

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

Summary

Large revenue and fiscal deficits year after year indicate continued macro-imbalances in the State. In Uttaranchal, the revenue deficit had increased from Rs. 760 crore in 2003-04 to Rs. 950 crore in 2004-05.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs. 2,608 crore in 2001-02 to Rs. 4,086 crore in 2004-05. There were significant inter year variations in the growth rates during 2002-03 to 2004-05. During the current year the revenue receipts grew by 13.50 *per cent*. On an average 49 *per cent* of the revenue came from the State's own resources whereas Central tax transfer and Grants-in-aid together constitute 51 *per cent* of the revenue receipts.

Total expenditure of the State increased from Rs. 3,224 crore in 2001-02 to Rs. 6,353 crore in 2004-05. The rate of growth of expenditure in 2004-05 was 26 *per cent*.

The interest payment during 2004-05 was Rs. 816 crore and the same grew by 37 *per cent* over the last year. Debt burden (fiscal liabilities) of the State at the end of 2004-05 was Rs. 9,910 crore, up by 23 *per cent* over the previous year. The finances of the State continued to be dependent on the Ways and Means Advances/Overdrafts from the Reserve Bank of India for day to day expenditure.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap.

1.1 Introduction

The Finance Accounts of the Government of Uttaranchal are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in the Box 1.1.

Box 1.1

Lay out of the Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of the year.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by statutory corporations, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account at the end of the year.

Statement No.9 shows the revenue and expenditure under different heads as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No.11 gives a detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under Non-Plan, State Plan and Centrally Sponsored Schemes separately and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during as well as upto the end of the year.

Statement No.14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the year.

Statement No.15 depicts the capital and other expenditure to the end of the year and the principal sources from which funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance at the end of the year and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserved funds.

1.2 Trend of Finances with reference to the previous year

Finances of the State Government during the current year as compared to the previous year were as under:

(Rupees in crore)

2003-04	Sl. No	Major Aggregates	2004-05
3600	1.	Revenue Receipts (2+3+4)	4086
1226	2.	Tax Revenue	1444
370	3.	Non-Tax Revenue	548
2004	4.	Other Receipts	2094
23	5.	Non-Debt Capital Receipts	87
23	6.	<i>Of which</i> Recovery of Loans	87
3623	7.	Total Receipts (1+5)	4173
3433	8.	Non-Plan Expenditure (9+11+12)	4003
3310	9.	On Revenue Account	3898
597	10.	<i>Of which,</i> Interest Payments	816
15	11.	On Capital Account	61
108	12.	Loans and advances disbursed	44
1595	13.	Plan Expenditure (14+15+16)	2350
1050	14.	On Revenue Account	1138
518	15.	On Capital Account	1075
27	16.	Loans and advances disbursed	137
5028	17.	Total Expenditure (8+13)	6353
760	18.	Revenue Deficit (9+14-1)	950
1405	19.	Fiscal Deficit (17-1-5)	2180
808	20.	Primary Deficit (+)/Surplus(-) (19-10)	1364

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the Government for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, Contingency Fund receipts and disbursements and Public Account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

Table 1 : Summary of receipts and disbursements for the year 2004-05

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
					Non-Plan	Plan	Total
3600.08	I. Revenue receipts	4085.59	4359.57	I. Revenue expenditure	3897.62	1138.29	5035.91
1225.96	Tax revenue	1444.36	1460.42	General Services	1882.60	18.18	1900.78
370.41	Non-tax revenue	547.70	1692.88	Social Services	1342.50	561.68	1904.18
435.03	Share of Union Taxes/Duties	519.97	1003.38	Economic Services	531.08	558.43	1089.51
1568.68	Grants from Govt. of India	1573.56	202.89	Grants-in-aid / Contributions	141.44	-	141.44
Section-B: Capital							
-	II Misc. Capital Receipts	-	533.31	II Capital Outlay	61.30	1074.53	1135.83
22.93	III. Recoveries of Loans and Advances	87.09	135.48	III Loans and Advances disbursed	43.99	137.28	181.27
3062.68	IV Public Debt receipts*	1587.20	1176.05	IV Repayment of Public Debt	-	-	21.84
55.00*	V Contingency Fund	24.06	74.52*	V Contingency Fund	16.23	-	16.23
7499.14	VI Public Account receipts	8524.81	8121.38	VI Public Account disbursements	7846.84	-	7846.84
375.83	Opening Balance	215.35	215.35	Closing Balance	286.18		286.18
14615.66	Total	14524.10	14615.66	Total			14524.10

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out trends in the major fiscal aggregates of receipts and expenditure and the statements of the Finance Accounts for the year 2004-05 and wherever necessary show these in the light of time series data and periodic comparisons.

The reporting parameters are depicted in Box 1.2.

Box 1.2
Reporting Parameters
Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Directorate of Economics and Statistics of the Government have been used with the projected GSDP for 2004-05, based on average GSDP growth of the previous years.

* Includes net Ways and Means Advances and Overdraft also.

* Rs. 55 crore pertains to creation of Contingency Fund Corpus

For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix-1.1*.

