months of service this payment will not reduce the quantum of assured pension (Source: Union Cabinet, 24 August 2024. <https://pib.gov.in/PressReleseDetailm.aspx?PRID=2048607>)

Chapter 4 Deficit Scenario, Contingent Liabilities (Guarantees) and Sustainable Debt Road Map

Deficits represent the excess of expenditure over receipts. The net resource gap of the state government is reflected by the Gross Fiscal Deficit (GFD) which is to be bridged by borrowing of one sort or another. The GFD is calculated as the difference between the total revenue receipts including grants from the Centre and non-debt capital receipts, and the total expenditure of the government, including recovery-adjusted loans. The GFD less the interest payments is defined as the Primary Deficit, which reflects the deficit created by the current policies of the state government without considering any liability inherited from the past.

4.1 Major Deficit Indicators in Himachal Pradesh

The GFD is a good indicator of the state's overall financial performance, just as the GSDP is a good proxy for the state's economic development. The GFD arises from three sources (1) deficit in the revenue account, (2) capital outlay which is to be financed generally by borrowing, since a state government would ordinarily not have enough resources for creating capital infrastructure necessary for development and (3) lending by the state government (net of recoveries), which again is to be financed by borrowing. Ideally and as per the Fiscal Responsibility and Budget Management (FRBM) Act of Government of India, 2003, the revenue account of a government should show a surplus that can be used for making up the shortfall in the capital account and reducing capital account borrowing to that extent. The GFD is financed by three components: (1) net borrowing by the state government (internal debt) and central loans, net of repayments, (2) net accretion to the public account (receipts minus withdrawals) and (3) drawing down of the cash balance of the state (difference between its opening and closing cash balances).

GFD of the State has been very high during the last three years, due to increase in public debt in the post- COVID era. The same has almost doubled in the 2022-23 due to increased borrowing to fund the increasing revenue deficit (especially due to salary and pension expenditure) and other developmental expenditure. Table 4.1 provides a pen picture of these trends.

Table 4.1: Major Fiscal Indicators in Himachal Pradesh during 2012-2024 (₹crores)

Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Deficit (-)	-576	-1,641	-1,944	1,138	920	314	1,508	12	-97	1,115	-6,336	-5,730
Capital Outlay	1,955	1,856	2,473	2,864	3,499	3,756	4,583	5,174	5,309	6,029	6,029	6,913
Net Lending	448	514	433	437	3,260	463	446	437	297	337	28	34
Gross Fiscal Deficit	2,979	4,011	4,200	2,165	2,948	3,870	3,512	5,597	5,700	5,245	12,380	12,677
GSDP	82820	94764	103772	114239	125634	138551	148383	159164	151601	172162	191728	207430
Interest payments	2,370	2,481	2,849	3,155	3,359	3,788	4,022	4,234	4,472	4,641	4,828	5,658
Primary Deficit	609	1,530	1,351	-990	-411	82	-510	1,363	1228	604	-7,551	-7,019
GFD: GSDP Ratio (%)	3.6	4.2	4.0	1.9	2.3	2.8	2.4	3.5	3.8	3.0	6.5	6.1

Sources: SFAR of the Govt. of Himachal Pradesh, C&AG of India (2016, 2019, 2021 and 2014) and date for the year 2023-24 are Revised Estimates from RBI Report (Statements 2, 3 4 and 13) on State Finances (2024). GSDP figures are from the MoSPI, GoI (2024).

Until the beginning of the last decade, Himachal Pradesh was among the indebted states in India; its fresh borrowing was entirely being used for discharging its soaring debt servicing obligation and interest payments. Same continued for financial years 2012-13 to 2014-15 where revenue deficit increased continuously from 576 crore in 2012-13 to 1944 crore in 2014-15. Himachal Pradesh's turnaround came in 2015-16 when, for the first time, it had generated a surplus of ₹1138 crore in its revenue account. This happened due to increase of revenue receipt by around 31 per cent, while the revenue expenditure increased just by 13 per cent from the previous financial year. This is attributed to devolution of central transfer to the State (SFAR, 2015-16). The surplus, however, showed decline in the next two financial year (2016-17 and 2017-18). Then the Surplus increased to its highest level in the decade to 1508 crore in the next financial year (2018-19). The Revenue surplus showed a sharp decline from 1508 crore in the financial year 2018-19 to 12 crore in the financial year 2019-20. Revenue Deficit of 97 crore arose in the financial year 2020-21, while 2021-22 showed a revenue surplus of 1115 crore. The same turned highly negative in 2022-23 into a huge revenue deficit of 6336 crore. Revenue Deficit continued to remain very high at 5730 crores during 2023-24 (RE). Interest payment burden more than doubled during the last twelve years. Primary Deficit in the State has also surged by around twelve times during this period.

The revenue surplus from 2015-16 helped the state to increase its capital outlay, which was stagnating 48 between 2012-13 and 2014-15, but capital outlay too picked up thereafter in tandem with revenue surplus

in some years. Net lending by the State plays a relatively insignificant role in the Gross Fiscal Deficit of the State (Figure 4.1).

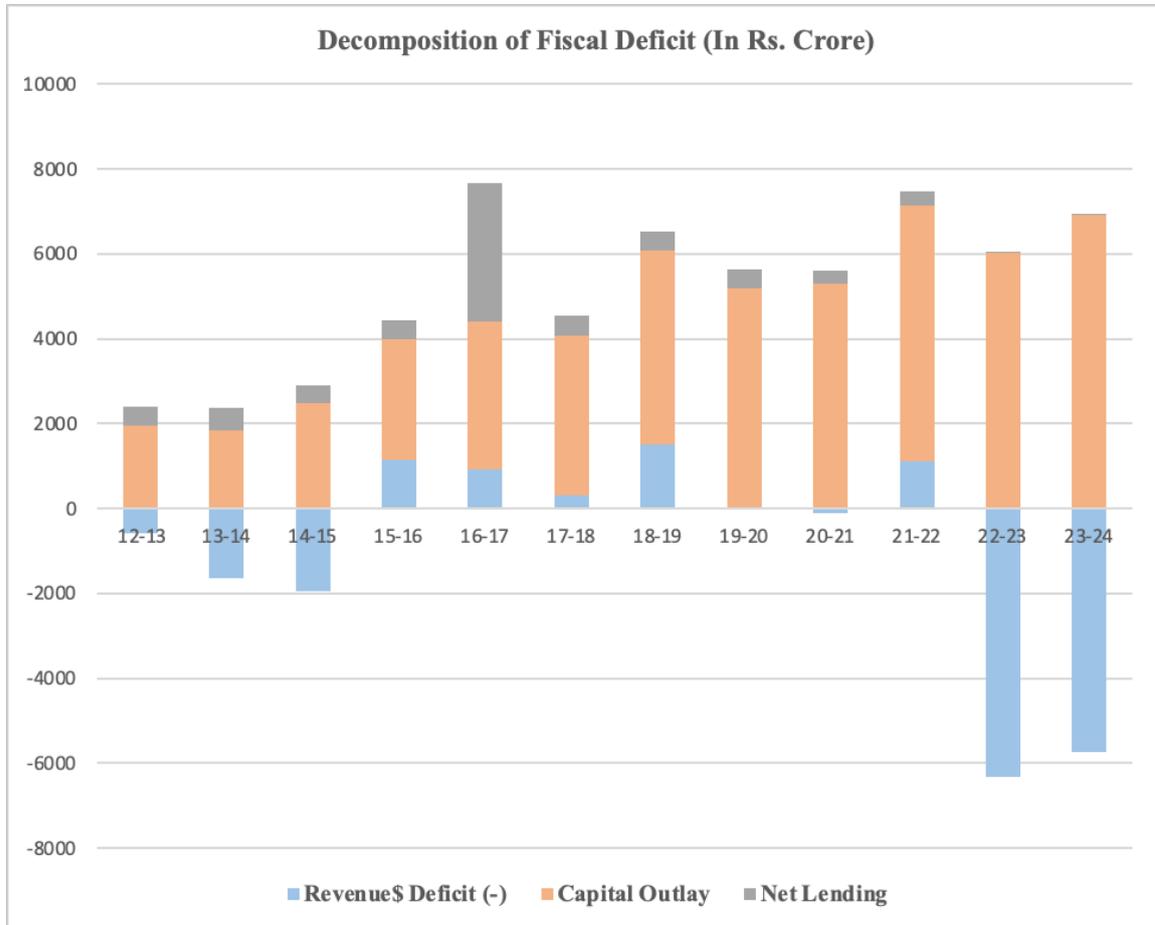


Figure 4.1: Decomposition of Fiscal Deficit (₹Crores)

Source: Same as Table 4.1

As seen from Table 4.1 and Figure 4.1, the GFD was mainly on account of the increasing levels of capital outlay throughout the period, helped by the significant revenue surpluses in some years, with net lending constituting a small part of the GFD. However, with wide revenue deficit in recent years, the increasing GFD and reliance on borrowing raise concerns about fiscal sustainability. The government may need to explore measures to enhance revenue generation or control expenditure to reduce the GFD. Additionally, prudent cash management and diversification of borrowing sources could be considered to mitigate fiscal risks.

4.2 Composition of Outstanding Liabilities of Himachal Pradesh

The source of the borrowing is provided in Annexure-V. The trend of outstanding loans as on 31st March of each Financial Year is shown in Figure 4.2 below.

The total outstanding liabilities of the State has quadrupled during the last twelve years.

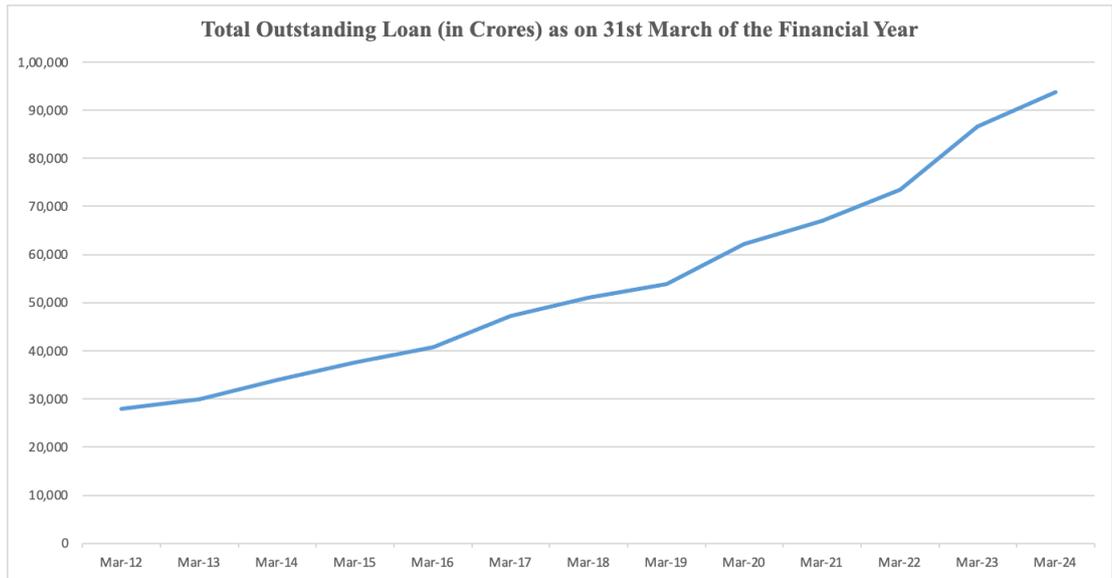


Figure 4.2: Trend of Outstanding Loans of the State as on 31st March Each Year
 Source: RBI Report on State Finances of respective years (data for 2023-24 are Revised Estimates).

As on 31st March 2024, the State has an outstanding debt of 93,814 crores and there has been increase in outstanding debt of over 20,000 crores during the last two financial years. The composition of these 93,814 crores has been shown in Figure 4.3 below:

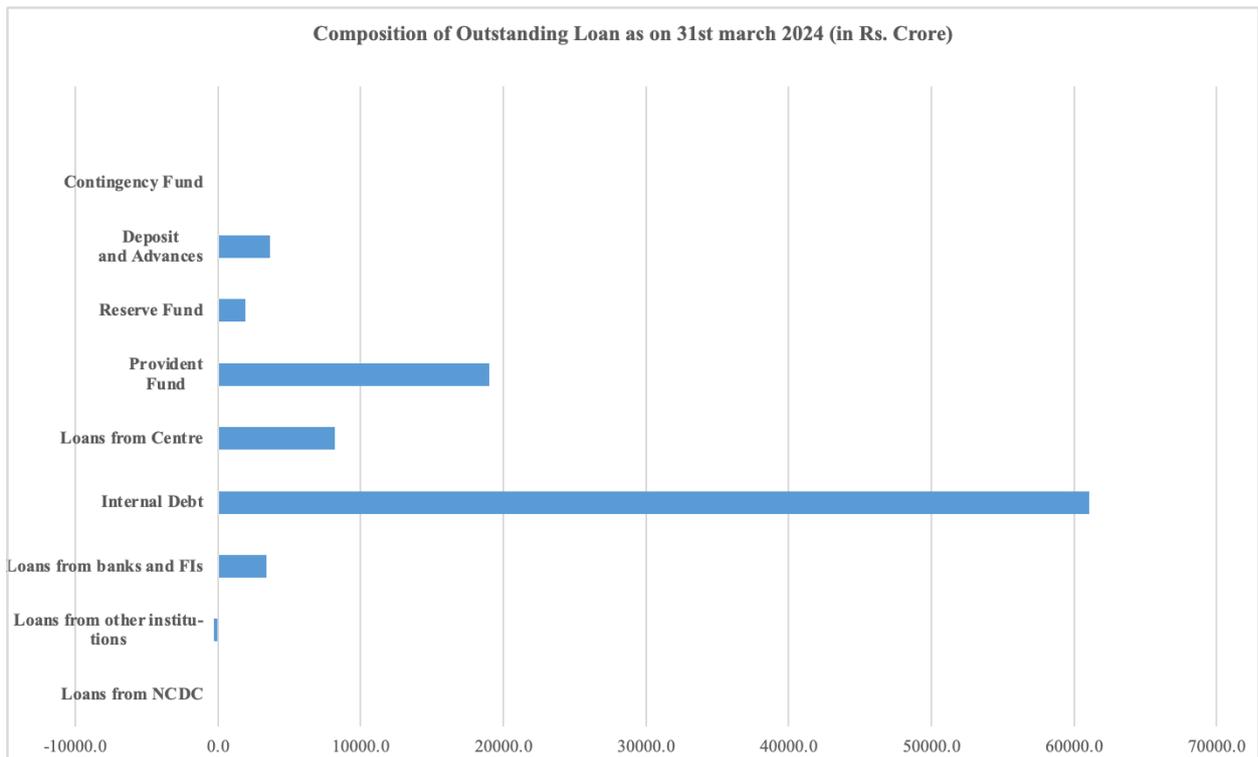


Figure 4.3: Composition of Outstanding Loans of the State as on 31st March 2024
 Source: RBI Report on State Finances of respective years (data for 2023-24 are from RE)

State Development Loan (SDL), the bond issued by state governments to fund their fiscal deficit, is the main source of borrowing for the State and the outstanding liability is also under the same head for the same reason. Loans from the Public Accounts like the Provident Fund, Reserve Fund, Deposit and Advances etc. constitute another large chunk of the State’s outstanding liability. Loans from Centre, National Bank for Agriculture and Rural Development (NABARD), National Small Saving Fund

(NSSF), and loans on account of Ujwal DISCOM Assurance Yojana (UDAY) constitute the remaining lion's share of the State's outstanding liabilities. The trend of growth of major categories of loans are shown in Figure 4.4 below.

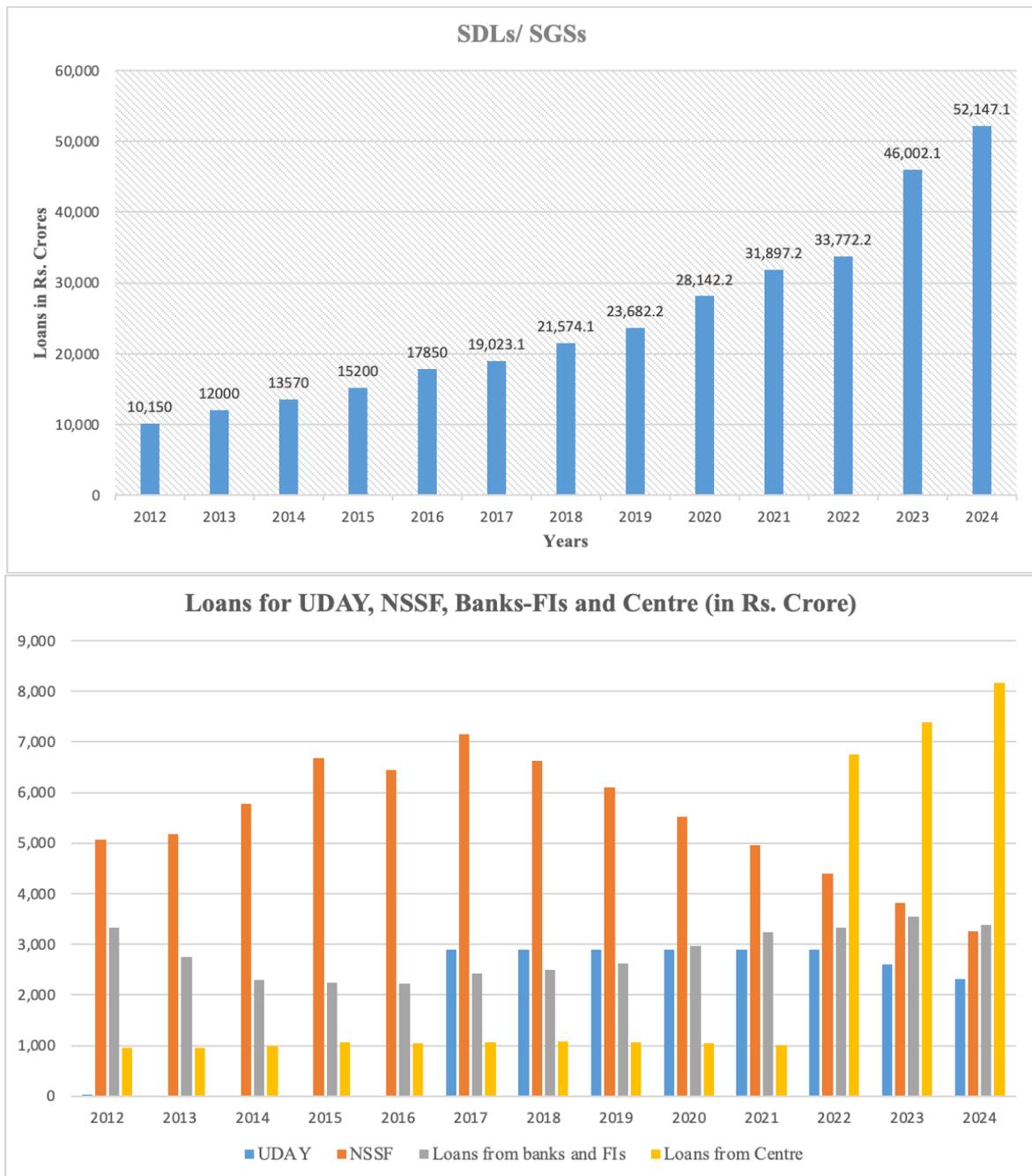


Figure 4.4: Trend in sources of Major Outstanding Loans from Different Sources (In ₹Crores)

Figure 4.4 shows that there has been a sudden increase in outstanding loans from Centre and UDAY in recent years. The Himachal Pradesh government agreed to participate in the UDAY scheme in August 2016. Subsequently, a tripartite MoU was signed in December 2016 between the Ministry of Power, the Himachal Pradesh government, and the state DISCOM (Himachal Pradesh State Electricity Board Limited). Under the scheme's provisions and the MoU, the state government took over a portion of the DISCOM's outstanding debt, amounting to ₹2,890.50 crore during 2016-17 by taking over a loan. This

amount was provided as interest-bearing loans and was scheduled to be converted into a 75% grant and 25% equity during the financial year 2020-21. However, loan of ₹ 2,890.50 crore under UDAY scheme was to be converted into grant (₹ 2167.50 crore) and equity (₹ 723.00 crore) during 2021-22. The same has not been done even until 2023-24 (HPSEBL, 2024)¹¹.

Recommendations of the FC-XIII regarding Fiscal Deficit

After considering the circumstances arising from the global economic crisis in 2008-09 and 2009-10, as well as the varying progress made by the States in achieving the targets laid down by the FC-XII, the FC-XIII provided for State-specific paths for fiscal consolidation. In all States, revenue deficit was to be progressively reduced and eliminated by 2014-15. Similarly, all States were required to contain their fiscal deficit below 3 per cent of GSDP by 2014-15. Table 4.2 shows that these two conditions could not be achieved in Himachal Pradesh by 2014-15.

Recommendations of the FC-XIV regarding Fiscal Deficit

The FC-XIV recommended the following fiscal consolidation roadmap for the States for the period between 2015-16 to 2019-20:

- i. **Fiscal deficit** of all States will be anchored to an annual limit of **3 per cent of GSDP**. The States will be eligible for **flexibility of 0.25 per cent** over and above this for any given year for which the borrowing limits are to be fixed if their **debt-GSDP ratio is less than or equal to 25 per cent in the preceding year**.
- ii. States will be further eligible for an **additional borrowing limit of 0.25 per cent of GSDP** in a given year for which the borrowing limits are to be fixed if the **interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year**.
- iii. The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a state can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year.
- iv. The **flexibility** in availing the additional limit under either of the two options or both will be available to a State **only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year**.

If a State is not able to fully utilise its sanctioned borrowing limit of 3 per cent of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the

¹¹ N.B. The State government has adjusted equity of ₹ 25 crores as against the interest liability during the 2022-23 against which the shares has been issued by the company. However, no amount against the same has been received by the company and same has been adjusted against non-existent liability of the interest payable to the State Government. Source: Himachal Pradesh State Electricity Board Limited (2024), Audited Financial Results (Standalone & Consolidated) for the period ended on 31st March 2023 (Para 37, Notes to Accounts) and Unaudited Consolidated Balance Sheet, for the period ended on 31st March, 2024.

option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within our award period.

Given the above conditions, the borrowings, interest payment and deficit scenario in Himachal Pradesh during the FC-XIV award period is shown in the table below:

Fiscal Parameters	Revenue Deficit (-)/Surplus (+) (₹ in crore)	Target of Revenue Surplus Achieved or Not	Fiscal Deficit (-)/Surplus (+) (as per cent of GSDP)	Target of 3% of less Deficit Achieved or Not	Revenue Receipt (RR)	Interest Payment (IP)	IP to RR %	Whether additional borrowing permitted? If yes, what per centage?
2014-15	-1944	X	4.05	X	17843	2849	16	
2015-16	1,138	✓	1.90	✓	23440	3155	13	No
2016-17	920	✓	2.35	✓	26264	3359	13	Yes, 0.25%
2017-18	314	✓	2.79	✓	27367	3788	14	Yes, 0.25 %
2018-19	1,508	✓	2.37	✓	30950	4021	13	No (0.21 % gap)
2019-20	12	✓	3.52	X	30742	4234	14	Yes

As has been depicted above, the State could fulfil most of the fiscal stability conditions, as was prescribed by the FC-XIV.

Recommendations of the FC-XV regarding Fiscal Deficit

Based on calculations of the revenue gap of States after considering the own revenue receipts and tax devolution, FC-XV recommended a total revenue deficit grant of ₹2,94,514 crores for seventeen States from 2021-22 to 2025-26. It was presumed that once the estimated revenue deficit is taken care of with a matching provision for revenue deficit grant, the whole borrowing space under fiscal deficit is available for capital spending. FC-XV recommended the net borrowing limit (gross borrowing minus repayment) of the State Governments.

Responding to the demands by the States for an increase in the borrowing limit from 3 per cent in 2020-21 in view of the unusual fiscal pressures, the Government of India stepped up the borrowing limits of States from 3 per cent to 5 per cent for the year. To avoid a sudden drop in the resource availability to the States, FC-XV recommended that the normal net borrowing limit of State Governments shall be fixed at 4 per cent of GSDP for the year 2021-22, 3.5per cent for the year 2022-23 and 3 per cent for the year between 2023-24 to 2025-26.

If a State is not able to fully utilise its sanctioned borrowing limit, as specified above, in any particular year during the first four years of our award period (2021-22 to 2024-25), it will have the option of availing this unutilised borrowing amount (calculated in rupees) in any of the subsequent years within our award period.

Considering the centrality of the financial strength of DISCOMs to the soundness of State finances, FC-XV recommended an additional borrowing space of 0.5 per cent of GSDP for States, during the four-year period 2021-22 to 2024-25, subject to fulfilment of conditions in the field of education, judiciary and power reforms.

Given the above recommendations, following details are shown through the table below:

Fiscal Parameters	Revenue Deficit (-)/Surplus (+) (₹ in crore)	Target of Revenue Surplus Achieved or Not	Fiscal Deficit (-)/Surplus (+) (as per cent of GSDP)	Target of 3% of less Deficit Achieved or Not	Target achieved/Comments
2019-20	12	✓	3.52	✗	
2020-21	-97	✗	3.76 (<4%)	✗	Yes
2021-22	1,115	✓	3.05 (<3.5%)	✗	Yes
2022-23	-6336	✗	6.46	✗	Yes
2023-24	-5730	✗	6.11	✗	No (not even within 3.5%, after including space given for power sector reforms)

FY 2022-23 and 2023-24 saw large-scale breach of the fiscal space by the State mainly due to higher outgo on salary and pension during this period. Capital outlay has slightly increased during this period.

The State had started paying part arrears of pay and pension on account of implementation of Himachal Pradesh Civil Services (Revised Pay) Rules, 2022 from the month of September 2022¹². This saw a 30% increase in salary burden from around ₹12,000 crores (2021-22) to ₹15,600 crores (2022-23) in one year. Pension payment saw a 45% increase during the same time increasing from around ₹6,400 crores in 2021-22 to ₹9,300 crores in 2022-23. The States also had a huge repayment liability on market loans and NSSF etc. in 2022-23. Therefore, the State resorted to market borrowing of ₹12,230 crores (2022-23) from a mere ₹1875 crores in 2021-22 (SFAR, C&AG of India, 2024). This has further

¹² https://himachal.nic.in/WriteReadData/1892s/1_1892s/PaymentArrears-70443258.pdf accessed on 13 January 2025.

increased by ₹6,145 crores during 2023-24 (RBI Report on State Finances, 2024). An analysis of the debt sustainability indicators of the major fiscal parameters has been done in the following section.

4.3 Debt Sustainability: HP FRBM Targets vis-à-vis Compliance

To ensure fiscal discipline, Himachal Pradesh enacted the Fiscal Responsibility and Budget Management Act in 2005. The Act delineated specific targets for the state to achieve regarding deficit measures and debt levels, including the elimination of revenue deficit by 2011-12, maintaining fiscal deficit at 3 per cent or less of GSDP from 2011-12 onwards, reducing outstanding debt to 40.1 per cent of GSDP by 2014-15 and maintaining outstanding risk weighted guarantees on long term debt below 40 per cent of total revenue receipt in the preceding financial year for which actuals are available as per the Finance Accounts. The Act also provided space to the State Government, for unforeseen demands on the finances of the State Government due to reasons of national security or natural calamity declared by the State Government or the Central Government, subject to an immediate post-facto approval from the State Assembly (Govt. of Himachal Pradesh, 2005).

Table 4.2: Performance of Himachal Pradesh against the Major FRBM Parameters

Fiscal Parameters	Revenue Deficit (-) / Surplus (+) (₹ in crore)	Target of Revenue Surplus Achieved or Not	Fiscal Deficit (-)/ Surplus (+) (as per cent of GSDP)	Target of 3% of less Deficit Achieved or Not	Target Ratio of Total Outstanding Debt to GSDP (in percent)	Actual Ratio of Total Outstanding Debt to GSDP (in percent)	Whether Debt to GSDP Ratio target received or not
2012-13	-576	×	3.60	×	44.4	36.76	✓
2013-14	-1641	×	4.23	×	42.1	35.76	✓
2014-15	-1944	×	4.05	×	40.1	36.80	✓
2015-16	1,138	✓	1.90	✓	31.11*	36.06	×
2016-17	920	✓	2.35	✓	35.61	37.60	×
2017-18	314	✓	2.79	✓	32.92	36.83	×
2018-19	1,508	✓	2.37	✓	35	36.59	×
2019-20	12	✓	3.52	×	34.04	39.09	×
2020-21	-97	×	3.76	×	32.62	44.30	×
2021-22	1,115	✓	3.05	×	40.26	40.15	✓
2022-23	-6336	×	6.46	×	40.49	42.86	×
2023-24	-5730	×	6.11	×	38.98	43.10	×

N.B. 1) Debt GSDP Ratio of 2023-24 has been calculated using total outstanding liability figure from RBI's Report on State Finances (2024) and all GSDP figures from the MoSPI, GoI, 2024. *Source: Targets taken from the 14th FC Report, because the FRBM Act had not yet been amended. 2) Debt to GSDP Ratio Figures are from SFAR. Total outstanding debt includes public debt plus other (public accounts) liabilities. 3) Total liability figures excludes ₹ 1,717 crore (2020-21) and ₹ 4,412.22 crore (2020-21: ₹ 1,717 crore and 2021-22: ₹ 2,695.22 crore) for the year 2021-22 onward, as back-to-back loans to State from GoI in lieu of GST compensation shortfall.

Himachal Pradesh has struggled to adhere to its fiscal responsibility targets. The state has breached fiscal deficit targets on multiple occasions in 2012-13, 2013-14, 2014-15, 2019-20, 2020-21, 2021-22,

2022-23 and 2023-24, indicating a widening gap between revenue and expenditure (Table 4.2).

The trend in fiscal deficit as a percentage to GSDP has been shown in Figure 4.5. In the financial year 2022-23, the highest revenue deficit in the analysed period violated the FRBM limit as it increased to 6.46 percent (GFD: GSDP, because of increase in fresh borrowings owing to payment of enhance salary and pension on implementation of revised pay rules in the State.

