

CHAPTER - I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government for the period from 1 April 2002 to 31 March 2003 based on the analysis of information contained in the Finance Accounts. The analysis is based on the receipts and expenditure, the quality of expenditure and the financial management of the State Government in the last two years. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the *Annexures* to this chapter.

1.2 Financial position of the State

In the Government accounting system comprehensive accounting of fixed assets like land and buildings etc., owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Exhibit I* gives an abstract of such liabilities and the assets of the State of the Uttaranchal as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in these statements consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances.

EXHIBIT-I

SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF UTTARANCHAL AS ON 31 MARCH 2003

(Rupees in crore)

As on 31 March 2002		Liabilities	As on 31 March 2003
	1851.69	Internal Debt	3346.88
920.26		Market Loans bearing interest	1870.14
0.39		Market Loans not bearing interest	0.39
1.50		Loans from LIC	1.50

82.99		Loans from other Institutions	140.14	
730.76		Special Securities issued to NSS fund	1304.02	
115.79		Ways and Means Advances from RBI	30.69	
	1738.51	Loans and Advances from Central Government		1253.92
48.93		Pre 1984-85 Loans	41.80	
700.34		Non-Plan Loans	70.29	
962.80		Loans for State Plan Schemes	1114.06	
0.10		Loans for Central Plan Schemes	0.10	
13.46		Loans for Centrally Sponsored Plan Schemes	14.79	
12.88		Ways and Means Advances from Central Government	12.88	
	613.64	Small Savings, Provident Funds, etc.		742.66
	280.64	Deposits		459.48
	-----	Remittances		-----
	-----	Suspense and Miscellaneous Balances		-----
	150.01	Reserve Funds		200.09
	15.61	Contingency Funds		14.86
	4650.10	Total		6017.89
		Assets		
	356.98	Gross Capital Outlay on Fixed Assets		696.38
11.68		Investments in shares of Companies, Corporations etc.	27.87	
345.30		Other Capital Outlays	668.51	
	84.52	Loans and advances		177.19
9.80		Loans for Special Area Programmes	9.72	
74.72		Other Development Loans	167.47	
		Contingency Fund		-----
	531.77	Suspense & Miscellaneous Balances		563.17
	127.52	Remittance		191.32
	(-) 6.31	Cash		375.83
0.01		Cash in Treasuries and Local Remittances	0.01	
(-) 3.38		Deposits with Reserve Bank	(-)47.52	
(-) 2.04		Departmental Cash Balances	(-)1.24	
(-) 0.90		Permanent Advances	(-)0.88	
	----	Cash Balance Investments	310.46	
		Investment of Earmarked funds	115.00	
	3555.62	Deficit on Government Accounts		4014.00
329.96		Revenue Deficit of the Current Period	458.38	
3195.66		Accumulated Deficit	3555.62	
30.00		Appropriation to Contingency Fund	-----	
	4650.10	Total		6017.89

EXHIBIT-II

ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE PERIOD FROM 1 APRIL 2002 TO 31 MARCH 2003

(Rupees in crore)

Receipts			Disbursements				
2001-02		2002-2003	2001-02		2002-2003		
			Non-plan			Plan	Total
Section-A: Revenue							
2608.19	I Revenue Receipts	3216.11	2938.15	I Revenue Expenditure	2707.39	967.10	3674.49
971.40	Tax revenue	1016.90	1061.69	<i>General services</i>	1129.61	57.14	1186.75
162.06	Non-tax revenue	374.85	1120.63	<i>Social services</i>	1099.05	369.19	1468.24

150.87	State's share of Union taxes	374.11	683.76	Education, Sports, Art and Culture	832.57	113.22	945.79
53.04	Non-Plan grants	70.75	140.37	Health and family Welfare	122.29	36.07	158.36
1052.63	Grants for State Plan Scheme	1296.69	188.90	Water Supply, Sanitation, Housing and Urban Development	61.52	116.81	178.33
218.19	Grants for Central and Centrally sponsored Plan schemes	82.81	3.41	Information and Broadcasting	6.62	0.51	7.13
			35.96	Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes	27.11	10.94	38.05
			13.66	Labour and Labour Welfare	14.02	5.41	19.43
			49.51	Social Welfare and Nutrition	30.86	85.77	116.63
			5.05	Others	4.06	0.46	4.52
			692.09	Economic Services	447.52	502.83	950.35
			336.55	Agriculture and Allied Activities	174.19	193.07	367.26
			154.65	Rural Development	70.85	83.30	154.15
				Special Area Programmes	-----	----	-----
			118.02	Irrigation and Flood Control	114.46	28.90	143.36
			10.14	Industry and Minerals	7.32	22.20	29.52
			13.56	Energy	4.66	131.37	136.03
			45.73	Transport	50.55	2.17	52.72
			1.80	Science, Technology and Environment	1.59	0.28	1.87
			11.64	General Economic Services	23.90	41.54	65.44
			63.74	Grants-in-aid contribution	31.21	37.94	69.15
329.96	II Revenue deficit carried over to Section B	458.38		II Revenue surplus carried over to Section B	---	-----	-----
2938.15	Total	3674.49	2938.15	Total	2707.39	967.10	3674.49
Section-B: Capital							
268.98	III Opening Cash balance including permanent advances and cash balance investment	(-) 6.31		III Opening Overdraft from RBI			-----
	IV Miscellaneous capital receipts	-----	208.26	IV Capital Outlay	210.55	128.85	339.40
			29.81	General Services	30.06	21.29	51.35
			27.10	Social Services	3.77	61.28	65.05
			151.35	Economic Services	176.73	46.27	223.00
			(-)37.04	Agriculture and Allied Activities	158.88	(-) 160.20	(-) 1.32
			3.85	Other Rural Development Programmes	1.66	8.48	10.14
			27.51	Irrigation and Flood Control	0.10	25.90	26.00
			1.49	Industry and Minerals	8.15	33.25	41.40
			140.92	Transport	7.64	128.39	136.03
			8.00	Power Project	-----	-----	-----
			6.62	General Economic Services	0.30	10.45	10.75
2001-02	Receipts	2002-2003	2001-02	Disbursements	2002-2003		
					Non-plan	Plan	Total
3.51	V Recoveries of Loans and Advances	3.21	78.32	V Loans and Advances disbursed			95.88
3.39	From Government Servants	2.85	70.12	For Economic Services			77.91
0.12	From others	0.36	8.20	To others			17.97
	VI Revenue surplus brought down	-----	329.96	VI Revenue deficit			458.38
775.41	VII Public debt receipts	1833.65	77.83	VII Repayment of public debt			823.03
567.26	Internal debt other than Ways and Means Advances and Overdrafts	1583.04	0.75	Internal debt other than Ways and Means Advances and Overdrafts			2.74

