



FINANCES OF THE GOVERNMENT

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This chapter provides an audit perspective on the finances of the State Government during 2018-19 and analyses changes in major fiscal aggregates relative to 2017-18 keeping in view overall trends during the preceding five years.

The analysis is based on details contained in the Finance Accounts of the Government of Uttar Pradesh (State Government). The profile of the State is given in *Appendix 1.1*.

1.1 Gross State Domestic Product (GSDP)¹

The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are given in **Table 1.1**.

Table 1.1: GDP of India and GSDP of the State

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
GDP of India at current prices (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (in per cent)	10.99	10.46	11.55	11.28	11.20
GSDP of the State at current prices (₹ in crore)	10,11,790	11,37,210	12,48,374	13,76,324	15,42,432
Growth rate of GSDP at current prices (in per cent)	7.60	12.40	9.78	10.25	12.07
GSDP of the State at constant prices (₹ in crore)	8,34,432	9,07,700	9,74,073	10,42,113	11,09,408
Growth rate of GSDP at constant prices (in per cent)	4.03	8.78	7.31	6.99	6.46

(Source: GDP/GSDP figures issued by Ministry of Statistics and Programme Implementation, Government of India (MoSPI, GoI) dated 01.08.2019)

The structure of the Government Accounts is explained in *Part A* and the layout of the Finance Accounts in *Part B* of *Appendix 1.2*.

1.2 Summary of fiscal transactions

Summary of fiscal transactions of the State Government during the years 2014-15 to 2018-19 is depicted in **Table 1.2** and **Table 1.3**. Details of the receipts and disbursements as well as the overall fiscal position during 2017-18 and 2018-19 are given in *Appendix 1.3*.

¹ GDP and GSDP are the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time and are an important indicator of the Country and State's economy.

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Table 1.2: Summary of Receipts during 2014-19

(₹ in crore)						
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage increase/decrease in 2018-19 with respect to 2017-18
Section A: Revenue						
Revenue Receipts	1,93,422	2,27,076	2,56,875	2,78,775	3,29,978	18.37
Own Tax Revenue (OTR)	74,172	81,106	85,966	97,393	1,20,122	23.34
OTR/RR (<i>per cent</i>)	38.35	35.72	33.47	34.94	36.40	-
Non-Tax Revenue (NTR)	19,935	23,135	28,944	19,795	30,101	52.06
NTR/RR (<i>per cent</i>)	10.31	10.19	11.27	7.10	9.12	-
Share of Union Taxes/Duties	66,623	90,974	1,09,428	1,20,939	1,36,766	13.09
Grants from GoI	32,692	31,861	32,537	40,648	42,989	5.76
Section B: Capital and Others						
Miscellaneous Receipts under Capital Section	0.00	0.00	0.00	0.00	0.00	-
Recoveries of Loans and Advances	262	726	259	236	5,313	2151.27
Public Debt Receipts	35,520	74,514	67,685	47,417	51,595	8.81
Inter-State Settlement (Net)	0.00	0.00	0.00	0.00	0.00	
Contingency Fund	1	201	173	258	230	(-10.85)
Public Account Receipts	2,30,199	2,65,972	3,06,406	3,20,471	3,80,994	18.89
Opening Cash Balance ²	4,066	(-) 356	(-) 157	944	11,481	1116.21
Total	4,63,470	5,68,133	6,31,241	6,48,101	7,79,591	-

(Source: Finance Accounts of the respective years)

There was overall increase of ₹ 51,203 crore in the revenue receipts during 2018-19 as compared to 2017-18. The State's own resources (tax and non-tax) grew by ₹ 33,035 crore (28.19 *per cent*) whereas the receipts from Government of India (GoI) increased by ₹ 18,168 crore (11.24 *per cent*). Financial resources of the State are further analysed in **Para 1.4**.

² In Tables 1.2 and 1.3, the opening and closing cash balances during 2017-18 and 2018-19 include investment of earmarked fund, whereas in the preceding years' reports the cash balances excluding the investment of earmarked fund were exhibited.

Table 1.3: Summary of Expenditure during 2014-19

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage increase/ decrease in 2018-19 with respect to 2017-18
Section A: Revenue						
Revenue Expenditure	1,71,027	2,12,736	2,36,592	2,66,224	3,01,728	13.34
General Services	64,305	72,228	88,255	1,05,782	1,31,057	23.89
Social Services	60,906	82,487	91,861	84,252	91,312	8.38
Economic Services	34,885	47,881	45,834	64,635	67,259	4.06
Grants-in-aid and Contributions	10,931	10,140	10,642	11,555	12,100	4.72
Section B: Capital and Others						
Capital Expenditure	53,297	64,423	69,789	39,088	62,463	59.80
Loans and Advances disbursed	1,873	9,118	6,741	1,509	6,303	317.69
Repayment of Public Debt	9,411	17,673	20,303	15,002	20,717	38.09
Inter-State Settlement (Net)	0.00	0.00	0.00	0.00	0.00	-
Contingency Fund disbursements	203	44	349	413	396	(-) 4.12
Public Account Disbursements	2,28,014	2,64,294	2,96,523	3,14,384	3,61,072	14.85
Closing Cash Balance	-356	-157	944	11,481	26,912	134.40
Total	4,63,469	5,68,131	6,31,241	6,48,101	7,79,591	-

(Source: Finance Accounts of the respective years)

The trends of revenue receipts (RR) / revenue expenditure (RE) / capital expenditure (CE) relative to GSDP at current as well as constant prices are presented in **Table 1.4**.

Table 1.4: Trends in RR/ RE/ CE relative to GSDP

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts relative to GSDP					
RR at current prices (₹ in crore)	1,93,422	2,27,076	2,56,875	2,78,775	3,29,978
Rate of growth of RR at current prices (<i>per cent</i>)	14.99	17.40	13.12	8.53	18.37
RR at constant prices (₹ in crore)	1,59,523	1,81,255	2,00,440	2,11,088	2,37,353
Rate of growth of RR at constant prices (<i>per cent</i>)	11.18	13.62	10.58	5.31	12.44
RR/GSDP at current as well as constant prices (<i>per cent</i>)	19.12	19.97	20.58	20.25	21.39
Revenue Expenditure relative to GSDP					
RE at current prices (₹ in crore)	1,71,027	2,12,736	2,36,592	2,66,224	3,01,728
Rate of growth of RE at current prices (<i>per cent</i>)	8.14	24.39	11.21	12.52	13.34
RE at constant prices (₹ in crore)	1,41,053	1,69,808	1,84,613	2,01,585	2,17,033
Rate of growth of RE at constant prices (<i>per cent</i>)	4.57	20.39	8.72	9.19	7.66
RE/GSDP at current as well as constant prices (<i>per cent</i>)	16.90	18.71	18.95	19.34	19.56

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Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Capital Expenditure relative to GSDP					
CE at current prices (₹ in crore)	53,297	64,423	69,789	39,088	62,463
Rate of growth of CE at current prices (<i>per cent</i>)	62.18	20.88	8.33	(-) 43.99	59.80
CE at constant prices (₹ in crore)	43,956	51,423	54,456	29,597	44,930
Rate of growth of CE at constant prices (<i>per cent</i>)	56.81	16.99	5.90	(-) 45.65	51.81
CE/GSDP at current as well as constant prices (<i>per cent</i>)	5.27	5.67	5.59	2.84	4.05

Revenue receipts as well as revenue expenditure relative to GSDP increased between 2014-15 and 2018-19. However, capital expenditure fluctuated as a *per cent* of GSDP. Despite growth of capital expenditure during 2018-19 as compared to 2017-18, there was overall contraction in capital expenditure relative to GSDP from 5.27 *per cent* (2014-15) to 4.05 *per cent* (2018-19).

1.3 Review of the fiscal situation

Table 1.5 depicts the performance of the State during 2018-19 under key fiscal indicators provided in the recommendations of the Fourteenth Finance Commission (XIV FC), the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, budget estimates as well as Medium Term Fiscal Restructuring Policy (MTFRP), 2018 laid under UPFRBM Act.

Table 1.5: Performance of the State during 2018-19

Key fiscal indicators	Targets set by the XIV FC	Targets as per UPFRBM Act	Targets as per Budget Estimates/ MTFRP	Actuals
Revenue deficit (-) /surplus (+) (₹ in crore)	Nil deficit	Nil deficit	27,099	(+)28,250
Fiscal deficit (-) / GSDP (<i>per cent</i>)	3.25	Not more than three <i>per cent</i>	2.96	2.28
Ratio of total outstanding debt to GSDP (<i>per cent</i>)	32.03	30.50	29.80	33.59

(Source: Budget documents of the State Government, Report of Fourteenth Finance Commission, UPFRBM Act, 2004 and UPFRBM (Amendment) Act, 2016)

During 2018-19, the ratio of fiscal deficit to GSDP was within the targets as set in the budget estimates/ MTFRP, UPFRBM Act and Fourteenth Finance Commission. However, the fiscal deficit (₹ 35,203 crore) of the State increased by 26.58 *per cent* as compared to 2017-18. The ratio of total outstanding debt to GSDP is above the targets set in the budget estimates/ MTFRP, UPFRBM Act and Fourteenth Finance Commission.

Though the State has achieved revenue surplus of ₹ 28,250 crore, the same is overstated by ₹ 13,419 crore. Similarly, the fiscal deficit (₹ 35,203 crore) was also understated by ₹ 13,411 crore as detailed in **Para 3.6**.

1.3.1 Composition and financing of Fiscal Deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure

(including loans and advances) over revenue and non-debt capital receipts. The financing pattern of fiscal deficit is reflected in **Table 1.6**.

Table 1.6: Component and financing of Fiscal Deficit

		(₹ in crore)				
Particulars		2014-15	2015-16	2016-17	2017-18	2018-19
Fiscal deficit (1 to 3)* (figures in brackets indicate <i>per cent</i> to GSDP)		(-) 32,513 (3.21)	(-) 58,475 (5.14)	(-) 55,988 (4.48)	(-) 27,810 (2.02)	(-) 35,203 (2.28)
1	Revenue Surplus	(+) 22,394	(+)14,340	(+) 20,283	(+) 12,552	(+)28,250
2	Net Capital Expenditure ³	(-) 53,297	(-) 64,423	(-) 69,789	(-) 39,088	(-)62,463
3	Net Loans and Advances ⁴	(-) 1,610	(-) 8,392	(-) 6,482	(-) 1,274	(-)990

*The fiscal deficit in this table includes the expenditure on UDAY during 2015-16 and 2016-17 so as to match the figures in Finance Accounts given in the financing pattern. As per the guidelines of UDAY, the debt taken over by the State under UDAY would not be counted against the fiscal deficit limit of the State. The fiscal deficit after excluding UDAY expenditure was ₹ 34,143 crore and ₹ 41,187 crore during 2015-16 and 2016-17 respectively.

Financing pattern [#] of fiscal deficit						
Particulars		2014-15	2015-16	2016-17	2017-18	2018-19
1	Market Borrowings	13,513	25,301	36,904	37,178	33,307
2	Loans from GoI	(-) 875	(-) 803	(-)409	(-)438	(-)832
3	Special Securities issued to NSSF	6,325	4,339	(-)4,532	(-)4,643	(-)4,872
4	Loans from Financial Institutions	7,146	28,005	15,441	317	3,276
5	Small Savings, PF etc.	1,686	1,534	1,619	2,530	3,646
6	Deposits and Advances	1,050	(-) 1,543	(-)301	1,414	2,196
7	Reserve Fund	(-)2,695	2,561	7,225	8,265	13,545
8	Suspense and miscellaneous	535	(-) 677	592	(-)2,215	223
9	Remittances	1,608	(-) 197	748	(-)3,906	313
10	Investments	4,569	(-)601	(-)972	(-)8,991	(-)15,525
11	Others ⁵	(-)349	556	(-)327	(-)1,701	(-)74
Total		32,513	58,475	55,988	27,810	35,203

#All figures are net of disbursements/outflows during the year.

