Outcome Evaluation of Finances of the State of Uttarakhand

"In the context of the recommendations of the 14th FC – Determination of a Sustainable Debt Roadmap, taking into account impact of introduction of GST and other tax/non-tax trend forecasts"

Version 1.1

Prepared for the 15th Finance Commission by National Institute of Financial Management

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Preface

This report – *"Outcome Evaluation of Finances of the State of Uttarakhand - in the context of the recommendations of the 14th FC – Determination of a Sustainable Debt Roadmap, taking into account impact of introduction of GST and other tax/non-tax trend forecasts"* has been prepared by NIFM for the 15th Finance Commission.

The terms of reference provided by the Finance Commission for the preparation of this analytical report are:

1) Estimation of revenue capacities of State and Measures to improve the tax-GDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

2) Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

3) Expenditure pattern and trends separately for Revenue and Capital, and major component of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

4) Analysis of Deficits – Fiscal and Revenue.

5) The level of Debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowing from agencies such as NABARD, LIC etc.

6) Implementation of FRBM Act and commitment towards targets.

7) Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.

8) Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

9) Impact of Power Sector Reforms on State' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.

10) Analysis of contingent liabilities of the State.

11) Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

12) Outcome Evaluation of State Finances in the context of recommendations of 14th Finance Commission.

13) Determination of a sustainable debt roadmap for 2020-25, considering the impact of introduction of GST and other tax/ non-tax trend forecasts.

NIFM thanks the Finance Commission for giving it an opportunity to work on this report.

(Meena Agarwal)
Director NIFM
28th February 2019

Outcome Evaluation of Finances of the State of Uttarakhand

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Executive Summary

This report – “Outcome Evaluation of Finances of the State of Uttarakhand - in the context of the recommendations of the 14th FC – Determination of a Sustainable Debt Roadmap, taking into account impact of introduction of GST and other tax/non-tax trend forecasts” has been prepared by NIFM for the 15th Finance Commission.

Methodology

We analysed Uttarakhand’s fiscal performance over the last 10 years and also compared its performance with other states as well as with all India averages. The norms/ceilings prescribed by the Fourteenth Finance Commission (FFC) for selected fiscal variables along with its projections for a set of fiscal aggregates and the commitments/projections made by the State Government of Uttarakhand in its Fiscal Responsibility Act have been taken into consideration. Assuming Gross State Domestic Product (GSDP) as a good indicator of the performance of the State’s economy, major fiscal aggregates like tax and non-tax revenue, capital expenditure, internal debt, and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. Debt sustainability has been assessed on a qualitative basis, as projections of revenue were considered to be too uncertain on account of implementation of GST.

Reference period of the Study

This evaluation of finances of the State of Uttarakhand covers a period of ten years commencing with the year 2006-07. However, detailed analysis of the finances covers a period of six years i.e. 2011-12 to 2017-18. The reason for restricting detailed analysis to six years is on account of the change in the base period of calculation of GSDP from 2004-05 to 2011-12. To ensure comparability of data, we have considered the data set 2011-12 to 2017-18, with the same base year of GSDP calculation.

Analysis of key fiscal parameters for the period 2006-07 to 2017-18(RE) is separately included as Annexure to this document.

Data sources

The study is based on secondary data sources such as Handbook of Statistics on State Government Finances, Reserve Bank of India (RBI); Official and Budget documents of the Uttarakhand government and Handbook of Statistics on Indian Economy, RBI. We supplemented the data by consulting (wherever necessary) additional sources, such as from Finance Accounts of the state published by Comptroller and Auditor General (CAG) of India, and other C&AG publications. Some supplementary information regarding measures to improve taxable capacity of the state, subsidies, power sector reforms were obtained from state government. Data on Gross Domestic Product (GDP) and the state wise Gross State Domestic Product (GSDP) are at market (current) prices and have been sourced from the Central Statistics Office (CSO) and Economic Survey of Uttarakhand.

1. Social and Economic Profile of Uttarakhand

The State of Uttarakhand came into existence in year 2000. It is one of the eleven Special Category States (SCS). The total geographic area of the State is 53,483 sq km, of which 86% is mountainous and 65% is covered by forest. It has a population of just over 10 million and shows above national average performance in parameters like average household expenditures, literacy, and on many health indicators. Uttarakhand ranks 15th among all the states in terms of population growth rate. Nearly three-fourths of its total population is dependent on agriculture for livelihood. It is primarily a rural state with 69.5 per cent of the people living in 15,761 villages. The state is witnessing migration of people from its mountain villages to the four southern plains districts.

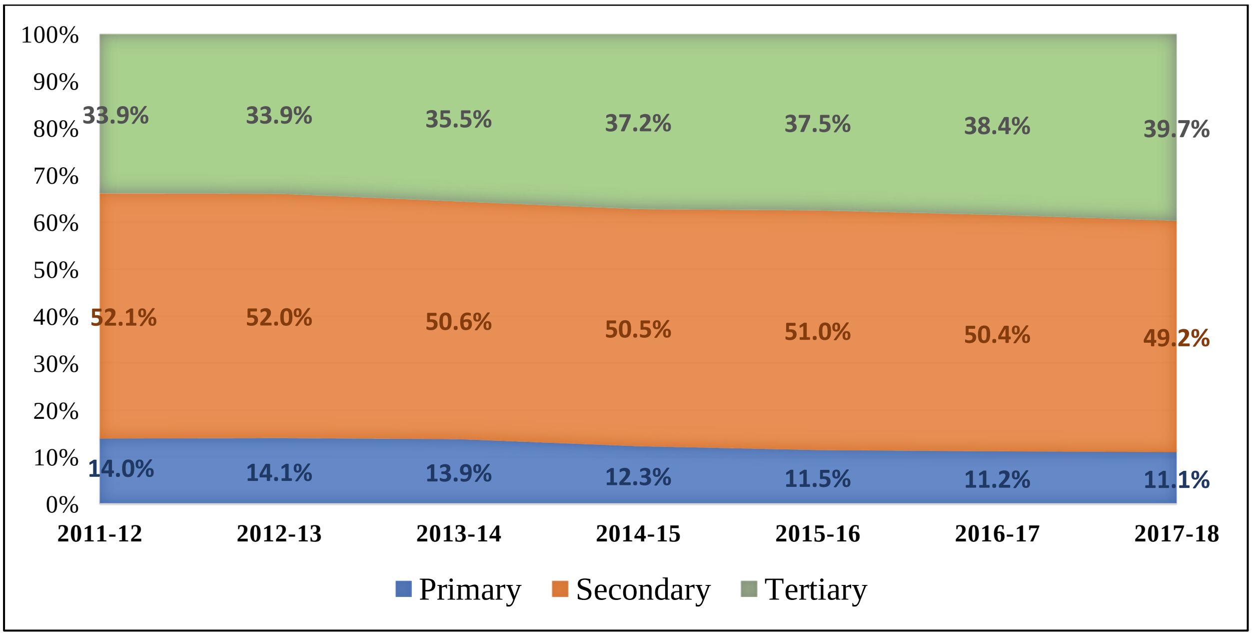
The sex ratio in Uttarakhand has changed marginally over the last decade from 962 in 2001 as compared to 963 in 2011 and is better than the all India sex ratio of 943. It had a literacy rate of 78.82% in 2011. In the years between 2010 to 2015, Uttarakhand has achieved a significant decline in birth rate, from 20.9 per 1000 population to 17.8 per 1000 population, and is lower than the all-India average of 20.8. The State has managed to reduce its fertility rate from 2.6 in 2005 to 1.9 in 2016 as against an All-India decline from 2.9 to 2.3. The overall infant mortality rate in Uttarakhand in 2015 stands at 34 per 1000 births, which is significantly lower than the all India average of 41 per 1000 births.

The number of persons below poverty line in Uttarakhand were only 1.16 million in 2011-12, or 11.26% of the State’s population, which is low compared to overall numbers in the entire country and some of the other states. The SC and ST population in Uttarakhand is just under 18 per cent.

The state shows marked geographical inequality between the hills and the plains. Four of the thirteen districts, namely Nainital, Haridwar, Dehradun and Udham Singh Nagar, are in the plains or have large parts in the plains. Compared to the other nine districts, these districts are way ahead in terms of various indicators of development.

The state has great tourism potential. Over a million pilgrims and tourists annually visit the five prominent shrines – Yamunotri, Gangotri, Kedarnath, Badrinath and Hemkund Sahib – in this region. Many other tourists visit the state for adventure, its wilderness and scenic vistas. The tourism sector has to be carefully nurtured to ensure that growth is not at the cost of environmental degradation.

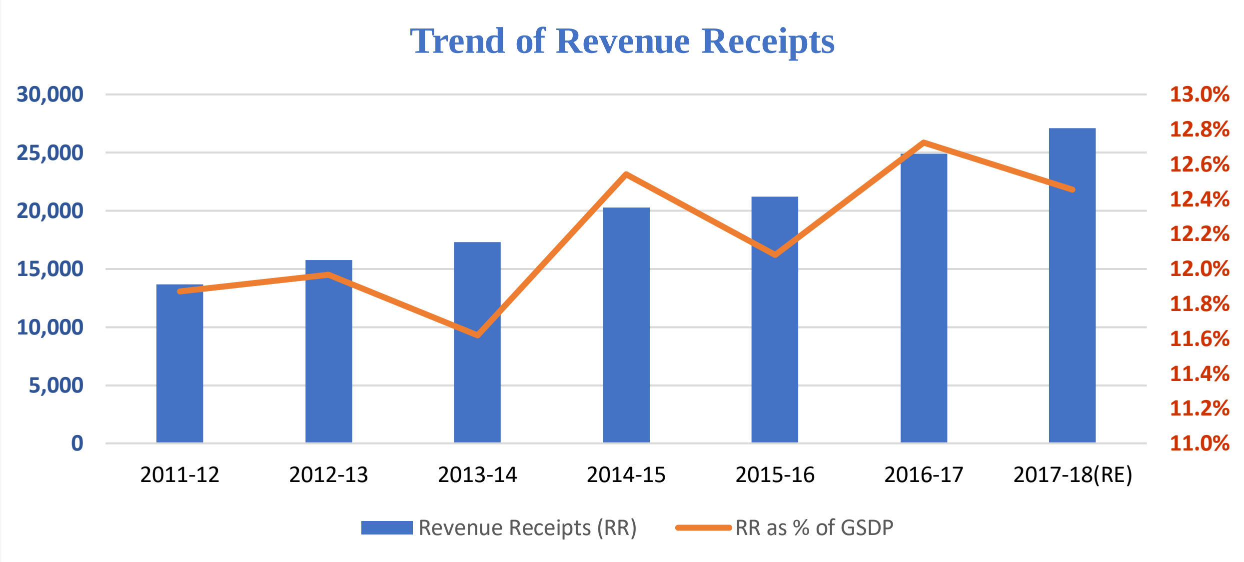
The CAGR of GSDP at current prices for the period 2011-12 to 2017-18 was 11.2%, with the GSDP increasing from Rs 1,15,328 Crores to Rs 2,17,609 Crores. In the same period, the per-capita CAGR was 10%, showing an increase from Rs 1,00,305 to Rs 1,40,405 in 2017-18. The sectoral profile of GSDP of Uttarakhand, and its relative share over the years can be seen in Figure below:



The share of primary and secondary sector has continued to decline, with a corresponding increase in the share of tertiary sector.

2: Revenue Receipts of the State

2.1.1: The State of Uttarakhand has registered an increase in Total Revenue Receipts from Rs 13,691 crores in 2011-12 to Rs 27,105 crores in 2017-18(RE), displaying a CAGR of 12.1%. During the same period, the GSDP grew at a CAGR of 11.2%. The trend in growth of Revenue Receipt, both in absolute terms and in relation to GSDP is shown in Figure below:

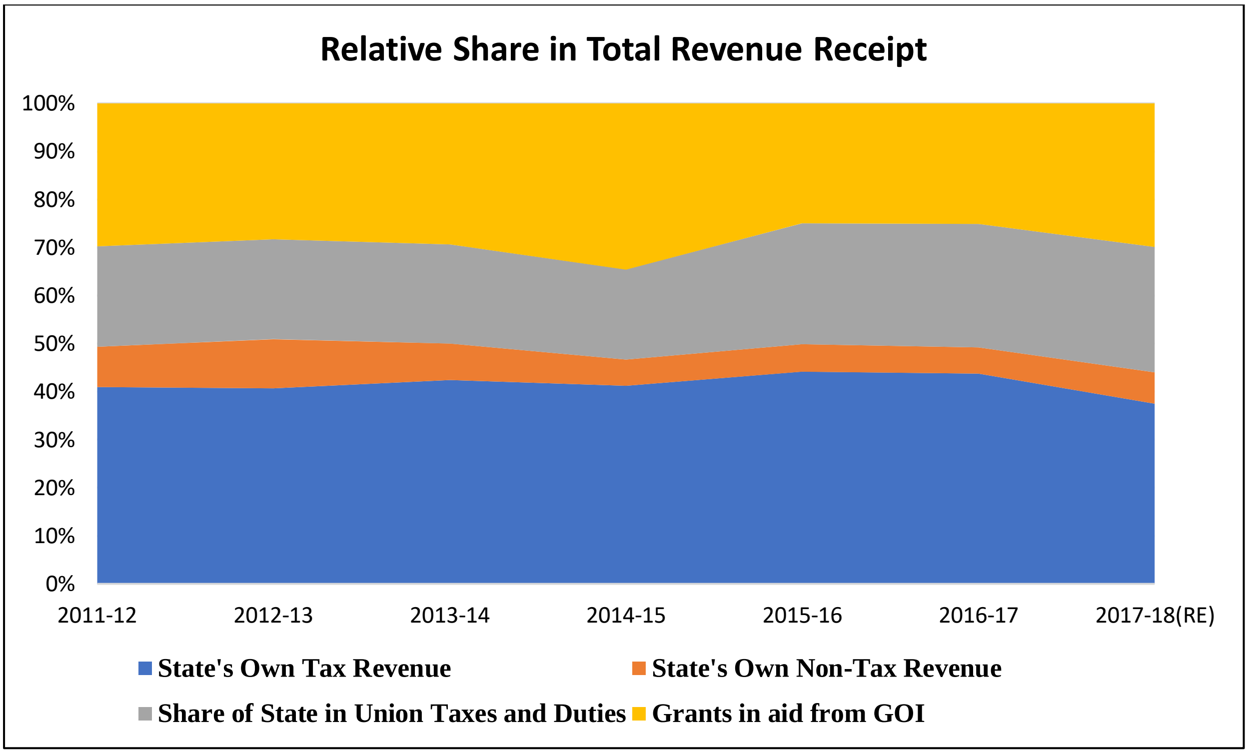


The break-up of Revenue Receipts of the State is shown in table below:

Total Revenue Receipt Break-Up (by Source)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18(RE)**
State's Own Tax Revenue	5,616	6,414	7,355	8,338	9,382	10,897	10,165
State's Own Non-Tax Revenue	1,136	1,603	1,317	1,110	1,220	1,346	1,770
Share of State in Union Taxes and Duties	2,866	3,273	3,573	3,792	5,329	6,412	7,085
Grants in aid from GOI	4,073	4,457	5,075	7,005	5,304	6,234	8,085
TOTAL Revenue Receipts (Rs Cr)	**13,691**	**15,747**	**17,321**	**20,247**	**21,234**	**24,889**	**27,105**

The Revenue profile of the State has been relatively stable over the past 6 years, with almost equal split between State's own revenue (Tax + Non-Tax), and the revenue receipt from Centre. However, as per 2017-18 (RE) the share of receipts from the Centre in total receipts is expected to rise to 56% of the total revenue receipts.



The own tax revenue, at around 5 % of GSDP of the State, has grown from Rs 5,616 Crore to 10,165 Crore in the reference period of 2011-12 to 2017-18(RE), showing a CAGR of 10.4%. The taxes on Sales, Trade etc constituted about two-thirds of the total tax revenue of the State. This tax has shown a CAGR of 14.45% till 2016-17. With the implementation of GST from July 2017 the share of this tax, inclusive of SGST, shows a decrease in 2017-18 (RE) compared to the previous year. State Excise is another important tax for the State, contributing about 20% of the total taxes and showing the highest CAGR of 17.7%.

The non-tax revenue of the State grew at a CAGR of 7.7% during the reference period, increasing from Rs 1,136 Crores to Rs1,769 Crores. Non-Tax revenue constituted 6.5% of the total revenue receipts of the State, and less than 1% of GSDP.

The grants-in-aid from GOI grew at a CAGR of 12.1% over the period 2011-12 to 2017-18(RE). There was a sharp fall in Grants-in-Aid in 2015-16, but it increased thereafter on account of higher funding for centrally sponsored schemes, and the NEC grant of Rs 1,283 Crores in 2017-18.

The immediate impact of GST implementation on State finances has been adverse. The State has seen a significant shortfall of 31% in GST collection vis-à-vis the projected growth in revenue of the subsumed Taxes in the first year of GST operation, i.e. in the period July 2017 to March 2018. The full impact of GST on the Tax Revenue profile of the State can only be known after GST stabilizes. However, based on the first year's performance, it is assessed that GST is unlikely to lead to an increase in Own Tax Revenue of the State as compared to the earlier Tax regime. A share in service tax would be insufficient to cover for a loss in the tax on Goods earlier levied by the State, at least in the short term. The State also lost revenue on account of the abolition of CST - the State had a large number of industries/manufacturing units within the boundaries of the state, whose produce was exported from the State, generating both economic activity within the State and revenue through CST for the State. The State is protected to some extent till the period of assured compensation through the GST Compensation provision applicable till the middle of 2022.

The State has made some efforts in augmenting its revenue and improving the Tax-GSDP ratio.

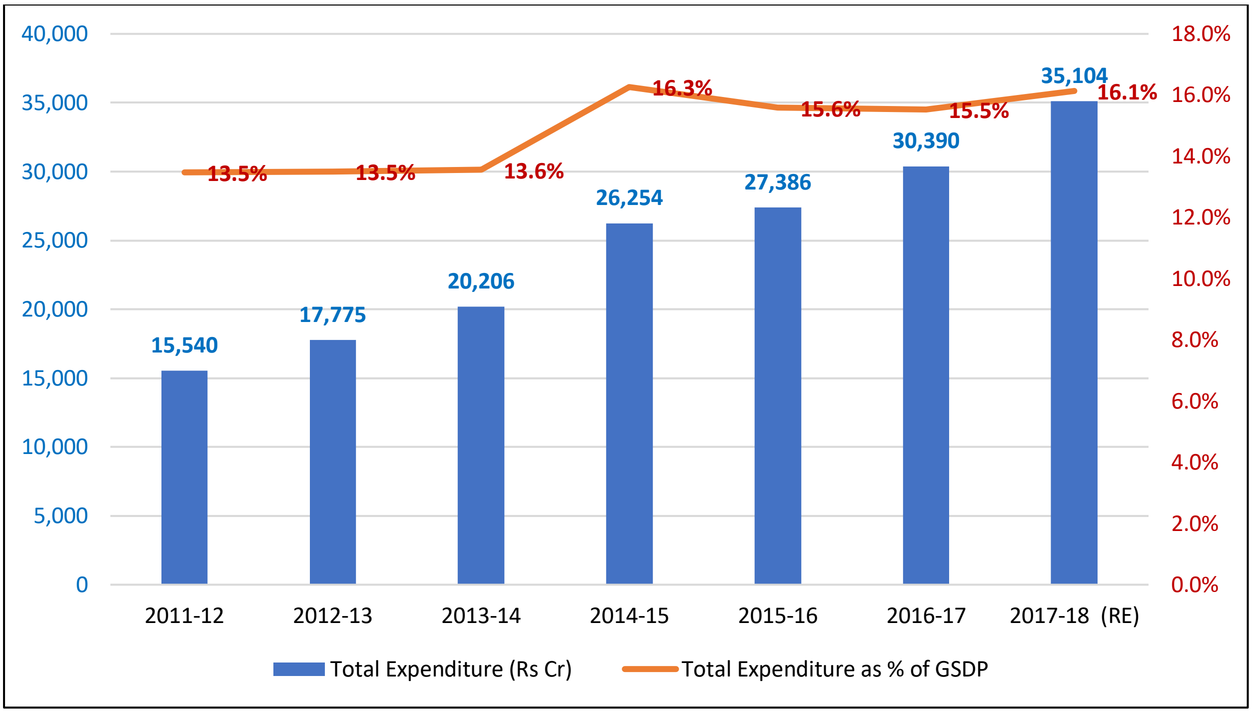
3: Expenditure

The total expenditure of the State has grown in absolute terms from Rs.15,540 Crores in 2011-12 to Rs.35,104 Crores in 2017-18 (RE), showing a CAGR 14.4%. The table below shows the breakup of expenditure.

In Rs Crore

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**	**CAGR**
Revenue Expenditure	12,975	13,960	16,216	21,164	23,086	25,271	29,113	14.3%
Capital Expenditure (Outlay)	2,317	3,542	3,712	4,939	4,217	4,954	5,915	16.4%
Loans and Advances	247	273	278	151	83	165	77	-7.8%
Total Expenditure	15,540	17,775	20,206	26,254	27,386	30,390	35,104	14.4%
Total Expenditure (as % of GSDP)	13.5%	13.5%	13.6%	16.3%	15.6%	15.5%	16.1%	

However, in relation to GSDP, the total expenditure has shown only a moderate increase from 13.5% of GSDP in 2011-12 to 16.1% in 2017-18, as can be seen in the figure below:



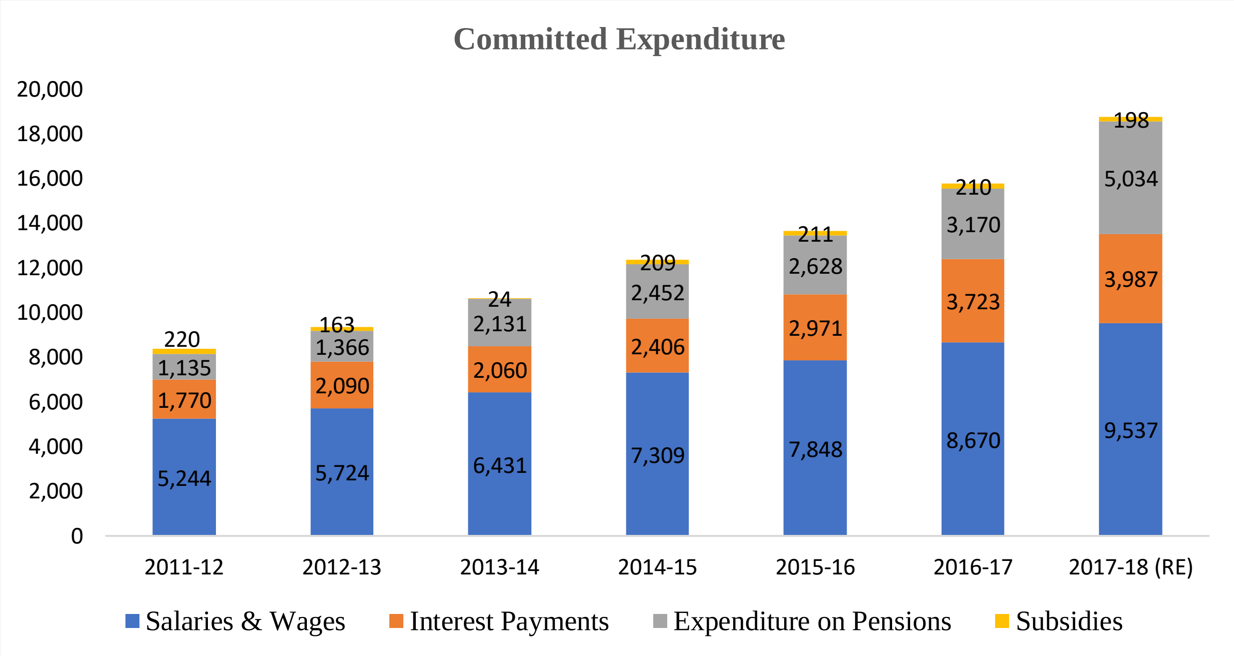
The expenditure breakup between Revenue Expenditure and Capital has remained largely constant with Capital Expenditure constituting 16-18% of the total expenditure. The share of Loans and Advances has been low and dipped sharply to 0.2% of the total expenditure by 2017-18 (RE).

The increase in revenue expenditure from 11.3% to 13.4% of the GSDP during the period 2011-12 to 2017-18 (RE) has been only partially matched by a corresponding increase in Revenue Receipts. The State has been posting a revenue deficit for the last four years, while in the earlier three-year period of 2011-12 to 2013-14, the state had managed a revenue surplus.

In Rs Crore

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
Revenue Expenditure	12,975	13,960	16,216	21,164	23,086	25,271	29,113
Revenue Receipts	13,691	15,747	17,321	20,247	21,234	24,889	27,105
Deficit (-) / **Surplus** (+)	**+716**	**+1,787**	**+1,105**	**-917**	**-1,852**	**-382**	**-2,008**

The share of committed expenditure in total revenue expenditure has remained nearly the same at around 65%. Expenditure on interest payment has shown a CAGR of 14.5%, and now forms 14.7% of the total revenue receipts of the State in 2017-18. The growth in committed expenditure along with its breakup can be seen in the figure below:



The total Capital expenditure of Uttarakhand went up from Rs 2,317 crores in 2011-12 to Rs 5,915 crores in 2017-18(RE), showing a CAGR of 16.9%. As a percentage of GSDP, this accounts for an increase from 2.0% in 2011-12 to 2.7%. However, at 2.5 to 2.7% of GSDP, this is relatively low, at nearly half of the aggregate for Special Category States, which makes Uttarakhand stands last (11th) among the special category states with respect to Capital Expenditure as a percentage of GSDP.

The State government has implemented some measures to stop leakages and improve efficiency in expenditure. The last few years has seen the state running a significant revenue deficit, which places limits on increasing expenditure further. The state will have to find a way to manage its limited resources and spend optimally.

4: Debt, Deficit and FRBM Act Compliance

Uttarakhand Government passed its own Fiscal Responsibility and Budget Management in 2005 in compliance with the recommendations of the 12th Finance Commission. This was further modified in March 2011 and December 2016 in accordance with the recommendations of 13th and 14th Finance Commission respectively.

The 14th FC had prescribed a Fiscal Consolidation roadmap which was incorporated in the FRBM Act of the State through an amendment in year 2016.

The performance of Uttarakhand against the indicators used by the 14th FC in recommending the fiscal consolidation roadmap is given in Table below.

Compliance with Fiscal Consolidation Roadmap

	Interest Payment as % of Revenue Receipts	**Fiscal Deficit as % of GSDP**	**Public Liabilities as % of GSDP**	**Revenue Surplus / Deficit (-)**
	Threshold: 10%	**Threshold: 3% (Enhanced 3.5% - 3.25 % for UK)**	**Ceiling: 25%**	**Threshold: Revenue Surplus**
2015-16	13.99%	-3.48%	22.23%	-1,852
2016-17	14.96%	-2.79%	22.79%	-382
2017-18(RE)	14.71%	-3.55%		-2,008

Uttarakhand has been unable to comply with the fiscal consolidation roadmap recommended by the 14^{th} FC. It has breached the permissible Fiscal Deficit limit of 3.25%, and it has a high burden of interest payment, in excess of the desirable 10% (or below) of Revenue Receipts.

The Revenue Deficit, Fiscal Deficit and Primary Deficit of Uttarakhand are shown in the table below, both in absolute terms (Rs Crore) and as a % of GSDP, as also Interest Payment as % of Revenue Receipts.

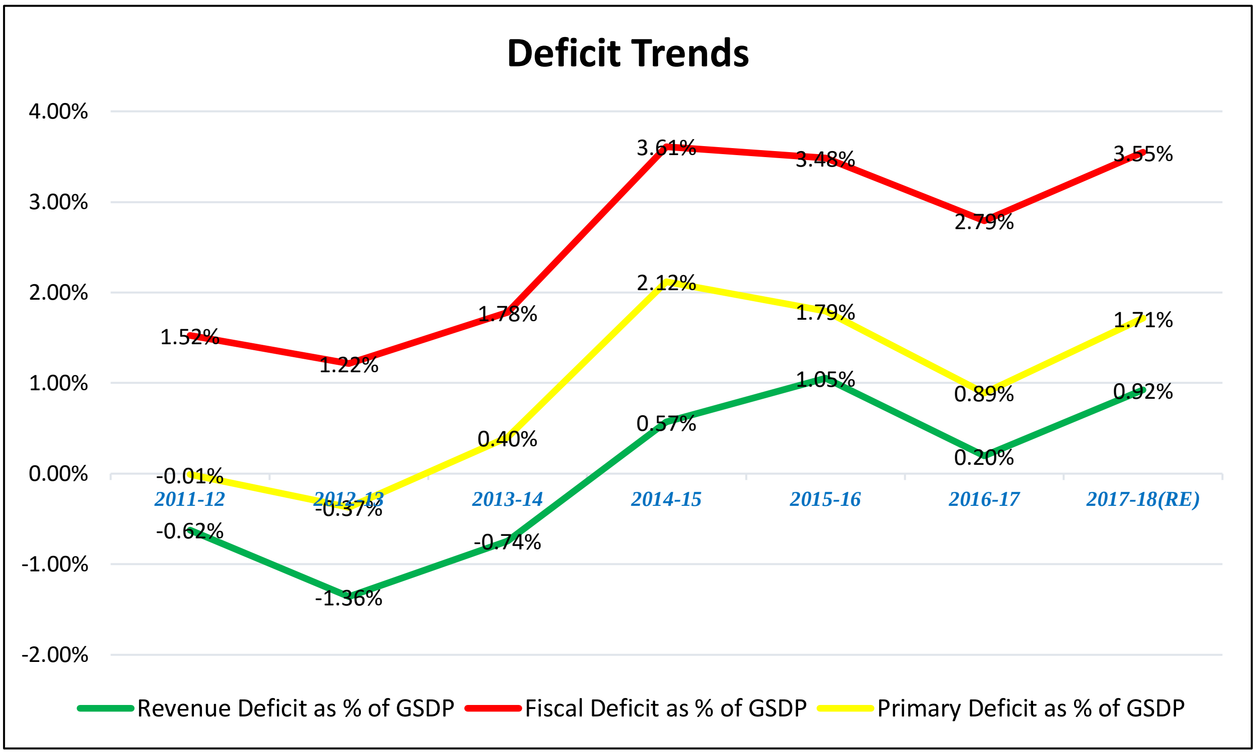
Trend of Fiscal Parameters

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18(RE)**
Revenue Deficit	-716	-1,787	-1,105	917	1,852	382	2,008
Fiscal Deficit	1,757	1,600	2,650	5,826	6,125	5,467	7,716
Primary Deficit	-12	-489	594	3,420	3,154	1,744	3,729
GSDP	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609
Revenue Deficit* as % of GSDP	-0.62%	-1.36%	-0.74%	0.57%	1.05%	0.20%	0.92%
Fiscal Deficit as % of GSDP	1.52%	1.22%	1.78%	3.61%	3.48%	2.79%	3.55%
Primary Deficit* as % of GSDP	-0.01%	-0.37%	0.40%	2.12%	1.79%	0.89%	1.71%
Interest Payment (as % of Revenue Receipts)	12.93%	13.27%	11.89%	11.88%	13.99%	14.96%	14.71%

The state has not had a revenue surplus in the last four years (2014-15 onwards).

The trend of the three critical fiscal parameters as % of GSDP is shown in Figure below

Trend of Fiscal Deficit, Primary Deficit and Revenue Deficit



The fiscal deficit of the State has ranged from 1.22% of the GSDP in 2012-13 to 3.55% of the GSDP in 2017-18. In the FC-14 award period from the year 2015-16 onwards, the fiscal deficit has averaged 3.28%, which is higher than the permissible upper enhanced limit of 3.25% recommended in the Fiscal Consolidation roadmap recommended by the 14th FC and included in the state FRBM legislation. In place of revenue surplus targeted in the 14th FC award period, the State has run a deficit, averaging 0.72% in the period 2015-16 to 2017-18. Thus, almost a fourth of the deficit incurred by the State has gone towards meeting its revenue expenditure.

Uttarakhand is the only state among the Special Category States with a Revenue Deficit in each of the three years of 2015-16 to 2017-18. However, the Fiscal Deficit of Uttarakhand has been lower than that shown by most of the other Special Category States.

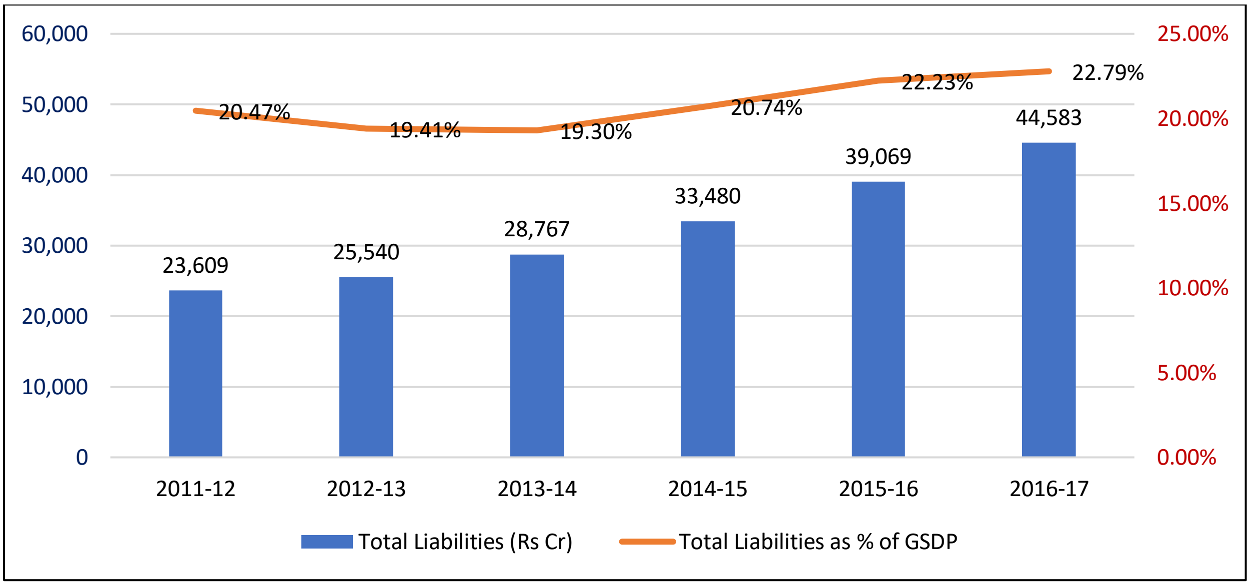
Uttarakhand has the highest burden of Interest Payment when measured as a percentage of Revenue Expenditure. This is over 14% as against the average 8.8% of other Special Category States, and also against the all States average of 11.8%. Interest payment is about 1.7-1.8% of the GSDP, thus, over 50% of the Fiscal Deficit incurred goes towards payment of interest.

The Debt position of the State with breakup of the components of Debt, both in absolute terms and as % of GSDP is shown in Table below:

Public Debt and Other Liabilities of the State

Year	Internal Debt	Loans from GOI	Public Account and other Liabilities	Total Liabilities	Total Liabilities as % of GSDP	GSDP
2011-12	16,848	455	6,306	23,609	20.47%	1,15,328
2012-13	18,337	462	6,741	25,540	19.41%	1,31,613
2013-14	20,910	445	7,411	28,767	19.30%	1,49,074
2014-15	24,557	478	8,446	33,480	20.74%	1,61,439
2015-16	29,292	544	9,232	39,069	22.23%	1,75,772
2016-17	34,555	655	9,373	44,583	22.79%	1,95,606
CAGR	**15.4%**	**7.5%**	**8.2%**	**13.6%**		**11.1%**

In the period 2011-12 to 2016-17, while the Total Liabilities more than doubled from Rs 16,847 Crores to Rs 34,555 Crores, when viewed as a per cent of GSDP, it has only marginally increased from 20.47% in 2011-12 to 22.79% in 2016-17, as can be seen in the figure below



The Total Liabilities-GSDP ratio of the State has consistently been better than those of other special category States, with only Assam having a lower debt to GSDP ratio than Uttarakhand.

The Fiscal consolidation roadmap required all States to be revenue surplus, such that the permitted Fiscal Deficit is utilized for productive Capital Expenditure. The table below show the broad breakup of utilization of Fiscal Deficit.

Utilisation of Fiscal Deficit

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Deficit / Surplus (-)	-716	-1,787	-1,105	917	1,852	383
Net Capital Expenditure	2,317	3,542	3,532	4,804	4,217	4,954
Net Loans and Advances	156	-155	223	105	56	130
Fiscal Deficit	**1,757**	**1,600**	**2,650**	**5,826**	**6,125**	**5,467**
Revenue Deficit / Surplus (-) as % of Fiscal Deficit	*-40.8%*	*-111.7%*	*-41.7%*	*15.7%*	*30.2%*	*7.0%*
Net Capital Expenditure as % of Fiscal Deficit	*131.9%*	*221.4%*	*133.3%*	*82.5%*	*68.8%*	*90.6%*
Net Loans and Advances as % of Fiscal Deficit	*8.9%*	*-9.7%*	*8.4%*	*1.8%*	*0.9%*	*2.4%*

In the three-year period from 2014-15 to 2016-17, the Fiscal Deficit was also utilized for financing the Revenue Expenditure of the State and Capital Expenditure formed, on average, only 80% of the Fiscal Deficit.

Debt sustainability is fundamentally a probabilistic concept - Debt is rarely sustainable with probability of one. Uttarakhand has not fared well against the Fiscal Consolidation roadmap prescribed by the 14th FC. It has run a revenue deficit instead of surplus, and has breached the annual Fiscal Deficit ceiling of 3.25% in two of the three years of 14th FC award period. However, its total debt to GSDP has remained range bound.

The FRBM Review Committee in its report has examined the issue of debt sustainability, and finally recommended using debt as the primary target for fiscal policy and fiscal deficit as operational target. A target of debt to GDP ratio of 60% was recommended, with a 40% limit for the Centre and 20% limit for the States as a whole. The Committee however did not recommend inter-se debt levels for individual States, and instead recommended that the Union government entrust this task to the 15th Finance Commission.

The Debt to GSDP of Uttarakhand at 23.1% is already higher than the All-States target of 20%. The permissible level of Primary Deficit which would allow the debt to GSDP to remain stable at the current level was computed for varying rates of Growth of GSDP and rates of interest. The maximum permissible Primary deficit was determined as 1.13%, which occurs under the combined favourable circumstance of a GDP growth rate of 12.5% and Interest rate of 7%. At the other extreme, the permissible Primary deficit could be as low as 0.32% if the GSDP growth rate is lower (10%) and Interest rate is higher (8.5%). A more conservative middle estimate of a growth of 11.5% and

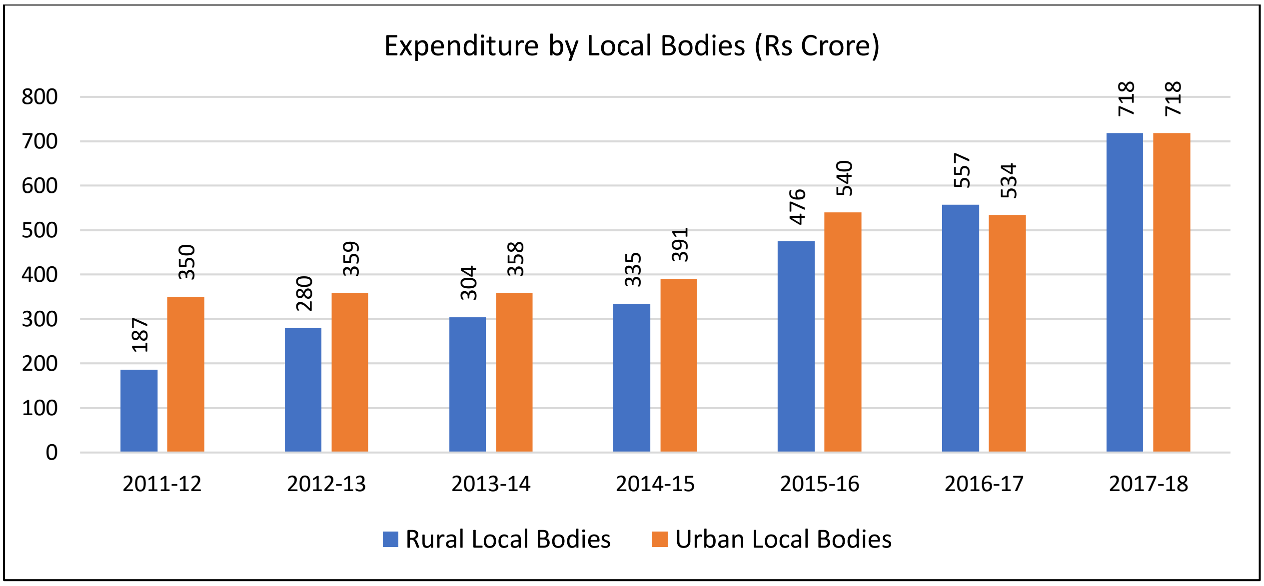
Interest rate of 7.5% leads to a permissible Primary deficit of 0.83%. Uttarakhand has averaged a Primary Deficit of 1.47% in the last three years. This is higher than the best possible case of a permissible Primary Deficit of 1.13 % of GSDP. Thus, Uttarakhand is left with very little leeway to even sustain its current borrowing rate leading to a Fiscal Deficit of 3% or higher to fund its much-required development expenditure. The current level of Debt to GSDP is bound to increase further unless expenditure is curbed, and to that extent, the target of 20% of Debt to GSDP for Uttarakhand appears difficult to achieve in the short to medium run.

The state needs to ramp up its Capital expenditure. Its own tax revenue base is fairly weak, and it would need to borrow, and then invest in required Capital assets both efficiently and effectively to ensure higher growth and income generation. It would be possible for the State to stabilise at a Debt to GSDP level of around 26% over the next 5 years by limiting its fiscal deficit to a maximum 3.5% of GSDP for the first two years, reduce to 3.25% in the next three years of the 15th FC award period, and thereafter, maintain the Fiscal Deficit at 3% such that the debt to GSDP stabilises around 26.1% from 2024-25 onwards.

Contingent Liabilities: No law has been enacted by the State Legislature under Article 293 of the Constitution fixing the maximum limit within which the government could give guarantees on the security of the Consolidated Fund of the State. The outstanding amount of guarantees in the nature of contingent liabilities has been showing a decreasing trend, and at the end of 2016-17, it was about 5 per cent of the total Revenue Receipts of the State.

5. Transfers to Urban and Rural Local Bodies

Both urban and rural local bodies in Uttarakhand depend on Central government, Central Finance Commission and State Government for their finances. The 4th State Finance Commission of Uttarakhand has recommended 11% of the States own tax revenue as the devolution amount for Local bodies, covering the award period from 1st April 2016 till 31st March 2021. As per SFC recommendation, the share of ULBs has been kept at 55% and that of the PRIs at 45% of the divisible pool. The expenditure of Local Bodies in the period 2011-12 to 2017-18 is shown in figure below:



While there has been an increase in the receipts of the urban and local bodies, it has come mainly through the increased transfers from the FC and through the devolution by the State Government. The own revenues of the local bodies, both rural and urban, remain low.

