

CHAPTER- I

FINANCES OF THE STATE GOVERNMENT

Profile of Uttarakhand

Uttarakhand is a special category State because of its harsh terrain, which has the inherent disadvantage of infrastructure and transaction costs and also calls for relatively higher cost of governance. At the time of creation of the State, the status of special Category State was awarded to Uttarakhand because of inheriting financial burden, poor economic base, backwardness and being a border State having difficult geographical features. 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.

Despite this, the State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product¹ (GSDP) for the period 2001-02 to 2010-11 has been over 20.98 *per cent*. This is much higher than GSDP growth of Himachal Pradesh which is also a special category State and in many ways comparable to Uttarakhand. Compared to Himachal Pradesh however, Uttarakhand has a much higher poverty level, lower literacy level and higher growth of population (**Appendix-1**).

Under the 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. 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 which had turned into revenue deficit during the year 2009-10 has been reduced to almost nil (₹ 13 crore) in the current year. This in turn has brought down the fiscal deficit to reasonable limits and is pegged at around 3.5 *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 (2010-11) *vis-à-vis* the previous year (2009-2010) while **Appendix-1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year as compared to previous year.

¹ Refer glossary in **Appendix-4.1**

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

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					Non-Plan	Plan	Total
9,486.13	Revenue receipts	11,608.16	10,657.47	Revenue expenditure	9,148.57	2,472.50	11,621.07
3,559.04	Tax revenue	4,405.47	3,694.34	General services	4159.52	20.63	4,180.15
631.86	Non-tax revenue	678.06	4,980.28	Social services	3,445.70	1,723.79	5,169.49
1,550.01	Share of Union Taxes/ Duties	2,460.07	1,658.12	Economic services	1,135.68	728.07	1,863.75
3,745.22	Grants from Government of India	4,064.56	3,24.73	Grants-in-aid and Contributions	407.67	0.01	407.68
Section-B: Capital							
-	Misc. Capital Receipts	-	1,646.73	Capital Outlay	(-) 3.68	1,858.52	1,854.84
64.83	Recoveries of Loans and Advances	84.87	30.06	Loans and Advances disbursed			59.68
1,682.57	Public Debt receipts*	2,427.18	472.87	Repayment of Public Debt*			519.36
--	--	--	--	Appropriation to Contingency Fund			515.00
37.05	Contingency Fund	581.62	71.42	Contingency Fund			536.71
14,225.75	Public Account receipts	18,703.51	12,321.83	Public Account disbursements			17,608.18
242.96	Opening Cash Balance	538.91	538.91	Closing Cash Balance			1,229.41
25,739.29	Total	33,944.25	25,739.29	Total			33,944.25

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

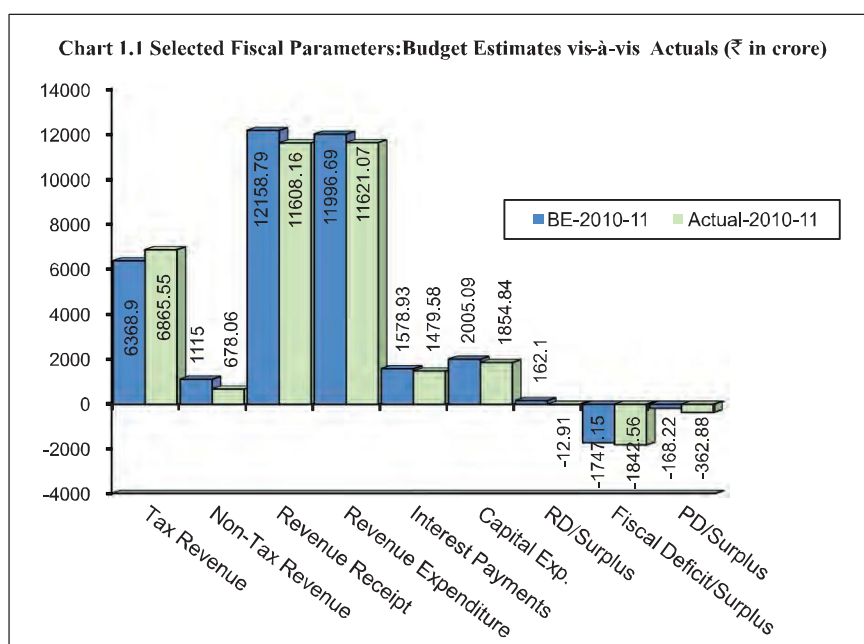
It would thus be evident that:

- Revenue receipts grew by ₹ 2,122 crore (22.37 per cent) over the previous year. This was mainly due to the increase in Central Transfers (₹ 910 crore), State's own tax revenue (₹ 846 crore) and Grants-in-aid (₹ 319 crore).
- Revenue expenditure increased by ₹ 963.60 crore (9.04 per cent) during the year.
- Capital expenditure during the year increased by ₹ 208 crore (12.64 per cent) over the previous year as detailed in succeeding **Paragraph 1.4.1.**
- Recovery of loans and advances increased from ₹ 65 crore (2009-2010) to ₹ 85 crore (30.77 per cent). Disbursement of loans and advances increased from ₹ 30 crore to ₹ 60 crore during the year, due to more disbursements to Energy sector.
- Public debt receipts registered an increase of ₹ 745 crore during the year 2010-2011 mainly because of additional borrowings under Market Loans bearing Interest (₹ 386 crore) and National Small Saving Fund (₹ 298 crore). The Repayment of public debt during the year also increased by ₹ 46 crore over the previous year.

- Public Account Receipts increased by ₹ 4,478 crore due to increase under Suspense and Miscellaneous (₹ 2,073 crore), Deposits and Advances (₹ 241 crore), Remittances (₹ 2,112 crore) and Reserve Funds (₹ 101 crore) in 2010-2011. This was offset by decrease in Small Savings, Provident Fund etc. (₹ 49 crore). Public Account disbursements increased by ₹ 5,286 crore (**Appendix-1.4**) due to increase in Suspense and Miscellaneous (₹ 2,512 crore), Remittances (₹ 2,286 crore), Deposit and Advances (₹ 425 crore) and Small Savings (₹ 147 crore) offset by decrease in Reserve Funds (₹ 83 crore).
- The cash balance of the State at the end of the year 2010-11 increased by ₹ 690.50 crore as compared to the balance in 2009-2010.

After experiencing revenue deficit of ₹ 1,171 crore in 2009-10, the State Government has been able to bring down the revenue deficit to almost NIL (₹ 13 crore) during 2010-11. Further, the fiscal deficit, which stood at ₹ 2,783 crore during 2009-10, has also come down to ₹ 1,843 crore (3.53 per cent of GSDP) leading to fiscal consolidation.

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 (BEs) and actuals for some important fiscal parameters.



