CHAPTER- 1

FINANCES OF THE STATE GOVERNMENT

Profile of Uttarakhand

Uttarakhand is a Special Category State (SCS) based upon the categorization of States made by the Government of India (GoI). 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* loan and 30 *per cent* grant.

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[1] (GSDP) at current prices for the period 2002-03 to 2011-12 has been over 19.41 *per cent* **(Appendix-1)**.

Under the Uttar Pradesh Reorganisation Act, 2000 (Act No. 29 of 2000), 13 districts of Uttar Pradesh 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 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 was reduced to almost nil (₹ 13 crore) last year and ultimately turned into revenue surplus (₹ 716 crore) during current year. Fiscal deficit at ₹ 1,757 crore during the current year, is pegged at around 1.85 *per cent* of the GSDP which is well below the normative assessment made by the Thirteenth Finance Commission (*Th FC)*. A summary of Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 (Modified in March 2011 with the recommendation of *Th FC*) and state's own Fiscal Correction Path (FCP) through Mid Term Fiscal Policy (MTFP) are given in **Appendix-1.2 (Part B)**.

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 (2011-12) *vis-à-vis* the previous year (2010-11) 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)

Receipts			Disbursements				
Various items	**2010-11**	**2011-12**	**Various items**	**2010-11**	**2011-12**		
	Total	**Total**		**Total**	**Non-Plan**	**Plan**	**Total**
Section-A: Revenue							
Revenue receipts	**11,608.16**	**13,691.24**	Revenue expenditure	**11,621.07**	10,654.11	2,321.08	**12,975.19**
Tax revenue	4,405.47	5,615.62	General services	4,180.15	4,471.39	3.72	4,475.11
Non-tax revenue	678.06	1,136.13	Social services	5,169.49	4,368.07	1,651.58	6,019.65
Share of Union Taxes/ Duties	2,460.07	2,866.04	Economic services	1,863.75	1,435.85	665.78	2,101.63
Grants from Government of India	4,064.56	4,073.45	Grants-in-aid and Contributions	407.68	378.80	--	378.80
Section-B: Capital							
Misc. Capital Receipts	--	--	Capital Outlay	**1,854.84**	245.94	2,071.00	**2,316.94**
Recoveries of Loans and Advances	**84.87**	**90.65**	Loans and Advances disbursed	**59.68**	13.79	233.04	**246.83**
Public Debt receipts*	**2,427.18**	**2,335.52**	Repayment of Public Debt*	**519.36**	--	--	**1,015.78**
--	--	--	Appropriation to Contingency Fund**	**515.00**	--	--	**(-)400.00**
Contingency Fund	**581.62**	**126.13**	Contingency Fund	**536.71**	--	--	**69.07**
Public Account receipts	**18,703.51**	**19,668.05**	Public Account disbursements	**17,608.18**	--	--	**19,832.00**
Opening Cash Balance	**538.91**	**1,229.41**	Closing Cash Balance	**1,229.41**	--	--	**1,085.19**
Total	**33,944.25**	**37,141.00**	**Total**	**33,944.25**	--	--	**37,141.00**

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

** *Contingency corpus of ₹ 85 crore was enhanced during 2010-11 by ₹ 515 crore and reduced during 2011-12 by ₹ 400 crore and stood at ₹ 200 crore at the end of 2011-12.*

It would, thus, be evident that:

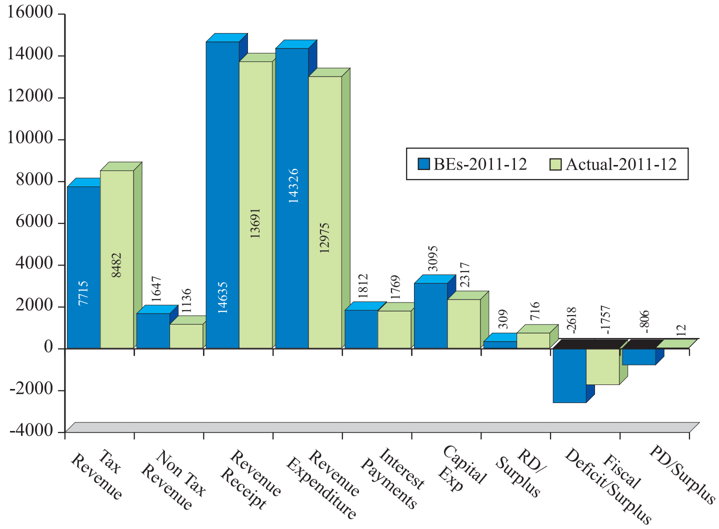
- Revenue receipts grew by ₹ 2,083 crore (17.94 *per cent*) over the previous year. This was mainly due to increase in State's own tax revenue, (₹ 1,210 crore), non-tax revenue (₹ 458 crore) and State's Share of Union Taxes/Duties (₹ 406 crore).
- Revenue expenditure increased by ₹ 1,354 crore (11.65 *per cent*) during the year over the previous year as detailed in succeeding **Paragraph 1.4.1**.
- Capital expenditure during the year increased by ₹ 462 crore (24.91 *per cent*) over the previous year as detailed in succeeding **Paragraph 1.4.1.**

- Recovery of loans and advances increased from ₹ 85 crore (2010-11) to ₹ 91 crore (6.81 *per cent*). Disbursement of loans and advances increased by ₹ 187 crore during the year (from ₹ 60 crore to ₹ 247 crore), mainly due to more disbursements to Transport (₹ 100 crore) & Energy (₹ 71 crore) Sectors.
- Public debt receipts registered a decrease of ₹ 92 crore during the year 2011-12.
- Public Account Receipts increased by ₹ 965 crore due to increase under Suspense and Miscellaneous (₹ 906 crore) and Reserve Funds (₹ 496 crore). This was offset by decrease in Remittance (₹ 204 crore), Deposits and Advances (₹ 133 crore) and Small Savings, Provident Fund (₹ 100 crore). Public Account disbursements increased by ₹ 2,224 crore **(Appendix-1.4)** due to increase in Suspense and Miscellaneous (₹ 1,650 crore), Reserve Funds (₹ 592 crore) and Small Savings, Provident Fund (₹ 143 crore) offset by decrease in Remittances (₹ 41 crore) and Deposit and Advances (₹ 120 crore).
- The cash balance of the State at the end of the year decreased by ₹ 144.22 crore as compared to the closing balance at the end of 2010-11.

After bringing down the revenue deficit to almost nil (₹ 13 crore) in 2010-11, the Government has been able to attain a revenue surplus of ₹ 716 crore during the current year 2011-12 mainly due to enhancement in State's own Revenue Receipts by ₹ 1,669 crore from ₹ 5,083 crore in 2010-11 to ₹ 6,752 crore in 2011-12. Fiscal deficit which stood at ₹ 1,843 crore in 2010-11, has also come down to ₹ 1,757 crore (1.85 *per cent* of GSDP) leading to further consolidation of fiscal position of the State.

Several reasons could be attributable for the deviation of the actual realization/ expenditure from the Budget Estimates (BEs). It could be because of unanticipated and unforeseen events/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 BEs and actuals for some important fiscal parameters.

Chart 1.1 Selected Fiscal Parameters:Budget Estimates vis-à-vis Actuals *(₹ in crore)*



A comparison of the Actuals against the BEs in respect of various components showed mixed trend during 2011-12;

- The overall Revenue Receipts were short by ₹ 944 crore due to less receipt of funds of ₹ 1,200 crore (23 *per cent*) from GoI under Grants-in-Aid. Although the Non-Tax Revenue has shown sharp increase over the previous year, it was still short by ₹ 511 crore (31 *per cent)* against the BEs for the current year, while the State's Tax Revenue against the BEs was higher by ₹ 767 crore (10 *per cent)*.
- The Revenue Expenditure was ₹ 1,351 crore (9 *per cent)* less than the BEs for the year.
- The expenditure under the Capital Head remained unutilized to the extent of ₹ 778 crore (25 *per cent*), mainly due to less disbursement under Education, Energy and Tourism.
- The budgetary projections during 2011-12 for Revenue, Fiscal and Primary Deficits were well above the budgetary targets and were in line with the FRBM Act, 2005 (revised in 2010-11) and *Th FC* recommendations **(Chart 1.1)**.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue receipts, Capital receipts and Public Account receipts are the three streams of Total 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 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. The other area of receipts is 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 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts *(₹ in crore)*

