

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

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

##### 1.1.1 Summary of Receipts and Disbursements

**Table-1.1** summaries the finances of the State Government for the year 2007-08, 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 2007-08**

*(Rupees in crore)*

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
7373.22	<b>I Revenue receipts</b>	7891.09	6476.81	<b>I Revenue expenditure</b>	5420.69	1833.87	7254.56
2513.78	Tax revenue	2738.75	2377.39	General Services	2652.98	2.04	2655.02
646.82	Non-tax revenue	668.38	2454.93	Social Services	1662.25	1166.41	2828.66
1131.83	Share of Union Taxes/Duties	1427.70	1373.21	Economic Services	796.55	664.56	1461.11
3080.79	Grants from Govt. of India	3056.26	271.28	Grants-in-aid/Contributions	308.91	0.86	309.77
<b>Section B: Capital</b>							
-	<b>II Misc. Capital Receipts</b>		1699.26	<b>II Capital Outlay</b>	78.30	2156.52	2234.82
19.50	<b>III Recoveries of Loans and Advances</b>	68.43	102.38	<b>III Loans and Advances disbursed</b>	16.26	196.28	212.54
1228.22	<b>IV Public Debt receipts<sup>1</sup></b>	1397.39	237.39	<b>IV Repayment of Public Debt</b>	-	-	272.69
34.20	<b>V Contingency Fund</b>	27.21	25.45	<b>V Contingency Fund</b>	-	-	0.72
11233.44	<b>VI Public Account</b>	12411.82	11226.92	<b>VI Public Account</b>	-	-	11863.78
669.17	<b>Opening Balance</b>	789.54	789.54	<b>Closing Balance</b>	-	-	746.37
20557.75	<b>Total</b>	22585.48	20557.75	<b>Total</b>			22585.48

Following are the significant changes during 2007-08 over the previous year:

- Revenue receipts grew by Rs. 518 crore (7.03 per cent). The increase was mainly due to the appreciation in State's own Tax revenue

<sup>1</sup> Includes net Ways and Means Advances (WMA) of Rs. 171.71 crore under Reserve Bank Deposit. WMA totaling Rs. 683.85 crore was drawn during 2007-08, of which only Rs. 511.94 were adjusted leaving a balance of Rs 171.71 crore.

(Rs. 225 crore); non-tax revenue (Rs. 21 crore); Central Transfers (Rs. 296 crore) partly offset by decrease in Grants-in-aid (Rs. 25 crore).

- Revenue expenditure increased by Rs. 778 crore (12 per cent), of which NPRE increased by Rs. 521 crore and PRE increased by Rs. 257 crore.
- Capital expenditure increased by Rs. 536 crore with major spending under Roads and Bridges (Rs. 209 crore), investments in Power (Rs. 98 crore) and for establishing Sports Stadia in preparation for South Asian Federation Winter Games (Rs. 50 crore).
- Recovery of loans and advances increased from Rs. 20 crore to Rs. 68 crore on account of receipts from Electricity Board (Rs. 60.26 crore). Disbursement of loans and advances increased from Rs. 102 crore to Rs. 213 crore during the year, mainly due to loans given to Uttarakhand Power Corporation (Rs. 94 crore) and Uttarakhand State Cooperative Sugar mills (Rs. 68 crore).
- Public debt receipts registered an increase of Rs. 169 crore because of outstanding balances in ways & means advances to the tune of Rs. 172 crore as on 31<sup>st</sup> March 2008. The repayment of public debts increased by Rs. 36 crore in 2007-08.
- Public account receipts increased by Rs. 1,179 crore, mainly due to receipts under Suspense and Miscellaneous, the transactions under which are of transitory nature. Public Account disbursement increased to the tune of Rs. 637 crore mainly due to clearance of suspense heads (Rs. 868 crore) offset by reduction in deposits (Rs. 343 crore).
- As a result of inflows/outflows of funds as stated above, cash balance of the State at the end of 2007-08 decreased by Rs. 43 crore over the previous year.

### **1.1.2 Fiscal Position by Key Indicators**

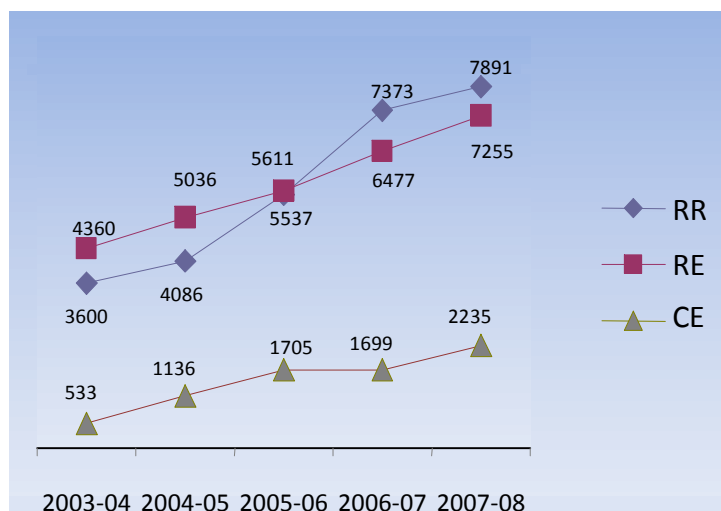
The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2.**

**Table 1.2: Key Fiscal Indicators**

2006-07	Sl. No	Major Aggregates	2007-08
7373	1.	<b>Revenue Receipts (2+3+4)</b>	<b>7891</b>
2513	2.	Tax Revenue (Net)	2739
647	3.	Non-Tax Revenue	668
4213	4.	Other Receipts	4484
20	5.	<b>Non-Debt Capital Receipts</b>	<b>68</b>
20	6.	<i>Of which</i> Recovery of Loans	68
7393	7.	<b>Total Receipts (1+5)</b>	<b>7959</b>
5008	8.	<b>Non-Plan Expenditure (9+11+12)</b>	<b>5516</b>
4900	9.	On Revenue Account	5421
964	10.	<i>Of which,</i> Interest Payments	1096
97	11.	On Capital Account	78
11	12.	On loans disbursed	17
3270	13.	<b>Plan Expenditure (14+15+16)</b>	<b>4187</b>
1577	14.	On Revenue Account	1834
1602	15.	On Capital Account	2157

91	16.	On loan disbursed	196
<b>8278</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>9703</b>
<b>+896</b>	<b>18.</b>	<b>Revenue Deficit (-)/Surplus (+) (9+14-1)</b>	<b>+636</b>
<b>-885</b>	<b>19.</b>	<b>Fiscal Deficit (-)/Surplus (+) (17-1-5)</b>	<b>-1744</b>
<b>+79</b>	<b>20.</b>	<b>Primary Deficit (-)/Surplus (+) (19-10)</b>	<b>-648</b>

**Chart- 1.1**  
**Trends of expenditure (Rs. in crore)**



During the current year, revenue expenditure increased by Rs. 778 crore (12 per cent) against Rs. 518 crore (7 per cent) increase in revenue receipts over the previous year. Decrease in revenue surplus (Rs. 260 crore) coupled with increase in non-debt Capital receipts (Rs. 48 crore) along with increase in capital expenditure (Rs. 536 crore) and disbursement of loans and advances (Rs. 111 crore) led to an increase of Rs. 859 crore in fiscal deficit in 2007-08 over the

previous year. Despite an increase of Rs. 132 crore in Interest Payments, increase in fiscal deficit turned the primary surplus of Rs. 79 crore into primary deficit of Rs. 648 crore. More details are given in **Appendix 1.5**.

## 1.2 Methodology Adopted for the Assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period of last five years and observations are made on their behaviour (**Appendix 1.1 to 1.4**). In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates alongwith the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP<sup>2</sup>) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The new GSDP series with 1999-2000 as base (**Table 1.3**) as

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

published by Director of Economics and Statistics of the State Government has been used for the purpose. For tax revenue, non-tax revenues, revenue expenditure, etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

**Table-1.3: Trends in growth and composition of GSDP**

	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP)* (Rupees in crore)	20668 <sup>R</sup>	22765 <sup>R</sup>	25776 <sup>Q</sup>	29881 <sup>Ad</sup>	34549 <sup>A</sup>
Growth rate of GSDP	10.67	10.15	13.23	15.93	15.62

\*Source: Annual financial statement 2008-09, Government of Uttarakhand

**R:** Revised estimates, **Q:** Quick estimate, **Ad:** Advanced estimate, **A:** Anticipated estimate

The key indicators adopted for the purpose are (i) Trends and Composition of Aggregate Receipts, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in *Appendix-1.1-Part-C*.

### **1.2.1 The Uttarakhand Fiscal Responsibility and Budget Management Act, 2005**

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

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

The rules under the FRBM Act have not been framed so far (October 2008).

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

The State Government has drawn its fiscal correction path (FCP) setting forth the targets and projections for different components of fiscal indicators for the

period 2004-05 to 2009-10 (*Appendix 1.6*). In FCP for 2007-08, the Government projected a revenue surplus of Rs. 944 crore and Rs. 1,460 crore as fiscal deficit which were revised to Rs. 1,107 crore and Rs. 1,607 crore respectively in MTFP (2007-08). MTFP also projected Rs. 419 crore as primary deficit for the current year.

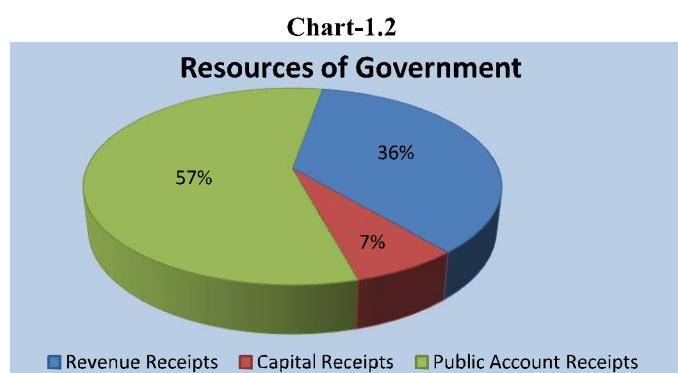
Against these projections, the revenue surplus during the year was Rs. 636 crore, fiscal deficit Rs. 1,744 crore and primary deficit Rs. 648 crore. This means that the State Government could not achieve the projections made in the MTFP (which were higher than those envisaged in FCP) for the year 2007-08. The fiscal deficit of Rs. 1,744 crore stood at 5.04 *per cent* of GSDP which is a set back to the State that was heading towards achieving the target of 3 *per cent* set forth in FRBM Act. Since the State maintained the revenue surplus during the current year, it received an incentive in the form of debt relief of Rs. 9.40 crore under Debt Consolidation and Relief Facility (DCRF)<sup>3</sup> for the year 2007-08.

### 1.2.1.2 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 State Government did not intimate whether it had done any mid review during the financial year 2007-08.

## 1.3 Trends and Composition of Aggregate Receipts

The resources of the State Government comprise revenue and capital receipts. Revenue receipts include tax and non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from the Public Account.



