CHAPTER- I

FINANCES OF THE STATE GOVERNMENT

This chapter provides a broad perspective of the finances of the Uttarakhand Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of Current Year's Fiscal Operations

(Rupees in crore)

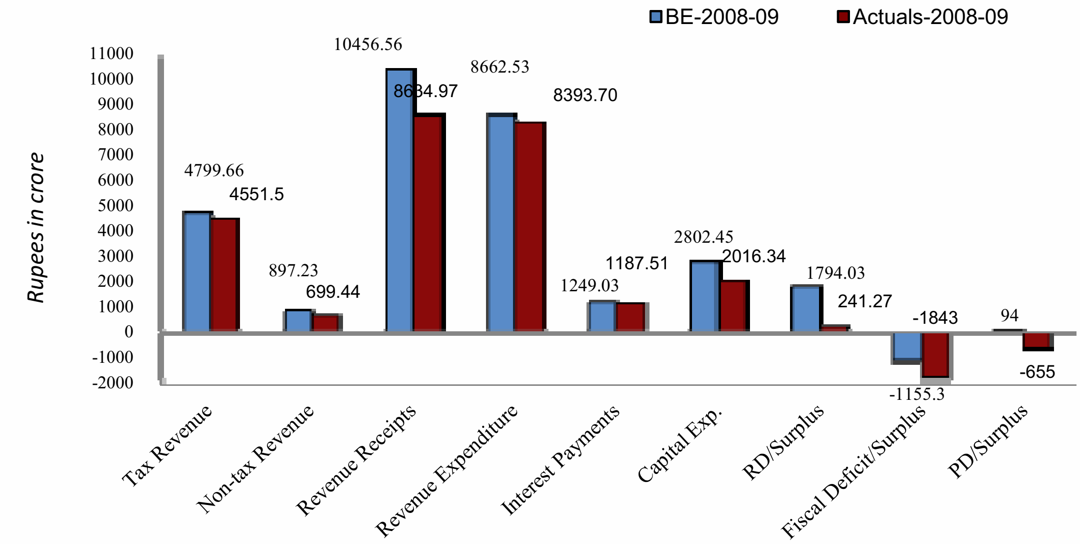
2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
7,891.09	Revenue receipts	**8,634.97**	**7,254.56**	Revenue expenditure	6,219.40	2174.30	**8,393.70**
2,738.75	Tax revenue	3,044.91	2,655.02	General services	3,098.95	5.02	3,103.96
668.38	Non-tax revenue	699.44	2,828.66	Social services	1,950.10	1441.73	3,391.84
1,427.70	Share of Union Taxes/ Duties	1,506.59	1,461.11	Economic services	895.64	727.49	1,623.13
3,056.26	Grants from Government of India	3,384.03	309.77	Grants-in-aid and Contributions	274.71	0.06	274.77
Section-B: Capital							
-	Misc. Capital Receipts	-	**2,234.82**	Capital Outlay	113.85	1902.49	**2,016.34**
68.43	Recoveries of Loans and Advances	**53.63**	**212.54**	Loans and Advances disbursed	2.83	118.88	**121.71**
1,397.39	Public Debt receipts*	**1,543.82**	**272.69**	Repayment of Public Debt*			**355.38**
27.21	Contingency Fund	**2.42**	**0.72**	Contingency Fund			**32.05**
12,411.82	Public Account receipts	**13,657.56**	**11,863.78**	Public Account disbursements			**13,476.62**
789.54	Opening Cash Balance	**746.37**	**746.37**	Closing Cash Balance			**242.97**
22,585.48	**Total**	**24,638.77**	**22,585.48**	**Total**			**24,638.77**

* Excluding net transactions under ways and means advances and overdraft.

- Revenue receipts grew by Rs.744 crore (9.43 *per cent*). The increase was mainly due to the appreciation in State's own tax revenue (Rs.306 crore); non-tax revenue (Rs.31 crore); Central Transfers (Rs.79 crore) and in Grants-in-aid (Rs.328 crore).
- Revenue expenditure increased by Rs.1,139 crore (16 *per cent*), of which NPRE increased by Rs.799 crore and PRE increased by Rs.340 crore.
- Capital expenditure decreased by Rs.218 crore (9.75 *per cent*).
- Recovery of loans and advances decreased from Rs. 68 crore to Rs. 54 crore (20.59 *per cent*). Disbursement of loans and advances decreased from Rs.213 crore to Rs.122 crore during the year (42.72 *per cent*), mainly due to less disbursement under energy sector.
- Public debt receipts registered an increase of Rs.146 crore because of outstanding balances in ways & means advances to the tune of Rs.126 crore as on 31 March 2009. The repayment of public debts increased by Rs.83 crore in 2008-09.
- Public account receipts increased by Rs.1,246 crore, mainly due to receipts under Suspense and Miscellaneous (Rs.805 crore), Small Savings, Provident Fund etc. (Rs.419 crore). Public Account disbursement increased to the tune of Rs.1613 crore mainly due to the clearance of suspense heads (Rs.1243 crore), Remittances (Rs.476 crore) partly offset by less disbursements under Reserves (Rs.150 crore).
- As a result of inflows/outflows of funds as stated above, cash balance of the State at the end of 2008-09 decreased by Rs. 558 crore.

Several reasons may account for the deviation of the actual realization from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage etc. Actual realization of revenue and its disbursement however depends on a variety of factors, some internal and others external. **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1: Selected Fiscal Parameters: Budget Estmates *vis-a-vis* Actuals

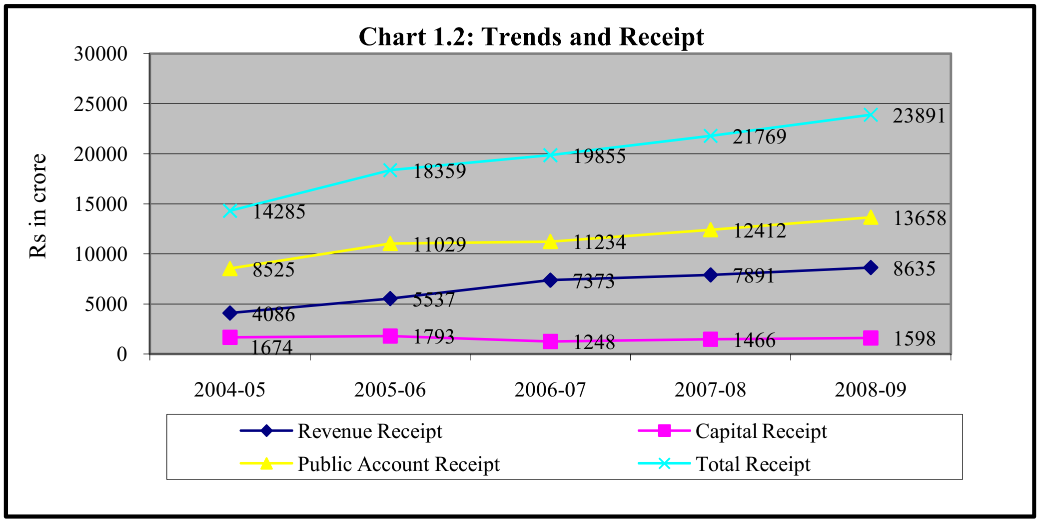


The Actuals against the Budget Estimates in respect of various components showed mixed trend during 2008-09. The Revenue Receipts were short by 17 *per cent* due to less receipt (22 *per cent*) under Non-tax Revenue. The Budget Estimates for Revenue Expenditure had a marginal variation of 3 *per cent*. The Capital Expenditure was not met as per the Budget Estimates and recorded a negative variation of 28 *per cent*. The budget projections for Revenue Deficit, Fiscal Deficit and Primary Deficit were also not achieved. The State Government, in its Mid Term Fiscal Policy Statement attributed the shortfall in revenue collection to the recession in the economy and financial burden that arose after the implementation of Sixth Pay Commission recommendations.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial Institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts (**Appendix 1.1**) while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.



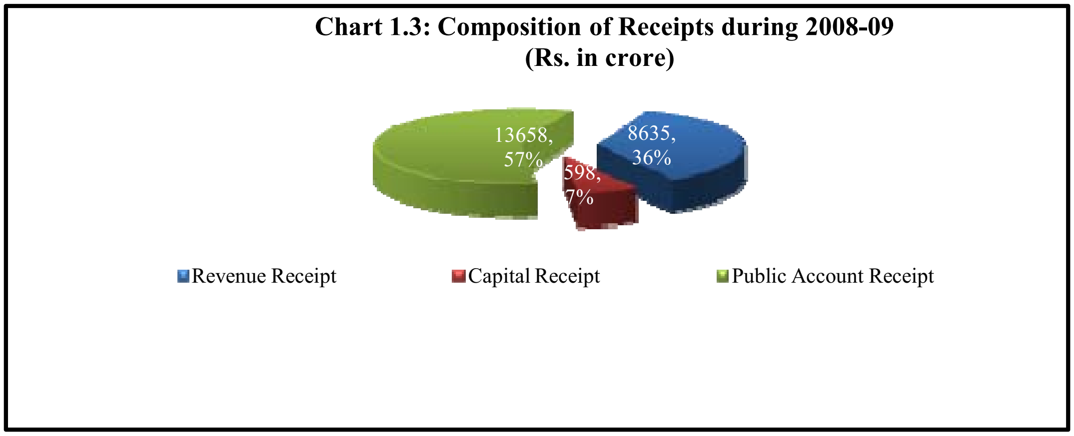


Chart 1.3 shows that the total receipts of the Government grew from Rs.14, 285 crore in 2004-05 to Rs.23,891 crore in 2008-09 (67.25 *per cent*). Of these, receipts of Rs.13,658 crore from the Public Account constitute 57 *per cent*. Revenue receipts were Rs.8,635 crore (36 *per cent*) and Rs.1,598 crore (7 *per cent*) came from borrowings.

