

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts viz. (i) the Consolidated Fund (ii) the Contingency Fund and (iii) the Public Account (*Appendix 1.1-Part-A*). The Finance Accounts of the Government of Uttarakhand are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts. The lay out of the Finance Accounts is depicted in *Appendix-1.1-Part-B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the State Government for the year 2006-07, covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of Finance Accounts and other detailed statements.

Table 1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue							
					Non-Plan	Plan	Total
5537.02	I. Revenue receipts	7373.22¹	5610.97	I. Revenue expenditure	4900.17	1576.64	6476.81
1784.69	Tax revenue	2513.78	2026.97	General Services	2375.86	1.53	2377.39
650.09	Non-tax revenue	646.82	2255.70	Social Services	1560.67	894.26	2454.93
1009.82	Share of Union Taxes/Duties	1131.83	1211.66	Economic Services	692.45	680.76	1373.21
2092.42	Grants from Govt. of India	3080.79	116.64	Grants-in-aid/Contributions	271.19	0.09	271.28
Section-B: Capital							
-	II Misc. Capital Receipts	-	1705.43	II Capital Outlay	97.48	1601.78	1699.26
36.37	III. Recoveries of Loans and Advances	19.50	135.22	III Loans and Advances disbursed	11.41	90.97	102.38
1756.65	IV Public Debt receipts*	1228.22	247.10	IV Repayment of Public Debt*	-	-	237.39
16.14	V Contingency Fund	34.20	44.80	V Contingency Fund	-	-	25.45
19696.88	VI Public Account	11233.44	18916.55	VI Public Account disbursements	-	-	11226.92
286.18	Opening Balance	669.17	669.17	Closing Balance	-	-	789.54
27329.24	Total	20557.75	27329.24	Total			20557.75

* Excluding Ways and Means Advances and Overdraft.

¹ Inflated to the extent of Rs. 339.64 crore on account of book adjustment of CAO, RB suspense pertaining to the year 2005-06.

Following are the significant changes during 2006-07 over the previous year:

- Revenue receipts grew by Rs. 1,836 crore over the previous year. The increase was mainly due to the appreciation in State's own tax revenue (Rs.729 crore) coupled with increase in Central transfers (Rs. 122 crore) and grants-in-aid from Government of India (GOI) (Rs. 988 crore).
- Revenue expenditure increased by Rs. 866 crore while Capital expenditure decreased by Rs. 6 crore over the previous year.
- Recovery of loans and advances decreased from Rs. 36 crore to Rs. 20 crore and disbursement of loans and advances decreased from Rs. 135 crore to Rs. 102 crore during the current year.
- Public debt receipts decreased by Rs. 529 crore over the previous year mainly due to the decrease in the internal debt of the State Government (Rs. 541 crore). Repayment of public debt during the year decreased by Rs. 10 crore over the previous year.

As a result of inflows/outflows of funds stated above, cash balance of the State at the end of 2006-07 increased by Rs. 120 crore over the previous year.

1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2.**

Table 1.2: Key Fiscal Indicators

			<i>(Rupees in crore)</i>
2005-06	Sl. No	Major Aggregates	2006-07
5537	1.	Revenue Receipts (2+3+4)	7373
1785	2.	Tax Revenue (Net)	2513
650	3.	Non-Tax Revenue	647
3102	4.	Other Receipts	4213
36	5.	Non-Debt Capital Receipts	20
36	6.	<i>Of which</i> Recovery of Loans	20
5573	7.	Total Receipts (1+5)	7393
4258	8.	Non-Plan Expenditure (9+11+12)	5008
4191	9.	On Revenue Account	4900
808	10.	<i>Of which,</i> Interest Payments	964
48	11.	On Capital Account	97
19	12.	On loans disbursed	11
3193	13.	Plan Expenditure (14+15+16)	3270
1420	14.	On Revenue Account	1577
1657	15.	On Capital Account	1602
116	16.	On loans disbursed	91
7451	17.	Total Expenditure (8+13)	8278
(-) 74	18.	Revenue Deficit (-)/Surplus (+) (9+14-1)	+896
(-) 1878	19.	Fiscal Deficit (-)/Surplus (+) (17-1-5)	-885
(-) 1070	20.	Primary Deficit (-)/Surplus (+) (19-10)	+79

During the current year revenue receipts increased by 33.16 per cent (Rs.1,836 crore), while revenue expenditure increased by 15.43 per cent (Rs. 866 crore) over the previous year, resulting in surplus of Rs. 896 crore in

Revenue Account during 2006-07. Given the increase in revenue surplus of Rs. 970 crore and decrease of Rs. 16 crore and Rs. 6 crore in non-debt capital receipts and capital expenditure respectively, followed by decrease in loans and advances disbursed (Rs. 33 crore) during 2006-07 over the previous year, fiscal deficit decreased by Rs 993 crore during the current year. The decrease in fiscal deficit accompanied by an increase of Rs. 156 crore in interest payments during 2006-07 over the previous year, led to increase in primary surplus by Rs. 1,149 crore. More details are given in *Appendix 1.5*.

1.2 Methodology Adopted for the Assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analyzed wherever necessary over the period of last five years and observations are made on their behaviour (*Appendix 1.1 to 1.4*). In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP²) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The new GSDP series with 1999-2000 as base (**Table 1.3**) as published by Director of Economics and Statistics of the State Government has been used for the purpose. For tax revenue, 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.

Table-1.3: Trends in growth and composition of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)* (Rupees in crore)	18675	20668	22765	25776	29881
Growth rate of GSDP	16.64	10.67	10.15	13.23	15.93

*Source: Director of Economics and Statistics, Government of Uttarakhand

The key indicators adopted for the purpose are (i) Trends and Composition of Aggregate Receipts, (ii) Application of Resources, (iii) Assets and Liabilities and

² GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production.

(iv) Management of Deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in *Appendix-1.1-Part-C*.

1.2.1 The Uttarakhand Fiscal Responsibility and Budget Management Act, 2005

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in October 2005 to ensure prudence in fiscal management and fiscal stability, by progressive reduction of revenue deficit, and debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government:

- Reduce revenue deficit as a percentage of GSDP in each successive financial year, to reduce revenue deficit to nil by 31 March 2009 ;
- Reduce fiscal deficit to bring it to 3 per cent of the estimated GSDP by 31 March 2009; and
- Not to guarantee the repayment of 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 the Act or any rule or law to be made by the State Government subsequent to the coming into force of the Act.

The rules under the FRBM Act have not been framed so far (December 2007).

1.2.1.1 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has drawn its fiscal correction path (FCP) setting forth the targets and projections for different components of fiscal indicators for the period 2004-05 to 2009-10. The targets set in FCP for key fiscal indicators for the year 2006-07 *inter alia* included Rs. 358 crore as revenue surplus and fiscal deficit was projected to be Rs. 1,878 crore for the year. The projections for other fiscal indicators included NPRE (Rs. 4,919 crore); revenue receipts (Rs. 6,843 crore) and capital expenditure (Rs. 2,254 crore) for 2006-07.

1.2.1.2 Fiscal Policy Statement(s) 2006-2007

The FRBM Act envisaged that the State Government shall in each financial year lay before the State Assembly a Medium Term Fiscal Policy (MTFP) along with the annual budget, setting forth three year rolling targets for the prescribed fiscal indicators with specification of underlying assumptions. As the FRBM Act was enacted in October 2005, the State Government laid the MTFP along with budget for 2006-07 which contained medium term fiscal objectives of the State Government; evaluation of performance on prescribed fiscal indicators in

comparison with the previous year; recent economic trends and prospects for growth and development; strategic priorities and key fiscal policies of the Government and evaluation of their consistency; four year rolling targets on reducing revenue and fiscal deficits and assessment of sustainability relating to the revenue deficit and use of capital receipts for productive purposes. In MTFP for 2006-07, the Government projected a revenue deficit of Rs. 156 crore and fiscal deficit of Rs. 2,838 crore which were revised to Rs. 358 crore as revenue surplus and Rs. 1,878 crore as fiscal deficit which were the same as projected in FCP by the State Government for 2006-07.

1.2.1.3 Mid-Term Review of Fiscal Situation

The FRBM Act 2005 prescribes a half yearly review of the trends in receipts and expenditure in relation to the budget as well as remedial measures to be taken to achieve the budgetary targets by the Finance Minister. The outcome of such review is to be placed before the State Legislature. MTFP Statement was laid along with the annual budget 2006-07 (*Appendix 1.6*).

The State Government more or less achieved all the targets laid down in the FCP and netted a revenue surplus of Rs. 896 crore during the year ending 2006-07. The fiscal deficit of Rs. 885 crore was below 3 *percent* of GSDP, the achievement being higher than the target set in FRBM Act. The State also got debt relief of Rs. 13.08 crore under Debt Consolidation Relief Facility (DCRF)³ for the year 2006-07.

1.3 Trends and Composition of Aggregate Receipts

The resources of the State Government comprise revenue and capital receipts. Revenue receipts include tax and non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from the Public Account. **Table-1.4** shows that the total receipts of the Government for the year 2006-07 were Rs. 19,855 crore. Of these, revenue receipts were Rs. 7,373 crore, constituting 37 *per cent* of the total receipts. The balance came from borrowings (6 *per cent*) and receipts from the Public Account (57 *per cent*).

³ In pursuance of recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated the DCRF scheme (2005-06 to 2009-10) under which, general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest, on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of the States.