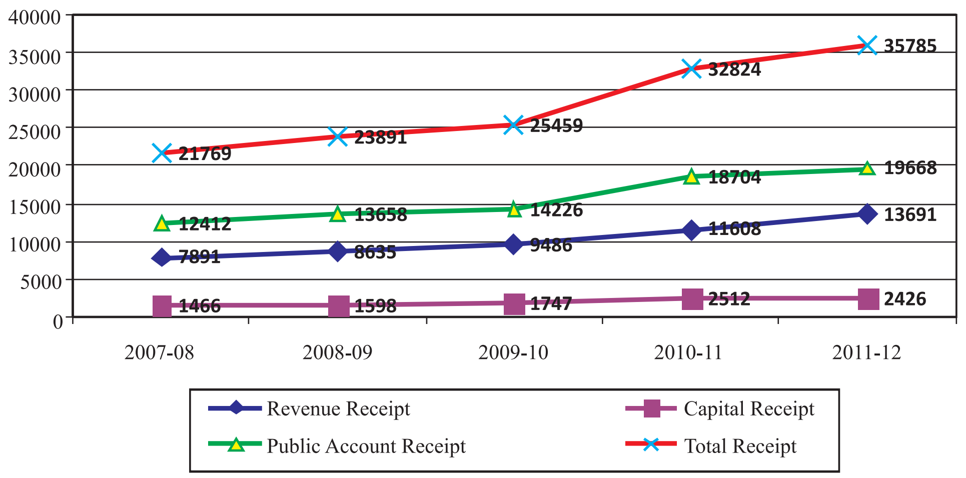
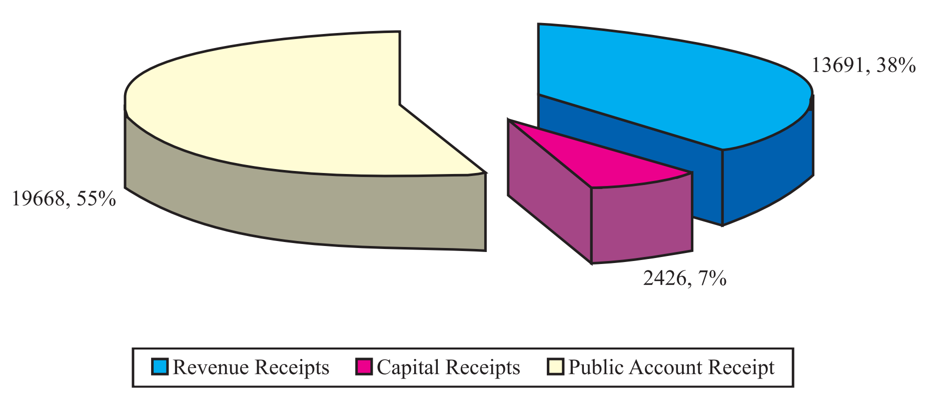


Chart 1.3 : Compostition of Receipts during 2011-12 *(₹ in crore)*



The total receipts of the Government grew from ₹ 21,769 crore in 2007-08 to ₹ 35,785 crore in 2011-12 (64.39 *per cent*). Of the receipts of ₹ 35,785 crore in 2011-12, 54.96 *per cent* of the receipts came from the Public Account whereas 38.26 *per cent* and 6.78 *per cent* share of the total receipts came from Revenue Receipts and Borrowings *etc.* respectively.

The Revenue Receipts of the State during current year grew by 17.94 *per cent* over the previous year. The previous year's growth was 22 *per cent* and its composition in the State's Receipts showed marginal appreciation (2.89 *per cent)*. However, the recovery of loans and advances during the year showed an increase of 6.81 *per cent* over the previous year under Capital Receipts; while previous year's increase was 30.91 *per cent* (**Table 1.1 refers**).

Trends in Public Account receipts

- Receipts under Small Savings, Provident Fund *etc*. decreased by ₹ 100 crore over the previous year due to less receipts under Provident Fund.
- Reserve funds increased during the year by ₹ 496 crore as compared to previous year. However, Deposits and Advances decreased by ₹ 133 crore. The State Government investment in sinking fund (₹ 25 crore) for amortization of internal debt was less than the normative figure (three *per cent i.e.* ₹ 217 crore of the outstanding open market loans as at the end of the previous year) prescribed under FRBM Act, 2005 resulting in reduction of receipts under reserve funds by ₹ 192 crore.
- Suspense and Miscellaneous receipts increased by ₹ 906 crore (7.91 *per cent)* during the year mainly due to increase under the suspense head for Cheques and Bills (₹ 897 crore). 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 Agencies[2] 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 remained underestimated. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are

[2] Refer glossary in **Appendix- 4.1**

detailed in **Appendix-1.5**. Significant amounts transferred to 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 2011-12
1.	Aajeevika	DRDA & PMU	22.12
2.	Adult Education and Skill Development Scheme	State Literacy Mission	28.47
3.	Autonomous Institutes and Professional Bodies	Wadia Institute of Himalayan Geology	46.96
4.	Equity Infusion in THDC India Limited	THDC Ltd.	45.00
5.	Grants in Aid to F and WL Institutions	FRI and WII	116.07
6.	IITs DHE (including OSC)	Indian Institute of Technology, Roorkee	120.00
7.	Mahatma Gandhi National Rural Employment Guarantee Scheme	DRDA	373.51
8.	MPs Local Area Development Scheme	DM	28.00
9.	National Rural Drinking Water Programme	SWSM, Uttarakhand	75.57
10.	National Rural Health Mission (NRHM)	Uttarakhand Health and Family Welfare Society	131.18
11.	Package for Special Category States (Other than NE)	SIDCUL	75.51
12.	Product/Infrastructure Development for Destination and Circuits	Uttarakhand Tourism Development Board	75.53
13.	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Uttarakhand Sab Ke Liye Madhyamik Shiksha Parishad	34.07
14.	Research and Development Water Resources	National Institute of Hydrology (NIH)	8.57
15.	Rural Housing (IAY)	DRDA	58.29
16.	Sarva Shiksha Abhiyan (SSA)	Uttarakhand Sab Ke Liye Shiksha Parishad	208.92
17.	Up gradation of 1,396 Government ITIs through PPP	IMC Society of ITIs	35.00
18.	Strengthening of Pharamacopeial Laboratories	IMPC Ltd.	24.00
Total			**1506.77**

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 2011-12 were (i) Mahatma Gandhi National Rural Employment Guarantee Scheme ₹ 373.51 crore (18.31 *per cent*), (ii) Sarva Shiksha Abhiyan ₹ 208.92 crore (10.24 *per cent*), (iii) National Rural Health Mission ₹ 131.18 crore (6.43 *per cent*), (iv) National Rural Drinking Water Programme ₹ 75.57 crore (3.70 *per cent*), (v) Grants-in-Aid to Forest and Wild Life Institutions ₹ 116.07 crore (5.69 *per cent*), (vi) Package for Special Category States (other than NE) ₹ 75.51 crore (3.70 *per cent*) and (vii) Product/ Infrastructure Development for Destinations and Circuits ₹ 75.53 crore (3.70 *per cent*). Thus, with the transfer of ₹ 2,040 crore during 2011-12 **(Appendix-1.5)** by GoI directly to the State Implementing Agencies, the total availability of State resources increased from ₹ 35,785 crore to ₹ 37,825 crore. It is evident from the above that there is no single agency monitoring the funds transferred by the GoI directly to the Implementing Agencies. Thus, there is no readily available data on how much fund is actually spent in any particular year on major flagship schemes and other important schemes which are being undertaken by State Implementing Agencies.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of State's 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 2007-08 to 2011-12 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