As far as the current year is concerned, revenue receipts have shown marginal appreciation in overall composition of the State's Receipts mainly on account of increase in State's own Tax Revenue and Grants-in-aid from GOI, each of which grew by 11 *per cent* over the previous year.

Capital receipts almost remained unchanged. However, the recoveries of loans and advances decreased by 21 *per cent*.

Trends in Public Account receipts

- Receipts under Small Savings, Provident Fund etc increased by Rs.419 crore over the previous year mainly because 30 *per cent* of arrears of Pay and Allowances drawn in favour of State Government employees as 1st Installment was credited to the Provident Fund Account.
- Reserve funds and Deposits declined during the year by 10 *per cent* and 4 *per cent* respectively. *The State Government investment in sinking fund for amortization of internal debt was less than the normative figure prescribed under FRBM Act, 2005 resulting in reduction of receipts under reserve funds by Rs. 150 crore.*
- Suspense and miscellaneous receipts increased by 11 *per cent* mainly due to increase under the suspense head for cheques and bills. This suspense head is credited while issuing the cheques and is cleared on receipt of information from the bank regarding encashment of cheques. The increase was offset by clearance of previous year's balances under this suspense head, leaving a debit balance of Rs. 331 crore.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[1] (detailed in **Appendix 1.5**) for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Table 1.2.**

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Sl No.	Name of the Programme of the Scheme	Name of the Implementing Agency	Total Fund released by the Govt. of India during 2008-09 (Rs. in crore)
1.	Sarva Sikhsa Abhiyan (SSA)	Uttaranchal Sabhi Ke Liye Sikhsa Parishad	114.94
2.	Ayush and Public Health	Director A & U Govt. of Uttatrakhand	0.14
3.	National Rural Health Mission (NRHM)	Uttarakhand Health & Family Welfare Societies	109.18
4.	National Rural Employment Guarantee Scheme(NREGA)	DRDA, Projects Director Uttarakhand	102.88

[1] State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

5.	Indira Awas Yojana(IAY)	DRDA, Projects Director Uttarakhand	48.92
6.	Swaran Jayanti Gram Swarojgar Yojana (SGSY)	DRDA, Projects Director Uttarakhand	21.59
7.	DRDA Administration	DRDA, Projects Director Uttarakhand	4.96
8.	Member of Parliament Local Area Development Scheme (MPLADS)	Deputy Commissioner	36.00
9.	National Afforestation	FDA, Uttarakhand	8.40
10.	Pradhan Mantri Gram Sadak Yojana	SGO, Uttarakhand, Dehradun	78.63
11.	Integrated Water Shed Management Programme	CGO and DRDA Projects Director Uttarakhand	32.85
12.	Accelerated Rural Water Supply Programme	Uttarakhand Peyjal Sansadhan Evam Nirman Nigam	88.01
13.	Package for Special Categories States others than N.E. , DIPP	SIDCUL	20.00
14.	E-governance	IT Development Agency	3.56
Total			**670.06**

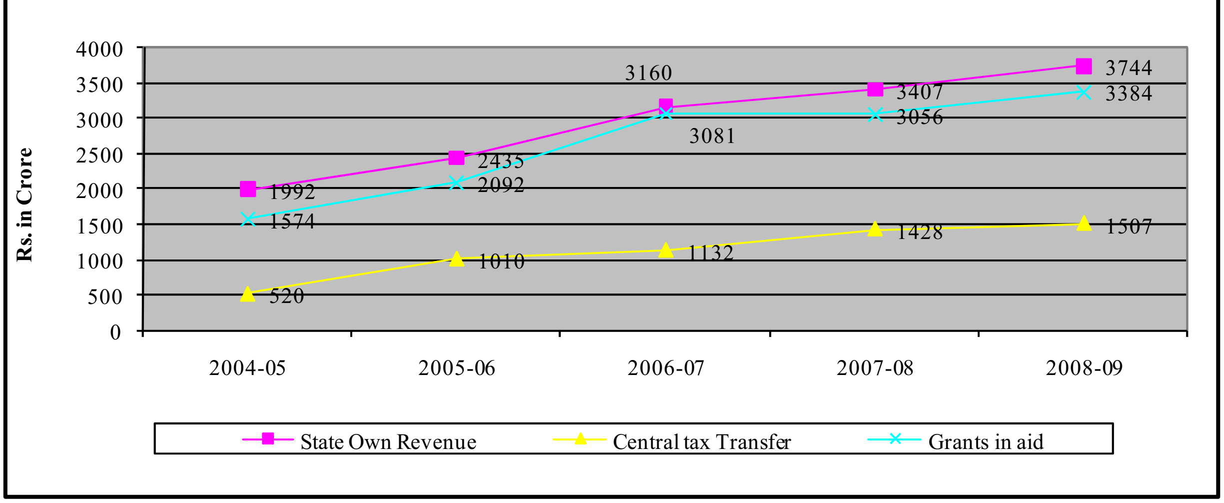
Source: CPSMS of CGA's website

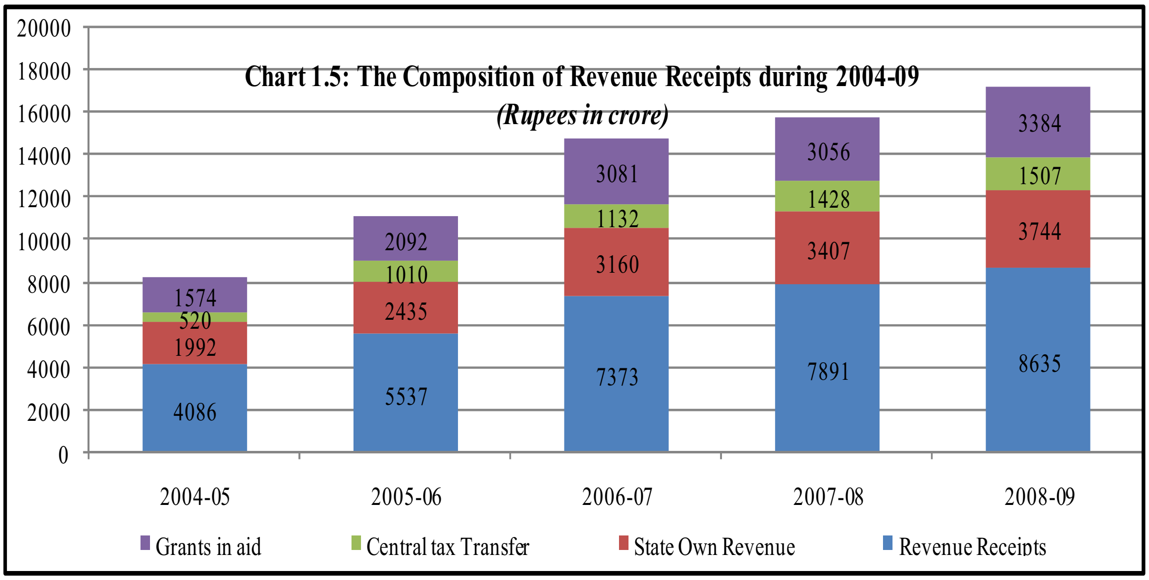
Table 1.2 shows funds received by different agencies in Uttarakhand directly from various Ministries of GoI for the implementation of programmes under Social and Economic sectors. The programmes that received major portion of these funds during 2008-09 were (i) National Rural Health Mission Rs.109.18 crore (15.56 *per cent*) (ii) Sarva Shiksha Abhiyan Rs.114.94 crore (16.38 *per cent*) (iii) National Rural Employment Guarantee scheme Rs.102.88 crore (14.67 *per cent*) (iv) Accelerated Rural Water Supply Programme Rs.88.01 crore (12.55 *per cent*) and (v) Pradhan Mantri Gram Sadak Yojana Rs.78.63 crore (11.21 *per cent*). Since these funds were not routed through the State Budget therefore, the State of Uttarakhand had additional resources of Rs.701.46 crore during 2008-09 for implementing various developmental Schemes in the Socio-economic Sector. However, this figure needs to be verified by the implementing agencies.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts





The revenue receipts have shown a constant increase over the period 2004-09. It increased from Rs.4,086 crore in 2004-05 to Rs.8,635 crore in 2008-09 at an average rate of 19.73 *per cent.*

On an average, States's own tax receipts constituted around 34 *per cent* of revenue receipts of the State over the period 2004-05 to 2008-09. The average buoyancy of revenue receipts with State's own tax revenue remained less than 1 over the period 2008-09, which showed continued dependency of the State on the Grants-in-aid from Government of India.