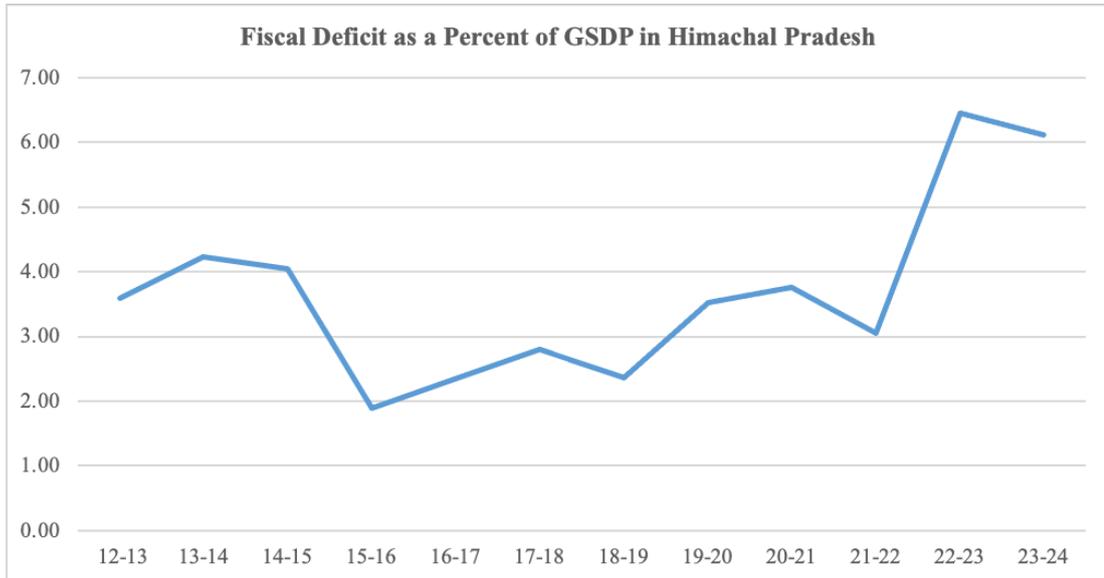


Figure 4.5: Fiscal Deficit in Himachal Pradesh (2012-2024)
Source: Same as Table 4.2

The target for revenue surplus was also not achieved in 2012-13, 2013-14, 2014-15, 2020-21, 2022-23 and 2023-24 (Figure 4.6).

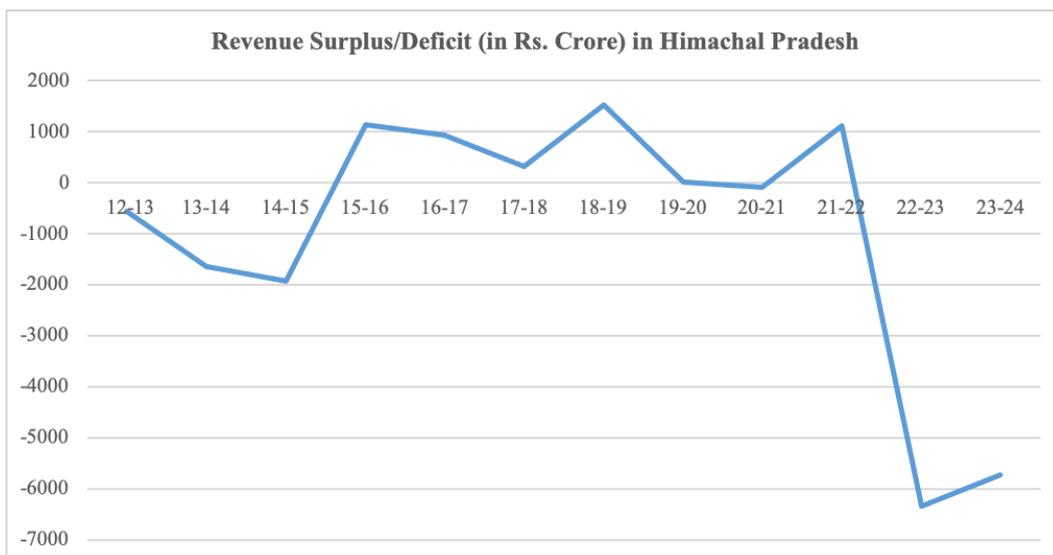


Figure 4.6: Revenue Deficit/Surplus in Himachal Pradesh (2012-2024)
Source: Same as Table 4.2

The ratio of total debt to GSDP overshoot the target in multiple years and a rise from around 37% in 2012- 13 to over 43% in 2023-24 shows how debt level is increasingly causing concerns for the State 56 (Figure 4.7). While the FRBM Act mandated revenue surplus and capped fiscal deficit at 3% of GSDP,

it lacked specific debt level targets after 2015-16, complicating the state's fiscal management (C&AG of India, 2023). During the period 2015-16 to 2023-24, the total outstanding debt/ GSDP ratio was higher than the targets made/set in the MTFPS, whereas during 2021-22 it was within the target set in the MTFPS. Although subsequent amendments in the FRBM Act catered for such deficit targets, the landscape of financial management in Himachal Pradesh remains a critical balancing act.

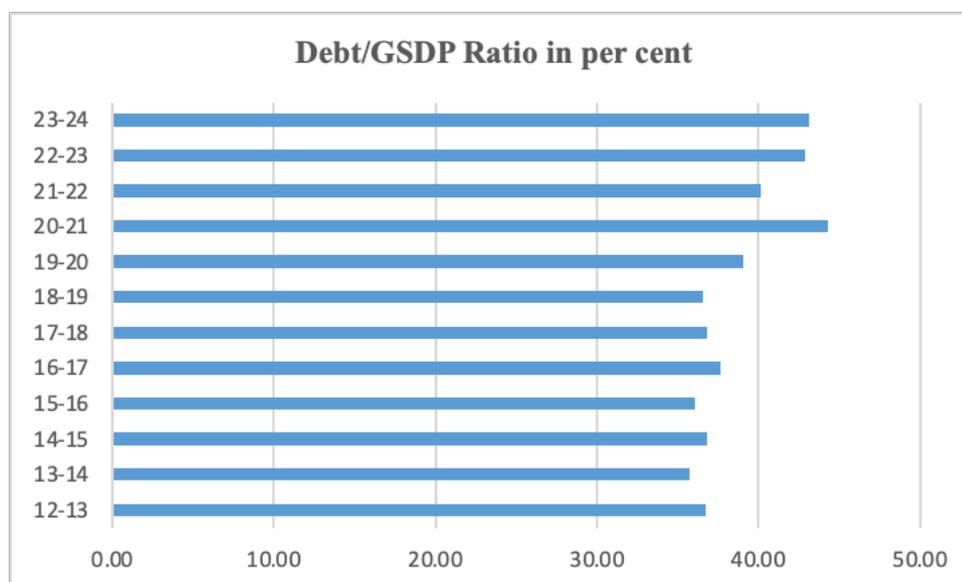


Figure 4.7: Debt to GSDP Ratio in Himachal Pradesh (2012-2024)

The H.P. FRBM Act, 2005 had prescribed to maintain outstanding risk weighted guarantees on long term debt below forty per cent of total revenue receipt in the preceding financial year for which actuals are available as per finance accounts. Risk weighted guarantee has been calculated to be ₹967.45 crores as on 31st March 2023 and the total revenue receipt as per Finance Account of 2021-22 was ₹37309.30 crores. Therefore, the outstanding risk weighted guarantees on long term debt was well within the FRBM prescribed limits.

One aspect requires mention here. The Compensatory Afforestation Fund (CAF) Act, 2016, along with the Rules of 2018, provided detailed guidelines and activities for the proper utilization of funds collected from deforestation for compensatory afforestation. The National Authority allocates the State Compensatory Afforestation Fund Management and Planning Authority (State CAMPA fund) to various States and Union Territories (UTs). These funds are deposited in the Public Accounts of the State (Major Head: 8121 General and Other Reserve Funds and Minor Head: 129 State Compensatory Afforestation Fund (SCAF)) [Finance Accounts, Govt. of Himachal Pradesh, C&AG of India, 2023]. These funds are utilized to compensate for the loss of forest land and ecosystem services by conducting compensatory afforestation, enhancing forest quality through assisted natural regeneration, enriching biodiversity, improving wildlife habitats, controlling forest fires, and undertaking forest protection and soil-water conservation measures. In 2019-20, the State received a one-time infusion of ₹1,660.72 crores

which increased the liabilities of the State under the Public Accounts (MoEFCC, Govt. of India, 2023)¹³. During 2022-23, the State Government paid interest of ₹53.87 crores due for the year 2022-23 to the Fund. Further, the interest of ₹1.71 crores on unspent money lying with Ad hoc CAMPA was also credited to the Fund. The total balance in the State Compensatory Afforestation Fund as on 31st March 2023 was ₹1,566.68 crores (Finance Accounts, Govt. of Himachal Pradesh, C&AG of India, 2023)¹⁴.

Article 293 (3) of the Indian Constitution states that a State cannot take out a loan without the consent of the Government of India (GoI) if any part of a loan previously extended to the State by the GoI remains unpaid. In March 2023, the Department of Expenditure, Ministry of Finance, GoI, set the net borrowing limit for the State Government at ₹ 14,251 crore for the financial year 2022-23. The State Government was instructed to keep its incremental borrowings from all sources within this limit. This borrowing ceiling of ₹ 14,251 crore included an additional allowance of ₹ 251 crore (or 0.15 percent of the projected GSDP) granted for the State Government's performance in the power sector. The incremental borrowings and liabilities of the State Government amounted to ₹ 13,055 crore during the financial year 2022-23, remaining well within the borrowing limit of ₹ 14,251 crore. However, this figure was significantly above the borrowing target set by the 15th FC (C&AG of India, 2024)¹⁵.

To mitigate the pressure of debt, the central government provided additional borrowing space, contingent upon specific reforms. One such required reform is power sector reforms. The Fifteenth Finance Commission (XV-FC) had proposed an additional borrowing capacity of 0.50 percent of Gross State Domestic Product (GSDP) for States, dependent on their performances of the States in the power sector. This borrowing is in addition to the normal net borrowing limits. The aim of this extra borrowing capability is to enhance the operational and economic efficiency of the power sector and to encourage a sustained increase in electricity consumption. For the financial year 2024-25 too, states can also avail themselves of an additional borrowing of 0.5% of GSDP (approximately ₹1,56,619 crores), based on their performance in the power sector, following the guidelines issued by the Department of Expenditure on June 9, 2021 (Ministry of Finance, 2024)¹⁶. The state of Himachal Pradesh too, was offered a conditional borrowing limit of 0.5% of GSDP for four years (2020-21 to 2024-25), tied to power sector reforms (Ministry of Finance, GoI 2023). State governments have been granted additional borrowing capacity equivalent to their estimated combined contribution (state and employee shares) to the National Pension System (NPS) for the financial year 2023-24, provided these contributions are deposited with the designated authority as per NPS guidelines (Ministry of Finance, GoI, 2023)¹⁷. However, since the

¹³ <https://pib.gov.in/PressReleasePage.aspx?PRID=1906384> accessed 13 January 2025.

¹⁴ https://cag.gov.in/uploads/state_accounts_report/account-report-Finance-2022-23-Vol-II-HP-English-04-12-2023-065925121df5a54-05734212.pdf (Page 211, Vol-I, Finance Accounts, Himachal Pradesh, C&AG of India, 2023). Accessed on 13 January 2025. 58

¹⁵ C&AG of India, 2024. State Finance Audit Report of the year 2022-23 of the Govt. of Himachal Pradesh.

¹⁶ <https://pib.gov.in/PressReleasePage.aspx?PRID=2088438> accessed 14 January 2025.

¹⁷ <https://sansad.in/getFile/loksabhaquestions/annex/1712/AS50.pdf?source=pqals> accessed on 15 January 2025.

State of Himachal Pradesh switched over to the OPS in 2022-23, it would not be eligible for the same.

4.4 Debt Sustainability Indicators

An analysis of the Debt Sustainability Indicators has been done for the last five years following the similar set of indicators as listed in the Debt Management Manual of 2022 (Vol-I). Following are the set of indicators and their interpretation:

Table 4.3: Debt Sustainability Indicators

Sl. No.	Indicators	Desirable indicator for sustainability	Interpretation
1	Rate of growth of public debt(D) and rate of growth of nominal GSDP (Y)	$D < Y$	Assess sustainability in aggregate terms and test the essential condition that growth of income must exceed the growth of debt and rate of interest
2	Real rate of interest (r) and real output growth(g)	$r < g$	
3	Primary Balance (PB)	PB should be in surplus. In case of deficit, it should not be rising faster than GSDP	Assess sustainability from the revenue account. Primary deficit must be declining, and sufficient surplus must be generated to repay the debt stock. There should be positive primary revenue deficit
4	Revenue Balance (RB)	RB should be in surplus and adequate to meet the IP	
5	Revenue receipts(RR) as per cent to GSDP (RR/GSDP)	RR/GSDP should increase over time	Increase in revenue receipts along with GSDP will increase debt servicing capability of State and reduce debt burden
6	Public debt to revenue receipts (D/RR)	D/RR should decline over time	Either through increase in revenue receipts or decrease in total outstanding debt, debt burden shall decrease
7	Interest payments (IP) as a per cent to GSDP (IP/GSDP)	IP/GSDP should decline over time	This indicator reflects the decreasing cost of debt as compared to GSDP over a period of time.
8	(IP/RR)	IP/RR should decline over time	Interest payment versus revenue receipts indicates the increase in revenue capacity of State to meet the cost of borrowing
9	Ratio of debt redemption (principal and interest (REP)) to Gross Borrowing (GB) (REP/GB)	REP/GB should be falling over time	High ratio of debt redemption is indicative of a smaller proportion of borrowed funds available for

10	Net borrowing (NB) as a ratio of total gross borrowing (NB/GB)	NB/GB should be declining	productive uses.
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N.B. Real rate of interest = Effective interest rate adjusted to inflation, Primary Balance = Revenue Balance – interest payments. The calculation has used data from the SFAR, RBI Report on State Finances and MoSPI to reach at the numbers. Therefore, the figures may not match always to a single source.

Table Source: Finance Department, Govt. of Himachal Pradesh (2022). Debt Management Manual (Volume-I), 2022.

The result of the Debt Sustainability Analysis is given below in Table 4.4:

Table 4.4: Debt Sustainability Indicators from 2018-19 to 2022-23

Years	18-19	19-20	20-21	21-22	22-23	Comment
Rate of growth of public debt(D)	6.41	14.57	7.96	2.91	18.89	Growth of income must exceed the growth of debt and rate of interest. Condition not fulfilled in two/three of the last five years. The latter is also in line with the Domar Model, which states that the necessary premise for ensuring stability of public indebtedness is that the interest rates for government loans should not exceed the growth rate of GDP.
Rate of growth of nominal GSDP (Y)	7.10	7.27	-4.75	13.56	11.36	
Whether D<Y	Yes	No	No	Yes	No	
Real rate of interest (r)	9.62	1.82	2.61	1.19	2.78	
Real output growth(g)	6.41	4.10	-3.00	7.55	6.44	
Whether r<g	No	Yes	No	Yes	Yes	
Primary Balance (PB)	-2,514.00	-4,222.00	-4,569.00	-3,526.00	-11,165.00	Primary deficit must be declining, and sufficient surplus must be generated to repay the debt stock. There should be positive primary revenue deficit Except in 2021-22, these conditions were not satisfied.
Revenue Balance (RB)	1,508	12	-97	1,115	-6336	
Revenue receipts(RR) as per cent to GSDP (RR/GSDP)	20.86	19.31	22.06	21.67	19.87	Increase in revenue receipts along with GSDP will increase debt servicing capability of State and reduce debt burden. The ratio has declined in recent years.
Public debt to revenue receipts (D/RR)	1.75	2.02	2.01	1.85	2.16	Debt burden shall decrease. The same has increased in 2022-23.
Interest payments (IP) as a per cent to GSDP	2.71	2.66	2.95	2.70	2.52	It reflects decreasing cost of debt as compared to GSDP over a period of time. This looks little better in recent years.
IP/RR	13.00	13.77	13.37	12.44	12.68	Interest payment versus revenue receipts indicates the increase in revenue capacity of State to meet the cost of borrowing. This looks little better in recent years.
Ratio of debt redemption (principal and interest (REP)) to	1.35	1.01	1.04	1.36	0.67	High ratio of debt redemption is indicative of a smaller proportion of borrowed funds

Gross Borrowing (GB)						available for productive uses. No conclusive evidence.
Net borrowing (NB) as a ratio of total gross borrowing (GB)	0.55	0.52	0.38	0.79	0.55	

Going by the above analysis, it is seen that the Debt Sustainability Indicators are giving a mixed signal in recent years. Despite this, the maturity profile of the debt, as highlighted in the Table 4.5 below, should be of immediate concern of the State.

Table 4.5: Maturity Profile of Public debt of the State

Period of repayment (Years)	Amount (in ₹crores)			Percentage (w.r.t. Total Public Debt)
	Public Debt (Principal)	Interest #	Total Public Debt (Principal + Interest)	
0-1	3,480.83	4,340.13	7,820.96	8.75
1-3	8,239.62	7,848.19	16,087.81	18.01
3-5	9,071.31	6,535.89	15,607.20	17.47
5-7	8,988.85	5,157.26	14,146.11	15.83
7-10	14,031.17	5,085.95	19,117.12	21.40
Above 10	13,071.00	3,497.00	16,568.00	18.54
Total	56,882.78*	32,464.42	89,347.20	

Source: SFAR, C&AG of India, 2024.

A large portion of the debt, around 45% of the outstanding debt is becoming payable in the next five years. This would prove to be a huge burden on the State exchequer especially when the State does not have a Revenue Surplus and has a disproportionate Fiscal Deficit.

4.5 Amendments in FRBM Act of 2005

The fiscal deficit target got breached the level of 3 per cent of the estimated Gross State Domestic Product starting from the financial year 2019-20. This necessitated an amendment of the Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005 suitably. Accordingly, the Himachal Pradesh Fiscal Responsibility and Budget Management (Amendment) Act, 2021 and 2022 provided that the fiscal deficit may exceed the level of 3 percent but shall not exceed 5 percent of the estimated Gross State Domestic

Product in the Financial Years 2012-13, 2013-14, 2014-15, 2019-20 and shall not exceed 4 percent of the estimated Gross State Domestic Product in the Financial Year 2020- 21 (Government of Himachal Pradesh 2021 and 2022).

A more comprehensive amendment was brought in the year 2023, providing that fiscal deficit of 6 percent or less of Gross State Domestic Product may be allowed in the Financial Year 2022-23, 3.5 percent or less of Gross State Domestic Product in the Financial Years 2023-24 and 2024-25 and at the level of 3 percent or less of Gross State Domestic Product thereafter. Further, it provided that interest free loan for a term of fifty years under the “Scheme for Special Assistance to States for Capital Expenditure” of the Central Government for financing infrastructure projects of the State, shall be

allowed over and above all limits specified for fiscal deficit debt stock, and fiscal deficit may exceed the prescribed limit if any unutilized borrowing of previous financial year is carried forward to subsequent financial year(s).

The Amendment Act in 2023 further provided concession for circumstances like unforeseen demands on the finances of the State Government due to reasons of national security or natural calamity declared by the Central Government or the State Government, as the case may be; or due to increase in developmental and other unavoidable expenditure; or when increased borrowing limit, if any, is allowed by the Central Government from time to time (Government of Himachal Pradesh 2023). Therefore, the State of Himachal Pradesh has been adjusting to the fiscal pressures by amendment of the FRBM Act in recent times.

4.6 Analysis of Medium-Term Fiscal Plan (MTFP) and Forecasting

As per the HP FRBM Act, 2005 the State Government is required to lay before the Vidhan Sabha, every financial year, the Medium-Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement along with the budget. The Medium-Term Fiscal Policy Statement (MTFPS) and the Fiscal Policy Strategy Statement sets forth the fiscal objectives, strategic priorities of the State Government and a three- year rolling target for fiscal management. A Medium-Term Fiscal Plan (MTFP) is being prepared by the Department of Finance every year since 2006. However, the state government does not prepare Department- wise targets and achievements in respect of MTFP; it only does so for the state as whole. The MTFP Statement is being brought out by the State from along-with the budget document every year.

Assumptions for Forecast of Receipt, Expenditure and Debt Scenario in the State

Forecasting the future revenue, expenditure, debt and interest rate scenario is a challenging task. Available approaches are diverse and context-specific, depending on the each State's economic structure, data availability, and larger national or global context. However, several modelling techniques are frequently used and adapted by multinational organisations and national government. For example, World Bank Policy Research Working Paper (Kraay & Monokroussos, 1999) compared two growth forecasting models, i.e. **Univariate Time Series Model** (uses a simple autoregressive process around a linear trend for each country's real per capita GDP. It allows for a potential structural break in the trend at some point within the sample period) and **Cross-Country Growth Regression** (employs a dynamic panel regression of real per capita GDP on its own lagged value, along with proxies for the neoclassical growth model's steady state (investment, population growth, trade openness, inflation, black market premium)¹⁸.

Several other models are also in use, shown below:

¹⁸ Kraay, A., & Monokroussos, G. (1999). *Growth Forecasts Using Time Series and Growth Models*. Policy Research Working Paper No. WPS 2224. World Bank, Washington, DC.

1. Debt Sustainability Analysis (DSA): This is a framework, not a single model. DSAs combine several quantitative and qualitative analyses to assess a country's ability to service its debt over the medium to long term. Key components involve **macroeconomic projections**, i.e. forecasts of key economic variables like GDP growth, inflation, and exchange rates etc. **An analysis of DSA has been done in Table 4.4 above.** These projections often use a combination of time series models, structural models (often incorporating behavioural equations and equilibrium conditions), and judgmental adjustments based on expert knowledge.

2. Time Series Models: Autoregressive Integrated Moving Average (ARIMA), Vector **Autoregressive** Models (VAR), and other time series techniques are frequently used for forecasting macroeconomic variables that feed into DSA. These models analyse historical patterns to predict future values. **In the following section, we have simple linear forecast to estimate revenue, expenditure and debt levels, which is only a crude approximation as they not consider all other interrelated variables in the model.**

3. Structural Models: These models attempt to capture the underlying economic relationships between debt, growth, and other variables. They are generally more complex than simple time series models but can provide a better understanding of the factors driving debt trends. These often involve equilibrium conditions, behavioural equations, and sometimes calibration to macroeconomic data. Data for all these variables are not available to perform such an analysis at the State level.

4. Bayesian Approaches: Bayesian methods have become increasingly popular in forecasting, allowing for the incorporation of prior knowledge and expert judgment into the model's predictions, which is valuable in situations where data may be scarce or uncertain.

5. Machine Learning Techniques: While not yet the primary tool, organizations like the World Bank and IMF are exploring the use of machine learning (ML) techniques for forecasting macroeconomic variables and debt, particularly when dealing with high-dimensional data or complex interactions. However, the "black box" nature of some ML models can be a limitation.

Important Considerations in the forecasting:

- The accuracy of any forecasting model is highly sensitive to the quality of the input data.
- Forecasting is inherently uncertain. It often present a range of forecasts reflecting uncertainty around key assumptions.
- There is no one-size-fits-all model. The choice of model and the interpretation of results depend heavily on the specific economic context and the policy questions being addressed.

The MTFPS document of 2024-25 of Himachal Pradesh has also considered several variables to arrive at a forecast of revenue, expenditure and debt levels. Followings are some of the assumptions:

A. Assumptions relating to Revenue Receipt

1. It is expected that nominal GSDP will grow at the rate of 9.5% in 2024-25 and thereafter.
2. Each Component of Tax and Non-Tax Revenue has been assessed separately and assumed to grow on a realistic basis.

B. Assumptions relating to Capital Receipt

- All loans are raised within prescribed borrowing limits from authorized sources approved by the Government of India.
- Recovery of Loans: Recovery is being done regularly.

B. Assumptions relating to Expenditure, Interest and Subsidies

1. Salary has been assumed/calculated based on likely DA instalments. Wages are assumed to grow on an actual basis.
2. Pension is assumed/calculated based on the number of retirees each year, retirement benefits, and future increases.
3. Interest payments have been calculated based on actual outstanding loans and expected future loan liabilities.
4. State Government subsidy flows mainly to domestic consumers under the category of Energy Sector, Farm, Transport, and Food Subsidies. Growth of 5% has been assumed each year.

Based on the above assumptions, following forecasts have been made by the State:

Fiscal Indicators	Current Year Revised Estimates 2023-24	Ensuing Year Budget Estimates 2024-25	Target Y+1 2025-26	Target Y+2 2026-27
1. Revenue Receipts	40446.31	42153.08	43299.51	53838.49
2. Revenue Expenditure	45926.23	46666.63	50126.96	53838.49
3. Revenue Deficit/ Surplus as percentage of Gross State Domestic Product	-2.64	-1.99	-2.75	0.00
4. Fiscal deficit as percentage of Gross State Domestic Product	-5.93	-4.75	-5.50	-2.75
5. Tax revenue as percentage of Gross State Domestic Product	10.58	11.11	11.41	11.73
6. Total outstanding Debt as percentage of Gross State Domestic Product	42.32	42.52	41.83	41.20
7. Total outstanding Guarantees as percentage of Revenue Receipts	4.77	4.67	Likely to be within FRBM limits	
8. Gross State Domestic Product (in Crore)	2,07,430	2,27,136	2,48,714	2,72,342

Revenue Expenditure (₹ in Crore)

Item	2023-24	2024-25	2025-26	2026-27
Revenue Expenditure	45926.23	46666.63	50126.96	53838.49
Centrally Sponsored Schemes	4381.55	3878.27	4266.10	4692.71

Revenue Expenditure Details (₹ in Crore)

Item	2023-24	2024-25	2025-26	2026-27
Salary	13542.71	14687.51	15862.51	17131.52
Pension	9062.49	9961.10	10857.60	11834.78
Interest Payment	5658.26	6255.34	6755.34	7275.34
Social Security Pension	1276.68	1438.48	1611.10	1804.43

Subsidy	1964.39	1188.62	1248.05	1310.45
Grants-in-Aid General (Salary)	2260.78	2280.90	2394.95	2514.69
Grants-in-Aid General (Non-Salary)	2744.54	3001.10	3151.15	3308.71
Grants-in-Aid for Capital Assets	1173.79	798.54	838.47	880.39
Others	8242.59	7055.03	7407.78	7778.17
Total	45926.23	46666.63	50126.96	53838.49

A linear forecast model taking into consideration relevant time series data from FY 2012-13 to 2022-23, produced the following results (all figures in crores):

Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Revenue Receipts (RR)	41428.02	43993.08	46108.69	47954.88	50253.57	52718.47
Own Tax Revenue (OTR)	10394.91	10898.11	11386.63	11931.26	12555.54	13202.34
Non-Tax Revenue (NTR)	2937.20	3012.44	3126.37	3284.74	3386.00	3416.77
Revenue Expenditure	42693.98	45550.74	48278.21	51034.92	53834.69	56804.15
Salary Expenditure	14558.95	15411.85	16226.94	17103.32	17802.37	18588.68
Pension Payment	8158.41	8861.05	9549.57	10174.80	10883.37	11569.55
Interest payments (IP)	5215.93	5480.07	5711.28	5949.96	6191.63	6416.92
Net borrowing (NB)	8266.22	9106.77	10208.51	11477.61	12399.45	13333.63
Capital Outlay	6753.76	7297.57	7753.97	8225.36	8672.53	9139.96
Outstanding Public Debt	81667.74	87089.66	92502.62	98000.06	103244.43	108726.81
GSDP	195358.98	205093.27	215051.93	224743.12	234362.60	244145.92

Source: Calculated from figures available for the period between 2012-13 and 2022-23

Given the constraint to account for all the variables in the analysis, such forecast is only a rough estimation of the future probable scenarios.

Table 4.6 depicts the fiscal scenario of the State as per the most recent MTFPS.

Table 4.6: Fiscal Indicators (Revised Estimates) as per the MTFPS

Fiscal Indicator	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Receipts	32329.67	35588.36	37312.35	38945.13	40446.31
Revenue Expenditure	36336.63	36010.95	37034.24	45115.47	45926.23
Revenue Deficit/Surplus as percentage of Revenue Receipts	-12.39	-1.19	0.75	-15.84	-2.64
Fiscal deficit as percentage of Gross State Domestic Product	-6.42	-4.12	-4.05	-6.39	-5.93
Tax revenue as percentage of Gross State Domestic Product	4.83	5.06	5.58	5.56	10.58
Total outstanding Debt as percentage of Gross State Domestic Product	33.68	39.33	39.66	38.6	42.32
Total outstanding Guarantees as percentage of Revenue Receipts	5.01	6.07	6.97	5.64	4.77
Gross State Domestic Product	165472	156522	175173	1,95,404	207430

Source: MTFPS of the State of different years

As per the MTFPS documents, four out of the last five years have seen Revenue Deficit, while all the last five years have seen higher than 3% Fiscal Deficit. Similarly, Debt as a proportion to the GSDP has increased by around 10% during the last five years, causing concern for the States as it has reduced scope for less capital and developmental expenditure to fund the increasing Revenue Expenditure. However, the Risk weighted Guarantee position in all the years has been within limits as per the MTFPS. In addition, the additional pay and pension liability in recent times, would be causing strain on the State Exchequer in recent future. In the recent MTFPS (2024-25), the State has raised the following concerns in meeting its fiscal prospects:

- Flood and landslides in recent times has impacted the State revenue severely.
- Committed liabilities like salary and pension are increasing every year. It also identifies that payment of additional pay/pension on account of revision would add to the burden substantially.
- As compensation on account of GST shortfall has been discontinued since 01.07.2022, State's revenue has been largely affected. Tapering Revenue Deficit Grant would further exacerbate the situation.

While the State Government is focusing on increasing its Tax-revenue in recent times, the State needs to look for additional resources and Central support to meet a sustainable debt level.