85.10	Net transactions under Ways and Means Advances (RBI)			Net transactions under Ways and Means Advances			85.10
123.05	Loans and Advances from Central Govt. other than Ways and Means Advances	250.61	77.08	Repayments of Loans and Advances to Central Government.			735.19
	Ways and Means Advances (GOI)	-----		Ways and Means Advances (GOI)			-----
	VIII Appropriation to Contingency Fund	-----	30.00	VIII Appropriation to Contingency Fund			-----
30.00	IX Amount transferred to Contingency Fund		10.84	IX Expenditure from Contingency Fund			0.75
5130.93	X Public Accounts receipts	6574.11	5479.93	X Public Accounts disbursements			6311.39
307.50	Small Savings and Provident Funds	301.62	179.01	Small Savings and Provident Funds			172.60
150.01	Reserve Funds	50.08		Reserve Funds			----
3279.84	Suspense and Miscellaneous	3772.88	3828.43	Suspense and Miscellaneous			3804.28
393.11	Remittances	1122.59	621.13	Remittances			1186.40
1000.47	Deposits and Advances	1326.94	851.36	Deposits and Advances			1148.11
			(-) 6.31	XI Cash Balance at end			375.83
			0.01	Cash in Treasuries and Local Remittances			0.01
			(-) 3.38	Deposits with Reserve Bank			(-)47.52
			(-) 2.94	Departmental Cash Balances including Permanent Advances			(-)2.12
			Nil	Cash Balance Investments			310.46
				Investment of Earmarked funds			115.00
6208.83	Total	8404.66	6208.83	Total			8404.66

EXHIBIT-III
SOURCES AND APPLICATION OF FUNDS
FOR THE PERIOD 1 APRIL 2002 TO 31 MARCH 2003

(Rupees in crore)

2001-2002	Sources	2002-2003
2608.19	1 Revenue Receipts	3216.11
3.51	2 Recoveries of Loans and Advances	3.21
697.58	3 Increase in Public debt	1010.60
210.98	- Market loans bearing interest	949.88
-	- Market loans not bearing interest	-----
-	- Loans from LIC	-----
-	- Loans from other institutions	57.15
355.52	- Special Securities issued	573.26
85.10	- Ways and Means advances from (RBI)	(-)85.10
(-) 7.12	- Pre 1984-85 loans	(-)7.13
(-) 20.93	- Non-Plan loans	(-)630.05
(-) 70.63	- Loans for State Plan Schemes	151.26
(-) 0.04	- Loans for Central Plan Schemes	-----
3.44	- Loans for Centrally Sponsored Plan Schemes	1.33

-	- Ways and Means Advances from GOI	-----
(-) 348.99	4 Net receipts from Public account	262.74
128.50	- Increase in Small Savings	129.02
149.10	- Increase in Deposits & Advances	178.84
150.01	- Increase in Reserve Funds	50.08
(-) 548.59	- Net effect of Suspense and Miscellaneous transactions	(-)31.40
(-) 228.01	- Net effect of Remittance transactions	(-)63.80
275.29	5-Net effect in closing cash balance	---
19.15	6-Net effect of Contingency Transactions	(-)0.75
3254.73	Total	4491.91
Application		
2938.15	1 Revenue expenditure	3674.49
78.32	2 Lending for development and other purposes	95.88
208.26	3 Capital expenditure	339.40
30.00	4 Appropriation to Contingency Fund	-
	5 Net effect in closing cash Balance	382.14
3254.73	Total	4491.91

Explanatory Notes for Exhibits I, II and III :

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. A difference of (Dr) Rs.1.50 crore, between the figure of (Dr) Rs. 47.52 crore reflected as per book of this office and that received from R.B.I. (Dr) Rs. 49.02 crore is under reconciliation.

