

EXECUTIVE SUMMARY

This Report on the finances of the Government of Uttar Pradesh (GoUP) intends to assess the financial performance of the State during the year 2020-21 and to provide the State Legislature with inputs based on audit analysis of the financial data. In order to put this analysis in a proper perspective, a broad comparison of targets envisaged by the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 as amended from time to time, the Fourteenth and Fifteenth Finance Commission Reports and the Budget Estimates of the year 2020-21 have been attempted. The Report is structured in six Chapters:

Chapter I is an overview of the finances of the State at a glance.

Chapter II is based on the audit of the Finance Accounts and makes an assessment of the fiscal position of GoUP as on 31 March 2021. It provides an insight into trends in expenditure on interest payments, salaries and wages, pensions, capital expenditure and debt management.

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

Chapter IV is an inventory of the GoUP's compliance to various reporting requirements and financial rules.

Chapters V and VI discuss the financial performance of State Public Sector Undertakings (PSUs), investment in PSUs, budgetary support to PSUs, Return on Capital employed, position of submission of accounts by State PSUs, significant comments issued as a result of supplementary/sole audit of the financial statements of the PSUs conducted by CAG, etc.

Audit Findings

Fiscal position of the State

The COVID-19 pandemic adversely affected the resources of the States and the Centre. The Gross State Domestic Product (GSDP) of Uttar Pradesh grew by 1.05 *per cent* during the year 2020-21 as compared to growth of 6.50 *per cent* during the year 2019-20. These had a negative impact on State's own tax revenue and Central tax transfers with concomitant impact on fiscal parameters of the State. The State had Revenue Deficit of ₹ 2,367.13 crore during the year 2020-21 after 14 successive years of Revenue Surplus since the year 2006-07.

To raise additional resources, the Government of India (GoI) allowed an additional borrowing limit of two *per cent* of GSDP to the State Governments for the year 2020-21. Accordingly, the UPFRBM Act, 2004 was amended (August 2020) to increase the limit of fiscal deficit for the year 2020-21 from three *per cent* of GSDP to five *per cent* of GSDP. The fiscal deficit (₹ 54,622.11 crore) of the State during the year 2020-21 was contained at 3.20 *per cent* of GSDP. However, the ratio of total outstanding debt to GSDP (32.77 *per cent*) during the year 2020-21 was above the target (32.00 *per cent*) set out in the UPFRBM (Second Amendment) Act, 2020.

Goods and Services Tax (GST) Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. In addition to receiving the GST compensation of ₹ 9,324 crore as revenue receipts during the year 2020-21, State Government also received debt receipts (back-to-back loan) of ₹ 6,007 crore from GoI in lieu of GST compensation shortfall due to inadequate balance in GST Compensation Fund. The debt servicing of this loan would be done from the collection of cess in the GST Compensation Fund and hence, the repayment obligation will not be met from the other resources of the State. Due to this arrangement, the revenue deficit of ₹ 2,367.13 crore and fiscal deficit of ₹ 54,622.11 crore during the year 2020-21 may be read in conjunction with debt receipts of ₹ 6,007.00 crore in lieu of GST compensation.

(Paragraphs 1.1.1, 1.4.1 and 1.5)

Sources and Application of Funds

Revenue Receipts of ₹ 2,96,176 crore during the year 2020-21 consists of Own Tax Revenue (₹ 1,19,897 crore), Non-Tax Revenue (₹ 11,846 crore), Share of Union Taxes and Duties (₹ 1,06,687 crore) and Grants-in-aid from GoI (₹ 57,746 crore).

The financial year 2020-21 started with the onset of COVID-19 pandemic and strict lockdown restrictions, which adversely impacted State's Revenue Receipts during the year 2020-21. As compared to Budget Estimates 2020-21, there were shortfall in actual receipts by 27.78 *per cent* in Own Tax Revenue, 62.01 *per cent* in Non-Tax Revenue, 30.21 *per cent* in Central Transfer of Taxes and 20.35 *per cent* in Grants-in-aid from GoI.

