CHAPTER- I

FINANCES OF THE STATE GOVERNMENT

Profile of Uttarakhand:

Uttarakhand is a special category State[1] because of its mountainous terrain, which has the inherent disadvantage of infrastructure and transaction costs and also calls for relatively higher cost of governance. Despite this, the State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2009-10 has been over 17 *per cent*. This is much higher than GSDP growth for **Himachal Pradesh** which also being another special category State is in many ways comparable to Uttarakhand. Compared[2] to **Himachal Pradesh** however, Uttarakhand has a much higher poverty level, lower literacy level and higher growth of population **(Appendix-1).**

As per Uttar Pradesh Reorganisation Act 2000 (Act No. 29 of 2000), 13 districts of U.P. having a population of 84,79,562 were transferred to the new State of Uttarakhand on and from the appointed date of 9 November 2000. The status of special category State was awarded to Uttarakhand because of inheriting financial burden, poor economic base and difficult geographical features at the time of creation of the State. Like other special category States, Uttarakhand receives revenue deficit grant each year under the recommendation of Finance Commission to improve its economy.

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. The major changes in the key fiscal aggregates were that the State Government's revenue surplus turned in to revenue deficit due to quantum jump in revenue expenditure during the year of Report which further escalated the fiscal deficit to around 6 *per cent* of the GSDP.

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 (2009-10) *vis-à-vis* the previous year while

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1 The special privileges given to Uttarakhand includes financial assistance from GOI in the ratio of 90 *per cent* grant and 10 *per cent* loan unlike non- special category states which get central aid in the ratio of 70 *per cent* grant and 30 *per cent* loan.

2 Throughout this report an effort has been made to compare the fiscal performance of Uttarakhand with Himachal Pradesh in order to provide a relative perspective.

Appendix-1.4 provides details of receipts and disbursements as well as overall fiscal position during the same period.

Table-1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					**NonPlan**	**Plan**	**Total**
8,634.97	Revenue receipts	**9,486.13**	**8,393.70**	Revenue expenditure			**10,657.47**
3,044.91	Tax revenue	3,559.04	3,103.96	General services	3,691.48	2.86	3,694.34
699.44	Non-tax revenue	631.86	3,391.84	Social services	3,282.73	1,697.55	4,980.28
1,506.59	Share of Union Taxes/ Duties	1,550.01	1,623.13	Economic services	1,063.19	594.93	1,658.12
3,384.03	Grants from Government of India	3,745.22	274.77	Grants-in-aid and Contributions	321.03	3.70	3,24.73
Section-B: Capital							
-	Misc. Capital Receipts	-	**2,016.34**	Capital Outlay			**1,646.73**
53.63	Recoveries of Loans and Advances	**64.83**	**121.72**	Loans and Advances disbursed			**30.06**
1,543.82	Public Debt receipts*	**1,682.57**	**355.38**	Repayment of Public Debt*			**472.87**
2.42	Contingency Fund	**37.05**	**32.05**	Contingency Fund			**71.42**
13,657.56	Public Account receipts	**14,225.75**	**13,476.62**	Public Account disbursements			**12,321.83**
746.37	Opening Cash Balance	**242.96**	**242.96**	Closing Cash Balance			**538.91**
24,638.77	**Total**	**25,739.29**	**24,638.77**	**Total**			**25,739.29**

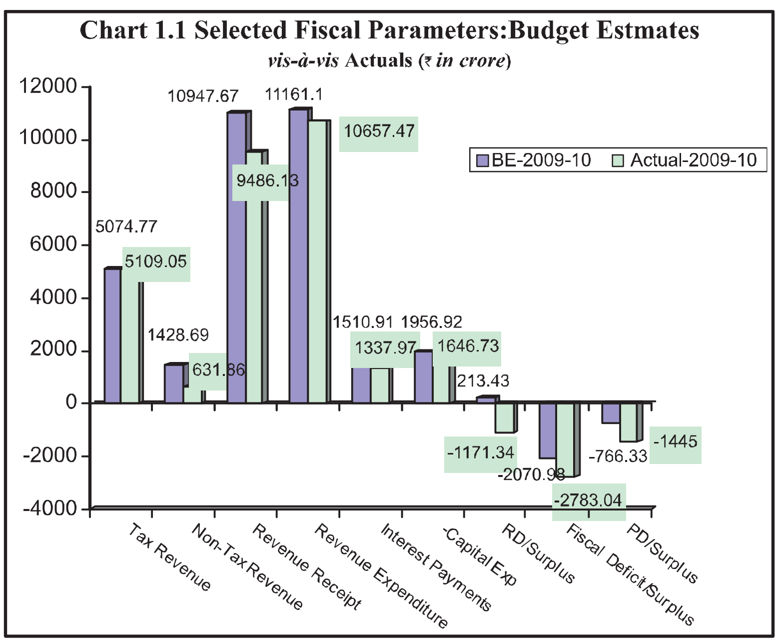
* *Excluding net transactions under ways and means advances and overdraft.*

It would thus be evident that:

- Revenue receipts grew by ₹ 851 crore (9.86 *per cent*). The increase was mainly due to the increase in State's own tax revenue (₹ 514 crore); quantum of Central Transfers (₹ 43 crore) and in Grants-in-aid (₹ 361 crore).
- Revenue expenditure increased by ₹ 2,264 crore (27 *per cent*), of which Non Plan Revenue Expenditure (NPRE) increased by ₹ 2,138 crore and Plan Revenue Expenditure (PRE) increased by ₹ 125 crore.
- Capital expenditure decreased by ₹ 369 crore (18.30 *per cent* as detailed in succeeding Paragraph 1.4.1

- Recovery of loans and advances increased from ₹ 54 crore to ₹ 65 crore (20.37 *per cent*). Disbursement of loans and advances decreased from ₹ 122 crore to ₹ 30 crore during the year (75.41 *per cent*), mainly due to less disbursement under energy sector.
- Public debt receipts registered an increase of ₹ 138 crore mainly because of outstanding balances in ways & means advances to the tune of ₹ 69 crore as on 31 March 2010. The repayment of public debts increased by ₹ 118 crore in 2009-10.
- Public account receipts increased by ₹ 568 crore due to increase under Suspense and Miscellaneous (₹ 1,541 crore), Small Savings, Provident Fund etc. (₹ 553 crore) and Deposits and Advances (₹ 475 crore) offset by decrease under Remittances (₹ 1884 crore) and Reserves Funds (₹ 117 crore). Public Account disbursement decreased to the tune of ₹ 1,210 crore due to less Remittances (₹ 1,994 crore) offset by more disbursement under suspense heads (₹ 439 crore), Small Savings (₹ 19 crore), Reserve Funds (₹ 19 crore) and Deposit and Advances (₹ 307 crore).
- The cash balance of the State at the end of 2009-10 increased by ₹ 295.95 crore.

Several reasons could be attributable for the deviation of the actual realization/expenditure from the budget estimates. It could 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.



A comparison of the Actuals against the Budget Estimates in respect of various components showed mixed trend during 2009-10;

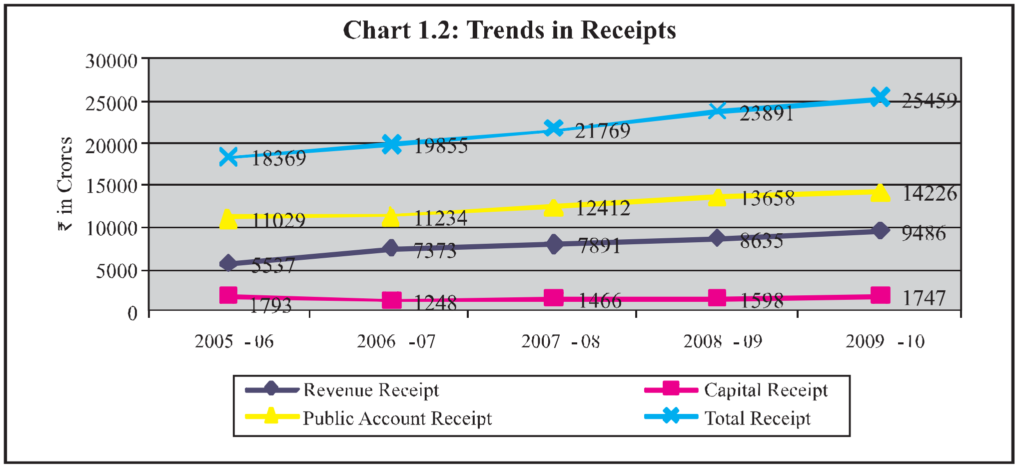
- The Revenue Receipts were short by 13 *per cent* due to less receipt (56 *per cent*) under Non-tax Revenue. There was wide variations between the budget estimates and the actuals of the various components of non tax revenue receipts for e.g. the budget estimates of pension contribution, power and tourism were ₹ 648 crore, ₹ 220.74 crore and ₹ 6.15 crore whereas the actual receipts of the above mentioned components were ₹ 37.43 crore, ₹ 56.13 crore and ₹ 0.42 crore respectively.
- The Revenue Expenditure was five *per cent* less than the Budget Estimates.
- The expenditure under the Capital Head remained unutilized to the extent of 16 *per cent,* due to less disbursement under education, rural development and irrigation sector.
- 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 by ₹ 2,500[3] crore after the implementation of Sixth Pay Commission recommendations.