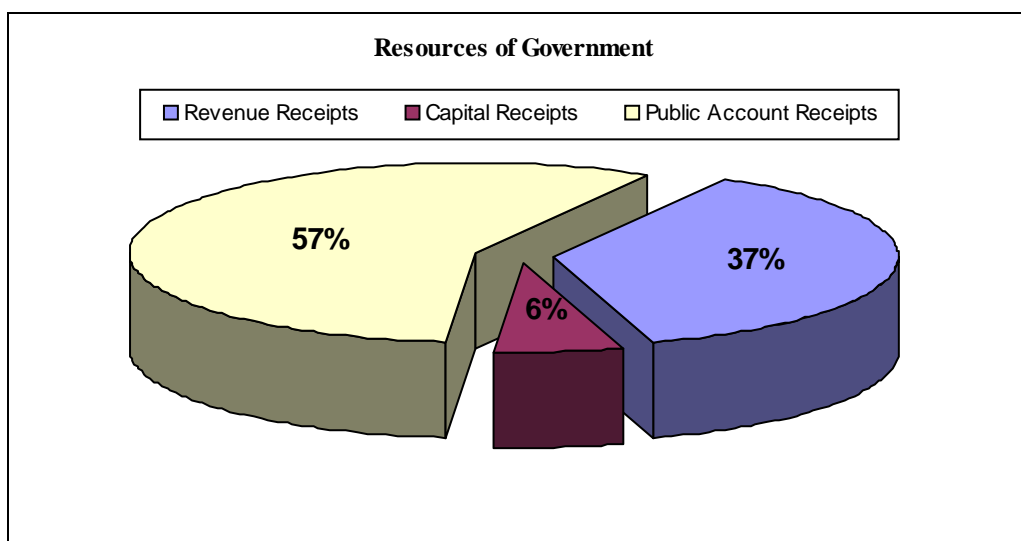


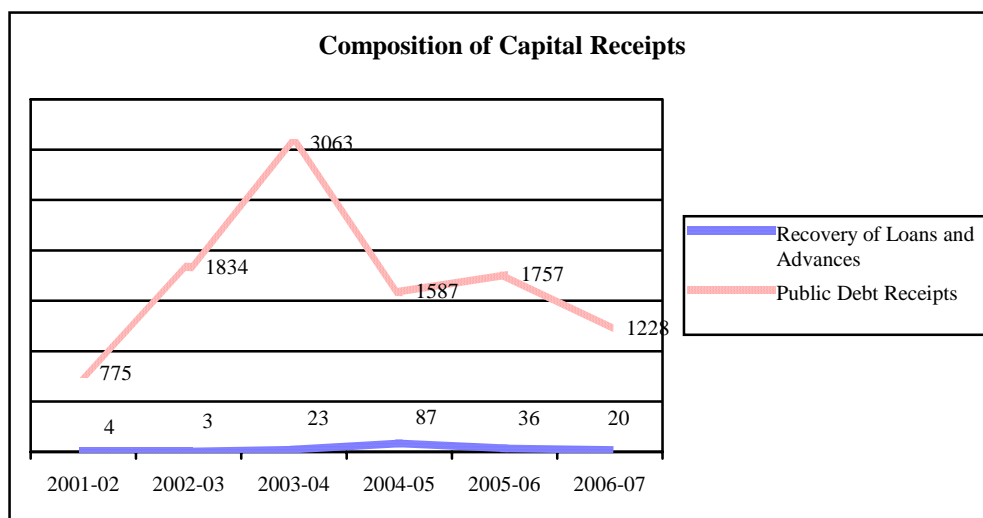
Table-1.4: Trends in Growth and Composition of the Total Receipts

(Rupees in crore)

Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	2608	3216	3600	4086	5537	7373
II Capital Receipts	779	1837	3086	1674	1793	1248
<i>Recovery of Loans and Advances</i>	4	3	23	87	36	20
<i>Public Debt Receipts</i>	775	1834	3063	1587	1757	1228
<i>Miscellaneous Receipts</i>	-	-	-	-	--	--
III Contingency Fund	30	-	55	-	-	-
IV Public Account Receipts	5131	6574	7499	8525	11029*	11234
<i>Small Savings, Provident Fund, etc.</i>	308	302	327	300	321	330
<i>Reserve Fund</i>	150	50	50	290	256	223
<i>Deposits and Advances</i>	1000	1327	1898	1851	2200	2204
<i>Suspense and Miscellaneous</i>	3280	3773	3551	4309	5571*	5574
<i>Remittances</i>	393	1122	1673	1775	2681	2903
Total Receipts	8548	11627	14240	14285	18359*	19855

* Differs from the figures of Audit Report 2005-06, on account of proforma correction.

Capital receipts have reduced by *60 per cent* over the period from 2003-04 to 2006-07.



Due to decreased market borrowings, the public debt receipts have come down to Rs. 1,228 crore in 2006-07 from the high of Rs. 3,063 crore in 2003-04. However, recovery of loans and advances present a source of concern as only those loans and advances given to Government servants are being recovered. Public Account receipts that account for 57 per cent of the total receipts have steadily risen. Suspense and Miscellaneous Heads (Rs. 5,574 crore) contributed 50 per cent of the Public Account receipts in 2006-07 mainly on account of cheques and bills suspense (Rs. 5,941 crore); these represent amounts taken into account by Government as receipts but are pending settlement with the bank.

Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government, consisting of tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5**.

Table-1.5: Revenue Receipts - Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts(RR) (Rupees in Crore)	2608	3216	3600	4086	5537	7373*
Own taxes (Rupees in crore) (Percentage share in RR)	971 (37.23)	1017 (31.62)	1226 (34.06)	1444 (35.34)	1785 (32.23)	2513 (34.08)
Non-Tax Revenue (Rupees in crore) (Percentage share in RR)	162 (6.21)	375 (11.66)	370 (10.28)	548 (13.41)	650 (11.74)	647 (8.78)
Central Tax Transfers (Rupees in crore) (Percentage Share in RR)	151 (5.79)	374 (11.63)	435 (12.08)	520 (12.73)	1010 (18.24)	1132 (15.35)
Grants-in-aid (Rupees in crore) (Percentage Share in RR)	1324 (50.77)	1450 (45.09)	1569 (43.58)	1574 (38.52)	2092 (37.79)	3081 (41.79)
Rates of Growth						
Revenue Receipts (per cent)	-	23.31	11.94	13.50	35.51	33.16
State's Own Taxes	-	4.74	20.55	17.78	23.61	40.78
Non Tax Revenue	-	131.48	-1.33	48.10	18.61	-0.46
RR/GSDP (per cent)	16.28	17.22	17.42	17.95	21.48	24.67

Buoyancy Ratios						
Revenue Receipts with GSDP	-	1.40	1.12	1.33	2.68	2.08
States Own Taxes with GSDP	-	0.28	1.93	1.75	1.78	2.56
Revenue Buoyancy ⁴ with reference to State's Own taxes	-	4.92	0.58	0.76	1.50	0.81
GSDP Growth (<i>per cent</i>)	8.90	16.64	10.67	10.15	13.23	15.93

*Revenue Receipts during 2006-07 are inflated to the extent of Rs. 339.64 crore on account of book adjustment of CAO, RB Suspense pertaining to the year 2005-06.

General Trends:

The revenue receipts have shown a constant increase over the period 2001-07. It increased from Rs. 2,608 crore in 2001-02 to Rs. 7,373 crore in 2006-07 at an average rate of 23.48 *per cent*. The incremental growth rate of revenue receipts during the year did not match the incremental growth rate of GSDP resulting in decrease of buoyancy. While 42.86 *per cent* of the revenue receipts during 2006-07 came from the State's own tax and non-tax revenues, the aggregate of Central tax transfers and grants-in-aid contributed 57.14 *per cent* of the total revenue.

Tax Revenue at Rs. 2,513 crore during 2006-07 exceeded the normative assessment of Rs. 1,694.04 crore made by TFC for the year. Similarly, Non-Tax Revenue at Rs. 647 crore was more by Rs. 65 crore as compared to TFC projections. The actual were also well ahead of the assessments made by the State Government in FCP as per details given in the table below.

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actuals
	(1)	(2)	(3)
Tax Revenue	1694	2351	2513
Non-Tax Revenue	582	628	647

Tax Revenue:

The tax revenue increased by 40.78 *per cent* during the current year (Rs. 2,513 crore) over the previous year (Rs. 1,785 crore). The revenue from Sales Tax not only contributed major share of tax revenue (54.17 *per cent*) but also increased by 34 *per cent* over the previous year. The sharp increase in Sales Tax revenue was mainly on account of implementation of VAT by the State with effect from October 2005. Stamps and Registration Fees of Rs. 546 crore (21.73 *per cent*) which increased by Rs. 213 crore due to unprecedented increase in registration and sale deeds and State Excise of Rs. 373 crore (14.84 *per cent*) were other contributors to tax revenue.

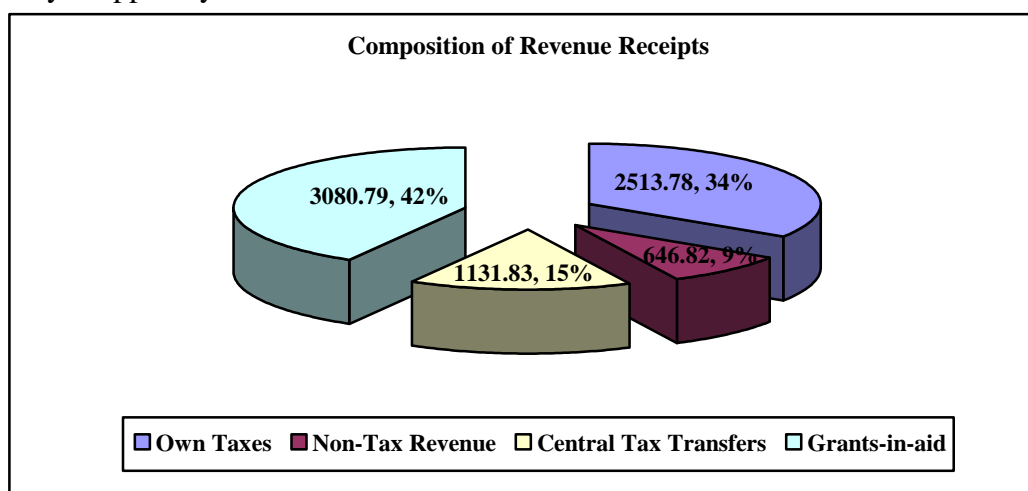
⁴ Buoyancy Ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable.

Non-Tax Revenue:

Non-tax revenue at Rs. 647 crore constituted 8.78 *per cent* of revenue receipts, decreased by 0.46 *per cent* over the previous year, even though the State got a debt relief of Rs.13.08 crore from GOI under DCRF. Forestry and Wild life (29.07 *per cent*) and Power (26.61 *per cent*) were the principal contributors to non-tax revenue. Contribution of interest receipts to non-tax revenue was 6.34 *per cent* during the current year.