(Source: Finance Accounts of the respective years)

During the years 2014-15 to 2018-19, the fiscal deficit was dominantly financed by market borrowings⁶. However, there was scope for reducing market borrowings for financing fiscal deficit keeping in view the increase⁷ in investments held under cash balance investment account during 2015-16 (₹ 601 crore) to 2018-19 (₹ 15,525 crore). Further, the share of Reserve Fund in financing fiscal deficit consistently increased during 2015-16 (₹ 2,561 crore) to 2018-19 (₹ 13,545 crore) mainly due to significant appropriation

³ Net Capital Expenditure = Capital Receipt *minus* Capital Expenditure; minus figure indicate that the capital expenditure was more than the capital receipt during the year.

⁴ Net Loans and advances = Recoveries of Loans and Advances *minus* disbursement of loans and advances; minus figure indicate that disbursement of loans and advances was more than the recovery during the year.

⁵ Transactions under Contingency Fund, Cash Balances and Bond.

⁶ Net increase in loan from financial institutions during 2015-16 was mainly due to loan of ₹ 29,602 crore raised by the State Government from issue of Bonds under UDAY counterbalanced by decrease in other loans from financial institution.

⁷ Minus figures under investment represents increase in closing balance of investment as compared to opening balance during the year.

from revenue account to sinking fund without actual investment of balances under sinking fund, as discussed in **Para 1.7.2.1**.

1.3.2 Quality of Deficit/Surplus

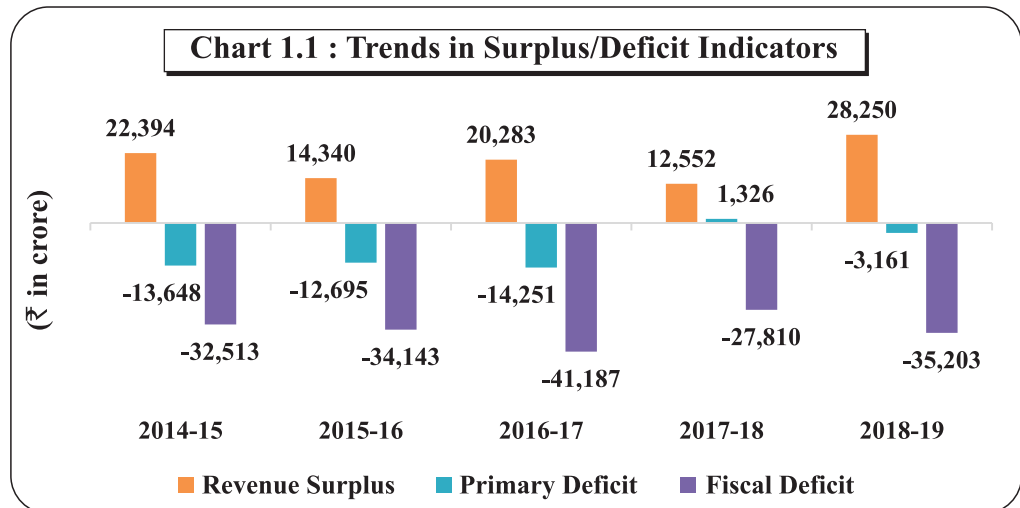
The decomposition of primary deficit⁸ into primary revenue deficit⁹, capital expenditure and loans and advances, as well as the ratio of revenue deficit to fiscal deficit, as given in **Table 1.7**, indicates the quality of deficit in the State's finances.

Table 1.7: Primary Deficit/Surplus

(₹ 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)
2014-15	1,93,684	1,52,162	53,297	1,873	2,07,332	(+41,522)	(-)13,648
2015-16	2,27,802	1,91,288	64,423	9,118	2,64,829	(+35,514)	(-)37,027
2016-17	2,57,134	2,09,656	69,789	6,741	2,86,186	(+47,478)	(-)29,052
2017-18	2,79,011	2,37,088	39,088	1,509	2,77,685	(+41,923)	(+)1,326
2018-19	3,35,291	2,69,686	62,463	6,303	3,38,452	(+65,605)	(-)3,161

(Source: Finance Accounts of the respective years)

During 2018-19, non-debt receipts were not sufficient to meet primary expenditure resulting in primary deficit of ₹ 3,161 crore. Primary deficit had a fluctuating trend, however, it declined from (-) 1.35 *per cent* of GSDP in 2014-15 to (-) 0.20 *per cent* of GSDP in 2018-19. The improvement in primary deficit during the years 2014-15 to 2018-19 was mainly due to increase in revenue receipts. However, there was concomitant reduction in capital expenditure. **Chart 1.1** present the trends in key fiscal parameters – revenue surplus, primary deficit and fiscal deficit over the period 2014-15 to 2018-19.



(The fiscal deficit and primary deficit in **Chart 1.1** exclude the expenditure on UDAY during 2015-16 and 2016-17, as the debt taken over by the State under UDAY would not be counted against the fiscal deficit limit of the State. In **Table 1.7**, the corresponding figures of primary deficit includes the expenditure on UDAY so as to match the figures in Finance Accounts.)

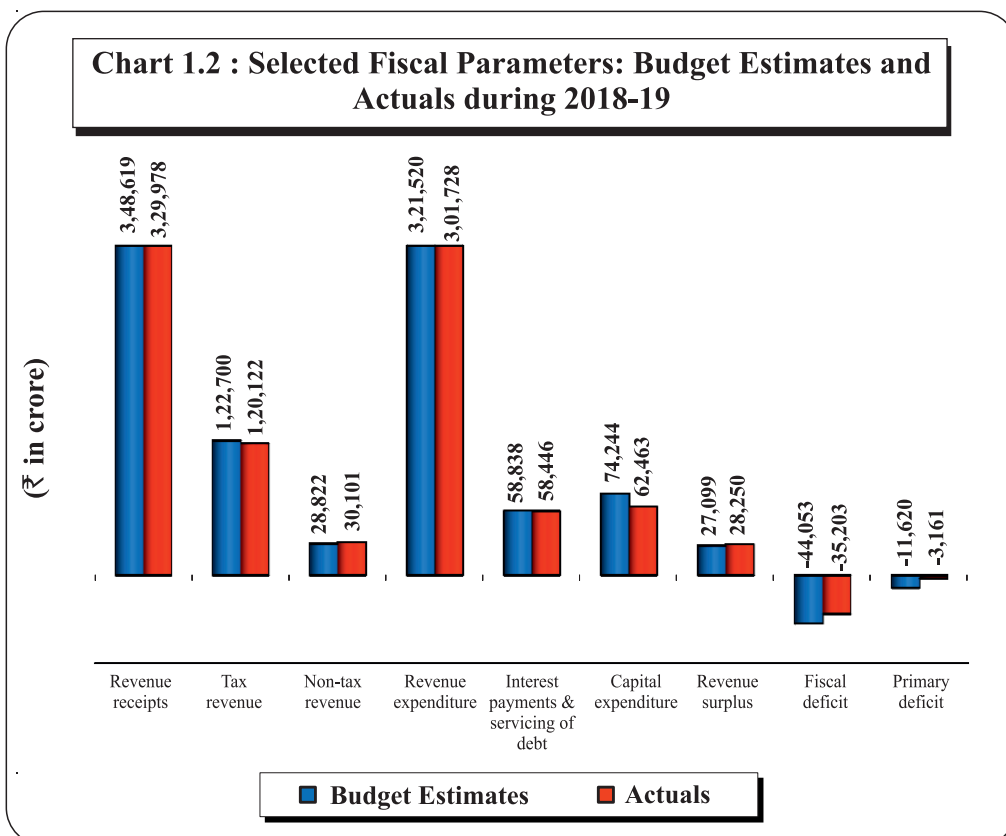
⁸ Primary deficit is fiscal deficit excluding interest payments.

⁹ Primary revenue deficit is the gap between non-interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts are sufficient to meet the primary expenditure incurred under revenue account.

1.3.3 Budget Estimates and Actuals

Shortfalls of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives.

Actuals *vis-à-vis* budget estimates of selected fiscal parameters for 2018-19 are shown in **Chart 1.2** and **Appendix 1.4**.



(Source: Budget documents and Finance Accounts 2018-19)

- Shortfalls in revenue receipts (₹ 18,641 crore) *vis-à-vis* estimates were due to less receipts of grants-in-aid from GoI (₹ 20,561 crore) and own tax revenue (₹ 2,578 crore) as compared to budget estimates, though there was more receipts under share of Union taxes and duties (₹ 3,218 crore) and non-tax revenue (₹ 1,279 crore).
- Shortfalls in own tax revenue (₹ 2,578 crore) *vis-à-vis* estimates were mainly under State Goods and Services Taxes (₹ 3,314 crore) followed by stamps and registration fee (₹ 2,267 crore) and taxes on vehicles (₹ 471 crore) counterbalanced by excess receipts under taxes on sales, trade etc. (₹ 1,720 crore) and taxes and duty on electricity (₹ 978 crore) and State excise (₹ 927 crore).
- The major shortfalls in revenue expenditure (₹ 19,792 crore) were in Social Services (₹ 19,352 crore) and General Services (₹ 5,187 crore)

counterbalanced by excess expenditure (₹ 4,834 crore) under Economic Services.

- Decrease in capital expenditure by ₹ 11,781 crore was due to decrease mainly under Social Services by ₹ 11,855 crore and General Services by ₹ 958 crore which was counterbalanced by excess expenditure of ₹ 1,033 crore under Economic Services.

Recommendation: The Finance Department should rationalise the budget preparation exercise, so that gaps between the budget estimate and actuals are bridged.