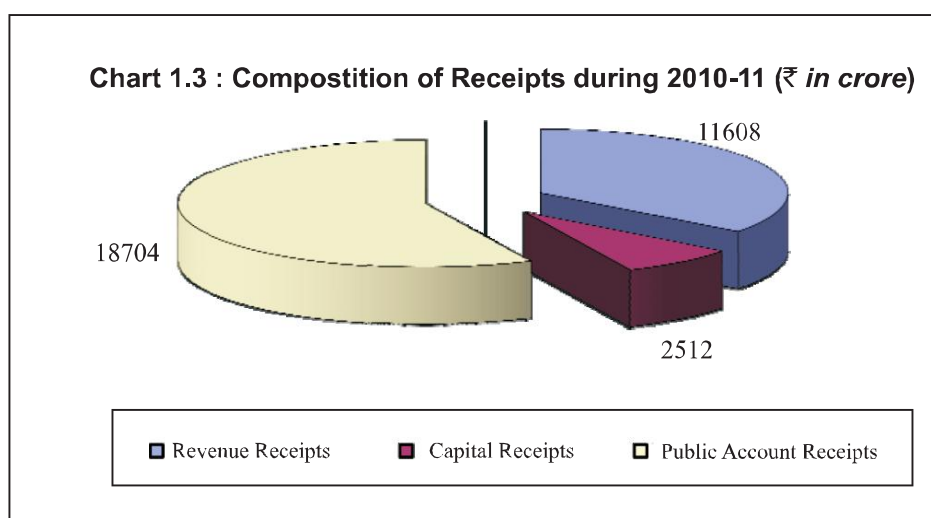
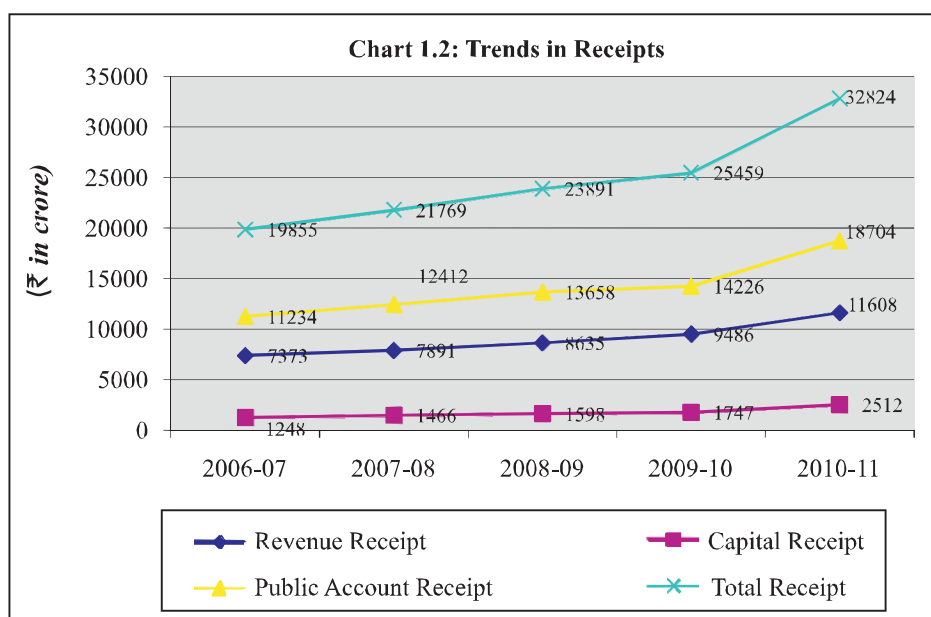
A comparison of the Actuals against the BE in respect of various components showed mixed trend during 2010-11;

- The overall Revenue Receipts were short by five *per cent* due to less receipt of funds (13 *per cent*) from GOI under Grants-in-Aid. Although the Non Tax Revenue was short by 39 *per cent* against the BEs for the current year, the States' Tax Revenue against the BEs was higher by 7.5 *per cent*.
- The Revenue Expenditure was three *per cent* lesser than the BEs for the year.
- The expenditure under the Capital Head remained unutilized to the extent of 7.5 *per cent*, due to less disbursement under irrigation and health sectors.
- The budgetary projections during 2010-11 for Revenue, Fiscal and Primary Deficits were also not achieved (**Chart 1.1**). The State Government in its Mid Term Fiscal Policy Statement attributed the reasons for non-achievement of projected targets as recession in the economy. However, aiming fiscal consolidation as per the recommendations of the Thirteenth Finance Commission (ThFC), State Government has projected the targets for Revenue Deficit, Fiscal Deficit and Primary Deficit by taking necessary corrective measures in ensuing years beginning from 1st April 2011.

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 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.



The total receipts of the Government grew from ₹ 19,855 crore in 2006-07 to ₹ 32,824 crore in 2010-11 (65 *per cent*). Of the receipts of ₹ 32,824 crore in 2010-11, 57 *per cent* of the receipts came from the Public Account whereas 35 *per cent* and eight *per cent* share of the total receipts came from Revenue Receipts and borrowings.

Although the Revenue Receipts of the State during the current year grew by 22 *per cent* over the previous year, its composition in the States' Receipts showed marginal appreciation. However, the recovery of loans and advances during the year showed an increase of 31 *per cent* over the previous year under Capital Receipts (Table 1.1 refers).

Trends in Public Account receipts

- Receipts under Small Savings, Provident Fund etc. decreased by ₹ 49 crore over the previous year due to less receipts under Provident Fund.
- Reserve funds increased during the year by ₹ 101 crore as compared to previous year. Deposits and Advances also increased by ₹ 241 crore. *The State Government investment in sinking fund (₹125 crore) for amortization of internal debt was less than the normative figure (₹190 crore-three per cent of the outstanding open market loans as at the end of the previous years) prescribed under Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 resulting in reduction of receipts under reserve funds by ₹ 65 crore.*
- Suspense and Miscellaneous receipts increased by 22 per cent during the year 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.

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 Agencies² 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**.

Table-1.2: Significant amount of 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 2010-11
1.	Autonomous Institutions and professional bodies	Arya Bhatta Research Institute of Observational Sciences (ARIES)	53.01
2.	Integrated watershed management programme (IWDP)	CGO The Director Dehradun DRDA Project Director in Uttarakhand	46.63
3.	National Rural Health Mission (NRHM)	Uttarakhand Health & Family Welfare Societies	96.50

² Refer glossary in **Appendix- 4.1**

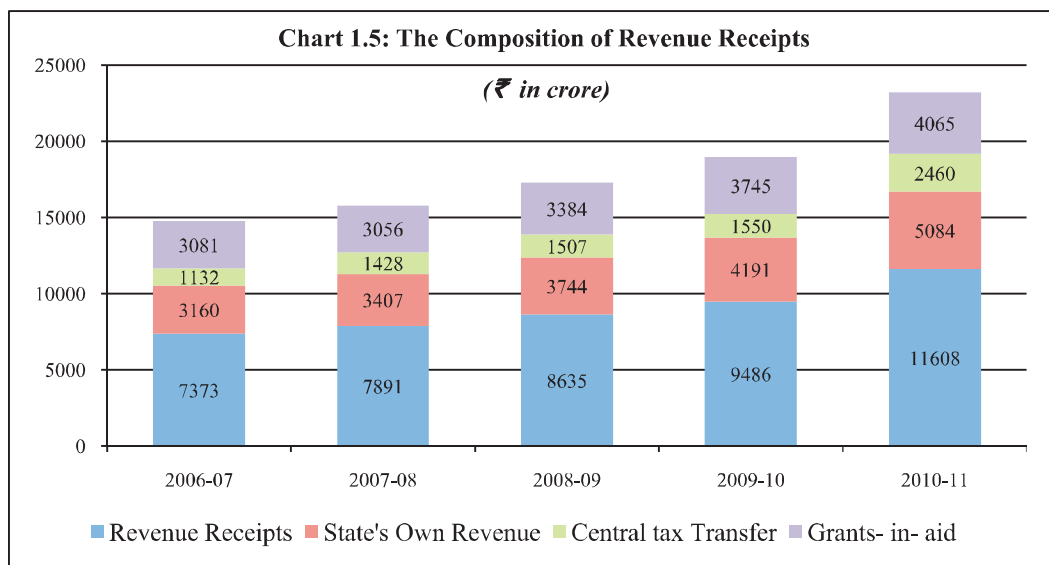
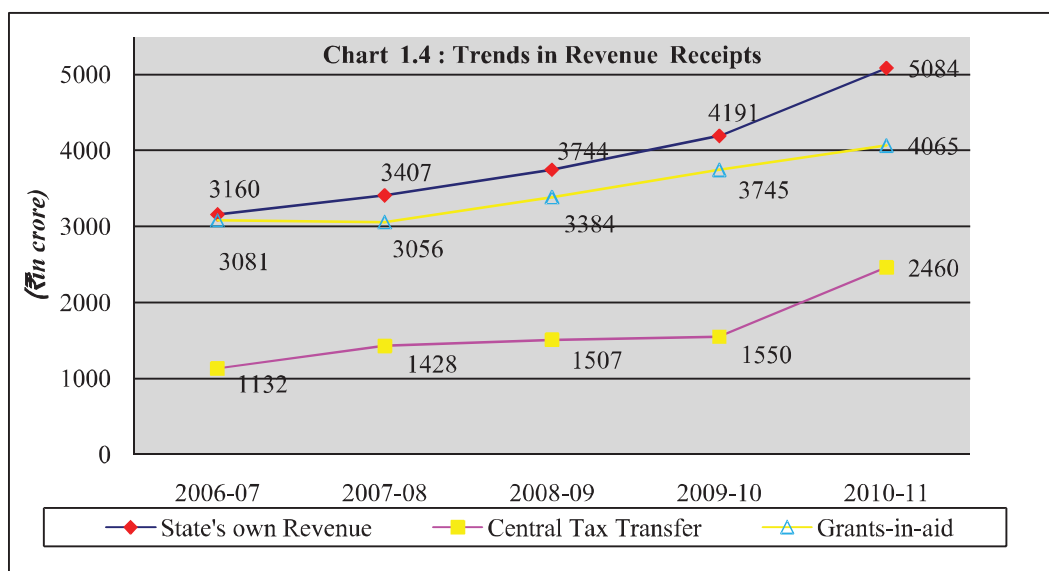
4.	Pradhan Mantri Gram Sadak Yojana (PMGSY)	SGO Uttarakhand Dehradun	240.26
5.	Mahatma Gandhi National Rural Employment Guarantee Scheme	DRDA Project Director in U.K.	289.81
6.	Sarva Shiksha Abhiyan (SSA)	Uttarakhand Sabhi Ke liye Siksha Parishad	258.83
7.	Rural housing-IAY	Project Officer DRDA	53.21
8.	Swaranjayanti Gram Swarozgar Yojana (SGSY)	Project Officer DRDA	24.43
9.	Product/Infrastructure development for destinations and circuits	Uttarakhand Tourisms Development Board	41.69
10.	National River Conservation Plan	I I T, Roorkee	33.41
11.	Rashtriya Madhyamic Shiksha Abhiyan (RMSA)	Uttaranchal Sabhi Ke liye Madhyamik Siksha Parishad	76.02
12.	National Rural Drinking Water Programme	SWSM , Uttarakhand ,Dehradun	136.41
13.	Grants in aid to Forest and Wildlife Institutions	Forest Research Institute(ICFR&A)	122.10
14.	IIT, DHE	IIT, Roorkee	111.00
Total			1,583.31