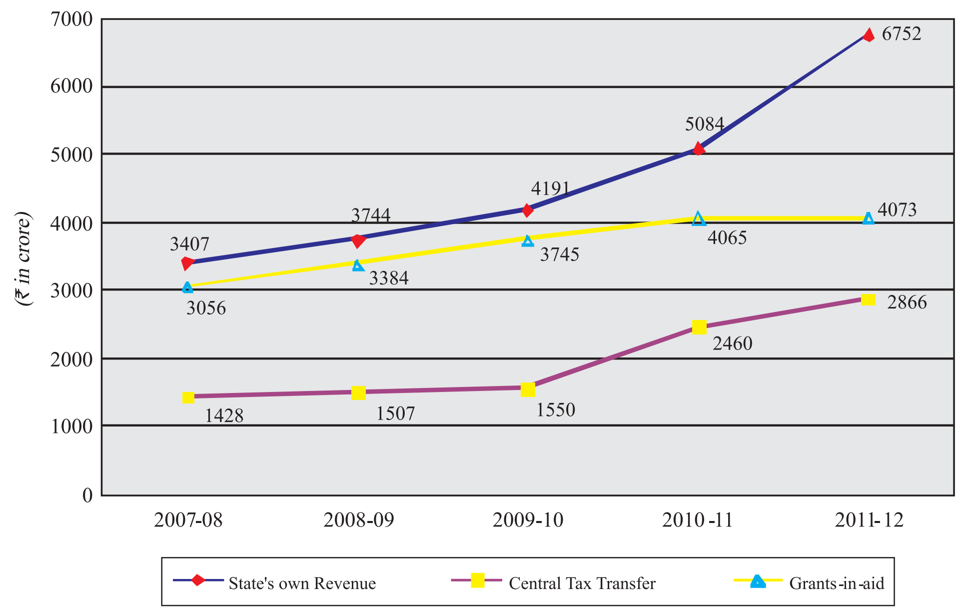
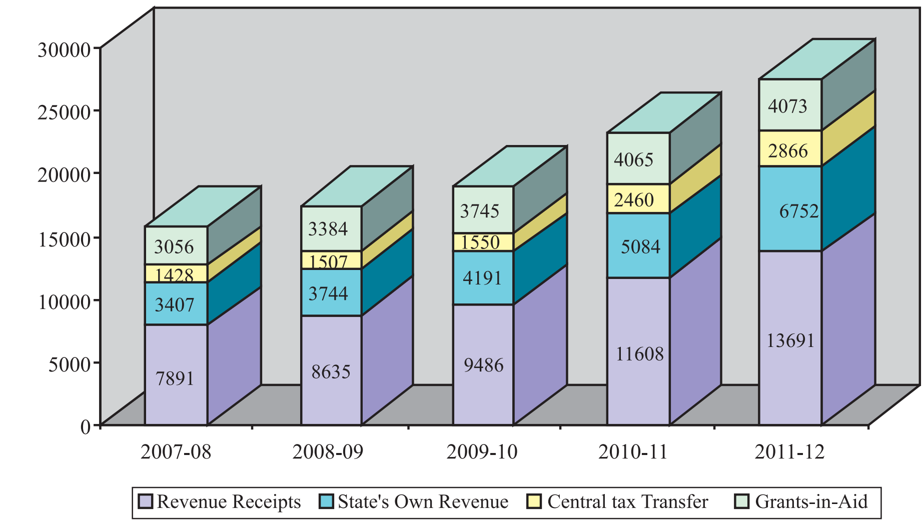


Chart 1.5: The composition of Revenue Receipts *(₹ in crore)*



The revenue receipts have shown a constant increase over the period 2007-08 to 2011-12. It increased from ₹ 7,891 crore in 2007-08 to ₹ 13,691 crore in 2011-12 at an average rate of 13.32 *per cent.*

While 49.32 *per cent* of the revenue receipts during 2011-12 came from the State's own tax and non-tax revenue, the aggregate of Central Tax transfers and Grants-in-Aid contributed 50.68 *per cent* of the total revenue.

On an average, States' own receipts constituted around 44.77 *per cent* of revenue receipts of the State over the period 2007-08 to 2011-12 **(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

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) *(₹ in crore)*	**7,891**	**8,635**	**9,486**	**11,608**	**13,691**
Rate of growth of RR *(per cent)*	7.03	9.43	9.86	22.37	17.94
R R/ GSDP *(per cent)*	17.21	15.41	13.32	14.08	14.38
Buoyancy Ratios[3]					
Revenue Buoyancy *w.r.t.* GSDP	0.29	0.43	0.37	1.36	1.16
State's Own Tax Buoyancy *w.r.t.* GSDP	0.37	0.50	0.64	1.45	1.78

[3] Refer glossary in Appendix-4.1

The rate of growth of revenue receipts showed a fluctuating trend over the period 2007-08 to 2011-12. The growth rate was almost stabilised during 2007-08 to 2009-10 but grew again by 22.37 *per cent* during 2010-11. The growth rate for 2011-12 declined by 4.43 *per cent* and stood at 17.94 *per cent*. The buoyancy ratio of State's own taxes with reference to GSDP, were below one during 2007-08 to 2009-10 and showed an increase in 2010-11. In the current year, however, State's own taxes again showed higher buoyancy over the previous year indicating increased tax revenue collection in comparison to growth in GSDP. For every one *per cent* increase in GSDP, State's own taxes increased by 1.78 *per cent* in 2011-12.

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

State's own Tax Revenue increased by 27.49 *per cent* from ₹ 4,405 crore in 2010-11 to ₹ 5,616 crore in 2011-12. The revenue from Taxes on Sales, Trade *etc.* not only contributed to major share of tax revenue (65 *per cent*) but also registered an increase of 24 *per cent* over the previous year.

Non-Tax Revenue

Non-Tax Revenue (NTR) after showing some appreciation in 2008-09 decreased by 10 *per cent* during 2009-10. However, NTR appreciated again by 7.28 *per cent* during the year 2010-11. During the year 2011-12, it increased significantly by 67.56 *per cent.* NTR at ₹ 1,136 crore, constituted 8.30 *per cent* of revenue receipts.

The quantum jump in the NTR during the year was due to the apportionment of pension liabilities of composite State of erstwhile Uttar Pradesh between Uttar Pradesh and Uttarakhand. Consequently, the State of Uttarakhand received ₹ 400 crore as apportionment from Uttar Pradesh.

The other major contributors to NTR during 2011-12 were Forestry and Wildlife (₹ 234 crore), Non-ferrous Mining and Metallurgical Industries (₹ 113 crore) and Interest Receipts (₹ 51 crore). Average contribution of interest receipts to NTR was 7.38 *per cent* over the period 2007-08 to 2011-12.

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

(₹ in crore)

Key Fiscal variables	Assessment made by *Th FC*	Assessment made by State Government in FCP	Percentage (FCP *vis-à-vis Th FC* assessment)	Actual	Percentage (Actuals *vis-à-vis* FCP projection)
(1)	(2)	(3)	(4)	(5)	(6)
State's own Tax Revenue	4,848	4,760	98	5,616	118
Non-Tax Revenue	893	1,647	184	1,136	69

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

As shown in **Table 1.4**, the State's own resources *vis-à-vis* projections made by the *Th FC* revealed that Tax Revenue at ₹ 5,616 crore during 2011-12 exceeded the normative assessment of ₹ 4,848 crore made by *Th FC* for the year.

State's own Tax Revenue during the year also exceeded the target set forth by the State Government in its Fiscal Correction Path (FCP) by ₹ 856 crore and remained almost equal to the target set forth (₹ 5,582 crore) in Mid Term Fiscal Path Statement (MTFPS).

The NTR at ₹ 1,136 crore was also higher by ₹ 243 crore as compared to *Th FC* projections. However, the actual realization under NTR was short by ₹ 511 crore as compared to FCP but higher by ₹ 92 crore in comparison to MTFPS (₹ 1,044 crore).

Central Tax Transfers

The receipts in the form of State's share in Union Taxes and Duties have increased by 16.50 *per cent* from ₹ 2,460 crore in 2010-11 to ₹ 2,866 crore in 2011-12. The overall increase in Central Tax Transfers (₹ 406 crore) was mainly due to increase in Corporation Tax (₹ 167 crore), Service Tax (₹ 97 crore), Taxes on Customs and Central Excise (₹ 76 crore) and Taxes on Income other than Corporation Tax (₹ 65 crore).

Grants-in-Aid

The Grants-in-Aid from GoI had shown an increase over the period 2007-08 to 2011-12 **(Chart-1.5)**. It increased from ₹ 3,056 crore in 2007-08 to ₹ 4,073 crore in 2011-12. The nominal increase (₹ 9 crore) during the current year was due to increase in Grants for State/ Union Territory Plan Schemes (₹ 587 crore) and Grants for Centrally Sponsored Plan Schemes (₹ 106 crore) offset by reduction in various Non-Plan Grants (₹ 673 crore) and Grants for Central Plan Schemes (₹ 11 crore).

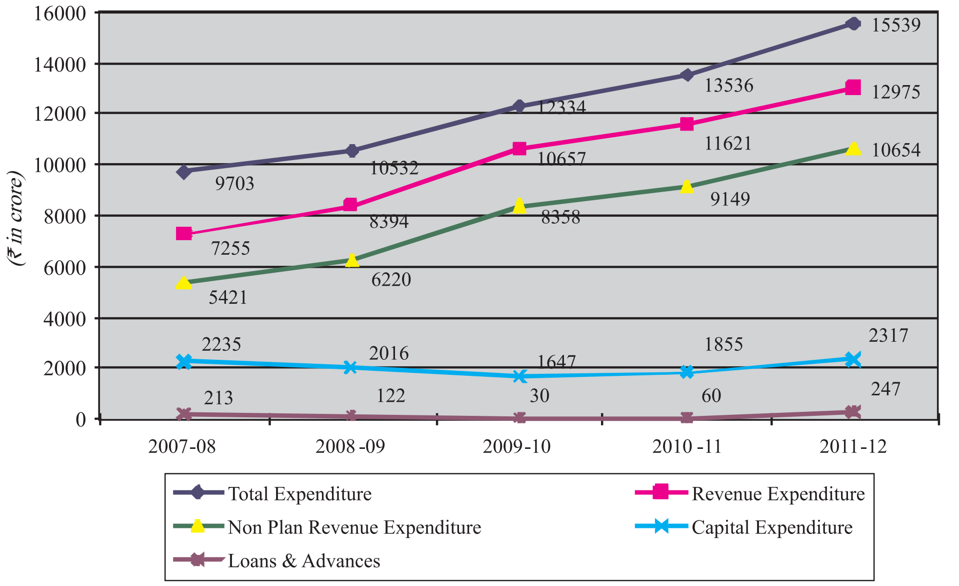
1.4 Application of Resources

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 on going 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 (2007-08 to 2011-12) 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 (TE): of the State increased at an average rate of 13.48 *per cent* per annum during 2007-12. An increase of ₹ 2,003 crore (14.80 *per cent*) in total expenditure during 2011-12 over the previous year was due to increase in Revenue Expenditure (RE) and Capital Expenditure (CE) by ₹ 1,354 crore and ₹ 462 crore respectively. The disbursement of Loans and Advances also increased by ₹ 187 crore.