EXHIBIT-IV TIMES SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	2001-2002	2002-2003
<i>Part A. Receipts</i>		
I. Revenue Receipts	2608	3216
(i) Tax Revenue	971 (37)	1017(32)
Sales Tax/Trade Tax	486 (50)	549(54)
State Excise	232 (24)	246(24)
Taxes on vehicles	67 (7)	72(7)
Stamps and Registration fees	89 (9)	123(12)
Land Revenue	3 (1)	3(1)
Other Taxes	94 (9)	24(2)
(ii) Non- Tax Revenue	162 (6)	375(12)
(iii) State's share in union taxes	151 (6)	374(12)
(iv) Grants in aid from GOI	1324 (51)	1450(45)

2. Miscellaneous Capital Receipts	-----	-----
3. Total Revenue and Non Debt Capital Receipts (1+2)	2608	3216
4. Recoveries of Loans and Advances	4	3
5. Public Debt Receipts	775	1834
Internal Debt (Excluding Ways and Means Advances and Overdrafts)	567 (73)	1583(86)
Net Transactions under Ways and Means Advances and Overdraft	85 (11)	-----
Loans and Advances from Government of India	123 (16)	251(14)
6. Total Receipts in the Consolidated Fund (3+4+5)	3387	5053
7. Contingency Fund Receipts	30	-----
8. Public Account Receipts	5131	6574
9. Total Receipts of the State (6+7+8)	8548	11627
Part B. Expenditure		
10. Revenue Expenditure	2938 (93)	3675(92)
Plan	485 (17)	967(26)
Non Plan	2453 (83)	2708(74)
General Services (including Interest payments)	1062 (36)	1187(32)
Economic Services	692 (24)	951(26)
Social Services	1120 (38)	1468(40)
Grants- in- aid and contributions	64 (2)	69(2)
11. Capital Expenditure	208 (7)	339(8)
Plan	101 (49)	129(38)
Non Plan	107 (51)	210(62)
General Services	30 (14)	51(15)
Economic Services	151 (73)	223(66)
Social Services	27(13)	65(19)
12. Disbursement of Loans and Advances	78	96
13. Total (10+11+12)	3224	4110
14. Repayments of Public Debt	78	823
Internal Debt (excluding Ways and Means Advances and Overdrafts)	1 (1)	3(1)
Net Transactions under Ways and Means advances and Overdraft		85(10)
Loans and Advances from Government of India	77(99)	735(89)
15. Appropriation to Contingency Fund	30	-----
16. Total Disbursement out of Consolidated Fund (13+14+15)	3332	4933
17. Contingency Fund disbursements	11	1
18 Public Account disbursements	5480	6311
19. Total Disbursement by the State (16+17+18)	8823	11245
	2001-2002	2002-2003
Part C. Deficits		
20. Revenue Deficit (1-10)	330	459
21. Fiscal Deficit (3+4-13)	612	891
22. Primary Deficit (21-23)	105	338
Part D. Other data		
23. Interest Payments (included in revenue expenditure)	507	553
24. Arrears of Revenue (Percentage of ax & Non-tax Revenue Receipt)	NA	185
25. Financial Assistance to local bodies etc.	64	69
26. Ways and Means Advances and Overdrafts (days)	88	150
27. Interest on Ways and Means Advances/Overdraft	26 ^φ	1
28. Gross State Domestic Product (GSDP)*	14464 ^φ	15693

^φ Figure differs from previous year due to correction in figure and adoption of GSDP.

29. Outstanding Debt (year end)	4634	6003
30. Outstanding Guarantees (year end)	NA	1930
31. Maximum amount Guaranteed (year end)	NIL	1930
32. Number of incomplete projects	NA	94
33. Capital blocked in incomplete projects	NA	737

1.3 Sources and applications of funds

1.3.1 *Exhibit III* gives the position of sources and applications of funds during the current and preceding year. The main sources of funds included the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These were applied mainly on meeting revenue expenditure (89.41 *per cent*) and capital expenditure (8.26 *per cent*). It would be seen that the revenue receipts (Rs 3216 crore) which constituted the most significant source of funds for the State Government went down from 80.15 *per cent* of total receipt in 2001-2002 to 71.60 *per cent* in 2002-2003.

1.3.2 The funds were mainly applied for revenue expenditure (Rs.3675 crore) whose share was higher than the share of revenue receipts (Rs.3216 crore). This led to a revenue deficit of Rs 459 crore. The revenue expenditure constituted 89.41 *per cent* of the total expenditure of State Government. There was also an increase of Rs.736.34 crore (25 *per cent*) in revenue expenditure during 2002-2003 as compared to that of 2001-2002. The capital expenditure in 2002-2003 went up to 8.26 *per cent* from 6.46 *per cent* in 2001-2002 whereas lending for development purposes went down to 2.33 *per cent* in 2002-2003 from 2.43 *per cent* in 2001-02.

1.4 Financial operations of the State Government

1.4.1 *Exhibit II* gives the details of the receipts and disbursements made by the State Government. The revenue receipts (Rs.3216 crore) for the year 2002-2003 increased by Rs. 608 crores from revenue receipts for 2001-2002. It comprised tax revenue (Rs.1017 crore), non-tax revenue (Rs.375 crore), State's Share of Union Taxes and Duties (Rs.374 crore) and Grants-in-aid from the Central Government (Rs.1450 crore). The main sources of tax revenue were Sales Tax (54 *per cent*) and State Excise (24 *per cent*). The non-tax revenue came mainly from Economic Services (83 *per cent*).