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

Table 1.2 shows the significant amount of 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 2010-11 were (i) Mahatma Gandhi National Rural Employment Guarantee scheme ₹ 289.81 crore (15.11 *per cent*), (ii) Sarva Shiksha Abhiyan ₹ 258.83 crore (13.50 *per cent*), (iii), Pradhan Mantri Gram Sadak Yojana ₹ 240.26 crore (12.51 *per cent*), (iv) National Rural Drinking Water Programme ₹ 136.41 crore (7.11 *per cent*), and (v) National Rural Health Mission ₹ 96.50 crore (5.03 *per cent*),. Thus, with the transfer of ₹ 1,918 crore during 2010-11 (**Appendix-1.5**) directly by GOI to the State Implementing Agencies, the total availability of State resources increased from ₹ 32,824 crore to ₹ 34,742 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 undertaken by State Implementing Agencies and funded directly by the GOI.

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 2006-07 to 2010-11 are presented in **Appendix-1.3** and are also depicted in **Chart 1.4** and **1.5** respectively.



The revenue receipts have shown a constant increase over the period 2006-07 to 2010-11. It increased from ₹ 7,373 crore in 2006-07 to ₹ 11,608 crore in 2010-11 at an average rate of 16 per cent.

While 44 *per cent* of the revenue receipts during 2010-11 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' own tax receipts constituted around 43 *per cent* of revenue receipts of the State over the period 2006-07 to 2010-11 (**Chart-1.5**). This showed continued dependency of the State on the Grants-in-aid from GOI, as the State has not been able to broaden its tax base.

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

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	7,373	7,891	8,635	9,486	11,608
Rate of growth of RR (<i>per cent</i>)	33.16	7.03	9.43	9.86	22.37
R R/GSDP (<i>per cent</i>)	22.85	20.76	20.16	19.84	22.26
Buoyancy Ratios³					
Revenue Buoyancy w.r.t. GSDP	2.35	0.39	0.74	0.85	2.47
State's Own Tax Buoyancy w.r.t. GSDP	2.11	0.44	0.78	1.03	2.35

The rate of growth of revenue receipts showed a fluctuating trend over the period 2006-07 to 2010-11. The growth rate was high during 2006-07 but stabilised from 2007-08 onwards and stood at 22.37 *per cent* during 2010-11. The buoyancy ratio of State's own taxes with reference to GSDP, which was 2.11 in 2006-07, fell to below one in 2007-08 and 2008-09 and again picked up in 2009-10 and was 1.03. In the current year however, State's own taxes showed much higher buoyancy than the previous three 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 2.35 *per cent* in 2010-11.

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 24 *per cent* from ₹ 3,559 crore in 2009-10 to ₹ 4,405 crore in 2010-11. The revenue from Sales Tax not only contributed to major share of tax revenue (67 *per cent*) but also registered an increase of 31 *per cent* over the previous year.

³ Refer glossary in **Appendix-4.1**

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 between nine and 10 *per cent* in 2008-09 and 2009-10 respectively. During the current year it increased significantly by 22.37 *per cent* over the previous year.

Non-Tax Revenue

Non-Tax Revenue (NTR) which had remained more or less stagnant from 2006-08 and shown some appreciation in 2008-09, again decreased (10 *per cent*) during 2009-10. However, NTR appreciated again by 7.28 *per cent* during the current year over the previous 2009-2010. At ₹ 678 crore, non-tax revenue constituted 5.84 *per cent* of revenue receipts. The major contributors to non tax revenue during 2010-11 were Forestry and Wildlife (₹ 229 crore), Non-ferrous and Metallurgical Industries (₹ 93 crore) and Interest Receipts (₹ 54 crore). Average contribution of interest receipts to non-tax revenue was 7.80 *per cent* over the period 2006-07 to 2010-11.

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 ₹ 437 crore under Non-tax Revenue as shown in the **Table 1.4** below:

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

	Assessment made by Th FC	Assessment made by State Government in FCP	Actual
	(1)	(2)	(3)
Tax Revenue	4,317	4,326	4,405
Non-Tax Revenue	834	1,115	678

Source: Th FC Report, Annual Financial Report (GOU) and Finance Accounts

The State's own resources *vis-à-vis* projections made by the Thirteenth Finance Commission (Th FC) revealed that Tax Revenue at ₹ 4,405 crore during 2010-11 exceeded the normative assessment of ₹ 4,317 crore made by Th FC for the year while Non-Tax Revenue at ₹ 678 crore was lesser by ₹ 156 crore as compared to Th FC projections.

Central Tax Transfers

The receipts in the form of State's share in Union taxes and duties have increased by 59 *per cent* from ₹ 1,550 crore in 2009-10 to ₹ 2,460 crore in 2010-11. The overall increase in Central transfers (₹ 910 crore) was mainly due to increase in Corporation Tax (₹ 324 crore), Taxes on Income other than Corporation tax (₹ 153 crore), Taxes on Customs and Central Excise (₹ 351 crore).

Grants-in-Aid

The Grants-in-aid from GOI had shown an increase over the period 2006-07 to 2010-11(**Chart-1.5**) except during the year 2007-08. It increased from ₹ 3,081 crore in 2006-07 to ₹ 4,065 crore in 2010-11. The increase (₹ 320 crore) during the current year was mainly on account of additional grants released by GOI under Non Plan grants (₹ 252 crore), Grants for Centrally Sponsored Plan Schemes (₹ 140 crore) offset by reduction in Grants for State Plan Schemes (₹ 82 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 2010-11, as reported by the Department, showed that the Department had detected 2,999 cases during 2010-11. Besides, 2,308 cases were pending as on 31 March 2010. It was however, noticed that the Department had completed investigation and raised additional demand including penalty of ₹ 7.73 crore in 3,814 cases during 2010-11 leaving a balance of 1,493 cases of evasion of tax at the end of the financial year 2010-11 on which action is awaited. Action needs to be taken to finalise these cases at the earliest.

1.3.3 Revenue Arrears

Arrears of revenue (excluding forest revenue) at the end of 2010-11 amounted to ₹ 1,249.80 crore, of which ₹ 254.99 crore (20.40 *per cent*) of arrears was more than five years old.

