

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-I-Part-A*). The Finance Accounts of the Government of Uttaranchal are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Uttaranchal. The lay out of the Finance Accounts is depicted in *Appendix-I-Part-B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Uttaranchal for the year 2005-06, 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 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					<u>Non-Plan</u>	<u>Plan</u>	<u>Total</u>
4085.59	I. Revenue receipts	5537.02¹	5035.91	I. Revenue expenditure	4191.47	1419.50	5610.97
1444.36	Tax revenue	1784.69	1900.78	General Services	2026.06	0.91	2026.97
547.70	Non-tax revenue	650.09	1904.18	Social Services	1453.35	802.35	2255.70
519.97	Share of Union Taxes/Duties	1009.82 ¹	1089.51	Economic Services	595.42	616.24	1211.66
1573.56	Grants from Govt. of India	2092.42	141.44	Grants-in-aid / Contributions	116.64	-	116.64
Section-B: Capital							
-	II Misc. Capital Receipts	-	1135.83	II Capital Outlay	48.59	1656.84	1705.43
87.09	III. Recoveries of Loans and Advances	36.37	181.27	III Loans and Advances disbursed	18.57	116.65	135.22
1587.20	IV Public Debt receipts	1756.65	21.84	IV Repayment of Public Debt²	-	-	247.10
24.06	V Contingency Fund	16.14	16.23	V Contingency Fund	-	-	44.80
8524.81	VI Public Account	19696.88	7846.84	VI Public Account disbursements	-	-	18916.55
215.35	Opening Balance	286.18	286.18	Closing Balance	-	-	669.17
14524.10	Total	27329.24	14524.10	Total			27329.24

The revenue of the State consists mainly of its own taxes, non-tax revenue, Central tax transfers and grants-in-aid from the Government of India. The overall increase of Rs. 1,451 crore in revenue receipts in 2005-06 compared to the previous year was mainly due to the increase of Rs.1,009 crore in Central

¹ Inflated to the extent of Rs.. 122.45 crore on account of book adjustment of the DAA Suspense pertaining to the year 2001-2002.

² Includes net of Ways and Means Advances and Overdraft.

transfers comprising grants-in-aid and State's share in the pool of union taxes and duties (Rs.. 490 crore as share of net proceeds of Central taxes assigned to the State, inflated to the extent of Rs. 122 crore on account of book adjustment of DAA suspense pertaining to the year 2001-02 and Rs. 519 crore as grants-in-aid from GOI). During the current year, the revenue receipts grew by 35.53 *per cent*. The closing cash balance of the current year was Rs.669.17 crore against Rs.286.18 crore during 2004-05. The revenue expenditure increased by 11.42 *per cent* from Rs.5,036 crore in 2004-05 to Rs. 5,611 crore in 2005-06.

1.1.2 The Uttaranchal 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 Gross State Domestic Product(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.

1.1.3 Fiscal Policy Statement(s) 2005-2006

As the FRBM Act was enacted only in October 2005, no Fiscal Policy Statement was laid in the Legislative Assembly along with the budget 2005-06.

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

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, shall set 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. However, the projections / assessments made in MTFP Statement for 2005-06 are being used for comparison purposes.

1.1.5 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. No such statement is available for 2005-06 as FRBM Act was enacted mid-way during the year.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends in Fiscal Aggregates

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

Table: 1.2

2004-05	Sl. No	Major Aggregates	(Rupees in crore) 2005-06
4086	1.	Revenue Receipts (2+3+4)	5537
1444	2.	Tax Revenue	1785
548	3.	Non-Tax Revenue	650
2094	4.	Other Receipts	3102
87	5.	Non-Debt Capital Receipts	36
87	6.	<i>Of which</i> Recovery of Loans	36
4173	7.	Total Receipts (1+5)	5573
4003	8.	Non-Plan Expenditure (9+11+12)	4258
3898	9.	On Revenue Account	4191
816	10.	<i>Of which,</i> Interest Payments	808
61	11.	On Capital Account	48
44	12.	On loans and advances disbursed	19
2350	13.	Plan Expenditure (14+15+16)	3193
1138	14.	On Revenue Account	1420
1075	15.	On Capital Account	1657
137	16.	On loans and advances disbursed	116
6353	17.	Total Expenditure (8+13)	7451
(-) 950	18.	Revenue Deficit (-)/Surplus (+) (9+14-1)	(-) 74
(-)2180	19.	Fiscal Deficit (-)/Surplus (+) (17-1-5)	(-) 1878
(-)1364	20.	Primary Deficit (-)/Surplus (+) (19-10)	(-) 1070

The total receipts of the State increased from Rs.4,173 crore in 2004-05 to Rs.5,573 crore in 2005-06, inflated to the extent of Rs.122 crore on account of book adjustment of DAA suspense pertaining to the year 2001-02 and the total expenditure of the State increased from Rs.6,353 crore in 2004-05 to Rs.7,451 crore in 2005-06. All the three components of deficit i.e. revenue, fiscal and primary deficit have correspondingly decreased by Rs.876 crore, Rs.302 crore and Rs.294 crore respectively from the previous year.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, periodic comparisons and analyses has been made as per *Appendix-1.1 to 1.4* and Time Series Data (*Appendix-1.5*). Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage of the GSDP at current market prices. The New GSDP series with 1993-94 as base, as published by the Director of Economics and Statistics of the State Government has been used for the purpose. For tax revenues, non-tax

revenues, revenue expenditure, etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation 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-I-Part-C*.

1.4 State Finances by Key Indicators

Uttaranchal State was created on 9 November 2000 (in the year 2000-01). Hence the rate of growth, revenue buoyancy etc. have been determined from the year 2002-03 onwards.

1.4.1 Resources by Volumes and Sources

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 Government of India. Capital receipts consist of recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the Government of India as well as accruals from the Public Account and miscellaneous capital receipts such as proceeds from disinvestments. **Table-1.3** shows that the total receipts of the State Government for the year 2005-06 were Rs.27,027 crore. Of these, revenue receipts were Rs.5,537 crore, constituting 20 per cent of the total receipts. The balance came from borrowings (7 per cent) and receipts from the Public Account (73 per cent). The huge balance under Suspense and Miscellaneous was mainly because of the balances under Cheques and Bills and Cash Balance Investment Account. The out go from suspense during the year was Rs.13,799 crore thereby leaving a net balance of Rs.440 crore under the head.

