CHAPTER-1

FINANCES OF THE STATE GOVERNMENT

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This chapter provides an overview of the finances of the State Government during the financial year 2018-19. ***Appendix-1.1*** contains the structure and layout of the Finance Accounts of the State Government. ***Appendix-1.2 (Part-A)*** briefly outlines the methodology adopted for the assessment of the fiscal position of the State.

An Entry Conference was held with Secretary, Finance Department on 16 July 2019 and an Exit Conference was held on 10 February 2020 wherein the audit findings were discussed. Government responses have been suitably incorporated in the relevant paragraphs.

1.1 Profile of the State

Uttarakhand is a Special Category State (SCS) as per the categorisation of the States made by the Government of India (GoI). The special privileges given to Uttarakhand include 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 30 *per cent* grant and 70 *per cent* loan.

The State has seen considerable economic growth in the past decade and the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product[1] (GSDP) and Per Capita GSDP at current prices for the period 2011-12 to 2018-19 has been over 11.42 *per cent* and 9.94 *per cent*; it was marginally below against the CAGR of SCS of 11.55 *per cent* and 10.93 *per cent* respectively. Further, Per Capita GSDP CAGR of Uttarakhand State (9.94 *per cent*) was well below the All India Per Capita GDP CAGR (10.35 *per cent*).

The social indicators, *viz.* literacy rate and rate of infant mortality at birth, indicate that the State had better literacy rate but had higher infant mortality rate than the All India Average. The percentage of Below Poverty Line (BPL) population in the State was well below the All India Average ***(Appendix-1).***

Gross State Domestic Product (GSDP)

The trends in the annual growth of India's GDP and the State's GSDP at current prices and constant prices are given in the **Table-1.1** below:

Table-1.1: Annual growth rate of GDP and GSDP at Current Prices and Constant Prices

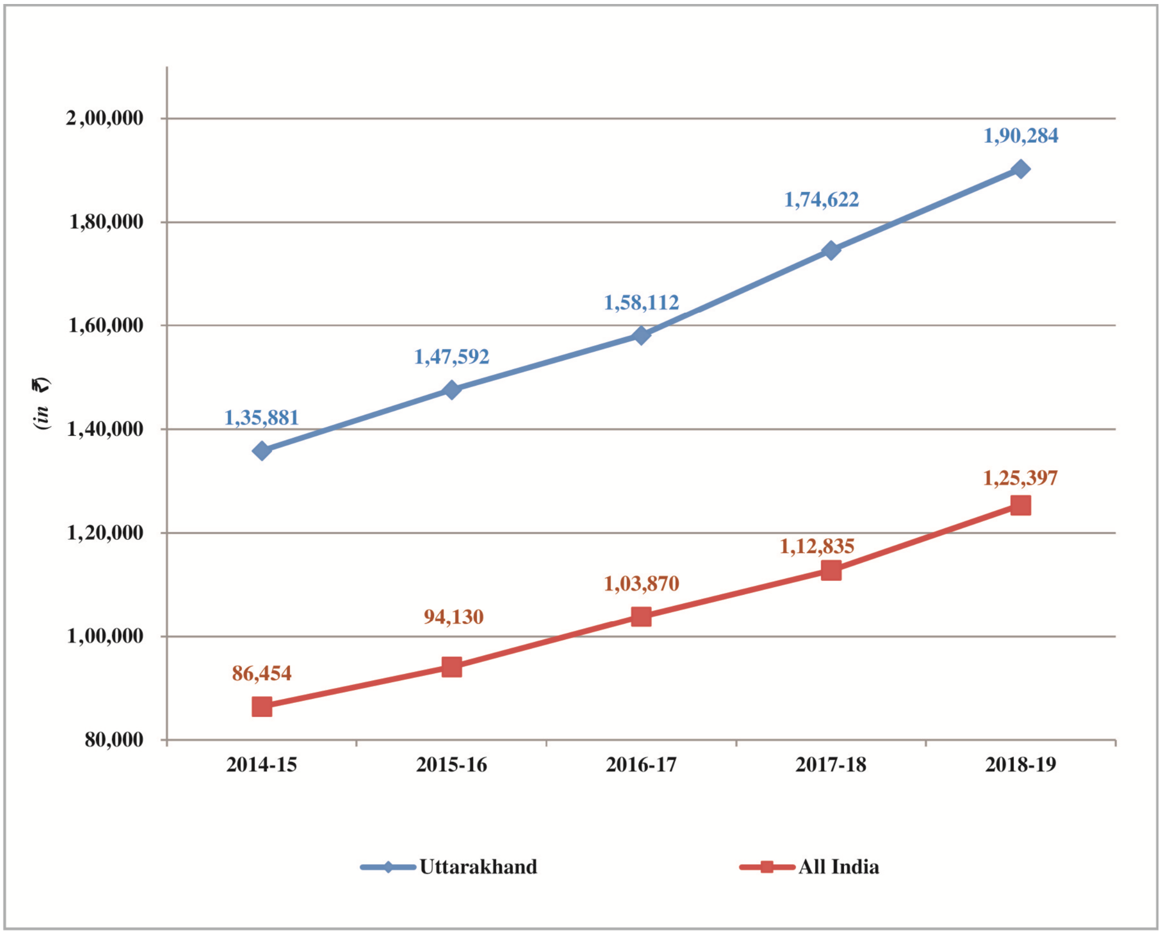
Year	2014-15	2015-16	2016-17♣	2017-18♥	2018-19♠
Current Prices					
India's GDP *(₹ in crore)*	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (percentage)	*10.99*	*10.46*	*11.55*	*11.28*	*11.20*
State's GSDP *(₹ in crore)*	1,61,439	1,77,163	1,95,125	2,22,836	2,45,895
Growth rate of GSDP (percentage)	*8.29*	*9.74*	*10.14*	*14.20*	*10.35*
Constant Prices					
India's GDP *(₹ in crore)*	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate of GDP (percentage)	*7.41*	*8.00*	*8.17*	*7.17*	*6.81*
State's GSDP *(₹ in crore)*	1,41,278	1,52,699	1,67,703	1,80,844	1,93,273
Growth rate of GSDP (percentage)	*5.29*	*8.08*	*9.83*	*7.84*	*6.87*

Source: Central Statistics office and Directorate of Economic and Statistics Government of Uttarakhand.
♣ Provisional ♥ Quick ♠ Advance estimates.

[1] Refer glossary in **Appendix-4.1.**

The growth rate of GSDP (Current Price) continued to appreciate from 8.29 *per cent* in 2014-15 to 14.20 *per cent* in 2017-18. However, the growth rate has declined in the current year to 10.35 *per cent*. The growth rate of GSDP which was lower than All India growth rate during 2014-15, 2015-16 and 2016-17 showed improvement during 2017-18 but again declined during 2018-19. The comparison of Per Capita annual income of Uttarakhand *vis-à-vis* the national average is reflected in **Chart-1.1**.

Chart-1.1: Comparison of Per Capita Annual Income of Uttarakhand *vis-à-vis* National Average



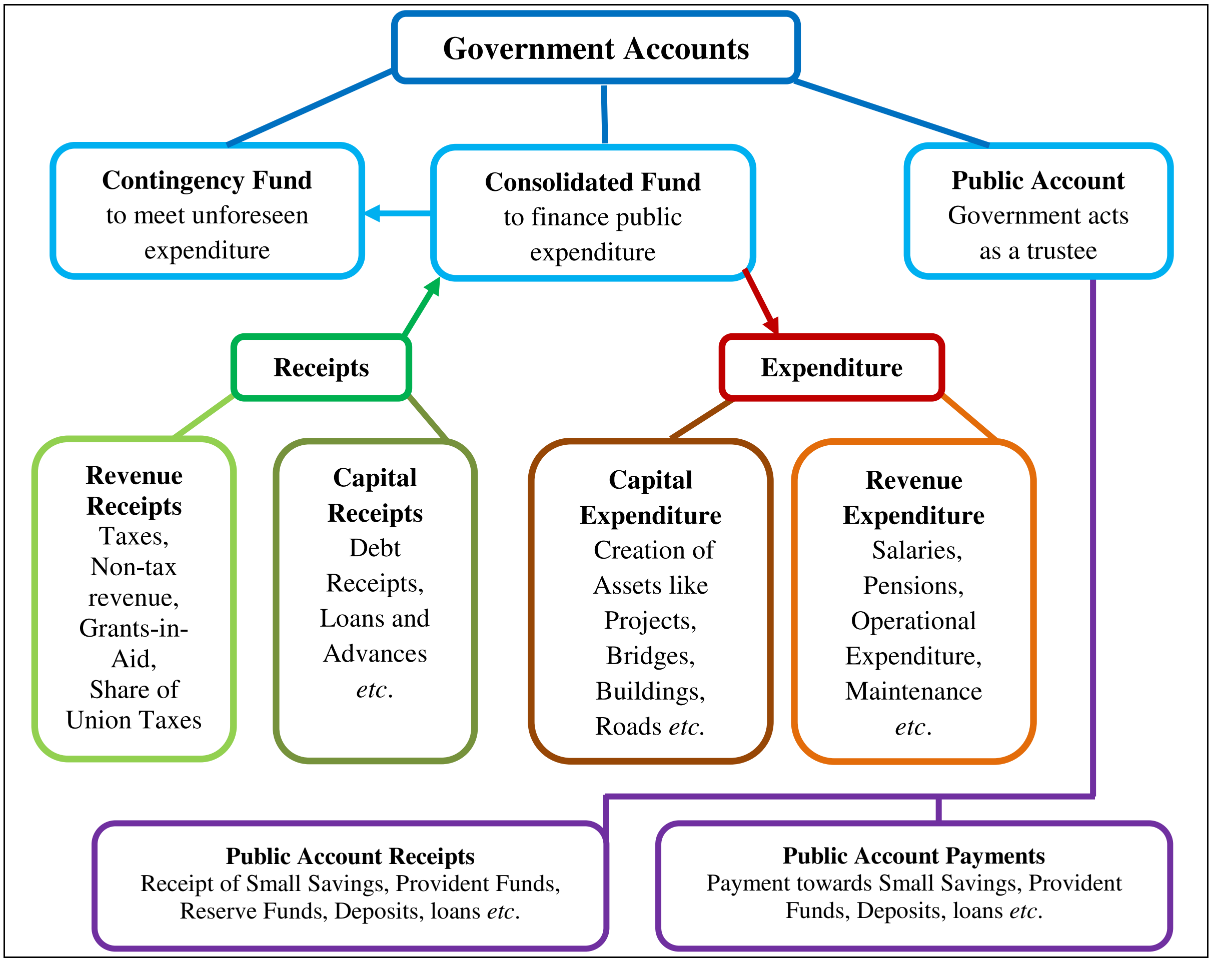
Source: Economic Survey of Uttarakhand 2018-19.

The Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 which was revised in 2011 as per the recommendation of the Thirteenth Finance Commission was further revised in December 2016 according to the recommendations of the Fourteenth Finance Commission ***(FFC) (Appendix-1.2 Part-B)***. Fiscal Performance of the State *vis-à-vis* targets set forth by the *FFC* are discussed in paragraph 1.1.2. The outcome indicators of the State's own Fiscal Correction Path (FCP) through the Mid Term Fiscal Policy Statement (MTFPS) prepared on 18 February 2019 are also given in ***Appendix-1.2 (Part-B)***.

1.1.1 Summary of Current Year's Fiscal Transactions

Government finances generally comprise the following:

Chart-1.2: Structure of Government Accounts



Source: Based on Budget Manual.

Table-1.2 presents a summary of the State Government's fiscal transactions during the current year (2018-19) *vis-à-vis* the previous year (2017-18). ***Appendix-1.4 (Part-A)*** provides details of receipts and disbursements as well as the overall fiscal position during the current year as compared to the previous year.

Table-1.2: Summary of Current Year's Fiscal Operations

(₹in crore)

Receipts	2017-18	2018-19	Disbursements	2017-18	2018-19
Section-A: Revenue					
Own Tax revenue	10,164.93	12,188.09	**General services**	12,408.50	13,524.87
Non-tax revenue	1,769.53	3,309.88	**Social services**	10,929.44	12,209.34
Share of Union Taxes/ Duties	7,084.91	8,011.59	**Economic services**	4,276.21	5,002.49
Grants from Government of India	8,085.20	7,706.88	**Grants-in-aid and Contributions**	1,468.54	1,459.32
Revenue receipts	**27,104.57**	**31,216.44**	**Revenue expenditure**	**29,082.69**	**32,196.02**
Section-B: Capital and Others					
Misc. Capital Receipts	--	0.01	**Capital Outlay**	5,914.37	6,184.42
Recoveries of Loans and Advances	33.50	26.91	**Loans and Advances disbursed**	76.83	183.48
Public Debt receipts*	7,526.08	7,275.18	**Repayment of Public Debt***	1,720.72	2,057.51
Appropriation from Contingency Fund	--	--	**Appropriation to Contingency Fund**	(-) 250.00	--
Contingency Fund	104.66	216.89	**Contingency Fund**	481.50	107.08
Public Account receipts#	37,571.25	41,789.74	**Public Account disbursements#**	35,366.30	39,947.18
Opening Cash Balance	2,785.95	2,733.60	**Closing Cash Balance**	2,733.60	2,583.08
Total	***75,126.01***	***83,258.77***	***Total***	***75,126.01***	***83,258.77***

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

 # Public Account receipts and disbursements do not include Departmental Balances and Cash Balance Investment Account. In other places of the Report Net figure of Public Account Receipts have been taken for analysing the State resources.

Composition of resources and application of funds in the Consolidated Fund of the State during 2018-19 is given in **Chart-1.3** and **Chart-1.4**:

Chart-1.3: Composition of Resources

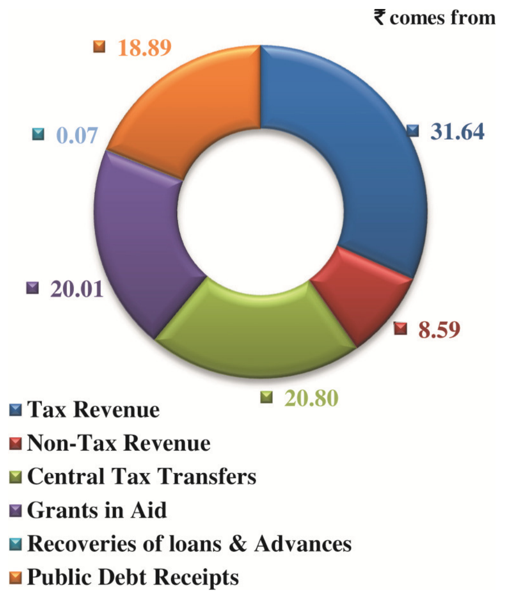
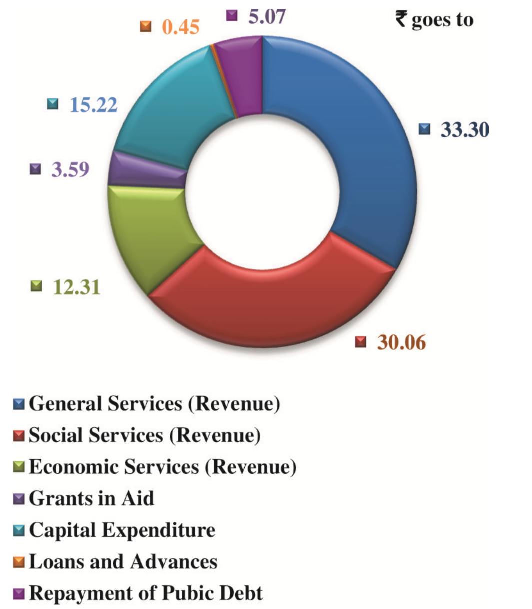


Chart-1.4: Application of Resources



Source: Finance Accounts.

Comparison of key elements of State Finances in 2018-19 **(Chart-1.3** and **Chart-1.4)** with that of the previous year 2017-18 is summarized below:

Table-1.3: Improving/worsening of various components

Positive Indicators	Parameters requiring close watch
• Non-Tax Revenue increased by **87** *per cent* • Own-Tax Revenue increased by **20** *per cent* • Capital Expenditure increased by **five** *per cent* • Public Debt Receipts decreased by **three** *per cent*	• Recovery of Loans and Advances decreased by **20** *per cent* • Revenue Expenditure increased by **11** *per cent*

Source: Finance Accounts.

1.1.2 Review of the fiscal situation

Major fiscal variables provided in the Budget and the recommendations of *FFC* for the State are given in **Table-1.4.** The FRBM Act has been revised by the State Government (December 2016) and the targets have been fixed as per the recommendations of the *FFC*.

Table-1.4: Review of the fiscal situation

(₹ in crore)

Fiscal variables	2018-19						
	Targets as prescribed by *FFC*	Targets proposed in the Budget	Projections made in MTFPS	Actuals	Percentage variation of actual over		
					Targets of *FFC*	Targets of Budget	Projections MTFPS
Revenue Deficit (-)/Surplus (+)	Nil *	32.68	27.24	(-) 979.58	Not Computable	(-)3,097.49	(-) 3,696.11
Fiscal Deficit/ GSDP *(in per cent)*	*3.25*	*2.75*	*2.32*	*2.98*	*(-) 8.31*	*(+) 8.36*	*(+) 28.45*
Ratio of outstanding fiscal liability to GSDP *(in per cent)*	*22.56*	*24.29*	*24.26*	*23.60*	*(+) 4.61*	*(-) 2.84*	*(-) 2.72*

****No target for Revenue Deficit has been prescribed by FFC and in FRBM, Act.***

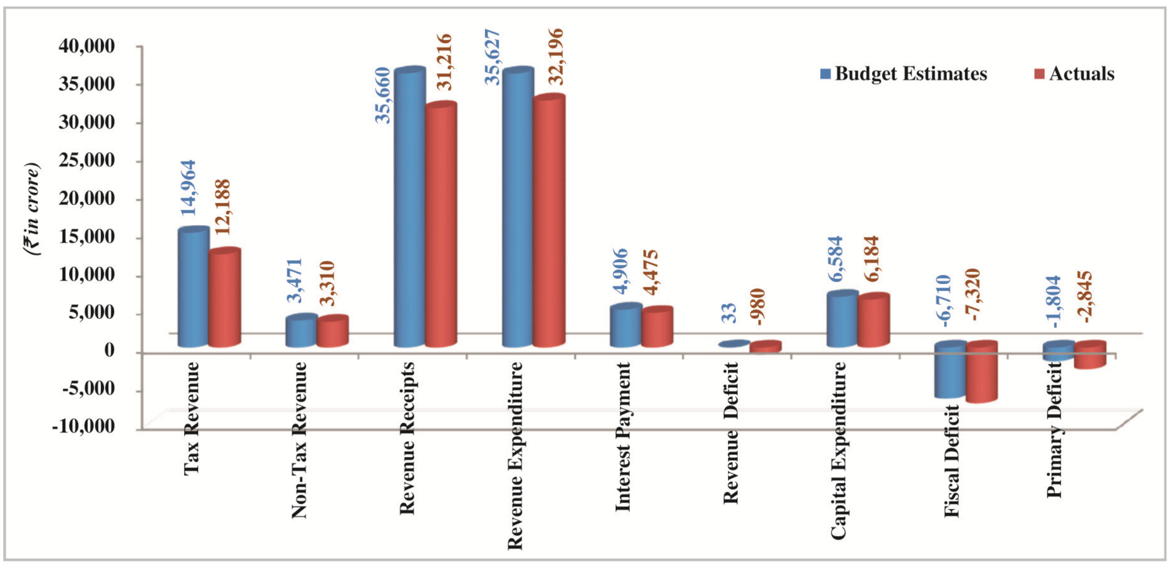
The State Government has been on a fiscal consolidation path since the enactment of the FRBM Act, 2005. During 2011-12 to 2013-14, the State Government was able to maintain revenue surplus. The revenue surplus turned into revenue deficit during 2014-15 (₹917 crore) and continued in the year 2015-16 (₹1,852 crore). During the year 2016-17, the State was able to considerably bring down the revenue deficit to ₹383 crore, but could not maintain the same trend in the year 2017-18 and experienced a higher revenue deficit of ₹1,978 crore.

