

CHAPTER-I

Finances of the State Government

Summary

The Government under the provisions of the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 framed Medium Term Fiscal Restructuring Policy 2005 (MTFRP) fixing the objectives for fiscal reforms by setting the yearly targets through the State's own fiscal correction path for the period of 2005-10. Revenue Deficit (RD) was brought down to Rs 1268 crore during 2005-06 from Rs 6993 crore in 2004-05 mainly due to increase of 20.17 *per cent* in tax revenue and by containing the revenue expenditure at 83 *per cent* of total expenditure against the 88 *per cent* in 2004-05. The reduction of Rs 2919 crore in Fiscal Deficit (Rs 10078 crore) was moderate mainly due to the increase of Rs 3058 crore in capital expenditure (Rs 8711 crore) over the previous year. Primary deficit also decreased marginally by Rs 144 crore due to lesser interest payments at the rate of 7.5 *per cent* per annum on account of re-scheduling of Central loans. Against the projected growth rate of 12 *per cent* of GSDP, the actual growth based on advance estimates was only 10.23 *per cent*. The capital expenditure was 3.35 *per cent* of GSDP against the target of 3.56 *per cent* in MTFRP and was thus a dampener in the process of raising it to 7 *per cent* by 2009-10 as per recommendations of TFC. Tax-GSDP ratio was only 7.26 *per cent* during the year against the projection of 7.70 *per cent* in the fiscal correction path. The reduction in RD and control over the FD accounted for write off of repayment of Central loans of Rs 1063.71 crore under Debt Write off Scheme.

Revenue of the State comprising its tax and non-tax revenue, tax transfers and grants-in-aid from Government of India (GOI) increased by 83 *per cent* from Rs 24743 crore in 2000-01 to Rs 45349 crore in 2005-06. Taxes on sales, trade, etc. was the major source of tax revenue which contributed 60 *per cent* followed by state excise (16 *per cent*), stamps and registration fee (16 *per cent*) and taxes on vehicles (5 *per cent*). Arrears of revenue increased by 23 *per cent* from Rs 7152 crore in 2000-01 to Rs 8772 crore at the end of 2005-06. Revenue expenditure increased from Rs 31030 crore in 2000-01 to Rs 46617 crore in 2005-06 (increase: 50 *per cent*). The total salary bill relative to revenue expenditure net of interest payments and pension payments stood at 47 *per cent* against the limit of 35 *per cent* recommended by Twelfth Finance Commission. An amount of Rs 3551 crore remained locked up in 27 incomplete projects. The ratio of fiscal liabilities (Rs 148868 crore) to GSDP was 57 *per cent* in 2005-06. Net availability of borrowed funds increased due to reduction in repayment of liabilities. The amount guaranteed by the Government on behalf of Statutory Corporations, Government Companies, etc. and outstanding as of March 2006 was Rs 8433 crore.

The return from investment in Government Companies continued to be nominal (less than 1 *per cent*) in 2005-06 as against the average interest rate of 6.5 *per cent* on the borrowings of the Government.

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1- Part A**). The Finance Accounts of the Government of Uttar Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Uttar Pradesh. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Uttar Pradesh for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1: Summary of receipts and disbursements for the year 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue					Non Plan	Plan	Total
37617.44	Revenue receipts	45349.15	44610.35	Revenue expenditure	40172.33	6444.81	46617.14
15692.67	Tax revenue	18858.10	22761.43	General services	20875.07	44.61	20919.68
2720.29	Non-tax revenue	2930.32	13089.72	Social services	10878.56	4731.14	15609.70
15055.20	Share of Union Taxes/Duties	18202.93	6976.27	Economic services	6086.78	1669.06	7755.84
4149.28	Grants from Government of India	5357.80	1782.93	Grants-in-aid and Contributions	2331.92	----	2331.92
Section-B: Capital							
----	Misc Capital Receipts	----	5653.35	Capital Outlay	539.22	8172.01	8711.23
277.63	Recoveries of Loans and Advances	585.05	628.98	Loans and Advances disbursed	105.19	578.65	683.84
17463.25	Public debt receipts*	14257.46	9156.70	Repayment of Public Debt**	5252.34	-----	5252.34
75.69	Contingency Fund	298.52	43.31	Contingency Fund	182.77	----	182.77
45212.58	Public Account receipts	52528.51	40262.49	Public Account disbursements	43171.84	----	43171.84
(-)196.25	Opening Cash Balance	95.16	95.16	Closing Cash Balance	8494.69	----	8494.69
100450.34	Total	113113.85	100450.34	Total	97918.38	15195.47	113113.85