The overall decrease of 2.38 *per cent* in Own Tax Revenue during 2020-21 over previous year was mainly due to decrease in receipts under State Goods and Services Tax, Taxes and Duties on Electricity, Taxes on Vehicles and Land Revenue.

During the year 2020-21, transfers from GoI (Tax Devolution and Grants-in-aid) was 1.59 *per cent* (₹ 2,571 crore) higher as compared to the year 2019-20 and it constituted 55.52 *per cent* of Revenue Receipts of the State. The receipts under State's share of Union taxes and duties decreased by ₹ 11,131 crore (9.45 *per cent*) as compared to year 2019-20. However, Grants-in-aid from GoI increased by 31.11 *per cent* (₹ 13,702 crore) in the year 2020-21 over the previous year.

(Paragraphs 2.3.1, 2.4.1, 2.4.2.1, 2.4.3, 2.4.3.1 and 2.4.3.2)

Revenue expenditure (₹ 2,98,543 crore) continued to be the dominant component of the total expenditure and its share increased from 75.56 *per cent* in the year 2016-17 to 84.83 *per cent* in the year 2020-21. Committed expenditure (₹ 1,83,223 crore) on salary, wages, pension and interest payments was 61.87 *per cent* of revenue receipts and 61.37 *per cent* of Revenue Expenditure. Financial assistance of ₹ 98,888.38 crore was provided by the State Government to Local bodies and other grantee institutions by way of grants-in-aid during the year 2020-21, which was 5.95 *per cent* higher as compared to the year 2019-20.

(Paragraphs 2.7.1, 2.7.2, 2.7.4 and 2.7.4.5)

Capital expenditure (₹ 52,237 crore) decreased by 12.94 *per cent* during the year 2020-21 as compared to the year 2019-20. Capital Expenditure under General Services Sector and Economic Services Sector had a decline of 38.96 *per cent* and 18.43 *per cent* respectively, though it increased by 17.80 *per cent* under Social Services Sector during the year 2020-21 as compared to the year 2019-20. The percentage of State's capital expenditure to Aggregate Expenditure declined in the year 2020-21 as compared to the year 2016-17, but it was higher than All India average of General Category States (i.e., States other than North Eastern and Himalayan States) during the year 2020-21.

(Paragraphs 2.7.5 and 2.7.6)

Consolidated Sinking Fund

The State Government constituted (March 2020) Consolidated Sinking Fund as an amortisation fund for redeeming outstanding liabilities, which came into force from the year 2020-21. The Fund is administered by Reserve Bank of India. According to the guidelines of the Fund, the State Government may contribute to the Fund at least 0.50 *per cent* of the outstanding liabilities as at the end of the previous year. During the year 2020-21, the State Government contributed ₹ 1,000.00 crore as against stipulated contribution of at least ₹ 2,454.42 crore in view of outstanding liabilities of ₹ 4,90,883.27 crore at the end of the year 2019-20. This short contribution of ₹ 1,454.42 crore could not become the part of Consolidated Sinking Fund investment during the year 2020-21.

Recommendation

The State Government should ensure that annual contribution to the Consolidated Sinking Fund is at least 0.50 per cent of the outstanding liabilities at the end of the previous year as provided under the Consolidated Sinking Fund Scheme, so that adequate balance should be available in the Fund for its further investment by the Reserve Bank of India and for future redemption of outstanding liabilities.

(Paragraph 2.8.2.1)

Depreciation Reserve Fund

The State Government created (March 2005) the Uttar Pradesh Public Works Department Depreciation Reserve Fund to purchase plant and machineries for renewal and replacement of unserviceable plant and machinery, carrying out special repair of plant and machineries and purchase of plant and machineries with latest technology. During the period 2016-21, State Government charged ₹ 216.31 crore on works as contribution to Depreciation Reserve Fund and transferred it as non-tax revenue of the State. However, no amount was transferred to Depreciation Reserve Fund. Thus, the Government had increased its revenue receipts by increasing the cost of work. Besides, the Fund had a negative balance of ₹ 17.20 crore at the end of the year 2020-21 due to disbursement from the Fund without any contribution to it.

