

Profile of Uttar Pradesh

Uttar Pradesh, a densely populated landlocked State, has several developmental concerns including higher poverty, higher infant mortality, lower literacy and lesser life-expectancy at birth compared to other States in the country (*Appendix 1.1*).

The State experienced lower economic growth in the past decade as the compound annual growth rate of its Gross Domestic Product for the year 2000-01 to 2008-09 has been 10.79 *per cent* as compared to 12.54 *per cent* in other General Category States. During this period, its population has grown by 17.64 *per cent* against 13.42 *per cent* in other General Category States.

With effect from November 2000, thirteen districts¹ of the composite State of Uttar Pradesh formed a new State of Uttaranchal under the Uttar Pradesh Reorganization Act, 2000. The status of allocation of balances consequent upon the reorganization of the State is indicated in *Appendix XI* of the Finance Accounts 2009-10.

► **1.1 Introduction**

This chapter provides a broad perspective of the finances of the Government of Uttar Pradesh during the year 2009-10 and analyses changes observed 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 has been explained in *Appendix 1.2 Part A* and the layout of the Finance Accounts is depicted in *Appendix 1.2 Part B*.

In February 2004, Government of Uttar Pradesh responded to the Twelfth Finance Commission's recommendations by legislating its 'Fiscal Responsibility and Budget Management Act' setting out a reform agenda through Fiscal Correction Path (FCP) in the medium term with the long-term goal of securing growth with stability for its economy.

A summary of Fiscal Responsibility and Budget Management Act, 2004 of the State and the 'Outcome indicators of State's own Fiscal Correction Path' are given in *Appendix 1.3* and *Appendix 1.4* respectively.

¹ Almora, Bageshwar, Champavat, Chamoli, Dehradun, Haridwar, Nainital, Pauri Garhwal Pithoragarh, Rudrapur, Tehri Garhwal, Uttarkashi and Udham Singh Nagar districts.

► 1.2 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10), *vis-a-vis*, previous year while **Appendix 1.5** provides abstract of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2008-09	2009-10		2008-09	2009-10		
<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	77,830.73	96,420.95	Revenue expenditure	75,968.89	73,672.43	15,701.18	89,373.61
Tax revenue	28,658.97	33,877.60	General services	29,769.32	39,817.01	824.29	40,641.30
Non-Tax Revenue	6,766.55	13,601.09	Social services	28,546.01	21,065.79	10,998.49	32,064.28
Share of Union Taxes/ Duties	30,905.72	31,796.67	Economic services	14,149.35	9,429.60	3,878.40	13,308.00
Grants from GoI	11,499.49	17,145.59 ²	Grants-in-aid and Contributions	3,504.21	3,360.03	-	3,360.03
Section B			Section B				
Miscellaneous Capital Receipts	---	---	Capital Outlay	22,345.72	5,866.75	19,224.48	25,091.23
Recoveries of Loans and Advances	778.09	293.08	Loans and Advances disbursed	807.01	732.62	209.23	941.85
Public Debt Receipts ³	16,760.03	22,489.07	Repayment of Public Debt	6,776.49	7,668.59	--	7,668.59
Contingency Fund	170.92	82.82 ⁴	Contingency Fund	--	--	--	--
Public Account Receipts	1,04,251.96	99,907.88	Public Account disbursements	1,00,026.64	1,01,780.30	--	1,01,780.30
Opening Cash Balance	15,200.16	9,067.14	Closing Cash Balance	9,067.14	3,405.36	--	3,405.36
Total-	2,14,991.89	2,28,260.94	Total	2,14,991.89	19,31,260.05	35,134.89	2,28,260.94

Source: Finance Account

Following are the significant changes during 2009-10 over the previous year:

- **Revenue receipts** grew by ₹ 18,590 crore (24 per cent) over the previous year. The increase was mainly contributed by tax revenue (₹ 5,218.63 crore; 18 per cent), non-tax revenue (₹ 6,834.54 crore; 101 per cent) and grants-in-aid from Government of India (₹ 5,646.10 crore; 49 per cent). **The revenue receipts at ₹ 96,420.95 crore, were higher than the normative projections made in the Fiscal Correction Path (₹ 76,506.76 crore) and Mid Term Fiscal Restructuring Policy (₹ 94,439.84 crore) by 26 per cent and two per cent respectively.**

² Includes external assistance of ₹ 4.36 crore.

³ Excluding net transactions under ways and means advances and overdraft.

⁴ Represents recoupment of the expenditure met out of the fund up to 31 March 2010.

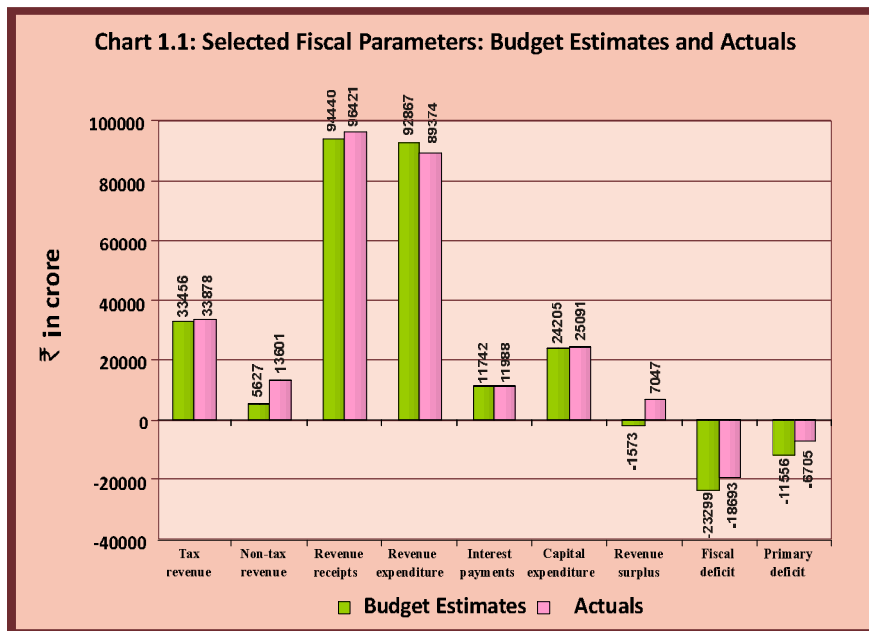
- **Tax revenue** grew by ₹ 5,218.63 crore (18 per cent) over the previous year. The increase was mainly contributed by the taxes on sales, trade, etc., (₹ 3,343 crore) followed by state excise (₹ 946 crore). *The tax revenue at ₹ 33,878 crore remained very close to the projections made in State's Fiscal Correction Path (₹33,949 crore) and State's Mid Term Fiscal Restructuring Policy (₹33,456 crore) and also to the normative assessment made by the Twelfth Finance Commission (₹ 33,557 crore).*
- **Non-tax revenue** grew by ₹ 6,835 crore (101 per cent) over the previous year. *It registered a significant improvement over the projections made by the Twelfth Finance Commission (₹ 5,061 crore), projections made by the Government in its Fiscal Correction Path (₹ 3,090 crore) and Mid Term Fiscal Restructuring Policy (₹ 5,627 crore). The increase was mainly due to lump sum amounts received on account of conversion of nazul land into freehold land*
- **Grants-in-aid from Government of India** grew by ₹ 5,646 crore (49 per cent) over the previous year. *Grants-in-aid from Government of India at ₹ 17,146 crore was above the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 15,699 crore).*
- **State's share in Union taxes and duties** increased by ₹ 891 crore (three per cent) over the previous year. *The share at ₹ 31,797 crore was above the projection made by the Government in its Fiscal Correction Path.*
- **Revenue expenditure** increased by ₹ 13,405 crore (18 per cent) over the previous year. *The revenue expenditure at ₹ 89,374 crore significantly exceeded the assessment made by the Government in Fiscal Correction Path (₹ 72,847 crore). It was, however, below the projections made in the Mid Term Fiscal Restructuring Policy (₹ 92,867 crore).*
- **Within revenue expenditure**, non-plan expenditure increased by ₹ 14,995 crore (26 per cent) and plan expenditure decreased by ₹ 1,590 crore (9 per cent) over the previous year. *Non-plan revenue expenditure also exceeded Twelfth Finance Commission's normative projections by 53 per cent (₹ 25,430 crore) and State's own Fiscal Correction Path by 15 per cent (₹9,502 crore) but remained close to the projections in the State's Mid Term Fiscal Restructuring Policy.*
- **Capital expenditure** (₹ 25,091 crore) increased by 12 per cent over the previous year mainly due to increase in capital outlays on rural development programmes and procurement of foodgrains. *It exceeded the projections made in the Mid Term Fiscal Restructuring Policy (₹ 24,205 crore) and the Fiscal Correction Path (₹13,905 crore).*
- **Recovery of Loans and Advances** decreased by ₹ 485.01 crore (62 per cent) while their disbursement increased by ₹ 134.84 crore (17 per cent) over the previous year.
- **Public Debt receipts** increased by ₹ 5,729.04 crore (34 per cent) over the previous year. Repayment of Public Debt also increased by ₹ 892.10 crore (13 per cent) over previous year.

- A decrease in **Public Account receipts** by ₹ 4,344.08 crore (four *per cent*) over the previous year was mainly due to decrease of balances under suspense and miscellaneous (23 *per cent*) and deposit and advances (24 *per cent*).
- **Public Account disbursements** registered an increase of ₹ 1,754 crore (two *per cent*) over the previous year due to increase in balances under Reserve Funds (₹ 9,431 crore; 1,086 *per cent*), Remittances (₹ 9,478 crore; 50 *per cent*) and Small Savings (₹ 719 crore; 20 *per cent*) partly offset by decrease in balances under Suspense and Miscellaneous (₹ 9,860.43 crore; 19 *per cent*) and deposits and advances (₹ 8,014 crore; 32 *per cent*).
- **Cash balances** at the close of 2009-10 (₹ 3,405.36 crore) decreased by ₹ 5,662 crore (62 *per cent*) from the level of ₹ 9,067 crore in the previous year. Of this, ₹ 3,194.59 crore was invested in the Government of India Treasury Bills and ₹ 45.20 crore in the Government of India securities.

► 1.3 Budget estimates and actuals

Budget presented by the Government provides description about estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of desired fiscal objectives.

Budgeted and actual figures for some important fiscal parameters for the year 2009-10 are given in **Chart 1.1** and *Appendix 1.6*.



Source: Budget and Finance Accounts

State's overall revenue receipts exceeded budget estimates by ₹ 1,981 crore. The excess realization was under non-tax revenue (₹ 7,974 crore; 142 *per cent*) and State's own taxes (₹ 422 crore; one *per cent*). Capital expenditure and interest payments also exceeded budget estimates by ₹ 886 crore and ₹ 246 crore respectively while revenue expenditure was less by ₹ 3,493 crore. Similarly, fiscal and primary deficits were lesser than their budget estimates respectively by ₹ 4,606 crore and ₹ 4,851 crore. Revenue deficit of ₹ 1,573 crore assessed in the budget estimates turned into surplus of ₹ 7,047 crore.

► 1.4 Resources of the State

1.4.1 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 Government of India. 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 Government of India as well as accruals from Public Account.

