

*AUTHORITATIVE ENGLISH TEXT*

**THE HIMACHAL PRADESH FISCAL RESPONSIBILITY AND  
BUDGET MANAGEMENT ACT, 2005**

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**THE HIMACHAL PRADESH FISCAL RESPONSIBILITY AND  
BUDGET MANAGEMENT ACT, 2005**

**(ACT NO. 14 OF 2005)<sup>1</sup>**

(Received the assent of the Governor, Himachal Pradesh on 20<sup>th</sup> April, 2005 and was published both in Hindi and English in the Rajpatra, Himachal Pradesh (Extra-ordinary), dated 21<sup>st</sup> April, 2005, pp. 465-478.)

**An Act to provide for the responsibility of the State Government to ensure prudence in fiscal management and fiscal stability by**

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1. Passed in Hindi by the Himachal Pradesh Vidhan Sabha. For Statement of Objects and Reasons, see the Rajpatra, Himachal Pradesh (Extra-ordinary), dated 14<sup>th</sup> March, 2005, pp. 4093 and 4100.

**progressive reduction of revenue deficit and debt management consistent with fiscal stability, greater transparency in fiscal operations of the State Government and conduct of fiscal policy in a medium term fiscal framework and for matters connected therewith or incidental thereto.**

*Amended, repealed or otherwise effected by:-*

- (i) H.P. Act No. 26 of 2005<sup>1</sup>, assented to by the Governor on the 6<sup>th</sup> September, 2005, published both in Hindi and English in the Rajpatra, Himachal Pradesh (Extra-ordinary), dated 8<sup>th</sup> September, 2005, pp. 2949-2954, effective from 21<sup>st</sup> June, 2005.
- (ii) H.P. Act No. 25 of 2011<sup>2</sup> assented to by the Governor on 31<sup>st</sup> March, 2011, published both in Hindi and English in the Rajpatra, Himachal Pradesh, dated 2<sup>nd</sup> April, 2011, pp. 43-45.

**BE** it enacted by the Legislative Assembly of Himachal Pradesh in the Fifty-sixth Year of the Republic of India, as follows:-

## **CHAPTER-I**

### **PRELIMINARY**

**1. Short title and commencement.-** (1) This Act may be called the Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005.

(2) It shall come into force on such date<sup>3</sup> as the State Government may, by notification in the Official Gazette, appoint.

**2. Definitions.-** In this Act, unless the context otherwise requires,-

- (a) “budget” means the Annual Financial Statement laid before the State Legislative Assembly under article 202 of the Constitution ;
- (b) “current year” means the financial year preceding the ensuing year;
- (c) “debt receipt” shall have the same meaning as used in the finance accounts of the State by Comptroller and Auditor General;
- (d) “ensuing year” means the financial year for which the budget is being presented;

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1. Passed in the Himachal Pradesh Vidhan Sabha and for Statement of Objects and Reasons, see the Rajpatra, Himachal Pradesh (Extra-ordinary), dated 9<sup>th</sup> August, 2005, pp. 2315 and 2320.
2. Passed in Hindi by the Himachal Pradesh Vidhan Sabha. For Statement of Objects and Reasons see the Rajpatra, Himachal Pradesh, dated 29<sup>th</sup> March, 2011, pp. 10541-10542 and 10543-10544.
3. Act came into force from 1<sup>st</sup> May, 2005 vide Notification No. Fin. Comm. D (4)-1/2004 dated 12<sup>th</sup> May, 2005, published in the Rajpatra, Himachal Pradesh (Extra-ordinary), dated 13<sup>th</sup> May, 2005, p. 720.

- (e) “financial year” means the year commencing on the first day of April;
- (f) “fiscal indicators” means the numerical ceilings and proportions to gross state domestic product, of such measures, as may be prescribed, for evaluation of the fiscal position of the State Government;
- (g) “fiscal deficit” means the excess of total disbursements from the Consolidated Fund of the State, excluding repayment of debt, over total receipts into the Consolidated Fund, excluding the debt receipts, during a financial year;

*Explanation.-* For the purpose of calculation of fiscal deficit, borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments, where the liability for repayment is on the State Government are to be treated as borrowings of the State Government;

- (h) “prescribed” means prescribed by the rules made under this Act;
- (i) “revenue deficit” means the difference between revenue expenditure and revenue receipts;
- (j) “State” means the State of Himachal Pradesh; and
- (k) “State Government” means the Government of Himachal Pradesh.

## CHAPTER-II

### LAYING OF MEDIUM TERM FISCAL PLAN IN THE LEGISLATIVE ASSEMBLY, FISCAL MANAGEMENT PRINCIPLES AND TARGETS AND MEASURES TO ENFORCE COMPLIANCE.

#### 3. Medium term fiscal plan to be laid before the Legislature.- (1)

The medium term fiscal plan shall include an assessment of sustainability relating to,-

- (a) the balance between revenue receipts and revenue expenditures;
- (b) use of capital receipts including borrowings for generating productive assets;
- (c) an evaluation of the performance of the prescribed fiscal indicators in the previous year vis-à-vis the targets set out earlier, and the likely performance in the current year as per revised estimates;
- (d) a statement on the recent economic trends and future prospects for growth and development affecting fiscal position of the State Government; and

(e) the strategic priorities of the State Government in the fiscal area for the ensuing financial year.

(2) The medium term fiscal plan shall set forth a four year rolling target for the fiscal indicators prescribed, with specification of underlying assumptions.

(3) The State Government shall in each financial year lay before the State Legislative Assembly a medium term fiscal plan alongwith the annual budget.