While 43 *per cent* of the revenue receipts during 2008-09 came from the State's own tax and non-tax revenues, the aggregate of Central Tax transfers and Grants-in-aid contributed 57 *per cent* of the total revenue.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) ***(Rupees in crore)***	**4086**	**5537**	**7373**	**7891**	**8635**
Rate of growth of RR (*per cent)*	13.50	35.51	33.16	7.03	9.43
R R/GSDP (*per cent)*	17.23	21.15	23.50	22.17	21. 50
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t. GSDP	0.91	3.43	1.67	0.52	0.73
State's Own Tax Buoyancy w.r.t. GSDP	1.20	2.28	2.05	0.67	0.87
Revenue Buoyancy with reference to State's own taxes	0.76	1.50	0.81	0.78	0.84

The rate of growth of revenue receipts showed a fluctuating trend over the period 2004-09.The growth rate was high during 2005-06 and 2006-07 but stablised from 2007-08 onwards and stood at 9.43 *per cent* during 2008-09. The buoyancy ratio of revenue and State's own taxes with reference to GSDP also increased from 0.52 to 0.73 and from 0.67 to 0.87 respectively during 2008-09 over the previous year. For every one *per cent* increase in GSDP, revenue increased by 0.73 *per cent* and State's own taxes increased by 0.87, indicating that tax efforts need to be stepped up in the State.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

In the current year tax revenue increased by 11 *per cent* from Rs.2,739 crore in 2007-08 to Rs.3,045 crore. The revenue from Sales Tax not only contributed to major share of tax revenue (62.74 *per cent*) but also registered an increase of 17 *per cent* over the previous year.

State's tax revenue (being major contributor to revenue receipts) after introduction of VAT in 2005, contributed significantly in achieving a growth of 35.51 *per cent* and 33.16 *per cent* during 2005-06 and 2006-07, under revenue receipts. From 2007-08 the growth seemed to have been stablised, as is evident from the fact that growth rate came down to 7 *per cent* and 9 *per cent* in 2007-08 and 2008-09 respectively. Receipts under State Excise grew by Rs.86 crore over the previous year. However,

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

receipts under Stamp and Registration reduced by Rs.67 crore; as registration of sale deeds reduced by 29,529 cases in four major districts[3] of the State during the year.

Non-Tax Revenue

Non-tax revenue which had remained more or less stagnant from 2004-08 has shown slight improvement (4 *per cent*) during the year. At Rs.699 crore, non-tax revenue constituted 8 *per cent* of revenue receipts. The major contributors to non tax revenue during 2008-09 include Forest and Wild Life (Rs.207 crore), Power (Rs.171 crore), non ferrous and metallurgical industries (Rs.64 crore) and interest receipts (Rs.68 crore). Average contribution of interest receipts to non-tax revenue was 6.35 *per cent* over the period 2004-09. The State also got a debt relief of Rs.13.07 crore from GoI under Debt Consolidation Relief Fund (DCRF) the contra-entry of which is treated as non tax receipts of the Government.

The State's own resources vis-à-vis projections made by the Twelfth Finance Commission (TFC) reveal that Tax Revenue at Rs.3,045 crore during 2008-09 exceeded the normative assessment of Rs.2,171 crore made by TFC for the year while Non-Tax Revenue at Rs.775 crore was less by Rs.76 crore as compared to TFC projections. The projections made by the State Government in its Fiscal Correction Path (FCP) were more or less achieved in respect of Tax Revenue and exceeded the target by Rs.42 crore under Non-tax Revenue as is shown in the **Table 1.4** below:

Table: 1.4: Comparison of Projections/Assessments *vis-à-vis* Actuals

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actual
	(1)	(2)	(3)
Tax Revenue	2171	3054	3045
Non-Tax Revenue	775	657	699

Central Tax Transfers

The receipts in the form of State's share in Union taxes and duties have increased by 6 *per cent* from Rs.1,428 crore in 2007-08 to Rs.1,507 crore in 2008-09. The overall increase in Central transfers (Rs.79 crore) was mainly due to increase in Corporation Tax (Rs.41 crore), Customs (Rs.18 crore) and Service Tax (Rs.20 crore).

Grants-in-Aid

The Grants-in aid from GOI had shown constant increase over the period of 2004-2009. It increased from Rs.1574 crore in 2004-05 to Rs.3,384 crore in 2008-09. Although it had shown a slight decline in 2007-08 it increased again by Rs.328 crore (11 *per cent*) during the current year. The increase was on account of additional grants released by GoI under Grants for State Plan Schemes by Rs.366 crore and partly off-set by reduction in Non-Plan Grants by Rs.65 crore.

[3] Udham Singh Nagar, Dehradun, Haridwar and Nainital.

1.3.2 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

The details of cases of evasion of tax detected by the Commercial Tax Department, cases finalized and the demands for additional tax raised in 2008-09, as reported by the department indicate 457 cases of evasion at the end of the financial year 2008-09.

1.3.3 Revenue Arrears

Department wise break-up of Arrears of Revenue is shown in **Table 1.5** below:

Table: 1.5: Breakup of Revenue in arrears

(Rupees in crore)

Name of the Department	Amount in arrears as on 31 March 2009	Amount outstanding for more than 5 years as on 31 March 2009
Sales/Commercial Tax	631.18	157.86
State Excise	0.80	0.50
Stamp Duty and Registration	3.30	1.60
Taxes and Duties on Electricity	107.49	10.04
Registrar Co-operative Societies	8.54	6.17
Taxes on Vehicles	1.92	0.20
Entertainment Tax	0.66	0.46
Taxes on purchase of Sugarcane	5.38	nil
Total	**759.27**	**176.83**

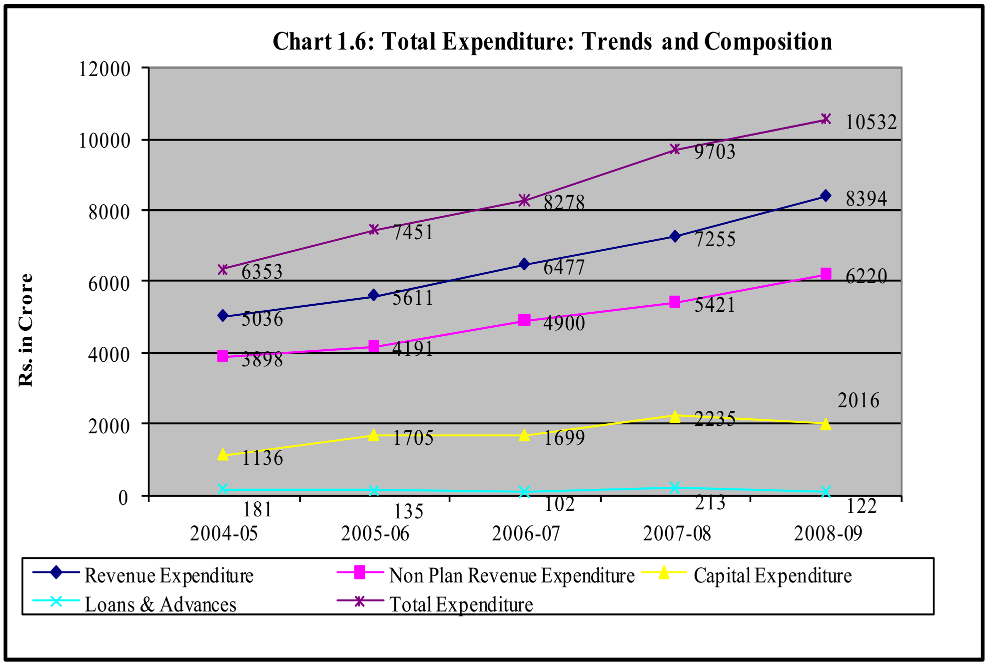
Arrears of revenue (excluding forest revenue) at the end of 2008-09 amounted to Rs.759.27 crore, of which Rs.176.83 crore (23 *per cent*) were more than five years old. Specific action taken to effect recoveries had not been intimated by the State Government.

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors. An analysis of allocation of expenditure is discussed below:

1.4.1 Growth and Composition of Expenditure

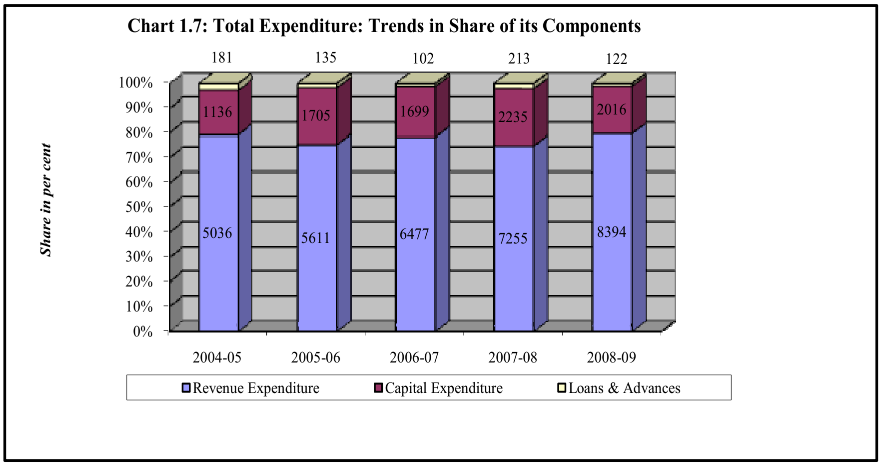
Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**