However, the revenue deficit during the current year has come down to ₹979.58 crore (0.40 *per cent* of GSDP). The fiscal deficit at 2.98 *per cent* of GSDP was within the *FFC* norm of 3.25 *per cent* during the year but the ratio of outstanding fiscal liabilities to GSDP at 23.60 *per cent* was higher than the FFC norm of 22.56 *per cent*.

1.1.3 Budget estimates and actuals

The Budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of the fiscal policies for overall economic management. Deviations from the Budget Estimates (BEs) are indicative of non-attainment and non-optimisation of the desired fiscal objectives, due to a variety of factors, some within the control of the Government while others beyond its control. A comparison of the actuals against the BEs in respect of various components during 2018-19 is shown below:

Chart-1.5: Budget Estimates and Actuals for the year 2018-19



Source: Budget Estimates and Finance Accounts.

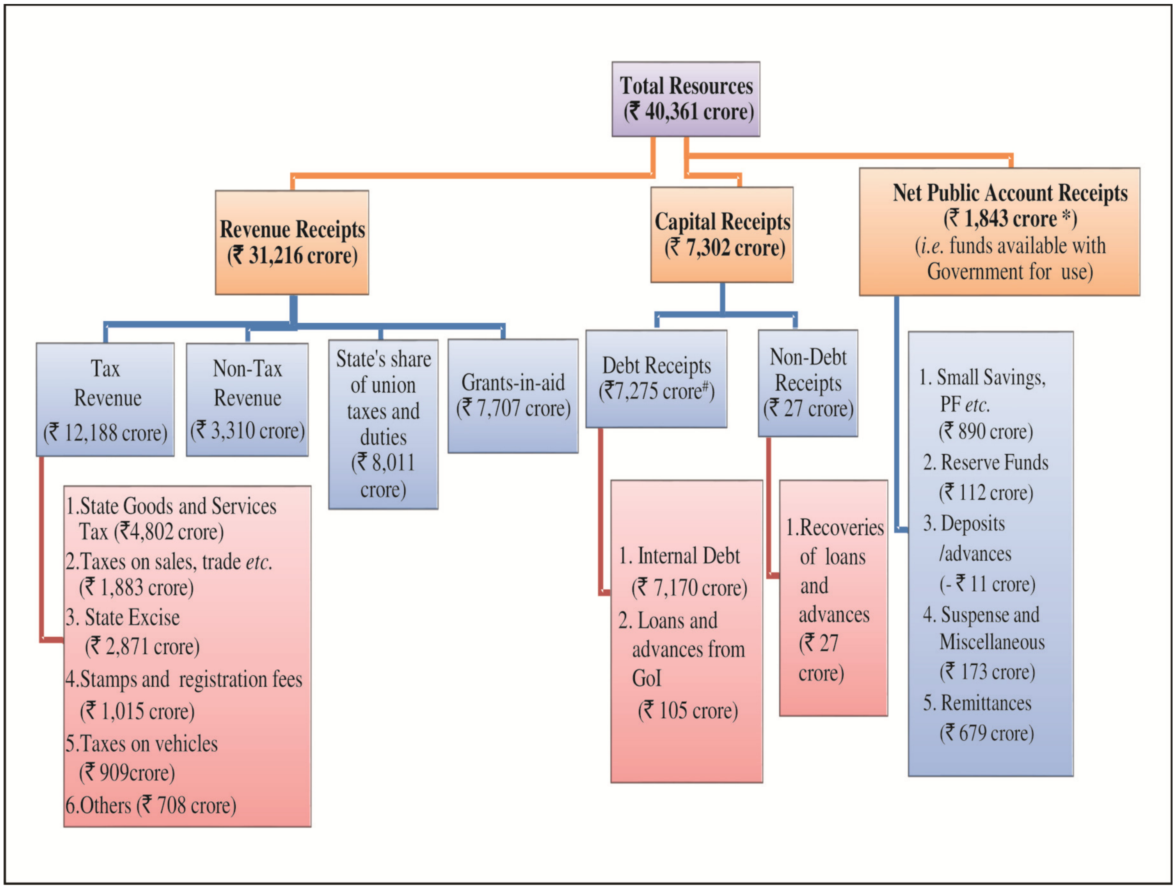
From the above **Chart-1.5** it is evident that:

- The overall revenue receipts were short by ₹4,444 crore (12.46 *per cent*) mainly due to less Tax revenue of ₹2,776 crore (18.55 *per cent*) and Non-Tax Revenue of ₹161 crore (4.64 *per cent).*
- The State Government was able to restrict the revenue expenditure in 2018-19 to some extent and it was ₹3,431 crore (9.63 *per cent)* less than the BEs for the current year.
- The Capital expenditure at ₹6,184 crore was less than the budgetary projection of ₹6,584 crore by ₹400 crore (6.08 *per cent*).

- The year 2018-19 ended with a Revenue Deficit of ₹ 980 crore against the assessment of Revenue Surplus of ₹ 33 crore made in the BEs.
- The targets for fiscal deficit (₹ 6,710 crore) and primary deficit (₹ 1,804 crore) during 2018-19 could not be achieved by the State, as both the fiscal deficit and primary deficit exceeded the BEs by ₹ 610 crore and ₹ 1,041 crore respectively.

This indicates that the achievements fell short of the target in all the parameters.

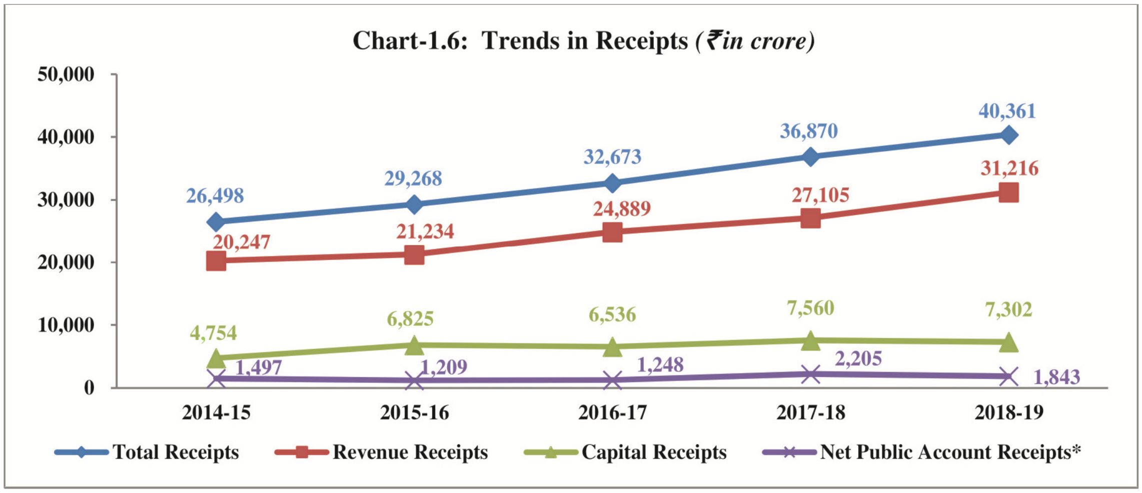
1.2 Receipts of the State



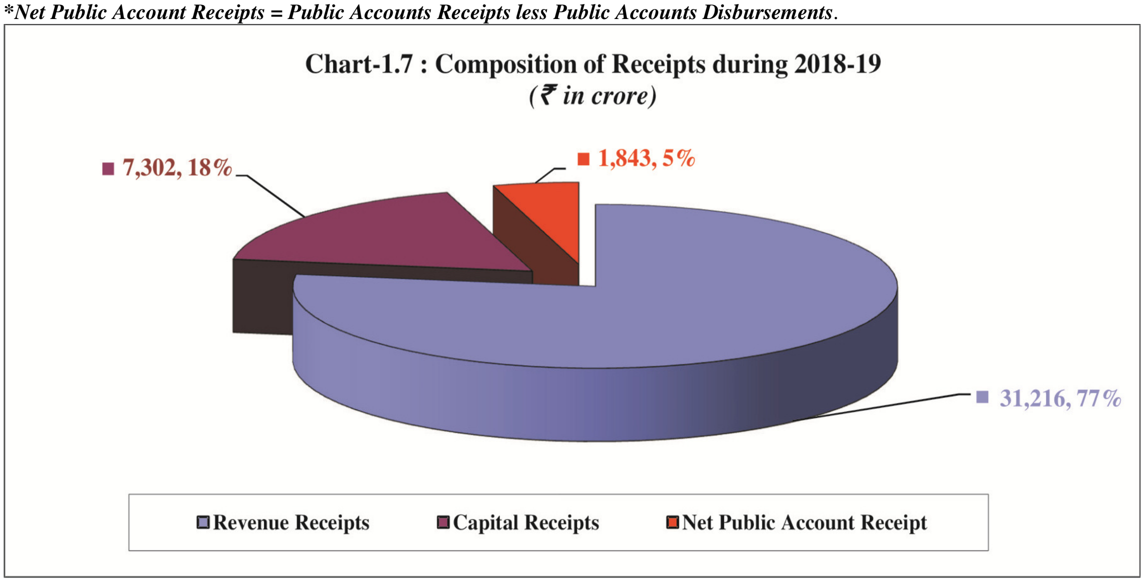
Source: Finance Accounts, #Excludes Ways and Means Advances.
****Net Public Account Receipts (₹ 1,843 crore) = Public Accounts Receipts (₹ 41,790 crore) less Public Accounts Disbursements (₹ 39,947 crore).***

1.2.1 Trend and Composition of Receipts of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts comprise tax revenues, non-tax revenues, State's share of the 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 the GoI. Besides, funds available in the public accounts after disbursement are also utilised by the Government to finance its deficit. **Chart-1.6** depicts the trends in various components of receipts of the State during the period 2014-15 to 2018-19 and the **Chart-1.7** shows the composition of resources of the State during the current year.



******Net Public Account Receipts = Public Accounts Receipts less Public Accounts Disbursements*.



The total receipts of the Government (excluding Contingency Fund Receipts) grew by ₹13,863 crore (52 *per cent*) from ₹26,498 crore in 2014-15 to ₹40,361 crore in 2018-19. Of total receipts, five *per cent* (₹1,843 crore) came from the net of Public Account Receipts where as 18 *per cent* (₹7,302 crore) and 77 *per cent* (₹31,216 crore) share of the total receipts came from Capital Receipts and Revenue Receipts respectively.

The revenue receipts of the State during the current year grew by 15.17 *per cent* over the previous year. This was mainly due to increase in State's Own Tax Revenue by ₹2,023 crore (19.90 *per cent*), State's share of Union taxes/duties by ₹926 crore (13.07 *per cent*) and Non-Tax Revenue by ₹1,540 crore (87.01 *per cent*). The increase was partially counter balanced by decrease in Grants-in-aid from Government of India by

₹378 crore (4.68 *per cent*). Contribution of revenue receipts to total receipts of the State increased by 3.82 *per cent* during the current year while the share of net public account receipts in the total receipts decreased by 1.41 *per cent* over the previous year (Refer **Table-1.2**).

1.2.2 Funds transferred to implementing agencies in the State

The Government of India has transferred significant amount of funds directly to the State Implementing Agencies[2] for implementation of various schemes/programmes in the past years. However, despite the Government of India's decision to release all assistance pertaining to Centrally Sponsored Schemes/Additional Central Assistance to the State Government and not to implementing agencies, the Government of India directly transferred funds amounting to ₹701.50 crore (Funds routed outside State Budget-Unaudited figures) to various State Implementing Agencies during the year 2018-19 as detailed in **Table-1.5.**

Table-1.5: Significant amount of funds transferred directly to State Implementing Agencies

(₹in crore)

Sl. No.	Scheme Name	Agency Name/Agency Type	Funds Transferred
1.	Mahatma Gandhi National Rural Employment Guarantee Yojna CS	Uttarakhand Rajya Rozgar Guarantee Sanstha	434.40
2.	Pradhan Mantri Kisan Samman Nidhi	Department of Agriculture UK	66.56
3.	MPs Local Area Development Scheme MPLADS	District Magistrates of various Districts	30.00
4.	Package for (other than North East) Special Category States for J & K, Himachal Pradesh and Uttarakhand	State Industrial Development Corporation of Uttarakhand Ltd.	24.71
5.	Integrated Development of Tourist Circuits around specific Themes (Swadesh)	Uttarakhand Tourist Development Board	24.58
6.	PRASAD-National Mission on Pilgrimage Rejuvenation and Spirituality Augmentation Drive	Uttarakhand Tourist Development Board	22.21
7.	Rashtriya Gokul Mission	Uttarakhand Livestock Development Board	22.13
8.	Others (99)	Various agencies	76.91
Total			***701.50***

Source: Finance Account- Appendix VI.

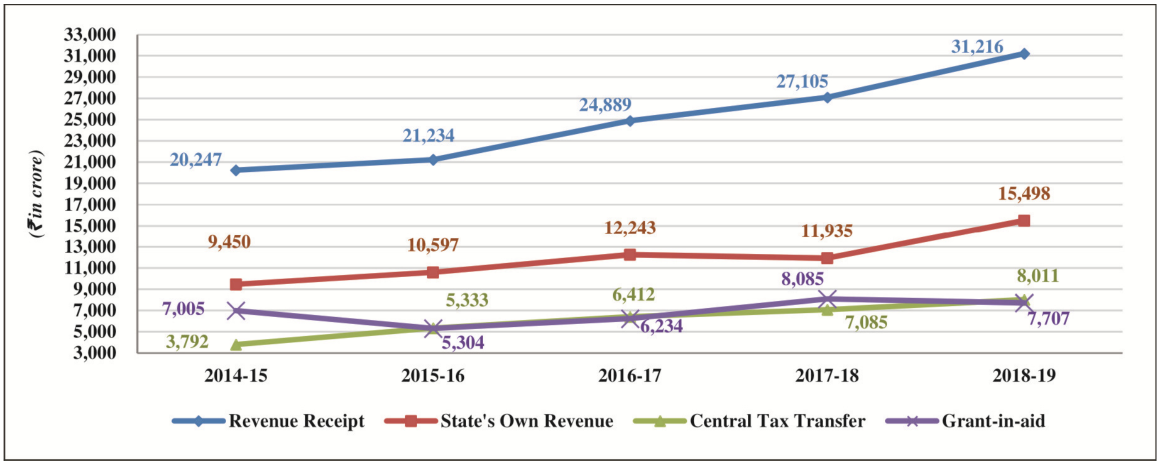
Out of total funds of ₹1,778.24 crore transferred by Government of India to implementing agencies (including Central Bodies and other organisations outside the purview of the State Government) in the State, an amount of ₹701.50 crore (39 *per cent*) was released to the State Implementing Agencies.

1.3 Revenue Receipts

Statement-14 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 the GoI. The trends and composition of revenue receipts during the period 2014-15 to 2018-19 are presented in ***Appendix-1.3*** and are also depicted in **Chart-1.8**.

2 Refer glossary in **Appendix-4.1.**

Chart-1.8: Trends in Revenue Receipts



The revenue receipts have shown a constant increase over the period 2014-15 to 2018-19. These increased from ₹20,247 crore in 2014-15 to ₹ 31,216 crore in 2018-19 at an average rate of 12.61 *per cent* per annum out of which State's own revenue, Central tax transfers and Grant-in-Aid increased by ₹ 6,048 crore (64 *per cent*), ₹ 4,219 crore (111.26 *per cent*) and ₹ 702 crore (10.02 *per cent*) respectively during the said period. 49.65 *per cent* of the revenue receipts during 2018-19 came from the State's own revenue.

State's own revenue constituted on an average around 47.89 *per cent* of revenue receipts over the period 2014-15 to 2018-19. The growth in revenue receipts relative to GSDP is presented in **Table-1.6.**

Table-1.6: Trends in revenue receipts relative to GSDP

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) ***(₹ in crore)***	**20,247**	**21,234**	**24,889**	**27,105**	**31,216**
Rate of growth of RR ***(per cent)***	*16.89*	*4.87*	*17.21*	*8.90*	*15.17*
Gross State Domestic Product (GSDP) ***(₹ in crore)***	1,61,439	1,77,163	1,95,125	2,22,836	2,45,895
RR/ GSDP ***(per cent)***	*12.54*	*11.99*	*12.76*	*12.16*	*12.69*
Buoyancy Ratios[3]					
Revenue Buoyancy ***w.r.t.*** **GSDP**	2.04	0.50	1.70	0.63	1.47
State's Own Tax Buoyancy ***w.r.t.*** **GSDP**	1.61	1.28	1.60	(-) 0.47	1.92

The growth rate at 16.89 *per cent* for 2014-15 decreased sharply to 4.87 *per cent* in 2015-16. However, it again picked up sharply during the year 2016-17 to 17.21 *per cent*, but again declined to 8.90 *per cent* in 2017-18. The growth rate appreciated considerably during the current year 2018-19 and was 15.17 *per cent*.

Revenue buoyancy, which is directly proportionate to growth of Revenue Receipts and GSDP, fluctuated widely during the period 2014-15 to 2018-19 due to fluctuations in the growth rate of Revenue Receipts. It declined to 0.50 in 2015-16 from 2.04 in 2014-15 due to decrease in the growth rate of Revenue Receipts to 4.87 *per cent* in 2015-16 from 16.89 *per cent* in 2014-15. The Revenue buoyancy again appreciated to 1.70 during the year 2016-17. It decreased to 0.63 during the year 2017-18. However, it has appreciated again to 1.47 *per cent* during 2018-19.