Revenue Expenditure (RE): The increase in RE (₹ 1,354 crore) during the current year was due to increase in expenditure towards (i) General Services (₹ 295 crore), (ii) Social Services (₹ 850 crore) and (iii) Economic Services (₹ 238 crore) offset by decrease in Grants-in-Aid and Contribution (₹ 29 crore).

Capital Expenditure (CE): The increase in CE (₹ 462 crore) during the year due to increase in (i) Social Services (₹ 134 crore) and (ii) Economic Services (₹ 356 crore) expenditure offset by decrease in General Services (₹ 28 crore). As *per cent* of TE, it showed fluctuating trend over the period 2007-08 to 2011-12 which was 23.03 *per cent* in 2007-08 and 14.91 *per cent* in the year 2011-12. The CE declined in 2008-09 and 2009-10 but it again showed an increasing trend during the last two years and stood at ₹ 2,317 crore during the current year. The actual expenditure was, however, below the target set forth (₹ 3,095 crore) by the State Government in its FCP (₹ 3,095 crore) and MTFPS (₹ 2,524 crore).

The relative share of these components of expenditure has remained unchanged in the recent past (2009-2012). The share of expenditure on General Services including interest payments, which is considered as non-developmental, remained almost stagnant during 2008-09 to 2011-12. Expenditure under Social Services has marginally increased from 40 *per cent* in 2010-11 to 41 *per cent* in 2011-12. Economic Services showed a declining trend during the period 2007-08 to 2010 -11 and remained almost unchanged during 2011-12.

Chart 1.7: Total expenditure: Trends in Share of its Components

(₹ in crore)

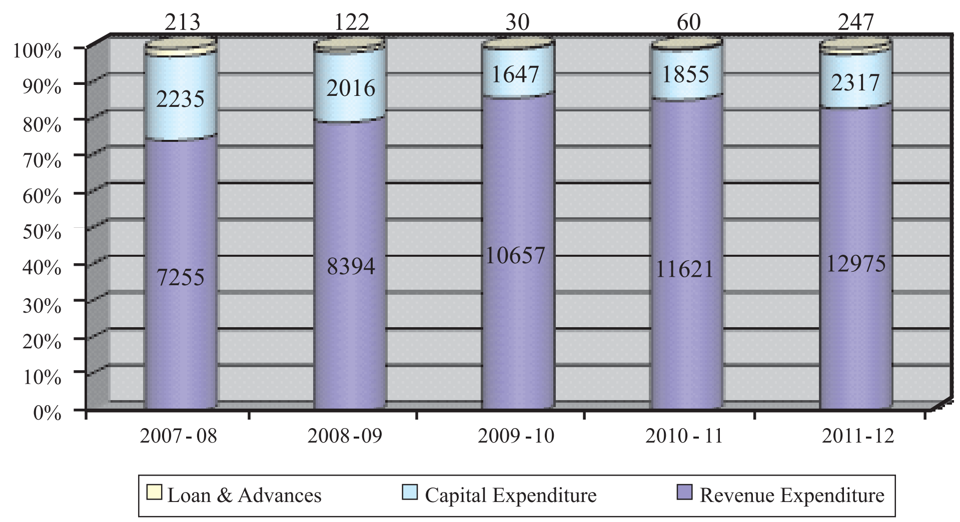
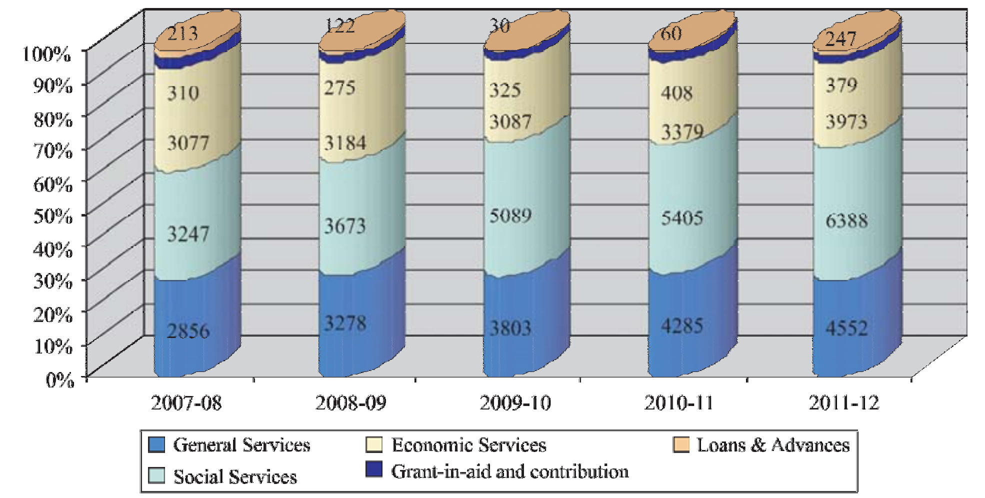


Chart 1.8: Total Expenditure: Trends by Activities *(₹ in crore)*



The **Revenue Expenditure** of the State increased by 78.84 *per cent* from ₹ 7,255 crore to ₹ 12,975 crore during the period 2007-08 to 2011-12 at an average annual rate of 15.07 *per cent*.

Non-Plan Revenue Expenditure (NPRE) of the State increased by 96.53 per *cent* during 2007-08 to 2011-12. During the current year, the increase in NPRE (₹ 1,505 crore) was mainly due to increase in expenditure under Salaries (₹ 507 crore), Interest Payments (₹ 289 crore) and Subsidies (₹ 176 crore).

The share of **Plan Revenue Expenditure (PRE)** in revenue expenditure of the State remained almost stagnant during 2007-09, but showed declining trend from 2009-10 onwards. Its own growth rate also depreciated (6.11 *per cent*) during the current year. The PRE during the current year decreased by ₹ 151 crore over the previous year, mainly on account of decrease in expenditure under Education, Sports, Art and Culture (₹ 104 crore), Water Supply and Sanitation (₹ 97 crore) and Rural Development (₹ 123 crore). This was partly counterbalanced by increase in the expenditure under Social Welfare & Nutrition (₹ 89 crore), Health and Family Welfare (₹ 44 crore) and Agriculture (₹ 58 crore).

Further, **Table 1.5** below depicts the details of actual NPRE with reference to projections made by the State Government at different stages during the year 2011-12.

Table-1.5
Actual NPRE *vis-à-vis* projections for 2011-2012

(₹ in crore)

Non-Plan Revenue Expenditure (NPRE)	Assessment made by *ThFC*	Assessment made by State Government in		Actual
		FCP	MTFPS	
	7,920	12,803	13,153	10,654

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

During the current year, the NPRE (₹ 10,654 crore) exceeded the normative assessment made by the *Th FC* (₹ 7,920 crore) by ₹ 2,734 crore (34.52 *per cent*) but was lesser than the projections made by the State Government in its FCP (₹ 12,803 crore) and MTFPS (₹ 13,153 crore) respectively.

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 1.6** and **Chart 1.9** present the trends in the expenditure on these components during 2007-12.