1.4.2 The capital receipts comprised of Rs. 6574 crore from Public Account, Rs.1834 crore from Public Debt and Rs. three crore from recoveries of loans as shown in *Exhibit IV*. Against this, the expenditure of Rs.339 crore on Capital Outlay, Rs 96 crore on disbursement of loans and advances, Rs.823crore on repayment of Public Debt and Rs.6311 crore on the disbursement of Public Accounts were made. The net effect of transactions in the Consolidated Fund, Contingency Fund and Public Account had however increased the Cash balance

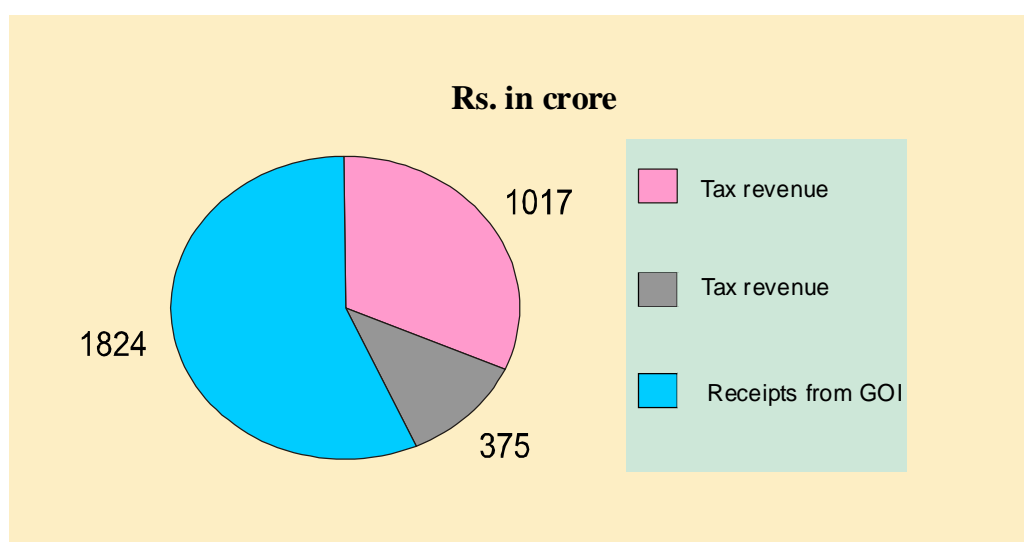
* Figures of GSDP are provisional based on the national average growth of 8.5 *per cent*.

of the State Government from Rs. (-) six crore to 376 crore on the last day of the year (*Exhibit I*).

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in *Exhibit II* and data on State Government Finances for the two years period from 2001 -2002 to 2002-2003, presented in *Exhibit IV*.

1.5 Revenue Receipts

The revenue receipts consisted mainly of tax and non-tax revenue and receipts from the Government of India (GOI). Their relative shares during 2002-2003 are shown in Figure 1. Receipts from Government of India accounted for 57 per cent of total revenue receipts. The rate of growth of revenue receipt was 23 per cent during 2002-2003 over 2001-2002.



1.5.1 Tax Revenue

Stamps and Registration fee (Rs. 123 crore), State Excise (Rs. 246 crore) and Sales tax/Trade tax (Rs. 549 crore) constituted the major part of tax revenue. *Exhibit IV* shows that the relative contribution of sales tax had gone up to 54 per cent in 2002-2003 from 45 per cent in 2001-2002. The share of excise duty (24 per cent) and taxes on vehicle (seven per cent) decreased slightly by one per cent whereas land revenue (one per cent) remained the same in both the years. The percentage share of stamp and registration fees increased to 12 per cent in 2002-2003 from 10 per cent in 2001-2002.

1.5.2 Non-Tax Revenue

Non-Tax revenue (Rs. 375 crore) constituted 12 per cent of revenue receipt during 2002-2003. Receipts on account of Forestry and Wild Life Rs.178 crore (47 per cent) formed the main source of the non-tax revenue.

1.5.3 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union Taxes and Duties was Rs.374 crore (12 *per cent* of total revenue receipt) during 2002-2003. Grant-in-aid and contributions from Government of India was Rs. 1450 crore (45 *per cent*) during 2002-03 as compared to Rs. 1324 crore (51 *per cent*) during 2001-02.

1.6 Revenue Expenditure

1.6.1 The revenue expenditure accounted for most (92 *per cent*) of the total expenditure[^] of the State Government during the period. Out of this, non-plan expenditure (74 *per cent*) held the major share in revenue expenditure. The plan expenditure however, merely doubled in 2002-03 and its relative share increased by nine *per cent* during the year as compared to 2001-2002.

1.6.2 Sector-wise analysis shows that while expenditure on General Services was 32 *per cent* (Rs. 1187 crore), expenditure on Economic Services, Social Services and Grants-in-aid and contribution constituted 26 (Rs. 951 crore), 40 (Rs. 1468 crore) and two (Rs. 69 crore) *per cent* of revenue expenditure respectively.

1.6.3 Interest Payments

The share of interest payments in revenue expenditure was 15 *per cent* (Rs. 533 crore). This is further discussed in the section on financial indicators.