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The accounts of the Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

Box 1.3	
Government Funds and the Public Account	
<p>Consolidated Fund All revenues received by the Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one Consolidated Fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.</p>	<p>Contingency Fund Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p>Public Account</p>	
<p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.</p>	

1.5 State Finances by key Indicators

Uttaranchal State was created on 9 November 2000 hence the rate of growth, revenue buoyancy etc. were not determined for the year 2001-02.

1.5.1 Resources by volumes and sources

Resources of the Government consist of revenue receipts and capital receipts. Revenue receipts include tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts consist of miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/ commercial banks, etc and loans and advances from Government of India as well as accruals from Public Accounts.

Table 2 shows that the total receipts of the Government for the year 2004-05 were Rs. 14,285 crore. Of this, revenue receipts were Rs. 4,086 crore, constituting only 29 per cent of the total receipts. The balance came from borrowings and Public Account receipts.

Table 2 : Resources of Uttaranchal

		(Rupees in crore)
I Revenue Receipts		4086
II Capital Receipts		1674
<i>a</i>	<i>Miscellaneous Receipts</i>	----
<i>b</i>	<i>Recovery of Loans and Advances</i>	87
<i>c</i>	<i>Public Debt Receipts</i>	1587
III Public Account Receipts		8525
<i>a</i>	<i>Small Savings, Provident Fund, etc.</i>	300
<i>b</i>	<i>Reserve Fund</i>	290
<i>c</i>	<i>Deposits and Advances</i>	1851
<i>d</i>	<i>Suspense and Miscellaneous</i>	4309
<i>e</i>	<i>Remittances</i>	1775
Total Receipts		14285

The source of revenue receipts under different heads and GSDP during 2001-2005 is indicated in Table 3.

Table 3: Sources of Receipts: Trends

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01*	924	2	187	2112	3225	12237*
2001-02	2608	4	775	5131	8518	13181*
2002-03	3216	3	1834	6574	11627	15052*
2003-04	3600	23	3063	7499	14185	16922*
2004-05	4086	87	1587	8525	14285	18858•

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and their buoyancy is indicated in Table 4.

* GSDP figures for the years 2000-01 to 2003-04 have been revised by the State Government.

• Projected GSDP based on the average growth of the previous years.

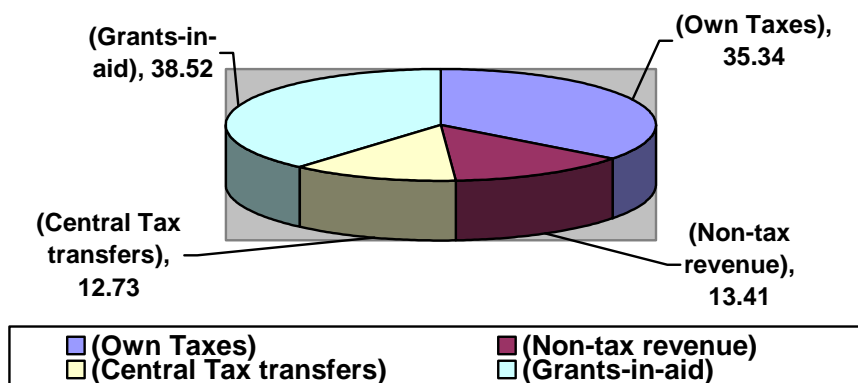
* (9 November 2000 to 31 March 2001)

Table 4: Revenue Receipts – Basic Parameters

	(Value Rupees in crore and others in <i>per cent</i>)			
	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	2608	3216	3600	4086
Own taxes*	37.23	31.62	34.06	35.34
Non-Tax Revenue*	6.21	11.66	10.28	13.41
Central Tax Transfers*	5.79	11.63	12.08	12.73
Grants-in-aid*	50.77	45.09	43.58	38.52
Rate of growth of state's own taxes	-	4.74	20.55	17.78
Rate of Growth Revenue Receipts	-	23.31	11.94	13.50
Revenue Receipts/GSDP	19.78	21.37	21.27	21.67
Revenue Buoyancy	-	1.64	0.96	1.18
Own Tax Buoyancy	-	0.33	1.65	1.55
GSDP Growth	7.71	14.20	12.42	11.44

The Revenue receipts of the State increased from Rs. 2,608 crore in 2001-02 to Rs. 4,086 crore in 2004-05. Revenue growth exceeded GSDP growth rates during 2002-03 and 2004-05 and buoyancy of revenue receipt during these two years was greater than one. The increase during the current year over the previous year was mainly due to increase in share of Union Taxes (Rs.520 crore), Sales Tax (Rs. 793 crore), Stamps and Registration fees (Rs. 208 crore) and Non Tax Revenue (Rs. 548 crore).

While on an average only 49 *per cent* of the revenue had come from the State's own resources, Central tax transfers and grants-in-aid together contributed the remaining 51 *per cent*. Sales tax was the major source of the State's own tax revenue having contributed 55 *per cent* of the tax revenue followed by State Excise (20 *per cent*) and Stamp and Registration Fee (14 *per cent*). Of non-tax revenue sources, Power (40 *per cent*), Forest and Wild Life (24 *per cent*), General Services (13 *per cent*) and Non-Ferrous Mining and Metallurgical Industries (7 *per cent*) were the principal contributors.