4.7 Analysis of Guarantees given by the State

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The status of Guarantees given by the State Government in the last 12 years are highlighted below (Table 4.7):

Table 4.7: Guarantees Given by the Govt of Himachal Pradesh (in ₹ crore)

Guarantees	Outstanding number of guarantees	Percentage of outstanding amount of guarantees to total revenue receipts in the preceding FY
2012-13	3353	23
2013-14	4333	28
2014-15	4281	27
2015-16	3714	21
2016-17	4550	19
2017-18	4394	17
2018-19	4309	16
2019-20	1947	6
2020-21	2142	7
2021-22	1885	6
2022-23	1781	5

Source: C&AG of India, SFAR, (2024, 2021 and 2017)

The State has reduced the guarantees given to the State Public Sector Enterprises (SPSEs) in recent years. The trend during the last ten years has been positive. However, the status of Risk-weighted Guarantees, which is an indicator as per the HP FRBM Act, 2005, has been slightly increasing (Table 4.8).

Table 4.8: Risk-weighted Guarantees given to Different SPSEs in the State

Sl. No.	SPSEs	2018-19	2019-20	2020-21	2021-22	2022-23
1	Himachal Pradesh State Electricity Board	400	562.05	624.95	634.25	509.71
2	Himachal Road Transport Corporation	187.29	146.15	102.56	78.01	210.89
3	Handlooms and Handicrafts Corporation	0.45	0.45	-	0	0
4	Minorities Financial Development Corporation	10.87	9.26	5.65	35.6	41.95
5	Himachal Pradesh State Co-operative Milk Producer's Federation Limited (Milkfed)	3.75	4.36	3.03	1.64	0
6	Himachal Pradesh Khadi & Village Industry Board	3.55	3.52	3.5	3.38	3.3.
7	Himachal Pradesh Agro Industries	0.3	3.36	-	-	-
8	Scheduled Caste/Scheduled Tribe Corporation	17.9	2.04	5.25	0.81	1.23
9	Himachal Pradesh Financial Corporation	4.35	6.07	-	0	0
10	Backward Classes Financial Development Corporation	6.72	0	5.37	5.2	5.27

11	Himachal Pradesh Infrastructure Development Board	-	7.05	-	0	0
12	Himachal Pradesh Horticulture Produce Marketing & Processing Corporation Ltd.	4.5	0.6	0.6	-	0.6
13	Cooperation Department	206.33	190.6	-	192.86	194.48
14	H. P. Power Corporation	-	0	-	0	0
15	H.P. Housing and Urban Development Authority	-	0	-	0	0
16	H.P. State Forest Development Corporation	-	-	7.05	0	0
Grand Total		846.01	935.51	947.42	952.35	967.45

Source: FRBM Documents of the Government of Himachal Pradesh from 2020 to 2024.

The Risk-weighted guarantees are well within the FRBM limits. State has recently taken initiatives to discourage guarantees obtained by the SPSEs. In an order dated 3rd June 2021, Finance Department in the State had brought in stringent rules for charging of Guarantee Fee and Commitment Charges. The copy of the order is placed at Annexure VI.

4.8 Suggestions for Implementation of the Monitoring Framework under the FRBM Act

Section 7(3) of the FRBM (Amendment) Act, 2011 provided that “an independent mechanism shall be set up by the State Government to review and monitor the fiscal reform path set out under this Act”. Further, Rule 7(4) of the Himachal Pradesh Fiscal Responsibility and Budget Management (Amendment) Rules, 2012, provided that in order to review and monitor the fiscal reform path as indicated in the Act, the State Government shall constitute a committee for evolving an independent mechanism. However, absence of such independent mechanism is reflected in the overshooting of FRBM targets by the State on several occasions, without statutory provisions¹⁹. While the state needs to adopt measures to enhance revenue generation, rationalize expenditure, and prioritize investments that yield long-term returns to ensure sustainable fiscal health, operationalisation of an independent oversight mechanism would also be of utmost importance for keeping the fiscal health monitored.

¹⁹ In many cases, such revisions are carried out post-facto, through FRBM (Amendment) Acts.

Chapter 5 Performances of State Public Enterprises and Power Sector

5.1 Recent Performances of the State Public Sector Enterprises (SPSEs) in the State

As of 2024, the public sector in Himachal Pradesh comprised 29 companies, of which 4 were power sector companies. Of the 25 other sector PSEs, there are 19 government companies, two Statutory corporations, and four Government Controlled Other Companies. Of the four SPSEs functioning in the Power Sector, three are Government Companies and the one is a Government Controlled Other Company. One of the SPSEs, Himachal Pradesh State Electricity Board Limited, was a debt-listed Government Company on the stock exchange. Another SPSE, Beas Valley Power Corporation Limited, had not yet started its commercial operations as of 31 March 2023 (SFAR, 2024)²⁰. List of sector and Administrative Department- wise SPSEs are provided in Table 5.1 below.

Table 5.1 Statement showing the name of all SPSEs, month and year of incorporation as on 31 March 2022

Sl. No.	Sector & Name of the SPSE	Name of Administrative department	Month and Year of Incorporation
State Public Sector Enterprises (Other than Power Sector)			
Agriculture and Allied			
1	Himachal Pradesh Agro Industries Corporation Limited	Horticulture	Sep-70
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	Horticulture	Jun-74
3	Himachal Pradesh State Forest Development Corporation Limited	Forest	Mar-74
Finance			
4	Himachal Backward Classes Finance and Development Corporation	Social Justice & Empowerment	Jan-94
5	Himachal Pradesh Mahila Vikas Nigam	Social Justice & Empowerment	Apr-89
6	Himachal Pradesh Minorities Finance and Development Corporation	Social Justice & Empowerment	Sep-96
Infrastructure			
7	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	Public Works	Jun-99
8	Dharamshala Smart City Limited	Urban Development	Jul-16
9	Shimla Smart City Limited	Urban Development	Jan-18
10	Himachal Pradesh State Industrial Development Corporation Limited	Industries	Nov-66
Manufacturing			
11	Himachal Pradesh General Industries Corporation Limited	Industries	Nov-72
Services			
12	Himachal Pradesh State Civil Supplies Corporation Limited	Food & Civil Supplies	Sep-80

²⁰ The turnover for the year 2022-23 is still zero.

13	Himachal Pradesh State Electronics Development Corporation Limited	Information Technology	Oct-84
14	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	Industries	Mar-74
15	Himachal Pradesh Tourism Development Corporation	Tourism & Civil Aviation	Sep-72
16	Himachal Consultancy Organisation Limited		Feb-77
17	Himachal Pradesh Kaushal Vikas Nigam	Technical Education	Sep-15
18	Shimla Jal Prabandhan Nigam Limited	Urban Development	Jun-18
19	Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Corporation Limited	Tourism & Civil Aviation	Apr-19
20	Ropeway and Rapid Transport System Development Corporation HP Limited	Transport	Jul-19
Statutory Corporations			
21	Himachal Pradesh Financial Corporation	Industries	Apr-67
22	Himachal Road Transport Corporation	Transport	Sep-74
Inactive SPSEs			
23	Agro Industrial Packaging India Limited	Horticulture	Feb-87
24	Himachal Worsteds Mills Limited	Industries	Oct-74
25	Himachal Pradesh Beverages Limited	Excise and Taxation	Apr-16
State Public Sector Enterprises (Power Sector)			
26	Himachal Pradesh State Electricity Board Limited	MPP and Power	Dec-09
27	Himachal Pradesh Power Corporation Limited	MPP and Power	Dec-06
28	Beas Valley Power Corporation Limited	MPP and Power	Mar-03
29	Himachal Pradesh Power Transmission Corporation Limited	MPP and Power	Aug-08

Source: State Finance Audit Report of the C&AG of India. 2023

At the end of fiscal year 2022-23, the 27 active state public sector enterprises (SPSEs) had a total paid-up capital of ₹5,242.51 crore, with the state government holding ₹3,881.93 crore (74.05%). However, twelve of these SPSEs (excluding one inactive and one in liquidation) reported a combined accumulated loss of ₹4,901.51 crore on a state government investment of ₹3,779.16 crore. Seven of these twelve SPSEs had completely eroded their net worth, resulting in a negative net worth of ₹1,867.35 crore against a state government equity investment of ₹2,066.95 crore. Furthermore, two of these seven SPSEs with eroded capital had outstanding government loans totaling ₹3,072.19 crore as of March 31, 2023 (SFAR, 2024).

Total paid up capital of 27 working SPSEs was ₹ 5,242.51 crore at the end of 2022-23, with State Government's investment (equity) was ₹ 3,881.93 crore (74.05 per cent). Himachal Pradesh's SPSEs continue to face financial challenges, with cumulative losses totalling ₹5,143.5 crore as of March 31, 2023¹¹.

A gist of the loss-making SPSEs (as of 31st March 2023) is given below in Table 5.2. Net worth eroded by seven companies stood at ₹-1,867.35 crores, while State Government loan in these companies was ₹ 3072.19 crore. Most notable among them is the Himachal Pradesh State Electricity Board Limited which had a State loan of ₹3012.10 crores. The issues power sector related performance and UDAY-related

loans have been discussed in the section relating to the power sector.

Table 5.2: Companies with Accumulated Losses (In ₹Crore) where erosion of State Government Investment occurred (as on 31 March 2023)

Sr. No.	Name of the SPSEs Working Government Companies	HP State Government investment	Paid-up Capital	Accumulated Profit (+)/ Loss (-)	Net worth	State Govt. loans	Total Govt. loans GOI and State
A.	Working Government Companies						
1	Himachal Pradesh Agro- Industries Corporation Limited	16.89	18.85	-13.48	5.37	11.56	11.96
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	31.2	<u>38.77</u>	-83.87	-45.1	<u>60.09</u>	60.09
3	Himachal Pradesh State Forest Development Corporation Limited	11.71	<u>11.71</u>	-113.04	-101.33	--	--
4	Himachal Pradesh Minorities Finance & Development Corporation	14.84	11.34	-5.72	5.62	--	--
5	Himachal Pradesh State Handicrafts & Handloom Corporation Limited	9.22	<u>9.25</u>	-12.42	-3.17	--	--
6	Himachal Pradesh Tourism Development Corporation	14.3	<u>12.3</u>	-27.27	-14.97	--	--
7	Sri Naina Devi Ji & Sri Anandpur Sahib Ji Ropeway Limited	0.005	1	-0.03	0.97	--	--
Total A		98.165	103.22	-255.83	-152.61	71.65	72.05
B	Statutory Corporations						
1	Himachal Pradesh Financial Corporation	106.59	<u>99.57</u>	-180.97	-81.4	--	--
2	Himachal Road Transport Corporation	1,227.68	<u>1,063.12</u>	-1,707.12	-644	--	--
Total B		1,334.27	1,162.69	-1,888.09	-725.4	--	--
C	Power Sector						
1	Himachal Pradesh State Electricity Board Limited	882.23	<u>832.23</u>	-1,809.61	-977.38	<u>3,012.10</u>	3,029.42
2	Himachal Pradesh Power Transmission Corporation Limited	461.29	561.99	-395.91	166.08	2,101.06	2,101.06
3	Himachal Pradesh Power Corporation Limited	1,003.20	2,187.71	-552.07	1,635.64	2,535.49	2,535.49
	Total C	2,346.72	3,581.93	-2,757.59	824.34	7,648.65	7,665.97
	Grand total of All SPSEs (A+B+C)	3,779.16	4,847.84	-4,901.51	-53.67	7,720.30	7,738.02

Source: State Finance Audit Report of the C&AG of India. 2024.

The details of cumulative profit/loss, investment and number of employees under these SPSEs are given in Annexure VII.

The Himachal Road Transport Corporation (HRTC) had a staggering cumulative loss standing at a staggering ₹1,707.12 crore. It was followed closely by the Himachal Pradesh State Electricity Board with ₹1,809.61 crore in losses. The Power Corporation and Power Transmission Corporation also faced substantial losses of ₹552.07 crore and ₹395.91 crore, respectively. Despite the above financial scenario, some SPSEs managed to remain profitable during recent times, partly offsetting the losses made by the above companies.

The significant losses incurred by these SPSEs have implications beyond their financial viability, affecting the livelihoods of the 32,028 employees working with the undertakings and warrant urgent need for strategic interventions for revitalisation.

5.2 Performances of the Public Sector Enterprises (PSEs) in the State

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Out of 27 working SPSEs, 13 working SPSEs earned profit of ₹ 20.21 crore as per their latest finalised

accounts as on 30 September 2023 as compared to 10 SPSEs which earned profit of ₹ 21.47 crore in 2020-21. Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh General Industries Corporation Limited, and Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, the top three SPSEs earned a profit of ₹ 14.01 crore. These three SPSEs had contributed as much as 69.32 crore *per cent* of the total profit of ₹ 20.21 crore during 2022-23. Net Profit Ratio of the Power and Non-power sector has been calculated by the following formula (Table 5.3):

$$\text{Net Profit Ratio} = (\text{Net Profit} / \text{Turnover}) * 100$$

Table 5.3 Net Profit Ratio of SPSEs in the State as on 31st March 2023

Sector	Net profit	Turnover	Net profit ratio
Power	(-) 461.52	7,335.16	-
Services sector SPSEs	(-) 132.30	2,792.64	-
Other SPSEs	18.53	1,073.27	1.73
Total	-575.29	11,201.07	

Source: State Finance Audit Report of the C&AG of India. 2024.

Negative Net profit indicates that the SPSE are unable to generate enough revenue for their sustenance. A ratio of turnover of SPSEs to the Gross State Domestic Product (GSDP) shows the contribution of activities of these SPSEs in the State economy. The Table 5.4 below provides the details of turnover of all the SPSEs and GSDP of Himachal Pradesh for the period of five years ending 31 March 2023.

Table 5.4: Details of turnover of SPSEs vis-à-vis GSDP of Himachal Pradesh

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Total turnover of all SPSEs	9,725.96	9,912.71	10,059.39	9,632.89	10,657.10
GSDP of Himachal Pradesh (2011-12 Series, in crore)	148383	159164	151601	172162	191728
Percentage of SPSE's Turnover to GSDP of Himachal Pradesh	6.55	6.23	6.64	5.60	5.56

Source: State Finance Audit Report of the C&AG of India (2024) and H.P. Economic Survey 2024.

The percentage of SPSEs' turnover to GSDP decreased from 6.55 per cent in 2018-19 to 5.56 per cent in 2022-23. The major contributors to SPSEs' turnover was from the power sector SPSE, which contributed to around 4 per cent of GSDP (₹ 7,335.16 crore) in 2022-23. Himachal Pradesh State Electricity Board Limited had the highest turnover during recent years.

Ratio of total assets to long-term debt/loans is one of the methods used to determine whether a Company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/debts. A higher ratio generally indicates a stronger financial position. This suggests that the company has sufficient assets to cover its long-term debt obligations. However, an excessively high ratio might mean that the company is not efficiently utilizing its assets. Conversely, a lower ratio indicates that the company may have difficulty meeting its long-term debt obligations. It could suggest that the company is highly leveraged, which can increase its financial risk.

The coverage of long-term loans by value of total assets in working SPSEs which had outstanding loans as per their finalised accounts as on 30 September 2023 is given in the table 5.5 below. The asset scenario is better for the Statutory Corporations²¹ than the Government Companies, meaning that for every Rupee of long-term debt, there is higher value of asset available to the Statutory Corporations than the Government Companies. The overall Asset to Long-term loans ratio is higher than 2 (2.87), posing no imminent risk in the overall SPSE scenario.

Table 5.5: Ratio of Assets to Long -term loans of PSEs in Himachal Pradesh

	No. of SPSEs	Assets	Long -term loans	Ration of Assets to Long-term loans
Sector of SPSEs	(in ₹crore)			
Government Companies	20	3215.76	109.58	29.35
Statutory Corporations	2	923.84	18.02	51.27
Power Sector SPSEs	4	24753.59	9933.62	2.49
Total	26²²	28893.19	10061.22	2.87

Source: State Finance Audit Report of the C&AG of India. 2024.

Interest Coverage Ratio is another important ratio, used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing a company's Earnings before Interest and Taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser will be the ability of the company to pay interest on debt. An interest coverage ratio of less than one indicates that the Company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in Power Sector SPSEs and in Statutory Corporations which had maximum interest burden as per their latest audited financial statements, are given in the Table 5.6 below.

Table 5.6: Interest Coverage Ratio of Selected PSEs in Himachal Pradesh

Name of the SPSEs	Interest cost	EBIT	Interest coverage Ratio
	(In ₹Crore)		
Power Sector SPSFs			
HPSEBL	525.67	421.98	0.80
HPPCL	142.77	(-) 45.27	-0.32
HPPTCL	123.78	(-) 46.01	-0.37
Statutory corporations			
HRTC	5.74	(-) 127.44	-22.20
HPFC	7.25	0.09	-17.58

Source: State Finance Audit Report of the C&AG of India. 2024. Note: Interest coverage ratio of Non-Power Sector and Inactive SPSEs (23) has not been shown as the interest cost of these SPSEs is only 5.65 crores out of total EBIT of 43.49 crores, which comes to around 7.7, as per their finalised accounts of 30 September 2023.

As can be seen from the above table, all the major SPSEs in the State are struggling to meet their interest

²¹ There are only two of them, barring the power sector SPSEs, namely, H.P. Financial Corporations and Himachal Road Transport Corporation (HRTC).

²² Assets and loan of Inactive companies have not been shown here.

expenses as many of them are loss-making. Overall, the three power sector PSEs (as shown in the table above) have a total outstanding interest of ₹3,268.81 crores on the loans taken from the State Government, which erodes their net worth further. A turnaround of this situation would be necessary by adopting reforms in the PSEs by way of staff rationalisation and closure of non-profitable segment of business, for these PSEs to turn profitable. However, in a hilly and mountainous terrain like Himachal Pradesh, importance of HRTC in reaching out to far-flung areas in the State is also to be recognized.

The Return on Capital Employed (RoCE)²³ of all SPSEs increased from 1.56 per cent in 2020-21 to 2.30 per cent in 2022-23 due to changes in Capital Employed and Earnings Before Interest and Taxes (EBIT). The Return on Capital employed in the Power Sector in 2022-23 was 2.99 per cent in comparison to 2.10 per cent in the year 2021-22, which indicates slight improvement in return on capital during. However, ROCE of other SPSEs (other than Service Sector SPSEs) was 11.88 per cent for the year 2022-23 versus 13.26 per cent for the year 2021-22, which changed unfavorably during this period (C&AG of India, 2024).

The Return on Equity (RoE)²⁴ of the profit earning 13 working SPSEs stood at 14.32 per cent as per the finalised accounts as on 30 September 2023. However, since, the net income for all the SPSEs was negative (₹-575.29 crores), the RoE for all SPSEs combined was not calculated. The total Shareholders' Fund has also decreased from ₹819.58 crores in 2020-21 to ₹528.63 crores in 2022-23.

5.3 Application of the State Resources in the PSEs

The Government of Himachal Pradesh provides budgetary support to PSEs in the form of loans, equity, grants, etc. The investment by the State Government in the SPSEs, as on 31 March 2023, in terms of loans and equity holdings is given sector wise in Table 5.7 below.

Table 5.7: Investment Made by the State Govt. on SPSEs

Name of Sector	Investment (₹ in crore)					Percentage of Total Equity and Long-term loans to Total
	Total Equity	State Government Equity	Total Long-Term Loans	State Government Loans	Total Equity and Long-Term Loans	
Power Sector SPSEs	4,073.35	2,346.72	12,524.64	7,648.65	16,597.99	90
Service Sector SPSEs	1,275.20	1,259.00	161.29	0	1,436.49	8
Other SPSEs	292.56	276.21	159.53	74.62	452.09	2
Total	5,641.11	3,881.93	12,845.46	7,723.27	18,486.57	100

Source: State Finance Audit Report of the C&AG of India. 2024.

The thrust of SPSEs investment was mainly on the power sector which had received around 90 per cent (₹

²³ RoCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed [Capital employed = Paid up share capital + Free reserves and surplus + Long term loans – Accumulated losses - Deferred revenue expenditure].

²⁴ Return on equity=(Net profit after tax/shareholders' equity)X100 where shareholders' equity = paid up capital + free reserves – accumulated losses – deferred revenue expenditure.

16,597.99 crores) of total investment of ₹ 18,486.57 crores. Further, during FY 2022-23, investment of ₹118.06 crores was made in the one other than Power Sector SPSEs (HRTC). As per Revised Estimate of 2023-24, ₹65.92 crores was invested again in HRTC and ₹39.49crores has been budgeted to be invested in 2024-25. Equity was mainly infused by the State Government during 2021-22 in one other than Power Sector SPSEs (HRTC: ₹140.8 crores) and two Power Sector PSEs (₹117 crores). In 2022-23 also, the State Govt. infused Equity contribution of ₹27.82 crores in the Himachal Pradesh Power Corporation Limited (HPPCL) and ₹3.95 crores in the Himachal Pradesh Transmission Corporation Limited (HPTCL). The same is to be around ₹49.34 and ₹5.26 crores, respectively, in 2023- 24 (RE) and ₹5 crores in 2024-25 in Himachal Pradesh Power Corporation Limited (HPPCL).

The State Government has also provided loans to one Power Sector PSE (HP Power Transmission Corporation Limited: ₹258.14 crores in 2021-22 and ₹96.46 crores in 202-23). The loan to Himachal Pradesh Power Corporation Limited (HPPCL) in 2023-24 (RE) is to be around ₹42.45 crores. Major portion of grant and subsidy in 2021-22 was provided by the State Govt. to Himachal Pradesh Road Transport Corporation (₹521.69 crores), Himachal Pradesh Road & Other Infrastructure Development Corporation Limited (₹101.00 crores) and Shimla Smart City Limited (₹147.00 crores).

During recent times (till 2023-24), there was no case of disinvestment/ restructuring/ privatisation of any SPSE. The State Government had not prepared any policy on disinvestment of State Government equity invested in the SPSEs.

5.4 Dividend Pay-out by the SPSEs

The State Government had formulated (April 2011) a policy that all profit making SPSEs (except those in welfare and utility sector) should pay a minimum return of five per cent on the paid-up share capital contributed by the State government, subject to a ceiling of 50 per cent of the profit after tax. During 2022-23, as per the latest finalized accounts, 13 State Public Sector Enterprises (SPSEs) reported profits. Among these, only one SPSE, Himachal Pradesh General Industries Corporation Limited, declared a dividend (Table 5.8). Four SPSEs, operating in the welfare and utility sectors, were not required to declare dividends. However, eight SPSEs, with a combined profit of ₹14.88 crore, neither declared nor paid any dividend.

Table 5.8: Profits and Dividend Declared by SPSEs during last Three Years

Year	Particulars	Number of SPSES which declared dividend	Paid up Capital	Net Profit	Dividend declared
2020-21	Power Sector SPSEs	-	-	-	-
	Service Sector SPSEs	1	3.51	1.18	0.35
	Other SPSEs	2	37.98	14.75	1.9
	Total	3	41.49	15.93	2.25
	Power Sector SPSEs	-	-	-	-
	Service Sector SPSEs	1	3.51	1.18	0.35

2021-22	Other SPSEs	1	7.16	3.36	0.36
	Total	2	10.67	4.54	0.71
2022-23	Power Sector SPSEs	-	-	-	-
	Service Sector SPSEs	-	-	-	-
	Other SPSEs	1	7.16	3.44	0.36
	Total	1	7.16	3.44	0.36

Source: State Finance Audit Report of the C&AG of India. 2024.

It is evident from the above table that both the net profit and the dividend payout of the SPSEs have declined over the last three years. Further, as mentioned above many companies are not declaring dividends in recent years. In 2021-22 too, only two SPSEs declared/paid dividend of ₹ 0.71 crore (Himachal Pradesh State Civil Supplies Corporation Limited: ₹ 0.35 crore and Himachal Pradesh General Industries Corporation Limited: ₹ 0.36 crore), while four profit-making SPSEs did not pay/provide dividend of ₹ 2.42 crore to the State Government as per their finalised accounts as of 30 September 2022.

However, the State received a dividend of ₹ 180.90 crore during 2022-23 from all its investments, including other Central Government undertakings, joint ventures, cooperative banks etc., against an investment of ₹5,333.57 crores²⁵. A depiction of the actual (2022-23) and expected (projected from 2023-24 afterwards) Dividend and Profits from the investments of the State is given in Figure 5.1 below.

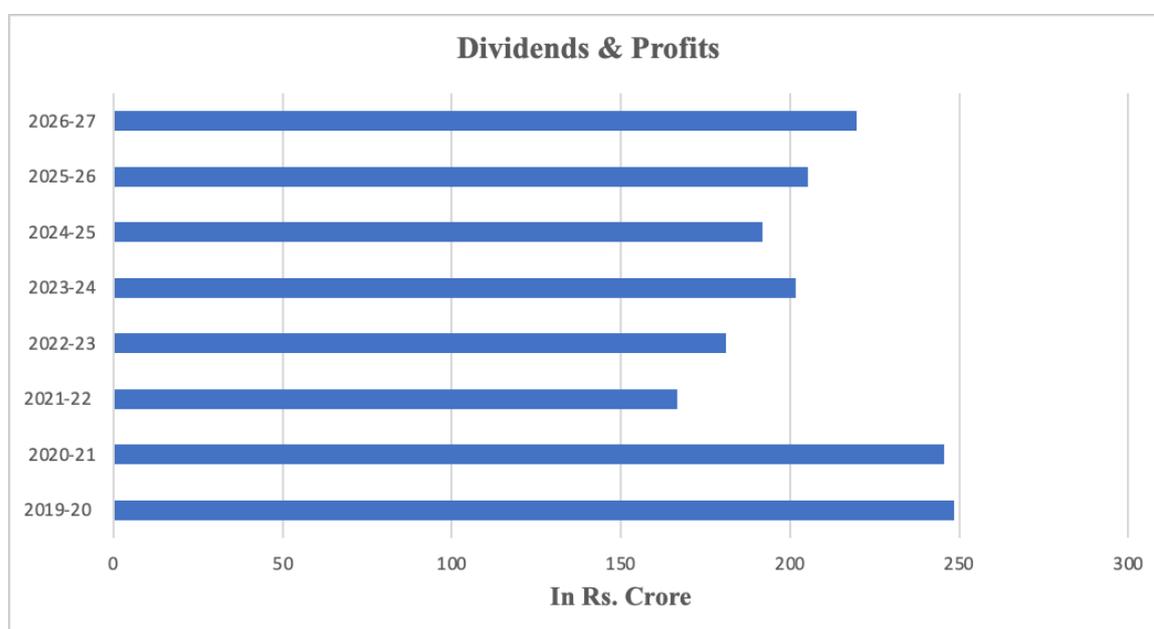


Figure 5.1: Dividend and Profits for the State (in ₹ Crores)

Source: Himachal Pradesh Budget documents (2021-22 to 2024-25) and FRBM Document (2024-25)

As seen from Figure above, the revenue of the State from Dividend and Profit had peaked during the years 2019-20 and 2020-21. The same has reduced in the subsequent years. However, this has been

²⁵ Finance Accounts of the Govt. of Himachal Pradesh (Statement 19). C&AG of India (2023).

projected to be picked up during 2025-26 and 2026-27, as highlighted in the FRBM document of the State of 2024-25.

The following section highlights the status of power sector in the State and the steps taken in this regard during recent times in this sector.

5.5 Policy Landscape for Development of Power Sector in the State

Himachal Pradesh has consistently implemented policies to shape its power sector's development. In 2006, the Hydro Power Policy emphasized hydropower's role in India's energy mix. Subsequently, the 2016 Solar Power Policy recognized solar as a crucial supplement to hydropower, aiming to increase variable renewable energy (VRE) share, empower rural areas with decentralized solar power, and meet renewable purchase obligations (RPOs). The recent Swaran Jayanti Energy Policy (SJEP) 2021 sets a target of adding 10 GW of renewable energy capacity, including 2 GW of solar and biomass, aligning with India's goal of

500 GW from renewable energy generation by 2030. SJEP also empowers power utilities to adopt innovative technologies like hybrid energy, electric vehicles, green hydrogen, and energy storage solutions (World Bank 2023). The Energy Policy of 2021 vowed to promote clean and green energy like Small Hydro Electric Projects, Solar, Biomass, Water Mills, Heat Recovery Projects etc.

Himachal Pradesh has commissioned 10,948 MW of its total 24,567 MW hydropower potential (as in October 2021). Ongoing projects total 2,625 MW, while 9,165 MW await clearances. The remaining 1,023 MW is available for allocation. Beyond hydropower, SJEP 2021 estimates 34 GW solar, 84 MW wind, and 27 MW biomass potential. Pumped storage projects (PSPs) are also planned for energy storage. To diversify its energy portfolio, Himachal Pradesh is exploring solar, wind, biomass, and non-conventional energy sources, including bundling hydropower with solar and wind. As of SJEP 2021, 55.47 MW of solar capacity has been allotted, with 34 MW commissioned and an additional 1,995 MW target by 2030.

Himachal Pradesh's power sector interventions align with India's broader goals of sustainability and net-zero emissions by 2070. Initiatives like the Green Energy Corridor, National Smart Grid Mission, and Revamped Distribution Sector Scheme aim to improve power quality, reliability, and affordability. These interventions focus on the entire power sector - generation, transmission, and distribution - and emphasize demand-side and supply-side measures for better renewable energy integration.

The state plans to invest US\$2.8 billion (around ₹23,410 crores) in its power sector by 2030, with 38per cent allocated to hydropower, 35per cent to solar, 21per cent to distribution, and 6per cent to transmission. Central and private sector entities are also investing, including in large-scale solar projects. Funding for state power utilities primarily comes from government grants, loans from financial

intermediaries, and multilateral/bilateral funding. Power generation in Himachal Pradesh is driven by central, state, joint, and private sector entities, while intra-state transmission and distribution are managed by state-owned entities. Independent Power Producers (IPPs) own about 25 per cent of commissioned generation projects. During 2015-2022, central and joint sector projects contributed 73.5 per cent of new hydro power capacity, followed by state and private sectors.