3 Refer glossary in **Appendix-4.1.**

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, the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The *FFC* projections, the BEs and the MTFPS projections *vis-à-vis* actual in respect of State's own resources during 2018-19 are given in **Table-1.7.**

Table-1.7: States Own resources: Projection *vis-à-vis* actual

(₹in crore)

States Own resources	FFC projections	Budget Estimates	MTFPS projections	Actual	Percentage variation of actual over		
					FFC projections	Budget Estimates	MTFPS projections
Own Tax Revenue	22,282	14,964	14,764	12,188	*-45.30*	*-18.55*	*-17.45*
Non-Tax Revenue	3,418	3,471	3,747	3,310	*-3.16*	*-4.64*	*-11.66*

As shown in **Table-1.7**, the State's own tax revenues during 2018-19 were less by ₹10,094 crore, ₹2,776 crore and ₹2,576 crore respectively against the *FFC* projections, the BEs and the MTFPS.

The Non-tax revenue (NTR) was less by ₹108 crore, ₹161 crore and ₹437 crore respectively as compared to the *FFC* projections, the BEs and the MTFPS.

In sum, the State could not even achieve its own targets projected in the budget and in the MTFPS.

Goods and Services Tax

State Government implemented the Goods and Services Tax (GST) Act which became effective from 1 July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure was finalised under GST Act. In case of Uttarakhand, the revenue was ₹4,961.22 crore during the base year (2015-16). The projected revenue for any year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) over the base year revenue of that State.

The projected revenue for the year 2018-19 in accordance with the base year figure was ₹7,350.26 crore. Revenue figure under GST for the year 2018-19 has been depicted in Finance Accounts as per nature of receipts *i.e.* State Goods and Services Tax (SGST), cross utilization of Input Tax Credit between SGST and IGST, Apportionment of IGST and Advance apportionment from IGST. Against the projected revenue of ₹7,350.26 crore, the revenue receipt of the State Government under GST during the year 2018-19 was ₹6,902.54 crore as detailed below.

Table-1.8: Pre-GST and SGST collected, provisional apportionment of IGST and compensation of IGST received from Government of India against the projected revenue of the State for the period from April 2018 to March 2019

(₹in crore)

Month	Monthly revenue to be protected	Pre-GST taxes collected	SGST collected	Provisional apportionment of IGST	Total amount received	Compensation received	Deficit (+)/ Surplus (-)	Remarks
	1	2	3	4	5=(2+3+4)	6	7={1-(5+6)}	8
April 2018	612.522	160.12	351.33	-10.39	501.06	00	111.462	The State has received less revenue after taking into account the compensation component than the protected revenue.
May 2018	612.522	175.68	296.99	-5.51	467.16	149.00	-3.638	
June 2018	612.522	182.86	296.57	17.00	496.43	00	116.092	
July 2018	612.522	168.59	315.29	3.59	487.47	265.00	-139.948	
August 2018	612.522	148.94	290.28	310.10	749.32	00	-136.798	
September 2018	612.522	141.59	285.89	94.51	521.99	497.00	-406.468	
October 2018	612.522	152.94	336.66	5.88	495.48	00	117.042	
November 2018	612.522	156.75	334.83	252.98	744.56	425.00	-557.038	
December 2018	612.522	155.37	286.62	212.74	654.73	00	-42.208	
January 2019	612.522	176.08	290.11	40.97	507.16	338.00	-232.638	
February 2019	612.522	163.19	334.57	-48.01	449.75	00	162.772	
March 2019	612.522	-1,718.79[4]	353.57	155.65	-1,209.57	363.00	1,459.092	
Total	***7,350.26***	***63.32***	***3,772.71***	***1,029.51***	***4,865.54***	***2,037.00***	***447.724***	

Source: Data provided by O/o Accountant General (A&E), Uttarakhand.

Advance apportionment from IGST

The GoI is to apportion IGST to State Governments under sections 17 of the IGST Act, 2017. The State Tax Division, Ministry of Finance, Department of Revenue (GoI) sanctioned advance apportionment of ₹806 crore during the year 2018-19. However, the GoI adjusted ₹44 crore against the advance apportionment of ₹ 217 crore made during 2017-18. Therefore, the State received ₹762 crore as advance apportionment during 2018-19.

Audit of GST Receipts

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfill the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.3.1.1 Tax revenue

Gross collection in respect of major taxes and duties is given in **Table-1.9.**

Table-1.9: Components of State's own resources

(₹in crore)

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Taxes on Sales, Trades *etc.* & SGST*	5,465 *(11)*	6,105 *(12)*	7,154 *(17)*	5,675 *(-21)*	6,685 *(18)*
State Excise	1,487 *(17)*	1,735 *(17)*	1,906 *(10)*	2,262 *(19)*	2,871 *(27)*
Taxes on Vehicles	394 *(7)*	471 *(20)*	556 *(18)*	816 *(47)*	909 *(11)*
Stamp Duty and Registration Fee	714 *(4)*	871 *(22)*	778 *(-11)*	882 *(13)*	1,015 *(15)*
Taxes on Goods and Passengers	--	--	--	--	--
Other Taxes	279 *(118)*	195 *(-30)*	503 *(158)*	530 *(5)*	708 *(34)*
Total	***8,339 (13)***	***9,377 (12)***	***10,897 (16)***	***10,165 (-7)***	***12,188 (20)***

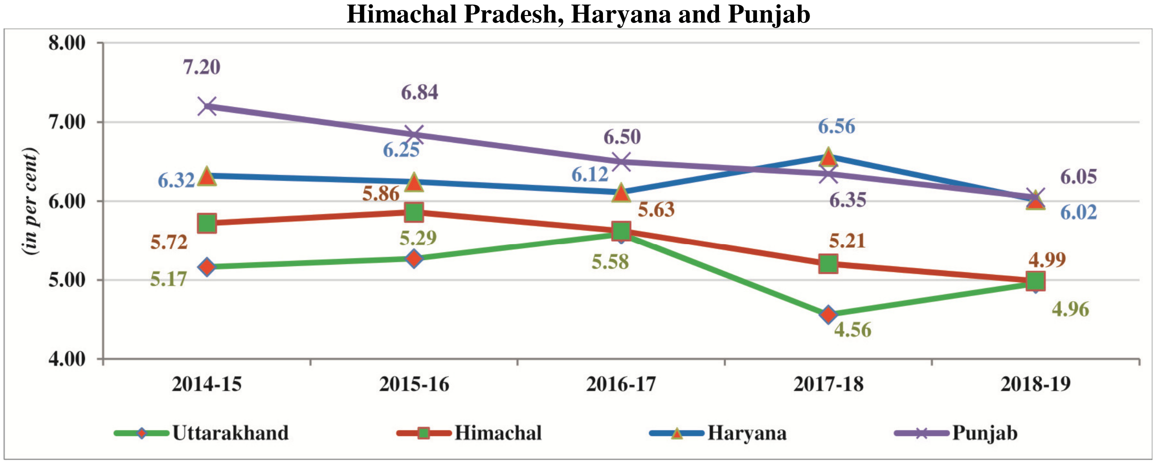
Figures in the parentheses indicate percentage increase/decrease over previous year.
**** Figures of SGST have been included only in the years 2017-18 and 2018-19.***

The State's own tax revenue increased by 20 *per cent* from ₹10,165 crore in 2017-18 to ₹12,188 crore in 2018-19. The revenue from taxes on Sales, Trade, *etc.* which comprised a

4 Adverse entry is on account of correction of accounts.

major share of tax revenue (54.85 *per cent* during the current year) had registered a decrease of 21 *per cent* during 2017-18 over the previous year. During the current year, the total collections under Taxes on Sales, Trades, *etc.* increased by 18 *per cent* from ₹ 5,675 crore to ₹ 6,685 crore.

Chart-1.9: Comparison of Own Tax Revenue to GSDP of Uttarakhand with respect to Himachal Pradesh, Haryana and Punjab

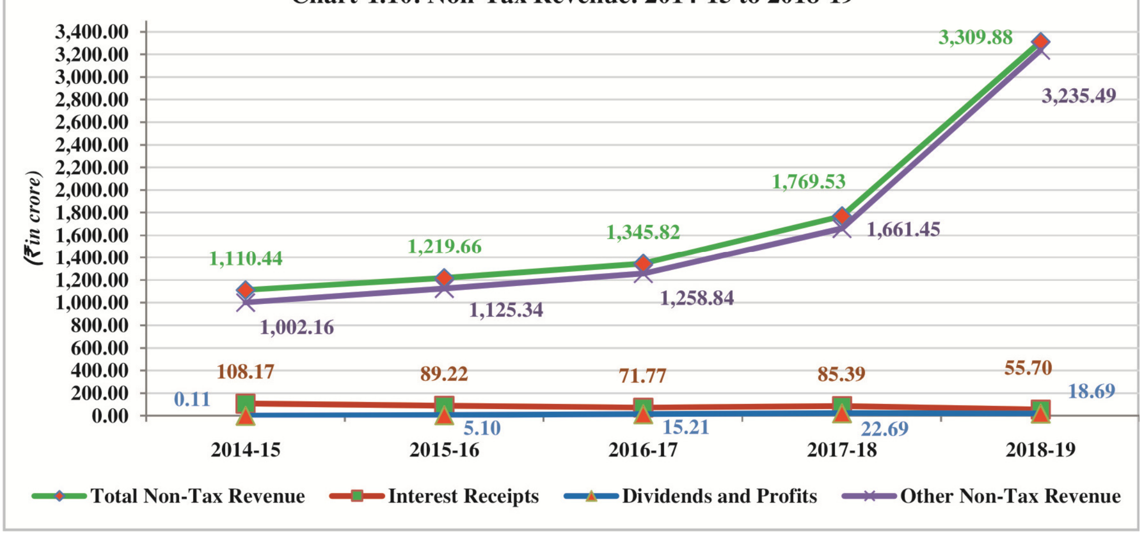


The Own Tax Revenue to GSDP ratio of Uttarakhand is lower than the ratio of Himachal Pradesh, a neighbouring Hill State. The ratio also happens to be lower than States of Haryana and Punjab.

1.3.1.2 Non-tax revenue

Trend of non-tax revenue and its components is given in **Chart-1.10**.

Chart-1.10: Non-Tax Revenue: 2014-15 to 2018-19



During the current year Non-tax revenue increased by ₹ 1,540 crore (87.05 *per cent*) mainly due to the pension apportionment amount of ₹ 1,656.75 crore received from State of Uttar Pradesh during the year 2018-19. The increase during the year was also recorded in the Forestry and Wild Life (₹ 56.54 crore; 18.11 *per cent*) and Non Ferrous Mining and Metallurgical Industries (₹ 41.05 crore; 9.33 *per cent*). However, the increase was counter balanced to some extent by decrease in Power (₹ 99.54 crore; 34.78 *per cent*), Education, Sports, Art and Culture (₹27.37 crore; 25.14 *per cent*), Other Administrative Services (₹55.63 crore; 38.75 *per cent*).

1.3.2 Grants-in-aid from GoI

Grants-in-aid (GIA) received from the GoI during 2014-15 to 2018-19 is depicted in **Table-1.10.**

Table-1.10: Trends in Grants-in-aid receipt from GoI

(₹in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-Plan grants	944	1,043	824	714	-
Grants for State Plan schemes	4,083	1,173	1,532	1,621	-
Grants for Central Plan schemes	99	609	843	76	-
Grants for Centrally Sponsored Plan schemes	1,879	2,479	3,035	4,391	-
Grants for Centrally Sponsored Scheme	-	-	-	-	4,966
Finance Commission Grants	-	-	-	-	485
Other Transfer/Grants to States	--	--	--	1,283	2,256
Total	***7,005***	***5,304***	***6,234***	***8,085***	***7,707***
Percentage of increase/decrease over previous year	*38*	*(-) 24*	*18*	*30*	*(-) 5*
Percentage of Revenue Receipts	*35*	*25*	*25*	*30*	*25*

The grants-in-aid from GoI at ₹7,005 crore in 2014-15 decreased to ₹5,304 crore (24 *per cent*) in 2015-16 but it increased by ₹930 crore (18 *per cent*) during 2016-17 over the previous year. In 2017-18, receipts under Grants-in-aid from GoI increased by ₹1,851 crore (30 *per cent*) over the previous year. However, the Grants-in-aid decreased by ₹378 crore (five *per cent*) during the year 2018-19.

1.3.3 Central tax transfers

The FFC had recommended that the States' share of central taxes be increased to 42 *per cent* from 2015-16 onwards. Consequently, the State's share in the net proceeds of Central Taxes (excluding Service Tax) has been fixed at 1.05 *per cent*.

Table-1.11: Devolution of different components of State's share of Union Taxes

(₹in crore)

Component of State's share of Union taxes	FFC award period			Increase/Decrease in 2018-19 over 2017-18	
	2016-17	2017-18	2018-19	Amount	Percentage
Corporation Tax	2,056.02	2,169.91	2,786.13	616.22	*28.40*
Customs	884.42	715.10	567.89	-147.21	*(-) 20.59*
Income Tax	1,428.94	1,832.34	2,051.86	219.52	*11.98*
Other Taxes and Duties on commodities and services	0.02	0	4.14	4.14	--
Service Tax	1,027.52	804.25	73.45	-730.80	*(-) 90.87*
Wealth Tax	4.71	-0.07	1.02	1.09	*1557.14*
Union Excise Duties	1,009.94	747.50	377.39	-370.11	*(-) 49.51*
Other Taxes on income and Expenditure	00	00	14.51	14.51	--
CGST	NA	100.52	1,977.40	1,876.88	*1867.17*
IGST	NA	715.36	157.80	-557.56	*(-) 77.94*
Grand total	***6,411.57***	***7,084.91***	***8,011.59***	***926.68***	***13.08***
Devolution as percentage of Revenue Receipts of the State	*25.76*	*26.14*	*25.67*		

NA*: Not applicable due to implementation of GST Act with effect from 1 July 2017.*
Source: Finance Accounts.

As can be seen from the above, the devolution as a percentage of Revenue Receipts which had increased during 2017-18 over the previous year, decreased during the year 2018-19. However, the devolution has increased by 13.08 *per cent* over the previous year.

1.3.4 Optimisation of Fourteen Finance Commission grants

The *FFC* submitted its report in December 2014, covering the five year period commencing from April 1, 2015. The GoI allocated grants-in-aid of ₹3,856.52 crore on the recommendations of *FFC* to the State Government, to be utilised for Local Bodies and

Disaster Relief Fund during 2015-16 to 2019-20. Position of releases by GoI during 2018-19 and onward transfers by the State Government is given in **Table-1.12**.

Table-1.12: Transfers recommended and actual release of Grants-in-aid

(₹in crore)

Transfers	Recommendations of the FFC 2015-16 to2019-20	Recommendations of the FFC 2018-19	Actual Release from GoI during 2018-19	Transfers made by the State during 2018-19
1.Local Bodies				
(A) Grants to PRIs	**1,882.69**	**438.32**	**376.19**	**376.19**
(i) Basic Grant	1,694.42	376.19	376.19	376.19
(ii) Performance Grant	188.27	62.13	00	00
(B) Grants to ULBs	**815.83**	**198.74**	**108.68**	**108.68**
(i) Basic Grant	652.66	144.90	108.68	108.68
(ii) Performance Grant	163.17	53.84	00	00
Total (1)	***2,698.52***	***637.06***	***484.87***	***484.87***
2. Disaster Relief Fund	1,158.00	**243.00**	**243.00***	**141.06**
Grand Total	***3,856.52***	***880.06***	***727.87***	***625.93***

Source: FFC Report and Finance Accounts.

(*State share of₹24 crore was also released along with the central share of ₹219 crore).

The grants recommended by the *FFC* formed two parts- a Basic grant and performance grant for duly constituted Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). The State did not receive its full share of Basic Grant from the GoI for ULBs and also did not get share of performance grant for ULBs as well as PRIs during 2018-19. The actual utilization of grants by the PRIs and ULBs was not made available by the State Department.

1.4 Capital Receipts

The Capital Receipts are either non-debt capital receipts such as proceeds from disinvestment of equity in government companies/corporations and recoveries of loans and advances or debt capital receipts. The public debt receipts fall broadly under two categories (a) Loans/Advances from the Union government and (b) Internal Debt consisting of borrowings from banks, financial institutions through negotiated loans or open market borrowings through the issue of the State Development Loans. The share of non-debt capital receipts and loans/advances from the Union government is negligible. Borrowings from banks, financial institutions and the open market comprise most of capital receipts as detailed in **Table-1.13.**

Table-1.13: Trends in growth and composition of receipts

(₹in crore)

Sources of State's Receipts		2014-15	2015-16	2016-17	2017-18	2018-19
Capital Receipts (CR)		***4,754***	***6,825***	***6,536***	***7,560***	***7,302***
Miscellaneous Capital Receipts		135	--	--	--	--
Recovery of Loans and Advances		**46**	**27**	**35**	**34**	**27**
Public Debt Receipts	**Market Loan**	2,400	3,900	5,450	6,660	6,300
	Other Internal Resources	2,112	2,801	905	752	870
	GoI	61	97	146	114	105
	Total	***4,573 (96.19)***	***6,798 (99.60)***	***6,501 (99.46)***	***7,526 (99.55)***	***7,275 (99.63)***

Figures in parentheses indicate percentage of total.

Capital Receipts comprising debt and non-debt receipts[5] of the State increased at an average growth rate of 13.46*per cent* over the period 2014-15 to 2018-19. The debt receipts had a predominant share in capital receipts and accounted between 96.19 and 99.63*per cent* during 2014-15 to 2018-19.

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

1.4.1 Recoveries of loans and advances

Recoveries from loans and advances declined from ₹46 crore in 2014-15 to ₹ 27 crore in 2015-16. However, the recoveries showed an increase (₹ eight crore) during the year 2016-17 but declined again marginally (₹ one crore) during the year 2017-18. The declining trend continued in 2018-19 also as it declined by ₹ seven crore over the previous year.

1.4.2 Debt receipts from internal sources

Internal Debt receipts comprising Market loans, loans from financial institutions, *etc.* over the period 2014-15 to 2018-19 continued to be a major source of receipts of the State Government. They increased by ₹ 2,658 crore (58.91 *per cent*) over the period 2014-15 to 2018-19. However, total debt receipt during the year showed a decrease of ₹ 251 crore (3.34 *per cent*) over the previous year. Trends in market borrowings are detailed in paragraph 1.10.1.

1.4.3 Loans and advances from GoI

The State being a special category state, receives grants-in-aid and loans from GoI in the ratio of 90:10. The State Government's outstanding liability on account of loans from the GoI (₹ 789.91 crore) is only 1.71 *per cent* of its total Public Debt (₹ 46,232.62 crore). Receipt of Loans and Advances from GoI increased from ₹ 61 crore to ₹ 105 crore over the period 2014-15 to 2018-19. During the current year, it decreased by ₹ nine crore (7.89 *per cent*) over the previous year.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, *etc.,* which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here the Government acts as a banker/trustee for the public money. The balance after disbursement is the fund available with the Government for use. The trends of receipts and disbursement under various segments of Public Accounts are given in **Table-1.14**.