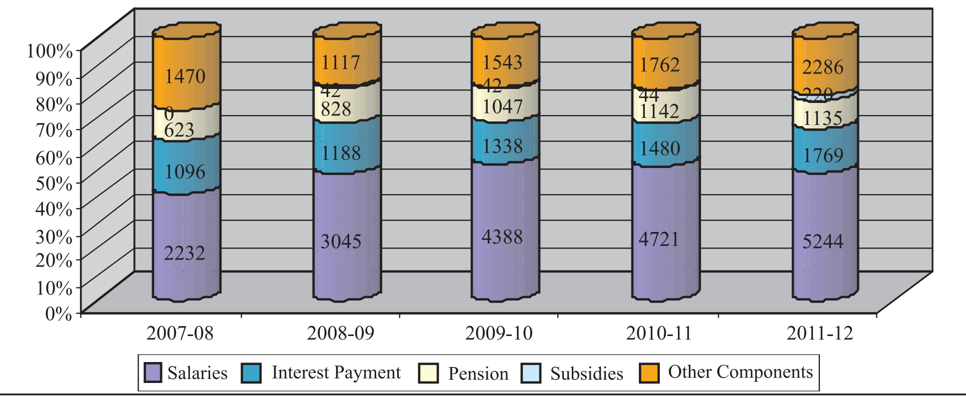
Table-1.6
Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12		
					BE	Actuals	Percentage of variation
Salaries & Wages, *of which*	2,232	3,045 *(35)*	4,388(46)	4,721 (41)	5,308	5,244	(-) 1.22
Non-Plan Head	2,020	2,728	4,114	4,464		4,971	
Plan Head*	212	317	274	257		273	
Interest Payments	1,096	1,188 *(14)*	1,338(14)	1,480 (13)	1,812	1,769	(-) 2.37
Expenditure on Pensions	623	828 *(10)*	1,047(11)	1,142 (10)	1,392	1,135	(-) 18.46
Subsidies	…	42 *(0.50)*	42(0.44)	44	351	220	(-) 37.32
Total Committed Expenditure	**3,951**	**5,103**	**6,815**	**7,387**	**8,863**	**8,368**	(-) 5.59
Other Components	1,470	1,117	1,543	1,762	2,282	2,286	--
Total NPRE	**5,421**	**6,220**	**8,358**	**9,149**	**11,145**	**10,654**	--
Total Revenue Expenditure	**7,255**	**8,394**	**10,657**	**11,621**	**14,326**	**12,975**	--
Revenue Receipts	**7,891**	**8,635**	**9,486**	**11,608**	**14,635**	**13,691**	--

Figures in the parentheses indicate percentage to Revenue Receipts.

Chart 1.9 Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2007-2011 [Value in lables *(₹ in crore)*]



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

The Committed expenditure which was 50.07 *per cent* of revenue receipts in 2007-08 increased to 61.12 *per cent* during the current year. The State Government may take steps to contain the committed expenditure as it leaves little scope for the Government to spend more for developmental activities.

Salaries and Wages

The expenditure on salaries increased by 44 *per cent* (₹ 1,343 crore) from ₹ 3045 crore in 2008-09 to ₹ 4,388 crore in 2009-10, due to implementation of the recommendation of the Sixth Pay Commission. Thereafter, the expenditure on salaries during the years 2010-11 and 2011-12 grew by 7.59 *per cent* and 11.08 *per cent* respectively. Salary expenditure during these two years was still higher than the *Th FC* projections. However, it was well below the target fixed (₹ 5,670 crore) by the State Government in its FCP (₹ 5,670 crore) and MTFPS (₹ 5,410 crore) for the current year.

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 50 *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 ₹ 1,135 crore in 2011-12, which constituted 8.29 *per cent* of the revenue receipts. Pension payments during 2011-12 remained almost stagnant as compared to previous year. The pension payments during the current year were well below the normative assessment (₹ 1,208 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 1.6**, interest payments increased by 61.41 *per cent* during 2007-12 primarily due to earlier borrowings. Interest payments during 2011-12 included interest on Internal Debt[4] (₹ 1326 crore), Small Savings, Provident Fund (₹ 369 crore), other obligations (₹ 36 crore) and Loan and Advances from GoI (₹ 38 crore). Interest payments (₹ 1,769 crore) during the current year were 12.93 *per cent* of RR, which were below the target of ₹ 1,812 crore set by the State Government in its FCP and higher by ₹ 170 crore than the normative assessment

[4] Refer glossary in **Appendix-4.1**

(₹ 1,599 crore) made by the *Th FC* for the current year. However, the target of Interest Payment in MTFPS was ₹ 1,415 crore.

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 other institutions during current year relative to the previous years is presented in **Table 1.7.**

Table-1.7
Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	ACTUAL
Educational Institutions (Aided Schools, Aided Colleges, Universities etc.)	301.42	198.99	267.99	488.49	473.19	403.45
Municipal Corporations and Municipalities	110.93	106.20	122.47	154.72	202.78	175.76
Zila Parishads and Other Panchayati Raj Institutions	198.85	168.57	202.25	252.96	372.28	203.04
Development Agencies	514.53	588.44	571.47	526.00	625.04	409.35
Hospitals and Other Charitable Institutions	28.69	38.89	44.52	71.23	122.49	86.98
Energy (UPC and UPC for Rural Electrification)	134.52	69.79	24.39	7.50	10.05	6.32
Agriculture Research and Education Institution, Land Reforms for updating land records and Wild Life Preservation	153.67	217.73	98.62	151.15	226.93	205.54
Co-operatives	17.16	3.49	13.22	9.56	7.25	7.30
Animal Husbandry, Dairy Development and Fisheries	14.53	31.51	14.79	13.16	8.65	8.65
Secretariat Economics Services & Tourism	59.21	27.51	11.43	18.43	59.50	29.34
Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other Backward Classes	108.73	122.77	133.65	97.46	231.05	211.10
Government Companies/ Statutory Corporation	--	--	13.41	--	--	--
Other Institutions	39.34	85.46	357.83	131.61	71.66	31.12
Total	**1,681.58**	**1,659.35**	**1,876.04**	**1,922.27**	**2,410.87**	**1,777.95**
Assistance as per percentage of RE	*23.18*	*19.77*	*17.60*	*16.54*	*16.83*	*13.70*

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

The total assistance to local bodies and other institutions showed fluctuating growth rate over the period 2007-08 to 2011-12. The assistance to these bodies has declined during the year by ₹ 144 crore (7.51 *per cent*). Universities and Educational Institutions, Development Agencies together accounted for 46 *per cent* of total financial assistance.

The decrease in assistance during the year was mainly under Educational Institutions (₹ 85 crore) and Development Agencies (₹ 117 crore) which was counter balanced by increase in assistance to Agriculture (₹ 54 crore) and Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other Backward Classes (₹ 114 crore).

Local Bodies: Introduction, devolution of functions, funds and accounting, auditing and reporting arrangements

Introduction:

The State of Uttarakhand was formed in November 2000. The office of the Senior Deputy Accountant General (Local Bodies Audit & Accounts) Uttarakhand, Dehradun under the administrative control of the then Accountant General (A&E) Uttarakhand, Dehradun was established in 2004. After restructuring of Audit functions in IA&AD in 2012, the erstwhile Office of the Sr. DAG (LBA & A), Uttarakhand has been merged with Social & LB Sector in the office of the Principal Accountant General (Audit) Uttarakhand, Dehradun.

In Uttarakhand, there are 7,649 auditee units of PRIs having three categories *viz*. Gram Panchayats, Intermediate Panchayats and District Panchayats and 63 auditee units of ULBs categorised as Nagar Nigam, Nagar Pallika Parishads and Nagar Panchayats under the audit jurisdiction of Senior Deputy Accountant General/ Social & LB.

Functions of PRIs and ULBs:

As envisaged in the 73rd Constitutional Amendment, 1993 and functions listed in 11th Schedule (Article 243 G), there are 29 functions for PRIs and as envisaged in 74th Constitutional Amendment, 1993 and functions listed in 12th Schedule (Article 243 W) there are 18 functions for ULBs. Out of these envisaged functions, the Uttarakhand Government has devolved only 14 functions to three tiers of Panchayati Raj Institutions and nine functions to Urban Local Bodies of the State in 2006.

Functionaries:

Functionaries relating to delegated functions to PRIs and ULBs had not been transferred to all the three tiers of Panchayati Raj Institutions and ULBs of Uttarakhand as yet. However, Government Orders pertaining to these functions has already been issued by the concerned departments of the State Government.

Accounting, auditing and reporting arrangements:

A new Budget and Accounting format has been prescribed by the Comptroller & Auditor General of India (C&AG) uniformly in all over India to prepare and maintain the budget and accounts by the local bodies. The State Government has adopted all these prescribed formats for PRIs and ULBs in 2005.

The audit of PRIs and ULBs which are significantly financed from the Consolidated Funds of the Union and/ or State Governments are conducted by the C&AG under

Section 14 of the Comptroller and Auditor General's (Duties, Powers & Conditions of Service) Act, 1971 wherever applicable. The State Government has also entrusted the audit of PRIs and ULBs to C&AG under Technical Guidance & Support arrangements under *Section 20 (1)* of the CAG's (DPC) Act, 1971. Accordingly, Audit of PRIs and ULBs which are not covered under *Section 14* of the CAG's (DPC) Act, 1971 are taken up for Audit under *Section 20 (1)* of CAG's (DPC) Act, 1971. Audit findings arising out of conduct of such Audit is conveyed to the State Government in the form of Annual Technical Inspection Report under Rule 155 of Regulation of Audit and Accounts, 2007.

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 1.8 analyses the fiscal priority of the State Government with regard to Development Expenditure (DE), Social Sector Expenditure (SSE) and Capital Expenditure (CE) during the current year.