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 2011	Amount outstanding for more than 5 years as on 31 March 2011
Commercial Tax VAT	881.07	249.90
Taxes on Vehicles	4.43	2.06
State Excise	0.48	0.48
Taxes & Duties on electricity	352.61	-
Public Works Department	1.73	0.86
Entertainment Tax	0.63	0.04
Taxes on Purchase of Sugarcane	5.25	-
Land Revenue	0.38	0.01
Stamp Duty and Registration	3.22	1.64
Total	1,249.80	254.99

Source: Details provided by SRA wing O/o the Pr. A.G (UK)

Nearly 71 *per cent* of revenue in arrears was on account of Taxes/VAT on Sales, Trades etc. Out of ₹ 881.07 crore, recovery certificates had been issued for an

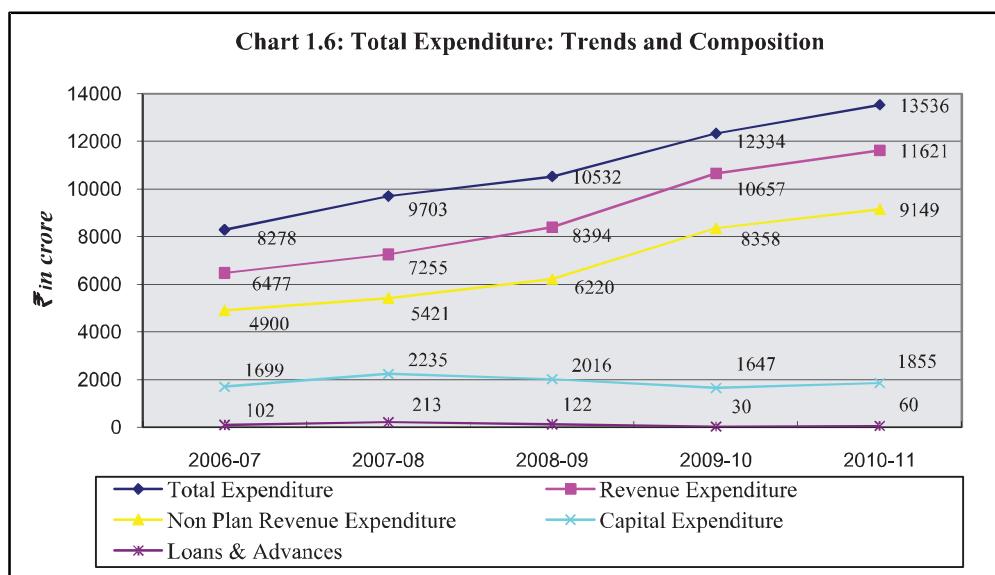
amount ₹ 208.46 crore and cases amounting to ₹ 97.11 crore were subjudice. ₹ 352.61 crore was in arrears with Uttarakhand Power Corporation Limited.

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 (2006-07 to 2010-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' are depicted in **Charts 1.7 and 1.8** respectively.

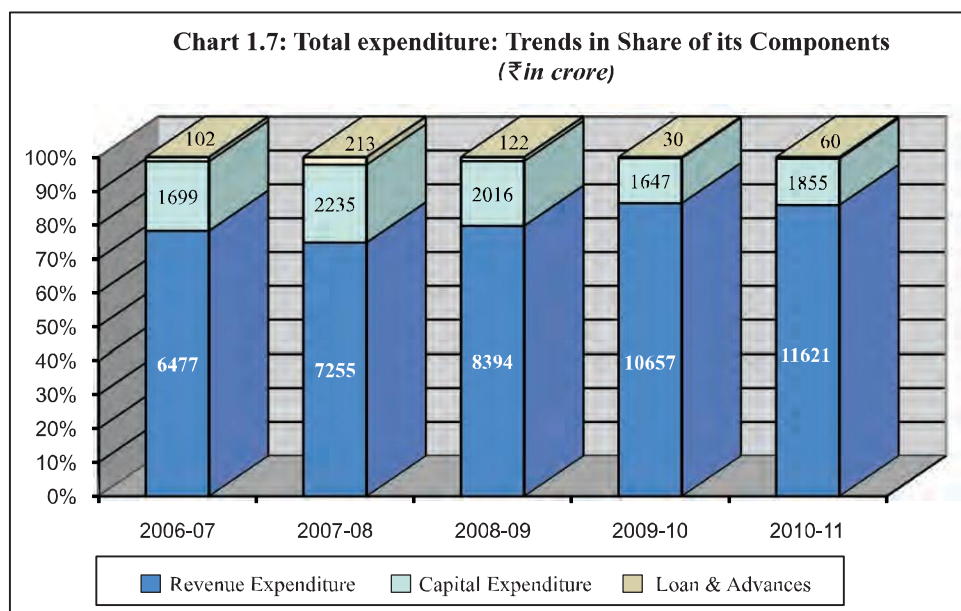


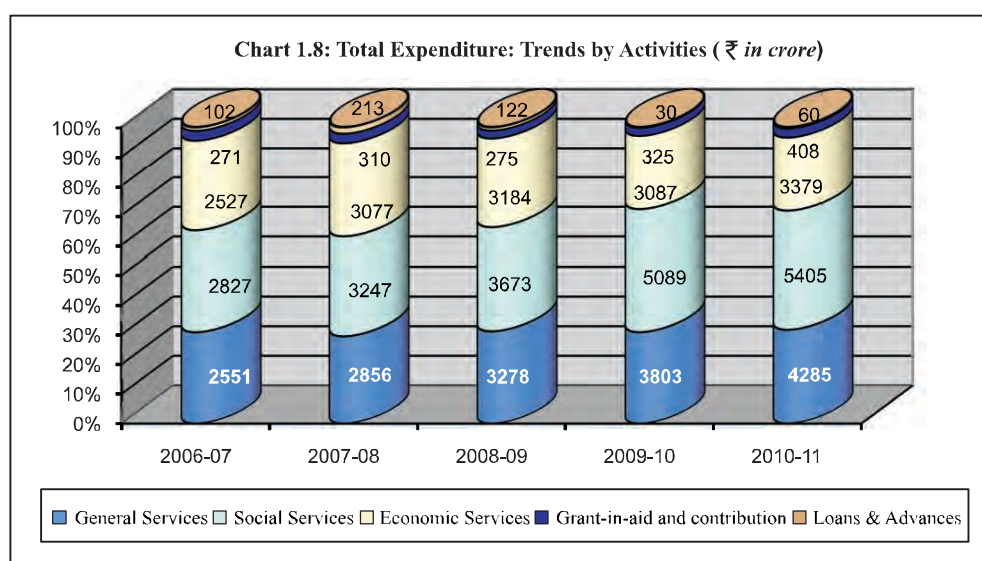
Total Expenditure (TE) of the State increased at an average rate of 13 per cent per annum during 2006-11. An increase of ₹ 1,202 crore (10 per cent) in total expenditure during 2010-11 over the previous year was due to increase in Revenue Expenditure (RE) and Capital Expenditure (CE) by ₹ 964 crore and ₹ 208 crore respectively. The disbursement of Loans and Advances also increased by ₹ 30 crore.

Revenue Expenditure (RE) The increase in RE during the current year was due to increase in expenditure towards (i) General Services (₹ 486 crore), (ii) Social Services (₹ 189 crore), (iii) Economic Services (₹ 206 crore) and Grants-in-Aid and Contribution (₹ 83 crore).

Capital Expenditure (CE) also increased during the year due to increase in (i) Social Services (₹ 126 crore) and (ii) Economic Services (₹ 86 crore) expenditure offset by recovery of ₹ 4 crore in capital account . As per cent of TE, it showed fluctuating trend over the period 2006-07 to 2010-11 which was 20.52 *per cent* in 2006-07 and 13.70 *per cent* in the year 2010-11. Although CE increased in 2007-08 but declined in 2008-09 and 2009-10. During the current year it again showed an increase over the previous year (2009-2010) but remained (₹ 1,855 crore) well below the target set forth (₹ 2,200 crore) by the State Government in its Mid Term Fiscal Policy Statement (MTFPS).

The relative share of these components of expenditure has remained unchanged in the recent past (2009-2011). The share of expenditure on General Services including interest payments, which is considered as non-developmental, remained almost stagnant during 2008-09 to 2010-11. Expenditure under Social Services has marginally decreased from 41 *per cent* in 2009-10 to 40 *per cent* in 2010-11. Economic Services showed a fluctuating trend during the period 2006-07 to 2010 -11.





The **Revenue Expenditure** of the State increased by 79 per cent from ₹ 6,477 crore to ₹ 11,621 crore during the period 2006-07 to 2010-11 at an average annual rate of 16 per cent. Non-Plan Revenue Expenditure (NPRE) of the State increased by 87 per cent during the same period. During the current year, the increase in NPRE (₹ 791 crore) was mainly due to increase in expenditure under salaries (₹ 333 crore), Pension (₹ 95 crore), Interest Payments, (₹ 142 crore) and Grants-in-aid to local bodies (₹ 83 crore).

The share of **Plan Revenue Expenditure (PRE)** in revenue expenditure of the State exhibited an increasing trend during 2006-07 to 2008-09 but showed declining trend from 2009-10 onwards. Its own growth rate also showed an upward trend upto 2008-09 but declined in 2009-10. However, its growth rate appreciated marginally during the current year. The PRE during the current year increased by ₹ 173 crore over the previous year, mainly on account of increase in expenditure under Education, Sports, Art and Culture (₹ 163.79 crore), Social Welfare & Nutrition (₹ 122.63 crore), Health and Family Welfare (₹ 85.83 crore), Rural Development (₹ 68.58 crore) and Agriculture (₹ 45.55 crore). This was offset by decrease in Water, Supply and Sanitation (₹ 383.36 crore).