* Excluding Ways and Means Advances and Overdraft

** Includes net transaction of Rs 25.48 crore under WMA

The revenue receipts of the State went up by 20.55 per cent over the previous year mainly due to increase in Tax Revenue (20.17 per cent), Share of Union Taxes/Duties (20.91 per cent) and Grants-in-aid from GOI (29.13 per cent). The revenue expenditure increased marginally by 4.50 per cent over the

previous year due to decrease (8.10 *per cent*) in expenditure under General Services, and increase of Rs 2519.98 crore (19.25 *per cent*) in Social Services, 11.17 *per cent* in Economic Services and Rs 548.99 crore (30.79 *per cent*) in Grants-in-aid during 2005-06. The capital expenditure also went up to Rs 8711.23 crore in 2005-06, an increase of 54.09 *per cent* over 2004-05.

1.1.2 The Uttar Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2004

The State Government enacted the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on borrowings, government guarantees, debt and deficits, greater transparency in fiscal operations and use of a medium term fiscal frame work and for matters connected therewith or incidental thereto.

The following fiscal targets were set therein for the State Government to give effect to the fiscal management principle as laid down in the Act:

- Reduce revenue deficit to nil within a period of five financial years beginning from 1st day of April 2004 and ending on 31st day of March 2009.
- Reduce fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product (GSDP) by 31st March 2009.
- Ensure within a period of 14 financial years beginning from the initial financial year on 1st day of April 2004 and ending on the 31st March 2018 that the total liabilities at the end of last financial year do not exceed twenty five *per cent* of the estimated GSDP for that year.
- Ensure not to give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of the Act or any rules or law to be made by the State Government subsequent to coming into force of this Act.

1.1.3 Fiscal Policy Statement 2005-06

The Government laid down “Medium Term Fiscal Restructuring Policy 2005 (MTFRP)” under the UPFRBM Act fixing the objectives for fiscal reforms in a time bound manner. MTFRP 2005 aimed at achieving the following objectives:

- (i) Improvement in rationalization of tax structure and better recoveries so that ratio of Own Tax Revenue to GSDP is 8.3 *per cent* by 2008-09.
- (ii) Prioritisation of expenditure on elementary, primary and secondary education, health care, irrigation and road infrastructure by reducing subsidies,

containing salary and pension and curtailing budget support to loss making enterprises.

(iii) Expenditure management reforms for improving and modernizing the process, right from planning to monitoring and evaluation of programme performance and outcomes.

However, the mode of implementation of fiscal reforms was yet to be devised as of October 2006.

1.1.4 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act

The Government of India worked out, for Twelfth Finance Commission (TFC), the anticipated annual rate of deficit of the States for the TFC award period, keeping in view the fiscal targets laid down in the FRBM Act. In light of the recommendations of the TFC the State Government developed its own fiscal correction path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix 1.2*). The fiscal correction path aims at eliminating revenue deficit by 2008-09 and reducing gross fiscal deficit to 3 *per cent* of GSDP. The milestone set for achieving these objectives was as under:

	Actual 2003-04	Actual 2004-05	R.E. 2005-06	Projected 2006-07	Projected 2007-08	Projected 2008-09	Projected 2009-10
Revenue Deficit (%) with GSDP)	6306 2.9%	6992.91 3%	3132 1.2%	1658 0.6%	1112 0.4%	(-)1199 (-)0.3%	(-)3659 (-)0.9%
Fiscal Deficit (% with GSDP)	10776 5.0%	12997.61 5.7%	13167.53 5.1%	11745 4.1%	11725 3.6%	10830 3%	10617 2.6%

The 2004-05 pre-actuals were taken as base year for making projections. Gross State Domestic Product (GSDP) was targeted to reach Rs 404305 crore during 2009-10 with an average annual increase of 12 *per cent*.