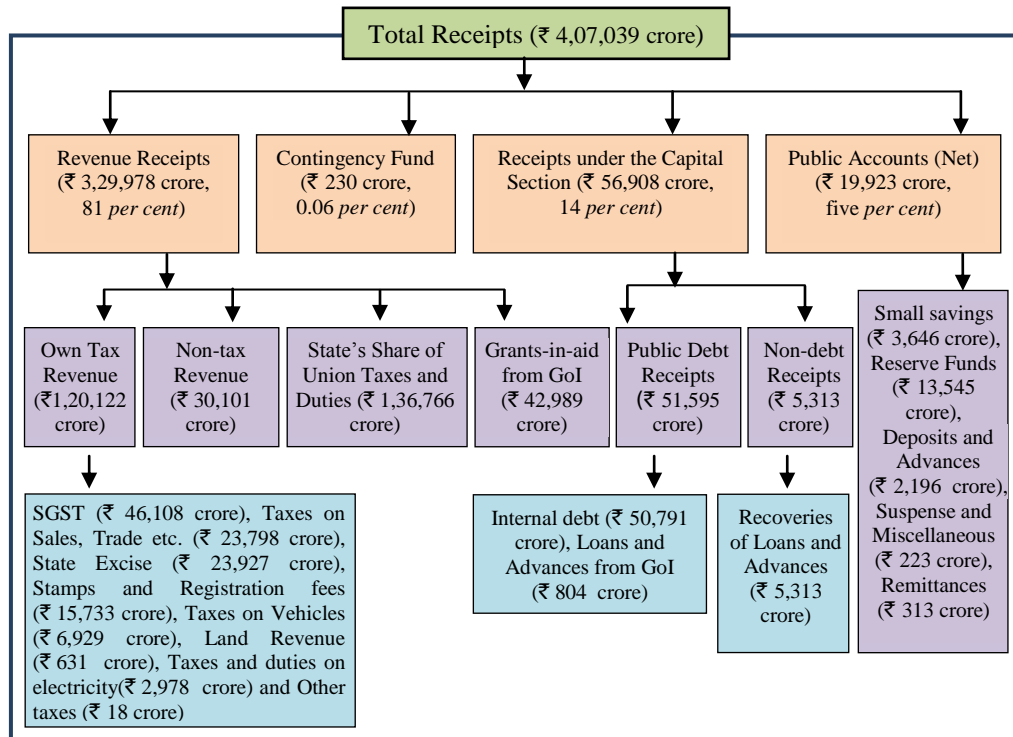
1.4 Financial Resources of the State

Resources of the State as per Annual Finance Accounts

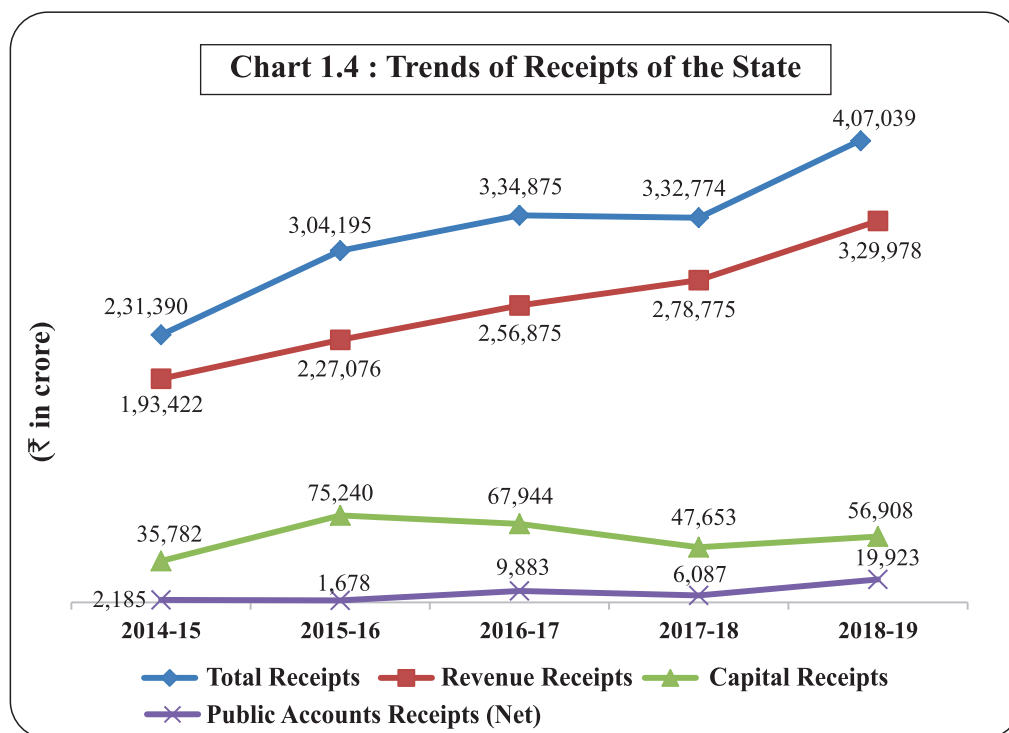
Revenue receipts consist of own tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from Government of India (GoI). Receipts under capital section comprise miscellaneous capital receipts under the capital section such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as balances in Public Accounts.

Chart 1.3 depicts the composition of aggregate receipts during the year and **Chart 1.4** represents the trends of various components of receipts during 2014-19.

Chart 1.3: Composition of aggregate receipts during 2018-19



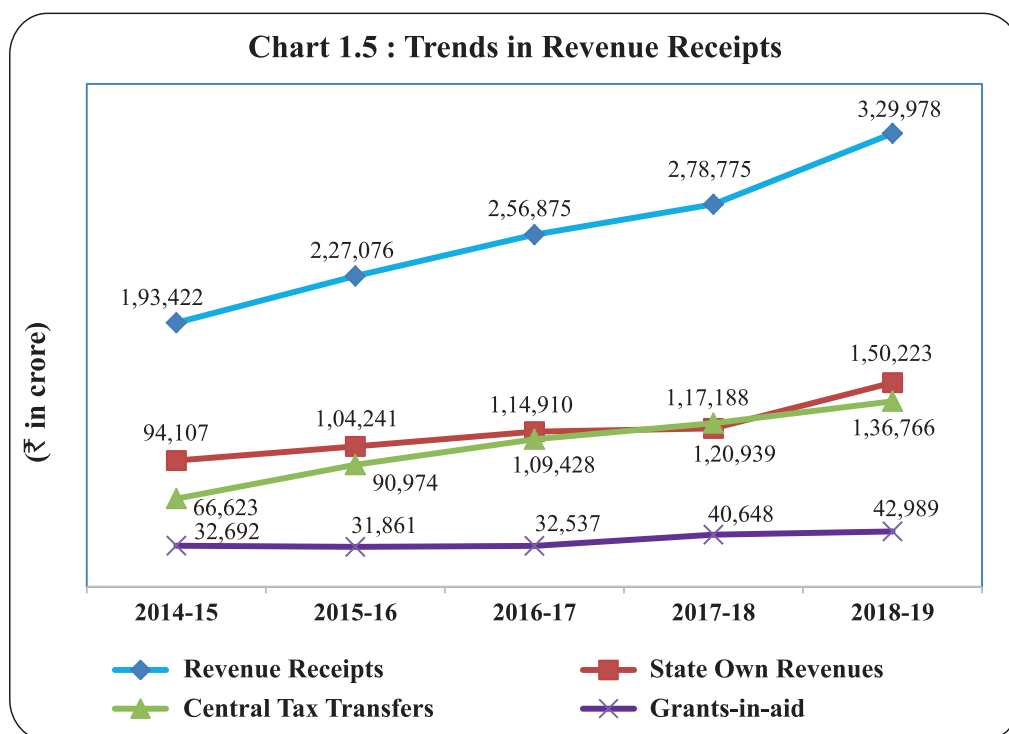
(Source: Finance Accounts 2018-19)



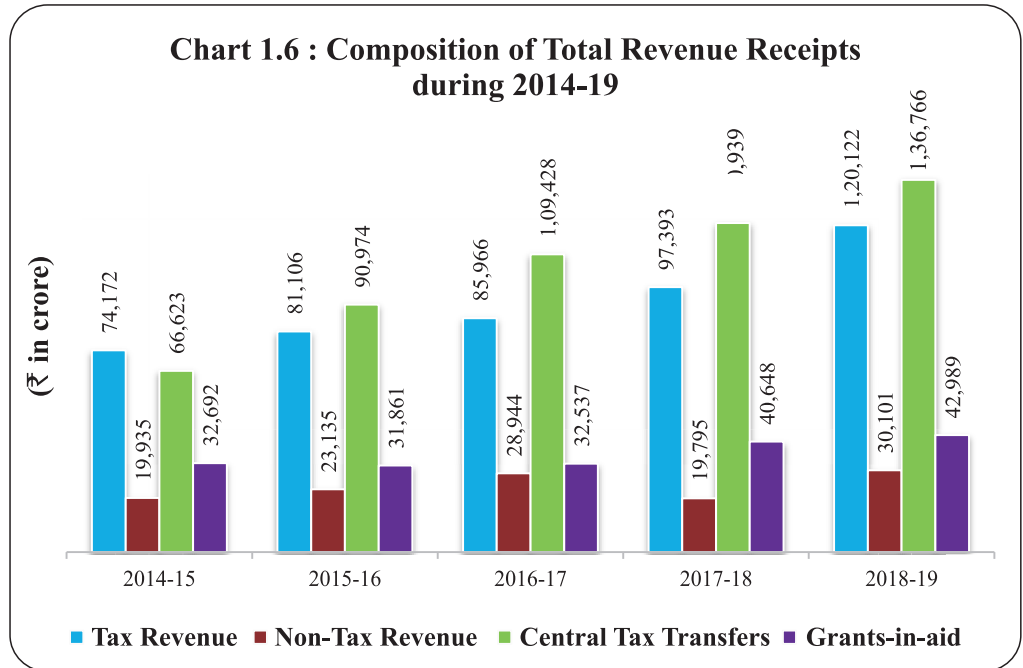
(Source: Finance Accounts of the respective years)

1.4.1 Revenue Receipts

Statement 14 of the Finance Accounts gives details of the revenue receipts of the Government. The trends and composition of revenue receipts during 2014-19 are presented in *Appendix 1.5* and also depicted in **Chart 1.5** and **Chart 1.6** respectively.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years)

The revenue receipts of ₹ 3,29,978 crore during 2018-19 include ₹ 1,50,223 crore from the State's own (tax/non-tax) revenue and ₹ 1,79,755 crore received from GoI. These are further analysed in the succeeding paragraphs.

1.4.1.1 State's Own Resources

The State's performance in mobilisation of resources is assessed in terms of own tax revenue and non-tax revenue, not including the State's share in Central taxes and grants-in-aid which is based on the recommendations of the Finance Commission.

Details of collections of own tax revenue and non-tax revenue for 2014-19 are presented in **Appendix 1.6**. Own tax revenues increased by ₹ 45,950 crore (61.95 per cent) from ₹ 74,172 crore in 2014-15 to ₹ 1,20,122 crore in 2018-19.

The own tax and non-tax revenue of the State for 2018-19 vis-à-vis budget projections are given in **Table 1.8**.

Table 1.8: Actuals of Own Tax and Non-tax Revenue for 2018-19 vis-à-vis Budget Estimates

(₹ in crore)		
Particulars	Budget Estimates	Actuals
Own Tax Revenue	1,22,700	1,20,122
Non-Tax Revenue	28,822	30,101
Total	1,51,522	1,50,223

(Source: Budget documents and Finance Accounts 2018-19)

Own Tax Revenue

Details of own tax revenue during 2014-19 are given in **Table 1.9**.

Table 1.9: Components of own tax revenue

Particulars	(₹ in crore)					Variation (per cent) during 2018-19 over 2017-18
	2014-15	2015-16	2016-17	2017-18	2018-19	
Taxes on sales, trade etc.	42,934 (58)	47,692 (59)	51,883 (60)	31,113 (32)	23,798 (20)	(-) 23.51
State Goods and Service Tax (SGST)	-	-	-	25,374 (26)	46,108 (38)	81.71
State excise	13,483 (18)	14,084 (17)	14,274 (17)	17,320 (18)	23,927 (20)	38.15
Taxes on vehicles	3,797 (5)	4,410 (5)	5,148 (6)	6,404 (7)	6,929 (6)	8.20
Stamps and registration fees	11,803 (16)	12,404 (15)	11,564 (13)	13,398 (14)	15,733 (13)	17.43
Land revenue	527 (1)	505 (1)	760 (1)	1,336 (1)	631 (1)	(-)52.77
Taxes and duties on Electricity	1,085 (1)	1,338 (2)	1,556 (2)	2,124 (2)	2,978 (2)	40.21
Other taxes ¹⁰	543 (1)	673 (1)	781 (1)	324 (0)	18 (0)	(-) 94.44
Total	74,172	81,106	85,966	97,393	1,20,122	23.34
GSDP (at current price)	10,11,790	11,37,210	12,48,374	13,76,324	15,42,432	12.07
Own tax revenue as per cent of GSDP	7.33	7.13	6.89	7.08	7.79	-

(Source: Finance Accounts of the respective years)

(Figures in brackets are percentage of collection to total)

- The overall growth of 23.34 per cent in own-tax revenue during 2018-19 was mainly due to increase in State Excise (₹ 6,607 crore), Stamps and Registration Fees (₹ 2,335 crore) and Taxes and Duties on Electricity (₹ 854 crore).
- Increase in State Excise was mainly due to increase in receipts due to sale of country spirit (₹ 2,722 crore), malt liquor (₹ 1,475 crore) and foreign liquor and spirits (₹ 2,660 crore). The State Government had also increased the processing fee, renewal fee for retailers and Minimum Guaranteed Quantity of country liquor, etc. under the State Excise Policy for the year 2018-19.
- The State Government had revised the circle rates of land. The receipts under Stamp and Registration fee increased due to more receipts on account of sale of non-judicial stamps.
- Taxes on Sales, Trade etc. decreased by ₹ 7,315 crore during 2018-19 in comparison to the previous year, as this tax was subsumed in Goods and

¹⁰ Other taxes include taxes on goods and passengers, taxes on hotel receipt, entertainment tax, betting tax, taxes on advertisement exhibited in cinema theaters, etc. The reduction is mainly on account of subsuming of these taxes under Goods and Service Tax (GST) since July 2017.

Services Tax (GST) which was implemented from 1 July 2017. State GST (SGST) collection during the year in comparison to the previous year increased by ₹ 20,734 crore.

- Increase in receipts under Taxes and Duties on Electricity was due to more collection on account of consumption and sale of electricity.

Non-tax Revenue

Details of receipts from non-tax revenues during 2014-19 are given in **Table 1.10**.