Table-1.14: Public Account Receipts and Disbursement during 2017-18 and 2018-19

(₹ in crore)

Source of State's Receipts	Public Account Receipts		Disbursement from Public Accounts		Excess of receipts over Disbursements (Net Public Account Receipt)	
	2017-18	2018-19	2017-18	2018-19	2 017-18	2018-19
Small Savings, Provident fund *etc.*	1,840.79	2,189.60	1,221.32	1,299.74	619.47	889.86
Reserve Funds	232.34	243.00	127.26	131.46	105.08	111.54
Deposits and Advances	4,727.47	4,502.04	4,008.79	4,513.09	718.68	(-) 11.05
Suspense and Miscellaneous[6]	31,936.91	35,287.11	31,206.55	35,114.04	730.36	173.07
Remittances	(-) 1,166.25	(-) 432.01	(-) 1,197.62	(-) 1,111.15	31.37	679.14
Total	***37,571.26***	***41,789.74***	***35,366.30***	***39,947.18***	***2,204.96***	***1,842.56***

Decrease in net public account receipts is primarily on account of decrease in net collections under Deposits and Advances which was partly counter balanced by increase in net collections under Remittances and Small Savings, Provident Fund *etc.*

[6] Does not include departmental balances, balances under Permanent cash imprest and cash balance investment account.

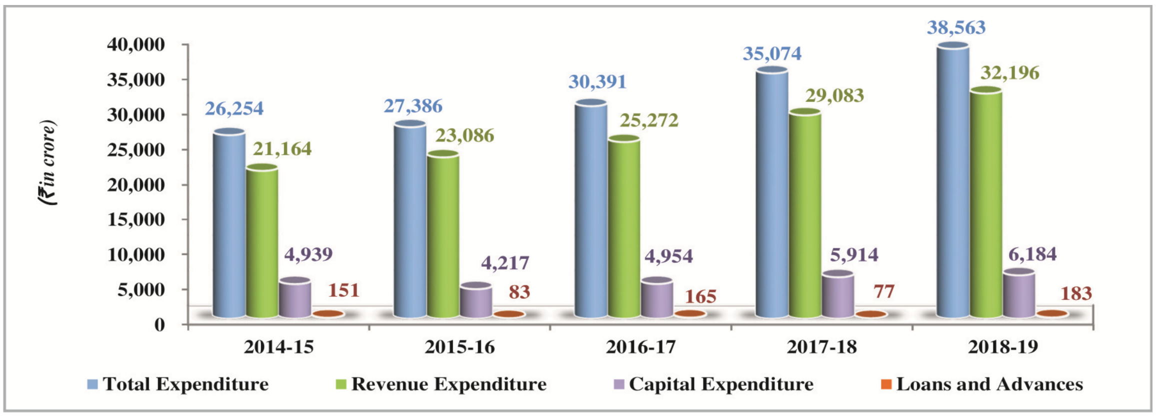
1.6 Application of Resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector. Following is an analysis of allocation of expenditure in the State.

1.6.1 Growth and composition of expenditure

Chart-1.11 presents the trends in total expenditure over a period of five years (2014-15 to 2018-19) and its composition in terms of 'expenditure by nature' as depicted in **Chart-1.11**.

Chart-1.11: Composition of expenditure during last five years

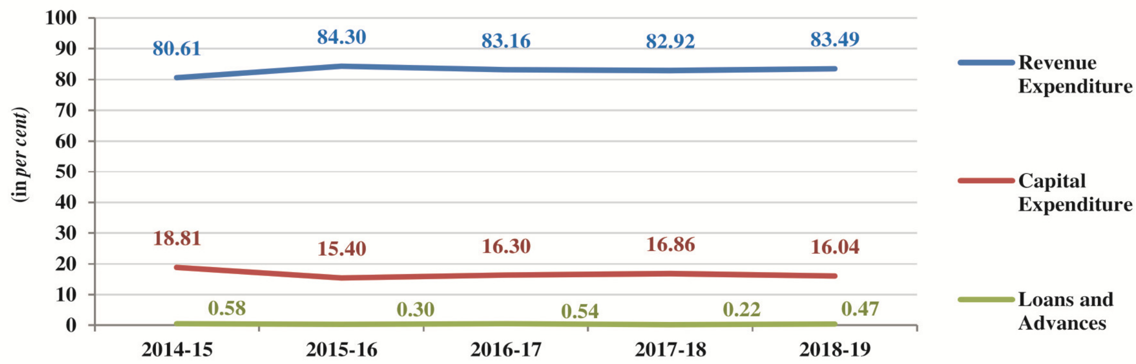


Total Expenditure (TE) of the State increased at an average rate of 14.11 *per cent* per annum during 2014-15 to 2018-19. There was an increase of ₹3,489 crore (9.95 *per cent*) in Total Expenditure during 2018-19 over the previous year. This was largely due to increase in Revenue Expenditure (RE) by ₹3,113 crore, Capital Expenditure (CE) by ₹270 crore and increase in the disbursement of Loans and Advances by ₹ 106 crore.

Revenue Expenditure (RE): RE in 2018-19 was higher than that of the previous year by ₹3,113 crore and accounted for 83.49 *per cent* of TE (₹38,563 crore) which was higher than the corresponding figure of 82.92 *per cent* in 2017-18. The increase in RE during the current year as compared to the previous year was due to increase in expenditure towards (i) Social Services (₹1,280 crore) mainly on account of increase in education sector (₹829 crore) and health sector (₹353 crore) (ii) General Services (₹1,116 crore) which included increase in interest payments and pension amounting to ₹488 crore and ₹363 crore respectively and (iii) Economic Services (₹726 crore) which was marginally counter balanced by decrease in Grants-in-aid and Contribution (₹nine crore).

Capital Expenditure (CE): Total CE decreased from ₹4,939 crore in 2014-15 to ₹4,217 crore in 2015-16, but again increased to ₹4,954 crore in 2016-17, and ₹5,914 crore in 2017-18 respectively. The CE during the current year also showed an increasing trend and increased by ₹270 crore (4.57 *per cent*). However, as *per cent* of TE, CE declined from 18.81 *per cent* in 2014-15 to 16.04 *per cent* in 2018-19. The Capital Expenditure incurred by the State during the year 2018-19 exceeded the MTFPS targets by ₹ 848 crore but was less by ₹ 400 crore against budget projections.

Chart-1.12 : Share of components of expenditure in Total Expenditure



The relative share of these components of expenditure in total expenditure had shown a fluctuating trend during the period 2014-15 to 2018-19. The revenue expenditure over the period 2014-15 to 2018-19 had an average share of 82.90 *per cent*, while the share of capital expenditure declined from 18.81 *per cent* in 2014-15 to 16.04 *per cent* in 2018-19. The share of loans and advances in the total expenditure also declined marginally from 0.58 *per cent* in 2014-15 to 0.47 *per cent* in 2018-19.

1.6.2 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-1.15** and **Chart-1.13** present the trends in the expenditure on these components during 2014-15 to 2018-19.

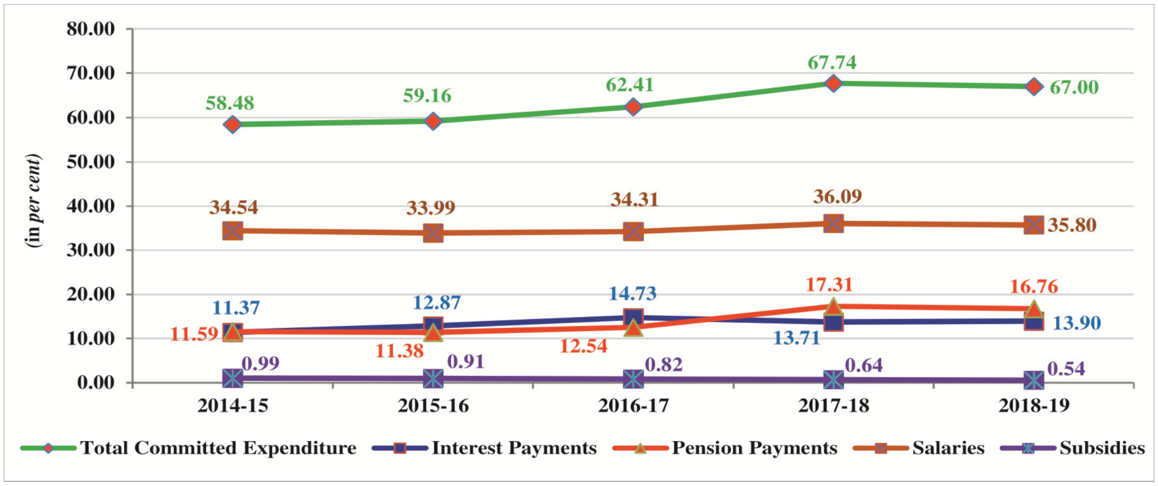
Table-1.15: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19		
					BE	Actual	Percentage of variation of Actual over BE
Salaries & Wages	7,309 *(36.10)*	7,848 *(36.96)*	8,670 *(34.83)*	10,496 *(38.72)*	13,765	11,525 *(36.92)*	*-16.27*
Interest Payments	2,406 *(11.88)*	2, 971 *(13.99)*	3,723 *(14.96)*	3,987 *(14.71)*	4,906	4,475 *(14.34)*	*-8.79*
Expenditure on Pension	2,452 *(12.11)*	2,628 *(12.38)*	3,170 *(12.74)*	5,033 *(18.57)*	5,353	5,396 *(17.29)*	*0.80*
Subsidies	209 *(1.03)*	211 *(0.99)*	208 *(0.84)*	186 *(0.69)*	269	174 *(0.56)*	*-35.32*
Total Committed Expenditure	12,376 *(61.13)*	13,658 *(64.32)*	15,771 *(63.37)*	19,702 (72.69)	24,293	21,570 *(69.10)*	*-11.21*
Other Components	8,788 *(43.40)*	9,428 *(44.40)*	9,501 *(38.17)*	9,381 *(34.61)*	11,334	10,626 *(34.04)*	*-6.25*
Total Revenue Expenditure	***21,164***	***23,086***	***25,272***	***29,083***	***35,627***	***32,196***	***-9.63***
Revenue Receipts	***20,247***	***21,234***	***24,889***	***27,105***	***35,660***	***31,216***	***-12.46***

Figures in the parentheses indicate percentage to revenue receipts.

Chart-1.13: Committed Expenditure as percentage of Revenue Expenditure



The committed expenditure, which was 61.13 *per cent* of revenue receipts in 2014-15, increased by 7.97 percentage points during the period 2014-15 to 2018-19 and was 69.10 *per cent* of revenue receipts during the current year.

It increased by ₹ 9,194 crore over the period 2014-15 to 2018-19. High levels of committed expenditure leave little scope for the Government to spend on developmental activities.

Salaries and Wages

During the current year, expenditure on salaries (₹ 11,525 crore) accounted for 35.80 *per cent* of RE (₹ 32,196 crore). Expenditure on salaries over the period 2014-15 to 2018-19 grew at an average of 12.47 *per cent*. The actual expenditure on salaries during 2018-19 was well below the target fixed by the State Government in its Budget (₹ 13,765 crore). However, over estimation made in the BE (16 *per cent*) for the year 2018-19 was not fully corrected by the Government in the Fiscal Correction Path and the projections made in the MTFPS (₹ 12,752 crore) which were also overestimated (10 *per cent*) *vis-à-vis* actuals for the year 2018-19.

Pension Payments

Expenditure on pension payments was ₹ 5,396 crore in 2018-19, which constituted 17.29 *per cent* of the revenue receipts. During the current year, it increased by 7.21 *per cent* over the previous year 2017-18 and exceeded the normative assessment of ₹ 3,550 crore made by the *FFC* for the current year by 52 *per cent* (*Annexure 7.5* of *FFC* Report).

National Pension Scheme

The State Government also introduced a Contributory Pension Scheme for the employees recruited on or after 1 October 2005 to mitigate the impact of rising pension liabilities in future.

As of 31 March 2019, as against the total employees' contribution of ₹ 382.74 crore under New Pension Scheme (NPS), the State Government contributed only ₹ 371.92 crore. Thus, the State Government did not discharge its statutory liability as it failed to contribute ₹ 10.82 crore as Government's matching share under NPS. Further, out of the total collection of ₹905.50 crore under NPS up to 31 March 2019, the State Government has transferred only ₹746.12 crore to National Securities Depository Limited (NSDL) for further investment as per provision of NPS; thereby, leaving a balance of ₹159.38 crore. Thus, there was a short transfer of ₹170.20 crore (short contribution of ₹10.82 crore *plus* ₹159.38 crore not transferred) to the NSDL and current liability stands deferred to future year(s). Further, the State Government has also created an interest liability on the amount not transferred to NSDL; incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected/avoidable financial liability to Government in future, and, thus leading to possible failure of the scheme itself.

Interest Payments

As shown in **Table-1.15**, interest payments increased by 85.99 *per cent* during 2014-15 to 2018-19 primarily on account of past borrowings. Interest payments during 2018-19 included interest on Internal Debt[7] (₹3,767 crore), Small Savings, Provident Fund, *etc*. (₹578 crore), other obligations (₹67 crore) and loans and advances from Government of India (₹63 crore). Interest payments (₹4,475 crore) during the current year were 14.34 *per cent* of revenue receipts against 11.66 *per cent* recommended by *FFC*. However, these were lower by ₹431 crore and ₹430 crore respectively than the target of ₹4,906 crore and ₹4,905 crore set forth by the State Government in its Budget and MTFPS respectively.

Subsidies

Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments, and poor recovery of user charges from Social and Economic Services provided by the Government are examples of implicit subsidies.

Explicit subsidy of the Government was ₹208.71 crore (2014-15), ₹211.38 crore (2015-16), ₹207.99 crore (2016-17), ₹185.93 crore (2017-18) and ₹173.51 crore (2018-19) as per Appendix-II of Finance Accounts, Volume-II. Share of subsidy in total revenue receipts went down from 1.03 *per cent* in 2014-15 to 0.56 *per cent* in 2018-19.

Amount of subsidy given during the year 2018-19 showed a decrease of ₹12 crore (6.45 *per cent)* as compared to the previous year. Major recipient of subsidy amount over the period 2015-16 to 2018-19 was Food Storage and Warehousing.

1.6.3 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 the period 2014-15 to 2018-19 is presented in **Table-1.16.**

[7] Refer glossary in **Appendix-4.1**.

Table-1.16: Financial Assistance to Local Bodies *etc*.

(₹in crore)

Sl. No.	Financial Assistance to Institutions	2014-15	2015-16	2016-17	2017-18	2018-19	
						BE	Actual
1.	Educational Institutions (Aided Schools & Colleges, Universities)	714.27	615.73	650.63	464.93	609.01	544.70
2.	Municipal Corporations and Municipalities	380.17	334.11	397.77	753.33	1,016.91	717.07
3.	Zila Parishads and Other Panchayati Raj Institutions	301.10	432.46	508.40	715.21	831.72	742.25
4.	Development Agencies	891.07	828.94	953.33	546.93	674.83	555.82
5.	Hospitals and Other Charitable Institutions	335.89	338.94	319.17	252.98	584.17	436.19
6.	Energy (Non-conventional source of energy)	5.11	18.63	18.12	11.78	13.69	11.69
7.	Agriculture Research and Educational Institution, Land Reforms for updating land records and Wild life Preservation	245.18	270.21	337.78	476.94	676.96	593.57
8.	Co-operatives	4.64	4.12	5.07	3.73	3.49	2.67
9.	Animal Husbandry, Dairy Development and Fisheries	28.58	27.09	32.00	38.77	51.04	41.80
10.	Secretariat Economic Services & Tourism	68.80	1.52	30.69	46.92	66.51	51.12
11.	Social Security & Welfare of Scheduled Castes, Scheduled Tribes& Other Backward Classes	412.94	514.86	446.96	232.65	314.31	216.54
12.	Other Institutions	127.67	209.16	150.30	119.64	701.30	552.36
Total		***3,515.42***	***3,595.77***	***3,850.22***	***3,663.81***	***5,543.94***	***4,465.78***
Assistance as per percentage of RE		*16.61*	*15.58*	*15.23*	*12.60*	*15.56*	*13.87*

Source: V.L.C. data of Accountant General (A&E), Uttarakhand.

The total assistance to local bodies and other institutions increased by ₹950.36 crore (27.03 *per cent*) from ₹3,515.42 crore in 2014-15 to ₹4,465.78 crore in 2018-19. The assistance during the current year also increased by ₹801.97 crore over the previous year. Municipal Corporations and Municipalities and Zila Parishads and other Panchayati Raj Institutions together accounted for 32.68 *per cent* of the total financial assistance during the current year.

There was increase in financial assistance under Other Institutions (₹432.72 crore), Hospitals and Other Charitable Institutions (₹183.21 crore), Agriculture Research and Educational Institution, Land Reforms for updating land records and Wild life Preservation (₹116.63 crore), Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc*) (₹79.77 crore) and Zila Parishads & Other Panchayati Raj Institutions (₹27.04 crore). However, there was decline in the grants released to Municipal Corporations and Municipalities (₹36.26 crore) and Social Security & Welfare of Scheduled Castes, Scheduled Tribes & Other Backward Classes (₹16.11 crore).

1.7 Quality of Expenditure

Availability of good social and physical infrastructure in the State generally reflects the quality of its expenditure. 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, and its effectiveness (assessment of outlay-outcome relationships for select services).

1.7.1 Adequacy of Public expenditure

Enhancing human development levels requires States to step up their expenditure on key social services like education, health, *etc*.

Table-1.17 and **Chart-1.14** analyses the fiscal priorities[8] of the State Government with regard to Development Expenditure (DE), Social Sector Expenditure (SSE) and Capital

[8] Ratio of expenditure in that category to Aggregate Expenditure (AE).

Expenditure (CE), Expenditure on Education and on Health as compared to Special Category States' (SCSs) average in the years 2014-15, 2017-18 and 2018-19.

