

This chapter provides a broad perspective of the finances of the Government of Uttar Pradesh during the year 2008-09 and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis is based on Finance Accounts of the Government and information obtained from it. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Box 1.1** (page: 2).

► 1.1 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09), *vis-à-vis*, previous year while **Appendix 1.1** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(Rupees in crore)

Receipts			Disbursements				
	2007-08	2008-09		2007-08	2008-09		
<i>Section A</i>	<i>Total</i>	<i>Total</i>	<i>Section A</i>	<i>Total</i>	<i>Non-Plan</i>	<i>Plan</i>	<i>Total</i>
Revenue Receipts	68,672.47	77,830.73	Revenue expenditure	65,223.21	58,677.55	17,291.34	75,968.89
Tax revenue	24,959.32	28,658.97	General services	26,550.75	29,557.38	211.94	29,769.32
Non-Tax Revenue	5,816.01	6,766.55	Social services	23,085.57	16,961.79	11,584.22	28,546.01
Share of Union Taxes/ Duties	29,287.74	30,905.72	Economic services	12,037.40	8,654.17	5,495.18	14,149.35
Grants from Govt	8,609.40	11,499.49	Grants-in-aid and Contributions	3,549.49	3,504.21	---	3,504.21
<i>Section B</i>			<i>Section B</i>				
Miscellaneous Capital Receipts	---	---	Capital Outlay	16,950.38	4,258.23	18,087.49	22,345.72
Recoveries of Loans and Advances	448.61	778.09	Loans and Advances disbursed	741.96	416.68	390.33	807.01
Public Debt Receipts ²	9,078.70	16,760.03	Repayment of Public Debt	5,368.87	6,776.49	--	6,776.49
Contingency Fund	603.78	170.92 ³	Contingency Fund	116.72	---	--	--
Public Account Receipts	77,870.18	1,04,251.96	Public Account disbursements	68,560.32	1,00,026.64	--	1,00,026.64
Opening Cash Balance	15,487.88	15,200.16	Closing Cash Balance	15,200.16	9,067.14	--	9,067.14
Total	1,72,161.62	2,14,991.89	Total	1,72,161.62	1,79,222.73	35,769.16	2,14,991.89

Source : Finance Accounts

¹Includes external assistance of Rs 249.80 lakh.

²Excluding net transactions under ways and means advances and overdraft.

³Represents recoupment of the expenditure met out of the fund up to 31 March 2008.

Box 1.1

Structure and Form of Government Accounts

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

Part I: Consolidated Fund : All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled 'The Consolidated Fund of State' established under Article 266 (1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267 (2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State legislature.

Layout of Finance Accounts

Statement No	Layout
1	Summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.
2	Summarised statement of capital outlay showing progressive expenditure to the end of 2008-09.
3	Financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4	Summary of debt position of the State which includes internal debt, borrowing from Government of India, other obligations and servicing of debt.
5	Summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.
6	Summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.
7	Summary of cash balances and investments made out of such balances.
8	Summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9	Revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10	Distribution between the charged and voted expenditure incurred during the year.
11	Detailed account of revenue receipts by minor heads.
12	Accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure, major head wise.
13	Detailed capital expenditure incurred during and to the end of 2008-09.
14	Details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, etc. up to the end of 2008-09.
15	Capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.
16	Detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17	Detailed account of debt and other interest bearing obligations of the Government of Uttar Pradesh.
18	Detailed account of loans and advances given by the Government of Uttar Pradesh, amount of loan repaid during the year and the balance as on 31 March 2009.
19	Details of earmarked balances of reserve funds.

Following are the significant changes during 2008-09 over the previous year:

Revenue receipts grew by Rs 9,158 crore (13 *per cent*) over the previous year. The increase was mainly contributed by tax revenue (Rs 3,700 crore; 15 *per cent*) and grants-in-aid from GOI (Rs 2,888 crore; 34 *per cent*).

Revenue expenditure and capital expenditure increased by Rs 10,746 crore (16 *per cent*) and Rs 5,396 crore (32 *per cent*) respectively over the previous year.

Recoveries of Loans and Advances increased by Rs 329 crore (73 *per cent*). Their disbursement also increased by Rs 65 crore (nine *per cent*) over the previous year.

Public Debt receipts increased by Rs 7,681 crore (85 *per cent*) over previous year mainly due to increase in Internal Debt receipts. Repayment of Public Debt also increased by Rs 1,407 crore (26 *per cent*) over the previous year.

Public Account receipts and disbursements increased by Rs 26,382 crore (34 *per cent*) and Rs 31,466 crore (46 *per cent*) respectively over the previous year.

The closing cash balance of the Government decreased by Rs 6,133 crore (40 *per cent*) from the level of Rs 15,200 crore in the previous year.

Box 1.2

Fiscal Responsibility and Budget Management (FRBM) Act, 2004

The Government enacted the FRBM Act, 2004 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 borrowings, government guarantees, debt and deficits, greater transparency in fiscal operations and use of a medium term fiscal framework and for matters connected therewith or incidental thereto. The Government was also made responsible to lay Medium Term Fiscal Restructuring Policy along with the annual budget in the House, setting forth five year rolling targets for fiscal indicators and make rules for carrying out the provisions of the Act. FRBM Rules were notified in October 2006. The following fiscal targets were set therein for the State Government to give effect to the principles of fiscal management as laid down in the Act.

Reduce revenue deficit to nil within a period of five financial years beginning from 1st day of April 2004 and ending on 31st day of March 2009.

Reduce fiscal deficit to not more than three *per cent* of the estimated GSDP by 31 March 2009.

Ensure within a period of 14 financial years beginning from the initial financial year on 1st day of April 2004 and ending on the 31 March 2018, that the total liabilities at the end of last financial year do not exceed 25 *per cent* of the estimated GSDP for that year.

Ensure 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 the Act or any rules or law to be made by the State Government subsequent to coming into force of this Act.

Further, the revenue deficit and fiscal deficit may not exceed the limits specified in the Act except on the ground(s) of unforeseen demands arising out of internal disturbances or natural calamities subject to the condition that the excess does not exceed the actual fiscal cost attributed to the calamities.

In light of the recommendations of the TFC, the Government developed its own FCP indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix 1.2*) keeping in view the fiscal targets laid down in the FRBM Act and the anticipated annual rate of reduction of fiscal deficit worked out by the Government of India for the TFC award.

The fiscal performance of the Government, *vis-à-vis*, normative projections made by the TFC, projections made by the Government in its FCP and MTFRPS for 2008-09 is indicated in **Table 1.2**.

Table 1.2: Fiscal performance with reference to TFC, FCP and MTFRP norms

(Rupees in crore)

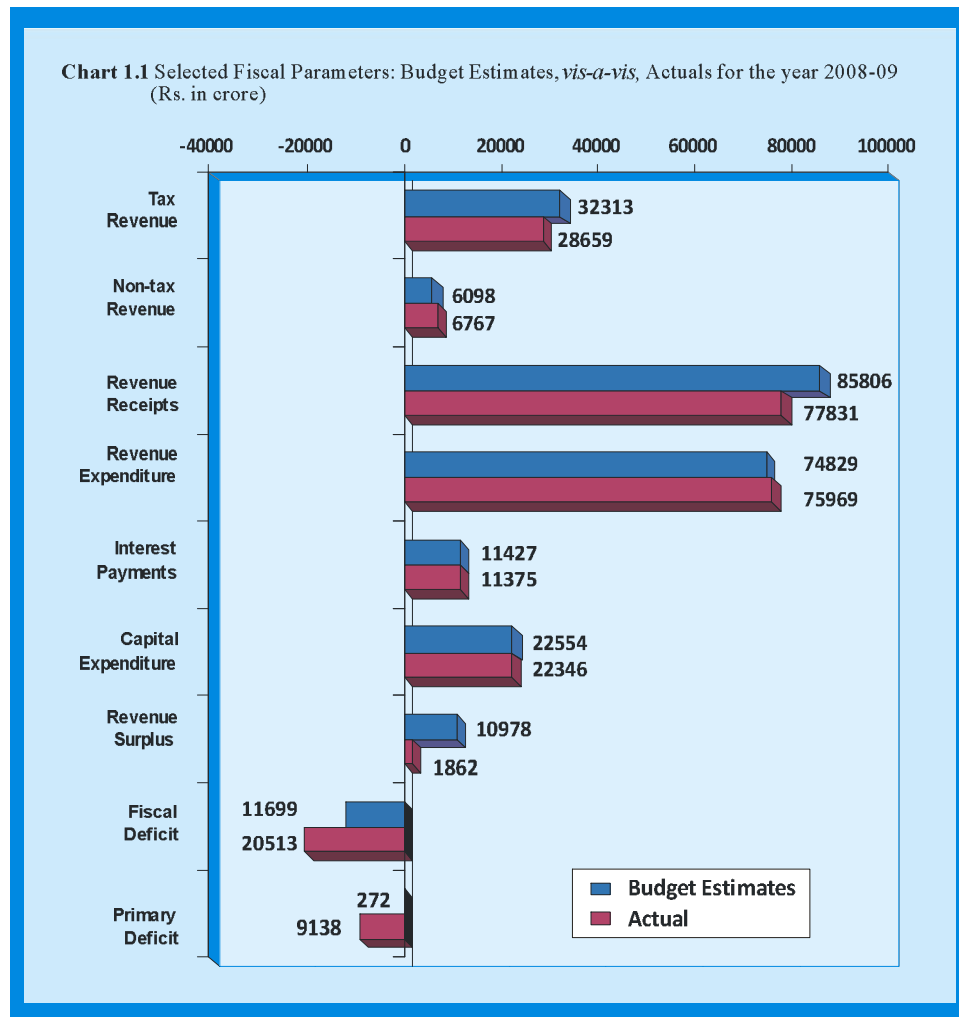
Key fiscal variables	TFC	FCP 2008-09	MTFRP 2008-09	Actual	Variations {Excess (+) and Shortfall (-)}		
					TFC	FCP	MTFRP
					<i>Per cent in bracket</i>		
<i>States Own Tax Revenue</i>	29,333.24	29,660.36	32,313.00	28,658.97	(-) 674.27 (2.3)	(-) 1,001.39 (3.4)	(-) 3,654.03 (11.3)
<i>Non-Tax Revenue</i>	4,269.12	2,931.74	6,098.45	6,766.55	(+) 2,497.43 (58.5)	(+) 3,834.81 (130.8)	(+) 668.10 (11)
<i>NPRE</i>	44,674.95	58,408.66	57,525.84	58,677.55	(+) 14,002.60 (31.3)	(+) 268.89 (0.5)	(+) 1151.71 (2)

Source: TFC's recommendations, State Budget and Finance Accounts

State's own tax revenue in terms of the targets of the Twelfth Finance Commission and projections made by the Government in the FCP and MTFRP was 98 *per cent*, 97 *per cent* and 89 *per cent* respectively. The performance under non-tax revenue, however, registered an improvement compared to the Twelfth Finance Commission's targets (58 *per cent*), FCP (131 *per cent*) and MTFRP (11 *per cent*) norms. This improvement was mainly because of receipt of debt relief (Rs 1,063.82 crore) given by the Government of India and credited to non-tax revenue of the State Government. NPRE, however, exceeded

the normative projections of the Twelfth Finance Commission by 31 *per cent* (Rs 14,002.60 crore) although it remained close to the projections in the FCP and MTFRP.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters for the year 2008-09.