Himachal Pradesh has taken steps in reducing power losses and expanding electricity access, achieving 100 per cent electrification. The "Power for All" scheme aimed to further enhance power quality and reliability, driving inclusive economic development across all sectors. However, the state's challenging terrain poses challenges for contractors, increasing project costs. While Central Government schemes focus on distribution, funding for generation and transmission remains a hurdle. The long gestation periods of hydropower projects and reliance on hydropower leads to higher tariffs making some of the financially projects unattractive.

Himachal Pradesh State Electricity Board (HPSEB) was constituted in 1971 and entrusted with the responsibility of development, generation, transmission and distribution of electricity. After the Electricity Act, 2003, **Himachal Pradesh Power Corporation Ltd. (HPPCL)** was established as a Generation arm in 2006, **Himachal Pradesh Power Transmission Corporation Ltd. (HPPTCL)** in 2007 as transmission arm and **HPSEB was reorganised as HPSEB Ltd. (HPSEBL)** with prime function of distribution. State Load Dispatch Centre was established in 2002.

5.6 Performance of Power Board and SPSEs in the State

It has been already highlighted in the previous sections that the State is infusing a sizeable resource through investment, loans and grants in the Himachal Pradesh Power Corporation Limited (HPPCL) and Himachal Pradesh Transmission Corporation Limited (HPTCL). Despite the same, the performances of these two SPSEs have been dismal. The following section analyses different aspects of power SPSEs in the State.

Himachal Pradesh State Electricity Board Limited (HPSEBL)

The establishment of the Himachal Pradesh State Electricity Board on September 1st, 1971 was facilitated by the Electricity Supply Act (1948). It underwent restructuring and was officially reconstituted as the Himachal Pradesh State Electricity Board Ltd. (HPSEBL) in accordance with the Company Act 1956. HPSEBL assumes responsibility for providing uninterrupted and high-quality power supply to consumers throughout Himachal Pradesh. Its operations encompass transmission, sub-transmission, and distribution lines within the extensive power distribution network. Since its inception, the Board has made substantial strides in fulfilling its designated objectives, as shown in Table 5.9 below.

Table 5.9: District Wise Generation of Power from HPSEBL's Own Power Houses (in MU)

Name of District	2022-23	2023-24 (Up to Dec., 2023)
1. Bilaspur	-	-
2. Chamba	9.43	4.56
3. Hamirpur	-	-
4. Kangra	145.28	133.80
5. Kinnaur	637.30	495.62
6. Kullu	-	-
7. Lahaul and Spiti	10.68	10.59
8. Mandi	918.19	486.07
9. Shimla	205.31	181.03
10. Sirmaur	231.27	202.19
11. Solan	-	-
12. Una	-	-
Total	2157.46	1513.86

Source: Himachal Pradesh State Electricity Board

Himachal Pradesh holds a substantial share of India's hydroelectric potential, accounting for approximately 25 per cent. Its five perennial river basins offer the potential to generate around 24,000 MW of hydropower. While a portion has been harnessed, reaching 11,209 MW, the state government directly manages only 7.6 per cent of this capacity, with the remainder being controlled by the Central Government.

HPSEBL operates 27 hydroelectric projects (HEPs), totalling 489.35 MW. In 2022-23, these HEPs generated 2,157.46 million units (MU) of energy. As of December 2023, in FY 2023-24, they had produced 1,513.86 MU, with an additional 234.418 MU was expected to be produced by March 2024. Currently under construction is the Uhl Stage-III HEP, a 100 MW project managed by Beas Valley Power Corporation Limited (BVPCL), a subsidiary of HPSEBL. As of March 31, 2023, the transmission division of HPSEBL had established 58 Extra High Voltage (EHV) Substations, boasting a transformation capacity of 5,214.85 Mega Volt Ampere (MVA), along with 3,659.70 Circuit Kilometres (CKM) of EHV lines. Up until December 2023 in the fiscal year 2023-24, one additional EHV substation with a capacity of 10 MVA had been installed, and 3.584 Circuit Kilometres of EHV lines have been put into operation.

The State Government provides subsidy to numerous classes of domestic, agricultural and small business consumers etc. through the HPSEBL. HPSEBL, thus, reduces the effective energy tariff for the consumers after adjusting the subsidies provided by the State. Details of tariffs and subsidies provided by the State through the HPSEBL w.e.f. 01.04.2024 is provided in Annexure-VIII.

An analysis of the Himachal Pradesh State Electricity Board Limited's (HPSEBL) financial condition between 2022-23 and 2023-24 are provided below²⁶:

1. HPSEBL's continued to incur loss in 2024 compared to 2023. The company reported a substantial loss of ₹573.46 crores from operation in 2023-24, decline from a loss of ₹1,316.23 crores in 2022-23. Reduction in loss is a positive sign for the organization.
2. Revenue from operations showed an increase to ₹7,071.40 crores in 2023-24 from ₹6,812.48 crores in 2022-23. While this is a positive sign, decrease in other income during this period is to be noted, which slightly reduced the total revenue during this period.
3. Total expenses in 2023-24 (₹8,125.76 crores) were significantly lower than 2022-23 (₹8,912.04 crores). The largest expense, "Purchase of Power", slightly increased from ₹4,402.14 crores in 2022-23 to ₹4,420.82 crores in 2023-24. Employee benefits expenses decreased substantially during this time.
4. There was slight increase in both current and non-current assets, and a relatively higher increase in current liabilities over the non-current liabilities which got slightly reduced.

The Balance sheet of HPSEBL depicting the Balance Sheet, Profit and Loss Statement and Cash flow statements are provided in the Annexure IX. While the reduction in losses from 2022-23 to 2023-24 is a positive sign, HPSEBL's financial health still presents significant concerns.

Some of the reasons which had contributed to higher expenses in 2022-23, as depicted below, is slowly dissipating as apparent from the financial results of 2023-24, due to slow restructuring being taken up in HPSEBL. The reasons for the increase in the losses during the FY 2022-23 were as under:

1. The employee cost increased by ₹1,282.34 Crores during the FY 2022-23 and the component-wise detail thereof are:

- i. Employees Benefits: The Employee Cost was increased by ₹128.39 Crores due to the revision of 6th Pay Commission.
- ii. Terminal Benefits: The Terminal benefits were increased by ₹457.72 Crores due to the revision of 6th Pay Commission.
- iii. Actuarial Valuation Provision of Leave Encashment (Terminal Benefits): A provision of ₹317.28 Crores was made in compliance with the requirements of Ind AS 19- Employees Benefits.
- iv. Actuarial Valuation Provision of Gratuity (Terminal Benefits): A provision of ₹378.93 Crores was made in compliance with the requirements of Ind AS 19- Employees Benefits.

2. The purchase of power increased during the FY 2022-23.

²⁶ HPSEBL (2024). Financial Statements.

3. The Other Income decreased due to non-funding of losses of FY 2021-22 by GoHP. The subsidiary (BVPCL) and Joint Venture Company (HRL) are under Construction and have not yet commenced any business operation.

Himachal Pradesh Power Corporation Limited (HPPCL)

Established in December 2006 under the Companies Act of 1956, HPPCL is entrusted with the responsibility of strategizing, fostering, and synchronising all facets of hydroelectric power generation. As mentioned before, the State provides loans and makes equity investment in the HPPCL, which has been budgeted to substantially reduce in 2024-25. A pen picture of revenue generation by the HPPCL has been shown in Table 5.10.

Table 5.10: Revenue Generation by Sale of Power by HPPCL (₹in crore)

Sl. No.	Name of Project	Revenue Generation by Sale of Power till 31.03.2023	Revenue Generation by Sale of Power w.e.f. 01.04.2023 to 31.12.2023	Grand Total
1.	Integrated Kashang HEP Stage-1	249.92	47.42	297.34
2.	Sainj HEP	727.98	128.47	856.45
3.	Sawra Kuddu HEP	246.41	80.40	326.81
4.	Berra Dol Solar Project	14.84	2.64	17.48
Total		1239.15	258.93	1498.44

Source: Himachal Pradesh Power Corporation Ltd.

An analysis of Himachal Pradesh Power Corporation Limited's (HPPCL) financial results comparing the periods between 2021-22 and 2022-23 are highlighted below:

1. HPPCL experienced a significant loss in both periods. However, the loss decreased from ₹109.63 crores in 2021-22 to ₹93.30 crores in 2022-23.
2. Total revenue decreased from ₹401.70 crores in 2021-22 to ₹386.95 crores in 2022-23. A decrease in revenue from operations is a major concern and needs investigation.
3. Total expenses also decreased, falling from ₹511.33 crores in 2021-22 to ₹480.25 crores in 2022-23. The largest expense category, employee benefits, decreased by nearly ₹29.98 crores. Other expenses also decreased, indicating potentially decreased operational activities.

HPPCL's financial performance in 2022-23, while showing reduced losses compared to 2021-22, remains concerning. The decrease in revenue from operation is a major area of concern for HPPCL.

Himachal Pradesh Power Transmission Corporation Limited (HPPTCL)

Himachal Pradesh Power Transmission Corporation Limited (HPPTCL) is dedicated to strengthening the state's transmission network and ensuring efficient power evacuation from new power plants. As the State Transmission Utility (STU), HPPTCL collaborates with Central Transmission Utility, Central Electricity Authority, Ministry of Power, Himachal Pradesh Government, and HPSEB Ltd.

With a focus on projects above 66 kV, HPPTCL is responsible for executing new transmission lines and substations, as well as updating the Transmission Master Plan. The Government of India has approved an Asian Development Bank loan to support transmission projects outlined in the Power System Master Plan.

In FY 2023-24, HPPTCL completed and commissioned three projects, totalling ₹148.15 crore and adding 326 MVA transformation capacity. Overall capital expenditure during this period reached ₹97.39 crore. Additionally, seven transmission lines (107 circuit km, ₹92.92 crore) and five EHV substations (531.5 MVA, ₹246.27 crore) are nearing completion and expected to be finished by March 31, 2024.

HPPTCL incurred a loss of ₹ 169.79 crores, as per 2021-22 annual report (latest finalized report as on 30 September 2023). The HPPTCL had a long-term loan of ₹1883.5 crores and equity holding of ₹561.99 crores. With increasing cost of capital, the HPPTCL faces a difficult time and it needs to streamline its operations, inter alia, through staff rationalisation and reduction in transmission losses.

Himurja and Renewable Energy Development in the State

Established in 1989, Himurja was formed to spearhead renewable energy initiatives within the state, receiving financial backing from both the Ministry of New and Renewable Energy (MNRE) and the State Government. The primary programs currently underway in the state include Solar Power Projects, Grid- connected Rooftop Plants, Solar Photovoltaic Off-grid Systems, Solar Thermal Systems, and Small Hydroelectric Projects. Himurja is responsible for allocating projects under 5 MW to private sector players. SJEP 2021 encourages private sector participation in green energy, but challenges like rugged terrain, dispersed land, smaller land parcels, security concerns, and lower tariffs have strained private investments. The state has promoted private sector participation in hydropower through Himurja, which has commissioned 91 projects with an aggregate capacity of 335 MW (World Bank, .

Achievements/Programmes under the Renewable Energy Development Projects:

A. Solar Photovoltaic Programme

(i) Solar Power Projects/Plants

(a) Ground Mounted Solar Power Projects: In Phase-I, provisional registration letters have

been issued to 131 Solar Power Project Developers, totalling 157.95 MW capacity. Among these, 93 applicants have deposited the EMD for 131.40 MW capacity, and Connectivity Agreements have been signed with 65 applicants, represent 80.75 MW capacity. Under Phase-II, 116 applicants have been allocated Solar Power Projects, amounting to 93.46 MW capacity. Of these, 45 applicants have deposited the EMD for 45.07 MW capacity, and Connectivity Agreements have been signed by 8 applicants for 5.05 MW capacity Solar Power Projects. As of December 2023, 1.25 MW capacity Ground Mounted Solar Power Projects have been commissioned, with unit capacities ranging from 250 kilowatts to 500 kilowatts.

(b) Grid-connected Solar Rooftop Power Plants: Grid-connected Solar Power Plants totaling 1.862 MW capacity have been commissioned as of December 2023, with an anticipated achievement of approximately 2.00 MW by March 2024.

(c) Off-grid Solar Power Plants: Solar Power Plants with a capacity of 288.50 kWp have been installed up to December 2023, and an expected cumulative achievement by March 2023 is approximately 400 kWp. During FY 2023-24, 839 Off-grid Solar Power Plants with a capacity of 250 watts each will be provided to BPL families in Tribal areas.

(ii) SPV Street Lighting System: As of December 2023, 20,919 SPV Street Lighting Systems have been installed under various programs, with an anticipated achievement of about 25,000 by March 2024.

(iii) SPV Domestic Light: 1,691 Solar Home Lighting Systems have been provided to SC BPL families in the State up to December 2023, with an anticipated cumulative achievement of about 2,000 by March 2024.

B. Solar Thermal Programme

(i) Solar Water Heating System: Solar Water Heating Systems with a capacity of 1,100 litres per day have been installed as of December 2023, with an anticipated achievement of about 20,000 litres per day by March 2024.

(ii) Solar Cooker: 19 Box type/ Dish type Solar Cookers have been provided up to December 2023, with an anticipated achievement of about 30 by March 2024.

C. Small Hydroelectric Projects Up To 5 Mw Capacities

During FY 2023-24, 2 Hydro Electric Projects with a combined capacity of 5.90 MW have been commissioned as of December 2023.

Source: Himachal Pradesh Economic Survey, 2023-24

Few recent Hydel Power projects commissioned during recent times are provided in table below:

Hydel Power Projects Commissioned in 2023-24 (up to July 2024)

Sl. No.	Project Name	Capacity in MW	District	Executing Agency	Commercial Operation Date (COD)
1.	Soldan	7.00	Kinnaur	Solding Hydrowatt Private Ltd.	17.01.2024
2.	Holi-2	7.00	Chamba	Om Energy Generation Pvt. Ltd.	Unit-II 23.01.2024 Unit-I 27.03.2024
3.	Lambadug	25.00	Kangra	KU Hydro Power Private Limited	Unit-I, II & III 24.02.2024
4.	Phindri	1.20	Kullu	Himalayan Hydro Project	03.04.2023
5.	Sethu	1.00	Kangra	New Dhauladhar Techno Power (P) Ltd.	24.06.2023
6.	Thuchaning	1.50	Kullu	Himalaya Hydel Energy (P) Ltd.	26.06.2024

5.7 Revamped Distribution Sector Scheme

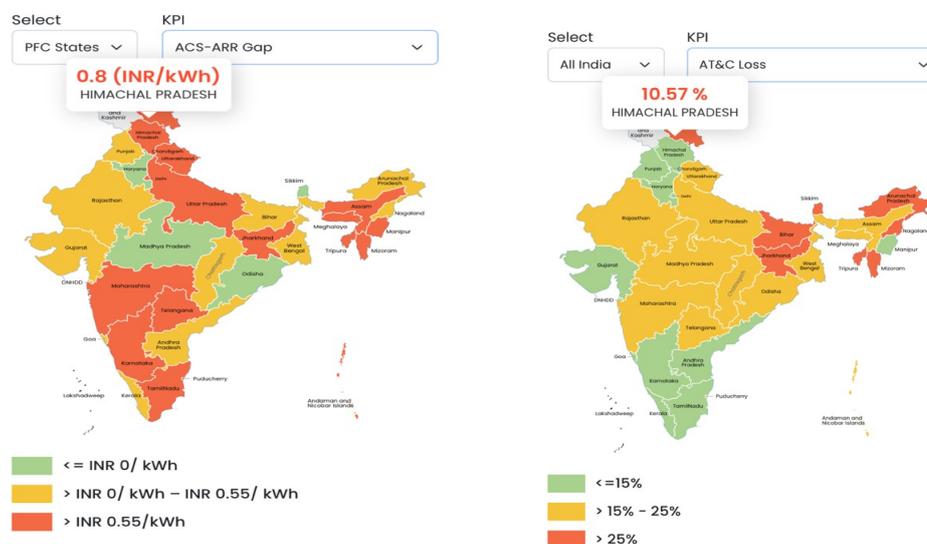
The Central Government had approved a Revamped Distribution Sector Scheme (RDSS)- a Reforms-based and Results-linked Scheme with an outlay of ₹3,03,758 crore over a period of five years from FY 2021- 22 to FY 2025-26 with the objective to improve the quality, reliability and affordability of power supply to consumers through a financially sustainable and operationally efficient distribution sector. The Scheme aimed to reduce the AT& C losses to pan-India levels of 12-15 per cent and ACS-ARR gap to zero by 2024-25 by improving the operational efficiencies and financial sustainability of all DISCOMs/Power Departments excluding Private Sector DISCOMs.

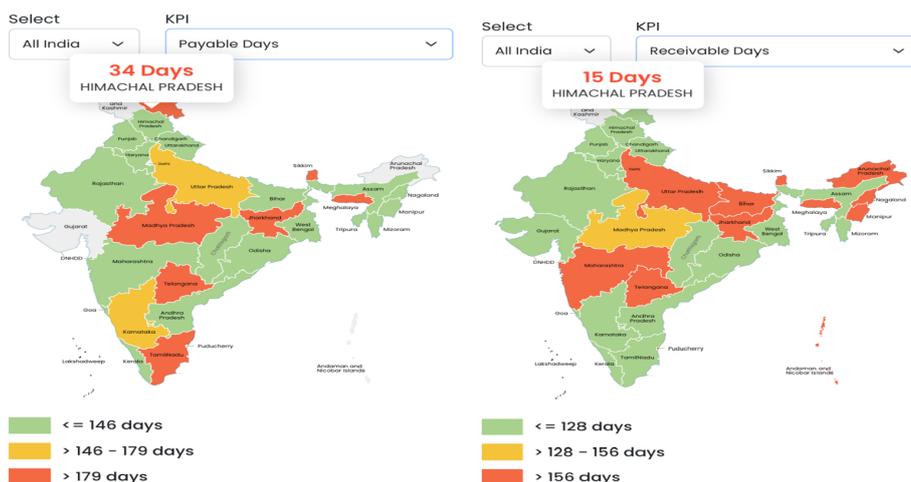
DISCOMs/ Power Departments would be able to access funds under the Scheme for Pre-paid Smart Metering, System Metering and Distribution infrastructure works for loss reduction and modernisation. The financial assistance for Distribution infrastructure works under the Scheme would be subject to meeting pre-qualifying criteria as well as upon achievement of basic minimum benchmarks by the DISCOM and evaluated based on Action plans. The Scheme provides for annual appraisal of the DISCOM performance against predefined and agreed upon performance trajectories including AT&C losses, ACS-ARR gaps, infrastructure upgrade performance, consumer services, hours of supply, corporate governance, etc. DISCOMs must score a minimum of 60 per cent of marks and clear a minimum bar in respect to certain parameters to be able to be eligible for funding against the Scheme in that year.

Implementation of the Scheme would lead to consumer empowerment by way of prepaid Smart

metering to be implemented in Public-Private-Partnership (PPP) mode and leveraging Artificial Intelligence to analyse data generated through IT/OT devices including System Meters, prepaid Smart meters to prepare system generated energy accounting reports every month to enable DISCOMs to take informed decisions on loss reduction, demand forecasting, Time of Day (ToD) tariff, Renewable Energy (RE) Integration and for other predictive analysis. The Scheme has a major focus on improving electricity supply for the farmers through separation of agriculture feeders and for providing daytime electricity to them by convergence with Pradhan Mantri Kisan Urja Suraksha Evam Utthan Mahabhiyan (PM-KUSUM) Scheme for solarisation of agriculture feeders. All North-Eastern States including Sikkim and States/Union Territories of Jammu & Kashmir, Ladakh, Himachal Pradesh, Uttarakhand, Andaman & Nicobar Islands, and Lakshadweep are treated as Special Category States. The Office Memorandum of the Scheme was issued on 20th July, 2021 and subsequently the operational Guidelines was issued on 27th July, 2021 (Ministry of Power n.d.).

Under the scheme, the HPSEBL has so far been sanctioned cost of ₹1778.49 Crore as on 9 February 2025. Figure 5.2 below shows the performance of the State of Himachal Pradesh in terms of different indicators of RDSS.





Map 5.2 Key Performance Indicators (KPI) of the RDSS and the State of Himachal Pradesh

Source: Ministry of Power, 2024. 12th Integrated Rating Report, as in FY 2022-2

The performance of the State has been summarized in the Table 5.11 below.

Table 5.11: Benchmark vis-à-vis Actual Performance

RDSS Parameters	Benchmark	Performance of HP
ACS: ACR Gaps	The Gap between Average Cost of Supply (ACS) and the Average Revenue Realised (ARR): should be zero	High (0.8): should be reduced.
AT&C Losses	Should be 15per less than cent	Low (10.57 per cent): Comfortable
Payable Days	Should be less than 146	Low (46): Comfortable
Receivable Days	Should be less than 128	Low (15): Comfortable

It is seen from the table above that the performance of the State is above par against most of the parameters like the AT&C Losses, Payable and Receivable Days when compared to many other States in the country, but the Gap between the Average Cost of Supply (ACS) and Average Revenue Realised (ARR) has been quite high. This is partly due to high cost of transmission and distribution due to unfavorable terrain and largely because of the poor performances of the State power-PSEs, as discussed before.

5.8 Power Sector Reforms in the State

- 100 percent *Computerised billing* in the State has been achieved and around 95 per cent of consumers are being provided with monthly electricity bills at their doorsteps as well as through SMS and Emails. Also, the bills are being made available on website and Mobile App for payments through various digital and online modes.
- Developed and launched a dedicated *Consumer Portal* for various electricity consumers in the State for ensuring various consumer related services through digital and electronics platforms in a time bound and paper less manner. Services being provided include application for new connection, change of name, change of category, change of load and demand, temporary revisions of contract demand, online PAC application. Besides this the portal also provides basic services such as

payment of bill, viewing the consumption and payment history, complaint registration etc.

3. Consumers are provided with multiple *options for making the electricity bill payments* such as Common Services Centres (Lok Mitra Kendra), Digital Payments using Internet Banking/Credit/Debit Cards/UPI/BHIM etc., e-CMS, Mobile App etc. As a result around 92 per cent of monthly electricity bill payment is being realised via digital transactions only.
4. HPSEBL has Launched *HPSEBL-Smart Meter Mobile App* for Shimla and Dharamshala smart city consumers to monitor their consumption pattern and power quality etc. on a real time basis.
5. *Enterprise Resource Planning (ERP) system* has been successfully implemented and integrated across all locations of HPSEBL, and currently, all business transactions are exclusively processed through SAP-ERP across the organisation.
6. HPSEBL has developed and implemented various *online Utilities and modules* for ensuring paperless and time bound delivery of various services in transparent and efficient manner beside fixing the accountability across all levels. The developed Utilities mainly include *Vendor Invoice Management System, Online Guest House Booking Utility, Budget Management and Control Modules, Centralised Security Refund Utility, Transfer and Posting Utility, Pension Utility and Online Employee Portal for providing various employee related services.*
7. 24x7 *IVRS (Interactive Voice Response System)* and Consumer Complaint Centre for registration and resolution of consumer complaints and grievances on priority.
8. Implementation of *Facial Recognition Attendance System (FRAS)* for promoting discipline, efficiency and accountability of various officers and officials across all offices of HPSEBL.
9. Transitioning to an *electronic office*, or a digital/paperless setup, brings benefits like heightened efficiency, cost-effectiveness, improved collaboration, and a more sustainable environmental impact.
10. Phasing out of Subsidies is slowly being implemented in the State. In July 2024, the State Cabinet took a decision to rationalise the provisions for Zero Electricity Bill for the domestic consumers by restricting subsidy to 'One Family One Meter' and interlinking the electricity connections with Ration Cards (Aadhar seeded). The Cabinet decided to abolish entire subsidy for Chief Minister/Ex Chief Ministers, Speaker, Deputy Speaker, Ministers,, Ex Ministers, MPs, Ex MPs, MLAs, Ex MLAs, Chairmen of Boards/ Advisors, OSDs, all Class-I and Class 2 employees of the Government/Corporations/ Boards including IAS officers, IPS Officers, HPS Officers, HAS Officers, Forest Officers, Judicial Officers etc., all government Class A and Class B contractors and all income tax payers (Govt. of HP, 2024).

5.9 Recommendations for the State Corporations and Power Sector

1. There is a high ACS-ARR (Average Cost of Supply - Average Revenue Realised) gap in Himachal

Pradesh, despite relatively low cost of electricity. This is because there is a higher employee cost per unit, due to the high number of employees. This can be remedied by rationalising future employment, resizing the current staff, and expanding the consumer base, in particular, industrial consumers.

2. This problem is further compounded by the fact that employees are now covered under the Old Pension Scheme, thereby increasing the future liability of the State Electricity Board.
3. Further, the debt position is also affected since the State has a high contingent liability, since it stands as the guarantor for the debt of the Electricity Board.
4. There is a felt need for operationalising the HP Power Transmission Corporation, so that a level playing field is provided to the Power Generation and Distribution Companies.
5. There is a need to scale up hydel power production, as a cheap and renewable source of energy which can even be exported to other States – providing a source of revenue, while also curbing Himachal Pradesh's own losses.
6. There is redundancy and duplication among certain corporations - for instance Himachal Pradesh Mahila Vikas Nigam; Himachal Pradesh Minorities Finance and Development Corporation; Himachal Backward Classes Finance and Development Corporation. All are engaged in a similar task - of providing finance to the marginalised sections of society. They may be better served by merging and benefiting from operational efficiencies and economies of scale
7. The other SPSEs are, for the most part, service sections of their respective Departments. For instance, Himachal Pradesh Kaushal Vikas Nigam is the skilling arm of the Govt; Himachal Pradesh State Industrial Development Corporation Limited is an instrument of Govt policy for Industrial Promotion. Thus, there is little scope to wind up these corporations.
8. 3 Major SPSEs comprise most of the equity, debt and losses: HPSEB, HRTC and HPTDC. Thus, reforms should mainly be directed at these three entities. With respect to HPTDC, its major asset is the properties located in prime locations in Himachal. Developing competitive hotels, entering partnerships with established chains, and tapping into the tourism potential of the State are recommended.
9. Complete phasing out of the subsidies given to the households and agricultural users. In January 2022, the government had decided to give 60 units of free power. The number was later enhanced to 125 units in August 2022 for all the 14 lakh domestic consumers. ₹900 crores were spent on this scheme in 2022- 23. This escalated to ₹1,000 crores in 2023-24. The state government has paid ₹1,247.75 crores as a rollback subsidy to the HPSEBL for providing these 125 units of free electricity to domestic consumers in the state since April 2022 (Vidhan Sabha, 2024). This subsidy is required to be phased out completely or may be restricted to only 50 units a month for the BPL households.

5.10 Area of Concerns for the State Finances

Despite substantial investments, loans, grants, and guarantees provided to SPSEs through State Budgets, many of these SPSEs are struggling financially. Additionally, the requirement for annual accounts to be prepared within three months of the Annual General Meeting (AGM) is often not met. As of September 2023, 73 annual accounts for 27 SPSEs (including 22 accounts of 6 SPSEs whose net worth have been eroded) were overdue for auditing by the C&AG of India. The absence of timely accounts hinders the assurance of proper accounting for investments and expenditures, impedes the assessment of their contribution to Gross State Domestic Product (GSDP), and undermines accountability to the legislature. This situation creates vulnerabilities for fraud, mismanagement, and fund leakage, contravening various laws and regulations.

Of the 29 SPSEs, 26 companies are active. Two Companies out of 19 Government Companies and one Company out of four Government Controlled Other Companies are inactive. These are inactive for the last four to 23 years and have investment of ₹ 79.79 crore, towards capital (₹ 19.64 crore) and State-Government loans (₹ 60.15 crore). This is a critical area as the investments in inactive SPSEs do not contribute to the economic growth of the State. The State Government may consider to take an early decision for closure of the inactive companies.

Chapter 6 State's Transfers to Urban and Rural Local Bodies and Evaluation of State Finances with a Special Focus on 14th and 15th FC Recommendations

6.1 Introduction to Local Bodies in Himachal Pradesh

The history of Gram Panchayats in Himachal Pradesh dates to 1952. The state's first Panchayati Raj Act established these local governing bodies. Subsequently, the 73rd Amendment to the Indian Constitution provided constitutional status to Panchayati Raj Institutions and standardized their structure.

Himachal Pradesh enacted its new Panchayati Raj Act in 1994, aligning with the 73rd Amendment. This act outlined the structure and functions of Panchayati Raj Institutions, including three tiers of governance, regular elections, representation for marginalized groups, and the establishment of a State Election Commission and State Finance Commission. On the above lines, the 74th Amendment to the Indian Constitution decentralized power and transferred 18 functions, listed in the Twelfth Schedule, to Urban Local Bodies (ULBs). This amendment came into effect in 1993.

The Constitution's Article 243(g) empowers Panchayati Raj Institutions to function as local self-governments. The state government has implemented rules to facilitate their operation as the third tier of government. The State Government has also framed Himachal Pradesh Panchayati Raj (General) Rules, 1997; the Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules, 2002 which were further amended in March 2017 to enable these institutions to work as the 3rd tier of Government. The total numbers of Gram Panchayats have increased from 3,226 to 3,615 and Panchayat Samitis from 77 to 81 after the reorganization of Panchayats in 2020-21. The number of Zila Parishads has not changed from 12 ever since 12 districts were created in Himachal Pradesh in 1971.

The 73rd Amendment Act established fundamental principles for local authorities. These include a fixed term, protection from external interference, regular elections, representation for marginalized groups and women, and the devolution of power, authority, and adequate finances.

Organisational Set-up of PRIs

The chairpersons of ZPs and PSs, and the Pradhans of GPs are elected representatives and head the ZPs, PSs, and GPs respectively (Figure 6.1).