Further, **Table 1.6** below depicts the details of actual NPRE with reference to projections made by the State Government at different stages during the year 2010-11.

Table-1.6 Actual NPRE vis-à-vis projections for 2010-2011

(₹ in crore)

Non-Plan Expenditure	Assessment made by ThFC	Assessment made by State Government in		
		Fiscal Correction Path (FCP)	MTFPS	Actual
	7,279	11,233	10,335	9,149

Source: Th FC Report, Annual Financial Report (GOU) and Finance Accounts

During the current year the NPRE exceeded the normative assessment made by the Th FC by ₹ 1,870 crore (26 *per cent*) but was lesser than the projections made by the State Government in its Fiscal Correction Path (FCP) and Mid Term Fiscal Policy Statement (MTFPS).

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 2006-11.

Table-1.7: Components of Committed Expenditure

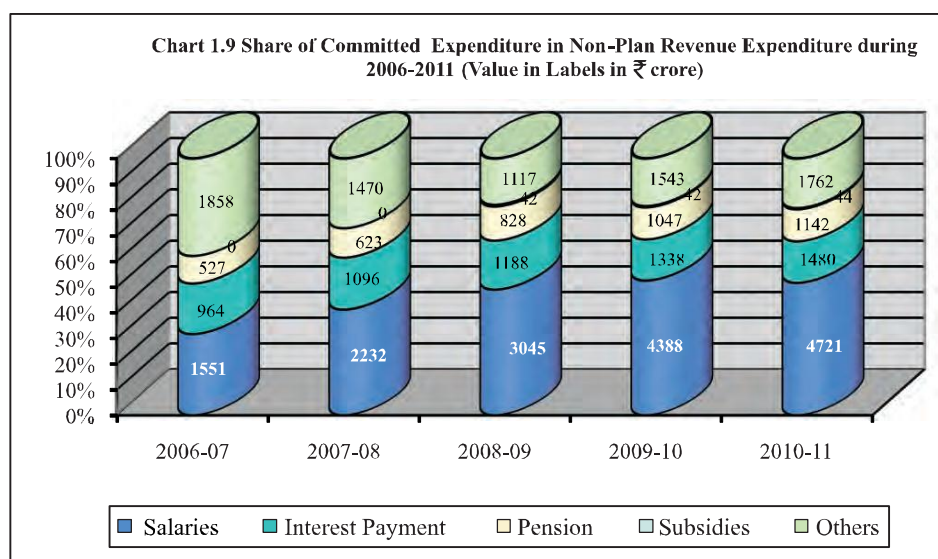
(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11		
					BE	Actuals	Percentage of variation
Salaries & Wages, of which	1,551	2,232	3,045 (35)	4,388(46)	4,612	4,721 (41)	(+) 2.36
Non-Plan Head	1,397	2,020	2,728	4,114	4,300	4,464	(+) 3.81
Plan Head*	154	212	317	274	312	257	(-) 17.63
Interest Payments	964	1,096	1,188 (14)	1,338(14)	1,579	1,480 (13)	(-) 6.27
Expenditure on Pensions	527	623	828 (10)	1,047(11)	1,028	1,142 (10)	(+) 11.09
Subsidies	...	...	42 (0.50)	42(0.44)	68	44	(-) 35.29
Other Components	1,858	1,470	1,117	1,543	3,048	1,762	(-) 42.19
Total	4,900	5,421	6,220	8,358	10,335	9,149	(-) 11.48

Figures in the parentheses indicate percentage to Revenue Receipts.

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

Note: Subsidies amount during 2010-11 is negligible



Salaries and Wages

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. Even though the expenditure on salaries during the year 2010-11 grew only by 7.59 *per cent*, it was still higher than the projections of Th FC. However, it was well below the target fixed (₹ 4,612 crore) by the State Government in its FCP.

Th FC prescribed that expenditure under the head salaries should be 35 per cent net of interest payments and pensions of revenue expenditure while the actual expenditure on salaries accounted for 52 per cent in the current year.

Pension Payments

The State Government estimated the pension liabilities on the historical growth rate of pension and not on actuarial basis. Expenditure on pension payments was ₹ 1,142 crore in 2010-11, which constituted 9.84 *per cent* of the revenue receipts. Pension payments during 2010-11 grew by 9.07 *per cent* over the previous year. *It was within the prescribed rate of 10 per cent projected by the Th FC, but was higher than the normative assessment (₹ 1098 crore) made by Th FC for the current year (Annexure 7.7 of Th FC 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.

Interest Payments

As shown in **Table 1.7**, interest payments increased by 54 *per cent* during 2006-11 primarily due to earlier borrowings. Interest payments during 2010-11 included interest on Internal Debt⁴ (₹ 1148 crore), other obligations (₹ 21 crore) and Small Savings, Provident Fund etc. (₹ 274 crore). Interest payments (₹ 1480 crore) during the current year were not only below the 14 *per cent* of RR but were also below the target of ₹ 1,528 crore set by the State Government in its FCP. However, the Interest Payments were slightly higher (₹ 20 crore) than the normative assessment (₹ 1459.88 crore) made by the Th FC for the current year.

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**.

⁴ Refer glossary in **Appendix-4.1**

Table-1.8: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	232.81	301.42	198.99	267.99	490.11	488.49
Municipal Corporations and Municipalities	96.63	110.93	106.20	122.47	198.96	154.72
Zila Parishads and Other Panchayati Raj Institutions	174.65	198.85	168.57	202.25	356.04	252.96
Development Agencies	408.25	514.53	588.44	571.47	849.64	526.00
Hospitals and Other Charitable Institutions	40.69	28.69	38.89	44.52	96.81	71.23
Energy (UPC and UPC for Rural Electrification)	100.61	134.52	69.79	24.39	7.57	7.50
Agriculture Research and education institution Land Reforms for updating land records and Wild life Preservation	146.39	153.67	217.73	98.62	134.63	151.15
Co-operatives	14.24	17.16	3.49	13.22	13.63	9.56
Animal Husbandry, Dairy Development and Fisheries	10.74	14.53	31.51	14.79	18.79	13.16
Secretariat Economics Services & Tourism	64.39	59.21	27.51	11.43	21.00	18.43
Social Security & Welfare of Scheduled Cast, Scheduled Tribe & Other Backward Classes	84.94	108.73	122.77	133.65	200.50	97.46
Government Companies/Statutory Co-operation	-	-	-	13.41	-	--
Other Institutions	38.17	39.34	85.46	357.83	79.20	131.61
Total	1,412.51	1,681.58	1,659.35	1,876.04	2,466.88	1,922.27
Assistance as per percentage of RE	21.82	23.18	19.77	17.60	20.29	16.54

Source: VLC Accountant General (A&E), Uttarakhand

The total assistance to local bodies and other institutions grew by 36 per cent over the period 2006-07 to 2010-11. Universities and Educational institutions, Development agencies together accounted for 53 per cent of the total financial assistance. The increase in assistance during the year was mainly under Educational Institutions (₹ 220.50 crore), Agriculture (₹ 52.53 crore) and Hospitals and other Charitable Institutions (₹ 26.71 crore) which was counter balanced by decrease in assistance to Energy (₹ 16.89 crore), Development Agencies (₹ 45.47 crore) and Other Institutions (₹ 226.22 crore).

Further as per the State Finance Commission Report, the State Government was required to allocate funds to PRIs and Urban Local Bodies in the ratio of 42.23: 57.77. The funds allocated during the current year to these institutions by the state government were in the ratio of 62.05: 37.95. Therefore, the Urban Local Bodies may not be able to meet the social obligations for want of requisite funds.

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.

Table-1.9: Fiscal Priority of the State during 2006-07 and 2010-11

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE
Uttarakhand's Average (Ratio) 2006-07	25.66	65.73	34.15	20.52
Uttarakhand's Average (Ratio) 2010-11	25.96	65.32	39.92	13.70
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. A comparative study of expenditure in 2010-11 with that in 2006-07 revealed that:

- The Government has spent more aggregate expenditure as a proportion of GSDP in 2010-11 as compared to 2006-07.
- Development Expenditure (DE) as a proportion of Aggregate Expenditure (AE) was almost stagnant during the year.
- Social Sector Expenditure as a proportion of AE increased by almost six *per cent*.
- The proportion of Capital Expenditure (CE) in AE decreased by almost seven *per cent*.