Table-1.8
Fiscal Priority of the State during 2007-08 and 2011-12

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE
Uttarakhand's Average (Ratio) 2007-08	21.16	67.21	33.46	23.03
Uttarakhand's Average (Ratio) 2011-12	16.32	68.26	41.11	14.91

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 2011-12 with that in 2007-08 revealed the following:

- The Government's aggregate expenditure as a proportion of GSDP in 2011-12 was lesser than 2007-08.
- Development Expenditure (DE) as a proportion of Aggregate Expenditure (AE) has increased by 1.05 *per cent* during the year.
- Social Sector Expenditure as a proportion of AE increased by almost eight *per cent.*

- Although the capital expenditure during the current year increased by 25 *per cent,* but the proportion of Capital Expenditure (CE) in AE decreased by almost eight *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 goods[5]. Apart from improving the allocation towards development expenditure[6], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.9** 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 1.10** 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 2007-12, being an average of 50 *per cent* during the period. The share of developmental capital expenditure also showed inter-year variations but improved marginally during the year 2011-12 as compared to 2010-11. However, the overall development expenditure increased by 63 *per cent* over the period 2007-08 to 2011-12.

Table-1.9
Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BEs	Actuals
Development Expenditure (a to c)	6,521 (67)	6,973 (66)	8,205 (66)	8,842 (65)	11,957 (67)	10,607 (68)
a. Development Revenue Expenditure	4,290 (44)	5,015 (48)	6,638 (54)	7,033 (52)	8,799 (49)	8,121 (52)
b. Development Capital Expenditure	2,034 (21)	1,842 (17)	1,538 (12)	1,750 (13)	2850 (16)	2,240 (14)
c. Development Loans and Advances	197 (2)	116 (1)	29 (0.23)	59 (0.44)	308 (2)	246 (2)

Figures in parentheses indicate percentage to Aggregate Expenditure

[5] Refer the glossary in **Appendix-4.1**
[6] Refer the glossary in **Appendix-4.1**

Table-1.10
Efficiency of Expenditure Use in Selected Social and Economic Services

(*In per cent*)

Social/Economic Infrastructure	2010-11			2011-12		
	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	0.70	19.07	0.006	0.73	19.99	0.003
Health and Family Welfare	0.54	3.89	0.036	0.60	3.91	0.027
WS, Sanitation & HUD	0.20	0.048	.013	0.76	0.04	0.010
Total expenditure under SS	**1.74**	**24.22**	**0.07**	**2.37**	**25.00**	**0.06**
Economic Services(ES) expenditure on major components						
Agriculture & Allied Activities	0.14	3.54	0.16	1.67	3.37	0.13
Irrigation and Flood Control	2.56	1.66	0.29	2.93	1.54	0.19
Power & Energy	0.41	-	-	0.27	-	-
Transport	6.94	0.10	0.006	5.52	0.10	0.55
Total expenditure under ES	**11.19**	**6.71**	**0.46**	**12.03**	**6.41**	**0.89**
Total expenditure under SS & ES	**12.93**	**30.93**	**0.53**	**14.41**	**31.41**	**0.94**

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 in line 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 25 *per cent* more funds as compared to the year 2010-11.

During 2011-12, salaries and wages as a percentage of revenue expenditure on both Social and Economic Services remained almost stagnant. The expenditure under Operation and Maintenance as a percentage of revenue expenditure has appreciated in Economic Services during the current year.

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 and Investments including Loans and Advances. 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 2012 is given in **Table 1.11**.

Table-1.11
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	Cumulative actual exp. as on 31.3.2012
Public Works Department	46	183.31	--	--	102.90
Irrigation	17	70.37	--	--	18.90
Total	**63**	**253.68**			**121.80**

** Indicates the Revised total cost of the projects as per the last revision by the State Government as on 31.03.2012*

Source: Finance Accounts

Appendix 10 of the Finance Accounts showed that there were 63 projects which were due for completion, but remained incomplete as on 31 March 2012.

1.6.2 Investment and returns

As on 31 March 2012, the average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**) was negligible *i.e.* less than one *per cent* of the investment in the last three years while the Government paid an average interest rate of 7.60 *per cent* on its borrowings during 2009-10 to 2011-12.

Table-1.12
Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year *(₹ in crore)*	1,005	1,071	1,240	1,296	1,338
Return *(₹ in crore)*	0.53	0.23	0.07	0.21	0.05
Return (*per cent*)	0.05	0.02	0.01	0.02	*[7]
Average rate of interest on Government borrowing (*per cent*)	7.99	7.75	7.64	7.34	7.83
Difference between interest rate and return (*per cent*)	7.94	7.73	7.63	7.32	7.83

Source: Finance Accounts

[7] Not computable

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.

The major beneficiaries were (i) Uttarakhand Power Corporation Ltd. ₹ 577 crore and (ii) Uttarakhand Jal Vidyut Nigam Ltd. ₹ 802 crore. However, these Corporations had incurred accumulated losses of ₹ 1,948 crore and ₹ 170 crore respectively as per their latest finalized accounts 2010-11.

1.6.3 Departmentally Managed Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmentally managed 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 finalized accounts.
- No accounts were finalized by any of these departmental undertakings during 2011-12.

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 1.13** presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last three years**.**

Table-1.13
Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12	
			BE	Actual
Opening Balance	777.87	743.09	--	717.90
Amount advanced during the year	30.05	59.68	307.91	246.83
Amount repaid during the year	64.83	84.87	--	90.65
Closing Balance	**743.09**	**717.90**		**874.08**

Net addition	(-) 34.78	(-) 25.19		(+) 156.18
Interest Receipts	0.82	7.98		0.62
Interest receipts as *per cent* to outstanding Loans and advances	0.11	1.11		0.07
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.14	6.85		7.49
Difference between interest payments and interest receipts (*per cent*)	7.03	5.74		7.42
Outstanding balance for which terms and conditions have been settled	Information not made available by the State Government			

Source: Finance Accounts and Annual Financial Statement (Government of Uttarakhand)

During 2011-12, Government advanced loans of ₹ 247 crore against ₹ 60 crore in 2010-11, an increase of ₹ 187 crore over the previous year.

Interest receipts as a percentage of outstanding loans and advances was lowest during the current year as compared to previous years. Average rate of interest on which the State Government raised market loans was 7.83 *per cent* during 2011-12 while the interest received (return) on Loans and Advances given to various Institutions, Corporations/ Government Companies and Government servants *etc.* by the State was only 0.07 *per cent* as against the target of seven *per cent* fixed by the Twelfth Finance Commission (TFC) by 2009-10.

TFC recommended that at least seven *per cent* return on outstanding loans and advances should be achieved in graded manner by the terminal year (2009-10) of the forecast period, a target that the State could not achieve even in the year 2011-12. The total loans advanced by the Government as on 31 March 2012 stood at ₹ 874 crore. The major beneficiaries were Energy (₹ 415 crore) and Agriculture (₹ 295 crore) sectors. The major share of loans granted to Uttarakhand Power Corporation and Uttarakhand Power Corporation for Rural Electrification together accounted for ₹ 323 crore under Energy sector.

1.6.5 Cash balances and Investment of Cash balances

Table 1.14 depicts the Cash Balances and investments made by the State Government out of Cash Balances during the year.

Table-1.14
Cash Balances and Investments out of Cash balances

(₹ in crore)

Particulars	As on 1 April 2011	As on 31 March 2012	Increase(+)/ Decrease(-)
Cash Balances	1,229.41	1,085.18	(-)144.23
Investments from Cash Balances (a to d)			
a. GoI Treasury Bills	---	50.21	(+)50.21
b. GoI Securities	---	---	---
c. Other Securities, if any specify	---	---	---
d. Other Investments	---	---	---

Funds-wise Break-up of Investment from Earmarked balances			
i. Sinking Fund Investment Account	878.62	902.36	(+)23.74
ii. Guarantee Redemption Fund	25.00	25.00	---
Interest Realized	13.78	10.40	(-)3.38

Source: Finance Accounts

The closing cash balance (CB) at the end of the current year (₹ 1,085.18 crore) decreased by ₹ 144.23 crore over the previous year (₹ 1,229.41 crore).

The State Government had created an earmarked fund of ₹ 927.36 crore from CB. The same amount was invested from the earmarked fund in the GoI Securities and earned an interest of ₹ 10.40 crore during 2011-12. The interest realized on cash balance was 1.06 *per cent* during 2011-12 while Government paid interest at the average rate of 7.83 *per cent* on its borrowings during the year. The Government did not resort to overdraft facility and was able to maintain a minimum balance of ₹ 0.16 crore for maximum number of days during 2011-12. However, temporary balances in cash flow forced the Government to obtain Ways and Means Advances (WMA) on 73 occasions (ordinary and special) during the year. The State had to pay ₹ 0.88 crore as interest on WMA during the year 2011-12.