(4) The medium term fiscal plan shall be in such form as may be prescribed.

**4. Fiscal management principles.-** (1) The State Government shall take appropriate measures to reduce the revenue deficit and manage the debt consistent with fiscal stability.

(2) The State Government shall be guided by the following fiscal management principles, namely: -

- (a) to maintain State Government debt at prudent levels;
- (b) to manage guarantees and other contingent liabilities prudently with particular reference to the quality and level of such liabilities;
- (c) to ensure that policy decisions of the State Government have due regard to their financial implications on future generations;
- (d) to ensure a reasonable degree of stability and predictability in the level of the tax burden;
- (e) to maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions;
- (f) to pursue tax policies with due regard to economic efficiency and compliance costs;
- (g) to pursue non-tax revenue policies with due regard to cost recovery and equity;
- (h) to ensure that physical assets of the State Government are properly maintained; and
- (i) to disclose sufficient information to allow the public to scrutinize the conduct of fiscal policy and the state of public finances.

**5. Fiscal management targets.-** <sup>1</sup>[(1) In particular and without prejudice to the generality of the foregoing provisions, the State Government shall-

- (i) eliminate revenue deficit by financial year 2011-12 and maintain revenue surplus thereafter;
- (ii) reduce fiscal deficit to 3.5 per cent or less of Gross State Domestic Product by financial year 2010-11, 3 per cent or less of Gross State Domestic Product by financial year 2011-12 and maintain fiscal deficit at the level of 3 per cent or less of Gross State Domestic Product thereafter;
- (iii) reduce outstanding debt to 49.7 per cent, 47.0 per cent, 44.4 per cent, 42.1 per cent and 40.1 per cent of Gross State Domestic Product by the financial years 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 respectively; and
- (iv) 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.

(2) Notwithstanding anything contained in sub-section (1), the targets under different parameters of clauses (i), (ii) and (iii) of sub-section (1), may be exceeded in the case of 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, as the case may be:

Provided that a statement in respect of the ground or grounds specified under this sub-section shall be placed before the Legislative Assembly, as soon as may be, after such deficit amount exceeds the aforesaid targets.]

**6. Measures for fiscal transparency.-** (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize as far as practicable, secrecy in the preparation of the annual budget:

Provided that the State Government shall have the power to withhold any such information, which would adversely affect the interest of the State Exchequer.

(2) In particular and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form, as may be prescribed,-

- (a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators; and

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1. Sub-section (1) substituted vide H.P Act No. 26 of 2005, again sub-sections (1) and (2) substituted vide H.P Act No. 25 of 2011.

(b) as far as practical and consistent with public interest, the contingent liabilities created by way of guarantees, the actual liabilities arising out of borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government, all claims and commitments made by the State Government having potential budgetary implications;

<sup>1</sup>[(c) the details of number of employees in Government, Public Sector and Allied Institutions and related salaries.]

**7. Measures to enforce compliance.-** (1) The Minister-in-charge of the Department of Finance shall review, after every six months, the trends in receipts and expenditure in relation to the budget, and place before the Legislative Assembly the outcome of such reviews. The review report shall be in such form as may be prescribed and shall explain,-

(a) any deviation or likely deviation in meeting the obligations cast on the State Government under this Act;

(b) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the State Government; and

(c) the remedial measures the State Government proposes to take.

(2) Whenever there is a prospect of either shortfall in revenue or excess of expenditure over pre-specified levels for a given year on account of any new policy decision of the State Government that affects either the State Government or its Public Sector Undertakings, the State Government, prior to taking such policy decision, shall take measures to fully offset the fiscal impact for the current and future financial years by curtailing the sums authorized to be paid and applied from and out of the Consolidated Fund of the State under any Act enacted by the Legislative Assembly to provide for the appropriation of such sums, or by taking interim measures for revenue augmentation, or by taking up a combination of both:

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of article 202 of the Constitution.

<sup>2</sup>[(3) An independent mechanism shall be set up by the State Government to review and monitor the fiscal reform path set out under this Act.]

**8. Powers to make rules.-** (1) The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

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1. Clause (c) inserted vide H.P Act No. 26 of 2005.

2. Sub-section (3) inserted vide H.P Act No. 25 of 2011.

<sup>1</sup>[(2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:-

- (a) the measures for evaluation of the fiscal position of the State Government under clause (f) of section 2;
- (b) the fiscal indicators under sub-section (2) of section 3;
- (c) the form of medium term fiscal plan under sub-section (4) of section 3;
- (d) the form of statements for disclosure under clauses (a), (b) and (c) of sub-section (2) of section 6; and
- (e) the form of review report under sub-section (1) of section 7.]

**9. Rules to be laid before the Legislature.-** Every rule made under this Act shall be laid, as soon as may be after it is made, before Legislative Assembly, while it is in session, for a total period of 14 days, which may be comprised in one session or in two or more successive sessions and if, before the expiry of the session in which it is so laid or the successive sessions as aforesaid, the Legislative Assembly agrees in making any modification in the rule or Legislative Assembly agrees that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done or omitted to be done under that rule.

**10. Protection of action taken in good faith.-** No suit, prosecution or other legal proceedings shall lie against the State Government or any of its officers for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

**11. Application of other laws not barred.-** The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

**12. Power to remove difficulties.-** (1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions, not inconsistent with the provisions of this Act, as may appear to be necessary for removing the difficulty.

(2) Every order made under sub-section (1) shall be laid, as soon as may be after it is made, before the Legislative Assembly.

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1. Sub-section (2) substituted vide H.P Act No. 26 of 2005.