1.6.4 Loans and Advances by the State Government

The Government gives loans and advances to government companies, corporations, local bodies, autonomous bodies, cooperatives, non-government institutions, etc. for developmental and non-developmental activities. The position for the last two years was as under:

	(Rs. in crore)	
	2001-02	2002-2003
Opening balance	9.71	84.52

[^] Represents revenue and capital expenditure.

Amount advanced during the year	78.32	95.88
Amount repaid during the year	3.51	3.21
Closing balance	84.52	177.19
Net addition	74.81	92.67
Interest received	----	0.12

It would be seen from the above that the amounts advanced during the period 2002-03 (Rs.96 crore) were substantially more than the amounts received in repayments (Rupees three crore) as a result of which the closing balance stood at Rs.177 crore at the end of the period.

1.7 Capital Expenditure

1.7.1 The capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. Public Sector Undertakings (PSUs), Corporations, etc. and through loans and advances. Capital expenditure during 2001-2002 and 2002-2003 was merely seven *per cent* and eight *per cent* respectively of the total expenditure. The capital expenditure on plan which was 49 *per cent* in 2001-2002 decreased to 38 *per cent* in 2002-2003. Economic Services (66 *per cent*) formed the major part of capital expenditure.

1.8 Quality of Expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order to regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan, Revenue and Capital. While the Plan and capital expenditure are usually associated with asset creation, the Non-Plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital Expenditure can be viewed as contributing to the quality of expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked on incomplete projects impact negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor while judging the quality of expenditure. Another significant indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services. The following table lists out the trend in these indicators:

	2001-2002	2002-2003
1. Plan Expenditure as percentage of		
(i) Revenue Expenditure	17	26
(ii) Capital Expenditure	49	38

2. Capital Expenditure (as a percentage of total expenditure [♦])	7	8
3. Expenditure on General services as percentage of		
(i) Revenue Expenditure	36	32
(ii) Capital Expenditure	14	15

It would be seen that the share of Plan expenditure on revenue side was 26 *per cent* of the revenue expenditure during 2002-03. Thus, there was an increase of nine percentage points over the previous year. The share of capital expenditure with reference to total expenditure was insignificant at eight *per cent*.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government are also discussed in this section.

Ways and Means Advances and Overdraft

1.9.1 Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.0.16 crore. The balance fell short of the agreed minimum on 41 days despite recourse to Ways and Means Advances/Overdraft drawn which meant a mismatch between the receipt and expenditure of the Government and reflected poorly on the financial management in Government.

Government resorted to sizable amounts of Ways and Means Advance (Rs. 836.35 crore) and Overdraft (Rs. 215.35 crore) during the year to maintain its ways and means position. Amount of Rs. 1136.80 crore were repaid to Reserve Bank during the year. Thus the net transaction amounted to (-) Rs. 85.10 crore.

Deficit

1.9.2 Deficits in Government account represent gaps between the receipts and expenditure. The nature of the deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers to the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz. revenue deficit, fiscal deficit and primary deficit.

1.9.3 The Revenue deficit is the excess of revenue expenditure over revenue receipts. Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments.

[♦] Total expenditure represents total of revenue and capital expenditure.

The following exhibit gives a break-up of the deficit in Government account:

(Rs. in crore)

CONSOLIDATED FUND				
Receipts	Amount		Disbursements	Amount
Revenue	3216	Revenue Deficit: 459	Revenue	3675
Misc. Capital Receipts			Capital	339
Recovery of Loans and Advances	3		Loan & Advances	96
Sub-Total	3219	Gross Fiscal Deficit: 891	Sub-Total	4110
Public Debt receipt	1834		Public Debt repayment	823
Total	5053	Surplus in CF : 120		4933
CONTINGENCY FUND				
Amount transferred to Contingency Fund	-----		Expenditure from Contingency Fund	1
A-Overall Surplus in Consolidated and Contingency Fund 119				
PUBLIC ACCOUNT				
Small Savings, PF etc.	302		Small Savings, PF etc.	173
Deposits & Advances	1327		Deposits & Advances	1148
Reserve Funds	50		Reserve Funds	----
Suspense & Misc.	3772		Suspense & Misc.	3804
Remittances	1123		Remittances	1186
Total Public Account	6574		Total	6311
B- Surplus in Public Account 263				
Increase in Cash Balance (A+B) : 382				

The table shows that while fiscal deficit was Rs.891 crore, Rs.1011 crore were raised by additional borrowings. The balance amount was used to increase cash balances.

The revenue deficit accounted for about 52 per cent of the fiscal deficit.

Application of borrowed funds (Fiscal Deficit)

1.9.4 The fiscal deficit represents total demand for net borrowings of the Government. These borrowings are applied for meeting the revenue deficit (RD), for making the capital expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because borrowings for revenue expenditure would not be sustainable. The following table shows the position in respect of the Government of Uttaranchal for the years 2001-2002 and 2002-2003.

Ratio	2001-2002	2002-2003
RD/FD	0.54	0.52
CE/FD	0.34	0.38
Net Loans/FD	0.12	0.10
Total	1.00	1.00

Incomplete Projects

1.9.5 As on 31 March 2003, 94 projects were incomplete in which Rs. 727 crore were blocked. Lack of funds, tardy clearance of projects by competent authority and difficulties in acquisition of land were main reasons for delay in completion of projects.

