

In pursuance of the provisions of Clause (3) of Article 348 of the Constitution of India, the Governor is pleased to order the publication of The Uttaranchal Fiscal Responsibility and Budget Management Bill, 2005 (Uttaranchal Adhiniyam Sankhya 22 of 2005).

As passed by the Uttaranchal Legislative Assembly and assented to by the Governor on October 27, 2005.

No. 607/Vidhayee and Sansadiya Karya/2005

Dated Dehradun, October 31, 2005

NOTIFICATION

Miscellaneous

THE UTTARANCHAL FISCAL RESPONSIBILITY AND BUDGET
MANAGEMENT ACT, 2005

(UTTARANCHAL ACT No. 22 OF 2005)

To provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, Government guarantees, debt and deficits, greater transparency in fiscal operations of the State Government and use of a medium term fiscal framework and for matters connected therewith or incidental thereto.

AN

ACT

Be it enacted in the Fifty-sixth year of the Republic of India as follows :--

1. (1) This Act may be called the Uttaranchal Fiscal Responsibility and Budget Management Act, 2005.

Short Title and
Commencement

(2) It shall come into force on such date as the State Government may, by notification in this behalf, appoint.

2. In this Act, unless the context otherwise requires--

Definitions

- (a) "annual budget" means the annual financial statement laid before the house of State Assembly under Article 202 of the Constitution;
- (b) "current year" means the year preceding the year for which budget is being presented;
- (c) "fiscal deficit" means the excess of--
 - (i) total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total receipts into the Fund (excluding the debt receipts) during a financial year, or
 - (ii) total expenditure from the Consolidated Fund of the State (including loans but excluding repayment of debt) over own tax and non-tax revenue receipts, devolution and other grants from Government of India to the State, and non-debt capital receipts during a financial year which represents the borrowing requirements, net of repayment of debt, of the State Government during the financial year;
- (d) "Fiscal Indicators" means the measures such as numerical ceilings and proportions to gross State domestic product or any other ratios, as may be prescribed, for evaluation of the fiscal position of the State Government;
- (e) "previous year" means the year preceding the current year;
- (f) "revenue deficit" means the difference between revenue expenditure and revenue receipts;

Medium Term
Fiscal Policy to
be laid before
the State
Assembly

(g) "total liabilities" means the liabilities under the Consolidated Fund of the State and the public account of the State.

3. (1) The State Government shall in each financial year lay before the State Assembly a Medium Term Fiscal Policy along with the annual budget.

(2) The Medium Term Fiscal Policy shall set forth a three year rolling targets for the prescribed fiscal indicators with specification of under lying assumptions.

(3) In particular and without prejudice to the provisions contained in sub-section (2), the Medium Term Fiscal Policy shall include an assessment of sustainability relating to--

- (i) the balance between revenue receipts and revenue expenditure;
- (ii) the use of capital receipts including borrowings for generating productive assets.

(4) The Medium Term Fiscal Policy shall, *inter-alia* contain--

- (a) the medium term fiscal objectives of the State Government;
- (b) an evaluation of performance on the basis of the prescribed fiscal indicators *vis-a-vis* the targets set out in the budget and the likely performance in the current year as per revised estimates;
- (c) a statement on recent economic trends and future prospects for growth and development affecting fiscal position of the State Government;
- (d) the strategic priorities of the State Government in the fiscal areas for the ensuing financial year;
- (e) the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, lending and investments, pricing of administered goods and services, guarantees and activities of Public Sector Undertakings which have potential budgetary implications; and the key fiscal measures and targets pertaining to each of these;
- (f) an evaluation as to how current policies of the State Government are in conformity with the fiscal management principles set out in section 4 and the fiscal objectives set out in the Medium Term Fiscal Policy.

(5) The Medium Term Fiscal Policy shall be in such form as may be prescribed.

Fiscal
Management
Principles

4. (1) The State Government shall be guided by the following fiscal management principles:--

- (a) To maintain Government debt at prudent levels;
- (b) To manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities;
- (c) To ensure that policy decisions of the Government have due regard to their financial implication on future generation;
- (d) To ensure that borrowings are used on development activities, which are evaluated to become self-sustained, and creation or augmentation of capital assets, and are not applied to finance current expenditure.
- (e) To ensure a reasonable degree of stability and predictability in the level of tax burden;

- (f) To maintain the integrity of the tax system by minimising special incentives, concessions and exemptions;
- (g) To pursue tax policies with due regard to economic efficiency and compliance costs;
- (h) To pursue non-tax revenue policies with due regard to cost recovery and equity;
- (i) To pursue expenditure policies that would provide impetus to economic growth, poverty reduction and improvement in human welfare;
- (j) To build up a revenue surplus for use in capital formation and productive expenditure;
- (k) To ensure that physical assets of the Government are properly maintained;
- (l) To disclose sufficient information to allow the public to scrutinise the conduct of fiscal policy and the state of public finance;
- (m) To ensure that Government uses resources in ways that give best value for money and also ensure that public assets are put to best possible use;
- (n) To minimize fiscal risks associated with running of public sector undertakings and utilities providing public goods and services;
- (o) To manage expenditure consistent with the level of revenue generated;
- (p) To formulate budget in realistic and objective manner with due regard to the general economic outlook and revenue prospects and minimise deviations during the course of the year;
- (q) To ensure discharge of current liabilities in a timely manner.