**Table-1.4** shows that the total receipts of the Government for the year 2007-08 were Rs. 21,769 crore. Of these, receipts from the Public Account constitute 57 *per cent* of the pie. Revenue receipts were Rs. 7,891

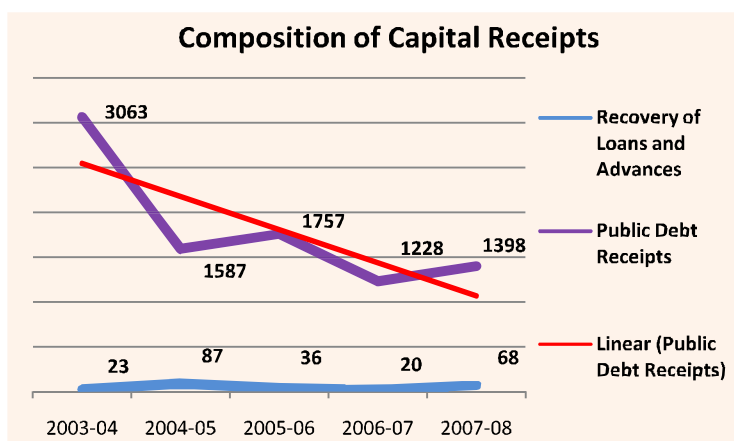
crore (36 *per cent* of total receipts) and Rs. 1,466 crore (7 *per cent*) came from borrowings.

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

**Table-1.4: Trends in Growth and Composition of the Total Receipts**  
(Rupees in crore)

Sources of State Receipts	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Revenue Receipts</b>	<b>3600</b>	<b>4086</b>	<b>5537</b>	<b>7373</b>	<b>7891</b>
<b>II Capital Receipts</b>	<b>3086</b>	<b>1674</b>	<b>1793</b>	<b>1248</b>	<b>1466</b>
Recovery of Loans and Advances	23	87	36	20	68
Public Debt Receipts	3063	1587	1757	1228	1398
Miscellaneous Receipts	-	-	--	--	--
<b>III Contingency Fund</b>	<b>55</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>--</b>
<b>IV Public Account Receipts</b>	<b>7499</b>	<b>8525</b>	<b>11029</b>	<b>11234</b>	<b>12412</b>
Small Savings/Provident Fund etc	327	300	321	330	449
Reserve Fund	50	290	256	223	187
Deposits and Advances	1898	1851	2200	2204	1829
Suspense and Miscellaneous	3551	4309	5571	5574	7072
Remittances	1673	1775	2681	2903	2875
<b>Total Receipts</b>	<b>14240</b>	<b>14285</b>	<b>18359</b>	<b>19855</b>	<b>21769</b>

**Chart-1.3**



In 2006-07 67 per cent of the recoveries of loans and advances were from institutions, the balance coming from recovery of loans advanced to government servants. The ratio shifted with institutional loans accounting for 90 per cent of the total recovery. The receipts

under this head increased from Rs. 20 crore to Rs. 68 crore due to one major recovery from Electricity Board (Rs. 60.26 crore).

Other trends in Public Account receipts were:

- Public debt receipts increased by Rs. 169 crore due to unsettled balance of Rs. 171.71 crore in ways & means advances (WMA) from RBI. But for this balance, the borrowings actually decreased by Rs. 3 crore.
- Small Savings, Provident Fund etc. which had remained stagnant during 2005-07 grew by 36 per cent over the previous year due to greater collection under State Provident Funds (Rs. 113 crore). The increase was entirely due to 25 per cent increase in the subscriber base after regularization of Government aided colleges and institutions in 2007-08, thus bringing the staff in these institutions under the provident fund fold.
- Reserve funds and Deposits declined during the year by 16 per cent and 17 per cent respectively. The State Government investment in sinking fund for amortization of internal debt was less than the normative figure prescribed under FRBM, resulting in reduction of

receipts under reserve funds by Rs. 45 crore. There was also a reduction of Rs. 235 crore in civil deposits over the previous year.

- Suspense and miscellaneous receipts increased by 27 *per cent* mainly due to increase under the suspense head for cheques and bills. This suspense head is credited while issuing the cheques and are cleared on receipt of information from the bank regarding encashment of cheques. The increase was partly offset by clearance of previous year's balances under this suspense head, leaving a net balance of Rs. 117 crore.

### Revenue Receipts

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

**Table-1.5: Revenue Receipts - Basic Parameters**

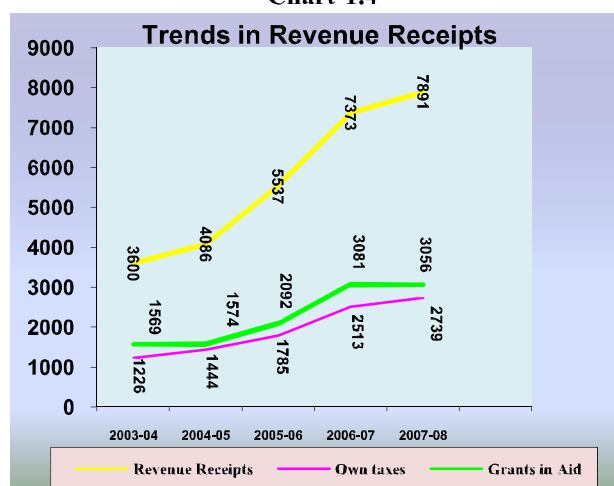
	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts(RR) (Rupees in Crore)</b>	<b>3600</b>	<b>4086</b>	<b>5537</b>	<b>7373</b>	<b>7891</b>
Own taxes (Rupees in crore) (Percentage share in RR)	1226 (34.06)	1444 (35.34)	1785 (32.23)	2513 (34.08)	2739 (34.70)
Non-Tax Revenue (Rupees in crore) (Percentage share in RR)	370 (10.28)	548 (13.41)	650 (11.74)	647 (8.78)	668 (8.47)
Central Tax Transfers (Rupees in crore) (Percentage Share in RR)	435 (12.08)	520 (12.73)	1010 (18.24)	1132 (15.35)	1428 (18.10)
Grants-in-aid (Rupees in crore) (Percentage Share in RR)	1569 (43.58)	1574 (38.52)	2092 (37.79)	3081 (41.79)	3056 (38.73)
<b>Rates of Growth</b>					
<b>Revenue Receipts (per cent)</b>	<b>11.94</b>	<b>13.50</b>	<b>35.51</b>	<b>33.16</b>	<b>7.03</b>
<b>State's Own Taxes</b>	<b>20.55</b>	<b>17.78</b>	<b>23.61</b>	<b>40.78</b>	<b>8.99</b>
<b>Non Tax Revenue</b>	<b>-1.33</b>	<b>48.10</b>	<b>18.61</b>	<b>-0.46</b>	<b>3.25</b>
<b>RR/GSDP (per cent)</b>	<b>17.42</b>	<b>17.95</b>	<b>21.48</b>	<b>24.67</b>	<b>22.84</b>
<b>Buoyancy Ratios</b>					
<b>Revenue Receipts with GSDP</b>	<b>1.12</b>	<b>1.33</b>	<b>2.68</b>	<b>2.08</b>	<b>0.45</b>
<b>States Own Taxes with GSDP</b>	<b>1.93</b>	<b>1.75</b>	<b>1.78</b>	<b>2.56</b>	<b>0.58</b>
<b>Revenue Buoyancy<sup>4</sup> with reference to State's Own taxes</b>	<b>0.58</b>	<b>0.76</b>	<b>1.50</b>	<b>0.81</b>	<b>0.78</b>
<b>GSDP Growth (per cent)</b>	<b>10.67</b>	<b>10.15</b>	<b>13.23</b>	<b>15.93</b>	<b>15.62</b>

**Chart-1.4**

### General Trends:

The revenue receipts have shown a constant increase over the period 2003-08. It increased from Rs. 3,600 crore in 2003-04 to Rs. 7,891 crore in 2007-08 at an average rate of 20.22 *per cent*.

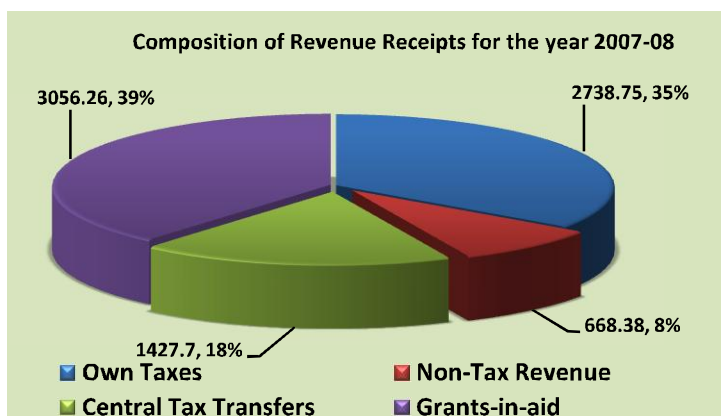
Own tax receipts constituted around 34 *per cent* of



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

revenue receipts of the State over the period 2003-04 to 2007-08. The average buoyancy of revenue receipts with State's own tax revenue remained less than one over the period 2007-08 which showed continued dependency of the State on the Grants-in-aid from Government of India.

**Chart-1.5**



While 43 per cent of the revenue receipts during 2007-08 came from the State's own tax and non-tax revenues, the Central tax transfers and Grants-in-aid contributed 57 per cent of the total revenue.

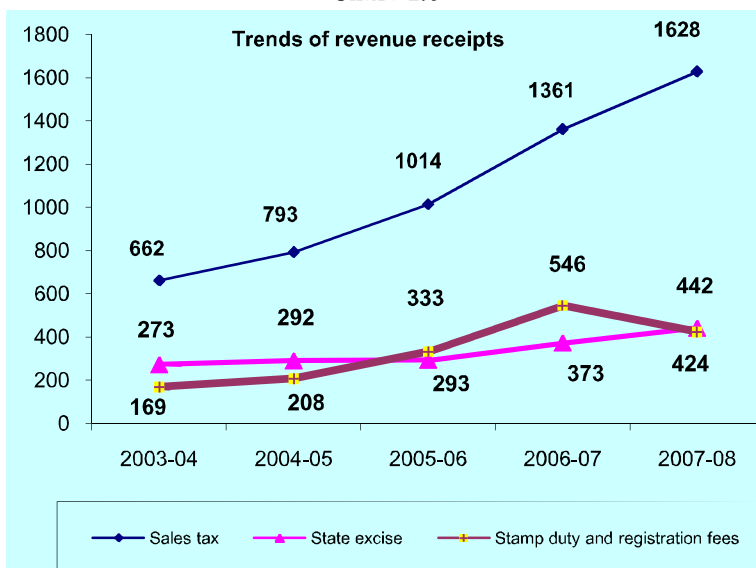
**Tax Revenue**

In the current year tax revenue increased by 9 per cent from Rs. 2,513 crore to Rs. 2,739 crore over the previous year. The revenue from Sales Tax not only contributed to major share of tax revenue (59 per cent) but also registered an increase of 20 per cent over the previous year.

*(Rs. in crore)*

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Sales tax	662	793	1014	1361	1628
2.	State excise	273	292	293	373	442
3.	Stamp duty and registration fees	169	208	333	546	424

**Chart-1.6**



The surge in Sale tax after introduction of VAT in 2005 has now petered to 20 per cent growth in 2007-08, which the department felt was a normal growth. Receipts under State Excise grew by Rs. 69 crore over the previous year. However, receipts under Stamps and Registration reduced by Rs. 122 crore, as registration of sale deeds reduced by 24,824 cases in four major districts<sup>5</sup> of the State during the year.

<sup>5</sup> Udham Singh Nagar, Dehradun, Haridwar and Nainital.