1.1.5 Mid Term Review of Fiscal Situation

As per UPFRBM Act, the Minister in charge of Finance Department was to review every half-year the trend in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets and place the outcome of such reviews before both the Houses of Legislature. However, the half yearly review reports placed before the Legislature did not depict the strategies to achieve the targets of the fiscal reforms as of October 2006.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in Table 2.

Table 2

(Rupees in crore)

2004-05	Sr. No	Major Aggregates	2005-06
37617	1.	Revenue Receipts (2+3+4)	45349
15693	2.	Tax Revenue (Net)	18858
2720	3.	Non-Tax Revenue	2930
19204	4.	Other Receipts	23561
278	5.	Non-Debt Capital Receipts	585
278	6.	<i>Of which</i> Recovery of Loans	585
37895	7.	Total Receipts (1+5)	45934
40688	8.	Non-Plan Expenditure	40816
39512	9.	On Revenue Account	40172
11873	10.	<i>Of which</i> Interest Payments	9098
1035	11.	On Capital Account	539
141	12.	On Loans disbursed	105
10204	13.	Plan Expenditure	15196
5098	14.	On Revenue Account	6445
4618	15.	On Capital Account	8172
488	16.	On Loans disbursed	579
50892	17.	Total Expenditure (13+8)	56012
6993	18.	Revenue Deficit (9+14-1)	1268
12997	19.	Fiscal Deficit (17-1-5)	10078
1124	20.	Primary Deficit (19-10)	980

The review of the fiscal position of the State Government indicated an improvement over the previous year mainly due to increase (Rs 7732 crore; 20.55 per cent) in revenue receipts of the Government and reduction (Rs 2775 crore; 23.37 per cent) in interest payments. Consequently the Revenue and Fiscal Deficits registered a fall of Rs 5725 crore and Rs 2919 crore respectively during 2005-06 over the previous year.

1.3 Audit Methodology

Audit observations based on the Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary analyse them in the light of time series data (*Appendix 1.3 to 1.6*) and comparison with earlier years. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used. For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational

interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix 1.1 Part C**.

1.4 State Finances by key Indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-3** shows that the total receipts of the State Government for the year 2005-06 were Rs113019 crore. Of these, the revenue receipts were Rs 45349 crore, constituting 40.13 *per cent* of the total receipts. The balance came from borrowings, receipts from Contingency Fund and Public Account.

Table-3: Resources of Uttar Pradesh

		(Rupees in crore)
I	Revenue Receipts	45349
II	Capital Receipts	14842
	Recovery of Loans and Advances	585
	Public Debt Receipts	14257
	Miscellaneous Capital Receipts	----
III	Contingency Fund	299
IV	Public Account Receipts	52529
	a. Small Savings, Provident Fund <i>etc</i>	3605
	b. Reserve Fund	3182
	c. Deposits and Advances	16549
	d. Suspense and Miscellaneous	20952
	e. Remittances	8241
	Total Receipts	113019

1.4.2 Revenue Receipts

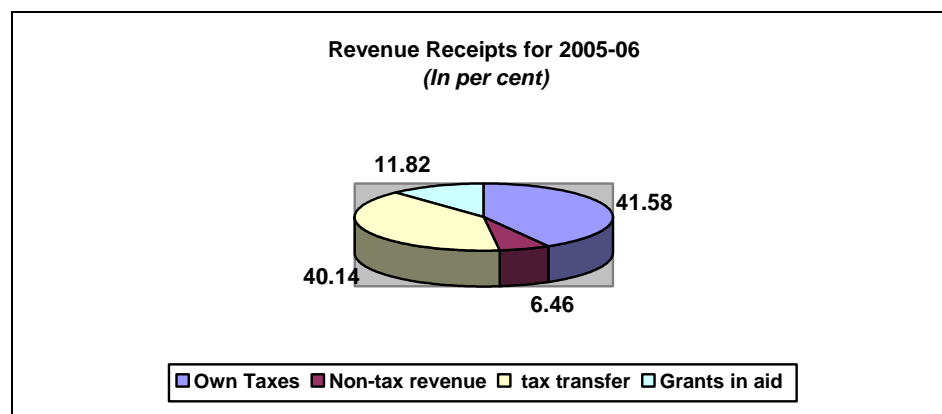
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-4**.