Recommendation

Instead of keeping the amount charged on works for Depreciation Reserve Fund as revenue receipts, the State Government should transfer it to this Fund since the present accounting of the Fund only increases the revenue receipts

and revenue expenditure of the State. Further, State should immediately regularise the negative balance under Depreciation Reserve Fund.

(Paragraph 2.8.2.2)

State Disaster Response Fund (SDRF)

Contrary to GoI guidelines that the SDRF should be operated under the category 'Reserve Funds bearing Interest', State Government operates its SDRF under the category 'Reserve Funds not bearing Interest'. Further, the balances in the Fund are not invested in the manner as laid down in the SDRF guidelines.

The State Government did not transfer ₹ 966.50 crore of Central share received by it to SDRF during the year 2020-21. The State Government had also not credited interest of ₹ 91.91 crore for the year 2020-21 on uninvested balances of the Fund. Further, the accounting heads for State Disaster Mitigation Fund were not operated and required contribution was not transferred to State Disaster Mitigation Fund as per recommendations of XV Finance Commission and Disaster Management Act, 2005.

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 SDRF guidelines. State Government should also operate State Disaster Mitigation Fund as per recommendations of XV Finance Commission and the Disaster Management Act, 2005.

(Paragraph 2.8.2.3)

Contingent Liabilities – Status of Guarantees

There was an outstanding guarantee of ₹ 1,50,554 crore at the end of the year 2020-21 given by the State Government in respect of 25 entities, viz., statutory corporation, Government Companies and other institutions for borrowings by them. In order to sudden discharge of State's obligation on guarantees, the State Government was required to create a Guarantee Redemption Fund as per the recommendations of XII Finance Commission. However, State Government has not created a Guarantee Redemption Fund.

Recommendation

The State Government should create the Guarantee Redemption Fund as per the recommendations of XII Finance Commission.

(Paragraphs 2.8.2.4 and 2.9.5)

Excess expenditure requiring regularisation

There was an excess disbursement of ₹ 8.10 crore over the authorisation made by the State Legislature under two Grants and one Appropriation during the financial year 2020-21. Excess disbursements of ₹ 32,525.36 crore under 102 Grants and 47 Appropriations pertaining to the years 2005-06 to 2019-20 are yet to be regularised by the State Legislature. This is in violation of Articles 204 and 205 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by

Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Recommendation

The State Government should ensure that all the existing cases of excess expenditure are placed before the State Legislature for regularisation in term of the provisions contained in Article 205 of the Constitution.

(Paragraphs 3.2.1 and 3.2.1.1)

Misclassification of expenditure

Misclassification of expenditure between Revenue as Capital and Capital as Revenue was noticed in a number of cases during the year 2020-21. The net impact of misclassification of expenditure resulted in understatement of revenue deficit by ₹ 85.38 crore.

Recommendation

Classification of some expenditure items as Capital or Revenue nature included in certain Object Heads, as pointed out in Paragraph 3.2.2, needs review and redressal to align it with Uttar Pradesh Budget Manual (UPBM).

(Paragraphs 3.2.2, 3.2.2.1 and 3.2.2.2)

Savings

There was overall savings of ₹ 1,48,547.50 crore which was 27.28 per cent of the total budgetary provisions of ₹ 5,44,571.20 crore during the year 2020-21. The budgetary provisions increased consistently during the last five years (2016-21) but utilisation of budget had reducing trend between 2018-19 and 2020-21. In 28 cases involving 24 grants, there were persistent savings (₹ 100 crore and above) during the last five years. These are indicative of wide gap between planning and execution by the State Government.