Central tax transfers:

The receipts in the form of State's share in Union taxes and duties have increased by 12 *per cent* from Rs. 1,010 crore in 2005-06 to Rs. 1,132 crore in 2006-07. The overall increase in Central transfers (Rs. 122 crore) was mainly due to increase in Corporation Tax (Rs. 108 crore), Taxes on Income other than Corporation Tax (Rs. 42 crore) and Service Tax (Rs. 38 crore). State's Share of Union Excise Duty dropped by Rs. 71 crore in 2006-07.

**Grants-in-Aid:**

The grants-in aid from GOI increased from Rs. 2,092 crore in 2005-06 to Rs. 3,081 crore in 2006-07 inflated to the extent of Rs. 339.64 crore on account of book adjustment of CAO RB suspense pertaining to the year 2005-06. The non-plan grants increased from Rs.1,120 crore in 2005-06 to Rs.1,451 crore in 2006-07 which are inclusive of Rs. 1,403 crore as non-plan grants under the Constitution (distribution of revenue order), including Rs. 1,064.30 crore as non-plan revenue deficit grants recommended by TFC for Uttarakhand for 2006-07. Grants under Central Plan and Centrally Sponsored Plan schemes (CSS) also increased from Rs.152 crore in 2005-06 to Rs. 185 crore in 2006-07, mainly to cover the sponsorship of additional / ongoing CSS. Grants for State plan schemes increased from Rs. 820 crore in 2005-06 to Rs. 1,445 crore in 2006-07. The increase was mainly on account of grants under Normal Central Assistance (Rs. 486 crore) and Additional Central Assistance (Rs. 97 crore) to the State of Uttarakhand during 2006-07.

Revenue Arrears:

Arrears of revenue (excluding Forest Revenue) amounted to Rs. 284.32 crore at the end of 2006-07. Of these, Rs.138.02 crore (48.54 *per cent*) was more than five years old. Specific action taken to effect recoveries had not been intimated by the State Government.

1.4 Application of resources

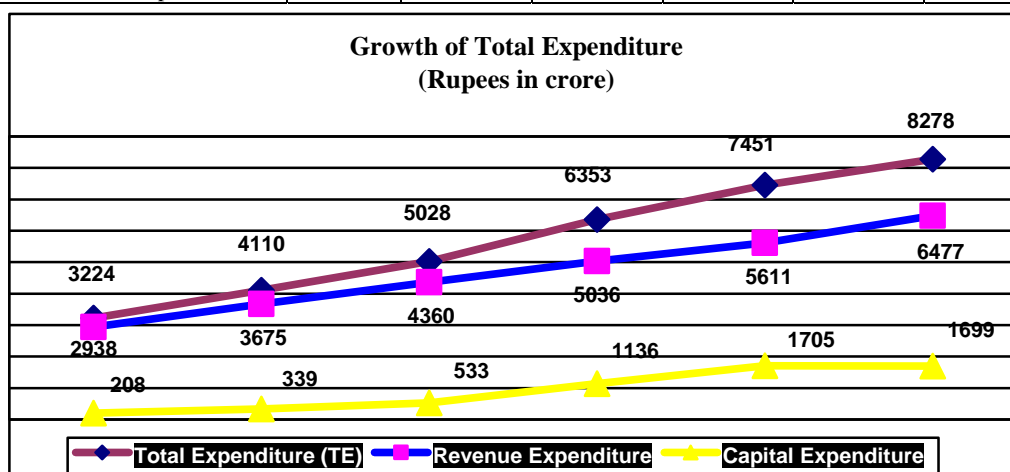
1.4.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs. 3,224 crore in 2001-02 to Rs 8,278 crore in 2006-07. The total expenditure, its annual growth rate and ratios/buoyancies of expenditure with reference to the State GSDP and to revenue receipts are indicated in **Table-1.6**.

Table-1.6: Total Expenditure – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure ⁵ (TE)	3224	4110	5028	6353	7451	8278
Rate of Growth (<i>per cent</i>)	-	27.48	22.34	26.35	17.28	11.10
TE/GSDP Ratio (<i>per cent</i>)	20.14	22.01	24.33	27.91	28.91	27.70
RR/TE Ratio (<i>per cent</i>)	80.89	78.25	71.60	64.32	74.30	89.07
Buoyancy of total expenditure with reference to						
GSDP	-	1.65	2.09	2.60	1.31	0.70
Revenue Receipts	-	1.18	1.87	1.95	0.49	0.33

(Rupees in crore)



The total expenditure of the State increased at an average rate of 20.91 *per cent* per annum during 2002-07 ranging from 11 *per cent* to 27 *per cent* per annum. An increase of Rs. 827 crore (11.10 *per cent*) in total expenditure during 2006-07 over the previous year was mainly due to an increase in revenue expenditure

⁵ Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

(Rs. 866 crore) under (i) General Services (Rs. 351 crore) (ii) Social Services (Rs. 199 crore), (iii) Economic Services (Rs. 161 crore) and (iv) Grants-in-aid and contribution (Rs. 155 crore). In particular, the enhancement was in Interest payments (Rs. 156 crore), Pension payments (Rs. 73 crore), Police (Rs. 53 crore) in General Services, Education, Sports Art and Culture (Rs. 160 crore), Social Welfare and Nutrition (Rs. 112 crore), partly offset by reduction of expenditure under Water Supply, Sanitation, Housing and Urban Development (Rs. 52 crore) and welfare of scheduled castes and scheduled tribes (Rs. 17 crore) in Social Services and Agriculture and Allied Activities (Rs. 98 crore), Transport (Rs. 88 crore), Rural Development (Rs. 21 crore) and General Economic Services (Rs. 19 crore), partly offset by reduction of expenditure under Energy (Rs. 54 crore) in Economic Services.

Capital expenditure during 2006-07 was Rs. 1,699 crore against Rs. 1,705 crore in 2005-06, a reduction of Rs. 6 crore. Even though the capital expenditure increased in: Health and Family Welfare (Rs. 73 crore), Education, Sports, Art and Culture (Rs. 65 crore), Transport (Rs. 57 crore), Irrigation and Flood Control (Rs. 50 crore), Rural Development (Rs. 40 crore), Water Supply & Sanitation Housing and Urban Development (Rs. 21 crore) which was neutralized by decline of expenditure under sub sectors Industry and Minerals (Rs. 253 crore) and Energy (Rs. 51 crore).

The buoyancy of revenue expenditure with respect to GSDP was higher than the buoyancy of total expenditure with respect to GSDP in 2006-07, indicating that moderation in growth of total expenditure was achieved by squeezing capital expenditure and loans and advances. This was indeed so and in 2006-07, there was a decline of Rs. 33 crore in loans and advances and Rs. 6 crore in capital expenditure.

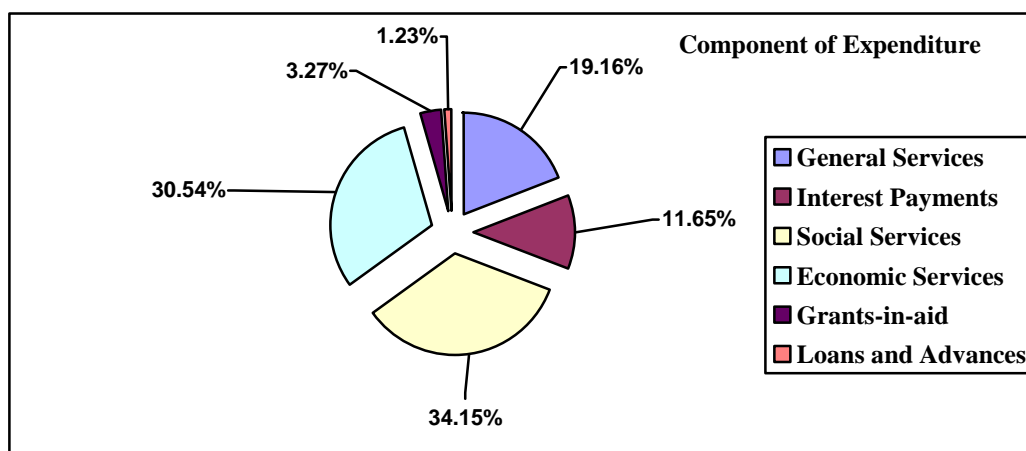
The revenue expenditure declined from 91.13 *per cent* of total expenditure in 2001-02 to 75.30 *per cent* in 2005-06. However, it showed an increasing trend in 2006-07 and rose to 78.24 *per cent*, while capital expenditure showed an increasing trend ranging from 6.45 *per cent* to 22.88 *per cent* for the period 2001-06. During 2006-07 the capital expenditure remained almost stagnant at 20.52 *per cent*. Revenue expenditure as a percentage of GSDP increased from 18.35 *per cent* in 2001-02 to 21.68 *per cent* in 2006-07, while capital expenditure as a percentage of GSDP increased from 1.30 *per cent* to 6.61 *per cent* in 2005-06 and showed a downward trend in 2006-07 (5.69 *per cent*).

Trends in Total Expenditure by Activities

In terms of the 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 loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

Table-1.7: Components of Expenditure – Relative Share

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services (excluding I.P)	18.15	16.66	18.34	19.40	18.87	19.16
Interest Payments	15.72	13.46	11.87	12.84	10.85	11.65
Social Services	35.58	37.30	36.12	32.54	33.06	34.15
Economic Services	26.14	28.56	26.95	30.16	33.84	30.54
Grants-in-aid	1.99	1.68	4.04	2.21	1.57	3.27
Loans and advances	2.42	2.34	2.68	2.85	1.81	1.23



The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. The share of expenditure on General Services including interest payments, which is considered as non-developmental, increased from 29.72 per cent in 2005-06 to 30.81 per cent in 2006-07. On the other hand, developmental expenditure i.e. expenditure on Social and Economic Services together accounted for 64.69 per cent in 2006-07 as against 66.90 per cent in 2005-06.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure had a predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, to discharge the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.8**.