Relative to the budget estimates, the Government's overall revenue receipts were short by Rs 7,975 crore (nine *per cent*). The shortfall occurred under tax revenue (3,654 crore; 11 *per cent*), share of Union Taxes and Duties (Rs 3,800 crore; 11 *per cent*) and Grants-in-Aid from GOI (Rs 1,189 crore; nine *per cent*). Significant shortfalls were noticed under Taxes on Sales, Trade etc., (Rs 2,223 crore; 11 *per cent*), Stamps and Registration fee

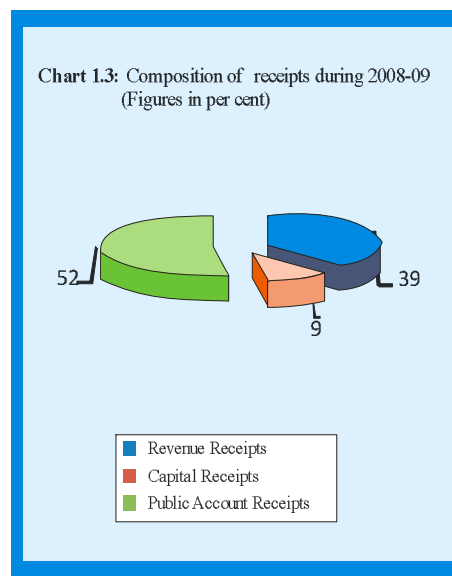
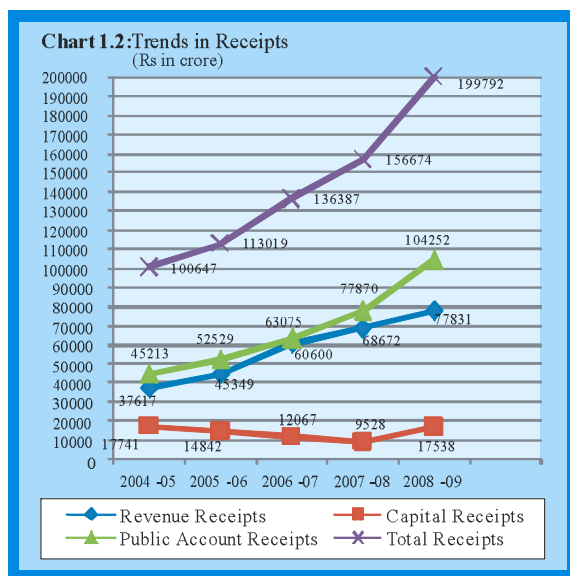
(Rs 1,232 crore; 23 per cent), Taxes on Goods and Passengers (Rs 471 crore; 64 per cent) and State Excise (Rs 320 crore; six per cent). Non-tax revenue registered an increase of Rs 669 crore (11 per cent) during the year. The increases were noticed in Education, Sports, Art and Culture (Rs 1,001 crore; 1,254 per cent), Miscellaneous General Services (Rs 554 crore; 48 per cent), Medical and Public Health (Rs 545 crore; 741 per cent), Medium Irrigation (Rs 204 crore; 358 per cent), Forestry and Wild Life (Rs 87 crore; 47 per cent) and Dividends and Profits (Rs 44 crore; 737 per cent). The wide variations between the budget estimates and the actuals indicated inaccurate estimation of revenue receipts.

▶ 1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

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

While **Chart 1.2** depicts trends in various components of the receipts during 2004-09, **Chart 1.3** depicts composition of resources of the State during 2008-09.



Total receipts of the State increased (99 per cent) from Rs 1,00,647 crore in 2004-05 to Rs 1,99,792 crore in 2008-09. Though there was an increasing trend in the revenue receipts during the period 2004-09, the capital receipts declined by 46 per cent from Rs 17,741 crore in 2004-05 to Rs 9,528 crore in 2007-08. During 2008-09, these registered an increase of 84 per cent over the preceding year. The increase was attributable to increase in the public debt receipts which create future repayment obligations. Sharp increase in the Public Account receipts during 2008-09 was mainly due to increase in Suspense and Miscellaneous (46 per cent), Remittances (44 per cent) and Deposits and Advances (16 per cent). However, if these receipts are netted out against the disbursements, the net increase would be Rs 312.91 crore under Suspense and Miscellaneous while it declined by Rs 5,208.05 crore under Deposits and Advances and Rs 195.57 crore under Remittances relative to the previous year.

1.2.2 Funds transferred to State implementing agencies outside state budget

GOI transfers funds directly to the State implementing agencies for implementation of various schemes/programmes. As the funds are not routed through the state budget, the Finance Accounts do not capture their flow and to that extent, State's receipts, expenditure and other fiscal variables/ parameters derived from them are underestimated. The position of GOI transfer of funds directly to State implementing agencies along with the State's share is presented in **Table 1.3**.

Table 1.3: Funds transferred directly to State implementing agencies

(Rupees in crore)

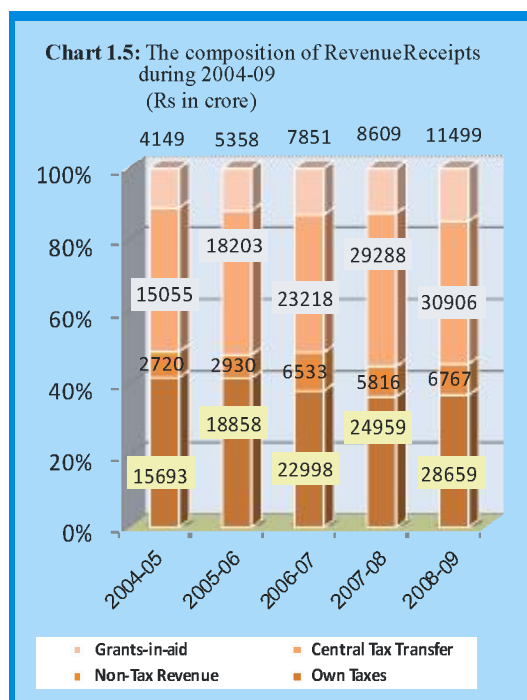
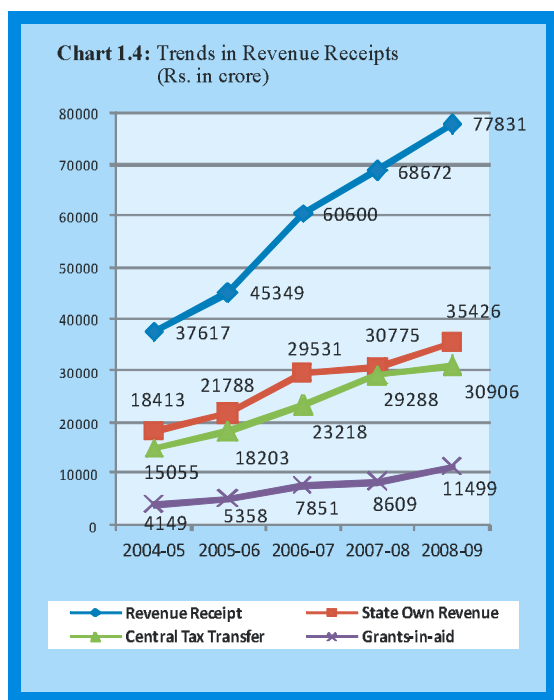
Programme/ Scheme	Implementing agency in the State	2007-08			2008-09		
		Central share	State share	Total	Central share	State share	Total
National Rural Health Mission	State Health Society of UP, Lucknow	876.96	88.00	964.96	1,047.80	225.00	1,272.80
Total Sanitation Campaign	Department of Panchayati Raj	150.85	74.70	225.55	381.40	144.27	525.67
Pradhanmantri Gram Sadak Yojna	UP Rural Roads Development Agency	1219.20	Nil	1219.20	1649.82	Nil	1649.82
Indira Avas Yojna	District Rural Development Agencies	467.21	159.36	626.57	1,041.51	222.89	1,264.40
Rural Drinking Water-Accelerated Drinking Water Supply Programme	Jal Nigam UP,Lucknow	401.50	430.13	831.63	537.78	408.93	946.71
National Rural Employment Guarantee Act	District Rural Development Agencies/District Development Officers	1,682.71	296.81	1,979.52	3,820.28	340.71	4,160.99
	Total	4,798.43	1,049.00	5,847.43	8,478.59	1,341.80	9,820.39

Source: State's nodal agencies

GOI transferred Rs 8,479 crore directly to the State implementing agencies for implementation of six programmes registering an overall increase of 77 per cent during 2008-09 from Rs 4,798 crore in 2007-08. A significant increase of Rs 2,138 crore (127 per cent) was under the National Rural Employment Guarantee Act followed by Rs 574 crore (123 per cent) under Indira Avas Yojna. Unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

▶ 1.3 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in *Appendix 1.3* and also depicted in **Chart 1.4** and **1.5** respectively.



Revenue receipts have shown an increasing trend over the period 2004-09 with marginal changes in its composition. The trend in revenue receipts relative to GSDP during 2004-09 is presented in **Table 1.4**.

Table 1.4: Trends in revenue receipts relative to GSDP

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	37617	45349	60600	68672	77831
Rate of growth of RR (<i>per cent</i>)	18.90	20.55	33.63	13.32	13.34
RR/GSDP (<i>per cent</i>)	15.12	16.37	19.56	19.94	19.42
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.961	1.819	2.833	1.196	0.815
State's Own Tax Buoyancy w.r.t GSDP	1.595	1.785	1.849	0.766	0.905
Revenue Buoyancy w.r.t State's own taxes	1.229	1.019	1.532	1.562	0.901

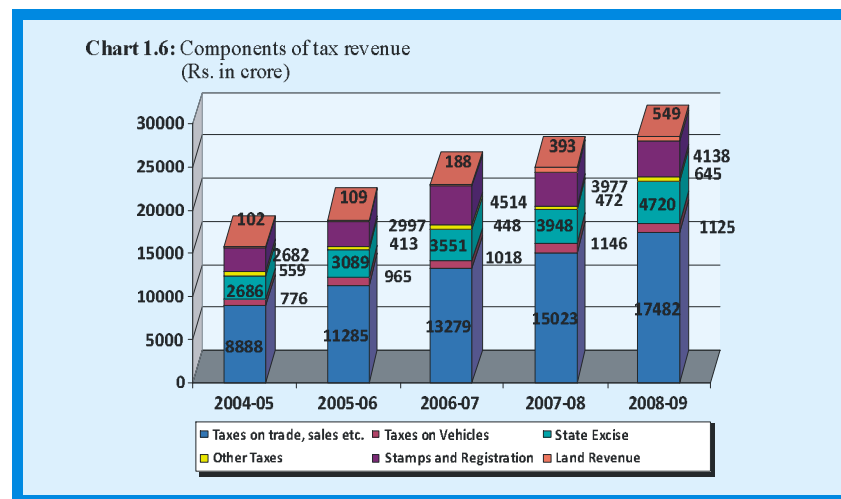
The growth in revenue receipts was not commensurate with the growth in GSDP during 2008-09.