REVENUE RECEIPTS FOR 2004-05
(in per cent)

* As a percentage of revenue receipts

1.6 Application of resources

1.6.1 Growth of Expenditure

Statements 12 and 13 of the Finance Accounts depict the detailed revenue expenditure by minor heads and capital expenditure by major heads respectively. The total expenditure of the State increased from Rs. 3,224 crore in 2001-02 to Rs. 6,353 crore in 2004-05. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during this period.

Total expenditure of the State, its annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts is indicated in Table 5 below.

Table 5: Total Expenditure – Basic Parameters

(Value: Rupees in crore and others in per cent)

	2001-02	2002-03	2003-04	2004-05
Total Expenditure* (TE)	3224	4110	5028	6353
Rate of Growth	-	27.48	22.34	26.35
TE/GSDP	24.46	27.31	29.71	33.69
Revenue Receipts/TE	80.89	78.25	71.60	64.32
Buoyancy of Total Expenditure with				
GSDP	-	1.94	1.80	2.30
Revenue Receipts	-	1.18	1.87	1.95

* Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

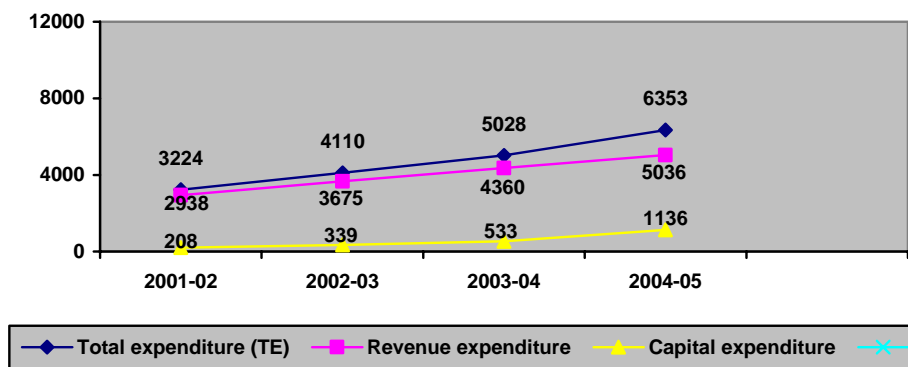
The ratio of revenue receipts to total expenditure declined from 80.89 per cent in 2001-02 to 64.32 per cent in 2004-05. This indicated that 64 per cent of the expenditure during 2004-05 was met from its current revenue, leaving the balance to be financed from borrowings.

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and other contributions to institutes and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

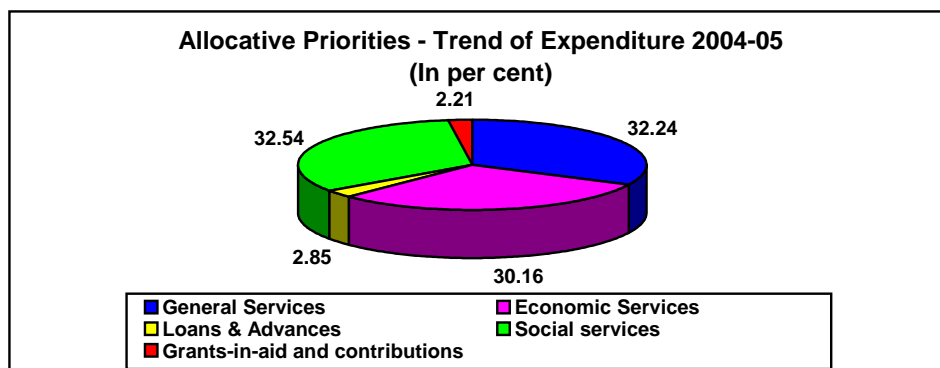
Table 6: Components of expenditure – Relative Share (in per cent)

	2001-02	2002-03	2003-04	2004-05
General Services	33.87	30.12	30.21	32.24
Social Services	35.58	37.30	36.12	32.54
Economic Services	26.14	28.56	26.95	30.16
Grants-in-aid	1.99	1.68	4.04	2.21
Loans and advances	2.42	2.34	2.68	2.85

GROWTH OF TOTAL EXPENDITURE
(Rupees in crore)



The movement of relative share of these components of expenditure indicated that while the share of Economic Services in total expenditure increased from 26.14 *per cent* in 2001-02 to 30.16 *per cent* in 2004-05, the relative share of General and Social Services decreased from 33.87 and 35.58 *per cent* in 2001-02 to 32.24 and 32.54 *per cent* respectively in 2004-05.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services.

The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in Table 7 below:

Table 7: Revenue Expenditure – Basic Parameters

	(Value: Rupees in crore and others in <i>per cent</i>)			
	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure	2938	3675	4360	5036
Rate of Growth	-	25.09	18.64	15.50
RE/ GSDP	22.29	24.42	25.77	26.70
RE as <i>per cent</i> of TE	91.13	89.42	86.71	79.27
RE as <i>per cent</i> of Revenue Receipts	112.65	114.27	121.11	123.25
Buoyancy of Revenue Expenditure with				
GSDP	-	1.77	1.50	1.36
Revenue Receipts	-	1.08	1.56	1.15

Revenue expenditure of the State increased steeply from Rs. 2,938 crore in 2001-02 to Rs 5,036 crore in 2004-05. The increase in the revenue expenditure during the current year was mainly due to more expenditure on Interest Payments (Rs. 816 crore) and Water Supply and Sanitation (Rs. 319 crore) in comparison to previous year's Rs. 597 crore and Rs. 156 crore respectively.