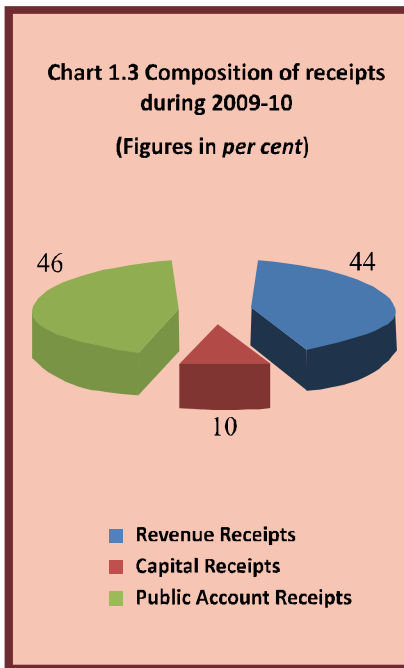
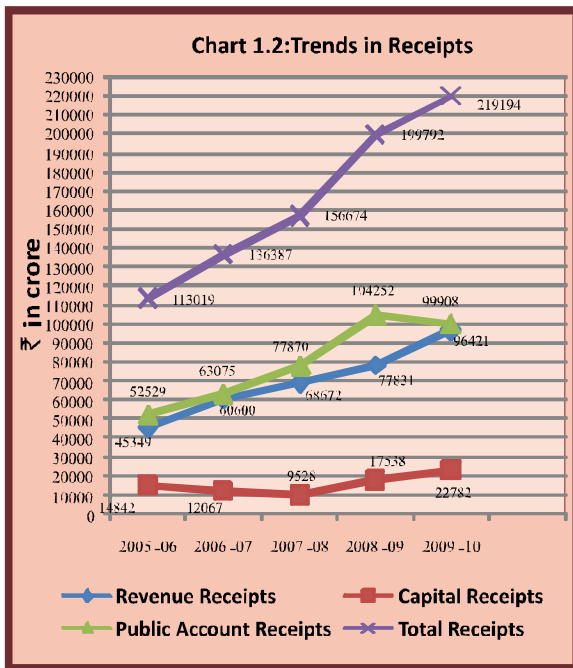
Table 1.2 and **Chart 1.2** depict the trends in various components of the receipts during 2005-10 and **Chart 1.3** depicts composition of resources of the State during 2009-10.

Table 1.2: Trends in growth and composition of aggregate receipts

(₹ in crore)

Sources of State's Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
I Revenue Receipts	45,349	60,600	68,672	77,831	96,421
II Capital Receipts	14,842	12,067	9,528	17,538	22,782
Recovery of Loans and Advances	585	356	449	778	293
Public Debt Receipts	14,257	11,711	9,079	16,760	22,489
Growth rate of debt capital receipts	(-) 18	(-) 18	(-) 22	85	34
Growth rate of non-debt capital receipts	110	(-) 39	26	73	(-) 62
Growth rate of GSDP	11.34	12.83	14.37	15.27	19.20
III Contingency Fund	299	645	604	171	83
IV Public Account Receipts	52,529	63,075	77,870	1,04,252	99,908
a. Small Savings, Provident Fund, etc.	3,605	4,858	5,312	6,511	8,156
b. Reserve Fund	3,181	3,074	4,019	3,628	5,825
c. Deposits and Advances	16,549	15,249	19,450	22,656	17,260
d. Suspense and Miscellaneous	20,953	27,430	35,808	52,278	40,084
e. Remittances	8,241	12,464	13,281	19,179	28,583
V Total Receipts	1,13,019	1,36,387	1,56,674	1,99,792	2,19,194

Source : Finance Accounts



Total receipts of the State increased by 94 per cent from ₹1,13,019 crore in 2005-06 to ₹ 2,19,194 crore in 2009-10, of which increase in revenue receipts was by 113 per cent; capital receipts by 53 per cent and Public Account receipts by 90 per cent during the period.

Though there was an increasing trend in total receipts during 2005-10, Public Account receipts registered a decline of four per cent in 2009-10 relative to the year 2008-09. This was attributable to a decline under suspense and miscellaneous by 23 per cent and deposits and advances by 24 per cent.

Public debt receipts, which create future repayment obligations, were 99 per cent of total capital receipts in 2009-10. The debt receipts also registered increase by 34 per cent in 2009-10 relative to the previous year.

1.4.2 Funds transferred to State implementing agencies outside State budget

Government of India transfers funds directly to State implementing agencies⁵ for implementation of various schemes/programmes. The position of Government of India transfer of funds directly to State implementing agencies is presented in **Table 1.3**.

⁵ State implementing agency includes any organization/institution including non- governmental organization, which is authorized by the State Government to receive funds from GOI for implementing specific programmes in the State, e.g., State Health Society of UP, Lucknow for National Rural Health Mission.

Table 1.3: Funds transferred directly by Government of India to the State implementing agencies

(₹ in crore)

Programme/ Scheme	Implementing agency in the State	2008-09	2009-10
National Rural Health Mission	State Health Society of UP, Lucknow	1,657.19	1,808.67
Total Sanitation Campaign	Department of Panchayati Raj	728.00	112.65
Pradhanmantri Gram Sadak Yojna	UP Rural Roads Development Agency	1,649.82	2,084.51
Indira Avas Yojna	Commissioner Rural Development	1,142.34	814.59
Rural Drinking Water- Accelerated Drinking Water Supply Programme	Jal Nigam UP, Lucknow	537.78	536.61
National Rural Employment Guarantee Act	Commissioner Rural Development	4,187.78	5,318.86
Sarva Shiksha Abhiyan	Project Board UP Education for All	3,275.15	1,960.12
Swarn Jayanti Gram Swarojgar Yojna	Commissioner Rural Development	566.57	413.39
MPs Local Area Development Programme	District Magistrates	-	155.00
Integrated Watershed Management Programme	District Rural Development Agencies	Nil	147.82
Integrated Child Development Services	Women and Child Development	Nil	141.97
Others	-	37.08	216.00 ⁶
	Total	13,781.71	13,710.19

Source: Finance Accounts

Government of India transferred ₹ 13,710.19 crore directly to the State implementing agencies for implementation of various programmes against ₹ 13,781.71 crore in the previous year. A significant increase of ₹ 1,131.08 crore (27 per cent) was under the National Rural Employment Guarantee Act followed by ₹ 151.48 crore (9 per cent) under National Rural Health Mission. Likewise, significant decrease of ₹ 1,315.03 crore (40 per cent) was under Sarva Shiksha Abhiyan followed by ₹ 615.35 crore (85 per cent) under Total Sanitation Campaign and ₹ 327.75 crore (29 per cent) under Indira Awas Yojna.

Direct transfer of funds from the Government of India to State implementing agencies runs the risk of poor oversight of utilization of funds. Unless uniform accounting practices are followed by all the State implementing agencies with proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. Besides, it also inhibits the Fiscal Responsibility and Budget Management Act requirement of transparency in fiscal operations and thus bypasses accountability.

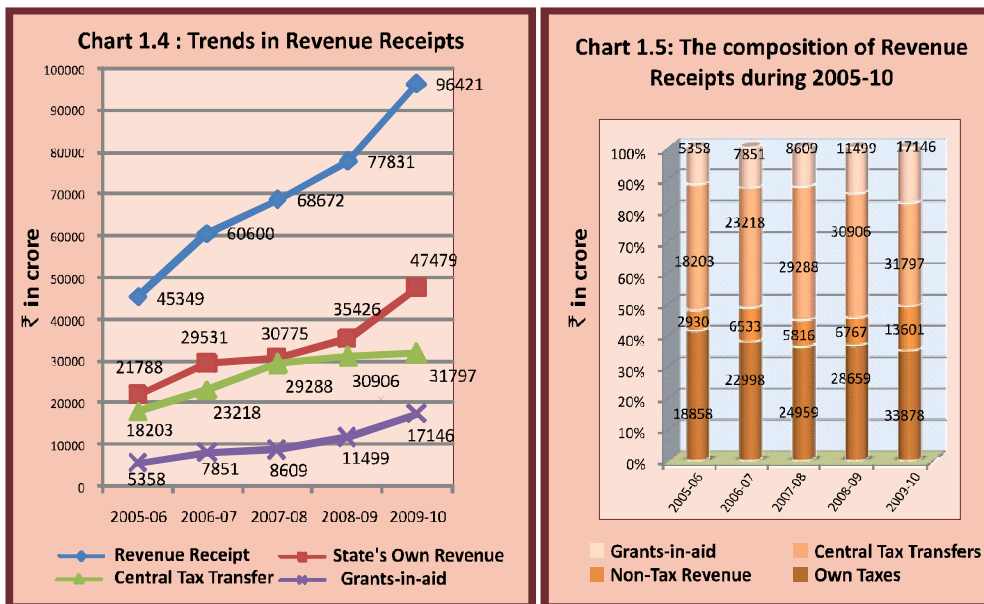
► 1.5 Revenue receipts

Revenue receipts consist of State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from Government of India. **Statement-11** of the Finance Accounts details the revenue receipts of the Government.

6 2009-10: Swarn Jayanti Shahri Rojgar Yojna: ₹ 66.75 crore; DRDA Administration: ₹ 39.46 crore; Handlooms: ₹ 35.26 crore; Research and Development Support: ₹ 5.23 crore; Handicraft: ₹ 13.58 crore; Skill Development Initiative: ₹ 11.43 crore; ISOPOM: ₹ 11.34 crore, Medicinal Plant: ₹ 9.45 crore; Science and Technology Programmet ₹ 8.49 crore; Research and Development Support ₹ 5.23 crore; National Mission on Nano Technology: ₹ 3.43 crore; Setting up of Technology Upgradation Establishment of Food Industries: ₹ 2.96 crore; Technology Development Programme: ₹ 1.57 crore; International Cooperation S&T: ₹ 1.31 crore; Assistance to Panchayati Raj Institutions ₹ 0.51 crore.

1.5.1 Trends and composition of revenue receipts

Trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.7** and also depicted in **Chart 1.4** and **1.5** respectively.



Revenue receipts have shown steady increase over the period 2005-10 with marginal changes in its composition. On an average, 47 per cent revenue came from States' own taxes during the period 2005-10. Within the State's own taxes during 2009-10, tax revenue and non-tax revenue accounted for 71 per cent and 29 per cent respectively. The revenue receipts at ₹ 96,421 crore was higher than the assessment made by the Government in its Fiscal Correction Path (₹ 76,507 crore) and close to Mid Term Fiscal Restructuring Policy (₹ 94,440 crore) for the year 2009-10. The trends in revenue receipts relative to GSDP are presented in **Table 1.4**.

Table 1.4: Trends in revenue receipts relative to GSDP

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	45,349	60,600	68,672	77,831	96,421
Rate of growth of RR (per cent)	20.55	33.63	13.32	13.34	23.89
RR/GSDP (per cent)	16.37	19.38	19.21	18.88	19.63
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.812	2.621	0.927	0.874	1.244
State's Own Tax Buoyancy w.r.t GSDP	1.779	1.711	0.594	0.971	0.948
Revenue Buoyancy w.r.t State's own taxes	1.019	1.532	1.562	0.901	1.312
*Gross State Domestic Product(₹ in crore)	2,77,068	3,12,627	3,57,557	4,12,151	4,91,302
Growth rate of GSDP (per cent)	11.34	12.83	14.37	15.27	19.20

Source: Economic Survey of Uttar Pradesh

The growth in revenue receipts was not commensurate with the growth in GSDP during 2007-08 and 2008-09. However, this was overcome during 2009-10.