Table-1.3: Resources of Uttaranchal

(Rupees in crore)

I Revenue Receipts	5537
II Capital Receipts	1793
<i>a Miscellaneous Receipts</i>	-
<i>b Recovery of Loans and Advances</i>	36
<i>c Public Debt Receipts</i>	1757
III Public Account Receipts	19697
<i>a Small Savings, Provident Fund, etc.</i>	321
<i>b Reserve Fund</i>	256
<i>c Deposits and Advances</i>	2200
<i>d Suspense and Miscellaneous</i>	14239
<i>e Remittances</i>	2681
Total Receipts	27027

1.4.2 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 Government of India. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and their buoyancies are indicated in **Table-1.4**.

Table-1.4: Revenue Receipts - Basic Parameters

(Rupees in crore and per cent to RR)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR)	2608	3216	3600	4086	5537
Own taxes	971 (37.23)	1017 (31.62)	1226 (34.06)	1444 (35.34)	1785 (32.23)
Non-Tax Revenue	162 (6.21)	375 (11.66)	370 (10.28)	548 (13.41)	650 (11.74)
Central Tax Transfers	151 (5.79)	374 (11.63)	435 (12.08)	520 (12.73)	1010 (18.24)
Grants-in-aid	1324 (50.77)	1450 (45.09)	1569 (43.58)	1574 (38.52)	2092 (37.79)
Rate of Growth (RR) (per cent)	-	23.31	11.94	13.50	35.51
RR/GSDP (per cent)	19.78	21.35	20.73	20.22	23.75
Revenue Buoyancy (ratio)	-	1.63	0.78	0.82	2.31
States Own Tax Buoyancy (ratio)	-	0.33	1.34	1.09	1.53
Revenue Buoyancy with reference to State's Own taxes (ratio)	-	4.92	0.58	0.76	1.50
GSDP Growth (per cent)	7.71	14.29	15.31	16.32	15.39

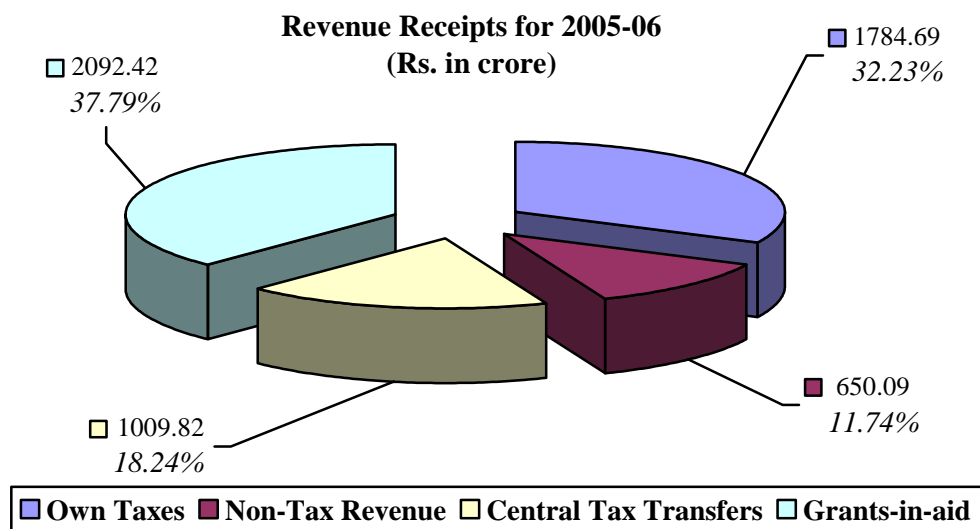
The revenue receipts of the State increased from Rs.2,608 crore in 2001-02 to Rs.5,537 crore in 2005-06 at an average rate of 21.07 per cent. The Revenue Receipts during 2005-06 are inflated to the extent of Rs. 122 crore on account of book adjustment of DAA suspense pertaining to the year 2001-02. There was a consistent increase in the revenue receipts during 2001-06. While 43.97 per cent of the revenue receipts during 2005-06 came from the State's own tax and non-tax revenues, the aggregate of central tax transfers and grants-in-aid contributed 56.03 per cent of the total revenue. Sales tax was the major contributor (57 per cent) of the State's own tax revenue, followed by Stamps and Registration Fees (19 per cent) and State Excise (16 per cent). Power (36 per cent) and Forestry and Wild life (24 per cent) were the principal contributors to non-tax revenue.

Tax and Non- Tax Revenue

Tax revenue at Rs.1,785 crore during 2005-06 exceeded the normative assessment of Rs.1,496.50 crore made by Twelfth Finance Commission (TFC) for the year. Similarly, Non-Tax Revenue at Rs.650 crore was more by Rs.103 crore as compared to TFC projections.

Central tax transfers

The receipts in the form of State's share in the pool of Union taxes and duties has increased by 94 per cent from Rs.520 crore in 2004-05 to Rs.1,010 crore in 2005-06. These are however inflated to the extent of Rs.122.45 crore on account of book adjustment of DAA suspense pertaining to the year 2001-02.



Grants-in-Aid

The non-plan grants significantly increased by 7.4 times from Rs.132.97 crore in 2004-05 to Rs.1,120.34 crore in 2005-06 which are inclusive of Rs.977.88 crore as non-plan revenue deficit grants recommended by TFC for Uttaranchal for 2005-06. Central plan and centrally sponsored plan scheme grants also increased from Rs.113.70 crore in 2004-05 to Rs.152.31 crore in 2005-06, mainly to cover the sponsorship of additional/ongoing centrally sponsored schemes. Grants for State plan schemes decreased from Rs.1,326.89 crore in 2004-05 to Rs. 819.77 crore in 2005-06. The decrease was mainly on account of shortfall in grants under Special Plan Assistance to the State of Uttaranchal during 2005-06.

Arrears of revenue (excluding Forest Revenue³) amounted to Rs.314 crore at the end of 2005-06. Of these, Rs.162 crore (51.60 *per cent*) was more than five years old. Specific action taken to effect recoveries had not been intimated by the State Government.