1.3.1 State's own resources

The State's own resources comprise tax and non-tax revenue. These resources increased from Rs 18,413 crore in 2004-05 to Rs 35,426 crore in 2008-09 (increase: 92 *per cent*). Within revenue receipts, its share varied between 45 *per cent* and 49 *per cent* during 2004-09.

Tax revenue

Tax revenue (Rs 28,659 crore) increased by 15 *per cent* during 2008-09 over previous year (Rs 24,959 crore) leading to a marginal increase of 0.47 *per cent* in its share of revenue receipts. The revenue from trade tax contributed major share of tax revenue (61 *per cent*) and registered an increase of 16 *per cent* over the previous year. State excise (17 *per cent*), stamps and registration (14 *per cent*) and taxes on vehicles (four *per cent*) were other major constituents of State's own tax revenue. The components of tax revenue during 2004-09 are given in **Chart 1.6**.



Increase in taxes on sales, trade etc., during 2008-09 was due to surcharge on trade tax and levy on crude oil. Similarly, the increase in State excise was due to more realisation of fines on *Bhatti* of country liquor, fee on country wines and liquor and license fee on wine contracts. Likewise, increase under stamps and registration fee was due to more receipts by way of sale of judicial and non-judicial stamps, bills of exchange and fee on registration of documents. The increase in land revenue was due to more receipts under fines on *dakhil khariz* (i.e. mutation of entitlement) and taxes on hatcheries.

Non-tax revenue

Non-tax revenue receipts of Rs 6,767 crore in 2008-09 increased by 16 per cent over 2007-08. The receipts comprised mainly from education, sports, art and culture (Rs 1,081 crore; 16 per cent), interest receipts (Rs 964 crore; 14 per cent), miscellaneous general services (Rs 1,699 crore⁴; 25 per cent), non-ferrous mining and metallurgical industries (Rs 427 crore; six per cent), power (Rs 462 crore; seven per cent) and agriculture and other allied activities (Rs 384.19 crore; six per cent). Significant increase was under medical and public health due to more receipts from patients, clinical services, etc.

State's own resources mobilisation, *vis-à-vis*, budget estimates for the year 2008-09 is given in **Table 1.5**.

Table 1.5: Resource mobilisation, *vis-à-vis*, budget estimates

(Rupees in crore)

Particulars	Assessments made in budget	Actuals	Variations (Excess + and Shortfall -) per cent in brackets
Tax Revenue			
Land Revenue	170.11	5,49.28	(+) 379.17 (223)
Stamps and Registration fees	5,370.54	4,138.27	(-) 1,232.27 (23)
State Excise	5,040.00	4,720.01	(-) 319.99 (6)
Taxes on Sales, Trade, etc.	19,705.00	17,482.05	(-) 2,222.95 (11)
Non-tax Revenue			
Interest Receipts	1588.58	963.87	(-) 624.71 (39)
Miscellaneous General Services	1144.92	1,698.79	(+) 553.87 (48)
Education, Sports, Art and Culture	79.81	1,080.62	(+) 1000.81 (1254)
Medical and Public Health	73.62	618.84	(+) 545.22 (741)
Power	1485.00	462.25	(-) 1022.75 (69)
Non-ferrous Mining & Metallurgical Industries	448.96	427.31	(-) 21.65 (5)

Source: State budget and Finance Accounts

Tax revenue under taxes on sales, trade etc., state excise, stamps and registration fee and non-tax revenue under miscellaneous general services, non-ferrous mining and metallurgical

⁴Includes Rs 1,064 crore on account of debt relief given by the GOI on repayment of consolidated loans.

industries, power and medical and public health increased relative to previous year. There had, however, been shortfall in revenue collections, *vis-à-vis*, BEs during the year. The shortfall ranged between five *per cent* and 69 *per cent*. Receipts from education, sports, art and culture, medical and public health under non-tax revenue registered a significant increase of 1,254 *per cent* and 741 *per cent* respectively. The wide variations between the budget estimates and actuals indicated incorrect estimations at the budget preparation stage.

1.3.2 Revenue arrears

The position of arrears of revenue as on 31 March 2009 under some receipt heads is detailed in **Table 1.6**.

Table 1.6: Arrears of revenue

(Rupees in crore)

Head of Revenue	Amount of arrears	Arrears outstanding for over five years	Remarks
Commercial tax	15,389.85	9210.00	Out of Rs 15,389.85 crore, demand for Rs 926.75 crore had been certified for recovery as arrears of land revenue. Recovery certificates amounting to Rs 869.84 crore have been sent to other States. Recoveries amounting to Rs 2,050.13 crore had been stayed by the courts/ Government. Recoveries amounting to Rs 230.25 crore were outstanding against the Government/semi Government departments. Rs 74.51 crore were outstanding from transporters. Arrears not covered under recovery certificates amounted to Rs 11,238.37 crore.
Entertainment tax	10.26	4.86	Out of Rs 10.26 crore, demand for Rs 4.70 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs 5.24 crore had been stayed by the courts/Government. Notices have been issued for balance of Rs 32 lakh.
Stamp and registration	249.67	Not furnished by the department	Out of Rs 249.67 crore, demands for Rs 95.09 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs 154.58 crore had been stayed by courts.
Land revenue	9.90	Not furnished by the department	Rs 9.90 crore was pending for recovery.
Taxes on vehicles, goods and passengers	72.06	Not furnished by the department	Out of Rs 72.06 crore, demands for Rs 31 lakh and Rs 1.18 crore had been stayed by courts and Government respectively. Balance Rs 70.57 crore was pending for recovery.
	15,731.74	9,214.86	

Source: Concerned departments

▶ 1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the year 2004-05 to 2008-09 are presented in the **Table 1.7**.

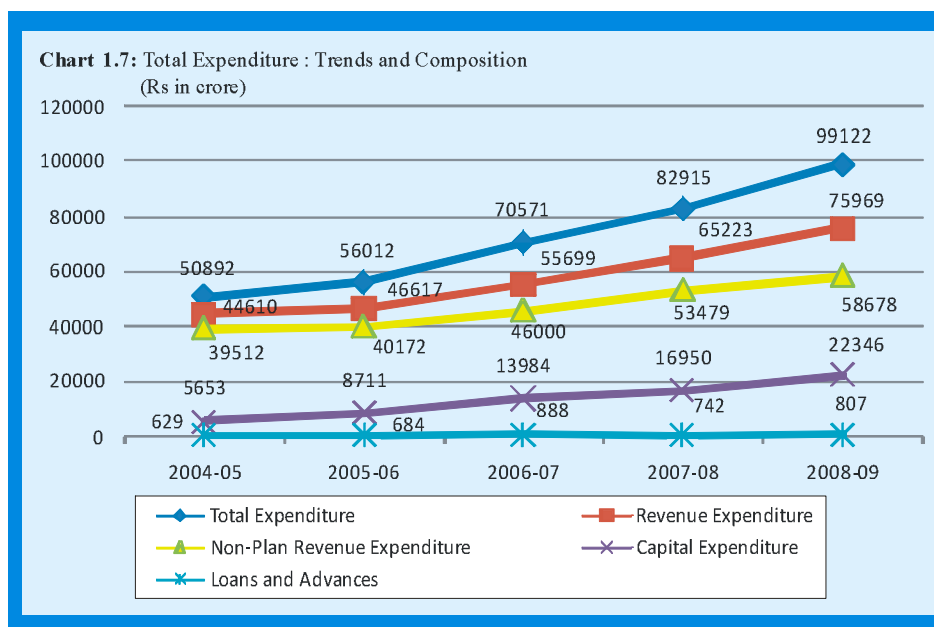
Table 1.7: Total expenditure and its composition

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Total expenditure	50,892	56,012	70,571	82,915	99,122
Revenue expenditure	44,610	46,617	55,699	65,223	75,969
Non-plan revenue expenditure	39,512	40,172	46,000	53,479	58,678
Capital expenditure	5,653	8,711	13,984	16,950	22,346
Loans and advances	629	684	888	742	807

(Rupees in crore)

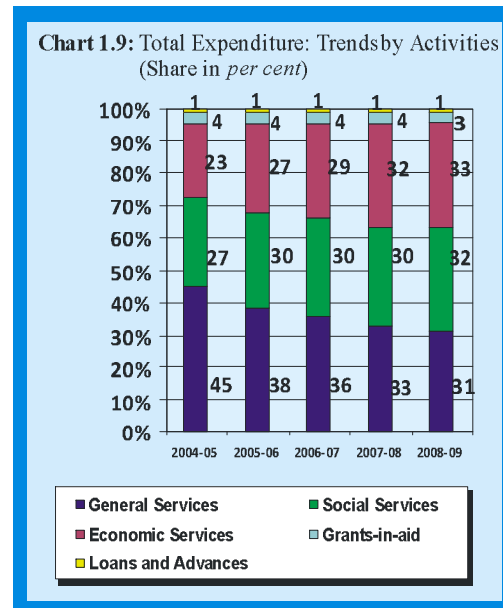
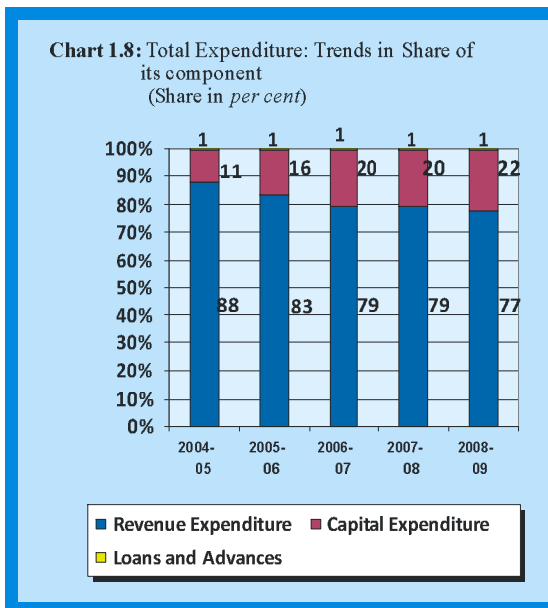
Source: Finance Accounts

Chart 1.7 presents the trends in total expenditure over a period of five years (2004-09).



The total expenditure steadily increased during 2004-09. During 2008-09, it increased by Rs 16,207 crore over 2007-08 of which, revenue expenditure shared Rs 10,746 crore (66 per cent), capital expenditure shared Rs 5,396 crore (33 per cent) and loan and advances Rs 65 crore (one per cent). The trends indicated a declining share of revenue expenditure and increasing share of capital expenditure in total expenditure. The share of revenue expenditure in total expenditure declined from 88 per cent in 2004-05 to 77 per cent in 2008-09 and that of capital expenditure increased from 11 per cent in 2004-05 to 22 per cent in 2008-09.

The composition of total expenditure both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.8 and 1.9**.



Expenditure by activities during 2004-09 indicated only marginal inter-year variations in its composition except, expenditure under general services which exhibited a declining trend. However, a comparison of expenditure under economic, social and general services during 2008-09 with projections made by the TFC revealed that expenditure under these services exceeded the projections as indicated in the **Table 1.8**.