Table 1.10: Non-tax revenue and its major components

Particulars	(₹ in crore)					Variation (per cent) during 2018-19 over 2017-18
	2014-15	2015-16	2016-17	2017-18	2018-19	
Non-ferrous Mining and Metallurgical Industries	1,029(5)	1,222(5)	1,548(5)	3,259(16)	3,165(11)	(-2.88)
Power	966(5)	1,322(6)	2,939(10)	4,696(24)	5,735(19)	22.13
Interest receipts	2,303(12)	633(3)	1,165(4)	1,093(6)	1,712(6)	56.63
Misc. General Services	6,400(32)	4,949(21)	4,460(15)	4,841(24)	13,678(45)	182.54
Medium Irrigation	326(1)	557(3)	652(2)	834(4)	778(3)	(-6.71)
Education, Sports, Art and Culture	5,799(29)	10,652(46)	14,092(49)	432(2)	381(1)	(-11.81)
Other non-tax receipts	3,112(16)	3,800(16)	4,088(15)	4,640(24)	4,652(15)	0.26
Total	19,935	23,135	28,944	19,795	30,101	52.06

(Source: Finance Accounts of the respective years) (Figures in brackets are percentage of collection to total)

There was an overall increase of 52.06 *per cent* in non-tax receipts amounting to ₹ 10,306 crore during 2018-19 over 2017-18. The increase was mainly on account of interest receipts (more interest realised from investment of cash balances and loans to sugar mills) and more amount booked as receipts from Sinking Fund from ₹ 4,422 crore in 2017-18 to ₹ 12,693 crore under miscellaneous general services during 2018-19. The transfer of balances from Sinking Fund was inconsistent with the prescribed accounting procedure and over stated revenue surplus during the year, as detailed in **Para 1.7.2.1**.

1.4.1.2 Grants- in-aid from GoI

The State Government receives grants-in-aid and share of Union taxes and duties, based on the recommendations of the Finance Commission. Details of GoI grants are given in **Table 1.11**.

Table 1.11: Grants-in-aid from Government of India

Particulars (sub major head)	2014-15	2015-16	2016-17	2017-18	2018-19
Non plan grants (01)	6,809	8,274	9,335	-	-
Grants for State plan schemes (02)	6,577	1,933	232	-	-
Grants for Central plan schemes (03)	17	16	56	-	-
Grants for Centrally sponsored plan schemes (04)	19,289	21,638	22,914	-	-
Grants for Centrally sponsored schemes (06)	-	-	-	27,731	31,250
Finance Commission Grants (07)	-	-	-	8,849	9,318
Other Transfer/Grants (08)	-	-	-	4,068	2,421
Total grants	32,692	31,861	32,537	40,648	42,989
Percentage of increase/ decrease over previous year	45.91	(-) 2.54	2.12	24.93	5.76
Revenue receipts	1,93,422	2,27,076	2,56,875	2,78,775	3,29,978
Total grants as a percentage of revenue receipts	16.90	14.03	12.67	14.58	13.03

(Source: Finance Accounts of the respective years)

State Government received grants-in-aid under sub-major heads¹¹ – Grants for Centrally Sponsored Schemes (₹ 31,250 crore), Finance Commission Grants (₹ 9,318 crore) and Other transfer/grants (₹ 2,421 crore) during 2018-19. There was an increase in grants-in-aid by ₹ 2,341 crore in 2018-19 (₹ 42,989 crore) over the previous year (₹ 40,648 crore). The increases in grants-in aid were mainly due to more receipts of grants for Urban Development, Primary Education and Food and Civil Supplies Department counterbalanced by less receipt of compensation for loss of revenue arising out of implementation of GST.

1.4.1.3 Central Tax Transfers

The GoI transfers the share of the State Government in Union Taxes and Duties such as Income Tax, Service Tax, Union Excise Duties etc. (also Central Goods and Service Tax and Integrated Goods and Service Tax since 2017-18). The trends in these Central tax transfers during 2014-19 are given in Table 1.12.

Table 1.12: Central Tax Transfers

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Total Central Tax Transfers	66,623	90,974	1,09,428	1,20,939	1,36,766
Central Goods and Services Tax (CGST)	-	-	-	1,718	33,757
Integrated Goods and Services Tax (IGST)	-	-	-	12,212	2,694
Service Tax	9,822	15,682	17,515	13,719	1,252
Taxes on income other than Corporation Tax	16,614	19,815	24,394	31,280	35,028
Union Excise Duties	6,084	12,206	17,241	12,761	6,442

¹¹ After merger of plan and non-plan expenditure, sub-heads 'Non-plan grants (01)', 'Grants for State plan schemes (02)', 'Grants for Central plan schemes (03)', 'Grants for Centrally sponsored plan schemes (04)' were discontinued with effect from 1 April 2017.

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Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Corporation Tax	23,265	28,603	35,099	37,043	47,563
Taxes on wealth	63	08	81	(-)2	17
Customs	10,775	14,587	15,098	12,208	9,695
Other taxes and duties on commodities and services	0	73	0	0	70
Other taxes on income and expenditure	0.56	0.69	0.02	0	248

(Source: Finance Accounts of the respective years)

In 2018-19, out of total Central tax transfer of ₹ 1,36,766 crore, ₹ 36,451 crore was on account of IGST and CGST. The overall increase in the Central tax transfers was ₹ 15,827 crore (13 per cent) as compared to the previous year.

1.4.1.4 Goods and Services Tax (GST)

The State Government implemented the Goods and Services Tax (GST) Act, which became effective from 1 July 2017. Under GST (Compensation to States) Act, 2017, the Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. A base year (2015-16) revenue figure of taxes subsumed under GST was finalised under GST Act. The projected revenue for any year in a State was to be calculated by applying the projected growth rate (14 per cent per annum) over the base year revenue of that State.

Revenue figure under GST for the year 2018-19 has been depicted in the Finance Accounts as per nature of receipts i.e. State Goods and Services Tax (SGST), Input Tax Credit Cross Utilization of SGST and IGST (Integrated Goods and Services Tax), Apportionment of IGST-transfer-in of Tax Component of SGST and Advance apportionment from IGST. In case of Uttar Pradesh, the revenue from subsumed taxes was ₹ 33,359 crore during the base year (2015-16). Thus, projected revenue for the year 2018-19 in accordance with the base year figure was ₹ 49,428 crore against which SGST amounting to ₹ 46,108 crore was collected. This amount was inclusive of ₹ 5,424 crore received from the GoI as provisional/advance settlement of IGST. State Government also received compensation of ₹ 308 crore from GoI for loss of revenue arising out of implementation of GST.

With automation of the collection of GST having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.4.1.5 Arrears of revenue

Arrears of revenue as on 31 March 2019 in respect of some principal heads of revenue amounted to ₹ 30,177.09 crore, of which ₹ 13,129.57 crore was

outstanding for more than five years. Details as provided by the Departments are given in **Table 1.13**.

Table 1.13: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Name of Department	Total amount outstanding as on 31 March 2019	Amount outstanding for more than five years
1.	Commercial Taxes	Sales Tax Department	28,987.75	12,668.82
2.	Entertainment Tax	Entertainment and Betting Tax Department	480.04	10.12
3.	State Excise	Excise Department	54.57	51.41
4.	Stamps and Registration fee	Stamps and Registration Department	654.73	399.22
Total			30,177.09	13,129.57

(Source: Concerned Departments)

Recommendation: The Finance Department should evolve a mechanism whereby arrears of revenue are expeditiously collected.

1.4.1.6 Cost of collection

Details of collection and cost thereof in respect of major revenue receipts during 2018-19 are given in **Table 1.14**.

Table 1.14: Cost of collection

Particulars	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average of previous year
	(₹ in crore)			
Taxes on SGST and sales, trade etc.	69,906	750	1.07	0.69
Stamps duty and registration fees	15,733	163	1.04	2.96
State excise	23,927	188	0.79	1.83
Taxes on vehicles	6,929	164	2.37	2.61

(Source: Information provided by concerned Departments and Finance Accounts)

Though the cost of collection of state excise, taxes on vehicles and stamps duty and registration fees were lower than the all-India average of the preceding year, the cost of collection of taxes on sales, trade etc. and SGST was nearly one and a half times as high as the all India average.

Recommendation: The Finance Department and the Commercial Taxes Department should analyse why the cost of collection of SGST and taxes on sales trade etc. is nearly one and a half times as high as the all India average and introduce measures to reduce the cost of collection.

1.4.2 Receipts under Capital Section

Trends of receipts under the Capital section during 2014-19 are given in **Table 1.15**.

Table 1.15: Trends in receipts under Capital Section

Sources of State's Receipts under Capital Section	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts under Capital section	35,782	75,240	67,944	47,653	56,908
Recovery of loans and advances	262	726	259	236	5,313
Public debt receipts	35,520	74,514	67,685	47,417	51,595
Rate of growth of non-debt receipts under the capital section (<i>per cent</i>)	(-) 56	177	(-) 64	(-) 9	2151
Rate of growth of debt receipts under the capital section (<i>per cent</i>)	138	110	(-) 9	(-) 30	9

(Source: Finance Accounts of the respective years)

Out of total public debt receipts of ₹ 51,595 crore, ₹ 804 crore was loans and advances from the GoI and remaining ₹ 50,791 crore was internal debt of the State Government.

Out of total recovery of loans and advances of ₹ 5,313 crore, ₹ 4,892 crore was recovered from U.P. State Electricity Board (loan given for construction of inter-State transmission lines) and ₹ 101 crore was recovered from Government servants.

1.4.2.1 Receipts from internal debt of the State Government

Details of debt receipts from internal sources during 2014-15 to 2018-19 are given in Table 1.16.

Table 1.16: Receipts from internal debt of the State Government

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Market loans	17,500	30,000	41,050	41,600	46,000
Ways and Means Advances from RBI	1,732	4,499	8,695	2,933	00
Loans from financial institutions	7,176	31,669	16,909	1,781	4,791
Special Securities issued to National Small Savings Fund	8,626	7,752	0	0	0
Total	35,034	73,920	66,654	46,314	50,791
Percentage of receipt of internal debt to total public debt and other liabilities receipts	49.03	65.12	58.90	51.43	44.75

(Source: Finance Accounts of the respective years)

Internal debt receipts increased by ₹ 4,477 crore (10 *per cent*) from ₹ 46,314 crore (2017-18) to ₹ 50,791 crore in 2018-19 due to an increase in market loans and loans from financial institutions.

During the year 2018-19, debt receipts from financial institutions had increased from ₹ 1,781 crore (2017-18) to ₹ 4,791 crore due to increase in quantum of loans mainly raised from National Bank for Agricultural and Rural Development (NABARD) by ₹ 3,133 crore and National Co-operative Development Corporation (NCDC) by ₹ nine crore which was counterbalanced by decrease in loans raised from Rural Electrification

Corporation Limited by ₹ 132 crore. The impact of borrowings at a higher rate of interest than investments by the State is discussed in **Para 1.6.5**.

1.4.2.2 Loans and advances from GoI

Details of loans and advances received by the State Government from GoI during 2014-19 are given in **Table 1.17**.

Table 1.17: Loans and advances from GoI

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Loans and advances from GoI	486	594	1,031	1,103	804

(Source: Finance Accounts of the respective years)

Less debt receipt under loans and advances from GoI (₹ 299 crore) during 2018-19 was due to less addition to back-to-back loans on externally aided projects as compared to previous year.

1.4.3 Public accounts receipts

Receipts and disbursements under small savings, provident funds and reserve funds etc., which do not form a part of the Consolidated Fund, are kept in Public Accounts set up under Article 266(2) of the Constitution of India and are not subject to vote by the Legislature. Here, the Government acts as a banker or trustee. The status of receipts and disbursement under Public Accounts are shown in **Statement-21** of the Finance Accounts and the details of Public Accounts (Net) are given in **Table 1.18**.