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 goods⁵. Apart from improving the

⁵ Refer the glossary in **Appendix-4.1**

allocation towards development expenditure⁶, 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 both during the current year and the previous year *vis-à-vis* allocations, **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.

The share of developmental revenue expenditure in the total expenditure showed an inter-year variation during the period 2006-11, being an average of 49 *per cent* during the period. The share of developmental capital expenditure also showed inter-year variations but improved marginally during the year 2010-11 as compared to 2009-10. However, the overall development expenditure increased by 63 *per cent* over the period 2006-07 to 2010-11.

Table-1.10: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)	5,441 (66)	6,521 (67)	6,973 (66)	8,205 (66)	9,378 (66)	8,842 (65)
a. Development Revenue Expenditure	3,828 (46)	4,290 (44)	5,015 (48)	6,638 (54)	7,332 (52)	7033 (52)
b. Development Capital Expenditure	1,526 (18)	2,034 (21)	1,842 (17)	1538 (12)	1,895 (13)	1750 (13)
c. Development Loans and Advances	87 (1)	197 (2)	116 (1)	29 (0.23)	151 (1)	59 (0.44)

Figures in parentheses indicate percentage to aggregate expenditure

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

(In per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	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) expenditure on major components						
General Education	0.43	20.97	.005	0.70	19.07	0.006
Health and Family Welfare	0.34	3.43	.021	0.54	3.89	0.036
WS, Sanitation, & HUD	0.04	0.064	.012	0.20	0.048	.013
Total expenditure under SS	0.88	25.57	0.05	1.74	24.22	0.07

⁶ Refer the glossary in **Appendix-4.1**

Economic Services(ES) expenditure on major components						
Agriculture & Allied Activities	0.59	3.40	0.15	0.14	3.54	0.16
Irrigation and Flood Control	2.16	1.53	0.29	2.56	1.66	0.29
Power & Energy	5.36	-	-	0.41	-	-
Transport	6.57	0.09	0.76	6.94	0.10	0.006
Total expenditure under ES	11.58	6.52	0.30	11.19	6.71	0.46
Total expenditure under SS & ES	12.46	32.09	0.35	12.93	30.93	0.53
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 State Government in its Mid Term Fiscal Policy presented to the State Legislature along with the Budget 2011-12 has committed itself inline with the recommendations of the Th FC, which advocates that the fiscal deficit shall be 3.5 *per cent* of the GSDP in the year 2012-13 and be further brought down to three *per cent* by the year 2013-14. For this the State Government has to borrow less and there would be less funds available to capitalise in near future. However, during the current fiscal the Government managed to capitalise 13 *per cent* more funds as compared to the year 2009-10.

During 2010-11, salaries and wages as a percentage of revenue expenditure on Social Services marginally decreased by 1.35 *per cent* and under Economic Services increased by 0.19 *per cent*. The expenditure under Operation and Maintenance as a percentage of revenue expenditure remained almost stagnant in Social Services but increased 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 the State Civil Report. The effectiveness of expenditure as brought out in the department viz; Department of Elementary Education performance audit on “Sarva Shiksha Abhiyan” of which taken up in 2010-11 covering the period 2006-11, is summarized below:

Sarva Shiksha Abhiyan

The Performance Audit of Sarva Shiksha Abhiyan (SSA) revealed that its implementation in the State left much to be desired. There was under utilization of funds in all the years due to faulty planning, delay in release/ short release of funds and poor implementation and monitoring of various interventions carried out by the executing agencies. The scheme also suffered from curtailment of funds of ₹ 239.47 crore because of under utilisation of

funds received. Further, non submission of UCs by the line agencies, advances being booked as expenditure in the books of accounts and maximum distribution of funds at the fag end of the financial year reflected poor financial management by the Uttarakhand Sabhi Ke Liye Shiksha Parishad.

The SSA also suffered due to lack of infrastructure and basic amenities like drinking water, toilets, electricity, kitchens etc. in the schools. The construction of Kasturba Gandhi Balika Vidhyalaya (KGBV) hostel buildings was abnormally delayed. There was delay in distribution of free text books. There was also shortage and disproportionate deployment of teachers in the schools. The SSA lacked effective monitoring and evaluation mechanism in execution of various programmes.

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 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2011 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 31.3.2011
Public Works Department	76	212.20	239.67	27.47	62.80
Irrigation	13	29.89	-	-	-
Total	89	242.09	239.67	27.47	62.8

* Indicates the Revised total cost of the projects as per the last revision by the State Government as on 31.03.2011

Source: Finance Accounts

Appendix 10 of the Finance Accounts showed that there were 89 projects which were due for completion, but remained incomplete as on 31 March 2011. These incomplete projects included five PWD projects with initial budgeted cost of ₹ 26.54 crore but their estimates were revised to ₹ 54.01 crore which includes cost overrun of ₹ 27.47 crore.

1.6.2 Investment and returns

As on 31 March 2011, the average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.13**) was 0.02 *per cent* of the investment in the last three years while the Government paid an average interest rate of 7.58 *per cent* on its borrowings during 2008-09 to 2010-11.

Table-1.13: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Investment at the end of the year (<i>₹ in crore</i>)	762	1,005	1,071	1,240	137	1,296
Return (<i>₹ in crore</i>)	0.16	0.53	0.23	0.07		0.21
Return (<i>per cent</i>)	0.02	0.05	0.02	0.01		0.02
Average rate of interest on Government borrowing (<i>per cent</i>)	7.79	7.99	7.75	7.64		7.34
Difference between interest rate and return (<i>per cent</i>)	7.77	7.94	7.73	7.63		7.32

Source: Finance Accounts and Annual Financial Statement (GOU)

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 2011 totaling to ₹ 540 crore and ₹ 631 crore respectively. The accumulated loss of the Govt. Companies amounting to ₹ 1,090 crore was mainly incurred by four Companies *viz*; Uttarakhand Power Corporation Limited (₹ 874 crore), Uttarakhand Parivahan Nigam (₹ 237 crore), Doiwala Sugar Company Limited (₹ 73 crore) and Kichha Sugar Company Limited (₹ 45 crore). However, three companies *viz*; State Industrial Development Corporation of Uttaranchal Limited, Uttarakhand Jal Vidhyut Nigam Limited and Power Transmission Corporation of Uttarakhand Limited, mainly had an accumulated profit of ₹ 433 crore.

1.6.3 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 ₹ 1.89 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 (2009-10).
- Out of a total of three undertakings viz; Irrigation Workshop, Roorkee; Regional Food Controllers, Haldwani and Dehradun, only Irrigation Workshop had finalised their accounts up to 2009-10. It was a profit earning entity up to 2007-08 but has been posting net losses there after. The accumulated losses of the three departmental undertakings stood at ₹ 46 crore, as per finalised accounts.

1.6.4 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 2011, 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	2008-09	2009-10	2010-11	
			BE	Actual
Opening Balance	709.79	777.87		743.09
Amount advanced during the year	121.71	30.05	151	59.68
Amount repaid during the year	53.63	64.83		84.87
Closing Balance	777.87	743.09		717.90
Of which Outstanding balance for which terms and conditions have been settled	Information not made available by the State Government			
Net addition	68.08	(-) 34.78		(-) 25.19
Interest Receipts	0.83	0.82		7.98
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.11	0.11		1.11
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.30	7.14		6.85
Difference between interest payments and interest receipts (<i>per cent</i>)	7.19	7.03		5.74

Source: Finance Accounts and Annual Financial Statement (GOU)

During 2010-11 Government advanced loans of ₹ 60 crore against ₹ 30 crore in 2009-10, an increase of ₹ 30 crore over the previous year.

Interest receipts as a percentage of outstanding loans and advances had been almost constant during the years 2008-09 and 2009-10 but improved during the current year 2010-11. Average rate of interest on which the State Government raised market loans was 7.34 *per cent* during 2010-11 while the interest received on Loans and Advances given by the State was 1.11 *per cent*.

Twelfth Finance Commission recommended that at least seven *per cent* return on outstanding loans and advances should be achieved in graded manner by the terminal year of (2009-2010) the forecast period, a target that the State could not even achieve in the year 2010-2011. The total loans advanced by the Government as on 31 March 2011 stood at ₹ 718 crore. The major beneficiaries were Energy (₹ 370 crore) and Agriculture (₹ 279 crore) sectors. The major share of loans granted to Uttarakhand Power Corporation and Uttarakhand Power Corporation for Rural Electrification together accounted for ₹ 307 crore under Energy sector. The Uttarakhand Cooperative Sugar Mills was paid ₹ 239 crore as loan for payment of price for sugarcane under Agriculture sector.