Table-4: Revenue Receipts - Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	24743	25598	27821	31638	37617	45349
Own Taxes (<i>per cent</i>)	44.38	40.35	45.89	42.99	41.72	41.58
Non-Tax Revenue (<i>per cent</i>)	7.86	6.98	6.88	7.21	7.23	6.46
Central Tax Transfers (<i>per cent</i>)	36.56	39.80	38.93	41.95	40.02	40.14
Grants-in-aid (<i>per cent</i>)	11.21	12.86	8.30	7.85	11.03	11.82
Rate of growth of RR (<i>per cent</i>)	15.11	3.46	8.68	13.72	18.90	20.55
RR/GSDP (<i>per cent</i>)	14.30	14.12	14.09	14.54	15.96	17.46
Revenue Buoyancy (ratio)	3.229	0.728	0.976	1.345	2.271	2.010
State's own taxes Buoyancy (ratio)	3.589	(-)1.246	2.654	0.640	1.848	1.971
Revenue Buoyancy with reference to State's own taxes (ratio)	0.900	(-) 0.584	0.368	2.102	1.229	1.026
GSDP Growth (<i>per cent</i>)	4.68	4.75	8.89	10.20	8.32	10.23

General Trends

The trend analysis indicates that the rate of growth of revenue receipts declined from 15.11 *per cent* in 2000-01 to 3.46 *per cent* in 2001-02. However, since 2002-03, it has shown a rising trend and went up to 20.55 *per cent* in 2005-06 from 8.68 *per cent* in 2003-04. The percentage of revenue receipts to GSDP improved from 14.30 in 2000-01 to 17.46 in 2005-06. GSDP growth rate also indicated a rising trend from 4.68 *per cent* in 2000-01 to 10.23 *per cent* in 2005-06 except for 2004-05 where in it declined to 8.32 *per cent* from 10.20 *per cent* in 2003-04.



Tax Revenue

The Tax Revenue of the State increased 20.17 *per cent* over the previous year from Rs 15693 crore in 2004-05 to Rs 18858 crore in 2005-06. The increase was mainly due to the increase of Rs 2397 crore (27 *per cent*) in Trade Tax. However, there was a shortfall of Rs 922 crore in own tax revenue against the target fixed by the Government in its MTFRP-2005 for the year.

Non-Tax Revenue:

The share of Non-Tax revenue in revenue receipts declined from 7 per cent in 2004-05 to 6 per cent in 2005-06. Interest receipts (16 per cent), receipts from Education, Sports, Art and Culture (32 per cent) and Non-Ferrous Mining and Metallurgical Industries (12 per cent) were the major contributors. Relatively lower contribution of Non-Tax revenue to overall revenue receipts was due to poor recovery of the cost of social and economic services provided by the State. The current levels of cost recovery¹ in supply of merit goods and services by Government were 11 per cent each in Public Works and Education Sports Art and Culture, 1.85 per cent in Medical and Public Health, 0.3 per cent in Water Supply and Sanitation, 19.48 per cent in Major and Medium Irrigation and 10.70 per cent in Power. There was however, an increase of Rs 683 crore in Non-Tax revenue against the projection for the year in the State's own Fiscal Correction Path.

Grants-in-aid

The grants-in aid from GOI increased 29 per cent from Rs 4149 crore in 2004-05 to Rs 5358 crore in 2005-06. While non-plan grants increased substantially from Rs 334.90 crore in 2004-05 to Rs 2026.50 crore² in 2005-06, the grants for state plan schemes went down from Rs 2399.95 crore to Rs 1916.24 crore. Further, against the projections of Rs 3712.91 crore for the year in the State's own fiscal correction path, there was a shortfall of 48 per cent in plan grants-in-aid from GOI.