Table 1.18: Status of Public Accounts (Net)

Resources under various heads	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Public Accounts (Net)	2,185	1,678	9,883	6,088	19,923
A. Small savings, provident fund etc.	1,686	1,534	1,619	2,530	3,646
B. Reserve funds	(-) 2,694	2,561	7,225	8,265	13,545
C. Deposits and advances	1,050	(-) 1,543	(-) 301	1,414	2,196
D. Suspense and miscellaneous	535	(-) 677	592	(-) 2,215	223
E. Remittances	1,608	(-) 197	748	(-) 3,906	313

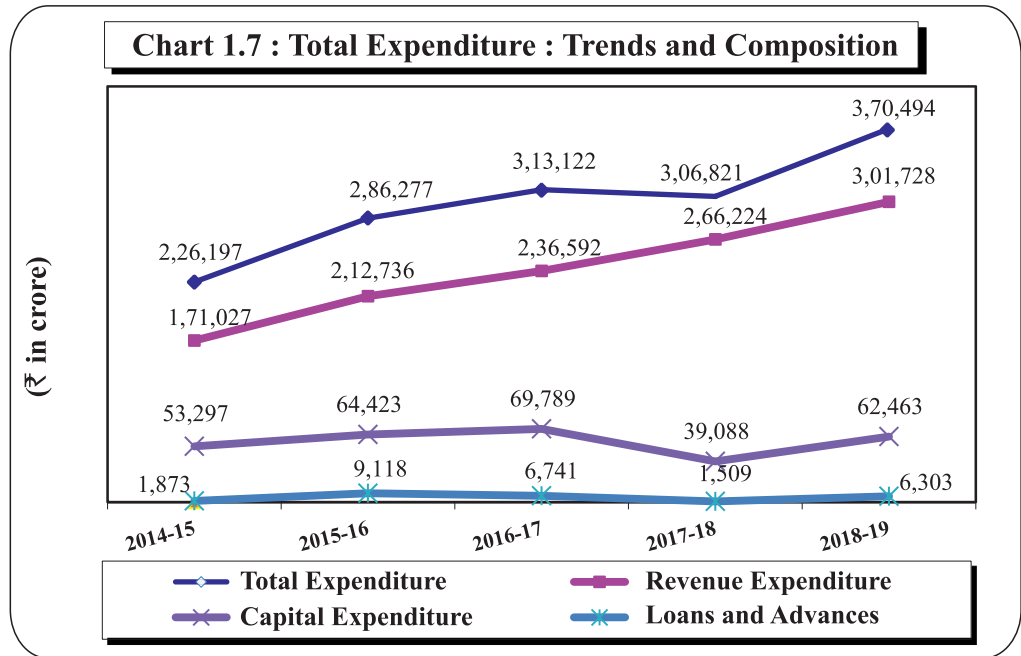
(Source: Finance Accounts of the respective years)

The impact of transactions under Reserve Funds are discussed in **Para 1.7.2**.

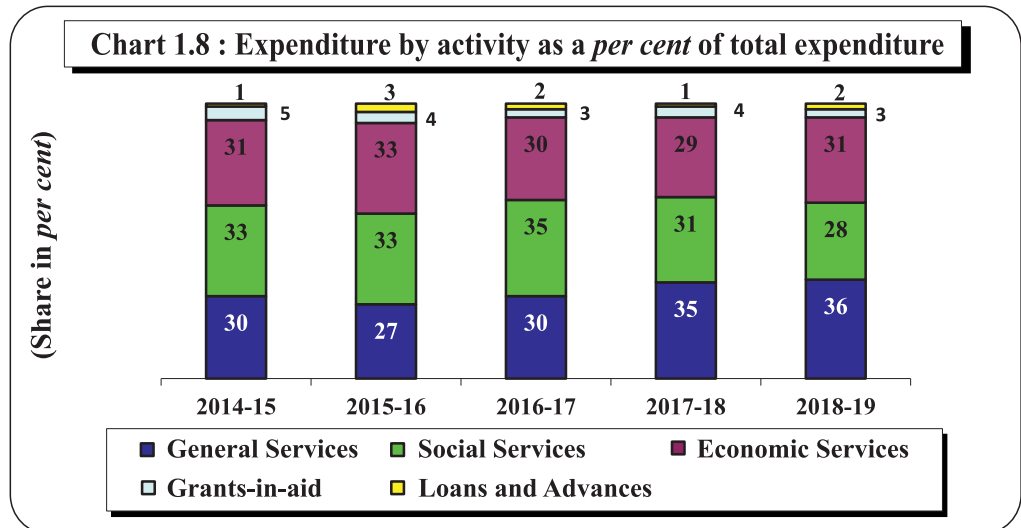
1.5 Application of resources

1.5.1 Growth and composition of expenditure

Chart 1.7 and **Chart 1.8** present the trends and composition of total expenditure during 2014-19 respectively.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years)

1.5.1.1 Revenue expenditure

Revenue expenditure continued to be the dominant component of the total expenditure and its share increased from 75.61 per cent (2014-15) to 81.44 per cent (2018-19). Details of revenue expenditure are given in **Table 1.19**.

Table 1.19: Details of Revenue Expenditure

Particulars	₹ in crore				
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure	1,71,027	2,12,736	2,36,592	2,66,224	3,01,728
Rate of growth of revenue expenditure (in per cent)	8.14	24.39	11.21	12.52	13.34

(Source: Finance Accounts of the respective years)

There was an overall increase of ₹ 35,504 crore (13 per cent) in revenue expenditure of 2018-19 over 2017-18. The increases during 2018-19 were

mainly under other rural development programme¹² (₹ 8,578 crore), power department¹³ (₹ 8,149 crore), pension and other retirement benefits¹⁴ (₹ 5,547 crore), police¹⁵ (₹ 2,386 crore), urban development¹⁶ (₹ 1,386 crore) and social security and welfare¹⁷ (₹ 1,758 crore). The decrease over previous year was mainly under crop husbandry¹⁸ (₹ 15,548 crore).

1.5.1.2 Committed expenditure

Committed expenditure of the Government under revenue head mainly consists of interest payments (₹ 32,042 crore), expenditure on salaries and wages (₹ 91,325 crore), pensions (₹ 44,024 crore) and subsidies (₹ 14,053 crore). Trends of committed expenditure during 2014-19 are presented in Table 1.20.

Table 1.20: Trends in Components of Committed Expenditure

Components of Committed Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actuals
Salaries* and wages, of which	62,147 (32)	74,439 (33)	85,416 (33)	85,076 (31)	1,03,264	91,325 (28)
Non-Plan	51,195	58,537	66,424			
Plan **	10,952	15,902	18,992			
Interest payments	18,865 (10)	21,448 (9)	26,936 (11)	29,136 (10)	32,434	32,042 (10)
Expenditure on pensions	22,305 (11)	24,150 (11)	28,227 (11)	38,476 (14)	45,495	44,024 (13)
Subsidies	7,661 (4)	7,691 (3)	8,045 (3)	9,284 (3)	11,564	14,053 (4)
Total committed expenditure	1,10,978 (57)	1,27,728 (56)	1,48,624 (58)	1,61,972 (58)	1,92,757	1,81,444 (55)
Figures in parentheses indicate percentage to Revenue Receipts. *Includes salaries paid out of Grants-in-aid. **Distinction of plan and non-plan are merged since 2017-18.						

(Source: Finance Accounts and data compiled by the Accountant General (A&E) of respected years)

Committed expenditure (₹ 1,81,444 crore), which was 55 per cent of revenue receipt (₹ 3,29,978 crore) during 2018-19, constituted a major component of revenue expenditure and consumed 60 per cent of the revenue expenditure (₹ 3,01,728 crore).

¹² Increase was mainly due to more expenditure under Panchayati Raj development programme (₹ 5,905 crore) and special component plan for Scheduled Castes (₹ 2,049 crore)

¹³ Increase was mainly due to assistance to PSUs (₹ 4,892 crore) and other miscellaneous expenditure relating to transmission and distribution of power (₹ 3,257 crore).

¹⁴ Increases were mainly due to growth in expenditure on superannuation and retirement allowance (₹ 1,544 crore), family pension (₹ 507 crore) etc. though there is decrease under commuted value of pension (₹ 986 crore) and gratuities (₹ 297 crore) respectively.

¹⁵ Increases were mainly due to growth in expenditure on district police (₹ 1,805 crore), special police (₹ 203 crore) and expenditure relating to police functions (₹ 143 crore).

¹⁶ Increase was mainly due to more expenditure on construction under urban development schemes (₹ 988 crore), special component plan to Scheduled Castes (₹ 370 crore), assistance to corporation/boards etc (₹ 229 crore).

¹⁷ Increases were mainly due to more expenditure on child welfare (₹ 1,564 crore) and special component plan for Scheduled Castes (₹ 323 crore).

¹⁸ Decrease was mainly due to incurring less expenditure on scheme of small/ marginal farmers and agricultural labors (₹ 15,250 crore) special component plan for Scheduled Castes under crop husbandry (₹ 2,110 crore).

1.5.1.3 Defined Contribution Pension Scheme (National Pension System)

State Government employees recruited on or after 1 April 2005 are covered under the Defined Contribution Pension Scheme (DCPS/NPS). It is also applicable to the new entrants of Government aided educational institutions and autonomous bodies financed by the Government as well. In terms of the Scheme, the government employees contribute 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank. As per the procedure prescribed by the Government of Uttar Pradesh, both the contributions are to be initially credited to the Public Account under the concerned head 8342-Other Deposit-117 DCPS for Government employees or 120-Miscellaneous Deposits for Government aided educational institutions and autonomous bodies. Thereafter, the entire amount of contribution for a month is to be transferred to the Trustee Bank by the following month.

The State Government however, did not follow the above procedure in entirety. In respect of government employees and aided educational institutions employees, the State Government incurred expenditure of ₹ 1,768.40 crore as government contribution (₹ 1,221.40 crore for government employees and ₹ 547.00 crore for aided educational institutions employees) under the head 2071-01-117- Government Contribution for DCPS during the year 2018-19. As against this, an amount of ₹ 1,237.81 crore only (₹ 1,215.17 crore for government employees and ₹ 22.64 crore for aided educational institution employees) was transferred by the State Government during 2018-19 as government contribution under the major head 8342-Other Deposit. As stated in the Finance Accounts, the reason for this non-transfer was not furnished by the Government. Thus, government contribution amounting to ₹ 530.59 crore, though booked as revenue expenditure in the Accounts, was not transferred by the State Government to the designated major head 8342 for DCPS during 2018-19.

State Finances Audit Report for the year ended 31 March 2018 (Report No. 3 of the year 2019) has reported short transfer of ₹ 1,379.95 crore under DCPS by the State Government to the designated authority as on 31 March 2018.

Receipts and disbursements under the major head 8342-Other Deposits revealed that the State Government transferred government contribution of ₹ 1,237.81 crore under DCPS during 2018-19 as against employees' contribution¹⁹ of ₹ 2,218.98 crore. Thus, the State Government did not discharge its statutory liability as it failed to contribute ₹ 981.17 crore as its matching share under DCPS during the year 2018-19. Further, out of total collected contribution of ₹ 3,456.79 crore (employees' contribution and Government contribution) during the year 2018-19, ₹ 153.25 crore was not deposited by the State Government with the designated authority. Thus, there was a short transfer of ₹ 1,134.42 crore (₹ 981.17 crore + ₹ 153.25 crore) to the designated authority during 2018-19 for further investment as per the provision of the Scheme. Thus, the current liability stands deferred to future

¹⁹ Employees of State Government, Government aided institution and Autonomous Bodies

year(s). Further, the State Government has created uncertainty in respect of benefits due to the employees/avoidable financial liability to the Government in future, and, thus, leading to possible failure of the scheme itself.

Recommendation: *The State Government should ensure that employees' deductions are fully deducted, fully matched by Government contributions and fully transferred to the designated fund manager through NSDL in a timely manner.*

1.5.1.4 Capital expenditure

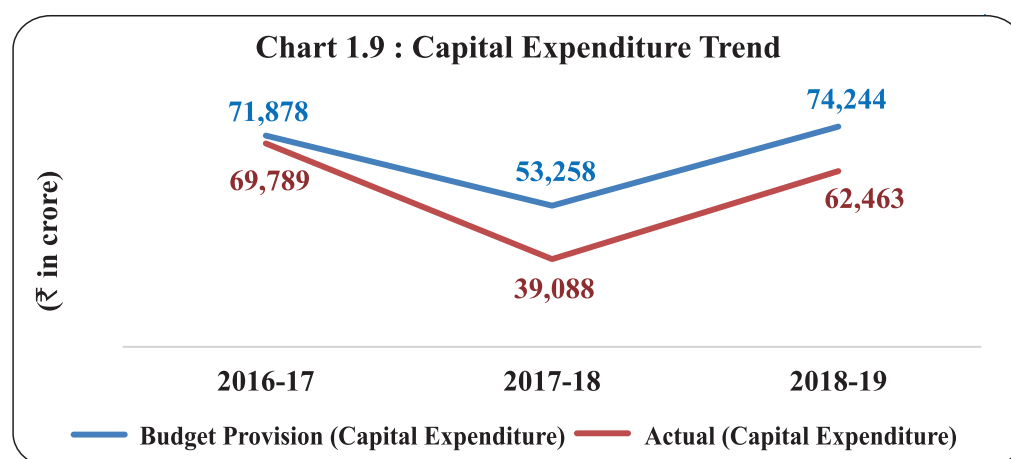
Details of capital expenditure are given in **Table 1.21**.