### Non-Tax Revenue

Non-tax revenue has remained more or less stagnant from 2004-05 onwards. At Rs. 668 crore, non-tax revenue constituted 8.5 *per cent* of revenue receipts. Forestry and Wild life and Power have been the principal contributors to non-tax revenue over the period 2003-04 to 2007-08. The major contributors to Non Tax revenue during 2007-08 include Forest and Wild life (Rs. 210 crore), Power (Rs. 144 crore), non ferrous and metallurgical industries (Rs. 73 crore) and interest receipts (Rs. 42 crore). The contribution of Power however indicated a decreasing trend from Rs. 231 crore in 2005-06 to Rs. 144 crore in 2007-08 while royalty from non-ferrous and metallurgical industries (Rs. 73 crore) was more robust, registering an average annual growth of 24 *per cent* during the period 2003-08. Average contribution of interest receipts to non-tax revenue was 6 *per cent* over the period 2003-08. The State also got also a debt relief of Rs. 9.40 crore from GOI under Debt Consolidation and Relief Facility (DCRF) the contra-entry of which is treated as non tax receipts of the Government.

The State's own resources *vis-à-vis* projections made by the TFC reveal that Tax Revenue at Rs. 2,739 crore during 2007-08 exceeded the normative assessment of Rs. 1,918 crore made by TFC for the year while Non-Tax Revenue at Rs. 668 crore was less by Rs. 3 crore as compared to TFC projections. However, the projections made by the State Government in its FCP were not achieved as is shown in the table below:

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actual
	(1)	(2)	(3)
Tax Revenue	1,918	2,888	2,739
Non-Tax Revenue	671	892	668

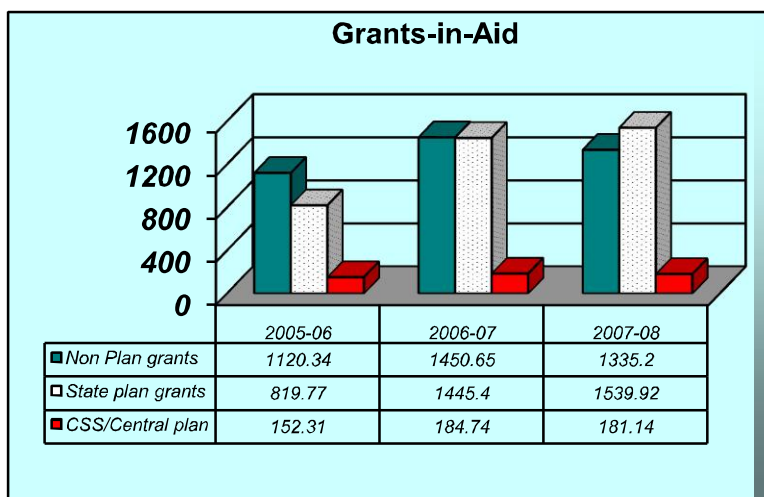
### Central tax transfers

The receipts in the form of State's share in Union taxes and duties have increased by 26 *per cent* from Rs. 1,132 crore in 2006-07 to Rs. 1,428 crore in 2007-08. The overall increase in Central transfers (Rs. 296 crore) was mainly due to increase in Corporation Tax (Rs. 100 crore), Taxes on Income other than Corporation Tax (Rs. 90 crore), Customs (Rs. 49 crore), Service Tax (Rs. 34 crore) and State's Share of Union Excise Duty (Rs. 23 crore) in 2007-08.

### Grants-in-Aid

The Grants-in aid from GOI had shown constant increase over the period of 2003-2008. It increased from Rs.1,569 crore in 2003-04 to Rs. 3,056 crore in 2007-08 (inflated in 2006-07 to the tune of Rs. 339.64 crore due to book adjustment of CAO RB suspense) at an average of 18 *per cent*.

Chart-1.7



The non-plan grants decreased from Rs. 1,451 crore in 2006-07 to Rs. 1,335 in 2007-08. But if the book adjustment of Rs. 184 crore (pertaining to the year 2005-06 but accounted for during 2006-07) is factored, there was an actual increase of Rs. 68 crore in non-plan grant. The non plan grants

sanctioned under distribution of revenue order<sup>6</sup> include Rs. 1,115 crore to cover the revenue deficit of the State as recommended by TFC for the year 2007-08. Grants under Central Plan and Centrally Sponsored Plan schemes (CSS) also decreased from Rs. 185 crore in 2006-07 to Rs. 181 crore in 2007-08. Grants for State Plan schemes increased from Rs. 1,445 crore in 2006-07 to Rs. 1,540 crore in 2007-08. The grants were released mainly under Normal Central Assistance (Rs. 799 crore), other Grants (Rs. 356) and Additional Central Assistance (Rs. 247 crore) to the State of Uttarakhand during 2007-08.

### Revenue Arrears

Arrears of revenue (excluding Forest Revenue) amounted to Rs. 610.46 crore at the end of 2007-08. Of these, Rs. 265.20 crore (43.44 per cent) was more than five years old. Specific action taken to effect recoveries had not been intimated by the State Government.

## 1.4 Application of resources

### 1.4.1 Growth of Expenditure

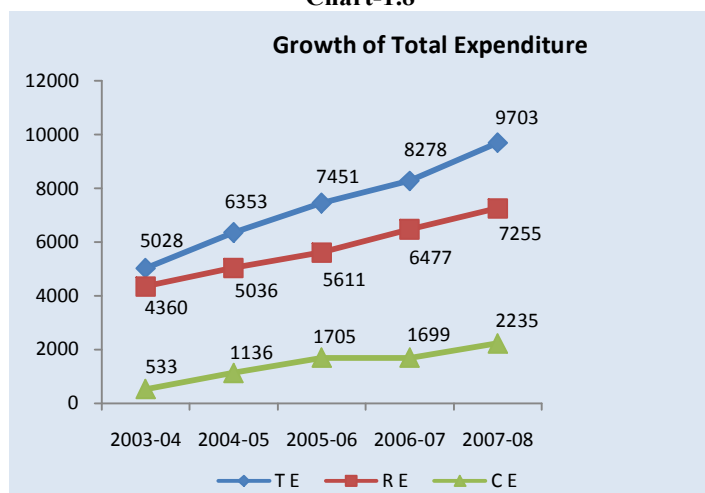
**Statement-12** of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs. 5,028 crore in 2003-04 to Rs 9,703 crore in 2007-08. The total expenditure, its annual growth rate and ratios/buoyancies of expenditure with reference to the State GSDP and to revenue receipts are indicated in **Table-1.6**.

<sup>6</sup> Grants released by the GOI to the State Government under the Constitution.

Table-1.6: Total Expenditure – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure <sup>7</sup> (TE)	5028	6353	7451	8278	9703
Rate of Growth ( <i>per cent</i> )	22.34	26.35	17.28	11.10	17.21
Revenue Expenditure	4360	5036	5611	6477	7255
Capital Expenditure	533	1136	1705	1699	2235
Loans and Advances	135	181	135	102	213
TE/GSDP Ratio ( <i>per cent</i> )	24.33	27.91	28.91	27.70	28.08
RR/TE Ratio ( <i>per cent</i> )	71.60	64.32	74.30	89.07	81.33
<b>Buoyancies of Total Expenditure with reference to</b>					
GSDP	2.09	2.60	1.31	0.70	1.10
Revenue Receipts	1.87	1.95	0.49	0.33	2.45

Chart-1.8



Total expenditure of the State increased at an average rate of 19 *per cent* per annum during 2003-08. An increase of Rs. 1,425 crore (17 *per cent*) in total expenditure during 2007-08 over the previous year was due to an increase in revenue expenditure (Rs. 778 crore) under (i) General Services (Rs. 277 crore) (ii) Social Services (Rs. 374 crore), (iii)

Economic Services (Rs. 88 crore) and (iv) Grants-in-aid and Contribution (Rs. 39 crore). Capital expenditure increased from Rs. 1,699 crore in 2006-07 to Rs. 2,235 crore in 2007-08 registering an increase of Rs. 536 crore over the previous year. The capital expenditure mainly increased in; Transport (Rs. 185 crore), Irrigation and Flood Control (Rs. 59 crore), Education, Sports, Art and Culture (Rs. 42 crore) and Rural Development (Rs. 34 crore). Looking at the total expenditure in terms of plan and non plan expenditure it is revealed that plan expenditure during the current year increased by Rs. 917 crore (28 *per cent*) while non-plan expenditure increased by Rs. 508 crore (10 *per cent*) over the previous year. More spending under plan heads indicates Government's commitment towards building of social and physical infrastructure in the State.

### ***Trends in Total Expenditure by Activities***

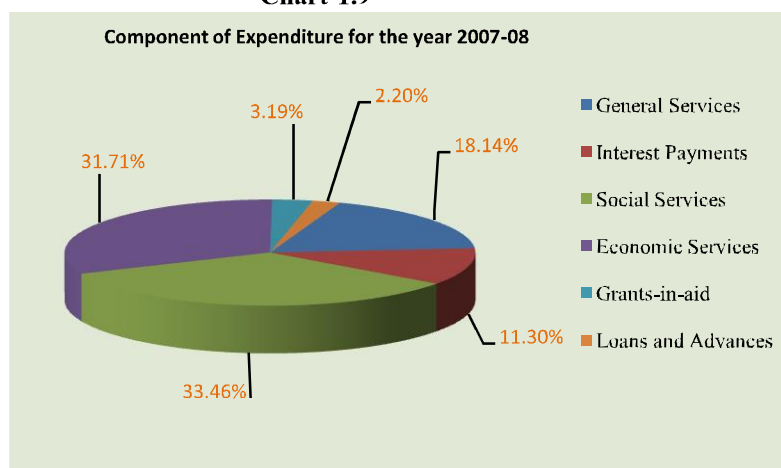
In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

<sup>7</sup> Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

**Table-1.7: Components of Expenditure – Relative Share**

	<i>(In per cent)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
General Services (excluding Interest Payment)	18.34	19.40	18.87	19.16	18.14
Interest Payments	11.87	12.84	10.85	11.65	11.30
Social Services	36.12	32.54	33.06	34.15	33.46
Economic Services	26.95	30.16	33.84	30.54	31.71
Grants-in-aid	4.04	2.21	1.57	3.27	3.19
Loans and advances	2.68	2.85	1.81	1.23	2.20

**Chart-1.9**



The relative share of these components of expenditure has remained unchanged in the recent past. The share of expenditure on General Services including interest payments, which is considered as non-developmental, marginally decreased from 30.8 per cent in 2006-07 to 29.4 per cent in 2007-08. Social services also showed a

marginal decline over the period 2003-04 to 2007-08 and in the case of Economic Services the expenditure has showed an upward trend.

#### 1.4.2 Incidence of Revenue expenditure

Revenue expenditure had a predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, to discharge the past obligations and as such it does not result in any addition to the asset base of the State. 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**.