Revenue Arrears

Arrears of revenue as of 31 March 2006 were Rs 8772.07 crore, an increase of Rs 850.50 crore over the previous year. The department-wise position of pending recoveries including those stayed by the courts during 2004-05 and 2005-06 is indicated in the following table:

Arrears of revenue

(Rupees in crore)

Name of Department	2004-05			2005-06		
	Stayed by courts	For other reasons	Total	Stayed by courts	For other reasons	Total
Trade-Tax	1018.06	6191.62	7209.68	930.07	7526.26	8456.33
Entertainment tax	Not available	12.17	12.17	4.44	7.53	11.97
State Excise	16.81	43.32	60.13	12.62	43.24	55.86
Taxes on vehicles, goods and passengers	Not available	639.59	639.59	0.27	23.43	23.70
Stamp and Registration fees	Not available	Not available	Not available	145.83	64.98	210.81
Land revenue	Not available	Not available	Not available	1.69	11.71	13.40
Total	1034.87	6886.70	7921.57	1094.92	7677.15	8772.07

¹ Cost recovery is defined as revenue receipts from these functions divided by revenue expenditure.

² Education: Rs 736.87 crore; Medical: Rs 367.63 crore; Local Bodies: Rs 689 crore; Natural Calamities: Rs 221.95 crore and Others: Rs 11.05 crore.

1.4.3 Sources of Receipts

The source of receipts under different heads as well as GSDP during 2000-06 is indicated in **Table-5**.

Table-5: Source of Receipts – Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	24743	296	9251	92	37567	71949	173068
2001-02	25598	366	11383	81	36965	74393	181303
2002-03	27821	219	12390	----	37327	77757	197426
2003-04	31638	12498	22110	52	46875	113173	217573
2004-05	37617	278	17463	76	45213	100647	235678
2005-06	45349	585	14257	299	52529	113019	259778

The revenue receipts constituting 34.39 *per cent* total receipts of the State during 2000-01 increased to 40.13 *per cent* in 2005-06. The balance came mainly from debt, non-debt and Public Account receipts. The ratio of revenue receipts to GSDP also increased from 14.30 *per cent* in 2000-01 to 17.46 *per cent* in 2005-06. Debt receipts increased steadily during 2001-04 and declined after peaking in 2003-04.

1.5 Application of resources

1.5.1 Growth of Expenditure

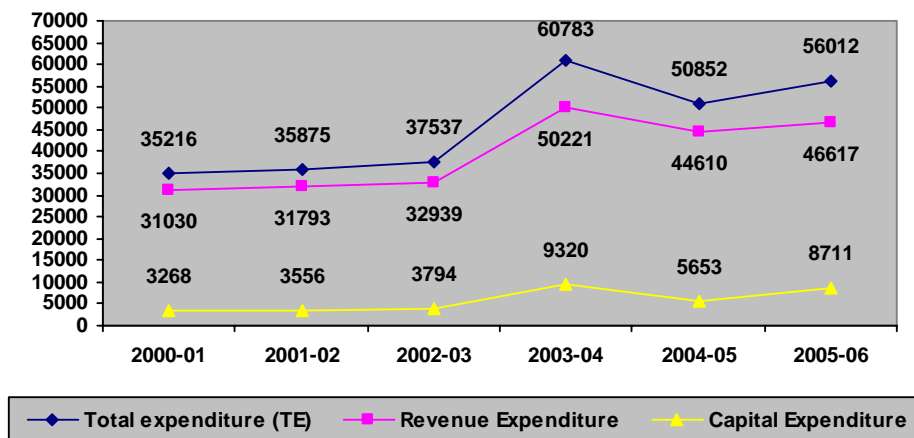
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 35216 crore in 2000-01 to Rs.56012 crore in 2005-06. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-6**.