(2) The State Government shall take appropriate measures to eliminate the revenue deficit and control the fiscal deficit at sustainable level and built up adequate revenue surplus.

(3) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall--

- (a) reduce revenue deficit to nil within a period of four financial years beginning from the 1st day of April, 2005 and ending on the 31st day of March, 2009;
- (b) reduce revenue deficit as percentage of Gross State Domestic Product in each of the financial years referred to a clause (a) in a manner consistent with the goal set out in clause (a);
- (c) reduce fiscal deficit to not more than three per cent of the estimated Gross State Domestic Product within the period referred to in clause (a);
- (d) reduce fiscal deficit as percentage of Gross State Domestic product in each of the financial years referred to in clause (a) in a manner consistent with the goal set out in clause (c);
- (e) not to give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of this Act or any rule or law to be made by the State Government subsequent to coming into force of this Act;

- (f) ensure within a period of ten financial years; beginning from the initial financial year on the 1st day of April, 2005 and ending on the 31st day of March, 2015 that the total liabilities at the end of the last financial year, do not exceed twenty-five per cent of the estimated gross State domestic product for that year :

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this sub-section due to ground or grounds of unforeseen demands on the finance of the State Government due to internal security or natural calamity, subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities :

Provided further that the ground or grounds specified in the first proviso shall be placed before the State Legislature, as soon as possible, after it becomes likely that such deficit amount may exceed the aforesaid limits, with accompanying report stating the likely extent of excess, and reasons therefor.

Measures for
Fiscal
Transparency

5. (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimise as far as practicable in public interest, secrecy in the preparation of the annual budget.

(2) In particular and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form as may be prescribed :--

- (a) The significant changes in the accounting standards, policies and practices affecting or likely to effect the computation of prescribed fiscal indicators;
- (b) As far as practicable, and consistent with protection of public interest, the contingent liabilities created by way of guarantees; the actual liabilities arising out of borrowings by Public Sector Undertaking and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government, allocation and commitments made by the State Government having potential budgetary implications, including revenue demand raised but not realised, tax expenditure; losses incurred in providing public goods, and services through public utilities and undertaking, liability in respect of major works and contracts; and subsidy payments and impact of the same on the fiscal position of the State including in relation to the targets referred to in sub-section (3) of section 4.

Measures to
enforce
compliance

6. (1) The Annual Budget and policies announced at the time of the budget, shall be consistent with the objectives and targets specified in the Medium Term Fiscal Policy for the coming and future years.

(2) The Minister In-charge of the Department of Finance, shall review, every half yearly, the trend in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets, and place before the State Legislature the outcome of such reviews. The review report shall be in such form as may be prescribed.

(3) The review shall explain--

- (a) any deviation or likely deviation in meeting the obligations cast on the State Government under this Act;
- (b) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the State Government; and

(c) the remedial measures the State Government proposes to take.

(4) Wherever there is a prospect of either shortfall in revenue or excess of expenditure over pre-specified levels for a given year on account of any new policy decision of the State Government that affects either the State Government or its public sector undertakings, State Government, prior to taking such policy decision, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorized to be paid and applied from and out of the Consolidated Fund of the State under any Act to provide for the appropriation of such sums, or by taking interim measures for revenue augmentation, or by taking up a combination of both :

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under Clause (3) of Article 202 of the Constitution :

Provided further that, while adhering to the fiscal years, the State Government will give priority to protect certain expenditure defined in the Medium Term Fiscal Restructuring Policy as "High Priority Development Expenditure" (including, *inter alia*) from curtailment or may impose a recede or partial curtailment.

(5) Whenever one or more supplementary estimates are presented to the State Assembly, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium Term Fiscal Policy objectives and targets for the future year.

7. (1) The State Government may, by notification, make rules for carrying out the provisions of this Act.

Power to make rules

(2) In particular, and without prejudice to the generality of the foregoing powers such rules may provide for all or any of the following matters, namely :--

- (a) The fiscal indicator to be prescribed for the purpose of sub-section (2) of section 3 and clause (a) of sub-section (2) of section 5;
- (b) The term of the Medium Term Fiscal Policy referred to in section 3;
- (c) Any other matter which is required to be, or may be prescribed.

8. No suit or prosecution or other legal proceedings shall be against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

Protection of action taken in good faith

9. The provisions of this Act shall be in addition to, and not in derogation of the provision of any other law for the time being in force.

Application of other laws not barred

10. (1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, be order published in the *Gazette* make such provisions not inconsistent with the provisions of this Act as it may deem necessary for removing the difficulty :

Power to remove difficulties

Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

(2) Every order made under this section shall be laid as soon as may be after it is made, before the State Assembly.

By Order,

U. C. DHYANI,
Secretary.