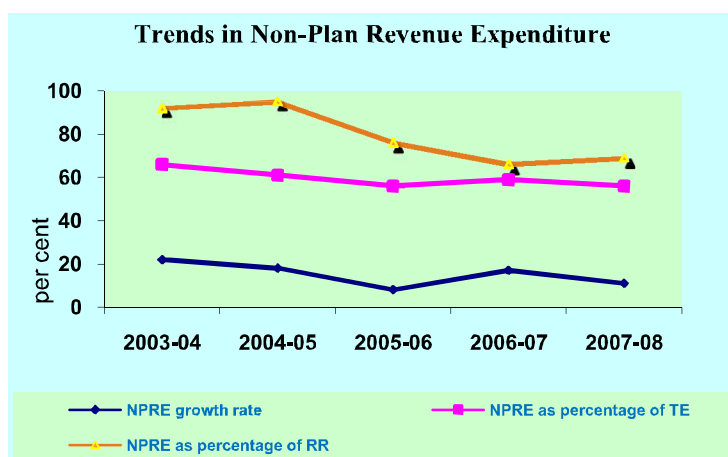
**Table-1.8: Revenue Expenditure: Basic Parameters**

	<i>(Rupees in crore)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Expenditure (RE) of which</b>	<b>4360</b>	<b>5036</b>	<b>5611</b>	<b>6477</b>	<b>7255</b>
Non-plan Revenue Expenditure (NPRE)	3310	3898	4191	4900	5421
Plan Revenue Expenditure (PRE)	1050	1138	1420	1577	1834
<b>Rate of Growth (per cent)</b>					
Revenue Expenditure	18.64	15.50	11.42	15.43	12.01
NPRE	22.23	17.76	7.52	16.92	10.63
PRE	8.58	8.38	24.78	11.06	16.30
<b>Ratios</b>					
RE as per cent of TE	86.71	79.27	75.30	78.24	74.78
NPRE as per cent of TE	65.83	61.36	56.24	59.19	55.87
NPRE as per cent of RR	91.94	95.40	75.70	66.46	68.70
<b>Buoyancy of RE with reference to</b>					
GSDP	1.75	1.53	0.86	0.97	0.77
Revenue Receipts	1.56	1.15	0.32	0.47	1.71
<b>Buoyancy of NPRE with reference to</b>					
RR	1.86	1.32	0.21	0.51	1.51

The revenue expenditure of the State increased by 66 *per cent* from Rs. 4,360 crore to Rs. 7,255 crore during the period 2003-08 at an average annual rate of 14.6 *per cent*. Non-Plan Revenue Expenditure (NPRE) of the State increased by 63.8 *per cent* during the same period. During the current year, the increase in NPRE (Rs. 521 crore) was mainly due to increase in Salaries (Rs. 681 crore), Pension (Rs. 96 crore) and Grants in aid to local bodies (Rs. 39 crore) which was partly offset by a decrease in financial assistance to non-government primary schools (Rs. 474 crore) on account of taking them into government fold for payment of salary expenditure of teachers and other employees during the year. The share of NPRE in the revenue expenditure as a result declined marginally from 75.7 *per cent* in 2006-07 to 74.7 *per cent* during the current year.

While the share of Plan Revenue Expenditure (PRE) in revenue expenditure of the State exhibited an increasing trend, its growth rate showed upward trend during the period 2003-08.

Chart-1.10



The PRE during the current year increased by Rs. 257 crore over the previous year mainly on account of increase in salaries paid to contractual employees in government

primary and secondary Schools (Rs. 90 crore); rural water supply programmes (Rs. 28 crore); Integrated Child Development Services (Rs. 34 crore); health and family welfare (Rs. 16 crore) and for providing facilities to Kumbh mela (Rs. 50 crore).

#### Actual NPRE vis-à-vis projections

	Assessment made by State Government in		Actual
	Fiscal Correction Path	MTFPS	
Assessment made by TFC			
4831	5753	5789	5421

During the current year the NPRE exceeded the normative assessment made by the TFC by Rs. 590 crore but was less than projections made by the State Government in FCP and MTFPS for the year 2007-08. Despite the fact that critical sectors like health are operating at sub-optimal availability of staff with 50 *per cent* shortage in doctors and 55 *per cent* in paramedical staff, NPRE exceeded the TFC projection indicate the fact that projections submitted by the State Government to TFC were underestimated.

### 1.4.3 Committed Expenditure

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

#### 1.4.3.1 Expenditure on Salaries and Wages

**Table-1.9: Expenditure on Salaries**

<i>(Rupees in crore)</i>					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries <sup>8</sup> & Wages of which	1168	1192	1381	1551	2232
Non-Plan Head	Plan / Non-Plan wise breakup of Salaries is not available for this period		1278	1397	2020
Plan Head <sup>9</sup>			103	154	212
As per cent of GSDP	5.65	5.24	5.36	5.19	6.46
As per cent of RR	32.44	29.17	24.94	21.03	28.29

The expenditure on salaries increased from Rs. 1,551 crore to Rs. 2,232 crore (Rs. 681 crore) due to increase of Rs. 579 crore (120 per cent) under elementary education over the previous year mainly on account of regularization of government aided primary schools as a result of which the salaries of the staff in these schools are booked as establishment expenses and not under “assistance to institutions”. Although the expenditure on Salaries and Wages increased to Rs. 2,232 crore in 2007-08 as indicated in **Table 1.9**, it was Rs. 266 crore (10.6 per cent) less than the amount of Rs. 2,498 crore projected by the State Government in its FCP. However, it accounted for 55 per cent of non plan revenue expenditure net of interest payments and pensions in the current year, thus exceeding the TFC norms which required that expenditure under this head should be 35 per cent of revenue expenditure.<sup>10</sup>

#### 1.4.3.2 Pension Payments

**Table 1.10: Expenditure on Pensions**

<i>(Rupees in crore)</i>					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	283	354	453	527	623
As per cent of GSDP	1.37	1.56	1.76	1.76	1.80
As per cent of RR	7.86	8.66	8.18	7.15	7.90

The State Government estimated the pension liabilities on the historical growth rate of pension and not on actuarial basis. Expenditure on pension payments was Rs. 623 crore in 2007-08, which constituted 7.9 per cent of the revenue receipts. Pension payments during 2007-08 grew up by 18.2 per cent over those from the previous year, higher than the rate of 10 per cent projected by the TFC, but well below the target of Rs. 739.67 crore set forth by TFC for the current year (**Annexure 6.12 of TFC report**). The State Government also introduced a contributory pension scheme for employees recruited on or after 1 October 2005 to mitigate the impact of raising pension liabilities in future.

<sup>8</sup> Salaries include Basic Pay, Dearness Pay, Dearness Allowances and Other Allowances.

<sup>9</sup> Plan head also includes the Salary and Wages paid under Centrally Sponsored Schemes.

<sup>10</sup> excluding interest payments and pension payments.

### 1.4.3.3 Interest payments

Table-1.11: Interest payments

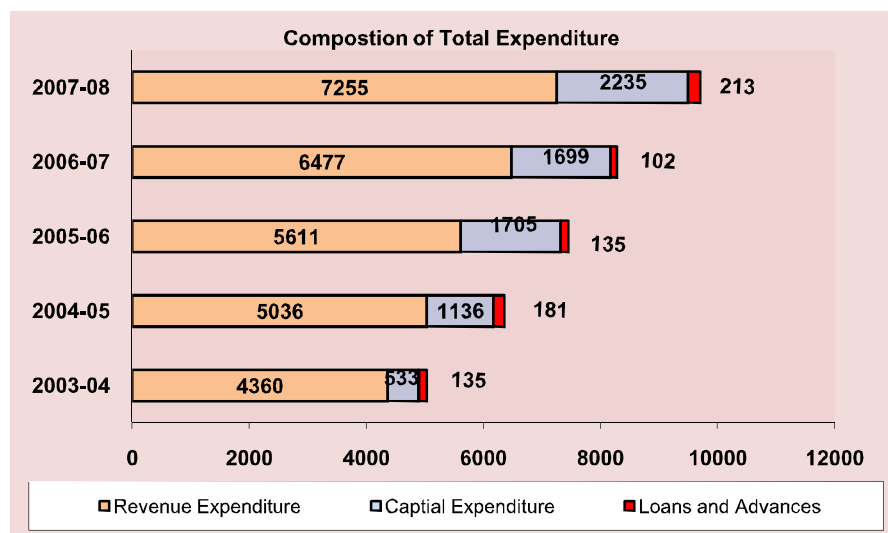
Interest Payments	2003-04	2004-05	2005-06	2006-07	2007-08
Interest payments (Rs. in crore)	597	816	808	964	1096
<b>Interest Payments as per cent of</b>					
Revenue Receipts	16.58	19.97	14.59	13.07	13.89
Revenue Expenditure	13.69	16.20	14.40	14.88	15.11

The ratio of interest payments to revenue receipts determines the sustainability of the debt of State. As per the recommendations of the TFC, the level of interest payments relative to revenue receipts should fall to 15 per cent by 2009-10. Interest payments were below 15 per cent during 2007-08 but were above the target of 12.8 per cent of revenue receipts set out by the State Government in its FCP. As shown in **Table 1.11**, interest payments increased by 84 per cent during 2003-08 primarily due to past borrowings. Interest payments during 2007-08 included those on Internal Debt (Rs. 869 crore)<sup>11</sup>, other obligations (Rs. 104 crore) and Small Savings, Provident Fund etc. (Rs. 104 crore).

## 1.5 Expenditure by Allocative Priorities

### 1.5.1 Quality of Expenditure

Chart-1.11



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, better the quality of expenditure. **Table-1.12** gives these ratios during 2003-08.

Table 1.12 – Indicators of Quality of Expenditure

Components of Expenditure	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	533	1136	1705	1699	2235
Revenue Expenditure	4360	5036	5611	6477	7255
Revenue expenditure on Social and	2696	2994	3468	3828	4290

<sup>11</sup> Comprising Market Loans (Rs. 318 crore) and Special Securities (Rs. 462 crore) issued to the National Small Savings Fund (NSS) by the State Government, loans received from Central Government (Rs. 18 crore).

Economic Services, of which					
(i)Salary and wage component	794	846	932	1063	1703
(ii)Non-salary and wage component	1902	2148	2536	2765	2587
<i>As per cent of Total Expenditure<sup>12</sup></i>					
Capital Expenditure	10.89	18.41	23.31	20.78	23.55
Revenue Expenditure	89.11	81.59	76.69	79.21	76.44
<i>As per cent of GSDP</i>					
Capital Expenditure	2.58	4.99	6.61	5.69	6.47
Revenue Expenditure	21.10	22.12	21.77	21.68	21.00

Revenue expenditure consistently increased over the period 2003-08 and continued to maintain a dominant share (at an average of 81 per cent) in the total expenditure. Capital expenditure as a share of total expenditure increased in 2007-08 with greater investment in roads & bridges (Rs. 209 crore), investments in Power (Rs. 98 crore) and for establishing Sports Stadia in preparation for SAF winter Games (Rs. 50 crore).

The relative share of salary and non-salary components of revenue expenditure incurred on Social and Economic Services remained on an average, at a ratio of 3:7 during the years 2003-07. However this ratio changed to 4:6 in the current year reflecting the fact that establishment expenditure has increased steeply during the year.

### 1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong bearing on 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** summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2003-08.