Table 1.8: Expenditure with reference to TFCs projections

(Rupees in crore)

Particulars	TFC's projections	Actuals	Variations (excess)
General services	22,717.46	29,557.38	6,839.92 (30)
Social services	13,239.21	16,961.79	3,722.58 (28)
Economic services	4,935.77	8,654.17	3,718.40 (75)

Source: TFC recommendations, Finance Accounts

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.9** and **Chart 1.10** present the trends in the expenditure on these components during 2004-09.

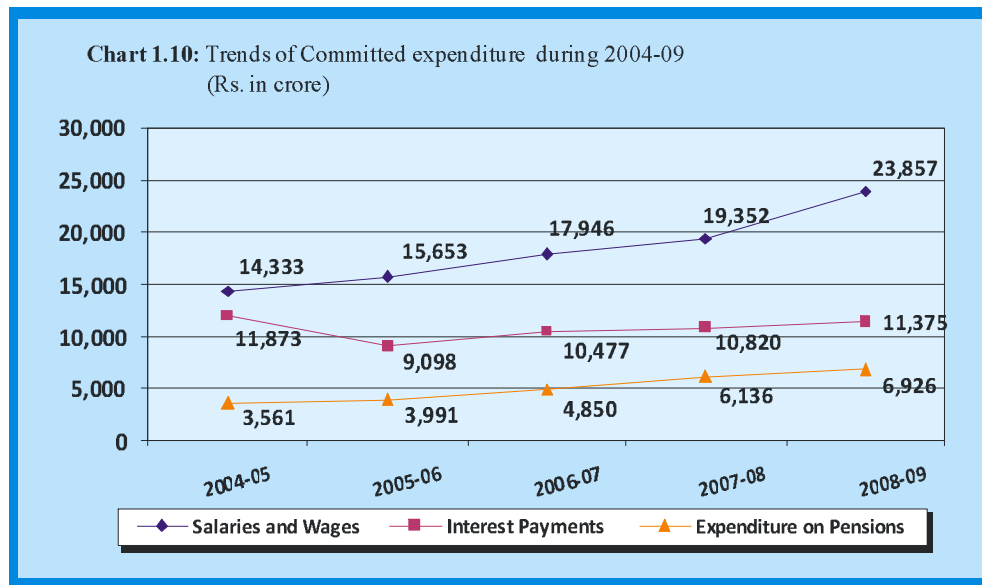
Table 1.9: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries* & Wages , <i>Of which</i>	14,333 (38)	15,653 (34)	17,946 (30)	19,352 (28)	22,386 (26)	23,857 (31)
Non-Plan Head	13,768	15,125	17,204	18,624	21,564	22,834
Plan Head**	565	528	742	728	822	1,023
Interest Payments	11,873 (32)	9,098 (20)	10,477 (17)	10,820 (16)	11,427 (13)	11,375 (14)
Expenditure on Pensions	3561(9)	3991(9)	4,850 (8)	6,136 (9)	6,712 (8)	6,926 (9)
Subsidies	-	-	-	-	4,362 (5)	3,819 (5)
Total	29767 (79)	28,742(63)	33,273 (55)	36,308 (53)	44,887 (52)	45,977 (59)

Figures in the parentheses indicate percentage to Revenue Receipts
 *It also includes the salaries paid out of grants-in-aid.
 **Plan Head also includes the salaries and wages paid under Centrally sponsored schemes.

Source: Finance Accounts



Salaries and wages

The expenditure on salaries and wages, revealed an increasing trend during 2004-09 under non-plan heads and fluctuating trend under plan heads. The expenditure under non-plan heads increased by 66 per cent from Rs 13,768 crore in 2004-05 to Rs 22,834 crore in 2008-09. A growth of 23 per cent was recorded during 2008-09 over the previous year. The expenditure under the plan heads increased by 81 per cent from Rs 565 crore in 2004-05 to Rs 1,023 crore in 2008-09 with a dip in 2005-06 to Rs 528 crore and Rs. 728 crore in 2007-08. The salary expenditure, however, exceeded the projected expenditure (Rs 18,318 crore) in the FCP by Rs 5,539 crore. *The total salary bill relative to revenue expenditure net of interest payments and pensions during 2008-09 was 41 per cent which remained in excess of the norm of 35 per cent as recommended by the Twelfth Finance Commission.*

Pension payments

Pension payments during 2008-09 increased by Rs 790 crore (13 per cent) over 2007-08 mainly due to increase (5,538) in number of pensioners. *A comparative analysis of actual pension payments and assessment/projections made by Twelfth Finance Commission and State Government revealed that actual pension payments exceeded the assessments of Twelfth Finance Commission by Rs 860 crore (14 per cent) and that assessed in the FCP by Rs 1,253 crore (22 per cent).* The Government has introduced a Contributory Pension Scheme for its employees recruited on or after 1 April 2005 to mitigate the impact of rising pension liabilities in future.

Interest payments

The major source of borrowings was market loans at the interest rates varying from 5.60 per cent to 12.50 per cent. Interest payments relative to total revenue receipts came down from 32 per cent in 2004-05 to 14 per cent in 2008-09 whereas it ranged between 15 per cent and 27 per cent in relation to revenue expenditure. The increase of Rs 555 crore in interest payments in 2008-09 over the previous year was mainly due to increased market borrowings. *The interest payments (Rs 11,375 crore) during 2008-09 were less than that anticipated in the State's own FCP (Rs 13,630 crore) and MTFRP (Rs 11,426.67 crore) for the year but were above the assessment (Rs 10,989.05 crore) of the Twelfth Finance Commission.*

Subsidies

Though the Government was paying subsidies under various heads, the State budget was not exhibiting these as a distinct item up to 2007-08 despite the recommendations of TFC.

The Government paid subsidies amounting to Rs 3,819 crore during 2008-09 which constituted four per cent of the total expenditure. The major sectors given subsidy included energy (Rs 1,382 crore; 36 per cent), rural development (Rs 1,206 crore; 32 per cent), agriculture and other allied activities (Rs 811 crore; 21 per cent) and irrigation and flood control (Rs 339 crore; nine per cent).

The total subsidy payments exceeded the projections of the Government in FCP but were within the ceiling set in the MTFRP as detailed in Table 1.10.

Table 1.10: Subsidy payments with reference to projections in MTFRP and FCP

Particulars	Projections in MTFRP (Rs in crore)	Projections in FCP		Actuals	
		Amount (Rs in crore)	Percentage of GSDP	Amount (Rs in crore)	Percentage of GSDP
Energy	1,342	1,700	0.47	1,382	0.35
General	3,020	172	0.05	2,437	0.61
Total	4,362	1,872		3,819	

Source: Finance Accounts, State Budget

The actuals of the energy subsidy were short (Rs 318 crore) of the FCP projections by 19 per cent. General subsidies, however, exceeded (Rs 2,265 crore) the projections by 1,317 per cent, indicating that the general sector received priority over the energy sector.

1.4.3 Financial Assistance by Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the year 2008-09 relative to the previous years is presented in **Table 1.11**.

Table 1.11: Financial Assistance to Local Bodies, etc.

(Rupees in core)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6,363.18	7,622.34	9,146.53	10,503.38	10,642.76
Municipal Corporations and Municipalities/Development Agencies	230.53	153.03	350.32	948.61	1,262.59
Zilla Parishads and Other Panchayati Raj Institutions	1,782.93	2,331.92	2,742.25	3,549.49	3,504.21
Hospitals and Other Charitable Institutions	112.46	104.56	96.10	130.18	121.76
Other Institutions ⁵	67.62	70.73	149.11	228.73	291.16
Total	8,556.72	10,282.58	12,484.31	15,360.39	15,822.48
Assistance as per percentage of Revenue Expenditure	19	22	22	24	21

Source: Finance Accounts

Assistance to local bodies and other institutions increased (three *per cent*) from Rs 15,360.39 crore in 2007-08 to Rs 15,822.48 crore in 2008-09. The assistance as percentage of revenue expenditure maintained increasing trend during 2004-05 to 2007-08. During 2008-09, however, it declined to 21 *per cent* of revenue expenditure from 24 *per cent* in the previous year. Within the quantum of assistance provided during 2008-09, the educational institutions were the main beneficiaries of the assistance followed by *Zila Panchayats* and Other Panchayati Raj Institutions.

The Eleventh Finance Commission had recommended that a data base on the finances of ULBs and PRIs should be developed at the State and district levels which would be easily accessible through computers and linking it through Very Small Aperture Terminal. The data was to be collected and compiled in standard formats prescribed⁶ by the Comptroller and Auditor General of India. This was more important in terms of the recommendation of the Twelfth Finance Commission which observed that the maintenance of the data base was necessary to keep accurate information on the finances of the ULBs and PRIs for need based assessment of their requirements. The database was, however, not developed up to June 2009.

⁵Agriculture Research and Education: 2008-09-Rs 188.83 crore; Cooperatives: 2008-09-Rs 54.58 crore.

⁶PRIs (November 2002) and ULBs (June 2003).

▶ 1.5 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health, etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective National average while, the low fiscal capacity would be reflected if the State's *per capita* expenditure is below the respective National average even after having a fiscal priority that is more than or equal to the National average. **Table 1.12** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.12: Fiscal priority and fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Uttar Pradesh's Average (Ratio) 2005-06	21.60	57.84	29.89	15.53
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Uttar Pradesh's Average (Ratio)* 2008-09	24.74	65.31	31.77	22.54
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average per capita expenditure 2005-06 (Amount in Rs)	3010	1490	692	
Uttar Pradesh's per capita expenditure (Amount in Rs) in 2005-06	1788	924	480	
Adjusted per capita** Expenditure (Amount in Rs) in 2005-06	1899	940	NR	
All States' Average per capita expenditure 2008-09	5030	2520	1254	
Uttar Pradesh's per capita Expenditure (Amount in Rs) in 2008-09	3372	1640	1164	
Adjusted per capita** Expenditure (Amount in Rs) in 2008-09	3394	1750	NR	

* As per cent to GSDP

** Calculated as per the methodology explained in the Box 1.3 (pages 19)

Population of Uttar Pradesh: 18.15 crore in 2005-06 and 19.20 crore in 2008-09.

Development expenditure includes development revenue expenditure, development capital expenditure and loans and advances disbursed.

Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics

(2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: <http://www.censusindia.gov.in>)

Population = Average of projected population for 2005 and 2006.

NR: No adjustment required as there is adequate fiscal priority for this category of expenditure.

Data for Arunachal Pradesh has not been included in All States average.

In Table 1.12, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of UP in 2005-06 (the first year of the Award Period of the

Twelfth Finance Commission) and the current year 2008-09. In 2005-06 and 2008-09, the UP Government gave adequate fiscal priority to Aggregate Expenditure (AE) and Capital Expenditure (CE) since AE/GSDP and CE/AE in the case of UP was higher than the National average. The priority given to Developmental Expenditure and Social Sector Expenditure in UP was, however, not adequate as the DE/AE ratio and the SSE/AE ratio for UP was lower than the All States average for both years under consideration.

In both years under consideration, the *per capita* expenditure of DE, SSE and CE was lower than the National average for these categories. Had the Government spent as much on DE and SSE as the National average, then the adjusted *per capita* expenditure on DE and SSE (calculated as per methodology given in **Box 1.3**) would still have been lower than the National average. This means that absorptive capacity⁷ in UP is low and that effective systems are required to be put in place to ensure that the people of UP get at least as much benefits as people residing in the other States.