6. State Public Sector Enterprises

Uttarakhand has a total of 25 PSUs of which 4 are non-operational. The working PSUs registered a turnover of Rs 7,173 as per accounts for 2015-16, which formed 3.90% of State GSDP. The PSUs turned in a profit of Rs. 283 crores in 2014-15, and of Rs. 101 crores in 2015-16. However, the overall accumulated loss of the PSUs at the end of 2015-16, taken collectively, is high at Rs 1949 Crores. The State Government has not formulated any dividend policy under which PSUs would be required to pay a minimum return on the paid-up share capital contributed by the State government. During the year 2015-16, no dividend was declared by any of the PSUs.

7. Impact of Power Sector Reforms on State's Fiscal Health

The UDAY scheme did not have a direct impact on the State's Fiscal health, as the tripartite agreement under the UDAY scheme signed between Ministry of Power, the distribution utility (UPCL - Uttarakhand Power Corporation Limited) and government of Uttarakhand did not call for the State Government to issue any bonds to take over the debt of the utility. It instead envisaged a turnaround of the power utilities in Uttarakhand leading to additional revenue of around Rs 645 crores during the period of turnaround on account of reduction in AT&C Losses and Transmission losses to 14.50% and 1.78% respectively. The state power utility, UPCL has been one of the top ranked power sector utilities on operational and financial performance based on the ratings done in 2017 Ministry of Power and Power Finance Corporation.

8. Subsidies

The quantum of subsidies given by the Uttarakhand Government has largely remained below Rs 300 crores in the period 2011-12 to 2017-18. As a percentage of revenue expenditure, expenditure on subsidies has never crossed 2% and was for most years ranged between 1% to 1.5% of revenue expenditure.

9. Outcome Evaluation based on Recommendations of 14th FC

The task before FC in making projections on multiple Fiscal parameters is not easy. In case of Uttarakhand, the projections have overestimated the revenue, and underestimated the committed expenditure on Interest and Pension. The actual GSDP growth in the range of 11-12% was also significantly lower than the estimate made by 14th FC of 17% annual growth. Uttarakhand was not assessed to be in need of Revenue Deficit grant by the 14th FC, as it was estimated that the State would have a post-devolution revenue surplus of Rs 274 Crores in 2015-16, increasing steadily over the award period with a surplus of Rs 2157 Crores in 2016-17 and Rs 4709 Crores in 2017-18. However, the State had a sizeable Revenue Deficit of Rs 1,852 Crores, Rs 382 Crores and Rs 2,008 Crores in the first three years of the 14th FC Award period.

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Chapter 1: Social and Economic Profile of Uttarakhand

1.1. Background of the State

1.1.1: The State of Uttarakhand came into existence in year 2000. It is one of the Special Category States (SCS) as per the categorisation made by the Government of India (GoI). The state of Uttarakhand is bounded by Nepal in the east, China in the north, Himachal Pradesh in the west and Uttar Pradesh in the south. It is divided into two divisions, Garhwal and Kumaon, with a total of 13 districts. The total geographic area of the State is 53,483 sq km, of which 86% is mountainous and 65% is covered by forest.

1.1.2: Most of the northern parts of the state are part of the Greater Himalaya ranges, covered by the high Himalayan peaks and glaciers. Two of India's mightiest rivers, the Ganges and the Yamuna take birth in the glaciers of Uttarakhand. Many national parks and sanctuaries such as the Jim Corbett National Park, Valley of Flowers National Park, Nanda Devi National Park, Rajaji National Park, Govind Pashu Vihar National Park, and Gangotri National Park are situated in Uttarakhand. The languages spoken in Uttarakhand besides Hindi, include Garhwali, Kumaoni and Jaunsari.

1.1.3: Uttarakhand is primarily a mountainous state with only about ten percent of its total geographical area in the plains. Of the thirteen districts, Haridwar, Udham Singh Nagar and some parts of Dehradun and Nainital districts are in the plains, while the remaining areas of the state are hilly.

1.1.4: It has a population of just over 10 million[1] and achieves above the national average for average household expenditures, literacy, and on many health indicators[2]. Further, with nearly three-fourths (69.5 percent) of its total population dependent on agriculture for livelihood, the economy of Uttarakhand is predominantly reliant on mountain agriculture.

1.2 Population Profile of the State

1.2.1: The growth rate of population has shown a consistent decline in the last three decades of 1981-1991, 1991-2001 and 2001-2011 and now stands across the decade of

[1] Census of India 2011

[2] Jean Drèze and Amartya Sen, An Uncertain Glory: India and Its Contradictions, (London: Penguin, 2013)

2001-2011 at 18.8%. However even with this reduction, Uttarakhand ranks 15th among all the states in terms of population growth rate.

1.2.2: It is primarily a rural state with 69.5 per cent of the people living in 15,761 villages. The urban population is mostly settled in the southern *Terai* region and the Doon valley. The percentage of rural population which was as high as 86% in 1951 has come down to 69.5% in the year 2011. Even with this reduction, the percentage of rural population is significantly higher than in other states, which shows a comparatively lower shift towards urbanization. The level of urbanisation in the state stands at a low of 30.2 per cent and, as the pace of development picks up, the pace and level of urbanisation would increase.

1.2.3: More than 90 per cent of the people in the mountain districts live in rural areas. There is a rapid increase in the population growth of districts in the plains, while regions such as Pauri Garhwal, Rudra Prayag and Pithoragarh having the highest number of uninhabited villages in Uttarakhand. The Census data reveals that the decade-wise population growth of hill district is at 12.75% while in the plains it is as high as 32%. Because of this variation, the socio-economic burden of the plains districts is significantly higher. The Great Himalaya region remains largely remote, sparsely populated and unspoiled.

1.2.4: Migration: Earlier, able-bodied men from impoverished mountain families migrated to other parts of the country in search of jobs or joined the army. Now entire families are migrating out of mountain villages to the four southern districts. This is reflected in the 2001–2011 decadal population growth data. The population in Pauri Garhwal and Almora has declined during the last decade. Many villages in Uttarakhand have become ‘ghost villages’ because hardly anyone lives there.

1.2.5: Sex Ratio and Literacy Rate: The sex ratio in Uttarakhand has changed marginally over the last decade from 962 in 2001 as compared to 963 in 2011 as per Census figures, and is better than the all India sex ratio of 943. So far as literacy is concerned, the state shows an improvement from 71.62% literacy rate in 2001 to 78.82% in 2011. In the same period, male literacy increased from 83.28% to 87.40%, while female literacy showed a quantum increase from 59.63% to 70.01%. As per the 2001 census, it was ranked 9th among all states in terms of literacy levels but has come down to 12th in 2011 since other states did far better in terms of improving literacy rate. The all India average literacy rate is 72.99% in 2011, hence the State fares better based on all India averages. However, the gap between the male and female literacy levels remains stubbornly high at about 18 per cent.

1.2.6 Mortality Rates: The overall mortality rate is about 6.4 per 1000 in the State in 2015 down from 7.4 per 1000 which translates into a decline of a 1 per 1000 over the last decade. This makes Uttarakhand one of the better performing states.

1.2.7 Birth Rates: In the years between 2010 to 2015 Uttarakhand has achieved a significant decline in birth rates, from 20.9 per 1000 population to 17.8 per 1000 population. It's birth rate is lower than the all-India average of 20.8.

1.2.8 Life Expectancy: Uttarakhand has an overall life expectancy of 71.7, which is higher than the all India average of 67.9, and ranked 4th among all States. The male life expectancy is 69.1 years while that of females is 74.5 years.

1.2.9 Infant Mortality Rate: The overall infant mortality rate in the state of Uttarakhand stands at 34 per 1000 births in the year 2015. This is significantly lower than the all India average of 41 per 1000 births. While the all India average dropped from 51 to 41 in the span of 5 years of 2010 to 2015, Uttarakhand saw a drop of only 4 from 38 to 34 in the same period. In fact, it showed a slight increase in the years of 2014 and 2015. Notwithstanding that, the state can be justifiably be proud of the fact that it regarded as one of the safest states in the country for new-borns.

1.2.10 Fertility Rate: The State has managed to reduce its fertility rate from 2.6 in 2005 to 1.9 in 2016 as against a decline from 2.9 to 2.3 all India. The decline in fertility rate in rural populations which is 2.7 to 1.9 is even more commendable, given that the all India average only fell from 3.2 to 2.5.

1.3. Poverty Estimates

Based on the Lakdawala methodology using the Mixed Recall period method and compiled by NSSO, the number of persons below the poverty line in Uttarakhand were only 1.16 million in 2011-12 which is a slight decline from 1.79 million in 2009-10. The numbers are extremely low compared to overall numbers in the entire country and some of the other states such as Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Karnataka, and Jharkhand. With respect to overall percentage of population of the state, persons below the poverty line in Uttarakhand form approximately 11.26% of the State's population in 2011-12. This is a drastic fall from the 18% percent of the total population as classified as below poverty line registered in 2009-10 and 32.70% in 2004-05.

1.4 Social profile

The SC and ST population in Uttarakhand is just under 18 per cent. The small ST population is unevenly distributed in the state. The scheduled castes, the scheduled tribes, and women are amongst the vulnerable social groups in the state. Although the scheduled tribes constitute only 2.56 per cent of the population as compared to 15.17 per cent in the case of the scheduled castes, there is an added complication in that their social isolation is combined with physical isolation as well. Finally, women, especially rural women, are a particularly vulnerable group in Uttarakhand. As a result of a large section of the able-bodied men having moved out, the women constitute the main workforce in agriculture. They also take care of the cattle, collect fuel wood and fodder from forests, often situated at considerable distance from the villages involving four to five hours of walking both ways, and do all household chores. As mentioned earlier, there is also a considerable gap in the male and female literacy rates.

1.5 Infrastructure inequality

More than these social inequalities however, it is the geographical inequality between the hills and the plains of Uttarakhand that divides the state most critically. This geographical disparity manifests itself in the form of inter-district inequality. Four of the thirteen districts, namely, Nainital, Haridwar, Dehradun and Udham Singh Nagar, are in the plains or have large parts in the plains. Compared to the other nine districts, these districts are way ahead in terms of various indicators of development. The districts (Dehradun, Haridwar and Udham Singh Nagar) have a relatively high level of development, and three districts (Tehri Garhwal, Champawat and Chamoli) figure low in the development scale. The inter-district inequality is most acute in terms of various forms of infrastructure. The districts in the plains have much better infrastructure as compared to the districts in the hills. The inter-district inequality in infrastructure leads to inequality in terms of income and livelihood between the hills and the plains. The quality of life is particularly poor in the hilly areas compared to the plains.

1.6 Role of Tourism

Over a million pilgrims and tourists annually visit the five prominent shrines – Yamunotri, Gangotri, Kedarnath, Badrinath and Hemkund Sahib – in this region. Other tourists visit the state for adventure, its wilderness and scenic vistas. The tourism sector has to be developed extensively as a part of any policy programme for growth in Uttarakhand. However, the adverse impact of unregulated growth in this sector, particularly in terms of environmental degradation, cannot be ignored. An optimal tourism policy will have to assess the volume and quality of tourism that will not cause environmental degradation or overuse of urban infrastructure in the tourist destinations, and hence will be sustainable in the long run.

1.8 Economic Profile of Uttarakhand

1.8.1 Data estimates and sources

For the purposes of this study, the estimates of Gross State Domestic Product figures at current prices, with base year 2011-12, has been relied upon as a measure of productivity of the state economy. This is because in 2014-15, the Central Government has changed the base year of national income estimates to 2011-12. The series are not comparable with earlier 2004-05 series for multiple reasons, prominent among them being the change in the data sources to compute income estimates. The estimates of GSDP as well as the sectoral composition of GSDP have been taken from the website of Directorate of Economics and Statistics, Uttarakhand.

1.8.2 Estimates of GSDP

GSDP for the period 2006-07 to 2014-15: The overall CAGR for GSDP at current prices for the period 2006-07 to 2014-15 was 18% while that of per-capita at current prices was 16.1%. This can be seen in Table 1.1 below

Table 1.1: Income Estimates for the Period 2006-07 to 2014-15

	GSDP in INR crores				Per-capita income in INR			
	At current prices	Annual Growth Rate	Constant prices	Annual Growth Rate	At current prices	Annual Growth Rate	Constant prices	Annual Growth Rate
2006-07	36,795		32,190		35,111		30,644	
2007-08	45,856	24.6%	38,022	18.1%	42,619	21.4%	35,444	15.7%
2008-09	56,025	22.2%	42,832	12.7%	50,657	18.9%	38,621	9.0%
2009-10	70,730	26.2%	50,598	18.1%	62,757	23.9%	44,557	15.4%
2010-11	83,969	18.7%	55,667	10.0%	73,819	17.6%	48,525	8.9%
2011-12	97,858	16.5%	60,880	9.4%	85,372	15.7%	52,606	8.4%
2012-13	108,250	10.6%	65,414	7.4%	92,566	8.4%	55,375	5.3%
2013-14	122,897	13.5%	70,926	8.4%	103,716	12.0%	59,161	6.8%

2014-15	138,723	12.9%	77,552	9.3%	115,632	11.5%	63,820	7.9%

Source: Directorate of Economics and Statistics, Government of Uttarakhand and based on 2004-05 series

GSDP for the period 2011-12 to 2017-18: ***Table 1.2*** shows the GSDP and per capita income for Uttarakhand for the stated period based on the 20111-12 series. The per-capita income of the state at current price has gone up from Rs. 1,00,305 in 2011-12 to Rs. 1,77,356 in 2017-18. The per-capita income grew at 10% and 10.1% in the years 2016-17 and 2017-18(RE) respectively. The CAGR growth rate for GSDP at current prices was 11.2% The per-capita CAGR growth rates at current and constant prices were 10.0% and 5.8% respectively in the same period.

Table 1.2: Income Estimates for The Period 2011-12 to 2017-18

	GSDP in Rs crores				Per capita income in Rs			
	At current prices	Annual Growth Rate	Constant prices	Annual Growth Rate	At current prices	Annual Growth Rate	Constant prices	Annual Growth Rate
2011-12	1,15,328		1,15,328		1,00,305		1,00,305	
2012-13	1,31,613	14.1%	1,23,710	7.3%	1,13,610	13.3%	1,06,318	6.0%
2013-14	1,49,074	13.3%	1,34,182	8.5%	1,26,247	11.1%	1,12,803	6.1%
2014-15	1,61,439	8.3%	1,41,278	5.3%	1,35,881	7.6%	1,18,788	5.3%
2015-16	1,75,772	8.9%	1,51,901	7.5%	1,46,454	7.8%	1,26,306	6.3%
2016-17	1,95,606	11.3%	1,62,451	6.9%	1,61,102	10.0%	1,33,246	5.5%
2017-18	2,17,609	11.2%	1,73,444	6.8%	1,77,356	10.1%	1,40,405	5.4%

Source: Directorate of Economics and Statistics, Government of Uttarakhand and based on 2011-12 series

1.8.3 Comparison of State's growth rates vis-à-vis other states

Based on figures sourced from Niti Aaayog for the period 2011-12 to 2015-16, the CAGR of NSDP at current prices for the state during this period was 10.9% compared to Mizoram's 19.6% (highest) and 6.3% for Meghalaya(lowest). The corresponding CAGR for per capita income at current prices for the State was 9.5% as compared to 17.5% for Mizoram (highest) and 4.1% for Meghalaya (lowest). Given these growth figures, the state was ranked 22nd among 34 states based on current prices per capita income.

1.9 Sectoral Composition of GSDP and NSDP

The composition of the state GSDP as divided into sectors of Primary, Secondary and Tertiary has been presented in ***Table 1.3*** for the period 2006-07 till 2011-12 and thereafter ***Table 1.4*** for the period 2011-12 to 2017-18. From the trends in ***Table 1.3***, it is evident that the share of primary was decreasing over the years. As a result, shares of both the secondary and tertiary sectors increased marginally. As per the old series

(2004-2005), in 2011-12, the primary sector constituted 15.3%, the secondary, 35.3% and the tertiary 49.4% respectively of the GSVA.

Table 1.3: Sectoral Composition of GSDP for the Period 2006-07 till 2011-12

All Rs figures are in Rs Crores

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Primary	7,291.5	7,658.8	8,691.8	10,501.9	12,401.9	14,969.0
As % of GSVA	19.8%	16.7%	15.5%	14.8%	14.8%	15.3%
Secondary	11,945.7	15,997.3	19,251.8	24,154.0	29,319.3	34,551.7
As % of GSVA	32.5%	34.9%	34.4%	34.1%	34.9%	35.3%
Tertiary	17,558.2	22,199.6	28,081.2	36,074.2	42,247.9	48,337.0
As % of GSVA	47.7%	48.4%	50.1%	51.0%	50.3%	49.4%
GSDP at market prices	36,795.4	45,855.7	56,024.8	70,730.1	83,969.1	97,857.7

Source: Directorate of Economics and Statistics, Government of Uttarakhand and based on 2004-2005 series

As evident in ***Table 1.4*** based on the series of 2011-12, there is still a declining trend for the primary sector which has come down from 14%% of GSVA to 11.1% of GSVA from 2011-12 to 2017-18(RE). The contribution of the secondary sector to the GSDP has declined from 52.1% to 49.2% from 2011-12 to 2017-18(RE), along with the rise in the share of Tertiary sector from 33.9% to 39.7%. The average figures for sectoral contribution over the period 2011-12 to 2017-18(RE) are Primary (12.6%), Secondary (50.8%) and Tertiary (36.6%).

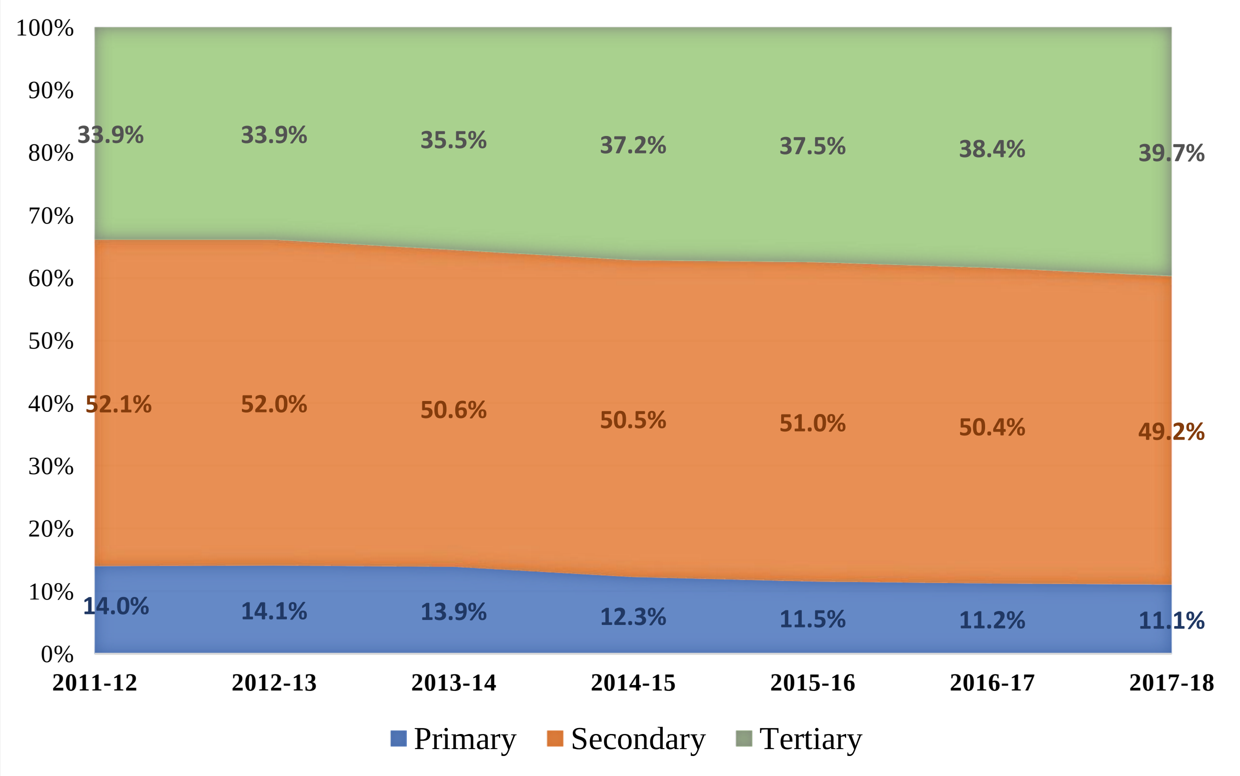
Table 1.4: Sectoral Composition of GSDP for the Period 2011-12 to 2017-18

All Rs figures are in Rs Crores

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Primary	15,163	17,424	19,339	18,481	18,804	20,061	21,472
In % of GSDP	14.0%	14.1%	13.9%	12.3%	11.5%	11.2%	11.1%
Secondary	56,470	64,360	70,579	76,032	83,132	90,343	95,562
In % of GSDP	52.1%	52.0%	50.6%	50.5%	51.0%	50.4%	49.2%
Tertiary	36,700	41,966	49,586	55,973	61,094	68,859	77,070
In % of GSDP	33.9%	33.9%	35.5%	37.2%	37.5%	38.4%	39.7%
GSDP at market prices	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609

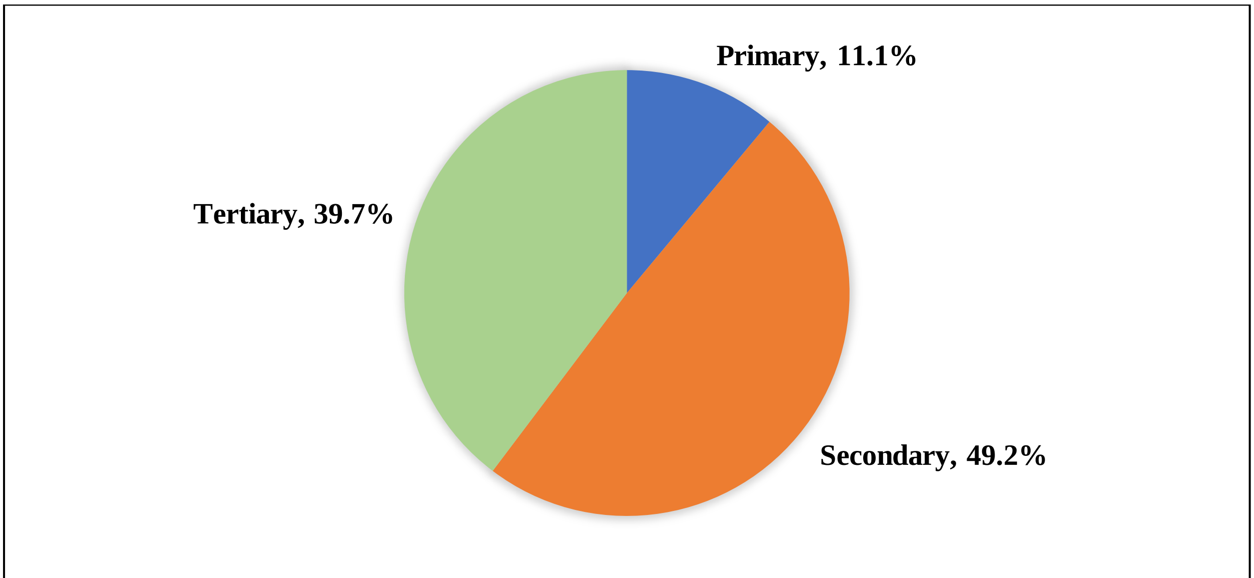
Source: Directorate of Economics and Statistics, Government of Uttarakhand and based on 2011-12 series

Figure 1.1: Trend of Relative Share of Sectoral Composition of GSDP for the Period 2011-12 to 2017-18



The relatives share of the Sectors in 2017-18 is given in Figure 1.2 below:

Figure 1.2: Relative Share of Sectors in 2017-18



1.10 Growth rates of Sectoral Composition

Table 1.5 presents the overall average percentage composition and CAGR growth rates for each of the sub-components of GSDP. As can be seen, the sub-sectors growing the fastest are Livestock (10.8%), Manufacturing (9.3%), Electricity and Utilities (9.5%), Construction (11.8%), Transport, storage etc (15.0%), Railways (18.2%), Transport other than Railways (9.8%), Communication and services(17.0%), Trade, repair and hotels(13.3%), Financial Services (11.1%), Real Estate(10.3%) and Public Administration (12.8%).

The two major contributors to the state GSDP in their individual capacity are manufacturing, constituting 36.6%, and trade, repair, hotels and restaurants constituting 11% of the overall GSDP.

Table 1.5: Sectoral Average % Composition & CAGR During 2011-12 to 2017-18

	Component	**Average Sectoral Contribution**	**CAGR (2011-12 to 2017-18)**
1	Agriculture, forestry and fishing	10.0%	5.0%
1.1	Crops	5.4%	2.8%
1.2	Livestock	2.5%	10.8%
1.3	Forestry and logging	2.1%	3.9%
1.4	Fishing and aquaculture	0.0%	8.6%
2.	Mining and quarrying	1.6%	7.8%
	Primary	**11.6%**	**5.4%**
3.	Manufacturing	36.6%	9.3%
4.	Electricity, gas, water supply & other utility services	3.0%	9.5%
5.	Construction	7.8%	11.8%
	Secondary	**47.4%**	**9.7%**
	Industry	48.9%	9.6%
6	Transport, storage, communication & services related to broadcasting	6.6%	15.0%
6.1	Railways	0.1%	18.2%
6.2	Transport by means other than railways	1.9%	9.8%
6.3	Storage	0.0%	4.9%
6.4	Communication & services related to broadcasting	4.6%	17.0%
7	Trade, repair, hotels and restaurants	11.0%	13.3%
8.	Financial services	2.5%	11.1%
9.	Real estate, ownership of dwelling & professional services	5.0%	10.3%
10.	Public administration	3.5%	12.8%
11.	Other services	5.4%	17.4%
	Tertiary	**34.0%**	**13.6%**

Source: Computed from figures of sectoral composition of GSDP

1.11 Summary – Social and Economic Profile

1.11.1: The overall health, social and demographic profile of the state has shown improvement based on the National Family Health Survey-IV figures for 2014-15 compared to the NFHS-III which was done in 2004-05. Compared to the previous decade, some of the areas where the state has fared well are- sex ratio at birth, households with electricity, access to sanitation, access to health insurance, age of marriage of women, under-5 mortality rate, rates of stunting and wasting among children, anaemia, percentage of people Below Poverty Line (BPL). It also ranks high in terms of gender empowerment and lower rate of gender-based violence indices.

1.11.2: The peculiarity of the geography implies that specific sectors like horticulture (both fruit and vegetable cultivation) have a comparative advantage in the region due to its agro-climatic conditions have growth potential. Similarly, given its natural resources and scenic beauty, the State is ideally suited for the development of the tourism sector.

1.11.3: Climate change has emerged as a critical issue in this disaster-prone state, which needs to be factored into the state's development programs. Uniformity in development between the southern plains districts and mountain population engaged in agriculture and related activities needs attention. Uttarakhand needs to adapt to a model of rapid economic growth that is both equitable and sustainable.

1.11.4: The share of the tertiary sector has been increasing resulting in the share of the primary sector and the secondary sector coming down in the state GSDP. The share of the primary sector has gone down and now contributes less than 10% to the state GSDP. In comparison the secondary sector has grown at 9.7% CAGR while that of the tertiary has grown the fastest at 13.6%.

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Chapter 2: Revenue Receipts

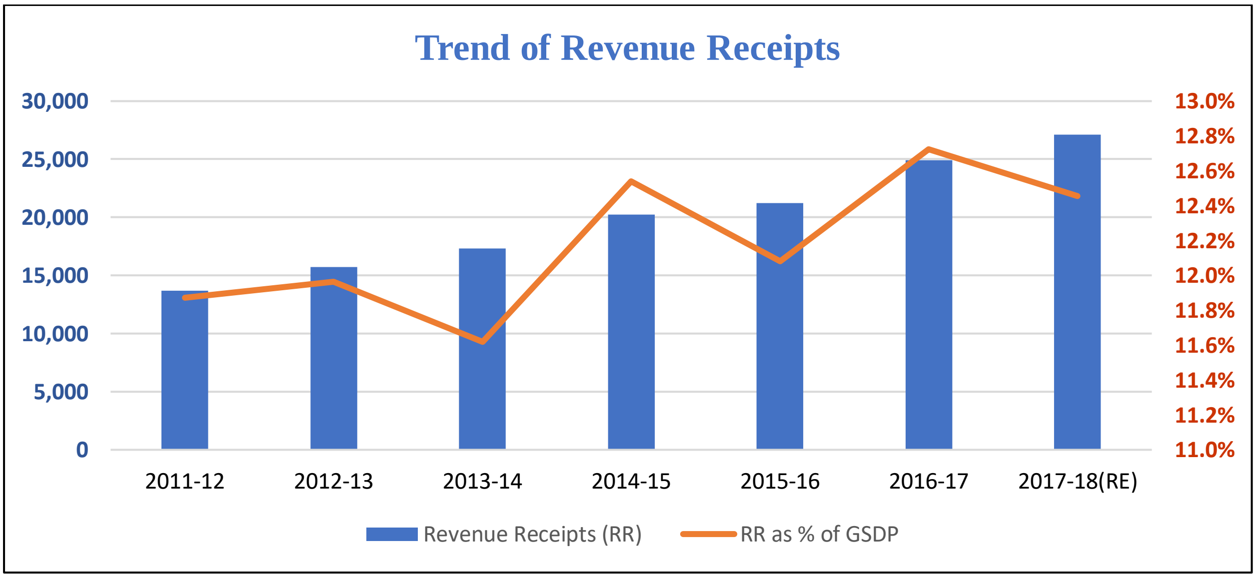
2.1. Overview of Revenue Receipts of the State

2.1.1: The State of Uttarakhand has registered an increase in Total Revenue Receipts from Rs 13,691 crores in 2011-12 to Rs 27,105 crores in 2017-18(RE), displaying a CAGR of 12.1%. During the same period, the GSDP grew at a CAGR of 11.2%. The trend in growth of Revenue Receipt, both in absolute terms and in relation to GSDP is given in Table 2.1 and Figure 2.1 below, along with breakup up of Revenue by source.

Table 2.1: Trend of Revenue Receipts (All Figures in Rs Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)
Revenue Receipts (RR)	13,691	15,747	17,321	20,247	21,234	24,889	27,105
Rate of Growth of Revenue Receipts	15.0%	10.0%	16.9%	4.9%	17.2%	8.9%	
RR as % of GSDP	11.9%	12.0%	11.6%	12.5%	12.1%	12.7%	12.5%
GSDP (2011-12 Series - Current Price)	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609
Breakup of Revenue Receipts							
State's Own Tax Revenue	5,616	6,414	7,355	8,338	9,382	10,897	10,165
State's Own Non-Tax Revenue	1,136	1,603	1,317	1,110	1,220	1,346	1,770
Share of State in Union Taxes and Duties	2,866	3,273	3,573	3,792	5,329	6,412	7,085
Grants in aid from GOI	4,073	4,457	5,075	7,005	5,304	6,234	8,085

Figure 2.1: Trend of Revenue Receipts



2.1.2: Figure 2.2 below shows the growth trend of break-up of the four components of Revenue Receipts, while Figure 2.3 below shows the change in relative share in total Revenue in the period 2011-12 to 2017-18.

Figure 2.2: Trend of Revenue Receipt by Source (In Rs Crore)

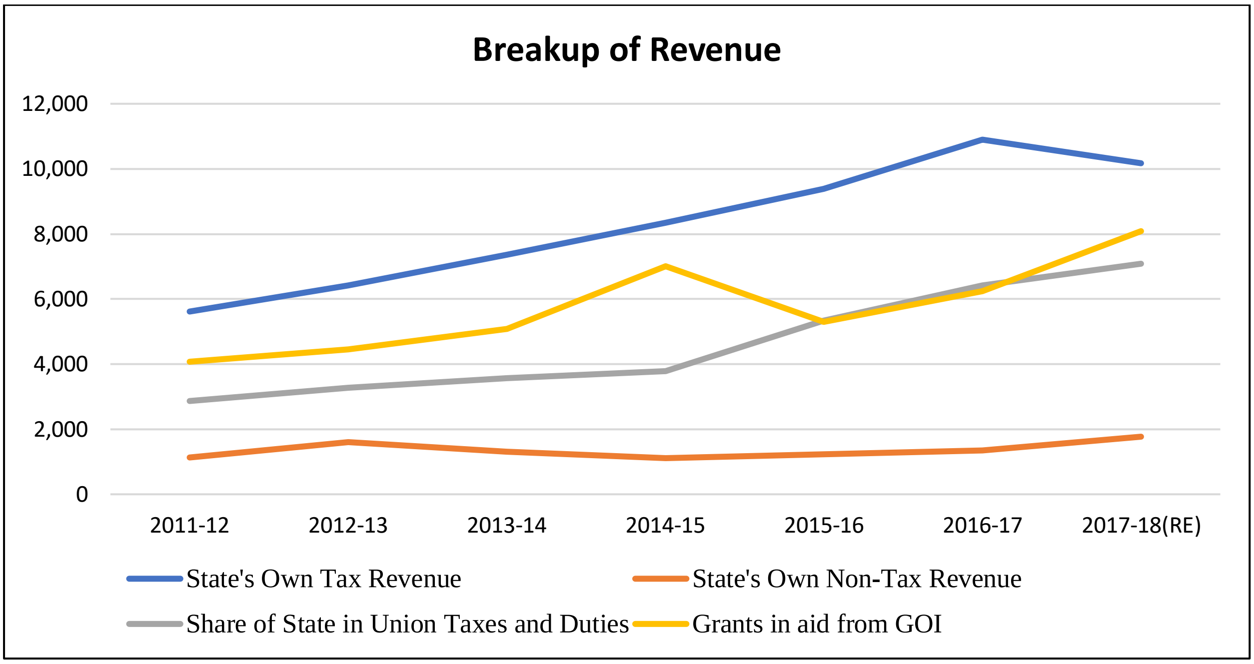
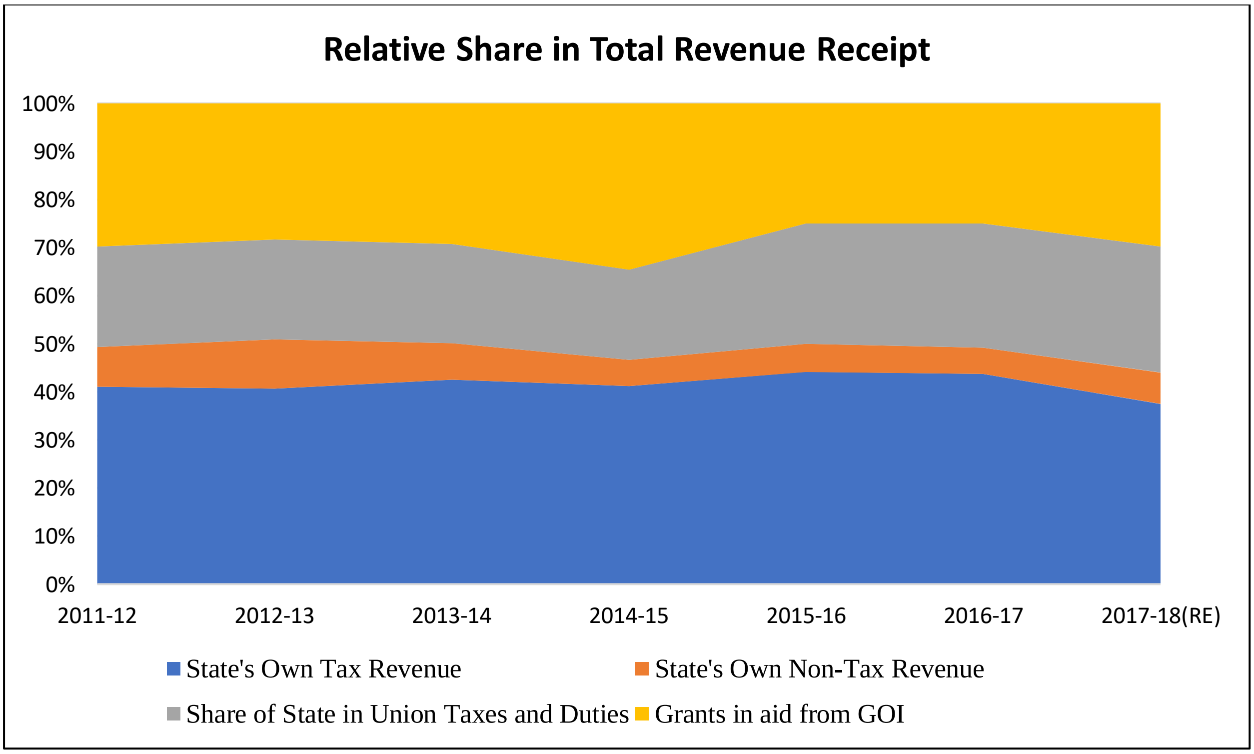


Figure 2.3: Relative Share in Total Revenue Receipt



As can be seen in Figure 2.3 above, the Revenue profile of the State has been relatively stable over the past 6 years, with almost equal split between State's own revenue (Tax

+ Non-Tax), and the revenue receipt from Centre. However, as per 2017-18 (RE) the share of Centre in total receipts is expected to rise to 56% of the total revenue receipts. Table 2.2 below shows the break-up of Revenue Receipts in absolute terms, as per cent of Total Revenue and per cent of GSDP.

Table 2.2: Total Revenue Receipt Break-Up (by Source)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18(RE)**
State's Own Tax Revenue	5,616	6,414	7,355	8,338	9,382	10,897	10,165
State's Own Non-Tax Revenue	1,136	1,603	1,317	1,110	1,220	1,346	1,770
Share of State in Union Taxes and Duties	2,866	3,273	3,573	3,792	5,329	6,412	7,085
Grants in aid from GOI	4,073	4,457	5,075	7,005	5,304	6,234	8,085
TOTAL Revenue Receipts (Rs Cr)	**13,691**	**15,747**	**17,321**	**20,247**	**21,234**	**24,889**	**27,105**
As *per cent* of Total Revenue Receipts							
State's Own Tax Revenue	41.0%	40.7%	42.5%	41.2%	44.2%	43.8%	37.5%
State's Own Non-Tax Revenue	8.3%	10.2%	7.6%	5.5%	5.7%	5.4%	6.5%
Share of State in Union Taxes and Duties	20.9%	20.8%	20.6%	18.7%	25.1%	25.8%	26.1%
Grants in aid from GOI	29.8%	28.3%	29.3%	34.6%	25.0%	25.0%	29.8%
TOTAL Revenue Receipts	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
As *per cent* of GSDP							
State's Own Tax Revenue	4.9%	4.9%	4.9%	5.2%	5.3%	5.6%	4.7%
State's Own Non-Tax Revenue	1.0%	1.2%	0.9%	0.7%	0.7%	0.7%	0.8%
Share of State in Union Taxes and Duties	2.5%	2.5%	2.4%	2.3%	3.0%	3.3%	3.3%
Grants in aid from GOI	3.5%	3.4%	3.4%	4.3%	3.0%	3.2%	3.7%
TOTAL Revenue Receipts	11.9%	12.0%	11.6%	12.5%	12.1%	12.7%	12.5%

2.1.3: The growth in Revenue Receipts has kept pace with growth in GSDP, with the total Revenue Receipts as per cent of GSDP increasing only marginally from 11.9% in 2011-12 to 12.5 % in 2017-18 (RE).

Table 2.2 below shows the CAGR of Revenue Receipt and its components. The fastest growing source of revenue has been the share of State in Union Taxes and Duties.

Table 2.3: CAGR of Revenue 2010-11 to 2017-18(RE)

	CAGR (2010-11 to 2017-18(RE))
Revenue Receipts (RR)	12.1%
State's Own Tax Revenue	10.4%
State's Own Non-Tax Revenue	7.7%
Share of State in Union Taxes and Duties	16.3%
Grants in aid from GOI	12.1%

Continued growth in Revenue of the State is thus contingent on the nature of award by the 15th FC, more so because of uncertainty regarding the long run impact of GST on the revenues of the State.

2.2. Tax Revenue of State

2.2.1: The total tax revenue of the state inclusive of own tax revenue and central tax transfers grew at a rate of 12.6% in the reference period of 2011-12 to 2017-18(RE) as shown in Table 2.4. This has resulted in tax revenue forming 63.6% of the revenue of the state. The growth in tax revenue has faltered in 2017-18(RE), where a contraction of 0.3% has been taken on account of reduction in own tax revenue due to introduction of GST from July 2017.

Table 2.4: Total Tax Revenue of the State (2010-11 to 2017-18(RE))

In Rs Crore

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Total Tax Revenue of the State	8,481.7	9,687.1	10,928.7	12,130.8	14,711.0	17,308.9	17,249.8	12.6%
% of Revenue Receipts	61.9%	61.5%	63.1%	59.9%	69.3%	69.5%	63.6%	
% of GSDP	7.4%	7.4%	7.3%	7.5%	8.4%	8.8%	7.9%	
Annual Growth Rate		14.2%	12.8%	11.0%	21.3%	17.7%	-0.3%	

2.2.2: The bifurcation of total tax revenue by type of taxes is given in Table 2.5. While taxes on income and expenditure grew at a CAGR of 15.3%, that of property and capital transactions grew at 9.1% and that of commodities and services grew at 12.0%.

Taxes on property and capital transactions form 5.35% of total tax revenue which is a decline from the 6.35% share of total tax revenue in 2011-12.

Taxes on commodities and service have shown an increasing trend so far as percentage of total tax revenue is concerned except in the year 2017-18 which is an outcome of the fall in revenue from state taxes. The percentage contribution of state taxes to total tax revenue has come down to 58.93% in 2017-18(RE) compared to 66.21%. in 2011-12.