Grants-in-aid from Government of India

Grants-in-aid from Government of India increased (49 per cent) from ₹ 11,496.99 crore in 2008-09 to ₹ 17,141.24 crore in 2009-10 (**Table 1.5**). The increase was mainly under Central Plan Schemes (₹ 3,757 crore) followed by non-plan grants (₹ 805 crore) and Centrally Sponsored Plan Schemes (₹ 654 crore).

Table 1.5: Grants-in-aid from Government of India

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Non Plan grants	2,026.50	2,693.81	2,894.42	3,142.62	3,947.97
Grants for State plan schemes	1,916.24	2,837.57	2,795.49	5,195.76	5,624.02
Grants for Central Plan Schemes	159.48	153.13	261.90	235.36	3,992.43
Grants for Centrally Sponsored Plan Schemes	1,255.58	2,166.09	2,657.59	2,923.25	3,576.82
Total	5,357.80	7,850.60	8,609.40	11,496.99	17,141.24
Percentage of increase over previous year	29.13	46.53	9.67	33.54	49.09

Source : Finance Accounts

Increase under non-plan grants was due to increase in grants under the proviso to Article 275 (1) of the Constitution (₹ 554 crore), for improvement to jail administration (₹ 69.36 crore) and police (₹ 66.74 crore) and for natural calamity relief (₹ 149 crore). Increase under Central plan schemes was due to receipt of more grants by the Food and Civil Supply Department (₹ 3,786.59 crore). The increase under Centrally sponsored plan schemes was for schemes of social welfare (₹ 199.93 crore), muslim waqf (₹ 148.08 crore), women and child welfare (₹ 213.11 crore).

Central tax transfers

Central tax transfers increased (three per cent) from ₹ 30,906 crore in 2008-09 to ₹ 31,797 crore in 2009-10. The increase was mainly under corporation tax (₹ 2,951.22 crore) and taxes on income other than corporation tax (₹ 925.38 crore) partly off-set by decrease under custom duty (₹ 1,457.74 crore) and Union excise duties (₹ 1,567.82 crore).

Debt waiver under Debt Consolidation and Relief facility

Twelfth Finance Commission recommended debt waiver of ₹ 4,585.12 crore for the State during 2005-10. The State, however, received ₹ 3,617.08 crore⁷ from the Ministry of Finance, Government of India during 2006-09. The receipts were accounted for under 0075-miscellaneous general services under non-tax revenue. This included ₹ 1,063.82

⁷ 2006-07: ₹ 1,489.44 crore; 2007-08: ₹ 1,063.82 crore and 2008-09: ₹ 1,063.82 crore.

crore which was received provisionally during 2008-09. However, during 2009-10, the Central Monitoring Committee on Debt Consolidation and Relief Facility, while reviewing the debt waiver in March 2010, did not approve it. Accordingly, ₹ 1,063.82 crore was adjusted as loans from Central Government reducing the revenue receipts by that extent.

1.5.2 State's own resources

The gross collection in respect of major taxes and duties as well as the non-tax receipts for the period 2005-10 are presented in **Appendix 1.7**. These resources increased (118 per cent) from ₹ 21,788 crore in 2005-06 to ₹ 47,479 crore in 2009-10. Within revenue receipts, its share ranged between 45 per cent and 49 per cent during 2005-10.

The actual revenue receipts during 2009-10, *vis-a-vis*, assessments made by the Twelfth Finance Commission and the State Government are given in **Table 1.6**.

Table 1.6: Revenue receipts relative to Twelfth Finance Commission's and State's projections

(₹ in crore)

Key fiscal variables	Twelfth Finance Commission	Fiscal Correction Path 2009-10	Mid Term Fiscal Restructuring Policy 2009-10	Actuals	Variations {Excess (+) and Shortfall (-)}		
					Twelfth Finance Commission	Fiscal Correction Path	Mid Term Fiscal Restructuring Policy
					Per cent in bracket		
States Own Tax Revenue	33,557.23	33,948.95	33,455.82	33,877.60	(+) 320.37 (0.95)	(-) 71.35 (0.21)	(+) 421.78 (1.26)
Non-Tax Revenue	5,061.36	3,090.27	5,626.92	13,601.09	(+) 8,539.73 (168.72)	(+) 10,510.82 (340.13)	(+) 7,974.17 (141.71)

Source: TFC's recommendations, MTFRP and Finance Accounts

State's own tax revenue during 2009-10 was marginally less than the projection made in State's Fiscal Correction Path (0.21 per cent) but exceeded the normative assessment made by the Twelfth Finance Commission (one per cent) and State's Mid Term Fiscal Restructuring Policy (1.26 per cent).

Performance under non-tax revenue, however, registered significant improvement over the projections of the Twelfth Finance Commission, State's Mid Term Fiscal Restructuring Policy and Fiscal Correction Path due to sale of *nazul* land.

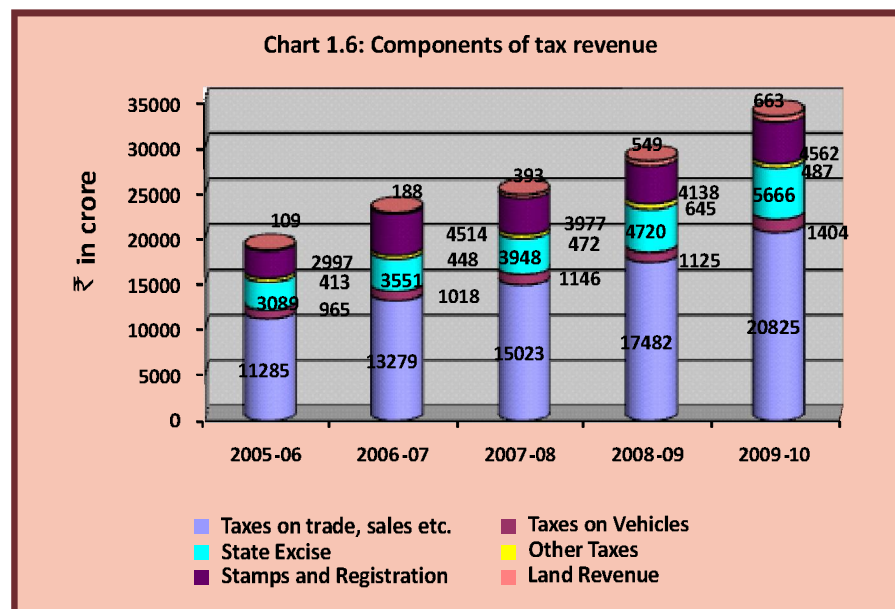
Tax revenue

Tax revenue comprises of taxes on sales, trade, etc., State excise, taxes on vehicles, stamp and registration fee, etc. The component of tax revenue during five years period (2005-10) is shown in **Table 1.7** and **Chart 1.6**.

Table 1.7: Components of tax revenue

(₹ in crore)

Components of revenues	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget estimates	Actuals	Percentage w.r.t budget estimates
Taxes on Sales, Trade, etc.	11,285	13,279	15,023	17,482	20,741	20,825	100
State Excise	3,089	3,551	3,948	4,720	5,176	5,666	109
Taxes on Vehicles	965	1,018	1,146	1,125	875	1,404	160
Stamps and Registration fees	2,997	4,514	3,977	4,138	5,351	4,562	85
Land Revenue	109	188	393	549	181	663	366
Taxes on Goods and Passengers	105	109	110	266	700	271	39
Other Taxes	308	339	362	379	431	487	113
Total	18,858	22,998	24,959	28,659	33,455	33,878	101



Tax revenue of the State during 2009-10 exceeded the budget estimates by ₹ 423 crore. It increased by ₹ 5,219 crore (18 per cent) over the previous year. Increase in taxes on sales, trade, etc., during 2009-10 was due to more realization of commercial tax. 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 licence fee on wine contracts. The increase in taxes on vehicles was due to more realization of taxes on sale of vehicles and collection of taxes under State Motor Vehicle Act. Under stamps and registration fee, there was increase in realization due to more receipts by way of court fee in 2009-10 over the previous year.

Tax revenue as a percentage to GSDP (6.90 per cent) was very close to the normative assessment made by the Government in its Fiscal Correction Path (6.91 per cent) and Mid Term Fiscal Restructuring Policy (6.81 per cent) and that made by the Twelfth Finance Commission (6.83 per cent).

Non-tax revenue

Non-tax revenue comprises receipts mainly from education, power, interest, forestry and wild life, industries, medical and public health, irrigation, agriculture and other allied activities.

Non-tax revenue receipts of ₹ 13,601 crore in 2009-10 increased by 101 per cent over 2008-09. The receipts comprised mainly from miscellaneous general services (₹ 8,075 crore; 59 per cent), education, sports, art and culture (₹ 2,340 crore; 17 per cent), non-ferrous mining and metallurgical industries (₹ 605 crore; four per cent) interest receipts (₹ 604 crore; four per cent), forestry and wildlife (₹ 270 crore; two per cent) and power (₹ 171 crore; one per cent).

There were also significant increases/decreases in the receipts in 2009-10 over previous year. The receipts increased by ₹ 6,376 crore (375 per cent) under miscellaneous general services due to conversion of nazul land into free hold land. Similarly, receipts increased by ₹ 1,259 crore (117 per cent) under education, sports, art and culture due to sale of text books, excess realization of board examination fee, other miscellaneous receipts. Likewise, receipts increased by ₹ 178 crore (42 per cent) under non-ferrous mining and metallurgical industries due to more realization of concession fee, rent and royalties. The receipts decreased by ₹ 524 crore (85 per cent) under medical and public health due to less receipts from patients, clinical services, etc.

State's non-tax revenue, vis-a-vis, budget estimates

State's non-tax revenue, vis-a-vis, budget estimates for the year 2009-10 is given in **Table 1.8**.

Table 1.8: Non-tax revenue, vis-a-vis, budget estimates

(₹ in crore)

Particulars	Assessments made in budget	Actuals	Variations (Excess + and Shortfall -) per cent in brackets
Interest Receipts	1,085.86	603.66	(-)482.20 (44)
Miscellaneous General Services	1,144.92	8,075.13	(+)6,930.21 (605)
Education, Sports, Art and Culture	96.22	2,339.86	(+) 2,243.64 (2,332)
Medical and Public Health	81.86	94.35	(+)12.49 (15)
Power	900.00	170.70	(-)729.30 (81)
Non-ferrous Mining & Metallurgical Industries	517.75	604.97	(+) 87.22 (17)

Source: State budget and Finance Accounts

Non-tax revenue under miscellaneous general services, non-ferrous mining and metallurgical industries, medical and public health, education, sports, art and culture increased, vis-a-vis, budget estimates during the year. The increases ranged between 17 per cent and 2,332 per cent.

Non-tax revenue under interest and power receipts, however, decreased, vis-à-vis, budget estimates during the year. The decrease ranged between 44 per cent and 81 per cent.

Interest receipts decreased due to less investment in Government treasury bills and power receipts decreased due to less realization of electric charges from rural areas.

Wide variations between the budget estimates and actuals indicated incorrect estimations at the budget preparation stage.

1.5.3 Non/short levy of tax

During 2009-10, on test check of the assessments and other records of commercial tax offices 2,710 cases of non/short levy of tax due to misclassification of goods and incorrect rate of tax, irregular exemption, etc., came to notice as detailed in **Table 1.9**.

Table 1.9: Non/short levy of tax

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Non/short levy of penalty/interest	917	25.95
2.	Non levy/short levy of tax	911	26.95
3.	Irregular grant of exemption from tax	539	16.40
4.	Incorrect classification of rate of goods	68	0.71
5.	Misclassification of goods	52	1.10
6.	Irregularities relating to central sales tax	29	0.47
7.	Mistake in computation	39	0.65
8.	Turnover escaping tax	09	0.31
9.	Other irregularities	146	4.78
Total		2,710	77.32

The Government needs to take appropriate measures to reduce the number of such cases.