Revenue expenditure exceeded revenue receipts during 2001-2005, resulting in revenue deficits every year. During 2004-05, the revenue deficit registered an increase of 25 per cent over the previous year. This has led the Government to borrow more to bridge the gap between revenue receipts and revenue expenditure. The ratio of revenue expenditure to revenue receipts increased from 112.65 per cent in 2001-02 to 123.25 per cent in 2004-05. The dependency of the State on borrowings, for meeting its current expenditure was further accentuated by high expenditure on salaries (Rs. 1192 crore), interest payments (Rs. 816 crore), and pensions (Rs. 354 crore) which together consumed 58 per cent of total revenue receipts of the State in 2004-05.

Salary expenditure

Salaries alone accounted for about 29 per cent of the Revenue Receipts and 24 per cent of the Revenue Expenditure of the State during 2004-05. The expenditure on salaries increased from Rs. 938 crore in 2001-02 to Rs. 1,192 crore in 2004-05 as indicated in table 8:

Table 8 : Salary Expenditure

Heads	(Rupees in crore)			
	2001-02	2002-03	2003-04	2004-05
Salary expenditure	938	1036	1168	1192
As percentage of GSDP	7.12	6.88	6.90	6.32
As percentage of Revenue Receipts	35.97	32.21	32.44	29.17
As percentage of Revenue Expenditure	31.93	28.19	26.79	23.67

Though salary expenses relative to GSDP, Revenue Receipts and Revenue Expenditure indicated a declining trend during 2001-2005 (in 2003-04 there was slight increase in salary expenses relative to GSDP and R.E.), these have continued to be sizable.

Expenditure on pension payments

Pension payments increased from Rs. 13 crore in 2001-02 to Rs. 354 crore in 2004-05.

Year-wise breakup of expenditure incurred on pension payments during the years 2001-02 to 2004-05 was as under:

Table 9: Pension Payments

Year	Expenditure (Rupees in crore)	Percentage of total revenue expenditure	Percentage of total revenue receipts
2001-02	13	0.44	0.50
2002-03	135	3.67	4.20
2003-04	283	6.49	7.86
2004-05	354	7.03	8.66

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund

to meet the fast rising pension liabilities of the retiring State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

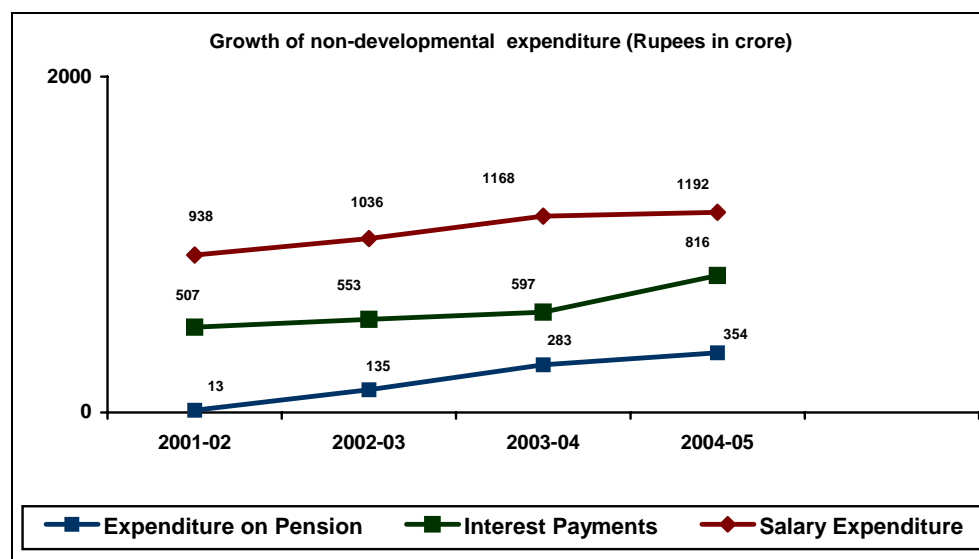
Interest payments

The Eleventh Finance Commission (August 2000) recommended that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was observed that interest payments as percentage of revenue receipts ranged between 17 and 20 *per cent* during 2001-2005 as shown in Table 10 below:

Table 10 : Interest Payments

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
2001-02	507	19.44	17.26
2002-03	553	17.20	15.05
2003-04	597	16.58	13.69
2004-05	816	19.97	16.20

In absolute terms, interest payments significantly increased by 61 *per cent* from Rs. 507 crore in 2001-02 to Rs. 816 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit. There was, however, a regular increase in interest payment despite the fact that interest rates have come down in the last few years.



