

Executive Summary

Background

This Report on the Finances of the Government of Uttar Pradesh is being brought out with a view to assess objectively the financial performance of the State during 2009-10 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budget Management Act, 2004 (FRBM) and in the Budget Estimates of 2009-10.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over four years since the FRBM legislation. Since these comments formed part of the civil audit report, it was felt that the audit findings on the State finances remained relatively obscure in the large body of audit findings on the compliance and performance audits. Accordingly, from the report year 2008-09 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances. This Report is the second in this endeavour.

The report

Based on the audited accounts of the Government of Uttar Pradesh for the year ending March 2010, this report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed based on the FRBM Act and Fiscal and Correction Path of the Government, budget documents, Economic Review 2009-10, Twelfth Finance Commission Report and other financial data obtained from various Government departments and organizations. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Uttar Pradesh Government's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing pattern, besides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route.

Chapter 2 is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Uttar Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings. **Appendix 4** at the end gives a

glossary of selected items related to State economy, as used in this report.

Audit findings and recommendations

Revenue receipts: The revenue receipts increased by 24 *per cent* during 2009-10 over the preceding year. 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 also 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: The revenue expenditure increased by 18 *per cent* during 2009-10 relative to 2008-09. Within revenue expenditure, plan expenditure decreased by 9 *per cent* and non-plan expenditure increased by 26 *per cent* over the previous year. 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. Though 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.

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 by the Principal Accountant General.

Financial management and budgetary control: Overall savings of ₹ 21,511.42 crore was the result of savings of ₹ 23,193.58 crore offset by excess of ₹ 1,682.16 crore. The departments of Planning, Women and Child Welfare, Finance (Debt Services and Other Expenditure) posted large savings persistently for the last five years. Excess expenditure of ₹ 10,521.32 crore for the period 2005-09 requires regularisation under Article 205 of the Constitution of India. There were also instances of unnecessary/inadequate supplementary provision and excessive, unnecessary re-appropriations of funds. Cases of non-surrender of anticipated savings were also noticed. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. Budgetary control should be strengthened in all Government departments. Excessive/unnecessary re-appropriation of funds should be avoided and reasons for additional provision/withdrawal of provision in re-appropriation orders should be explained therein. Unit-wise control over expenditure should be exercised and the savings anticipated should be surrendered to the Finance Department so that the funds could be utilised for development purposes.

Re-appropriation of the funds at the fag end of the financial year should also be avoided.

Financial reporting: The Government's compliance with various financial rules and procedures was deficient. Utilization certificates in respect of huge amounts were not obtained from the grantees. A large number of cases of misappropriations, etc., were pending either for recovery or write off. Detailed bills against abstract bills were awaited since long. A huge amount was retained in the Personal Deposits against the principle of legislative financial control. Substantial portion of the expenditure was not classified programme/activity-wise. Amount of interest credited to the individual GPF accounts of the Class IV employees was not intimated by the Government for adjustment in accounts.

Assets and liabilities had not been apportioned amongst the successor States of Uttar Pradesh and Uttarakhand even after ten years of the reorganization of the State.

It is advisable for the Government that the departmental enquiries in all the cases of misappropriations, losses, defalcations, etc., should be conducted expeditiously to bring the defaulters to book. For this purpose, the internal controls in the various departments should be strengthened to prevent recurrence of such cases. Besides, the Government should issue instructions to all the grantees emphasising timely submission of the utilisation certificates. Timely submission of accounts by autonomous bodies and timely submission of the detailed contingent bills should be ensured.

The issue of apportionment of assets and liabilities between Uttarakhand and Uttar Pradesh needs to be settled expeditiously.