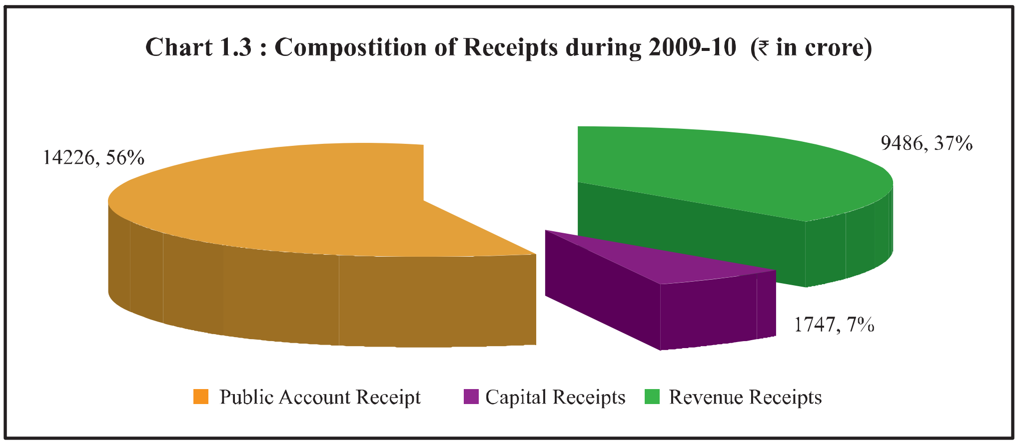
1.2 Resources of the State

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 revenue, non-tax revenue, 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 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

[3] Source: Budget speech 2010-11





The total receipts of the Government grew from ₹ 18,369 crore in 2005-06 to ₹ 25,459 crore in 2009-10 (39 *per cent*). Of the receipts of ₹ 25,459 crore in 2009-10, receipts of ₹ 14,226 crore came from the Public Account (56 *per cent)*. Revenue receipts were ₹ 9,486 crore (37 *per cent*) and Capital receipts of ₹ 1,747 crore (seven *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, which together grew by 14 *per cent* over the previous year.

The recovery of loans and advances during the year showed an increase of 21 *per cent* over the previous year under Capital receipts.

Trends in Public Account receipts

- Receipts under Small Savings, Provident Fund etc increased by ₹ 554 crore over the previous year mainly because 70 *per cent* of arrears of Pay and Allowances drawn in favor of State Government employees as 2nd Installment was credited to the Provident Fund Account.

- Reserve funds declined during the year by 69 *per cent*. However, deposits increased by 27 *per cent*. *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 ₹ 117 crore.*

- Suspense and miscellaneous receipts increased by 20 *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 ₹ 722 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[4] (detailed in **Appendix-1.5**) for the implementation of various schemes/programmes in social and economic sectors recognized as critical. These funds are not routed through the State Budget/State Treasury System. Therefore, the 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 detailed in **Appendix-1.5**. Significant amounts transferred to the major programmes/schemes are presented in **Table 1.2.**

[4] State Implementing Agency includes any Organisations/Institutions including Non-Governmental Organisation 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.

Table-1.2: Funds Transferred Directly to State Implementing Agencies

(₹in crore)

Sl. No.	Name of the Programme of the Scheme	Name of the Implementing Agency	Total Funds released by the Govt. of India during 2009-10
1	Sarva Sikhsa Abhiyan (SSA)	Uttaranchal Sabhi Ke liye Sikhsa Parishad	193.61
2	National Bamboo Mission	Uttarakhand Bamboo & Fiber Development Board, Dehradun	2.00
3	National Rural Health Mission (NRHM)	Uttarakhand Health & Family Welfare Societies	232.20
4	National Rural Employment Guarantee Scheme (NREGA)	DRDA, Projects Director Uttarakhand	151.03
5	Indira Awas Yojana (IAY)	DRDA, Projects Director Uttarakhand	39.74
6	Swaran Jayanti Gram Swarojgar Yojana (SGSY)	DRDA, Projects Director Uttarakhand	18.72
7	Member of Parliament Local Area Development Scheme (MPLADS)	Deputy Commissioner	25.00
8	National Afforestation	FDA, Uttarakhand	0.88
9	Pradhan Mantri Gram Sadak Yojana	SGO, Uttarakhand, Dehradun	101.00
10	Integrated Water Shed Management Programme	CGO and DRDA Projects Director Uttarakhand	30.41
11	Accelerated Rural Water Supply Programme	Uttarakhand Peyjal Sansadhan Evam Nirman Nigam	207.65
12	Package for Special Categories States other than N.E., DIPP	SIDCUL	4.50
13	E-governance	IT Development Agency	3.33
Total			**1,010.07**

Source: Central Plan Scheme Monitoring System of Controller General of Accounts website.

Table 1.2 shows the 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 2009-10 were (i) National Rural Health Mission ₹ 232.20 crore (22.99 *per cent*), (ii) Sarva Shiksha Abhiyan ₹ 193.61 crore (19.17 *per cent*), (iii) National Rural Employment Guarantee scheme ₹ 151.03 crore (14.95 *per cent*), (iv) Accelerated Rural Water Supply Programme ₹ 207.65 crore (20.56 *per cent*) and (v) Pradhan Mantri Gram Sadak Yojana ₹ 101.00 crore (10 *per cent*). Thus, with the transfer of ₹ 1,058.50 crore during 2009-10 directly by GOI to the State Implementing Agencies, the total availability of State resources increased from ₹ 25,496.33 crore to ₹ 26,594.33

crore. It is evident from the above that there is no single agency monitoring the funds directly transferred by the GOI 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 and funded directly by the GOI and therefore, utilization of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

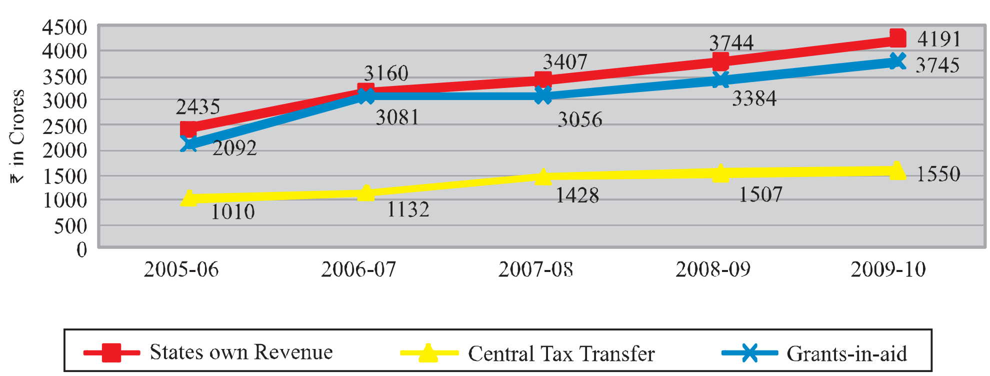
National Rural Health Mission: The GOI released ₹ 232.20 crore under NRHM to the State Implementing Agency (Uttarakhand Health and Family Welfare Society) during 2009-10. But an amount of only ₹ 103.24 crore was found to have been received and accounted for by the Society during the year leading to a difference of ₹ 128.96 crore. This needs reconciliation.

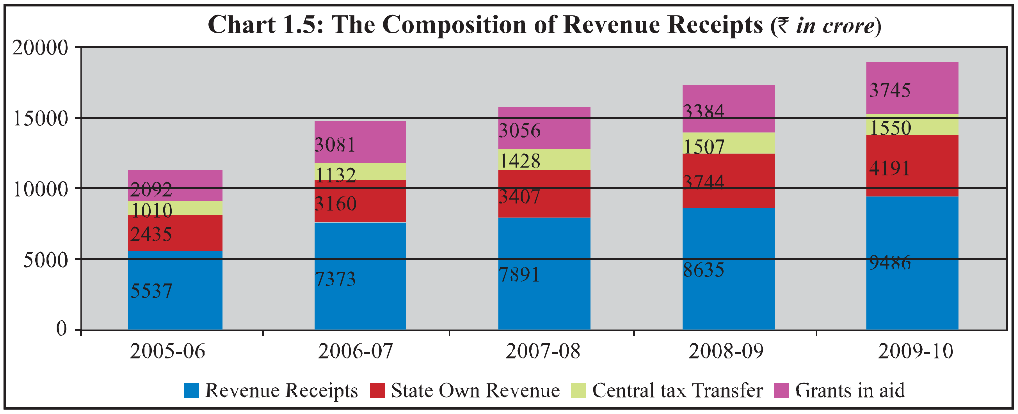
Sarva Shiksha Abhiyan: The GOI released ₹ 193.61 crore under SSA to the State Implementing Agency (SSA, State Project Office) during 2009-10. But an amount of only ₹ 160.06 crore was found to have been received and accounted for by the Society during the year leading to a difference of ₹ 33.55 crore. This needs reconciliation.