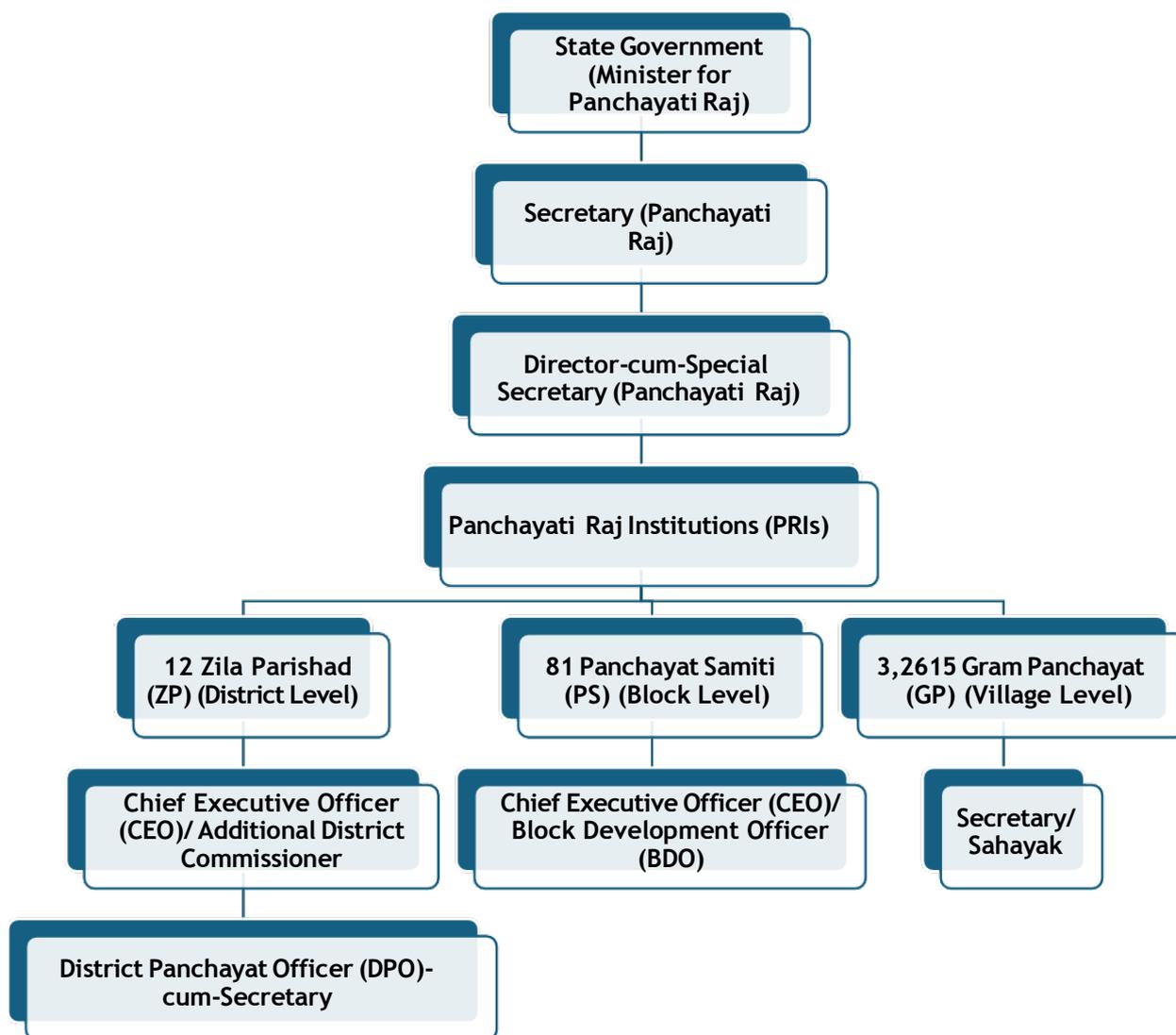


Figure 6.1: Organisational Setup of PRI (Rural) System

District level officers are required to attend monthly meetings of the ZPs. Details of members elected and employed functionaries are provided in Table 6.1 below.

Table 6.1 Elected and Employed Functionaries of the PRI System

Level	Nos.	No. of Elected Representatives	Average population served (Dept. of Panchayati Raj)	Elected Functionaries	Employed functionaries
Zila Parishad	12	249	500000	Chairperson, vice-chairperson and members	District panchayat Officer, Chief executive officer of zila parishad, additional district development commissioner, district planning officer
Panchayat Samiti	81	1696	80000	Chairperson, vice-chairperson and members	Block Development Officer, panchayat inspector, Block education officer, Assistant engineer, BDPO
Gram Panchayat	3615	28633	1900	Pradhan, up-Pradhan, member of panchayat	Panchayat secretary, Panchayat development officer, Junior engineer

				Samiti	
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Source: Govt. of H.P. Dept. of Panchayati Raj²⁷.

Himachal Pradesh Panchayati Raj Act, 1994 lays down the provisions relating to the PRI system in the State. Some of the important provisions are detailed below in Table 6.2 below.

Table 6.2: Sections of the Himachal Pradesh Panchayati Raj Act, 1994

Sections	Detailed Provisions
83	Power of the State Government in relation to functions of Panchayat Samiti- The State may entrust to the panchayat samitis preparation of plan and implementation of schemes for economic development and social justice. State may also add to any of the functions of the panchayat samiti or withdraw the functions and duties entrusted to such a panchayat samiti when the state government undertakes the execution of any of the functions entrusted to the Panchayat samiti.
94	Power of the State Government in relation to functions of Zila Parishad- The State may entrust to the Zila Parishad preparation of plan and implementation of schemes for economic development and social justice. State may also add to any of the functions and duties entrusted to such a Zila Parishad, when the state government undertakes the execution of any function. Zila Parishad shall not be responsible for such functions so long as the state government does not re-entrust such functions to the Zila Parishad.
106	Power of State government regarding imposition of taxes by Local Bodies- if it appears to the state government that any tax imposed by panchayat is excessive in its incidence on tax-payer, it may, after calling a report from the panchayat in this regard, abolish any tax or suspend or reduce the amount/rate of any tax.

Himachal Pradesh implemented the provisions of 74th Amendment to the Indian through its Municipal Corporation Act and Municipal Act of 1994. While 17 functions were transferred to ULBs in Himachal Pradesh, the necessary funds and functionaries were still lacking. There are five Municipal Corporations (Shimla, Dharmashala, Solan, Mandi, and Palampur), 29 Municipal Councils (MCs) and 27 Nagar Panchayats (NPs) in the State as in October 2020.

The organisational set-up of Urban Local Bodies (ULBs) in the State is as under (Figure 6.2):

²⁷ Department of Panchayati Raj, Government of Himachal Pradesh.

<https://hppanchayat.nic.in/Department.html#:~:text=Panchayati%20Raj%20system%20in%20Himachal.Pradesh%2020Panchayat%20Raj%20Act%2C%201952>. As accessed on 09 February 2025.

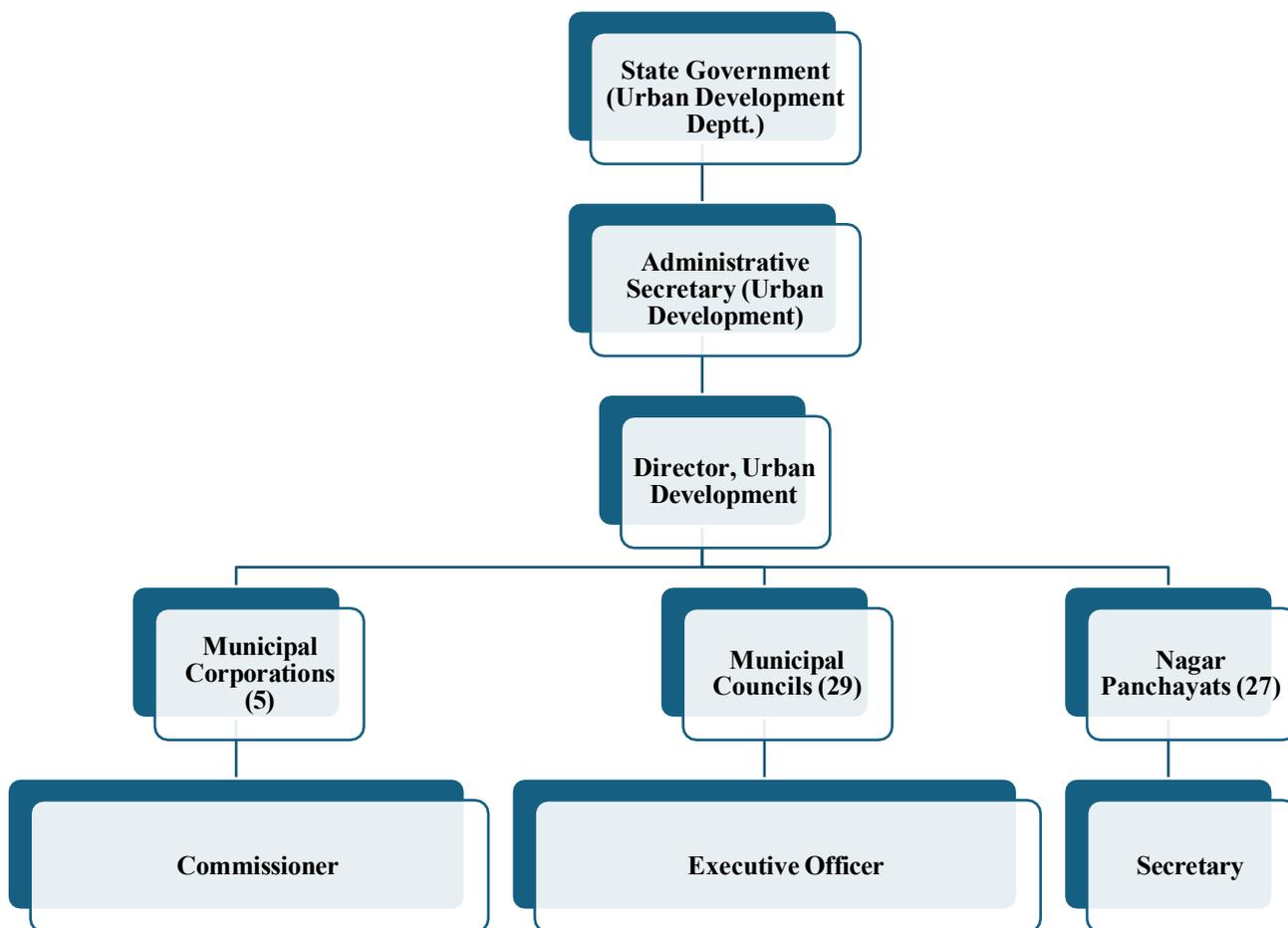


Figure 6.2: Organisational Setup of ULB System

N.B. The numbers in the parenthesis indicates the number of the urban units.

The overall control of the ULBs rests with the Additional Chief Secretary/ Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development.

6.2 Fund Transfer to Local Bodies

So far, seven State Finance Commissions (SFCs) have been constituted in the State. While award period of the first five SFCs have been complete, the transfers under the 6th SFC recommendation are currently underway. A gist of the fund transfers under the first five SFCs is provided in Table 6.3 below:

Table 6.3: Recommended Resource Transfer (in ₹Crore) by State Finance Commissions and Actual Releases made by the State Government to the Local Bodies

Sr. No.	Institutions/Tenure of Commission	Amount Recommended by the Commission	Amount Released by the State Government
Panchayati Raj Institutions			
1.	First State Finance Commission (1996-2001)	13.87	30.85
2.	Second State Finance Commission (2002-2007)	70.05	119.45

3.	Third State Finance Commission (2007-2012)	228.28	260.25
4.	Fourth State Finance Commission (2012-17)	476.78	441.45
5.	Fifth State Finance Commission (2017-22)	1025.08	1151.48
Urban Local Bodies			
1.	First State Finance Commission (1996-2001)	74.55	83.97
2.	Second State Finance Commission (2002-2007)	159.46	133.66
3.	Third State Finance Commission (2007-2012)	223.02	212.05
4.	Fourth State Finance Commission (2012-17)	382.44	382.51
5.	Fifth State Finance Commission (2017-22)	680.76	674.56

Source: Reports of the State Finance Commission and State Budget Documents.

Actual release by the State Govt. has been more than the recommendations of the 5th SFC for the Rural PRIs, which is mainly due to unfolding realities like revision in rate of honorarium of members. Total transfers made by the State to both the Urban and Local PRIs are depicted in Table 6.4 below.

It can be seen from the table 6.4 that financial assistance to the Local Bodies (which include the autonomous educational institutions, hospitals etc.) has steadily increased during the last eleven years, signifying the increased importance assigned to the PRIs. The share of transfer to the PRIs and autonomous institutions as a percentage of State's Revenue Expenditure has also increased from 7 per cent to 13 per cent from 2012-13 to 2022-23.

Table 6.4: Financial Assistance to the Local Bodies (in ₹Crore)

Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Local Bodies											
Municipal Corporations and Municipalities	174	282	212	322	554	249	488	456	815	801	903
Panchayati Raj Institutions	282	354	810	927	1012	781	1026	1053	1176	1148	1754
Total (A)	456	636	1022	1248	1566	1031	1514	1510	1991	1949	2657
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	406	452	601	664	850	905	951	1021	945	1032	1157
Development Authorities	39	66	64	81	150	11	144	99	238	332	330
Hospitals and other Charitable Institutions	88	95	216	277	272	344	337	440	458	674	671
Other Institutions	215	190	253	343	519	505	688	437	931	995	1032

Total (B)	747	802	1134	1364	1791	1865	2120	1997	2572	3032	3190
Total (A+B)	1203	1438	2156	2612	3357	2895	3634	3506	4563	4981	5847
Revenue Expenditure	16174	17352	19787	22303	25344	27053	29442	30730	33535	36195	44425
Assistance as percentage of Revenue Expenditure	7	8	11	12	13	11	12	11	14	14	13

Source: State Finance Audit Report of the C&AG of India (2016, 2019, 2021 and 2024)

Table 6.5: State's Financial Assistance to the PRIs (2014-15 to 2022-23)

Years	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1. Panchayati Raj Institutions									
(i) Zila Parishads	96.47	12.22	14.50	91.05	1,15.14	1,37.54	2,28.37	210.52	310.83
(ii) Panchayat Samities	82.96	40.74	48.71	17.40	31.01	21.78	74.17	60.05	92.95
(iii) Gram Panchayats	79.13	2,55.02	3,90.20	3,77.64	4,57.10	5,90.39	4,24.67	413.13	561.72
Total	2,58.56	3,07.98	4,53.41	4,86.09	6,03.25	7,49.71	7,27.21	683.70	965.50
2. Urban Local Bodies									
(i) Municipal Corporations	22.73	41.70	78.62	79.71	65.10	62.74	1,22.80	244.12	207.22
(ii) Municipalities/Municipal Councils	61.98	87.77	80.73	86.63	2,51.09	2,38.02	4,00.87	303.74	293.63
(iii) Others	25.34	24.56	17.33	18.30	9.38	10.26	9.37	11.54	7.54
Total	1,10.05	1,54.03	1,76.68	1,84.64	3,25.57	3,11.02	5,33.04	559.40	508.39

Source: Finance Accounts of the State of Himachal Pradesh (from 2014-15 to 2022-23)

Table 6.5 shows the transfer of assistance from the State to the PRIs during the last eight years. Assistance to the Urban Local Bodies has grown at a much faster rate (almost five times) than the transfers to PRIs (about three and half times) between 2014-15 and 2023-24. Gram Panchayats have got the most amount from transfers as the total transfer spreads out to 3,615 number of Gram Panchayats. Further, transfers to 29 Municipalities/Municipal Councils and five Municipal Corporations have been considerably large during 2014 to 2023, when compared to other PRI units. The growth in transfer during the same period shows no steady pattern (Table 6.6). Remarkable growth in transfers was observed in 2020-21 to the Panchayat Samities (241%) and the Municipalities/Municipal Councils (401%), which was because of infusion of funds during the COVID period. The growth rate of transfers to Municipalities/Municipal Councils remained high during the next FY (2021-22) as well.

Table 6.6: Rate of Growth of State's Financial Assistance to the PRIs (2015-16 to 2022-23)

Years	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Zila Parishads	-87.33	18.66	527.93	26.46	19.45	66.04	-7.82	47.65
Panchayat Samities	-50.89	19.56	-64.28	78.22	-29.76	240.54	-19.04	54.79
Gram Panchayats	222.28	53.01	-3.22	21.04	29.16	-28.07	-2.72	35.97
Municipal Corporations	83.46	88.54	1.39	-18.33	-3.63	95.73	98.79	-15.12

Municipalities/ Municipal Councils	41.61	-8.02	7.31	189.84	-5.21	400.87	303.74	-3.33
Nagar Panchayats	-3.08	-29.44	5.60	-48.74	9.38	-8.67	23.16	-34.66

Source: Calculated from the figures of Table 6.5.

6.3 Recommendations of Earlier Union FC and SFC on Fund Transfer to PRIs

The Union 15th Finance Commission had recommended total transfers to Himachal Pradesh for the period 2021-2026 for ₹81,977 Crore (Table 6.7). Out of that ₹3049 crore was recommended for transfer to local bodies.

Table 6.7: Recommendation of Union 15th FC for the State (in ₹ Crore)

Sr. No.	Item	Amount
1.	Share in Central Taxes & Duties	35,064
2.	Post Devolution Revenue Deficit	37,199
3.	Local Governments	3,049
4.	Disaster Management	2,258
5.	Health	377
6.	PMGSY Roads	2,222
7.	Statistics	21
8.	Judiciary	50
9.	Higher Education	70
10.	Agriculture	247
11.	State Specific	1,420
	Total Transfers	81,977

The State Government had constituted the Sixth Himachal Pradesh State Finance Commission on 22nd August 2020. The report of the 6th SFC was submitted in October 2022 (6th HP State Finance Commission 2022). 6th SFC recommended the following measures.

The Commission recommended a 5% annual increase in the committed liabilities of PRIs during its award period, taking into account the state government's resource availability. Any additional liabilities will be covered by the state government through additional allocations. The Commission also highlighted the need for real-time monitoring of PRI income and receipts. It suggested using software like PRIYASOFT/e-SWARAJ to maintain and update PRI accounts daily. A centralized portal should integrate these accounts for easy data retrieval. Regular dialogues with elected representatives and PRI officials were recommended to emphasize resource generation and local development planning. Funds from the Fourteenth and Fifteenth Finance Commissions can be used for these initiatives, and the Commission did not recommend separate grants for account maintenance. Integrating PRI accounts with the IFMS and PFMS was also recommended.

The Commission observed that many PRIs have underutilized or unused assets. Some assets generate returns below their market potential. The Commission recommended monetizing or re-monetizing these assets and retaining the income. PRIs were also advised to publish a list of all their assets, both monetized and non-monetized, by the end of March 2024. Creating an asset inventory will aid in assessing maintenance needs and developing a maintenance plan.

The 6th SFC recommended the following fund transfer by the State to the PRIs:

(₹ in Lakh)

Year	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Recommended Devolutions	35,200.00	36,960.00	38,808.00	40,748.40	42,785.82	1,94,502.22

Regarding the urban bodies, the Commission found it challenging to assess the income of newly created Municipal Corporations in Solan, Mandi, and Palampur due to their short existence and lack of accurate data. The revenue potential of these corporations may take time to realize. Moreover, the absence of a unified platform for tracking ULB income hindered the Commission's ability to accurately estimate their income.

Municipal Corporations of Shimla has the highest income. However, all corporations faced a significant gap between their income and committed liabilities, primarily due to salaries and honorarium. The Commission observed this trend across all municipalities. Detailed information is available in the Annexure X. Due to these factors and the information gaps, the Commission adopted a gap filling grant approach for recommending devolution to ULBs.

Three newly created Municipal Corporations were established without adhering to the specified criteria. Their smaller populations compared to the minimum requirement for new corporations limit their resource base and tax potential. Six new Nagar Panchayats were also created in 2020-21, and their income was difficult to ascertain. The reorganization of ULBs reduced the number of Municipal Councils to 29.

The Commission's analysis revealed that many ULBs lacked electronic accounting systems and struggled to provide complete and accurate information. Newly created ULBs may also take time to recruit necessary staff. Due to these factors and the reasons mentioned in previous chapters, the Commission could not use the state's own resources as the basis for recommending devolution to ULBs. The Commission found that a significant portion of ULB committed liabilities consisted of salaries and honorarium. It was more practical to use these liabilities as a basis for recommendations rather than relying on incomplete income projections. The revision in honorarium for ULB members cannot be predicted as it is determined periodically by the government.

The Urban Development Department should reallocate staff between ULBs based on actual requirements. The state government will consider providing housing for newly created ULBs on a case-by-case basis. All ULBs have been strongly encouraged to fully automate their accounts and update them daily using the existing software provided through various grants. The Urban Development Department should monitor and review ULB accounts at a specified frequency. No additional grants were recommended for this purpose.

The 6th SFC recommended the following fund transfer by the State to the ULBs:

(₹ in Lakh)

Year	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Recommended Devolutions	18,375.00	19,262.25	20,225.36	21,236.63	22,298.46	1,01,397.70

The Commission recommended allocating 80% of the recommended funds to ULBs as Basic Grants and 20% as Performance Grants. The Urban Development Department may determine the basis for disbursing these grants to Municipal Corporations, Municipal Councils, and Nagar Panchayats based on manpower deployment or other relevant factors.

6.4 Recommendations of SFCs for Improving Own Resources of the PRIs

The First State Finance Commission (SFC) was constituted by the State Government in the month of April 1994 and covered the period 1996-2001 in its recommendations. First SFC recommended that ULBs should mandatorily raise statutory resources by levying rates and taxes within their purview, as some of the ULBs were not levying statutory rates and taxes. An audit of the C&AG of India, for the period between 2015-2020 observed that out of 14 test-checked ULBs, two ULBs (Nerchowk and Solan) were not levying the statutory property tax (C&AG of India, 2022).

The Second State Finance Commission observed that the situation of maintenance of assets at the level of local bodies was more precarious, since these bodies all along looked forward to grants from the State rather than assuming responsibility for this purpose and levying of appropriate user charges. The Second State Finance Commission felt that before estimating requirement of funds for maintenance of assets at the local level, inventory of physical assets should be prepared and updated. However, bulk of resources for maintenance purpose should be generated at the local level by introduction of appropriate user charges or institutionalisation of the community ownership and participation. PRIs could also have recourse to the various financial institutions for raising loans on viable projects so as to supplement the resources of the local bodies. 6th SFC also recommended preparation of asset inventory as a prerequisite for sound finances.

The Second State Finance Commission took note of the fact that although the requisite delegated functions in respect of the Urban Local Bodies, i.e. the Municipal Corporation and the Municipalities were notified by the State Government through notifications issued in August 1994, yet an overwhelming majority of these bodies was not performing these functions. In some cases, the services like street lighting and payments for bulk supply of drinking water had become overdue and the urban local bodies neither had the resources to liquidate such arrears, nor did they have any concern or commitment for raising user charges for provision of such highly subsidised services. An account of such pendency in fees is provided in the Annexure XI.

The Third SFC recommended for differential taxation for urban properties according to their geographical location. An audit by C&AG of India, observed that the recommendation has been partially implemented as only 17 out of 54 ULBs were levying property tax as per Unit Area Method, which is differential taxation of property based on geographical location (C&AG of India, 2022). Subsequent SFCs continued to recommend different measures including asset mapping and monetization as sources of revenue, enhancement of user fees for different services as solutions.

6.5 Recommendations of the Union 14th Finance Commission

The Fourteenth Finance Commission allocated a total grant of ₹2,87,436 crores for the period 2015- 20, which amounted to ₹488 per capita per annum. Out of this, ₹2,00,292.2 crore was allocated to Panchayats and ₹87,143.8 crore to Municipalities. The Commission mandated that local bodies must spend the grants only on basic services within their assigned functions. For Gram Panchayats and Municipalities, the Commission recommended grants in two parts: Basic Grants (90% for Gram Panchayats and 80% for Municipalities) and Performance Grants. The Commission also recommended that for rural local bodies, grants should directly go to Gram Panchayats. The basic grant for Gram Panchayats was to be distributed based on the formula prescribed by the SFC or, if no formula existed, using 2011 population and area weights. For Urban Local Bodies, the Commission prescribed a distribution formula based on 2011 population and area weights.

In Himachal Pradesh, the Commission recommended a total grant of ₹1,802.8 crore for Panchayati Raj Institutions, with 90% as Basic Grant (₹1,628.82 crore) and 10% as Performance Grant (₹180.98 crore). For Urban Local Bodies, the Commission recommended a total grant ₹201.77 crore, with 80% as Basic Grant (₹161.42 crore) and 20% as Performance Grant (₹40.35 crore).

Table 6.8 shows the recommendations made by the 14th FC, the actual amount released by the GoI and State Government between 2015 and 2020. It shows that the actual fund release was slightly less under different heads.

Table 6.8: Actual Fund Released by the GoI and State during the 14th FC Period

Description	Actuals (in ₹ Crores)				
	2015-16	2016-17	2017-18	2018-19	2019-20
1	2	3	4	5	6
A. NON FINANCE COMMISSION GRANTS	2677.3	4231.75	3488.08	3912.78	4799.99
1. State Schemes	660.79	1132.08	0	0	0
2. Central Schemes	37.96	44.45	0	0	0
3. Centrally Sponsored Schemes	1978.55	3055.23	3488.08	3912.78	4799.99
B. FINANCE COMMISSION GRANTS	8436.47	8795.97	8888.58	8831.25	8617.82
1. Revenue Deficit Grant	8009	8232	8311	8206	7865.61
2. Calamity Relief (Disaster Management)	212.72	223.2	234	245.7	197.23
3. Grant to Local Bodies	214.75	340.77	343.58	379.55	554.98
C. OTHER GRANTS	182.58	136.63	717.57	2373.63	2521.7
1. Central Road Fund	94.73	55.41	92.87	92.56	87.12
2. Modernisation of Police	5.39	0	9.31	5.14	27.94
3. Natural Calamities	82.22	81.22	63.23	227.29	518.06
4. GST Compensations	0	0	539	2037	1877.33
5. Others	0.24	0	13.16	11.64	11.25
D. Share in Central Taxes	3611.17	4343.7	4801.31	5429.77	4677.56
Contribution of State towards funds devolved by the Centre					
State Share of Centrally Sponsored Schemes	411.12	427.05	305.49	523.36	553.14
State Share of SDRF & SD MF	22.28	25.8	26	27.3	28.7
Funds devolved to RLBs & ULBs (SFC grants)	191.05	231.73	254.9	317.03	345.31
Expenditure under Central Schemes /Transfers					
CSS including State Share	2461.92	3827.71	4047.67	4629.03	4827.43
Revenue Deficit Grant	8009	8232	8311	8206	7865.61
Calamity Relief (SDRF Including State Share, NDRF)	381.31	330.56	324.26	505.59	743.99
Local Bodies (ULBs& RLBs) (CFC)	220.2	340.92	343.58	379.55	530.77
Central Sector and Other Central Schemes other	4318.55	1072.81	87.41	103.22	119.29
GST Compensations	0	0	539	2037	1877.33
Share in Central Taxes	3611.17	4343.7	4801.31	5429.77	4677.56
RLBs and ULBs grant (SFC)	194.93	229.77	254.71	314.79	351.75

Source: Data obtained from the State of Himachal Pradesh (2024)

6.6 Recommendations of the Union 15th Finance Commission

The 15th FC recommended for transfer of ₹81,977 crores to the State under different categories. The 15th FC recommended a 0.83% share of the divisible pool for Himachal Pradesh for the period 2021-22 to 2025-26. The Commission retained 41% of the divisible pool for States and assigned a 12.5% weight to demographic performance. Recognizing the growing importance of cities, the Commission gradually increased the share of grants for urban local bodies from 32.5% to 35% during the award period. For inter-se distribution of grants, the Commission used a 90% population and 10% area weightage. Further, 15th FC recommended for an additional ₹200 crores for financial years 2021-26 for effective

management of landslides and earthquakes in hill states, including Himachal Pradesh²⁸.

Out of the total grants for Panchayati Raj Institutions, 60% were tied to sanitation and drinking water services, while 40% were untied. For ULBs in One-Million-Plus cities, 60% of basic grants were tied to sanitation, solid waste management, and water services. All local governments were required to have web-based accounts and audited accounts for grants. Urban local bodies needed to notify minimum floor rates of property taxes and improve property tax collection. The Commission recommended integrating PRIASOFT with IFMIS and PFMS to enable online accounting, auditing, and consolidation.

All States were required to constitute SFCs, act on their recommendations, and submit explanatory memoranda to the State legislature by March 2024. Failure to comply would result in withholding of grants. The Ministry of Panchayati Raj (MoPR) would certify compliance before releasing grants for 2024-25 and 2025-26. The Commission recommended an allocation of ₹750 crores from the proposed NDMF for seismic and landslide risk reduction in the Himalayan region during the next five years. Himachal Pradesh would receive ₹250 crores for 2021-26, with ₹50 crores allocated each year. Table 6.9 shows the recommendations made by the 15th FC, the actual amount released by the GoI and State Government between 2020-21 and 2021-22. It shows that the actual fund release was slightly less under different heads.