Table 1.21: Details of Capital Expenditure

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Capital expenditure	53,297	64,423	69,789	39,088	62,463
Rate of growth of Capital expenditure (in per cent)	62.18	20.88	8.33	(-) 43.99	59.80
Capital expenditure as a percentage of GSDP at current prices (in per cent)	5.27	5.67	5.59	2.84	4.05

(Source: Finance Accounts of the respective years)

Capital expenditure increased by 60 per cent during 2018-19 as compared to 2017-18 when there was significant reduction in capital expenditure by 44 per cent mainly due to substantial budget provision for farm loan waiver. Despite growth during 2018-19, capital expenditure could not attain the 2016-17 level, whereas revenue expenditure grew by 28 per cent between 2016-17 and 2018-19. **Chart 1.9** depicts the trend of budget provisions for capital expenditure and actual capital expenditure thereagainst during 2016-17 to 2018-19.



Out of total capital expenditure of ₹ 62,463 crore during 2018-19, the State Government made an investment of ₹ 13,753 crore in Public Sector Undertakings (PSUs), Statutory Corporations and Cooperative Societies, of which ₹ 13,409 crore was invested as share capital in Power Sector PSUs for speedy rural electrification programmes, strengthening of distribution and transmission network, energising of private tubewells in rural areas, Deen Dayal Upadhyay Gram Jyoti Yojna, Saubhagya scheme, etc. Other major

areas included an expenditure of ₹ 19,816 crore on roads and bridges, ₹ 3,789 crore on major irrigation, ₹ 3,407 crore on other rural development programmes, ₹ 2,597 crore on Pradhan Mantri Awas Yojana (Rural), ₹ 2,370 crore on food storage and warehousing, ₹ 2,222 crore on water supply and sanitation, ₹ 2,134 crore on civil aviation and ₹ 2,054 crore on medical and public health.

1.5.2 Quality of expenditure

1.5.2.1 Adequacy of Public Expenditure

The fiscal priorities of the State Government with regard to development expenditure, social services expenditure, economic services expenditure and capital expenditure during 2014-15 and 2018-19 as compared with General Category States is given in **Table 1.22**.

Table 1.22: Fiscal Priorities of the State during 2014-15 and 2018-19

Fiscal Priority (Percentage to GSDP)		(in per cent)						
		AE/ GSDP	DE [#] / AE	SSE/ AE	ESE/ AE	CE/ AE	Education/ AE	Health/ AE
2014-15	Average (Ratio) General Category States*	15.99	68.51	36.15	32.36	14.02	16.54	4.92
	Uttar Pradesh	22.36	64.86	32.89	31.97	23.56	15.62	5.29
2018-19	Average (Ratio) General Category States*	16.05	67.04	36.59	30.45	14.28	14.99	5.07
	Uttar Pradesh	24.02	60.39	27.63	32.76	16.86	13.13	4.89
AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Services Expenditure; ESE: Economic Services Expenditure; CE: Capital Expenditure. * For Goa, 2018-19 figures are based on revised estimates. #Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.								

During 2018-19, the ratios of development expenditure, expenditure on education, health and expenditure on social services to aggregate expenditure were less than the average of the General Category States. The decline in ratio of capital expenditure as well as social services expenditure in 2018-19 as compared to 2014-15 was on account of the lower rate of increase in the capital expenditure (17 per cent) and social services expenditure (38 per cent) as compared to the increase in the aggregate expenditure (64 per cent) during the period 2014-19.

1.5.2.2 Efficiency of expenditure use

Details of capital and revenue expenditure on maintenance of social and economic services are given in **Table 1.23**.

Table 1.23: Efficiency of expenditure use in selected social and economic services

Social/Economic infrastructure	2017-18			2018-19		
	Ratio of CE to TE	Revenue expenditure (₹ in crore)		Ratio of CE to TE	Revenue expenditure (₹ in crore)	
		S&W	O&M		S&W	O&M
Total (SS)	12.08	50,533	393	10.34	52,903	266
Total (ES)	27.31	11,544	4,567	39.92	12,554	4,308
Total (SS+ES)	19.46	62,077	4,960	26.39	65,457	4,574
Major components of Social Services (SS)						
Education	1.99	40,757	13	2.04	42,136	16
Health and Family Welfare	12.49	8,050	152	12.48	8,836	151
Water Supply, Sanitation, Housing and Urban Development	52.63	159	204	40.11	169	77
Major components of Economic Services (ES)						
Agriculture and Allied Activities	5.55	3,228	22	19.52	3,496	37
Irrigation and Flood Control	30.80	2,840	2,205	44.96	3,014	2,039
Power and Energy	53.72	38	00	45.65	41	00
Transport	66.87	120	2,323	82.92	128	2,220
TE: Total Expenditure; CE: Capital Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance.						

(Source: Finance Accounts and voucher level computerisation data of AG (A&E) for 2017-18 and 2018-19)

1.5.2.3 Development and non-development expenditure

All expenditure relating to revenue head, capital outlay and loans and advances are categorised into social services, economic services and general services. Broadly, social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

The rate of growth of development and non-development expenditure of the Government during 2014-19 are given in **Table 1.24**.

Table 1.24: Development and Non-Development Expenditure

Particulars	₹ in crore				
	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure	1,71,027	2,12,736	2,36,592	2,66,224	3,01,728
Capital expenditure	53,297	64,423	69,789	39,088	62,463
Loans and advances	1,873	9,118	6,741	1,509	6,303
Total expenditure	2,26,197	2,86,277	3,13,122	3,06,821	3,70,494
Development expenditure	1,46,705	1,98,456	2,08,290	1,86,578	2,23,744
Rate of growth of development expenditure (<i>per cent</i>)	25	35	05	(-10)	20
Non-development expenditure	79,492	87,821	1,04,832	1,20,243	1,46,750
Rate of growth of non-development expenditure (<i>per cent</i>)	6	10	19	15	22

(Source: Finance Accounts of the respective years)

1.6 Government expenditure and investments

1.6.1 Financial results of irrigation works

The Thirteenth and Fourteenth Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The position of cost recovery of irrigation projects in the State for the period 2014-19 is depicted in **Table 1.25**.

Table 1.25: Cost recovery position of irrigation projects

Year	Revenue expenditure	Revenue receipts	Cost recovery assessment of XIII FC(2010-15)/XIV FC (2015-20)	Revenue receipts to revenue expenditure	Gap in cost recovery
	₹ in crore		In per cent		
2014-15	5,009	397	75	8	67
2015-16	4,891	651	35	13	22
2016-17	5,230	782	35	15	20
2017-18	6,706	953	35	14	21
2018-19	6,534	908	35	14	21

(Source: Finance Accounts of the respective years and Reports of Thirteenth and Fourteenth Finance Commission)

The gap in cost recovery during 2017-18 and 2018-19 increased by one *per cent* as compared to 2016-17. However, there is scope for further improvement in comparison to the recommendations of the Fourteenth Finance Commission.

Recommendation: *The State Government may initiate measures to further improve cost recovery on irrigation projects.*

1.6.2 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The details of incomplete projects as given in the Finance Accounts is summarised in **Table 1.26**.

Table 1.26: Department-wise profile of incomplete projects as on 31 March 2019

Department	No. of incomplete projects	Initial estimated cost	No. of projects for which costs were revised	Estimated cost of project for which costs were revised	
				Initial estimated cost (₹ in crore)	Revised estimated cost (₹ in crore)
Public Works Department (Roads & Bridges)	568	11,805	16	374	494
Irrigation Department	24	411	02	36	38
Total	592	12,216	18	410	532

(Source: Appendix IX of Finance Accounts 2018-19)

Out of total 592 incomplete projects, the estimated cost was revised for only 18 projects (overall increase of estimated cost by 30 *per cent*). Since the State Government has not evaluated the cost of remaining incomplete projects, the funds required to complete these projects could not be ascertained.

Recommendation: The Finance Department and the concerned departments may re-evaluate the cost of all incomplete projects and evolve a mechanism to ensure timely completion of projects.

1.6.3 Investments and Returns

The position of return on investments during 2014-19 is given in **Table 1.27**.

Table 1.27: Return on investments

Investment/return/cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year ²⁰ (₹ in crore)	58,606	84,357	96,400	1,04,779	1,18,532
Returns (₹ in crore)	8.08	42.66	86.34	30.84	175.48
Returns (<i>per cent</i>)	0.01	0.05	0.09	0.03	0.15
Average rate of interest on Government borrowings ²¹ (<i>per cent</i>)	6.40	6.35	6.82	6.54	6.50
Difference between interest rate on Government borrowings and interest received on returns (<i>per cent</i>)	6.39	6.30	6.73	6.51	6.35
Notional loss due to difference between interest rate of Government borrowings and return on investments (₹ in crore)	3,745	5,315	6,488	6,821	7,527

(Source: Finance Accounts of the respective years)

Over the past five years, the State Government has incurred a notional loss of ₹ 29,896 crore on return on investment on account of difference between the Government's borrowing cost and the return on investment in share capital and debenture of different concerns.

1.6.4 Public Private Partnership Projects

The Pradeshiya Industrial & Investment Corporation of U.P. Ltd (PICUP)²² had informed details of 60 Public Private Partnership (PPP) projects involving ₹ 91,609.13 crore (**Annexure-G of Finance Accounts Volume-1**) to the Accountant General (A&E), where developers were selected.

1.6.5 Loans and Advances by State Government

In addition to investments in co-operative societies, corporations and companies, State Government has also been providing loans and advances to many of these institutions/organisations, including loans and advances to Government servants. Details are given in **Table 1.28**.

²⁰ In Statutory Corporations, Government Companies, Co-operative Societies and Banks.

²¹ Interest payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100

²² PICUP is a State Government financial institution.

Table 1.28: Interest receipts on loans and advances by State Government

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance of loans and advances	12,456	14,067	22,459	28,447	29,720
Amount advanced during the year	1,873	9,118	6,741	1,509	6,303
Amount repaid during the year	262	726	259	236	5,313
Closing balance of loans and advances	14,067	22,459	28,447	29,720	30,710
Net addition of loans and advances	1,611	8,392	5,988	1,273	990
Interest receipts	14	26	566	606	624
Interest receipts as <i>per cent</i> to outstanding Loans and Advances ²³	0.11	0.14	2.22	2.08	2.07
Average rate of interest on Government borrowings ²⁴ (<i>per cent</i>)	6.40	6.35	6.82	6.54	6.50
Difference between interest rate on Government borrowings and interest received on loans (<i>per cent</i>)	6.29	6.21	4.60	4.46	4.43
Notional loss on loan advanced during the year due to the difference between interest rate of loans disbursed and interest received on Government borrowings (₹ in crore)	118	566	310	67	279

(Source: Finance Accounts of the respective years)

Out of total amount repaid during the year (₹ 5,313 crore), ₹ 4,892 crore (92 *per cent*) was repaid by the Power department. Over the past five years the State Government has incurred a notional loss of ₹ 1,340 crore towards interest on account of difference in the interest received on the loans advanced and that the Government incurred on its borrowings.

Details of loans and advances made by the Government are detailed in **Section-1** of **Statement-18** of Finance Accounts and details of entities that were in arrears of repayment of loans are detailed in **Section-2** of **Statement-18** of Finance Accounts.

Recommendation: *The State Government should rationalise its investments and loans advanced to various entities in such a way that the return on investment and loans at least matches the Government borrowing costs.*

1.6.6 Cash Balances and Investment of Cash Balances

Details of cash balance and investment of cash balance is given in **Table 1.29**.