Arrears of revenue

1.9.6 Arrears of revenue as on 31 March 2003 was Rs. 185 crore which was six *per cent* of total revenue receipts.

Financial results of irrigation projects

1.9.7 The financial results of 4 major irrigation schemes with capital outlay of Rs. 40.47 crore[√] at the end of March 2003 showed that revenue realised from these during 2002-03 (Rs. 6.96 crore) was only 17.20 *per cent* of the capital outlay and these were not sufficient to cover even the direct working expenses (Rs. 18.27 crore). After meeting the working expenditures (Rs. 18.27 crore) and interest charges (Rs. 2.23 crore), the schemes suffered a net loss of Rs. 13.54 crore.

Investment and returns

1.9.8 Investments are made to promote development, manufacturing, marketing and social sector activities. As on 31 March 2003, Government had invested Rs. 17 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return on this investment was meager (less than one *per cent*) as indicated in the following table. Share of the State Government in the investment made in various PSU's, Government Companies etc. prior to the appointed date i.e. 9 November 2000 has not been apportioned/decided so far.

	2001-2002	2002-2003
Investment (Rs. in crore)	5 [#]	12 [#]
Returns (Rs. in crore)	0.02	0.04

1.10 Public Debt

[√] Capital outlay (Rs. 3700.98 crore) at the end of 8.11.2000 is yet to be apportioned between states of Uttar Pradesh and Uttaranchal.

[#] Represents investments made by the State Government during 2001-2002 and 2002-2003.

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government at the end of last two years 2001-2002 and 2002-2003 are given in the following table:

(Rs. in crore)

Year	Internal Debt	Loans and Advances from Central Government	Total Public Debt	Other liabilities	Total liabilities	Ratio of Debt to GSDP
2001-2002	1851.69	1738.51	3590.20	1044.29	4634.49	0.32 ^φ
2002-2003	3346.88	1253.92	4600.80	1402.23	6003.03	0.38

The total liabilities of Government had grown by 30 *per cent*. This was on account of 81 *per cent* growth in Internal Debt and 34 *per cent* growth in other liabilities. However, loans and advances from Government of India decreased by 28 *per cent* due to swapping of high cost debt aggregating Rs. 649 crore obtained from Government of India @ 12 *per cent* with market loans @ 6.7 *per cent* to nine *per cent* during 2002-2003.

1.10.2 The amount of funds raised through Public Debt, the amount of repayments and net funds available are given in the following table:

(Rs. in crore)

	2001-2002	2002-2003
Internal Debt		
- Receipt	1896	2635
- Repayments (principal + interest)	1244	1140
- Net funds available (<i>per cent</i>)	652 (34)	1495(57)
	2001-2002	2002-2003
Loans & Advances from GOI		
- Receipts during the year	123	251
- Repayments (Principal + Interest)	77	735
- Net funds available	46(37)	(-)484
Other liabilities*		
- Receipts during the year	1488	1679
- Repayments	1041	1321
- Net funds available (<i>per cent</i>)	447(30)	358(21)
Total Receipts	3507	4565
Repayment (principal+interest)	2362	3196
Net funds available (<i>per cent</i>)	1145(33)	1369(30)

(Figures in parenthesis represent the percentage)

^φ Figure differs from previous year due to adoption of GSDP.

* Other liabilities include small savings, provident funds, reserve funds and deposits etc.

It would be seen that only 57 *per cent* of the borrowing under internal debt and 21 *per cent* of the other liabilities were available for investment and other expenditure after meeting repayment obligations. In respect of the borrowings from Government of India no amount was available for investment and other expenditure after meeting repayment obligations.

Taking all the components together 30 *per cent* of borrowings were available for investment and other expenditure after meeting repayment obligations during 2002-2003 which decreased by three *per cent* as compared to 2001-2002.

Guarantees given by the State Government

1.10.3 Guarantees given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc. raised by the statutory corporations, government companies and co-operative institutions etc., and payment of interest and dividend by them constitute contingent liability of the state. No law under Article 293(1) of the Constitution had been passed by the State legislature laying down the maximum limits within which Government may give guarantees on the security of the consolidated fund of the state.

Amount of guarantees given during 2002-03 was Rs. 1573 crore which was 49 *per cent* of the total revenue receipts of the State Government whereas the amount guaranteed outstanding at the end of 31 March 2003 was Rs. 1930 crore.

1.11 Indicators of financial performance of the State Government

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and also, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans, which are translated into Annual Development Plans and are provided for in the State Budget. Broadly, it can be stated that Non-Plan expenditure represents Government maintaining the existing level of activity, while Plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, the financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

- (i) **Sustainability** - Sustainability is the degree to which a Government can maintain its existing programmes and meet existing credit requirements without increasing the debt burden.

- (ii) **Flexibility** - Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.
- (iii) **Vulnerability** - Vulnerability is the degree to which a Government becomes dependent on and therefore, vulnerable to sources of funding outside its control or influence, both domestic and international.
- (iv) **Transparency** – There is also the issue of financial information provided by the Government. This consists mainly of the Annual Financial Statement (Budget) and the Accounts. As regards the Budget, the important parameters are timely presentation, indicating the efficiency of the budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission and completeness of accounts would be the principal criteria.