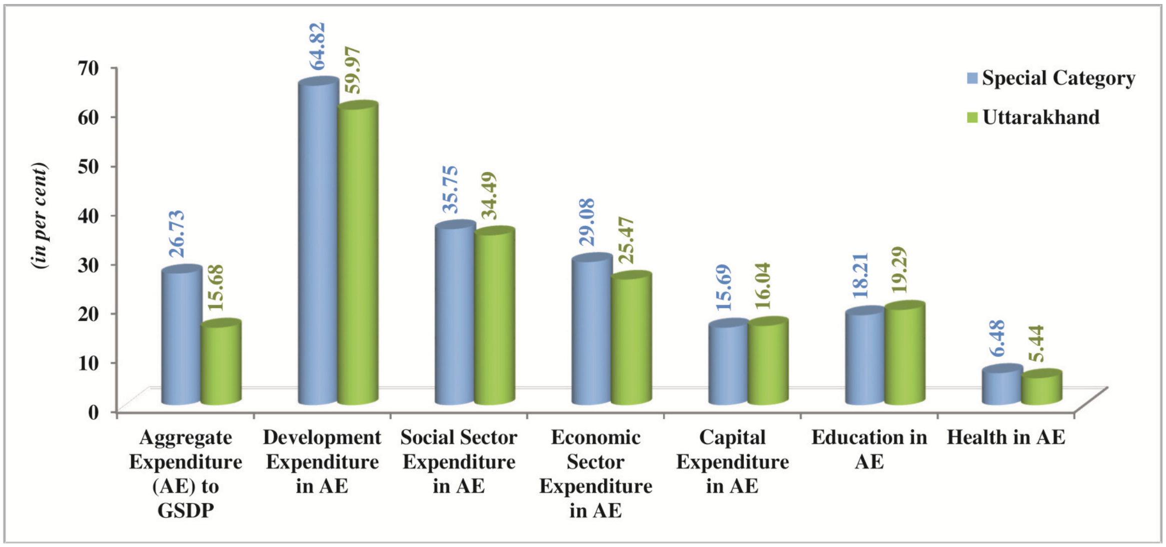
Table-1.17: Fiscal Priority of the State during the years 2014-15, 2017-18 and 2018-19

(in per cent)

Fiscal Priority by the State	AE/ GSDP	DE#/ AE	SSE/ AE	ESE/ AE	CE/ AE	Education/ AE	Health/ AE
Special Category States' Average (Ratio) 2014-15	26.00	66.76	36.27	30.49	14.46	18.52	5.60
Uttarakhand Average (Ratio) 2014-15	16.26	68.39	39.82	28.57	18.81	19.60	5.73
Special Category States' Average (Ratio) 2017-18	25.86	64.17	34.99	29.18	15.73	18.04	6.22
Uttarakhand Average (Ratio) 2017-18	15.74	58.14	34.26	23.88	16.86	19.01	4.62
Special Category States' Average (Ratio) 2018-19	26.73	64.82	35.75	29.08	15.69	18.21	6.48
Uttarakhand Average (Ratio) 2018-19	15.68	59.97	34.49	25.47	16.04	19.29	5.44

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure ESE: Economic Sector Expenditure
 # Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source: Finance Accounts of relevant Years and Economic Advisor, Office of the Comptroller and Auditor General of India.

Chart-1.14: Prioritisation in public expenditure in percentage for the year 2018-19



A comparative study of Average Expenditure of Uttarakhand State in 2017-18 and 2018-19 with that of 2014-15 indicates the following:

- The State Government's Aggregate Expenditure as a proportion of the GSDP in 2017-18 and 2018-19 was lower by 0.52 and 0.58 percentage points respectively as compared to 2014-15.
- Development Expenditure (DE) as a proportion of Aggregate Expenditure (AE) in 2017-18 and 2018-19 was less by 10.25 and 8.42 percentage points respectively as compared to 2014-15.
- Social Sector Expenditure as a proportion of AE in 2017-18 and 2018-19 was less by 5.56 and 5.33 percentage points respectively as compared to 2014-15.
- Economic Sector Expenditure as proportion of AE was lesser by 4.69 percentage points and 3.10 percentage points in 2017-18 and 2018-19 respectively as compared to 2014-15.
- The proportion of Capital Expenditure (CE) in AE decreased by 1.95 and 2.77 percentage points in 2017-18 and 2018-19 respectively as compared to 2014-15.

Further comparative study of SCS's Average and Uttarakhand's Average in 2017-18 and 2018-19 with that of 2014-15 revealed the following:

- Aggregate Expenditure (AE) as a proportion of GSDP in the State remained lower than the SCS's average during all the three years.
- Development Expenditure as a proportion of Aggregate Expenditure in the State was higher than that of the SCS's average during 2014-15. However, it was lower during 2017-18 & 2018-19.
- Social Sector Expenditure as a proportion of Aggregate Expenditure in the State was higher during 2014-15 as compared to SCS's average. However, it was lower during 2017-18 and 2018-19.
- The Economic Sector Expenditure as a proportion of Aggregate Expenditure in the State was lower than that of SCS's during all the three years.
- Priority has been given by the State Government to Capital Expenditure in 2014-15, 2017-18 and 2018-19 as the ratio of Capital Expenditure to Aggregate Expenditure has been higher than that of the SCS's average.
- In Education Sector, expenditure as a proportion of Aggregate Expenditure in the State was higher than the SCS's average during all the three years.
- Expenditure under Health Sector as a proportion to Aggregate Expenditure was little higher during 2014-15 than that of the average of SCS's but was below during the years 2017-18 and 2018-19.

1.7.2 Efficiency of expenditure

In view of the importance of public expenditure on development heads for bringing about social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[9]. Apart from increasing the allocation of funds towards development expenditure[10], the efficiency of expenditure 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-1.18** presents the trends in development expenditure relative to the Aggregate Expenditure of the State both during the current year and the previous year, **Table-1.19** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

The share of Developmental Revenue Expenditure (DRE) in the Total Expenditure (TE) remained on an average of 47 *per cent* during the period 2014-15 to 2018-19. The DRE increased by 13.20 *per cent* over the previous year and its share in the TE also increased by two *per cent* during the current year. The Development Capital Expenditure (DCE) decreased by ₹619 crore (13.10 *per cent*) during the year 2015-16 as compared to

9 Refer the glossary in **Appendix-4.1**
10 Refer the glossary in **Appendix-4.1**

2014-15 (₹4,725 crore). It increased by ₹776 crore (18.90 *per cent*) during 2016-17, by ₹228 crore (4.67 *per cent*) during 2017-18 and continued its trend (₹620 crore, 12.13 *per cent*) in the year 2018-19 also. However, the share of DCE in TE remained unchanged during 2018-19 as compared to the year 2017-18. The overall Development Expenditure increased almost by 28.79 *per cent* over the period 2014-15 to 2018-19 and its share in TE declined from 68 *per cent* in 2014-15 to 60 *per cent* in 2018-19.

Table-1.18: Development Expenditure

(₹in crore)

Components of Development Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actuals
Development Expenditure	17,955.(*68*)	18,098 (*66*)	19,477 (*64*)	20,391 (*58*)	25,504 (*60*)	23,125 (*60*)
(a) Development Revenue Expenditure	13,081 (*49*)	13,910 (*50*)	14,431 (*47*)	15,205 (*43*)	19,482 (*46*)	17,212 (*45*)
(b) Development Capital Expenditure	4,725 (*18*)	4,106 (*15*)	4,882 (*16*)	5,110 (*15*)	5,831 (*14*)	5,730 (*15*)
(c) Development Loans and Advances	149 (*01*)	82 (*01*)	164 (*01*)	76 (-)	191 (-)	183 (-)

Figures in parentheses indicate percentage to aggregate expenditure.

Table-1.19: Efficiency of Expenditure Use in Selected Social and Economic Services

(in per cent)

Social/Economic Infrastructure	2017-18			2018-19		
	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	2.81	79.32	0.03	1.49	79.07	0.03
Health and Family Welfare	3.95	63.03	0.32	8.94	57.00	0.29
Water Supply, Sanitation, & Housing and Urban Development	54.96	2.44	0.26	54.36	1.69	0.49
Total SS	***10.62***	***70.65***	***0.10***	***9.34***	***69.96***	***0.11***
Economic Services(ES) expenditure on major components						
Agriculture & Allied Activities	27.18	39.34	1.29	28.65	35.16	1.79
Irrigation and Flood Control	43.60	78.52	8.85	45.48	74.97	9.70
Power & Energy	87.80	0.66	0.00	94.20	0.76	0.00
Transport	86.60	11.32	3.93	81.49	9.64	4.22
Total ES	***49.42***	***42.53***	***2.62***	***47.44***	***37.84***	***3.06***
Total (SS+ES)	***24.95***	***63.64***	***0.73***	***23.41***	***61.82***	***0.86***

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.

The State Government in its Budget 2018-19 had committed a Capital Expenditure of ₹6,583.79 crore for the year 2018-19. However, the Government could capitalise ₹6,184.42 crore only which was ₹399.37 crore (6.07 *per cent*) less than the BE. The Capital Expenditure increased by ₹270.05 crore during the current year over the previous year.

During 2018-19, salaries and wages, as a percentage of revenue expenditure both in Social and Economic Services decreased by 0.69 percentage points and 4.69 percentage points respectively as compared to 2017-18. The expenditure under Operation & Maintenance as a percentage of revenue expenditure has almost remained the same in Social Services. In Economic Services it has increased marginally during the current year over the previous year.

1.8 Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to not only keep its fiscal deficit (and borrowing) at low levels, but also meet its requirements under capital expenditure and investments including loans and advances. In addition, the State Government needs to initiate measures to earn adequate return on its investments and recover the cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies, and take requisite steps to infuse transparency in its 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.

1.8.1 Incomplete projects

Information pertaining to incomplete projects as on 31 March 2019 is given in **Table-1.20**.

Table-1.20: 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 expenditure as on 31.3.2019
Public Works Department	202	716.66	725.12	8.46	480.30
**** Indicates the Revised total cost of the projects as per the last revision by the State Government as on 31.03.2019.***					

Source: Finance Accounts.

Delays in completion of projects not only adversely affected the quality of the expenditure but also deprived the State of intended benefits and economic growth.

1.8.2 Investment and returns

As on 31 March 2019, the average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table-1.21)** was negligible and ranged from 0.004 to 0.71 *per cent* of the investment (at historical cost) in the last five years while the Government paid an average interest rate of 8.25 *per cent* on its borrowings during 2014-15 to 2018-19.

Table-1.21: Returns on Investment

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year *(₹in crore)*	2,809	2,914	3,124	3,209	3,402
Return (Dividend/ interest) *(₹in crore)*	0.11	5.10	15.21	22.69	18.69
Return (*per cent*)	*0.004*	*0.18*	*0.49*	*0.71*	*0.55*
Average rate of interest on Government borrowing (*per cent*)	*7.73*	*8.19*	*8.90*	*8.27*	*8.15*
Difference between interest rate and return (*per cent*)	*7.73*	*8.01*	*8.41*	*7.56*	*7.60*
Notional loss due to difference between interest rate of Government borrowings and return on investments *(₹in crore)*	217.14	233.41	262.73	242.60	258.55

Source: Finance Accounts.

The State does not have a policy for payment of dividend to Government by State PSUs. Over the past five years the State Government has incurred a notional loss of ₹1,214.43 crore on return on investment on account of difference between the Government's borrowing cost and the return on investment on working PSUs.

During Exit Conference, the State Government agreed to frame a policy for the payment of dividend to the State Government by profit earning PSUs.

The major investments were in (i) Uttarakhand Power Corporation Ltd. (₹1,321.03 crore), (ii) Uttarakhand Jal Vidyut Nigam Ltd. (₹1,178.86 crore) and Power Transmission Corporation of Uttarakhand Ltd. (₹473.88 crore). The Uttarakhand Power Corporation Ltd. had incurred accumulated losses of ₹3,121.95 crore as per their latest finalised accounts for the year 2018-19, while Uttarakhand Jal Vidyut Nigam Ltd. and Power Transmission Corporation of Uttarakhand Ltd. have an accumulated profit of ₹ 939.86 crore and ₹ 202.34 crore respectively as per their latest finalised accounts for the year 2018-19.

In the State of Uttarakhand there are a total of 30 PSUs, out of which 22 PSUs are working and eight are non-working. Amongst the working 22 PSUs[11], nine PSUs were loss making entities and had an accumulated loss of ₹4,400.07 crore as per their latest finalised account. The Government of Uttarakhand has not given any loans or made any investment in the non-working PSUs during the current year. Further, during 2018-19, the State Government invested ₹15 crore as Equity Share Capital in Uttarakhand Power Corporation Limited and during 2018-19 disbursed grant of ₹123.76 crore to two state PSUs namely Doiwala Sugar Company and Kichha Sugar Company Limited. All the three PSUs were having accumulated loss as on 31 March 2019.

It was also observed that the State Government invested ₹0.50 crore[12] as equity share capital and provided grant/subsidy of ₹125.81 crore[13] to four PSUs whose accounts were in arrears.

1.8.3 Departmentally Managed Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmentally managed undertakings of certain government departments. There are three departmentally managed commercial undertakings in the State. Out of this, only one company, *i.e.* Irrigation Workshop, Roorkee had finalized its accounts up to 2011-12. The department-wise position of investments made by the Government up to the year for which proforma accounts are finalised, net profit/loss as well as return on capital invested in these undertakings are given in ***Appendix-1.5***. It was observed from the finalised accounts of three companies that:

- An amount of ₹1.92 crore had been invested by the State Government in 'Government Irrigation Workshop', Roorkee, up to 2011-12.
- Out of a total of three undertakings *viz*; Irrigation Workshop, Roorkee; Regional Food Controllers, Haldwani and Dehradun, only Irrigation Workshop, Roorkee had finalised its accounts up to 2011-12. It was a profit earning entity up to 2007-08 but has been posting net losses thereafter.

1.8.4 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government has also been providing loans and advances to many of these institutions/organisations. **Table-1.22** presents the outstanding loans and advances as on 31 March 2019, and interest receipts *vis-à-vis* interest payments during the last three years**.**

[11] Out of 22 working PSUs, eight were profit making and remaining five PSUs had not finalised their accounts for last five years.

[12] Uttarakhand Alpsankhyak Kalyan Evam Wakf Vikas Nigam.

[13] Includes ₹123.76 crore to two State PSUs namely Doiwala Sugar Company and Kichha Sugar Company Limited which were having accumulated loss as on 31 March 2019; Uttarakhand Alpsankhyak Kalyan Evam Wakf Vikas Nigam-₹ 1.80 crore and Uttarakhand Bahuudeshiya Vitt Evam Vikas Nigam-₹ 0.25 crore.

Table-1.22: Average interest received on loans and advanced by the State Government

(₹in crore)

Amount of Loans/Interest Receipts/ Cost of Borrowings	2016-17	2017-18	2018-19	
			BE	Actual
Opening Balance of loans and advances given by the State	1,596.45#	1,726.65	--	1,769.97
Amount advanced during the year	165.05	76.83	191.98	183.48
Amount repaid during the year	34.85	33.51	32.74	26.91
Closing Balance	1,726.65	1,769.97	--	1,926.54
Net addition	130.20	43.33	--	156.57
Interest Receipts	0.17	0.08	--	1.13
Interest receipts as *per cent* to outstanding Loans and advances	0.01	0.005	--	0.06
Outstanding balance for which terms and conditions have been settled	Information not made available			

Source: Finance Accounts and Annual Financial Statement (Government of Uttarakhand).
 # Differs with the closing balance of previous year due to apportionment of unallocated balances between Uttar Pradesh and Uttarakhand.

During 2018-19, the Government advanced loans of ₹183.48 crore against ₹76.83 crore in 2017-18, an increase of ₹106.65 crore (138.81 *per cent*) over the previous year. The increase was mainly on account of loans advanced to Agriculture Sector (₹107.84 crore) and Power (₹7.89 crore) which was partly counter balanced by less disbursement of loans to Urban Development (₹5.80 crore) and Transport (₹2.97 crore). Recoveries of loans and advances also showed a decrease of ₹6.60 crore over the previous year.

Interest receipts, as a percentage of outstanding loans and advances showed some appreciation during the current year as compared to previous year. Interest payment as *per cent* to the outstanding Fiscal Liabilities of the State was 7.71 *per cent* during 2018-19, which was marginally higher than the previous year, 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 0.06 *per cent* as against the target of seven *per cent* which was to be achieved by 2009-10, as fixed by the Twelfth Finance Commission.

Total loans advanced by the Government as on 31 March 2019 stood at ₹1,926.54 crore. The major beneficiaries were Agriculture and Allied Activities (₹1,011.24 crore), Energy (₹211.59 crore) and Transport (₹153.80 crore) sectors.

Scrutiny of the total outstanding loans revealed that there was no repayment by three sectors namely General Services (other Loans), Special Area Programme and Transport sector as detailed in **Table-1.23** over last five years (up to March 2019) and in one sector (Agriculture and Allied Activities), additional loans had been extended despite marginal repayments. In another sector, Water Supply, Sanitation, Housing and Urban Development small recovery was recorded. The overall outstanding balance has increased over the years.

Table-1.23: Loan and Advances rolling for a long time

(₹in crore)

Sl. No.	Name of the Sector	2014-15	2015-16	2016-17	2017-18	2018-19
1.	General Services (Other Loans)	19.47	19.47	19.47	19.47	19.47
2.	Water Supply, Sanitation, Housing and Urban Development	42.09	42.09	47.89	47.89	42.09
3.	Agriculture and Allied Activities	795.99	797.92	895.31	899.79	1,011.24
4.	Special Area Programme	9.53	9.53	503.68#	503.16	503.16
5.	Transport	135.11	136.11	140.29	148.53	153.80
Total		***1,002.19***	***1,005.12***	***1,606.64***	***1,618.84***	***1,729.76***

 # Increased by ₹494.15 crore due to apportionment of unallocated balances between Uttar Pradesh and Uttarakhand.

During the period 2014-15 to 2018-19 an amount of ₹659.48 crore was advanced to different sectors by the Government. Amounts repaid amounted to ₹168.05 crore over the same period. Recovery in each year declined from four *per cent* of the amount outstanding at the beginning of the year and amount advanced during the year in 2014-15 to less than two *per cent* in 2018-19. During the current year amount repaid was ₹26.91 crore which stood at 1.40 *per cent* of the outstanding loans (₹1,926.54 crore) as on 31 March 2019.

Since recovery of the loans has been poor, State Government may consider treating these loans and advances as grants and booking them as revenue expenditure for ensuring that accounts reflect the correct position.

1.8.5 Cash balances and investment of cash balances

Table-1.24 depicts the cash balances and investments made by the State Government out of its cash balances during the year.

Table-1.24: Cash Balances and Investments out of Cash balance

(₹in crore)

Particulars	As on 1st April 2018	As on 31st March 2019
(a) General Cash Balance		
Cash in Treasuries and local Remittances	00	00
Deposits with Reserve Bank	1,171.00	1,158.50
Deposits with other Banks(B)	00	00
Total	***1,171.00***	***1,158.50***
Investments held in Cash Balance investment account	385.49	247.48
Total (a)	***1,556.49***	***1,405.98***
(b) Other Cash Balances and Investments		
Cash with departmental offices *viz*. Public Works Department Officers, Forest Department Officers, District Collectors	(-) 10.70	(-) 10.71
Permanent advances for contingent expenditure with departmental officers	(-) 0.81	(-) 0.81
Investments of earmarked funds	1,188.62	1,188.62
Total (b)	***1,177.11***	***1,177.10***
Grand Total (a) + (b)	***2,733.60***	***2,583.08***

Source: Finance Accounts.