Table 6.9: Actual Funds Released by the GoI and State during the 15th FC Period

Description	Actuals (in ₹ Crores)			RE	BE
	2020-21	2021-22	2022-23	2023-24	2024-25
A. NON FINANCE COMMISSION GRANTS	4124.51	5228.27	4567.27	5123.48	5706.27
1. State Schemes	0	0	0	0	0
2. Central Schemes	0	0	0	0	0
3. Centrally Sponsored Schemes	4124.51	5228.75	4567.27	5123.48	5706.27
B. FINANCE COMMISSION GRANTS	12424.1	11044.26	10489.7	9115.14	7372.15
1. Revenue Deficit Grant	11430.85	10249	9377	8058	6258
2. Calamity Relief (Disaster Management)	409	409	385.2	451	473
3. Grant to Local Bodies	584.25	386.26	727.5	606.14	641.15
C. OTHER GRANTS	1863.97	1360.31	1676.96	946.42	209.06
1. Central Road Fund	95.95	188	169.05	150.01	200
2. Modernisation of Police	0.83	4	0.33	9.11	9.06
3. Natural Calamities	2.9	0	214.26	787.3	0
4. GST Compensations	1763.53	1167.99	1293.27	0	0
5. Others	0.76	0.32	0.04	0	0
D. Share in Central Taxes	4753.92	7349.04	7883.98	9167.23	10124.2
Contribution of State towards funds devolved by the Centre					
State Share of Centrally Sponsored Schemes	565.13	685.31	691.83	643.87	633.87
State Share of SDRF & SD MF	45	35.8	86.4	50.2	52
Funds devolved to RLBs & ULBs (SFC grants)	376.8	411.8	535.75	562.22	590.33
Expenditure under Central Schemes /Transfers					
CSS including State Share	4836.86	6348.13	5330.46	5528.34	6350.18
Revenue Deficit Grant	11430.85	10249	9377	8058	6258

²⁸ Govt. of Himachal Pradesh (2024). Information and Public Relations Department, as accessed on 10 February 2025
<http://himachalpr.gov.in/OneNews.aspx?Language=1&ID=35163>

Calamity Relief (SDRF Including State Share, NDRF)	457.17	363	685.86	1288.5	525
Local Bodies (ULBs& RLBs) (CFC)	607.57	386.26	646.86	687.14	641.15
Central Sector and Other Central Schemes other	160.57	221.83	216.77	159.21	209.06
GST Compensations	1763.53	1167.99	1293.27	0	0
Share in Central Taxes	4753.92	7349.04	7883.98	9167.23	10124.2
RLBs and ULBs grant (SFC)	437.09	471.86	577	622.62	650.33

Source: Data obtained from the State of Himachal Pradesh (2024)

Besides, the 15th FC Commission has recommended Revenue Deficit Grants of ₹2,94,514 crore over award period for Seventeen States. Out of these Grants, share of Himachal Pradesh for 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26 is ₹10,249 crore, ₹9,377 crore, ₹8,058 crore, ₹6,258 crore and ₹3,257 crore, respectively with a total of ₹37,199 crore. The Commission has also recommended Performance-based Incentives and Grants to Himachal Pradesh for 2022-23, 2023-24, 2024-25 and 2025-26 as ₹284 crore, ₹284 crore, ₹426 crore and ₹426 crore, respectively with a total of ₹1,420 crores. The 15th FC emphasized performance-based incentives or outcome-based transfers, using objective, reliable, and universally applicable indicators. Incentives were broadly categorized into four themes, as detailed in Table 6.10 below:

Table 6.10: Summary of Performance based Indicators recommended by the 15th FC

Theme	Focus Areas	Conditions	Remarks
Social Sector	<ul style="list-style-type: none"> • Health • Education 	<ul style="list-style-type: none"> • Nutrition of children and pregnant and lactating mothers • Enhancing educational outcomes and not diverted for use by any other department by the State. • Online learning and development of professional courses in regional languages (matribhasha) for higher education in India 	<p>In line with 73rd amendment to the Constitution of India, 15th Finance Commission has recommended grants to Panchayati Raj Institutions by identifying drinking water supply and sanitation as national priorities areas. Therefore, 60% of the devolution made under 15th Finance</p>
Rural Economy	<ul style="list-style-type: none"> • Agriculture • Roads under PMGSY 	<ul style="list-style-type: none"> • Carrying out agricultural reforms during the award period. • Amend their land-related laws on the lines of NITI Aayog's model law to allow short-term and long-term lease of agricultural land both for agricultural purpose as well as for agro-industry, logistics for agricultural trade and supply chains. • Maintain and augment groundwater stock and 	<p>Commission have been provided as Tied Grants for supply of drinking water, rainwater harvesting, water recycling, sanitation & maintenance of ODF status.</p> <p>Performance based incentives for the Local Bodies were specifically recommended for</p>

		<ul style="list-style-type: none"> put a check on any fall in the water table Maintenance of PMGSY roads. 	Education, Health and Disaster Management.
Administrative and Governance Reforms	<ul style="list-style-type: none"> Judiciary Statistics Aspirational Districts and Blocks 	<ul style="list-style-type: none"> Fast-track courts for speedier justice delivery in cases of heinous crimes, civil cases of marginalised people, five-year-old property cases and economic offences as well as special fast-track courts for POCSO cases. Improving the quality of statistics Incentivising aspirational districts and blocks 	
Power Sector Reforms	<ul style="list-style-type: none"> Power 	Performance criteria in the power sector (discussed in previous chapter)	

Source: Summarised from the 15th FC Report and 6th SFC Report of the State

Government of India has released grants to the States, including Himachal Pradesh, based on the above conditions and limits prescribed by the 15th FC. For example, Union Government recently (December 2024) released the 2nd installment of the Union Grants for the Financial Year 2024-25, to the PRIs in Himachal Pradesh²⁹.

6.7 An Overview of the User Charges' Collection in Urban Local Bodies and Scope for Improvement

The First State Finance Commission (SFC), constituted by the Himachal Pradesh Government in the month of April, 1994, covered the period 1996-2001 in its recommendations. First SFC recommended that ULBs should mandatorily raise statutory resources by levying rates and taxes within their purview, as some of the ULBs were not levying statutory rates and taxes.

Section 85 of the Himachal Pradesh Municipal Corporation Act, 1994 and Section 66 of the Himachal Pradesh Municipalities Act, 1994 provide that the Municipality may levy a fee and user charges for the services provided by it at such rates and in such manner as may be determined by the municipality from time to time.

An audit conducted by the Comptroller and Auditor General (CAG) of India, covering the period between 2015 and 2020, on Himachal Pradesh Urban Local Bodies (ULBs) revealed significant

²⁹ Union Government released in December 2024, 2nd instalment of Untied Grants for Rural Local Bodies in **Himachal Pradesh**, amounting to ₹70.40 crores along with the withheld amount of 1st installment of Untied Grants for Financial Year 2024–25 amounting to ₹11.4716 crores. These funds are for all eligible 12 District Panchayats, all eligible 81 Block Panchayats and all eligible 3615 Gram Panchayats. Source: Ministry of Panchayati Raj. 2024. Accessed from <https://pib.gov.in/PressReleasePage.aspx?PRID=2083025> on 23 February 2025.

shortcomings in their revenue generation and financial management practices. These findings highlight the need for urgent reforms to improve the financial health of these essential institutions.

Non-Compliance with Statutory Requirements

One of the major concerns highlighted by the audit was the failure of many ULBs to comply with statutory requirements. Despite recommendations from the subsequent State Finance Commissions (SFCs), several ULBs were not levying mandatory property taxes. This non-compliance resulted in a significant loss of potential revenue. A recent audit (2022) revealed that there was no uniformity in method of levying the property tax. Surveys to enumerate the properties was not as per time schedule envisaged. Recovery on account of property tax (₹ 14.69 crore); conservancy tax (₹ 3.82 crore); rent from commercial establishments (₹ 10.66 crore) was outstanding between the period between April 2015 and March 2020³⁰.

Inadequate Revenue Collection

The audit also found that ULBs were not effectively collecting revenue from various sources, including trade licenses, water charges, advertisement fees, sewerage charges, and solid waste user charges. This was primarily due to a lack of accurate data, inefficient collection mechanisms, and inadequate enforcement. Recent audit (2022) found that the collection of user charges by test-checked ULBs varied between 1 *per cent* and 60 *per cent* of amount collectible i.e., amount collected ₹ 21.85 crore (36 *per cent*), against amount collectible ₹ 60.43 crore. Collection was between 01 *per cent* and 58 *per cent* of the revenue expenditure on the Door-to-Door Collection of Solid Waste³¹.

Lack of Data and Records

A significant obstacle to effective revenue collection was the lack of accurate data and records. Many ULBs did not have up-to-date information on the number of businesses, properties, and residents within their jurisdiction. This made it difficult to identify potential revenue sources and track outstanding payments. For example, audit (2022) revealed that Survey regarding trade license had not been conducted in neither of the test-checked ULBs. Therefore, data regarding number of people running trade within the ULB was not available and outstanding amount on trade license fee could not be ascertained. This was partly attributed to the shortage of staff at the ULBs³².

³⁰ C&AG of India (2022), Report No. 1 of 2022 of Govt. of Himachal Pradesh. Accessed on 11 February 2025, [https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_\(06-7-2022\)-0642ac153bb0ba6.52604316.pdf](https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_(06-7-2022)-0642ac153bb0ba6.52604316.pdf)

³¹ C&AG of India (2022), Report No. 1 of 2022 of Govt. of Himachal Pradesh. Accessed on 11 February 2025, [https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_\(06-7-2022\)-0642ac153bb0ba6.52604316.pdf](https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_(06-7-2022)-0642ac153bb0ba6.52604316.pdf)

³² C&AG of India (2022), Report No. 1 of 2022 of Govt. of Himachal Pradesh. Accessed on 11 February 2025, [https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_\(06-7-2022\)-0642ac153bb0ba6.52604316.pdf](https://cag.gov.in/uploads/download_audit_report/2022/Report-No.-1-of-2022_HP_74th-CAA_English_(06-7-2022)-0642ac153bb0ba6.52604316.pdf)

Inefficient Revenue Collection

The audit also revealed that ULBs were not charging appropriate rates for the services they provided. In some cases, they were charging below-market rates, leading to a loss of revenue. Additionally, the lack of clear and transparent pricing policies contributed to inefficiencies in revenue collection. An Annual Technical Inspection Report on PRIs and ULBs in the State highlighted this problem³³.

Financial Liabilities

A recent audit identified several ULBs with significant financial liabilities, primarily due to undercharging for water supply and not collecting sewerage charges. These liabilities posed a threat to the financial sustainability of these institutions³⁴.

Lack of Enforcement

Another contributing factor to the inadequate revenue collection was the lack of effective enforcement. ULBs were not adequately enforcing regulations related to trade licenses, advertisement fees, and solid waste management. This allowed businesses and residents to avoid paying their dues.

6.8 Problems of the PRIs

The 6th SFC identified two major challenges for the PRIs:

1. **Shortage of Staff:** The shortage of technical staff as well as ministerial staff has started hitting implementation of all the projects/schemes at panchayat level in all the districts of the State. Implementation of various development works is proving to be a biggest challenge as some of the Gram Panchayats are utilizing the services of single Junior Engineer/ Technical Assistant and Panchayat Secretary. In some cases, two Gram Panchayats are sharing the services of single technical person to monitor various construction works.
2. **Unequal distribution of power between the three tiers of panchayat system:** The Panchayati Raj system plays an important role in the development of villages specifically in the areas of health, education, child development, women participation, cleanliness and development of agriculture & horticulture etc. The members of Zila Parishad and Panchayat Samiti complain that all the powers for implementation of various programmes/schemes are vested with the Gram Panchayats. They requested to develop a mechanism in such a way so that these powers are equally distributed among the three tiers

³³ Principal Accountant General (Audit), Himachal Pradesh. 2016. Annual Technical Inspection Report on PRIs and ULBs. Accessed from https://cag.gov.in/uploads/download_audit_report/2017/Annual_Technical_Inspection_Report_of_2017_-_Panchayati_Raj_Institutions_and_Urban_Local_Bodies_Government_of_Himachal_Pradesh.pdf on 23 February 2025.

³⁴ C&AG of India. 2023. Performance Audit on Drinking Water Services in Himachal Pradesh Government of Himachal Pradesh. Report No. 1 of the year 2023.

of Panchayati Raj Institutions.

6.9 Recommendations for Improving the Resources of the PRIs

1. Himachal Pradesh Panchayati Raj (HPPR) Rules, 2002 provides that PRIs are required to maintain certain records, registers, forms and accounts. Discrepancies have been noticed in the internal control system of the PRIs resulting in irregular expenditure/ implementation of works and other schemes. It is necessary that all the PRIs prepare their annual accounts in time and submit them online.
2. Nature of Performance grants recommended by the Union FC and 6th SFC need to be engrained into the system so that financial prudence is observed and State's focus on raising their own revenue, which is meagre at this point.
3. Valuation of assets is essential for increasing financial viability ratings for the PRIs, which can go a long way in raising resources from the equity or bond market.
4. PRIs need to devote a sizeable proportion of grant in capital creation. However, it has been observed that there are concerns about payment of honorarium/wages by the PRIs. Thus, rationalisation of staff would be essential for the PRIs to be economically sound in the long run.

6.10 Observations on the Impact of Funding from Finance Commission

1. The Revenue Deficit Grant for the State is going to reduce gradually to 2025-26, while the Revenue Deficit and Fiscal Deficit for the State is on the rise. This would create an internal balance of payment crisis for the State as the growth of revenue receipt are not keeping pace with the declining FC grants.
2. The Local Bodies are unable to generate enough resources to cater for majority of their administrative expenses. The situation is due to factors like lack of monitoring towards collection of trade license fees, staff shortage etc. MC Dharamshala had stated lack of bylaws as a reason (the bylaw was later notified in 2021) [C&AG of India, 2022]. In such situation, the State has to chip in with additional resources in addition to the recommendations of the SFC, causing further strain on the resources of the State.
3. The State needed to cut down on subsidies for a stronger financial performance. Although the State is slowly taking steps to curtail such subsidies, more strong actions would be required.
4. Natural disasters like flash flood and landslides have been causing havoc in the States during the recent years (2023-24 and 2024-25), seriously jeopardising State's capability to allocated resources for other developmental spending. Special Natural Calamity grant based on area affected need to be considered.

Chapter 7 Disaster Management in the State

7.1 Hazard Profile of the State

Himachal Pradesh faces unique and significant challenges due to its geographical location and developmental trajectory. The mountainous terrain, coupled with rapid urbanization and developmental pressures, exacerbates the impacts of natural hazards, creating a complex web of vulnerabilities.

The state's vulnerability to seismic activity is paramount. Himachal Pradesh lies within a seismically active zone, making it highly susceptible to earthquakes. The challenge lies not just in the immediate impact of an earthquake – the loss of life and property damage – but also in the secondary hazards triggered. Landslides, triggered by seismic activity, can decimate infrastructure, disrupt communication networks, and isolate communities, severely hampering relief efforts. The remoteness of many settlements further complicates rescue and recovery operations. The construction practices, particularly in rural areas, may not always adhere to earthquake-resistant building codes, increasing vulnerability.

Another significant challenge is the susceptibility of Himachal Pradesh to landslides. The steep slopes, coupled with intense monsoon rainfall, create unstable geological conditions conducive to landslides. Deforestation, rampant road construction, and unsustainable land-use practices further destabilize slopes, increasing the frequency and intensity of landslides. These landslides disrupt transportation networks, damage property, and can cause significant loss of life.

Floods are another significant hazard affecting Himachal Pradesh, particularly during the monsoon season. Intense rainfall leads to overflowing rivers and streams, causing widespread inundation and damage to property and infrastructure. The topography of the state, with its narrow valleys and steep slopes, makes floodwaters particularly destructive.

Finally, there remains a steep interconnectedness among hazards. For example, an earthquake can trigger landslides, which, in turn, can exacerbate flooding. Addressing these risks effectively requires an integrated approach that considers the complex interplay of natural hazards and human activities. This integrated approach must involve not only government agencies and scientific institutions but also local communities, NGOs, and international organizations.

7.2 The Vulnerability Matrix

Different districts in the State are exposed to different and sometimes multiple kinds of disaster. A vulnerability map of the State provides an overall assessment of risk and vulnerability of different districts to different hazards, as shown in the figure below:

HAZARD VULNERABILITY OF HIMACHAL PRADESH							
DISTRICTS	E.Q	LANDSLIDE	FLOODS	AVALANCHE	INDUSTRY	CONST. TYPE & DENSITY	OVERALL VULNERABILITY
Kangra	VII	M	L	--	M	VII	II
Chamba	II	II	II	M	M	II	VII
Hamirpur	VII	L	L	--	--	II	M
Mandi	VII	M	M	--	M	II	II
Kullu	II	II	II	M	II	II	VII
Bilaspur	II	M	L	--	M	VII	M
Una	M	L	II	--	II	M	II
Sirmour	M	M	L	--	II	M	M
Solan	L	L	L	--	II	M	M
Kinnaur	II	II	II	VII	II	M	VII
L&Spiti	L	M	L	VII	--	M	II
Shimla	L	M	L	--	II	M	II

Figure 7.1: Hazard Vulnerability Mapping of Districts in Himachal Pradesh

Source: HP State Council for Environment Science and Technology³⁵

It is seen that while Chamba, Kullu and Kinnaur are exposed to all the kinds of disaster shown above, every other districts are battered by most of the disasters experienced in the State. This poses a challenging situation for the governance and development of the State. Besides, the above matrix does not contain hazards like forest-fire, which has emerged as one of the most threatening hazards in the State in recent times. Following diagram classifies the natural and human-induced hazards into multiple sub-types, including forest-fire.

³⁵ As accessed from the <https://hpsdma.nic.in/index1.aspx?lsid=72&lev=2&lid=14&langid=1> on 13 February 2025.

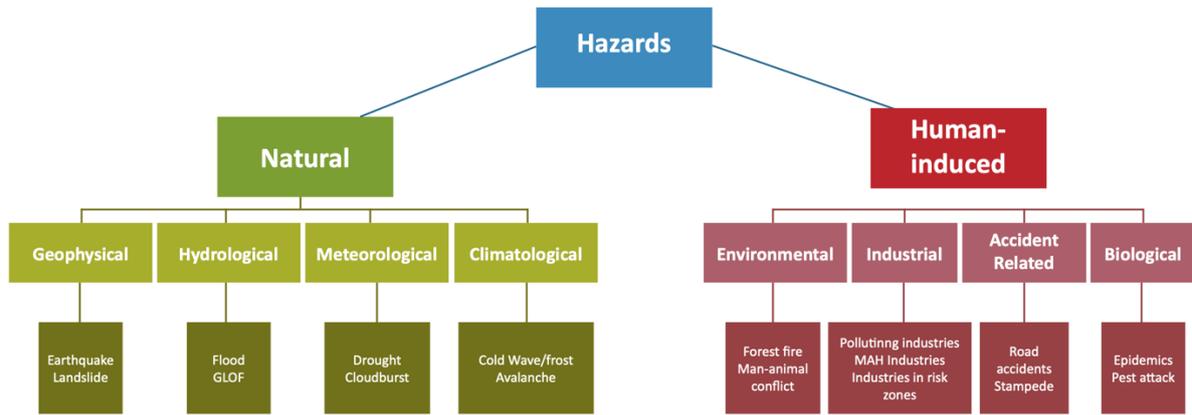
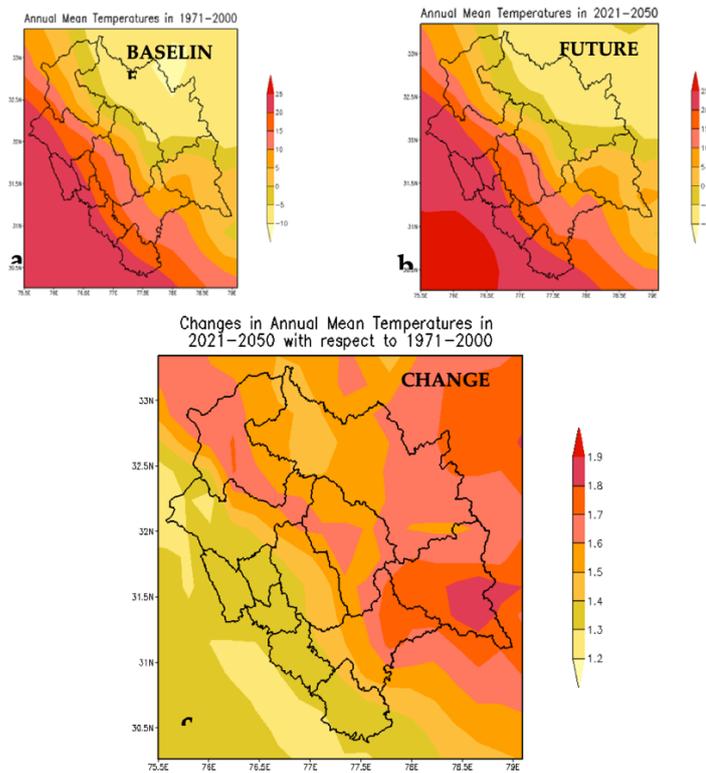


Figure 7.2: Types of Hazards in Himachal Pradesh³⁶

A climate model has predicted temperature of the State to increase between 1.1 deg. C to 1.9 deg. C between 2021 and 2050. Many districts in the State, especially the hilly districts are to face the highest change, disrupting the rainfall, vegetation and faunal pattern in the State (Map 7.1).



Map 7.1: Annual Mean Temperature (Baseline, i.e. 1971 to 2000 period), Future Temperature in 2021-2050 and Changes in Annual Mean Temperature between 1971-2000 and 2021-2050 Period³⁷

The above change would also aggravate the intensity of some disasters, including forest-fires in the State. Forest-fires in Himachal Pradesh have caused massive damage to the permanent vegetation in recent times. In the last three years, there have been around 20 forest-fires which have engulfed over 500 Sq. KM area in each case, damaging around 16,000 Sq.KM., as shown in Table 7.1.

³⁶ Himachal Pradesh State Disaster Management Authority (HPSDMA). 2017. Accessed from <https://hpsdma.nic.in/adminis/admin/showimg.aspx?ID=3351> on 23 February 2025.

³⁷ Himachal Pradesh Knowledge Cell on Climate Change. As accessed from <https://dest.hp.gov.in/sites/default/files/PDF/Report%20on%20Climate%20Modelling-HP.pdf> on 23 February 2025.

Table 7.1: Major Forest Fires in the Last Three Years (February 2022 to February 2025)

Sl. No.	Administrative Area	Date	Area (sq. km.)
1	Rupnagar district	03/03/23	973.00
2	Bilaspur district	05/10/24	963.00
3	Shimla District	02/06/22	957.00
4	Chamba district	01/01/24	941.00
5	Panchkula district	15/05/22	890.00
6	Mandi district	01/04/24	876.00
7	Shimla District	04/12/24	874.00
8	Solan district	04/04/24	794.00
9	Shimla District	08/02/24	789.00
10	Bilaspur district	23/11/24	788.00
11	Shimla District	14/05/22	788.00
12	Bilaspur district	10/11/24	788.00
13	Hamirpur District	24/04/24	787.00
14	Kangra district	17/05/24	774.00
15	Solan district	25/10/24	701.00
16	Kangra district	04/04/23	697.00
17	Yamuna Nagar district	15/05/24	621.00
18	Mandi district	14/02/24	610.00
19	Yamuna Nagar district	02/06/22	533.00
20	Shimla District	02/02/23	527.00
Total Area Impacted			15671.00

Source: earthdata.nasa.gov³⁸

7.3 Release and Utilisation of Fund for Disaster Management

As per Finance Accounts, as on 1 April 2022, an amount of ₹ 49.79 crore was lying in the State Disaster Response Fund (SDRF). During the year 2022-23, ₹ 380.80 crore (Central share: ₹ 342.40 crore, State share: ₹ 38.40 crore) were transferred to the SDRF. During the year, ₹ 375.04 crore was disbursed, leaving a balance of ₹ 55.55 crore at the end of the year. Details of expenditure charged to SDRF and funds transferred to the SDRF during the last five years are provided below in Table 7.1:

Table 7.2: Expenditure (in ₹ crores) and Transfer to SDRF during last five years

Relief on account of Natural Calamities	2022-23	2021-22	2020-21	2019-20	2018-19
<i>Floods, Drought, Cyclones etc. relating to</i>					
Ex gratia payments to bereaved families	72.41	165.82	70.50	...	90.85
Assistance for repair /reconstruction of Houses	10.97	19.77	16.00	...	48.03
Assistance to Farmers for Purchase of Agriculture Inputs	1.00	.	5.00	...	
Assistance to Local bodies and other non-Government Bodies/Institutions.	61.96	124.70	45.20		58.89
Total (includes many other items)	524.06	1010.36	334.77		495.52
State Disaster Response Fund-					

³⁸ https://datacommons.org/disasters/wikidataId/Q1177#disaster_cat_2_blk_0=%7B%22date%22%3A%222012-01%22%7D Accessed on 23 February 2025.

Transfer to Reserve Funds and Deposit Accounts- State Disaster Response Fund	380.80	363.00	456.90	679.50	500.29
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N.B.: During 2019-20, no amount had been shown as expenditure in the Finance Accounts as all the amounts had been objected and kept under OB Suspense Account-8658-102 due to lack of supporting documents/sub-vouchers/ proof of incurring actual expenditure by the State Government. Source: Finance Accounts of respective years. Source: Finance Accounts of Respective years.

The Disaster Management Division in the Ministry of Home Affairs provides the rates of different disaster relief in case of death, loss of property, crop etc.³⁹. For example, the revised rate for gratuitous relief in case of death is ₹4,00,000/, to be paid from SDRF (Table 7.2).

Table 7.3: Revised List of Items and Norms of Assistance (in ₹) From SDRF and NDRF

Relief Category	Item	Amount (INR)	Conditions/Notes
Response & Relief	Gratuitous Relief (deceased)	4,00,000	Per deceased person; subject to certification of cause of death
	Gratuitous Relief (loss of limb/eye)	74,000 - 2,50,000	Dependent on percentage of disability; subject to medical certification
	Grievous Injury (Hospitalization)	5,400 - 16,000	Dependent on length of hospitalization; not applicable for Ayushman Bharat Yojana recipients
	Clothing & Utensils/Household Goods	2,500 each	Per family; for homes washed away, fully damaged, or severely inundated for >2 days
	Gratuitous Relief (livelihood affected)	MNREGA daily rate or state/UT average	Per adult in affected family; whichever is lower
Recovery & Reconstruction	Housing (fully damaged Pucca)	1,20,000 - 1,30,000	Plain/hilly areas
	Housing (fully damaged hut)	8,000	
	Housing (partially damaged Pucca)	65,000	
	Housing (partially damaged Kutcha)	4,000	
	Housing (damaged/destroyed huts)	8,000	
	Cattle shed (attached to house)	3,000	
Agriculture (Small & Marginal)	De-silting of agricultural land	18,000/hectare	Minimum of 2,200/farmer
	Loss of substantial portion of land	47,000/hectare	Minimum of 5,000/farmer
	Input Subsidy (crop loss ≥33%)	8,500 - 17,000/hectare	Rainfed/irrigated areas; minimum assistance of 1,000-2,000/farmer
Animal Husbandry	Milch Animals	37,500 - 4,000	Varies by animal type
	Draught Animals	20,000 - 32,000	Varies by animal type
	Poultry	100/bird (max 10,000/household)	

³⁹ MHA. GoI. 2023. Revised Items and Norms of Assistance from the SDRF and NDRF for the Period from 2022-23 to 2025-26. As accessed from <https://hpsdma.nic.in/admnis/admin/showimg.aspx?ID=3557> on 24 February 2025.

However, the State provides higher amount of relief in some cases, as detailed in table 7.3 below.

Table 7.4: Relief Categories where State provides Higher Amount of Relief

Sr. No.	Item	GoI Norms	Himachal Pradesh State Government Provisions
1	Clothing and Utensils/Household Goods	₹2,500 per family (clothing); ₹2,500 per family (utensils/household goods)	Maximum ₹15,000 per family (including clothes, blankets, food grains, etc.)
2	Loss to Agriculture/Horticulture Crops		(i) 50-75% loss: Rs. 300 per Bigha; (ii) >75% loss: Rs. 500 per Bigha (maximum Rs. 7,000 per family)
3	Partially Damaged Houses	(i) Pucca: ₹6,500; (ii) Kutchra: ₹4,000	(i) Pucca: ₹12,500; (ii) Kutchra: ₹10,000
4	Loss/Damage to Business Premises/Shops/Gharats		Maximum ₹10,000 (for business premises/gharats); Maximum ₹25,000 (rental shops - paid to shopkeeper)
5	Cattle Shed Attached with House	₹3,000 per shed	Maximum ₹10,000 per shed

Source: Dept. of Revenue. Govt. of Himachal Pradesh. 2023⁴⁰.

The release of Fund from National Disaster Response Fund (NDRF) to the State is determined by the assessment of loss by the State, scrutiny of the same by the Centre and final allotment for disaster management. There remain issues in processing of claims of the States in some years, as observed during 2019-20, has been shown in table 7.1.

Himachal Pradesh established the State Disaster Mitigation Fund (SDMF) in February 2023, as mandated by the Disaster Management Act of 2005. This fund, held under the "General and Other Reserve Funds" account, is exclusively for disaster mitigation projects aligned with State Disaster Response Fund (SDRF) and National Disaster Response Fund (NDRF) guidelines, and any locally declared disasters. In 2022-23, the state received ₹42.80 crore from the central government and contributed a state share of ₹4.80 crore, totaling ₹47.60 crore. Additionally, ₹90.80 crore (₹81.80 crore central share and ₹9.00 crore state share) from the 2021-22 fiscal year were transferred to the SDMF.⁴¹ Further, while allotments were made for some of the schemes relating to disasters, like Natural Disaster Contingency Plans in Disaster Prone Areas had an outlay of ₹95.20 crores, without any expenditure (SFAR, 2024).

7.4 Damages during Recent Monsoon Seasons

The 2023 and 2024 monsoon seasons in Himachal Pradesh caused widespread devastation due to extreme weather events. Both years saw record-breaking rainfall in several districts, leading to flash

⁴⁰ As accessed from <https://hpsdma.nic.in/admnis/admin/showimg.aspx?ID=3557> on 24 February 2025.

⁴¹ Source: SFAR (2024). C&AG of India.

floods, landslides, and cloudbursts. While 2023 experienced a significantly larger scale of damage, with a substantially higher death toll (428 vs 318) and more widespread infrastructural losses, 2024 also resulted in significant losses across all districts, particularly in Kullu, Mandi, Shimla, and Solan. The total estimated damage for both years exceeded ₹10,000 crore, impacting roads, water resources, electricity infrastructure, housing, agriculture, horticulture, and fisheries.

In 2023, the unprecedented rainfall in July triggered widespread destruction, impacting entire valleys. The extensive flooding caused massive damage to roads and bridges, rendering some areas completely inaccessible. The large number of landslides (over 5500) and cloudbursts exacerbated the situation. In addition to infrastructural damages, heavy losses occurred to agriculture, horticulture, and private properties. The assessment of losses in 2023 appears more comprehensive due to broader reporting across sectors.