1.5.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on gross collection for 2008-09 are mentioned in **Table 1.10** below:

Table 1.10: Cost of collection

(₹ in crore)

Particular	year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the year 2008-09
Commercial tax	2007-08	15,023.10	228.19	1.52	-
	2008-09	17,482.05	272.54	1.56	0.88
	2009-10	20,825-18	358.43	1.72	-

The cost of collection was about two times higher than the all India average. The Government needs to take appropriate measures to bring it down.

1.5.5 Revenue arrears

Information regarding arrears of revenue was called for from the concerned departments. The revenue arrears as on 31 March 2010 in some of principal heads of revenue amounted to ₹ 17,121.72 crore of which ₹ 11,526.81 crore were outstanding for more than five years. Relative to the financial year 2008-09, the revenue arrears registered an increase of ₹ 1,390 crore (9 per cent) under principal heads of receipts. The status of revenue arrears as on 31 March 2010 under some heads is detailed in **Table 1.11**.

Table 1.11: Arrears of revenue

(₹ in crore)

Head of Revenue	Amount of arrears	Arrears outstanding for over five years	Remarks
Commercial tax	16,453.30	11,462.56	Out of ₹ 16,453 crore, demand for ₹ 1,166.86 crore had been certified for recovery as arrears of land revenue. Recovery certificates amounting to ₹ 811.55 crore have been sent to other States. Recoveries amounting to ₹ 1,685.10 crore had been stayed by the courts/ appellate authority. Recoveries amounting to ₹ 368.79 crore were outstanding against the Government/semi Government departments. Arrears not covered under recovery certificates amounted to ₹ 11,212.96 crore. The demand for recovery of ₹ 1,208.04 crore was likely to be written off.
State Excise	63.23	58.41	Out of ₹ 63.23 crore, demand for ₹ 31.31 crore (including RC for ₹ 0.04 crore sent to other State) had been certified for recovery as arrears of land revenue. Recoveries amounting to ₹ 25.52 crore had been stayed by the courts/ appellate authority and the demand for recovery of ₹ 2.72 crore was likely to be written off. The department had not furnished the details in respect of remaining ₹ 3.68 crore.
Entertainment tax	10.36	5.84	Out of ₹ 10.36 crore, demand for ₹ 4.93 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to ₹ 5.43 crore had been stayed by the courts/ appellate authority.
Stamp and registration	594.83	Not furnished by the department	Out of ₹ 594.83 crore, demands for ₹ 155.40 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to ₹ 439.43 crore had been stayed by courts.
Total	17,121.72	11,526.81	

Source: Concerned departments

► 1.6 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.

1.6.1 Growth and composition of expenditure

Total expenditure includes revenue expenditure, capital expenditure and loans and advances. Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network. The capital expenditure increases State's infrastructure and services network (tangible assets).

Total expenditure

Growth rates of total expenditure (2005-10) its compositions, ratio and buoyancy with reference to GSDP and revenue receipts are presented in **Table 1.12**.

Table 1.12: Total expenditure-its basic parameters

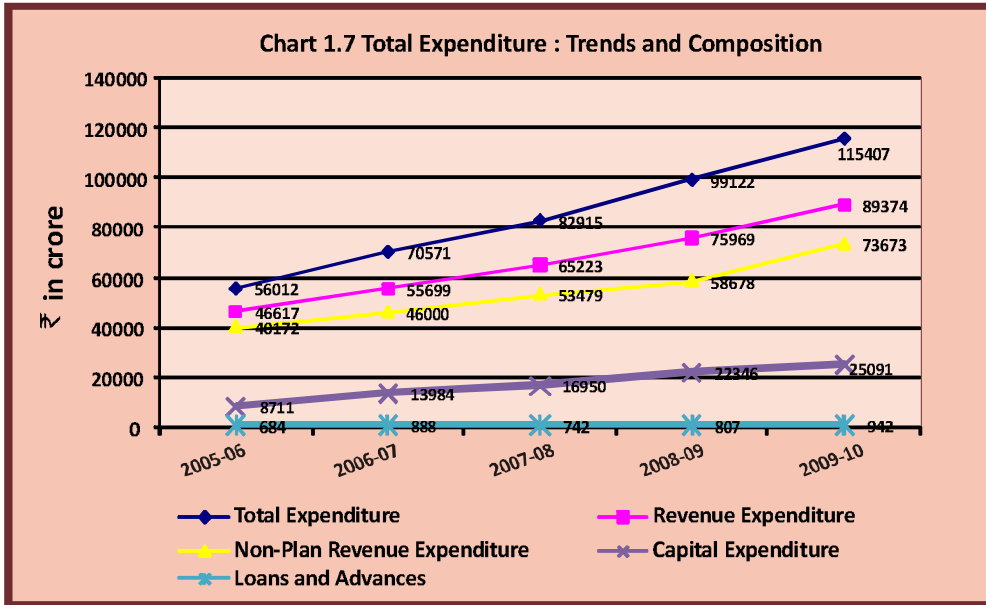
Particulars	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total expenditure	56,012	70,571	82,915	99,122	1,15,407
Revenue expenditure	46,617	55,699	65,223	75,969	89,374
Non-plan revenue expenditure	40,172	46,000	53,479	58,678	73,673
Plan expenditure	6,445	9,699	11,744	17,291	15,701
Capital expenditure	8,711	13,984	16,950	22,346	25,091
Loans and advances	684	888	742	807	942
Rate of growth of total expenditure	10.06	25.99	17.49	19.54	16.43
Total expenditure/GSDP (ratio)	20.22	22.57	23.19	24.05	23.49
Revenue receipts/total expenditure (ratio)	80.96	85.87	82.82	78.52	83.55
Buoyancy of total expenditure with					
GSDP	0.89	2.03	1.22	1.28	0.86
Revenue receipts (ratio)	0.49	0.77	1.31	1.46	0.69

Source: Finance Accounts

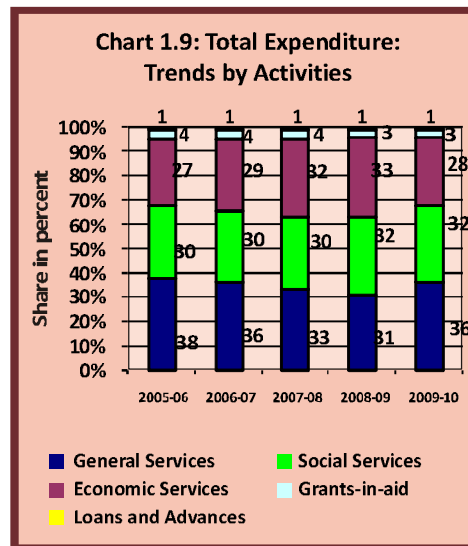
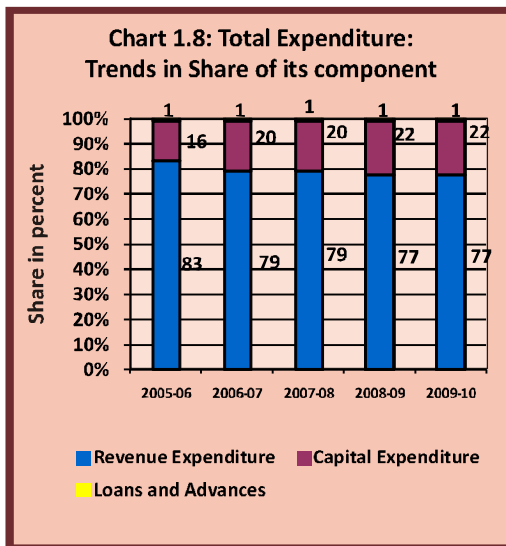
Total expenditure increased (106 per cent) from ₹ 56,012 crore in 2005-06 to ₹ 1,15,407 crore in 2009-10 with growth rate of 10.06 per cent in 2005-06 peaking to 25.99 per cent in 2006-07 and thereafter steadily decreasing to 16.43 per cent in 2009-10. Increase in total expenditure was due to increase in revenue expenditure (₹ 42,757 crore), capital expenditure (₹ 16,380 crore) and increase in disbursement of loans and advances (₹ 258 crore).

Revenue receipts, as a ratio of total expenditure, stood at 84 per cent (2009-10), indicating that 84 per cent of total expenditure was met out of revenue receipts.

Chart 1.7 presents the trends in total expenditure over a period of five years (2005-10).



Total expenditure steadily increased during 2005-10. During 2009-10, it increased by ₹ 16,285 crore over 2008-09 of which, revenue expenditure shared ₹ 13,405 crore (82 per cent), capital expenditure ₹ 2,745 crore (17 per cent) and loan and advances ₹ 135 crore (one per cent). Composition of total expenditure both in terms of ‘economic classification’ and ‘expenditure by activities’, is depicted respectively in Charts 1.8 and 1.9.



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 83 *per cent* in 2005-06 to 77 *per cent* in 2009-10 and that of capital expenditure increased from 16 *per cent* in 2005-06 to 22 *per cent* in 2009-10.

Expenditure by activities during 2005-10 indicated only marginal inter-year variations in its composition. However, a comparison of expenditure under economic, social and general services during 2009-10 with the projections made by the Twelfth Finance Commission is indicated in **Table 1.13**

Table 1.13: Expenditure, *vis-à-vis*, Twelfth Finance Commission's projections

(₹ in crore)

Particulars	TFC's projections	Actuals	Variations (excess; per centage in bracket)
General services	24,375.92	39,817.01	15,441.09 (63)
Social services	14,506.15	21,065.79	6,559.64 (45)
Economic services	5,182.95	9,429.60	4,246.65 (82)

Source: TFC recommendations, Finance Accounts

The expenditure exceeded the projections of the Twelfth Finance Commission by 63 *per cent*, 45 *per cent* and 82 *per cent* under general services, social services and economic services, respectively. The increase in general services was significantly higher.

1.6.2 Committed expenditure

Committed expenditure of the Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. It constituted 82 *per cent* of the NPRES. **Table 1.14** and **Chart 1.10** present the trends in the expenditure on these components during 2005-10.