Box 1.3

Methodology adopted for the assessment of fiscal position

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.

Step 1 : Calculate the National average of AE-GSDP and CE/DE/SSE-AE.

Step 2 : Based on the National average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE-GSDP less than the National average, *i.e.*, if
 $AE/GSDP = x$

$AE = x * GSDP \dots\dots(1)$, where x is the National average of AE-GSDP ratio.

Wherever the States are having AE-GSDP ratio higher than National average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the National average.

Step 3 : Based on the National average of DE-AE, SSE-AE and CE-AE, derive the respective DE, SSE and CE, so that no State is having these ratios less than National average, *i.e.*, if

$DE/AE = y$

$DE = y * AE \dots\dots\dots(2)$, where y is the National average of DE-AE ratio.

Substituting (1) in (2), we get

$DE = y * x * GSDP \dots\dots\dots(3)$

Wherever the States are having DE-AE, SSE-AE and CE-AE ratio higher than National average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the National average.

⁷Absorptive capacity in this case refers to the ability of a state to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the design of schemes are well planned with careful risk, mitigation strategy in place, administrative costs are low, operation, maintenance, monitoring and control mechanism are in place, etc., so that the state is able to effectively achieve targeted outcomes.

Step 4 : Based on the derived DE, SSE and CE as per equation (3), respective per capita expenditure was calculated, *i.e.*,

PCDE = DE/P (4), where PCDE is the per capita development expenditure and P is the population.

Substituting (3) in (4), we get

PDE = (y * x * GSDP)/P(5) Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the National average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the National average.

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods. Apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure.

Table 1.13 presents the trends in development expenditure relative to the aggregate expenditure of the State during 2008-09, *vis-à-vis*, budgeted and of the previous years.

Table 1.13: Development expenditure

Components of development expenditure	2004-05	2005-06	2006-07	2007-08	(Rupees in crore)	
					2008-09	
					BE	Actuals
Development expenditure (a to c)	26,040 (51)	32,304 (58)	42,661 (60)	52,102 (63)	63,812 (57)	64,737 (65)
a. Development revenue expenditure	20,066	23,366	28,657	35,123	41,797	42,695
b. Development capital expenditure	5,398	8,398	13,330	16,375	21,593	21,504
c. Development loans and advances	576	540	674	604	422	538

Figures in parentheses indicate percentage to aggregate expenditure

Source: Finance Accounts, State Budget

The table suggests one and half fold increase in development expenditure in 2008-09 over 2004-05. During the year 2008-09, the increase amounted to Rs 12,635 crore (24 *per cent*) over the previous year. Within the development expenditure, the increase was shared

by revenue expenditure and capital expenditure in the ratio of 60 per cent and 40 per cent. The increase in capital expenditure during the preceding four years indicated improvement in quality of expenditure and impetus given to asset formation.

The position of development expenditure, *vis-a-vis*, budget estimates during 2008-09 is graphically presented in the **Chart 1.11** below. The chart reveals that the development revenue expenditure and loans and advances exceeded their respective estimates by Rs 898 crore and Rs 116 crore respectively while, the development capital expenditure fell short of estimates by Rs 89 crore.

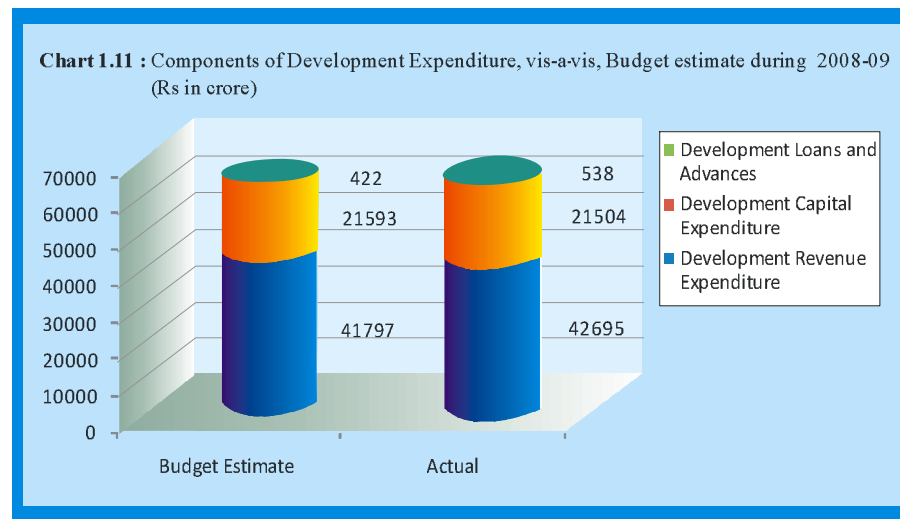


Table 1.14 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.14: Efficiency of expenditure use in selected social and economic services

(In per cent)

Social/Economic Infrastructure	2007-08			2008-09		
	Share of CE to TE	In RE, the share of		Share of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.83	73.13	1.02	0.31	80.45	0.19
Health and Family Welfare	25.74	60.71	3.90	24.94	64.22	3.89
WS, Sanitation & HUD	9.97	0.78	1.26	11.37	0.23	0.69
Total (SS)	8.39	46.52	1.14	9.35	45.81	0.73
Economic Services (ES)						
Agri & Allied Activities	28.83	38.84	0.52	47.14	34.67	0.47
Irrigation and Flood Control	47.62	41.16	30.90	48.95	41.43	29.20
Power & Energy	73.16	0.32	-	78.79	0.55	--
Transport	75.74	2.74	91.66	77.69	2.97	94.02
Total (ES)	54.23	22.76	17.20	56.74	23.49	16.70
Total (SS+ES)	31.80	38.37	6.65	33.50	38.42	6.02

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.

Source: Finance Accounts and VLC data

The ratio of capital expenditure to total expenditure registered an improvement by 1.70 *per cent* during the current year (33.50 *per cent*) over the previous year (31.80 *per cent*), 2.51 *per cent* in economic services and 0.96 *per cent* in social services. However, within the social services, the improvement in the ratio of capital expenditure to total expenditure during 2008-09 over the previous year was only in the area of water supply, sanitation, housing and urban development (1.4 *per cent*). Within the economic services, the improvement was in the areas of agriculture and other allied activities (18.31 *per cent*) followed by power and energy (5.63 *per cent*), transport (1.95 *per cent*) and irrigation and flood control (1.33 *per cent*).

Recognising the need to improve quality of education and health services, Twelfth Finance Commission recommended that higher expenditure in education and health sectors should be encouraged and accordingly assigned the normal growth rate of six *per cent* and five *per cent* in the salary component of education and health sectors respectively and a much larger growth rate of 30 *per cent* in the non-salary components. However, trends in expenditure revealed that salary and wage component under the education sector increased by 21 *per cent* and under the health sector by 26 *per cent* while the non-salary and wage component decreased by 20 *per cent* under the education sector and increased by nine *per cent* under the health sector. This expenditure pattern in education and health sectors need to ensure the conformity to the norms of the Twelfth Finance Commission in the ensuing years.

The share of O&M expenditure in the revenue expenditure under all the major constituents of social services declined from the level of 1.14 *per cent* in the previous year to the level of 0.73 *per cent* in the current year. Similarly, the overall share of O&M expenditure in the revenue expenditure under the economic services declined from the level of 17.20 *per cent* in the previous year to the level of 16.70 *per cent* in the current year. However, under transport sector which is one of the constituents of economic services increased by 2.36 *per cent*.

1.5.3 Effectiveness of the expenditure, i.e. outlay-outcome relationship

Besides stepping up expenditure on key social and economic services, enhancing human development required the Government to improve the delivery mechanism to obtain the desired outcomes. To assess the effectiveness of the expenditure in terms of outputs/outcomes identified in the form of selected indicators, *vis-s-vis*, their targets set for the year in respect of three programmes is given in **Appendix 1.4**. A critical analysis of the programmes is at **Box 1.4**.

Box 1.4

Irrigation potential of 4.86 lakh hectare was to be created by March 2009 at a cost of Rs 2,021.06 crore under six projects of **Accelerated Irrigation Benefits Programme**. However, only 3.64 lakh hectare irrigation potential (74 per cent) was created after incurring an expenditure of Rs 2,000 crore by the targeted date. Further, out of created irrigation potential of 3.64 lakh hectare, 2.34 lakh hectare (64 per cent) was only utilised due to non-construction of Distributaries and Minors.

Against the target of treating 5.10 lakh hectare (2005-09) *usar*, ravine and wasteland under **Kissan Hit Yojna/Bhoomi Sena Yojna** at a cost of Rs 526.25 crore, an area of 5.47 lakh hectare was treated at a cost of Rs 526.21 crore. Of this, an expenditure of Rs 4.40 crore was rendered unfruitful on incomplete treatment of 9,426 hectare *usar* land due to non-availability of water for mixing gypsum and incomplete work in water logged areas.

Against the target of disbursement of pension aggregating Rs 3,175.18 crore to 120.86 lakh pensioners during 2004-09 under **Old Age Pension Scheme**, only Rs 3,068.39 crore was disbursed to 116.43 lakh pensioners. Rs 2.49 crore was paid in excess to 62,208 pensioners during 2008-09 in three districts. Besides, Rs. 2.62 crore was disbursed to 6,672 to ineligible pensioners in 17 test-checked districts.

► 1.6 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the Government is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in transition to complete dependence on market based resources, the Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year, *vis-à-vis*, preceding years.

1.6.1 Financial results of irrigation works

For ensuring commercial viability of irrigation projects, the Twelfth Finance Commission in an assessment of irrigation receipts had prescribed cost recovery rates in relation to the maintenance expenditure.

The receipts (Rs 295 crore) from the major, medium and minor irrigation projects during 2008-09 was only 12 *per cent* of the expenditure of Rs 2,520 crore on their operations and maintenance which was much below the cost recovery assessment of 80 *per cent* of the Twelfth Finance Commission for the year. The **Table 1.15** below indicates that the Government had not achieved the norms fixed by the Twelfth Finance Commission for the period 2005-09 in respect of the cost recovery rate and maintenance expenditure for major, medium and minor irrigation works.

Table 1.15: Cost recovery rate and maintenance expenditure with reference to TFC norms

Year	Revenue expenditure	Revenue receipts	Revenue receipts to revenue expenditure	Cost recovery assessment of TFC	Shortfall in cost recovery
	Rupees in crore		In per cent		
2005-06	1261	199	16	50	34
2006-07	1776	182	10	60	50
2007-08	2263	353	16	70	54
2008-09	2520	295	12	80	68

Source: Finance Accounts and recommendations of TFC

The shortfall in cost recovery relative to the assessment of Twelfth Finance Commission had increasing tendency all along the periods 2005-09. The shortfall increased to two fold from the level of 34 *per cent* in 2005-06 to 68 *per cent* in 2008-09. This indicated that the commercial viability of the irrigation projects was suspect.