1.4.3 Receipts and GSDP

Receipts and GSDP during 2000-06 are given in **Table-1.5**.

Table-1.5: Source of Receipts – Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2000-01 ⁴	924	2	187	-	2112	3225	12237
2001-02	2608	4	775	30 ⁵	5131	8548	13181

³ Information awaited from the State Government.

⁴ 9 November 2000 to 31 March 2001.

⁵ Differs with last years report on account of proforma corrections.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2002-03	3216	3	1834	-	6574	11627	15064
2003-04	3600	23	3063	55	7499	14240	17370
2004-05	4086	87	1587	-	8525	14285	20205
2005-06	5537	36	1757	-	19697	27027	23315 ⁶

Revenue receipts increased from Rs.2,608 crore in 2001-02 to Rs.5,537 crore in 2005-06. Debt receipts grew at an average growth rate of 31.68 *per cent* in the period 2001-06 increasing by Rs.170 crore in 2005-06. Non debt receipts showed a fluctuating trend decreasing by Rs.51 crore over the previous year.

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.3,224 crore in 2001-02 to Rs.7,452 crore in 2005-06. The total expenditure, its annual growth rate and its ratio to the State GSDP and to revenue receipts as well as its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.6**.

Table-1.6: Total Expenditure – Basic Parameters.

	<i>(Rs. in crore)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure ⁷ (TE)	3224	4110	5028	6353	7451
Rate of Growth (<i>per cent</i>)	-	27.48	22.34	26.35	17.30
TE/GSDP Ratio (<i>per cent</i>)	24.46	27.28	28.95	31.44	31.96
RR/TE Ratio (<i>per cent</i>)	80.89	78.25	71.60	64.32	74.30
Buoyancy of total expenditure with respect to					
GSDP (ratio)	-	1.92	1.46	1.61	1.13
RR (ratio)	-	1.18	1.87	1.95	0.49
Buoyancy of revenue expenditure with respect to					
GSDP (ratio)	-	1.76	1.22	0.95	0.74
RR (ratio)	-	1.08	1.56	1.15	0.32
Buoyancy of capital expenditure with respect to					
GSDP (ratio)	-	4.40	3.74	6.93	3.25
RR (ratio)	-	2.70	5.63	8.38	1.41

The total expenditure of the State increased at an average rate of 23 *per cent* per annum during 2002-06, ranging from 17 *per cent* to 27 *per cent* per annum. An increase of Rs.1,098 crore in total expenditure (17 *per cent*) during 2005-06 over the previous year was mainly due to an increase in both Revenue (Rs.575 crore) and Capital (Rs.569 crore) heads of expenditure under general, social and economic services accompanied by a decline of Rs.46 crore in loans and advances. Apart from pension payments, the enhancements were under these sectors., (i) education, sports, art and culture (ii) health and family welfare (iii) water supply, sanitation, housing and urban development (iv) social welfare and

⁶ GSDP figures for the years 2001-02 to 2005-06 have been intimated by State Government, GSDP figures for the years 2004-05 and 2005-06 are provisional.

⁷ Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

nutrition in social services and (i) agriculture and allied activities (ii) rural development in economic services.

1.5.2 Trends in Total Expenditure by Activities

The total expenditure involves expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in **Table-1.7**.

Table-1.7: Components of Expenditure – Relative Share

	<i>(In per cent)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
General Services (excluding I.P)	18.15	16.66	18.34	19.40	18.87
Interest Payments	15.72	13.46	11.87	12.84	10.85
Social Services	35.58	37.30	36.12	32.54	33.06
Economic Services	26.14	28.56	26.95	30.16	33.84
Grants-in-aid	1.99	1.68	4.04	2.21	1.57
Loans and advances	2.42	2.34	2.68	2.85	1.81

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. The expenditure on General Services including interest payments, which is considered as non-developmental, decreased from 32.24 *per cent* in 2004-05 to 29.72 *per cent* in 2005-06. On the other hand, developmental expenditure i.e. expenditure on Social and Economic Services together accounted for 66.90 *per cent* in 2005-06 as against 62.70 *per cent* in 2004-05.

1.5.3 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, payments for 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

	<i>(Rupees in crore)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
(1)	(2)	(3)	(4)	(5)	(6)
Revenue Expenditure (RE) of which	2938	3675	4360	5036	5611
Non-plan Revenue Expenditure (NPRE)	2453	2708	3310	3898	4191
Plan Revenue Expenditure (PRE)	485	967	1050	1138	1420
Rate of Growth (<i>per cent</i>)NPRE		10.40	22.23	17.76	7.52
Rate of Growth (<i>per cent</i>)PRE		99.38	8.58	8.38	24.78
NPRE/ GSDP(<i>per cent</i>)	18.61	17.98	19.06	19.10	17.98
NPRE as <i>per cent</i> of TE	76.05	65.89	65.83	61.36	56.24
NPRE as <i>per cent</i> of R R	94.06	84.20	91.94	95.40	75.70
Percentage of NPRE to RE	83.49	73.69	75.92	77.40	74.69

(1)	(2)	(3)	(4)	(5)	(6)
Percentage of PRE to RE	16.51	26.31	24.08	22.60	25.30
Buoyancy of Revenue Expenditure with					
GSDP (ratio)		1.63	1.21	1.00	0.74
RRs (ratio)		1.08	1.56	1.15	0.32
Buoyancy of NPRE with					
GSDP (ratio)		7.17	1.44	1.15	0.49
RRs (ratio)		0.45	1.86	1.32	0.21
Buoyancy of PRE with					
GSDP (ratio)		6.48	0.56	0.54	1.61
RRs (ratio)		4.26	0.72	0.62	0.70

The overall revenue expenditure of the State increased by 90.98 per cent from Rs. 2,938 crore in 2001-02 to Rs. 5,611 crore in 2005-06 at an average annual rate of 17.66 per cent. NPRE of the State increased by 70.85 per cent from Rs.2,453 crore in 2001-02 to Rs.4,191 crore in 2005-06. The share of NPRE in the total revenue expenditure though oscillated during the period 2001-06, declined from the peak level of 83.49 per cent during 2001-02 to 74.69 per cent during the current year. NPRE, at Rs.4,191 crore was lower than the amount of Rs.4,825 crore projected in the Fiscal Correction Path (FCP) drawn by the State Government indicating that State Government could compress the NPRE on certain items. The share of PRE in revenue expenditure of the State although exhibited an increasing trend, but in terms of its own growth rate, it indicated wide fluctuations during the period 2001-06.