Table 2.5: Composition of Total Tax Revenue of the State (2010-11 to 2017-18(RE))

In Rs Crore

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Taxes on Income and Expenditure								
Taxes on Income and Expenditure	1715.1	1897.08	2010.82	2291.91	2864.35	3514.39	4021.32	15.3%
As % of Total Tax Revenue	20.22%	19.58%	18.40%	18.89%	19.47%	20.30%	23.31%	

Central portion as	20.06%	19.40%	18.24%	18.71%	19.30%	20.13%	23.20%	
State portion as	0.17%	0.18%	0.16%	0.18%	0.17%	0.17%	0.11%	
Taxes on Property and Capital Transactions								
Taxes on Property and Capital Transactions	538.59	660.98	711.66	756.9	898.98	941.79	906.36	9.1%
As % of Total Tax Revenue	6.35%	6.82%	6.51%	6.24%	6.11%	5.44%	5.25%	
Central portion	0.05%	0.02%	0.03%	0.03%	0.00%	0.03%	0.00%	
State portion	6.30%	6.80%	6.48%	6.21%	6.11%	5.41%	5.25%	
Taxes on Commodities and Services								
Taxes on Commodities and Services	6227.92	7128.96	8206.24	9081.98	10951.8	12852.68	12322.21	12.0%
As % of Total Tax Revenue	73.43%	73.59%	75.09%	74.87%	74.43%	74.25%	71.43%	
Central	13.68%	14.36%	14.43%	12.52%	16.94%	16.88%	17.87%	
State	59.74%	59.23%	60.66%	62.35%	57.48%	57.37%	53.56%	
Division of Total Taxes								
State Taxes total portion	66.21%	66.21%	67.30%	68.74%	63.76%	62.96%	58.93%	
Central Taxes total portion	33.79%	33.79%	32.70%	31.26%	36.24%	37.04%	41.07%	

2.3. State's Own Tax Revenue

2.3.1: The own tax revenue of the State has grown from Rs 5,616 Cr to 10,165 Crore in the reference period of 2011-12 to 2017-18(RE), showing a CAGR of 10.4%.

Table 2.6: Own Tax Revenue of the State (2011-12 to 2017-18(RE)) *(figures in Rs Crore)*

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Own Tax Revenue	5,615.6	6,414.1	7,355.3	8,338.5	9,381.9	10,897.3	10,164.9	10.4%
% of Revenue Receipts	41.0%	40.7%	42.5%	41.2%	44.2%	43.8%	37.5%	
% of GSDP	4.9%	4.9%	4.9%	5.2%	5.3%	5.6%	4.7%	
Annual Growth Rate		14.2%	14.7%	13.4%	12.5%	16.2%	-6.7%	

As per 2017-18 (RE), the own Tax revenue decreased by 6.7% over the previous year. But for this year, the CAGR of own tax revenue from 2011-12 to 2016-17 is 14.2%.

2.3.2: The share of different taxes in States own tax revenue, and their growth rate is given in Table 2.7 below. The CAGR shown is for the period 2011-12 to 2016-17 to account for the change brought about by GST from 2017-18.

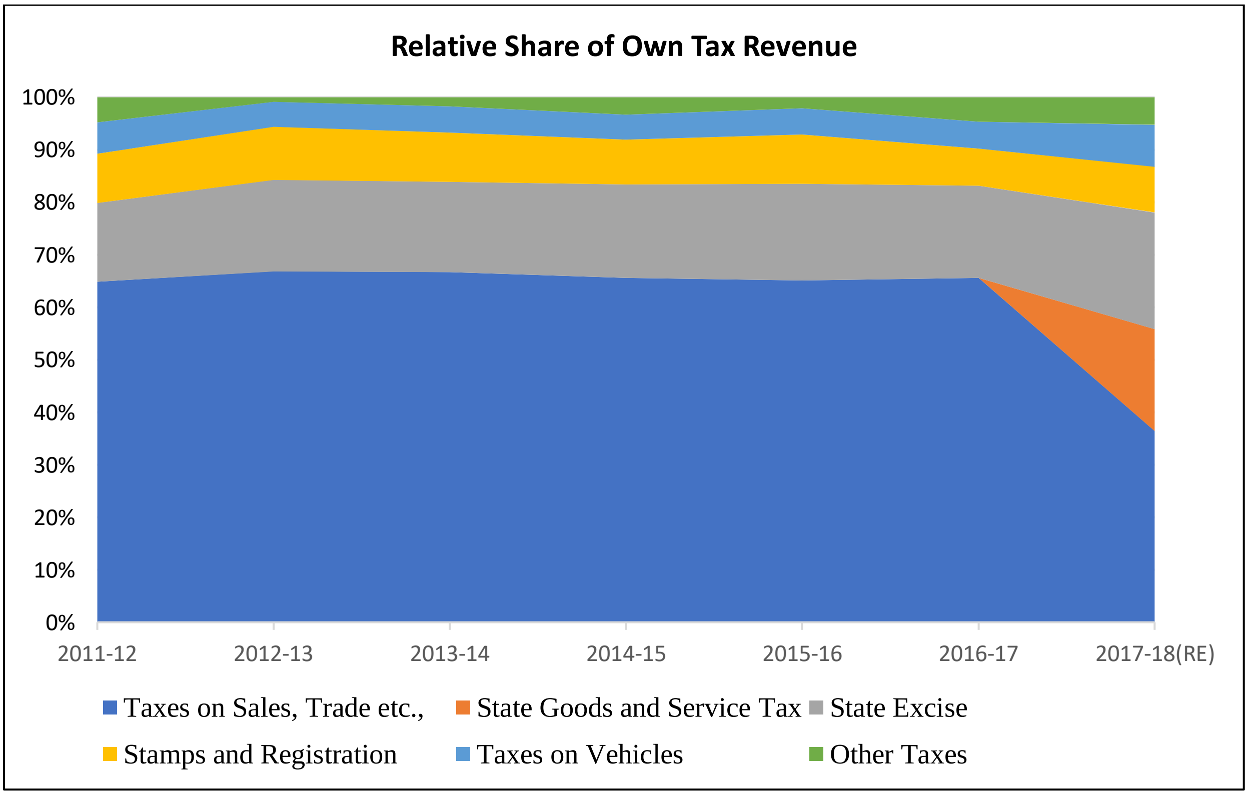
Table 2.7: Composition of Own Tax Revenue of the State *(figures in Rs Crore)*

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)	CAGR (2016-17)
Taxes on Sales, Trade etc.,	3,644	4,289	4,903	5,465	6,105	7,154	3,703	14.45%
State Goods and Service Tax							1,972	
State Excise	844	1,118	1,269	1,487	1,735	1,906	2,262	17.70%
Stamps and Registration	524	648	687	714	871	778	882	8.21%

Taxes on Vehicles	335	304	369	394	471	556	816	10.70%
Other Taxes	270	54	128	279	200	504	531	13.33%
Total Own Tax Revenue	**5,616**	**6,414**	**7,355**	**8,338**	**9,382**	**10,897**	**10,165**	14.18%
Relative Share of Taxes to total own Tax Revenue								
Taxes on Sales, Trade etc.,	64.9%	66.9%	66.7%	65.5%	65.1%	65.6%	36.4%	
State Goods and Service Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	19.4%	
State Excise	15.0%	17.4%	17.3%	17.8%	18.5%	17.5%	22.2%	
Stamps and Registration	9.3%	10.1%	9.3%	8.6%	9.3%	7.1%	8.7%	
Taxes on Vehicles	6.0%	4.7%	5.0%	4.7%	5.0%	5.1%	8.0%	
Other Taxes	4.8%	0.8%	1.7%	3.3%	2.1%	4.6%	5.2%	
Total Own Tax Revenue	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0%**	

The trend of relative share of taxes can be seen in Figure 2.4 below. As can be seen, the taxes on Sales, Trade etc constituted about two-thirds of the total tax revenue of the State. This tax has shown a CAGR of 14.45% till 2016-17. With the implementation of GST from July 2017, the share of this tax inclusive of SGST, shows a decrease in 2017-18 (RE) compared to the previous year. State Excise is another important tax for the State contributing about 20% of the total taxes and showing the highest CAGR of 17.7%.

Figure 2.4: Composition of Own Tax Revenue of the State (figures in Rs Crore)



2.4. Non-Tax Revenue of the State

As seen in ***Table 3.12***, the non-tax revenue of the State grew at a CAGR of 7.7% during the reference.

Table 2.8: Non-Tax Revenue of the State *(figures in Rs Crore)*

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Non- Tax Revenue	1,136.1	1,602.9	1,316.5	1,110.4	1,219.7	1,345.8	1,769.5	7.7%
% of Revenue Receipts	8.3%	10.2%	7.6%	5.5%	5.7%	5.4%	6.5%	
% of GSDP	1.0%	1.2%	0.9%	0.7%	0.7%	0.7%	0.8%	
Annual Growth Rate		41.1%	-17.9%	-15.7%	9.8%	10.3%	31.5%	

Non-Tax revenue constituted 6.5% of the total revenue receipts of the State, and less than 1% of GSDP.

Almost 60% of the total non-tax revenue in 2016-17 was on account of Non-Ferrous Mining and Metallurgical Industries (Mineral concession fees, rents and royalties) – 25%, Forestry and Wildlife – 24% and Power (Hydel Generation) – 10%.

2.5 Grants in Aid from GOI

2.5.1: The grants-in-aid from GOI grew at a CAGR of 12.1% over the period, as can be seen in Table 2.9 below.

Table 2.9: Grants-in-Aid from GoI *(figures in Rs Crore)*

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Grants in aid from GOI	4073.45	4457.21	5075.27	7005.37	5303.79	6234.27	8085.21	12.1%
% of Revenue Receipts	29.8%	28.3%	29.3%	34.6%	25.0%	25.0%	29.8%	
% of GSDP	3.5%	3.4%	3.4%	4.3%	3.0%	3.2%	3.7%	
Annual Growth Rate		9.4%	13.9%	38.0%	-24.3%	17.5%	29.7%	

The composition of Grants-in-Aid is given in Table 2.9 below

Table 2.10: Composition of Grants-in-Aid from GoI (figures in Rs Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
Non plan grants	762.10	868.64	980.77	627.67	1042.85	823.72	714.28
Grants from Central Road Fund	45.75	34.01	119.46			0.00	
Calamity Relief Fund	111.19	209.60	149.00	0.00	253.36	0.00	0.00
State Plan Schemes	2839.85	3040.11	3558.07	4399.28	1173.29	1532.33	1620.99
Central Plan Schemes	9.86	7.59	13.01	99.14	609.03	843.28	76.12
Centrally Sponsored Schemes	461.64	540.87	523.42	1879.28	2478.62	3034.94	4390.82
NEC grants or special plan schemes							1283.00

The fall in grants-in-aid in 2015-16 was due to a sharp fall in aid to state plan schemes, but the rise thereafter in 2016-17 and 2017-18 was due to a continuation of high funding for centrally sponsored schemes since 2014-15 and some increase in funding for state plan schemes. In 2017-18, the state also got a grant of Rs 1283 crore, as part of it being categorized as a special category state. The state has also been receiving funds under the calamity relief scheme in years 2011-12, 2012-13, 2013-14 and 2015-16.

2.5.2: Impact of discontinuation of Plan Grants like SCA, NCA and SPA

NCA was an untied assistance, due to discontinuation of NCA, this window is now not available to the state. Special Central Assistance (SCA-untied) was given only to special category states to bridge the gap between their planning needs and resources. Special Plan Assistance (SPA- tied) was provided to the Special Category States for funding of projects identified by the States that are not covered by any Central scheme and for non-recurrent expenditure of developmental nature. From 01.04.2015 onwards, there is no allocation under SPA (untied) also.

SPA was provided, as per scheme of financing applicable for specific purposes, approved by Planning Commission and it was released in the form of grants and/or loans in varying combinations, as per terms & conditions defined by Ministry of Finance, Department of Expenditure.

Many of the State schemes were funded by the state government out of NCA. Through SPA and SCA various capital projects were funded in the state. Discontinuation of this window from 2015-16 had impact on ongoing projects in Uttarakhand.

Uttarakhand received Rs.1479 crores, Rs.1368 crores, 1689, Rs.202 crores and 2894crores as NCA, SPA and SCA in 2010-11, 2011-12, 2012-13 and 2013-14, and 2014-15 respectively. Thus, on average, the State was getting over Rs.2000 crores per annum through these windows, which was no longer available after discontinuance of the plan grants like NCA, SCA and SPA.

As per an analysis done by Niti Aayog, in 2014-15, Uttarakhand received Rs.10,892.37 crore from the Center, however, Central transfer came down to Rs.10,093.48 in 2015-16, a decrease of 7.33% over previous year, despite an increase in the devolution share of States as a whole.

2.6 Impact of GST

2.6.1: GST subsumed the biggest tax component of the State – the Tax on Sales, Trade etc. which accounted for 66% of State's own tax revenue during the FY 2016-17. As per the Compensation to States Act – one of the GST Acts passed by the Central Government - all States are assured of a revenue growth of 14% over the baseline review generated in 2015-16 by the Taxes subsumed in GST. Thus, any loss in revenue caused to a State by introduction of GST would be made good, and as per the Act, for a period of 5 years from the rollout of GST.

2.6.2: As per the figures provided by the State Government, the State has seen a significant shortfall of 31% in GST collection vis-à-vis the projected growth in revenue of the subsumed Taxes. This reduction was seen in the first year of GST operation, ie in the period July 2017 to March 2018, as can be seen in Table below:

Table 2.11: Comparison of GST Collection vis-à-vis subsumed Taxes

Month	Pre GST (2016-17)		Post GST (2017-18)			Decrease
	VAT	Total	SGST+VAT subsumed	IGST settlement	Total after settlement	
Aug	405	405	392	-41	351	-10%
Sep	414	414	335	-22	313	-24%
Oct	464	464	312	-10	302	-35%
Nov	495	495	326	28	354	-28%
Dec	430	430	282	38	320	-26%
Jan	492	492	276	80	356	-28%
Feb	460	460	279	23	302	-34%
Mar	756	756	380	8	388	-49%
Total	**3916**	**3916**	**2582**	**104**	**2686**	**-31%**

The reason for this heavy decline provided by the state government officials is that Uttarakhand being an exporting state, and GST being a consumption and destination-based tax, the actual revenue under GST is much lesser as compared to VAT.

2.6.2: The full impact of GST on the Tax Revenue profile of the State can only be known after GST stabilizes. However, based on the first year's performance, it is assessed that GST is unlikely to lead to an increase in Own Tax Revenue of the State as compared to the earlier Tax regime. A share in service tax would be insufficient to cover for a loss in the tax on Goods earlier levied by the State, at least in the short term. The State also lost revenue on account of the abolition of CST with the rollout of GST – the State had a large number of industries/manufacturing units within the boundaries of the state, whose produce was exported from the State, generating both economic activity within the State and revenue through CST for the State. To that extent, the efforts undertaken by the state in the past to improve the industrial sector, infrastructure, power etc., would not bear commensurate returns in the GST regime, where the tax paid by the industries would eventually move out to the consuming states as IGST.

2.6.3 The adverse impact of this structural change in taxation on Uttarakhand would not be felt to the same extent in the near future due to the guaranteed compensation with a steady 14% growth over the base year revenue of FY 2015-16 until June 2022. However, there is likely to be a perceptible fall in the revenue of the state after the compensation is discontinued.

2.7. Measures taken to improve State's Own Revenue

Some of the efforts taken by the State in augmenting its revenue and improving the Tax-GSDP ratio are given below:

2.7.1 Strengthening IT base and improving automation: This includes plugging revenue leakages through IT enabled services, an online trip-sheet for inward supply of goods for seamless entry of vehicles in the state and a camera-based Automated Number Plate Recognition System (ANPR). Others include online filing of returns with attendant business intelligence, analytics tools to identify wrong IT claims, online form issuance, and verification systems for checking of exemption claims.

2.7.2: Specific Commodity Based Analysis: The State has put in place specific measures to study revenue collection and quantum of trade based on per-capita consumption of various commodities, which have a major impact on revenue. Based on these analytical reports, required policy changes to enhance tax revenue could be made by the government. These include commodities such as Timber (point of taxation on timber was shifted from "every point of sales" to "M/I" - manufacturer or importer), E-Commerce (Introduction of entry tax on the same plugged tax-evasion on account of importing goods through e-commerce and re-selling the same without paying taxes), Minor Minerals and River Bed Material (RBM) (introduced compounding scheme provisions of labour and loading charges in the sale value), and Advance Tax Provisions on iron and steel, edible oil, sand, RBM, Bricks and e-commerce. The state also carried large number of raids to unearth huge turnovers based on fake bills and IT claims as well to contain *mala fide* business practices.

2.7.3 Improvement in Tax Compliance post GST: This includes outreach and awareness programs thus increasing the number of registered dealers by over 40% to 1,41,168 by the end of March 2018 as compared to 1,00,007 in March 2017. The state has introduced the concept of GST Mitra (providing online services to dealers through the medium of trained youth in GST concepts), increasing the coverage of organized sector through a combination of print and online media and holding of GST workshops and conclaves. Efforts are also made to leverage data collected through data analytics for better tax administration while at the same time processing refunds on priority so that working capital levels for furtherance of business are not affected.

2.7.4. Taxation efforts by State Excise, Land and Transport Departments

State Excise: This includes a combination of facilities for online fees deposits, auto-generation of permits and simplification of rules for bars, bottling plants and vineries in case of state excise.

Stamps and Registration: One of the major initiatives taken is GIS mapping aimed at helping pinpoint the property correctly so that the correct circle rate in the area can be identified. The district valuation committee too undertook a detailed exercise to work out circle rates of different properties based on their spatial location, geographical setting, economic viability and future potentialities.

Transport: To improve compliance, the state had rationalized the taxes on vehicles introducing a single tax called the "Motor Vehicle Tax." This has been followed by abolishing the difference between Private Stage Carriage and UTC vehicle and between the rate of Hill and Plain on goods vehicle. Several other initiatives have also been introduced to increase efficiency in tax collection on motor vehicles.

Electricity: This includes revision of electricity duty from 1st of January 2016 as well as enactment of Uttarakhand Green Energy Cess in 2014. The state has imposed a cess @ Rs. 0.30 per unit on saleable energy and royalty @ Rs. 0.10 per unit on existing hydro power projects, which are under commercial operation for more than 10 years and whose cost of electricity generations is not more than Rs. 2.00 per unit.

2.8 Conclusion

The State of Uttarakhand has registered an increase in Total Revenue Receipts, nearly doubling its revenue to Rs 27,105 crores in the six-year period of 2011-12 to 2017-

18(RE). However, the share of Total Revenue receipts to GSDP has remained largely unchanged, increasing only slightly from 11.9% to 12.5%. The revenue growth has thus only kept pace with the growth in GSDP. More than 50% of the total revenue receipts of the State flows from the Centre as Share of State in Union Taxes and Duties and Grants-in-Aid. This share has increased further to 56% in 2017-18 (RE). Combined with the permanent change in Tax profile brought about by rollout of GST whose adverse impact is likely to be felt once the period of GST compensation comes to an end in June 2022, the State now critically depends upon a favourable award by the 15th FC to match the past growth in revenue.

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Chapter 3: Expenditure

3.1 Expenditure Overview

3.1.1: The total expenditure of the State comprising Revenue expenditure, Capital expenditure, and Loans and Advances has grown in absolute terms from Rs.15,540 Crores in 2011-12 to Rs.35,104 Crores in 2017-18 (RE). The CAGR of expenditure of the State during the period 2011-12 to 2017-18 was 14.4%. In relation to GSDP, the total expenditure showed a moderate increase from 13.5% in 2011-12 and 16.1% in 2017-18. Table-3.1 and Figure 3.1 below presents the growth trend of the different types of expenditure over the period 2011-18, and Table 3.2 along with Figure 3.2 shows the relative share of each type of expenditure.

Table 3.1: Breakup of Expenditure (in Rs Crores)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**	**CAGR**
Revenue Expenditure	12,975	13,960	16,216	21,164	23,086	25,271	29,113	14.3%
Capital Expenditure (Outlay)	2,317	3,542	3,712	4,939	4,217	4,954	5,915	16.4%
Loans and Advances	247	273	278	151	83	165	77	-7.8%
Total Expenditure	15,540	17,775	20,206	26,254	27,386	30,390	35,104	14.4%
Total Expenditure (as % of GSDP)	13.5%	13.5%	13.6%	16.3%	15.6%	15.5%	16.1%	

Figure 3.1: Trend of Total Expenditure

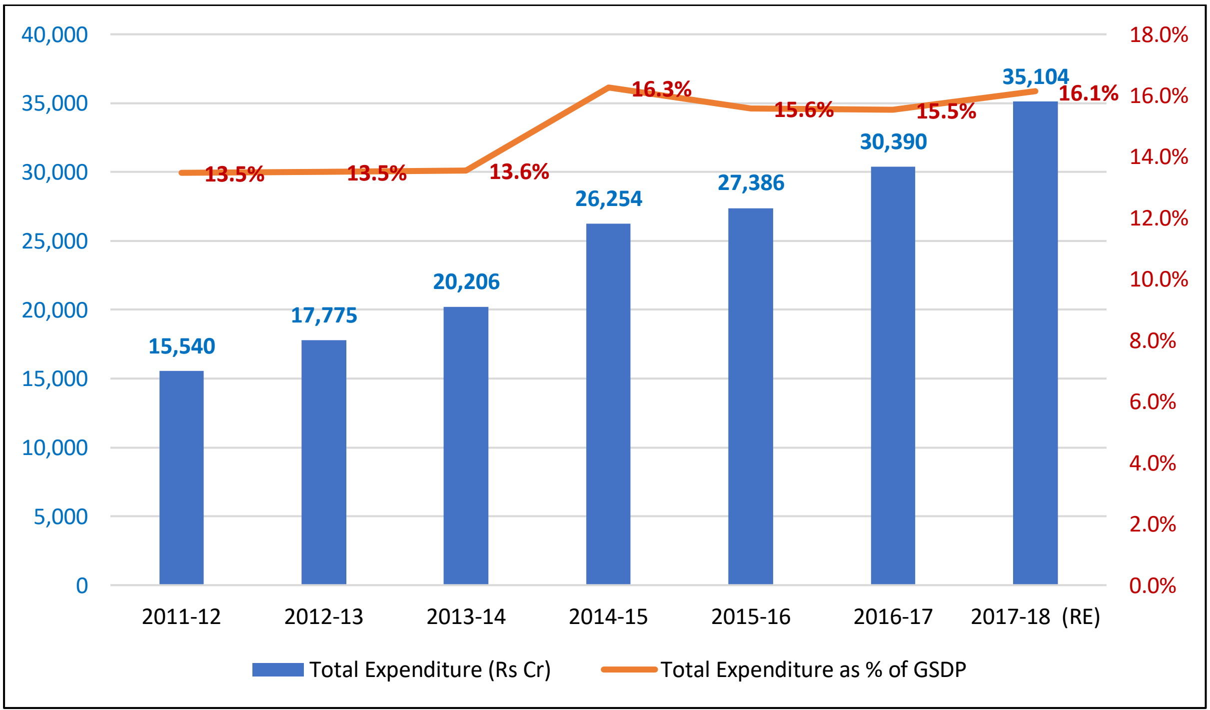


Figure 3.2: Trend of Total Expenditure

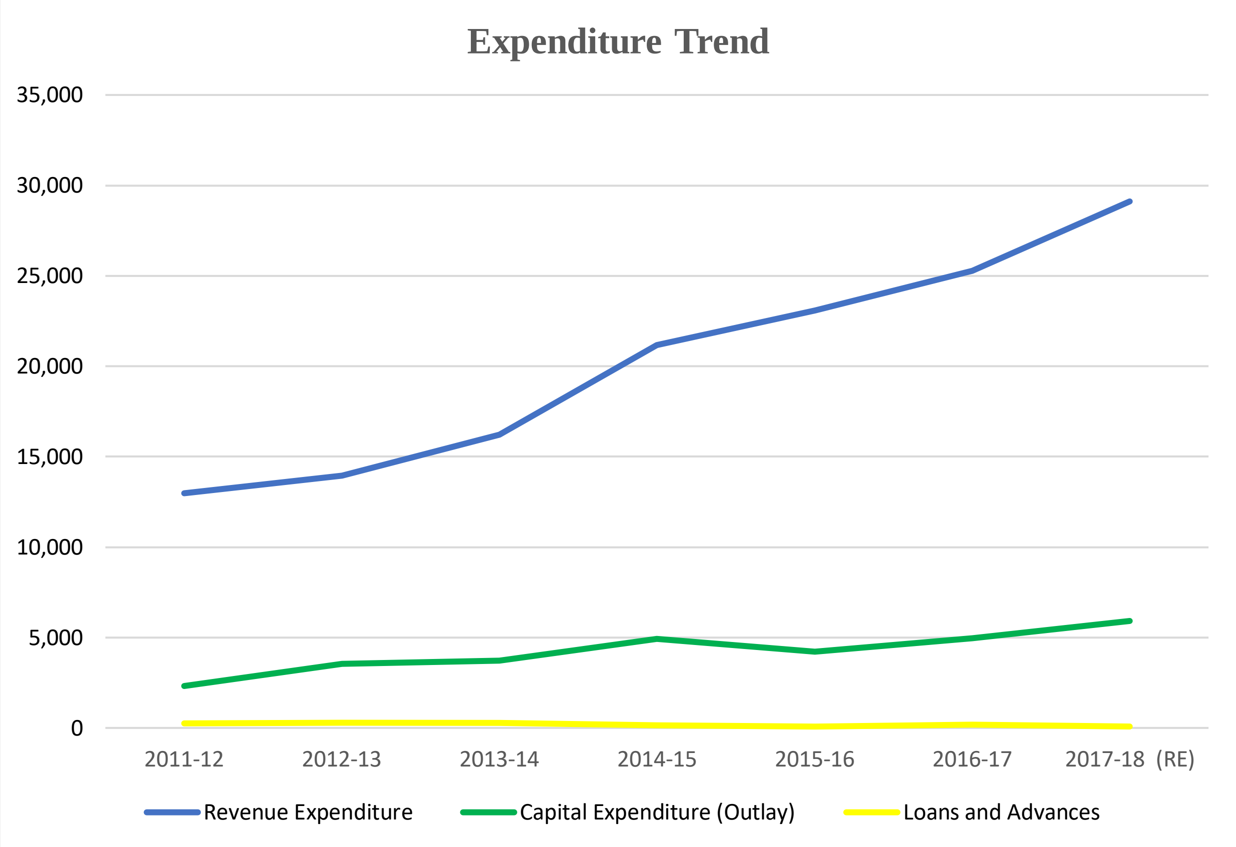
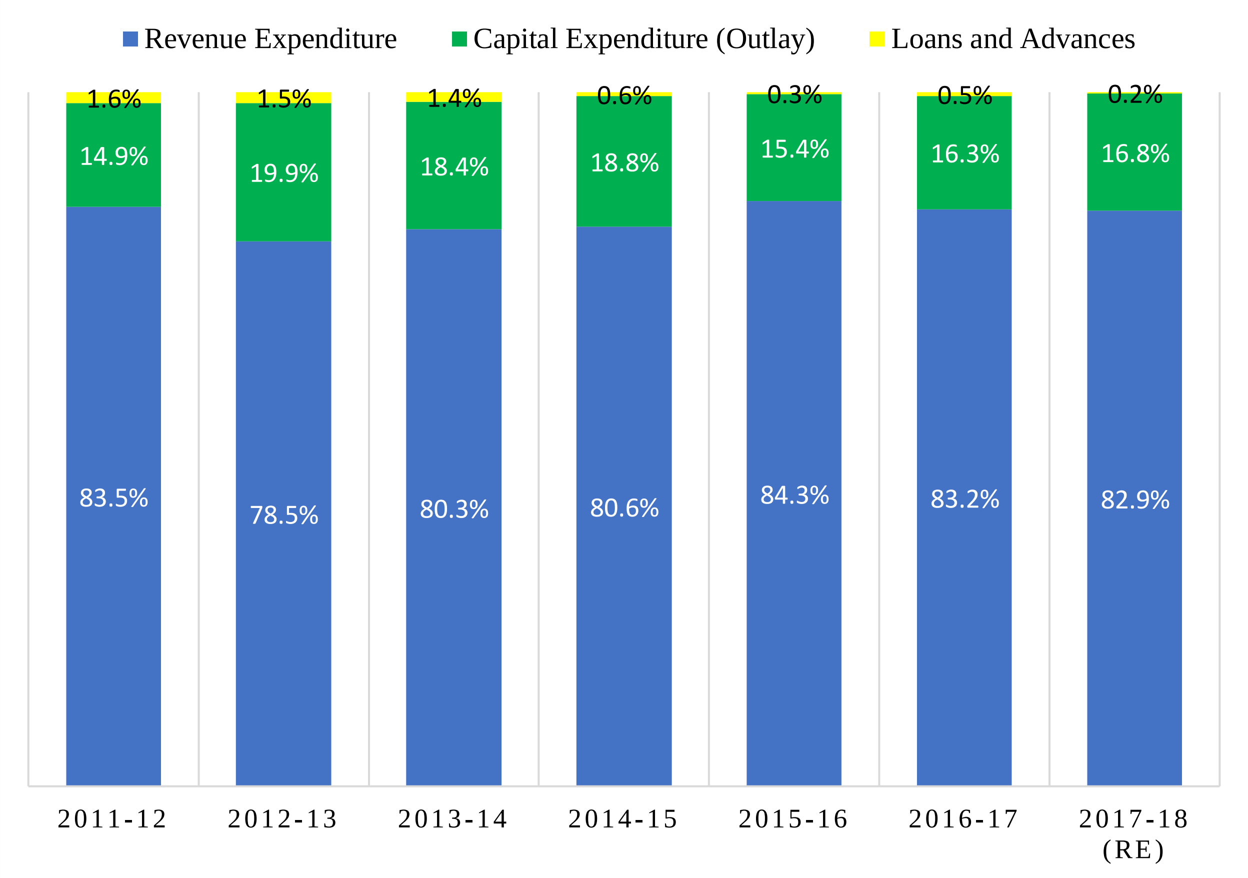


Table 3.2: Relative Share of Expenditure

As Share of Total Expenditure	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**
Revenue Expenditure	83.5%	78.5%	80.3%	80.6%	84.3%	83.2%	82.9%
Capital Expenditure (Outlay)	14.9%	19.9%	18.4%	18.8%	15.4%	16.3%	16.8%
Loans and Advances	1.6%	1.5%	1.4%	0.6%	0.3%	0.5%	0.2%
Total Expenditure	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
As Share of GSDP	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**
Revenue Expenditure	11.3%	10.6%	10.9%	13.1%	13.1%	12.9%	13.4%
Capital Expenditure (Outlay)	2.0%	2.7%	2.5%	3.1%	2.4%	2.5%	2.7%
Loans and Advances	0.2%	0.2%	0.2%	0.1%	0.0%	0.1%	0.0%
Total Expenditure	**13.5%**	**13.5%**	**13.6%**	**16.3%**	**15.6%**	**15.5%**	**16.1%**

Figure 3.3: Relative Share of Total Expenditure



As can be seen in the figure above, while expenditure has seen an increase both in absolute terms and as a percentage of GSDP, the expenditure breakup between Revenue Expenditure and Capital has remained largely constant with Capital Expenditure constituting 16-18% of the total expenditure. The share of Loans and Advances has been low and dipped sharply to 0.2% of the total expenditure by 2017-18 (RE).

3.1.2: The increase in revenue expenditure from 11.3% to 13.4% of the GSDP during the period 2011-12 to 2017-18 (RE) has been only partially matched by a corresponding increase in Revenue Receipts.

Table 3.3 below shows that the State has for the last four years been posting a revenue deficit, while in the three years of 2011-12 to 2013-14, the state had managed a revenue surplus.

Table 3.3: Revenue Deficit / Surplus

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
Revenue Expenditure	12,975	13,960	16,216	21,164	23,086	25,271	29,113
Revenue Receipts	13,691	15,747	17,321	20,247	21,234	24,889	27,105
Deficit (-) / **Surplus** (+)	**+716**	**+1,787**	**+1,105**	**-917**	**-1,852**	**-382**	**-2,008**

3.2 Revenue Expenditure

3.2.1: The total revenue expenditure of Uttarakhand went up from Rs 12,975 crores in 2011-12 to Rs 29,113 crores in 2017-18(RE), showing a CAGR of 14.3%. The broad breakup of revenue expenditure by nature of service is given in Table 3.4 and Table 3.5 below**:**

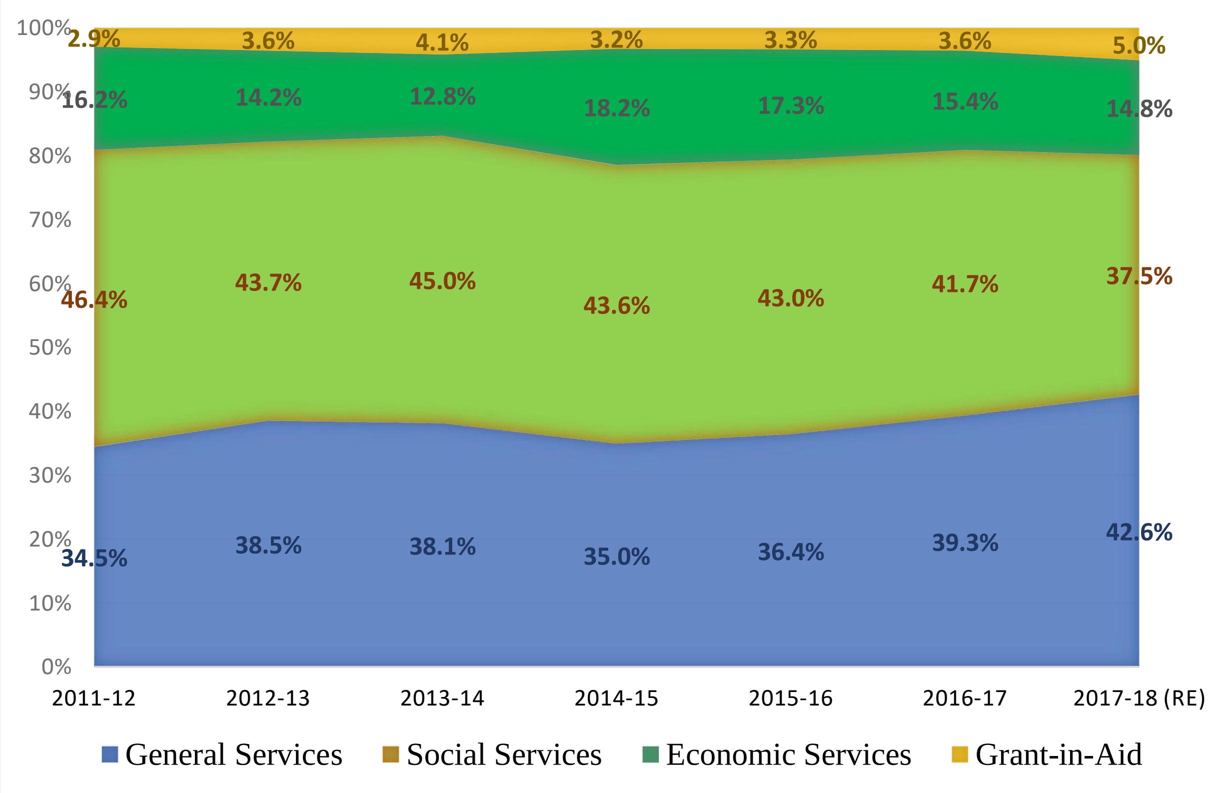
Table 3.4: Breakup of Revenue Expenditure (in Rs Crores)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
General Services	4,475	5,373	6,182	7,402	8,410	9,934	12,409	18.5 %
Social Services	6,020	6,096	7,298	9,224	9,927	10,528	10,929	10.5 %
Economic Services	2,102	1,985	2,068	3,857	3,983	3,903	4,306	12.7 %
Grant-in-Aid	379	497	668	681	767	906	1,469	25.3 %
TOTAL	**12,975**	**13,951**	**16,216**	**21,164**	**23,086**	**25,271**	**29,113**	**14.4 %**

Table 3.5: Breakup of Revenue Expenditure (as % Of Total Revenue Expenditure)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
General Services	34.5%	38.5%	38.1%	35.0%	36.4%	39.3%	42.6%
Social Services	46.4%	43.7%	45.0%	43.6%	43.0%	41.7%	37.5%
Economic Services	16.2%	14.2%	12.8%	18.2%	17.3%	15.4%	14.8%
Development Expenditure (Social + Economic)	62.6%	57.9%	57.8%	61.8%	60.3%	57.1%	52.3%
Grant-in-Aid	2.9%	3.6%	4.1%	3.2%	3.3%	3.6%	5.0%
TOTAL	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Figure 3.4: Relative Share in Revenue Expenditure



3.2.2: As can be seen in the figure and Table above, the relative share of Development Expenditure i.e. Expenditure on Social and Economic Services has decreased from 62.6% to 52.3%, while the share of expenditure on General Services has increased from 34.5% to 42.6%. This increase in relative share of expenditure on General Services is on account of its higher CAGR of 18.5% compared to 10.5% and 12.7% CAGR of Social and Economic Services respectively.

3.2.3: The expenditure on grant-in-aid has, over the reference period, has grown at a CAGR of 25.3%. As a result, it is now 5% of revenue expenditure in 2017-18 as compared to 2.9% in 2011-12, with the expenditure itself increasing from 379 Crores to 1469 Crores.

3.3 Composition of Revenue Expenditure

3.3.1: Further breakup of revenue expenditure aggregates at the Sub-Sector level for Social and Economic Services for the period 2011-12 to 2017-18(RE) is given in Table 3.6 and Table 3.7 below:

Table 3.6: Breakup of Expenditure on Social Services (In Rs Crore)

Major Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Education	3,416	3,689	4,006	4,660	4,876	5,311	6,395	11.0%
Medical & Public Health	619	723	802	1,136	1,216	1,281	1,438	15.1%
Social Security & Welfare	507	545	676	1,127	1,226	1,297	1,341	17.6%
Relief on account of Natural Calamities	629	135	670	710	1,354	1,225	519	-3.2%
Water Supply & Sanitation	263	416	478	786	447	599	443	9.1%
Welfare of SCs/STs/OBCs	177	205	252	336	216	163	246	5.6%
Urban Development	171	91	68	53	257	228	174	0.3%
Labour & Employment	54	71	98	128	92	117	135	16.5%
Family Welfare	79	83	98	109	107	109	117	6.8%
Information & Publicity	36	41	48	53	43	98	40	1.7%
Sports & Youth Services	35	36	47	38	37	34	40	2.1%
Other Social Services	19	44	39	67	34	41	20	0.3%
Art & Culture	12	13	15	20	19	21	19	8.8%
Housing	2	2	2	2	2	3	2	5.3%
TOTAL SOCIAL SERVICES	**6,020**	**6,095**	**7,298**	**9,224**	**9,927**	**10,529**	**10,929**	

Table 3.7: Breakup of Expenditure on Economic Services (In Rs Crore)

Major Head	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	CAGR
Agriculture and Allied Activities	1,156	1,023	975	1,507	1,543	1,738	2,070	10.2%
Rural Development	370	320	395	1,545	1,657	1,285	1,358	24.2%
Irrigation and Flood Control	289	309	319	357	359	360	407	5.9%
Transport	175	210	225	274	214	315	236	5.1%
Industry and Minerals	43	42	54	58	68	93	108	16.7%
General Economic Services	44	69	84	102	77	74	93	13.2%
Science Technology and Environment	14	9	9	9	46	20	21	7.3%
Energy	10	4	7	5	19	18	12	3.3%
TOTAL ECONOMIC SERVICES	**2,102**	**1,985**	**2,068**	**3,856**	**3,983**	**3,903**	**4,306**	**12.7%**

3.3.2: Expenditure on Health and Education – a comparative assessment

Per Capita Health Expenditure

As per data compiled by Niti Aayog, the per capita health expenditure of NE and hill states are given below:

Expenditure on Health for the Year 2015-16

States	Total State Expenditure on Health (Rs Crore)	Health Expenditure as a % of Total State Expenditure	Population 2015-16 (Crore)	Per Capita Health Expenditure	Health Expenditure as a % of GSDP

Arunachal Pradesh	673	5.73%	0.13	5177	3.29%
Assam	4992	7.09%	3.23	1546	2.21%
Himanchal Pradesh	1894	6.67%	0.71	2667	1.68%
Jammu and Kashmir	2925	5.93%	1.24	2359	2.46%
Manipur	536	5.45%	0.26	2061	2.79%
Meghalaya	623	6.73%	0.28	2223	2.40%
Mizoram	645	8.34%	0.11	5862	4.20%
Nagaland	588	5.79%	0.24	2450	2.97%
Sikkim	308	5.66%	0.06	5126	1.81%
Tripura	829	6.62%	0.38	2183	2.41%
Uttarakhand	**1871**	**6.07%**	**1.06**	**1765**	**1.06%**
All India				**1112**	

Uttarakhand's per capita expenditure on health is Rs.1,765. Though higher than the national per capita spend on health at Rs 1112, it is still the second lowest among the North-East and Hill States. Mizoram's per capita health expenditure is Rs 5,862, almost five times the Indian average of Rs.1112, with the state spending 4.2% of its GDP on health in 2015. Arunachal Pradesh (Rs 5,177) and Sikkim (Rs 5,126) are other two N.E states with high per capita expenditure on health.

Expenditure on Education (Education, Sports, Art and Culture)

Per Capita Expenditure on Education:

The per capita expenditure of Uttarakhand on education in 2015-16 is Rs.4,653 as compared to Rs.5820 of Himanchal Pradesh & Rs.10,254 of Mizoram. The all India average per capita expenditure on education is Rs.7,200. Uttarakhand ranked 7th among the special category states in per capita expenditure on Education, and this was also lower than the All-India average.