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 2005-06 to 2009-10 are presented in **Appendix-1.3** and are 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 2005-06 to 2009-10. It increased from ₹ 5,537 crore in 2005-06 to ₹ 9,486 crore in 2009-10 at an average rate of 19 *per cent* and the compound annual growth of revenue receipts was higher than that of **Himachal Pradesh** for the period 2001-02 to 2009-10 **(Appendix-1)**.

While 44 *per cent* of the revenue receipts during 2009-10 came from the State's own tax and non-tax revenue, the aggregate of Central Tax transfers and Grants-in-aid contributed 56 *per cent* of the total revenue.

On an average, States's own tax receipts constituted around 35 *per cent* of revenue receipts of the State over the period 2005-06 to 2009-10. *This showed continued dependency of the State on the Grants-in-aid from Government of India,* understandably so because the State being a special category State has not been able to broaden its tax base which in turn has made the State dependent upon the Central funds.

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

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (*₹in crore*)	**5,537.00**	**7,373.00**	**7,891.00**	**8,635.00**	**9,486.00**
Rate of growth of RR (*per cent)*	35.51	33.16	7.03	9.43	9.86
R R/GSDP (*per cent)*	21.15	23.50	22.17	21. 50	20.24
Buoyancy Ratios[5]					
Revenue Buoyancy w.r.t. GSDP	3.43	1.67	0.52	0.73	1.05
State's Own Tax Buoyancy w.r.t. GSDP	2.28	2.05	0.67	0.87	1.79

[5] 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*.

The rate of growth of revenue receipts showed a fluctuating trend over the period 2005-06 to 2009-10. The growth rate was high during 2005-06 but stabilised from 2007-08 onwards and stood at 9.86 *per cent* during 2009-10. The buoyancy ratio of State's own taxes with reference to GSDP was very high in 2005-06 and 2006-07 but fell to below 1 in 2007-08 and 2008-09. In the current year however, State's own taxes showed a much higher buoyancy than the previous two years indicating better tax revenue generation in comparison to growth in GSDP. For every one *per cent* increase in GSDP, State's own taxes increased by 1.79 *per cent in* 2009-10.

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

Tax revenue increased by 17 *per cent* from ₹ 3,045 crore in 2008-09 to ₹ 3,559 crore in 2009-10. The revenue from Sales Tax not only contributed to major share of tax revenue (63 *per cent*) but also registered an increase of 18 *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 33.16 *per cent* during 2006-07 under revenue receipts. The growth rate came down to seven *per cent* during 2007-08 and gradually increased to nine *per cent* and 10 *per cent* in 2008-09 and 2009-10 respectively. Receipts under State Excise grew by ₹ 177 crore over the previous year. Receipts under Stamp and Registration grew by ₹ 42 crore. In comparison with **Himachal Pradesh** (H.P.) the compound annual growth rate of own tax collection was much higher for the period 2001-02 to 2009-10 **(Appendix-1).**

Non-Tax Revenue

Non-tax revenue which had remained more or less stagnant from 2005-08 had shown some appreciation in 2008-09 but again decreased (10 *per cent*) during 2009-10. At ₹ 632 crore, non-tax revenue constituted seven *per cent* of revenue receipts. The major contributors to non tax revenue during 2009-10 include Forest and Wildlife (₹ 236 crore), Power (₹ 56 crore), non ferrous and metallurgical industries (₹ 74 crore) and interest receipts (₹ 54 crore). Average contribution of interest receipts to non-tax revenue was 7.38 *per cent* over the period 2005-06 to 2009-10. As compared to **Himachal Pradesh** the compound annual growth rate of non tax revenue was much lesser for the period 2001-02 to 2009-10 **(Appendix-1).** The State also got a debt relief of ₹ 3.68 crore from GOI under Debt Consolidation Relief Fund (DCRF) which is treated as non tax receipts of the State Government.

As per the Twelfth Finance Commission Award, Uttarakhand was entitled to get a debt waiver of ₹ 14.40 crore **(Annexure-12.8 of TFC Report)** per year from the year of framing the fiscal reform Legislation (2005). The waiver received so far was:

(₹ in crore)

Sl.No	Year	Waiver
1	2006-07	13.08
2	2007-08	9.40
3	2008-09	13.08
4	2009-10	3.68
	Total	**39.24**

The State could not achieve the fiscal deficit target of 4 *per cent* (revised) of GSDP as prescribed in the FRBM Act, 2005 for the year 2009-10 which stood at 5.94 *per cent*. On account of this, the State will stand to lose an amount of ₹ 14.40 crore debt Waiver per year from next year onwards and the total loss already incurred upto the year 2009-10 is ₹ 32.76 crore under the DCRF scheme.

The State's own resources vis-à-vis projections made by the Twelfth Finance Commission (TFC) revealed that Tax Revenue at ₹ 3,559 crore during 2009-10 exceeded the normative assessment of ₹ 2,457 crore made by TFC for the year while Non-Tax Revenue at ₹ 899 crore was lesser by ₹ 267 crore as compared to TFC projections.

The projections made by the State Government in its Fiscal Correction Path (FCP) were achieved in respect of Tax Revenue but was short of the target by ₹ 797 crore under Non-tax Revenue as shown in the **Table 1.4** below:

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

(₹in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actual
	(1)	(2)	(3)
Tax Revenue	2,457	3,529	3,559
Non-Tax Revenue	899	1,429	632

Central Tax Transfers

The receipts in the form of State's share in Union taxes and duties have increased by 3 *per cent* from ₹ 1,507 crore in 2008-09 to ₹ 1,550 crore in 2009-10. The overall increase in Central transfers (₹ 43 crore) was due to increase in Corporation Tax (₹ 144 crore), Taxes on income and service (₹ 46 crore) offset by decrease in Custom and Excise (₹ 147 crore).

Grants-in-Aid

The Grants-in-aid from GOI had shown an increase over the period 2005-06 to 2009-10. It increased from ₹ 2,092 crore in 2005-06 to ₹ 3,745 crore in 2009-10. Although it had shown a slight decline in 2007-08, it increased again by ₹ 361 crore (11 *per cent*) during the current year. The increase was mainly on account of additional grants released by GOI under Grants for State Plan Schemes by ₹ 429 crore partly offset by reduction in Non-Plan Grants by ₹ 87 crore.

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 2009-10, as reported by the Department, showed that the Department had detected 5394 cases during 2009-10. Besides, 457 were pending as on 31 March 2009. It was however, noticed that the Department had raised demand including penalty in 3,543 cases during 2009-10 leaving a balance of 2308 cases of evasion at the end of the financial year 2009-10 on which action is awaited. Action needs to be taken to finalise these cases at the earliest.

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 arrears of revenue

(₹ in crore)

Name of the Department	Amount in arrears as on 31 March 2010	Amount outstanding for more than 5 years as on 31 March 2010
Commercial Tax VAT	501.43	391.79
Taxes on Vehicles	2.39	1.02
Land Revenue	0.34	0.01
State Excise	0.48	-
Taxes & Duties on electricity	205.13	11.79
Public Works Department	2.16	0.81
Entertainment Tax	0.62	0.45
Stamp duty & Registration Fees	4.53	4.27
Registration Co-operative Societies	8.37	6.39
Taxes on Purchase of Sugarcane	4.59	-
Total	**730.04**	**416.53**

Arrears of revenue (excluding forest revenue) at the end of 2009-10 amounted to ₹ 730.04 crore, of which 57 *per cent* of arrears was more than five years old. Specific action taken to effect recoveries had not been intimated by the State Government.