1.5.4 Committed Expenditure

1.5.4.1 Expenditure on Salaries

Table-1.9: Expenditure on Salaries

Heads	(Rupees in crore)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Salary expenditure	938	1036	1168	1192	1381
As percentage of GSDP	7.12	6.88	6.72	5.90	5.92
As percentage of Revenue Receipts	35.97	32.21	32.44	29.17	24.94
As percentage of Revenue Expenditure	31.93	28.19	26.79	23.67	24.61
As percentage of Revenue Expenditure (excluding Interest payments and Pension payments).	...	...	...	...	31.74

Although the expenditure on salaries and wages increased from Rs. 938 crore in 2001-02 to Rs.1381 crore in 2005-06 as indicated in **Table 1.9**, it was Rs. 810 crore (37 per cent) less than the amount of Rs. 2191 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). Out of the salary expenditure of Rs.1381 crore during 2005-06, the major part, i.e. Rs.615 crore (45 per cent) was incurred on Social Services. However, Rs.433 crore (31 per cent) was incurred on General Services and Rs.333 crore (24 per cent) on Economic Services.

1.5.4.2 Pension Payments

Table 1.10: Expenditure on Pensions

(Rupees in crore)

Year	Amount	Percentage of pension payments to total revenue expenditure	Percentage of pension payments to total revenue receipts
2001-02	13	0.44	0.50
2002-03	135	3.67	4.20
2003-04	283	6.49	7.86
2004-05	354	7.03	8.66
2005-06	453	8.07	8.18

Pension payments had increased to Rs. 453 crore in 2005-06 from Rs.13 crore in 2001-02, as shown in **Table 1.10**. Pension payments during 2005-06 grew by *27.97 per cent* over those for the previous year, much higher than the rate of *10 per cent* projected by the TFC. The growth in pension payment during the year was attributable to the increase in the number of pensioners by 2,582 in 2005-06 over the year 2004-05 and an increase of *8 per cent* in dearness relief during the year. However, relatively the pension payments made by the State Govt. during 2005-06 were Rs.53 crore less than the projected target set by the State Government in its FCP.

1.5.4.3 Interest payments

Table-1.11: Interest payments

Year	Amount	Percentage of interest payments with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
2001-02	507	19.44	17.26
2002-03	553	17.20	15.05
2003-04	597	16.58	13.69
2004-05	816	19.97	16.20
2005-06	808	14.59	14.40

As shown in **Table 1.11**, interest payments increased by *59.37 per cent* from Rs. 507 crore in 2001-02 to Rs. 808 crore in 2005-06, primarily due to ever increasing borrowings. Interest payments during 2005-06 included those on Internal Debt (Rs. 630.60 crore), loans received from Central Government (Rs. 42.27 crore), other obligations (Rs.54.27 crore) and Small Savings, Provident Fund etc. (Rs. 80.38 crore).

1.6 Expenditure by Allocative Priorities

1.6.1 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 2001-06.

Table 1.12 – Indicators. of Quality of Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	208	339	533	1136	1705
Revenue Expenditure of which	2938	3675	4360	5036	5611
Social and Economic Services	1812	2419	2696	2994	3468
Salary and wage component	631	699	794	846	932
Non-salary and wage component	1181	1719	1902	2148	2536
As per cent of Total Expenditure*					
Capital Expenditure	6.45	8.25	10.60	17.88	22.88
Revenue Expenditure	91.13	89.42	86.71	79.27	75.30
As per cent of GSDP					
Capital Expenditure	1.58	2.25	3.07	5.62	7.31
Revenue Expenditure	22.29	24.40	25.10	24.92	24.07

*Total expenditure excludes expenditure on loans and advances.

The ratio of capital expenditure to total expenditure during 2001-02 to 2005-06 has shown an increasing trend as it rose to 22.88 *per cent* in 2005-06 against 6.45 *per cent* in 2001-02; its ratio to GSDP increased from 1.58 *per cent* in 2001-02 to 7.31 *per cent* in 2005-06 implying that the quality of expenditure improved over the years.

1.6.2 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 2001-06.

Table 1.13: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture					
Revenue Expenditure of which	683.76	945.79	1034.22	1126.78	1254.80
(a) <i>Salary and Wage Component</i>	246.32	293.93	324.68	354.37	417.15
(b) <i>Non-Salary and Wage Component</i>	437.44	651.86	709.54	772.41	837.65
Capital Expenditure	13.27	23.52	59.82	45.01	64.03
Total	697.03	969.31	1094.04	1171.79	1318.83
Health & Family Welfare					
Revenue Expenditure of which	140.37	158.36	173.66	198.05	278.32
(a) <i>Salary and Wage Component</i>	104.04	110.07	129.00	138.74	162.00
(b) <i>Non-Salary and Wage Component</i>	36.33	48.29	44.66	59.31	116.32
Capital Expenditure	8.97	24.52	35.07	50.52	73.40
Total	149.34	182.88	208.73	248.57	351.72
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure of which	188.90	178.32	303.41	355.02	387.54
(a) <i>Salary and Wage Component</i>	0.75	1.18	1.38	1.71	1.86
(b) <i>Non-Salary and Wage Component</i>	188.15	177.14	302.03	353.31	385.68
Capital Expenditure	1.06	9.27	3.71	19.08	14.64
Total	189.96	187.59	307.12	374.10	402.18

Other Social Services					
Revenue Expenditure	107.60	185.77	181.60	224.33	335.04
of which					
(a) <i>Salary and Wage Component</i>	23.34	25.41	28.12	29.95	33.70
(b) <i>Non-Salary and Wage Component</i>	84.26	160.36	153.48	194.38	301.34
Capital Expenditure	3.8	7.74	24.99	48.66	55.96
Total	111.40	193.51	206.59	272.99	391.00
Total (Social Services)					
Revenue Expenditure	1120.63	1468.24	1692.89	1904.18	2255.70
of which					
(a) <i>Salary and Wage Component</i>	374.45	430.59	483.18	524.77	614.71
(b) <i>Non-Salary and Wage Component</i>	746.18	1037.65	1209.71	1379.41	1640.99
Capital Expenditure	27.10	65.05	123.59	163.27	208.03
Total	1147.73	1533.29	1816.48	2067.45	2463.73