Expenditure on Education for the Year 2015-16

States	Expenditure on Education 2015-16 (Rs Crore)	Education, Sports, Art and Culture as a % of Total Exp. (2015-16)	Per Capita Education Exp. (2015-16)
Arunachal Pradesh	1,276	1.65%	9,817
Assam	10,710	5.65%	3,316
Himanchal Pradesh	4,132	6.80%	5,820
Jammu and Kashmir	6,049	6.06%	4,878
Manipur	1,063	4.37%	4,087
Meghalaya	1,283	4.31%	4,582
Mizoram	1,128	6.16%	10,254
Nagaland	1,229	6.26%	5,122
Sikkim	773	5.54%	12,879

Tripura	1,670	3.11%	4,394
Uttarakhand	**4,932**	**5.46%**	**4,653**
All India			**7,200**

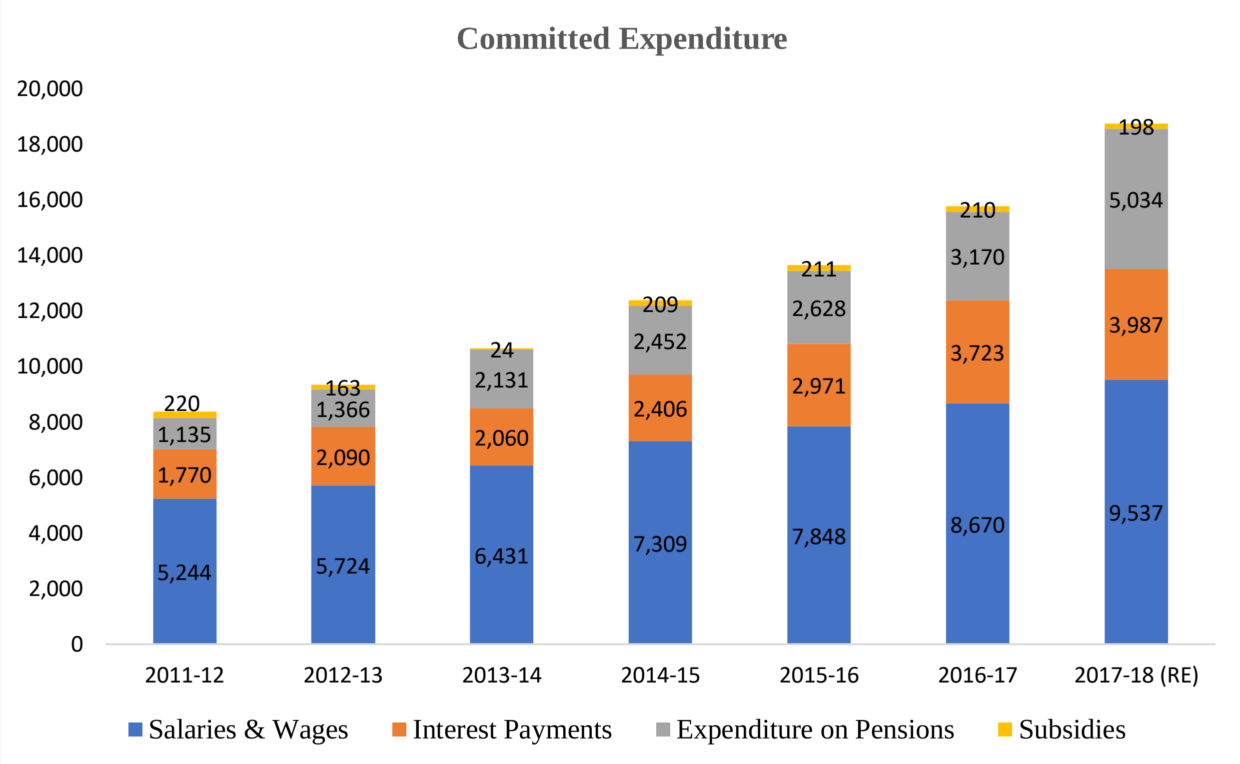
3.4 Committed Revenue Expenditures

3.4.1: There are 4 items of expenditure that are commonly accepted as committed expenditure - salaries and wages, interest payments, expenditure on pensions, and subsidies. Expenditure on these heads from 2011-12 is given in Table 3.8 below and with the observed rate of growth.

Table 3.8: Components of Committed Expenditure (Rs Crores)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**	**CAGR**
Salaries and wages	5,244	5,724	6,431	7,309	7,848	8,670	9,537	10.5%
% of revenue expenditure	*40.4%*	*41.0%*	*39.7%*	*34.5%*	*34.0%*	*34.3%*	*32.8%*	
% of revenue receipts	*38.3%*	*36.3%*	*37.1%*	*36.1%*	*37.0%*	*34.8%*	*35.2%*	
Interest Payments	1,769	2,089	2,056	2,406	2,971	3,723	3,987	14.5%
% of revenue expenditure	*13.6%*	*15.0%*	*12.7%*	*11.4%*	*12.9%*	*14.7%*	*13.7%*	
% of revenue receipts	*12.9%*	*13.3%*	*11.9%*	*11.9%*	*14.0%*	*15.0%*	*14.7%*	
Expenditure on Pensions	1,135	1,366	2,131	2,452	2,628	3,170	5,034	28.2%
% of revenue expenditure	*8.7%*	*9.8%*	*13.1%*	*11.6%*	*11.4%*	*12.5%*	*17.3%*	
% of revenue receipts	*8.3%*	*8.7%*	*12.3%*	*12.1%*	*12.4%*	*12.7%*	*18.6%*	
Subsidies	220	163	24	209	211	210	198	-1.7%
% of revenue expenditure	*1.7%*	*1.2%*	*0.1%*	*1.0%*	*0.9%*	*0.8%*	*0.7%*	
% of revenue receipts	*1.6%*	*1.0%*	*0.1%*	*1.0%*	*1.0%*	*0.8%*	*0.7%*	
TOTAL COMMITTED EXPENDITURE	8,368	9,341	10,642	12,376	13,658	15,773	18,756	14.4%
% of revenue expenditure	64.4%	67.0%	65.6%	58.5%	59.2%	62.3%	64.5%	
% of revenue receipts	61.1%	59.3%	61.4%	61.1%	64.4%	63.3%	69.2%	

Figure 3.5: Trend of Committed Expenditure (In Rs Crores)



3.4.2: The share of committed expenditure in total revenue expenditure has remained nearly the same at around 65%. Expenditure on Interest payment has shown a CAGR of 14.5%, and now forms 14.7% of the total revenue receipts of the State in 2017-18. There is a steep rise in expenditure on Pension in 2017-18 RE, leading to a CAGR of 28.2%.

3.5 Capital Expenditure

The total Capital expenditure of Uttarakhand went up from Rs 2,317 crores in 2011-12 to Rs 5,915 crores in 2017-18(RE), showing a CAGR of 16.9%. The broad breakup of Capital Expenditure by sectors is given in Table 3.9 and Table 3.10 below**.** The visual representation of the same is shown in Figure 3.4 and Figure 3.5

Table 3.9: Breakup of Capital Expenditure (In Rs Crores)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (RE)**	**CAGR**
General Services	77	129	138	214	111	72	804	47.7%
Social Services	369	715	841	1,231	864	948	1,086	19.7%
Economic Services	1,871	2,698	2,733	3,495	3,242	3,934	4,025	13.6%
Total Capital Expenditure	**2,317**	**3,542**	**3,712**	**4,939**	**4,217**	**4,954**	**5,915**	**16.9%**

Total Capital Expenditure as % of GSDP	2.0%	2.7%	2.5%	3.1%	2.4%	2.5%	2.7%	

As can be seen in the table above, Capital Expenditure as a percentage of GSDP has increased from 2.0% in 2011-12 to 2.7% in 2017-18(RE). As per the RBI report on State Finances (July 2018), Uttarakhand stands last (11^{th}) among the special category states with respect to Capital Expenditure as a percentage of GSDP. At around 2.5 to 2.7% of the GSDP, it is near half of the aggregate for Special Category States

Table 3.10: Breakup of Capital Expenditure (as % of Total Capital Expenditure)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
General Services	3.3%	3.7%	3.7%	4.3%	2.6%	1.5%	13.6%
Social Services	15.9%	20.2%	22.7%	24.9%	20.5%	19.1%	18.4%
Economic Services	80.7%	76.2%	73.6%	70.8%	76.9%	79.4%	68.0%
Total Capital Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Economic Services account for 70-80% of the Capital outlay, with outlay on Social Services at around 20%.

Figure 3.5: Trend of Capital Expenditure

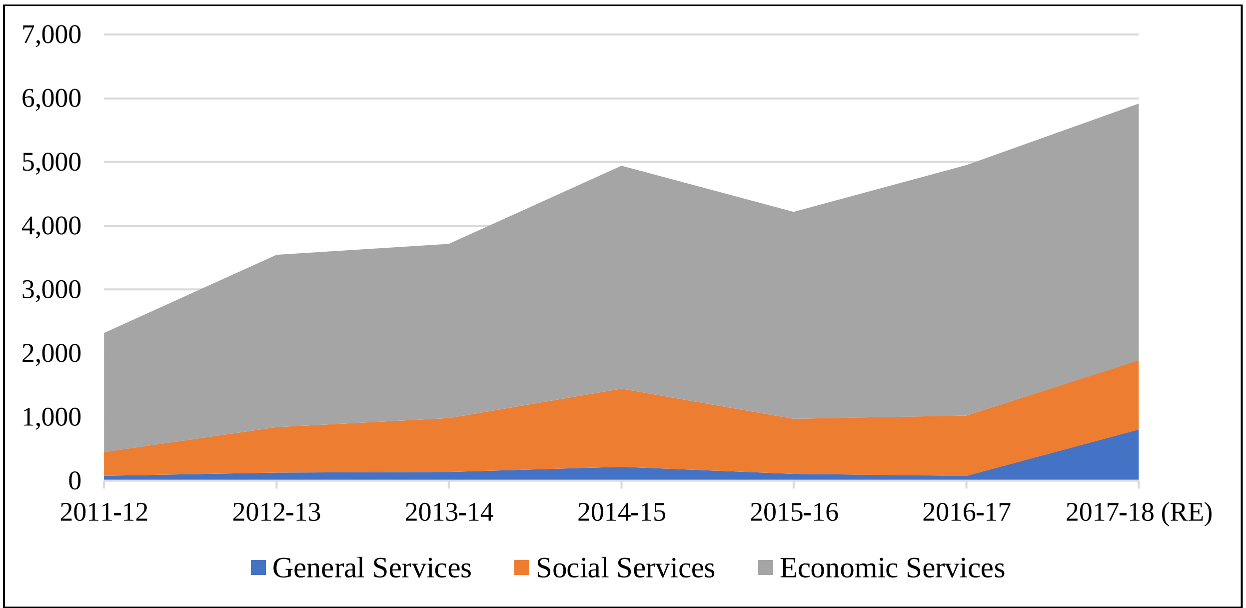
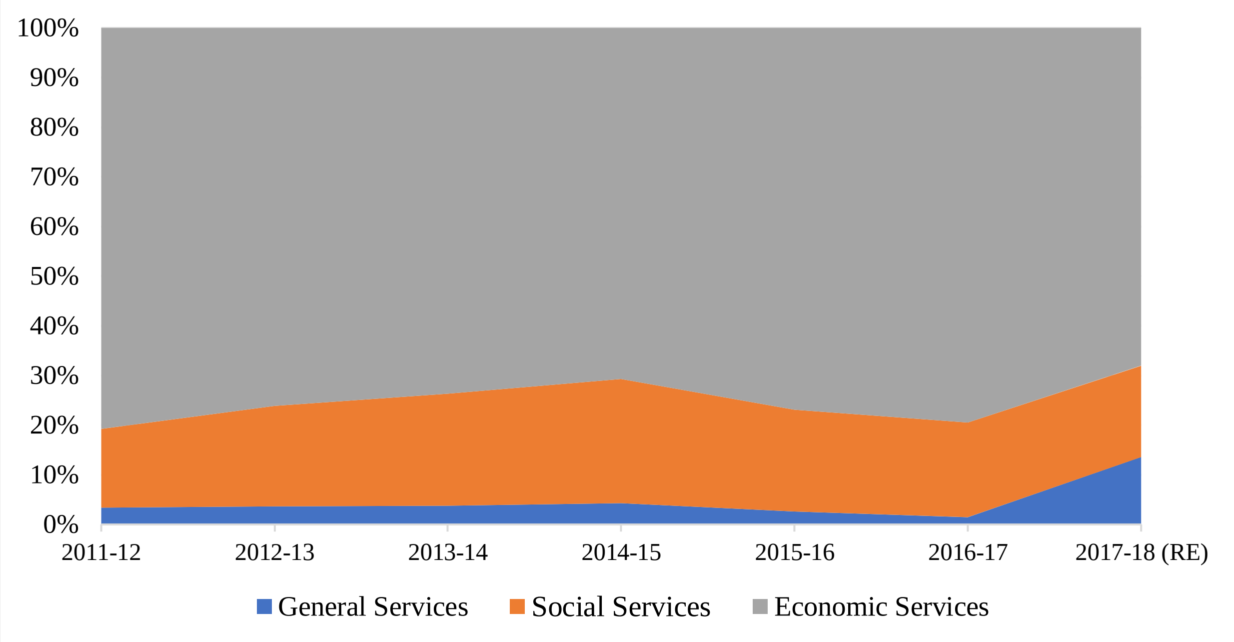


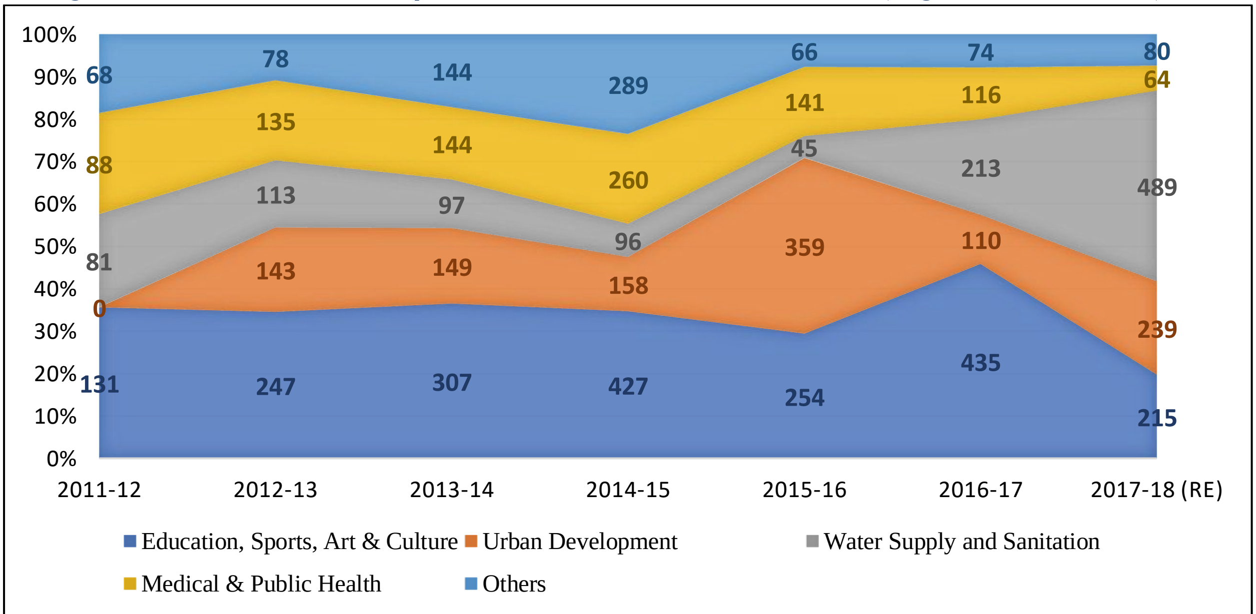
Figure 3.6: Relative Share of Sectors in Total Capital Expenditure



3.6. Composition of Capital Expenditure on Social Services

Figure 3.4 below gives the broad percentage composition of Capital Expenditure on Social Services. Most of the Capital Expenditure in this Sector has been devoted to four heads - Education, Sports, Art & Culture, Urban Development, Water Supply and Sanitation, and Medical & Public Health, which together account for over 80% of the total capital expenditure on Social Sector. The last few years has seen a greater focus on Water Supply and Sanitation, becoming the largest single head in 2017-18 (RE)

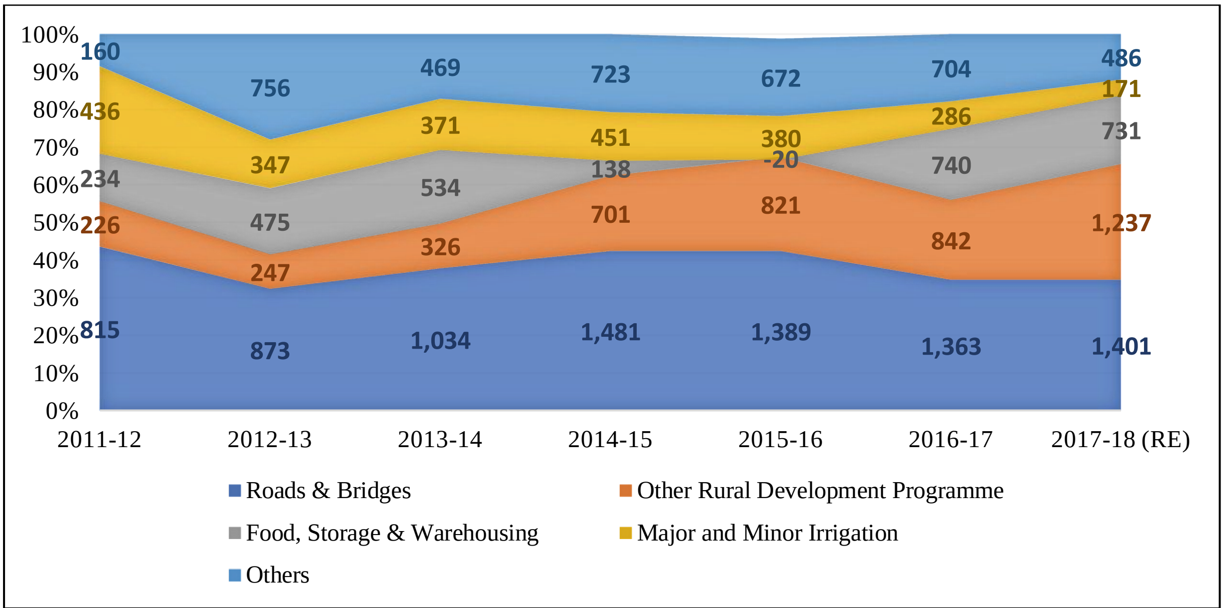
Figure 3.7: Relative Share of Heads in Sector – Social Services (Figures In Rs Crore)



3.7 Composition of Capital Expenditure on Economic Services

Economic services accounts for over 80% of the total capital expenditure. Figure 3.7 below shows the broad percentage composition of Capital Expenditure on Economic Service over the period 2011-12 to 2017-18.

As can be seen, bulk of the capital expenditure on economic services was on Roads & Bridges, Other Rural Development Programme, and Food, Storage & Warehousing, which together accounted for over 80% of the capital expenditure devoted to this sector.



3.8 Economy Measures to Reduce Revenue Expenditure

3.8.1: Some of the major steps taken by the Government to stop leakages and improve efficiency in expenditure include:

- Outsourcing certain functions,
- Encouraging work automation,
- Promoting innovations,
- Adopting DBT and PFMS to plug the leakages and enable the beneficiaries to utilize funds in more efficient way,
- Implementing Digital India initiatives,
- Robust public procurement measures like E-Procurement and GeM etc.

3.8.2: Some specific departmental initiatives to reduce expenditure are as follows:

<u>Department of Education</u>: Decision to merge unviable schools with viable schools.

Public Works: Use of innovative materials for road construction as well as new technology including use of recycled construction material. It also includes use of new technology in surveying, use of waste material to reduce pollution.

Food and Supply Department: Adoption of DBT in lieu of food grains under the Rajya Khadya Yojana, automation of fair price shops, digitization of beneficiary database, computerization of supply chain in case of food grains as also implementation of *E-Khareed* scheme for online purchase of wheat and paddy from farmers under the Market Support Scheme

Department of Water Supply: This includes installation of energy efficient motor pump sets, and installation of water meters.

Department of Energy: Energy conservation measures for existing and new buildings and special courts for trial of offences relating to theft of energy.

Social Welfare Department: Use of Aadhar number seeding for identification of beneficiaries under various social welfare schemes

Mining Department: Regulation of stone crushers and screening of plants, checks on illegal mining, revision of royalty rates and introduction of online e-transit pass system and e-tendering and e-auctions.

Department of Technical Education: Extensive use of e-learning to save on TA and DA expenses

Excise Department: Introduction of online system for permit generation and inventory management

Forest Department: Reduction of administrative costs by bringing different offices under one roof and reducing expenditure on hiring of vehicles

Transport Department: Extensive outsourcing of human resources in place of regular employees.

Soldier Welfare Department: Online payment of monetary grants and issuance of Digital life Certification (DLC) at all Zila Sainik Kalyan Officer (ZSKOs) for continuation of ESM as also pensioners benefits to widows.

Department of Agriculture: Reducing cost of cultivation through issuance of soil health cards and better targeting of fertilizer consumption.

Department of Animal Husbandry: Better targeting of beneficiary- oriented schemes through DBT

3.9 Conclusion

The total expenditure of the State has grown in absolute terms from Rs.15,540 Crores in 2011-12 to Rs.35,104 Crores in 2017-18 (RE) at a CAGR of 14.4%. However, in relation to GSDP, the total expenditure shows only a moderate increase from 13.5% in 2011-12 and 16.1% in 2017-18. The share of capital expenditure to total expenditure has been in the region of 15-18%, which translates to 2.5% of GSDP – a relatively low figure for capital expenditure. The last few years has seen the state running a significant revenue deficit, which places limits on increasing further expenditure. The state will have to find a way to manage its limited resources and spend optimally.

***

Chapter 4: Debt, Deficit and FRBM Act Compliance

4.1 Implementation of FRBM Act and Compliance with Requirements

4.1.1: Uttarakhand Government passed its own Fiscal Responsibility and Budget Management in 2005 in compliance with the recommendations of the 12th Finance Commission. This was further modified in March 2011 in accordance with the recommendations of Thirteenth Finance Commission, and in December 2016 on the recommendations of Fourteenth Finance Commission Act

4.1.2: As per the provisions of FRBM Act of 2005, the State Government was required to take appropriate measures to eliminate revenue deficits by the 31st March 2009, reduce fiscal to 3% of GSDP (or below) in the same period, and ensure that the total liabilities of the State in the next 10 years, ie by 31st March 2015 is below 25% of the State GSDP. The State Government was able to achieve revenue surplus a year later than targeted, attaining a revenue surplus of 1.65% of GSDP in 2009-10. The target for Fiscal Deficit of below 3% was attained for the first time in 2010-11, two years later than targeted, when the Fiscal deficit was brought down to 2.19 % of GSDP.

4.1.3: The FRBM act was amended by the State in 2011 which revised the deficit targets. The target to bring down Revenue Deficit to zero was shifted to end of financial year 2014-15, while the target for fiscal deficit was set as 3.5% (or below) for FY 2011-12 and 2012-13 and 3% (or below) for FY 2013-14 and 2014-15. The amendment also required that the total estimated debt liability does not exceed 41.10, 40.0, 38.5 and 37.2 of GSDP in the four financial years beginning 2011-12. This was a significant increase in the targeted ceiling on total liabilities of the State (37 to 41% of GSDP) as compared to the target for ceiling set in FRBM Act of 2005 at 25% by end of 2014-15. Barring 2014-15, the State was able to meet both its revenue deficit and fiscal deficit targets in the three years of 2011-12, 2012-13 and 2013-14.

4.1.4: The FRBM act was amended again in 2016 to bring it in line with the Fiscal Consolidation roadmap recommended by 14th Finance Commission covering the period 2015-16 to 2019-20. The details of the fiscal performance of the State is given in succeeding paragraphs.

4.2 Fiscal Consolidation Roadmap recommended by the 14th FC

4.2.1: The Fourteenth Finance Commission (14th FC) had prescribed a Fiscal Consolidation roadmap, fiscal deficit targets and annual borrowing limits for the States during the award period as enunciated below:

i. Fiscal deficit of all States will be anchored to an <u>annual limit of three per cent of GSDP</u>. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their <u>debt-GSDP ratio is less than or equal to 25 per cent</u> in the preceding year.

ii. States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the <u>interest payments are less than or equal to 10 per cent</u> of the revenue receipts in the preceding year.

iii. The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a <u>maximum fiscal deficit-GSDP limit of 3.50 per cent</u> in any given year.

iv. The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is <u>no revenue deficit</u> in the year in which borrowing limits are to be fixed and the immediately preceding year.

v. If a State is not able to fully utilise its sanctioned borrowing limit of three per cent of GSDP in any particular year during the first four years of the award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within the award period.

4.2.2: The performance of Uttarakhand against the indicators used by the 14th FC in recommending the fiscal consolidation roadmap is given in Table 4.1 below.

Table 4.1: Compliance with Fiscal Consolidation Roadmap

	Interest Payment as % of Revenue Receipts	**Fiscal Deficit as % of GSDP**	**Public Liabilities as % of GSDP**	**Revenue Surplus / Deficit (-)**
	Threshold: 10%	**Threshold: 3% (Enhanced 3.5%, 3.25% for UK)**	**Ceiling: 25%**	**Threshold: Revenue Surplus**
2015-16	13.99%	-3.48%	22.23%	-1,852
2016-17	14.96%	-2.79%	22.79%	-382
2017-18(RE)	14.71%	-3.55%		-2,008

As can be seen in the table above, Uttarakhand has been unable to comply with the fiscal consolidation roadmap recommended by the 14th FC, which had also been incorporated in the FRBM Act of the State through the amendment in 2016.

The Interest Payment as % of GSDP has been higher than the 10% limit which has been considered desirable, and which made the State ineligible of enhanced borrowing by 0.25%. The fiscal deficit was lower than the targeted 3% only in 2016-17. In 2015-16 and 2017-18(RE), the Fiscal deficit was still higher than the permitted enhanced limit of 3.25%.

4.3 Trend of Fiscal Performance Parameters

4.3.1: Table 4.2 below gives the Revenue Deficit, Fiscal Deficit and Primary Deficit of Uttarakhand, both in absolute terms (Rs Crore), and as a % of GSDP, as also Interest Payment as % of Revenue Receipts.

Table 4.2: Trend of Fiscal Parameters

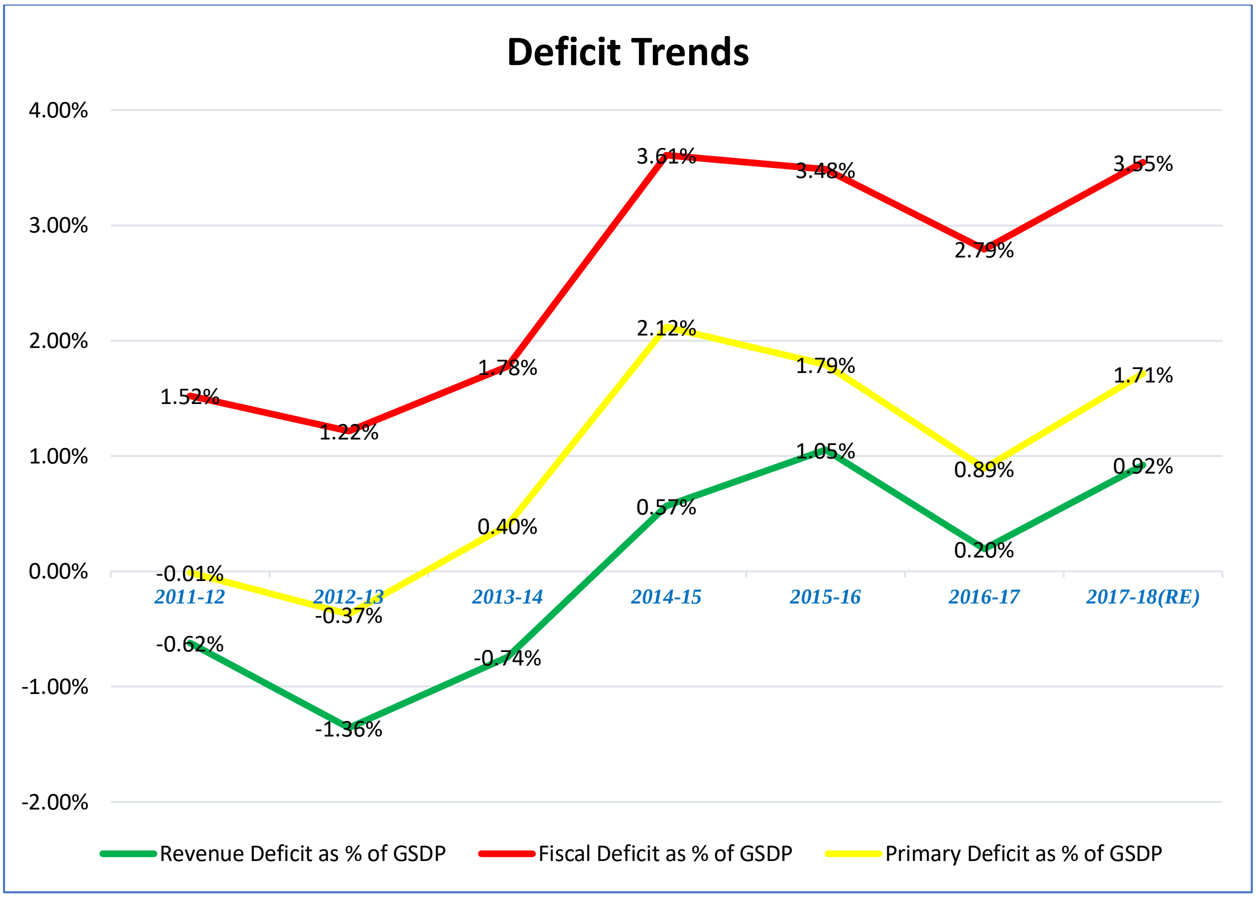
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)
Revenue Deficit	-716	-1,787	-1,105	917	1,852	382	2,008
Fiscal Deficit	1,757	1,600	2,650	5,826	6,125	5,467	7,716
Primary Deficit	-12	-489	594	3,420	3,154	1,744	3,729
GSDP	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609
Revenue Deficit* as % of GSDP	-0.62%	-1.36%	-0.74%	0.57%	1.05%	0.20%	0.92%
Fiscal Deficit as % of GSDP	1.52%	1.22%	1.78%	3.61%	3.48%	2.79%	3.55%
Primary Deficit* as % of GSDP	-0.01%	-0.37%	0.40%	2.12%	1.79%	0.89%	1.71%
Interest Payment (as % of Revenue Receipts)	12.93%	13.27%	11.89%	11.88%	13.99%	14.96%	14.71%

**Note: Negative here denotes surplus*

4.3.2: As evident from **Table 4.2** above, State did not attain Revenue Surplus in any of the years of the 14th FC award period. The last year with Revenue Surplus was in FY 2013-14.

4.3.3: The trend of the three critical fiscal parameters as % of GSDP is shown in Figure 4.1 below

Figure 4.1: Trend of Fiscal Deficit, Primary Deficit and Revenue Deficit



The fiscal deficit of the State has ranged from 1,22% of the GSDP in 2012-13 to 3.55% of the GSDP in 2017-18. In the FC-14 award period from the year 2015-16 onwards, the fiscal deficit has averaged 3.28%, which is higher than the permissible upper enhanced limit of 3.2% recommended in the Fiscal Consolidation roadmap recommended by the 14th FC and included in the state FRBM legislation. In place of revenue surplus targeted in the 14th FC award period, the State has run a deficit averaging 0.72% in the period 2015-16 to 2017-18. Thus, almost a fourth of the deficit incurred by the State has gone towards meeting its revenue expenditure.

4.4. A comparison of State's Fiscal Performance with other States

Table 4.3 below gives a comparison of Revenue Deficit, Fiscal deficit, and Primary Deficit for Special Category states from 2015-16 to 2017-18(RE). The comparison with Non-Special Category states as a group, and All States is also shown. Figures in negative denote surpluses.

Table 4.3: Fiscal Performance Parameters of Non-Special Category States (All figures in % of GSDP)

State	RD/ GSDP				GFD/ GSDP				PD/ GSDP
	2015 -16	2016 -17	2017-18 (RE)	Avg*	2015 -16	2016-17	2017-18 (RE)	Avg*	Avg*
1. Arunachal Pradesh	-10.7	-10.8	-17.7	-13.07	-0.9	-3.8	2.8	-0.63	-2.60
2. Assam	-2.4	0.1	8.1	1.93	-1.3	2.4	12.7	4.60	3.37
3. Himachal Pradesh	-1	-0.7	1.9	0.07	1.9	4.7	5.4	4.00	1.23
4. Jammu and Kashmir	0.5	-1.6	-8.1	-3.07	6.8	4.7	3.9	5.13	1.87
5. Manipur	-4.7	-4.4	-7.3	-5.47	1.8	2.5	3.5	2.60	0.07
6. Meghalaya	-2.7	-2.1	-2	-2.27	2.1	2.5	3.8	2.80	0.90
7. Mizoram	-7.2	-6.2	-5.9	-6.43	-2.7	-1.3	3.2	-0.27	-2.27
8. Nagaland	-2.3	-3.5	-0.1	-1.97	3	1.3	6.6	3.63	0.73
9. Sikkim	-0.8	-4.4	-5.9	-3.70	3.1	-0.5	3.5	2.03	0.37
10. Tripura	-4.5	-2.2	2	-1.57	4.8	6	7.7	6.17	4.07
11. Uttarakhand	**1.1**	**0.2**	**0**	**0.43**	**3.5**	**2.8**	**2.6**	**2.97**	**1.13**
Special Category	-1.4	-1.2	0.6	-0.67	2.1	3	6.6	3.90	**1.83**
Non-Special Category	0.1	0.4	0.4	0.30	3.3	3.7	2.9	3.30	1.60
All States	0	0.3	0.4	0.23	3.1	3.5	3.1	3.23	1.57

** Avg for the three years 2015-16, 2016-17, 2017-18(RE)*

As can be seen in the table above, Uttarakhand is the only state among the Special Category States with a Revenue Deficit in each of the three years of 2015-16 to 2017-18. If we look at the average for the three-year period, then it is one of only three Special Category States showing a revenue deficit instead of revenue surplus as displayed by the other special category states.

The Fiscal Deficit of Uttarakhand has been lower than that shown by most of the other Special Category States.

4.5: Interest Payment Burden

The table below shows the comparative position of burden of Interest Payment for Special Category states 2016-17 to 2017-18(RE). The comparison with Non-Special Category states as a group, and All States is also shown. As can be seen, Uttarakhand has highest burden of Interest Payment as measured as a percentage of Revenue Expenditure at over 14% when compared to other Special Category States (8.8%), and also against the all States average (11.8%). Interest payment is about 1.7-1.8% of the

GSDP, thus, over 50% of the Fiscal Deficit incurred goes towards payment of Interest, reducing the amount available for productive investment by the State.

Table 4.4: Comparative Position of burden of Interest Payment (All figures in %)

State	Interest Payment/Revenue Expenditure		
	2016-17 (Accounts)	**2017-18 (RE)**	**Avg. (2016-17/17-8)**
1. Arunachal Pradesh	4.2	4.3	**4.3**
2. Assam	6.0	4.7	**5.4**
3. Himachal Pradesh	13.3	12.5	**12.9**
4. Jammu and Kashmir	11.5	10.6	**11.1**
5. Manipur	6.6	5.5	**6.1**
6. Meghalaya	6.3	5.5	**5.9**
7. Mizoram	5.5	5.0	**5.3**
8. Nagaland	7.3	6.8	**7.1**
9. Sikkim	8.6	7.4	**8.0**
10. Tripura	9.1	9.1	**9.1**
11. Uttarakhand	14.7	14.0	**14.4**
Special Category States	9.4	8.2	**8.8**
Non-Special Category States	12.3	12.0	**12.2**
All States	12.0	11.6	**11.8**

4.5 Debt position of the State

4.5.1: The total Liabilities of the State are generally accepted to have two components i.e. Public Debt and Other Liabilities. The Public Debt itself has two components, the first consisting of Internal Debt of the State which includes market loans, loans from financial institutions, special securities issued to RBI, and the second is loans and advances received from the Central Government These are liabilities under the Consolidated Fund of the State. The Other Liabilities are fiscal liabilities under Public Accounts which include deposits under Small Saving schemes, Provident Fund and other deposits.

4.5.2: The Debt position of the State with breakup of the components of Debt, both in absolute terms and as % of GSDP is shown in Table 4.4 below:

Table 4.5: Public Debt and Other Liabilities of the State

Year	Internal Debt	Loans from GOI	Public Account and other Liabilities	Total Liabilities	Total Liabilities as % of GSDP	GSDP
2011-12	16,848	455	6,306	23,609	20.47%	1,15,328
2012-13	18,337	462	6,741	25,540	19.41%	1,31,613

2013-14	20,910	445	7,411	28,767	19.30%	1,49,074
2014-15	24,557	478	8,446	33,480	20.74%	1,61,439
2015-16	29,292	544	9,232	39,069	22.23%	1,75,772
2016-17	34,555	655	9,373	44,583	22.79%	1,95,606
CAGR	**15.4%**	**7.5%**	**8.2%**	**13.6%**		**11.1%**

In the period 2011-12 to 2016-17, the total debt (Total Liabilities) to GSDP of Uttarakhand has marginally increased from 20.47% in 2011-12 22.79% in 2016-17. The trend of growth of the different components of total liabilities is shown in Figure 4.2 below, while the change in relative share of the different components is shown in Figure 4.3 below.

Figure 4.2: Growth trend of Total Liabilities

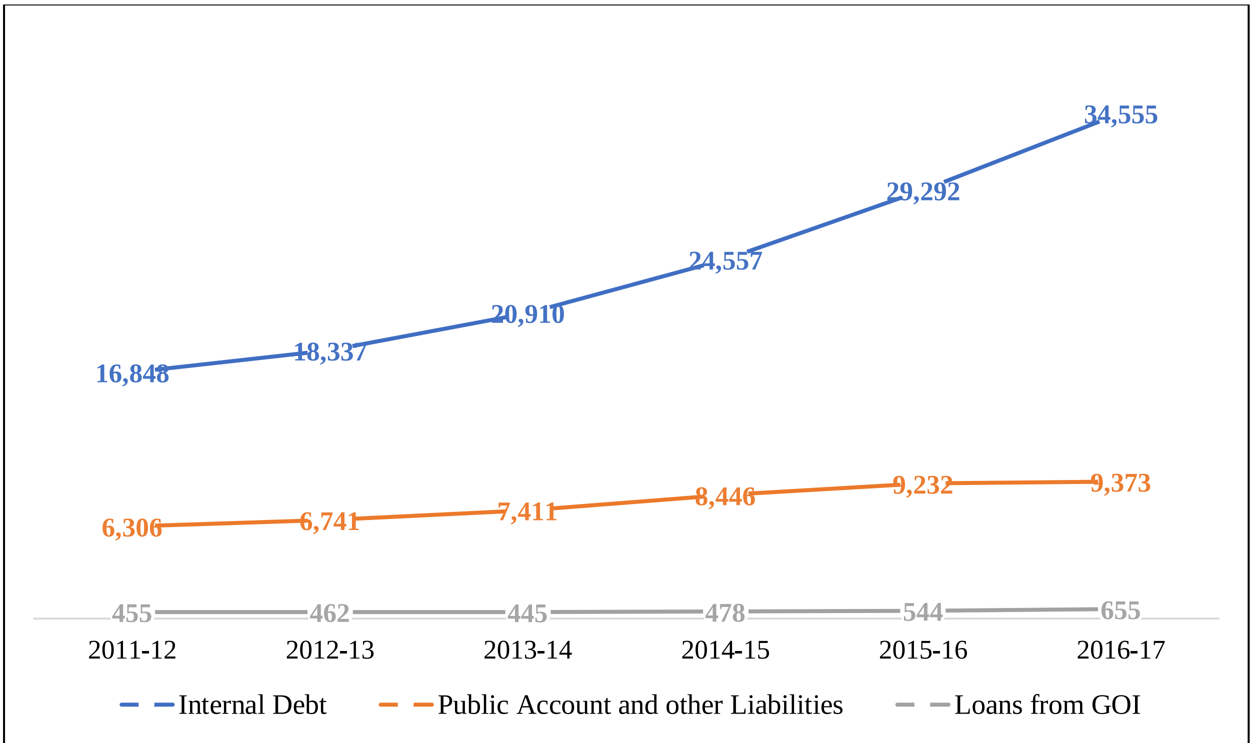
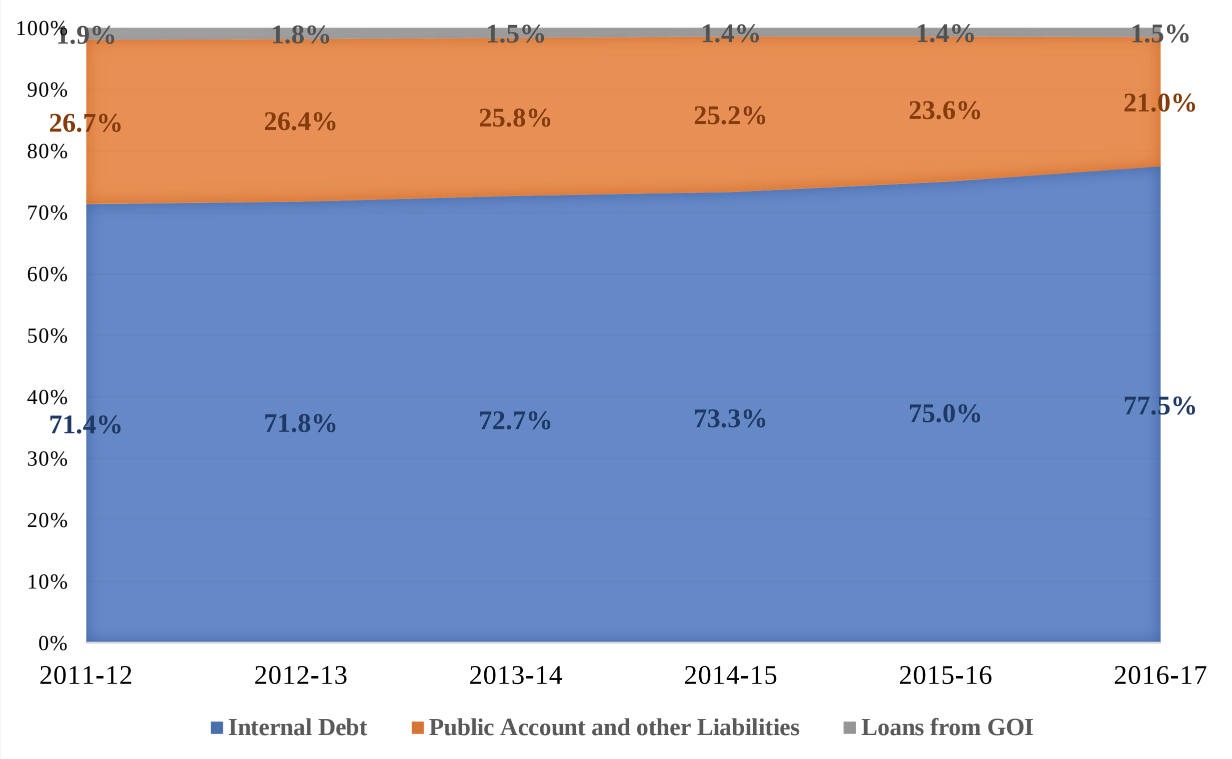


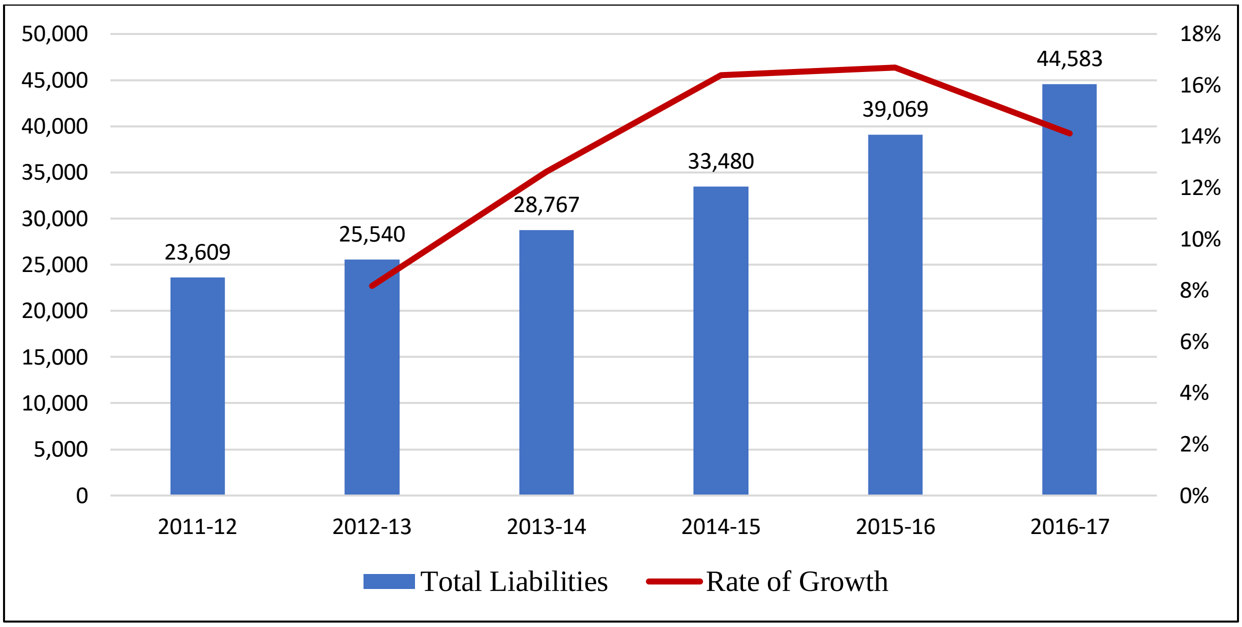
Figure 4.3: Relative Share in Total Liabilities of State



4.5.3: As can be seen in Table 4.5 and figures 4.2 and 4.3 above, Internal Debt raised from the Market accounts for an increasing share of the total liabilities of the State. The overall Debt has grown at a CAGR of 13.6%, higher than the GSDP growth rate of 11.1% displayed in the reference period of 2011-12 to 2016-17. Internal Debt (Market Loans etc.) was the fastest growing component of Total Liabilities, growing at a CAGR of 15.4%. Its share in the Total Liabilities of the State has accordingly increased from 71.4% to 77.5% in the reference period. The share of Central Loans and Advances, already small, has further reduced to 1.5% of the total liabilities of the state by the end of 2016-17.