1.6.5 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 2010	As on 31 March 2011	Increase(+)/ Decrease(-)
Cash Balances	538.91	1229.41	(+)690.50
Investments from Cash Balances (a to d)	...	...	...
a. GOI Treasury Bills	...	...	...
b. GOI Securities	...	...	...
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	753.65	878.62	(+) 124.97
ii. Guarantee Redemption Fund	25.00	25.00	-
c. ----	----	----	----
Interest Realized	9.44	13.78	(+) 4.34

Source: Finance Accounts

The closing cash balance (CB) at the end of the current year (₹ 1,229.41 crore) increased by ₹ 690.50 crore over the previous year (₹ 538.91 crore). The State Government had created an earmarked fund of ₹ 903.62 crore from CB. The same amount was invested from the earmarked fund in the GOI Securities and earned an interest of ₹ 13.78 crore during 2010-11. The interest realized on cash balance was 1.52 *per cent* during 2010-11 while Government paid interest at the average rate of 7.34 *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

2010-11 barring 11 days while 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 93 occasions during the year. The State had to pay ₹ 0.95 crore as interest on WMA during the year.

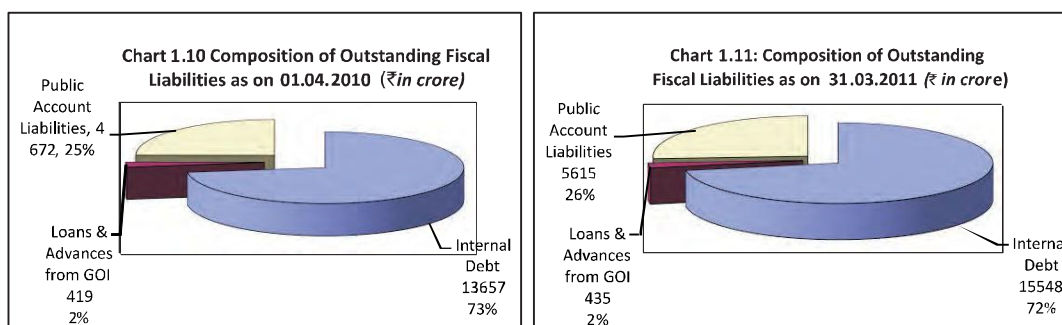
1.7 Assets and Liabilities

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 2011, compared with the corresponding position as on 31 March 2010. 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 & Statement 6** of the State Finance Accounts. 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**.



The debt-GSDP ratio at 41.42 *per cent* against 40 *per cent* in 2009-10 showed an upward trend during the year. *The ratio was however, below the normative assessment of Th FC (42.20 per cent).* The overall fiscal liabilities increased by 66 *per cent* from ₹13,034 crore in 2006-07 to ₹ 21,598 crore in 2010-11. The State liabilities which stood at ₹ 21,598 crore in 2010-11 was mainly composed of Public Debt (₹ 15,984 crore), Small Savings and Provident Fund etc, (₹ 3,823 crore), and other obligations (₹ 1,791 crore). The increase in the fiscal liabilities during the current year as compared to the previous year 2009-10 was

mainly on account of internal debt and Small Savings Provident Fund etc; which rose by ₹ 1,892 crore and ₹ 870 crore respectively. Fiscal liabilities grew marginally over the years; it was 15.20 *per cent* in 2010-11 over the previous year. The buoyancy of these liabilities with respect to GSDP during the year was 1.68 indicating that for each percentage point increase in GSDP; fiscal liabilities grew by 1.68 *per cent*. These liabilities stood at 1.86 times State's revenue receipts and 4.25 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 at the rate of three *per cent* of outstanding balance of market loans of the previous year. However, the State Government provided only ₹ 125 crore during the year as against ₹ 190 crore 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 **Table 1.16**.

Table-1.16: Guarantees given by the Government of Uttarakhand

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11	
			BE	Actual
Maximum amount guaranteed	125	125		
Outstanding amount of guarantees	1,802	1,511		
Percentage of maximum amount guaranteed to total revenue receipts	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 State Government			

Source: Finance Accounts

Though, the State Government has not given any Guarantee during the year 2010 -11 but action to fix the maximum limit of guarantee which can be extended, is to be taken by the State Government.

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 of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization; sufficiency of non-debt receipts; net availability of borrowed funds; 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 2008-09.

Table-1.17: Debt Sustainability: Indicators and Trends

(₹ in crore)			
Indicators of Debt Sustainability ⁷	2008-09	2009-10	2010-11
Debt Stabilization ⁸ (Quantum Spread + Primary Deficit)	(+) 172	(-) 1,113	(+) 11
Sufficiency of Non-debt Receipts (Resource Gap) ⁹	(-) 99	(-) 940	(+) 1,224
Net Availability of Borrowed Funds ¹⁰	164	261	820
Burden of Interest Payments (IP/RR Ratio)	13.76	14.10	12.75

The trends in **Table 1.17** indicate that during 2008-09 the quantum spread together with primary deficit remained positive but this turned negative in the 2009-10 with some improvement during the current year. The debt-GSDP ratio which declined to 40 per cent in 2009-10 from 40.52 per cent in 2008-09 has again showed an upward trend (41.42 per cent) during the year. *However, it remained below the target (42.20 per cent) set forth by the Thirteenth Finance Commission (Th FC) for the year 2010-11 in respect of Uttarakhand.*

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 termed as resource gap. The debt sustainability could be significantly facilitated if the incremental non-debt receipts¹¹ 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 2008-11.

The State experienced a negative resource gaps in 2008-09 and 2009-10 but had a positive resource gap during 2010-11, which in turn brought down the revenue deficit to almost nil (₹ 13 crore) and fiscal deficit (₹ 1,843 crore) to reasonable limits. Debt redemption ratio steadily increased during the period 2006-10 which slightly improved during the year 2010-11 (0.83) indicating the fact that the

⁷ Refer glossary in **Appendix-4.1**

⁸ Refer glossary in **Appendix-4.1**

⁹ Refer glossary in **Appendix-4.1**

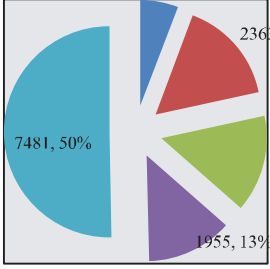
¹⁰ Refer glossary in **Appendix-4.1**

¹¹ Refer glossary in **Appendix-4.1**

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 67 *per cent* of fresh debt receipts; redemption of GOI loans was 144.55 *per cent* while in case of other obligations repayments were 97.94 *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.

The maturity profile of the State is given in **Table 1.18** and **Chart 1.12** below.

Table 1.18: Maturity Profile of Public Debt

Maturity profile	Amount (₹ in crore)	Percentage to total Public Debt	Chart 1.12: Maturity Profile of Public Debt (₹ in crore) 
0-1 year	852	5.74	
1-3 years	2,363	15.91	
3-5 years	2,199	14.81	
5-7 yearss	1,955	13.16	
More than 7 years	7,481	50.38	
Total	14,850	100	■ 0-1 years ■ 1-3years ■ 3-5 years ■ 5-7years ■ More than 7 years