In 2024 too, the damage was still significant but more localized with specific cloudburst and flash flood incidents across several districts, particularly Kullu, Mandi, and Shimla. While the total number of deaths was lower (318) compared to the previous year, damage to houses, infrastructure, and key sectors was nevertheless severe. Following paragraphs represent estimated damage occurred in Himachal Pradesh during the monsoon season in last two years⁴².

1. Human Lives Lost

2023: 428 deaths (plus 39 were missing and 427 were injured). Ex-gratia compensation assessed at ₹17.12 crores.

2024: 318 deaths (plus 31 were missing and 206 were injured). Ex-gratia compensation assessed at ₹13.74 crores.

Loss of life is immeasurable, but the ex-gratia compensation for both years totalled to approximately ₹30.86 crores.

2. Animal Husbandry

2023: 6432 animals perished; 10150 poultry birds lost. Monetary loss estimated at ₹9.72 crores. Additional loss to infrastructure assessed at ₹1.78 crores.

2024: 222 animals perished; 6500 poultry birds lost in Una District. Monetary loss assessed at ₹0.49 crore.

3. Structures Damaged

Damage was extensive to houses, huts, cowsheds, shops, and other buildings in both the years.

2023: Total estimated loss assessed at ₹557.44 crores, but ₹42.20 crores was eligible as per MHA Norms.

2024: Total loss reported ₹23.29 crores.

4. Damage to Roads

Both years saw significant damage to roads, bridges, and culverts, particularly in Kullu and Mandi. Repair estimates exceeded ₹3000 crores.

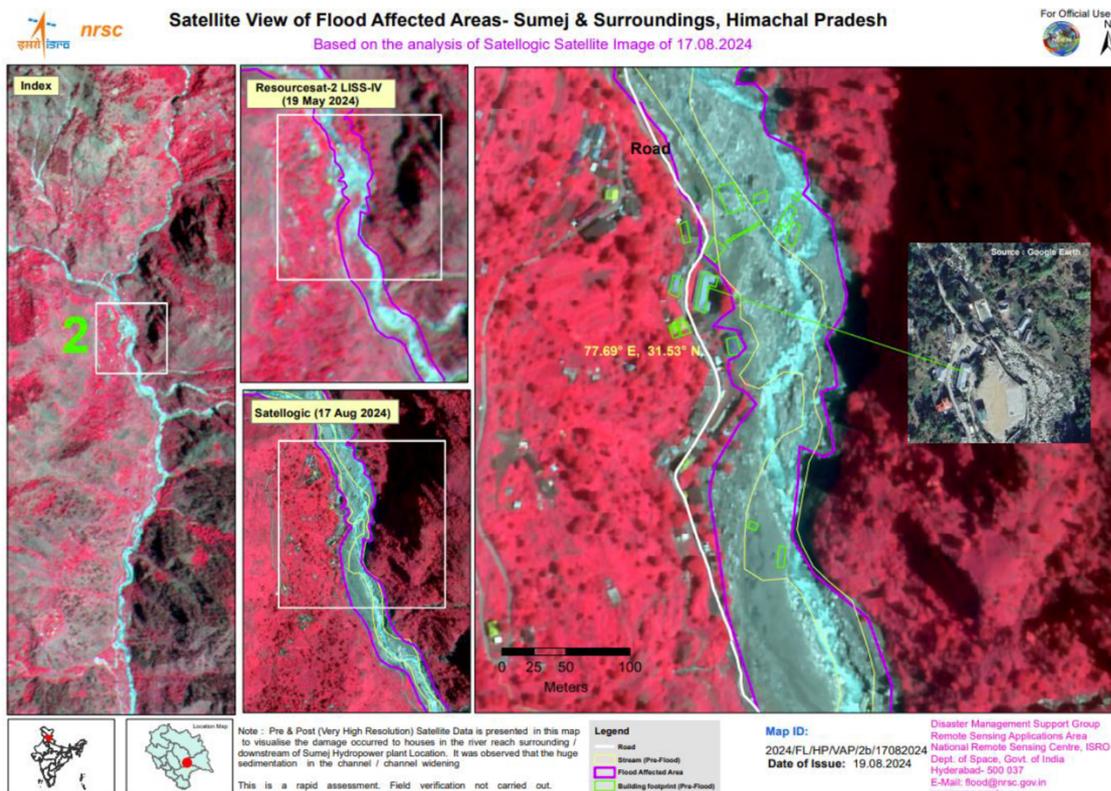
⁴² Disaster Management Cell, Revenue Department. Govt. of Himachal Pradesh (2023 and 2024). Revised Memorandum of Damages (As On 15-09-2023 and 19-09-2024) due to Flash Floods, Floods, Cloudbursts and Landslides during Monsoon Season.

2023: Estimated cost of road restoration in 2023 was ₹2949.55 crores, but ₹348.27 crores was eligible as per MHA Norms. Cost for removal of debris was estimated at ₹200.00 crores.

2024: Cost of restoration of roads and bridges was estimated at ₹621.77 crores.

The Shocking Story of Sumej Village

The village of Samej, situated on the border of Shimla's Rampur and Kullu districts, was devastated by a flash flood triggered by a cloudburst and torrential rain in the early hours of August 1st, 2024. The sudden deluge, occurring while residents slept, swept away almost all structures—homes, schools, temples, farms, and a primary health centre—leaving behind a scene of utter destruction and reducing the village to a pile of mud and debris. A large-scale rescue and search operation involving 301 personnel from the NDRF, Police, ITBP, Army, and CISF, along with 5 LNT machines were conducted. While some villagers managed to escape, many others, who were in concrete houses just days earlier, are now displaced and living in makeshift tents, left with nothing. The incident highlights the vulnerability of mountain communities to sudden and intense weather events and the devastating consequences for residents. The Rampur side of the village, situated near a drain, suffered the most damage, with only one house remaining from an estimated fifteen (Source: <https://www.etvbharat.com/en/!bharat/himachal-flood-entire-samej-village-washed-away-overnight-36-people-still-missing-rescue-ops-on-enn24080403761>)



Map 7.2: Satellite View of Flood Affected Areas in Sumej and Surroundings- Pre and Post Disaster

(Source: <https://ndem.nrsdc.gov.in/> and Govt. of H.P. 2024)

5. Damage to Irrigation and Water Supply Schemes

Thousands of water supply and irrigation schemes were affected by the floods and landslides.

2023: Estimated loss was ₹2419.10 crores, but ₹319.83 crores as per the MHA norms.

2024: Estimated loss was ₹540.88 crores, but ₹134.41 crores as per MHA norms.

6. Damage to Agriculture Crops

2023: A total of 134,985 hectares of crops were damaged; 8498.74 hectares of land washed away. The total damage assessed to crops and agricultural land was ₹358.26 crores. The claim under MHA norms was ₹143.18 crores.

2024: Total damage was assessed at ₹11.20 crores.

7. Damage to Horticulture Crops

2023: Damage was assessed at ₹172.65 crores, but ₹3.55 crores as per MHA Norms.

2024: Damage was assessed at ₹139.95 crores.

8. Damage to Electricity Infrastructure

Damage to the electricity infrastructure was extensive, with major losses to transformers, poles, lines, and substations.

2023: Estimated loss was ₹1770.04 crores, but ₹75.93 crores as per MHA norms.

2024: Estimated loss was ₹124.04 crores.

9. Rural Development:

Extensive damage happened to Panchayat Ghars, community halls, and other rural infrastructure.

2023: Estimated loss was ₹675.14 crores, but ₹212.56 crores as per MHA norms.

2024: Total loss estimated was ₹52.11 crores.

10. Urban Development:

Significant damage to urban infrastructure, including roads, buildings, and utilities.

2023: Estimated loss was ₹167.65 crores, but ₹54.40 crores as per MHA norms.

2024: ₹0.68 crore

In addition to the above, Several other sectors, including fisheries, health and education infrastructure, APMCs, transport, and Home Guard, reported damages. Total cumulative estimated loss and damage for the year 2023 monsoon season was ₹9905.77 crores, while that of 2024 monsoon season was ₹1613.50 crores.

7.5 Suggested Measures

It is seen from the above paragraphs that natural disasters cause a widespread damage to life and property. In the State and restrict the growth of the State every year. Following suggestions are given for improving the disaster management scenario in the State.

1. To deal with the earthquakes, the state needs robust earthquake-resistant building codes, enforced strictly, along with public awareness campaigns to educate people about earthquake preparedness and mitigation measures. Furthermore, strengthening infrastructure – roads, bridges, communication networks – to withstand seismic activity is crucial for minimizing the long-term consequences.

2. Developing early warning systems and efficient disaster response mechanisms are also integral parts of mitigating seismic risks.

3. The rehabilitation and reconstruction efforts following landslides are often costly and time-consuming, placing a significant strain on the state's resources. Addressing this challenge requires a multi-pronged approach. Sustainable land management practices, including afforestation and reforestation programmes, are essential to stabilize slopes and prevent landslides.

4. Implementing stringent environmental impact assessments for all development projects is crucial to minimize their impact on the environment.

5. Furthermore, scientific assessment of landslide-prone areas and the development of early warning systems can help in reducing vulnerability. Community participation in disaster preparedness and risk reduction is also essential.

6. Improving drainage systems, constructing flood control structures, and implementing flood-plain zoning regulations are necessary to mitigate the impact of floods. However, such measures require significant financial investment and long-term planning.

7. Raising public awareness about flood safety and developing efficient evacuation plans are equally vital. Since the challenges are amplified by the fact that many settlements are located in flood-prone areas, implementing relocation strategies for those in highly vulnerable areas needs careful consideration, taking into account the social and economic implications.

Effective disaster risk reduction necessitates strong institutional mechanisms, well-defined responsibilities, robust financial allocations, and coordinated actions across various stakeholders. Furthermore, investing in research and development to better understand the specific risks within the context of Himachal Pradesh's unique geography and socio-economic conditions is crucial for developing effective and sustainable mitigation strategies. The goal should be to build a more resilient

and disaster-prepared Himachal Pradesh, capable of withstanding the challenges posed by its environment and its trajectory of development.

Chapter 8 Recommendations for improving the Financial Performance of the State

In view of the above scenario depicted through different chapters, following recommendations are given:

1. *The State needs to raise its own revenue through rationalisation of taxes, excise duty, VAT on petroleum etc.*⁴³
2. *The State imposes VAT at 17.5% or ₹13.50/Litre (whichever is higher) on Petrol and at 13.90% or ₹10.40/Litre (whichever is higher) on Diesel. While the same might be favourable for tourism sector, the concept of 'Green Tax' is ignored by lower rate of VAT. Many States have VAT as higher as 31%. An increase to the level of VAT and cess, as imposed in Punjab and Haryana would approximately increase the tax revenue of the State by over ₹200 Crore.*
3. The State need to expand the avenues for increasing non-tax revenue through imposition and collection of user charges.
4. Likewise, the Local Bodies are required to judiciously utilise their resources, prepare an inventory of assets, assess and collect all the user-fees or Waste fee once they are due. Arrears of such fees reduce the possibility of their full recovery.
5. Pension payment is going to be an enhanced burden on the State exchequer once the NPS- based employees start retiring from early 2030s. The State need to create a Pension Fund for depositing its pension contribution on accrual basis to ensure financial viability. Alternatively, the State can also explore the options of offering a hybrid model like the Unified Pension System (UPS) recently notified by the Union Government.
6. The State needs to roll back the subsidies given for the 125 units of electricity to domestic consumers. It costs the State around ₹1000 Crore every year.
7. Since the State is more often breaching the target for Fiscal Deficit set under the HP FRBM Act, 2005, an averaging mechanism may be explored through which one year's deficit can be adjusted by fiscal prudence on the next year. In this way, the Fiscal Deficit target might be achieved on a three years' rolling average.
8. Many of the State PSEs are reeling under severe stress and some of them remain inactive. It is high time that the State reorganises its PSEs and winds up some of them, through introduction of a Voluntary Retirement Scheme (VRS)⁴⁴ or through disinvestment.
9. The State has been battered by natural calamity of increased intensity during recent years. To enable

⁴³ The petroleum price in Himachal Pradesh is quite low compared to Haryana and Rajasthan. An analysis in this respect has been shown in chapter 2.

⁴⁴ The Voluntary Retirement Scheme(VRS) was implemented by 26 out of 27 Public sector banks in the year 2000-01. The total number of staff strength in public sector banks at the end of March 2000 was 8,63,188 of which 1,26,714 employees had applied for VRS. It constitutes 4.7% of its total workforce. A study has shown that VRS has resulted in improving the Profitability, productivity and organisational efficiency of banks during the post-VRS period (Sankaranarayanan, 2021).

the State to revive and remain on path of fiscal discipline, the devolution formula used by the Finance Commission may incorporate the ratio of hilly areas to plain areas in border States to enable the State to obtain higher performance-linked grant.

While the State has a number of horticultural farms, the income from them is not taxed. This is dichotomous in a way as a sizeable contribution to the economy is made by this sector. It constitutes 7% of the GSDP. An imposition of a duty of ₹2 per kg per produce would help the State earn a revenue of over ₹150 crores. Further, measures to impose tax on agricultural/horticultural income after a threshold income may be explored. As Income Tax is a Union subject, a joint consultation with the State may be an option for imposition of such taxes.

Annexures

Annexure-I

Tax Revenue of Himachal Pradesh (Central Share and State's Own Taxes)

Years	2012-13	2013-14	2014-15	2015-16
Tax Revenue	6908.18	7612.44	8584.33	10306.97
(i) Share of Central Taxes	2282.02	2491.52	2644.17	3608.21
(a) Central Goods & Services Tax	-	-	-	-
(b) Union Excise Duty	257.73	287.13	241.48	484.57
(c) Taxes on Income and Corporation Tax	1310.55	1389.78	1582.84	1922.29
(d) Others	713.74	814.61	819.85	1201.35
(ii) States Own Taxes	4626.16	5120.92	5940.16	6698.76
(a) State Goods & Service Tax (SGST)	-	-	-	-
(b) Land Revenue	23.6	9.98	16.88	7.43
(c) Other Tax Revenue	172.61	187.5	190.58	205.52
(d) State Excise Duties	809.87	951.96	1044.14	1131.23
(e) Sales Tax	2728.22	3141.1	3660.57	3993
(f) Other Taxes & Duties on Commodities & Services and Other Heads	891.86	830.38	1027.99	1361.58

Years	2016-17	2017-18	2018-19	2019-20
Tax Revenue	11382.75	11908.98	13002.59	12301.38
(i) Share of Central Taxes	4343.69	4801.31	5426.97	4674.6
(a) Central Goods & Services Tax	-	68.36	1340.15	1327.34
(b) Union Excise Duty	684.49	506.5	255.78	206.16
(c) Taxes on Income and Corporation Tax	2361.95	2712.55	3278.97	2844.54
(d) Others	1297.25	1513.9	552.07	296.56
(ii) States Own Taxes	7039.06	7107.67	7575.62	7626.78
(a) State Goods & Service Tax (SGST)	-	1833.16	3342.68	3550.34
(b) Land Revenue	7.64	16.96	8.39	4.79
(c) Other Tax Revenue	209.16	229.18	250.56	259.58
(d) State Excise Duties	1307.87	1311.25	1481.63	1660.02
(e) Sales Tax	4381.91	2525.88	1185.43	1169.53
(f) Other Taxes & Duties on Commodities & Services and Other Heads	1132.48	3024.4	4649.61	4532.86

Years	2020-21	2021-22	2022-23	2023-24
Tax Revenue	12837.24	17063.62	18479.24	21503.99
(i) Share of Central Taxes	4753.92	7341.89	7871.01	8478.02
(a) Central Goods & Services Tax	1419.55	2105.41	2227.15	2741.39
(b) Union Excise Duty	160.44	265.82	97.22	112.64

(c) Taxes on Income and Corporation Tax	2894.28	4372.31	5224.46	5353.42
(d) Others	279.65	598.35	322.18	270.57
(ii) States Own Taxes	8083.32	9721.73	10608.23	13025.97
(a) State Goods & Service Tax (SGST)	3466.58	4482.15	5259.21	6263.77
(b) Land Revenue	6.95	4.81	8.22	17.16
(c) Other Tax Revenue	253.36	318.6	398.75	439
(d) State Excise Duties	1599.74	1980.63	2216.34	2350.81
(e) Sales Tax	1630.11	1592.24	1370.3	1840.05
(f) Other Taxes & Duties on Commodities & Services and Other Heads	4593.16	1343.3	1355.41	2115.18

*Note: The fiscal indicators & Tax to GDP ratio for FY 2023-24 is based on budgeted estimates.
Source : Himachal Pradesh Budget Documents.

An Overview of the User Charges' Collection in Urban Local Bodies and Scope for Improvement

The First State Finance Commission (SFC), constituted by the Himachal Pradesh Government in the month of April, 1994, covered the period 1996-2001 in its recommendations. First SFC recommended that ULBs should mandatorily raise statutory resources by levying rates and taxes within their purview, as some of the ULBs were not levying statutory rates and taxes.

Section 85 of the Himachal Pradesh Municipal Corporation Act, 1994 and Section 66 of the Himachal Pradesh Municipalities Act, 1994 provide that the Municipality may levy a fee and user charges for the services provided by it at such rates and in such manner as may be determined by the municipality from time to time.

An Audit conducted by the Comptroller and Auditor General (CAG) of India, covering the period between 2015 and 2020, on Himachal Pradesh Urban Local Bodies (ULBs) revealed significant shortcomings in their revenue generation and financial management practices.

ULBs need to focus on the following:

- **Strengthening revenue generation:** ULBs should conduct regular surveys to identify potential revenue sources and implement effective collection mechanisms.
- **Enhancing staff capacity:** ULBs should recruit and train qualified staff to manage revenue collection and other operations.
- **Increasing public awareness:** ULBs should conduct public awareness campaigns to educate residents about their responsibilities and the importance of paying taxes and fees.
- **Improving enforcement:** ULBs should strengthen enforcement measures to ensure compliance with regulations.
- **Seeking technical assistance:** ULBs may benefit from technical assistance from the state government or other organizations to improve their financial management practices.
- **Outsourcing Service Functions:** It has been observed that wherever the State has outsourced the service delivery functions like solid waste management and collection of user fees to an outsourced agency, the efficiency of collection of revenue has been more. Similar outsourcing may be done with stricter quality monitoring of outsourced agencies.

Mineral Resources and Royalty from Minerals in Himachal Pradesh

Apart from the minor minerals like Sand, Stone, Bajri etc. the major minerals like Limestone, Dolomite, Gypsum, Magnesite, Barytes, Rock Salt etc. have been reported from various parts of Himachal Pradesh. However, except for limestone and Rock Salt, no other major mineral, which can be commercially exploited, has been reported in the State. Based on these limestone deposits, seven (7) mega cement units i.e. two in district Bilaspur (M/s ACC Ltd.), four in district Solan (M/s Gujarat Ambuja and M/s UltraTech Cements) and one in district Sirmour (M/s CCI Ltd.) are already in operation. In addition to above functional limestone blocks, there exists ten (10) major mineral blocks of limestone deposits. Out of the ten (10) limestone blocks, five (5) are under litigation in various courts and two (2) blocks are yet to be fully explored. So, in the present scenario, only three limestone mineral blocks i.e. Broh- Shind limestone deposit (Distt. Chamba), Kothi-Sal-Bag limestone deposit (Distt. Shimla) & Arki limestone deposit (Distt. Solan) are available for auction.

Commercially exploitable minerals found in various districts of the state

District	Exploitable Minerals
Bilaspur	Limestone, dolomitic limestone, shale, brick earth, minor minerals like sand, stone & bajri.
Kangra	Roofing slate, brick earth, minor minerals like sand, stone & bajri.
Chamba	Limestone, roofing slate, magnesite & minor minerals like sand, stone & bajri.

Lahaul&Spiti	Antimony-ore, Gypsum & minor minerals like sand, stone & bajri.
Solan	Limestone, dolomitic limestone, shale, building stone & minor minerals like sand, stone & bajri
Una	Silica boulders & minor minerals like sand, stone & bajri
Mandi	Limestone, rock salt, & minor minerals like sand, stone & bajri
Hamirpur	Minor minerals like sand, stone & bajri
Shimla	Limestone, shale, quartzite & minor minerals like sand, stone & bajri
Sirmour	Limestone, barites, gypsum, shale, quartzite & minor minerals sand, stone & bajri
Kullu	Roofing slate, quartzite crystal, mineral water, Semi precious stones & minor minerals like sand, stone & bajri.
Kinnaur	Gypsum & minor minerals like sand, stone & bajri

Based on the major minerals available in the State, seven (7) mega cement units of four (4) Cement Companies are functional. Apart from these, five (5) mini cement plants have also been set up in the State. Further, more than hundred lime based units like poultry feed, limestone powder, calcium carbonate, hydrated lime etc. have been set up in the State. Based on the minor minerals, about four hundred eight (408) stone crusher units, about fifteen (15) stone cutting and hollow block units have been operating in the State. The mining sector is providing direct employment to more than 12,500 persons and indirect employment to more than 45,000 persons in the State.

Royalty from Minerals

The details of royalty realized in the state exchequer from 2013-14 to 2022-23 has been given below:

Year	Major Mineral (i.e. Limestone, Barytes, Shale, Quartzite, Silica Sand)	Minor Mineral (i.e. Building Stone, Sand, Stone and Bajri, Shale, Slate)	Other Charges (i.e. fees, rent, penalties, compounding fee and other recoveries)	Total Royalty (in Cr.)
2013-2014	66.25	33.60	11.23	111.08
2014-2015	97.40	27.83	36.29	161.52
2015-2016	93.09	32.76	29.23	155.08
2016-2017	83.85	50.69	41.68	176.22
2017-2018	352.67	51.18	37.61	441.46
2018-2019	102.87	48.41	21.93	173.21
2019-2020	108.81	49.14	36.54	194.49
2020-2021	101.26	63.92	40.69	205.87
2021-2022	116.65	60.90	22.54	200.09
2022-2023	98.25	101.00	42.00	241.25

Source: Himachal Pradesh Mineral Policy, 2024

As can be seen from the above table in the FY 2017-18, the royalty from minerals has peaked to ₹441 crores, which had since reduced drastically the next year, only to recover to around ₹200 crores in the next few years. The Mineral Policy of 2024 is expected to bring in new royalty from the mining activities in the State.

Annexure IV

Composition of Expenditure of State Government (in per cent)

Expenditure Heads	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Expenditure, of which	90.34	88.89	88.62	87.87	87.81	86.53	85.59	86.33	85.72	88.05
General Services	36.69	34.16	34.92	33.73	35.74	33.62	34.36	34.64	32.92	35.21
Social Services	34.91	33.48	31.71	33.32	33.55	33.75	33.55	33.06	32.88	34.50
Economic Services	18.69	21.22	21.95	20.79	18.49	19.14	17.65	18.61	19.90	18.33
Grants & Contributions	0.05	0.04	0.04	0.03	0.03	0.03	0.03	0.02	0.02	0.01
Capital Expenditure, of which	9.66	11.11	11.38	12.13	12.19	13.47	14.41	13.67	14.28	11.95
Capital Outlay, of which	9.66	11.11	11.38	12.13	12.19	13.47	14.41	13.67	14.28	11.95
General Services	0.42	0.37	0.35	0.72	0.62	0.67	0.57	0.44	0.92	0.59
Social Services	2.49	2.34	3.15	3.61	3.68	3.49	3.50	4.47	4.56	3.89
Economic Services	6.75	8.39	7.88	7.80	7.88	9.31	10.34	8.76	8.80	7.47
Discharge of Public Debt	8.87	37.11	15.69	13.67	11.36	13.73	18.66	28.68	10.39	20.09
Internal Debt	8.53	36.81	15.40	13.41	11.10	13.48	18.42	28.44	10.16	19.89
Loans & Advances from the Centre	0.34	0.30	0.28	0.26	0.26	0.25	0.25	0.24	0.23	0.20
Disbursement of Loans & Advances	2.76	2.13	1.84	11.41	1.63	1.38	1.28	0.82	0.90	0.22
Total	100.00									

Source: Finance Accounts of the Himachal Pradesh Government for respective years.

Growth of Expenditure of State Government (in per cent)

Expenditure Heads	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	CAGR (2013 - 23)
Revenue Expenditure, of which	14.03	12.71	13.64	6.74	8.83	4.38	9.13	7.93	22.74	11%
General Services	7.90	15.58	10.69	13.17	3.89	7.84	9.07	3.31	27.80	11%
Social Services	11.12	7.09	20.43	7.56	11.08	4.92	6.61	8.09	25.40	11%
Economic Services	31.54	16.98	8.54	-5.00	14.31	-2.67	14.03	16.29	10.03	11%
Grants & Contributions	0.44	9.09	0.70	2.59	-8.75	9.37	-8.76	-17.72	-21.01	-4%
Capital Expenditure, of which	33.25	15.84	22.15	7.33	22.04	12.88	2.62	13.56	-0.01	14%
Capital Outlay, of which	33.25	15.84	22.15	7.33	22.04	12.88	2.62	13.56	-0.01	14%
General Services	2.22	6.87	135.42	-7.96	18.43	-10.30	-16.79	129.82	-23.68	16%
Social Services	9.32	51.74	31.44	9.02	4.60	6.00	37.97	10.89	1.91	17%
Economic Services	43.99	6.20	13.39	7.97	30.47	17.12	-8.31	9.14	1.48	13%
Discharge of Public Debt	384.65	-52.21	-0.12	-11.24	33.53	43.38	66.27	-60.62	131.03	22%
Internal Debt	399.87	-52.69	-0.19	-11.58	34.12	44.11	67.07	-61.17	133.89	22%
Loans & Advances from the Centre	2.07	7.20	3.63	6.72	7.81	3.96	6.46	3.71	5.43	5%
Disbursement of Loans & Advances	-10.71	-2.33	610.27	-84.72	-6.88	-2.09	-30.14	18.07	-70.74	-16%
Total	15.89	13.06	14.61	6.81	10.44	5.52	8.19	8.70	19.49	11%

Source of Borrowing and Outstanding Liabilities of the State (in ₹ Crore) on March of Respective Years (2012-24)

Sl.No.	Composition	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
1	SDLs/ SGSs	10,150	12000	13570	15200	17850	19,023.1	21,574.1	23,682.2	28,142.2	31,897.2	33,772.2	46,002.1	53,004.1
2	UDAY	30	20	20	10	0	2,890.5	2,890.5	2,890.5	2,890.5	2,890.5	2,890.5	2,601.5	2,601.5
3	Compensation and other bonds	0	0	0	0	0	-	-	-	-	-	0.0	-	-
4	NSSF	5,060	5180	5770	6680	6450	7,150.0	6,635.3	6,097.1	5,528.0	4,958.9	4,389.8	3,820.7	3,251.6
5	WMA from RBI	0	0	460	460	460	-	-	-	-	-	0.0	0.0	0.0
6	Loans from LIC	280	230	190	140	100	74.5	51.1	34.7	24.8	21.6	18.7	15.8	12.9
7	Loans from GIC	0	0	0	0	0	0.4	0.3	0.3	-	-	0.0	-	-
8	Loans from NABARD	1,280	1480	1600	1740	1830	2,101.1	2,251.1	2,409.1	2,755.8	3,005.8	3,164.1	3,448.0	3,585.0
9	Loans from SBI and other banks	0	0	0	0	0	-	-	-	-	-	0.0	-	-
10	Loans from NCDC	20	20	50	60	50	96.0	75.0	95.6	125.4	162.4	120.4	96.9	67.6
11	Loans from other institutions	1,750	1010	460	310	240	158.4	114.1	86.6	61.2	40.7	20.4	-288.9	-578.1
12=6 to 11	Loans from banks and FIs	3,330	2750	2290	2240	2220	2,430.4	2,491.6	2,626.3	2,967.2	3,230.5	3,323.6	3,271.8	3,087.5
13=(1 to 5)+12	Internal Debt	18,570	19940	22100	24580	26980	31,494.0	33,591.5	35,296.0	39,527.8	42,977.0	44,376.0	55,696.0	61,944.6
14	Loans from Centre	960	950	1000	1060	1040	1,071.8	1,074.8	1,055.2	1,045.9	1,017.7	6,753.6	7,431.3	8,215.7
15	Provident Fund	6,700	7350	8740	9660	10560	11,844.4	13,236.4	14,461.4	15,537.1	16,837.1	17,006.3	18,106.3	19,426.3
16	Reserve Fund	80	80	230	230	230	219.6	325.0	325.0	2,722.3	2,722.3	1,973.9	1,973.9	1,973.9
17	Deposit and Advances	1,580	1580	1810	2010	2010	2,609.6	2,797.7	2,797.7	3,380.3	3,380.3	3,426.7	3,426.7	3,426.7
18	Contingency Fund	10	10	10	10	10	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
19 = 13 to 18	Outstanding Liabilities	27,890	29910	33880	37540	40830	47,244.4	51,030.4	53,940.3	62,218.4	66,939.4	73,541.4	86,639.2	94,992.2

Guidelines regarding Issue of State Guarantee and Levying of Guarantee Fee and Commitment Charges in respect of SPSEs

No.Fin-IF(C) 14-4/90
Government of Himachal Pradesh
Finance(IF) Department

From

The Additional Chief Secretary(Finance) to the
Government of Himachal Pradesh

To

1. All Administrative Secretaries to the Government of Himachal Pradesh.
2. All Heads of Departments in Himachal Pradesh.
3. All Managing Directors /CEO of PSUs/ Boards in H.P.

Dated Shimla-171002, the 3rd June,2021.

Subject:- Guidelines regarding issue of State guarantee and levying of guarantee fee and commitment charges in respect of Public Sector Undertakings/ Autonomous Bodies etc.

Madam/Sir,

This is in reference to the subject cited above. It has been observed by the Finance Department that guarantee fee and commitment charges are not being deposited/paid to the State government by the Public Sector Undertakings etc. and the guidelines issued from time to time by the Finance Department are not being adhered to by concerned institutions. After careful consideration, the following guidelines regarding issue of State govt. guarantee and levying of guarantee fee and commitment charges in respect of Public Sector Undertakings/ Autonomous Bodies etc. are being issued for adherence by concerned PSU/Board etc.