The expenditure on salary and wage component under the sub sector Education, Sports, Art and Culture increased from Rs. 246 crore in 2001-02 to Rs. 417 crore in 2005-06. Under the Social Services, the salary component increased from Rs.374.45 crore in 2001-02 to Rs.614.71 crore in 2005-06, an increase of Rs.240.26 crore (64 *per cent*) and non-salary component increased during the period from Rs.773.28 to Rs.1,849.02 crore, an increase of Rs.1,075.74 crore (139 *per cent*). The share of sub-sector Education, Sports, Art and Culture under social services sector has increased from Rs.697 crore to Rs.1,318 crore (89 *per cent*). 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.351 crore in 2005-06, an increase of Rs.202 crore (139 *per cent*).

1.6.3 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. 2,522 crore) accounted for 33.84 *per cent* of the total expenditure. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 75.42 *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
Agriculture, Allied Activities					
Revenue Expenditure of which	336.55	367.26	448.54	449.03	508.02
(a) <i>Salary and Wage Component</i>	123.36	129.66	160.81	163.80	173.14
(b) <i>Non-Salary and Wage Component</i>	213.19	237.60	287.73	285.23	334.88
Capital Expenditure	-37.04	-1.33	-4.25	44.10	77.42
Total	299.51	365.93	444.29	493.13	585.44
Irrigation and Flood Control					
Revenue Expenditure of which	118.02	143.36	140.64	153.60	167.98
(a) <i>Salary and Wage Component</i>	68.63	74.66	84.16	87.37	79.52
(b) <i>Non-Salary and Wage Component</i>	49.39	68.70	56.48	66.23	88.46
Capital Expenditure	27.51	26.01	78.30	112.36	225.36
Total	145.53	169.37	218.94	265.96	393.34

Power and Energy					
Revenue Expenditure	13.56	136.03	110.13	77.05	94.52
of which					
(a) <i>Salary and Wage Component</i>	-	-	-	-	0.02
(b) <i>Non-Salary and Wage Component</i>	13.56	136.03	110.13	77.05	94.50
Capital Expenditure	8.00	-	-	166.61	210.34
Total	21.56	136.03	110.13	243.66	304.86
Transport					
Revenue Expenditure	45.73	52.72	42.87	53.25	75.44
of which					
(a) <i>Salary and Wage Component</i>	1.91	2.10	2.21	2.53	3.44
(b) <i>Non-Salary and Wage Component</i>	43.82	50.62	40.66	50.72	72.00
Capital Expenditure	140.92	136.03	196.79	138.28	542.50
Total	186.65	188.75	239.66	191.53	617.94
Other Economic Services					
Revenue Expenditure	178.23	250.98	261.20	356.58	365.70
of which					
(a) <i>Salary and Wage Component</i>	62.99	62.87	63.16	67.91	76.91
(b) <i>Non-Salary and Wage Component</i>	115.24	188.11	198.04	288.67	256.12
Capital Expenditure	11.96	62.29	81.00	364.10	254.51
Total	166.27	310.61	333.71	720.68	620.21
Total (Economic Services)					
Revenue Expenditure	692.09	950.35	1003.38	1089.51	1211.66
of which					
(a) <i>Salary and Wage Component</i>	256.89	269.29	310.34	321.61	333.03
(b) <i>Non-Salary and Wage Component</i>	435.20	681.06	693.04	767.90	878.63
Capital Expenditure	151.35	223.00	351.85	825.45	1310.13
Total	843.44	1173.35	1355.23	1914.96	2521.79

The expenditure on Economic Services accounted for 34 *per cent* of the total expenditure of the State, of which, revenue expenditure accounted for 48 *per cent*, with capital expenditure being 52 *per cent*. The expenditure on salary and wage component under Economic Services increased by 30 *per cent* from Rs. 257 crore in 2001-02 to Rs.333 crore in 2005-06. On non-salary and wage component, it increased by 102 *per cent* from Rs. 435 crore in 2001-02 to Rs.879 crore in 2005-06. The increase in the non-salary component was mainly due to the enhanced spending on the development of infrastructure in the State such as roads and bridges (Rs.466.46 crore), which is evident from the fact that the capital expenditure under sub-sector Transport has increased substantially during the current year.

1.6.4 Financial Assistance to local bodies and other institutions

1.6.4.1 Extent of assistance

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2001-06 is presented in **Table-1.15**.

Table-1.15: Financial Assistance

(Rupees in crore)

Sl. No.	Name of institutions	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Universities and Educational Institutions	111.68	79.48	131.25	141.02	198.31
2.	Energy	13.46	135.88	110.13	73.75	60.83
3.	Agriculture, Land Reforms and Forestry	30.59	55.10	76.11	76.80	103.96
4.	Municipal Corporations and Municipalities	63.74	36.18	74.26	61.46	80.55
5.	Panchayati Raj Sanstahai	....	32.96	128.63	79.98	36.09
6.	Hospitals and Charitable Institutions	0.05	1.67	6.17	15.51	26.21
7.	Development Agencies	165.37	171.98	314.97	362.08	305.04
8.	Labour and Industry	4.99	21.16	27.61	25.10	18.28
9.	Co-operatives	1.41	3.16	4.72	4.30	7.64
10.	Animal Husbandry, Dairy Development and Fisheries	6.05	5.72	6.70	7.65	8.55
11	Secretariat Economics Services & Tourism	3.25	52.50	39.56	131.05	43.38
12.	Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other backward classes	19.02	19.37	30.62	65.13	83.42
13..	Others	3.84	5.39	8.12	11.80	33.71
	Total	423.45	620.56	958.85	1054.90	1005.97
	Percentage of growth over previous year	--	46.55	54.51	10.02	(-) 4.63
	Assistance as percentage of revenue expenditure	14.41	16.89	21.99	20.93	17.93

The total assistance to local bodies and other institutions in 2005-06 had grown by 138 *per cent* over that in 2001-02. The sharp increase under Universities and Educational Institutions during 2005-06 was mainly due to the release of more grants to General Education (Rs. 16.88 crore) and to Agriculture Research and Education (Rs. 12.58 crore). While the assistance to the development agencies has gradually increased during the period 2001-06, the financial assistance being given to local bodies, both municipal corporations and municipalities and PRIs has widely fluctuated during the period.