The closing Cash Balance (CB) at the end of the current year (₹2,583.08 crore) decreased by ₹150.52 crore over the previous year (₹2,733.60 crore).

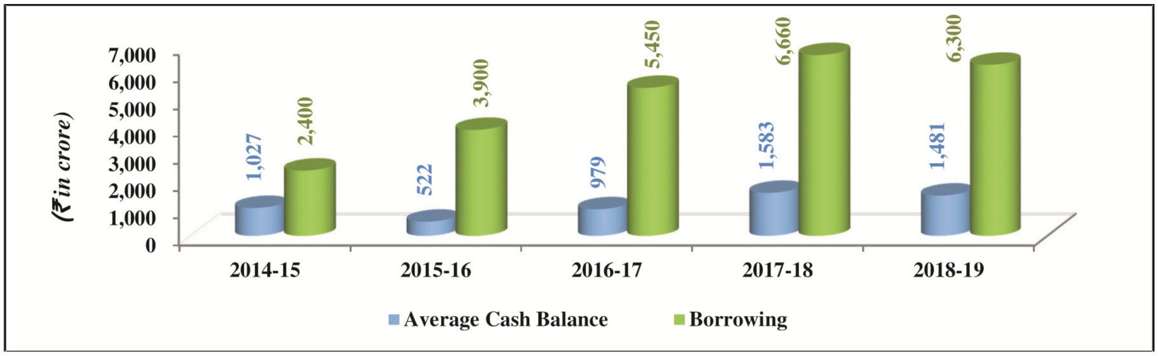
The State Government had created earmarked funds of ₹1,188.62 crore from the CB. The said amount of earmarked funds consisting of Sinking Fund Investment Account (₹1,153.62 crore) and Guarantee Redemption Fund Investment Account (₹35 crore) was invested through RBI. The Government had to resort to overdraft facility on 18 occasions during the year. The Government was able to maintain a minimum cash balance of ₹0.16 crore for maximum number of days (198 days) during 2018-19. The Government had also to maintain the minimum balance by taking ordinary advances on 142 occasions during the year. Temporary imbalances in cash flow forced the Government to obtain special Ways and Means Advances (WMA) on 07 occasions during the year. The State had to pay ₹6.08 crore as interest on WMA during the year 2018-19.

During 2018-19, the State had an opening general cash balance of ₹1,556.49 crore at the beginning of the year and Government borrowed ₹6,300 crore from the open market for meeting its obligations. The general cash balance at the close of the year was ₹1,405.98 crore.

Audit analysis revealed that the interest realised on cash balance investment account was ₹10.49 crore (2.72 *per cent*) during 2018-19 while government paid interest at the average rate of 8.15 *per cent* on its market borrowings during the year. Hence, it would have been in the financial interest of the State to have utilised the available cash balance (beyond the mandatory minimum cash balances required to be maintained with RBI) for meeting its requirements so as to minimise its borrowing.

The Average Cash Balance *vis-à-vis* borrowing of the last five years is depicted in the **Chart-1.15.**

Chart-1.15: Average Cash Balance *vis-à-vis* Borrowings for the year 2014-15 to 2018-19



1.9 Assets and Liabilities

1.9.1 Composition of assets and liabilities

In the existing government accounting system, comprehensive accounting of fixed assets such as 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 assets as on 31 March 2019, compared with the corresponding position as on 31 March 2018. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts in the public account and reserve funds, the assets comprise mainly of capital outlay, loans and advances given by the State Government, and cash balances.

1.9.2 Fiscal Liabilities

Liabilities of the Government consist mainly of internal borrowings, loans and advances from GoI and balances in the Public Account. The total liability of the State as of 31 March 2019 was ₹58,039 crore; its composition is at **Chart-1.16**.

Chart-1.16: Components of total liabilities of 2018-19 of the State Government

Total Liabilities (₹ 58,039 crore)[14]		
Internal Debt from Market, financial institutions. *etc.* (₹ 45,443 crore)	**Loans and Advances from Government of India (₹ 790 crore)**	**Public Account Liabilities where Government acts as a banker (₹ 11,806 crore)**
Market Loans (₹ 31,952 crore)	Loans for State Plan Schemes (₹ 786 crore)	Small Savings, Provident Fund, *etc* (₹ 7,899 crore)
Loans from Financial Institutions (₹ 4,063 crore)	Non Plan Loans (₹ Four crore)	Reserve Fund (₹ 573 crore)
Special Securities issued to NSSF (₹ 9,427 crore)	Pre 1984-85 Loans (₹ 0.53 crore)	Deposits (₹ 3,334 crore)
Loans from Other Institutions (₹ One crore)		

Source: Finance Accounts.

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix-1.3***; ***Appendix-1.4 (Part-A)*** and ***Statement 6*** of the State Finance Accounts. The composition

14 Does not include general cash balance and contingency fund (corpus).

of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart-1.17** and **Chart-1.18**.

Chart-1.17: Composition of Outstanding Fiscal Liabilities as on 31.03.2018 (₹*in crore*)

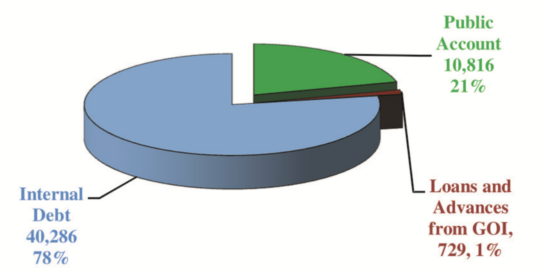
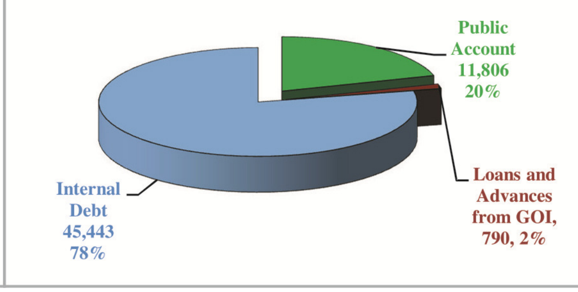
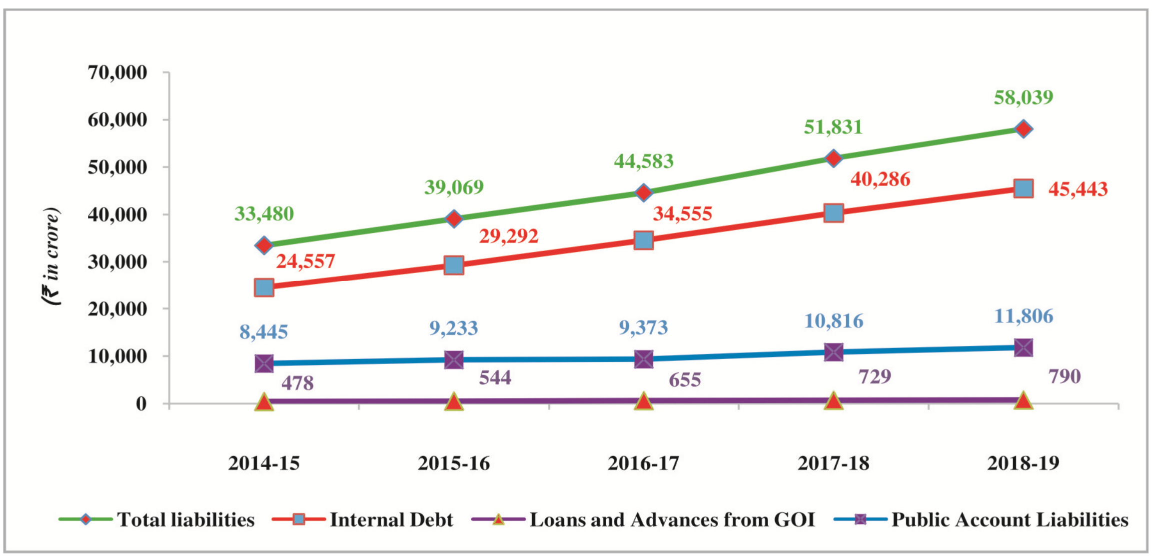


Chart-1.18: Composition of Outstanding Fiscal Liabilities as on 31.03.2019 (₹*in crore*)



The Fiscal Liabilities to GSDP ratio for the year 2018-19 was 23.60 *per cent* as compared to previous year ratio of 23.26 *per cent*. The ratio was 1.04 percentage points higher than the normative assessment of the *FFC* (22.56 *per cent)* for the year. The overall fiscal liabilities increased by 73.35 *per cent* from ₹33,480 crore in 2014-15 to ₹58,039 crore in 2018-19. The fiscal liabilities comprised of public debt (₹46,233 crore), Small Savings and Provident Fund, *etc*. (₹7,899 crore), and other obligations (₹3,907 crore). The increase in the fiscal liabilities (₹6,208 crore) at the end of the current year as compared to the previous year 2017-18 was mainly on account of Internal Debt, Small Savings, and Provident Fund, *etc*. which rose by ₹5,157 crore and ₹889 crore respectively. The buoyancy of these liabilities with respect to GSDP during the year was 1.16 indicating that for each percentage point increase in GSDP, fiscal liabilities grew by 1.16 *per cent*. These liabilities (₹58,039.27 crore) stood at 1.86 times State's revenue receipts and 3.74 times its own resources during 2018-19. Trend of composition of fiscal liability for the period 2014-15 to 2018-19 is depicted in the **Chart-1.19**.

Chart-1.19: Trend of liabilities



Source: Finance Accounts.

1.9.3 Transactions under Reserve Funds & Deposits

(a) State Government operated seven Reserve Funds as on 31 March 2019, out of which one Reserve Fund is interest bearing[15] (₹494.43 crore credit) and six are non-interest bearing funds[16] (₹1,267.65 crore credit). Out of these seven funds, two funds are inoperative (balance ₹36.48 crore debit) and five funds are operative (balance ₹1,798.56 crore credit). As on 1 April 2018, opening balance against these seven funds was ₹1,650.54 crore. During the year, the State Government transferred funds amounting to ₹243 crore from the Consolidated Fund to Reserve Funds and expenditure met from these funds was ₹131.46 crore, leaving a balance of ₹1,762.08 crore as on 31 March 2019. During the year, no amount was invested from these funds by the State Government. The total investment to the end of the year stood at ₹1,188.62 crore, leaving a balance of ₹573.46 crore. The inoperative reserve funds need to be reviewed for closure and the amount involved transferred to the concerned revenue heads. The same was not done in the case of the above mentioned inoperative accounts.

(b) Interest liability of ₹40.38 crore in respect of Reserve Funds Bearing Interest and Deposits Bearing Interest, under Sectors *J* and *K* respectively of the Public Accounts is annual liability that the State Government is required to discharge. No budget provision for the interest payable was made by the State Government despite the existence of balance in such Reserve Funds and Deposits, as on 01 April 2018, as detailed in the **Table-1.25.**

Table-1.25: Details of Cash balances in Reserve Funds and Deposits

(₹in crore)

Sector	Sub-Sector	Rate of Interest	Balance at the beginning of 2018-19	Interest Payable
J- Reserve Fund	(a) Reserve Funds bearing interest (including SDRF)	6.33 *per cent* (Average of W & M interest rate)	381.66	24.16
K- Deposits and Advances	(a) Deposit bearing interest (excluding CPS MH 8342-117)	6.33 *per cent* (Average of W & M interest rate)	256.22	16.22
Total Interest				***40.38***

State Disaster Response Fund (SDRF): Government of India replaced the existing Calamity Relief fund in 2010-11 with the State Disaster Response Fund (SDRF). In terms of the guidelines of the Fund, the Centre and Special Category States like Uttarakhand are required to contribute to the Fund in the proportion of 90:10. As per the guidelines, these contributions are to be transferred to the Public Account under Major Head 8121 by operating the Expenditure Major Head 2245. Expenditure incurred during the year on disaster response is adjusted by debiting the Public Account with contra deduct debit to the Expenditure Major Head 2245. Balance outstanding in the Fund, at the end of the year, is invested. Government of India provides additional assistance from the National Disaster Response Fund (NDRF) when the balance available under SDRF is insufficient to meet the expenditure on account of natural calamities. The entire fund provided under the NDRF is used directly against the expenditure on natural calamities.

As on 1 April 2018, the Fund had a balance of ₹381.66 crore. During 2018-19, the Central Government released an amount of ₹219.19 crore towards SDRF. The State Government transferred the entire Central Government release and its share of ₹23.81 crore to the

[15] State Disaster Response Fund.

[16] 1. Sinking Fund 2. Development Fund for Educational Purposes 3. Sugar Development Funds 4. Electricity Development Funds 5. Other Development and Welfare Funds 6. Guarantee Redemption Fund.

Public Account. From out of the available balance in the Fund, expenditure of ₹130.23 crore initially incurred under the MH 2245-Relief on account of Natural Calamities was set off, leaving a balance of ₹494.43 crore in the Fund as of 31 March 2019. Contrary to the guidelines, this amount was not invested by the State Government.

1.9.4 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.

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 such rule or law. However, the State Legislature (under Article 293 of the Constitution fixing the maximum limit within which the government could give guarantees on the security of the Consolidated Fund of the State) made the relevant provision in the amended FRBM, Act only in December 2016.

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 five years are given in **Table-1.26** and **Chart-1.20.**

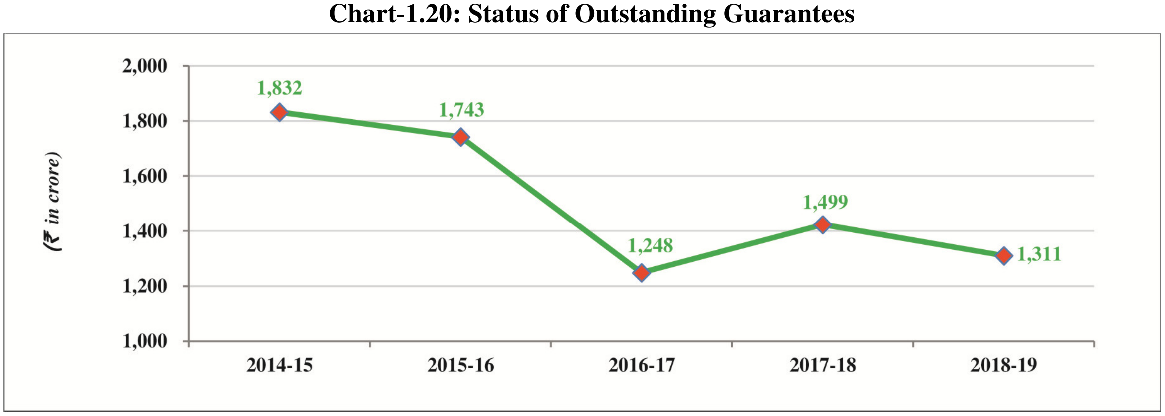
Table-1.26: Guarantees given by the Government of Uttarakhand

(₹in crore)

Guarantees	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding amount of guarantees as on 31st March	1,832	1,743	1,248	1,499#	1,311
Ceiling fixed by the State Government Act	Outstanding guarantees capped within one *per cent* of the GSDP of that particular year. New guarantees given during any year should not be more than 0.3 *per cent* of the GSDP for that year.				
Additions during the year	438	915	295	251	--
Deletions during the year	81	1,004	790	75	188

 # Differs from the closing balance of previous year since the OB was taken as ₹1,499 crore in the Budget documents.

Chart-1.20: Status of Outstanding Guarantees

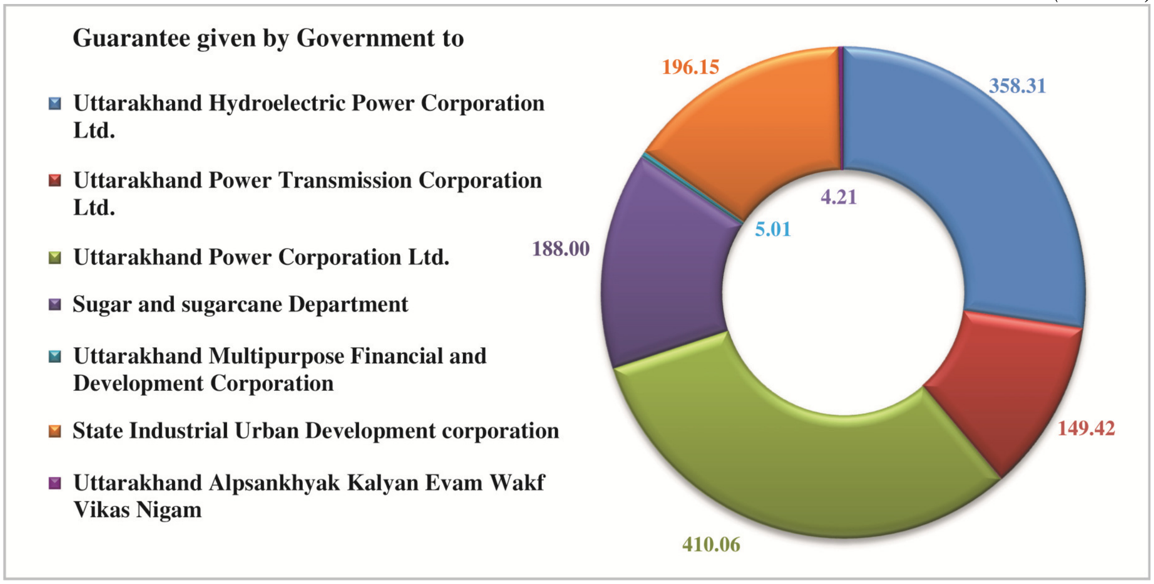


Source: Finance Accounts.

The amount of guarantees outstanding as on 31 March 2019 is ₹1,311 crore which comprises Power Sector (₹918 crore), Co-operatives (₹188 crore) and others (₹205 crore). Total outstanding guarantees as on 31 March 2019 was ₹1,311 crore which is 0.53 *per cent* of GSDP for the year and hence was within the FRBM ceiling. Company wise detail is given in the **Chart-1.21**.

Chart-1.21: Bodies in receipt of guarantees at the end of 31 March 2019

(₹in crore)



Source: Finance Accounts.