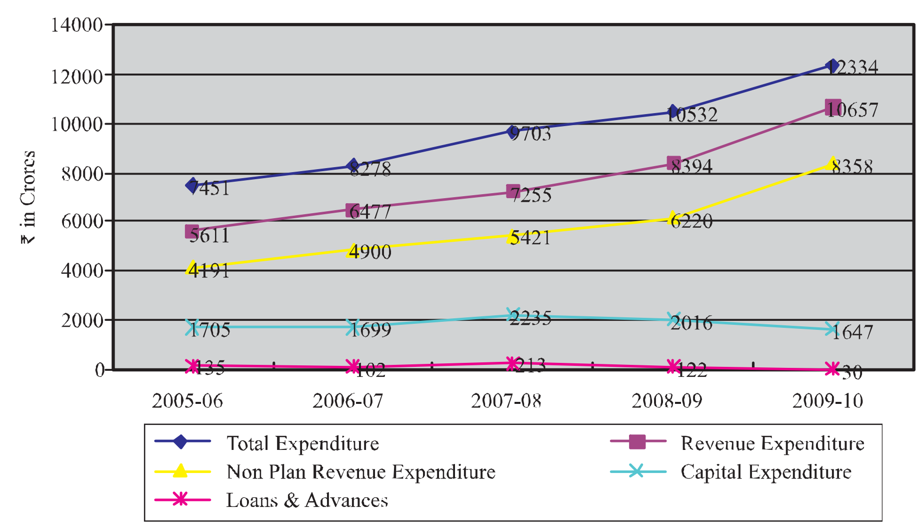
1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with the State Government. 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 (2005-06 to 2009-10) and its composition both in terms of 'economic classification' and 'expenditure by activities are depicted in **Charts 1.7 and 1.8.** respectively.

Chart 1.6: Total Expenditure: Trends and Composition



Total expenditure of the State increased at an average rate of 16 *per cent* per annum during 2005-10. An increase of ₹ 1,802 crore (17 *per cent*) in total expenditure during 2009-10 over the previous year was mainly due to an increase in revenue expenditure (₹ 2,264 crore) mainly under (i) General Services (₹ 590 crore) (ii) Social Services (₹ 1,588 crore), (iii) Economic Services (₹ 35 crore) and decrease in capital expenditure (₹ 461 crore) mainly under (i) General services (₹ 65 crore), (ii) Social Services (₹ 172 crore), (iii) Economic Services (₹ 132 crore), disbursement of loans and advances (₹ 92 crore) and Grants-in-aid and Contribution (₹ 50 crore).

Capital expenditure as per cent of total expenditure had shown fluctuating trend over the period 2005-06 to 2009-10. It was 22.88 *per cent* in 2005-06 and 13.35 *per cent* in 2009-10. The trend was generally decreasing except in the year 2007-08 registering an increase and recording 23.03 *per cent of total expenditure*. Capital Expenditure decreased 18 *per cent* in 2009-10 over the previous year due to less disbursement under education, rural development and irrigation sectors and was 43 *per cent* lower than what was projected in Mid Term Fiscal Policy Statement (MTFPS).

The share of expenditure on Social Services had increased from 35 *per cent* in 2008-09 to 41 *per cent* in 2009-10. General Services had increased in absolute terms but the share in total expenditure had remained almost stagnant over the period 2005-06 to 2009-10 and in the case of Economic Services, the expenditure showed a fluctuating trend during the period 2005-06 to 2009-10.

Chart 1.7: Total expenditure: Trends in Share of its Components
(₹ *in crore*)

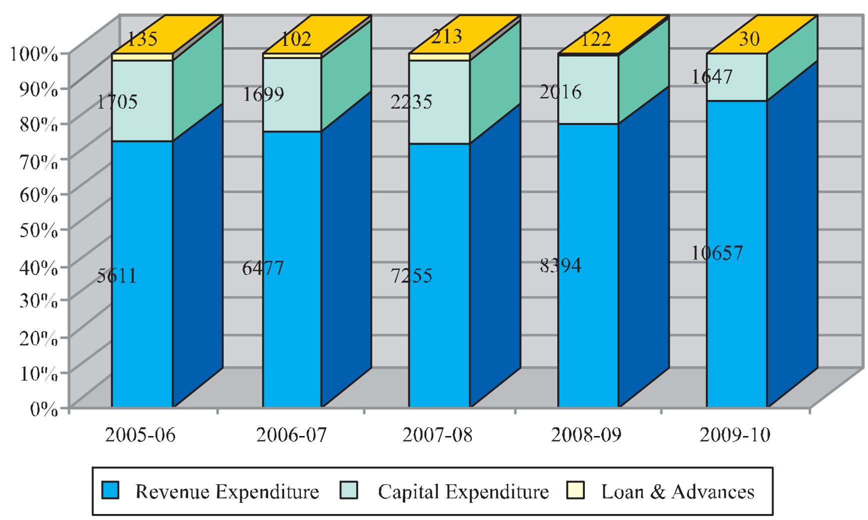
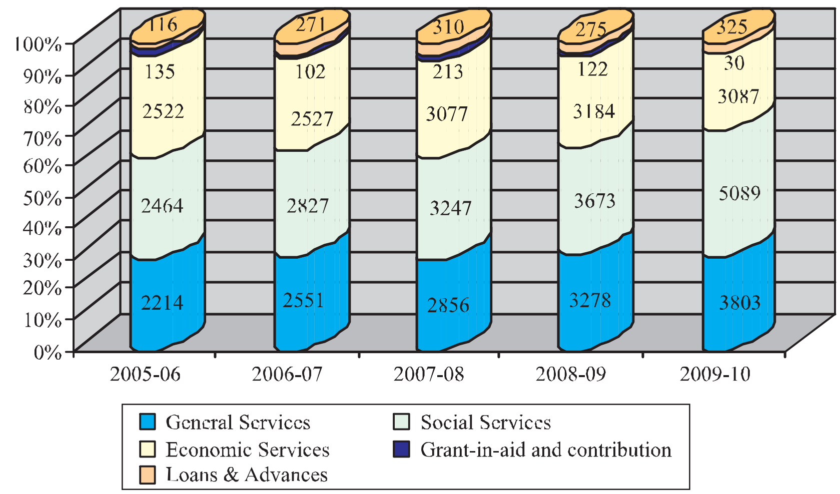


Chart 1.8: Total Expenditure: Trends by Activities
(₹ *in crore*)



The **revenue expenditure** of the State increased by 90 *per cent* from ₹ 5,611 crore to ₹ 10,657 crore during the period 2005-06 to 2009-10 at an average annual rate of 18 *per cent*. Non-Plan Revenue Expenditure (NPRE) of the State increased by 99 *per cent* during the same period. During the current year, the increase in NPRE (₹ 2,138 crore) was mainly due to increase in salaries (₹ 1,385 crore), Pension (₹ 219 crore), Interest Payments, (₹ 150 crore), Grants-in-aid to local bodies (₹ 50 crore), Miscellaneous General Services (₹ 4 crore) offset by less amount transferred to Reserve funds (₹ 5 crore).

The share of **Plan Revenue Expenditure (PRE)** in revenue expenditure of the State exhibited an increasing trend and its growth rate also showed an upward trend during the period 2005-10. The PRE during the current year increased by ₹ 125 crore over the previous year, mainly on account of increase in expenditure under Water Supply and Sanitation (₹ 211.29 crore), Welfare of Scheduled Castes/Tribes & other backward classes (₹ 23.79 crore), Social Welfare & Nutrition (₹ 50.69 crore), Irrigation & Flood control (₹ 9.37 crore) offset by Education and Sports (₹ 34.40 crore), Agriculture (₹ 83.75 crore), Energy (₹ 15.56 crore), Transport (₹ 14.32 crore) and General Economic Service (₹ 26.02 crore).

Further, **Table 1.6** below depicts the details of actual NPRE with reference to projections made by State Government at different stages during the year 2009-10.

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

(*₹in crore*)

Non-Plan Expenditure	Assessment made by TFC	Assessment made by State Government in		
		Fiscal Correction Path (FCP)	MTFPS	Actual
	5682	8874	11224	8358

During the current year the NPRE exceeded the normative assessment made by the TFC by ₹ 2,676 crore (47 *per cent*) but was lesser than the projections made by State Government in its Fiscal Correction Path (FCP) and Mid Term Fiscal Policy Statement (MTFPS).

Despite incurring expenditure at a higher CAGR of 20.06 *per cent* on education during the period from 2001-02 to 2009-10, the literacy rate was lesser at 71.60 *per cent* in Uttarakhand as compared to the expenditure incurred on education (11.33 *per cent)* by **Himachal Pradesh** with higher literacy rate (76.50 *per cent*). So far as medical health is concerned, the revenue expenditure of Uttarakhand was 16.61 per cent which was higher than the expenditure of **Himachal Pradesh** (11.29 *per cent*) during the period from 2001-02 to 2009-10 vide CAGR **(Appendix-1).**

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 2005-10.