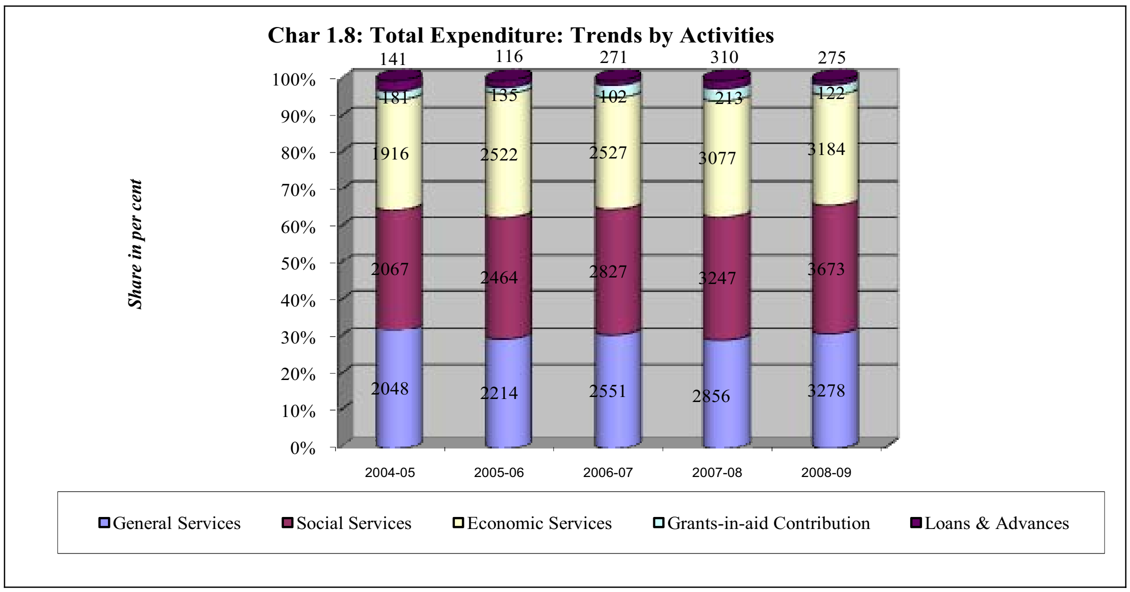


Total expenditure of the State increased at an average rate of 16 *per cent* per annum during 2004-09. An increase of Rs.829 crore (9 *per cent*) in total expenditure during 2008-09 over the previous year was due to an increase in revenue expenditure (Rs.1,139 crore) under (i) General Services (Rs.449 crore) (ii) Social Services (Rs.563 crore), (iii) Economic Services (Rs.162 crore) and reduced by decrease in Grants-in-aid and Contribution (Rs.35 crore).

Capital expenditure as per cent of total expenditure has shown fluctuating trend over the period 2004-05 to 2008-09. The increase over the period ranged between 17.88 *per cent* to 19.14 *per cent* with a high of 23.03 *per cent* in 2007-08. Capital Expenditure decreased by 10 *per cent* over the previous year and was four *per cent* lower than what was projected in MTFPS.

The relative share of these components of expenditure has remained unchanged in the recent past. The share of expenditure on General Services including interest payments, which is considered as non-developmental, marginally increased from 29 *per cent* in 2007-08 to 31 *per cent* in 2008-09. Social services also showed a marginal increase over the period 2004-05 to 2008-09 and in the case of Economic Services, the expenditure showed an upward trend over the period 2004-09.





The revenue expenditure of the State increased by 66 *per cent* from Rs.5,036 crore to Rs. 8,394 crore during the period 2004-09 at an average annual rate of 14.01 *per cent*. Non-Plan Revenue Expenditure (NPRE) of the State increased by 59.57 *per cent* during the same period. During the current year, the increase in NPRE (Rs.799 crore) was mainly due to increase in Salaries (Non-Plan) (Rs.708 crore), Pension (Rs. 205 crore) and Interest Payments (Rs.92 crore) partly offset by decrease in Grants-in-aid to local bodies (Rs.35 crore), Miscellaneous General Services (Rs.42 crore) and less amount being transferred to Reserve funds (Rs.38 crore).

While the share of Plan Revenue Expenditure (PRE) in revenue expenditure of the State exhibited an increasing trend, its growth rate showed upward trend during the period 2004-09. The PRE during the current year increased by Rs. 340 crore over the previous year mainly on account of increase in expenditure under Water Supply and Sanitation (Rs.117 crore) for augmentation of Urban Water Supply Programmes, Urban Development, Development of Small and Medium Towns (Rs.62 crore), Crop

Husbandry (Rs.41 crore), Forestry and Wild Life (Rs.40 crore) and Health and Family Welfare (Rs.25 crore) for rural family welfare services.

Table: 1.6 Actual NPRE *vis-à-vis* projections

(Rupees in crore)

Non-Plan Expenditure	Assessment made by TFC	Assessment made by State Government in		
		Fiscal Correction Path	MTFPS	Actual
	5235	6147	6044	6220

During the current year the NPRE exceeded the normative assessment made by the TFC by Rs.985 crore (18.82 *per cent*) but was more or less the same as had been projected by the State Government in FCP and Mid Term Fiscal Policy Statement (MTFPS) for the year 2008-09.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.7: Components of Committed Expenditure

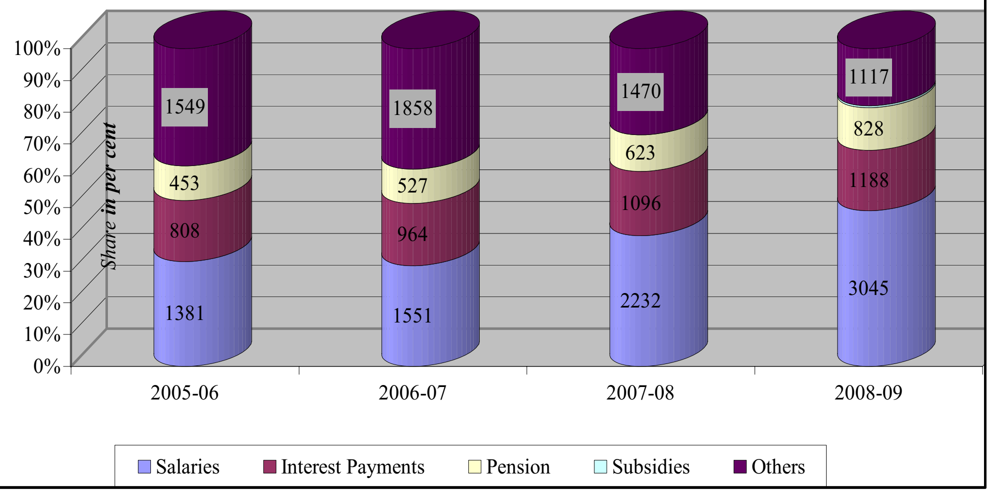
(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries & Wages, *Of which*	1192	1381	1551	2232	2878	3045 (*35*)
Non-Plan Head	Plan/Non-Plan wise break up of salaries is not available for this period	1278	1397	2020	2621	2728
Plan Head*		103	154	212	257	317
Interest Payments	816	808	964	1096	1249	1188 (*14*)
Expenditure on Pensions	354	453	527	623	700	828 (*10*)
Subsidies	…	…	…	…	68	42 (*0.50*)
Other Components	1536	1549	1858	1470	1252	1117
Total	**3898**	**4191**	**4900**	**5421**	**6147**	**6220**

Figures in the parentheses indicate percentage to Revenue Receipts.

**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.*

Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2005-2009 (Value in Labels in Rs Crore)



Note: Subsidies amount during 2008-09 is negligible.

The expenditure on salaries increased by Rs.813 crore from Rs.2,232 crore to Rs 3,045 crore, an increase of 36 *per cent* due to implementation of Sixth Pay Commission recommendations. Therefore, the projections made by the State Government in its FCP in respect of salaries did not stand accurate. *Exceeding the TFC norms which required that expenditure under this head should be 35 per cent of revenue expenditure, expenditure on salaries accounted for 48 per cent net of interest payments and pensions in the current year.*

The State Government estimated the pension liabilities on the historical growth rate of pension and not on actuarial basis. Expenditure on pension payments was Rs.828 crore in 2008-09, which constituted 9.59 *per cent* of the revenue receipts. Pension payments during 2008-09 grew up by 33 *per cent* over the previous year, mainly on account of implementation of Sixth Pay Commission report. It was higher than the rate of 10 *per cent* projected by the TFC, but was more or less of the same as Rs.814 crore set forth by TFC for the current year (***Annexure 6.12 of TFC report***). The State Government also introduced a contributory pension scheme for employees recruited on or after 1 October 2005 to mitigate the impact of rising pension liabilities in future.

The ratio of interest payments to revenue receipts determines the sustainability of the debt of State. As per the recommendations of the TFC, the level of interest payments relative to revenue receipts should fall to 15 per cent by 2009-10. Interest payments not only were below 15 per cent during 2008-09 but were also below the target of 14.74 per cent of revenue receipts set out by the State Government in its FCP. As shown in **Table 1.7**, interest payments increased by 46 *per cent* during 2004-09 primarily due to past borrowings. Interest payments during 2008-09 included those on

Internal Debt (Rs.960 crore)[4], other obligations (Rs.66 crore) and Small Savings, Provident Fund etc. (Rs.126 crore).