The financial results of 16 major irrigation projects with a capital outlay of Rs 4,925 crore at the end of March 2009 showed that revenue realised (Rs 181.10 crore⁸) from these projects during 2008-09 decreased to 3.68 *per cent* of the capital outlay from 6.26 *per cent* in the previous year and was insufficient to cover even the interest on capital investment (Rs 254 crore) during 2008-09. After meeting out the working and maintenance expenditure (Rs 551 crore), the schemes suffered a net loss of Rs 623 crore in the current year as against Rs 432 crore in previous year.

⁸Decrease in revenue realisation by Rs 108.84 crore in the current year over the previous year was due to depiction of additional revenue realisation from Ghagra Canal (Rs 265.14 crore) during that year.

1.6.2 Incomplete projects

The position of incomplete projects, each costing above Rs one crore and due for completion by March 2009, is given in **Table 1.16**.

Table 1.16: Department-wise profile of incomplete projects

(Rupees in crore)

Department	No. of incomplete projects	Initial budgeted cost	Revised total cost of projects*	Cost over run	Cumulative expenditure as on 31.3.2009
Irrigation department	38	1,105.95	4,382.35 ⁹	3,835.63 ¹⁰	4,294.99
Public works department	60	483.92	Not received from the department	Not received from the department	302.71
Total	98	1,589.87	4,382.35	3,835.63	4,597.70

* Revised total cost of the projects as per the last revision by the State Government.

Source: Finance Accounts

An expenditure of Rs 4,598 crore (March 2009) remained largely unfruitful on these 98 projects. Further, there was a time over run of 27 years in completion of major and medium irrigation projects in the State. The factors which attributed to cost and time over run were paucity of funds, change in scope and design, slow pace of work, non-availability of land for the projects, increase in cost of labour and material, etc. In Irrigation Department, Saryu Canal Project was incomplete despite an expenditure of Rs 2,420 crore. Based on the revised estimates, the project cost escalated by Rs 2,443 crore. Eastern Ganga Canal Project was also incomplete despite an expenditure of Rs 759 crore. Similarly, Modernisation of Chaudhary Charan Singh Lahchura Dam was incomplete despite an expenditure of Rs 104 crore. Likewise, Deoband Branch Feeder Channel was incomplete despite an expenditure of Rs 262 crore. Non-completion of the projects within the stipulated period not only resulted in cost over run but also indicated that priority was given to creation of new assets sacrificing the completion of old projects and even at the cost of the returns to service the debts.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs 14,866.13 crore in Statutory corporations (Rs 431.41 crore), Government companies (Rs 13,954.82 crore), joint stock companies (Rs 10 lakh) and co-operatives (Rs 479.80 crore). The average return on this investment was 0.007 per cent in the last three years while the Government paid an average interest rate of 6.49 per cent on its borrowings during 2006-2009 (**Table 1.17**).

⁹Represent the revised cost of 15 out of 38 projects.

¹⁰Represent the cost overrun of 15 out of 38 projects

Table 1.17: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	9535.57	15464.60	18545.82	12188.76	14866.13 ¹¹
Return (Rupees in crore)	-	0.15	0.85	1.05	1.26
Return (per cent)	-	0.001	0.005	0.009	0.008
Average rate of interest ¹² on Government borrowing (per cent)	9.47	6.49	6.74	6.43	6.29
Difference between interest rate and return (per cent)	9.47	6.49	6.74	6.42	6.28

Source: Finance Accounts

During 2008-09, the Government mainly invested in the share capital of corporations engaged in the thermal power generation, power transmission and distribution and rural electrification, etc. Investments were made irrespective of the fact that these corporations had not paid any dividend on investments, during preceding three years, to the Government due to accumulated losses of Rs 14,858 crore¹³.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which *pro forma* accounts are finalised, net profits/loss as well as return on capital invested in these undertakings is given in **Appendix 1.5**. The Government had invested Rs 544.76 crore in ten undertakings. Seven of ten undertakings earned net profit amounting to Rs 67 lakh against the capital investment of Rs 6.55 crore and main profit earning undertakings were Irrigation Workshop Divisions at Jhansi, Bareilly, Allahabad and Meerut under Irrigation Department. Remaining three undertakings were under Food and Civil Supplies¹⁴, Animal Husbandry¹⁵ and Medical and Health Departments¹⁶ which incurred losses continuously for preceding three years. Their accumulated losses amounted to Rs 62.42 crore as against the total investment of Rs 538 crore.

In view of the heavy losses of some of the undertakings, the Government should review their working so as to wipe out their losses in the short run and to make them self-sustaining in medium to long term.

¹¹Does not include Rs 13,262.56 crore pertaining to 2008-09 and previous years which is under reconciliation.

¹²See glossary at page 100 for method of calculation

¹³As per latest available accounts.

¹⁴Public Distribution System of Food grains.

¹⁵State Livestock cum Agricultural Farms.

¹⁶State Pharmacy of Ayurvedic and Unanai Medicine.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.18** presents the position of outstanding loans and advances as on 31 March 2009, interest receipts, *vis-à-vis*, interest payments during the last three years.

Table: 1.18 Average interests received on loans advanced by the Government

Quantum of loans/interest receipts/cost of borrowings	2006-07	2007-08	(Rupees in crore)	
			2008-09	
			BE	Actual
Opening Balance	8160	8692	-	8985
Amount advanced during the year	888	742	711	807
Amount repaid during the year	356	449	589	778
Closing Balance	8692	8985	-	9014
<i>Of which</i> Outstanding balance for which terms and conditions have been settled ¹⁷	NA	NA	NA	NA
Net addition	532	293	122	29
Interest Receipts	48	31	-	53
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.55	0.35	-	0.59
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.46	6.20	-	6.06
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 5.91	(-) 5.85	-	(-) 5.47

Source: Finance Accounts

The amount advanced during 2008-09 exceeded the provision made in the budget by Rs 96 crore (14 *per cent*) and the repayment of loans was also above the level of assessment made in the budget by Rs 189 crore (32 *per cent*).

The major portion of the loans was given (2008-09) to consumer industries (Rs 171 crore) and pradeshik industrial and investment corporation of UP (Rs 138 crore) under the economic services and to the public sector and other undertakings (Rs 189 crore) under the social services.

The amount of outstanding loans and advances as on 31 March 2009 aggregated to Rs 9,014 crore (**Table 1.18**). The sector-wise break up was economic services (Rs 6,522 crore), social services (Rs 1,619 crore) and general services (Rs 832 crore) and Government servants (Rs 41 crore). Under the economic services, major portion of the outstanding loans pertained to the energy (Rs 3,161 crore), industries and minerals (Rs 2,596 crore) and agriculture and other allied activities (Rs 519 crore). The recovery of loans from the major recipients under energy of the economic services was nil during 2006-09.

The interest receipts on outstanding loans and advances were well below one *per cent* all along the period 2006-09 against interest rate of borrowed funds ranging between 6.06

¹⁷Government has not intimated the information.

State Government Finances

per cent and 6.46 per cent indicating that interest receipts were not adequate to cover the interest liabilities required to service the debt.

1.6.6 Cash balances and investment of cash balances

Table 1.19 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.19: Cash balances and investment of cash balances

Particulars	(Rupees in crore)		
	As on 1 April 2008	As on 31 March 2009	Increase/ Decrease
Cash balances	15,200.16	9,067.14	(-) 6,133.02
Investments from cash balances (a & b)			
a. GOI Treasury Bills	14,945.56	8,961.19	(-)5,984.37
b. GOI Securities	45.20	45.20	Nil
Funds- wise break- up of investment from earmarked balances (a and b)			
Investment from GOI Securities	45.20	45.20	Nil
Interest realised	889.71	581.53	(-)308.18

Source: Finance Accounts

The interest received against investment on cash balance was 4.08 per cent¹⁸ during 2008-09 while Government paid interest at 6.06 per cent on its borrowings during the year.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. Table 1.20 presents the trends in monthly average daily cash balances, investments in Treasury Bills and rediscounting of Treasury Bills for the last three years (2006-09).

Table 1.20: Trends in monthly average daily cash balances, investments in 14 days Treasury Bills and their rediscounting

Month	Monthly average daily cash balances			Investment in 14 days Treasury Bills			Rediscounting of Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	143.38 (Cr)	59.57(Cr)	108.06(Dr)	6606.49	10161.89	15520.53	8473.59	12254.01	19976.93
May	45.41(Dr)	290.99(Cr)	544.13(Dr)	10550.43	11421.50	11149.04	7580.36	9289.08	9824.62
June	48.60(Dr)	31.93(Dr)	87.88(Dr)	17148.01	31315.04	18475.15	16574.36	29859.57	18081.23
July	2.72(Dr)	56.76(Dr)	44.70(Dr)	22543.67	14111.02	11423.33	22442.70	14807.50	14239.89
August	61.29(Dr)	3.29 (Dr)	16.75(Cr)	22011.95	8725.71	11225.73	22540.66	9081.61	12168.40
September	696.27(Cr)	4.19(Cr)	5.80(Dr)	22062.93	11411.43	13941.73	22349.06	12248.03	14207.75
October	182.19(Dr)	12.82(Cr)	15.87(Dr)	17732.54	10223.42	13748.16	18906.14	13100.86	17342.79
November	210.61(Dr)	51.72(Cr)	27.09(Dr)	19281.81	9188.03	10546.62	18766.77	10486.77	10275.29
December	213.23(Dr)	66.95(Cr)	94.07(Dr)	24638.18	12089.59	15113.86	24154.81	12325.60	14067.99
January	52.60(Dr)	26.02(Cr)	11.51(Cr)	19148.42	10629.75	14037.74	20054.01	10800.51	14065.27
February	223.78(Dr)	24.56(Cr)	74.08(Cr)	19700.72	4207.22	11429.08	17960.88	3824.51	13142.31
March	947.45(Cr)	61.90(Dr)	113.87(Cr)	39107.52	19418.80	18443.20	34091.65	16205.06	14204.63

Source: Reserve Bank of India

¹⁸Rate of interest calculated on the average amount of rediscounted Treasury Bills and long term GOI's Securities during 2008-09.

The major portion (Rs 8,961.19 crore) of the cash balances was invested in GOI Treasury Bills. Further, an amount of Rs 45.20 crore was invested in GOI Securities. The Treasury Bills and long term Government of India's Securities amounting to Rs 1,65,054.16 crore and Rs 56.03 crore respectively were purchased and amounting to Rs 1,71,038.52 crore and Rs 56.03 crore respectively were sold during the current year earning Rs 581.53 crore as interest.

▶ 1.7 Assets and liabilities

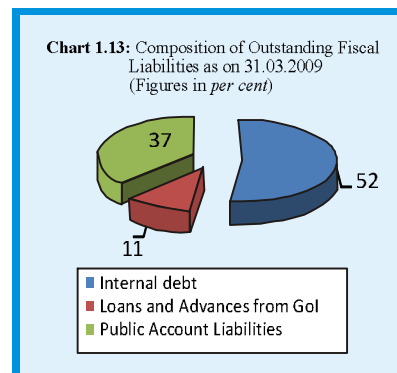
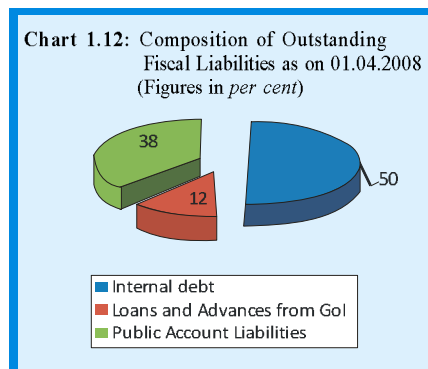
1.7.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.6* gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in *Appendix 1.6* consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004 has defined the total liabilities as the liabilities under the Consolidated Fund of the State and the Public Account of the State. These, however, did not include pension, other retirement benefits payable to retiring/ retired State Government servants/ guarantees/ letters of comforts issued by the State Government.