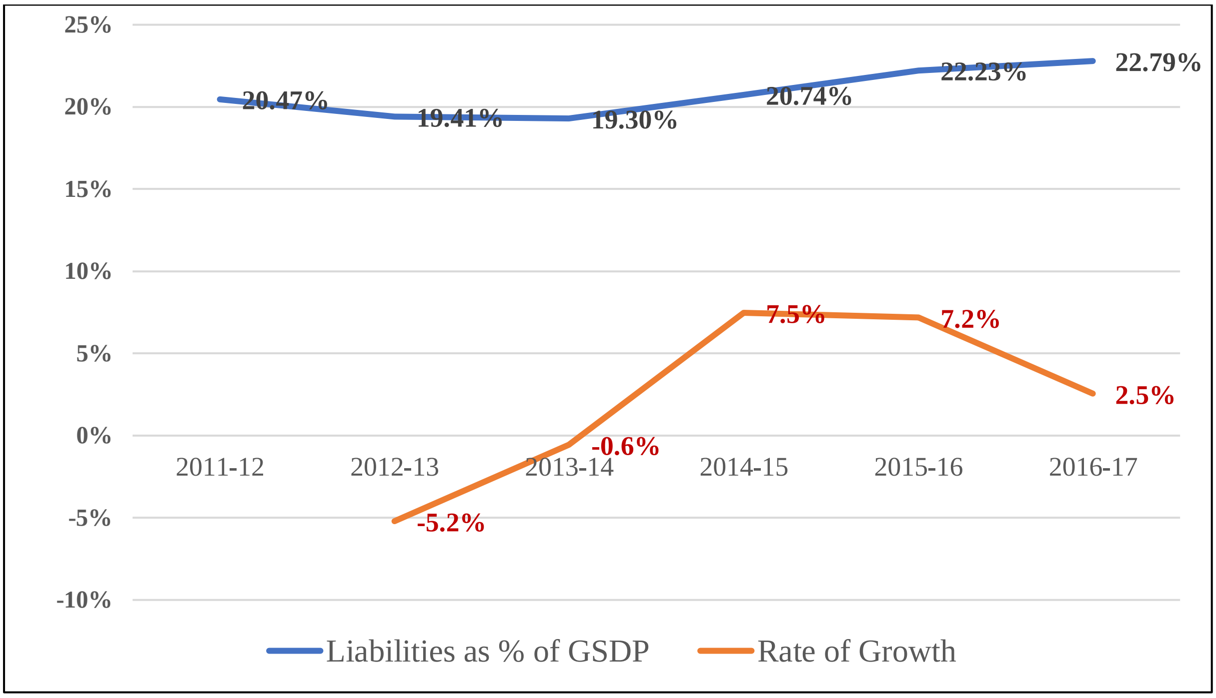
4.5.4: The total Public Debt and Liabilities and its rate of growth as measured as change from the previous year is shown in Figure 4.4 below:

Figure 4.4: Total Liabilities of the State (Rs Crore) and Rate of Growth



As can be seen in the figure above, the overall fiscal liabilities of the State increased from Rs.23,609 Crore in 2011-12 to Rs. 44,583 Crore in 2067-17. The annual growth rate of fiscal liabilities during the last 5 years has ranged from 8.2% to 16.7%, with a CAGR of 13.6 %. However, the total Liabilities as % of GSDP has not increased at the same rate, as can be seen in Figure 4.3 below:

Figure 4.5: Total Liabilities of the State as % of GSDP and Rate of Growth



While in absolute terms, the total liabilities almost doubled in the period from 2011-12 to 2016-17 (RE), there has not been a similar increase in Debt as a percentage of GSDP which moved up marginally from 20.47% to 22.79%.

4.5.5: The Total Liabilities-GSDP ratio of the State has consistently been better than those of other special category States, with only Assam having a lower debt to GSDP ratio than Uttarakhand. Table 4.6 below, sourced from RBI's report on State Finances (July 2018), shows the comparative position of Total Liabilities-GSDP ratio of Special Category States. The debt level of Uttarakhand is marginally lower than all-states level by about 1 %.

Table 4.6: Total Liabilities/GSDP Ratio Comparison with Other States

State	2011	2012	2013	2014	2015	2016	2017	2018 (RE)	2019 (BE)
1. Arunachal Pradesh	38.9	35.7	34.0	32.3	34.3	28.0	25.6	26.5	27.9
2. Assam	23.5	19.5	18.9	17.4	18.1	18.5	17.2	18.4	20.2
3. Himachal Pradesh	46.0	38.8	35.5	35.7	36.8	36.5	37.7	36.6	36.4
4. Jammu and Kashmir	55.4	46.9	46.5	46.9	49.0	46.3	46.8	46.9	45.9
5. Manipur	68.0	50.4	49.6	43.8	40.8	42.4	41.0	39.7	39.5
6. Meghalaya	29.8	26.9	24.1	28.7	29.7	29.0	32.5	33.0	32.0
7. Mizoram	73.0	67.7	66.1	60.4	51.9	46.1	35.5	31.1	28.6
8. Nagaland	50.2	55.4	52.7	50.3	43.2	45.0	43.1	39.2	38.7
9. Sikkim	33.1	25.0	24.2	24.1	22.7	25.6	24.9	25.7	26.2
10. Tripura	34.1	34.1	35.4	34.1	34.0	30.1	29.5	28.9	27.1
11. Uttarakhand	**25.4**	**21.5**	**20.4**	**20.3**	**21.1**	**22.9**	**22.8**	**23.1**	**23.5**
All States (Per cent of GDP)	23.5	22.8	22.2	22.0	21.7	23.4	23.8	24.0	24.3

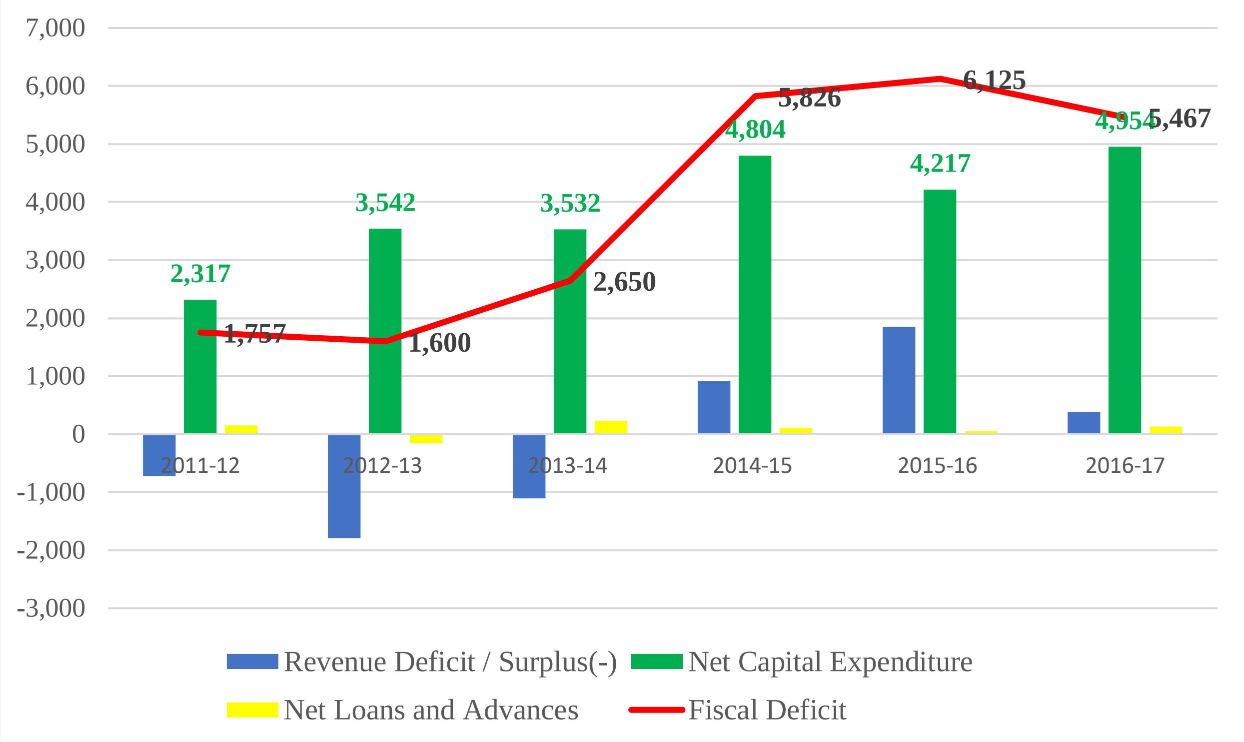
4.6 Utilisation of Debt

4.6.1: The Fiscal consolidation roadmap required all States to be revenue surplus, such that the permitted Fiscal Deficit is utilized for productive Capital Expenditure. Table 4.7 and Figure 4.6 below show the broad breakup of utilization of Fiscal Deficit.

Table 4.7: Utilisation of Fiscal Deficit

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Deficit / Surplus (-)	-716	-1,787	-1,105	917	1,852	383
Net Capital Expenditure	2,317	3,542	3,532	4,804	4,217	4,954
Net Loans and Advances	156	-155	223	105	56	130
Fiscal Deficit	**1,757**	**1,600**	**2,650**	**5,826**	**6,125**	**5,467**
Revenue Deficit / Surplus (-) as % of Fiscal Deficit	*-40.8%*	*-111.7%*	*-41.7%*	*15.7%*	*30.2%*	*7.0%*
Net Capital Expenditure as % of Fiscal Deficit	*131.9%*	*221.4%*	*133.3%*	*82.5%*	*68.8%*	*90.6%*
Net Loans and Advances as % of Fiscal Deficit	*8.9%*	*-9.7%*	*8.4%*	*1.8%*	*0.9%*	*2.4%*

Figure 4.6: Utilisation of Fiscal Deficit



4.6.2: As can be seen in the Table and Figure above, the last three years of the reference period ie from 2014-15 to 2016-17, has seen the State run a Revenue Deficit against the Revenue Surplus shown in the previous three years. As a result, the Fiscal Deficit was also utilized for financing the Revenue Expenditure of the State in the recent period, and Capital Expenditure formed on average only 80% of the Fiscal Deficit.

4.6.3: As per the RBI report on State Finances (July 2018), Uttarakhand stands last (11^{th}) among the special category states with respect to Capital Expenditure as a percentage of GSDP. Table 4.8 below shows the Capital outlay of all non-special category states, as also the aggregate figure for All-States, and States grouped by category.

As can be seen, Capital Expenditure by Uttarakhand at 2.6% of GSDP is near half of the aggregate for Special Category States, and the same as the Non-Special Category States.

Table 4.8 Capital Outlay of various States as % of GSDP

State	2016-17	2017-18 (RE)	Avg (2016-17, 17-18)
1. Arunachal Pradesh	7.0	20.5	**13.8**
2. Assam	2.2	5.1	**3.7**
3. Himachal Pradesh	2.8	3.0	**2.9**
4. Jammu and Kashmir	6.3	14.8	**10.6**
5. Manipur	6.9	10.8	**8.9**

State	2016-17	2017-18 (RE)	Avg (2016-17, 17-18)
6. Meghalaya	4.5	5.7	**5.1**
7. Mizoram	4.8	9.0	**6.9**
8. Nagaland	4.8	6.7	**5.8**
9. Sikkim	3.8	9.4	**6.6**
10. Tripura	8.2	5.7	**7.0**
11. Uttarakhand	**2.5**	**2.6**	**2.6**
Special Category	3.7	6.5	**5.1**
Non-Special Category	2.6	2.6	**2.6**
All States	2.6	2.8	**2.7**

4.8 Assessment of Debt Sustainability

In the simplest terms, Debt is said to be sustainable if the borrower can service it now and in the future. At the same time, Debt sustainability is fundamentally a probabilistic concept: Debt is rarely sustainable with probability of one. The succeeding paragraphs attempt to provide relevant information to assess the debt sustainability of Uttarakhand.

4.8.1 Performance comparison against 14th FC Consolidation Parameters

The key fiscal parameters of Uttarakhand are given in Table 4.9 below:

Table 4.9: Key Fiscal Parameters of Uttarakhand

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)
Revenue Deficit* as % of GSDP	-0.62%	-1.36%	-0.74%	0.57%	1.05%	0.20%	0.92%
Fiscal Deficit as % of GSDP	1.52%	1.22%	1.78%	3.61%	3.48%	2.79%	3.55%
Primary Deficit* as % of GSDP	-0.01%	-0.37%	0.40%	2.12%	1.79%	0.89%	1.71%
Interest Payment (as % of Revenue Receipts)	12.93%	13.27%	11.89%	11.88%	13.99%	14.96%	14.71%
Total Public Liabilities as % of GSDP	20.47%	19.41%	19.30%	20.74%	22.23%	22.79%	

**Note: Negative here denotes surplus*

In the 14th FC award period beginning 2015-16, the State has been unable to generate revenue surplus. The burden of Interest payment has also steadily increased.

The emphasis placed by the 14th FC on the various parameters and thresholds is given in Table 4.10 below:

Table 4.10: Fiscal Consolidation Parameters by 14th FC

Parameter	Threshold/Ceiling
Debt to GSDP	Debt should be **less than 25%** of GSDP
Interest Payment to Revenue Receipts	Interest Payment should be less **than 10%** of Revenue Receipts
Fiscal Deficit to GSDP	Fiscal Deficit should be **less than 3%** (enhanced limit of 3.5%) of GSDP

Revenue Deficit to GSDP	There should be **no Revenue Deficit**

Comparing the above threshold/Ceiling to the various fiscal parameters listed in Table 4.9 above, it is clear that Uttarakhand has largely been unable to follow the Fiscal consolidation roadmap. In the 14th FC award period, it ran a revenue deficit against surplus, had interest payment burden in excess of 10%, exceeded the enhanced limit of Fiscal Deficit (3.25% in case of Uttarakhand) in 2 of the three years. The only parameter where Uttarakhand has been within the Fiscal Consolidation desirable parameter value is that of Debt to GSDP, where it is still below 25%. In the period 2011-12 to 2016-17, the Debt to GSDP has been largely steady, showing only a moderate increase from 20.47% to 22.79%.

4.8.2 Debt Sustainability Indicators

Blanchard (1990) put forward two conditions of sustainability – (i) the ratio of debt to GNP should eventually converge back to its initial level and (ii) the present discounted value of the ratio of primary surpluses to GNP should be equal to the current level of debt to GNP.

Some of the common debt sustainability indicators have been defined in Table 4.11 below***:***

Table 4.11: Debt Sustainability Indicators

S.no	**Indicators**	**Symbolical Representation**	**Interpretation**
1.	Rate of Growth of GDP(Y) should be more than Rate of Growth of Debt (D)	$Y-D>0$	Assess the sustainability in aggregate terms and test the essential condition that growth of income must exceed growth of debt. Real output growth (y) should be higher than rate of interest (r).
2a	Real Output Growth (y) should be higher than Real Interest Rate (r) Growth.	$y-r>0$	
2b	Rate of growth of debt (D) should be lower than effective interest rate (i)	$D - i < 0$	
3a	Primary Deficit (PD) should not be rising faster than GDP	$PD/GDP<0$	Tests the sustainability from the point of view of revenue account. Additional condition that primary deficit must be declining, and sufficient surplus must be generated to repay current debt stock.
3b	Primary Revenue Balance (PRB) should be in surplus and adequate enough to meet interest payment (IP)	$[PRB-IP>0]$	
4	Proportion of Repayment (REP) to Gross Borrowing (TGB) should be falling over time.	$[REP/TGB\downarrow\downarrow]$	Measures debt trap situation. If the interest payment and repayment exceed total gross borrowings, economy said to be in debt trap.
5	Interest payments (IP) and Repayments (REP) adjusted for Primary Revenue Balance (PRB) should not exceed Total Gross Borrowing (TGB)	$[(IP+REP-PRB)/TGB)<1]$	
6a	Interest Burden Defined by Interest Payments (IP) to GDP ratio should decline over time.	$[IP/GDP\downarrow\downarrow]$	Interest payment as proportion to GSDP, revenue receipts, as well as

6b	Interest Payments (IP) as per cent of Revenue Expenditure (RE) should decline over time.	[IP/RE↓↓]	revenue expenditure should be falling over time.
6c	Interest Payments (IP) as a per cent of Revenue Receipts (RR) should decline over time.	[IP/RR↓↓]	
7a	Debt to revenue receipts ratio should decline over time.	D/RR↓↓	Debt as proportion to revenue receipts, as well as Tax and non -tax revenue should be falling over time.
7b	Debt to tax revenue ratio should decline over time	D/TR↓↓	
7c	Debt to own tax revenue ratio should decline over time	D/OTR ↓↓	

Note: (i) Net Primary Revenue Balance (NPRB) =RD-(IP-IR) (ii) Primary Revenue Balance (PRB) = RD-IP (iii) REP-Repayments of Government Debt (iii) TGB=Total Gross Borrowing

4.8.3 Recommendations of the FRBM Review Committee on Debt and its sustainability

The FRBM Review Committee report released in January 2017 had made the following key recommendations:

(a) Debt to GDP ratio: The Committee suggested using debt as the primary target for fiscal policy. A debt to GDP ratio of 60% should be targeted with a 40% limit for the Centre and 20% limit for the States as a whole. It noted that majority of the countries that have adopted fiscal rules have targeted a debt to GDP ratio of 60%. The targeted debt to GDP ratio should be achieved by 2023. In 2017, this ratio of Debt to GDP for general government was expected to be around 70%.

(b) Yearly Targets: To achieve the targeted debt to GDP ratio, the committee recommended adopting fiscal deficit as the key operational target consistent with achieving the medium-term debt ceiling. In case of Centre, it proposed yearly targets to progressively reduce the fiscal and revenue deficits till 2023. The recommended path for Fiscal deficit for Centre was: 3.0% in FY18-FY20, 2.8% in FY21, 2.6% in FY22, and 2.5% in FY23. Similarly, for Revenue deficit, the Committee recommended in case of Centre, a steady decline by 0.25 percentage points each year with the following path: 2.3% in FY17, 2.05% in FY18, 1.8% in FY19, 1.55% in FY20, 1.30% in FY21, 1.05% in FY22, and 0.8% in FY23.

The Committee however did not recommend inter-se debt levels for individual States, apart from the overall targeted limit of 20% of Debt to GSDP for the States as a whole. It instead recommended that the Union government entrust this task to the 15th Finance Commission, as the inter-se debt levels are outcomes of ceilings placed by the Centre on individual states, which in turn is based on the state FRLs and recommendations of the Finance Commission.

4.8.4 Maturity profile of State Debt

The maturity profile of the State Public debt (excluding Other Liabilities in Public Account) at the end of FY 2016-17 is given in the table below:

Table 4.12: Maturity Profile of the State Public Debt (Rs in Crore) – 31st March 2017

Maturity profile	Amount	Percentage to total Public Debt
0-1 year	1,245	3.5%
1-3 years	2,557	7.3%
3-5 years	3,621	10.3%
5-7 years	5,587	15.9%
More than 7 years	18,690	53.1%
Others (information not made available by the State Government)	3,510	10.0%
Total	**35,210**	**100.0%**

Source: C&AGs report on State Financed for 2016-17

The maturity profile of outstanding stock of public debt as on 31 March 2017 shows that 53 per cent of the Public Debt was in the maturity bucket of seven years and above, and less than 11% has a maturity of less than 3 years. As per RBI Report on State Finances, the corresponding figures for end March 2018 were 60% for maturity over 7 years, and 9.8% of maturity less than 3 years.

There is no bunching of repayment in the short-term, with almost an even annual load of repayment over the next five years.

4.8.5 Assessing Debt Sustainability

There are multiple indicators of debt sustainability, which have been listed in para 4.8.2 above. The FRBM Committee too had reviewed various models, and finally taken the considered decision that it is best to keep debt as the primary target of Fiscal policy with a target of 60% for the government as a whole, and fiscal deficit as the operational target. The Committee, in its report, had also made projections of Debt to GDP for a range of primary and fiscal deficit trajectories. These were based on varying two important parameters – nominal growth rate (g) of GDP, and nominal interest rate (r) of debt.

In case of Uttarakhand, the nominal rate of GSDP growth (g) over the last three years (2015-16 to 2017-18) has been 10.5% which is greater than rate of Interest at which internal debt has been/is raised. However, as per RBIs Report on State Finances, the

2018-19(BE) figure for Total Liabilities to GSDP of Uttarakhand is already at 23.1%, higher than the target for all-States of 20%, which implies that Uttarakhand would need to generate sufficient revenue surplus as to bring down debt to 20% of GSDP.

Uttarakhand has had a relatively high interest burden at almost 1.7 % of GSDP. The Primary Deficit and Interest Payment as % of Revenue Receipts is given in Table 4.13 below:

Table 4.13: Primary Deficit and Interest Payment Trend

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)
Interest Payment	1.53%	1.59%	1.38%	1.49%	1.69%	1.90%	1.83%
Fiscal Deficit	-1.52%	-1.22%	-1.78%	-3.61%	-3.48%	-2.79%	-3.55%
Primary Deficit	**0.01%**	**0.37%**	**-0.40%**	**-2.12%**	**-1.79%**	**-0.89%**	**-1.71%**
Interest Payment (as % of RR)	12.93%	13.27%	11.89%	11.88%	13.99%	14.96%	14.71%

The FRBM Committee had run simulations of nominal interest rate(r) varying from 7.3% to 8.5% and nominal growth (g) varying from 10.5 to 12%. A similar simulation was run in case of Uttarakhand to see the level of Primary Deficit that can be incurred by Uttarakhand while maintaining the current Debt to GSDP of 23.1%. The result of the simulation is given in Table 4.14 below for different levels of nominal growth rate (g) of GDP, and interest rate (r) of debt.

Table 4.14: Permissible Primary Deficit for Debt to be stable at Current Level (23.1% of GSDP)

		Nominal Interest rate (r) of Debt						
		7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%
Nominal Rate of Growth of GSDP	10.00%	-0.63%	-0.58%	-0.53%	-0.47%	-0.42%	-0.37%	**-0.32%**
	10.25%	-0.68%	-0.63%	-0.58%	-0.52%	-0.47%	-0.42%	-0.37%
	10.50%	-0.73%	-0.68%	-0.63%	-0.57%	-0.52%	-0.47%	-0.42%
	10.75%	-0.78%	-0.73%	-0.68%	-0.63%	-0.57%	-0.52%	-0.47%
	11.00%	-0.83%	-0.78%	-0.73%	-0.68%	-0.62%	-0.57%	-0.52%
	11.25%	-0.88%	-0.83%	-0.78%	-0.73%	-0.67%	-0.62%	-0.57%
	11.50%	-0.93%	-0.88%	**-0.83%**	-0.78%	-0.73%	-0.67%	-0.62%
	11.75%	-0.98%	-0.93%	-0.88%	-0.83%	-0.78%	-0.72%	-0.67%
	12.00%	-1.03%	-0.98%	-0.93%	-0.88%	-0.83%	-0.77%	-0.72%
	12.25%	-1.08%	-1.03%	-0.98%	-0.93%	-0.87%	-0.82%	-0.77%
	12.50%	**-1.13%**	-1.08%	-1.03%	-0.98%	-0.92%	-0.87%	-0.82%

The maximum permissible Primary deficit as computed in the Table 4.14 above is 1.13%, which occurs under the combined favourable circumstance of a GDP growth rate of 12.5% and Interest rate of 7%. At the other extreme, the permissible Primary deficit could be as low as 0.32% if the GSDP growth rate is lower (10%) and Interest rate is higher (8.5%). A more conservative middle estimate of a growth of 11.5% and Interest rate of 7.5% leads to a permissible Primary deficit of 0.83%.

Uttarakhand has averaged a Primary Deficit of 1.47% in the last three years. This is higher than the best possible case of a permissible Primary Deficit of 1.13 % of GSDP. Thus, Uttarakhand is left with very little leeway to even sustain its current borrowing rate leading to a Fiscal Deficit of 3% or higher to fund its much-required development expenditure. The current level of Debt to GSDP is bound to increase further unless expenditure is curbed, and to that extent, the target of 20% of Debt to GSDP for Uttarakhand appears difficult to achieve in the short to medium run.

As mentioned in the beginning of this section - Debt sustainability is fundamentally a probabilistic concept. It is difficult to say the exact level beyond which the debt becomes unsustainable for sure. Limiting all States to the same limit of Debt to GSDP of 20% may not be the best solution – as each State would have a different initial Debt to GSDP, and different resource base for economic development.

4.8.6 Estimate of Fiscal Deficit in the FC-XV Award Period

In the FC-XIV period, and for the preceding four years of FC-XIII, the fiscal parameters of the state were as given below:

Figures in Rs Crore

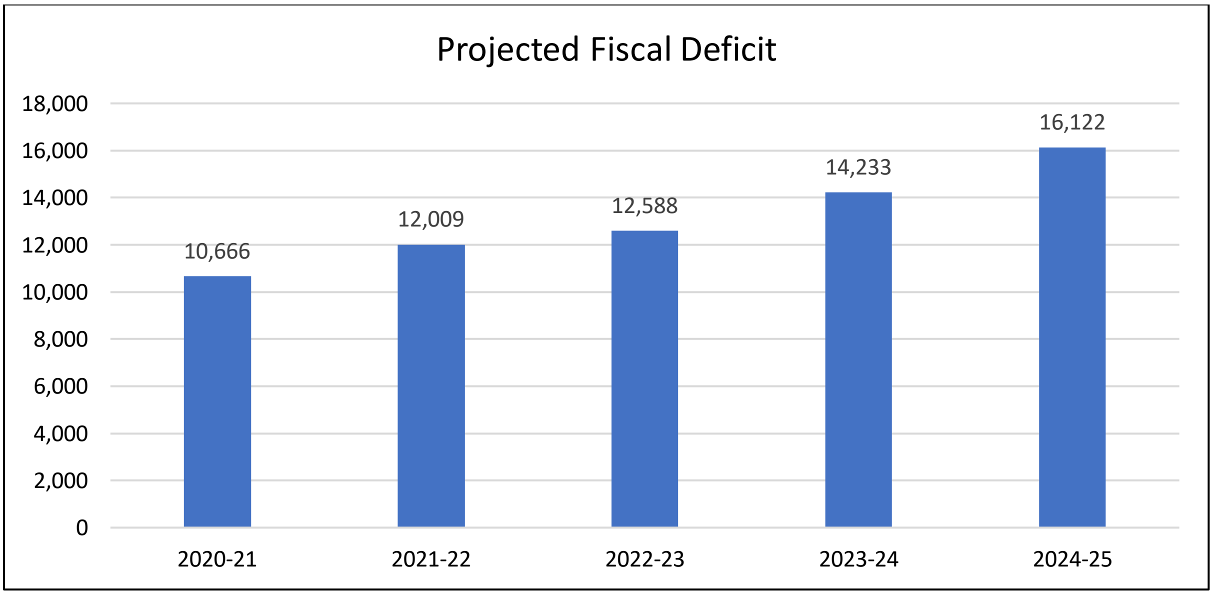
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Deficit (RD) / Surplus (-)	-716	-1,787	-1,105	917	1,852	383	1,978
Net Capital Expenditure	2,317	3,542	3,532	4,804	4,217	4,954	5,991
Net Loans and Advances	156	-155	223	105	56	130	-284
Fiscal Deficit (FD)	1,757	1,600	2,650	5,826	6,125	5,467	7,686
RD as % of GSDP	-0.62%	-1.36%	-0.74%	0.57%	1.05%	0.20%	0.91%
Net Capital Expenditure as % GSDP	2.01%	2.69%	2.37%	2.98%	2.40%	2.53%	2.75%
FD as % of GSDP	1.52%	1.22%	1.78%	3.61%	3.48%	2.79%	3.53%

It can be seen in the table above that the Fiscal Deficit in the last four years has averaged 3.4% of GSDP, and the state has consistently run a Revenue Deficit ranging from 0.20% to 1.05 %, with an average of 0.7%. As had been commented earlier in our report, the Capital Expenditure by Uttarakhand at 2.6% of GSDP is near half of the aggregate for Special Category States, and the same as the Non-Special Category States.

In our opinion, level of Fiscal Deficit is primarily determined by the FRBM compliance regime. Uttarakhand has shown relatively low levels capital expenditure and also runs a revenue deficit. It desperately needs to ramp up its capital expenditure beyond the current levels. Given that upto 0.5% of the Fiscal Deficit may go towards meeting revenue expenditure needs, the State may have little option but to incur Fiscal Deficit to the maximum level permitted by Fiscal responsibility legislation.

Looking at the debt sustainability issue, we had recommended a path for Fiscal Deficit, which involved debt to GSDP stabilising at about 26 % of GSDP. The projected Fiscal Deficit as a % of GSDP and in absolute amount for period for the 15th FC Period is given below:

Financial Year	**Fiscal Deficit (As % of GSDP)**	**GSDP**	**Fiscal Deficit**	**Debt to GSDP**
2020-21	**3.50%**	3,04,733	10,666	**24.66%**
2021-22	**3.50%**	3,43,114	12,009	**25.26%**
2022-23	**3.25%**	3,87,310	12,588	**25.57%**
2023-24	**3.25%**	4,37,937	14,233	**25.85%**
2024-25	**3.25%**	4,96,072	16,122	**26.10%**



4.9 Sustainable Debt Roadmap for Uttarakhand

4.9.1: As brought out in Section 4.8 above, the Debt to GSDP ratio of Uttarakhand is estimated at 23.1 % as per BE 2018-19, which is more than the 20% limit for the States taken together recommended by the FRBM review committee. To maintain the Debt to

GSDP ratio at this level would call for a maximum permissible Primary deficit (computed in Table 4.14 above) of 1.13%. As Uttarakhand has averaged a Primary Deficit of 1.47% in the last three years, the debt to GSDP is unlikely to remain stable at even the current level of 23.1%, given the current borrowing rate with a Fiscal Deficit of 3% or higher.

4.9.2: The state needs to ramp up its Capital expenditure. Its own tax revenue base is fairly weak, and it would need to borrow, and then invest in required Capital assets both efficiently and effectively for higher growth and income generation. It would be possible for the State to stabilise at a Debt to GSDP level of around 26% over the next 5 years by incurring a fiscal deficit of maximum 3.5% of GSDP for the first two years, reduce to 3.25% in the next three years of the 15th FC award period, and thereafter, maintain the Fiscal Deficit at 3% such that the debt to GSDP stabilises around 26.1% from 2024-25 onwards. The debt roadmap leading to a stable Debt to GSDP of 26.1% is shown in Table 4.15 below. This has been prepared assuming a nominal interest rate of 7.3% and a conservative nominal growth rate in GSDP of 11.5%

Table 4.15: Debt Roadmap with Sustainable Debt to GSDP of (near) 25%

Financial Year	Beginning Debt to GSDP	Primary Deficit	Fiscal Deficit	Interest Payment	Ending Debt to GSDP
2020-21	24.00%	1.75%	**3.50%**	1.75%	**24.66%**
2021-22	24.66%	1.70%	**3.50%**	1.80%	**25.26%**
2022-23	25.26%	1.41%	**3.25%**	1.84%	**25.57%**
2023-24	25.57%	1.38%	**3.25%**	1.87%	**25.85%**
2024-25	25.85%	1.36%	**3.25%**	1.89%	**26.10%**
2025-26	26.10%	1.10%	**3.00%**	1.90%	**26.09%**
2026-27	26.09%	1.10%	**3.00%**	1.90%	**26.09%**
2027-28	26.09%	1.10%	**3.00%**	1.90%	**26.09%**
2028-29	26.09%	1.10%	**3.00%**	1.90%	**26.09%**
2029-30	26.09%	1.10%	**3.00%**	1.90%	**26.09%**
2030-31	26.09%	0.85%	**3.00%**	1.90%	**26.09%**
2031-32	25.87%	0.86%	**3.00%**	1.89%	**26.09%**
2032-33	25.67%	0.88%	**3.00%**	1.87%	**26.09%**
2033-34	25.48%	0.89%	**3.00%**	1.86%	**26.09%**
2034-35	25.32%	0.90%	**3.00%**	1.85%	**26.09%**

All figures as % of GSDP, Assumptions – GSDP Growth Rate of 11.5%, Interest Rate at 7.3%

4.10 Contingent Liabilities of State

State Government guarantees are contingent liabilities on the Consolidated Fund of the State in that it becomes a liability in case of default by the borrower to whom the guarantee has been extended.

No law had been enacted by the State Legislature under Article 293 of the Constitution fixing the maximum limit within which the government could give guarantees on the security of the Consolidated Fund of the State. The FRBM Act, 2005 of the State 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 such rule or law. However, the State government has not enacted so far any law or formulated any rule to cap the guarantees.

The outstanding guarantees along with the percentage of outstanding guarantee to total revenue receipts of Uttarakhand is given in Table 4.15 below:

Table 4.15: Guarantees given by the Government of Uttarakhand (Rs. in Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Amount of Guarantees	1739	1570	1,475	1,832	1,743	1,258
Percentage of amount guaranteed to total revenue receipts	12.70%	9.97%	8.52%	9.05%	8.21%	5.05%

The outstanding guarantees and the end of 2016-17 stood at Rs.1,258 crore, which comprises Power Sector (Rs 989 crore), Co-operatives (Rs 50 crore) and others (Rs 219 crore). No guarantee had been invoked during the year.

The outstanding amount of guarantees in the nature of contingent liabilities was about 5 per cent of the total Revenue Receipts of the State. While the outstanding guarantees has been range-bound, the amount of guarantees with respect to the total revenue has decreased significantly from 12.7% in 2011-12 to 5.05 % in 2016-17.

4.11 Conclusion

The current level of Total Liabilities of Uttarakhand at over 23% of GSDP is higher than the target of 20% for the States as a whole set by the FRBM Review. This is further set to rise given the current borrowing levels with Fiscal Deficit of over 3%, and the already high interest payment burden which absorbs more than half of the borrowed amount.

The State has not been able to keep within the Fiscal Consolidation roadmap on account of the higher share of interest payment, and larger Fiscal Deficit, and its total liabilities to GSDP though below 25% now, is likely to exceed this threshold sooner than later.

Based on the fiscal parameters, Uttarakhand appears to be the worst placed among the Special Category States being the only state in this category with a Revenue Deficit in each of the three years of 2015-16 to 2017-18, and having a Capital outlay of 2.6% of GSDP, which is near half of that managed by the Special Category States.

Given its development needs and currently limited resource base, which has been further adversely impacted by GST in the short term, the State may find it difficult to limit Fiscal Deficit such as to maintain Debt to GSDP at current levels or bring it down to 20% in the next 3-5 years.

The inter-se apportionment of Debt to GSDP across the States as to meet the target of 20% for the States as a whole would call for an examination of the development needs of the various States by the Finance Commission. The challenges faced by the State which has warranted its inclusion in the group of Special Category States, and its relatively disadvantaged fiscal position vis-à-vis other Special Category States merits consideration. Uttarakhand is already above the limit of 20% debt to GSDP – A target of around 26% appears to be a reasonable and sustainable for Uttarakhand.

Some part of the role played by the erstwhile Planning Commission may have to be taken on by the Finance Commission, through a judicious mix of Grants-in-Aid, inter-se devolution, and inter-se debt levels for individual States, to ensure a balanced development of all States.

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Chapter 5: Transfers to Urban and Rural Local Bodies

5.1. Devolution Scheme of State Finance Commission

In accordance with articles 243I(1)(a)(i) and 243Y(1)(a)(i) of the Constitution and para 3 (a)(i) of the TOR, the 4th State Finance Commission of Uttarakhand made certain recommendations for the award period commencing from 1st April 2016 till 31st March 2021. The State's own tax revenue is sharable with PRIs and ULBs. The non-tax revenue from duties, tolls and fees is shown separately in the State Government budgets as income from non-tax revenue. The main highlights of the schemes of devolution are as follows:

5.1.1. Devolution Recommendation: The 4th SFC kept in mind the recommendations of the 3rd SFC while recommending the share of PRIs and ULBs in the total divisible pool. The addition of 28 new ULBs which took the number to total of 91 was also noted. No devolution was recommended to the ZPs (Zilla Pacnhayats) and KPs (Kshetra Panchayats) since they were usually not providing any specific services. In the event the state government intended to give them any responsibility for specific provisions, budgetary allocation could then be made. Similarly, because of unused funds, no case was made out for increasing the share of PRIs in the divisible pool. The ULBs, on the other hand, were under increased pressure due to the responsibility of providing civic services to a larger population. They also had a large workforce with committed liability towards payments of salaries at par with the 6th Central Pay Commission, and therefore had to be commensurately funded. Therefore the 4th SFC fixed the share of ULBs at 55% and that of the PRIs at 45% of the divisible pool.

5.1.2. Horizontal Distribution Criteria: The 4th State Finance Commission used the following principles for horizontal distribution.

<u>Population:</u> A high weightage to population was given in the devolution schemes. Since local bodies with very small population have also to provide a minimum level of basic services and only using population as a factor reduces their size of devolution, a minimum floor was fixed. In case of Nagar Nigams(NNs), the floor was fixed as Rs 2,00,000, in case of Nagar Palika Parishads (NPPs), the floor is Rs 10,000, in case of

Nagar Panchyats(NPs), the floor is Rs 5,000, and in case of Gram Panchayats(GPs), the floor has been fixed at Rs 500.

Area: A body with a larger area must incur additional costs to deliver a comparable service. However, while the cost of providing services increases with the size of the unit, it is at a decreasing rate, which at some level will lead to the incremental cost becoming negligible. Units with very small area too need to incur certain minimum costs. Hence area was used as cost disability factor for determining the share. The floor given to area in case of NPPs and NPs is 2 sq. km as some of these ULBs have very small area. The maximum and minimum area of a GP has been fixed at 600 and 200 hectares respectively as was done by the previous Commission.

Remoteness: This factor has been included since the area factor does not fully capture the cost disability factor due to remoteness of the location where services must be provided. Since the only available reliable data is the distance of the block headquarters from the nearest railhead, that has been taken as a criterion. All the PRIs and ULBs have been classified into 5 classes based on their distance from the nearest railhead as follows: (a) 0-49Kms (b) 50-99Kms (c) 100-149Kms, (d) 150-199Kms (e) 200Kms and above. The weightage given to distance of a place from railhead is 15% in case of ZPs and 20% in case of KPs and GPs.

Tax Effort: The ULBs and PRIs have been reluctant to increase their revenues through levy and collection of taxes. The main source of income of ULBs is property tax which however has not been reliably estimated and collected. Under these circumstances, the Commission has decided to make tax effort as a devolution parameter so that the ULBs imposing/ collecting tax aggressively are rewarded and those that are not sufficiently active in imposing or collecting tax are accordingly punished. Out of the total weightage given to tax-effort, 50% weightage has been given to per capita tax imposed and 50% to per capita tax collected.

Centrality Index: This relates to the issue of floating population which puts pressure on ULBs without any earnings from them. Since no reliable data is available of floating population, the Commission had has given a Centrality Index as a proxy for floating population. This parameter has been included in the devolution formula for NNs and NPPs only.

5.1.3. Final Devolution Formula: After considering all parameters, the Commission recommended 11% of the States own tax revenue as the devolution amount. The *inter-se* share of ZPs, KPs and GPs shall be 35%, 30%, and 35% respectively. The horizontal share of different panchayats has been determined based on weights given to different parameters as shown in ***Table 7.1***

Table 5.1: Devolution Formula for Panchayats

	Population	Area	Tax Effort	Remoteness
ZPs	50.00	20.00	15.00	15.00
KPs	50.00	30.00		20.00
GPs	60.00	20.00		20.00

Source: 4th State Finance Report of Uttarakhand

The *inter-se* share of the three levels of ULBs shall be, Nagar Nigams- 40%, Nagar Palika Parishads-45% and Nagar Panchayats- 15% The horizontal share of each level of ULBs shall be determined as per the following weightage given to the different parameters as given in. ***Table 7.2***.

Table 5.2: Devolution Formula for Urban Local Bodies

	Population	Area	Tax Effort	Centrality Index
NNs	50.00	20.00	20.00	10.00
NPPs	60.00	10.00	20.00	10.00
NPs	60.00	20.00	20.00	

Source: 4th State Finance Report of Uttarakhand

5.2. Transfers to Various Institutions

The following data has been sourced from the reports of the CAG and gives the transfers to institutions across the years. ***Table 5.3*** gives not only the quantum of transfers across the period 2011-12 to 2016-17 but also compares the CAGR of transfers between the periods of 2006-07 to 2011-12 and that of 2011-12 to 2016-17. The CAGR of transfers in the latter period has been more than that of the previous period except in the case of Educational Institutions and Social Security. The most noticeable increase has been in Energy, Animal Husbandry, Dairy Development and Fisheries, Zila Parishads and Panchayati Raj Institutions and Development Agencies. The transfers as a percentage of Revenue Expenditure increased from 13.7% in 2011-12 to 15.2% in 2016-17. This percentage has however varied from year to year. The maximum transfers however are made to Development Agencies and Educational Institutions.