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.8.**

Table 1.8: Financial Assistance to Local Bodies etc

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	141.02	198.31	232.81	301.42	271.06	198.99
Municipal Corporations and Municipalities	61.46	80.55	96.63	110.93	123.07	106.20
Zila Parishads and Other Panchayati Raj Institutions	79.98	36.09	174.65	198.85	183.44	168.57
Development Agencies	362.08	305.04	408.25	514.53	672.48	588.44
Hospitals and Other Charitable Institutions	15.51	26.21	40.69	28.69	29.83	38.89
Energy (UPC and UPC for Rural Electrification)	73.75	60.83	100.61	134.52	380.71	69.79
Agriculture Research and education institution Land Reforms for updating land records and Wild life Preservation	76.80	103.96	146.39	153.67	176.93	217.73
General Labour Welfare	25.10	18.28	20.04	16.31	0.10	0.10
Co-operatives	4.30	7.64	14.24	17.16	3.55	3.49
Animal Husbandry, Dairy Development and Fishries	7.65	8.55	10.74	14.53	31.61	31.51
Secretariat Economics Services & Tourism	131.05	43.38	64.39	59.21	27.54	27.51
Social Security & Welfare of Scheduled Cast, Scheduled Tribe & Other Backward Classes	65.13	8.42	84.94	108.73	121.98	122.77
Other Institutions	11.80	33.71	18.13	23.03	75.09	85.36
Total	**1054.90**	**1005.97**	**1412.51**	**1681.58**	**2097.39**	**1659.35**
Assistance as per percentage of RE	20.93	17.93	21.82	23.18	24.21	19.77

4 Comprising Market Loans (Rs.414 crore) and Special Securities (Rs.470 crore) issued to the National Small Savings Fund (NSS) by the State Government.

The total assistance to local bodies and other institutions in 2008-09 had grown by 57 *per cent* over that of 2004-05. Universities and Educational institutions, Development agencies and Energy sector together accounted for 52 *per cent* of the total financial assistance. The assistance in the current year has almost remained stagnant as compared to the previous year. The increases during the year were, under Agriculture Research (Rs.64 crore) and Development Agencies (Rs.74 crore) which was counterbalanced by decrease in the assistance to Educational institutions (Rs.102 crore) and Energy (Rs.64 crore).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's *per capita* expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.9** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.9: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	**19.50**	**61.44**	**30.41**	**14.13**
Uttarakhand's Average (Ratio) 2005-06	28.46	68.49	33.07	22.88
All States/National Average* (Ratio) 2008-09	**19.16**	**67.68**	**33.90**	**16.87**
Uttarakhand Average (Ratio)* 2008-09	26.23	66.21	34.87	19.14
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average *per capita* Expenditure 2005-06	**3010**	**1490**	**692**	
Uttarakhand's *per capita* expenditure (Amount in Rs) in 2005-06	5627	2708	1874	
Adjusted *per capita*** Expenditure (Amount in Rs) in 2005-06	NR	NR	NR	

All States' Average *per capita* expenditure 2008-09	**5030**	**2520**	**1254**
Uttrakhand's *per capita* Expenditure (Amount in Rs) in 2008-09	7270	3826	2100
Adjusted *per capita*** Expenditure (Amount in Rs) in 2008-09	NR	NR	NR

* As per cent to GSDP
** Calculated as per the methodology explained in the **Appendix 1.2 – Part A.**
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure.
Population of Uttrakhand: 0.91 crore in 2005-06 and 0.96 crore in 2008-09.
Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.
Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India.
(Website: http://www.censusindia.gov.in) Population = Average of Projected population for 2005 and 2006.
NR = No adjustment required since the state is giving adequate fiscal priority.

In **Table 1.9**, comparison is drawn between the fiscal priority given to different categories of expenditure and fiscal capacity of Uttarakhand in 2005-06 (the first year of the Award Period of the Twelfth Finance Commission) and the current year 2008-09. In 2005-06, the Uttarakhand Government gave adequate fiscal priority to Aggregate Expenditure (AE), Developmental Expenditure (DE), Social Sector Expenditure (SSE) and Capital Expenditure, since AE/GSDP alongwith DE/AE, SSE/AE and CE/AE ratios in the case of Uttarakhand was much higher than the national average. In 2008-09, it is observed there was adequate priority for all categories of expenditure compared to the national average except DE, where the DE/AE ratio was less then the All States average.

Since Uttarakhand is a special category state, with a relatively small population base, the *per capita* expenditure of DE, SSE and CE in 2005-06 as well as in 2008-09, was higher than the national average.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[5]. Apart from improving the

[5] *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

allocation towards development expenditure[6], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.10** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.10: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	4155(65)	5103(68)	5441(66)	6521(67)	8283	6973(66)
a. Development Revenue Expenditure	2294(36)	3468(47)	3828(46)	4290(44)	5301	5015(48)
b. Development Capital Expenditure	988(16)	1518(20)	1526(18)	2034(21)	2575	1842(17)
c. Development Loans and Advances	173(3)	117(1)	87(1)	197(2)	407	116(1)
Figures in parentheses indicate percentage to aggregate expenditure						

The share of developmental revenue expenditure in the total expenditure showed an inter-year variation during the period 2004-05 to 2008-09 at an average rate of 44 *per cent*. The share of developmental capital expenditure also showed inter-year variations and dipped by 4 *per cent* during the year as compared to 2007-08. However, the overall development expenditure increased by 68 *per cent* over the period 2004-09.

Table 1.11: Efficiency of Expenditure Use in Selected Social and Economic Services

(*In per cent*)

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	1.76	14.62	0.01	1.44	15.87	0.01
Health and Family Welfare	1.62	2.76	0.03	0.74	3.20	0.03
WS, Sanitation, & HUD	0.16	0.03	0.02	0.20	0.03	0.01
Total (SS)	**4.31**	**18.10**	**0.07**	**2.66**	**20.38**	**0.07**

[6] The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Economic Services (ES)						
Agri & Allied Activities	0.72	2.77	0.22	0.55	3.20	0.24
Irrigation and Flood Control	3.76	1.28	0.39	4.79	1.55	0.36
Power & Energy	2.65	0	0	1.57	-	-
Transport	8.08	0.07	1.13	7.11	0.08	0.97
Total (ES)	**16.65**	**5.38**	**1.74**	**14.82**	**6.58**	**1.56**
Total (SS+ES)	**20.96**	**23.47**	**1.81**	**17.48**	**26.96**	**1.63**
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.						

Though no specific norms regarding prioritisation of capital expenditure have been laid in FRBM Act, the Government had made a budget provision of Rs.2,802 crore under the Capital Head during 2008-09.This shows the government's commitment to provide the basic infrastructure in the State. However, the actual capital expenditure during the year had to be restricted on account of rise in the revenue expenditure. Capital expenditure both in Social and Economic sectors decreased by 3.48 *per cent* from 20.96 *per cent* in 2007-08 to 17.48 *per cent* in 2008-09.

During 2008-09, salaries and wages as a percentage of revenue expenditure on Social Services and Economic Services increased by 2.28 *per cent* and 3.49 *per cent* respectively. In Operational and Maintenance expenditure as a percentage of revenue expenditure remained almost stagnant both in Social and Economic Service.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to achieve the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure.

a) With the creation of Uttarakhand in November 2000, its hydro-power potential was recognized as key to the development of the State. The Government chalked out an ambitious plan to harness its hydropower potential through the concerted efforts of both the State and the private sector. The State policy to encourage generation of hydro-power was formulated in October 2002. The prime aim was to develop the state as '*Urja Pradesh*', which would cater not just to the needs of the State but also to that of the power starved northern grid.

A performance review appearing as a stand-alone Audit Report on the 'hydro-power development through private sector participation' covering the key aspects of planning, allotment, operation, environment impact and monitoring of the projects revealed that:

Forty-eight projects with a total planned generation capacity of 2423.10 MW had been undertaken by Independent Power Producers (IPPs) in the State during 1993 to 2006, however, till March 2009, only 10 *per cent* of the projects with generation capacity of 418.05 MW were complete and operational. The prime reasons for the delays are problems associated with land acquisition, forest clearances and enhancement in project capacities. Significant areas of concern leading to non-achievement of the planned generation capacity are inadequate pre-feasibility studies for the projects, deficient project execution and primarily, absence of monitoring and evaluation of the projects by departmental authorities/nodal agency (UJVNL). More grave is the total neglect of environmental concerns, the cumulative impact of which may prove devastating for the natural resources of the State.

b) The performance audit of the Uttarakhand Parivahan Nigam for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Nigam.

The Nigam provides public transport in the State through a fleet strength of 1095 buses as on 31 March 2009 and carried an average of 1.11 lakh passengers per day. The Nigam suffered a loss of Rs.14.09 crore in 2008-09 and its accumulated losses and borrowings stood at Rs.236.61 crore and Rs.33.13 crore as on 31 March 2009, respectively. The Nigam earned Rs.14.96 per km and expended Rs.16.04 per km in 2008-09. Audit noticed that with a right kind of policy measure and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better. Though the Nigam did well on operational parameters, its 73 *per cent* routes were unprofitable due to high cost of operations and non-reimbursement of full cost of operations on uneconomical routes by the State Government. Nigam's performance on repair and maintenance was poor. The Nigam earned a net profit of Rs.10.57 crore from hired buses during 2004-09. As this activity is profitable and has the potential to cut down the cost substantially, the Nigam needs to explore possibility to replace overage buses by hiring more buses in future. The expenditure on manpower and fuel has to be controlled.