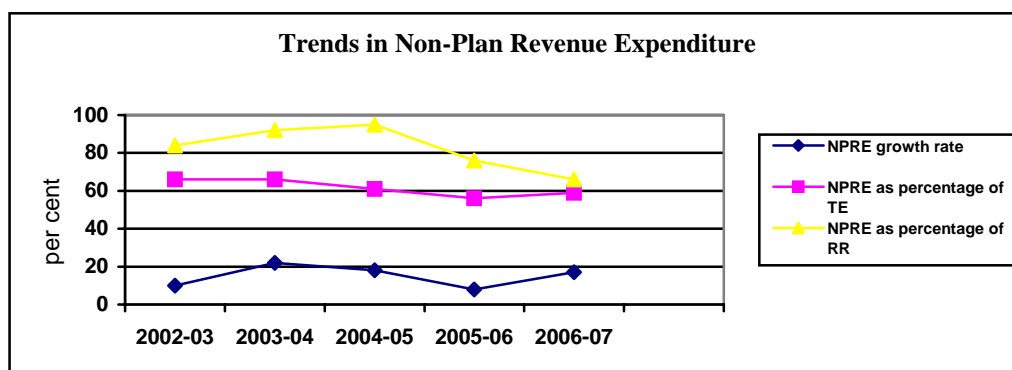
Table-1.8: Revenue Expenditure: Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Revenue Expenditure (RE) of which	2938	3675	4360	5036	5611	6477
Non-plan Revenue Expenditure (NPRE)	2453	2708	3310	3898	4191	4900
Plan Revenue Expenditure (PRE)	485	967	1050	1138	1420	1577

Rate of Growth (per cent)						
Revenue Expenditure	-	25.09	18.64	15.50	11.42	15.43
NPRE	-	10.40	22.23	17.76	7.52	16.92
PRE	-	99.38	8.58	8.38	24.78	11.06
Ratios						
RE as per cent of TE	91.12	89.42	86.71	79.27	75.30	78.24
NPRE as per cent of TE	76.08	65.89	65.83	61.36	56.24	59.19
NPRE as per cent of R R	94.06	84.20	91.94	95.40	75.70	66.46
Buoyancy of RE with reference to						
GSDP		1.51	1.75	1.53	0.86	0.97
Revenue Receipts		1.08	1.56	1.15	0.32	0.47

The overall revenue expenditure of the State increased by 120 per cent from Rs. 2,938 crore in 2001-02 to Rs. 6,477 crore in 2006-07 at an average annual rate of 17.22 per cent. Non-Plan Revenue Expenditure (NPRE) of the State increased by 99.75 per cent from Rs. 2,453 crore in 2001-02 to Rs. 4,900 crore in 2006-07. The increase in NPRE during the current year was mainly due to increase in Salaries (Rs. 170 crore), Pension (Rs. 73 crore), Other Administrative Services (Rs. 30 crore), General Education (Rs. 85 crore), Urban development (Rs. 70 crore), Roads and Bridges (Rs. 67 crore) and Grants in aid to local bodies (Rs. 155 crore). The share of NPRE in the total revenue expenditure though oscillated during the period 2001-07, declined from the peak level of 83.49 per cent during 2001-02 to 75.65 per cent during the current year.

However, the incremental growth of NPRE was higher than the growth of GSDP. The buoyancy of NPRE with respect to the revenue receipts, although less than one, more than doubled in 2006-07 as compared to 2005-06. NPRE, at Rs. 4,900 crore was more or less the same as projected in the FCP (Rs. 4,919 crore), the trend indicating that State Government could compress the NPRE on certain items. However, it was Rs. 576 crore more than what had been projected by TFC (Rs. 4,324 crore) (*Annexure 6.12 of TFC report*).



While the share of Plan Revenue Expenditure (PRE) in revenue expenditure of the State exhibited an increasing trend, its growth rate showed wide fluctuations during the period 2001-07. The PRE during the current year increased by Rs. 157 crore over the previous year. The increase in PRE during the current year was mainly on account of increase in; Education, Sports, Art and Culture (Rs. 70 crore), Agriculture and Allied Activities (Rs. 69 crore), Social Welfare

and Nutrition (Rs. 61 crore), Rural Development (Rs. 21 crore), General Economic Services (Rs. 17 crore) and Transport (Rs. 10 crore) which was set off by decrease of expenditure in; Energy (Rs. 54 crore), Welfare of Scheduled Castes and Scheduled Tribe (Rs. 16 crore), Health and Family Welfare (Rs. 13 crore), Water Supply, Sanitation, Housing and Urban Development (Rs. 7 crore) and Irrigation and Flood Control (Rs. 6 crore).

1.4.3 Committed Expenditure

Committed expenditure on salaries, interest, pensions and subsidies not only reduce the flexibility in expenditure, but also prevent the State from making any asset creation commitments. Since the subsidies are not separately classified by the State Government, the quantum of subsidies granted is not known.

1.4.3.1 Expenditure on Salaries and Wages

Table-1.9: Expenditure on Salaries

<i>(Rupees in crore)</i>						
Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries ⁶ & Wages	938	1036	1168	1192	1381	1551
Of which						
Non-Plan Head	Plan / Non-Plan wise breakup of Salaries is not available for this period				1278	1397
Plan Head ⁷					103	154
As per cent of GSDP	5.86	5.55	5.65	5.24	5.36	5.19
As per cent of RR	35.97	32.21	32.44	29.17	24.94	21.03

Although the expenditure on salaries and wages increased from Rs. 938 crore in 2001-02 to Rs. 1,551 crore in 2006-07 as indicated in **Table 1.9**, it was Rs.549 crore (26 per cent) less than the amount of Rs. 2,100 crore projected by the State Government in its FCP. It was also well within the TFC norms, which is 35 per cent of revenue expenditure (excluding interest payments and pension payments). Salary expenditure of Rs. 1,551 crore during 2006-07, as compared to net of revenue expenditure excluding interest payments and pension payments was 31 per cent during 2006-07.

1.4.3.2 Pension Payments

Table 1.10: Expenditure on Pensions

<i>(Rupees in crore)</i>						
Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	13	135	283	354	453	527
As per cent of GSDP	0.08	0.72	1.37	1.56	1.76	1.76
As per cent of RR	0.50	4.20	7.86	8.66	8.18	7.15

The State Government estimated the pension liabilities on the historical growth rate of pension and not on actuarial basis. Expenditure on pension payments was Rs. 527 crore in 2006-07, which constituted 7.15 per cent of the revenue receipts. Pension payments had increased to Rs. 527 crore in 2006-07 from Rs.13 crore in 2001-02, as shown in **Table 1.10**. The higher rate of pension payments during 2005-06 (27.97 per cent) was attributed to the increase in the number of pensioners by 2582 in 2005-06. However, Pension payments during 2006-07 grew only by 16.33 per cent over those for the previous year, higher than the rate of

⁶ Salaries include Basic Pay, Dearness Pay, Dearness Allowances and Other Allowances

⁷ Plan head also includes the Salary and Wages paid under Centrally Sponsored Schemes

10 *per cent* projected by the TFC, but were well below the target of Rs. 672.43 crore set forth by TFC for the current year (*Annexure 6.12 of TFC report*). The State Government also introduced a contributory pension scheme for employees recruited on or after 1 October 2005 to mitigate the impact of raising pension liabilities in future.

1.4.3.3 Interest payments

Table-1.11: Interest payments

Interest Payments	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Interest payments (Rs. in crore)	507	553	597	816	808	964
Interest Payments as per cent to						
Revenue Receipts	19.44	17.20	16.58	19.97	14.59	13.07
Revenue Expenditure	17.26	15.05	13.69	16.20	14.40	14.88

The ratio of interest payments to revenue receipts determines the sustainability of the debt of State. As per the recommendations of the TFC, the level of interest payments relative to revenue receipts should fall to 15 *per cent* by 2009-10. Interest payments were below 15 *per cent* during 2006-07 and were below the target of 14.79 *per cent* of revenue receipts set out by the State Government in its FCP. As shown in **Table 1.11**, interest payments increased by 90 *per cent* from Rs. 507 crore in 2001-02 to Rs. 964 crore in 2006-07 primarily due to past borrowings. Interest payments during 2006-07 included those on Internal Debt (Rs. 773 crore), comprising (Rs. 275 crore) Market loans and (Rs. 412 crore) on special securities issued to the NSS⁸ fund of the Central Government by the State Government, loans received from Central Government (Rs. 42 crore), other obligations (Rs. 58 crore) and Small Savings, Provident Fund etc. (Rs. 91 crore).

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects the quality of its expenditure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP and the proportion of revenue expenditure on running the existing social and economic services efficiently and effectively, would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better the quality of expenditure. **Table-1.12** gives these ratios during 2001-07.

Table 1.12 – Indicators of Quality of Expenditure

Components of Expenditure	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	208	339	533	1136	1705	1699
Revenue Expenditure	2938	3675	4360	5036	5611	6477
Revenue expenditure on Social and Economic Services, of which	1812	2419	2696	2994	3468	3828
(i)Salary and wage component	631	699	794	846	932	1063
(ii)Non-salary and wage component	1181	1719	1902	2148	2536	2765

⁸ National Small Saving Fund

As per cent of Total Expenditure ⁹						
Capital Expenditure	6.61	8.45	10.89	18.41	23.31	20.78
Revenue Expenditure	93.39	91.55	89.11	81.59	76.69	79.21
As per cent of GSDP						
Capital Expenditure	1.30	1.82	2.58	4.99	6.61	5.69
Revenue Expenditure	18.35	19.68	21.10	22.12	21.77	21.68

The revenue expenditure consistently increased during the period 2001-07 and continued to maintain a dominant share hovering around the mean of 85 *per cent* in total expenditure although indicating a downward trend during the period 2001-07. Capital expenditure as a share of total expenditure has also indicated an increasing trend with a slight decline in the current year. The relative share of salary and non-salary components of revenue expenditure incurred on Social and Economic Services indicate that their relative share remained on an average, in the ratio of 3:7 throughout the period 2001-07 reflecting more focus of the Government on improvement in maintenance and delivery of these services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.13** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