Table 1.29: Cash balances and investment of cash balances

Particulars	₹ in crore)	
	Opening balance as on 01 April 2018	Closing balance as on 31 March 2019
(a) General cash balances		
Cash in Treasuries	00	00
Deposits with Reserve Bank	265.21	171.10
Remittances in Transit- local	00	00
Total	265.21	171.10

²³ Interest received / [(Opening balance + Closing balance of Loans and Advance)/2]*100.

²⁴ Interest payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

Particulars	Opening balance as on 01 April 2018	Closing balance as on 31 March 2019
Investment held in Cash Balance Investment Account	11,159.38	26,684.36
Total (a)	11,424.59	26,855.46
(b) Other cash balances and investments		
Cash with Departmental Officers viz., Public Works Departmental Officers, Forest Departmental Officers, District Collectors	10.87	10.96
Permanent Advances for contingency expenditure with Departmental Officers	0.49	0.49
Investment of Earmarked Funds	45.20	45.20
Total (b)	56.56	56.65
Grand Total (a) + (b)	11,481.15	26,912.11

(Source: Finance Accounts 2018-19)

During 2018-19, the opening balance of investment held in cash balance investment accounts was ₹ 11,159.38 crore. Treasury Bills and Long Term Government of India Securities amounting to ₹ 5,44,061.14 crore and ₹ 79.67 crore respectively were purchased and these instruments amounting to ₹ 5,28,532.26 crore and ₹ 83.57 crore respectively were sold, leaving a balance of ₹ 26,684.36 crore in the account at the end of the year. The amounts of ₹ 1,070.23 crore and ₹ 18.33 crore were received as interest on investment under Treasury Bills and Long Term Government of India's Securities respectively.

Under the Cash Balance Investment Account, the transactions of the State Government in investing in Treasury bills of Central Government had consistently increased from ₹ 1,43,679 crore during 2015-16 to ₹ 5,44,061 crore during 2018-19. The cash surplus increased during the last three years from ₹ 888 crore (31 March 2017) to ₹ 26,855 crore (31 March 2019), while at the same time the State Government resorted to market borrowings of ₹ 46,000 crore to finance the fiscal deficit during the year 2018-19. Thus, there was scope for reducing the quantum of market borrowings and consequent burden of interest on internal debt by utilising the surplus cash balance.

1.6.7 Variation in Cash Balance

As per the Certificate of confirmation of balances issued by Reserve Bank of India, the State had a credit balance of ₹ 122.02 crore while the closing cash balance of the State for the month of March 2019 as certified by the Accountant General (A&E) was ₹ 171.10 crore. Thus, there was a difference of ₹ 49.08 crore including the previous years' balances, between the cash balance of the State Government, as worked out by the Accountant General (A&E) and as reported by the Reserve Bank of India (as on 31.03.2019), which was under reconciliation.

The State Government stated (July 2020) that the necessary instructions had been issued to the treasuries for reconciliation of variation in cash balance and they were in the process of reconciling the difference.

1.7 Assets and Liabilities

1.7.1 Growth and Composition of Assets and Liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. *Appendix 1.7* gives an abstract of such liabilities and assets, as on 31 March 2019, compared with the corresponding position on 31 March 2018. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from public accounts and reserve funds, the assets comprise mainly of capital outlay and loans and advances given by the State Government and the cash balances.

1.7.2 Transactions under Reserve Funds

During the year 2018-19, the State Government made a net transfer of ₹ 13,545 crore to various Reserve Funds under Public Accounts of the State, which have been created for specific purposes. Details are given in *Appendix 1.8* and summarised in **Table 1.30**.

Table 1.30: Position of Reserve Funds during 2018-19

(₹ in crore)					
10	Head of accounts	Opening balance as on 1 April 2018	Receipts during 2018-19	Disbursements during 2018-19	Closing balance as on 31 March 2019
(a) Reserve Funds bearing interest					
1	8115-Depreciation/ Renewal Reserve Fund <i>Investment</i>	0.00 44.42	0.00 0.00	0.00 0.00	0.00 44.42
Total (a) <i>Investment</i>		0.00 44.42	0.00 0.00	0.00 0.00	0.00 44.42
(b) Reserve Funds not bearing interest					
1	8222-Sinking Fund	57,469.62	26,403.95	12,693.33	71,180.24
2	8223-Famine Relief Fund <i>Investment</i>	0.00 0.78	0.00 0.00	0.00 0.00	0.00 0.78
3	8225-Roads and Bridges Fund	(-)321.46	3,000.00	2,949.53	(-)270.99
4	8226-Depreciation/ Renewal Reserve Fund	(-)7.99	0.00	0.00	(-)7.99
5	8229-Development and Welfare Funds	962.80	0.20	191.24	771.76
6	8235-General and Other Reserve Funds	1,177.10	692.95	718.30	1,151.75
Total (b) <i>Investment</i>		59,280.07 0.78	30,097.10 0.00	16,552.40 0.00	72,824.77 0.78
Grand Total <i>Investment</i>		59,280.07 45.20	30,097.10 0.00	16,552.40 0.00	72,824.77 45.20

(Source: Finance Accounts 2018-19)

Out of 35 reserve funds as on 31 March 2019, 14 were operative having balance of ₹ 72,804 crore and 21 inoperative funds having balances of ₹ 21 crore (including 18 funds with zero balance). During the year 2018-19, the State Government made a net transfer of ₹ 13,544.70 crore to various Reserve Funds. All these transactions were in the nature of book adjustments.

No investment of reserve funds was made, except in respect of two inoperative reserve funds against which an amount of ₹ 45.20 crore under MH 8115- Depreciation Reserve Fund (₹ 44.42 crore) and MH 8223- Famine Relief Fund (₹ 0.78 crore) was invested decades ago. Further, there were negative balances under 8225-Roads and Bridges Fund and 8226-Depreciation/Renewal Reserve Fund, which need regularisation by way of appropriation from the Consolidated Fund. Detailed analysis of some reserve fund transactions is discussed in subsequent paragraphs.

1.7.2.1 Sinking Fund

Creation of Consolidated Sinking Fund

The Twelfth Finance Commission (XII FC) recommended creation of Consolidated Sinking Fund (CSF) for amortisation of outstanding liabilities²⁵ by the State Governments. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the CSF, stipulate a minimum annual contribution of 0.5 *per cent* of outstanding liabilities at the end of the previous financial year. The State Government, however, has not set up the CSF (subsuming the existing Fund) as recommended by XII FC.

Operation of existing Sinking Fund

During 2018-19, the State Government appropriated ₹ 26,404 crore from Revenue Account (Major Head 2048 - Appropriation for reduction or avoidance of Debt) to Sinking Fund (Major Head 8222) under Public Account by book transfer. Further, out of this fund, an amount of ₹ 12,693 crore, equivalent to repayment of market loans during 2018-19, was transferred and credited to revenue receipts (under Major Head 0075-Miscellaneous General Services) under the Consolidated Fund without involving any cash outflow from Sinking Fund. The transfer of balances from Sinking Fund to revenue receipt head was not in consonance with the procedure prescribed under the List of Major and Minor Heads of Account of Union and States. As per the prescribed procedure, on maturity of the loan, the amount equivalent to loan repaid should be transferred from Sinking Fund (Major Head 8222) and credited to the head '8680-Miscellaneous Government Account-101-Ledger Balance adjustment account'.

The transfer of ₹ 12,693 crore from the Sinking Fund to the Revenue Account overstated the revenue surplus of the year. The overstatement of revenue surplus due to such transfer had been reported in previous State Finances Audit Reports; however, the incorrect accounting practice persisted.

The transactions of the State Government against the Sinking Fund were only book entries and do not represent actual movement of cash. There was no investment against the closing balance of ₹ 71,180 crore in the Sinking Fund as on 31 March 2019.

Recommendation: *The State Government may consider accepting the recommendation of the XII FC and create a Consolidated Sinking Fund to be*

²⁵ Defined as comprising Internal Debt and Public Account liabilities of the State Government.

invested by RBI. Further, the transfers out of the fund are not to be treated as Revenue Receipts and the amount equivalent to loan repaid should be transferred from Sinking Fund to Major Head 8680 on redemption of debt. The State Government should ensure that the Fund balances are actually invested and are not mere book entries.

1.7.2.2 State Road Fund

State Government established (January 2000)²⁶ 'State Road Fund' (SRF) for maintenance, renewal, strengthening and construction of roads, which is kept under Reserve Fund not bearing interest, MH 8225-Roads and Bridges Fund-02-101-State Road and Bridges Fund-01-SRF. Under SRF Rules, resources for this fund are arranged by imposing enhanced sales tax on diesel and petrol from 16 to 20 per cent and from 14 to 20 per cent respectively and the additional amount so realised is to be assigned to SRF to the extent considered appropriate by the State Government.

During 2018-19, the State Government made provision of ₹ 1,500 crore under MH 3054 and ₹ 1,500 crore under MH 5054 relating to revenue and capital expenditure respectively on SRF and transferred these amounts to the Reserve Fund MH 8225- Roads and Bridges Fund. Against the total amount of ₹ 3,000 crore, ₹ 2,949.53 crore was disbursed from SRF and booked as deduct entries under MH 3054 and MH 5054 respectively. Audit noticed that the State Government was making such identical transfers and reverse transfers between MH 3054/5054 and MH 8225-Roads and Bridges Fund for many years.

Further, the Fund had a negative balance of (-) ₹ 270.99 crore at the end of March 2019, indicating excess of disbursement over available balances. This negative figure has been appearing from the accounts of 2014-15 onwards.

Recommendation: *The Finance Department should examine the need to maintain Reserve Fund on Road and Bridges under MH 8225-Roads and Bridges Fund and also immediately regularise the negative balance under Road and Bridges Fund.*

1.7.2.3 State Disaster Response Fund (SDRF)

Non-accounting of SDRF as interest bearing Reserve Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. The guidelines of SDRF stipulate the following:

- The Fund should be operated under the category "Reserve Fund bearing Interest" below Major Head-8121-General and Other Reserve Funds-122-State Disaster Response Funds.
- The State Government shall pay interest to the SDRF at the interest applicable to overdrafts under Overdraft Regulation Guidelines of the RBI.

It was observed, however, that the State Government operates its SDRF under the category "Reserve Funds not bearing Interest" below Major Head 8235-

²⁶ SRF was abolished in March 2009 but reinstated in January 2013 retrospectively from March 2009 and expenditure for capital nature works was also allowed.

General and Other Reserve Funds-111- State Disaster Response Funds. The balances in the Fund are also not invested in the manner specified by the GoI under the SDRF guidelines.

During the year 2018-19, an amount of ₹ 390.51 crore has been contributed to the Fund, of which ₹ 292.88 crore was contributed by the Central Government and ₹ 97.63 crore by the State Government in the ratio of 75:25. Besides, an amount of ₹ 58.58 crore being arrears of Central share and ₹ 5.86 crore as State share (in the ratio 90:10) was also contributed to the Fund.

In terms of Para 4 of the guidelines of SDRF, the State Government is required to pay interest to SDRF at the rate applicable to overdraft under overdraft regulation guidelines of RBI on a half yearly basis. At the beginning of 2018-19, the SDRF had a balance of ₹ 999.95 crore. Therefore, total interest of ₹ 106.22 crore on this balance (computed on six monthly basis at the average rate of interest of 8.25 per cent on overdraft) was required to be paid by the State Government during 2018-19. However, the State Government has not credited to SDRF any interest on un-invested balances of the Fund as per the terms of the guidelines.

In terms of the National Disaster Response Fund (NDRF) guidelines (July 2015), the Government of India provides additional assistance to the States from NDRF which does not require State's share, when natural calamities require expenditure in excess of the balances available under SDRF. As per Para 11.3 and 11.4 of the guidelines, the State Governments would make suitable budget provisions on the expenditure side of their budget under the head 2245-80-103, and the actual expenditure out of NDRF should be booked thereunder. Direct expenditure by the State Government from the Public Account should not be made.