1.6 Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.6.1 Financial Results of Irrigation Works

The financial results of ten major irrigation projects with a capital outlay of Rs.596.47 crore at the end of March 2009 as per the Statement no. 3 of the Finance Accounts showed that revenue realized from these projects during 2008-09 (Rs.5.91 crore) was very low (0.99 *per cent*) compared to the capital outlay. It was barely sufficient to cover even the direct working expenses (Rs.33.94 crore) during 2008-09 and the government bore the remaining expenses of Rs.28.03 crore through budgetary support this year.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.12**.

Table 1.12: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects*	Cost Over Runs	Cum. actual exp as on 31.3.2009
Public Works Department	325	792.82	52.45	10.47	426.42
Irrigation	57	187.04	…	..	112.46
Total	**382**	**979.86**	**52.45**	**10.47**	**538.88**

* Indicates the Revised total cost of the projects as per the last revision by the State Government as on 31.03.2009

Information provided by the State Government showed that there were 382 projects which were due for completion as on 31 March 2009, but were incomplete. These incomplete projects include 17 projects (PWD) with initial budgeted cost of Rs.41.98 crore whose revised estimates escalated to Rs. 52.45 crore thereby resulting in cost over run of Rs.10.47 crore. The time over runs of these 17 incomplete works were within the range of one month to two years.

1.6.3 Investment and returns

As on 31 March 2009, Government had invested Rs.1071 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.13)**. The average return on this investment was 0.03 *per cent* in the last three years while the Government paid an average interest rate of 7.84 *per cent* on its borrowings during 2006-07 to 2008-09.

Table 1.13: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Investment at the end of the year (Rs in crore)	333	669	762	1005	279	1071
Return (Rs in crore)	0.26	0.07	0.16	0.53		0.23
Return *(per cent)*	0.08	0.01	0.02	0.05		0.02

Average rate of interest on Government borrowing *(per cent)*	9.10	7.47	7.79	7.99		7.75
Difference between interest rate and return *(per cent)*	9.02	7.46	7.77	7.94		7.73

Out of 12 Government Companies / Corporations, two companies' i.e. Uttaranchal Hydro Electric Corporation and Power Corporation Fund had received major share of investment by the end of 31 March 2009 totaling to Rs.540 crore and Rs.391 crore respectively. The accumulated loss of the Government Companies (seven) amounting to Rs.325 crore was mainly incurred by three companies viz. Uttarakhand Transport Corporation Limited (Rs.237 crore), Kichha Sugar Company Limited (Rs.50 crore) and Doiwalla Sugar Company Limited (Rs.28 crore). Uttarakhand Jal Vidyut Nigam Limited had, however, an accumulated profit of Rs.15 crore.

1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which pro forma accounts are finalized, net profit/loss as well as return on capital invested in these undertakings are given in **Appendix 1.6.** It is observed that:

- An amount of Rs.1.74 crore had been invested by the State Government in Government Irrigation Workshop, Roorkee at the end of financial year up to which their accounts were finalized (i.e. 2007-08).
- Of the total three undertakings, Irrigation Workshop, Roorkee; RFC, Haldwani and RFC Dehradun, only Workshop, Roorkee could earn net profit amounting to Rs.0.13 crore against the capital invested of Rs.1.74 crore. The interest received on the capital was Rs.4.41 crore. Thus, the percentage return (profit + interest) on the capital invested was 9.93 *per cent*.
- The accumulated losses of the two departmental undertakings viz. RFC, Haldwani and RFC, Dehradun were Rs.45.15 crore.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.14** presents the outstanding loans and advances as on 31 March 2009, interest receipts *vis-à-vis* interest payments during the last three years**.**

Table 1.14: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	
			BE	Actual
Opening Balance	482.80	565.68		709.79
Amount advanced during the year	102.38	212.54	407.12	121.71

Amount repaid during the year	19.50	68.43	161.60	53.63
Closing Balance	**565.68**	**709.79**		**777.87**
*Of **which*** Outstanding balance for which terms and conditions have been settled	Information not made available by the State Government			
Net addition	82.88	144.11		68.08
Interest Receipts	0.97	1.01		0.83
Interest receipts as *per cent* to outstanding Loans and advances	0.17	0.14		0.11
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.40	7.61		7.30
Difference between interest payments and interest receipts (*per cent*)	7.23	7.47		7.19

During 2008-09 Government advanced loans to the tune of Rs.122 crore against Rs.213 crore in 2007-08, a decrease of Rs.91 crore over the previous year.

Interest receipts as a percentage of outstanding loans and advances have been on a downward trend over the years 2006-09, with the figure reaching 0.11 in 2008-09. Average rate of interest on which the State Government raised market loans was 7.98 *per cent* during 2008-09 while the interest received on Loans and Advances given by the State was 0.11 *per cent. TFC recommended that at least 7 per cent return on outstanding loans and advances should be achieved in graded manner by the terminal year of the forecast period, a target that the State seems unlikely to achieve.* The total loans advanced by the Government ended 31 March 2009 stood at Rs.778 crore. The major beneficiaries were energy (Rs.421 crore) and agriculture (Rs.276 crore) sectors. Uttarakhand Power Corporation and Uttarakhand Power Corporation for Rural Electrification together accounted for Rs.335 crore under energy sector. The Uttarakhand cooperative Sugar Mills for payment of sugar price had a share of Rs. 239 crore under agriculture sector.

The recovery of loans and advances has not been upto the mark; the recoveries other than from energy sector were nil and the amount advanced was Rs.345 crore as on 31 March 2009.

1.6.6 Cash Balances and Investment of Cash balances

Table 1.15 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.15: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase/ Decrease
Cash Balances			
Investments from Cash Balances (a to d)			
a. GOI Treasury Bills	…	…	…
b. GOI Securities	675.04	730.03	(+) 54.99
c. Other Securities, if any specify	…	…	…
d. Other Investments	…	…	…

Funds-wise Break-up of Investment from Earmarked balances (a to c)			
a. ----	----	---	----
b. i. Sinking Fund Investment Account ii.Guarantee Redemption Fund	655.04 20.00	705.03 25.00	(+) 49.99 (+) 5.00
c. ----	----	----	----
Interest Realized	11.63	16.08	(+) 4.45

The State Government had invested Rs.730.03 crore in GoI Securities and earned an interest of Rs.16.08 crore during 2008-09. The interest realized on cash balance was 2.20 *per cent* during 2008-09 while Government paid interest at the average rate of 7.75 *per cent* on its borrowings during the year.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.16** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table 1.16: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances			Investment in 14 days Treasury Bills		
	2006-07	**2007-08**	**2008-09**	**2006-07**	**2007-08**	**2008-09**
April	41.29 Dr.	11.12 Cr.	13.96Dr.	328.14	317.60	8.52
May	12.36 Dr.	22.73 Cr.	46.78Dr.	606.62	385.51	129.03
June	55.56 Cr.	10.42 Dr.	2.57Cr.	839.73	946.57	812.04
July	55.70 Dr.	38.24 Cr.	7.35 Dr.	1038.35	1107.84	746.09
August	42.02 Cr.	13.18 Dr.	35.36 Dr.	797.63	1126.17	1267.15
September	8.25 Dr.	12.99 Dr.	11.38Dr.	498.46	840.86	1034.08
October	13.38 Cr.	63.96 Dr.	16.05Dr.	460.80	571.73	555.80
November	9.24 Dr.	36.27 Dr.	37.16 Dr.	394.69	476.45	279.99
December	9.93 Dr.	16.44 Dr.	8.76 Dr.	256.08	297.77	1134.72
January	1.03 Cr.	37.43 Dr.	30.84 Dr.	125.14	333.95	1372.17
February	29.69 Cr.	5.04 Cr.	25.79 Cr.	119.23	707.57	1149.06
March	8.22 Cr.	10.25 Cr.	547.57 Dr.	890.55	643.40	1045.45

Source: Data provided by AG(A&E), Uttarakhand.

Treasury Bills amounting to Rs.9,534.06 crore were purchased and Rs.9,534.06 crore sold during the period 1.4.2008 to 31.3.2009. The State was able to maintain a minimum balance of Rs.16 lakh and did not avail overdraft facilities since 2004-05.