Recommendation

The Finance Department should review the reasons due to which the provisions under various Grants/Appropriations remained unutilised and take steps to make more judicious budget provisions in future years.

(Paragraphs 3.3.1, 3.3.2, 3.3.3 and 3.3.4)

Unnecessary Re-appropriation

In 52 sub-heads involving 20 Grants, further augmentation of fund was made through re-appropriation of ₹ 1,298.55 crore. However, re-appropriation proved unnecessary, as in each case, expenditure was within the original budget provision under these sub-heads. This was indicative of absence of adequate justification for resorting to re-appropriation under these Grants

Recommendation

Re-appropriations should be based on careful assessment of fund requirements. Finance Department may advice line departments to improve accuracy in cost estimation of Schemes/Projects at the time of submitting Revised Estimates in order to optimise utilisation of funds.

(Paragraph 3.3.5)

Rush of expenditure

Rush of expenditure in the last month of the financial year is against the principles of sound management of public funds. No specific instructions have been given in UPBM to prevent rush of expenditure. In 12 Grants, 50 *per cent* and above expenditure of their total budgeted provisions were incurred in the last month of the financial year 2020-21, i.e., March 2021.

Recommendation

The Government may consider issuing guidelines to control rush of expenditure towards the closing months of the financial year especially in the month of March in order to maintain a steady pace of expenditure.

(Paragraph 3.3.6)

Delayed surrender of Savings

UPBM provides that the Controlling Officers should surrender all final Savings to the Finance Department by 25th March. However, only ₹ 1,477.51 crore was surrendered out of total Savings of ₹ 1,48,547.50 crore on the last day of the financial year and the remaining amount of ₹ 1,47,069.99 crore lapsed.

Recommendation

The Finance Department should monitor trend of expenditure by Departmental Controlling Officers, so that funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapse of allocations.

(Paragraph 3.3.8)

Contingency Fund

The State Government sanctioned (January 2021) ₹ 100 crore from the Contingency Fund for advance soil work for plantation in rainy season 2021. However, money withdrawn from the Contingency Fund was not recouped during the year 2020-21.

Recommendation

The State Government should ensure timely recoupment of advances taken from the Contingency fund.

(Paragraph 3.4)

Government receipts kept out of Government Accounts

The sums collected against labour cess are being deposited directly in bank accounts of U.P. Building and Other Construction Workers Welfare (UPBOCW) Board without bringing it into Government Accounts. In the absence of accounting of cess through Government Accounts, it was not ascertainable from the accounts of the State Government as to how much money was collected on account of cess, fee, etc., and how much money was transferred to the Board by various Cess Collectors. As per provisional data provided by the Board, ₹ 6,159.62 crore was available with the Board as on 31 March 2021 and the expenditure on welfare of workers ranged from 3.81 to 12.34 *per cent* of available funds covering 5.55 to 66.66 *per cent* of registered workers during the period 2016-21.

Recommendation

Sums collected against labour cess by UPBOCW Board should be part of Public Account of the State and from there it may be transferred to the Board Account. UPBOCW Board should fulfil its mandate of improving the working condition of building and other construction workers and providing adequate financial assistance to them.

(Paragraph 4.1.1)

The State Government did not constitute the State Electricity Regulatory Commission Fund as required under Electricity Act, 2003. Receipts of ₹ 96.14 crore of the Uttar Pradesh Electricity Regulatory Commission were kept outside the Public Account of the State.

Recommendation

The State Government should constitute the State Electricity Regulatory Commission Fund and credit the fund balance in the Public Account of the State.

(Paragraph 4.1.2)

Extra-budget borrowings through State owned PSUs/Authorities

The State Government resorted to extra-budget borrowings through State owned PSUs/Authorities for meeting expenditure having implication on debt parameters of the State. Since these extra-budget borrowings do not form part of the Debt-Stock of the State, the debt position as reflected in Finance Accounts does not depict actual debt position. As a result, Debt-stock increases by ₹ 1,636.89 crore and stood at ₹ 5,66,608.57 crore as against ₹ 5,64,971.68 crore reported at the end of the year 2020-21.