Table 5.3: Transfers to Institutions (Rs in Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR	CAGR	% to Total Assistance
							(2006-07-2011-12)	(2011-12 – 2016-17)	(2011-12-2016-17)
Educational Institutions	403.5	501.8	431.1	714.3	615.7	650.6	11.6%	10.0%	19.9%
Municipal Corporations and Municipalities	175.8	306.3	321.2	380.2	334.1	397.8	12.7%	17.7%	11.4%
Zila Parishads & Panchayati Raj Institutions	203.0	190.6	347.2	301.1	432.5	508.4	3.1%	20.2%	11.5%
Development Agencies	409.4	480.8	562.4	891.1	828.9	953.3	0.1%	18.4%	23.8%
Hospitals & Charitable Institutions	87.0	134.8	109.0	335.9	338.9	319.2	16.4%	29.7%	7.2%
Energy (Rural Electrification)	6.3	12.9	6.9	5.1	18.6	18.1	-42.5%	23.4%	0.4%
Agriculture, Land Reforms, Wild life Preservation	205.5	79.7	111.2	245.2	270.2	337.8	7.0%	10.4%	7.2%
Co-operatives	7.3	9.8	11.8	4.6	4.1	5.1	-12.5%	-7.0%	0.3%
Animal Husbandry, Dairy Development and Fisheries	8.7	8.8	10.4	28.6	27.1	32.0	-4.2%	29.9%	0.6%
Economics Services & Tourism	29.3	36.3	49.3	68.8	1.5	30.7	-14.5%	0.9%	1.4%
Social Security & Welfare of SC, ST & OBC	211.1	254.3	285.9	412.9	514.9	447.0	20.0%	16.2%	12.3%
Other Institutions	31.1	115.8	80.3	127.7	209.2	150.3	-4.0%	37.0%	4.0%
Total	**1778.0**	**2131.7**	**2326.6**	**3515.4**	**3595.8**	**3850.2**	**4.7%**	**16.7%**	
Assistance as % of Rev Exp.	13.7%	15.3%	14.4%	16.6%	15.6%	15.2%			

Source: CAG reports on State Finances 2008-2014

5.3 Transfers to Local Bodies as recommended by 14th FC

The 14th Finance Commission had recommended assured transfers to the Local bodies for planning and delivering of basic services smoothly and effectively within the functions assigned to them under relevant legislations.

The Commission worked out the total size of the grant to be Rs 2,87,436 crores for the award period of 2015-20. Of this, the grant recommended to Panchayats was Rs 20,029.20 crores and to Municipalities was Rs. 87,143.80 crores. Within this, the Commission recommended Grant-in-aid to duly constituted Panchayats (Rural Local bodies) and Municipalities (Urban Local Bodies) in two parts, namely- (i) a Basic grant and (ii) a Performance Grant. In case of Gram Panchayats, 90% of the Grant was to be

Basic Grants and 10% the Performance Grant. In case of Municipalities, the division between Basic and Performance Grant was to be on 80:20 basis.

The purpose of recommending basic grant was to provide a measure of support to the Gram Panchayats (GPs) and Municipalities for delivering basic services. The Grants provided are intended to be used to support and strengthen the delivery of basic civic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of road, footpaths, street-lighting, burial and cremation grounds and any other basic service within the functions assigned to them under relevant legislations. While recommending basic grants, the FFC had not distinguished between O&M and capital expenditure components of basic services. The performance grants were meant to address issues relating to reliable data on local bodies receipt and expenditure through audited accounts and ability to make improvement in their revenues. ***Table 5.4*** gives the total financial grant recommendations for the local bodies for Uttarakhand as recommended by the 14th FC.

***Table 5.4: Recommended Transfers to Local Bodies of Uttarakhand by 14th FC (*Rs in crores)**

	Basic Grants		Performance Grants	
Year	**Rural Local Bodies**	**Urban Local Bodies**	**Rural Local Bodies**	**Urban Local Bodies**
2015-16	203.26	78.29		
2016-17	281.45	108.41	36.92	32
2017-18	325.19	125.26	41.78	36.21
2018-19	376.19	144.9	47.45	41.12
2019-20	508.31	195.79	62.13	53.84
2015-20	1694.42	652.66	188.27	163.17

Source: 14th Finance Commission Report

5.4. Finances of Urban Local Bodies

Table 5.5 gives the expenditure of Urban Local Bodies while ***Table 7.6*** gives the revenue of Urban Local Bodies during the period 2011-12 to 2017-18. The annual growth rate of expenditure prior to 2015-16 has been low showing that expenditure by urban local bodies remained limited. In fact, even in 2013-14, despite a phenomenal growth of 75.7% on revenue account, the overall growth was a negative 0.2% because of a negative capital account growth rate of 52.1%. This however changed in 2015-16 when there was an overall 38% growth in expenditure, 14.7% on revenue account and 91.8% on capital account. The next year was a year of negative growth rate but again in 2017-18, there was a surge of an overall 34.6%, 27.9% on revenue account and 44.3% on capital account. The overall CAGR of growth of expenditure was 12.7%. This clearly shows that the 14th FC recommendations have resulted in growth of expenditure by the ULBs of Uttarakhand.

Whether the revenue growth of ULBs has kept pace with the expenditure is however a separate matter. The immovable property tax has grown by a CAGR of 28.3%. User charges however have grown by a moderate 12.3%. The bulk of the increase has come from the transfers through FC and the assigned devolution. Grant-in-aid by the State Government constitutes a moderate amount. Though the overall growth in revenue is significant at 30.3%, it still has not kept pace with the overall expenditure. The revenue of the ULBs still falls short of the expenditure in 2017-18. The only three years in which the revenue has been more than the expenditure has been 2013-14, 2014-15 and 2016-17.)

Table 5.5: Expenditure by Urban Local Bodies (Rs in Crore)

	Revenue		Capital		Total	
	Amount	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**	**Growth Rate**
2011-12	143.60	1.3%	206.87	2.1%	350.47	1.8%
2012-13	145.80	1.5%	213.21	3.1%	359.01	2.4%
2013-14	256.19	75.7%	102.08	-52.1%	358.26	-0.2%
2014-15	272.59	6.4%	118.43	16.0%	391.01	9.1%
2015-16	312.55	14.7%	227.09	91.8%	539.64	38.0%
2016-17	317.34	1.5%	216.38	-4.7%	533.72	-1.1%
2017-18	405.91	27.9%	312.27	44.3%	718.18	34.6%

Source: Rs Figures provided by the State Government of Uttarakhand

Table 5.6: Revenue of Urban Local Bodies(Rs in Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR
Immovable Property Tax	12.4	12.8	22.5	27.5	30.2	43.0	55.1	28.3%
Other Tax	8.2	8.7	4.5	4.5	4.7	10.1	11.0	5.0%
User charges	23.6	12.4	24.5	34.5	37.8	41.8	47.4	12.3%
Transfer from Central Government	0.0	0.0	21.0	29.5	118.1	76.3	123.8	NA

Transfer from 13th FC/14thFC	23.8	27.8	33.4	14.6	96.4	45.1	161.0	37.5%
Assigned + Devolution	140.5	305.0	296.3	335.9	291.7	287.1	602.4	27.5%
Grant-in-Aid from State Government	0.0	0.0	8.4	27.1	45.7	29.9	21.3	NA
Total Revenue	200.53	208.50	366.73	410.47	473.66	624.58	533.28	30.3%

Source: Rs Figures provided by the State Government of Uttarakhand

5.5. Percentage Composition of Revenues of ULBs

Table 5.7 below shows the composition of the revenues of the ULBs

Table 5.7: Composition of Revenue of Urban Local Bodies

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Immovable Property Tax	5.9%	3.5%	5.5%	5.8%	4.8%	8.1%	5.4%
Other Tax	3.9%	2.4%	1.1%	1.0%	0.7%	1.9%	1.1%
User charges	11.3%	3.4%	6.0%	7.3%	6.1%	7.8%	4.6%
Transfer from Central Government	0.0%	0.0%	5.1%	6.2%	18.9%	14.3%	12.1%
Transfer from 13th FC/14thFC	11.4%	7.6%	8.1%	3.1%	15.4%	8.5%	15.8%
Assigned + Devolution	67.4%	83.2%	72.2%	70.9%	46.7%	53.8%	58.9%
Grant-in-Aid from State Government	0.0%	0.0%	2.0%	5.7%	7.3%	5.6%	2.1%

Source: Computed from Rs Figures provided by the State Government of Uttarakhand

The contribution of immovable property tax to total revenue in 2017-18 was 5.4% compared to 5.9% in 2011-12 while user charges contribution was only 4.6% in 2017-18 compared to 11.3% in 2011-12. On the other hand, in 2017-18, transfers from central government constituted 12.1% of total revenue while transfers from FC were 15.8%. The assigned devolution was 58.9% of total revenue, as against 67.4% in 2011-12. Overall the contribution of own revenues of local bodies in overall finances is uniformly low. In times to come, if the receipts from the central government and FC does not come through, one would expect a decline in expenditure of urban local bodies to the tune of 30% to 40% from the present level.

5.6. Finances of Rural Local Bodies

Table 5.8 gives the expenditure of Rural Local Bodies while Table 5.9 gives the revenue of Rural Local Bodies during the period 2011-12 to 2017-18.

Table 5.8: Expenditure of Rural Local Bodies (Rs in Crore)

	Revenue		Capital		Total	
	Amount	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**	**Growth Rate**
2011-12	16.65	-7.3%	170.07	-35.7%	186.72	-33.9%
2012-13	25.23	51.5%	255.12	50.0%	280.35	50.1%
2013-14	21.68	-14.1%	282.68	10.8%	304.36	8.6%
2014-15	28.55	31.7%	306.10	8.3%	334.65	10.0%

2015-16	32.50	13.8%	443.26	44.8%	475.76	42.2%
2016-17	34.08	4.9%	523.21	18.0%	557.29	17.1%
2017-18	35.87	5.3%	682.41	30.4%	718.29	28.9%

Source: Rs Figures provided by the State Government of Uttarakhand

Table 5.9: Revenue of Rural Local Bodies (Rs in Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR
Immovable Property Tax	1.8	1.9	1.9	2.0	2.3	2.2	2.0	1.5%
Other Tax	12.4	24.5	15.5	14.1	18.2	20.0	26.6	13.5%
User charges	2.6	3.7	4.1	4.1	4.7	5.0	5.1	11.7%
Transfer from Central Government	0.8	1.0	1.3	1.0	1.4	1.3	0.0	-100.0%
Transfer from 13th FC/14thFC	72.7	84.0	97.0	98.8	203.3	318.4	325.2	28.3%
Assigned + Devolution	105.8	186.6	177.7	191.9	225.9	227.0	341.2	21.5%
Grant-in-Aid from State Government	28.5	8.1	8.5	8.3	7.9	7.2	11.6	-13.9%
Others	0.0	0.3	1.3	3.7	2.1	2.6	0.8	NA
Total Revenue	224.7	310.1	307.4	323.9	465.8	583.7	712.4	21.2%

Source: Rs Figures provided by the State Government of Uttarakhand

The annual growth rate of expenditure prior to 2015-16 has been varied, alternating between high negative rates and then high positive rates. In the years 2013-14 and 2014-15, the growth was somewhat consistent and between 8% to 10%. In 2015-16, there was a massive 42.2% growth in expenditure, 13.8% on revenue account and 44.8% on capital account. The next year was a growth of 17.1% followed by another year of high growth of 28.9%, 5.3% on revenue account and 30.4% on capital account. The overall CAGR of growth of expenditure was 25%.

It can be seen from Table 5.9 that for the most part, the revenue of the rural local bodies has kept pace with the expenditure and there are hardly any deficits or even notable surplus. The immovable property tax has grown by a CAGR of only 1.5% although user charges have grown by a moderate 11.7% during the period 2011-12 to 2017-18. The quantum of grant-in-aid by the state government has come down but other tax has grown by 13.5% CAGR. It is however the increase in the transfers of the FC and the assigned devolution that has contributed to the bulk of revenue increase by a CAGR of 28.3% and 21.5% respectively.

5.7. Percentage Composition of Revenues of Rural Local Bodies

Table 5.10 below shows the composition of the revenues of Rural Local Bodies. By the end of 2017-18, the transfer from the FC has contributed to 45.6% of total revenues and assigned devolution by 47.9% of total revenues. The share of grant-in-aid has substantially come down.

Table 5.10: Composition of Revenue of Rural Local Bodies

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Immovable Property Tax	0.8%	0.6%	0.6%	0.6%	0.5%	0.4%	0.3%
Other Tax	5.5%	7.9%	5.0%	4.4%	3.9%	3.4%	3.7%
User charges	1.2%	1.2%	1.3%	1.3%	1.0%	0.9%	0.7%
Transfer from Central Government	0.4%	0.3%	0.4%	0.3%	0.3%	0.2%	0.0%
Transfer from 13th FC/14thFC	32.4%	27.1%	31.6%	30.5%	43.6%	54.5%	45.6%
Assigned + Devolution	47.1%	60.2%	57.8%	59.3%	48.5%	38.9%	47.9%
Grant-in-Aid from State Government	12.7%	2.6%	2.8%	2.6%	1.7%	1.2%	1.6%
Others	0.0%	0.1%	0.4%	1.1%	0.5%	0.4%	0.1%

Source: Computed from Rs Figures provided by the State Government of Uttarakhand

5.8 Mechanism of Auditing of PRIs and ULBs

a) Prevailing mechanism of auditing of accounts of PRIS and ULBs

In Uttarakhand, audit of Local Bodies is being conducted by the Audit Directorate, Uttarakhand.

Panchayati Raj Institutions (PRIs)

For PRIs, an accounting framework and codification pattern consistent with the Model Panchayati Account System has been adopted by the State. Government of Uttarakhand had issued orders in 2005 adopting all the 16 budget and accounting formats prescribed by the CAG with effect from 1st April 2005 for all PRIs. These formats were further revised and limited to eight (simplified accounting formats) in November 2009 which are yet to be fully implemented in the audited PRIs.

Panchayati Raj Institutional Accounting (PRIA) soft programme for capturing data of Panchayati Raj Institutions was introduced in Uttarakhand in October 2011 in the three tiers of PRIs. However, only the village-wise summary report was being generated using PRIA Soft, while remaining other e-accounting formats were not being put to use. Internal Audit, which has to be conducted in every quarter by the planning and development committee in GPs, is also not being conducted regularly.

Urban Local Bodies (ULBs)

Uttarakhand Municipal Accounting manual is consistent with the recommendations of National Municipal Accounts Manual. It has been notified on 28th March 2013 and it is mandatory for all the urban local bodies to keep their accounts of books according to Accounting manual. Currently there are 92 ULBs in Uttarakhand which keep accounts book on single entry system out of which 45 ULBs are preparing their accounts in double entry systems along with the single-entry system as per the recommendation of National Municipal Accounts Manual and have submitted balance sheet for FY 2016-17. The process of preparing the balance sheet till 2016-17 is in process in the remaining ULBs.

The C&AG have been given the Technical Guidance and Supervision/Support (TG&S) over the audit of all the local bodies. The reports of the Director of Local Fund Audit are being placed before the State Legislature. Three Annual Technical Inspection Reports of C&AG has been received so far and placed before the legislature.

5.9 Major decentralization initiatives taken by the State Government

Th XI Schedule of the Constitution provides for 29 functions (subjects) to be transferred to Panchayats.

As per the Annual Technical Inspection Report of PRIs and Urban Local Bodies for the year ending 2013-2014 by Accountant General Audit, Government of Uttarakhand, through executive orders, has transferred only 14 functions (subjects) of 11 departments to all tiers of Panchayats in 2004-05 and remaining 15 are still with the State Government (the details given below):

Devolution of subjects in XI schedule of Constitution

Subject devolved	Subjects yet to be devolved
1. Drinking Water **2.** Rural Housing **3.** Poverty Alleviation programme **4.** Education including primary and secondary schools **5.** Adult and non formal education **6.** Libraries **7.** Cultural Activities **8.** Family Welfare **9.** Health and sanitation, including hospitals, primary health centers and dispensaries **10.** Women and Child Development **11.** Social Welfare including welfare of the handicapped and mentally retarded	**1.** Land improvement, implementation of land reforms, land consolidation and soil conservation. **2.** Animal husbandry, dairying and poultry. **3.** Fisheries **4.** Social forestry and farm forestry. **5.** Minor forest produce. **6.** Small scale industries, including food processing industries. **7.** Khadi, village and cottage industries. **8.** Fuel and fodder. **9.** Roads, culverts, bridges, ferries, waterways and other means of communication.

12. Public Distribution system **13.** Minor Irrigation, water management and watershed development **14.** Agriculture, including agricultural extension.	**10.** Rural electrification, including distribution of electricity. **11.** Non-conventional energy sources. **12.** Technical training and vocational education. **13.** Markets and fairs. **14.** Welfare of the weaker sections, and in particular, of the Scheduled castes and the Scheduled Tribes. **15.** Maintenance of community assets.

These functions are being discharged by the respective departments. During the test-check done by Audit Department during 2013-14, it was found that neither the functions nor the functionaries pertaining to these subjects have been transferred to Panchayats at the grass-root level. Consequently, the devolution of functions to PRIs has not been effected in actual.

The **Urban local Government** is also yet to function maturely in Uttarakhand. Many of the critical functions earmarked for the urban local bodies as formulated by the 12th constitutional schedule, have not been transferred to these bodies so far. The State Legislature has enacted laws for devolving 13 functions out of 18 enshrined in XII Schedule of the Constitution to the ULBs leaving out five functions. In addition, one function, other than the 18 functions, namely 'parking places for vehicles', was also devolved. Devolution of the remaining five functions was under process.

5.10 Status of ATR on SFC Reports

The status of Action Taken Report on State Finance Commission Reports is given in the table below:

Sl. No	SFC #	Date of Constitution of SFC	Date of submission of SFC Report	Date of submission of ATR	Period of SFC recommendations	Devolution Recommended to Local Bodies (consolidated)
1	SFC-I	31-03-2001	29-06-2002	3/07/2004	1/04/2001 to 31/3/2006	Rs.335.72Crore
2	SFC-II	30-04-2005	07-06-2006	5/10/2006(interim) 24-03-2011 (Final)	1/4/2006 to 31/3/2011	10% of Gross Tax & Non-Tax Revenue (-) Income from Forest, Mining, Power, Pension Contribution and Interest.

3	SFC-III	02-02-2009	13-06-2011	30/5/2012 (interim), 16/03/2015 (final)	1/4/2011 to 31/3/2016	10.5% Own Tax Revenue
4	SFC-IV	02-02-2015	31-05-2016	Financial recommendation on 27/03/2017. General recommendation yet to be presented in Vidhan Sabha	1/4/2016 to 31/3/2021	11% Own tax Revenue

5.11 Measures to improve own revenue of local bodies

5.11.1: Panchayati Raj Institutions

Low level of tax collection by PRIs is one of the main causes of weakness of PRIs. At present, it is generating less than 5% of its revenue from taxes. In order to augment the revenue powers of the panchayats, it is necessary to take a re-look at the tax powers assigned to them and examine the possibility of assigning additional productive revenue handles.

Panchayats in states like Kerala, Andhra Pradesh and Karnataka do collect higher direct taxes, while GP in states like Uttarakhand, this is still at low level. As per MoPR, GOI, (2017) Per Capita own revenue generated by GPs of Karnataka, Goa and Kerala is Rs. 128, 799, 313 respectively, while it was only Rs 33 in Uttarakhand during 2016. Some of the measures to mobilise Own Source of Revenues (OSR) of GPs in Uttarakhand are suggested below:

- Charging of Building/ premises of panchayats on rent
- Annual fee on Ponds on lease for fisheries
- Fee for Registration of small and medium enterprises/ Cottage industries
- Issue of Domicile, Caste, and income Certificates
- Transfer of name, Heir Certificate
- Fee on Sale of land, Mutation, Division of land
- NOC fee for electricity connection Certificate
- NOC fee for construction of building Certificate
- Regularization fee of construction (done without prior permission)
- Permission fee for Hotel, Dhaba, vehicle repairing work etc

Incentivise GPs: The State can make provisions to incentivise GPs that mobilise OSR equal to or more than 25 per cent of their total revenue expenditure, with a specified pre-announced rate. Alternatively, a matching element could be introduced and given to GPs from the State Government.

Provision for staff: Provision may also be made for adequate manpower to the panchayats so that they could plan and mobilize their revenue. Initially a Tax Collector /Inspector could be appointed at a cluster of three to four GPs. Subsequently, they could be posted at the GP level.

5.11.2: Urban Local Bodies

Property Tax occupies the prime position in revenue of urban local bodies. A large number of unassessed properties, very low rateable value, and lack of regular revision of assessment together constitute a loss of revenue. Revenue can be augmented through Property Tax substantially, if issues pertaining to the assessment of all the properties, using proper rateable value base and carrying out revision of assessment regularly, are attended to appropriately and completely.

The Water Tax constitutes another important source of revenue for Urban Local Bodies in the country. Studies conducted in many of the States reveal that the actual recovery of Water Tax is barely 40 to 50% of the total costs involved in the operation and maintenance of water supply schemes. Uttarakhand has to ensure metering and collection of water tax to tap revenue from this important source.

Urban Local Body should also lease out all properties owned by it through public auction and to revise the rent periodically to compensate for the loss due to inflation.

The income realized to ULBs from the different types of fees constitutes a small portion of the total receipt. There is tremendous scope to increase the income from different types of fees. Some of the important fees are Market Fees, Parking Fees etc.

Borrowing: The other important source of revenue is one of open market Borrowings. The amount proposed to be borrowed should correspond with the repaying capacity of the Urban Local Body, and primarily for Capital investment.

Developing a municipal finance framework would enable ULBs to act as more demand responsive, hard budget constrained, and creditworthy financial entities, effectively catering to the basic services and infrastructure needs of citizens. NITI Aayog as well as recent Finance Commissions have been of the view that the municipal bodies should tap debt market to finance projects and the user charges collected from the projects should be used to service the debt.

5.12 Summary

The finances of the local bodies present a mixed picture. While there is an increase in the receipts of the urban and local bodies, it has come mainly through the increased transfers from the FC and partly through the devolution by the State Government. This has resulted in an increased ability of the local bodies to spend especially post the recommendations of the 14th FC. The over-riding concern remains on the low own revenues of the local bodies, both rural and urban. While the urban bodies have some minor own revenues to fall back on in the form of user charges which can be tapped, this is not so in case of rural local bodies. The rural local bodies are completely dependent on transfers and grant-in-aid having very little scope to levy user charges.

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Chapter 6: State Public Sector Enterprises

6.1 Background

Uttarakhand has a total of 25 PSUs of which 4 are non-operational. Details of the State PSUs in Uttarakhand as on 31 March 2016 are given in **Table-10.1** below.

Table 6.1: Total Number of PSUs on 31st March 2016

Type of PSUs	Working PSUs	Non-Working PSUs	Total
Government Companies	18	04[3]	22
Statutory Corporations	03[4]		03
Total	21	04	25

Source: CAG report on Social and Economic Sectors of Uttarakhand for the year ended 31st March 2017

6.2 Investment in PSUs

The working PSUs registered a turnover of Rs 7,173.33 crore as per their latest finalized accounts as of 30th September 2016. (***Table 6.2***) This turnover was equal to 3.90 per cent of the GSDP of the State for the year 2015-16. The working PSUs earned an aggregate profit of Rs. 100.57 crore as per their latest finalized accounts as of 30th September 2016. As on 31st March 2016, the investment (capital and long-term loans) in 25 PSUs was Rs 8,768.75 crore. The four non-working PSUS had a total investment of only Rs 0.38 crore. This total investment consisted of 63.32 per cent towards capital and 36.68 per cent in long-term loans. The investment has grown by 30.46 per cent from Rs 6,721.16 crore in 2011-12 to Rs 8,768.75 crore in 2015-16

Table 6.2: Investment in PSUs as on 31st March 2016 *(In Rs Crore)*

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,883.52	3,136.83	6020.35	2,668.25	79.77	2,748.02	8,768.37
Non–working PSUs	0.38		0.38				0.38
Total	**2,883.90**	**3,136.83**	**6,020.73**	**2,668.25**	**79.77**	**2,748.02**	**8,768.75**

Source: CAG report on Social and Economic Sectors of Uttarakhand for the year ended 31st March 2017

The sector wise summary of investments in the State PSUs as on 31 March 2016 is given in ***Table 6.3.*** As one can see, that the maximum investment is only in the power and infrastructure sector.

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[3] Kumtron Limited, Uttar Pradesh Hill Phones Limited, Uttar Pradesh Hill Quartz Limited and UPAI Limited (under liquidation since 31 March 1991).

[4] Uttarakhand Parivahan Nigam, Uttarakhand Forest Development Corporation and Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam.

Table 6.3: Sector-Wise Investment in PSUs

Name of Sector	Government companies		Statutory Corporation	Total no. of PSUs	Total investment
	Working	Non-Working	Working		(Rs in crore)
Power	3			3	5489.71
Manufacturing	6	3		9	312.55
Finance	3			3	25.58
Miscellaneous	1		1	2	1.00
Service	2		1	3	280.76
Infrastructure	2		1	3	2,644.25
Agriculture& Allied	1	1		2	14.90
Total	**18**	**4**	**3**	**25**	**8,768.75**

Source: CAG report on Social and Economic Sectors of Uttarakhand for the year ended 31st March 2017

6.3 Special Support and returns during 2015-16

The summary of the state government support through budgetary outgo in the form of equity, loans, grants/subsidies, loans written off and interest waived off from 2013-14 to 2015-16 is given in ***Table 6.4***. The budgetary outgo for the years 2011-12, 2012-13 and 2013-14 was Rs. 578.25 crores, Rs. 796.14 crores and Rs. 519.60 crores respectively.

***Table 6.4: Details Regarding Budgetary Support to PSUs** (Figures in Rs Crore)*

		2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity capital outgo from budget	4	259.91	4	171.96	4	57.76
2.	Loans given from budget	6	190.07	5	374.43	3	17.35
3.	Grants/Subsidy from budget	4	69.71	3	32.60	4	44.42
4.	**Total Outgo (1+2+3)**	**8***	**519.69**	**7***	**578.99**	**6***	**119.53**
5.	Waiver of loans and interest						
6.	Guarantee Issued	1	1.54	2	57.87	4	509.52
7.	Guarantee Commitment	4	906.66	4	1,471.97	4	852.55

* Represent actual number of company/corporation which received budgetary support in the form of equity/loans/subsidy during the respective year

Source: CAG report on Social and Economic Sectors of Uttarakhand for the year ended 31st March 2017

6.4 Performance of PSUs

The financial position and working results of working Government companies and statutory corporations over the period 2011-12 to 2015-16 are shown in Table 6.5 below**.** Except for turnover, figures pertain to all PSUs**.**

Table 6.5: Financial Performance of PSUs (in Rs Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover	3,258.60	4,042.00	5,103.42	5,741.42	7,173.33
State GDP	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772
Percentage of Turnover to State GDP	2.8%	3.1%	3.4%	3.6%	4.1%
Overall Profit (Loss)	-562.75	-234.25	-42.45	283.09	100.57
ROCE (Return on Capital Employed)	-3.56	0.59	-6.31	8.74	5.74
Debt	2,883.12	2,702.00	2,929.57	3,245.73	3,216.60
Interest Payments	288.64	276.93	281.65	358.33	391.13
Accumulated Profits/losses	-1,905.97	-2,081.42	-2,034.59	-1,883.90	-1,948.47

Source: CAG report on Social and Economic Sectors of Uttarakhand for the year ended 31st March 2017

During the last five years, the turnover of working PSUs increased from Rs. 3,258.60 crore in 2011-12 to Rs. 7.173.33 crore in 2015-16 and its percentage to the State GDP also increased from 2.8% in 2011-12 to 4.1% in 2015-16. In 2014-15, for the first time, the PSUs turned in a profit of Rs. 283.08 crores which however declined to Rs. 100.57 crores in 2015-16. Though some PSUs have made profit, the overall loss of the PSUs taken collectively is high at Rs 1948.47 crores in 2015-16.

The State Government had not formulated any dividend policy under which PSUs would be required to pay a minimum return on the paid-up share capital contributed by the State government. During the year 2015-16, no dividend was declared by any of the PSUs.

Table 6.6 below shows that the return on investment has been almost negligible. It is only in the year 2016-17 where it reached approximately 0.5% which is the highest across the decade. The rate of return obtained is significantly lower that the cost of capital for the State

Table 10.6: Return on Investment

	Investment at the end of the year	**Return**	**Return (per cent)**	**Average rate of interest on Government borrowings (per cent)**	**Difference between interest rate and return (per cent)**
2006-07	762	0.16	0.02	7.79	7.77
2007-08	1005	0.53	0.05	7.99	7.94
2008-09	1071	0.23	0.02	7.75	7.73
2009-10	1240	0.07	0.01	7.64	7.63
2010-11	1296	0.21	0.02	7.34	7.32
2011-12	1338	0.05	0.007	7.83	7.83
2012-13	1858	0.19	0.01	8.50	8.49
2013-14	2677	0.3	0.01	7.57	7.56
2014-15	2809	0.11	0.004	7.73	7.73

2015-16	2914	5.1	0.18	8.19	8.01
2016-17	3124	15.21	0.49	8.9	8.41

Source: CAG report on Social and Economic Sectors of Uttarakhand for various years

A detailed performance of all the State PSUs is given in Annexure 6.1. It can be seen that the data is not uniformly available for all PSUs, and for many PSUs, the accounts have been finalized after a great deal of delay, and up to date performance of the individual PSUs is unavailable.

6.5 Suggestions to Improve Performance of PSUs

Financial performance from PSEs can be enhanced by increasing their profitability, which can be made possible with the following reforms:

(i) Restructure the PSEs with the goal of making them operate in a commercial manner to the maximum extent possible and limiting their losses.

(ii) Impose hard budget constraints on loss-making PSEs by way of reducing government budgetary transfers and putting in place stricter performance norms for assessing bank borrowing requests from PSEs.

(iii) Privatize those enterprises which are not operating in the domain of public/essential goods. This way the government could not only realize some money but also reduce spending on non-essential PSEs.

(iv) Introduce a performance-based system of accountability for PSUs by signing of an MOU between the state government and PSUs clearly stating the performance parameters and contract to be achieved.

6.6 Conclusion

Most of investment of the State Government in PSUs is concentrated in the power utilities, followed by infrastructure. As per the figures of 2015-16, the latest that was available, the state government appears to be reducing its budgetary support to PSUs given that the budget support was only Rs 119.5 crores in 2015-16 compared to Rs 578.9 crores in 2014-15. Though in overall terms state PSUs have started making some profits as of 2015-16, return on investment for the state government is less than 1%.

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Annexure 6.1: Performance of PSUs

Sl #	Name of Company	Department	Period of acco	Year in whic	Year of	Net Profit/Los	Turnover	Capital Emp	Return	% Retu	Paid up Capi	Loan Outs tandi
1	Uttarakhand Seed & Tarai Development Corporation Ltd.	Agriculture	2014-15	2016-17	1969	-4.16	103.03	30.97	-1.77	-5.71	4.08	8.42
2	Garhwal Anusuchit Janjati Vikas Nigam Limited (Subsidiary of Garhwal Mandal Vikas nigam Limited)	Hill Development	1993-94	2012-13	1974	0.07	0.54	1.09	0.1	9.17	0.5	2.85
3	Kumaon Anusuchit Janjati Vikas Nigam Limited (Subsidary of Kumaon Mandal Vikas Nigam Limited)	Hill Development	1986-87	2002-03	1975	-0.02	0.1	0.46	-0.02		0.5	
4	Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited	Social Welfare	2005-06	2015-16	2001	0.46	0.87	50.37	0.47	0.93	8.23	
5	State Industrial Development Corporation of Uttarakhand Limited	Finance	2012-13	2015-16	2002	50.88	29.87	419.59	51.37	12.24	28.5	100
6	Uttarakhand State Infrastructure Development Corporation Limited	Finance	2013-14	2015-16	2008	3	27.59	7.92	3.01	38	4	5
7	Trans cables Limited (Subsidiary of Kumaon Mandal Vikas Nigam Limited)	Hill Development	1999-2000	2002-03	1973	-0.84	2.8	2.9	-0.84		1.63	2.75
8	Uttar Pradesh Digitals Limited (Subsidiary of Kumaon Mandal Vikas Nigam Limited)	Hill Development	1996-97	1997-98	1978	-1.19	0.29	0.35	-1.19		0.35	
9	Uttar Pradesh Hill Electronics Corporation Limited	Hill Development	1997-98	2011-12	1985	-0.31	1.61	4.99	-0.31		8.95	
10	Kichha Sugar Company Limited	Sugar& Cane Development	2013-14	2015-16	1972	-34.95	90.01	-73.11	-13.94		17.99	130.42
11	Doiwala Sugar Company Limited	Sugar& Cane Development	2014-15	2016-17	2001	-49.88	98.54	-69.73	-28.31		6	143.18
12	Uttarakhand Project Development and Construction Corporation Limited		2011-12	2014-15	2010	0.01	0.07	0.05	0.01	20	0.05	
13	Uttarakhand Power Corporation Limited	Power	2015-16	2016-17	2001	-95.63	4667.68	1187.32	80.24	6.75	1086.9	1022.82
14	Uttarakhand Jal Vidyut Nigam Limited	Power	2015-16	2016-17	2001	181.82	767.65	3110.94	288.07	9.25	1084.89	1191.24
15	Uttarakhand Transmission Corporation	Power	2015-16	2016-17	2004	69.34	309.83	1104.58	120.9	10.94	421.05	510.88
16	Kumaon Mandal Vikas Nigam Limited	Hill Development	2005-06	2016-17	1971	-1.51	100.49	14.21	-0.37		13.42	
17	Garhwal Mandal Vikas Nigam Limited	Hill Development	2005-06	2015-16	1976	-1.38	128.07	12.63	0.18	1.42	5.76	19.27
18	Uttarakhand Purv Sainik Kalyan Udham Limited	Sainik Kalyan	2012-13	2016-17	2004	6.81	156.92	35.95	6.81	18	0.05	
19	Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam	Pey Jal	2013-14	2013-14	2002	-23.87	67.91	2132.92	-15.31		2050.06	77.1
20	Uttarakhand Parivahan Nigam	Transport	2014-15	2015-16	2003	-34.94	309.12	357.46	-34.34		79.74	2.67

Sl #	Name of Company	Department	Period of acco	Year in whic	Year of	Net Profit/Los	Turnover	Capital Emp	Return	% Retu	Paid up Capi	Loan Outstandi
21	Uttarakhand Forest Development Corporation Limited	Forest	2010-11	2014-15	2001	36.86	310.34	227.8	36.86	16		
*22**	*UPAI Limited*	*Food processing*	*Not given*	*Not given*	*1990*			*0.1*	*0.1*		*0.17*	
*23**	*Kumtron Limited (Subsidiary of Uttar Pradesh Hill Electronics Corporation Limited)*	*Electronics*	*1989-90*	*1990-91*	*1987*	*-0.02*		*0.12*	*0.12*		*0.18*	
*24**	*Uttar Pradesh Hill Phones Limited (Subsidiary of Uttar Pradesh Hill Electronics Corporation Limited*	*Electronics*	*Not given*	*Not given*	*1985*							
*25**	*Uttar Pradesh Hill Quartz Limited (Subsidiary of Uttar Pradesh Hill Electronics Corporation Limited)*	*Electronics*	*Not given*	*Not given*	*1990*							

** Sl # 22 to 25 are the non-working PSU*

Chapter 7: Impact of Power Sector Reforms on State's Fiscal Health

7.1. Background

7.1.1: The Electricity Act 2003 was one of the most path breaking legislations for comprehensive power sector reforms. The Act introduced and made provisions for open access, power trading, regional/national electricity markets, independent system operators, delicensing of generation, performance-based regulation and measures to reduce transmission and distribution losses. This has been followed by certain proposed changes aimed at bringing in reforms related to segregation of carriage and content to renewable energy and open access to tariff rationalization. These are captured in the revised the Electricity Amendment Bill, 2018 circulated recently. The Bill also aims to infuse healthy competition in each distribution area and deals with aspects pertaining to promotion of renewable energy, open access, smart grid, ancillary services and so on.

7.1.2: With the enactment of the Electricity Act, while competition was introduced in the sector, it has mostly impacted the generation and transmission verticals but not so in the case of distribution. This has been due to below-cost tariffs to different consumer groups; supply of un-metered, free electricity to agriculture; and high Aggregate Technical and Commercial (AT&C) losses. These factors have weakened the finances of state utilities and has resulted in huge losses for all the utilities.

7.1.3: The state governments being owners to these utilities, profits and losses of the state utilities impacts them directly. The financial gap increases due to increase in the cost of supply without commensurate increase in tariff. The financial gap thus can be segregated into two parts, one related to inadequate tariff increases, and the other related to inefficiencies on part of the distribution utilities i.e. collection inefficiency and technical losses.

7.1.4: The causes for poor performance of State DISCOMs have been analysed as being mainly due to lack of efficiency, incomplete metering, inadequate and infrequent tariff increases, and lack of power purchase optimization by states. The last constitutes around

75-80% of the total cost of distribution utilities, hence escalation in power procurement rates has been a matter of concern.

7.2. Reform Measures

7.2.1: Power for All: In order to provide 24x7 power to all consumers barring agricultural consumers by the end of 12th Five Year Plan, as well as ensuring access to electricity to all unconnected consumers by FY 2018-19, the GOI, through the Ministry of Power (MoP), signed specific MOUs with States under the Power for All Scheme. The roadmap for each State was mapped by the Ministry of Power with the respective States/UTs with the MOP monitoring the progress/achievements.

7.2.2: Integrated Power Development Scheme (Restructured Accelerated Power Development & Reforms Programme (R-APDRP) subsumed under IPDS): This was launched in 2014 with the objective of strengthening of power distribution sector in urban area. Its main outcomes were intended to be as follows:

- Strengthening of sub-transmission and distribution networks in the urban areas.
- Metering of distribution transformers / feeders / consumers in the urban areas.
- IT enablement of distribution sector and strengthening of distribution network under R-APDRP for 12th and 13th Plans by carrying forward the approved outlay for R-APDRP to IPDS.

7.2.3: Ujwal DISCOM Assurance Yojana (UDAY): It was launched on 20th November 2015 for operational and financial turnaround of state-owned Power Distribution Companies (DISCOMs). MOUs were entered with 27 states. The Scheme aimed at the following:

- Improving operational efficiency of DISCOMs;
- Reduction in cost of power;
- Financial Turnaround including reduction in interest cost of DISCOMs;
- Enforcing financial discipline on DISCOMs through alignment with State finances.

The salient features of UDAY are:

- States to take over 75% of DISCOM debt as on 30th September 2015 over two years - 50% in 2015-16 and 25% in 2016-17.
- Government of India would not include the debt taken over by the States as per the above scheme in the calculation of fiscal deficit (FRBM Limit) of respective States in the financial years 2015-16 and 2016-17.

- States would issue non-SLR bonds including SDL bonds in the market or directly to the respective banks / Financial Institutions (FIs) holding the DISCOM debt to the appropriate extent.
- DISCOM debt not taken over by the State to be converted by the Banks / FIs into loans or bonds with interest rate not more than the bank's base rate plus 0.1%. Alternatively, this debt to be fully or partly issued by the DISCOM as state-guaranteed DISCOM bonds at the prevailing market rates which would be equal to or less than bank base rate plus 0.1%.

The outcomes of operational improvements would be measured through following indicators:

- Reduction of AT&C loss to 15% by 2018-19 as per the loss reduction trajectory to be finalized by Ministry of Power (MoP) and States
- Reduction in gap between Average Cost of Supply (ACS) & Average Revenue Realized (ARR) to zero by 2018-19 as finalized by MoP and States.

7.3 Power Sector in Uttarakhand

When the state of Uttarakhand was carved out of UP in November 2000, the Uttar Pradesh Power Corporation Ltd. (UPPCL) continued to supply and distribute electricity in the entire state of Uttarakhand till the formation of the Uttaranchal Power Corporation Ltd (UPCL) on 9th of November 2001 through a Government of India order.[5]

As of July 2017, the state of Uttarakhand had a total installed power generation capacity of 3,313.45 MW of which hydro (renewable) power contributed 1,815.69 MW and thermal power contributed 950.71 MW. The state utilities accounted for a large portion of the installed power generation at 1,315.02 MW, followed by 1,089.94 MW under private utilities and 908.49 MW under central utilities. The state has achieved 100% village electrification in 2015-16 covering 15, 669 villages.[6] The Uttarakhand Jal Vidyut Nigam Limited (UJVNL) controls the state's hydropower generation and the state's power sector is regulated by the Uttarakhand Electricity Regulatory Commission (UERC).

[5] Order under section 63(3) of UP Re-organization Act, 2000 dividing assets, rights and liabilities of UPPCL between it and the newly formed Uttaranchal Power Corporation Ltd. (UPCL)
[6] https://www.energysector.in/power/power-scenario-in-uttarakhand

7.4 Implementation of UDAY in Uttarakhand and impact on State Finances

7.4.1: A tripartite agreement was signed between Ministry of Power, the distribution utility Uttarakhand Power Corporation Limited (UPCL) and Government of Uttarakhand under the Scheme UDAY (Ujwal Discom Assurance Yojana) on 31st March 2016 for operational turnaround of the DISCOMs. While no bonds were issued, it was expected that there would be additional revenue of around Rs 645 crores during the period of turnaround due to reduction in AT&C Losses and Transmission losses to 14.50% and 1.78% respectively. The state was also expected to work on demand side interventions such as that of usage of energy efficient LED bulbs, agricultural pumps, fans and air-conditioners and efficient industrial equipment. This would lead to an expected gain of Rs 303 crores by reducing the peak load and help in reducing energy consumption in the state. All in all, an overall benefit of Rs 962 crores were expected to accrue to the state by its participation in UDAY due to improvement in efficiencies during the period of turnaround.

7.4.2: As the participation of the state in UDAY was based only on operational parameters, with no requirement for issue of bonds to take over the debt of the utilities, there was no impact of UDAY bonds on state finances. As detailed in Table 7.1, there are only some loans that have been converted into equity which does not include any impact of UDAY.

Table 7.1: Impact of UDAY on State Finances

No	Loan which is converted into equity	Impact on Distribution utility's profitability
1	Govt. of UP loan of Rs.141.04 Crore at interest rate of 17.50%	(i) As this loan was transferred to UPCL from UPPCL under transfer scheme and was not against any capital asset, UERC was not allowing any return on the same. (ii) On conversion of this loan into equity, this interest need not be provided in the books of accounts of UPCL and therefore there was an improvement of Rs. 24.68 Crore p.a. (Rs. 141.04 Crore x 17.50%) in the profitability.
2	Govt. of Uttarakhand Loan of Rs. 10.09 Crore at interest rate of 6.50%	On conversion of this loan into equity, distribution utility is being allowed 16.50% return in its ARR by UERC. Thus, there is an improvement of Rs. 1.66 Crore p.a. in the profitability.