However, temporary balances in cash flow forced the Government to obtain Ways & Means Advances (WMA) on 83 occasions during the year. The State had to pay Rs.2.61 crore as interest on WMA during the year.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3.** However the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Chart 1.10** and **1.11.**

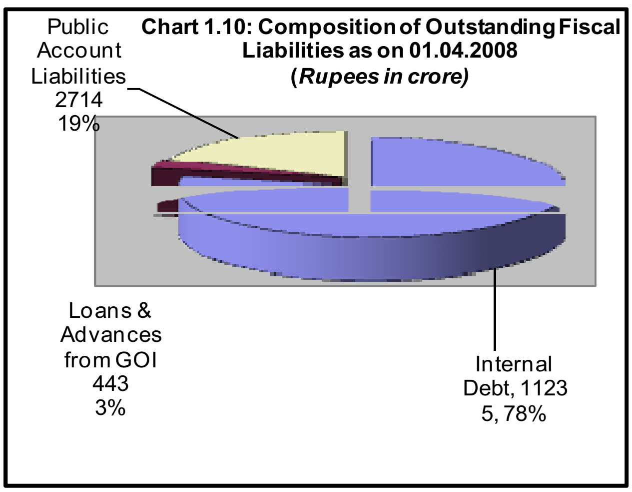


Chart 1.10: Composition of Outstanding Fiscal Liabilities as on 01.04.2008 (*Rupees in crore)*

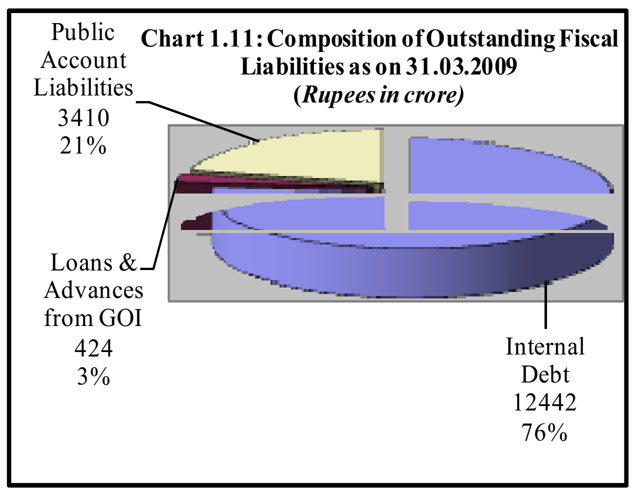


Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 31.03.2009 (*Rupees in crore)*

The overall fiscal liabilities increased by 64 *per cent* from Rs.9,910 crore in 2004-05 to Rs.16,276 crore in 2008-09. The State liabilities which stood at Rs. 16,276 crore in 2008-09 was mainly composed of Public debt (Rs.12,866 crore), Small savings and Provident Fund (Rs.1,887 crore), and other obligations (Rs.1,522 crore). The increase in the fiscal liabilities during the current year as compared to the previous year 2007-08 was mainly on account of internal debt and Small Savings Provident Fund etc. which rose by Rs.1,208 crore and Rs.531 crore respectively. The growth of fiscal liabilities is being tightened over the years; it was 13 *per cent* in 2008-09 over the previous year. The buoyancy of these liabilities with respect to GSDP during the year was 1.02 indicating that for each percentage point increase in GSDP; fiscal liabilities grew by 1.02 *per cent*. These liabilities stood at 1.9 times State's revenue receipts and 4.3 times its own resources. The sinking fund is in operation since the inception of the State for amortization of open market loans and the State has to contribute @ 3 *per cent* of outstanding balance of market loans of the previous year. However, the State Government provided only Rs.50 crore during the year as against Rs.150 crore due for the purpose.

1.7.3 Status of Guarantees – Contingent liabilities

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.

No law under Article 293 of the Constitution had been passed by the State Legislature fixing the maximum limit within which, the Government may give guarantees on the security of the Consolidated Fund of the State. The FRBM Act, 2005 also prescribed that the State Government shall not give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of this Act or any rule or to be made by the State Government subsequent to coming into force of this Act. However, State Government has not enacted any law as on date to cap the guarantees.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table1.17.**

Table 1.17: Guarantees given by the Government of Uttarakhand

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			BE	Actual
Maximum amount guaranteed	371	…	…..	125
Outstanding amount of guarantees	1716	1677	….	1802
Percentage of maximum amount guaranteed to total revenue receipts	23.71	21.25		20.87
Criteria as per FRBM Act/any other Act or Order of the State	No rules in pursuance to FRBM Act, 2005 have been framed by the GoU			

The quantum of government guarantees at Rs.1,802 crore was exactly the same amount as had been set in the MTFP of the State Government for the year 2008-09. Outstanding guarantees are in the nature of contingent liabilities, which stood at 21 *per cent* of revenue receipts (2008-09) of the State. The major beneficiaries of guarantees were Energy Department (Rs.1,600 crore), Uttarakhand State Cooperative Bank Limited (Rs.125 crore), Urban Development Department (Rs.64 crore) and Social Welfare Department (Rs.13 crore).

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[7]of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[8]; sufficiency of non-debt receipts[9]; net availability of borrowed funds[10]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.18** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.18: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	(+) 1033	(+) 347	(+) 172
Sufficiency of Non-debt Receipts (Resource Gap)	(+) 993	(-) 859	(-) 99
Net Availability of Borrowed Funds	357	212	164
Burden of Interest Payments (IP/RR Ratio)	13.07	13.89	13.76
Maturity Profile of State Debt (In Years)			
0 - 1	Not available	459	636
1 – 3		1201	2132
3 – 5		2358	1739
5 – 7		2134	2158
7 and above		4775	5319

Source: Finance Accounts

[7] The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

[8] A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

[9] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[10] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

The trends in **Table 1.18** indicate that during 2006-07 to 2008-09 the quantum spread together with primary deficit/surplus remained positive thereby suppressing the debt-GSDP ratio which declined to 40.52 *per cent* in 2008-09 from 41.54 *per cent* in 2006-07 and *is still higher than TFC recommendation of 30 per cent.* If these trends continue, the state will move towards debt stabilization in ensuing years.

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. A positive resource gap strengthens the capacity of State to sustain the debt**. Table 1.18** indicates resource gap as defined for the period 2006-09.

Due to significant increase in State's own taxes (Rs.728 crore: 40.78 *per cent*) and Grants-in-aid (Rs.989 crore: 47.28 *per cent*) in 2006-07, the State experienced a positive resource gap. The gap however again turned negative in 2007-08, and continued to be so during the current year. These trends indicate that State needs to make sustainable efforts to mobilize more resources to meet the incremental liabilities arising on account of additional primary expenditure and interest payments during the year.

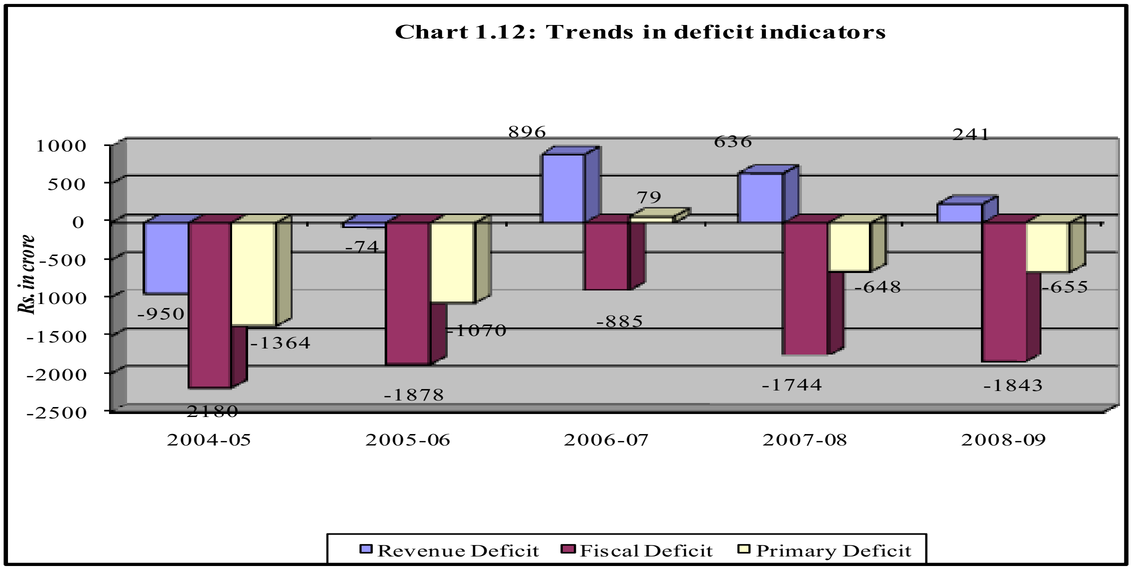
Debt redemption ratio steadily increased during the period 2004-09 indicating the fact that the borrowed funds are being increasingly used for the repayments towards the discharge of past debt obligations during the period. During the current year, internal debt redemption was 91 *per cent* of fresh debt receipts, redemption of GOI loans was 305.55 *per cent* while in case of other obligations repayments were 94.49 *per cent* of fresh receipts. These trends indicate towards the fact that the focus of the Government seems to be on discharging the past debt obligations.