1.11.2 Information available in the Finance Accounts can be used to work out sustainability, flexibility, and vulnerability that can be expressed in terms of certain indices/ratios. The list of such indices/ratios is given in the Annexure. *Exhibit V* given below indicates the behaviour of these indices/ratios over the period from 2001-2002 to 2002-2003 in respect of the State of Uttaranchal. The implications of these indices/ratios of the state on the financial health of the State Government are discussed in the following paragraphs.

Exhibit - V
Financial Indicators for Government of Uttaranchal

	2001-2002	2002-2003
Sustainability		
BCR (Rs. in crore)	(-)1067	(-)821
Primary Deficit (PD) (Rs. in crore)	105	338
Interest Ratio	0.08	0.17
Capital Outlay/Capital Receipts	0.72	0.26
Total Tax Receipts/GSDP	0.08*	0.09
State Tax Receipts/GSDP	0.06*	0.07
Return on Investment Ratio	0.004	0.003
Flexibility		
BCR (Rs. in crore)	(-)1067	(-)821
Capital Repayments/Capital Borrowings	0.11	0.40
State Tax Receipts/GSDP	0.06	0.07
Debt/GSDP	0.32	0.38
Vulnerability		
Revenue Deficit (RD) (Rs. in crore)	330	459
PD/FD	0.17	0.38

* Figures changes due to adoption of GSDP.

RD/FD	0.54	0.52
Outstanding Guarantees/Revenue Receipts	NA	0.60
Assets/Liabilities	0.23	0.33

Note: 1. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts– Non loan capital receipts.

2. In the ratio Capital outlays vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government Of India + Net receipts from small savings, Provident Fund etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

1.11.3 The behaviour of the indices/ratios is discussed below:

(i) Balance from Current Revenues (BCR)

BCR is defined as revenue receipts minus Plan assistance grants minus non-Plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting Plan Expenditure. *Exhibit V* shows that the State Government had negative BCR during the last two years suggesting that Government had to depend only on borrowing to meet its Plan expenditure.

(ii) Interest Ratio

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In Uttaranchal, the interest ratio was 0.17 *per cent* during 2002-2003.

(iii) Capital Outlay versus Capital Receipts

This ratio indicates to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipts is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. In case of Uttaranchal this ratio was 0.72 in 2001-2002 which decreased to 0.26 in 2002-2003 indicating that a substantial part of the capital receipt was not available for investment.

(iv) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. High ROI suggests sustainability. *Exhibit V* presents the returns on Government's investments in Statutory Corporations, Government Companies, joint Stock Companies and

Co-operative Institutions. In Uttaranchal ROI* was less than one *per cent* during 2001-02 and 2002-03.

(v) *Capital Repayments versus Capital Borrowings*

This ratio would indicate the extent to which the capital borrowings are available for investment after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In Uttaranchal this ratio which was 0.11 during 2001-2002 increased to 0.40 in 2002-2003.

(vi) *Revenue Deficit versus Fiscal Deficit*

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, a higher ratio indicates that the debt burden is increasing without adding to the repayment capacity of the State. In Uttaranchal the ratio was 0.52 in 2002-03 as compared to 0.54 in 2001-02 showing a little improvement.

(vii) *Primary Deficit versus Fiscal Deficit*

Primary deficit is the fiscal deficit minus interest payments. It represents non-interest borrowings of the Government on account of its current actions and programmes (interest payments are associated with past actions/programmes of the Government). Primary deficit is sustainable only when the economy grows at a rate higher than the rate of interest on borrowing. This not being the case, fiscal prudence would require aiming at zero primary deficit or primary surplus. In 2001-2002 primary deficit was Rs. 105 crore which was 0.17 (17 *per cent*) of the fiscal deficit and increased to Rs. 338 crore which was 0.38 (38 *per cent*) of the fiscal deficit which suggests that the sustainability is adversely affected as the burden of interest payment continued to be substantial.

(viii) *Guarantees versus Revenue Receipts*

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should, therefore, be compared with the ability of the Government to pay viz., its revenue receipts. Thus, the ratio of total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In Uttaranchal this ratio was 0.60 in 2002-2003.

* On Investment made by the State Government during 2001-02 and 2002-03.

(ix) Assets versus Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. As has been explained in paragraph 1.2, the assets and liabilities in the Government system of accounting pertain mainly to financial assets and liabilities. However, the trend analysis of even this ratio would throw light on the financial management in the Government. *Exhibit V* shows that for Uttaranchal Government this ratio increased from 0.23 in 2001-2002 to 0.33 in 2002-2003. A more realistic picture would, however, be available only after the assets and liabilities are fully apportioned between the states of Uttaranchal and Uttar Pradesh.

(x) State Tax Receipts and Debt versus GSDP

Tax receipt consists of State Tax and State's Share of Central Taxes. The receipt suggest sustainability. But the ratio of tax receipts to GSDP would have implications for flexibility as well. While a low ratio would imply that the Government tax more, and improve its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. In Uttaranchal the own tax - GSDP and over all tax - GSDP were 0.07 and 0.09 respectively for the period 2002-2003.

The GSDP is the total internal resource base of the State Government which can be used to service debt. An increasing ratio of debt/ GSDP would signify a reduction in the Governments ability to meet its debt obligations and therefore, increase risk for lenders. In Uttaranchal this was 0.38 in 2002-2003.