Table 1.14: Components of committed expenditure

(₹ in crore)

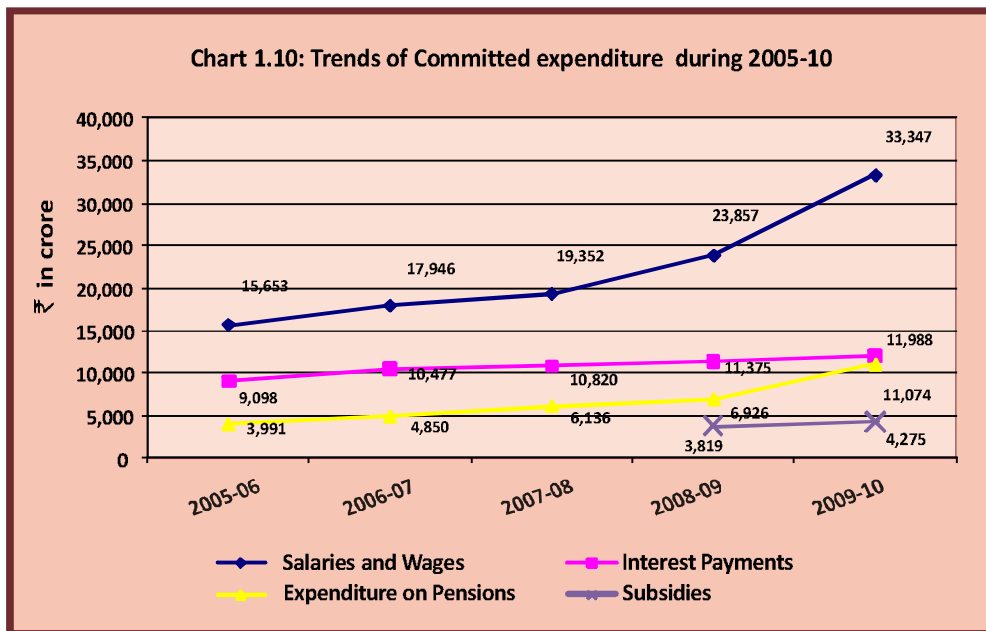
Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries* & Wages, Of which	15,653 (34)	17,946 (30)	19,352 (28)	23,857 (31)	34,568	33,347 (35)
Non-Plan Head	15,125	17,204	18,624	22,834	-	31,137
Plan Head**	528	742	728	1,023	-	2,210
Interest Payments	9,098 (20)	10,477 (17)	10,820 (16)	11,375(14)	11,742	11,988 (13)
Expenditure on Pensions	3991(9)	4,850 (8)	6,136 (9)	6,926 (9)	11,026	11,074 (11)
Subsidies	-	-	-	3,819 (5)	4,506	4,275 (4)
Total committed expenditure	28,742(63)	33,273 (55)	36,308 (53)	45,977 (59)	61,842	60,684 (63)

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 and VLC data.



Committed expenditure of the Government showed increasing trends in all its constituents over the periods 2005-10. It increased (111 *per cent*) from the level of ₹ 28,742 crore in 2005-06 to ₹ 60,684 crore in 2009-10. The increase was mainly under salary, wages and pensions.

Salaries and wages

Expenditure on salaries and wages revealed an increasing trend during 2005-10 under non-plan heads and fluctuating trend under plan heads. The expenditure under non-plan heads increased (106 *per cent*) from ₹ 15,125 crore in 2005-06 to ₹ 31,137 crore in 2009-10. A growth of 36 *per cent* was recorded during 2009-10 over the previous year. The expenditure under the plan heads increased by 319 *per cent* from ₹ 528 crore in 2005-06 to ₹ 2,210 crore in 2009-10 with a dip in 2005-06. *The salary expenditure, however, exceeded the projected expenditure (₹19,417 crore) in the Fiscal Correction Path by ₹13,930 crore (72 per cent) due to acceptance of the recommendations of the Sixth Pay Commission.*

Total salary bill relative to revenue expenditure net of interest payments and pensions during 2009-10 was 50 per cent which remained in excess of the Twelfth Finance Commission norm of 35 per cent.

Pension payments

The expenditure on pensions showed an increasing trend during 2005-10. It increased (177 *per cent*) from ₹ 3,991 crore in 2005-06 to ₹ 11,074 crore in 2009-10. Relative to

2008-09, it increased (60 per cent) by ₹ 4,148 crore. The position of pension payments, *vis-à-vis*, the Fiscal Correction Path and the Twelfth Finance Commission projections for the year 2009-10 is presented below in **Table 1.15**.

Table 1.15: Pension payments, *vis-a-vis*, FCP and TFC projections

(₹ in crore)

Year	Projections in Fiscal Correction Path	Projections by Twelfth Finance Commission	Actuals	Variations (excess/short) with	
				Fiscal Correction Path	Twelfth Finance Commission
2009-10	6,033.50	6,672.75	11,074 crore	5,040.50	4,401.25

Pension payments exceeded the projection of Twelfth Finance Commission by ₹ 4401 crore (66 per cent) and that assessed in the FCP by ₹ 5,041 crore (84 per cent).

The Government had 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

Interest payments relative to total revenue receipts came down from 20 per cent in 2005-06 to 12 per cent in 2009-10 whereas it ranged between 13 per cent and 20 per cent during 2005-10 in relation to revenue expenditure. The position of interest payments, *vis-à-vis*, Fiscal Correction Path and Twelfth Finance Commission's projections is presented below in **Table: 1.16**.

Table 1.16: Interest payments, *vis-a-vis*, Budget Estimates, Fiscal Correction Path and Twelfth Finance Commission projections

(₹ in crore)

year	Actuals	Budget estimates	Projections by the Government in FCP	Projections by TFC	Variations (excess/short) with		
					BE	FCP	TFC
2009-10	11,988	11,742	14,888	11,703.34	(+) 246	(-) 2900	(+) 284.66

Source: Finance Accounts, State Budget, TFC recommendations

Interest payments during 2009-10 were lesser than the projections made in Fiscal Correction Path. These were, however, above the assessments made by the Twelfth Finance Commission and by the Government in its budget estimates.

Subsidies

Government paid subsidies amounting to ₹ 4,275 crore during 2009-10 which constituted four per cent of the revenue receipts and of the total expenditure. Of the total subsidies paid, ₹ 2,131 crore (50 per cent) was disbursed under non-plan, ₹ 1,126 crore (26 per cent) under plan and ₹ 1,018 crore (24 per cent) under Centrally sponsored schemes.

The major sectors given subsidy included energy (₹ 1,645 crore; 38 per cent), rural development (₹ 1,208 crore; 28 per cent), agriculture and other allied activities (₹ 857 crore; 20 per cent) and irrigation and flood control (₹ 180 crore; four per cent).

Subsidy payment with reference to projections in Mid Term Fiscal Restructuring Policy and Fiscal Correction Path is detailed in **Table 1.17**.

Table 1.17: Subsidy payment with reference to projections in BE and FCP

Particulars	Projection in MTFRP (₹ in crore)	Projections in FCP		Actuals	
		Amount (₹ in crore)	Percentage of GSDP	Amount (₹ in crore)	Percentage of GSDP
Energy	1,642	1,700	0.35	1,645	0.33
General	2,864	189	0.04	2,630	0.54
Total	4,506	1,889		4,275	

Source: Finance Accounts, State Budget

Within the subsidies projected under Fiscal Correction Path, the actuals of the energy subsidy were short (₹ 55 crore; three per cent). However, the general subsidies exceeded (₹ 2,441 crore) the projections by 1,292 per cent, indicating that general sector received priority over the energy sector.

Subsidy payments during 2009-10 exceeded the projections in Fiscal Correction Path but were within the projections made by the Government in Mid Term Fiscal Restructuring Policy for 2009-10.

1.6.3 Financial Assistance by Government to local bodies and other institutions

Table 1.18 presents quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years.

Table 1.18: Financial Assistance to Local Bodies, etc.

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	7,622.34	9,146.53	10,503.38	10,642.76	10,364.69
Municipal Corporations and Municipalities/Development Agencies	153.03	350.32	948.61	1,262.59	2,461.05
Zilla Parishads and Other Panchayati Raj Institutions	2,331.92	2,742.25	3,549.49	3,504.21	2,369.77
Hospitals and Other Charitable Institutions	104.56	96.10	130.18	121.76	249.65
Other Institutions ⁸	70.73	149.11	228.73	291.16	2,674.87
Total	10,282.58	12,484.31	15,360.39	15,822.48	18,120.03
Assistance as per percentage of Revenue Expenditure	22	22	24	21	20

Source: Finance Accounts

⁸ National Old Age Pension Scheme: 2009-10- ₹ 1081.42 crore

Assistance to local bodies and other institutions increased (₹ 7,837.45 crore; 76 per cent) from ₹ 10,282.58 crore in 2005-06 to ₹ 18,120.03 crore in 2009-10. Relative to 2008-09, the growth (₹ 2,297.55 crore) was 15 per cent. The assistance, as a percentage of revenue expenditure, ranged between 20 per cent and 24 per cent. However, it was at the lowest level of 20 per cent during the current year. Within the quantum of assistance provided during 2009-10, the educational institutions continued to be the main beneficiaries of the assistance followed by Municipal Corporations and Municipalities/Development Agencies.

► **1.7 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).

1.7.1 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 General Category States average while 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 1.19 shows the comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 (the first year of award period of the Twelfth Finance Commission) and the current year 2009-10 (the terminal year of award period of the Twelfth Finance Commission).

Table 1.19: Fiscal priority of the State in 2005-06 and 2009-10

(In per cent)

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Uttar Pradesh State's Average (Ratio) 2005-06	20.22	57.67	30.33	15.55	16.28	5.48
General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Uttar Pradesh State's Average (Ratio) 2009-10	23.49	61.14	32.02	21.74	14.48	5.24

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
 CE: Capital Expenditure
 # Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source : For GSDP, the information was collected from the State's Directorate of Economic and Statistics

In 2005-06 and 2009-10, the Government has given adequate fiscal priority to AE/ CE and Health as the ratio of AE/ GSDP, CE/ AE and Health/ AE was higher than the General Category States' Average.

The fiscal priority given to DE, SSE and Education was not adequate in both the years 2005-06 and 2009-10 as their ratio to AE was lesser than the General Category States Average. ***As the literacy rate in the State (56.27 per cent) is much below the All India Average (64.8 per cent) and infant mortality (67 per thousand births) is much above the All India Average (53 per thousand births), greater fiscal priority needs to be given to Economic Sector Expenditure and Social Sector Expenditure.***

1.7.2 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, the better would be the quality of expenditure.

Table 1.20 presents the trends in development expenditure relative to the total expenditure of the State during 2009-10, *vis-à-vis*, budgeted and that of the previous years.

Table 1.20: Development expenditure

(₹ in crore)

Components of development expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development expenditure (a to c) (Figures in parentheses indicate percentage to total expenditure)	32,304 (58)	42,661 (60)	52,102 (63)	64,737 (65)	72,140 (61)	70,554 (61)
a. Development revenue expenditure (Figures in bracket indicate percentage to development expenditure)	23,366 (72)	28,657 (67)	35,123 (67)	42,695 (66)	48,251 (67)	45,372 (64)
b. Development capital expenditure (Figures in bracket indicate percentage to development expenditure)	8,398 (26)	13,330 (31)	16,375 (31)	21,504 (33)	23,223 (32)	24,480 (35)
c. Development loans and advances (Figures in bracket indicate percentage to development expenditure)	540 (2)	674 (2)	604 (1)	538 (1)	666 (1)	702 (1)

Source: Finance Accounts

Development expenditure comprising revenue and capital expenditure and loans and advances for socio-economic services increased (118 *per cent*) from the level of ₹ 32,304 crore in 2005-06 to the level of ₹ 70,554 crore in 2009-10. Relative to the previous year, the growth in development expenditure in 2009-10 was ₹ 5,817 crore (9 *per cent*). Within the development expenditure, the growth was shared by revenue expenditure, capital expenditure and loans and advances in the ratio of 64 *per cent*, 35 *per cent* and one *per cent* respectively. The increasing trend in capital expenditure during 2005-10 indicated improvement in quality of expenditure and impetus being given to the asset formation.

The position of development expenditure, *vis-a-vis*, budget estimates during 2009-10 is graphically presented in the **Chart 1.11** below. The chart reveals that the development capital expenditure and loans and advances exceeded their respective estimates by ₹ 1,257 crore and ₹ 36 crore respectively while, development revenue expenditure fell short of estimates by ₹ 2,879 crore.