**Table 1.13: Expenditure on Social Services**

*(Rupees in crore)*

	2003-04	2004-05	2005-06	2006-07	2007-08		
					Plan	Non Plan	Total
<b>Education</b>							
<b>Revenue Expenditure*</b> of which	<b>1034.22</b>	<b>1126.78</b>	<b>1231.03</b>	<b>1383.68</b>	<b>433.05</b>	<b>1122.35</b>	<b>1555.40</b>
(a) <i>Salary and Wage Component</i>	324.68	354.37	413.99	482.37	143.98	917.38	1061.36
(b) <i>Non-Salary and Wage Component</i>	709.54	772.41	817.04	901.31	289.07	204.97	494.04
<b>Capital Expenditure</b>	<b>59.82</b>	<b>45.01</b>	<b>64.03</b>	<b>129.11</b>	<b>171.16</b>	<b>---</b>	<b>171.16</b>
<b>Total</b>	<b>1094.04</b>	<b>1171.79</b>	<b>1295.06</b>	<b>1512.79</b>	<b>604.21</b>	<b>1122.35</b>	<b>1726.56</b>
<b>Health &amp; Family Welfare</b>							
<b>Revenue Expenditure</b> of which	<b>173.66</b>	<b>198.05</b>	<b>278.32</b>	<b>265.24</b>	<b>105.83</b>	<b>199.31</b>	<b>305.14</b>
(a) <i>Salary and Wage Component</i>	129.00	138.74	162.00	174.40	44.76	154.82	199.58
(b) <i>Non-Salary and Wage Component</i>	44.66	59.31	116.32	90.84	61.07	44.49	105.56
<b>Capital Expenditure</b>	<b>35.07</b>	<b>50.52</b>	<b>73.40</b>	<b>146.27</b>	<b>150.87</b>	<b>6.24</b>	<b>157.11</b>
<b>Total</b>	<b>208.73</b>	<b>248.57</b>	<b>351.72</b>	<b>411.51</b>	<b>256.70</b>	<b>205.55</b>	<b>462.25</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>							
<b>Revenue Expenditure</b> of which	<b>303.41</b>	<b>355.02</b>	<b>387.54</b>	<b>335.33</b>	<b>371.48</b>	<b>66.61</b>	<b>438.09</b>
(a) <i>Salary and Wage Component</i>	1.38	1.71	1.86	2.12	0.31	2.11	2.42
(b) <i>Non-Salary and Wage Component</i>	302.03	353.31	385.68	333.21	371.17	64.50	435.67
<b>Capital Expenditure</b>	<b>3.71</b>	<b>19.08</b>	<b>14.64</b>	<b>24.60</b>	<b>14.82</b>	<b>1.15</b>	<b>15.97</b>
<b>Total</b>	<b>307.12</b>	<b>374.10</b>	<b>402.18</b>	<b>359.93</b>	<b>386.30</b>	<b>67.76</b>	<b>454.06</b>
<b>Other Social Services</b>							
<b>Revenue Expenditure</b> of which	<b>181.60</b>	<b>224.33</b>	<b>358.81</b>	<b>470.68</b>	<b>256.05</b>	<b>273.98</b>	<b>530.03</b>

<sup>12</sup> Total Expenditure excludes disbursements of loans and advances.



(a) Salary and Wage Component	28.12	29.95	36.86	45.62	14.85	35.10	49.95
(b) Non-Salary and Wage Component	153.48	194.38	321.95	425.06	241.20	238.88	480.08
<b>Capital Expenditure</b>	<b>24.99</b>	<b>48.66</b>	<b>55.96</b>	<b>72.14</b>	<b>73.19</b>	<b>0.47</b>	<b>73.66</b>
<b>Total</b>	<b>206.59</b>	<b>272.99</b>	<b>414.77</b>	<b>542.82</b>	<b>329.24</b>	<b>274.45</b>	<b>603.69</b>
<b>Total Social Services</b>							
<b>Revenue Expenditure</b> of which	<b>1692.89</b>	<b>1904.18</b>	<b>2255.70</b>	<b>2454.93</b>	<b>1166.41</b>	<b>1662.25</b>	<b>2828.66</b>
(a) Salary and Wage Component	483.18	524.77	614.71	704.51	203.90	1109.41	1313.31
(b) Non-Salary and Wage Component	1209.71	1379.41	1640.99	1750.42	962.51	552.84	1515.35
<b>Capital Expenditure</b>	<b>123.59</b>	<b>163.27</b>	<b>208.03</b>	<b>372.12</b>	<b>410.04</b>	<b>7.86</b>	<b>417.90</b>
<b>Total</b>	<b>1816.48</b>	<b>2067.45</b>	<b>2463.73</b>	<b>2827.05</b>	<b>1576.45</b>	<b>1670.11</b>	<b>3246.56</b>

\*Revenue expenditure for General Education includes expenditure on Sports, Art and Culture for the period 2003-05.

The allocation to social sector increased from Rs. 1816.48 crore in 2003-04 to Rs. 3246.56 crore in 2007-08 indicating the Government's commitment to improve social well-being of its people. The composition of expenditure under the social sector during the year reveals that 81 *per cent* of it is being spent on Education (53 *per cent*), Health and Family Welfare (14 *per cent*) and Water Supply, Housing and Sanitation (14 *per cent*).

The capital expenditure under the social sector increased trifold against 67 *per cent* increase in revenue expenditure over the period 2003-08, which shows the Government's commitment in expansion of basic facilities in the State. Within the revenue expenditure, the share of salary and wage component under Education increased by 120 *per cent* from Rs. 482 crore in 2006-07 to Rs. 1,061 crore in 2007-08 mainly on account of regularization of government aided colleges and institutions, as a result of which the salaries of the staff in these institutions are booked as establishment expenses and not under "assistance to institutions". The TFC norms allowing 6 *per cent* increase in salary component under education was thus far exceeded in the current year. Under the sub-sector Health and Family Welfare, the annual growth rate on salary and non-salary components averaged around 12 *per cent* and 37 *per cent* respectively during the period 2003-08 against the TFC norms of 5 and 30 *per cent*. The allocative priorities need to be adjusted in ensuing years to conform to the TFC norms.

In respect of Water Supply, Sanitation, Housing and Urban Development sectors, the TFC has recommended that the State Government should continue to assist the local bodies to meet the cost of O&M in Water Supply and Sanitation. In the current year (2007-08) revenue expenditure under this sector increased overall by Rs. 103 crore (31 *per cent*) but assistance to local bodies decreased by Rs.16 crore (36 *per cent*) over the previous year.

### 1.5.3 Expenditure on Economic Services

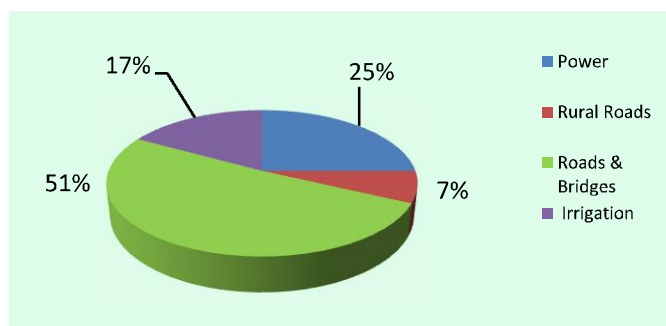
The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs. 3,077 crore) accounted for 32 *per cent* of the total expenditure. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 82 *per cent* of the expenditure in this sector. Revenue expenditure accounted for 47 *per cent*, with capital expenditure being 53 *per cent* in 2007-08, as is evident from **Table-1.14** below:

**Table-1.14: Expenditure on Economic Services**

*(Rupees in crore)*

	2003-04	2004-05	2005-06	2006-07	2007-08		
					Plan	Non Plan	Total
<b>Agriculture, Allied Activities</b>							
Revenue Expenditure of which	448.54	449.03	508.02	605.69	303.63	349.27	652.90
(a) Salary and Wage Component	160.81	163.80	173.14	183.61	6.63	194.81	201.44
(b) Non-Salary and Wage Component	287.73	285.23	334.88	422.08	297.00	154.46	451.46
Capital Expenditure	-4.25	44.10	77.42	43.63	46.12	23.50	69.62
<b>Total</b>	<b>444.29</b>	<b>493.13</b>	<b>585.44</b>	<b>649.32</b>	<b>349.75</b>	<b>372.77</b>	<b>722.52</b>
<b>Irrigation and Flood Control</b>							
Revenue Expenditure of which	140.64	153.60	167.98	159.84	12.89	165.97	178.86
(a) Salary and Wage Component	84.16	87.37	79.52	87.10	...	92.57	92.57
(b) Non-Salary and Wage Component	56.48	66.23	88.46	72.74	12.89	73.40	86.29
Capital Expenditure	78.30	112.36	225.36	305.83	365.51	(-)0.44	365.07
<b>Total</b>	<b>218.94</b>	<b>265.96</b>	<b>393.34</b>	<b>465.67</b>	<b>378.40</b>	<b>165.53</b>	<b>543.93</b>
<b>Power and Energy</b>							
Revenue Expenditure of which	110.13	77.05	94.52	40.38	18.33	1.56	19.89
(a) Salary and Wage Component	-	-	0.02	0.04	...	0.04	0.04
(b) Non-Salary and Wage Component	110.13	77.05	94.50	40.34	18.33	1.52	19.85
Capital Expenditure	-	166.61	210.34	158.94	257.34	...	257.34
<b>Total</b>	<b>110.13</b>	<b>243.66</b>	<b>304.86</b>	<b>199.32</b>	<b>275.67</b>	<b>1.56</b>	<b>277.23</b>
<b>Transport</b>							
Revenue Expenditure of which	42.87	53.25	75.44	163.39	30.86	154.51	185.37
(a) Salary and Wage Component	2.21	2.53	3.44	4.21	...	4.76	4.76
(b) Non-Salary and Wage Component	40.66	50.72	72.00	159.18	30.86	149.75	180.61
Capital Expenditure	196.79	138.28	542.50	598.95	781.20	2.50	783.70
<b>Total</b>	<b>239.66</b>	<b>191.53</b>	<b>617.94</b>	<b>762.34</b>	<b>812.06</b>	<b>157.01</b>	<b>969.07</b>
<b>Other Economic Services</b>							
Revenue Expenditure of which	261.20	356.58	365.70	403.91	298.85	125.24	424.09
(a) Salary and Wage Component	63.16	67.91	76.91	83.68	0.25	90.75	91.00
(b) Non-Salary and Wage Component	198.04	288.67	256.12	320.23	298.60	34.49	333.09
Capital Expenditure	81.00	364.10	254.51	46.96	139.95	0.17	140.12
<b>Total</b>	<b>333.71</b>	<b>720.68</b>	<b>620.21</b>	<b>450.87</b>	<b>438.80</b>	<b>125.41</b>	<b>564.21</b>
<b>Total (Economic Services)</b>							
Revenue Expenditure of which	1003.38	1089.51	1211.66	1373.21	664.56	796.55	1461.11
(a) Salary and Wage Component	310.34	321.61	333.03	358.64	6.88	382.93	389.81
(b) Non-Salary and Wage Component	693.04	767.90	878.63	1014.57	657.68	413.62	1071.30
Capital Expenditure	351.85	825.45	1310.13	1154.31	1590.12	25.73	1615.85
<b>Total</b>	<b>1355.23</b>	<b>1914.96</b>	<b>2521.79</b>	<b>2527.52</b>	<b>2254.68</b>	<b>822.28</b>	<b>3076.96</b>

**Chart-1.12**



Expenditure on salary and wages increased by 26 per cent during the period 2003-08 against an increase of 157 per cent increase on non-salary and wage component during the same period indicating focus of the Government on better provision and quality of economic services.

Besides, trends in capital expenditure indicate the development of infrastructure in the State such as Rural Development (Rs. 105.97 crore), Transport (R&B) (Rs.750.57 crore), Irrigation & flood control (Rs. 365.07 crore) and Power (Rs. 257.34 crore) which absorbed around 2/3<sup>rd</sup> of the total capital expenditure incurred in the State during the year.