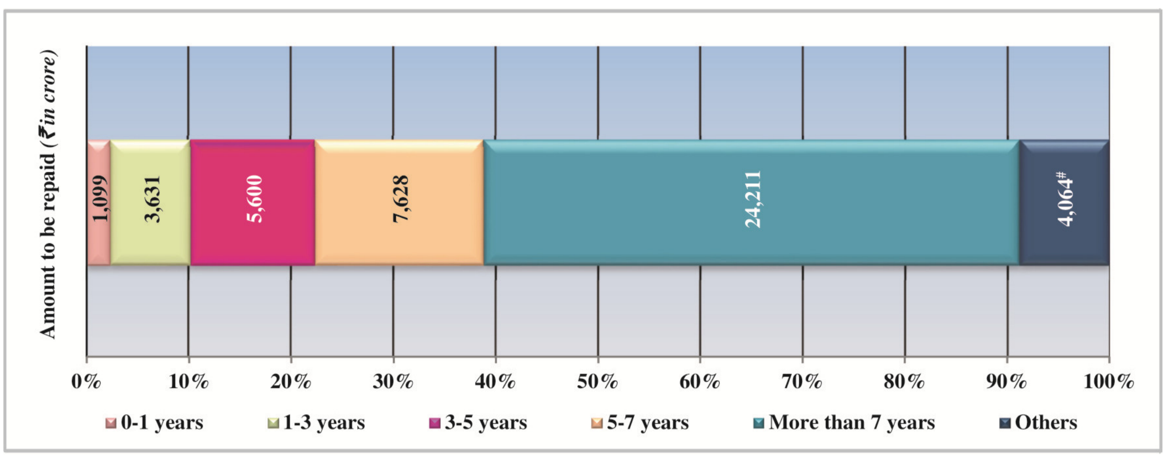
No guarantee was invoked during the year. The maximum amount of Guarantee and Outstanding amount of Guarantee indicated in the Finance Accounts is based on the information provided by the State Government**.**

1.10 Debt Management

(i) Debt Profile

The maturity profile of the State's outstanding loans and advances (public debt) is given in **Chart-1.22.**

Chart-1.22: Maturity Profile of Public Debt

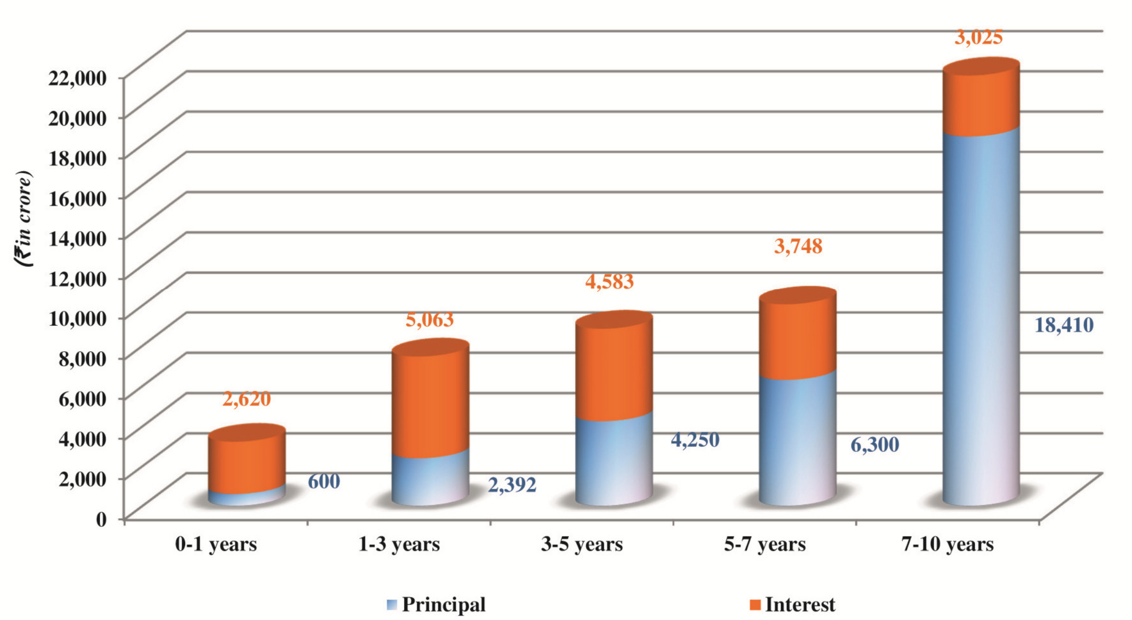


Source: Finance Accounts.

 # Maturity profile in respect of other loans amounting to ₹4,064 crore have not been provided in the finance accounts.

The maturity profile of outstanding stock of public debt as on 31 March 2019 shows that 52 *per cent* of the Public Debt was in the maturity bucket of seven years and above. The amount of outstanding market loans and interest to be paid there on over the period of ten years is detailed in **Chart-1.23** below:

Chart-1.23: Maturity profile of Market Loan



***Note:** the maturity profile has been evolved for outstanding market loans as on 31 March 2019 and interest has been calculated up to the financial year in which the loans are going to be retired.*

The State will have to repay ₹ 2,992 crore of market loans and pay interest of ₹ 7,683 crore in next three financial years *i.e.* up to 2021-22. In next two years up to 2023-24, ₹ 4,250 crore principal and interest of ₹ 4,583 crore will be payable. Annual outgo in shape of loan repayment and interest will be approximately ₹ 3,901.60 crore during next five years up to 2023-24.

In the period 2024-25 to 2028-29, loans of ₹ 24,710 crore and interest of ₹ 6,773 crore will be payable. As such the State will have to repay approximately ₹ 6,296.60 crore annually during the period 2024-25 to 2028-29. Current annual repayment of loans including interest is ₹ 3,334 crore**.**

Revenue Receipts (RR) and Revenue Expenditure (RE) have grown at an annual average rate of 16.04 *per cent* and 19.71 *per cent* respectively in the past five years. Applying these growth rates, and assuming that RR and RE will continue to grow at these rates, the Revenue Deficit of the State will increase to ₹ 13,473 crore in 2024-25 and ₹ 56,401 crore by the year 2028-29.

Repayment liabilities will go up substantially in the future and at the current rates of growth of RR and RE the State will continue to be in revenue deficit till 2028-29. Hence, the State will have to resort to increased borrowings to service its debt liability.

(ii) Debt Sustainability

Debt sustainability implies State's ability to service debt. Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. The analysis of variations in debt sustainability indicators for the period of five years beginning from 2014-15 is given in **Table-1.27**.

Table-1.27: Debt Sustainability: Indicators and Trends

(₹in crore)

Indicators of Debt Sustainability[17]	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Public Debt	25,035	29,836	35,210	41,015	46,233
Rate of growth of Outstanding Public Debt	*17.23*	*19.18*	*18.01*	*16.49*	*12.72*
State's GSDP	1,61,439	1,77,163	1,95,125	2,22,836	2,45,895
Growth rate of GSDP	*8.29*	*9.74*	*10.14*	*14.20*	*10.35*
Average Interest Rate of Outstanding Public Debt (*per cent*)	*8.15*	*8.53*	*9.67*	*8.97*	*8.78*
Interest Payments/Revenue Receipts (*per cent*)	*9.34*	*11.02*	*12.64*	*12.61*	*12.27*
Percentage of Debt Repayment to Debt Receipts#	*19.55*	*29.38*	*17.35*	*22.87*	*28.27*
Public Debt Receipt	4,573	6,798	6,501	7,526	7,275
Public Debt Repayment	894	1,997	1,128	1,721	2,057
Interest paid on Internal Debt and Loans From GOI	1,891	2339	3,146	3,417	3,830
Net Debt available to the State*	1,788	2,462	2,227	2,388	1,388
Percentage of Repayment of Debt & interest there on to Total Borrowed fund	*60.90*	*63.78*	*65.74*	*68.27*	*80.92*

***** ***Net Debt available to the State Government is calculated as Excess of Public Debt receipts over Public Debt repayment, Interest Payment on Public Debt.***

 # Excluding Ways & Means Advances.

An analysis on debt sustainability was carried out based on a study by E D Domar[18] [Domar, 1944]. The Domar model states that the necessary premise for ensuring stability of public indebtedness is that the interest rates for government loans should not exceed the growth rate of GDP.

The dynamics of public debt depending on the interest rate, growth rate of GDP and the primary budget balance are as follows:

g-r (g - real economic growth rate; r- real interest rate)	s<0 (primary deficit)	s> 0 (primary surplus)
g-r> 0 (strong economic growth)	Public debt as percentage of GSDP should converge to a stable level greater than zero.	Public debt as percentage of GSDP should converge to a stable level less than zero leading to public savings.
g-r<0 (slow economic growth)	Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.	Undefined situation.

The result of applying the analysis to Uttarakhand is shown in the table below:

Year	Real Growth (g)	Real Interest (r)	g-r	Primary Deficit (-) /surplus (s) (*₹in crore*)	Remarks
2014-15	5.29	4.69	0.60	(-) 3,420	g-r>0 and s<0: Public Debt will converge to a stable level greater than zero.
2015-16	8.08	5.62	2.46	(-) 3,154	
2016-17	9.83	5.76	4.07	(-) 1,744	
2017-18	7.84	4.32	3.52	(-) 3,948	
2018-19	6.87	4.57	2.30	(-) 2,845	
Real Growth rate calculated for Real GSDP. Real Interest rate is the nominal interest rate adjusted for inflation.					

Further, Debt to GSDP ratio stood at 23.60 *per cent* and the Fiscal Deficit to GSDP ratio at 2.98 *per cent* in 2018-19. The corresponding Fourteenth Finance Commission (FFC) Fiscal target of Debt limit was 22.56, and Fiscal Deficit ceiling was 3.25 *per cent* of GSDP. The capital expenditure of the State has hovered between 16 and 19 *per cent* during 2014-19.

In each of the five years (2014-15 to 2018-19) the State had primary deficit and the Domar gap (g-r) is positive during the period. Therefore, as per Domar model, the public debt will converge to a stable level greater than zero. However, other factors such as public account liabilities and *force majeure* events like current Corona virus crisis & its effect on GSDP

[17] Refer glossary in **Appendix-4.1.**

[18] Domar model does not take into account maturity profile, composition, cost and risk characteristics of debt stock.

and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State as these cannot be anticipated or determined statistically; they have not been factored in the analysis.

Table-1.28: Utilisation of borrowed funds

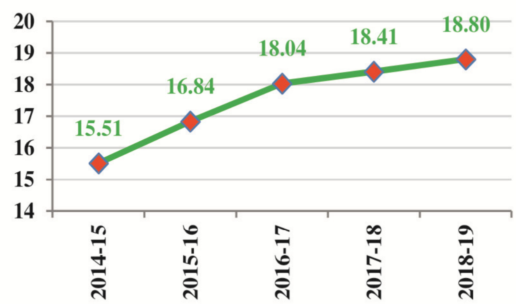
(₹in crore)

Year	Total Borrowings	Repayment of earlier borrowings (Principal) *(percentage)*	Net Capital expenditure* *(percentage)*	Net Loans and Advances disbursed *(percentage)*	Portion of Revenue expenditure met out of total borrowings *(percentage)*
2014-15	4,573	894 *(20)*	3,679 *(80)*	NA	NA
2015-16	6,798	1,997 *(29)*	4,217 *(62)*	56 *(1)*	528 *(8)*
2016-17	6,501	1,128 *(17)*	4,954 *(76)*	130 *(2)*	289 *(5)*
2017-18	7,526	1,721 *(23)*	5,805 *(77)*	NA	NA
2018-19	7,275	2,057 *(28)*	5,218 *(72)*	NA	NA

Net Capital Expenditure = Total Capital Expenditure –Misc. Capital Receipts.
NA- Not Applicable.

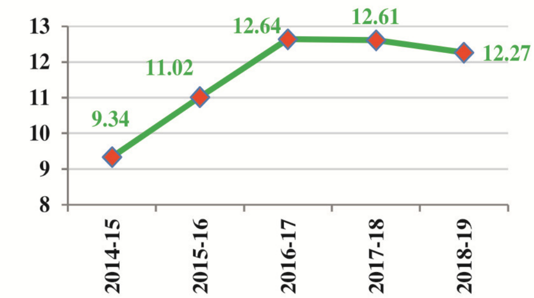
- In the years 2014-15, 2017-18 and 2018-19 the State utilised total borrowings for repayment of earlier principal and on capital expenditure.
- During 2015-16 and 2016-17, an amount of ₹528 crore and ₹289 crore respectively were utilized out of total borrowings for meeting revenue expenditure.

Chart-1.24: Debt Sustainability (*i.e.*, ratio between debt-GSDP)



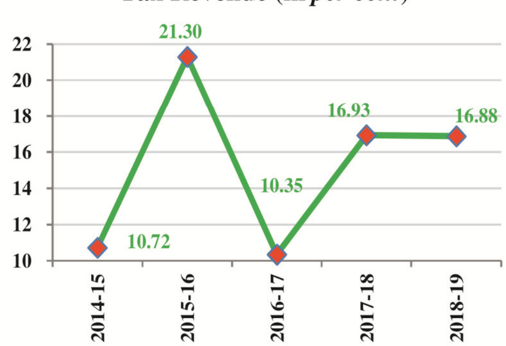
This indicates that debt of Government is increasing at a higher pace than GSDP

Chart-1.25: Interest payments as a *per cent* of Revenue Receipts



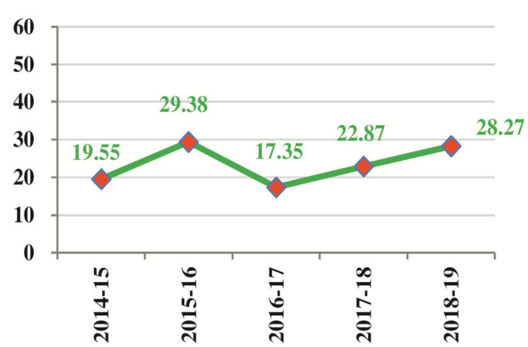
This indicates that interest payments are consuming on an average 11.58 *per cent* of Revenue Receipts

Chart-1.26: Trend of Debt Repayment versus Tax Revenue (in *per cent*)



This indicates that 10 to 21 *per cent* of Tax Revenues is utilised for debt repayments

Chart-1.27: Trend of Debt Repayment versus Debt Receipts (in *per cent*)



This indicates that 17 to 29 *per cent* of debt receipts are used to repay old outstanding loans

From the above **Table-1.27** it is observed:

- The growth rate of outstanding Public Debt increased 1.95 percentage points from 17.23 *per cent* in 2014-15 to 19.18 *per cent* in 2015-16. However, it showed declining trend from the year 2016-17 onwards and was 12.72 *per cent* during the current year. The growth rate of public debt has consistently been higher than that of GSDP.
- During the period 2014-15 to 2018-19, the average interest rate of Outstanding Public Debt ranged between 8.15 *per cent* and 9.67 *per cent*.
- The State utilised 9.34 to 12.64 *per cent* of revenue receipts for Interest Payments on Public Debt during 2014-15 to 2018-19.
- The percentage of Debt Repayment to Debt Receipts showed a fluctuating trend over the period 2014-15 to 2018-19. In 2014-15, 19.55 *per cent* of Public Debt Receipt was used for the purpose of Repayment of Public Debt while in 2018-19, 28.27 *per cent* was used for this purpose.
- During 2014-15 to 2018-19, a major portion (ranging between 60.90 *per cent* and 80.92 *per cent*) of public debt receipt was being utilised for repayment of earlier borrowed funds and payment of interest there on. Net Debt available to the State has declined from ₹2,388 crore (2017-18) to ₹1,388 crore in the current year on account of higher portion of public debt receipt being utilised for repayment of borrowed funds and payment of interest thereon. Percentage of debt repayment including interest to total borrowed funds increased to 80.92 *per cent* in 2018-19 as compared to 68.27 *per cent* in 2017-18.

Composition of market Loan taken and repaid during 2014-15 to 2018-19 is given in the **Chart-1.28** and **1.29**.

Chart-1.28: Internal Debt Taken

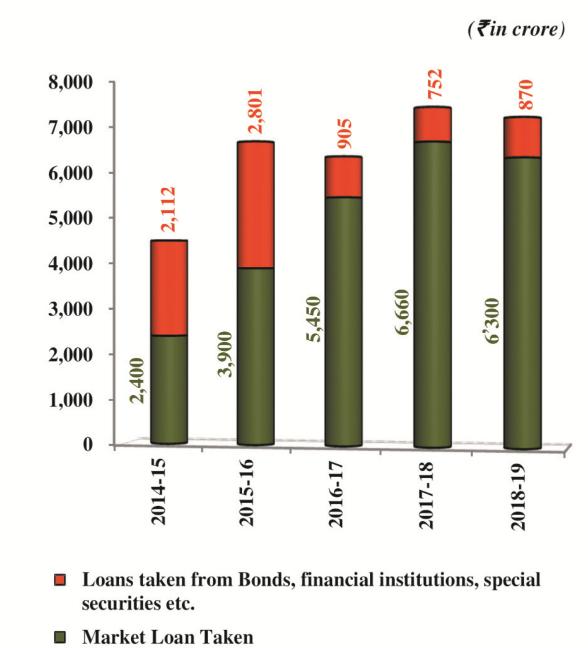
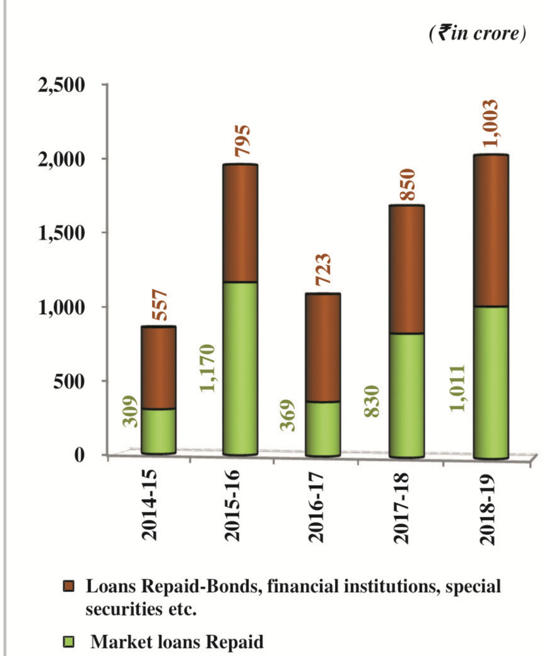


Chart-1.29: Internal Debt Repaid



1.10.1 Market Borrowings

Position of Market Borrowing (MB)

Table-1.29 represents the position of the market borrowings of the State Government for the period 2014-15 to 2018-19.