1.6.5 Non-submission of accounts

The annual accounts of Kumaon Jal Sansthan, Nainital and Garhwal 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.

1.7 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 2006. While the liabilities in this Appendix consist mainly of 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 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 2001-06.

1.7.1 Financial Results of Irrigation Works

The financial results of six major irrigation projects as reported by the Government with a capital outlay of Rs. 173.82 crore at the end of March 2006 showed that revenue realized from these projects during 2005-06 (Rs. 6.21 crore) was very low (3.57 per cent) compared to the capital outlay. It was barely sufficient to cover even the direct working expenses (Rs. 33.10 crore) during 2005-06. The direct working expenses to the extent of Rs. 26.88 crore were borne by the State Government during the year.

1.7.2 Incomplete Projects

As per information received from the State Government, as of 31 March 2006, there were 848 ongoing projects of Irrigation and PWD each costing more than Rs. one crore on which an expenditure of Rs.1,749 crore was incurred. The details of these works are available in the *Appendix III* of Finance Accounts for the year 2005-06.

1.7.3 Departmental Commercial Undertakings

Departmentally managed Government commercial /quasi-commercial undertakings

General

1.7.3.1 Consequent upon the formation of the State of Uttaranchal with effect from 9 November 2000 under the Uttar Pradesh Reorganization Act 2000, the assets and liabilities of the undertakings already situated in Uttaranchal 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.

Sl. No.	Department	Name of the undertakings
1.	Food and Civil Supplies	Grain Supply Scheme: Regional Food Controller, Dehradun Regional Food Controller, Haldwani
2.	Irrigation	Irrigation Workshop Division, Roorkee
3.	Animal Husbandry	State Livestock and Agricultural Farms, Kalsi, Dehradun State Livestock and Agricultural Farms, Manjhara, Dehradun
4.	Health	Rishikul Ayurvedic Pharmacy, Hardwar State Vaccine Institute, Patwadangar, Nainital

1.7.3.2 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 2004-05, while the other undertakings have not finalised their accounts for the period 9 November 2000-March 2001, 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06. Thus the accounts, except in the cases of IWD, Roorkee, were in arrears for a period of six 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 earlier. The finalised accounts of departmentally managed commercial 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.

1.7.4 Investments and returns

As of 31 March 2006, the Government invested Rs. 669 crore in its statutory corporations, rural banks, Government companies, joint stock companies and co-operatives (**Table-1.16**). The increase in the investments made by the State Government was mainly due to the investments made in key sectors like, Uttaranchal Hydro Electric Corporation (Rs.100 crore), Power Corporation Fund (Rs.110 crore) and State Industrial Development Corporation of Uttaranchal (Rs. 104 crore). The average return on this investment was less than 1 *per cent* in the last four years, while the Government paid interest at the average rate of 7.47 to 10.40 *per cent* on its borrowings during 2002-2006.

Table-1.16: Return on Investment

(Rs. in crore)

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing (<i>per cent</i>)
2001-02	5	0.02	0.40	-
2002-03	28	0.04	0.14	10.40
2003-04	40	0.04	0.10	8.51
2004-05	333	0.26	0.08	9.10
2005-06	669	0.07	0.01	7.47

1.7.5 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 2006 were Rs. 483 crore (**Table-1.17**). Interest received against these loans was 1.33 *per cent* during 2005-06 as against 2.21 *per cent* in the previous year.

Table-1.17: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	9.71	84.52	177.20	289.75	383.94
Amount advanced during the year	78.32	95.89	135.48	181.27	135.22
Amount repaid during the year	3.51	3.21	22.93	87.09	36.37
Closing Balance	84.52	177.20	289.75	383.93	482.79
Net Addition (+) / Reduction (-)	(+)74.81	(+)92.68	(+)112.55	(+)94.18	(+)98.85
Interest Received	-	0.12	15.20	7.43	6.41
Interest received as <i>per cent</i> to outstanding Loans and Advances	-	0.09	6.51	2.21	1.33
Weighted interest rate (in <i>per cent</i>) paid on borrowing by State Government	-	10.40	8.51	9.10	7.47
Difference between weighted interest paid and received (<i>per cent</i>)	-	(-) 10.31	(-) 2.00	(-) 6.89	(-)6.14

Major recipients of the loans during 2005-06 were Power Projects (Rs. 30.28 crore) and Government servants (Rs. 5.71 crore). There were inter year fluctuations in the interest received over the years 2001-06, which sharply increased to Rs. 15 crore in 2004-05 compared to the three previous years and had declined to Rs. 6 crore in 2005-06.

1.7.6 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) and overdraft from Reserve Bank of India has been put in place. The operative limit for normal WMAs is reckoned as 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 Uttaranchal for normal WMA. No limit was fixed for Special WMAs during 2005-2006.

WMAs and Overdrafts availed, the number of occasions these were availed and interest paid by the State is detailed in **Table-1.18**.

Table-1.18: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
(1)	(2)	(3)	(4)	(5)	(6)
Ways and Means Advances					
Taken in the year	804.70	836.35	329.24	759.71	220
Outstanding	61.97	30.69	30.69	65.46	30.69
Interest paid	0.70	0.64	0.38	0.65	0.62

(1)	(2)	(3)	(4)	(5)	(6)
Number of days	57	109	43	184	54
Shortfall/Overdraft					
Taken in the year	523.64	215.35	83.02	127.72	-
Outstanding	53.82	-	-	-	-
Interest paid	0.69	0.30	0.13	0.16	-
Number of days State was in Overdraft	88	41	13	16	-

As is evident from the table, the number of occasions when the Government took WMAs has come down in 2005-06 over the previous year. Similarly, the number of occasions when the State Government availed of overdraft facility has become nil in 2005-06. In fact, the Government had not availed of any overdraft during 2005-06, since the financial position of the State was comfortable during the year due to a significant increase in grants-in-aid from the Central Government.