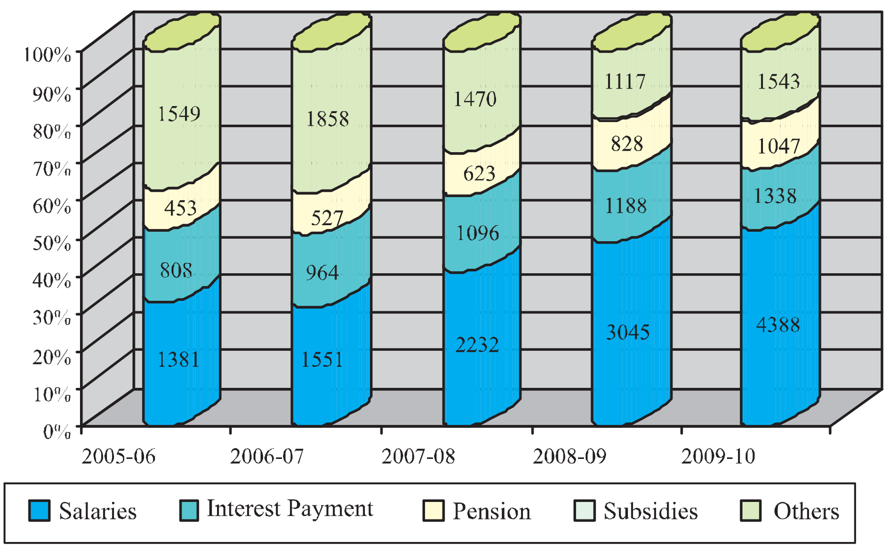
Table-1.7: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries & Wages, *of which*	1,381	1,551	2,232	3,045 (*35*)	4,056	4,388(46)
Non-Plan Head	1,278	1,397	2,020	2,728	3,807	4,114
Plan Head*	103	154	212	317	249	274
Interest Payments	808	964	1,096	1,188 (*14*)	1,511	1,338(14)
Expenditure on Pensions	453	527	623	828 (*10*)	1,296	1,047(11)
Subsidies	…	…	…	42 (*0.50*)	42	42(0.44)
Other Components	1,549	1,858	1,470	1,117	1,969	1,543
Total	**4,191**	**4,900**	**5,421**	**6,220**	**8,874**	**8,358**

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 2006-2010 (Value in Labels in ₹ crore)



Note: Subsidies amount during 2009-10 is negligible

An amount of ₹ 2,500 crore was an extra financial burden due to payment of arrears and implementation of revised salary and pension. The expenditure on salaries increased by 44 *per cent* (₹ 1,343 crore) from ₹ 3,045 crore in 2008-09 to ₹ 4,388 crore in 2009-10, due to implementation of the recommendation of the Sixth Pay Commission. Therefore, the projection made by the State Government in its FCP in respect of salaries was not accurate.

TFC norms prescribed that expenditure under the head salaries should be 35 per cent of revenue expenditure while the actual expenditure on salaries accounted for 53 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 ₹ 1,047 crore in 2009-10, which constituted 11.04 *per cent* of the revenue receipts. Pension payments during 2009-10 grew by 26 *per cent* over the previous year, mainly on account of implementation of Sixth Pay Commission report. It was not only higher than the rate of 10 *per cent* projected by the TFC, but also higher than the assessment 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.

As shown in **Table 1.7**, interest payments increased by 66 *per cent* during 2005-10 primarily due to earlier borrowings. Interest payments during

2009-10 included interest on Internal Debt (₹ 1,040 crore)[6], other obligations (₹ 75 crore) and Small Savings, Provident Fund etc. (₹ 187 crore). *The ratio of interest payments to revenue receipts determines the sustainability of the debt of a State. As per the recommendations of the TFC, the level of interest payments relative to revenue receipts should fall to 14 per cent by the year 2009-10. Interest payments were not only 14 per cent during 2009-10 but also marginally above the target of 13.80 per cent of revenue receipts set by the State Government in its FCP.*

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

The quantum of assistance provided by way of grants 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

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	198.31	232.81	301.42	198.99	267.81	267.99
Municipal Corporations and Municipalities	80.55	96.63	110.93	106.20	144.00	122.47
Zila Parishads and Other Panchayati Raj Institutions	36.09	174.65	198.85	168.57	244.76	202.25
Development Agencies	305.04	408.25	514.53	588.44	458.77	571.47
Hospitals and Other Charitable Institutions	26.21	40.69	28.69	38.89	49.88	44.52
Energy (UPC and UPC for Rural Electrification)	60.83	100.61	134.52	69.79	301.97	24.39
Agriculture Research and education institution Land Reforms for updating land records and Wild life Preservation	103.96	146.39	153.67	217.73	97.07	98.62
General Labour Welfare	18.28	20.04	16.31	0.10	_	_
Co-operatives	7.64	14.24	17.16	3.49	10.92	13.22
Animal Husbandry, Dairy Development and Fisheries	8.55	10.74	14.53	31.51	14.79	14.79
Secretariat Economics Services & Tourism	43.38	64.39	59.21	27.51	11.39	11.43
Social Security & Welfare of Scheduled Cast, Scheduled Tribe & Other Backward	8.42	84.94	108.73	122.77	174.41	133.65

6 Comprising mainly Market Loans (₹ 459 crore) and Special Securities (₹ 484 crore) issued to the National Small Savings Fund (NSS) by the State Government.

Classes						
Government Companies/Statutory Co-operation	-	-	-	-	12.32	13.41
Other Institutions	33.71	18.13	23.03	85.36	448.85	357.83
Total	**1,005.97**	**1,412.51**	**1,681.58**	**1,659.35**	**2,236.94**	**1,876.04**
Assistance as per percentage of RE	17.93	21.82	23.18	19.77	20.04	17.60

The total assistance to local bodies and other institutions in 2009-10 had grown by 87 *per cent* over that of 2005-06. Universities and Educational institutions, Development agencies together accounted for 45 *per cent* of the total financial assistance. The increase during the year was mainly under Other Institutions (₹ 272.47 crore) and Educational Institutions (₹ 69 crore) which was mainly counter balanced by decrease in assistance to Agriculture (₹ 119.11 crore), Energy (₹ 45.40 crore) and Development Agencies (₹ 16.97 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

Table 1.9 analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year, which was the terminal year of the TFC and 2005-06 which was the first year of the award period.

Table-1.9: Fiscal Priority of the State during 2005-06 and 2009-10

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE
Uttarakhand's Average (Ratio) 2005-06	28.46	68.49	33.07	22.88
Uttarakhand Average (Ratio) 2009-10	26.31	66.52	41.26	13.35

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
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 **(Appendix-1.2 Part A).**

Fiscal priority refers to the priority given to a particular category of expenditure by the State. On comparing expenditure patterns of Uttarakhand in 2009-10 with that in 2005-06 it was found that:

- The Government has spent less aggregate expenditure as a proportion of GSDP in 2009-10 as compared to 2005-06.
- Development Expenditure (DE) as a proportion of AE decreased by almost two percent. The decrease in expenditure was mainly on Economic Services, since the proportion of SSE actually increased by eight *per cent*.
- The proportion of Capital Expenditure (CE) in Aggregate Expenditure (AE) decreased by almost ten *per cent.* In was observed that the proportion of CE[7] in AE of **Himachal Pradesh** increased during this period. Hence adequate priority is not being given to Capital Expenditure.

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[8]. Apart from improving the allocation towards development expenditure[9], 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 also of 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.

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7 Himachal Pradesh; CE as a *per cent* of AE in 2005-06; 11.25 and 14.76 in 2009-10.

8 *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.

9 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.

Table-1.10: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	5,103(68)	5,441(66)	6,521(67)	6,973(66)	8,709	8,205 (66)
a. Development Revenue Expenditure	3,468(47)	3,828(46)	4,290 (44)	5,015 (48)	6,646	6,638 (54)
b. Development Capital Expenditure	1,518(20)	1,526 (18)	2,034 (21)	1,842 (17)	1,755	1,538 (12)
c. Development Loans and Advances	117(1)	87(1)	197 (2)	116 (1)	308	29(0.23)
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 2005-10 at an average rate of 48 *per cent*. The share of developmental capital expenditure also showed inter-year variations and dipped by five *per cent* during the year 2009-10 as compared to 2008-09. However, the overall development expenditure increased by 61 *per cent* over the period 2005-06 to 2009-10.

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

(*In per cent*)

Social/Economic Infrastructure	2008-09			2009-10		
	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	1.44	15.87	0.01	0.43	20.97	.005
Health and Family Welfare	0.74	3.20	0.03	0.34	3.43	.021
WS, Sanitation, & HUD	0.20	0.03	0.01	0.04	0.064	.012
Total (SS)	**2.66**	**20.38**	**0.07**	**.88**	**25.57**	**0.0005**
Economic Services (ES)						
Agriculture & Allied Activities	0.55	3.20	0.24	0.59	3.40	0.15
Irrigation and Flood Control	4.79	1.55	0.36	2.16	1.53	0.29
Power & Energy	1.57	-	-	5.36	-	-
Transport	7.11	0.08	0.97	6.57	0.09	0.76
Total (ES)	**14.82**	**6.58**	**1.56**	**11.58**	**6.52**	**0.30**
Total (SS+ES)	**17.48**	**26.96**	**1.63**	**12.46**	**32.09**	**0.30**
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.						