The State Government received ₹ 157.23 crore from NDRF during the year 2018-19 which was booked under MH 1601- Grants-in-aid from Central Government and was treated as receipt. However, no budget provision was made nor was any expenditure booked under Major Head 2245-80-103- Assistance from NDRF during the year as per the prescribed procedure. Thus, the grants-in-aid of ₹ 157.23 crore received from NDRF was not transferred to the State's SDRF account during the year 2018-19. As a result, the revenue surplus of the State Government was also overstated and fiscal deficit understated by ₹ 157.23 crore.

Recommendation: *The State Government should transfer the SDRF balances to MH 8121- General and Other Reserve Funds under the category "Reserve Funds bearing Interest" and remit to the Fund accrued interest as per SDRF guidelines. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.*

1.7.3 Contingent Liabilities – Status of Guarantees

1.7.3.1 Guarantee Redemption Fund

For the purpose of redemption of guarantees, the State Government was required to create a Guarantee Redemption Fund as per the recommendations of Twelfth Finance Commission. However, State Government has not created

a Guarantee Redemption Fund. Under the RBI Guidelines 2013, it was required to make minimum annual contributions of ₹ 453.91 crore (0.5 per cent of outstanding guarantee of ₹ 90,781.57 crore²⁷ at the beginning of the year 2018-19) which was not done. This had the impact of overstating the revenue surplus and understating the fiscal deficit by ₹ 453.91 crore.

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 1.31**.

Table 1.31: Guarantees given by the Government

Particulars	₹ in crore)		
	2016-17	2017-18	2018-19
Maximum amount guaranteed (Principal)	66,702	74,303	90,662
Total revenue receipts	2,56,875	2,78,775	3,29,978
Outstanding amount of guarantees at the end of the year	55,825	74,841	1,10,032
Percentage of maximum amount guaranteed to total revenue receipts	25.97	26.65	27.48

(Source: Finance Accounts of the respective years)

The composition of the maximum amount guaranteed was towards: four power sector entities (₹ 62,702 crore), two co-operative departments (₹ 4,083 crore), and 17 institutions of other sectors (₹ 23,877 crore).

1.7.3.2 Guarantee Fee

The State Government issued guarantees in respect of 23 institutions, of which 21 institutions were exempted from payment of guarantee fee. It was noticed that receivable guarantee fee (₹ 10.46 crore) from two institutions, viz., Pradeshiya Industrial and Investment Corporation of Uttar Pradesh (₹ 0.72 crore) and U.P. Rajya Vidyut Utpadan Nigam Limited (₹ 9.74 crore), were not received during 2018-19.

Recommendation: *The State Government should create and operate the guarantee redemption fund as per the guidelines of XII FC. State Government should also ensure that guarantee fees are realised promptly. The Government should stop financial support to the institutions which have not paid the guarantee fees and/or are also in arrears of accounts.*

1.8 Debt Management

1.8.1 Composition of fiscal liabilities of the State Government

The composition of fiscal liabilities of the State Government during 2014-15 to 2018-19 was as detailed in **Table 1.32**.

²⁷ There was a difference of ₹ 15,940.35 crore between outstanding guarantee at the end of 2017-18 (₹ 74,841.22 crore) and that at the beginning of 2018-19 (₹ 90,781.57 crore), which was under reconciliation.

Table 1.32: Composition of fiscal liabilities of the State Government

Nature of Borrowings	Balances (₹ in crore)				
	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
(A) Public Debt					
Internal Debt of the State Government ²⁸	1,83,192	2,40,836	2,88,627	3,21,479	3,53,190
Loans and Advances from GoI	14,462	13,658	13,250	12,812	11,980
Total (A)	1,97,654	2,54,494	3,01,877	3,34,291	3,65,170
(B) Other Public Account Liabilities					
Small Savings, Provident Fund	45,121	46,655	48,238	50,768	54,413
Reserve Funds	41,230	43,790	51,015	59,280	72,824
Deposits	23,855	22,312	22,094	23,503	25,688
Total (B)	1,10,206	1,12,757	1,21,347	1,33,551	1,52,925
Total Debt stock of the State Government²⁹	3,07,860	3,67,251	4,23,224	4,67,842	5,18,095

(Source: Finance Accounts of respective years)

During the years 2014-15 to 2018-19, the total debt stock of the Government increased from ₹ 2,81,709 crore (1 April 2014) to ₹ 5,18,096 crore (31 March 2019). Maturity profile of public debt is detailed in Table 1.33.

Table 1.33: Maturity Profile of Public Debt

Maturity Year	(₹ in crore)			
	Internal Debt	Loans and Advances from GoI	Total	Per cent
2019-20	23,703	1,576	25,279	6.92
2020-21	23,074	1,598	24,672	6.76
2021-22	27,026	1,606	28,632	7.84
2022-23	20,378	1,606	21,984	6.02
2023-24	18,533	1,622	20,155	5.52
2024-25	27,631	559	28,190	7.72
2025-26	38,813	410	39,223	10.74
2026-27	48,509	393	48,902	13.39
2027-28	48,866	391	49,257	13.49
2028-29	53,012	368	53,380	14.62
2029-30 onwards	22,539	2,245	24,784	6.79
Under reconciliation with the State Government	1,106	(-) 394	712	0.19
Total	3,53,190	11,980	3,65,170	100.00

(Source: Finance Accounts 2018-19)

²⁸ Internal debt consists of market loans and loans from Financial Institutions, viz., Life Insurance Corporations of India, General Insurances Corporations of India, National Bank for Agriculture and Rural Development, National Co-operative Development Corporation and other institutions.

²⁹ In Table 1.32, debt stock during 2015-16 and 2016-17 includes borrowings on account of Ujjwal Discom Assurance Yojana (UDAY) so as to match Finance Accounts figures. The debt stocks excluding UDAY borrowings were ₹ 3,42,920 crore (2015-16) and ₹ 4,08,422 crore (2016-17), which have been taken for computing debt sustainability and other fiscal parameters for 2015-16 and 2016-17.

The maturity profile of public debt revealed that the redemption pressure was likely to rise from the year 2024-25 and would reach a peak in the year 2028-29 due to maturity of Uttar Pradesh Government stock.

1.8.2 Net availability of borrowed funds

Details of net availability of funds on account of receipts and repayments under public debt and public account liabilities during 2014-19 are given in **Table 1.34**.

Table 1.34: Net available fund on account of public debt and other obligations

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts under public debt and other liabilities	71,455	1,13,502	1,13,172	90,052	1,13,504
Repayments (principal and interest) under public debt and other liabilities	64,103	75,557	84,034	74,570	95,293
Net funds available	7,352	37,945	29,138	15,482	18,211
Percentage of net funds available to receipts under public debt	10.29	33.43	25.75	17.19	16.04

(Source: Finance Accounts of the respective years)

As evident from **Table 1.34**, 83.96 *per cent* of borrowed funds were used for discharging existing liabilities during 2018-19 and could not be used for capital formation/development activities of the State.

1.8.3 Debt Sustainability

Fiscal liabilities are considered sustainable if the government is able to service the stock of these liabilities over the foreseeable future and the debt-GSDP ratio does not grow to unmanageable proportions. The Domar model is one of the models for analysis of public debts, which lays down that the debt GDP ratio is likely to be stable if the rate of growth of the economy exceeds the rate of interest on the debt. **Table 1.35** provides the Domar sustainability condition:

Table 1.35: Debt sustainability criteria under Domar model

g-r (g: real economic growth rate; r: real interest rate), called Domar gap	s<0 (primary deficit)	s>0 (primary surplus)
g-r > 0 (strong economic growth)	Public debt as a percentage of GSDP tends towards a stable value and is therefore, sustainable. Depending on the stock of debt, it will either increase or decrease in time to reach a stable level greater than zero.	Public debt as a percentage of GSDP should converge to a stable level less than zero leading to public savings.
g-r < 0 (slow economic growth)	Public debt as a percentage of GSDP will increase indefinitely, without converging to a stable level	Undefined situation

Applying the Domar analysis to Uttar Pradesh showed that fiscal liabilities should converge to a stable level, as shown in the following **Table 1.36**.

Table 1.36: Sustainability of debt stock of the State during 2014-19

Year	Real economic growth (g)	Real interest rate (r)	Domar gap (g-r)	Primary deficit (-) / Surplus (+)
	(in per cent)			(₹ in crore)
2014-15	4.03	0.47	3.56	(-) 13,648
2015-16	8.78	2.28	6.50	(-) 12,695
2016-17	7.31	2.50	4.81	(-) 14,251
2017-18	6.99	4.19	2.80	(+) 1,326
2018-19	6.46	2.72	3.74	(-) 3,161

- Real economic growth rate has been calculated for real GSDP i.e. at constant prices.
- Real interest rate is calculated as average interest rate on fiscal liabilities minus inflation. Average inflation has been computed with reference to current series (2012) monthly inflation rates for Uttar Pradesh available on the website of MoSPI. Average inflation rates for the State worked out to 5.93 per cent (2014-15), 4.07 per cent (2015-16), 4.32 per cent (2016-17), 2.35 per cent (2017-18) and 3.78 per cent (2018-19).

In the initial three years (2014-15 to 2016-17), there was primary deficit which got converted into primary surplus in the year 2017-18 but again turned into primary deficit in the year 2018-19. The Domar gap (g-r) was positive during the entire period from 2014-15 to 2018-19. In view of the debt sustainability conditions under Domar model as detailed in **Table 1.35**, the fiscal liabilities of the State Government satisfied the condition of debt sustainability ($g-r > 0$). It is, however, noteworthy that the Domar gap (g-r) has not been registering a stable or steadily rising trend. The Domar gap should further be viewed with the fact that 74.2 per cent of internal debt³⁰ was borrowed at interest rates of more than eight per cent (real interest rate of 4.22 per cent) against average real interest rate of 2.72 per cent during 2018-19. Moreover, other factors such as public account liabilities, force majeure events and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State³¹.

Fiscal Deficit and Debt Sustainability

In the above context of fiscal sustainability, the Thirteenth Finance Commission defined debt sustainability in terms of debt-GDP ratio and also in terms of interest payments relative to revenue receipts. The Fourteenth Finance Commission (FFC) recommended for fiscal consolidation for the Central and State Government and provided limits for fiscal deficit and debt stock as a percentage of GSDP. In view of recommendations of the FFC, Government of Uttar Pradesh amended (March 2016) the FRBM Act, 2004. The UP FRBM (Amendment) Act, 2016 provided to maintain fiscal deficit at not more than three per cent of the estimated GSDP in each of the years 2015-16 to 2019-20. The amended FRBM Act further provided to maintain total debt stock at not more than 31 per cent (during 2015-16 and 2016-17) and 30.50 per cent (during 2017-18 and 2018-19) and 30 per cent (during 2019-20) of the estimated GSDP.

³⁰ Internal debt constitutes 68.2 per cent of fiscal liabilities.

³¹ As these cannot be determined statistically, they have not been factored in the analysis.

The status of debt stock vis-à-vis the FFC targets and FRBM targets were as provided in **Table 1.37**.

Table 1.37: Debt sustainability – FRBM indicator based analysis

Year	Fiscal Deficit to GSDP (in per cent)		Debt stock to GSDP (in per cent)		Interest Payment to Revenue Receipts (in per cent)	
	FRBM target	Achievement	FRBM target	Achievement	FFC targets	Achievement
2015-16	3	3.00	31.00	30.15	9.55	9.45
2016-17	3	3.30	31.00	32.72	8.93	10.48
2017-18	3	2.02	30.50	33.99	8.36	10.45
2018-19	3	2.28	30.50	33.59	7.85	9.71

(Source: Finance Accounts of the respective years, UP FRBM (Amendment) Act 2016 and Fourteenth Finance Commission Report)

The State Government was able to contain the fiscal deficit below the FRBM targets during the last two years - 2017-18 and 2018-19. However, the debt to GSDP ratio was not within the FRBM targets, besides it spiked from 32.72 per cent to 33.59 per cent during 2016-2019. The targets for ratio of interest payment to revenue receipts (burden of interest payment) were not achieved, though it declined from 10.48 per cent (2016-17) to 9.71 per cent (2018-19). Thus, despite achieving the targets for fiscal deficit to GSDP, the movements in interest payment and fiscal liabilities relative to GSDP do not seem to be on the path anticipated by the FFC and FRBM for fiscal consolidation at the targeted level by the year 2019-20.