1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of Plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflects the allocative priorities of the State. The higher the ratio of these components to total expenditure, the better the quality of expenditure. Table 11 below gives the percentage share of these components of expenditure in the State's total expenditure:

Table 11: Quality of expenditure (per cent of total expenditure *)

	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	18.63	27.30	32.05	35.86
Capital Expenditure	6.61	8.45	10.89	18.41
Developmental Expenditure	63.25	67.44	64.81	64.53

*Total expenditure excludes expenditure on loans and advances.

Plan and Capital Expenditure showed a relative improvement during 2001-2005 whereas Developmental Expenditure decreased slightly during 2003-2005.

Expenditure on Social Services (Rs 2,067 crore) accounted for 52 per cent of Developmental Expenditure. Education, Sports, Art and Culture (Rs 1,172 crore), Medical and Public Health (Rs 249 crore), and Social Welfare and Nutrition (Rs. 139 crore) shown in Table 12 accounted for 75 per cent of the expenditure on Social Sector.

Table 12: Social Sector Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05
Education, Sports, Art and Culture	697	970	1131	1172
Health & Family Welfare	149	183	243	249
Social Welfare and Nutrition	55	189	119	139
Total	901	1342	1493	1560
As a percentage of expenditure on Social Sector	78.55	87.54	82.21	75.47

Within Developmental Expenditure (Rs 3,983 crore), Economic Services (Rs 1,916 crore) accounted for 48 per cent during the year 2004-05. Agriculture and Allied activities, Transport, Energy and Irrigation and Flood Control consumed nearly three fourths (73 per cent) of the expenditure on Economic Services as shown in Table 13.

Table 13: Economic Sector Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05
Agriculture and Allied activities	300	366	444	493
Energy	22	136	110	244
Transport	187	189	240	392
Irrigation and Flood Control	146	169	219	266
Total	655	860	1013	1395
As a percentage of expenditure on Economic Sector	77.70	73.25	74.76	72.84

1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities are set up to discharge generally non-commercial functions. These bodies/authorities are registered/ established under the respective State and Central Acts and receive substantial Government grants which are intended essentially for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different local bodies etc. during the period of four years ending 2004-05 was as follows:

Table 14: Financial Assistance to Local Bodies and other Institutions

(Rupees in crore)					
Sl. No.	Name of institutions	2001-02	2002-03	2003-04	2004-05
1.	Universities and Educational Institutions	111.68	79.48	131.25	141.02
2.	Energy	13.46	135.88	110.13	73.75
3.	Agriculture, Land Reform and Forestry	30.59	55.10	76.11	76.80
4.	Municipal Corporations and Municipalities	63.74	69.15	202.89	141.43
5.	Hospitals and Charitable Institutions	0.05	1.67	6.17	15.51
6.	Development Agencies	165.37	171.98	314.97	362.08
7.	Labour and Industry	4.99	21.16	27.61	25.10
8.	Co-operative	1.41	3.16	4.72	4.30
9.	Animal Husbandry, Dairy Development and Fisheries	6.05	5.72	6.70	7.65
10.	Secretariat Economics Services & Tourism	3.25	52.50	39.56	131.05
11.	Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other backward class	19.02	19.37	30.62	65.13
12.	Others	3.84	5.39	8.12	11.80
	Total	423.45	620.56	958.85	1054.90
	Percentage of growth over previous year	--	46.55	54.51	10.02
	Assistance as percentage of revenue expenditure	14.41	16.89	21.99	20.93

1.8 Assets & Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-1.2* presents an abstract of such liabilities and assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and the cash balances. During the year the assets grew by 30 *per cent* against an increase of 24 *per cent* in liabilities.

The liabilities of the Government of Uttaranchal depicted in the Finance Accounts do not, however, include the pension, other retirement benefits payable to retired State employees. *Appendices 1.3 and 1.4* give an Abstract of Receipts and Disbursements for the year 2004-05 and Sources and Applications of Funds respectively. *Appendix-1.5* depicts the Time Series Data on State Government Finances for the period 2001-2005.

1.8.1 Financial results of irrigation works

The financial results of major irrigation projects as reported by the Government with a capital outlay of Rs 106.29 crore at the end of March 2005 showed that revenue realized from these projects during 2004-05 (Rs 5.74 crore) was meagre (5.4 *per cent*) compared to the capital outlay which was

barely sufficient to cover even the direct working expenses (Rs 5.62 crore) during 2004-05. After meeting the working and maintenance expenditure (Rs 5.62 crore), excluding interest charges, the schemes gained a net revenue of just Rs. 0.12 crore.

1.8.2 Incomplete/ongoing projects

As per information received from the State Government, as of 31 March 2005, there were 578 ongoing projects of Irrigation and PWD each costing more than Rupees one crore on which an expenditure of Rs. 1,736.87 crore was incurred. The details of these works are available in the Appendix III of Finance Accounts for the year 2004-05.