Source: Commercial Log Book of PTCUL

The distribution utility debts were being serviced from their own finances as per schedule on time. Hence that too required no additional liability arising out of implementation of UDAY on state finances. There was also not a single instance of default of principal and interest by the distribution utility since its inception.

7.5. Performance of State Power Utilities

The summarised position of Financial Performance of State Utilities is given below:

Table 7.2: Summary of Financial Performance of State Power Sector Utilities *(In Rs Crore)*

Entity	Parameter	2013-4	2014-15	2015-16
UPCL – Uttarakhand Power Corporation Ltd. (Distribution)	Total Income- excluding subsidy	3,885	4,466	4,896
	Profit after tax	323	-260	-96
UJVNL – Uttarakhand Jal Vidyut Nigam Ltc. (Generation)	Total Income- excluding Subsidy	396	493	798
	Profit After Tax	13	4	182
PTCUL – Power Transmission Corporation of Uttarakhand Limited (Transmission)	Total Income- excluding Subsidy	205	245	316
	Profit After Tax	3	121	69

The State has shown good performance as per the Uday Barometer / Dashboard, with the report for the quarter ending September 2018 for UPCL showing 100% achievement on the Improvement Barometer for AT&C Loss, ACS-ARR gap, and Profit/Loss.

7.6. Summary

Power Sector reforms, specifically, the scheme UDAY did not have any adverse impact on the Finances of Uttarakhand. UPCL has been one of the top ranked power sector utilities on operational and financial performance based on the ratings done in 2017 by Ministry of Power (MoP) and the Power Finance Corporation in collaboration with ICRA and CARE Based on the performance of 41 distribution utilities in financial year 2015-16, only five utilities were awarded A+ ranking, which included UPCL.

The power sector utilities in Uttarakhand are not being subsidised by the State Government, and thus are presently not a drain on the State resources.

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Chapter 8: Subsidies

8.1. Subsidy Trends during 2011-12 to 2018-19

The quantum of subsidies given by the Uttarakhand Government has largely remained below Rs 300 crores in the period 2011-12 to 2017-18 (except in the year 2014-15 and 2017-18). As a percentage of revenue expenditure, expenditure on subsidies has never crossed 2% and was for most years ranged between 1% to 1.5% of revenue expenditure. There has been a significant increase in allocation for subsidies in 2018-19(BE). The increase in the subsidy allocation for 2018-19 is largely in areas of rural development, industry and food and civil supply. Table 8.1 gives the quantum of subsidies across various departments from 2011-12 to 2018-19 (BE).

Table 8.1: Quantum of Subsidies (In Rs Crore)

Department	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(BE)
Food and Civil Supply	188.8	137.1	13.38	198.6	142.8	102.6	65.9	172.5
Cooperative	12.4	13.7	9.8	16.4	7.8	34.2	126.7	156.7
Rural Development	26.9	23.2	35.7	24.8	18.4	13.3	8.0	115.4
Industry	8.0	10.3	18.6	20.9	26.0	32.7	45.0	91.5
Horticulture	4.9	7.4	10.7	15.5	15.2	23.3	30.0	41.0
Tourism	13.0	13.0	11.0	10.0	9.0	4.8	11.5	31.0
Dairy	4.8	5.3	6.1	14.0	20.3	19.3	20.1	25.4
Agriculture	1.9	0.6	0.5	6.5	10.3	10.7	6.1	20.0
Transport	1.0	2.3	5.2	6.3	13.9	16.8	17.8	17.4
Animal Husbandry	0.0	0.0	2.1	5.9	10.3	8.1	6.5	8.5
Sericulture Development	0.9	1.3	1.4	1.1	0.6	1.0	1.1	3.0
Cane Development	0.5	1.4	2.0	1.3	1.7	0.7	1.8	1.3
Urban Development	0.2	0.3	0.4	0.0	0.0	0.1	0.1	0.1
UPCL	0.0	0.0	0.0	0.0	0.0	0.0	2.1	0.0
Total	**263.2**	**215.7**	**116.7**	**321.4**	**276.2**	**267.4**	**342.5**	**683.7**
As % of Revenue Expenditure	2.00%	1.50%	0.70%	1.50%	1.20%	1.10%	1.20%	2.00%

8.2. Composition of Subsidy during 2011-12 to 2018-19

In 2017-18, only three departments constituted the bulk of the subsidy bill of 69.4%. ***(Table 8.2)*** This included Industry (13.1%), Cooperative (37%) and Food and Civil Supply (19.2%). In 2018-19, the share of rural development is poised to grow to 16.9%

from a mere 2.3%. With the addition of rural development, the subsidy share of these 4 departments would grow from 71.6% of the total subsidy bill in 2017-18 to 78.4% of the subsidy bill in 2018-19. This is despite the share of cooperative coming down from 37% to 22.9%.

Table 8.2: Percentage Composition of Subsidies

Department	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(BE)
Rural Development	10.2%	10.7%	30.6%	7.7%	6.7%	5.0%	2.3%	16.9%
Industry	3.0%	4.8%	15.9%	6.5%	9.4%	12.2%	13.1%	13.4%
Dairy	1.8%	2.5%	5.2%	4.4%	7.3%	7.2%	5.9%	3.7%
Agriculture	0.7%	0.3%	0.4%	2.0%	3.7%	4.0%	1.8%	2.9%
Tourism	4.9%	6.0%	9.4%	3.1%	3.3%	1.8%	3.4%	4.5%
Animal Husbandry	0.0%	0.0%	1.8%	1.8%	3.7%	3.0%	1.9%	1.2%
Horticulture	1.9%	3.4%	9.1%	4.8%	5.5%	8.7%	8.8%	6.0%
Cooperative	4.7%	6.4%	8.4%	5.1%	2.8%	12.8%	37.0%	22.9%
Transport	0.4%	1.1%	4.5%	2.0%	5.0%	6.3%	5.2%	2.6%
Food and Civil Supply	71.7%	63.5%	11.5%	61.8%	51.7%	38.3%	19.2%	25.2%
Urban Development	0.1%	0.1%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Cane Development	0.2%	0.6%	1.7%	0.4%	0.6%	0.2%	0.5%	0.2%
Sericulture Development	0.3%	0.6%	1.2%	0.3%	0.2%	0.4%	0.3%	0.4%

Source: Computed from Rs Figures provided by the State Government of Uttarakhand

8.3 Schemes drawing maximum subsidy by department

8.3.1. Rural Development

The maximum subsidy was given in the Indira Awas Yojana/PM Niwas Yojana and Swaran Jayati Gram Swarajgar Yojana (Table 8.3). While the contribution of the Indira Vikas Yojana/PM Awas Yojana contribution came down from 7.5% of the total subsidy bill to only 1.9% expected in 2018-19(BE), the Swaran Jayanti Gram Yojana is expected to be 14% of the total subsidy bill in 2018-19(BE), and also constitute 83.2% of the total subsidies given by the department of rural development.

Table 8.3: Major Subsidy Schemes of Rural Development Department

Rs figures in crores

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(BE)
Indira Awaas Yojna/Prime Minister Awaas Yojna-Grameen	19.6	14.2	26.0	19.9	10.3	7.9	3.0	13.0
% of subsidies of Rural Development	73.0%	61.2%	72.8%	80.5%	56.0%	59.5%	37.1%	11.3%
% of Total Subsidies	7.5%	6.6%	22.3%	6.2%	3.7%	3.0%	0.9%	1.9%
Swaran Jayanti Gram Swarojgar Yojna/NRLM	5.5	5.8	3.6	0.2	0.0	3.8	2.2	96.0

% of subsidies of Rural Development	20.3%	24.8%	10.0%	1.0%	0.0%	28.3%	28.2%	83.2%
% of Total Subsidies	2.1%	2.7%	3.0%	0.1%	0.0%	1.4%	0.7%	14.0%

Source: Computed from Rs Figures provided by the State Government of Uttarakhand

8.3.2. Department of Industry

The Special Integrated Industrial Incentive Policy was the leading subsidy scheme in the Department of Industry between the years 2011-12 to 2017-18. Details of the various schemes are given in Table 8.4 below

Table 8.4: Subsidy Schemes Launched by Industry (In Rs Crore)

Name of Scheme	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(BE)
Special Integrated industrial incentive Policy-2008(Hill Policy)	4.87	5.07	14.00	15.04	14.50	19.22	33.00	25.00
MSME policy-2015	-	-	-	-	-	4.60	7.00	6.00
Interest subsidy to individual entrepreneurs	-	-	-	-	-	0.50	0.50	0.50
Interest subsidy to individual entrepreneurs	1.66	1.96	2.66	2.84	2.62	2.40	2.31	-
Rebate on sale of Khadi apparels	1.50	3.25	1.90	2.99	8.87	1.50	1.40	1.40
Mega Industrial and Investment Policy-2015	-	-	-	-	-	2.50	-	22.00
Mega Textile Policy-2014	-	-	-	-	-	2.00	-	10.00
Start-up-Policy	-	-	-	-	-	-	0.25	1.00
Resha Kharid Hetu Anudan	-	-	-	-	-	-	0.50	0.00
Hathkargha Katai Bunai Mahila Karmkaro Kosahayata Yojna	-	-	-	-	-	-	0.05	0.10
Tharu Boxa Aven Anya Janjatiyon Ki Mahila on Hetu Vishesh Protshahan Yojna	-	-	-	-	-	-	-	0.50
Growth Centre Ki Sthapna	-	-	-	-	-	-	-	15.00
Externally Aided Project under MSME	-	-	-	-	-	-	-	10.00
TOTAL	**8.02**	**10.28**	**18.56**	**20.87**	**25.99**	**32.72**	**45.01**	**91.50**

8.3.3. Cooperative Department

There were only two schemes run by the Department of Cooperation of which 126.7 crores were spent on the Sahakharita Sahbhogita Yojana in 2017-18. A budget of 30.6 crores has been earmarked for the Deen Dayal Yojana Upadhaya Kisan Kalyan Yojana in 2018-19.

Table 8.5: Major Subsidy Schemes of Cooperative Department (In Rs Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(BE)
Sahakarita Sahbhagita Yojna	12.4	13.7	9.8	16.4	7.8	34.2	126.7	126.7
As % of Total Subsidy	4.7%	6.4%	8.4%	5.1%	2.8%	12.8%	37.0%	18.5%

Source: Rs Figures provided by the State Government of Uttarakhand

8.3.4. Department of Food and Civil Supplies

The state government has started the "Rajya Khadya Yojna" to provide food grain subsidy to those residents of Uttarakhand who are not covered under National Food Security Act (NFSA). The subsidy is being provided to those ration card holders who are having annual income between 2.5L to 5L. Under this scheme, a cash subsidy of Rs 75 per ration card is being provided in lieu of 7.5 kg rice. A budget of Rs 80 crores has been envisaged for this scheme in 2018-19.

Apart from this, subsidy is being provided for transportation cost of sugar for which budget provision is Rs 10 crores in 2018-19.

A subsidy of Rs 1600 per LPG connection is also being given to those poor families not covered by the Ujwala Yojana for which a budget provision of Rs 10 crore in 2018-19 has been made

8.4. Summary

The overall outgo towards subsidies was relatively low at 0.9% of revenue expenditure in 2017-18. Further, the overall growth in subsidies from 2011-12 to 2017-18 is only 4.5%. In 2018-19, the state government is planning to almost double the subsidy budget from Rs 342,46 crores in 2017-18 to Rs 683.71 crores in 2018-19.

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Chapter-9: Outcome Evaluation – 14th FC Recommendations

9.1 Overview of Projections made by 14th FC

Finance Commission has the challenging the task of making projections for various fiscal parameters for both the Centre and the States. These projections form a critical input to the final award recommended by the Commission. In this chapter, a comparison has been made between the projections made by the 14th FC for important fiscal parameters relating to the Government of Uttarakhand, and the actual value of the parameter as available on date. The parameters that would be so assessed are: GSDP, Own Tax and Non-Tax Revenue, Expenditure on Interest payment and pension, Fiscal Deficit and Debt as a percentage of GSDP.

9.2 Projection of GSDP

9.2.1: The 14th FC first obtained the comparable current price GSDP data at factor cost for the period 1999-00 to 2012-13 from CSO. Next, using the trend growth rate of comparable aggregate GSDP for the period from 2004-05 to 2012-13, the FC estimated the growth rates of individual States, estimated the GSDP for the base year 2014-15, and projected it forward for the award period. In case of Uttarakhand, the FC estimated the growth rate of GSDP at 17.04% for the period 2015-20, 17.01% for the base year 2014-15, and the base years GSDP at Rs 1,43,808 Crores.

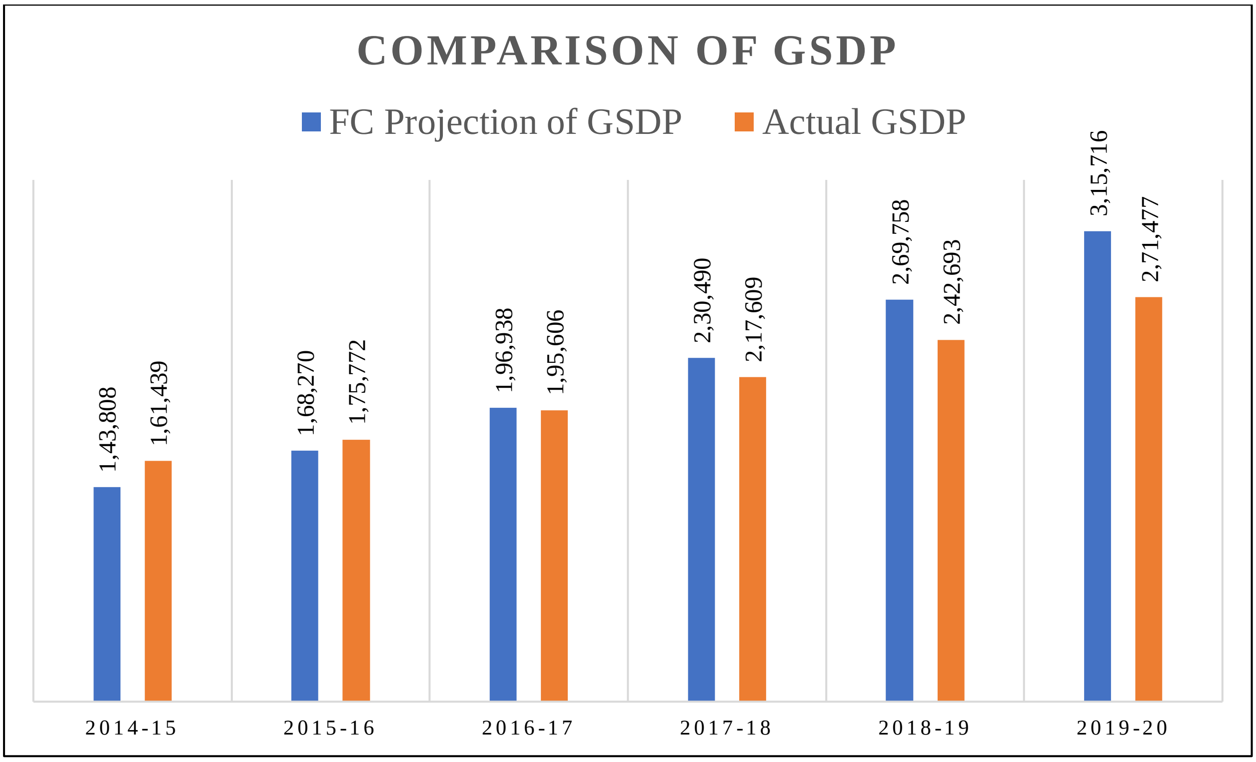
9.2.2: A comparison of the GSDP, as estimated by the FC, and actual is shown in Table 9.1 below (and Figure 9.1)

Table 9.1: GSDP Assessment Comparison (GSDP figures in Rs Crore)

Year	FC Projection of GSDP	Projected Growth Rate	Actual GSDP	Observed Growth Rate*	GSDP Overestimation - %	Growth Rate Overestimation -%
2014-15	1,43,808	17.01%	1,61,439	8.88%	-10.9%	91.6%
2015-16	1,68,270	17.04%	1,75,772	11.28%	-4.3%	51.0%
2016-17	1,96,938	17.04%	1,95,606	11.25%	0.7%	51.5%
2017-18	2,30,490	17.04%	2,17,609	11.53%	5.9%	47.8%
2018-19	2,69,758	17.04%	*2,42,693*	11.86%	11.2%	43.6%
2019-20	3,15,716	17.04%	*2,71,477*		16.3%	

**GSDP and associated growth rates of FY 2018-19 and 2019-20 are estimates*

Figure 9.1: GSDP Assessment Comparison



9.2.3: As can be seen in Table 9.1 above, the actual GSDP growth was significantly lower than was assessed by the 14th FC for the award period of 2015-16 and beyond. Against the the observed growth rate 11.3 to 11.5%, the FC estimate was near 50% higher at 17% per annum. However, the base year estimate of GSDP for 2014-15 of Rs 1,43,808 Crore was lower than the actual GSDP of 1,61,439 Crores. Thereafter, the gap between the projected and actual GSDP kept increasing on account of the higher growth rate assumed by the FC vis-à-vis what was achieved.

9.2 Projection of Tax Revenue

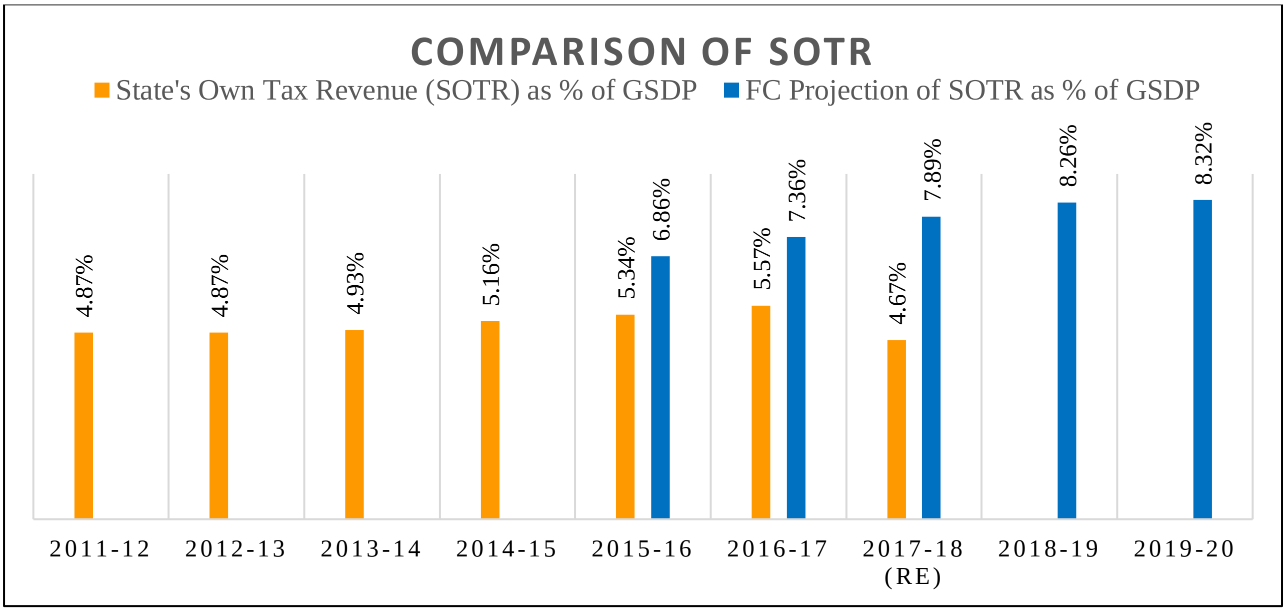
9.2.1: The 14th FC had followed a two-stage process for projecting the Own Tax Revenue. The first step involved reassessment of the base year 2014-15, which was assessed as 8.26 per cent for all States. In the second step, normative growth rate was applied to the projections. For States with tax-GSDP ratio higher than the average, that is, 8.26, the FC assumed an own tax buoyancy of 1.05 implying a moderate increase in own tax revenue to GSDP ratio during the assessment period. For those States with tax-GSDP ratio below the average of 8.26, the FC assumed a higher buoyancy of 1.5. However, once a State reaches the target tax-GSDP ratio or exceeds the tax-GSDP ratio of 8.26 in any particular year of assessment, the lower buoyancy at 1.05 has been assumed for the remaining years and a tax-GSDP ratio of 8.26 for that particular year.

9.2.2: The Table 9.2 shows the actual Own Tax Revenue to GSDP for Uttarakhand from 2011-12, along with comparison with 14th FC assessment for the award period.

Table 9.2: Own Tax Revenue Assessment Comparison

Year	State's Own Tax Revenue (SOTR) as % of GSDP	FC Projection of SOTR as % of GSDP	Overestimation %
2011-12	4.87%		
2012-13	4.87%		
2013-14	4.93%		
2014-15	5.16%		
2015-16	5.34%	6.86%	28.46%
2016-17	5.57%	7.36%	32.05%
2017-18 (RE)	4.67%	7.89%	68.94%
2018-19		8.26%	
2019-20		8.32%	

Figure 9.2: Own Tax Revenue Assessment Comparison



9.2.3: As can be seen in the Table and Figure above, the Own Tax Revenue to GSDP of Uttarakhand has not exceeded even 6% in any of the years from 2011-12. Combined with a lower actual GSDP vis-à-vis projection, the actual Own Tax Revenue of Uttarakhand has been significantly lower than the projected Own Tax Revenue.

9.2.4: The table below shows the FC-projected and actual tax and non-tax revenue for Uttarakhand. The actual collection of both Tax and Non-Tax revenue has been significantly lower than the revenue projected by the FC.

Table 9.3: Projected and Actual Tax and Non-Tax Revenue (in Rs Crore)

Year	FC Projected - Own Tax Revenue	Actual - Own Tax Revenue	FC Projected – Own Non-Tax Revenue	Actual - Own Non-Tax Revenue
2015-16	11,538	9,382	2,375	1,220
2016-17	14,487	10,897	2,678	1,346
2017-18 (RE)	18,189	10,165	3,023	1,770
2018-19 (BE)	22,282		3,418	
2019-20	26,268		3,869	

9.3 Projection of Fiscal Deficit and Debt to GSDP

9.3.1: The 14th FC had projected the roadmap for the States after factoring in the additional fiscal space they could avail during the 2015-20 period. As per this fiscal roadmap, at the aggregate level, the State's debt-GSDP ratio (for all States taken together) would increase from 25.9 per cent in 2015-16 to 26.3 per cent in 2019-20.

9.3.2: As detailed in Chapter-4 of this report, Uttarakhand has been largely unable to comply with the fiscal consolidation roadmap recommended by the 14th FC. The Table below shows a comparison between the projected and actual Fiscal deficit and Debt to GSDP ratio for Uttarakhand.

Table 9.4: Debt-GSDP and Fiscal Deficit-GSDP ratio Assessment Comparison

Year	FC Projection - Debt to GSDP	Actual Total Liabilities as % of GSDP	FC Projection - Fiscal Deficit	Actual Fiscal Deficit
2011-12		21.54%		-1.52%
2012-13		20.41%		-1.22%
2013-14		20.33%		1.78%
2014-15	22.76%	21.08%		-3.61%
2015-16	22.70%	22.92%	3.25%	-3.48%
2016-17	22.64%	22.93%	3.25%	-2.80%
2017-18 (RE)	22.60%	*23.05%*	3.25%	-3.55%
2018-19	22.56%		3.25%	
2019-20	22.52%		3.25%	

While the Debt to GSD has largely followed the trajectory projected by the 14th FC, the Fiscal Deficit incurred by the State Government was higher than the permissible limit of 3.25% in two of the three years.

9.4 Projection of Interest Payment

9.4.1: The FC had treated Interest payments as committed expenditure on account of it being a charged expenditure. To project the Interest payment over the award period, the 14th FC first considered the 2014-15 (BE) data provided by the States as the base year estimate for interest payment. It then assessed the effective rate of interest, and after projecting the outstanding debt stock of each State, and using the rate of interest, arrived at the projected interest payment.

9.4.2: Table 9.4 below shows the comparison between the projected and actual interest payment by government of Uttarakhand. The amount projected by 14th FC has been lower than the actual interest payment. However, the difference is reasonably small, at below 10%.

Table 9.5: Interest payment Assessment Comparison (Amount in Rs Crore)

	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)	2019-20*
FC Projected Interest Payment	2,972	3,419	3,941	4,553	5,269
Actual Interest Payment	2,971	3,723	3,987	4,906	5,786
Underestimation %	0.0%	-8.2%	-1.2%	-7.2%	-8.9%

**Estimate provided by State Government*

9.5 Projection of Pension

9.5.1: The 14th FC had considered Pension payments as committed expenditure of the government, along with expenditure on salary and interest. It took the state-wise 2014-15 (BE) data on pension payments as the base year estimate and made projections by adopting a normative annual growth rate of 10 per cent for pension payments.

9.5.2: Table 9.4 below shows the comparison between the projected and actual pension payment by Government of Uttarakhand. The amount projected by 14th FC has been significantly lower than the actual expenditure on pension payment incurred by the State Government.

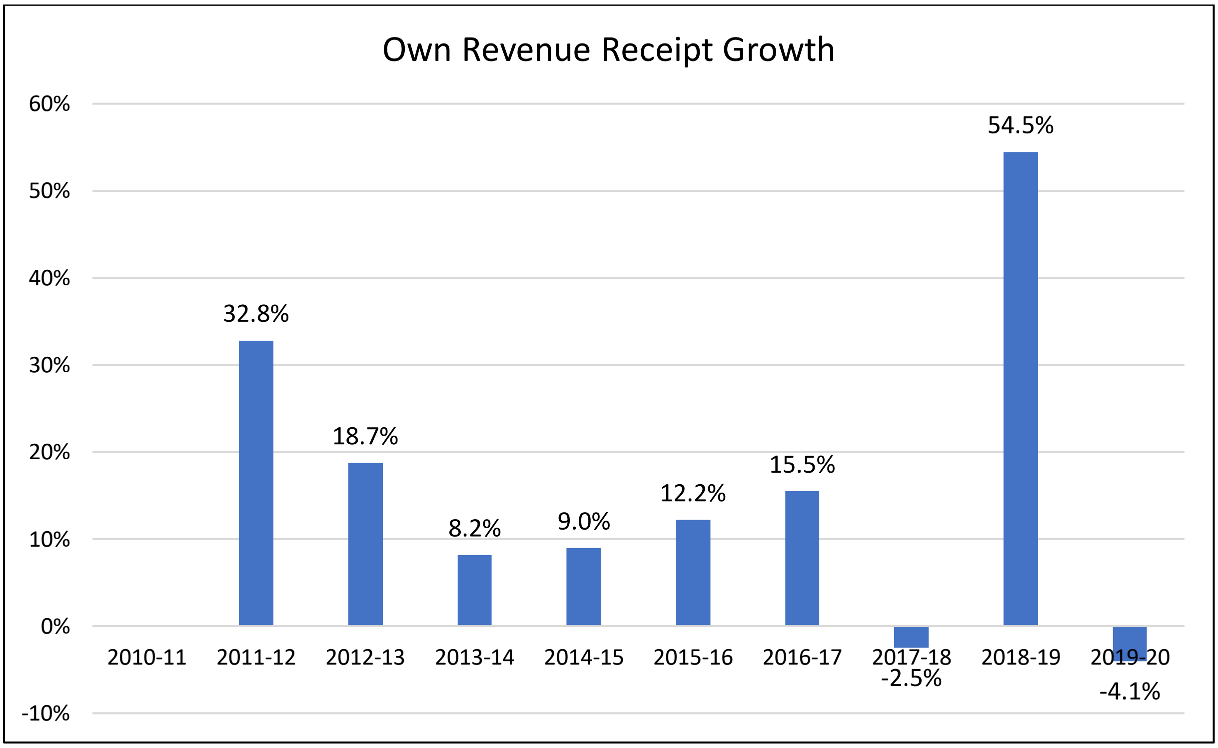
Table 9.6: Pension payment Assessment Comparison (Amount in Rs Crore)

	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)	2019-20
FC Projected Pension Payment	2,667	2,934	3,227	3,550	3,905

Actual Pension Payment	2,628	3,170	5,034	5,353	7,009
Underestimation %	-1.5%	7.4%	35.9%	33.7%	44.3%

9.6 Estimation of Pre-Devolution Revenue Deficit

<u>Estimating Revenue Receipt Growth</u>: Historically, in the last five years covering 2012-13 to 2016-17, the own revenue of Uttarakhand (total of Own-Tax + Non-Tax Revenue) has been growing in the range of 8% to 18% as can be seen in the figure below.

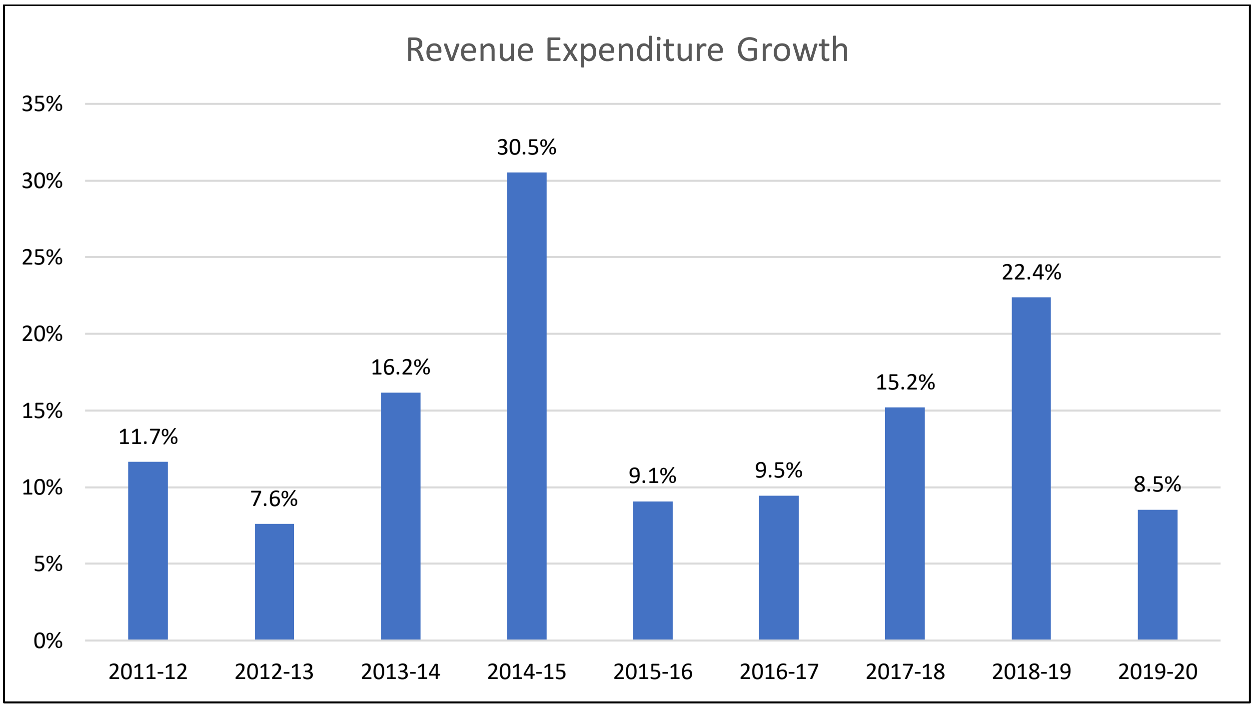


The estimates prepared by the state for 2018-19 and 2019-20 are not in keeping with the past trend, and hence not considered for estimating the future growth of revenue.

The dip in revenue growth in 2017-18 is primarily on account of issues relating to the initial period of GST implementation, and are expected to stabilise in the near future. While the GST compensation is currently set to end by July 2022, we have assumed that through *some* compensatory mechanism, the revenue growth will continue at the same pace.

<u>We therefore estimate the revenue receipt to grow at 14% per annum</u>, which was the revenue growth assured for GST compensation, but from the lower <u>base of 2017-18</u>.

<u>Estimating Revenue Expenditure Growth:</u> The annual growth in Revenue Expenditure of Uttarakhand for the period 2011-12 to 2017-18 (including projections made by the State for 2018-19 and 2019-20) is shown in figure below:



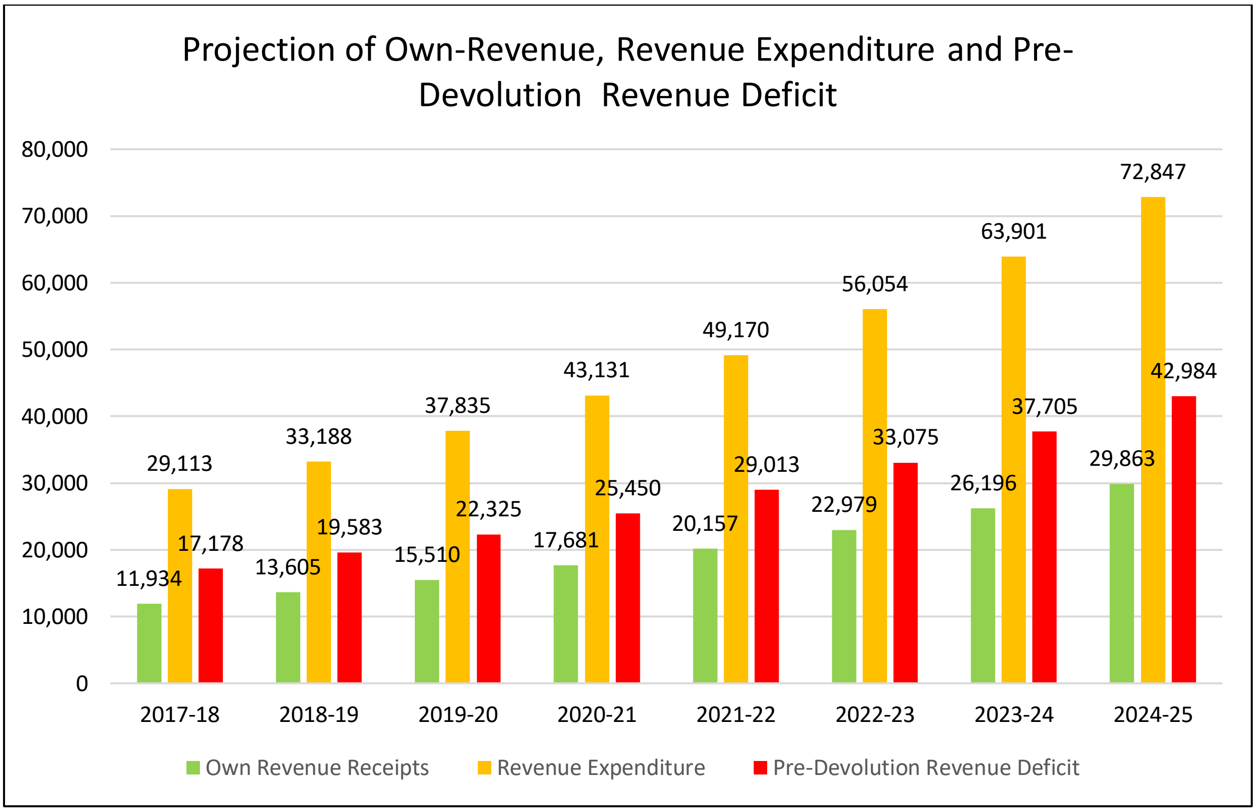
The last three years have seen an increase in revenue expenditure in the range of 9% to 15%. We anticipate that the growth in revenue expenditure in FC-SX period would keep pace at least with the estimated rate of growth of revenue receipt of 14%. This growth in expenditure would be in keeping with the growth rate in revenue expenditure experienced in the last 10 years. The CAGR of revenue expenditure from 2010-11 to 2017-18 is 14.02%.

<u>We have therefore estimate that revenue expenditure would grow at 14% per annum from the base year of 2017-18</u>.

With the above assumptions, the projection of Own Revenue Receipts, Revenue Expenditure and Pre-Devolution Revenue Deficit has been done from base year of 2017-18 upto the end of the FC-XV award period, and shown in the Table and graph below:

Year	Own Revenue Receipts	Revenue Expenditure	Pre-Devolution Revenue Deficit
2017-18	11,934	29,113	17,178
2018-19	13,605	33,188	19,583
2019-20	15,510	37,835	22,325
2020-21	17,681	43,131	25,450

2021-22	20,157	49,170	29,013
2022-23	22,979	56,054	33,075
2023-24	26,196	63,901	37,705
2024-25	29,863	72,847	42,984



9.6 Conclusion

As stated at the beginning of this chapter, the task before FC in making projections on multiple Fiscal parameters is not easy. In case of Uttarakhand, the projections have overestimated the revenue, and underestimated the committed expenditure on Interest and Pension. Uttarakhand was not assessed to be in need of Revenue Deficit grant by the 14th FC, as it was estimated that the State would have a post-devolution revenue surplus of 274 Crores in 2015-16, increasing steadily over the award period with a surplus of 2157 Crores in 2016-17 and 4709 Crores in 2017-18. However, the State had a sizeable Revenue Deficit of 1,852 Crores, 382 Crores and 2,008 Crores in the first three years of the 14th FC Award period.

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Annexure: Analysis of Fiscal Parameters (2006-07 to 2017-18 RE)

A. Fiscal Parameters for Analysis

The following parameters were selected for analysis over a long time period i.e. from 2006-07 to 2017-18(RE). Where relevant, their ratio to GSDP has also been displayed.

A1: Revenue Related Parameters

i. Total Revenue Receipts

ii. Breakup of Total Revenue Receipts in terms of:

   a. State's Own Tax Revenue
   b. State's Own Non-Tax Revenue
   c. Share of State in Union Taxes and Duties
   d. Grants in aid from GOI

A2: Expenditure Related Parameters

i. Total Expenditure

ii. Breakup of Total Expenditure in terms of:

   a. Revenue Expenditure
   b. Capital Expenditure (Outlay)
   c. Loans and Advances

A3: Committed Expenditure Related Parameters

i. Total Committed Expenditure

ii. Breakup of Total Committed Expenditure in terms of:

   a. Salaries & Wages
   b. Interest Payments
   c. Expenditure on Pensions
   d. Subsidies

A4: Deficit Related Parameters

i. Revenue Deficit / Surplus

ii. Fiscal Deficit / Surplus

iii. Primary Deficit / Surplus

iv. Revenue Deficit / Surplus as % of GSDP

v. Fiscal Deficit / Surplus as % of GSDP

vi. Primary Deficit / Surplus as % of GSDP

vii. Total Liabilities

B. Data Table for Fiscal Parameters

All figures in Rs Crore. GSDP at Current Prices. Series for 2004-105 till FY 2010-11, subsequently, 2011-12 Series

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GSDP (2004-05 series) & (2011-12 series)	36,795	45,856	56,025	70,730	83,969	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609
Total Revenue Receipts	7,373	7,891	8,635	9,486	11,608	13,691	15,747	17,321	20,247	21,234	24,889	27,105
State's Own Tax Revenue	2,514	2,739	3,045	3,559	4,405	5,616	6,414	7,355	8,338	9,382	10,897	10,165
State's Own Non-Tax Revenue	647	668	699	632	678	1,136	1,603	1,317	1,110	1,220	1,346	1,770
Share of State in Union Taxes and Duties	1,132	1,428	1,507	1,550	2,460	2,866	3,273	3,573	3,792	5,329	6,412	7,085
Grants in aid from GOI	3,081	3,056	3,384	3,745	4,065	4,073	4,457	5,075	7,005	5,304	6,234	8,085
Total Expenditure	8,278	9,702	10,534	12,334	13,536	15,540	17,775	20,206	26,254	27,386	30,390	35,104
Revenue Expenditure	6,477	7,255	8,395	10,657	11,621	12,975	13,960	16,216	21,164	23,086	25,271	29,113
Capital Expenditure (Outlay)	1,699	2,235	2,016	1646.73	1,855	2,317	3,542	3,712	4,939	4,217	4,954	5,915
Loans and Advances	102	213	122	30	60	247	273	278	151	83	165	77
Total Committed Expenditure	**3,042**	**3,951**	**5,103**	**6,815**	**7,387**	**8,369**	**9,343**	**10,646**	**12,376**	**13,658**	**15,773**	**18,756**
Committed Expenditure as % of Revenue Expenditure	**47.0%**	**54.5%**	**60.8%**	**63.9%**	**63.6%**	**64.5%**	**66.9%**	**65.6%**	**58.5%**	**59.2%**	**62.4%**	**64.4%**
Salaries & Wages	1,551	2,232	3,045	4,388	4,721	5,244	5,724	6,431	7,309	7,848	8,670	9,537
Interest Payments	964	1,096	1,188	1,338	1,480	1,770	2,090	2,060	2,406	2,971	3,723	3,987
Expenditure on Pensions	527	623	828	1,047	1,142	1,135	1,366	2,131	2,452	2,628	3,170	5,034
Subsidies	0	0	42	42	44	220	163	24	209	211	210	198
Revenue Deficit / Surplus	896	636	240	-1,171	-13	716	1,787	1,105	-917	-1,852	-382	-2,008
Fiscal Deficit / Surplus	**-885**	**-1,744**	**-1,843**	**-2,783**	**-1,843**	**-1,757**	**-1,600**	**-2,650**	**-5,826**	**-6,125**	**-5,467**	**-7,716**
Primary Deficit / Surplus	79	-648	-655	-1,445	-363	12	489	-594	-3,420	-3,154	-1,744	-3,729
Total Outstanding Liabilities	**13300**	**14690**	**17223**	**19650**	**21290**	**24850**	**26870**	**30310**	**34040**	**40290**	**44870**	**50163**
Revenue Deficit / Surplus as % of GSDP	3.00%	1.80%	0.60%	-2.50%	-0.03%	0.62%	1.36%	0.74%	-0.57%	-1.05%	-0.20%	-0.92%
Fiscal Deficit / Surplus as % of GSDP	-2.80%	-4.90%	-4.60%	-5.90%	-3.53%	-1.52%	-1.22%	-1.78%	-3.61%	-3.48%	-2.80%	-3.55%
Primary Deficit / Surplus as % of GSDP	0.30%	-1.80%	-1.60%	-3.10%	-0.70%	0.01%	0.37%	-0.40%	-2.12%	-1.79%	-0.89%	-1.71%
Total Outstanding Liabilities as % of GSDP	36.15%	32.04%	30.74%	27.78%	25.35%	21.55%	20.42%	20.33%	21.09%	22.92%	22.94%	23.05%

C-Analysis of Fiscal Parameters

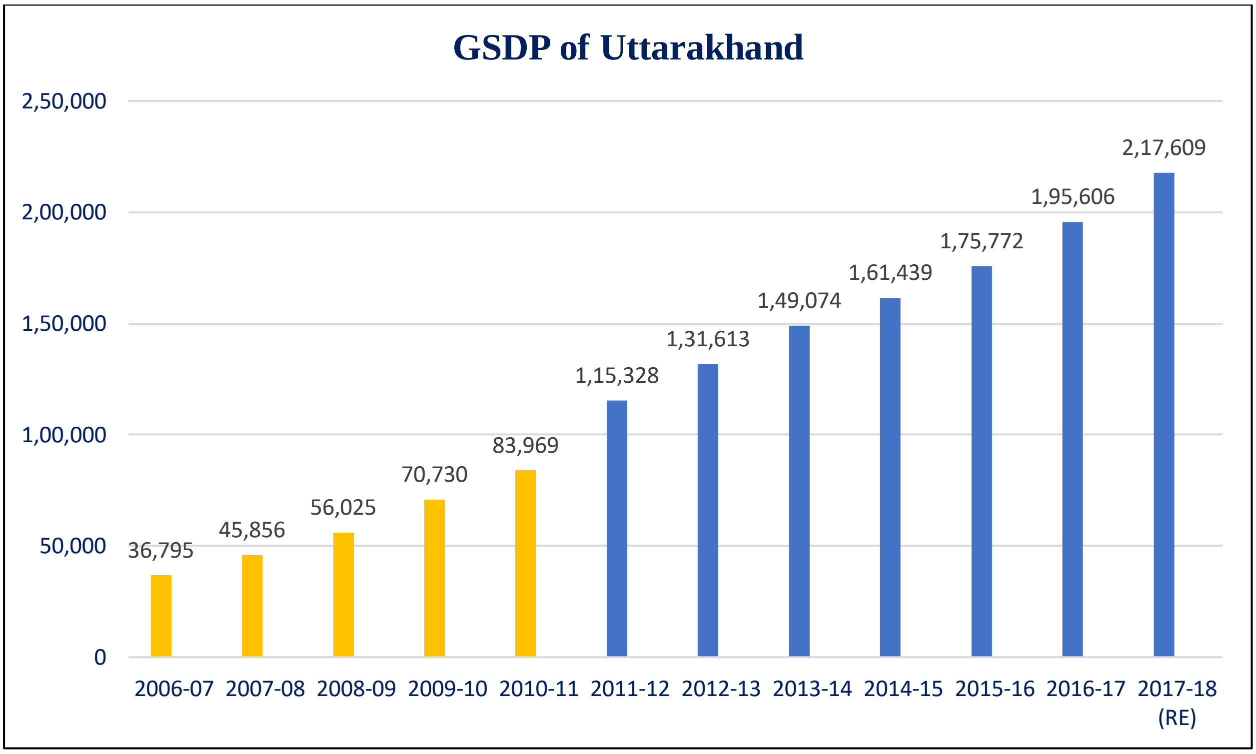
C1: GSDP

Table C1-GSDP of Uttarakhand (Figures in Rs Crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
GSDP	36,795	45,856	56,025	70,730	83,969
Series	2004-05	2004-05	2004-05	2004-05	2004-05
Nominal Growth Rate		24.6%	22.2%	26.2%	18.7%

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)
GSDP	1,15,328	1,31,613	1,49,074	1,61,439	1,75,772	1,95,606	2,17,609
Series	2011-12	2011-12	2011-12	2011-12	2011-12	2011-12	2011-12
Nominal Growth Rate	37.3%	14.1%	13.3%	8.3%	8.9%	11.3%	11.2%

Figure C1: GSDP Trend (Figures in Rs Crore)



2004-2005 Series, 2011-12 Series

The table and figure above show the sharp discontinuity in the GSDP of Uttarakhand when moving the 2004-05 Series to 2011-12 series in FY 2011-12, where an increase in GSDP by 37.3% is seen.