Source: Finance Accounts

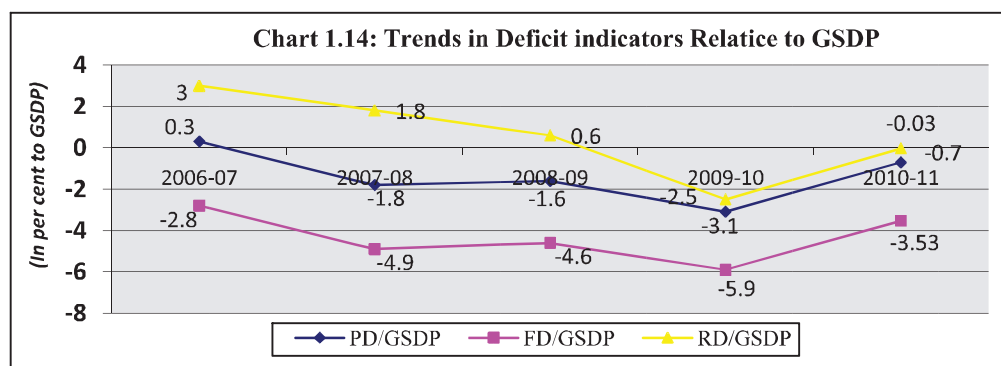
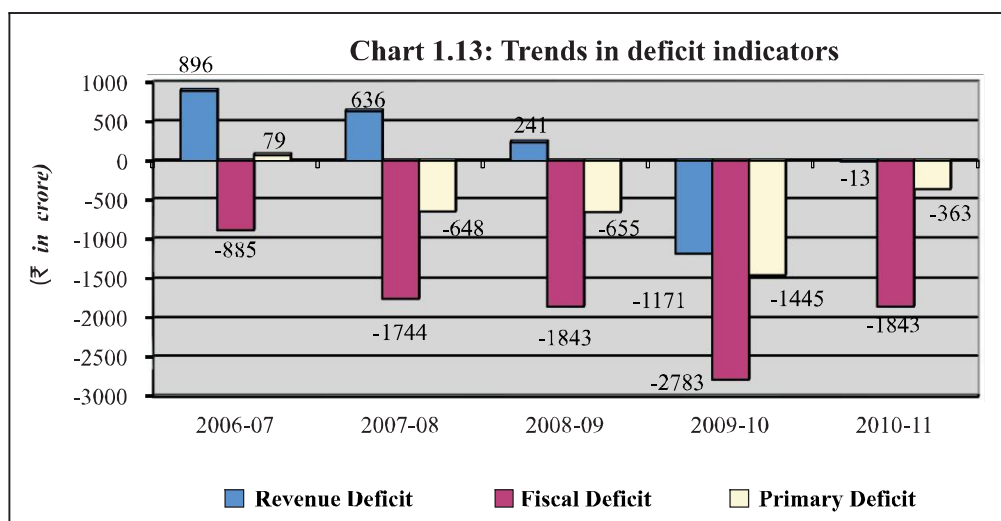
To discharge its expenditure obligations, the government had to borrow further, since fiscal surplus was not available in any of the last five years. The maturity profile of outstanding stock of Public Debt as on 31 March 2011 shows that 50 *per cent* of the Public Debt are in the maturity bucket of seven years and above.

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 2010-11.

1.9.1 Trends in Deficits

Charts 1.13 and 1.14 present the trends in deficit indicators over the period 2006-07 to 2010-11.



Uttarakhand experienced a revenue surplus from 2006-07 to 2008-09, which turned into deficit during 2009-10, mainly on account of implementation of Sixth Central Pay Commission recommendations. However, the State has been able to bring down the revenue deficit to almost nil (₹ 13 crore) during the current fiscal. The fiscal deficit, which had been on the higher side during 2009-10 and was (5.82 per cent of GSDP) above the four per cent as had been set forth in FRBM, Act 2005. It has also been on the lower side and is pegged at 3.5 per cent of GSDP during the current year. *Although the Th FC has not made any assessment for 2010-11 by allowing it a year of adjustment, even then the State has been able to maintain a fiscal deficit of 3.5 per cent.*

The primary deficit which remained steady during the period 2007-09 had taken a quantum jump in 2009-10 (₹ 1,445 crore), has come down (₹ 363 crore) during the current year.

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

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit						
1	Revenue Deficit/Surplus(+)	(+) 896	(+) 636	(+) 241	(-) 1,171	(-) 13
2	Capital Expenditure	1,699	2,235	2,016	1,647	1855
3	Net Loans and Advances	(+) 82	(+) 145	(+) 68	(-) 35	(-) 25
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	319	733	884	460	890
2	Loans from GOI	(-) 9	(-) 16	(-) 19	(-) 5	16
3	Special Securities Issued to NSSF	580	195	120	672	921
4	Loans from Financial Institutions	101	213	204	70	182
5	Small Savings, PF etc	88	155	531	1,066	870
6	Deposits and Advances	175	142	61	229	46
7	Suspense and Misc	(-) 491	138	(-) 331	722	(-) 331
8	Remittances	35	85	(-) 238	(-) 129	(-) 303
9	Others	87	99	631	(-) 302	(-) 448
10	Overall Surplus/Deficit	885	1,744	1,843	2,783	1,843

Source: Finance Accounts

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. However, the State has been able to reduce the revenue deficit to almost nil (₹ 13 crore) in the current year. The fiscal deficit (₹ 1,843 crore) was largely managed by market borrowings (₹ 890 crore) and Special Securities issued to National Small Savings Fund (₹ 3,823 crore). Although, there was increase in capital expenditure (13 per cent) even then the fiscal deficit was brought down to reasonable limits, 3.5 per cent of GSDP.

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

(₹ 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)
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
2010-11	11,693	10,141	1,855	60	12,056	(+) 1,552	(-) 363

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

- Non debt receipts increased by 58.16 *per cent* from 2006-07 to 2010-11 and were sufficient to meet the primary revenue expenditure. However, the gap which had reduced considerably in the 2009-10, has again been on the higher side during the current year.
- Total primary expenditure increased by ₹ 4,742 crore during 2010-11 as compared to 2006-07 which was due to increase of primary revenue expenditure to the extent of ₹ 4,628 crore during the same period.
- The primary revenue surplus in 2009-10 declined by 84.36 *per cent* from the previous year, has again showed sharp upward trend during the year.

1.10 Conclusion

Revenue receipts grew by ₹ 2,122 crore (22.37 *per cent*) over the previous year. This was mainly due to the increase in Central Transfers (₹ 910 crore), State's own tax revenue (₹ 846 crore) and in Grants-in-aid (₹ 319 crore). The Government needs to improve its revenue collection as arrears of revenue (excluding forest revenue) at the end of 2010-11 amounted to ₹ 1,250 crore, of which ₹ 255 crore (20 *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 86 *per cent* leaving inadequate resources for creation of assets. The non-plan revenue expenditure (NPRE) increased by 9.46 *per cent* over the previous year.

The expenditure on salaries accounted for 52 *per cent* and continued to consume a major share of NPRE during 2010-11. Expenditure on pension payments was ₹ 1,142 crore in 2010-11, which constituted 9.84 *per cent* of the revenue receipts.

Pension payments during 2010-11 grew by 9.07 *per cent* over the previous year. It was within the prescribed rate of 10 *per cent* projected by the Th FC, but was higher than the normative assessment made by Th FC for the current year (**Annexure 7.7 of Th FC 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.

The capital expenditure of the State increased by ₹ 208 crore (**Paragraph- 1.4.1**) during 2010-11 as compared to the previous year mainly due to increase in expenditure in (i) Social Services (ii) Economic Services. As *per cent* of TE, the CE showed fluctuating trend over the period 2006-07 to 2010-11 which was 20.52 *per cent* in 2006-07 and 13.70 *per cent* in 2010-11. During the current year it showed an increase over the previous year but remained (₹ 1,855 crore) well below the target set forth (₹ 2,200 crore) by the State Government in its Mid Term Fiscal Policy Statement (MTFPS).

The share of developmental capital expenditure also showed inter-year variations but marginally improved during the year 2010-11 as compared to 2009-10. However, the overall development expenditure increased by 63 *per cent* over the period 2006-07 to 2010-11.

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 7.58 *per cent* on its borrowings during 2008-09 to 2010-11.

Uttarakhand experienced a revenue surplus from 2006-07 to 2008-09, which turned into deficit during 2009-10, mainly on account of implementation of Sixth CPC recommendations. However, the State has been able to bring down the revenue deficit to almost nil (₹ 13 crore) during the current fiscal. The fiscal deficit, which had been on the higher side during 2009-10 and was (5.82 *per cent* of GSDP) above the four *per cent* as had been set forth in FRBM, Act 2005 (**Appendix 1.2 Part B**). It has also been on the lower side and is pegged at 3.5 *per cent* of GSDP during the current year. Although the Th FC has not made any assessment for 2010-11 allowing it a year of adjustment, even then the State has been able to maintain a fiscal deficit of 3.5 *per cent*.

Cash balance of the State at the end of 2010-11 increased by ₹ 690.50 crore and the interest received on investment of cash balances in RBI, Investment in GOI Securities was only 1.52 *per cent* while the Government borrowed at an average interest rate of 7.34 *per cent*. The State had to resort to over draft facility on 11 occasions during the year.

The debt-GSDP ratio at 41.42 *per cent* against 40 *per cent* in 2009-10 showed an upward trend during the year. The ratio was however, below the normative assessment of Th FC (42.20 *per cent*) for the current year. 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.

During the year 2010-11, a large amount of ₹ 1,918 crore was directly transferred to State Implementing Agencies. These funds were however, not routed through the State budget/State treasury system. As these funds remain outside the State budget, there is no single agency monitoring its use and also there is no readily available data to ascertain how much is actually spent in any particular year on major flagship schemes and other important schemes.