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 (Part-B)** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position as on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly 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.**

Chart 1.10: Composition of Outstanding Fiscal Liabilities as on 31.03.2011
(₹ in crore)

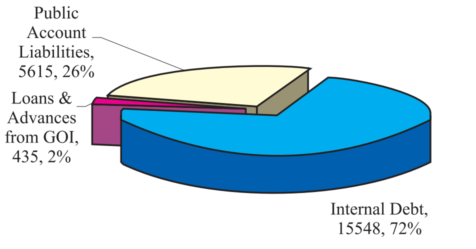
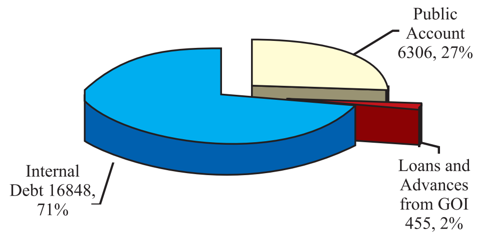


Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 31.03.2012
(₹ in crore)



The debt-GSDP ratio for the year of 2011-12 (24.80 *per cent)* was lesser than 2010-11 (26.19 *per cent*) by 1.39 *per cent*. The ratio was also below the normative assessment of *Th FC (*41.10 *per cent)* for the year. The overall fiscal liabilities increased by 64.04 *per cent* from ₹ 14,392 crore in 2007-08 to ₹ 23,609 crore in 2011-12. The State liabilities, which stood at ₹ 23,609 crore at the end of 2011-12, was mainly composed of Public Debt (₹ 17,304 crore), Small Savings and Provident Fund *etc.*, (₹ 4,449 crore) and other obligations (₹ 1,856 crore). The increase in the fiscal liabilities at the end of the current year as compared to the previous year was mainly on account of Internal Debt and Small Savings Provident Fund *etc.* which rose by ₹ 1,300 crore and ₹ 626 crore respectively. Fiscal liabilities grew marginally over the years; it rose by 9.31 *per cent* in 2011-12 over the previous year. The buoyancy of these liabilities with respect to GSDP during the year was 0.60 indicating that for each percentage point increase in GSDP, fiscal liabilities grew by 0.60 *per cent*. These liabilities stood at 1.72 times State's revenue receipts and 3.50 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 ₹ 25 crore during the year as against ₹ 217 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 enacted 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, the 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 1.15.**

Table-1.15
Guarantees given by the Government of Uttarakhand

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	125	2,122	2,722
Outstanding amount of guarantees	1,511	1,511	1,739
Percentage of maximum amount guaranteed to total revenue receipts	1.32	18.28	19.88
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

The Government has constituted a "Guarantee Redemption Fund" for discharge of invoked guarantees with a corpus of ₹ 25 crore.

The State Government has not framed any rules in pursuance to FRBM Act, 2005 determining the limits up to which Government could give guarantees. In the absence of the same, it could not be ascertained whether the guarantees given by the Government were within the limits.

The percentage of maximum amount guaranteed *vis-à-vis* revenue receipts increased from the level of 1.32 *per cent* in 2009-10 to 19.88 *per cent* in 2011-12. The outstanding amount of guarantees as on 31 March 2012 was against Power Sector (₹ 1,187 crore), Co-operatives (₹ 475 crore) and four other institutions (₹ 77 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 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 1.16** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2009-10.

Table-1.16
Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability[8]	2009-10	2010-11	2011-12
Debt Stabilization[9] (Quantum Spread + Primary Deficit)	(+) 2,083	(+) 1,592	(+) 1,811
Sufficiency of Non-debt Receipts (Resource Gap)[10]	(-)940	(+) 1,224	(+) 664
Net Availability of Borrowed Funds[11]	261	820	308
Burden of Interest Payments (IP/RR Ratio)	14.10	12.75	12.92

The trends in **Table 1.16** indicate that during 2009-10 the quantum spread together with primary deficit was positive (₹ 2,083 crore) which came down to ₹ 1,592 crore during 2010-11. However, it again showed an upward trend during the year and stood at ₹ 1,811 crore at the end of 2011-12. The debt-GSDP ratio which was 31.40 in 2007-08 has come down to 24.80 *per cent* during the current year. At 24.80 *per cent,* the debt-GSDP ratio was well below the target (41.10 *per cent*) set forth by *Th FC* for the year 2011-12 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 receipts[12] 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 1.16** indicates resource gap as defined for the period 2008-11.

The State experienced negative resource gaps in 2008-09 and 2009-10 but had a positive resource gap during 2010-11 and 2011-12, which in turn brought down the revenue deficit to almost nil (₹ 13 crore) in 2010-11 and ultimately the State attained a revenue surplus (₹ 716 crore) during the current year. The fiscal deficit (₹ 1,843 crore) was brought down to reasonable limits during 2010-11 which further came down to ₹ 1,757 crore during the current year (1.85 *per cent* of the GSDP).

Debt redemption had remained on the higher side during the period 2007-10 and slightly improved during the year 2010-11 (0.83) 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**). However, it again showed an upward trend in 2011-12. During the current year, internal debt redemption was 29.12 *per cent* of fresh debt receipts; redemption of GoI loans was 56.59 *per cent*

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**
12 Refer glossary in **Appendix-4.1**

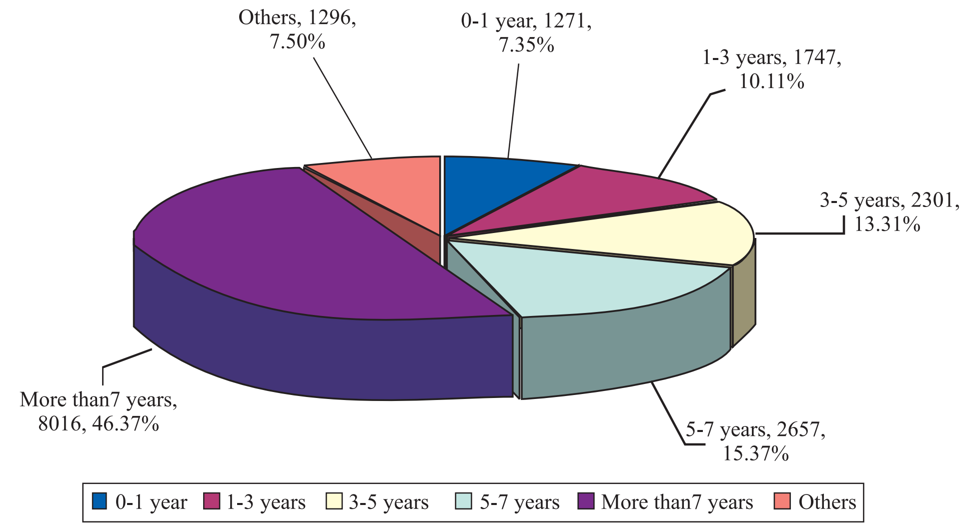
while in case of other obligations repayments were 83.35 *per cent* of fresh receipts. These trends indicate that the focus of the Government is to discharge the past debt obligations.

The maturity profile of the State is given in **Table 1.17** and **Chart 1.12** below.

Table 1.17
Maturity Profile of Public Debt

Maturity profile	Amount (*₹ in crore*)	Percentage to total Public Debt
0-1 year	1,271	7.35
1-3 years	1,747	10.11
3-5 years	2,301	13.30
5-7 years	2,657	15.37
More than 7 years	8,016	46.37
Other (information not made available by the State Government)	1,296	7.50
Total	**17,288**	**100**

Chart 1.12: Maturity Profile of Public Debt ***(₹ in crore)***



Source: Finance Accounts

In order to discharge its expenditure obligations, the Government had to borrow further, as 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 2012 shows that 46.37 *per cent* of the Public Debt was 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 2011-12.

1.9.1 Trends in Deficits

Charts 1.13 and **1.14** present the trends in deficit indicators over the period 2007 -08 to 2011-12.