The GSDP of Uttarakhand from 2006-07 to 2017-18 is not available at one base year. The figures for the period spanning 2006-07 to 2014-15 are available at the base year

2004-05 and for the period spanning 2011-12 onwards is available at 2011-12 as the base year. In order to create a consistent data series from 2006-07 to 2017-18, the splicing technique was attempted to rebase the base year from 2004-05 to 2011-12, by using the 'overlapping year' 2011-12, for which the GSDP is available at the base year of both 2004-05 and 2011-12. However, this approximation has many limitations as change in base year reflect not only change in prices but also change in structure of the economy and commodities basket. Attempt at creating a common series was therefore not taken forward, as the transition year of 2011-12 is sufficiently distant from the 15th FC Award period.

C2: Revenue

Table C2: Revenue Trend of Uttarakhand

	Total Revenue Receipts	Total Revenue Receipts as % of GSDP	State's Own Tax Revenue	State's Own Non-Tax Revenue	Share of State in Union Taxes and Duties	Grants in aid from GOI
2006-07	7,373	20.0%	2,514	647	1,132	3,081
2007-08	7,891	17.2%	2,739	668	1,428	3,056
2008-09	8,635	15.4%	3,045	699	1,507	3,384
2009-10	9,486	13.4%	3,559	632	1,550	3,745
2010-11	11,608	13.8%	4,405	678	2,460	4,065
2011-12	13,691	11.9%	5,616	1,136	2,866	4,073
2012-13	15,747	12.0%	6,414	1,603	3,273	4,457
2013-14	17,321	11.6%	7,355	1,317	3,573	5,075
2014-15	20,247	12.5%	8,338	1,110	3,792	7,005
2015-16	21,234	12.1%	9,382	1,220	5,329	5,304
2016-17	24,889	12.7%	10,897	1,346	6,412	6,234
2017-18	27,105	12.5%	10,165	1,770	7,085	8,085

Figure C2: Revenue Trend of Uttarakhand

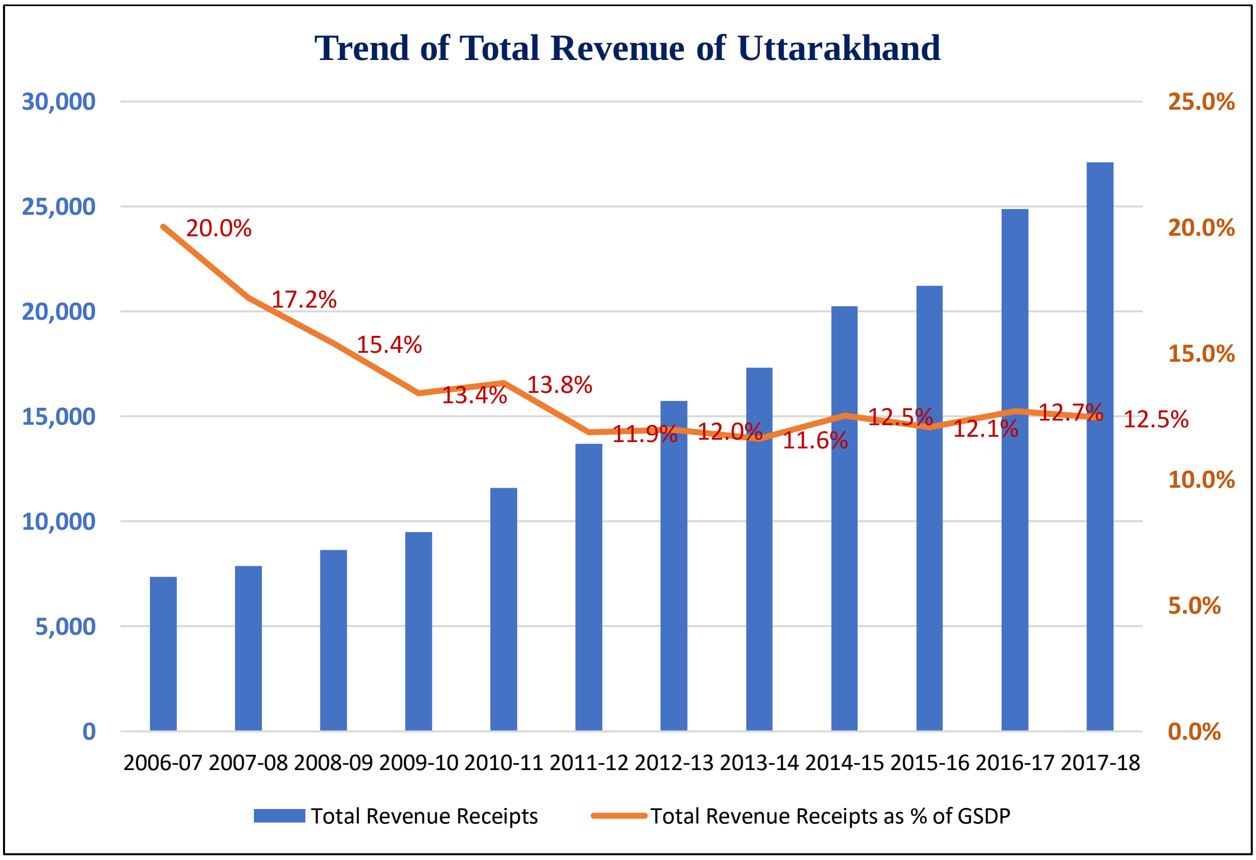
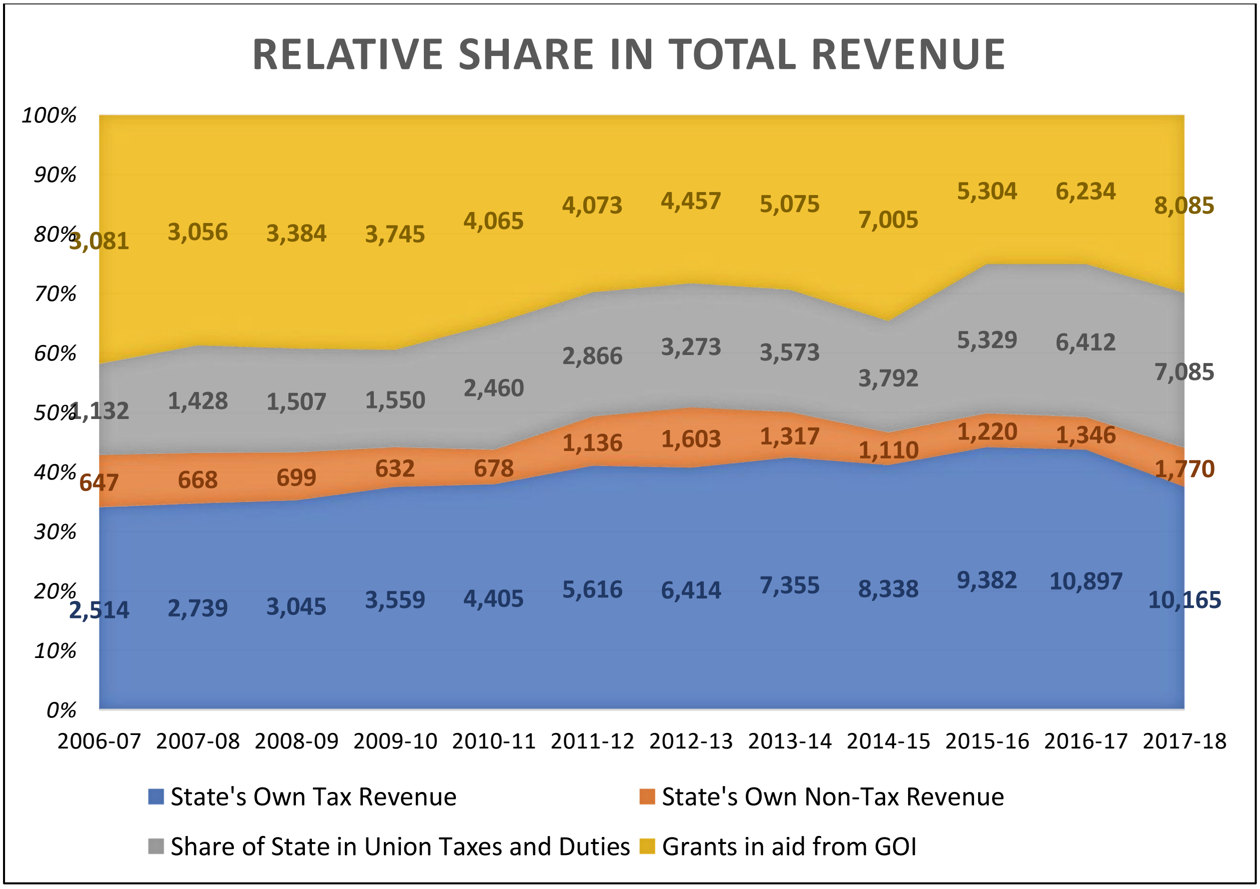


Table C3: Revenue Trend of Uttarakhand (As % of GSDP)

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	Share of State in Union Taxes and Duties	Grants in aid from GOI	Total Revenue
2006-07	6.8%	1.8%	3.1%	8.4%	20.0%
2007-08	6.0%	1.5%	3.1%	6.7%	17.2%
2008-09	5.4%	1.2%	2.7%	6.0%	15.4%
2009-10	5.0%	0.9%	2.2%	5.3%	13.4%
2010-11	5.2%	0.8%	2.9%	4.8%	13.8%
2011-12	4.9%	1.0%	2.5%	3.5%	11.9%
2012-13	4.9%	1.2%	2.5%	3.4%	12.0%
2013-14	4.9%	0.9%	2.4%	3.4%	11.6%
2014-15	5.2%	0.7%	2.3%	4.3%	12.5%
2015-16	5.3%	0.7%	3.0%	3.0%	12.1%
2016-17	5.6%	0.7%	3.3%	3.2%	12.7%
2017-18 (RE)	4.7%	0.8%	3.3%	3.7%	12.5%

Figure C3: Relative Share in Total Revenue



Observations:

i. While the Total Revenue has shown an increase from 7,373 Crores to 27,105 Crores in the period 2006-07 to 2017-18, the share of revenue as a per cent of GSDP has gone down significantly from 20% to 12.5% of GSDP.

ii. Total Revenue as % of GSDP shows a pronounced dip on account of the change in GSDP series (in FY 2011-12)

iii. While States own resources (Tax and Non-Tax Revenue) has been less than 50% of the total resources of the State, the rate of growth in Grants-in-aid has been far lower than GSDP over this period leading to decline in the ratio of Total Revenue as per cent of GSDP. From 8.4% of GSDP in 2006-07, Grants-in-Aid has declined to 3.2% by 2016-17.

C3: Expenditure

Table C4: Trend of Expenditure

Year	Amount in Rs Crore				As % of GSDP			
	Revenue Expenditure	Capital Expenditure (Outlay)	Loans and Advances	Total Expenditure	Revenue Expenditure	Capital Expenditure (Outlay)	Loans and Advances	Total Expenditure
2006-07	6,477	1,699	102	**8,278**	17.6%	4.6%	0.3%	**22.5%**
2007-08	7,255	2,235	213	**9,702**	15.8%	4.9%	0.5%	**21.2%**
2008-09	8,395	2,016	122	**10,534**	15.0%	3.6%	0.2%	**18.8%**
2009-10	10,657	1,647	30	**12,334**	15.1%	2.3%	0.0%	**17.4%**
2010-11	11,621	1,855	60	**13,536**	13.8%	2.2%	0.1%	**16.1%**
2011-12	12,975	2,317	247	**15,540**	11.3%	2.0%	0.2%	**13.5%**
2012-13	13,960	3,542	273	**17,775**	10.6%	2.7%	0.2%	**13.5%**
2013-14	16,216	3,712	278	**20,206**	10.9%	2.5%	0.2%	**13.6%**
2014-15	21,164	4,939	151	**26,254**	13.1%	3.1%	0.1%	**16.3%**
2015-16	23,086	4,217	83	**27,386**	13.1%	2.4%	0.0%	**15.6%**
2016-17	25,271	4,954	165	**30,390**	12.9%	2.5%	0.1%	**15.5%**
2017-18(RE)	29,113	5,915	77	**35,104**	13.4%	2.7%	0.0%	**16.1%**

Figure C4: Trend of Expenditure

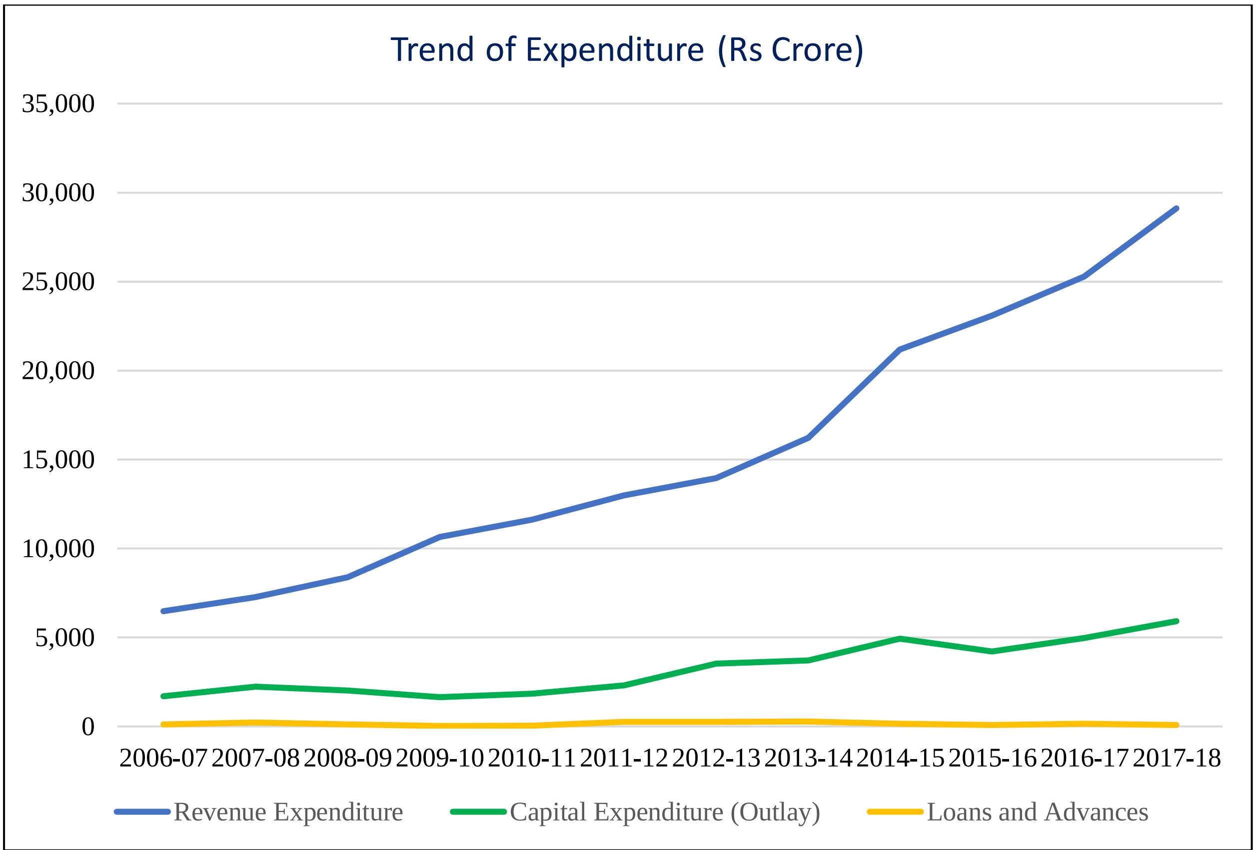
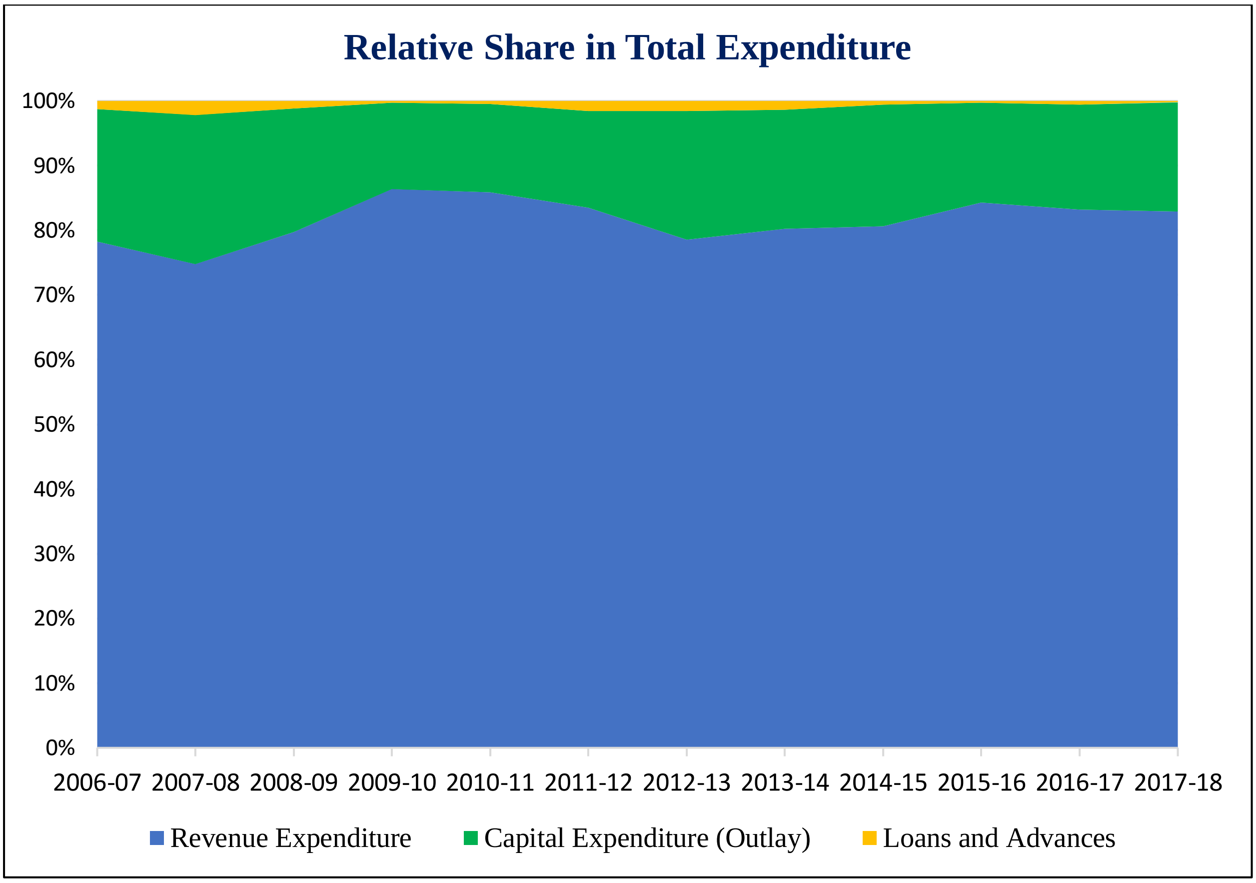


Figure C5: Relative Share in Total Expenditure



Observations:

i. While the total expenditure of the government in absolute amount has increased over the years, the size of the government, as measured by Total expenditure, as a per cent of GSDP has declined from 22.5% to 16.1% in the period 2006-07 to 2017-18.

ii. Share of Capital Expenditure accounts for about 20% of the total expenditure. With the size of the government vis-à-vis GSDP being small, this accounts for lower capital expenditure as a per cent of GSDP compared to other states.

C4: Committed Expenditure

Table C5: Trend of Committed Expenditure (Amount in Rs Crore)

Year	**Total Committed Expenditure**	**Committed Expenditure as % of Revenue Expenditure**	Salaries & Wages	Interest Payments	Expenditure on Pensions	Subsidies
2006-07	**3,042**	**47.0%**	1,551	964	527	0
2007-08	**3,951**	**54.5%**	2,232	1,096	623	0
2008-09	**5,103**	**60.8%**	3,045	1,188	828	42
2009-10	**6,815**	**63.9%**	4,388	1,338	1,047	42
2010-11	**7,387**	**63.6%**	4,721	1,480	1,142	44
2011-12	**8,369**	**64.5%**	5,244	1,770	1,135	220
2012-13	**9,343**	**66.9%**	5,724	2,090	1,366	163
2013-14	**10,646**	**65.6%**	6,431	2,060	2,131	24
2014-15	**12,376**	**58.5%**	7,309	2,406	2,452	209
2015-16	**13,658**	**59.2%**	7,848	2,971	2,628	211
2016-17	**15,773**	**62.4%**	8,670	3,723	3,170	210
2017-18 (RE)	**18,756**	**64.4%**	9,537	3,987	5,034	198

Figure C6: Trend of Committed Expenditure

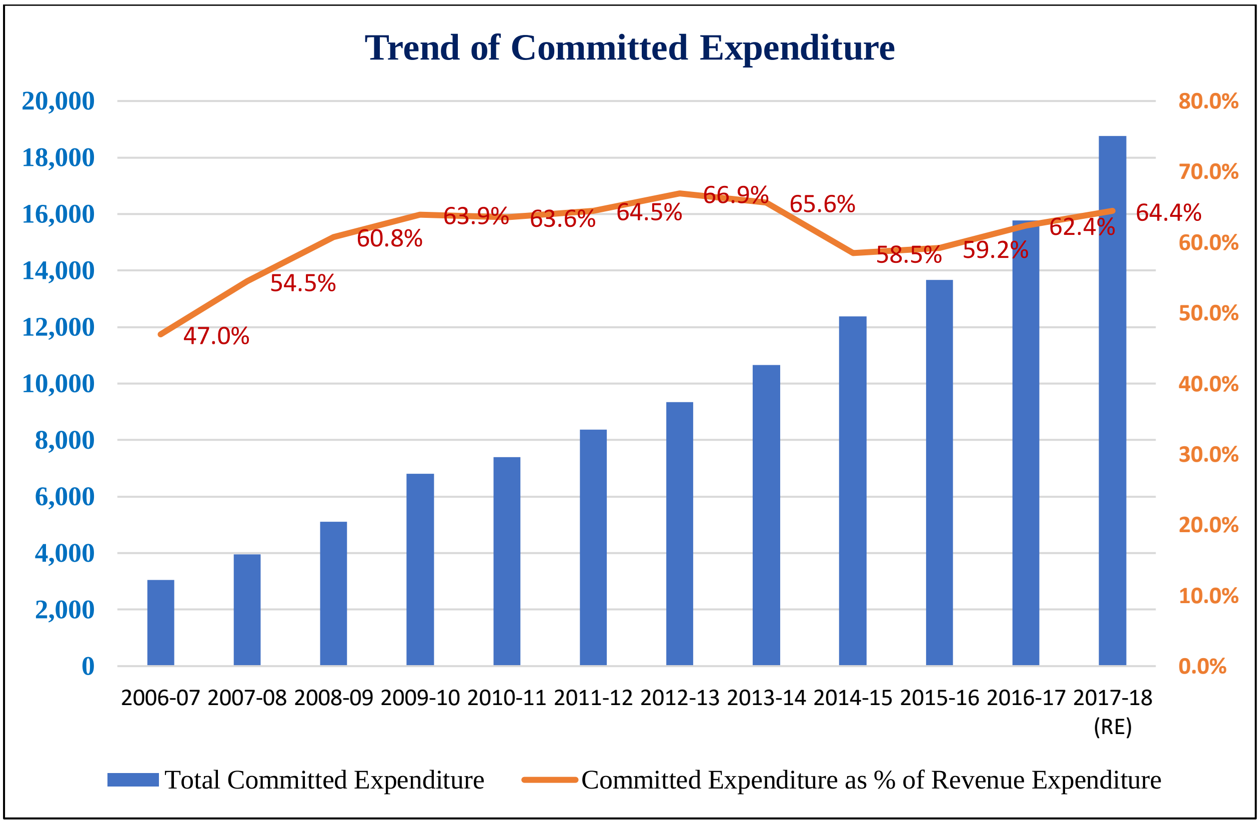


Figure C7: Trend of Committed Expenditure – by Components

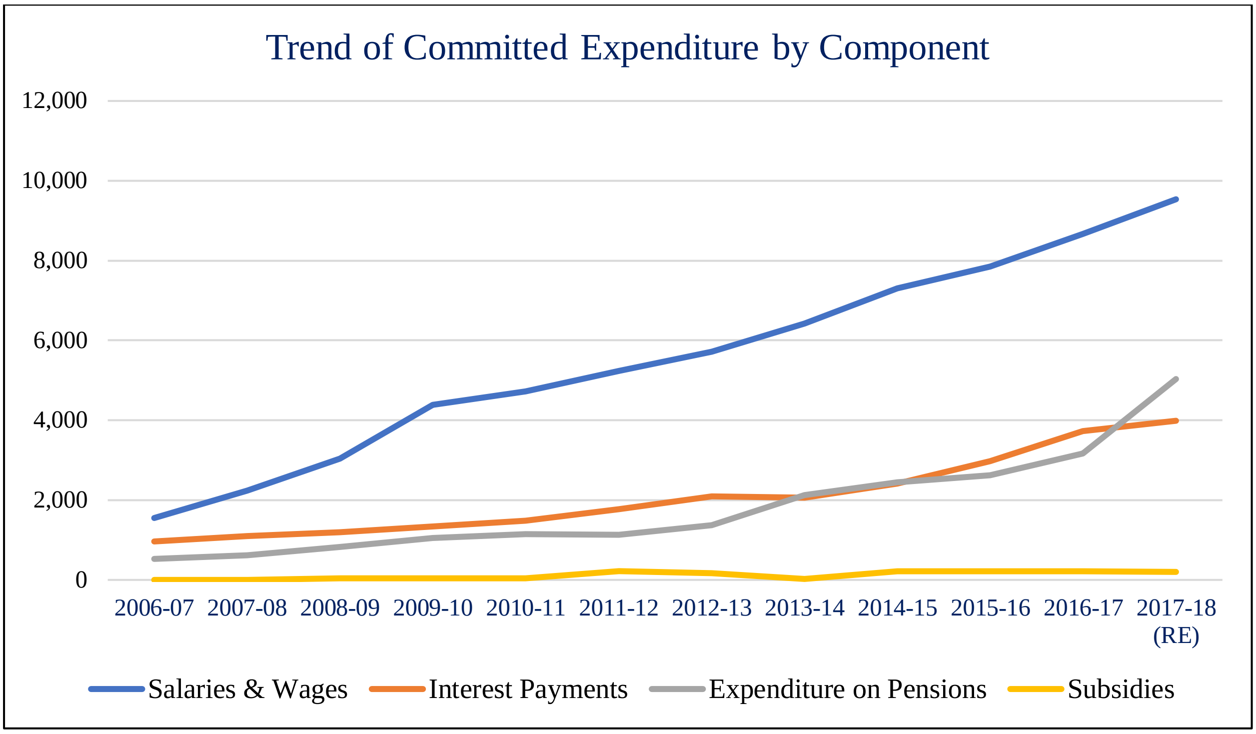
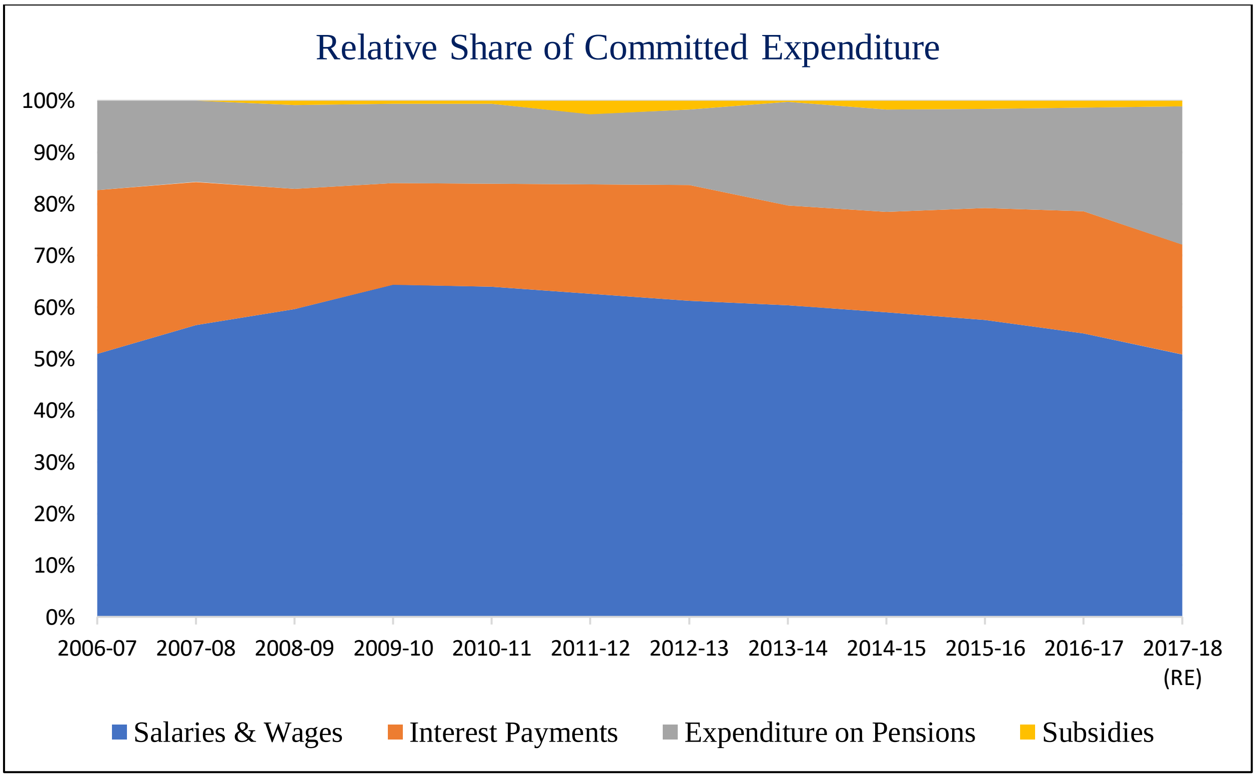


Figure C8: Relative Share of Committed Expenditure



Observations:

i. Committed Expenditure forms about two-thirds (64%) of the Total Revenue Expenditure. Since 2009-10, Committed expenditure has formed over 60% of the Total Revenue Expenditure, except for two years – 2015-16 and 2016-17.
ii. The share of the four components in total committed expenditure are largely stable, with Salaries accounting to about 50% of the total committed expenditure, and with a gradually increasing share of Pensions in the total committed expenditure.

C5: Deficits

Table C6: Deficit Trends

	Amount in Rs Crore			As % of GSDP		
Year	Revenue Deficit / Surplus	Fiscal Deficit / Surplus	Primary Deficit / Surplus	Revenue Deficit / Surplus as % of GSDP	Fiscal Deficit / Surplus as % of GSDP	Primary Deficit / Surplus as % of GSDP
2006-07	896	-885	79	3.00%	-2.80%	0.30%
2007-08	636	-1,744	-648	1.80%	-4.90%	-1.80%
2008-09	240	-1,843	-655	0.60%	-4.60%	-1.60%
2009-10	-1,171	-2,783	-1,445	-2.50%	-5.90%	-3.10%
2010-11	-13	-1,843	-363	-0.03%	-3.53%	-0.70%
2011-12	716	-1,757	12	0.62%	-1.52%	0.01%
2012-13	1,787	-1,600	489	1.36%	-1.22%	0.37%
2013-14	1,105	-2,650	-594	0.74%	-1.78%	-0.40%
2014-15	-917	-5,826	-3,420	-0.57%	-3.61%	-2.12%
2015-16	-1,852	-6,125	-3,154	-1.05%	-3.48%	-1.79%
2016-17	-382	-5,467	-1,744	-0.20%	-2.80%	-0.89%
2017-18 (RE)	-2,008	-7,716	-3,729	-0.92%	-3.55%	-1.71%

Figure C9: Deficit Trends

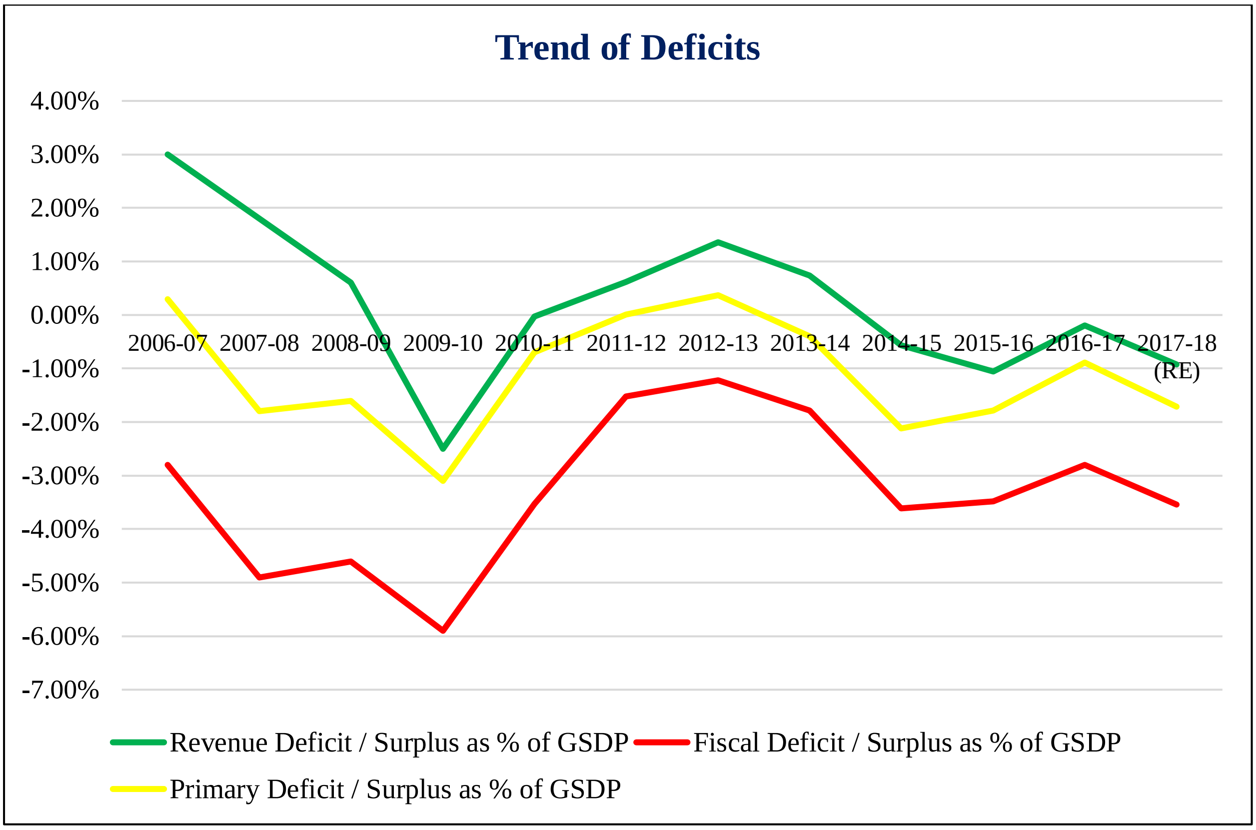
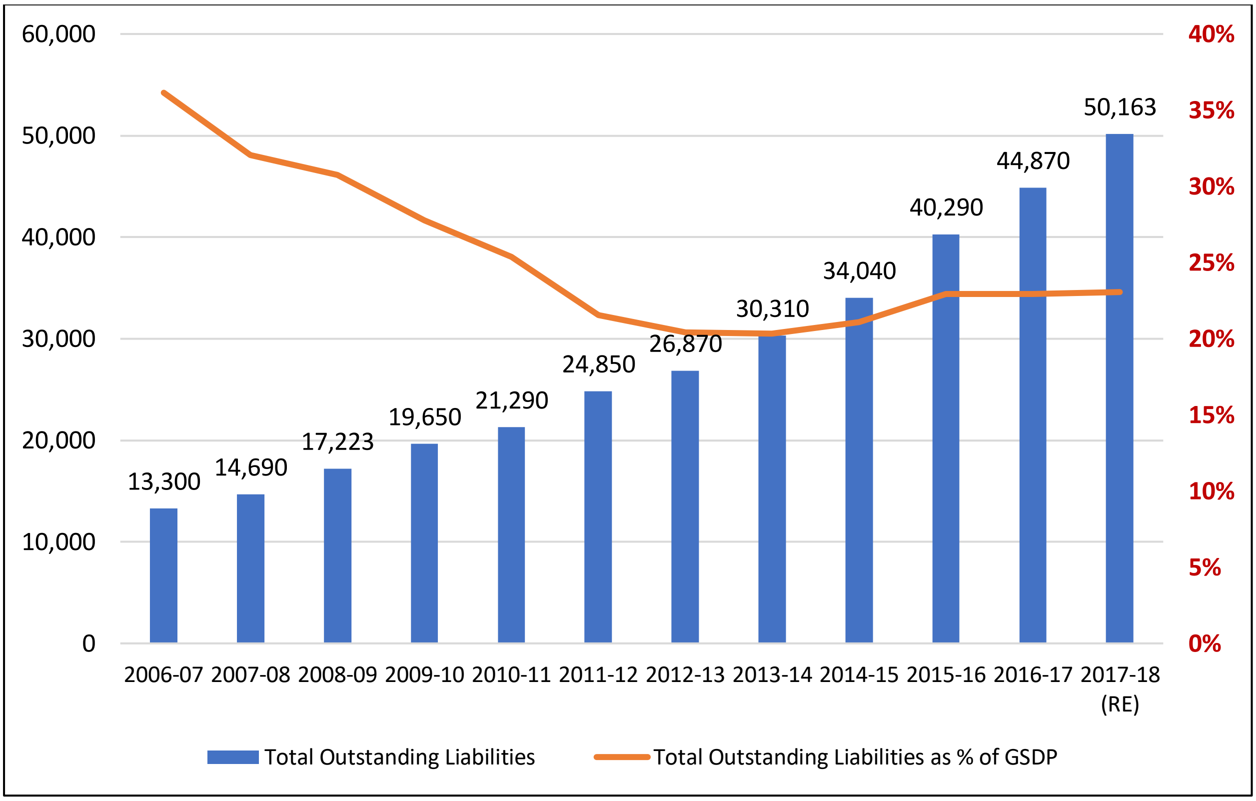


Table C6: Total Outstanding Liabilities (Figures in Rs Crore)

Year	GSDP	Total Outstanding Liabilities	Total Outstanding Liabilities as % of GSDP

2006-07	36,795	13,300	36.15%
2007-08	45,856	14,690	32.04%
2008-09	56,025	17,223	30.74%
2009-10	70,730	19,650	27.78%
2010-11	83,969	21,290	25.35%
2011-12	1,15,328	24,850	21.55%
2012-13	1,31,613	26,870	20.42%
2013-14	1,49,074	30,310	20.33%
2014-15	1,61,439	34,040	21.09%
2015-16	1,75,772	40,290	22.92%
2016-17	1,95,606	44,870	22.94%
2017-18 (RE)	2,17,609	50,163	23.05%

Figure C10: Trend of Outstanding Liabilities



Observations:

i. The State has been largely running a revenue deficit in the 14th FC award period as against a primarily revenue surplus in the 13th FC period.

ii. The Fiscal Deficit has been increasing and is higher than that recommended in the Fiscal Consolidation roadmap and incorporated in the State FRBM legislation.

iii. While the total liabilities has been increasing in absolute amount, it has come down significantly when measured as per cent of GSDP from over 30% in 2006-07, to a low of 20.33% in 2013-14. It has started climbing again thereafter, and it may be possible to stabilise the debt to GSDP for Uttarakhand at about 26%.

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