Though no specific norms regarding prioritization of capital expenditure have been laid in FRBM Act, the Government had made a budget provision of ₹ 1,957 crore under the Capital Head during 2009-10. This shows the Government's commitment to provide the basic infrastructure in the State. Capital expenditure in Social and Economic sectors taken together decreased by five *per cent* from 17.48 *per cent* in 2008-09 to 12.46 *per cent* in 2009-10.

During 2009-10, salaries and wages as a percentage of revenue expenditure on Social Services increased by 5.19 *per cent* and Economic Services decreased by 0.06 *per cent* respectively. The expenditure under Operation and Maintenance as a percentage of revenue expenditure, remained almost stagnant in Social services but reduced in Economic Services.

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

Results of performance reviews indicating the outlay-outcome relationship are *inter-alia* included in State Civil and Commercial Audit Report. The effectiveness of expenditure as brought out in two departments *viz*, **(i) Industrial Development Department**; and **(ii) Department of Disaster Management** taken up in 2009-10 covering the period 2005-10 is summarized below:

(i) Industrial Development Department

The Industrial Development Department (IDD) of the Government is responsible for overall sustainable growth of the State industrial sector and implementation of laid-down Industrial Policies as well as various departmental schemes. A department centric performance audit of the IDD revealed that the number of industries, investment and employment in the State had grown significantly with an average of 26.22 *per cent*, 46.13 *per cent* and 24.36 *per cent* respectively over the period 2001-02 to 2009-10, but there were a number of deficiencies noticed in infrastructural development, management of industrial estates and operational activities of the Department.

Although IDD succeeded in attracting huge investment and large number of industries in the State as well as providing infrastructural facilities to entrepreneurs, but these industrial developments were confined only to three districts of plain area and remaining parts of the State remained deprived despite specific policy of the Government. Inadequate financial management of different wings of the IDD resulted in long pending recoveries of loans, unauthorized retention/blockage of funds and improper management of Government revenues. The implementation of various departmental schemes was not in consonance with their guidelines as there were instances of irregular disbursement of subsidies and non-recovery of scheme funds from the defaulters. Poor management of contracts in State Industrial Development Corporation Uttarakhand Ltd., inaccurate maintenance of cash accounts in Uttarakhand Khadi Evam Gramodyog Board, inadequate management of leases/revenue in Mining Unit and sanctioning of scheme funds to ineligible entrepreneurs were the areas of concern and requires immediate attention by the Government.

(ii) Disaster Management

A scheme, '**Calamity Relief Fund (CRF)**', was conceived on the recommendations of the Ninth Finance Commission (January 1991) to build a safe and disaster resilient India by developing a holistic, proactive, multi-disaster oriented and technology driven strategy through a culture of prevention, mitigation, preparedness and response. The State received ₹ 499.43 crore (Central share: ₹ 376.34 crore and State share: ₹ 123.09 crore) in the CRF, against which ₹ 472.21 crore was spent during the period 2005-10. Performance audit of Disaster Management revealed State Government's lackadaisical approach towards implementation of important aspects of disaster prevention, mitigation and preparedness. The State Government has yet to frame the guidelines, policies and rules as envisaged in the Disaster Management Act, 2005. Further, the State Disaster Management Authority was virtually non-functional since its inception in October 2007. The State Government also failed to ensure incorporation of disaster prevention into the development process as envisaged in the act.

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 ₹ 789.72 crore at the end of March 2010 as per the **Appendix-IX** of the Finance Accounts showed that revenue realized from these projects during 2009-10 (₹ 5.18 crore) was very low (0.66 *per cent*) compared to the capital outlay. It was barely sufficient to cover even the direct working expenses (₹ 36.83 crore) during 2009-10 and the Government had to bear the remaining expenses of ₹ 31.65 crore through budgetary support this year.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.12**.

Table-1.12: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of incomplete projects	Initial Budgeted cost	*Revised Total cost of Projects	Cost Over Runs in Revised Estimates	Cum. actual exp as on 31.3.2010
Public Works Department	96	4,680	4,690.50	0.65	1,130.69
Irrigation	44	2,512	_	_	950.55
Total	**140**	**7,192**	**4,690.50**	**0.65**	**2,081.24**

** Indicates the Revised total cost of the projects as per the last revision by the State Government as on 31.03.2010*

Information provided by the State Government showed that there were 140 projects which were due for completion as on 31 March 2010, but remained incomplete. Out of a total of 140 projects, there was delay of upto 1 year in 34 projects, delays ranging from one to three years in 26 projects and delay of over three years in four projects. The delays in respect of 76 projects could not be furnished to audit. These incomplete projects included two projects (PWD) with initial budgeted cost of ₹ 9.85 crore but their estimates were revised to ₹ 10.50 crore. There was a time over run ranging from one month to two years in these two incomplete works. Though there was a time over run ranging from two months to four years nine months in 64 projects for which information was furnished, the cost overrun which was imminent in these projects were not furnished to audit and therefore could not be ascertained in audit.

1.6.3 Investment and returns

As on 31 March 2010, the average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.13**) was 0.03 *per cent* in the last three years while the Government paid an average interest rate of 7.79 *per cent* on its borrowings during 2007-08 to 2009-10.

Table-1.13: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Investment at the end of the year (₹ in crore)	669	762	1,005	1,071	540	1,240
Return (₹ in crore)	0.07	0.16	0.53	0.23		0.07
Return (*per cent*)	0.01	0.02	0.05	0.02		0.01
Average rate of interest on Government borrowing (*per cent*)	7.47	7.79	7.99	7.75		7.64
Difference between interest rate and return (*per cent*)	7.46	7.77	7.94	7.73		7.64

In this context, no norms on investment and returns have been prescribed by the State Government. Thus, there is a need to formulate norms and identify the projects with low financial but high socio-economic returns.

In the light of Uttarakhand Government investment, out of 12 Government Companies/ Corporations, two companies i.e., Uttaranchal Hydro Electric Corporation and Power Corporation Fund had received major share of investment till the end of 31 March 2010 totaling to ₹ 540 crore and ₹ 616 crore respectively. The accumulated loss of the Govt. Companies amounting to ₹ 627 crore was mainly incurred by three Companies viz. Uttarakhand Power Corporation Limited (₹ 407 core), Doiwala Sugar Company Limited (₹ 73 crore) and Kichcha Sugar Company Limited (₹ 50 crore). State Industrial Development Corporation of Uttaranchal Limited and Uttarakhand Jal Vidyut Nigam Limited, however, were the two major contributors to the accumulated profit of ₹ 209 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 proforma accounts are finalized, net profit/loss as well as return on capital invested in these undertakings are given in **Appendix-1.6.** It was observed from the finalized accounts of three companies that:

- An amount of ₹ 1.84 crore had been invested by the State Government in Government Irrigation Workshop, Roorkee till the end of financial year up to which their accounts were finalized (i.e. 2008-09).
- Out of a total of, three undertakings viz. Irrigation Workshop, Roorkee; RFC, Haldwani and RFC Dehradun, only Irrigation Workshop had finalised their accounts up to 2008-09. It was a profit earning entity up to 2007-08 but posted a net loss of ₹ 0.85 crore during the year. The remaining two Undertakings had finalized their

accounts only up to 2002-03 and therefore, their working results could not be ascertained in audit.

- The accumulated losses of the three departmental undertakings stood at ₹ 46 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 2010, 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

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10	
			BE	Actual
Opening Balance	565.68	709.79		777.87
Amount advanced during the year	212.54	121.71	309.19	30.06
Amount repaid during the year	68.43	53.63	407.14	64.83
Closing Balance	**709.79**	**777.87**		**743.10**
*Of **which*** Outstanding balance for which terms and conditions have been settled	Information not made available by the State Government			
Net addition	144.11	68.08		(-) 34.78
Interest Receipts	1.01	0.83		0.82
Interest receipts as *per cent* to outstanding Loans and advances	0.14	0.11		0.11
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.61	7.30		7.14
Difference between interest payments and interest receipts (*per cent*)	7.47	7.19		7.03

During 2009-10 Government advanced loans to the tune of ₹ 30 crore against ₹ 122 crore in 2008-09, a reduction of ₹ 92 crore over the previous year.