### 1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the period 2003-08 is presented in **Table-1.15**.

**Table-1.15: Financial Assistance**

		<i>(Rupees in crore)</i>				
Sl.	Name of institutions	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Universities and Educational Institutions	131.25	141.02	198.31	232.81	301.42
2.	Energy( UPC and UPC for rural electrification)	110.13	73.75	60.83	100.61	134.52
3.	Agriculture Research and education institution, Land Reforms for updating land records and Wild life Preservation	76.11	76.80	103.96	146.39	153.67
4.	Municipal Corporations and Municipalities	74.26	61.46	80.55	96.63	110.93
5.	Panchayati Raj Sansthan	128.63	79.98	36.09	174.65	198.85
6.	Hospitals and Charitable Institutions	6.17	15.51	26.21	40.69	28.69
7.	Development agencies	314.97	362.08	305.04	408.25	514.53
8.	General Labour welfare	27.61	25.10	18.28	20.04	16.31
9.	Co-operatives	4.72	4.30	7.64	14.24	17.16
10.	Animal Husbandry, Dairy Development and Fisheries	6.70	7.65	8.55	10.74	14.53
11.	Secretariat Economics Services & Tourism	39.56	131.05	43.38	64.39	59.21
12.	Social Security & Welfare of Scheduled Caste, Scheduled Tribe & Other backward classes	30.62	65.13	83.42	84.94	108.73
13.	Others	8.12	11.80	33.71	18.13	23.03
	<b>Total</b>	<b>958.85</b>	<b>1054.90</b>	<b>1005.97</b>	<b>1412.51</b>	<b>1681.58</b>
	<b>Assistance as percentage of revenue expenditure</b>	<b>21.99</b>	<b>20.93</b>	<b>17.93</b>	<b>21.82</b>	<b>23.18</b>

Source: VLC Data.

The total assistance to local bodies and other institutions in 2007-08 had grown by 75 per cent over that of 2003-04. Universities and Educational institutions, Development agencies and Energy together accounted for 57 per cent of the total financial assistance and the assistance grew by 30 per cent, 26 per cent and 34 per cent respectively in these areas in 2007-08 as compared to the previous year. The more assistance under these sectors especially to developmental agencies was given for providing safe drinking water in the rural areas and under energy sector as a loan to Uttarakhand Power Corporation (UPC) (Rs. 94 crore) and UPC for rural electrification (Rs. 21 crore).

## 1.6 Assets and Liabilities

### 1.6.1 Trends in Growth and composition of Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix-1.2* gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and the cash balances. *Appendix-1.5* depicts the time series data on State Government finances for the period 2003-08.

Assets as compared to Liabilities were merely 0.42 *per cent* in the year 2003-04 but improved by the end of 2007-08 and stood at 0.71*per cent*.

## **1.6.2 Financial analysis of Government Investments**

### **1.6.2.1 Financial Results of Irrigation Works**

The financial results of nine major irrigation projects with a capital outlay of Rs. 394.54 crore at the end of March 2008 as per Statement No. 3 of the Finance Accounts showed that revenue realized from these projects during 2007-08 (Rs. 5.76 crore) was very low (1.46 *per cent*) compared to the capital outlay. It was barely sufficient to cover even the direct working expenses (Rs.30.88 crore) during 2007-08 and the Government bore the remaining expenses of Rs. 25.12 crore through budgetary support this year.

### **1.6.2.2 Incomplete Projects**

The department-wise information pertaining to incomplete projects (where initial cost exceeds one crore) as on 31 March 2008 is given in **Table 1.16**.

**Table 1.16: Department-wise profile of incomplete projects**

<i>(Rupees in crore)</i>					
Department	Number of Incomplete Projects	Initial Budgeted cost	Cost Over Run	Revised Total Cost of Projects	Cum. Actual Exp. as on 31 March 2008
Public works Department	318	812.38	56.44	71 <sup>13</sup>	406.28
Irrigation Department	49	166.22	12.24	66.44 <sup>14</sup>	80.51
<b>Total</b>	<b>367</b>	<b>978.60</b>	<b>68.68</b>	<b>137.44</b>	<b>486.79</b>

Information provided by the State Government showed that there were 367 projects which were due for completion as on 31 March 2008, but were incomplete. These incomplete projects include 19 (PWD: 16 and Irrigation: 3) projects with initial budgeted cost of Rs. 68.76 crore whose revised estimates escalated to Rs. 137.44 crore thereby resulting in cost over run of Rs. 68.68 crore. The time over run of these 19 incomplete works were within the range of one month to two years.

### **1.6.2.3 Departmental Commercial Undertakings**

#### **Departmentally managed Government commercial/quasi-commercial undertakings**

### **1.6.2.4 General**

Consequent upon formation of the State of Uttarakhand with effect from 9 November 2000 under the Uttar Pradesh Reorganization Act 2000, the assets and liabilities of the departmentally managed Government commercial undertakings already situated in Uttarakhand were to be passed on to the newly formed State. Accordingly, the assets and liabilities of the following departmentally managed Government commercial undertakings located within the State were deemed transferred to the newly created State from the aforesaid date.

<sup>13</sup> Cost of 16 projects revised.

<sup>14</sup> Cost of 3 projects revised.

Sl. No.	Department	Name of the undertakings
1.	Food and Civil Supplies	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, Haridwar State Vaccine Institute, Patwadangar, Nainital

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

Activities of quasi-commercial nature are performed by the departmental undertakings of the Government. These undertakings have to prepare pro-forma accounts annually in the prescribed format showing the results of financial operations so that the Government can assess the results of their working. The heads of departments in Government are to ensure that the undertakings, which are funded by the budgetary releases, prepare the accounts and submit the same to the Accountant General for audit by 30 June every year. It was observed by Audit that only the Irrigation Workshop Division (IWD), Roorkee had finalised its accounts for the year 2006-07, while 16 undertakings had not finalised their accounts, with the arrears being nine years in some cases.

There is no improvement despite this being pointed out in Audit 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, the investment of the Government remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

#### **1.6.2.6 Investments and returns**

As of 31 March 2008, Government had invested Rs. 1005 crore in Statutory Corporations, Rural Banks, Government Companies, Joint Stock Companies and Co-operatives (**Table-1.17**). The increase of Rs. 243 crore in the investments over the previous year was mainly due to the investments made in Uttarakhand Hydro Electric Corporation (Rs. 160 crore), Power Corporation Fund (Rs. 93 crore) and Uttaranchal Transport Corporation (Rs. 20 crore), offset by Rs. 50 crore invested in State Industrial Development Corporation of Uttaranchal but withdrawn during the current year. State Government continued its investments in these undertakings despite the fact that their accounts were in arrears for 3-4 years.

The average return on this investment was less than 1 *per cent* in the last five years, while the Government paid interest at the average rate of 7.47 to 9.10 *per cent* on its borrowings during 2003-2008. The investment of State Government included Rs. 863 crore in 12 Government Companies at the end of the current year.

**Table-1.17: Return on Investment**

	<i>(Rupees in crore)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
Investment at the end of the year (Rupees in crore)	40	333	669	762	1004.74
Return (Rupees in crore)	0.04	0.26	0.07	0.16	0.53
Return ( <i>per cent</i> )	0.10	0.08	0.01	0.02	0.05
Average rate of interest on Government borrowings ( <i>per cent</i> )	8.51	9.10	7.47	7.79	7.99
Difference between interest rate and return	8.41	9.02	7.46	7.77	7.94

Out of 12 Government Companies / Corporation, two companies' i.e. Uttaranchal Hydro Electric Corporation and Power Corporation Fund had received major share of investment by the end of 31 March 2008 totaling Rs. 497 crore and Rs. 291 crore respectively. The accumulated loss of the Government companies amounting to Rs. 201 crore was mainly incurred by three Companies viz. U.P.Hill Electronics Corporation Limited (Rs. 0.68 crore), Uttarakhand Power Corporation (Rs. 262 crore), and Uttarakhand Transport Corporation Limited (Rs. 26 crore) while as State Industrial Development Corporation of Uttaranchal limited had an accumulated profit of Rs. 63 crore.

#### **1.6.2.7 Loans and Advances by State Government**

In addition to investments in Co-operatives, Corporations and Companies, the Government has also been providing Loans and Advances to many of these institutions/organizations. The total outstanding loans and advances as on 31 March 2008 were Rs. 710 crore (**Table-1.18**). Interest received against these loans was 0.14 *per cent* during 2007-08 as against 0.17 *per cent* in the previous year.

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

	<i>(Rupees in crore)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Opening Balance</b>	<b>177.20</b>	<b>289.75</b>	<b>383.94</b>	<b>482.80</b>	<b>565.68</b>
Amount advanced during the year	135.48	181.27	135.23	102.38	212.54
Amount repaid during the year	22.93	87.09	36.37	19.50	68.43
<b>Closing Balance</b>	<b>289.75</b>	<b>383.93</b>	<b>482.80</b>	<b>565.68</b>	<b>709.79</b>
Net Addition (+) / Reduction (-)	(+)112.55	(+)94.18	(+)98.85	(+)82.88	(+)144.11
Interest Receipts	15.20	7.43	6.41	0.97	1.01
Interest received as <i>per cent</i> to outstanding Loans and Advances	5.25	1.94	1.33	0.17	0.14
Interest payments as <i>per cent</i> to outstanding Fiscal Liabilities of the State Government	7.43	8.23	6.90	7.40	7.61
Difference between interest payments and receipts ( <i>per cent</i> )	2.18	6.29	5.57	7.23	7.47

During 2007-08 Government advanced loans to the tune of Rs. 213 crore against Rs. 102 crore in the previous year, an increase of Rs. 111 crore. Major beneficiaries were Uttarakhand State Cooperative Sugar Mills (Rs. 68 crore) under Agriculture sector and (Rs. 115 crore) under Energy sector for Transmission and Distribution. Interest receipts as a percentage of outstanding loans and advances have been on a downward trend over the years 2003-08,

with the figure reaching 0.14 in 2007-08. Average rate of interest on which the State Government raised market loans was 8.27 *per cent* during 2007-08 while the interest received on Loans and Advances given by the State was 0.14 *per cent*. TFC recommended that at least 7 *per cent* return on outstanding loans and advances should be achieved in a graded manner by the terminal year of the forecast period, a target that the State seems unlikely to achieve.

### 1.6.3 Management of cash balances

It is generally desirable that the State's flow of resources matches its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA)-ordinary and special and overdraft from Reserve Bank of India (RBI) has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special WMAs is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. This limit was Rs. 0.16 crore on all days for Uttarakhand for normal WMA. No limit was fixed for Special WMAs during 2007-2008.

The State did not avail of overdraft facility since 2004-05. WMAs availed, the number of occasions these were availed and interest paid by the State is detailed in **Table-1.19**.

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

	<i>(Rupees in crore)</i>				
<b>Ways and Means Advances</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Availed in the year	329.24	759.71	220	676	684
Outstanding WMAs	30.69	65.46	30.69	30.69	202.40
Interest paid	0.38	0.65	0.62	1.24	0.66
Number of days	43	184	54	114	52

*Note: Rs 30.69 crore was the credit balance in WMA against the State at the time of bifurcation on 9 November 2000, which is still to be settled with the UP government.*

Temporary balances in cash flow forced the Government to avail of WMA on only 52 occasions, which is a marked improvement over previous year. The State had to pay interest of Rs. 0.66 crore on WMAs (including on the outstanding WMA balance of Rs. 202.40 crore) during the current year.

The State did register revenue surplus during the year but the cash balance decreased by Rs. 43 crore over the previous year. The cash balance of Rs. 746.37 crore as on 31 March 2008 was mainly in the form of investment in sinking funds (Rs. 675.04 crore) earmarked for redemption of debt and guarantee redemption. Rs. 71.33 crore constituted the balance in the State account with RBI.

## 1.7 Undischarged Liabilities

### 1.7.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual

Financial Statements under the Consolidated Fund-Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government.