1.8.3 Investments and returns

As on 31 March 2005, Government had invested Rs 333 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was less than one *per cent*, and it was also on a continuous decline as indicated in Table 15 below:

Table 15: Return on Investment

(Rupees in crore)				
Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing (<i>per cent</i>)
2001-2002	5	0.02	0.40	-
2002-2003	28*	0.04	0.14	10.40
2003-2004	40*	0.04	0.10	8.51
2004-2005	333	0.26	0.08	9.10

1.8.4 Loans and advances by State Government

In addition to its investment in cooperatives, corporations and companies, the Government has also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs 384 crore as on 31 March 2005 (Table 16). Overall, interest received against these advances increased from 0.09 *per cent* in 2002-03 to 6.51 *per cent* in 2003-04 and again decreased to 2.21 *per cent* in 2004-05. The recoveries of loans and advances ranged between Rs. 3.51 crore in 2001-02 to Rs. 87.08 crore in 2004-05.

Table 16 : Interest received on loans advanced by the State Government

(Rupees in crore)				
	2001-02	2002-03	2003-04	2004-05
Opening Balance	9.71	84.52	177.20	289.75
Amount advanced during the year	78.32	95.89	135.48	181.27
Amount repaid during the year	3.51	3.21	22.93	87.09
Closing Balance	84.52	177.20	289.75	383.93
Net Addition (+) / Reduction (-)	(+)74.81	(+)92.68	(+)112.55	(+)94.18
Interest Received	-	0.12	15.20	7.43
Interest received as <i>per cent</i> of Loans Advanced	-	0.09	6.51	2.21
Average rate of interest paid by the State (<i>per cent</i>)		10.40	8.51	9.10
Difference between interest paid and received (percentage)	-	(-) 10.31	(-) 2.00	(-) 6.89

* Figures differ from previous year due to revision of figure in Statement 14 of Finance Accounts 2004-05.

Recoveries of loans and advances increased constantly from 2002-03 to 2004-05.

1.8.5 Commercial activities

Lack of accountability for the use of public funds in departmental commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operations so that the Government can assess the results of their working. The Heads of Departments in the Government are to ensure that the undertakings, which are funded by budgetary releases, prepare the accounts timely and submit the same to the Accountant General for audit.

As of March 2005, there were five such undertakings under the Government of Uttaranchal. Of these, one finalised its accounts upto 2001-02 and accounts of other undertakings were in arrears, as detailed below:

Table 17: Position of preparation of accounts in departmental commercial undertakings

Sl.No.	Department	Accounts not finalised (name of undertakings)	Year from which accounts are due
1	Food and Civil Supplies	Scheme for public distribution system of foodgrains (Regional Food Controller, Dehradun Regional Food Controller, Haldwani)	Since creation of State
2	Irrigation	Irrigation Workshop Division, Roorkee	2002-03
3	Animal Husbandary	State Livestock and Agricultural Farm, Kalsi, Dehradun	Since creation of State
4	Health	Rishikul Ayurvedic Pharmacy, Haridwar State Vaccine Institute, Patwadanagar, Nainital	Since creation of the State

1.8.6 Management of Cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-match in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank a minimum balance of Rs.0.16 crore on all days. In 2004-05, this minimum balance fell short on 184 days for which Government took WMAs (Rs. 759.71 crore) from RBI. Resort to overdraft (OD), which is over and above the WMA limits, is all the more undesirable. The State used the Shortfall/OD facilities for 16 days during the year. WMA (Rs. 759.71 crore) against which Rs. 724.94 crore were repaid leaving a balance of Rs. 34.77 crore during current year. Shortfall/OD (127.72 crore) taken during the year were fully repaid by the Government.

Table 18: Ways and Means and Overdrafts taken and interest paid thereon

	(Rupees in crore)			
	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances				
Taken in the year	804.70	836.35	329.24	759.71
Outstanding	61.97	30.69	30.69	65.46
Interest paid	0.70	0.64	0.38	0.65
Number of days	57	109	43	184
Shortfall/Overdraft				
Taken in the year	523.64	215.35	83.02	127.72
Outstanding	53.82	-	-	-
Interest paid	0.69	0.30	0.13	0.16
Number of days State was in Overdraft	88	41	13	16

1.8.7 Undischarged liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that the State may borrow within the territory of India, upon the security of its Consolidated Fund within such limits, as may from time to time, be fixed by an Act of Legislature. However, no such law has been passed by the State, to lay down any such limit. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

Table 19 : Fiscal Liabilities–Basic Parameters

	(Rupees in crore and Ratios in per cent)			
	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities \$	4634	6003	8030	9910
Rate of growth	-	29.54	33.77	23.41
Ratio of Fiscal Liabilities to				
GSDP	35.16	39.88	47.45	52.55
Revenue Receipts	177.68	186.66	223.06	242.54
Own Resources	409.00	431.25	503.13	497.49
Buoyancy of Fiscal Liabilities to				
GSDP	-	2.08	2.72	2.05
Revenue Receipts	-	1.27	2.83	1.73
Own Resources	-	1.29	2.30	0.94

\$ Includes internal debt, loans and advances from Government of India and other obligations.

It would be observed that the overall fiscal liabilities of the State increased from Rs. 4,634 crore in 2001-02 to Rs. 9,910 crore in 2004-05. These liabilities as ratio to GSDP increased from 35.16 per cent in 2001-02 to 52.55 per cent in 2004-05 and stood at around two times of its revenue receipts and about five times its own resources comprising tax and non-tax revenue.