Interest receipts as a percentage of outstanding loans and advances have shown almost constant trend over the years 2007-10. Average rate of interest on which the State Government raised market loans was 7.64 *per cent* during 2009-10 while the interest received on Loans and Advances given by the State was 0.11 *per cent. TFC recommended that at least seven 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 did not achieve.* The total loans advanced by the Government as on 31 March 2010 stood at ₹ 743 crore. The major beneficiaries were energy (₹ 389 crore) and agriculture (₹ 281 crore) sectors. Uttarakhand Power Corporation and Uttarakhand Power Corporation for Rural Electrification together accounted for ₹ 341 crore under energy sector. The Uttarakhand cooperative Sugar Mills was paid ₹ 239 crore for payment of price for sugarcane under agriculture sector.

The Recovery of Loans and Advances was not up to the mark; the recoveries other than from Government Companies and Government servants were nil. The total amount advanced was ₹ 743 crore as on 31 March 2010.

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 Investments out of Cash balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase/ Decrease
Cash Balances			
Investments from Cash Balances (a to d)			
a. GOI Treasury Bills	…	…	…
b. GOI Securities	730.03	778.65	(+) 49
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	705.03 25.00	753.65 25.00	(+) 48.61 _
c. ----	----	----	----
Interest Realized	16.08	9.44	(-) 6.64

The State Government had invested ₹ 778.65 crore in GOI Securities and earned an interest of ₹ 9.44 crore during 2009-10. The interest realized on cash balance was 1.21 *per cent* during 2009-10 while Government paid interest at the average rate of 7.64 *per cent* on its borrowings during the year. The State was able to maintain a minimum balance of ₹ 0.16 crore for maximum number of days during 2009-10 barring nine days on which the Government had to resort to overdraft facility. However, temporary balances in cash flow forced the Government to obtain Ways and Means Advances (WMA) on 107 occasions during the year. The State had to pay ₹ 1.70 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 2010, compared with the corresponding position as on 31 March 2009. 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 & Appendix-1.4**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.10** and **1.11.**

Chart 1.10 Composition of Outstanding Fiscal Liabilities as on 01.04.2009 (₹ *in crore*)

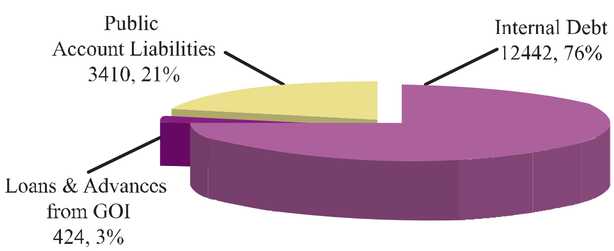
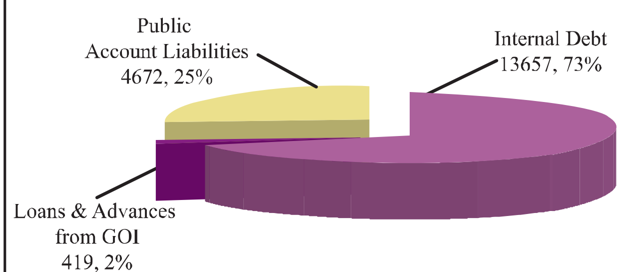


Chart 1.11 Composition of Outstanding Fiscal Liabilities as on 31.03.2010 (₹ *in crore*)



The debt-GSDP ratio which declined to 40 *per cent* in 2009-10 from 40.52 *per cent* in 2008-09 has shown marginal appreciation. The overall fiscal liabilities increased by 60 *per cent* from ₹ 11,714 crore in 2005-06 (**Appendix-1.3**) to ₹ 18,748 crore in 2009-10. The State liabilities which stood at ₹ 18,748 crore in 2009-10 was mainly composed of Public debt (₹ 14,076 crore), Small savings and Provident Fund etc. (₹ 2,953 crore), and other obligations (₹ 1,794 crore). The increase in the fiscal liabilities during the current year as compared to the previous year 2008-09 was mainly on account of internal debt and Small Savings Provident Fund etc. which rose by ₹ 1,215 crore and ₹ 1,066 crore respectively. The growth of fiscal liabilities is being tightened over the years; it was 15 *per cent* in 2009-10 over the previous year. The buoyancy of these liabilities with respect to GSDP during the year was 1.61 indicating that for each percentage point increase in GSDP; fiscal liabilities grew by 1.61 *per cent*. These liabilities stood at 2 times State's revenue receipts and 4 times of 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 @ three *per cent* of outstanding balance of market loans of the previous year. However, the State Government provided only ₹ 50 crore during the year as against ₹ 177 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 could give guarantees on the security of the Consolidated Fund of the State. The FRBM Act, 2005 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 to cap the guarantees.

As per Statement 9 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 **Table1.16.**

Table-1.16: Guarantees given by the Government of Uttarakhand

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	
			BE	Actual
Maximum amount guaranteed	-	125	…..	125
Outstanding amount of guarantees	1,677	1,802	….	1,511
Percentage of maximum amount guaranteed to total revenue receipts	21.25	20.87		15.93
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 actual government guarantees at ₹ 1,511 crore was less than the amount of ₹ 1,802 crore as set in the MTFP of the State Government for the year 2009-10. Outstanding guarantees are in the nature of contingent liabilities, which stood at 16 *per cent* of revenue receipts (2009-10) of the State. The major beneficiaries of guarantees were Energy Department (₹ 1,309 crore), Uttarakhand State Cooperative Bank Limited (₹ 125 crore), Urban Development Department (₹ 16 crore) and Social Welfare Department (₹ five 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[10] of the State.

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[10] 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.

This section assesses the sustainability of debt of the State Government in terms of debt stabilization[11]; sufficiency of non-debt receipts[12]; net availability of borrowed funds;[13] burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.17** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table-1.17: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-9	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	(+) 347	(+) 172	(-) 1,113
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 859	(-) 99	(-)940
Net Availability of Borrowed Funds	212	164	261
Burden of Interest Payments (IP/RR Ratio)	13.89	13.76	14.10
Maturity Profile of State debt (in Years)			
0-1	459	636	706
1-3	1,201	2,132	2,889
3-5	2,358	1,739	2,197
5-7	2,134	2,158	1,842
7 and above	4,775	5,319	5,489

Source: Finance Accounts

The trends in **Table 1.17** indicate that during 2007-08 to 2008-09 the quantum spread together with primary deficit remained positive but this turned negative in the current year. However, the debt-GSDP ratio which declined to 40 *per cent* in 2009-10 from 40.52 *per cent* in 2008-09 has shown marginal

[11] 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.

[12] 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.

[13] 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.

appreciation but continues to be higher *than Thirteenth Finance Commission (ThFC) recommendation of 30 per cent.*

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 1.17** indicates resource gap as defined for the period 2007-10.

The State experienced a negative resource gap in 2007-08 and it continued to be so till 2009-10. 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 2005-10 indicating the fact that the borrowed funds are being increasingly used for the repayments towards the discharge of past debt obligations during the period **(Appendix-1.3**). During the current year, internal debt redemption was 93 *per cent* of fresh debt receipts, redemption of GOI loans was 228.61 *per cent* while in case of other obligations repayments were 66.95 *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 2009-10.

1.9.1 Trends in Deficits

Chart 1.12 and **1.13** present the trends in deficit indicators over the period 2005-06 to 2009-10.

Chart 1.12: Trends in deficit indicators

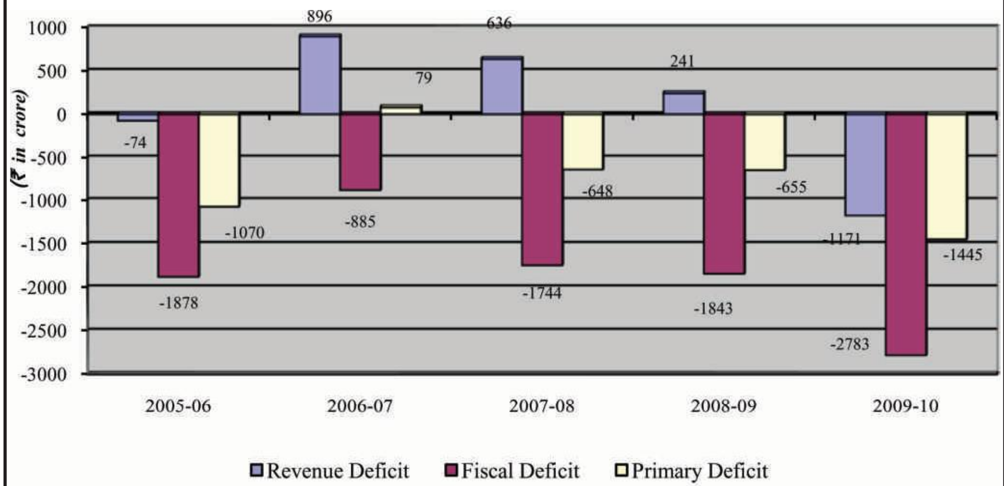
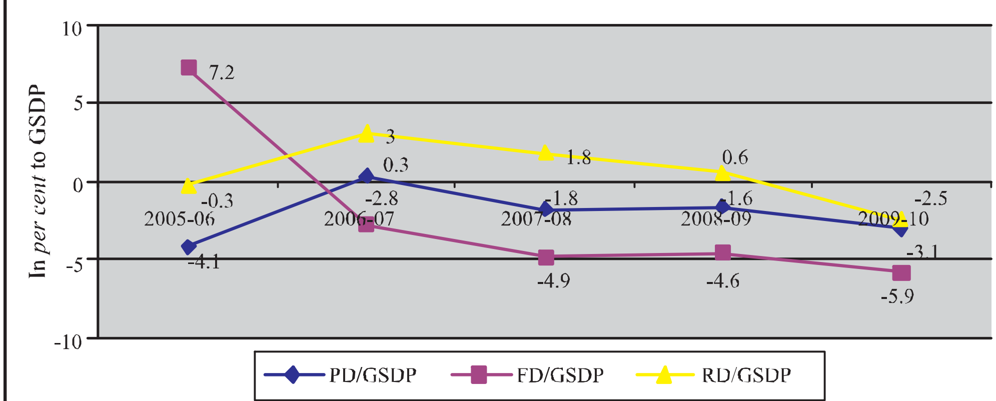