1.7.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.3*. However, the composition of fiscal liabilities during the year 2008-09, *vis-à-vis*, the previous year is presented in **Chart 1.12 and 1.13**.



The overall fiscal liabilities of the State increased from Rs 1,31,401 crore in 2004-05 to Rs 1,87,411 crore in 2008-09. Fiscal liabilities of the State under the Consolidated Fund (Rs 1,17,703 crore) comprised market loans (Rs 97,339 crore) and loans from Government of India (Rs 20,364 crore). The Public Account liabilities (Rs 69,708 crore) comprised small savings, provident fund (Rs 25,359 crore), interest bearing obligations (Rs 4,447 crore) and non-interest bearing obligations (Rs 39,902 crore). The growth rate of fiscal liability was 7.55 per cent during 2008-09 over previous year. The ratio of fiscal liabilities to GSDP decreased from 53 per cent in 2004-05 to 47 per cent in 2008-09. These liabilities stood at 2.41 times the revenue receipts and 5.29 times of the States' own resources at the end of 2008-09. The buoyancy of these liabilities with respect to GSDP during the year was 0.46 indicating that for each one per cent increase in GSDP; fiscal liabilities grew by 0.46 per cent.

The Government has set up a sinking fund for amortisation of open market loans and has been contributing every year from its revenue and interest accrued on the investments made out of the fund. As on 31 March 2009, the balance in sinking fund stood at Rs 24,655.11 crore¹⁹.

1.7.3 Status of guarantees - contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. According to the FRBMA Act, 2004 the State Government would not give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government. The Government had, however, not enacted any law or framed any rules for fixing the ceiling on the guarantees to be given by the State Government. The Government had also not set up any fund for meeting contingent liabilities, which may arise on invoking of the guarantees, as recommended by the TFC. The guarantee fee charged by the Government on the outstanding guarantees formed a part of the revenue receipts rather than being kept in the designated fund to meet any eventuality of invoking of the State guarantees.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the Government and those outstanding for the last three years is given in **Table 1.21**.

Table 1.21: Guarantees given by the Government

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	12,235	18,144	27,892
Outstanding amount of guarantees	11,056	12,736	16,084
Percentage of maximum amount guaranteed to total revenue receipts	20.19	26.42	35.84

Source: Finance Accounts

¹⁹A difference of Rs 191.48 crore from the CB of 8222-01-101 in Statement number 16 of the Finance Account 2008-09 is under reconciliation. Rs 24,655.11 crore includes credit balance of Rs 6,166.40 crore of undivided Uttar Pradesh.

The maximum amount guaranteed increased from the level of Rs 12,235 crore in 2006-07 to Rs 27,892 crore in 2008-09 (128 *per cent*). The outstanding amount of guarantees also increased from Rs 11,056 crore in 2006-07 to Rs 16,084 crore in 2008-09 (45 *per cent*). The percentage of maximum amount guaranteed to total revenue receipts increased from the level of 20.19 *per cent* in 2006-07 to 35.84 *per cent* in 2008-09. The outstanding amount of guarantees as on 31 March 2009 was against thirteen statutory corporations and boards (Rs 11,725.51 crore), three Government companies (Rs 2.31 crore), two cooperative banks (Rs 2,624.73 crore), three processing, marketing cooperatives and federations (Rs 1,712.78 crore) and two municipal corporations/development authorities and other local bodies (Rs 18.66 crore).

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase to 51 *per cent* from 47 *per cent*. The fiscal liabilities relative to GSDP appear to be on the higher side especially in view of the FRBM target to contain it to 25 *per cent* by the end of 2018.

► 1.8 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation; sufficiency of non-debt receipts; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.22** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.22: Debt sustainability- indicators and trends

	(Rupees in crore)				
Indicators of debt sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt stabilisation (Quantum spread + primary deficit)	(-) 2161	8152	8424	4664	8426
Sufficiency of non-debt receipts (resource gap)	3650	2919	463	(-) 4179	(-) 6719
Net availability of borrowed funds	263	8394	2811	1272	1,788
Burden of interest payments (IP/RR ratio)	32	20	17	16	14

Source: Finance Accounts

The quantum spread together with primary deficit has been negative during 2004-05 indicating rising debt-GSDP ratios. From 2005-06, the quantum spread together with primary deficit turned positive indicating declining trends in debt/ GSDP ratio. These trends indicate that the State may be able to stabilise its debt in ensuing years provided it contains its fiscal and primary deficits within sustainable limits.

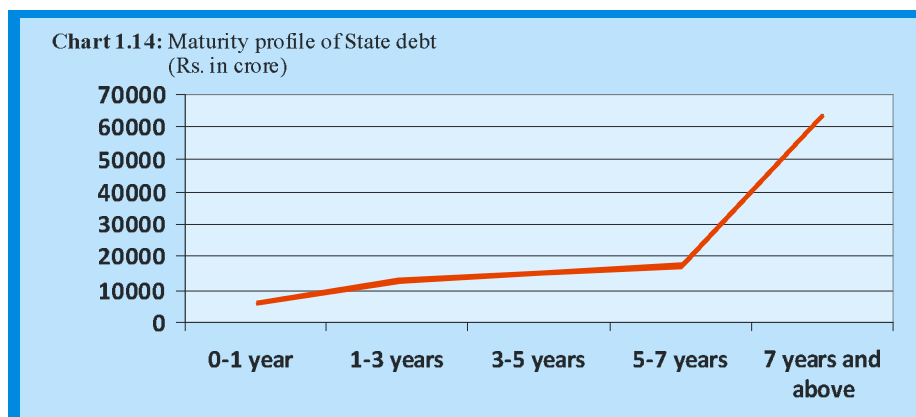
A positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run while the negative resource gap indicates otherwise. The negative resource gap during 2007-08 and 2008-09 indicated that the capacity of the State to sustain the debt in the medium and long run has weakened from 2007-08 onward.

The net funds available on account of the internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments varied between 0.74 and 22.42 *per cent* during 2004-09²⁰. During the year 2008-09, Government repaid internal debt of Rs 5,577 crore, GOI loans of Rs 1,199 crore and also discharged other obligations of Rs 29,254 crore along with interest of Rs 11,375 crore as a result of which percentage of availability of borrowed funds marginally improved to 3.64 *per cent* during the year 2008-09 over 3.38 *per cent* in previous year. The trends in debt redemption ratio varied between 78 *per cent* in 2005-06 and 96 *per cent* in 2008-09. About 96 to 97 *per cent* of borrowed funds were used for discharging debt liabilities of the State in the last two years.

Table 1.23: Maturity profile of State debt

Maturity profile	Amount (Rupees in crore)	Per cent
0 – 1 year	5,843	4.96
1 – 3 years	12,870	10.93
3 – 5 years	15,166	12.89
5 – 7 years	17,562	14.92
7 years and above	63,381	53.85
Information not furnished by the Government	2,881	2.45
Total	1,17,703	100

Source: Finance Accounts



20

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Receipt	35,676	37,441	34,683	37,584	49,193
Repayment (principal and interest)	35,413	29,047	31,872	36,312	47,405
Net fund available	263	8,394	2,811	1,272	1,788
Net fund available (in <i>per cent</i>)	0.74	22.42	8.10	3.38	3.64

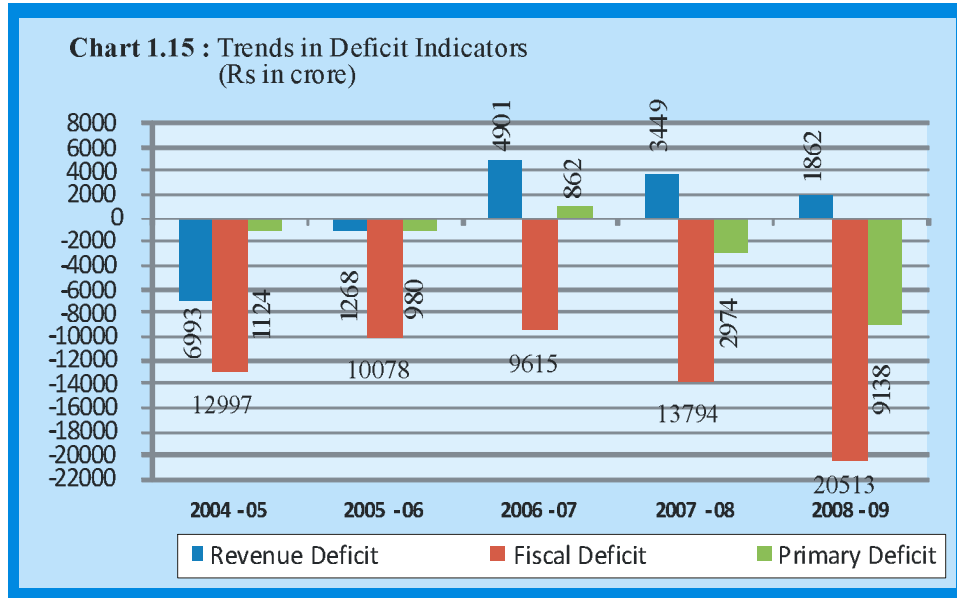
As per data shown in the **Table 1.23**, the maturity profile of 2.45 *per cent* of the debt stock is not clearly defined. There will be bunching of repayment immediately after one year and after seven years the repayment burden will be critical. A well thought out debt payment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

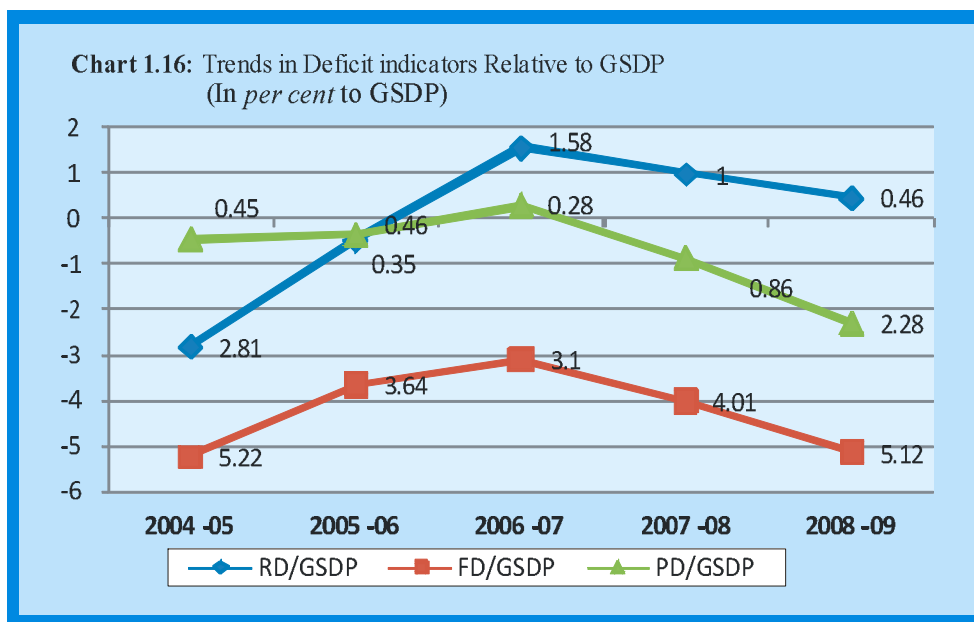
► **1.9 Fiscal imbalances**

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits, *vis-à-vis*, targets set under FRBM Act/Rules.