The fiscal liabilities had grown faster than the state's GSDP, Revenue Receipts and own resources. In addition to these liabilities, Government had guaranteed loans raised by various Corporations and others, which in 2004-05 stood at Rs. 760 crore. The guarantees are in the nature of contingent liabilities

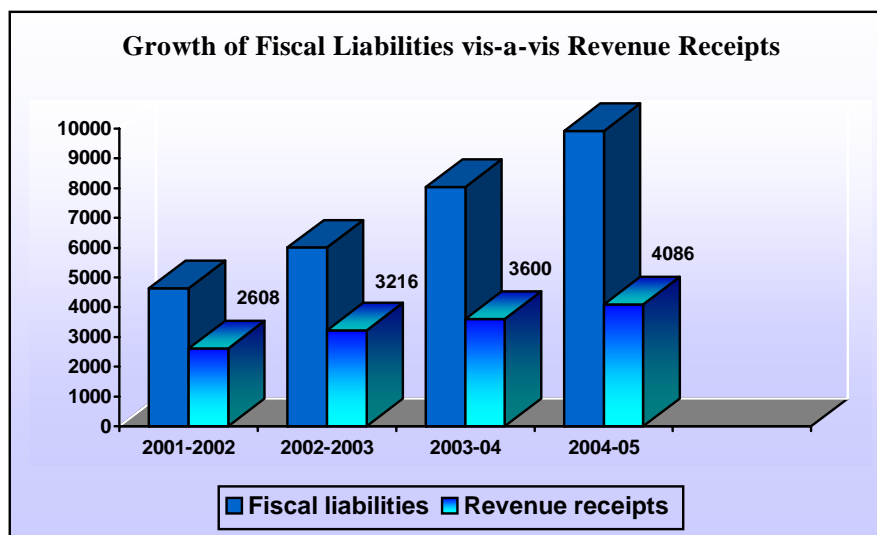
of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. The fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP. Increasing liabilities raise the issue of sustainability. One of the conditions of debt sustainability is the existence of a positive spread between the rate of growth of GSDP and the average interest rate.

Fiscal Liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Uttaranchal, increasing GSDP growth and declining trend of interest rates has resulted in positive interest-spread during 2002-2005.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 20.

Table 20 : Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	--	10.40	8.51	9.10
GSDP Growth	--	14.20	12.42	11.44
Interest- spread	--	3.80	3.91	2.34



Another important indication of debt sustainability is the net availability of funds after payment of the principal on account of the earlier contracted liabilities and interest.

The Government raised market loans of Rs. 308.84 crore during the year. The weighted average interest rate of market borrowings during the year was 9.10 per cent. The Government also borrowed Rs. 968.04 crore from National Small Saving Fund and Rs. 146.88 crore from Government of India. The net funds available from the internal debt and loans and advances from Government of India after providing for the interest and repayments ranged between 28 per cent and 39 per cent during 2001-2005.

Table 21 below gives the position of the receipts and repayments of internal debt and other fiscal liabilities of the State over the last 4 years.

Table 21: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05
Internal Debt*				
Receipts	1896	2635	3190	1406
Repayments (Principal + Interest)	1244	1140	415	626
Net Funds Available	662	1495	2775	780
Net Funds Available (<i>per cent</i>)	34	57	87	55
Loans and Advances from Government of India				
Receipts	123	251	285	147
Repayments (Principal + Interest)	77	735	1173	53
Net Funds Available	46	(-) 484	(-) 888	94
Net Funds Available (<i>per cent</i>)	37	-	-	64
Other obligations				
Receipts	1488	1679	2275	2053
Repayments	1041	1321	1924	1920
Net Funds Available	447	358	351	133
Net Funds Available (<i>per cent</i>)	30	21	15	6
Total Receipts	3507	4565	5750	3606
Repayment (Principal + Interest)	2362	3196	3512	2599
Net Funds Available	1145	1369	2238	1007
Net Funds Available (<i>per cent</i>)	33	30	39	28

*Internal debt excluding Ways and Means Advances and Overdraft.

1.9 Management of deficits

1.9.1 Fiscal imbalances

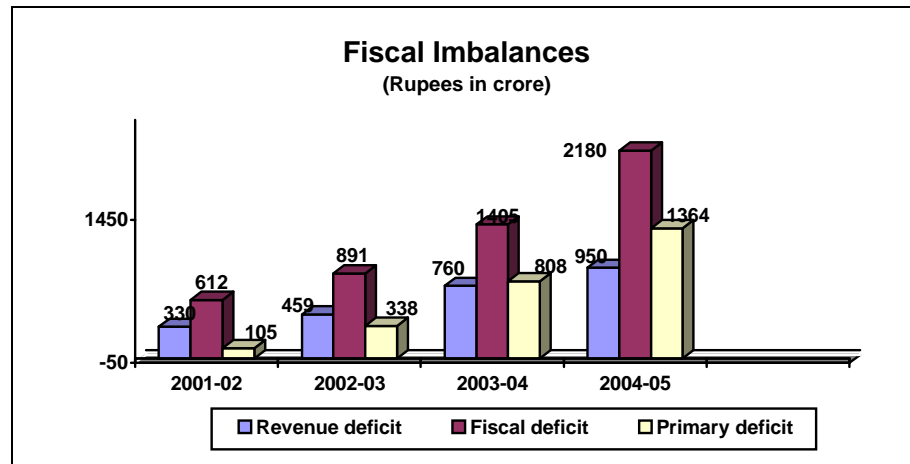
The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health.