Chart 1.13: Trends in Deficit indicators Relatice to GSDP



Uttarakhand experienced a revenue surplus from 2006-07 to 2008-09. The current year showed a considerable revenue deficit. The fiscal deficit has been on the higher side during 2009-10 and was (5.94 *per cent* of GSDP) above the four *per cent* as had been set forth in FRBM, Act 2005. The primary deficit which had remained under some control upto 2008-09 has taken a quantum jump and is presently at ₹ 1,445 crore. Although the Government had been curtailing the capital expenditure over the years, they had not been able to control the revenue deficit which had to become zero by the end of the 2009-10 but is still hovering around six *per cent* of the GSDP. Therefore, in order to keep the fiscal deficit under control, the Government needs to improve its revenue collection as arrears of revenue at the end of 2009-10 amounted to ₹ 730.04 crore of which ₹ 417 crore were more than five years old.

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 1.18.**

Table-1.18: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
1	Revenue Deficit/Surplus(+)	74	(+) 896	(+) 636	(+) 241	1,171
2	Capital Expenditure	1,705	1,699	2,235	2,016	1,647
3	Net Loans and Advances	99	82	145	68	35
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	404	319	733	884	460
2	Loans from GOI	(-) 23	(-) 9	(-) 16	(-) 19	(-)5
3	Special Securities Issued to NSSF	1,018	580	195	120	672
4	Loans from Financial Institutions	111	101	213	204	70
5	Small Savings, PF etc	100	88	155	531	1,066
6	Deposits and Advances	196	175	142	61	229
7	Suspense and Misc	558	(-) 491	138	(-) 331	722
8	Remittances	(-) 217	35	85	(-) 238	(-)129
9	Others	(-) 269	87	99	631	(-)302
10	Overall Surplus/Deficit	1,878	885	1,744	1,843	2,783

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 but showed a declining trend and ultimately turned into revenue deficit in 2009-10 due to quantum jump in revenue expenditure and further escalated the fiscal deficit. The fiscal deficit was largely managed by internal debt, market borrowings and loans from financial institutions which constituted 43 *per cent* of the fiscal deficit during the year. Although, there was a decrease (18 *per cent*) in capital expenditure during the year, 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 1.19)** 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-1.19: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts*	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	5,573	4,803	1,705	135	6,643	(+) 770	(-) 1,070
2006-07	7,393	5,513	1,699	102	7,314	(+) 1,880	(+) 79
2007-08	7,959	6,159	2,235	213	8,607	(+) 1,800	(-) 648
2008-09	8,689	7,206	2,016	122	9,344	(+) 1,483	(-) 655
2009-10	9,551	9,319	1,647	30	10,996	(+)232	(-) 1,445

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

- Non debt receipts increased by 71.38 *per cent* from 2005-06 to 2009-10 and were sufficient to meet the primary revenue expenditure. However the gap reduced considerably in the current year.
- Total primary expenditure increased by ₹ 4353 crore during 2009-10 as compared to 2005-06 which was due to increase of primary revenue expenditure to the extent of ₹ 4516 crore during the same period.
- The primary revenue surplus in 2009-10 had declined by 84.36 *per cent* from the previous year only because the capital expenditure had also decreased indicating that the Government's commitment towards infrastructure development and creation of productive assets would consequently receive a set-back.

1.10 Conclusion and Recommendations

Revenue Receipts

Revenue receipts grew by ₹ 851 crore (9.86 *per cent*) during the year 2009-10. The increase was mainly due to the increase in State's own tax revenue (₹ 514 crore); State's share of Union taxes and duties (₹ 43 crore) and in Grants-in-aid (₹ 361 crore) but Non Tax revenue receipts were lesser than the previous year.

The Government needs to improve its revenue collection as arrears of revenue (excluding forest revenue) at the end of 2009-10 amounted to ₹ 730 crore, of which ₹ 417 crore (57.12 per cent) were more than five years old. The Government should explore ways of increasing non-tax revenue.

Revenue Expenditure

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 86 *per cent* leaving inadequate resources for creation of assets. The non-plan revenue expenditure (NPRE) increased by 34 *per cent* over the previous year.

The expenditure on salaries accounted for 53 *per cent* and continued to consume a major share of NPRE during 2009-10. Expenditure on pension in 2009-10 constituted over 11 *per cent* of the revenue receipts and grew by 26 *per cent* over the previous year. It was higher than the rate of 10 *per cent* projected by the TFC for the current year **(Annexure 6.12 of TFC report)**.

The State should adopt measures to restrict the components of non-plan revenue expenditure and resort to need based borrowing to cut down interest and mechanism pertaining to pension liabilities should be formulated in such a manner so that total salary bill relative to revenue expenditure net of interest payment and pensions do not exceed 35 per cent as recommended by 12th Finance Commission.

Capital Expenditure

The capital expenditure of the State decreased by ₹ 369 crore during 2009-10 as compared to the previous year mainly due to decrease of ₹ 172 crore under social sector and ₹ 132 crore in the economic sector. The percentage of social sector capital expenditure was only seven *per cent* of the total capital expenditure. Evidently, less priority was given to social services and may have an adverse impact on the social health of the State, if left un-attended.

Development expenditure as proportion of Aggregate expenditure decreased by almost two *per cent* in 2009-10 as compared to 2005-06. Huge unspent balances remaining unutilized under Capital Head during the year was indicative of the fact that the expenditure could not be incurred as estimated and planned on development of infrastructure by the State Government during the year.

A monitoring organ should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Government money is being utilized so that value for money is channelised in its entirety to the intended beneficiaries.

Investment and Returns

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 7.64 *per cent* on its borrowings. In this context, no norms have been prescribed by the State Government on investment and returns.

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 either with nil or 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 mentioning the fact as to why high cost borrowings should be channelised there.

Return to fiscal correction

The State experienced revenue deficit of ₹ 1,171 crore during the current year which was marginally above the target set forth by the State Government in its

MTFPS. This was mainly due to increase in revenue expenditure. The State could not achieve the fiscal deficit target of 4 *per cent* (revised) of GSDP as prescribed in the FRBM Act, 2005 **(Appendix-1.2 Part B)** for the year 2009-10 which stood at 5.94 *per cent.* On account of this, the State will lose debt waiver for 2009-10 under DCRF scheme.

There is reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, collection of revenue arrears and prune unproductive expenditure so that deficits may be reduced. Borrowings should be resorted to only to fund assets creation.

Prudent cash management

Cash balance of the State at the end of 2009-10 increased by ₹ 295.95 crore and the interest received on investment of cash balances in RBI, Investment in Treasury Bills and Auction Treasury Bills was only 1.21 *per cent* while the Government borrowed on an average interest rate of 7.64 *per cent*. The State had to resort to over draft facility on nine occasions during the year.

Proper debt management through advance planning could reduce the need for the State government to hold large cash surplus. 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. The debt-GSDP ratio which declined to 40 per cent in 2009-10 from 40.52 per cent in 2008-09 had shown marginal improvement but the State experienced a negative resource gap in the current year indicating the non sustainability of debt.

Efforts should be made to return to the state of primary surplus. Maintaining a calendar of borrowings to avoid bunching towards the end of the financial 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

During the year 2009-10, a huge amount of ₹ 1,098.50 crore was directly transferred to State Implementing Agencies. These funds were however, not routed through the State budget/State treasury system. 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 (Accounts and Entitlement).