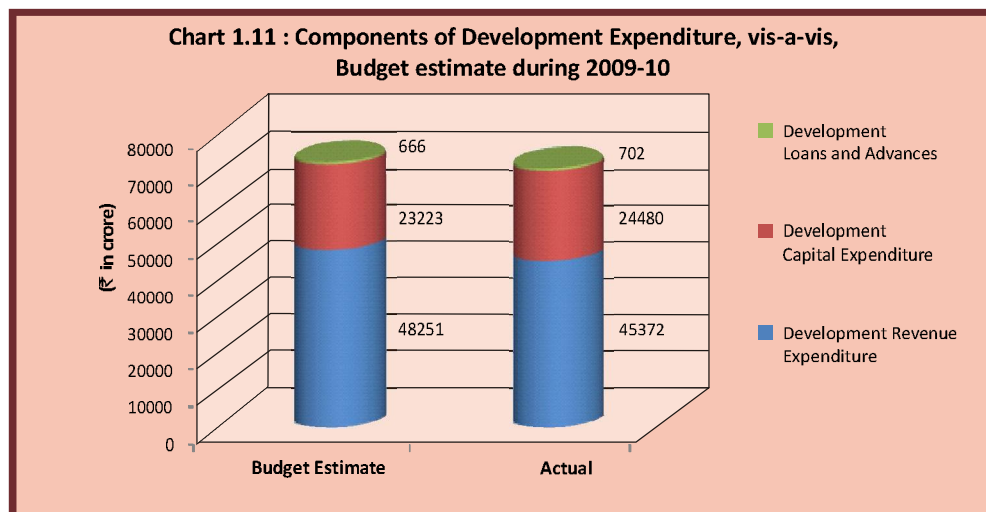


Table 1.21 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.21: Efficiency of expenditure use in selected social and economic services

(In per cent)

Social/Economic Infrastructure	2008-09			2009-10		
	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	0.31	80.45	0.19	1.03	81.59	0.37
Health and Family Welfare	24.94	64.22	3.89	20.91	76.64	21.92
WS, Sanitation, & HUD	11.37	0.23	0.69	58.36	0.69	1.56
Total (SS)	9.35	45.81	0.73	12.72	54.49	5.53
Economic Services (ES)						
Agri & Allied Activities	47.14	34.67	0.47	60.23	42.89	7.12
Irrigation and Flood Control	48.95	41.43	29.20	45.02	50.74	12.83
Power & Energy	78.79	0.55	--	72.86	0.50	0.84
Transport	77.69	2.97	94.02	73.51	3.60	95.50
Total (ES)	56.74	23.49	16.70	58.87	33.78	19.71
Total (SS+ES)	33.50	38.42	6.02	34.70	48.41	9.69

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

Source: Finance Accounts and VLC data

Share of capital expenditure to total expenditure registered an improvement by 1.20 *per cent* during the current year (34.70 *per cent*) over the previous year (33.50 *per cent*). The share of capital expenditure under social and economic services also showed an improvement over the previous year by 3.37 *per cent* and 2.13 *per cent* respectively. Within the social services, the improvement in the ratio of capital expenditure to total expenditure during 2009-10 over the previous year was three-fold in the area of general education and five-fold in the area of water supply, sanitation, housing and urban development. A decline of four *per cent* was noticed under Health and Family Welfare. Within the economic services, there was 13 *per cent* increase in the area of agriculture and other allied activities while there was a decrease of six *per cent* in power and energy and four *per cent* each in transport and irrigation and flood control.

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 29 *per cent* and under the health sector by 54 *per cent* while the non-salary and non-wage component increased by 20 *per cent* under the education sector and decreased by 16 *per cent* under the health sector. The expenditure pattern in education and health sectors needs to be in conformity to the norms of the Twelfth Finance Commission in the ensuing years.

Share of O&M expenditure in the revenue expenditure under social services increased from the level of 0.73 *per cent* in the previous year to the level of 5.53 *per cent* in the current year. Similarly, the overall share of O&M expenditure in the revenue expenditure under the economic services increased from the level of 16.70 *per cent* in the previous year to the level of 19.71 *per cent* in the current year. However, O&M expenditure under irrigation and flood control which is one of the constituents of economic services, decreased by 16.37 *per cent*.

► 1.8 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.

1.8.1 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.

Receipts (₹ 267 crore) from the major, medium and minor irrigation projects during 2009-10 was only 10 *per cent* of the expenditure of ₹ 2,633 crore on their operations and maintenance which was much below the cost recovery assessment of 90 *per cent* of the Twelfth Finance Commission for the year. The **Table 1.22** 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 1.22: 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
	₹ in crore				
2005-06	1,261	199	16	50	34
2006-07	1,776	182	10	60	50
2007-08	2,263	353	16	70	54
2008-09	2,520	295	12	80	68
2009-10	2,633	267	10	90	80

Source: Finance Accounts and recommendations of TFC

Shortfall in cost recovery relative to the assessment of Twelfth Finance Commission had increasing tendency all along the periods 2005-10. The shortfall increased from the level of 34 per cent in 2005-06 to 80 per cent in 2009-10. These projects were able to recover only 10 per cent of running and maintenance expenditure incurred on these during 2009-10 which questioned their viability.

Financial results of 16 major irrigation projects with a capital outlay of ₹ 5,356 crore at the end of March 2010 showed that revenue realised (₹ 15.96 crore) from these projects during 2009-10 decreased to 0.30 per cent of the capital outlay from the level of 3.68 per cent in the previous year and was insufficient to cover even the interest (₹ 273.60 crore) on capital investments during 2009-10. The revenue realised (₹ 15.96 crore) from these 16 schemes, expenditure incurred (₹ 543.51 crore) on the working and maintenance of these schemes during 2009-10 and taking into account the interest of ₹ 273.60 crore on capital outlay, there was a net loss of ₹ 801.15 crore.

1.8.2 Incomplete projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The department wise position of incomplete projects, each costing above ₹ one crore and due for completion by March 2010, is given in **Table 1.23**.

Table 1.23: Department-wise profile of incomplete projects

(₹ in crore)

	No. of incomplete projects	Initial budgeted cost	Revised total cost of projects*	Cost over run	Cumulative expenditure as on 31.3.2010
Irrigation Department					
	3	121.32	129.17 (3 projects)	7.85 (3 projects)	126.40
Public Works Department					
Roads	102	633.54	295.90 (12 projects)	70.58 (12 projects)	536.56
Bridges	13	261.86	1.83 (2 projects)	0.50 (2 projects)	196.63
Others	8	33.10	15.00 (3 projects)	4.16 (3 projects)	21.26
Total	126	1,049.82	441.90 (20 projects)	83.09 (20 projects)	880.85

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

Source: Finance Accounts

An expenditure of ₹ 881 crore (March 2010) remained largely unfruitful on the aforesaid 126 incomplete projects. Further, of 126 incomplete projects, the initial budgeted cost of 20 projects was revised by the Government involving a cost overrun of ₹ 83.09 crore. No reasons for delay in their completion were given by the concerned departments. In Public Works Department, the work on upgradation of Azamgarh-Mau-Fefna Marg which was due for completion by March 2010 was lying incomplete after 77 per cent of work and 100 per cent expenditure of initial budgeted cost of ₹ 111.48 crore. In Irrigation Department, Linking of Chaudhary Charan Singh Zamnala Pump Canal System, Majgaon Dam Sahayak and Parallel Hindon Cut Canal which were due for completion by March 2010 were lying incomplete, as of March 2010, even after an expenditure of ₹ 126.40 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.

1.8.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 39,666.64 crore in Statutory corporations (₹ 431.41 crore), Government companies (₹ 38,627.64 crore), Joint stock companies (₹ 10 lakh) and co-operatives (₹ 607.49 crore). The average return on the investment was 0.013 per cent in the last three years while the Government paid an average interest rate of 6.29 per cent on its borrowings during the same period (Table 1.24).

Table 1.24: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	15,464.60	18,545.82	12,188.76	14,866.13 ⁹	39,666.64 ¹⁰
Return (₹ in crore)	0.15	0.85	1.05	1.26	8.36
Return (per cent)	0.001	0.005	0.009	0.008	0.021
Average rate of interest ¹¹ on Government borrowing (per cent)	6.49	6.74	6.43	6.29	6.16
Difference between interest rate and return (per cent)	6.49	6.74	6.42	6.28	6.14

Source: Finance Accounts

During 2009-10, the Government mainly invested in the share capital of corporations engaged in the thermal power generation, power transmission and distribution and rural electrification, etc.

1.8.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments.

The Government had invested ₹ 368.72 crore in ten undertakings. Seven of ten undertakings earned net profit amounting to ₹ 66 lakh against the capital investment of ₹ 6.86 crore. The main profit earning undertakings were Irrigation Workshop Divisions at Allahabad, Bareilly, Jhansi and Meerut under Irrigation Department. Two undertakings pertaining to Food and Civil Supplies Department and Health Department were, however, incurring losses.

In view of the 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.

1.8.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the

⁹ Does not include ₹ 13,262.56 crore pertaining to 2008-09 and previous years which is under reconciliation.

¹⁰ Differs by ₹ 1,923.06 crore from the figures appearing in Para 1.5 of the Commercial Audit Report 2009-10.

¹¹ See glossary at page 107 for method of calculation.

Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.25** presents the position of outstanding loans and advances as on 31 March 2010, interest receipts, *vis-à-vis*, interest payments during the last three years.

Table: 1.25 Average interests received on loans advanced by the Government

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2007-08	2008-09	2009-10	
			BE	Actual
Opening Balance	8,692	8,985	-	9,014
Amount advanced during the year	742	807	127	942
Amount repaid during the year	449	778	604	293
Closing Balance	8,985	9,014	-	9,663
Net addition	293	29	(-) 477	649
Interest Receipts	31	53	-	39
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.35	0.59	-	0.41
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.20	6.06	-	5.94
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 5.85	(-) 5.47	-	5.53

Source: Finance Accounts

Amounts advanced during 2009-10 exceeded the provision made in the budget by ₹ 815 crore (642 *per cent*) and the repayment of loans was also below the level of assessment made in the budget by ₹ 311 crore (51 *per cent*).

Major portion of the loans was given during 2009-10 under economic sector (₹ 510.14 crore) followed by social service sector (₹ 192.11 crore). Within the economic sector, the major loans and advances were given to consumer industries (₹ 380 crore) and for agriculture and allied activities (₹ 15.48 crore). Similarly, within the social service sector, loans were given for Nagar Vikas Yojna (₹ 188.90 crore).

Amount of outstanding loans and advances increased from ₹ 9,014 crore at the close of March 2009 to ₹ 9,663 crore at the close of March 2010 that is by ₹ 649 crore. The sector-wise break-up of the major outstanding amounts was: economic services (₹ 6,822 crore) and social services (₹ 1,791 crore) and general services (₹ 965 crore) and Government servants (₹ 84 crore). Under the economic services, major portion of the outstanding loans pertained to the energy (₹ 2,781 crore), industries and minerals (₹ 3,020 crore) and agriculture and other allied activities (₹ 395 crore).

Interest receipts against outstanding loans and advances were well below one *per cent* all along the periods 2007-10 against interest rate of borrowed funds ranging between 5.94 *per cent* (2009-10) and 6.20 *per cent* (2007-08) indicating that interest receipts were inadequate to cover the interest liabilities required to service the debt.