1.8 Undischarged Liabilities

1.8.1 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-1.19 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-1.19: Fiscal Liabilities–Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities* (Rs.. in crore)	4634	6003	8030	9910	11714
Rate of growth (<i>Per cent</i>)	-	29.54	33.77	23.41	18.20
Ratio of Fiscal Liabilities to					
GSDP (<i>Per cent</i>)	35.16	39.85	46.23	49.05	50.24
RR (<i>Per cent</i>)	177.68	186.66	223.06	242.54	211.56
Own Resources (<i>Per cent</i>)	409.00	431.25	503.13	497.49	481.07
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	-	2.07	2.18	1.43	1.18
Revenue Receipts (ratio)	-	1.27	2.83	1.73	0.51
Own Resources (ratio)	-	1.29	2.30	0.94	0.82

* Includes internal debt, loans and advances from GOI and other obligations.

The overall fiscal liabilities of the State increased from Rs. 4,634 crore in 2001-02 to Rs. 11,714 crore in 2005-06. However, the increase during the year was mainly due to internal debt and small savings, provident fund etc. which rose by Rs.1,533 crore and Rs.103 crore respectively during the year. The growth rate was 18.20 *per cent* during 2005-06 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 35.16 *per cent* in 2001-02 to 50.24 *per cent* in 2005-06. The buoyancy of these liabilities with respect to GSDP during the year was 1.18 indicating that for each percentage point increase in GSDP, fiscal liabilities grew by 1.18 *per cent*. These liabilities stood at 2.12 times State's revenue receipts and 4.81 times its own resources.

1.8.2 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.

The amount of guarantees given by the State Government during the year and the outstanding guarantees as on 31 March of the year are given in **Table-1.20**.

Table-1.20: Guarantees given by the Government of Uttaranchal

(Rupees in crore)

Year	Amount guaranteed during the year	Outstanding amount of guarantees at the end of the year	Percentage of amount guaranteed to outstanding guarantees
2001-02	Nil*	Nil*	-
2002-03	Nil*	Nil*	-
2003-04	743	743	100
2004-05	602	1345	44.75
2005-06	...	1345	...

* Revised as informed by the State Government.

The Government had guaranteed loans raised by various corporations and others, which at the end of 2005-2006 stood at Rs. 1,345 crore and were within the set target of Rs.1,344.94 crore, as prescribed in the MTFP of the State Government for the year 2005-06. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 24 *per cent* of revenue receipts (of 2005-06) of the State.

1.8.3 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. 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 sustainable. On the other hand, if $PD > QS$, debt – GSDP ratio would be rising and if $PD < QS$, it would be falling. **Table-1.21** below gives the weighted Interest Rate, GSDP growth, Interest spread, and Primary deficit/surplus over the last four years.

Table-1.21:Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	--	10.40	8.51	9.10	7.47
GSDP Growth	--	14.29	15.31	16.32	15.39
Interest spread	--	3.89	6.80	7.22	7.92
Outstanding Debt (Rs. in crore)	4634	6003	8030	9910	11714
Quantum spread (per cent)	-	233.52	546.04	715.50	927.75
Primary deficit (-) / surplus (+) (Rs. in crore)	(-) 105	(-) 338	(-) 808	(-) 1364	(-) 1070

The trends in **Table 1.21** indicate that during 2002 to 2006 the interest spread remained positive (the rate of growth of GSDP being more than the weighted interest). However, the State has not only experienced primary deficit, but it continues to be sizeable throughout this period, i.e. the primary deficit relative to GSDP was around 4 per cent during the period 2001-06 with peak level at 6.75 per cent during 2004-05. An analysis of primary deficit vis-à-vis quantum spread reveals that their sum turns out to be negative in each year of the period 2002-06 indicating rising debt-GSDP ratio and vulnerable fiscal position of the State.

1.8.4 Net Availability of Funds

An important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table-1.22** below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table-1.22: Net Availability of Borrowed Funds

(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06
(1)	(2)	(3)	(4)	(5)	(6)
Internal Debt*					
Receipts	1896	2635	3190	1406	1749
Repayments (Principal + Interest)	1244	1140	415	626	262
Net Funds Available	662	1495	2775	780	1487
Net Funds Available (per cent)	34	57	87	55	85
Loans and Advances from Government of India					
Receipts	123	251	285	147	8
Repayments (Principal + Interest)	77	735	1173	53	60

(1)	(2)	(3)	(4)	(5)	(6)
Net Funds Available	46	(-) 484	(-) 888	94	(-)52
Net Funds Available (<i>per cent</i>)	37	-	-	64	-
Other obligations					
Receipts	1488	1679	2275	2053	2366
Repayments	1041	1321	1924	1920	2224
Net Funds Available	447	358	351	133	742
Net Funds Available (<i>per cent</i>)	30	21	15	6	6
Total Receipts	3507	4565	5750	3606	4123
Repayment (Principal + Interest)	2362	3196	3512	2599	2546
Net Funds Available	1145	1369	2238	1007	1577
Net Funds Available (<i>per cent</i>)	33	30	39	28	38

During 2005-06, the net fund availability was 38 *per cent* against the debt receipts of Rs.4,123 crore; Government used Rs.2,546 crore on repayment of principal and interest on debt. An amount of Rs.1,098 crore was repaid by the State Government in 2003-04 to GOI which is why, less repayments were made by the State Government during 2004-05 and 2005-06.

1.9 Management of deficits

1.9.1 Fiscal imbalances

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.