1.9.1 Trends in deficits

Chart 1.15 and **1.16** present trends in deficit indicators over the period 2004-09.





The revenue account experienced a situation of huge deficit during the period of 2004-06. The deficit turned into surplus of Rs 4,901 crore in 2006-07 which, declined to Rs 3,449 crore during 2007-08 and further to Rs 1,862 crore during 2008-09. The decline in revenue surplus during 2008-09 was mainly on account of increase of Rs 10,746 crore in revenue expenditure against the increase of Rs 9,158 crore only in revenue receipts relative to the previous year. The fiscal deficit increased from Rs 13,794 crore in 2007-08 to Rs 20,513 crore in 2008-09 mainly due to sharp increase in capital expenditure by Rs 5,396 crore (32 per cent) during the year. As a result, relative to GSDP, the fiscal deficit has increased from 4.01 per cent in 2007-08 to 5.12 per cent much above the revised FRBM norm of 3.5 per cent. The primary deficit of Rs 2,974 crore in 2007-08 grew over three fold to Rs 9,138 crore, primarily due to the sharp increase in fiscal deficit in 2008-09 relative to the previous year.

The declining trend in the revenue surplus should be contained through strategy like realisation of tax arrears, recovery of cost of maintenance of the irrigation projects, timely completion of projects of Irrigation and Public Works departments and making these projects a source of revenue. The increasing fiscal deficit-GSDP ratio can also be contained to the level as targeted in the FRBM Act by cutting non-productive expenditure and by ensuring that high cost market borrowings are not resorted to unless there is a clear justification in terms of economic and financial returns to the economy.

1.9.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit is reflected in the **Table 1.24**.

Table 1.24: Components of fiscal deficit and its financing pattern

(Rupees in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit					
Fiscal deficit (1 to 3)	12,997	10,078	9,615	13,794	20,513
	(5.22)	(3.64)	(3.10)	(4.01)	(5.12)
1 Revenue Deficit/Surplus (-)	6,993	1,268	(-) 4,901	(-) 3,449	(-) 1,862
2 Net Capital Expenditure	5,653	8,711	13,984	16,950	22,346
3 Net Loans and Advances	351	99	532	293	29
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	3,292	2,007	2,219	2,628	10,296
2 Loans from GOI	(-) 3413	(-) 855	(-) 1795	(-) 821	(-) 778
3 Special Securities Issued to NSSF	7181	7625	5831	1423	426
4 Loans from Financial Institutions	1246	229	131	1068	628
5 Small Savings, PF etc	1,810	1960	2733	2451	2944
6 Deposits and Advances	(-) 207	3,338	1,794	2,683	(-) 2,525
7 Suspense and Misc	1003	755	2277	654	973
8 Remittances	94	140	407	273	78
9 Others (i.e. transactions under Contingency Fund, Reserve Fund, Cash Balances Investment)	1,991	(-) 5,121	(-) 3,982	3,435	8,471
Total	12,997	10,078	9,615	13,794	20,513

Figures in brackets indicate the *per cent* to GSDP.

*All these figures are net of disbursements/outflows during the year

Source: Finance Accounts

The fiscal deficit during 2004-09 ranged between Rs 9,615 crore (2006-07) and Rs 20,513 crore (2008-09). The fiscal deficit, relative to previous year, increased by 49 *per cent* from Rs 13,794 crore to Rs 20,513 crore. Increase in capital expenditure by Rs 5,396 crore (32 *per cent*) and lower revenue surplus during 2008-09 were the major factor for increase in the fiscal deficit.

1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.25**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.25: Primary deficit/surplus - bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	37,895	32,737	5,653	629	39,019	(+) 5,158	(-) 1,124
2005-06	45,934	37,519	8,711	684	46,914	(+) 8,415	(-) 980
2006-07	60,956	45,222	13,984	888	60,094	(+) 15,734	(+) 862
2007-08	69,121	54,403	16,950	742	72,095	(+) 14,718	(-) 2,974
2008-09	78,609	64,594	22,346	807	87,747	(+) 14,015	(-) 9,138

Source: Finance Accounts

The Government, during 2006-07 for the first time, had a primary surplus of Rs 862 crore. This turned into deficit in the succeeding years as non-debt receipts were not sufficient to meet enhanced capital expenditure. If this trend continues, debt sustainability will be jeopardised as ideally non-debt receipts every year should not only cover primary expenditure but also incremental interest burden.

1.9.4 State's own revenue and deficit correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.26** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.26: Change in revenue receipts and correction of deficit

(Percent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	19.56	19.94	22.00	19.42
a. State's Own Tax Revenue	7.42	7.25	8.30	7.15
b. State's Own Non- tax Revenue	2.11	1.69	1.60	1.69
c. State's Share in Central Taxes and Duties	7.49	8.51	8.91	7.71
d. Grants-in-Aid	2.53	2.50	3.26	2.87
Revenue Expenditure	17.98	18.94	19.22	18.96
Revenue Surplus	1.58	1.00	2.80	0.46
Fiscal Deficit	3.10	4.01	2.98	5.12

Source: Finance Accounts

There had been marginal inter-year variations in the ratio of revenue receipts to GSDP and revenue expenditure to GSDP. However, the ratio of revenue surplus to GSDP had been declining and the ratio of fiscal deficit to GSDP had been increasing.

▶ 1.10 Conclusion

State's fiscal position in terms of key fiscal parameters has shown deterioration in 2008-09 relative to previous year. Not only revenue surplus declined by Rs 1,587 crore (46 per cent) in 2008-09 but fiscal deficit increased by Rs 6,719 crore (49 per cent) and primary deficit by Rs 6,164 crore (207 per cent) when compared to previous year.

State's fiscal performance, *vis-à-vis*, targets set in Fiscal Correction Path and Mid Term Fiscal Restructuring Policy Statement by the Government for 2008-09 as well as targets set by the Twelfth Finance Commission also indicated a gloomy picture during the year.

Lower growth rate in revenue receipts in 2008-09 was primarily on account of only 15 *per cent* (Rs 3,700 crore) increase in State's own tax revenue resulting in decline (Rs 1,587 crore; 46 *per cent*) in revenue surplus from the level of Rs 3,449 crore in 2007-08 to the level of Rs 1,862 crore in 2008-09.

State's expenditure pattern reveals that the revenue expenditure as a percentage to total expenditure varied within a range of 77-88 *per cent* during the period 2004-09 and stood at 77 *per cent* in 2008-09 leaving inadequate resources for expansion of services and creation of assets.

Within the revenue expenditure, non-plan revenue expenditure at Rs 58,678 crore in, 2008-09 remained significantly higher than the normative assessment of Rs 44,675 crore made by Twelfth Finance Commission for the year. Further, committed expenditure-salary expenditure, pension liabilities interest payments and subsidies constituted about 78 *per cent* of the NPRES during 2008-09.

In 2005-06 i.e. the first year of the Award Period of the TFC, the Government gave adequate fiscal priority to AE and CE since AE/GSDP and CE/AE in the case of UP was higher than the National average. The priority given to DE and SSE in UP was, however, not adequate as the DE/AE ratio and the SSE/AE ratio for UP was lower than the All States average. In 2008-09, also lower fiscal priority was given to DE and SSE compared to the All States Average.

Continued prevalence of fiscal deficit accompanied with negligible rate of return on Government investments, inadequate cost recovery from the irrigation projects relative to the assessment of Twelfth Finance Commission for ensuring their commercial viability has created stress for the State.

Fiscal liabilities relative to GSDP at 47 *per cent* in 2008-09 appears to be on the higher side especially in view of the FRBM target to contain it to 25 *per cent* by the end of 2018. Besides, inordinate delays in completion of 38 major and medium irrigation projects in the State leading to the cost escalation of Rs 3,836 crore of these projects also needs attention of the State Government.

About 96 to 97 *per cent* of borrowed funds were used for discharging debt liabilities in last two years, leading the State to the debt trap.

The Government has not enacted any law or framed any rule for fixing the ceiling on the guarantees given by it on its Consolidated Fund. The Government had also not set up any fund for meeting contingent liabilities, which may arise on invoking of the guarantees as recommended by the Twelfth Finance Commission.

Uniform accounting policies with proper documentation and timely reporting of expenditure were not followed by the agencies receiving funds directly from GOI, making it difficult to monitor the end use of these direct transfers.

The database on the finances of Urban Local Bodies and Panchayati Raj Institutions to keep accurate information on their finances for need based assessment of requirements was also not developed, as recommended by the Twelfth Finance Commission.

▶ 1.11 Recommendations

Return to fiscal correction: Uttar Pradesh Government's fiscal performance will gain through concerted efforts in tax compliance focusing on regaining tax arrears, recovery of the cost of maintenance of the irrigation projects, timely completion of projects of Irrigation and Public Works departments and making these projects a source of revenue, cutting non-productive capital expenditure and discouraging market borrowings (Paragraph 1.9.1).

Greater priority to public expenditure: In view of lower *per capita* capital expenditure and developmental expenditure, the Government may consider re-prioritising its public expenditure (Paragraph 1.5.1).

Review of Government investments: The average returns on Government's investments in statutory corporations, Government companies, joint stock companies and co-operatives is abysmally nominal compared to interest out go on its borrowings. This is obviously an unsustainable proposition. The State Government should therefore, seek better value for money in investments. Otherwise, high-cost of borrowed funds invested in projects with low financial return will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritised with full justification for the high-cost borrowings. The working of State-owned public sector undertakings, incurring huge losses may be reviewed and appropriate decision for their closure or otherwise may be taken depending on their strategic value and revival potential.

Prudent cash management: The cost of holding surplus cash balances is high. In 2008-09, interest received on investment of cash balances in RBI's Treasury Bills was only 4.08 *per cent* while the Government borrowed at interest rate of 6.06 *per cent*

(Paragraph 1.6.6). Proper debt management through advanced planning could minimise the need to hold large cash surpluses.

Debt sustainability: The Government of Uttar Pradesh should endeavour to achieve the normative debt-GSDP ratio as specified in Fiscal Reform legislation so that the total liabilities at the end of the financial year 2018 do not exceed *25 per cent* of the estimated GSDP (Paragraph 1.7.3). About *96 to 97 per cent* of borrowed funds were used for discharging debt liabilities in last two years, leading the State to a debt trap. The Government should use borrowed funds as far as possible only to fund capital expenditure. The revenue expenditure should be met from revenue receipts. Besides, maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear monitoring of the maturity profile of debt payments will go a long way in prudent debt management.