Recommendation

The State Government should avoid extra-budget borrowings and credit all loans taken by PSUs/ Authorities on behalf of State Government but serviced by the State Government, to the Consolidated Fund.

(Paragraph 4.2)

Undischarged liabilities in Defined Contribution Pension Scheme

The State Government did not remit ₹ 385.08 crore for the Defined Contribution Pension Scheme in respect of State Government employees to the designated fund manager for its further investment during the year 2020-21. As a result, non-remitted fund did not yield any value appreciation as it could not become the part of corpus of investment of the subscribers. Further, State Government did not furnish the balances in respect of employees of aided educational institutions and autonomous bodies.

Recommendation

The State Government should transfer the entire amount of Defined Contribution Pension Scheme to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank so that the untransferred amount could become the part of corpus of investment of the subscribers and yield value appreciation.

(Paragraph 4.3)

Uttar Pradesh Road Transport Accident Relief Fund

The State Government did not establish Uttar Pradesh Road Transport Accident Relief Fund (UPRTARF) for the purpose of providing relief to the passengers or heirs of such passengers or other persons suffering casualty, as mandated by the Uttar Pradesh Motor Vehicle Taxation Act, 1997. As a result, a sum of ₹ 636.81 crore has not been credited to UPRTARF during the period 2015-21.

Recommendation

Being the statutory requirement, the Government should create the 'Uttar Pradesh Road Transport Accident Relief Fund' so that the fund could be utilised for benefit of the affected persons.

(Paragraph 4.4)

Delay in submission of Utilisation Certificates (UCs)

There were 39,587 UCs aggregating ₹ 26,237.08 crore outstanding as on 31 March 2021 for grants-in-aid released during the period 2001-02 to 2019-20 (up to September 2019). In the absence of UCs, there is no assurance that moneys disbursed have been used for the purposes for which they were sanctioned/authorised by the Legislature. Moreover, high pendency of UCs was fraught with the risk of embezzlement, diversion and misappropriation of funds.

Recommendation

The Government may ensure timely submission of utilisation certificates by the departments in respect of the grants-in-aid released for specific purposes and all pendencies may be reviewed before release of fresh grants to defaulting grantees.

(Paragraph 4.6)

Abstract Contingent (AC) Bills

In violation of codal provisions for adjustment of AC bills by the end of next month of drawal, 1,178 AC bills involving advance of ₹ 16.21 crore were pending for adjustment as on 31 March 2021 which included 1,155 AC bills drawn up to the year 2019-20.

Recommendation

The Finance Department should ensure that all controlling officer adjust Abstract Contingent bills within stipulated period, as required under the Rules.

(Paragraph 4.7)

Indiscriminate use of Minor Head-800 and Object Head-42

A sum of ₹ 47,404.47 crore under 78 Heads of Accounts on the expenditure side and on the receipt side, ₹ 6,105.30 crore was recorded under minor head '800-Other Expenditure/Receipts' under concerned Major Heads during the year 2020-21. The booking of large amounts under the Minor Head '800-Other Expenditure' affects the transparency in financial reporting. Further, expenditure of ₹ 16,127.62 crore was made under Object Head '42-Other Expenditure' which was 4.26 per cent of total expenditure of ₹ 3,78,710.66 crore under the Consolidated Fund of the State during the year

2020-21. The classification of large amounts under the Object Head '42- Other Expenditure' does not give a clear picture in financial reporting.

Recommendation

The Finance Department should, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate heads of account. Further, at object head level, indiscriminate use of object head 42-Other expenditure should be minimised.

(Paragraphs 4.9 and 4.10)

Submission of Accounts of Autonomous Bodies/ Authorities

266 annual accounts of 63 Autonomous Bodies/Authorities (due up to 2020-21) for audit as on 30 September 2021 have not been submitted by the concerned entities. In the absence of annual accounts and their audit, proper utilisation of grants and loans disbursed to these Autonomous Bodies/Authorities cannot be vouched.