(xi) Budget

There was no delay in submission of the budget and its approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Vote on account	19 March 2002	19 March 2002
Budget	3 June 2002	3 June 2002
Supplementary	13 December 2002	13 December 2002

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure.

(xii) Accounts

There was no significant delay in the submission of accounts by the treasuries/departments during 2002-2003.

1.11.4 Conclusion

Apportionment of assets, cash balances and investments in government companies were yet to be made. During the year the Government had a negative BCR and revenue deficit of Rs. 459 crore.

Annexure

Part - A: Government Accounts

I. Structure

The accounts of the State Government are kept in three parts (I) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund

All receipts of the State Government from revenues, loans and recoveries of loans go into the Consolidated Fund of the State, constituted under Article 266(1) of the Constitution of India. All expenditure of the Government is incurred from this Fund from which no amount can be withdrawn without authorization from the State Legislature. This part consists of two main divisions, namely Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Capital Receipts, Capital Expenditure, Public Debt and Loans, etc.).

Part II: Contingency Fund

The Contingency Fund created under Article 267(2) of the Constitution of India is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorization from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorized by the Legislature during the year was Rs. 30 crore.

Part III: Public Account

Receipts and disbursements in respect of Small Savings, Provident Funds, Deposits, Reserve Funds, Suspense, Remittances, etc. which do not form part of the Consolidated Fund, are accounted for in the Public Account and are not subject to vote by the State Legislature.

Form of Annual Accounts

The accounts of the State Government are prepared in two volumes viz., the Finance Accounts and the Appropriation Accounts. The Finance Accounts present the details of all transactions pertaining to both receipts and expenditure under appropriate classification in the Government accounts. The Appropriation Accounts present the details of expenditure by the State Government vis-à-vis the amounts authorized by the State Legislature in the Budget Grants. Any expenditure in excess of the grants requires regularisation by the Legislature.

Part-B: List of Indices/Ratios and basis for their calculation

(Referred to in paragraph 1.11.2)

Indices/Ratios	Basis for calculation
<u>Sustainability</u>	
- Balance from the Current Revenues (BCR)	Revenue Receipts minus all Plan Grants (under Major Head 1601-02,03,04) and Non-Plan Revenue Expenditure (excluding Major Head 2048)
- Primary Deficit	Primary Deficit: Fiscal Deficit minus Interest Payment
- Interest Ratio	Interest Ratio: $\frac{\text{Interest Payments minus Interest Receipts}}{\text{Revenue Receipts minus Interest Receipts}}$
- Capital Outlay versus Capital Receipts	Capital Outlay: Capital Expenditure as per Statement No.13 of the Finance Accounts Capital Receipts : Miscellaneous Capital Receipts Plus Internal Loans (net of Ways and Means Advances and Overdraft) + Loans and Advances from Government of India (net of Ways and Means Advances) + Net receipts from Small Savings, PF etc. + Repayments received of loans advanced by the State Government - Loans advanced by the State Government
- Total Tax Receipts versus Gross State Domestic Product (GSDP)	Total Tax Receipts: State Tax Receipts plus State's share of Union Taxes and Duties.
- State Tax Receipts versus GSDP	State Tax Receipts : Statement-11 of Finance Accounts
<u>Flexibility</u>	
- Balance from Current Revenues	As above.
- Capital Repayments versus Capital Borrowings	Capital Repayments : Disbursements under Major Head 6003 and 6004 minus repayments on account of Ways and Means Advances/Overdraft under both the Major Heads Capital Borrowings : Additions under Major Heads 6003 and 6004 minus addition on account of Ways and Means advances/Overdraft under both the Major Heads
- State Tax Receipts versus GSDP	State Tax Receipts : As above.
- Total Tax Receipts versus GSDP	Total Tax Receipts : As above.
- Debt versus GSDP	Debt : Borrowings and other obligation at the end of The year (Statement No. 4 of the Finance Accounts)
- Incomplete Projects	----

<p><u>Vulnerability</u></p> <ul style="list-style-type: none"> - Revenue Deficit - Fiscal Deficit - Primary Deficit versus Fiscal Deficit - Total Outstanding Guarantees, including Letters of Comfort versus - Total Revenue Receipts of the Government - Assets versus Liabilities 	<p>Paragraph No. 1.9. 2.2 of the Audit Report Paragraph No. 1.9.2..3 of the Audit Report</p> <p>Primary Deficit As above.</p> <p>Outstanding Guarantees: Exhibit IV</p> <p>Revenue Receipts Exhibit II</p> <p>Assets and Liabilities Exhibit I</p>
<p><u>Vulnerability</u></p> <ul style="list-style-type: none"> - Revenue Deficit - Fiscal Deficit - Primary Deficit versus Fiscal Deficit - Total Outstanding Guarantees, including Letters of Comfort versus - Total Revenue Receipts of the Government - Assets versus Liabilities 	<p>Paragraph No. 1.9.3 of the Audit Report Paragraph No. 1.9.4 of the Audit Report</p> <p>Primary Deficit As above.</p> <p>Outstanding Guarantees: Exhibit IV</p> <p>Revenue Receipts Exhibit II</p> <p>Assets and Liabilities Exhibit I</p>