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

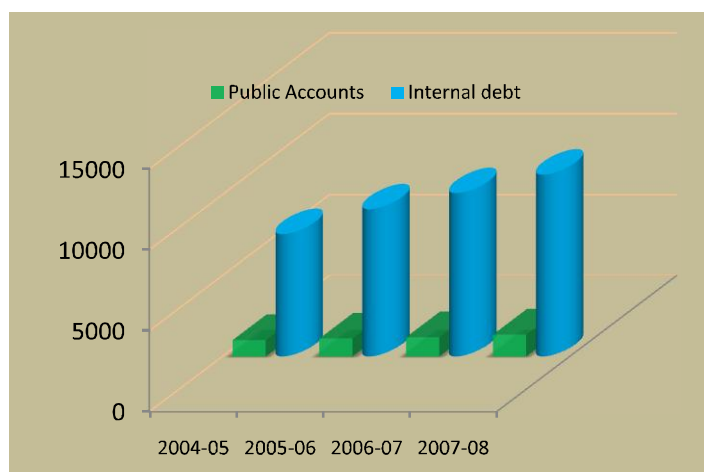
**Table-1.20** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table-1.20: Fiscal Liabilities–Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities* (Rs. in crore)	8030	9910	11714	13034	14392
Rate of growth (Per cent)	33.77	23.41	18.20	11.27	10.41
<b>Ratio of Fiscal Liabilities to</b>					
GSDP (Per cent)	38.85	43.53	45.45	43.62	41.65
RR (Per cent)	223.06	242.54	211.56	176.78	182.38
Own Resources (Per cent)	503.13	497.49	481.07	412.47	422.42
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	3.16	2.31	1.38	0.71	0.66
Revenue Receipts (ratio)	2.83	1.73	0.51	0.34	1.48
Own Resources (ratio)	2.30	0.94	0.82	0.38	1.33

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

**Chart-1.13**



The State liabilities which stood at Rs. 14,392 crore in 2007-08 were mainly composed of Public debt (Rs. 11,678 crore), Small savings and Provident Fund (Rs. 1,356 crore), and other obligations (Rs. 1,358 crore). The increase in the fiscal liabilities during the current year was mainly on account of internal debt and provident fund which rose by Rs. 1,141

crore and Rs. 155 crore respectively. The growth of fiscal liabilities is being tightened over the years; it was only 10.4 per cent in 2007-08 over the previous year. The buoyancy of these liabilities with respect to GSDP during the year was 0.66 indicating that for each percentage point increase in GSDP; fiscal liabilities grew by 0.66 per cent. These liabilities stood at 1.8 times State's revenue receipts and 4.2 times its own resources. The sinking fund is in operation since the inception of the State for amortization of open market loans and the State has to contribute at the rate 3 per cent of outstanding balance of market loans of the previous year. However, the State Government



provided only Rs. 83 crore during the year as against Rs. 128 crore due for the purpose.

### 1.7.2 Status of Guarantees–Contingent liabilities

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

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

As per the **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2003-04 is given in **Table-1.21**.

**Table-1.21: Guarantees given by the Government of Uttarakhand**

Guarantees	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Maximum amount guaranteed	743	602	--	371	---
Outstanding amount of guarantees	743	1345	1345	1716	1677
Percentage of outstanding amount guaranteed to total revenue receipts	20.64	32.91	24.29	23.27	21.25

The quantum of government guarantees at Rs. 1677 crore was well within the set target of Rs. 1737.52 crore set in the MTFP of the State Government for the year 2007-08. Outstanding guarantees are in the nature of contingent liabilities, which stood at 21 *per cent* of revenue receipts (of 2007-08) of the State. The major beneficiaries of guarantees were Energy Department (Rs. 1,600 crore), Urban Development Department (Rs. 64 crore) and Social Welfare Department (Rs. 13 crore).

## 1.8 Debt Sustainability

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

### 1.8.1 Debt Stabilization

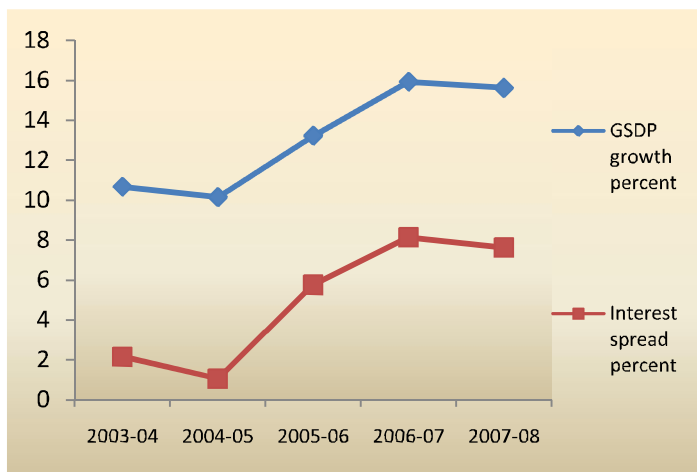
A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt GSDP ratio is likely to be stable provided, primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest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

primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

**Table-1.22: Debt Stabilization: Indicators and Trends**

	2003-04	2004-05	2005-06	2006-07	2007-08
Weighted Interest Rate ( <i>per cent</i> )	8.51	9.10	7.47	7.79	7.99
GSDP Growth ( <i>per cent</i> )	10.67	10.15	13.23	15.93	15.62
Interest spread ( <i>per cent</i> )	2.16	1.05	5.76	8.14	7.63
Outstanding Debt (Rs. in crore)	6003	8030	9910	11714	13034
Quantum spread (Rs. in crore)	130	84	571	954	995
Primary deficit <sup>15</sup> (-) / surplus (+) (Rs. in crore)	(-) 808	(-) 1364	(-) 1070	(+)79	(-)648
Quantum spread + primary deficit	(-) 678	(-) 1280	(-) 499	(+)1033	(+)347

**Chart-1.14**

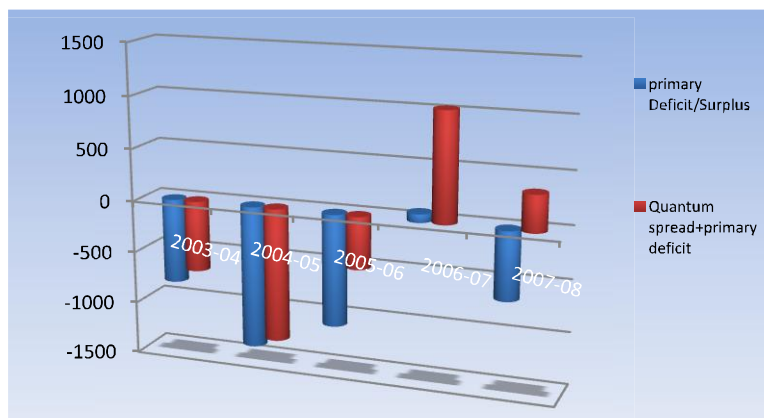


The trends in **Table 1.22** indicate that during 2003 to 2008 the quantum spread together with primary deficit/surplus remained negative during 2003-06 indicating increasing trend in debt-GSDP ratio which increased from 38.85 *per cent* to 45.45 *per cent* during the period. During 2006-07 and 2007-08,

quantum spread together with primary deficit turned positive thereby suppressing the debt-GSDP ratio which declined to 41.65 *per cent* in 2007-08. If these trends continue, the state will move towards debt stabilization in ensuing years which would eventually improve the debt sustainability.

**1.8.2 Sufficiency of Non-debt receipts**

**Chart-1.15**



Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated

if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. A positive resource gap strengthens

<sup>15</sup> Primary deficit means total expenditure minus revenue receipts, miscellaneous capital receipts and interest payments

the capacity of State to sustain the debt. **Table 1.23** indicates the resources gap as defined for the period 2003-08.

**Table 1.23: Incremental Revenue Receipts and Revenue Expenditure**

Period	Incremental				Resource Gap
	Non-debt receipts	Primary Expenditure	Interest payments	Total Expenditure	
2003-04	404	874	44	918	(-)514
2004-05	550	1106	219	1325	(-)775
2005-06	1400	1106	(-)8	1098	(+)302
2006-07	1820	671	156	827	(+)993
2007-08	566	1293	132	1425	(-)859

Due to significant increase in Central tax transfers (Rs. 490 crore: 94.2 *per cent*) and grants-in-aid (Rs. 518 crore: 32.9 *per cent*) in 2005-06 and State's own taxes (Rs. 728 crore: 40.78 *per cent*) and grants in aid (Rs. 989 crore: 47.28 *per cent*) in 2006-07, the State did experience a positive resource gap for these two years. The gap however again turned negative in 2007-08 mainly because incremental increase in non-debt receipts reduced by 69 *per cent vis-à-vis* an increase of 92.70 *per cent* in primary expenditure. These trends indicate that State need to make sustainable efforts to mobilize more resources to meet the incremental liabilities arising on account of additional primary expenditure and interest payments during the year

### 1.8.3 Net Availability of Borrowed Funds

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

**Table-1.24: Net Availability of Borrowed Funds**

(1)	2003-04	2004-05	2005-06	2006-07	2007-08
	(2)	(3)	(4)	(5)	(6)
<b>Internal Debt</b>					
Receipts	3190	1406	1749	1208	1381
Repayments (Principal + Interest)	415	626	813	982	1109
Net Funds Available	2775	780	936	226	272
Net Funds Available ( <i>per cent</i> )	87	55	54	19	20
<b>Loans and Advances from Government of India</b>					
Receipts	285	147	8	20	16
Repayments (Principal + Interest)	1173	53	73	71	51
Net Funds Available	(-) 888	94	(-)65	(-)51	(-)35
Net Funds Available ( <i>per cent</i> )	-	64	-	-	-

<b>Other obligations<sup>16</sup></b>					
Receipts	2275	2053	2366	2303	1888
Repayments (Principal + Interest)	1924	1920	2224	2121	1913
Net Funds Available	351	133	142	182	(-)25
Net Funds Available ( <i>per cent</i> )	15	6	6	8	-
<b>Total Liabilities</b>					
Total Receipts	5750	3606	4123	3531	3285
Repayment (Principal + Interest)	3512	2599	3110	3174	3073
Net Funds Available	2238	1007	1013	357	212
Net Funds Available ( <i>per cent</i> )	39	28	25	10	6

Debt redemption ratio steadily increased during the period 2003-08 indicating the fact that the borrowed funds are being increasingly used for the repayments towards the discharge of past debt obligations during the period. During the current year, internal debt redemption was 80 *per cent* of fresh debt receipts, redemption of GOI loans was 318.75 *per cent* while in case of other obligations repayments were 101.32 *per cent* of fresh receipts. These trends indicate towards the fact that the focus of the Government seems to be on discharging the past debt obligations.

## **1.9 Management of Deficits**

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

### **1.9.1 Trends in Deficit**

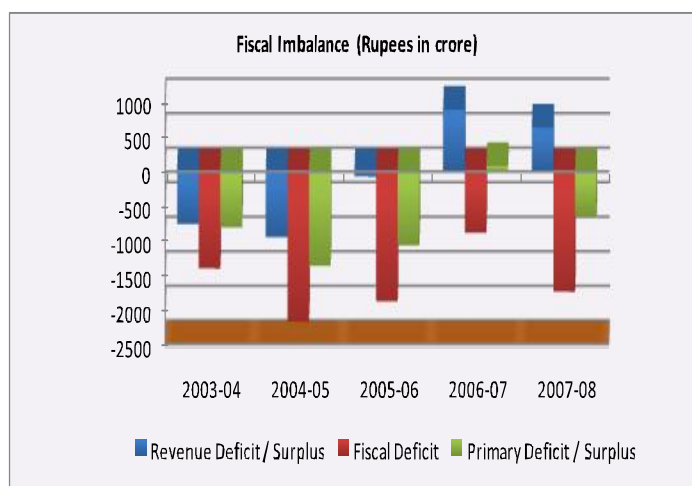
**Table-1.25: Fiscal Imbalances–Basic Parameters**

<b>Parameters</b>	<i>(Values in crore of rupees and ratios in per cent)</i>				
	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Revenue deficit/ surplus (Rs. in crore)	760	950	74	(+)896	(+)636
Fiscal deficit (Rs. in crore)	1405	2180	1878	885	1744
Primary deficit/ surplus (Rs. in crore)	808	1364	1070	(+)79	648
RD/GSDP ( <i>per cent</i> )	3.68	4.17	0.29	(+)3.0	(+)1.84
FD/GSDP ( <i>per cent</i> )	6.80	9.58	7.29	2.96	5.04
PD/GSDP ( <i>per cent</i> )	3.91	5.99	4.15	(+) 0.26	1.88
RD/FD ( <i>per cent</i> )	54.09	43.58	3.94	-	-

Revenue Deficit (RD) of the State is the excess of its revenue expenditure over receipts. After experiencing a revenue deficit during the period 2003-06, revenue account turned into a huge surplus during 2006-07. The revenue surplus was although maintained in 2007-08 but it shrunk to Rs. 636 crore from Rs. 896 crore in 2006-07 mainly on account moderate growth of 7 *per cent* in revenue receipts against an increase of 12 *per cent* in revenue expenditure

<sup>16</sup> Other obligations comprise interest bearing obligations such as depreciation reserve fund of commercial undertakings, deposits of autonomous bodies and non-interest bearing obligations such as deposits of local funds, civil deposits, other earmarked funds etc.