Table 1.13: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	
						Plan	Non Plan
Education							
Revenue Expenditure* of which	683.76	945.79	1034.22	1126.78	1231.03	308.65	1075.03
(a) <i>Salary and Wage Component</i>	246.32	293.93	324.68	354.37	413.99	93.14	389.23
(b) <i>Non-Salary and Wage Component</i>	437.44	651.86	709.54	772.41	817.04	215.51	685.80
Capital Expenditure	13.27	23.52	59.82	45.01	64.03	129.11	...
Total	697.03	969.31	1094.04	1171.79	1295.06	437.76	1075.03
Health & Family Welfare							
Revenue Expenditure of which	140.37	158.36	173.66	198.05	278.32	90.01	175.23
(a) <i>Salary and Wage Component</i>	104.04	110.07	129.00	138.74	162.00	42.04	132.36
(b) <i>Non-Salary and Wage Component</i>	36.33	48.29	44.66	59.31	116.32	47.97	42.87
Capital Expenditure	8.97	24.52	35.07	50.52	73.40	146.10	0.17
Total	149.34	182.88	208.73	248.57	351.72	236.11	175.40
Water Supply, Sanitation, Housing and Urban Development							
Revenue Expenditure of which	188.90	178.32	303.41	355.02	387.54	281.02	54.31
(a) <i>Salary and Wage Component</i>	0.75	1.18	1.38	1.71	1.86	0.26	1.86
(b) <i>Non-Salary and Wage Component</i>	188.15	177.14	302.03	353.31	385.68	280.76	52.45
Capital Expenditure	1.06	9.27	3.71	19.08	14.64	23.34	1.26
Total	189.96	187.59	307.12	374.10	402.18	304.36	55.57

⁹ Total Expenditure excludes disbursements of loans and advances.

Other Social Services							
Revenue Expenditure	107.60	185.77	181.60	224.33	358.81	214.58	256.10
of which							
(a) <i>Salary and Wage Component</i>	23.34	25.41	28.12	29.95	36.86	12.12	33.50
(b) <i>Non-Salary and Wage Component</i>	84.26	160.36	153.48	194.38	321.95	202.46	22.60
Capital Expenditure	3.8	7.74	24.99	48.66	55.96	72.14	...
Total	111.40	193.51	206.59	272.99	414.77	286.72	256.10
Total (Social Services)							
Revenue Expenditure	1120.63	1468.24	1692.89	1904.18	2255.70	894.26	1560.67
Of which							
(a) <i>Salary and Wage Component</i>	374.45	430.59	483.18	524.77	614.71	147.56	556.95
(b) <i>Non-Salary and Wage Component</i>	746.18	1037.65	1209.71	1379.41	1640.99	746.70	1003.72
Capital Expenditure	27.10	65.05	123.59	163.27	208.03	370.69	1.43
Total	1147.73	1533.29	1816.48	2067.45	2463.73	1264.95	1562.10

*Revenue expenditure for General Education includes expenditure on Sports, Art and Culture for the period 2001-05.

The allocation to social sector increased from Rs. 1,147.73 crore in 2001-02 to Rs. 2,827.05 crore in 2006-07 indicating the Government's commitment to improve social well being of the society. The expenditure on salary and wage component under the sub sector Education increased from Rs. 414 crore in 2005-06 to Rs. 482 crore in 2006-07. Under the Social Services, the salary component increased from Rs.374 crore in 2001-02 to Rs.705 crore in 2006-07, an increase of Rs. 331 crore (89 *per cent*) and non-salary component increased during the period from Rs. 773 crore to Rs. 2,123 crore, an increase of Rs. 1,350 crore (175 *per cent*). The share of sub-sector Education, under Social Services sector has increased from Rs. 1,295 crore to Rs. 1,513 crore over the previous year, an increase of Rs. 218 crore (17 *per cent*). Against a growth rate of 6 and 30 *per cent* assigned by TFC for Salary and Non-salary components, the growth rate under these components was 17 *per cent* for each component. Further, salary component for education sector included Rs. 93 crore as plan expenditure, of which, Rs. 7 crore was from Central assistance.

Similarly under the sub-sector Health and Family Welfare, the share in Social Services has increased from Rs.149 crore in 2001-02 to Rs.412 crore in 2006-07, an increase of Rs. 263 crore. Against a growth rate of 5 and 30 *per cent* assigned by TFC for salary and non-salary components, the growth rate was 7 *per cent* and 25 *per cent* respectively. In respect of Water Supply, Sanitation, Housing and Urban Development sectors, the TFC has recommended that the State Government should continue to assist the local bodies to meet the cost of O&M in water supply and sanitation but the revenue expenditure during 2006-07 has showed an overall decline of Rs. 52 crore under this sector (including Rs. 60 crore decline in the assistance to local bodies).

1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs.2,528 crore) accounted for 31 *per cent* of the total expenditure. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 82 *per cent* of the expenditure as can be seen from **Table-1.14** below:

Table-1.14: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	
						Plan	Non Plan
Agriculture, Allied Activities							
Revenue Expenditure of which	336.55	367.26	448.54	449.03	508.02	303.84	301.85
(a) <i>Salary and Wage Component</i>	123.36	129.66	160.81	163.80	173.14	5.76	177.85
(b) <i>Non-Salary and Wage Component</i>	213.19	237.60	287.73	285.23	334.88	298.08	124.00
Capital Expenditure	-37.04	-1.33	-4.25	44.10	77.42	31.58	12.05
Total	299.51	365.93	444.29	493.13	585.44	335.42	313.90
Irrigation and Flood Control							
Revenue Expenditure of which	118.02	143.36	140.64	153.60	167.98	5.14	154.70
(a) <i>Salary and Wage Component</i>	68.63	74.66	84.16	87.37	79.52	0.01	87.09
(b) <i>Non-Salary and Wage Component</i>	49.39	68.70	56.48	66.23	88.46	5.13	67.61
Capital Expenditure	27.51	26.01	78.30	112.36	225.36	305.83	...
Total	145.53	169.37	218.94	265.96	393.34	310.97	154.70
Power and Energy							
Revenue Expenditure of which	13.56	136.03	110.13	77.05	94.52	38.81	1.57
(a) <i>Salary and Wage Component</i>	-	-	-	-	0.02	-	0.04
(b) <i>Non-Salary and Wage Component</i>	13.56	136.03	110.13	77.05	94.50	38.81	1.53
Capital Expenditure	8.00	-	-	166.61	210.34	158.94	-
Total	21.56	136.03	110.13	243.66	304.86	197.75	1.57
Transport							
Revenue Expenditure of which	45.73	52.72	42.87	53.25	75.44	27.37	136.02
(a) <i>Salary and Wage Component</i>	1.91	2.10	2.21	2.53	3.44	-	4.21
(b) <i>Non-Salary and Wage Component</i>	43.82	50.62	40.66	50.72	72.00	27.37	131.81
Capital Expenditure	140.92	136.03	196.79	138.28	542.50	598.95	-
Total	186.65	188.75	239.66	191.53	617.94	626.32	136.02
Other Economic Services							
Revenue Expenditure of which	178.23	250.98	261.20	356.58	365.70	305.60	98.31
(a) <i>Salary and Wage Component</i>	62.99	62.87	63.16	67.91	76.91	0.73	82.95
(b) <i>Non-Salary and Wage Component</i>	115.24	188.11	198.04	288.67	256.12	304.87	15.36
Capital Expenditure	11.96	62.29	81.00	364.10	254.51	46.96	-
Total	166.27	310.61	333.71	720.68	620.21	352.56	98.31
Total (Economic Services)							
Revenue Expenditure of which	692.09	950.35	1003.38	1089.51	1211.66	680.76	692.45
(a) <i>Salary and Wage Component</i>	256.89	269.29	310.34	321.61	333.03	6.50	352.14
(b) <i>Non-Salary and Wage Component</i>	435.20	681.06	693.04	767.90	878.63	674.26	340.31
Capital Expenditure	151.35	223.00	351.85	825.45	1310.13	1142.26	12.05
Total	843.44	1173.35	1355.23	1914.96	2521.79	1823.02	704.50

The expenditure on Economic Services accounted for 31 per cent of the total expenditure of the State, of which, revenue expenditure accounted for 54 per cent, with capital expenditure being 46 per cent. The expenditure on salary and wage component under Economic Services increased by 40 per cent from Rs. 257 crore in 2001-02 to Rs. 359 crore in 2006-07. On non-salary and wage component, it increased by 133 per cent from Rs. 435 crore in 2001-02 to Rs. 1,015 crore in 2006-07. The increase in the non-salary component was mainly due to the enhanced spending during the current year on the development of infrastructure in the State such as roads and bridges (Rs.541.98 crore) and Irrigation & flood control (Rs. 305.83 crore).

1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2001-07 is presented in **Table-1.15**.

Table-1.15: Financial Assistance

		<i>(Rupees in crore)</i>					
Sl. No.	Name of institutions	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Universities and Educational Institutions	111.68	79.48	131.25	141.02	198.31	232.81
2.	Energy	13.46	135.88	110.13	73.75	60.83	100.61
3.	Agriculture, Land Reforms and Forestry	30.59	55.10	76.11	76.80	103.96	146.39
4.	Municipal Corporations and Municipalities	63.74	36.18	74.26	61.46	80.55	96.63
5.	Panchayati Raj Sansthain	32.96	128.63	79.98	36.09	174.65
6.	Hospitals and Charitable Institutions	0.05	1.67	6.17	15.51	26.21	40.69
7.	Development Agencies	165.37	171.98	314.97	362.08	305.04	408.25
8.	Labour and Industry	4.99	21.16	27.61	25.10	18.28	20.04
9.	Co-operatives	1.41	3.16	4.72	4.30	7.64	14.24
10.	Animal Husbandry, Dairy Development and Fisheries	6.05	5.72	6.70	7.65	8.55	10.74
11.	Secretariat Economics Services & Tourism	3.25	52.50	39.56	131.05	43.38	64.39
12.	Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other backward classes	19.02	19.37	30.62	65.13	83.42	84.94
13.	Others	3.84	5.39	8.12	11.80	33.71	18.13
	Total	423.45	620.56	958.85	1054.90	1005.97	1412.51
	Assistance as percentage of revenue expenditure	14.41	16.89	21.99	20.93	17.93	21.82

Source: VLC Data

The total assistance to local bodies and other institutions in 2006-07 had grown by 234 per cent over that in 2001-02. The sharp increase under Development agencies during 2006-07 was mainly due to the release of more grants to rural development (Rs. 234 crore) and to special area programmes (Rs. 46 crore). The assistance to the Panchayati Raj Institutions sharply increased from Rs. 36 crore to Rs. 175 crore during 2006-07. The increase was on account of assistance to Zilla Parishads, Panchayats (Rs. 34 crore), assistance to Vikas Khand Level Panchayat (Rs. 51 crore) and assistance to Gram Panchayats (Rs. 89 crore). The financial assistance given to energy has increased from Rs. 61 crore to Rs. 101 crore which included advancement of loan of Rs. 87 crore during 2006-07.