The Revenue Deficit 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 Revenue Deficit has shown a steep decline of Rs. 876 crore in 2005-06 over the previous year mainly on account of substantial increase in Central transfers comprising State's share in Union pool of taxes and duties (Rs.490 crore) and grants-in-aid (Rs.519 crore). These transfers resulted in an increase of 35.51 *per cent* (Rs.1,451 crore) in revenue receipts during 2005-06 in comparison to 11.4 *per cent* increase in revenue expenditure (Rs.575) leading to a significant decline in Revenue Deficit during the year. Fiscal Deficit, which represents the total borrowings of the Government and its total resource gap decreased by 13.85 *per cent* (Rs. 302 crore) from Rs.2,180 crore in 2004-05 to Rs.1,878 crore in 2005-06, but, it is still considerably higher being 8.05 *per cent* of GSDP. Despite a cushion of Rs. 876 crore available in the form of revenue surplus, the fiscal deficit remained at higher level largely on account of increase in capital expenditure by Rs. 569 crore during the year. The primary deficit at Rs.1070 crore indicates the fact that the State is experiencing the deficit even in meeting its primary expenditure. Interest payments have increased by 59.37 *per cent* and remained higher during the period 2001-06 constituting around 17 *per cent* of revenue receipts. The increase in interest payments consumed significant portion of borrowed funds leaving less funds available for meeting the requirements of primary expenditure.

Table-1.23: 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
Revenue deficit (Rs. in crore)	(-)330	(-)459	(-)760	(-)950	(-)74
Fiscal deficit (Rs.. in crore)	(-)612	(-)891	(-)1405	(-)2180	(-)1878
Primary deficit (Rs.. in crore)	(-)105	(-)338	(-)808	(-)1364	(-)1070
RD/GSDP (<i>per cent</i>)	2.50	3.04	4.38	4.70	0.32
FD/GSDP (<i>per cent</i>)	4.64	5.91	8.09	10.79	8.05
PD/GSDP (<i>per cent</i>)	0.80	2.24	4.65	6.75	4.59
RD/FD (<i>per cent</i>)	53.92	51.52	54.09	43.58	3.94

(Negative figures indicate deficit.)

1.10 Fiscal Indicators

The finances of the State should be sustainable, flexible and non-vulnerable. **Table-1.24** below presents a summarised position of Government finances over 2001-06, with reference to certain key indicators that help to assess the adequacy and effectiveness of the available resources and their applications, highlights areas of concern and captures important facts.

Table-1.24: Indicators of Fiscal Health (in per cent)

Fiscal Ratios	2001-02	2002-03	2003-04	2004-05	2005-06
(1)	(2)	(3)	(4)	(5)	(6)
Resources Mobilization					
Revenue Receipts/GSDP	19.78	21.35	20.73	20.22	23.75
Revenue Buoyancy	-	1.63	0.96	0.82	2.31
Own Tax/GSDP	7.37	6.75	7.06	7.14	7.66
Expenditure Management					
Total Expenditure/GSDP	24.46	27.38	28.95	31.44	31.96
Total Expenditure /Revenue Receipts	123.62	127.80	139.67	155.48	134.59
Revenue Expenditure/Total Exp.	91.13	89.42	86.71	79.27	75.30
Capital Expenditure/TE	6.61	8.45	10.89	18.41	22.88
Developmental Expenditure/TE	63.25	67.44	64.81	64.53	66.91
Buoyancy of TE with RR	-	1.18	1.87	1.95	0.49
Buoyancy of RE with RR	-	1.08	1.56	1.15	0.32
Management of Fiscal Imbalances					
Revenue Deficit(-) (Rs. in crore)	(-)330	(-)459	(-)760	(-)950	(-)74 ⁸
Fiscal Deficit(-) (Rs. in crore)	(-)612	(-)891	(-)1405	(-)2180	(-)1878 ⁷
Primary Deficit(-) (Rs. in crore)	(-)105	(-)338	(-)808	(-)1364	(-)1070 ⁷
Revenue Deficit(-)/Fiscal Deficit (-)	53.92	51.52	54.09	43.58	3.94
Management of Fiscal Liabilities					
Fiscal Liabilities (FL)/GSDP	35.16	39.85	46.23	49.05	50.24
Fiscal Liabilities/RR	177.68	186.66	223.06	242.54	211.56
Buoyancy of FL with RR	-	1.27	2.83	1.73	0.51
Buoyancy of FL with Own Resources (OR)	-	1.29	2.30	0.94	0.82
Interest spread	-	3.80	3.91	2.34	16.14
Net Funds Available	32.65	29.99	38.92	27.37	38.25

⁸ Underestimated by Rs.122 crore on account of book adjustment of DAA Suspense pertaining to the year 2001-02.

(1)	(2)	(3)	(4)	(5)	(6)
Other Fiscal Health Indicators					
Return on Investment	0.40	0.14	0.10	0.08	0.01
BCR* (Rs. in crore)	(-) 1067	(-) 821	(-) 1107	(-) 1128	(+)518
Assets/Liabilities	0.23	0.33	0.42	0.44	0.52

* Balance from Current Revenues

The ratio of revenue receipts to GSDP and revenue buoyancy had shown improvement in four-year period except during the year 2003-04 and 2004-05. The ratio of own taxes to GSDP declined in 2002-03 but again picked up during 2003-05 and remained stable in 2005-06. Various ratios relating to expenditure indicate quality of expenditure and sustainability in relation to resources. Total expenditure to GSDP and revenue receipts was buoyant upto 2004-05 but declined in 2005-06. Although revenue expenditure showed a decreasing trend over the four-year 2001-06, it still comprised 75.30 *per cent* of total expenditure during 2005-06, 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 decreased in 2005-06. However, continuous fiscal deficit indicates fiscal imbalances of the State. The continuous prevalence of primary deficit indicates that the State is unable to meet its primary expenditure out of its own funds and reliance on borrowed funds also tends to increase over a period of time.

1.11 Conclusion

The State of Uttaranchal 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. However, the State's finances are heavily dependent upon Central assistance, which contributes over (56 *per cent*) of the total receipts. A steep increase in Central transfers to State has provided a cushion in revenue account which has indicated a significant decline in revenue deficit during the year. However, the fiscal and primary deficits being at relatively higher level are pointers towards the fiscal health of the State. The sizeable primary deficit despite the positive interest spread during the period 2001-06 leading to an increasing debt-GSDP ratio is a cause of concern. Besides, negligible rate of return on Government investments (less than one *per cent*) and inadequate recovery of cost on loans and advances further aggravated the fiscal position of the State. The State Government needs to initiate appropriate measures to raise its own resources and to compress the non plan revenue expenditure during the medium to long run to address the deteriorating fiscal position of the State.