Chart 1.13: Trends in deficit indicators

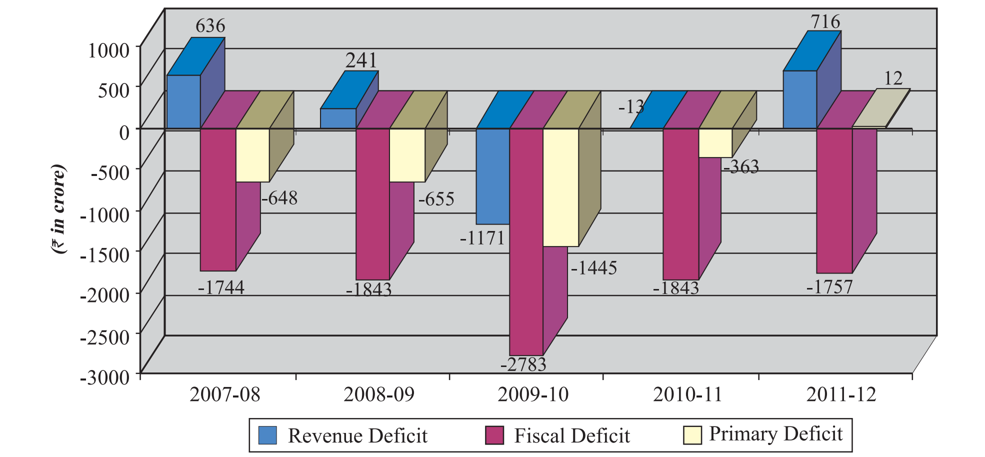
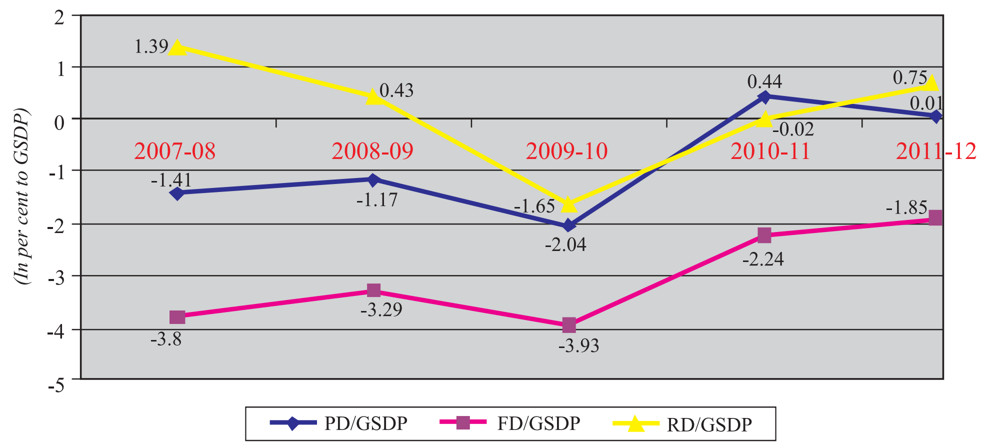


Chart 1.14: Trends in Deficit indicators Relative to GSDP



The State experienced a revenue surplus from 2007-08 to 2008-09, which turned into deficit during 2009-10, mainly on account of implementation of Sixth Central Pay Commission recommendations. However, the State was able to bring down the revenue deficit to almost nil (₹ 13 crore) during the year 2010-11 and attained a surplus of ₹ 716 crore during 2011-12. The fiscal deficit, which had been reduced during 2010-11 and was 2.24 *per cent* of GSDP, was below the four *per cent* target set forth in FRBM Act, 2005. The continued efforts of the Government towards fiscal consolidation resulted in the decline in Fiscal Deficit in 2011-12 also. Fiscal Deficit amounting to ₹ 1,757 crore is currently pegged at 1.85 *per cent* of the GSDP and is well within the target of 3.5 *per cent* set forth by the *Th FC* in this regard.

The primary deficit which remained steady during the period 2007-09 had taken a quantum jump in 2009-10 (₹ 1,445 crore), came down (₹ 363 crore) during the year 2010-11 and has turned positive 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 1.18.**

Table-1.18
Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit						
1	Revenue Deficit(-)/Surplus(+)	(+) 636	(+) 241	(-) 1,171	(-) 13	(+)716
2	Capital Expenditure	(-) 2,235	(-) 2,016	(-) 1,647	(-) 1,855	(-) 2,317
3	Net Loans and Advances	(-)145	(-) 68	(+) 35	(+) 25	(-)156
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	733	884	460	890	1,159
2	Loans from GoI	(-) 16	(-) 19	(-)5	16	20
3	Special Securities Issued to NSSF	195	120	672	921	332
4	Loans from Financial Institutions	213	204	70	182	131
5	Small Savings, PF etc	155	531	1,066	870	626
6	Deposits and Advances	142	61	229	46	33
7	Suspense and Misc.	138	(-) 331	722	(-) 331	(-)412
8	Remittances	85	(-) 238	(-)129	(-) 303	(-)466
9	Others	55	127	(-)6	242	190
10	Overall Surplus/Deficit (***Cash Balance)***	44	504	(-) 296	(-) 690	144
11	**Gross Fiscal Deficit**	**1,744**	**1,843**	**2,783**	**1,843**	**1,757**

Source: Finance Accounts

The revenue surplus, which turned into deficit in 2009-10 due to quantum jump in revenue expenditure, has again turned into surplus during the year. The State was able to reduce the revenue deficit to almost nil (₹ 13 crore) in 2010-11 and attained Revenue Surplus (₹ 716 crore) during the current year. The fiscal deficit (₹ 1,757 crore) was largely managed by market borrowings (₹ 1,159 crore) and Special Securities issued to National Small Savings Fund (₹ 332 crore). Although, there was an increase in capital expenditure (24.91 *per cent*), the fiscal deficit was brought well below the reasonable limits of 3.5 *per cent* of GSDP (as per the *Th FC* recommendations) during the current year (1.85 *per cent* of GSDP).

1.9.3 Quality of Deficit/ Surplus

The ratio of revenue deficit to fiscal deficit and the primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's 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)
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
2011-12	13,782	11,206	2,317	247	13,770	(+)2,576	(+)12

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

- Non debt receipts increased by 73.16 *per cent* from 2007-08 to 2011-12 and were sufficient to meet the primary revenue expenditure. However, the gap which had reduced considerably in 2009-10, again showed upward trend in 2010-11 and 2011-12.

- Total primary expenditure increased by ₹ 5,163 crore during 2011-12 as compared to 2007-08. It was due to increase of primary revenue expenditure to the extent of ₹ 5,047 crore during the period 2007-08 to 2011-12.

- The primary revenue surplus, which had showed sharp decline in 2009-10, has again shown sharp upward trend during the last two years.
- Due to increase in Non-debt receipts, Primary deficit turned into Primary surplus during the current year.

1.10 Conclusion

Revenue receipts grew by ₹ 2,083 crore (17.94 *per cent*) during the current year over the previous year. This was mainly due to the increase in States share of Union Taxes and Duties (₹ 406 crore), State's own tax revenue (₹ 1,210 crore) and non-tax revenue (₹ 458 crore). 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 83.50 *per cent* leaving inadequate resources for creation of assets. The non-plan revenue expenditure (NPRE) increased by 16.45 *per cent* over the previous year.

The expenditure on salaries accounted for 46.66 *per cent* and continued to consume a major share of NPRE during 2011-12. Expenditure on pension payments was ₹ 1,135 crore in 2011-12, which constituted 8.29 *per cent* of the revenue receipts. The pension payments were well below than the normative assessment (₹ 1,208 crore) 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 ₹ 462 crore **(Paragraph- 1.4.1)** during 2011-12 as compared to the previous year, mainly due to increase in expenditure in (i) Social Services (ii) Economic Services. As *per cent* of Total Expenditure, the Capital Expenditure showed fluctuating trend over the period 2007-08 to 2011-12, which was 23 *per cent* in 2007-08 and 15 *per cent* in 2011-12. During the current year, it showed an increase over the previous year (25 *per cent*) but remained (₹ 2,317 crore) below the target set forth by the State Government in its FCP (₹ 3,095 crore) and MTFPS (₹ 2,524 crore).

The share of developmental capital expenditure also showed inter-year variations but marginally improved during the year 2011-12 as compared to 2010-11. However, the overall development expenditure increased by 63 *per cent* over the period 2007-08 to 2011-12. The average return on 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 7.60 *per cent* on its borrowings during 2009-10 to 2011-12.

The State experienced a revenue surplus during 2007-08 and 2008-09, which turned into deficit during 2009-10, mainly on account of implementation of Sixth CPC recommendations. However, the State was able to bring down the revenue deficit to almost nil (₹ 13 crore) in 2010-11 and attained a revenue surplus of ₹ 716 crore during the current year.

The fiscal deficit, which had been on the higher side during 2009-10 and was 3.93 *per cent* of GSDP, was brought down below the reasonable limit of 3.5 *per cent* in 2010-11 & 2011-12. The fiscal deficit of the State amounting to ₹ 1,757 crore during 2011-12 is pegged at 1.85 *per cent* of the GSDP showing signs of fiscal consolidation.

Cash balance of the State at the end of 2011-12 decreased by ₹ 144 crore and the interest received on investment of cash balances in RBI, Investment in GoI Securities was negligible (1.06 *per cent*), while the Government borrowed at an average interest rate of 7.83 *per cent*. However, the State was able to maintain the minimum cash balance and did not to resort to overdraft facility during the year.

The debt-GSDP ratio in 2011-12 at 24.80 *per cent* was well below the target of 41.10 *per cent* set forth by *Th FC*. During the year the State attained state of primary surplus (₹ 12 crore) for the first time during the last five years. 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 2011-12, a large amount of ₹ 2,040 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.

1.11 Recommendations

The Government may:

- prepare an effective action plan to complete all projects promptly so that people derive envisaged benefits in time.
- consider taking appropriate measures to ensure better value for money in investments.