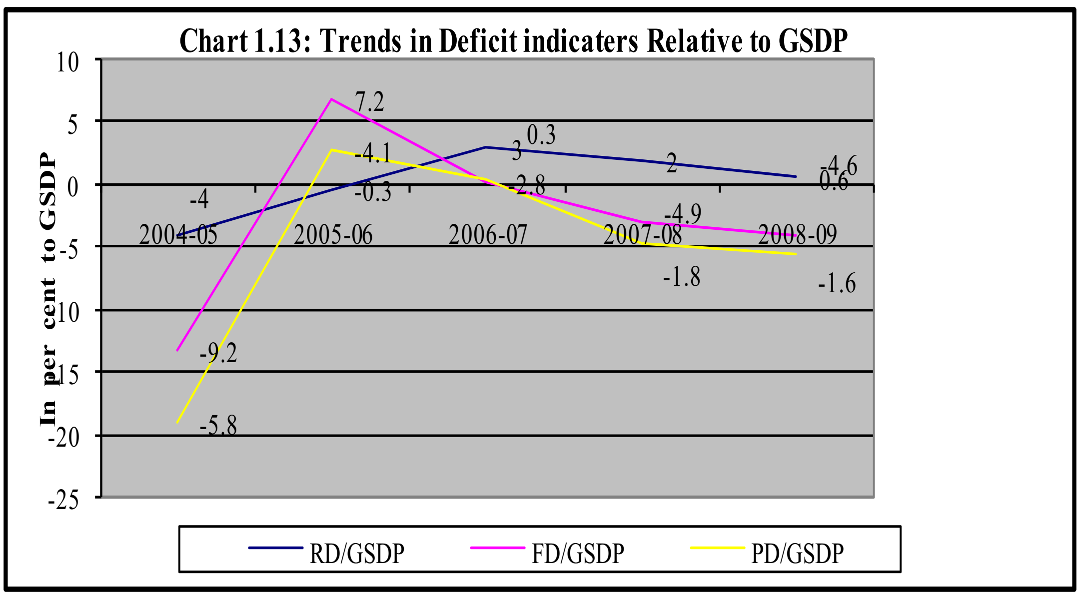
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Chart 1.12 and **1.13** present the trends in deficit indicators over the period 2004-09.





The revenue deficit which continued upto 2005-06 showed a turn around in 2006-07 and has been so this year too. However, quantum of revenue surplus has decreased from Rs.636 crore to Rs.241 crore. The fiscal deficit has been on the higher side during 2008-09 and was (4.59 *per cent* of GSDP) above the 3 *per cent* as had been set forth in FRBM, Act 2005. The primary deficit has remained almost the same as compared to previous year.

The revenue surplus achieved during the year was not sufficient to meet the Capital Expenditure as was targeted in the FCP and MTFP. Therefore, in order to keep the fiscal deficit under some control, Capital Expenditure in key sectors like Energy and Transport was curtailed by the Government.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 19.**

Table 1.19: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
1	Revenue Deficit/Surplus	950	74	(+) 896	(+) 636	(+) 241
2	Capital Expenditure	1136	1705	1699	2235	2016
3	Net Loans and Advances	94	99	82	145	68
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	--	404	319	733	884
2	Loans from GOI	125	(-) 23	(-) 9	(-) 16	(-) 19
3	Special Securities Issued to NSSF	968	1018	580	195	120
4	Loans from Financial Institutions	472	111	101	213	204
5	Small Savings, PF etc	113	100	88	155	531
6	Deposits and Advances	(-) 169	196	175	142	61
7	Suspense and Misc	(-) 171	558	(-) 491	138	(-) 331
8	Remittances	(-) 99	(-) 217	35	85	(-) 238
9	Others	(-) 9	(-) 269	87	99	631
10	Overall Surplus/Deficit	2180	1878	885	1744	1843

Figures in brackets indicate the per cent to GSDP.
*All these figures are net of disbursements/outflows during the year

The revenue deficit, which turned surplus in 2006-07, did not keep increasing instead showed a declining trend thereafter, which in turn resulted in increasing fiscal deficit over the period 2007-09. The fiscal deficit was largely managed by Internal Debt (market borrowings and loans from financial institutions) which constituted 66 *per cent* of the fiscal deficit during the year. Although there was a decrease (10 *per cent*) in capital expenditure during the year, even then the fiscal deficit could not be contained.

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD and the primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit **(Table 1.20)** would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.20: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts*	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	4173	4220	1136	181	5537	(-) 47	(-) 1364
2005-06	5573	4803	1705	135	6643	(+) 770	(-) 1070
2006-07	7393	5513	1699	102	7314	(+) 1880	(+) 79
2007-08	7959	6159	2235	213	8607	(-) 1800	(-) 648
2008-09	8689	7206	2016	122	9344	(+) 1483	(-) 655

* Receipts other than Public Debt receipts i.e such receipts which are not to be paid back

Table 1.20 shows that the non-debt receipts over the period 2004-05 to 2008-09 were sufficient to meet the primary revenue expenditure, except in 2004-05. The ratio of Capital expenditure to Primary expenditure has shown a fluctuating trend and ranged from 20.52 *per cent* to 25.97 *per cent.* The primary revenue deficit in 2008-09 has declined by 17.61 *per cent* from the previous year only because the capital expenditure had also decreased, which is not appropriate as the Government's commitment towards infrastructure development will receive a set-back.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.21** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.21: Change in revenue Receipts and Correction of Deficit

(*Per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	7373	7891	10456	8635(22)
a. State's Own Tax Revenue	2513	2739	3120	3045(8)
b. State's Own Non- tax Revenue	647	668	897	699(2)
c. State's Share in Central Taxes and Duties	1132	1428	1680	1507(4)
d. Grants-in-Aid	3081	3056	4759	3384(8)
Revenue Expenditure	6477	7255	8663	8394(21)
Revenue Deficit/Surplus	(+) 896	(+) 636	1794	(+) 241(0.60)
Fiscal Deficit/Surplus	885	1744	1155	1843(4.59)

Comparison of Revenue Receipts *vis-à-vis* Revenue Expenditure showed that the revenue receipts grew by 9 *per cent* against 16 *per cent* increase in revenue expenditure during the year. This in turn resulted in decline in revenue surplus during the year. The Budget Estimates for Own Tax Revenue (OTR) and Non Tax Revenue (NTR) did come to the expectation thereby resulting in containment of fiscal deficit which stood at 4.6 *per cent* of the GSDP during the year.

1.10 Conclusion /Observations

Reduction in Revenue Surplus

Although the tax revenue and non-tax revenue receipts exceeded normative assessments made by TFC by 40.26 *per cent* and by 9.81 *per cent* respectively during 2008-09. The revenue surplus decreased by Rs.395 crore (62.11 *per cent*) on account high revenue expenditure, which grew by 16 *per cent* over the previous year. The Government needs to improve its revenue collection as arrears of revenue (excluding forest revenue) at the end of 2008-09 amounted to Rs.759.27 crore, of which Rs.176.83 crore (23 *per cent*) were more than five years old.

The expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure increased during the current year and remained around 80 *per cent* leaving inadequate resources for creation of assets. The non-plan revenue expenditure (NPRE) increased by 15 *per cent* over the previous year. The NPRE exceeded the normative assessment made by TFC, assessment made by Government in its FCP and MTFPS by 18.82 *per cent*, 1.18 *per cent* and 2.91 *per cent* respectively. The Plan Revenue Expenditure (PRE) increased by 18.56 *per cent* over the previous year.

Within revenue expenditure, NPRE at Rs.6,220 crore in 2008-09 was although within the budgeted level of Rs. 6,147 crore but remained significantly higher than the normatively assessed level of Rs.5,235 crore by TFC for the year. Further, the salaries and wages, pensions and interest payments continued to consume a major share of NPRE which was around 81 *per cent* during 2008-09.

Capital Expenditure decreased by 10 *per cent* over the previous year and was four *per cent* lower than what was projected in MTFPS.

Fiscal Deficit

Fiscal deficit at 4.59 *per cent* of GSDP seemed to be sustainable, because the capital expenditure was not met as per the budget estimates and was even 10 *per cent* less than the previous year. Therefore, the target of reducing the fiscal deficit to 3 *per cent* of GSDP by 2009-10 is unlikely to be achieved.

The ratio of fiscal liabilities to GSDP stood at 41 *per cent* during 2008-09. The State Government in FRBM, Act (**Appendix 1.2, Part-B**) has committed that the fiscal liabilities to GSDP ratio will be brought down to 25 *per cent* by 2014-15.

Return to fiscal correction

Uttarakhand is one of the earliest of States to have passed the Fiscal Responsibility and Budget Management Act. The State of Uttarakhand achieved the target of attaining revenue surplus in 2006-07 and continues to do so. Fiscal deficit of the State government at 4.90 *per cent* in 2007-08 is lagging behind the target of 3.5 *per cent* (revised) as envisaged in FRBM, Act but has shown some staggering in 2008-09 and is pegged at 4.59 *per cent*.

Greater priority to capital expenditure

Though no specific norms regarding prioritisation of capital expenditure have been laid in FRBM Act, the Government had made a budget provision of Rs.2,802 crore under the Capital Head during 2008-09. This shows the government's commitment to provide the basic infrastructure in the state. However, the actual capital expenditure during the year had to be restricted on account of rise in the revenue expenditure. Even though the share of Capital expenditure (both in Social and Economic sectors) in the aggregate expenditure decreased by 3.48 *per cent* from 20.96 *per cent* in 2007-08 to 17.48 *per cent* in 2008-09, it was still higher than the national average.

Review of Government investments

The average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was almost negligible in the past three years while the Government paid an average interest of 7.75 *per cent* on this investment (**Para 1.6.3**). It would be advisable for the State Government to ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification on it why high cost borrowings should be channeled there.

Prudent cash management

The cost of holding surplus cash balances is high. In 2008-09, the interest received on investment of cash balances in RBI Investment in Treasury Bills and Auction Treasury Bills was only 2.20 *per cent* while the Government borrowed on an average at 7.75 *per cent* (**Para 1.6.6**). Proper debt management through advance planning could reduce the need for the State government to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the State does not avail of overdraft facility.

Debt sustainability

The Government of Uttarakhand should ideally keep the debt-GSDP ratio stable by adhering to the FRBM principle. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Efforts should be made to return to the state of primary surpluses. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GoI to the State implementing agencies

As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GoI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).