1.5.5 Non-submission of accounts

The annual accounts of Uttarakhand Jal Sansthan, Dehradun the audit of which is covered under **Section 19 (2)** of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 were due for the year 2004-05 to 2006-07.

1.6 Assets and Liabilities

1.6.1 Trends in Growth and composition of Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix-1.2* gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and the cash balances. *Appendix-1.5* depicts the time series data on State Government finances for the period 2001-07.

Assets as compared to Liabilities were merely 0.33 *per cent* in the year 2002-03 but improved by the end of 2006-07 and stood at 0.64 *per cent*.

1.6.2 Financial analysis of Government Investments

1.6.2.1 Financial Results of Irrigation Works

The financial results of nine major irrigation projects with a capital outlay of Rs. 268.44 crore at the end of March 2007 as reported by the Government showed that revenue realized from these projects during 2006-07 (Rs. 4.30 crore) was very low (1.61 *per cent*) compared to the capital outlay. It was barely sufficient to cover even the direct working expenses (Rs.29.89 crore) during 2006-07. The direct working expenses to the extent of Rs. 25.59 crore were borne by the State Government during the year.

1.6.2.2 Incomplete Projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in **Table 1.16**.

Table 1.16: Department-wise Profile of Incomplete Projects

<i>(Rupees in crore)</i>					
Department	Number of Incomplete Projects	Initial Budgeted cost	Cost Over Runs	Revised Total Cost of Projects	Cum.Actual Exp. as on 31 March 2007
Public works Department	144	370.37	13.71	41.33 ¹⁰	223.66
Irrigation Department	25	86.64	0.38	1.64 ¹¹	46.97
Total	169	457.01	14.09	42.97	270.63

Information provided by the State Government showed that there were 169 incomplete projects as on 31 March 2007, in PWD and Irrigation Departments, on which Rs. 270.63 crore have been incurred. These incomplete

¹⁰ Cost of 6 projects revised

¹¹ Cost of 1 project revised

projects include 7 (PWD 6 and Irrigation 1) projects with initial budgeted cost of Rs.28.88 crore whose revised estimates escalated to Rs. 42.97 crore thereby resulting in cost over run of Rs. 14.09 crore.

1.6.2.3 Departmental Commercial Undertakings

Departmentally managed Government commercial/quasi-commercial undertakings

1.6.2.4 General

Consequent upon the formation of the State of Uttarakhand with effect from 9 November 2000 under the Uttar Pradesh Reorganization Act 2000, the assets and liabilities of the undertakings already situated in Uttarakhand were to be passed on to the newly formed State.

Accordingly, the assets and liabilities of the following undertakings located within the State were deemed transferred to the newly created State from the aforesaid date.

Department	Name of the undertakings
Food and Civil Supplies	Grain Supply Scheme: Regional Food Controller, Dehradun Regional Food Controller, Haldwani
Irrigation	Irrigation Workshop Division, Roorkee
Animal Husbandry	State Livestock and Agricultural Farms, Kalsi, Dehradun State Livestock and Agricultural Farms, Manjhara, Dehradun
Health	Rishikul Ayurvedic Pharmacy, Haridwar State Vaccine Institute, Patwadangar, Nainital

1.6.2.5 Lack of accountability for the use of public fund in departmentally managed commercial and quasi-commercial undertakings

Activities of quasi-commercial nature are performed by departmental undertakings. These undertakings are to prepare pro-forma accounts annually in the prescribed format showing the results of financial operations so that Government can assess the results of their working. The Heads of Departments are to ensure that the undertakings, which are funded by budgetary releases, prepare the accounts and submit the same to the Accountant General for audit by 30 June every year. It was observed that only the Irrigation Workshop Division (IWD), Roorkee had finalised its accounts for the year 2005-06, while in the case of the other undertakings, the accounts from the period November 2000¹²-2001 are pending. Thus the accounts, except in the cases of IWD, Roorkee, were in arrears for a period of seven years and in the case of IWD, Roorkee for a period of one year. There is no improvement in the position despite this being pointed out by Audit earlier. The finalised accounts of departmentally managed commercial

¹² The State of Uttarakhand was formed on 9th November, 2000.

and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any required, cannot be taken in time. Besides, the delay also opens the system to the risk of fraud and leakage of public money.

1.6.2.6 Investments and returns

As of 31 March 2007, Government had invested Rs. 762 crore in Statutory Corporations, Rural Banks, Government Companies, Joint Stock Companies and Co-operatives (**Table-1.17**). The increase of Rs. 93 crore in the investments over the previous year was mainly due to the investments made in key sectors like Uttarakhand Hydro Electric Corporation (Rs.72 crore), Power Corporation Fund (Rs.86 crore) and Uttaranchal Transport Corporation (Rs. 20 crore), offset by Rs. 100 crore invested during 2005-06 in establishment of IT parks but withdrawn during the current year. The average return on this investment was less than 1 *per cent* in the last five years, while the Government paid interest at the average rate of 7.47 to 10.40 *per cent* on its borrowings during 2001-2007. The investment of State Government included Rs. 654 crore in 11 Government Companies at the end of the current year.

Table-1.17: Return on Investment

	<i>(Rupees in crore)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Investment at the end of the year (Rupees in crore)	5	28	40	333	669	762
Return (Rupees in crore)	0.02	0.04	0.04	0.26	0.07	0.16
Return (<i>per cent</i>)	0.40	0.14	0.10	0.08	0.01	0.02
Average rate of interest on Government borrowings (<i>per cent</i>)	-	10.40	8.51	9.10	7.47	7.79
Difference between interest rate and return	-	10.26	8.41	9.02	7.46	7.77

Out of 11 Government Companies/Corporation, 4 Companies namely U.P.Hill Electronics Corporation Limited, Uttarakhand Power Corporation, Uttarakhand Hydro Electric Corporation Limited and Uttarakhand Transport Corporation Limited incurred loss of Rs. 0.21 crore, Rs. 49.45 crore, Rs. 26.21 crore and Rs. 11.20 crore respectively during 2006-07.

1.6.2.7 Loans and Advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, the Government has also been providing loans and advances to many of these institutions/organizations. The total outstanding loans and advances as on 31 March 2007 were Rs. 566 crore (**Table-1.18**). Interest received against these loans was 0.17 *per cent* during 2006-07 as against 1.33 *per cent* in the previous year.

Table-1.18: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	9.71	84.52	177.20	289.75	383.94¹³	482.80
Amount advanced during the year	78.32	95.89	135.48	181.27	135.23	102.38
Amount repaid during the year	3.51	3.21	22.93	87.09	36.37	19.50
Closing Balance	84.52	177.20	289.75	383.93	482.80	565.68
Net Addition (+) / Reduction (-)	(+74.81)	(+)92.68	(+)112.55	(+)94.18	(+)98.85	(+)82.88
Interest Receipts	-	0.12	15.20	7.43	6.41	0.97
Interest received as <i>per cent</i> to outstanding Loans and Advances	-	0.07*	5.25*	1.94*	1.33	0.17
Interest payments as <i>per cent</i> to outstanding Fiscal Liabilities of the State Government	10.94	9.21	7.43	8.23	6.90	7.40
Difference between interest payments and receipts (<i>per cent</i>)	-	9.14*	2.18*	6.29*	5.57	7.23

* Revised due to proforma corrections.

Major recipients of the loans during 2006-07 were Power Projects (Rs 86.30 crore) and Government servants (Rs. 9.90 crore). There were inter year fluctuations in the interest received over the years 2001-07, which decreased to Rs. 6.41 crore in 2005-06 and had further declined to Rs.0.97 crore in 2006-07. TFC has recommended that at least 7 *per cent* return on outstanding loans and advances should be achieved in graded manner by the terminal year of the forecast period. The interest receipts during last three years show that the State is unlikely to achieve this target. Average rate of interest on which the State Government had borrowed funds (Market Loans) was 8.17 *per cent* during 2006-07, while as interest received on Loans and Advances given by the State was 0.17 *per cent*.

1.6.3 Management of cash balances

It is generally desirable that the State's flow of resources matches its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA)-ordinary and special and overdraft from Reserve Bank of India (RBI) has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special WMAs is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. This limit was Rs. 0.16 crore on all days for Uttarakhand for normal WMA. No limit was fixed for Special WMAs during 2006-2007.

WMAs and Overdrafts availed, the number of occasions these were availed and interest paid by the State is detailed in **Table-1.19**.

¹³ Differs with the Closing Balance of 2004-05 by Rs. 0.01 crore due to proforma correction in the Finance Accounts.

Table-1.19: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Ways and Means Advances						
Availed in the year	804.70	836.35	329.24	759.71	220	676
Outstanding WMAs	61.97	30.69	30.69	65.46	30.69	30.69
Interest paid	0.70	0.64	0.38	0.65	0.62	1.24
Number of days	57	109	43	184	54	114
Overdraft						
Availed 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	88	41	13	16	-	-

The Government did not avail of any overdraft during 2006-07. Although the State has registered Revenue Surplus and increase in Cash Balance, temporary balances in cash flow forced the Government to avail of WMA on 114 days. The State had to pay interest of Rs. 1.24 crore on WMAs (including on the outstanding WMA balance of Rs. 30.69 crore) during the current year.

Heavy cash balance of Rs. 789.54 crore as on 31 March 2007, was mainly on account of investment in sinking funds (Rs. 585 crore) earmarked for avoidance of debt and guarantee redemption. The balance of Rs. 225 crore is lying with RBI in the form of cash balance investment account (Rs. 133.02 crore) i.e. surplus funds automatically invested by RBI in Treasury Bills and Deposits (Rs. 92.04 crore).