Recommendation

The Finance Department should consider evolving a system for regular review to expedite the process of compilation and submission of annual accounts by Bodies/Authorities/ Departmental Commercial Undertakings in order to assess their financial position.

(Paragraphs 4.14 and 4.15)

Pending cases of misappropriations, losses, thefts, etc.

There were 135 cases of misappropriation, losses and theft involving an amount of ₹ 930.78 crore on which final action was pending as on 31 March 2021.

Recommendation

The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.

(Paragraph 4.16)

Functioning of State Public Sector Undertakings

As on 31 March 2021, Uttar Pradesh had 115 State PSUs (94 Government Companies, 15 Government controlled other Companies and six Statutory Corporations) including 44 Non-functional PSUs under the audit jurisdiction of the Comptroller and Auditor General of India. This Report covers financial performance of 38 PSUs whose accounts were not in arrears for three years or more and were functional/not under liquidation. These 38 functional PSUs registered an annual turnover of ₹ 73,042 crore as per their latest finalised accounts. This turnover was equal to 4.28 per cent of GSDP of Uttar Pradesh for the year 2020-21.

(Paragraphs 5.1.3 and 5.1.4)

Stake of Government of Uttar Pradesh and performance of PSUs

As on 31 March 2021, the total investment (equity and long-term loans) in 38 PSUs, whose financial performance is covered in this report, was ₹ 2,72,542.84 crore. The investment consisted of 53.08 *per cent* towards equity and 46.92 *per cent* in long-term loans. Out of this, GoUP has investment of ₹ 1,42,978.52 crore in these PSUs consisting of equity of ₹ 1,37,357.27 crore and long-term loans of ₹ 5,621.25 crore.

Out of 38 PSUs, 22 PSUs earned profit of ₹ 699.72 crore and 16 PSUs incurred loss of ₹ 7,411.34 crore as per their latest finalised accounts up to the year 2020-21. The major profit-making PSUs were Uttar Pradesh Power Transmission Corporation Limited (₹ 351.89 crore) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 116.91 crore). The major loss-making PSUs were Uttar Pradesh Power Corporation Limited (₹ 3,158.92 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 1,204.30 crore) and Paschimanchal Vidyut Vitran Nigam Limited (₹ 1,067.87 crore).

Recommendation

The State Government may review the performance of loss making PSUs and invest cautiously in these PSUs.

(Paragraphs 5.2, 5.3.1 and 5.6.1)

Reconciliation with Finance Accounts of Government of Uttar Pradesh

As on 31 March 2021, differences in equity, loans and guarantee existed in respect of 66 PSUs. These differences between the figures are persisting since last many years, though the issue of reconciliation of differences was also taken up by the audit with the concerned PSUs and the Departments from time to time.

Recommendation

The Finance Department of GoUP and the respective PSUs should reconcile the differences in figures of equity, loans and guarantees outstanding as per records of the PSUs and as per the Finance Accounts of GoUP in a time bound manner.

(Paragraph 5.2.2.1)

Arrears of accounts

Out of 71 functional State PSUs, only four PSUs had submitted their annual accounts for the year 2020-21 and remaining 67 PSUs had arrears of 274 accounts. Out of 44 non-functional PSUs, 40 PSUs had arrears of 699 accounts. GoUP had provided ₹ 27,359.34 crore (Equity: ₹ 10,859.11 crore, Loan: ₹ 2,476.54 crore, Grants-in-aid: ₹ 4,086.35 crore and Subsidies: ₹ 9,937.34 crore) to 46 State PSUs during the period for which their accounts were in arrears.

Recommendation

The Administrative Departments should strictly monitor and issue necessary directions to liquidate the arrears in accounts of the PSUs. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to liquidate the arrears.

(Paragraphs 6.3.2 and 6.3.2.3)