1.8.6 Cash balances and investment of cash balances

Table 1.26 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.26: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase (+)/ Decrease (-)
Cash balances	9,067.14	3,405.36	(-) 5,661.78
Investments from cash balances (a & b)			
a. GOI Treasury Bills	8,961.19	3,194.59	(-) 5,766.60
b. GOI Securities	45.20	45.20	Nil
Funds- wise break- up of investment from earmarked balances (a and b)			
Investment in GOI Securities	45.20	45.20	Nil
Interest realised	581.53	217.36	(-) 364.17

Source: Finance Accounts

Interest received on investment of cash balance was 2.22 per cent¹² during 2009-10 while the Government paid interest at 6.16 per cent on its borrowings during the year.

1.8.7 Ways and Means Advances

Under an agreement with the Reserve Bank of India, the State has to maintain a minimum cash balance of ₹ 4.71 crore and in case, it falls below this limit the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time. The Government, however, did not avail this facility during 2009-10

▶ 1.9 Assets and liabilities

1.9.1 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 1.8* gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in *Appendix 1.8* consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and 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.

¹² Rate of interest calculated on the average amount of rediscounted Treasury Bills.

1.9.2 Fiscal liabilities

Trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.8** and the composition of fiscal liabilities during the year 2009-10, *vis-a-vis*, previous year is presented in **Chart 1.12** and **1.13**.

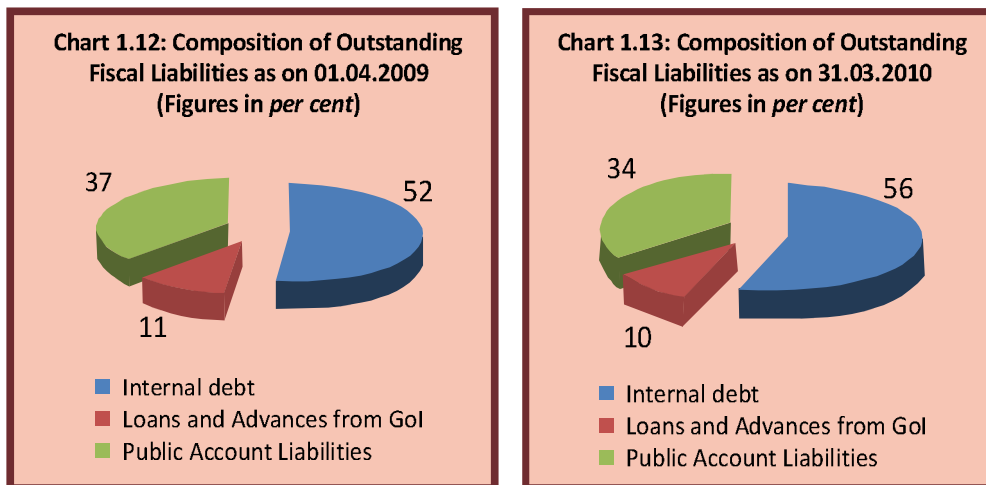


Table 1.27 gives the fiscal liabilities of the State, their rate of growth, their ratio to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.27: Fiscal liabilities- basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal liabilities (₹ in crore)	1,48,868	1,62,156	1,74,248	1,87,411	2,01,720
Rate of growth (<i>per cent</i>)	13.29	8.93	7.46	7.55	7.64
Ratio of fiscal liabilities to					
GSDP (<i>per cent</i>)	53.73	51.87	48.73	45.47	41.06
Revenue receipts (<i>per cent</i>)	328.27	267.58	253.74	240.79	209.21
Own resources (<i>per cent</i>)	683.26	549.10	566.20	529.02	424.86
Buoyancy of fiscal liabilities with reference to					
GSDP (ratio)	1.172	0.696	0.519	0.494	0.398
Revenue receipts (ratio)	0.647	0.266	0.560	0.566	0.320
Own resources (ratio)	0.725	0.251	1.772	0.500	0.225

Overall fiscal liabilities of the State increased (35.50 *per cent*) from ₹ 1,48,868 crore in 2005-06 to ₹ 2,01,720 crore in 2009-10. Fiscal liabilities of the State under the Consolidated Fund (₹ 1,32,524 crore) comprised internal debt (₹ 1,13,077 crore) and loans from Government of India (₹ 19,447 crore). The Public Account liabilities (₹ 69,197 crore) comprised small savings, provident fund (₹ 29,229 crore), deposits (₹ 16,210 crore) and reserve funds (₹ 23,758 crore). The growth rate of fiscal liability was 7.64 *per cent* during 2009-10 over previous year. The ratio of fiscal liabilities to GSDP decreased from 53.73 *per cent* in 2005-06 to 41.06 *per cent* in 2009-

10. These liabilities stood at 2.09 times the revenue receipts and 4.25 times of the States' own resources at the end of 2009-10. The buoyancy of these liabilities with respect to GSDP during the year was 0.398 indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.398 *per cent*.

State raised loans amounting to ₹ 22,206.41 crore which, amongst many sources, included ₹ 13,876.93 crore from the market. However, viewed in terms of availability of surplus cash balances and large amount of cash lying idle with the State implementing agencies from out of the funds directly transferred to them by the Government of India for implementation of the various schemes, raising such loans could have been avoided. ***The State needs to redefine its borrowing policy to utilize optimally the surplus cash balances and amounts lying idle with the State implementing agencies.***

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. The balance in sinking fund as on 31 March 2010 stood at ₹ 20,782.48 crore¹³.

1.9.3 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 FRBM 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.***

Consequently, 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 9 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 1.28**

Table: 1.28 Guarantees given by the Government

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	18,144	27,892	29,311
Outstanding amount of guarantees	12,736	16,084	20,038
Percentage of maximum amount guaranteed to total revenue receipts	26.42	35.84	30.40

Source: Finance Accounts

¹³ ₹ 20,782.48 crore includes credit balance of ₹ 6,166.40 crore of undivided Uttar Pradesh.

The maximum amount guaranteed increased (62 per cent) from the level of ₹ 18,144 crore in 2007-08 to ₹ 29,311 crore in 2009-10. The outstanding amount of guarantees also increased from ₹ 12,736 crore in 2007-08 to ₹ 20,038 crore in 2009-10 (57 per cent). The percentage of maximum amount guaranteed to total revenue receipts increased from the level of 26.42 per cent in 2007-08 to 30.40 per cent in 2009-10, although decreased by 5.44 per centage points relative to 2008-09. The outstanding amount of guarantees as on 31 March 2010 was against State Financial Corporation (₹ 122.58 crore), institutions engaged in energy sector (₹ 16,541.27 crore), roads and transport (₹ 3.94 crore), four cooperative institutions (₹ 2,943.81 crore) and fifteen other institutions (₹ 426.54 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 percentage of total liabilities to GSDP would increase to 45 per cent from 41 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.

▶ 1.10 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 1.29** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

Table 1.29: Debt sustainability- indicators and trends

Indicators of debt sustainability	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Debt stabilisation (Quantum spread + primary deficit)	8,152	8,424	4,664	8,426	17,733
Sufficiency of non-debt receipts (resource gap)	2,919	463	(-) 4,179	(-) 6719	1,820
Net availability of borrowed funds	8,394	2,811	1,272	1,788	2,387
Burden of interest payments (IP/RR ratio)	20	17	16	15	12

Source: Finance Accounts

1.10.1 Debt stability

An important condition for debt sustainability is stabilization in terms of debt/ GSDP ratio. When the quantum spread and primary deficit are negative, the debt GSDP ratio will be

high indicating unsustainable levels of public debt and when the quantum spread and primary deficit are positive, debt/GSDP ratio will be low indicating sustainable levels of public debt.

During 2005-10, the quantum spread together with primary deficit remained positive indicating declining trends in debt/GSDP ratio and sustainable level of public debt.

1.10.2 Sufficiency of incremental non-debt receipts (Resource gap)

Another indicator of debt sustainability is the sufficiency of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. This 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 2007-09 indicated that the capacity of the State to sustain the debt in the medium and long run weakened but during 2009-10 it has recovered.

1.10.3 Net availability of borrowed fund

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 3.38 and 22.42 per cent during 2005-10¹⁴. During the year 2009-10, Government repaid internal debt of ₹ 6,469 crore, GOI loans of ₹ 1,200 crore and also discharged other obligations of ₹ 31,506 crore along with interest of ₹ 11,988 crore as a result of which percentage of availability of borrowed funds improved to 4.46 per cent during the year 2009-10 over 3.64 per cent in previous year. The trends in debt redemption ratio varied between 78 per cent in 2005-06 and 96 per cent in 2009-10. About 96 per cent of borrowed funds were used for discharging debt liabilities of the State in the last three years.

1.10.4 Maturity profile

In terms of maturity profile, while the State has not defined clearly 1.87 per cent of the debt stock, 56 per cent of the outstanding State debt belonged to the maturity bracket of seven years and above. **Table 1.30** gives the maturity profile of State debt and **Chart 1.14** presents it graphically.

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(₹ in crore)

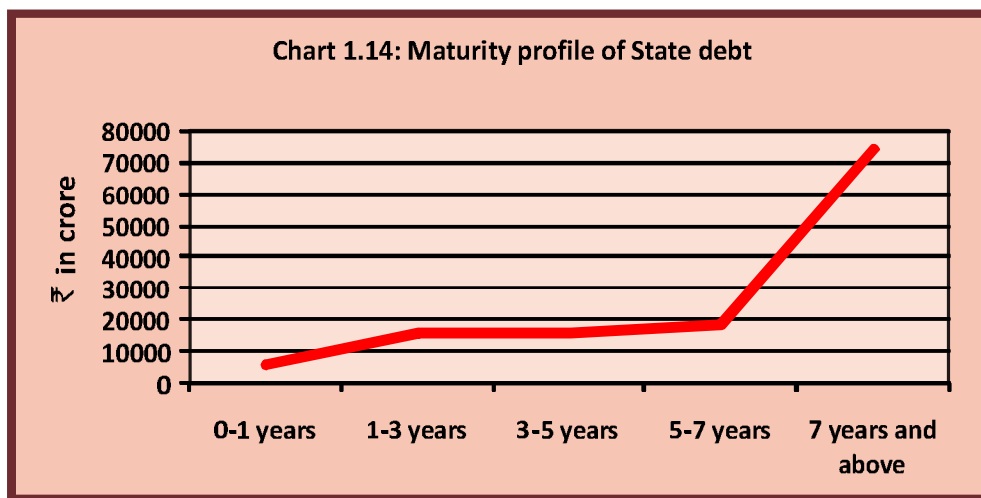
	2005-06	2006-07	2007-08	2008-09	2009-10
Receipt	37,441	34,683	37,584	49,193	53,485
Repayment (principal and interest)	29,047	31,872	36,312	47,405	51,098
Net fund available	8,394	2,811	1,272	1,788	2,387
Net fund available (in per cent)	22.42	8.10	3.38	3.64	4.46

Table 1.30: Maturity profile of State debt

(₹ in crore)

Maturity profile	Internal Debt	Loans & Advances	Total	Per cent
0 – 1 year	4,359	1,300	5,659	4.27
1 – 3 years	13,155	2,633	15,788	11.91
3 – 5 years	13,400	2,681	16,081	12.14
5 – 7 years	15,638	2,708	18,346	13.84
7 years and above	64,050	10,125	74,175	55.97
Information not furnished by the Government	2,475	--	2,475	1.87
Total	1,13,077	19,447	1,32,524	100