Chart-1.16



Fiscal Deficit (FD) represents the total borrowings of the Government. The State achieved the target of FD of 3 per cent set in the FRBM Act in 2006-07, a level which could not be maintained this year when FD rose to 5.04 per cent of GSDP. A decrease in revenue surplus (Rs. 260 crore) coupled with increase in capital expenditure (Rs. 536 crore) and disbursement of loans and advances (Rs. 111 crore) led to

an increase of Rs. 859 crore in fiscal deficit in 2007-08 over the previous year. Financial year 2006-07 was exception when the State registered a primary surplus (FD net of interest payments); in all the other years, there was a primary deficit. Even with an increase of Rs. 132 crore in Interest Payments, a sharp deterioration in fiscal deficit turned the primary surplus of Rs. 79 crore in 2006-07 into primary deficit of Rs. 648 crore during the current year.

### 1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into Primary revenue deficit<sup>17</sup> and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which the borrowed funds were used for current consumption. Further, persistently, high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the state was continuously sinking and a part of borrowings (fiscal liability) were not having asset back-up. The State did register a revenue surplus since 2006-07; but the fiscal deficit showed an upward trend during the current year mainly on account of enhancement in capital expenditure and disbursement of loans & advances indicating that borrowed funds were employed to improve the productive capacity of the State's economy.

Table 1.26: Primary deficit/surplus-Bifurcation of factors

(Rupees in crore)

Year	Non-Debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans And Advances	Primary Expenditure <sup>18</sup>	Non-debt Receipts vis-à-vis Primary Revenue expenditure	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2003-04	3623	3763	533	135	4431	(-)140	(-)808
2004-05	4173	4220	1136	181	5537	(-)47	(-)1364

<sup>17</sup> Primary Revenue Deficit is defined as gap between non interest revenue expenditure of the State and its revenue receipts and indicates the extent to which the revenue receipts of the State are able to meet the primary expenditure incurred under revenue account.

<sup>18</sup> Primary Expenditure of the State is defined as the total expenditure net of interest payments and indicates the expenditure incurred on the transactions undertaken during the year.

2005-06	5573	4803	1705	135	6643	(+770)	(-1070)
2006-07	7393	5513	1699	102	7314	(+1880)	(+79)
2007-08	7959	6159	2235	213	8607	(+1800)	(-648)

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-08 reveals (**Table 1.26**) that the primary deficit since 2005-06 was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2005-06 and 2007-08. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

### 1.10 Fiscal Ratios

The finances of the State should be sustainable, flexible and non-vulnerable. **Table-1.27** below presents a summarized position of Government finances over 2003-08, with reference to certain key indicators classified in five groups: (i) Resource Mobilization, (ii) Expenditure Management, (iii) Management of Fiscal Imbalances, (iv) Management of Fiscal Liabilities, and (v) others that help to assess the adequacy and effectiveness of the available resources and their applications, highlights areas of concern and captures important facts.

**Table-1.27: Indicators of Fiscal Health**

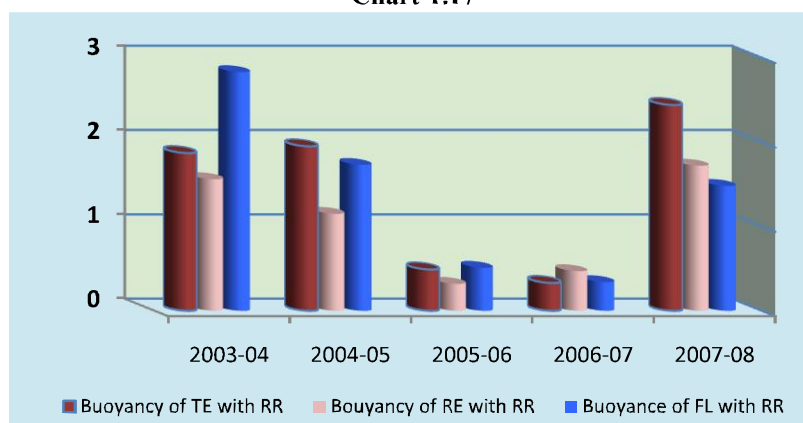
Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
<i>(in per cent)</i>					
<b>I Resources Mobilization</b>					
Revenue receipts/GSDP	17.42	17.95	21.48	24.67	22.84
Revenue buoyancy	1.12	1.33	2.68	2.08	0.45
Own tax/GSDP	5.93	6.34	6.93	8.41	7.92
<b>II Expenditure Management</b>					
Total Expenditure/GSDP	24.33	27.91	28.91	27.70	28.08
Total Expenditure /Revenue Receipts	139.67	155.48	134.59	112.27	122.96
Revenue Expenditure/Total Exp.	86.71	79.27	75.30	78.24	74.77
Revenue Expenditure on Social Services/ Total Expenditure	33.67	29.92	30.28	29.66	29.16
Revenue Expenditure on Economic Services/Total Expenditure	19.94	17.16	16.26	16.59	15.06
Capital Expenditure/TE	10.89	18.41	22.88	20.52	23.03
Development Expenditure(Social & Economic services)/ TE	64.81	64.53	66.91	64.68	65.18
Buoyancy of TE with RR	1.87	1.95	0.49	0.33	2.45
Buoyancy of RE with RR	1.56	1.15	0.32	0.47	1.71
<b>III Management of Fiscal Imbalances</b>					
Revenue Deficit /Surplus (Rs. in crore)	(-760)	(-950)	(-74)	(+896)	(+636)
Fiscal Deficit(Rs. in crore)	(-1405)	(-2180)	(-1878)	(-885)	(-1744)
Primary Deficit/surplus (Rs. in crore)	(-808)	(-1364)	(-1070)	(+79)	(-648)
Revenue Deficit(-)/Fiscal Deficit (-)	54.09	43.58	3.94	-	-
<b>IV Management of Fiscal Liabilities</b>					
Fiscal Liabilities (FL)/GSDP	38.85	43.53	45.45	43.62	41.65
Fiscal Liabilities/RR	223.06	242.54	211.56	176.78	182.38

Buoyancy of FL with RR	2.83	1.73	0.51	0.34	1.48
Buoyancy of FL with Own Resources	2.30	0.94	0.82	0.38	1.33
Interest Spread	2.16	1.05	5.76	8.14	7.63
Net available funds	38.92	27.37	25.00	10.00	6.00
<b>V Other Fiscal Health Indicators</b>					
Return on investment	0.10	0.08	0.01	0.02	0.05
BCR* (Rs. in crore)	(-) 1107	(-) 1128	(+) 518	(+) 978	(+)842
Assets/Liabilities	0.42	0.44	0.52	0.64	0.71

\* Balance from Current Revenues.

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State to resources. Revenue receipts comprise not only of the tax and non tax resources of the state but also the transfers from Union Government. The ratios of revenue receipts and of own taxes to GSDP which was on the ascent in the previous years, showed a downward trend during the current year. The robust growth in revenue receipts especially that of own taxes, decelerated in 2007-08 as a result of which, the revenue buoyancy reduced from 2.08 in 2006-07 to 0.45 in 2007-08. The moderate growth in State's Own Taxes (7.03 per cent) vis-à-vis 15.62 per cent growth rate of GSDP led a fall in the Own Tax-GSDP ratio by a half percentage point relative to the previous year and the ratio at 7.92 per cent in 2007-08 was below even its budgeted level (8.36 per cent).

Chart-1.17



Various ratios relating to expenditure indicate quality of expenditure and sustainability in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure decreased to 75 per cent during the year due to a favourable bias towards capital

expenditure. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to capital expenditure. Capital expenditure increased by Rs. 536 crore in 2007-08 over the previous year. The revenue receipts relative to total expenditure decreased from 89 per cent over the previous year to 81 per cent during 2007-08 indicating increasing dependency on borrowed funds.

Although revenue surplus was maintained during the year, there was a quantum jump in fiscal and primary deficit indicating that the State is unable to meet its primary expenditure out of its own funds and reliance on borrowed funds has increased during the current year. Balance from Current Revenue (BCR) which became positive in 2005-06, continued the same trend during 2007-08 indicating availability of resources from current revenue.

The ratio of assets to liabilities, which shows the extent to which additional liabilities were employed for creation of additional assets, was less than one

during the period 2003-08. In 2007-08, it however increased to 0.71 from 0.64 in the previous year but 29 *per cent* of liabilities still remained without any asset back-up.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit and primary deficit – has shown deterioration in 2007-08 relative to previous year. Not only did revenue surplus decline by Rs. 260 crore in 2007-08, but fiscal deficit has also increased by 97 *per cent* (Rs. 859 crore) and primary surplus turned into a huge deficit when compared to the previous year. Moreover, the fiscal deficit of the State relative to GSDP *vis-à-vis* targets laid in its FRBM Act indicate that while it was well within the 3 *per cent* target set in the FRBM Act, during 2006-07, but it could not be maintained, as it rose to 5.04 *per cent* during the current year. The quality of the fiscal deficit seems to have improved as the borrowed funds were utilized towards construction of roads & bridges, sports stadia and the power sector. Despite the fact that Central transfers continued to share 57 *per cent* of revenue receipts during the year, moderate growth rate of 9 *per cent* in the State's own taxes and almost stagnant non tax receipts resulted in a decline in revenue surplus in the current year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure, although marginally declined during the current year, remained around 75 *per cent* leaving inadequate resources for expansion of services and creation of assets. Within revenue expenditure, NPRE at Rs. 5,421 crore in 2007-08 was within the budgeted level of Rs. 5,789 crore but remained significantly higher than the normatively assessed level of Rs. 4,831 crore by TFC for the year. Further, the salaries and wages, pensions and interest payments continued to consume a major share of NPRE and stood at around 69 *per cent* during 2007-08. Notwithstanding the fact that the State incurred expenditure higher than the normative TFC limits on salaries, critical sectors like health are operating at sub-optimal level due to non-availability of staff with 50 *per cent* shortage in doctors and 55 *per cent* in paramedical staff. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied by a negligible rate of return on Government investments might put a fiscal stress on the State in medium to long run. The new State will have to expand its infrastructure, including human resources, to provide basic services like education and health, an expansion which might affect the fiscal sustainability if it is not accompanied by a significant spurt in collection of tax and non tax receipts in the ensuing years.

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