1. Rule 166 of HPFR, 2009 provides that the power of the State Government to give guarantee shall be subject to such limits as may be fixed in terms of Article 293 of the Constitution, Himachal Pradesh Fiscal Responsibility and Budget Management Act,2005 as amended from time to time and rules framed thereunder. Such matters should be invariably sent to FD.
2. All the cases of guarantee will be recommended as per procedure laid down in Rule 167 of HPFR,2009. As such, the proposals for State Govt. guarantee should contain following complete details of the liability involved:-
 - a. Purpose of loan, rate of interest, amount involved, period of guarantee and commitment of financing institution etc. The rate of interest in respect of the borrowings under State Govt. guarantee should be negotiated to be the lowest possible.
 - b. Detailed report indicating the financial health of the institution concerned. Copy of profit and loss statement should be added:
 - c. Up-to-date position with regard to the loans obtained with State guarantee, the loan repaid and balance outstanding:

- d. Whether Guarantee fee has been paid in full in respect of the loans already obtained with the State Guarantee;
- e. Whether the loan proposed to be obtained is covered within borrowing power limit of the institution concerned;
- f. The terms and conditions on which the loan has to be repaid and the arrangements which are being made for the repayment of the loan proposed to be guaranteed.
3. The Guarantee Deed and other documents should be completed with the financing institution immediately after approval of proposal by the State govt. and there should be no delay for this purpose. The guarantee deed will be signed by the Administrative Department with the concerned institution to whom the guarantee has been given.
4. The liabilities incurred under State Govt. guarantee should be liquidated well in advance of the expiry of guarantee period and intimation to this effect should be sent to Finance Department
5. Rule 168 provides for levying of guarantee fees. As such, the rate of guarantee fee will be 1% and the guarantee fee would be charged on the amount of loan actually availed.
6. In addition to guarantee fee, commitment charge will be levied @0.2% of the total amount of guarantee asked for so that there is disincentive to the Corporations /Boards /Cooperative Institutions against sending proposals for seeking State Guarantee for higher amounts than actually needed.
7. Initially, the Corporation or Board or other Agencies under the Govt. shall deposit the entire guarantee fee on the whole amount guaranteed (@1%) plus the commitment charge @(0.2%) i.e. a total of 1.2% of the total amount of guarantee under the following Head of Accounts:

0075- Miscellaneous General Services

00-

108- Guarantee Fees

01 - Guarantee Fee and Commitment Charges.

(गारंटी फीस और प्रतिबद्धता शुल्क)

All Heads of the Department, Himachal Pradesh shall be the Head of Department for operating this sub-minor head.

At the end of the financial year, the concerned Corporation/Board/Institution shall indicate the actual highest amount of credit availed of duly supported by bank documents. If such amount is less than the amount for which guarantee was given, the concerned Corporation/Board/Institution shall be allowed a

Summary of Results of the SPSEs as on 31st March 2023 (Unaudited)

Sl. No.	Name of Public Sector Undertaking	Profit/loss during			Cumulative profit/loss as on 31.03.2022	Cumulative profit/loss as on 31.03.2023	Investment as share capital as on 31.3.23	Number of employees as on 31.3.23
		2020-21	2021-22	2022-23				
1	2	3	4	5	6	7	8	9
1	Himachal Pradesh Financial Corporation, Shimla	-6.98	-7.16	-3.86	-180.97	-184.83	103.59	14
2	Himachal Pradesh State Electricity Board Ltd., Shimla	-185.32	-103.69	-14.37	-1809.61	-1823.98	882.23	15123
3	Himachal Road Transport Corporation, Shimla	-40.23	-133.18	-259.02	-1707.12	-1966.13	1227.68	11085
4	Himachal Pradesh Power Corporation Ltd.	-200.73	-111.34	-0.91	-688.32	-689.23	984.55	560
5	H.P. power Transmission Corporation Ltd.	-132.06	-169.79	23.31	-395.91	-372.59	732.10	321
6	H.P. Housing and Urban Development Authority, Shimla.	0.20	0.11	0.30	9.70	10.00		431
7	H.P. Scheduled Castes & Scheduled Tribes Development Corporation, Solan	-3.04	-3.55	-5.87	-40.16	-46.03	53.97	143
8	H.P. Ex-Servicemen Corporation, Hamirpur	9.01	7.82	8.98	73.80	82.78	4.14	43
9	H.P. State Industrial Development Corporation Ltd., Shimla	7.61	7.79	12.03	96.41	108.44	30.82	99
10	H.P. General Industries Corporation Ltd., Shimla	3.01	3.08	0.83	43.54	44.37	7.04	104
11	Himachal Pradesh Agro Industries Corporation Ltd., Shimla	0.22	0.33	2.55	-13.48	-10.92	9.84	10
12	H.P. Horticulture Produce Marketing & Processing Corporation, Shimla	-1.66	2.89	-7.33	-83.87	-91.20	37.27	83
13	H.P. State Forest Development Corporation, Shimla	2.01	2.61	9.64	-107.85	-98.21	11.71	1078
14	H.P. State Civil Supplies Corporation, Shimla	1.06	-9.89	0.87	27.70	28.58	3.52	775
15	H.P. State Handicrafts & Handloom Corporation Ltd., Shimla	0.80	0.95	0.48	-11.23	-10.75	9.22	22

16	H.P. Tourism Development Corporation Ltd., Shimla	-43.14	-29.07	-16.43	-110.20	-126.63	14.30	1760
17	Himachal Pradesh State Electronics Development Corporation Ltd., Shimla	0.24	0.57	8.06	10.88	18.94	3.72	35
18	Himachal Pradesh Mahila Vikas Nigam, Solan	0.29	0.58	0.32	4.69	5.00	0.15	6
19	H.P. Khadi & Village Industries Board, Shimla	0.08	0.07	0.09	1.26	1.35	-	79
20	Himachal Pradesh State Co-operative Milk Producers Federation Ltd., Shimla	-4.82	2.98	1.96	-19.05	-17.10	6.20	189
21	Himachal Backward Classes Finance & Development Corporation, Kangra	-0.60	0.30	-18.24	3.69	-14.55	10.00	16
22	Himachal Pradesh Minorities Finance & Development Corporation	3.74	3.50	2.24	1.93	4.17	14.84	9
23	Himachal Pradesh Kaushal Vikas Nigam, Shimla	0.80	0.05		5.07	5.07	0.01	43
	Total	-589.54	-534.03	-254.37	-4889.09	-5143.46	4146.90	32028

Annexure VIII

Details of tariffs and subsidies provided by the State through the HPSEBL w.e.f. 01.04.2024

New Tariff Rates applicable w.e.f 01.04.2024											
TARIFF CATEGORY	Slab (Units/month)		Normal Energy Charges (₹/unit)	Peak Energy Charges (₹/unit)	GoHP Subsidy on energy charges (₹/unit)	Effective Energy Tariff after subsidy (₹/kuwh)*	Effective Peak Energy Charges (₹/unit)	Fixed Charge (₹/con/month)	GoHP Subsidy on Fixed Charge (R₹/con/month)	Effective Fixed Charge (₹/con/month)	Demand Charge (₹/ kVA/month)
Domestic Supply (DS)	Lifeline consumers	0-60	4.72		4.72	0		55*	55*	0	
	1st Slab	0-125	5.60		5.60	0		85/55*	85/55*	0	
	2nd Slab	0-125	5.60		3.53	2.07		85/55*	0	85/55*	
		126-300	6.00		1.83	4.17		85/55*	0	85/55*	
	3rd Slab	0-125	5.60		3.53	2.07		85/55*	0	85/55*	
		126-300	6.00		1.83	4.17		85/55*	0	85/55*	
		Above 300 & above	6.25		1.03	5.22		85/55*	0	85/55*	
Agriculture	Up to 20kVA		5.12		4.82	0.30		105	0	105	
Non-Domestic Non-Commercial (NDNCS)	Up to 20kVA		6.42		1.00	5.42		145	0	145	
	Above 20 kVA		6.16		1.00	5.16		0	0	0	140
Commercial Supply (CS)	Up to 20 kVA		6.52		1.00	5.52		145	0	145	
	Above 20-100 kVA		6.31		1.00	5.31		0	0	0	110
	Above 100 kVA		6.21		1.00	5.21		0	0	0	170
Small Industrial Power Supply (SIP)	Up to 20 kVA		5.92	7.99	0.75	5.17	7.24	155	0	155	
	Above 20 kVA-50 kVA		5.81	7.11	0.75	5.06	6.36	0	0	0	100
Medium Industrial Power Supply (MIP)	50-100 kVA		5.81	6.91	0.75	5.06	6.36	0	0	0	120
Large Industrial Power Supply (LIPS)	EHT 220 kV and above		5.66	6.96	1.00	4.66	5.96	0	0	0	425

	EHT -132 kV and above	5.71	6.96	1.00	4.71	5.96	0	0	0	425
	EHT - 66 kV and above	5.76	6.96	1.00	4.76	5.96	0	0	0	425
	HT-1 (up to 1 MVA)	6.06	7.16	1.00	5.06	6.16	0	0	0	250
	HT-2 (More than 1 MVA)	5.81	7.16	1.00	4.81	6.16	0	0	0	400
Irrigation & Drinking Water Pumping Supply (IDWPS)	Up to 20 KVA	5.12		1.00	4.12		105	0	105	
	LT	6.46	7.36	1.00	5.46	6.36	0	0	0	100
	HT	6.06	7.16	1.00	5.06	6.16	0	0	0	300
	EHT	5.66	6.96	1.00	4.66	5.96	0	0	0	400
Bulk Supply (BS)	LT	6.26		1.00	5.26		0	0	0	250
	HT	5.76		1.00	4.76		0	0	0	350
	EHT	5.56		1.00	4.56		0	0	0	350
Street Lighting Supply (SLS)		6.37		1.00	5.37		145	0	145	
Temporary Metered Supply (TMS)	Up to 20kVA	8.42		1.00	7.42		200	0	200	
	Above 20KVA	7.76		1.00	6.76		0	0	0	400
Railway Traction	> 20kVA	6.16		1.00	5.16		0	0	0	400
EV Charging Station		6.79		0.97	5.82		0	0	0	

Balance Sheet and Profit and Loss Statements of HPSEBL



HIMACHAL PRADESH STATE ELECTRICITY BOARD LTD.

(A state Govt. undertaking)

CIN U40109HP2009SGC031255

STANDALONE BALANCE SHEET AS AT 31ST MARCH, 2024

Particulars	Note No.	(Amount In Lakh)					
		As at 31st March, 2024	Total March, 2024	As at 31st March, 2023 (Audited)	Total March, 2023 (Audited)	As at 31st March, 2022 (Audited)	Total March, 2022 (Audited)
1	2	3	4	5	6		
ASSETS:-							
Non-Current Assets							
Property, Plant and Equipment	2.1	675939.70		663460.19		626544.03	
Capital Work-in-Progress	2.2	119308.97		126972.01		149684.74	
Intangible Assets	2.3	2539.41	797788.08	5449.07	795881.27	4847.32	781076.10
Financial Assets							
Investments	2.4	43298.51		43298.51		43298.51	
Loans and Advances	2.5	72124.19		68046.77		67904.85	
Others	2.6	5130.74		4687.55		.00	
Other Non Current Assets	2.7	4280.73	124834.17	4237.07	120269.90	13247.41	124450.77
Total Non-Current Assets			922622.25		916151.17		905526.87
Current Assets							
Inventories	2.8	7680.88	7680.88	10385.27	10385.27	12202.25	12202.25
Financial Assets							
Investments	2.9	.00		.00		.00	
Trade Receivables	2.10	40356.14		33622.90		40064.42	
Cash and Cash equivalents	2.11	36692.66		11180.28		12141.15	
Bank Bal. other than Cash & Cash equiv.	2.12	10142.41		10257.86		16197.52	
Loans and Advances	2.13	22849.98		18586.64		14858.03	
Others	2.14	94444.03	204485.21	77987.40	151635.08	82164.80	165425.93
Other Current Assets	2.15	46398.30	46398.30	39047.07	39047.07	17523.41	17523.41
Total Current Assets			258564.39		201067.42		195151.58
Total Assets			1181186.64		1117218.59		1100678.45
EQUITY AND LIABILITIES							
Equity							
Equity Share Capital	2.16	88222.74		88222.74		83222.74	
Other Equity	2.17	-374233.42	-286010.68	-311373.67	-223150.93	-179750.56	-96527.82
Total Equity			-286010.68		-223150.93		-96527.82
Liabilities							
Non-Current Liabilities							
Financial Liabilities							
Borrowings	2.18	469599.13		498656.82		514787.09	
Other Financial Liabilities	2.19	18311.94	487911.07	17215.24	515872.05	15028.95	529816.04
Provisions	2.20	64932.74		73544.10		32264.59	
Other Non Current Liabilities	2.21	367716.89	432649.63	352760.39	426304.49	327647.62	359912.21
Total Non Current Liabilities			920560.70		942176.54		889728.26
Current Liabilities							
Financial Liabilities							
Borrowings	2.22	130910.93		114628.87		79520.69	
Trade Payables	2.23	140634.74		89393.62		117371.56	
Other Financial Liabilities	2.24	209120.52	480666.20	150515.67	354538.17	108078.27	304970.52
Other Current Liabilities	2.25	65185.27		36376.48		.00	
Provisions	2.26	785.15	65970.42	7278.32	43654.81	2507.49	2507.49
Total Current Liabilities			546636.62		398192.98		307478.01
Total Equity & Liabilities			1181186.64		1117218.59		1100678.45

* Corresponding quarter results was not applicable, hence not presented
Significant Accounting Policies

(Sandeep Kumar, IAS)
Managing Director
DIN 08415882

(Anurag Chander Sharma, IAS)
Director (Finance)
DIN 10497922

(Kapil Kumar Bhimta)
Chief Finance Officer
PAN - BPOPK6193N

(Arvind Sharma)
Company Secretary
F-7279

Auditors Report
As per our report of even date

Manish K Gupta & Associates
Chartered Accountants
FRN 016533N

(CA Ankur Mahajan)

Partner
M.No. 520473



HIMACHAL PRADESH STATE ELECTRICITY BOARD LTD.
(H.P. State Govt Undertaking)

STANDALONE STATEMENT OF PROFIT & LOSS FOR THE YEAR ENDED 31ST MARCH, 2024

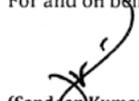
(Amount in Lacs)

Particulars	Refer Note No.	Year Ended 31st March, 2024	Year Ended 31st March, 2023
Income:-			
Revenue from Operations	2.27	707,139.69	681,247.75
Other Income	2.28	48,089.62	78,333.03
Total Revenue		755,229.31	759,580.78
Expenses:-			
Purchase of Power	2.29	442,081.67	440,214.21
Employee Benefits Expense	2.30	240,709.56	322,459.62
Finance Costs	2.31	58,031.04	48,455.78
Depreciation and Amortization expense	2.32	46,558.37	46,205.70
Other expenses	2.33	25,194.94	33,868.49
Total Expenses		812,575.57	891,203.80
Profit / (Loss) before exceptional and extraordinary items and tax		(57,346.26)	(131,623.02)
Exceptional items			
Profit / (Loss) before extraordinary items and tax		(57,346.26)	(131,623.02)
Extraordinary Items		-	-
Profit / (Loss) before tax		(57,346.26)	(131,623.02)
Tax expense:			
(1) Current Tax		-	-
(2) Deferred Tax		-	-
Profit / (Loss) for the period from operations		(57,346.26)	(131,623.02)
Other Comprehensive income			
A (i)Item that will not be reclassified subsequently to profit or loss		-	-
(ii) Remeasurement of the net defined benefits liability/ assets		(5,507.47)	-
Income tax on above item		-	-
Total		(5,507.47)	-
Total other comprehensive Income/loss for the period			-
Reserve excluding Revaluation Reserves			-
Earning (Loss) per equity share:			
Basic (in ₹)		(65.00)	(149.20)
Diluted (in ₹)		-	-

Significant Accounting Policies

The accompanying notes form an integral part of these financial statements

For and on behalf of Company

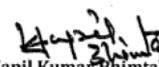

(Sandeep Kumar, IAS)
Managing Director
DIN 08415882


(Arvind Sharma)
Company Secretary
F-7279

Auditors Report
As per our report of even date

Manish K Gupta & Associates
Chartered Accountants


(Anurag Chander Sharma, IAS)
Director (Finance)
DIN 10497922


(Kapil Kumar Bhimta)
Chief Finance Officer
PAN - BPOPK6193N

(CA Ankur Mahajan)

Partner
M.No. 520473

HIMACHAL PRADESH STATE ELECTRICITY BOARD LIMITED

Standalone Cash Flow Statement for the year ended 31st March, 2024

(Amount in Lakh)

Sr. No.	Description		For the year ended 31 March, 2024		For the year ended 31st March 2023
A.	Cash Flow from Operating Activities				
	Profit before tax		-57346.26		-131623.02
	Adjustments for:				
	Depreciation and Amortization	46558.37		46205.70	
	Provision for Bad & Doubtful debts	.00		.00	
	Interest Income	-631.86		-637.53	
	Finance Cost	58031.04	103957.55	48455.78	94023.95
	Operating Profit before Working Capital Changes		46611.29		-37599.07
	Changes in Working Capital:				
	Adjustments for (Increase)/Decrease in Operating Assets:				
	Inventories	2704.39		1816.98	
	Trade receivable	-6733.24		6441.52	
	Short Term Loans and Advances	-4263.34		-3728.61	
	Long term Loans & Advances	-4121.09		8868.42	
	Current Assets	-16456.62		4177.40	
	Other Current Assets	-7351.23		-21523.66	
	Other financial Assets	-443.18	-36664.32	-4687.55	-8635.49
	Adjustments for Increase/(Decrease) in Operating Liabilities:				
	Short term Borrowings	16282.06		35108.18	
	Trade payable	51241.12		-27977.94	
	Other Current liabilities	65398.37		90301.08	
	Short Term Provisions	-6493.17		4770.83	
	Other Non Current Liabilities	14956.50	141384.87	25112.77	127314.93
	Cash Generated from Operations		151331.84		81080.36
	Tax paid (Net)		.00		.00
	Net Cash Generated from Operating Activities (A)		151331.84		81080.36
B.	Cash Flow From Investing Activities.				
	Purchase of Investment		115.46		5939.66
	Purchase of Fixed Assets		-48465.19		-61010.88
	Interest received on Investments		631.86		637.53
	Net Cash Used in Investing Activities (B)		-47717.87		-54433.70
C.	Net Cash Used in Financing activities				
	Proceed from issue of Share Capital		.00		5000.00
	Proceed from issue of Share Application Money		.00		.00
	Proceeds from Capital Grants / Consumer Contributions		-5513.49		-.09
	Proceeds from Long Term Borrowings		-36572.34		27335.52
	Payment of Finance Cost		-36015.77		-59942.97
	Net Cash Generated from Financing Activities (C)		-78101.59		-27607.54
	Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)		25512.38		-960.87
	Cash and Cash Equivalents as at 1st April (Opening Balance)		11180.28		12141.15
	Cash and Cash Equivalents as at 31st March (Closing Balance)		36692.66		11180.28

Annexure X

Revenue from all sources of the Test-Checked ULBs for the period 2015-20 (₹ in lakh)

S r. N o.	Name of the ULB	Grants					Total	Own revenue	Assign ed revenue	Total	Total Revenue (3+6+9)	% of own revenue to total revenue
		Centra l sponsore d scheme s	CF C	Tot al	State sponso red scheme s	SFC						
		1	2	3	4	5	6	7	8	9		
1	Arki	196.67	58.78	255.45	79.89	245.34	325.23	95.88	15.23	111.11	691.79	14
2	Bilaspur	602.34	301.79	904.13	257.78	1,076.46	1,334.24	276.88	29.63	306.51	2,544.88	12
3	Bhuntar	41.99	99.61	141.6	224.65	336	560.64	222.51	4.98	227.49	929.73	24
4	Dharamshala	5,334.2	1,094.9	6,429.1	3,249.11	3,933.81	7,182.92	2,694.31	128.08	2,822.39	16,434.41	16
5	Jawalamukhi	684.87	95.92	780.79	362.71	438.05	799.76	968.01	20.9	988.91	2,569.46	39
6	Hamirpur	240.78	371.23	612.01	728.1	1,344.34	2,072.44	1,376.88	51.39	1,428.27	4,112.72	32
7	Manali	16.58	235.68	252.26	638.81	633.16	1,271.96	2,292.41	24.85	2,317.26	3,841.48	62
8	Nahan	676.15	631.2	1,307.35	2,890.66	2,743.24	5,633.9	3,144.24	61.74	3,205.98	10,147.23	31
9	Nerchowk	318.27	319.83	638.1	210.7	1,192.54	1,403.24	495.98	15.96	511.94	2,553.28	19
10	Paonta Sahib	813.93	523.84	1,337.77	115.26	1,924	2,039.26	1,496.71	49.54	1,546.25	4,923.28	32
11	Rampur	474.25	222.42	696.67	194.6	632.43	827.03	1,982.12	11.83	1,993.95	3,517.65	56
12	Shimla	17,203.06	3,482.8	20,685.8	13,112.9	14,387.5	27,500.4	22,039.8	1,209.0	23,248.8	71,434.99	31
13	Solan	485.86	799.84	1,285.7	584.46	3,021.52	3,605.98	4,844.37	167.93	5,012.3	9,903.98	49
14	Sunni	125.25	57.04	182.29	50.02	197.92	247.94	121.43	11.65	133.08	563.31	23
	Total	27,215.2	8,296.9	35,512.1	22,703.6	32,111.3	54,810.9	42,058.5	1,810.7	43,863.2	1,34,168.2	32

Source: C&AG of India, 2022.

Annexure XI

Statement showing demand and collection of charges against the water supply and expenditure on O&M incurred by the various agencies (C&AG of India 2022)

MC Solan

(₹ in lakh)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Opening Balance	74.74	80.26	84.00	106.37	124.89	74.74
Demand raised	223.57	286.18	311.14	347.77	378.44	1,547.10
Total Demand	298.31	366.44	595.14	454.13	503.33	1,621.84
Collection	218.05	282.44	288.77	329.24	390.08	1,508.58
Closing Balance	80.26	84.00	106.37	124.89	113.25	113.25
O&M Cost	234.71	241.82	297.14	324.76	288.80	
Collection against Demand	73	77	48	72	77	93

MC Shimla & SJPNL

(₹ in lakh)

Year	2015-16	2016-17	2017-18	Total	2018-19	2019-20	Total
Opening Balance	783.05	994.54	1,203.19	783.05	575.26	2,338.10	575.26
Demand raised	2,123.54	2,370.87	2,371.79	6,866.20	2,213.48	1,751.90	3,965.38
Total Demand	2,906.59	3,365.41	3,574.98	7,649.25	2,788.74	3,990.00	4,540.64
Total Collection	1,912.05	2,162.22	1,983.44	6,057.71	550.63	1,685.13	2,235.76
Closing Balance	994.54	1,203.19	1,591.54	1,591.94	2,238.10	2,304.87	2,304.87
O&M Cost	65.60	121.36	1,963.15		569.44	1,486.64	
Collection against Demand (%)	66	64	55	79	20	42	49

Note: As per the information supplied by the MC Shimla an amount of ₹ 1591.54 lakh was the CB (31.03.2018), however, SJPNL had shown OB (01.04.2018) ₹575.26 lakh, which resulted in difference in OB of ₹ 1016.28 lakh.

Jal Shakti Vibhag

Perusal of information received from the four Jal Shakti Divisions⁴ in the test-checked ULBs revealed that average collection of water charges was 87 per cent against the demand raised (2015-16 to 2019-20).

(₹ in lakh)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Opening Balance	43.43	59.09	87.89	105.13	113.91	43.43
Demand raised	181.55	248.18	229.18	239.66	284.50	1,183.07
Total Demand	224.98	307.27	317.08	344.79	398.41	1,226.5
Total Collection	165.89	219.38	211.95	230.88	235.71	1,063.81
Closing Balance	59.09	87.89	105.13	113.91	162.70	162.69
O&M Cost	185.76	117.99	202.74	202.03	305.77	
Collection against Demand (%)	74	71	67	67	59	87

Statement of collection of user charges, collectable user charges and revenue expenditure on Solid Waste Management (C&AG of India 2022)

(₹ in Lakh)

Sl. No.	Name of ULB	Period of collection	Amount Collectible*	Amount collected	Difference	Percentage amount collected to collectible	Revenue Expd. on SWM is for same period	Percentage of collection to Expenditure
1	Municipal Corporation, Dharamshala	Sept 2019 to Jan 2021	207.65	18.43	189.21	9	561.75	3
2	Municipal Corporation, Shimla	April 2015 to March 2020	4,855.77*	1,940.57	2,915.20	40	3,585.08	54
3	Municipal Council, Bilaspur	Feb 2020 to Dec 2020	27.97	16.70	11.27	60	28.54	58
4	Municipal Council, Hamirpur	April 2018 to Mar 2020	65.46	29.87	35.59	46	172.44	17
5	Municipal Council, Jawalamukhi	Jan 2019 to Jan 2021	36.25	0.37	35.88	1	34.00	1
6	Municipal Council, Manali	April 2015 to March 2020	90.26	45.82	44.44	51	401.37	11
7	Municipal Council, Nahani	June 2019 to Nov 2020	175.20	25.85	149.35	15	NA	NA
8	Municipal Council, Nerchowk	April 2018 to Mar 2020	74.40	2.49	71.93	3	135.94	2
9	Municipal Council, Poanta Sahib	Nov 2019 to Nov 2020	59.65	1.69	57.96	3	144.89	1
10	Municipal Council, Rampur	May 2018 to March 2020	82.95	15.39	67.56	19	80.32	19
11	Municipal Council, Solan	April 2015 to March 2020	297.26	76.03	221.23	26	306.66	25
12	Nagar Panchayat, Arki	April 2019 to Dec 2020	17.69	4.59	13.09	26	16.23	28
13	Nagar Panchayat, Bhuntar	April 2015 to March 2020	29.65	1.26	28.38	4	88.76	1
14	Nagar Panchayat, Sunni	April 2019 to Jan 2021	23.12	6.14	16.98	27	26.32	23

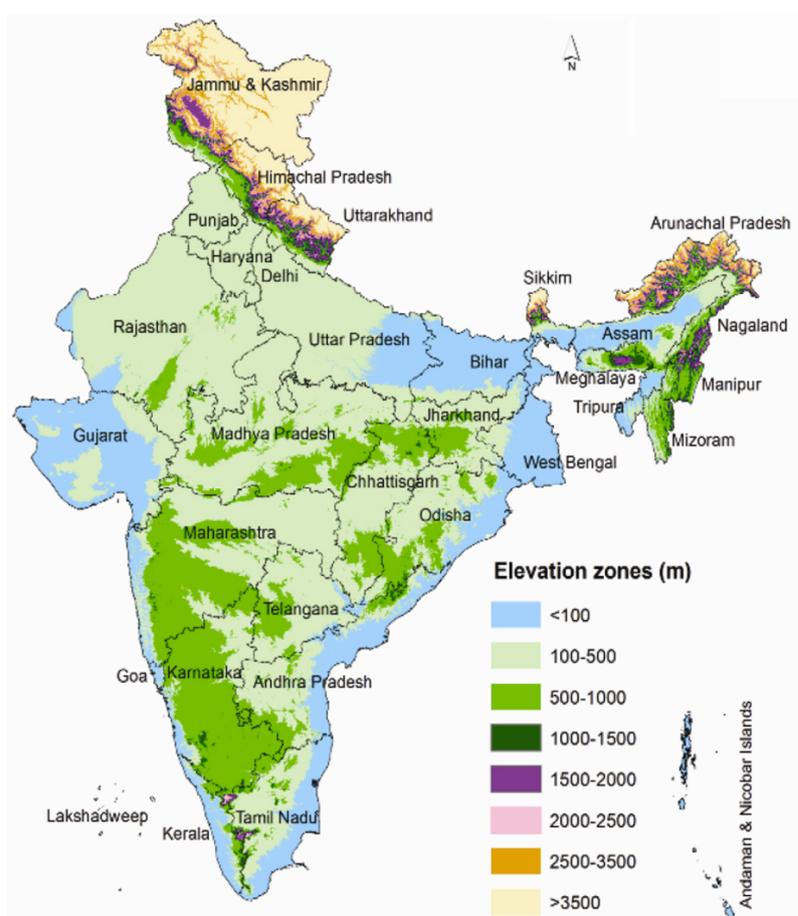
* Calculation of amount collectible (Various categories of properties * different rates as specified in the Bye-laws

* No of months taken for calculation). In case of MC Shimla, number of domestic, commercial and industrial establishments was arrived on the basis of number of electricity connections from HP Electricity Board and number of hotels taken from Deptt. of Tourism & Civil Aviation. Amount collectible calculated by multiplying minimum user charges in respect of domestic, commercial and industrial establishments paying MC Tax and allowing 10 per cent rebate for probable un-occupancy every year.

Using a Vulnerability Index for Disaster-related Grant

State-wise area weighted average elevation above Mean Sea Level (MSL) and slope can be taken as measures to suggest disaster related grants, so that State with higher average elevation above MSL and higher slope gets higher share and vice versa. However, such division needs to take into account the vulnerability to disasters and extent of damages caused by disasters in different areas. For example, while areas with higher elevation and are subject to higher landslide and higher cost of remediation; the areas with lower elevation and slope might be subject to flooding, drought, cyclones etc.

A better measure would be to make use of a vulnerability index, to which the Vulnerability Atlas of India, which provides a comprehensive coverage of Earthquake, Wind, Flood, Landslide, Thunderstorm Risk and Damage Risk to housing is a good reference point⁴⁵.



Source: (Chintala, Sudhakar Reddy & Jha, Chandra & Ganjam, Manaswini & V V L, Alekhyia & Shaik, Vazeed & Satish, Koppineedi & Diwakar, P. & Dadhwal, Vinay, 2017)

⁴⁵ BMTPC (2019). <https://vai.bmtpc.org> as accessed on 15 February 2025.

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