Source: Finance Accounts



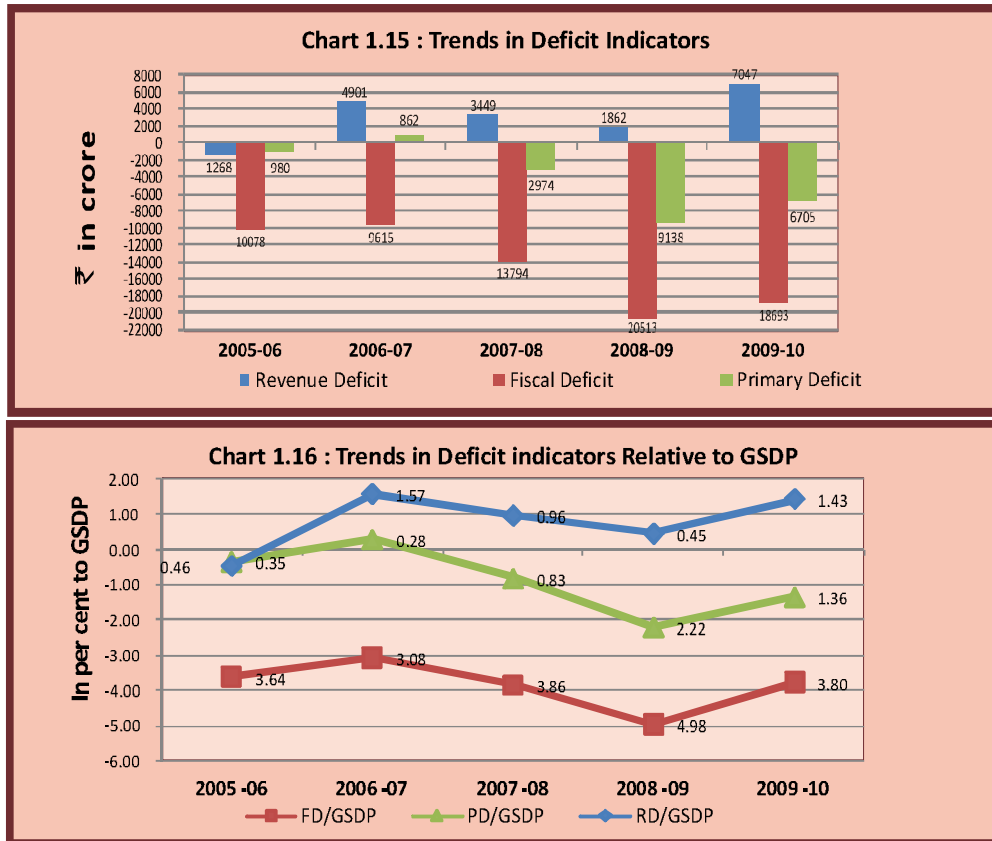
As per data, there will be bunching of repayment immediately after one year and after seven years the repayment burden will be critical. A well thought out debt payment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

► 1.11 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 for the financial year 2009-10.

1.11.1 Trends in deficits

Chart 1.15 and 1.16 present the trends in deficit indicators over the period 2005-10.



As per the fiscal target set for the Government in the Fiscal Responsibility and Budget Management Act, 2004, the revenue deficit was to be reduced to nil by March 2010. However, the State achieved this target two years ahead in 2006-07 when the huge deficit turned into surplus of ₹ 4,901 crore in 2006-07 which, declined to ₹ 3,449 crore during 2007-08 and further to ₹ 1,862 crore during 2008-09. The decline in revenue surplus during 2008-09 was mainly due to increase of ₹ 10,746 crore in revenue expenditure against the increase of ₹ 9,159 crore only in revenue receipts relative to 2007-08. During the financial year 2009-10, the growth of revenue receipts (₹ 18,590 crore) exceeded the growth of revenue expenditure (₹ 13,405 crore). As a result, the revenue surplus increased to ₹ 7047 crore from the level of ₹ 1,862 crore in 2008-09.

The fiscal deficit decreased from ₹ 20,513 crore in 2008-09 to ₹ 18,693 crore in 2009-10 mainly due to increase in revenue receipts by ₹ 18,590 crore (24 per cent) during the year. As a result, relative to GSDP, the fiscal deficit has declined from 4.98 per cent in 2008-09 to 3.80 per cent in 2009-10 which was within the revised FRBM norm of four per cent.

The primary deficit of ₹ 6,705 crore in 2009-10 declined from the level of ₹ 9,138 crore in 2008-09, primarily due to the decline in fiscal deficit in 2009-10 relative to the previous year.

1.11.2 Components of fiscal deficit and its financing pattern

Fiscal deficit is the total borrowing requirement of the State and is the excess of the revenue expenditure and capital expenditure including loans and advances over revenue and non debt capital receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts. The financing pattern of the fiscal deficit is reflected in the **Table 1.31**.

Table 1.31: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
Fiscal deficit (1 to 3)		10,078	9,615	13,794	20,513	18,693
		(3.64)	(3.08)	(3.86)	(4.98)	(3.80)
1	Revenue Deficit/Surplus (-)	1,268	(-) 4,901	(-) 3,449	(-) 1,862	(-) 7,047
2	Net Capital Expenditure	8,711	13,984	16,950	22,346	25,091
3	Net Loans and Advances	99	532	293	29	649
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	2,007	2,219	2,628	10,296	11,421
2	Loans from GOI	(-) 855	(-) 1,795	(-) 821	(-) 778	(-) 917
3	Special Securities Issued to NSSF	7,625	5,831	1,423	426	3,899
4	Loans from Financial Institutions	229	131	1,068	628	418
5	Small Savings, PF etc	1,960	2,733	2,451	2,944	3,870
6	Deposits and Advances	3,338	1,794	2,683	(-) 2,525	93
7	Suspense and Miscellaneous	755	2,277	654	973	(-) 1,365
8	Remittances	140	407	273	78	3
9	Others (i.e. transactions under Contingency Fund, Reserve Fund, Cash Balances Investment)	(-) 5,121	(-) 3,982	3,435	8,471	1,271
Total		10,078	9,615	13,794	20,513	18,693

Figures in brackets indicate the *per cent* to GSDP.
 *All these figures are net of disbursements/outflows during the year

Source: Finance Accounts

Fiscal deficit during 2005-10 ranged between ₹9,615 crore (2006-07) and ₹20,513 crore (2008-09). The fiscal deficit, relative to previous year, decreased by 9 *per cent*, from the level of ₹ 20,513 crore to ₹18,693 crore during 2009-10. Growth of 24 *per cent* in revenue receipts over the previous year was the major factor for decline in the fiscal deficit during the current year.

There was also a compositional shift in the pattern of financing fiscal deficit in 2009-10 relative to the previous years. The role of market borrowings, Special Securities issued to the National Small Savings Fund of the Central Government and Small Savings and Provident Funds, etc., underwent significant changes in the current year.

Market borrowings dominantly continued to finance the fiscal deficit of the State during 2005-10. During 2005-06, 20 *per cent* of the deficit was met from the market borrowings

which increased to 61 *per cent* during 2009-10. Another major player of financing the deficit was the NSSF loans. During 2009-10, its share in financing the deficit was 21 *per cent* which though financed the deficit to the extent of 76 *per cent* in 2005-06.

1.11.3 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 1.32**) 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 1.32: Primary deficit/surplus – bifurcation of factors

(₹ 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)
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
2009-10	96,714	77,386	25,091	942	1,03,419	(+) 19,328	(-) 6,705

Source: Finance Accounts

The Government, during 2006-07 for the first time, had a primary surplus of ₹ 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.

► 1.12 Conclusion and recommendations

Revenue receipts: The revenue receipts increased by 24 *per cent* during 2009-10 over the preceding year mainly due to 18 *per cent* increase in tax revenue and 101 *per cent* in non-tax revenue. These receipts were higher than the projections made in the Fiscal Correction Path (FCP) and Mid Term Fiscal Restructuring Policy (MTFRP) for 2009-10 by 26 *per cent* and two *per cent* respectively. Tax revenue which is a constituent of the revenue receipts remained very close to the projections in the FCP and MTFRP and the

normative assessment made by the Twelfth Finance Commission (TFC). The arrears of revenue ending March 2010 amounted to ₹ 17,118 crore. Non-tax revenue was significantly higher than the projections in the FCP and MTFRP and the normative assessment made by the TFC. The cost of collection of major revenue receipts during 2009-10 in the State was about two times the All India Average. The fiscal performance will gain through concerted efforts in tax compliance focusing on realisation of tax arrears.

Revenue expenditure: During 2009-10, the revenue expenditure increased by 18 *per cent* (₹ 13,405 crore) relative to 2008-09. Within revenue expenditure, plan expenditure decreased by ₹ 1,590 crore (9 *per cent*) over the previous year and the non-plan expenditure increased by ₹ 14,995 crore (26 *per cent*). The decreases under plan expenditure were under social services (₹ 586 crore) and economic services (₹ 1617 crore) and increases under non-plan expenditure were under general services (₹ 10,260 crore), social services (₹ 4104 crore), economic services (₹ 775.43 crore). Non-plan revenue expenditure exceeded TFC's normative projections by 53 *per cent* and State's own FCP by 15 *per cent* but remained close to the projections in the State's MTFRP. The revenue expenditure as a percentage of total expenditure declined from 83 *per cent* to 77 *per cent*. The committed expenditure on salary, pension, interest payments and subsidies constituted 82 *per cent* of the non-plan revenue expenditure during 2009-10. It is advisable for the Government to redefine its expenditure pattern by cutting down unproductive expenditure.

Priority to economic and social sector expenditure: The fiscal priority given to development, social and education sectors was not adequate in 2005-06 and 2009-10 as their ratio to aggregate expenditure was lesser than the General Category States Average. In view of the literacy rate in the State being much below the All India Average and the infant mortality being much above the All India Average, the Government may consider re-prioritising its public expenditure by giving greater fiscal priority to the Economic Sector and the Social Sector.

Resource mobilization: There had been increasing trend in generation of State's own revenues all along the period 2005-10. Tax revenue-GSDP ratio remained constant and hovered around 7 *per cent* and Non tax revenue-GSDP ratio sharply increased by 1.13 *per cent* relative to previous year despite withdrawal of debt waiver facility by the Government of India granted during 2008-09. The sharp increase in Non tax revenue-GSDP ratio during 2009-10 was mainly due to increase in receipts on account of conversion of *nazul* land into freehold. The Government should mobilise additional resources by expanding the tax base and rationalization of user charges.

Review of Government investments: The average return on Government's investments in Statutory corporations, Government companies, joint stock companies and co-operatives was 0.013 *per cent* in the last three years, whereas its average interest outgo on its borrowings was 6.29 *per cent* during the corresponding period. This is clearly 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.

Debt sustainability: The debt-GSDP ratio was 41 *per cent* at the end of 2009-10. 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. Nearly 96 *per cent* of borrowed funds were used for discharging debt liabilities in last three years. The Government was maintaining a sinking fund but the balances may not be sufficient for amortization of loans. Therefore, 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.

Revenue surplus: The fiscal position of the State shown improvement in 2009-10 relative to previous year. Not only revenue surplus increased by ₹ 5,185 crore (278 *per cent*) in 2009-10 but fiscal deficit and primary deficit decreased respectively by ₹ 1,820 crore (9 *per cent*) and ₹ 2,433 crore (27 *per cent*) when compared to previous year. Despite this, there is much scope of improving it by recovery of cost of maintenance of the irrigation projects, timely completion of projects of Irrigation and Public Works departments and making these a source of revenue.

Oversight of funds transferred directly from the Government of India to the State implementing agencies: Government of India directly transferred substantial amount of funds to the State Implementing Agencies, which is fraught with the risk of their improper utilization by these agencies. There is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General.