1.7 Undischarged Liabilities

1.7.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund-Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government.

The Constitution of India provides that a 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 the Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law has been passed by the State, to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under Small Savings schemes, Provident Funds and other deposits.

Table-1.20 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.20: Fiscal Liabilities–Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities* (Rs. in crore)	4634	6003	8030	9910	11714	13034
Rate of growth (<i>Per cent</i>)	-	29.54	33.77	23.41	18.20	11.27
Ratio of Fiscal Liabilities to						
GSDP (<i>Per cent</i>)	28.94	32.14	38.85	43.53	45.45	43.62
RR (<i>Per cent</i>)	177.68	186.66	223.06	242.54	211.56	176.78
Own Resources (<i>Per cent</i>)	409.00	431.25	503.13	497.49	481.07	412.47
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	-	1.78	3.16	2.31	1.38	0.71
Revenue Receipts (ratio)	-	1.27	2.83	1.73	0.51	0.34
Own Resources (ratio)	-	1.29	2.30	0.94	0.82	0.38

* Includes internal debt, loans and advances from CFI, Public Account of GOI and other obligations.

The overall fiscal liabilities of the State increased from Rs. 4,634 crore in 2001-02 to Rs. 13,034 crore in 2006-07. However, the increase during the year was mainly due to internal debt and small savings, provident fund etc. which rose by Rs. 1,000 crore and Rs. 88 crore respectively during the year. The growth rate was 11.27 *per cent* during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 28.94 *per cent* in 2001-02 to 45.45 *per cent* in 2005-06, but declined to 43.62 *per cent* in 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.71 indicating that for each percentage point increase in GSDP; fiscal liabilities grew by 0.71 *per cent*. These liabilities stood at 1.77 times State's revenue receipts and 4.12 times its own resources.

The Sinking Fund is in operation since the inception of the State for amortization of open market loans and the State has to contribute @ 3 *per cent* of outstanding balance of market loans of the previous year. During the year Rs. 125 crore has been provided by the State Government for the purpose.

1.7.2 Status of Guarantees–Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State, in case of default by the borrower, for whom the guarantee has been extended.

No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which, the Government may give guarantees on the security of the Consolidated Fund of the State. The FRBM Act, 2005 also prescribed that the State Government shall not give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of this Act or any rule or to be made by the State Government subsequent to coming into force of this Act. However, State Government has not enacted any law as on date to cap the guarantees.

As per the **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2001-02 is given in **Table-1.21**.

Table-1.21: Guarantees given by the Government of Uttarakhand

(Rupees in crore)

Guarantees	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	Nil	Nil	743	602	--	371
Outstanding amount of guarantees	Nil	Nil	743	1345	1345	1716
Percentage of outstanding amount guaranteed to total revenue receipts	--	--	20.64	32.91	24.29	23.27

The Government had guaranteed loans raised by various corporations and others, which at the end of 2006-2007 stood at Rs. 1,716 crore and were within the set target of Rs. 1,715.67 crore, as prescribed in the MTFP of the State Government for the year 2006-07. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 23 *per cent* of revenue receipts (of 2006-07) of the State. The major beneficiaries of guarantees were Energy Department (Rs. 1,600 crore) and Urban Development Department (Rs. 103 crore).

TFC recommended setting up of Guarantee Redemption Fund through earmarked guarantee fees based on risk weighing of guarantees. Guarantee fees were not collected during the period 2003-07. However, the State Government has set up a Guarantee Redemption Fund during the year with a corpus of Rs. 10 crore.

1.8 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between the costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided, primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is Zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

Table-1.22: Debt Stabilization: Indicators and Trends

	2002-03	2003-04	2004-05	2005-06	2006-07
Weighted Interest Rate (<i>per cent</i>)	10.40	8.51	9.10	7.47	7.79
GSDP Growth (<i>per cent</i>)	16.64	10.67	10.15	13.23	15.93
Interest spread (<i>per cent</i>)	6.24	2.16	1.05	5.76	8.14
Outstanding Debt (Rs. in crore)	4634	6003	8030	9910	11714
Quantum spread (Rs. in crore)	289	130	84	571	954
Primary deficit ¹⁴ (-) / surplus (+) (Rs. in crore)	(-) 338	(-) 808	(-) 1364	(-) 1070	(+)79
Quantum spread + primary deficit	(-) 49	(-) 678	(-) 1280	(-) 499	(+)1033

The trends in **Table 1.22** indicate that during 2002 to 2007 the interest spread remained positive (the rate of growth of GSDP being more than the weighted interest). The State experienced sizeable primary deficit during the period 2001-06 at the average rate of 3 *per cent*. i.e. the primary deficit relative to GSDP being 3 *per cent* during the period 2001-06 with peak level at 6 *per cent* during 2004-05. However in 2006-07, there was a primary surplus and the interest spread increased by 2.38 *per cent*. Thus the Debt/GSDP ratio is sustainable during 2006-07. Primary deficit of State has turned positive by virtue of appreciation in the State's own tax collections and a cushion provided by Central Government through grants-in-aid.

1.8.2 Sufficiency of Non-debt receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.23** indicates the resource gap as defined for the period 2001-07.

Table 1.23: Incremental Revenue Receipts and Revenue Expenditure

Period	Incremental				Resource Gap
	Non-debt receipts	Primary Expenditure	Interest payments	Total Expenditure	
2001-02	-	-	-	-	-
2002-03	607	840	46	886	(-)279
2003-04	404	874	44	918	(-)514
2004-05	550	1106	219	1325	(-)775
2005-06	1400	1106	(-)8	1098	(+)302
2006-07	1820	671	156	827	(+)993

The positive resource gap strengthens the capacity of State to sustain the debt, while the negative resource gap indicates the non-sustainability of debt. The State has experienced negative resource gap from 2001-02 to 2004-05, but from 2005-06 to 2006-07 showed a turn around towards increasing the capacity of the State to sustain debt in the medium to long run.

¹⁴ Primary deficit means total expenditure minus revenue receipts, miscellaneous capital receipts and interest payments

1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue. **Table-1.24** gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table-1.24: Net Availability of Borrowed Funds

<i>(Rupees in crore)</i>						
(1)	2001-02 (2)	2002-03 (3)	2003-04 (4)	2004-05 (5)	2005-06 (6)	2006-07 (7)
Internal Debt						
Receipts	1896	2635	3190	1406	1749	1208
Repayments (Principal + Interest)	1244	1140	415	626	813 [#]	982
Net Funds Available	662	1495	2775	780	936 [#]	226
Net Funds Available (<i>per cent</i>)	34	57	87	55	54 [#]	19
Loans and Advances from Government of India						
Receipts	123	251	285	147	8	20
Repayments (Principal + Interest)	77	735	1173	53	73	71
Net Funds Available	46	(-) 484	(-) 888	94	(-)65	(-)51
Net Funds Available (<i>per cent</i>)	37	-	-	64	-	-
Other obligations¹⁵						
Receipts	1488	1679	2275	2053	2366	2303
Repayments (Principal + Interest)	1041	1321	1924	1920	2224	2121
Net Funds Available	447	358	351	133	142 [#]	182
Net Funds Available (<i>per cent</i>)	30	21	15	6	6	8
Total Liabilities						
Total Receipts	3507	4565	5750	3606	4123	3531
Repayment (Principal + Interest)	2362	3196	3512	2599	3110 [#]	3174
Net Funds Available	1145	1369	2238	1007	1013 [#]	357
Net Funds Available (<i>per cent</i>)	33	30	39	28	25 [#]	10

Figures differ from Audit Report 2005-06 due to proforma corrections

During 2006-07, the net fund availability was 10 *per cent* against the debt receipts of Rs 3,531 crore. The Government did not use borrowed funds to meet its revenue expenditure nor did it capitalize it. Instead, it utilized these funds in repaying the debt along with interest (Rs. 3,174 crore). The availability of Rs. 357 crore out of borrowed funds helped the State Government in reducing its fiscal deficit as is evident from the fact that debt-GSDP ratio is 43.62 *per cent* against 2.96 *per cent* of FD-GSDP ratio. The State Government also got a debt relief of Rs. 13.08 crore under DCRF during 2006-07.

¹⁵ Other obligations comprises of interest bearing obligations such as depreciation reserve fund of commercial undertakings, deposits of autonomous bodies and non-interest bearing obligations such as deposits of local funds, civil deposits, other earmarked funds etc.

1.9 Management of Deficits

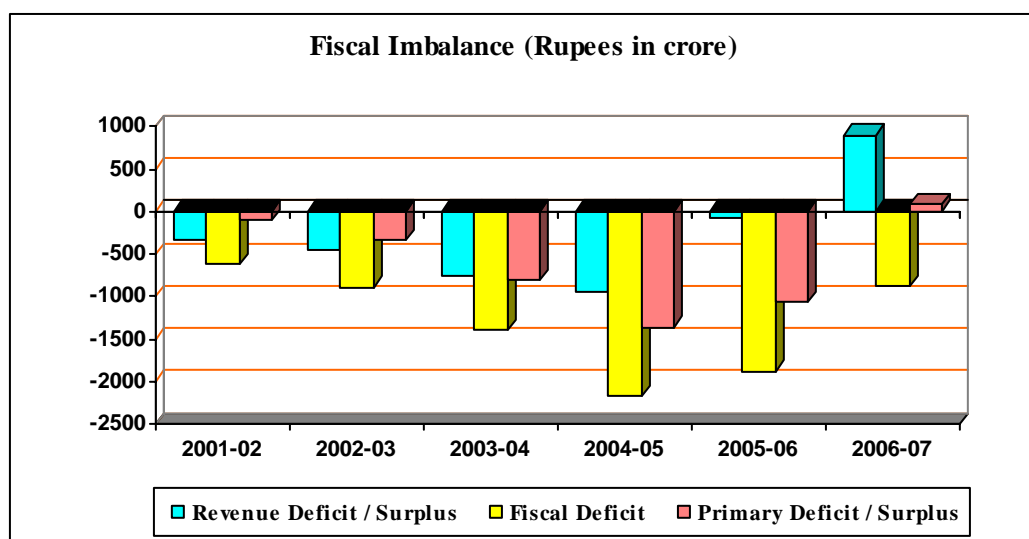
The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied, are important pointers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