Table-1.29: Position of market borrowings of the State Government

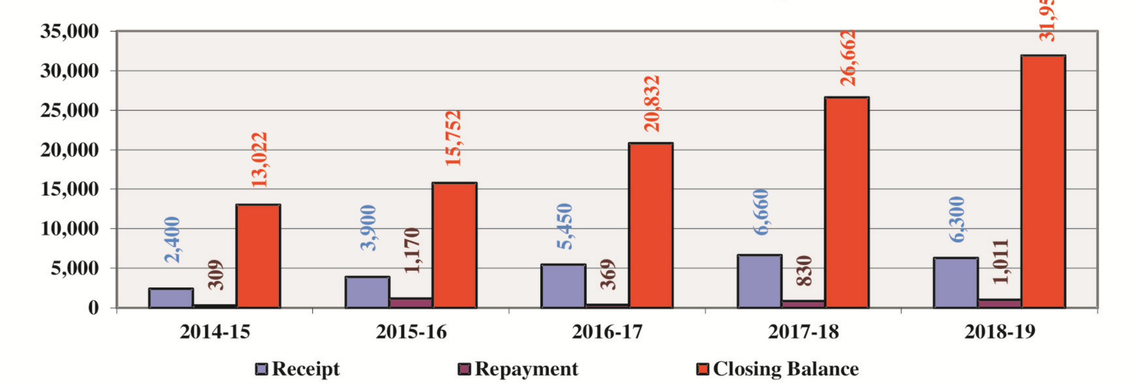
(₹in crore)

Years	Opening balance as on 1st April	Receipts during the year	Repayments during the year	Closing balance as on 31st March	Increase (+)/ decrease (-) during the year	
					Amount	Percentage
2014-15	10,930.56	2,400.00	308.85	13,021.71	2,091.15	*19.13*
2015-16	13,021.71	3,900.00	1,170.19	15,751.52	2,729.81	*20.96*
2016-17	15,751.52	5,450.00	369.23	20,832.28	5,080.76	*32.26*
2017-18	20,832.28	6,660.00	830.00	26,662.28	5,830.00	*27.99*
2018-19	26,662.28	6,300.00	1,010.69	31,951.59	5,289.31	*19.84*
Total		***24,710.00***	***3,688.96***			

Source: Finance Accounts of concerned years.

The above table indicates that the Government of Uttarakhand borrowed and repaid ₹24,710 crore and ₹3,688.96 crore respectively during the period 2014-15 to 2018-19. The repayment was 14.93 *per cent* of total loans raised by the State Government (₹24,710 crore). The re-payment on these loans rose from ₹308.85 crore in 2014-15 to ₹1,010.69 crore in 2018-19 at weighted average interest rate of 8.15 *per cent* in 2014-15 to 8.40 *per cent* in 2018-19. The above table also shows that the Market Borrowings continued to increase from ₹2,400 crore in 2014-15 to ₹6,660 crore in 2017-18. However, it decreased during 2018-19 to ₹6,300 crore. The receipts during this period showed nearly 2.63 times increase from 2014-15 to 2018-19. **Chart-1.30** given below shows the trend of Market Borrowings over the period 2014-15 to 2018-19.

Chart-1.30: Trend of Market Borrowings (*₹ in crore*)



1.11 Fiscal Imbalances

1.11.1 Trends in Deficits

Three key fiscal parameters - revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government. 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. **Charts-1.31** and **1.32** present the trends of deficits over the period 2014-15 to 2018-19.

Chart-1.31: Trends of fiscal imbalances
(₹in crore)

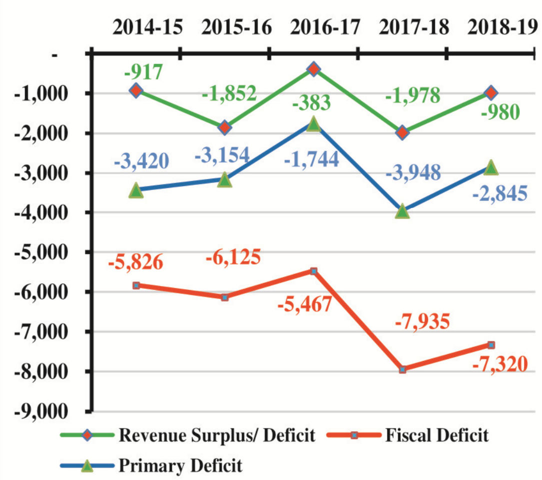
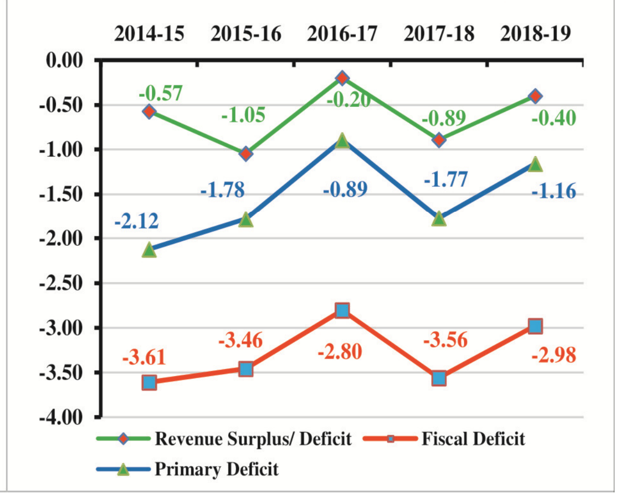


Chart-1.32: Fiscal imbalances with GSDP
(in per cent)



Source: GSDP figures provided by Central Statistics and Directorate of Economic and Statistics, Government of Uttarakhand.

Revenue Deficit: The State had revenue deficit of ₹917 crore in 2014-15 which further deteriorated to ₹1,852 crore during 2015-16. During 2016-17, the State was able to bring down the revenue deficit to a considerably lower level of ₹383 crore. The State could not maintain the same trend and the revenue deficit again deteriorated to ₹1,978 crore in 2017-18. However, the position improved during the current year and the State had revenue deficit of ₹980 crore (0.40 *per cent* of GSDP).

Fiscal Deficit: The fiscal deficit during 2014-15 at ₹ 5,826 crore (3.61 *per cent* of GSDP) increased in 2015-16 to ₹6,125 crore (3.46 *per cent* of GSDP), but it declined to ₹5,467 crore (2.80 *per cent* of GSDP) in 2016-17. However, it again increased to ₹7,935 crore (3.56 *per cent* of GSDP) in 2017-18. During the current year the fiscal deficit at ₹ 7,320 crore (2.98 *per cent* of GSDP) was below the normative target of 3.25 *per cent* of GSDP as fixed by the Fourteenth Finance Commission. The State may consider using the available fiscal space to borrow more for augmenting its capital expenditure which has declined from 18.8 *per cent* of total expenditure (2014-15) to 16 *per cent* (2018-19).

Primary deficit: The primary deficit during 2014-15 at ₹3,420 crore decreased to ₹3,154 crore in the year 2015-16 and ₹1,744 crore in 2016-17.The primary deficit decreased from ₹3,948 crore during the year 2017-18 to ₹2,845 crore during the current year. This shows that the State's financial position has improved. Its primary revenue surplus increased from ₹2,009 crore in 2017-18 to ₹3,495 crore in 2018-19. It was able to meet 78 *per cent* of interest liabilities from the primary revenue surplus this year as compared to 50 *per cent* in the previous year.

Primary Revenue Balance: denotes the gap between non-debt receipts of the State and its non-interest Revenue Expenditure. It indicates the extent to which non-debt receipts of the State were able to meet the expenditure on Capital account. In 2018-19, the State registered a Primary Revenue Surplus of ₹3,495 crore. This was 56.52 *per cent* of the Capital Expenditure (₹6,184 crore).

During 2018-19, the State Government booked Grants-in-Aid of ₹46.82 crore under Capital Heads and Major construction works of ₹355.74 crore under Revenue Heads which was against the Government Accounting Rules. The State Government did not transfer Guarantee Commission of ₹3.58 crore to Public Account and did not make any provision of interest on Reserves and Deposits of ₹40.38 crore during the current year.

The above impacted the Fiscal Deficit of the State Government. The Fiscal Deficit to GSDP has been understated by 0.01 percentage points as detailed below.

Table-1.30: Impact on Revenue Deficit and Fiscal Deficit

(₹in crore)

Sl. No.	Item	Impact on Revenue Deficit		Impact on Fiscal Deficit		Ratios before taking the net Impact (in *per cent*)		Ratios after taking the net Impact (in *per cent*)	
		Over Statement	Under Statement	Over Statement	Under Statement	RD/ GSDP	FD/ GSDP	RD/ GSDP	FD/ GSDP
1.	Misclassification between Revenue and Capital Account (Net)	355.74[19]	--	--	--	*0.40*	*2.98*	0.29	*2.99*
2.	Booking of Grant in aid in Capital Account	--	46.82	--	--				
3.	Non-transfer of Guarantee Commission to Public Account	--	3.58	--	3.58				
4.	Non provision of interest on Reserves and Deposits	--	40.38	--	40.38				
Total (Net) impact		*264.96 (Over Statement)*		*43.96 (Under Statement)*					

Source: Finance Accounts.

1.11.2 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-1.31**.

Table-1.31: Components of Fiscal Deficit and its Financing Pattern

(₹in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
A	**Decomposition of Fiscal Deficit (1 to 4)**	**(-) 5,826**	**(-) 6,125**	**(-) 5,467**	**(-) 7,935**	**(-) 7,320**
1.	**Revenue Deficit (-)/ Surplus (+)**	(-) 917	(-) 1,852	(-) 383	(-) 1,978	(-) 980
2.	**Net Capital Expenditure**	(-) 4,804	(-) 4,217	(-) 4,954	(-) 5,914	(-) 6,184
3.	**Net Loans and Advances**	(-) 105	(-) 56	(-) 130	(-) 43	(-) 156
B	**Financing Pattern of Fiscal Deficit**					
1.	**Net Public Debt**	**3,680**	**4,802**	**5,373**	**5,806**	**5,217**
a.	Net Market Borrowings	(+) 2,091	(+) 2,730	(+) 5,081	(+) 5,830	(+) 5,289
b.	Net Loans from GoI	(+) 33	(+) 66	(+) 111	(+) 74	(+) 61
c.	Net Special Securities issued to NSSF	(+) 1,145	(+) 1,467	(-) 348	(-) 374	(-) 411
d.	Net Loans from Financial Institutions	(+) 411	(+) 539	(+) 529	(+) 276	(+) 278
2.	**Net Public Account**	**1,497**	**1,209**	**1,248**	**2,204**	**1,843**
a.	Net Small Savings, PF *etc.*	(+) 420	(+) 478	(+) 413	(+) 619	(+) 890
b.	Net Deposits and Advances	(+) 399	(+) 138	(-) 135	(+) 719	(-) 11
c.	Net Suspense and Misc.	(+) 13	(+) 377	(+) 1,050	(+) 730	(+) 173
d.	Net Remittances	(+) 450	(+) 33	(-) 3	(+) 31	(+) 679
e.	Net Reserve Fund	(+) 215	(+) 183	(-) 77	(+) 105	(+) 112
3.	**Net Contingency Fund**	**(-) 12**	**(-) 195**	**(+) 167**	**(-) 127**	**(+)110**
4.	**Accretion to Cash Balance**	**(+) 661**	**(+) 309**	**(-) 1,321**	**(+) 52**	**(+)150**

Source: Finance Accounts of Government of Uttarakhand, 2014-15 to 2018-19.

[19] The State Government provided and booked Major construction works amounting to ₹367.75 crore under various Revenue Heads. Also, ₹2.78 crore and ₹9.23 crore expended towards Minor Construction works and Maintenance was provided and booked under the Capital Section.

The fiscal deficit in 2018-19 was largely managed by market borrowings (72 *per cent*), Small Savings & Provident Funds (12 *per cent*), Remittances (nine *per cent*), and Loans from Financial Institutions (four *per cent*).

1.11.3 Quality of Deficit/ Surplus

The contribution of Revenue Deficit and net Capital Expenditure (including loans and advances) to Fiscal Deficit indicate the quality of deficit in the State's finances. Persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (fiscal liabilities) does not have any asset backup. The bifurcation of the primary deficit **(Table-1.32)** would indicate the extent to which the deficit is on account of deficit in capital account which may be desirable to improve the productive capacity of the State's economy.

Table-1.32: Primary deficit/surplus–Bifurcation of factors

(₹in crore)

Year	Non-debt receipts*	Revenue Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Primary Expenditure	Primary revenue surplus (+)/ deficit (-)	Primary deficit (-)/ surplus(+)
1	**2**	**3**	**4**	**5**	**6**	**7=(4+5+6)**	**8=(3-4)**	**9=(2-7)**
2014-15	20,428	20,247	18,758	4,939	151	23,848	(+) 1,670	(-) 3,420
2015-16	21,261	21,234	20,115	4,217	83	24,415	(+) 1,119	(-) 3,154
2016-17	24,924	24,889	21,549	4,954	165	26,668	(+) 3,340	(-) 1,744
2017-18	27,139	27,105	25,096	5,914	77	31,087	(+) 2,009	(-) 3,948
2018-19	31,243	31,216	27,721	6,184	183	34,088	(+) 3,495	(-) 2,845

**** Receipts other than public debt receipts.***

- Non-debt receipts of the State mainly included Revenue Receipts and recoveries of loans and advances which increased by 52.94 *per cent* from 2014-15 to 2018-19 and were sufficient to meet the primary revenue expenditure.
- The primary revenue surplus declined during 2015-16 as compared to 2014-15. It increased almost tri-fold over the previous year and stood at ₹3,340 crore during 2016-17, but it again decreased by ₹1,331 crore during the year 2017-18. However, it again increased by ₹1,486 crore during the current year.
- The primary deficit of ₹3,420 crore in 2014-15 decreased marginally by ₹266 crore in 2015-16 but showed a reduction of ₹1,410 crore during 2016-17. It has again increased considerably by ₹2,204 crore during the year 2017-18. However, it has again decreased by ₹1,103 crore during the year 2018-19.

Table-1.33: Components of Fiscal Deficit

(₹in crore)

Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	**2**	**3**	**4**	**5**	**6**
Revenue Deficit (-)/Surplus (+)	(-) 917 (*16*)	(-) 1,852 (*30*)	(-) 383 (*07*)	(-) 1,978 (*25*)	(-) 980 (*14*)
Net Capital Expenditure	(-) 4,804 (*82*)	(-) 4,217 (*69*)	(-) 4,954 (*91*)	(-) 5,914 (*75*)	(-) 6,184 (*84*)
Net Loans and Advances	(-) 105 (*02*)	(-) 56 (*01*)	(-) 130 (*02*)	(-) 43 (*00*)	(-) 156 (*02*)
Fiscal Deficit	**(-) 5,826**	**(-) 6,125**	**(-) 5,467**	**(-)7,935**	**(-) 7,320**

Figures in parentheses indicate percentage to Fiscal Deficit.

The share of revenue deficit in fiscal deficit indicates the extent to which borrowed funds were used for current consumption. During the year, the quality of Fiscal Deficit has appreciated on account of lower Revenue Deficit. The contribution of revenue deficit in the fiscal deficit decreased from 25 *per cent* in 2017-18 to 14 *per cent* in 2018-19. This implies that a lower portion of current expenditure was met from borrowed fund in

2018-19 as compared to 2017-18. The percentage of the Net Capital Expenditure to Fiscal Deficit increased from 75 *per cent* in 2017-18 to 84 *per cent* in 2018-19. The Fiscal Deficit during the current year decreased by 7.75 *per cent* and was 2.98 *per cent* of GSDP as compared to 3.56 *per cent* in 2017-18.

1.12 Follow up on previous Audit Reports on State Finances

In Uttarakhand, the stand alone Reports on State Finances have not been discussed by the Public Accounts Committee since 2009, although the reports are being presented to the State Legislature every year. Hence, corrective measures taken by the Government after the Reports were laid before the State Legislature could not be ascertained in audit.

1.13 Conclusions

The State had revenue deficit of ₹ 917 crore in 2014-15 which further deteriorated to ₹ 1,852 crore during 2015-16. During 2016-17, the State was able to bring down the revenue deficit to a considerably lower level of ₹ 383 crore. The State could not maintain the same trend and the revenue deficit again deteriorated to ₹ 1,978 crore in 2017-18. However, the position improved during the current year and the State had revenue deficit of ₹ 980 crore (0.40 *per cent* of GSDP).

There was also incorrect booking of some expenditure under revenue and capital heads due to incorrect classification. Further, the State had also not made budget provisions towards interest. As a result, the fiscal deficit to GSDP was understated by 0.01 percentage points.

Capital expenditure registered an increase of ₹ 270 crore over the previous year which was more than the target set forth by the State Government in its MTFPS but was less than the BEs. The proportion of committed expenditure to total revenue expenditure showed marginal decline during the current year from previous year. It still hovers around 67 *per cent* of the revenue expenditure. This in effect means that less amount is available to the government for development activities.

In Education Sector, expenditure as a proportion of Aggregate Expenditure in the State was higher than the SCS' average during all the three years while under Health Sector it was marginally higher during 2014-15 but during 2017-18 and 2018-19, it was well below the SCS' average.

The State Government had provided budgetary support and invested in public sector undertakings having accumulated losses and also in Government corporations and companies that had not finalised their accounts. The average return on Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was almost negligible. Interest received (return) on loans and advances given to various institutions, Corporations/ Government Companies and Government servants, *etc.* by the State was only 0.06 *per cent* as against the target of seven *per cent* which was to be achieved by 2009-10, as fixed by the Twelfth Finance Commission.

Public debt of the State increased by 12.72 *per cent* over the previous year. Public debt of the State has grown at a higher rate than the GSDP. Interest payment as a *per cent* of revenue receipts has increased to around 13 *per cent* in the last two years from nine *per cent* during 2014-15. Net Debt available to the State has declined from

₹2,388 crore (2017-18) to ₹1,388 crore in the current year on account of higher portion of public debt receipt being utilised for repayment of borrowed funds and payment of interest thereon. Percentage of debt repayment including interest to total borrowed funds increased to 80.92 *per cent* in 2018-19 as compared to 68.27 *per cent* in 2017-18.

The total fiscal liabilities to GSDP ratio in 2018-19 increased by 0.34 *per cent* over previous year and stood at 23.60 *per cent* which was above the target of 22.56 *per cent* set forth by the *FFC*.

During the current year, the fiscal deficit at ₹7,320 crore (2.98 *per cent* of GSDP) was within the normative target of 3.25 *per cent* of GSDP as fixed by the *FFC*. During the year, the quality of Fiscal Deficit has appreciated on account of lower Revenue Deficit. The contribution of revenue deficit in the fiscal deficit decreased from 25 *per cent* in 2017-18 to 14 *per cent* in 2018-19. The percentage of the Net Capital Expenditure to Fiscal Deficit increased from 75 *per cent* in 2017-18 to 84 *per cent* in 2018-19.

1.14 Recommendations

- The State's own tax revenue fell short of the budget estimates and *FFC* projections. The State may examine factors contributing to fall in collections of own tax revenue and take measures for improving resource mobilisation.
- The State Government may increase its capital expenditure, particularly in social and economic sectors since it adds to the asset base which in turn would contribute to economic growth;
- The State Government may explore ways of ensuring reasonable return on capital invested in profit making State PSUs in view of the substantial high cost of borrowings made by it;
- Since recovery of loans advanced by the Government to different sectors has been poor, State Government may consider treating the loans and advances as grants and booking them as revenue expenditure for ensuring that accounts reflect the correct position;
- The State may ensure time-bound completion of the incomplete projects and ensure that there are no further cost overruns;
- The State may increase allocation of resources on Health sector so as to bring it at par with SCS average; and
- The State Government should make provision for interest at the rate applicable to GPF to be paid on the legacy balances which are parked in public account.