The revenue deficit (Statement 1 of Finance Account) of the State is the excess of its revenue expenditure over revenue receipt. Revenue deficit was on a continuous increase from Rs. 330 crore in 2001-02 to Rs. 950 crore in 2004-05. The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased from Rs. 612 crore in 2001-02 to Rs. 2,180 crore in 2004-05. The primary deficit also increased from Rs. 105 crore to Rs. 1,364 crore during the period.

Table 22 : Fiscal Imbalances – Basic Parameters

(Value: Rupees in crore and Ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05
Revenue deficit	330	459	760	950
Fiscal deficit	612	891	1405	2180
Primary deficit	105	338	808	1364
RD/GSDP	2.50	3.05	4.49	5.04
FD/GSDP	4.64	5.92	8.30	11.56
PD/GSDP	0.80	2.25	4.77	7.23
RD/FD	53.92	51.52	54.09	43.58



The ratio of revenue deficit to fiscal deficit decreased from 53.92 *per cent* in 2001-02 to 51.52 *per cent* in 2002-03 and again increased to 54.09 *per cent* in 2003-04 but during the current year (2004-05) it again declined to 43.58 *per cent*. As ratio to GSDP, Revenue Deficit had increased from 2.50 *per cent* in 2001-02 to 5.04 *per cent* in 2004-05 and Fiscal Deficit from 4.64 *per cent* in 2001-02 to 11.56 *per cent* in 2004-05. The persistent Revenue Deficit indicated that the Revenue Receipts of the State were not able to meet its current maintenance expenditure and Government had to borrow funds to meet its current obligations.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 below presents a summarized position of Government finances over the period 2001-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and sustainability of these in relation to its resource mobilization. The ratio of revenue expenditure to total expenditure declined to 0.79 during 2004-05 compared to 0.87 in the previous year. The percentage of developmental expenditure to total expenditure increased from 63.25 (2001-02) to 67.44 in 2002-03 but again declined to 64.81 *per cent* in 2003-04 and 64.53 *per cent* in 2004-05. The capital expenditure as a percentage of total expenditure was highest at 18.41 *per cent* during 2004-05.

Table 23 : Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	2001-02	2002-03	2003-04	2004-05
Resources Mobilization				
Revenue Receipts/GSDP	19.78	21.37	21.27	21.67
Revenue Buoyancy	-	1.64	0.96	1.18
Own Tax/GSDP	7.37	6.76	7.24	7.66
Expenditure Management				
Total Expenditure/GSDP	24.46	27.31	29.71	33.69
Revenue Receipts/ Total Expenditure	80.89	78.25	71.60	64.32
Revenue Expenditure/Total Exp.	91.13	89.42	86.71	79.27
Capital Expenditure/TE	6.61	8.45	10.89	18.41
Developmental Expenditure/TE	63.25	67.44	64.81	64.53
Buoyancy of TE with RR	-	1.18	1.87	1.95
Buoyancy of RE with RR	-	1.08	1.56	1.15
Management of Fiscal Imbalances				
Revenue Deficit (Rs in crore)	330	459	760	950
Fiscal Deficit (Rs in crore)	612	891	1405	2180
Primary Deficit (Rs in crore)	105	338	808	1364
Revenue Deficit/Fiscal Deficit	53.92	51.52	54.09	43.58
Management of Fiscal Liabilities				
Fiscal Liabilities/GSDP	35.16	39.88	47.45	52.55
Fiscal Liabilities/RR	177.68	186.66	223.06	242.54
Buoyancy of FL with RR	-	1.27	2.83	1.73
Buoyancy of FL with OR	-	1.29	2.30	0.94
Interest spread	-	3.80	3.91	2.34
Net Funds Available	32.65	29.99	38.92	27.37
Other Fiscal Health Indicators				
Return on Investment	0.40	0.14	0.10	0.08
BCR [▼] (Rs in crore)	(-) 1067	(-) 821	(-) 1107	(-) 1128
Financial Assets/Liabilities	0.23	0.33	0.42	0.44

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large revenue and fiscal deficits year after year, together with low or no return on investments indicated that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicates its increasing unsustainability. The State's continuous declining low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yield very little return. The ratio of the State's financial assets to liabilities increased from 0.23 to 0.44 during 2001-2005. A greater part of liabilities are without an asset back-up. This indicates that either the State has to generate more revenue out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance of current revenue (BCR) of the State also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of funds for additional infrastructure support and other revenue generating investment.

1.11 Conclusion

The State of Uttaranchal, comprising 13 districts of the composite State of Uttar Pradesh, came into existence on 9 November 2000. The process of apportionment of pre November 2000 assets and liabilities of the composite State of Uttar Pradesh and of other financial adjustments, to be done in each case with reference to the provisions of the Uttar Pradesh Reorganization Act, 2000 is not yet complete. A realistic picture of the financial position of the State Government will emerge only after completion of this process.

▼ Balance from the current revenues.