1.9.1 Trends in Deficit

Table-1.25: Fiscal Imbalances–Basic Parameters

(Values in crore of rupees and ratios in per cent)

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (Rs. in crore)	330	459	760	950	74	-
Revenue Surplus (Rs. in crore)	-	-	-	-	-	896
Fiscal deficit (Rs. in crore)	612	891	1405	2180	1878	885
Primary deficit (Rs. in crore)	105	338	808	1364	1070	-
Primary surplus (Rs. in crore)	-	-	-	-	-	79
RS/GSDP (per cent)	2.06	2.46	3.68	4.17	0.29	.
FD/GSDP (per cent)	3.82	4.77	6.80	9.58	7.29	2.96
PD/GSDP (per cent)	0.66	1.81	3.91	5.99	4.15	.
PS/GSDP (per cent)	-	-	-	-	-	-
RD/FD (per cent)	53.92	51.52	54.09	43.58	3.94	-



The Revenue Deficit (RD) of the State is the excess of its revenue expenditure over receipts. The State had a continuous revenue deficit during 2001-02 to 2005-06 with large fluctuations. The RD has shown a steep decline of Rs. 876 crore in 2005-06 over the previous year and has turned surplus of Rs. 896 crore in 2006-07, mainly on account of significant increase in State's own tax revenue (Rs.729 crore) coupled with Central transfers comprising State's share in Union pool of taxes and duties (Rs.122 crore) and grants-in-aid (Rs.988 crore). The appreciation in State's own tax revenue along with Central transfers resulted in an increase of 33.16 per cent (Rs. 1,836 crore) in revenue receipts over the previous year, in comparison to 15.43 per cent increase in revenue expenditure (Rs.866 crore) leading to Revenue Surplus during the year.

Fiscal Deficit (FD), which represents the total borrowings of the Government and its total resource gap decreased by 53 per cent (Rs. 993 crore) from Rs. 1,878 crore in 2005-06 to Rs. 885 crore in 2006-07, and is well within the stipulated target of 3 per cent of GSDP as prescribed in the FRBM Act. The fiscal deficit remained within the projected target only because the State Government was not able to capitalize their resource, which is evident from the fact that Capital expenditure has almost remained stagnant as compared to the previous year.

The Primary deficit, which persisted in the State budget till the previous year, also took a turn around and resulted in the Primary Surplus during the year. Interest payments were higher by Rs.156 crore over the previous year; still the State has been able to experience a primary surplus during the year.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into Primary revenue deficit¹⁶ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which the borrowed funds were used for current consumption. Further, persistently, high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously sinking and a part of borrowings (fiscal liabilities) were not having asset backup. The ratio of revenue deficit to fiscal deficit has a declining trend with inter year variations and came down to merely 3.94 per cent in 2005-06 and turned into a surplus during the current year reflecting an overall improvement in the quality of deficit during the period 2001-06.

The bifurcation of primary deficit would indicate the extent to which the deficit has been on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table 1.26: Primary deficit/surplus-Bifurcation of factors

(Rupees in crore)

Year	Non-Debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans And Advances	Primary Expenditure ¹⁷	Primary revenue Deficit/ Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2001-02	2612	2431	208	78	2717	(+)181	(-)105
2002-03	3219	3122	339	96	3557	(+)97	(-)338
2003-04	3623	3763	533	135	4431	(-)140	(-)808
2004-05	4173	4220	1136	181	5537	(-)47	(-)1364
2005-06	5573	4803	1705	135	6643	(+)770	(-)1070
2006-07	7393	5513	1699	102	7314	(+)1880	(+)79

¹⁶ Primary Revenue Deficit is defined as gap between non interest revenue expenditure of the State and its non debt receipts and indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

¹⁷ Primary Expenditure of the State is defined as the total expenditure net of interest payments and indicates the expenditure incurred on the transactions undertaken during the year.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2001-07 reveals (**Table 1.26**) that up to 2005-06, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government, but during 2006-07, the State has experienced primary surplus only because the capital expenditure during the year has remained almost stagnant along with less disbursement under loans and advances as compared to the previous years. That means debt receipt of the State were enough to meet the expenditure requirement under capital account, but the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit up to 2005-06.

1.10 Fiscal Ratios

The finances of the State should be sustainable, flexible and non-vulnerable. **Table-1.27** below presents a summarized position of Government finances over 2001-07, with reference to certain key indicators classified in five groups: (i) Resource Mobilization (ii) Expenditure Management (iii) Management of Fiscal Imbalances (iv) Management of Fiscal Liabilities and (v) others that help to assess the adequacy and effectiveness of the available resources and their applications, highlights areas of concern and captures important facts.

Table-1.27: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I Resources Mobilization						
Revenue receipts/GSDP	16.28	17.22	17.42	17.95	21.48	24.67
Revenue buoyancy	-	1.40	1.12	1.33	2.68	2.08
Own tax/GSDP	6.06	5.45	5.93	6.34	6.93	8.41
II Expenditure Management						
Total Expenditure/GSDP	20.14	22.00	24.33	27.91	28.91	27.70
Total Expenditure /Revenue Receipts	123.62	127.80	139.67	155.48	134.59	112.27
Revenue Expenditure/Total Exp.	91.13	89.42	86.71	79.27	75.30	78.24
Revenue Expenditure on Social Services/ Total Expenditure	34.77	35.72	33.67	29.92	30.28	29.66
Revenue Expenditure on Economic Services/Total Expenditure	21.46	23.11	19.94	17.16	16.26	16.59
Capital Expenditure/TE	6.61	8.45	10.89	18.41	22.88	20.52
Development Expenditure(Social & Economic services)/ TE	63.25	67.44	64.81	64.53	66.91	64.68
Buoyancy of TE with RR	-	1.18	1.87	1.95	0.49	0.33
Buoyancy of RE with RR	-	1.08	1.56	1.15	0.32	0.47
III Management of Fiscal Imbalances						
Revenue Deficit /Surplus (Rs. in crore)	(-)330	(-)459	(-)760	(-)950	(-)74	+896 ¹⁸
Fiscal Deficit(Rs. in crore)	(-)612	(-)891	(-)1405	(-)2180	(-)1878	-885
Primary Deficit/surplus (Rs. in crore)	(-)105	(-)338	(-)808	(-)1364	(-)1070	(+)79
Revenue Deficit(-)/Fiscal Deficit (-)	53.92	51.52	54.09	43.58	3.94	-
IV Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/GSDP	28.94	32.14	38.85	43.53	45.45	43.62
Fiscal Liabilities/RR	177.68	186.66	223.06	242.54	211.56	176.78

¹⁸ Over estimated to the extent of Rs. 339.64 crore on account of book adjustment of CAO, RB suspense pertaining to the year 2005-06.

Buoyancy of FL with RR	-	1.27	2.83	1.73	0.51	0.34
Buoyancy of FL with own resources	-	1.29	2.30	0.94	0.82	0.38
Interest Spread	-	6.23	2.16	1.05	5.76	8.14
Net available funds	32.65	29.99	38.92	27.37	25.00	10.00
V Other Fiscal Health Indicators						
Return on investment	0.40	0.14	0.10	0.08	0.01	0.02
BCR* (Rs. in crore)	(-) 1067	(-) 821	(-) 1107	(-) 1128	(+) 518	(+) 978
Assets/Liabilities	0.23	0.33	0.42	0.44	0.52	0.64

* Balance from Current Revenues

The ratios of revenue receipts to GSDP and revenue buoyancy have shown a consistent upward trend, but revenue buoyancy has shown a downward trend during the current year. The ratio of own taxes to GSDP has also shown an improvement over the years from 2002-03 to 2006-07. Various ratios relating to expenditure indicate quality of expenditure and sustainability in relation to resources. Total expenditure to GSDP and revenue receipts was buoyant up to 2005-06 but declined in 2006-07. Although revenue expenditure showed a decreasing trend over the five years 2001-06, it again increased and comprised 78.24 per cent of total expenditure during 2006-07, which reveals that most of the expenditure was incurred on current consumption. The revenue deficit, fiscal deficit and primary deficit constantly increased up to 2004-05 but showed a downward trend from 2005-06. The fiscal deficit has also come down to a reasonable level of 2.96 per cent of GSDP. The State has experienced revenue surplus during the year. Balance from Current Revenue (BCR) which became positive in 2005-06 continued to be so during 2006-07 indicating availability of resources from current revenue.

However, the ratio of assets to liabilities, which shows the extent to which additional liabilities were employed for creation of additional assets, was less than 1 during the period 2001-07. In 2006-07, it was 0.64 which shows that 36 per cent of liabilities did not have any asset back-up.

The low asset-liability ratio could be neutralized if the return on assets is higher than the cost of raising funds. The assets of the State Government being loans and advances and physical infrastructure, return on assets can be captured by the quantum of interest received from loans and user charges and other non-tax revenue realized from use of infrastructure.

1.11 Conclusion

The State of Uttarakhand, comprising of 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. Although there is appreciation in the State's own tax revenues, the State finances continued to be dependent upon Central assistance, which contributed over (57 per cent) of the total receipts. A steep increase in the State's own tax revenue along with Central transfers has provided a cushion in revenue account, which has resulted in revenue surplus during the year. The fiscal deficit has further declined during the year owing to

the non-capitalization of resources. The State has experienced primary surplus during the year. Despite substantial cash balances, the Government resorted to Ways and Means Advances on 114 occasions during the year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* of total expenditure hovered around the average of 85 *per cent* during the period 2001-07 and within the revenue expenditure, NPRES at Rs. 4,900 crore in 2006-07 remained significantly higher than the normative assessment of Rs. 4,324 crore made by TFC for the year. Further, three components-salary expenditure, pension liabilities and interest payments-constituted about 62 *per cent* of the NPRES during 2006-07. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied by negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress on the State in medium to long run unless suitable measures are initiated for improving the viability of the Government investments including loans and advances, compress the non plan revenue expenditure and mobilize additional resources both through the tax and non tax sources in ensuing years.