Table-6: Total Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE)* (Rupees in crore)	35216	35875	37537	60783	50892	56012
Rate of Growth (<i>per cent</i>)	7.18	1.87	4.63	61.93	(-)16.27	10.06
TE/GSDP Ratio (<i>per cent</i>)	20.35	19.79	19.01	27.94	21.59	21.56
RR /TE Ratio (<i>per cent</i>)	70.26	71.35	74.12	52.05	73.92	80.96
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	1.534	0.394	0.521	6.072	--	0.983
RR (ratio)	0.475	0.542	0.533	4.514	--	0.490

* Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

GROWTH OF TOTAL EXPENDITURE
(Rupees in crore)



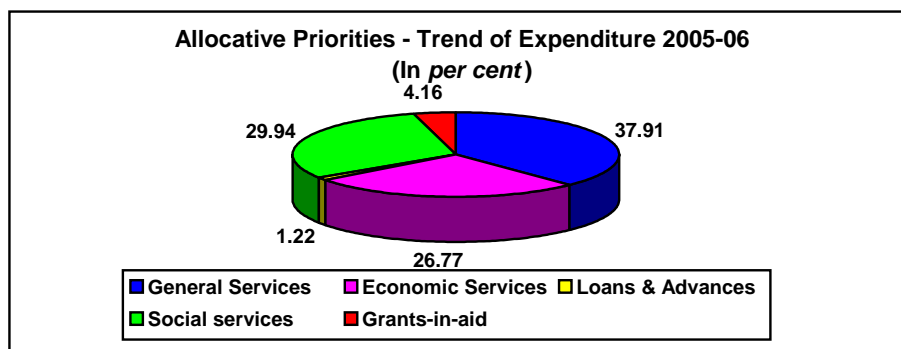
The ratio of revenue receipts to total expenditure increased from 70.26 per cent in 2000-01 to 80.96 per cent in 2005-06. This indicated that 80.96 per cent of the expenditure during 2005-06 was met from its current revenue, leaving the balance to be met from borrowings. The buoyancy of total expenditure with respect to GSDP and revenue receipts went up sharply to 6.072 and 4.514 respectively in 2003-04 due to unusual growth in total expenditure owing mainly to the write off of power sector loans (Rs12277 crore) and increase of Rs 3064 crore as Interest Payments. The ratios during the period 2001-02 and 2005-06 were less than one.

Trends in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-7**.

Table-7: Components of Expenditure – Relative Share

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	(in per cent)					
General Services	43.34	45.45	42.39	32.52	45.23	37.91
<i>Of which Interest payments</i>	21.16	22.91	18.81	16.66	23.33	16.24
Social Services	26.92	26.61	28.23	17.58	26.70	29.94
Economic Services	24.06	23.88	24.13	45.63	23.34	26.77
Grants-in-aid	3.07	2.59	3.11	2.23	3.49	4.16
Loans and Advances	2.61	1.47	2.14	2.04	1.24	1.22



The movement of relative share of the above components of expenditure indicated that while the share of Economic Services and Social Services in total expenditure increased from 24.06 and 26.92 per cent in 2000-01 to 26.77 and 29.94 per cent in 2005-06, the relative share of General Services came down to 37.91 per cent in 2005-06 from 43.34 per cent in 2000-01. The share of interest payments was lowest at 16.24 per cent in 2005-06. While the relative share of Grants-in-aid marginally increased from 3.07 per cent in 2000-01 to 4.16 per cent in 2005-06, the percentage of Loans and Advances in total expenditure decreased from 2.61 per cent to 1.22 per cent.

1.5.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-8**.

Table-8: Revenue Expenditure: Basic Parameters

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	31030	31793	32939	50221	44610	46617
Of which						
Non-Plan Revenue Expenditure (NPRE)	27344	28232	29364	46945	39512	40172
Plan Revenue Expenditure (PRE)	3686	3561	3575	3276	5098	6445
Rate of Growth (per cent)						
NPRE	10.90	3.25	4.01	59.87	(-)15.83	1.67
PRE	(-)9.90	(-)3.39	0.39	(-)8.36	55.62	26.42
NPRE/GSDP (per cent)	15.80	15.57	14.87	21.58	16.77	15.46
NPRE as per cent of TE	77.65	78.70	78.23	77.23	77.64	71.72
NPRE as per cent of RR	110.51	110.29	105.55	148.38	105.04	88.58
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	1.696	0.518	0.405	5.144	(-)1.343	0.440
Revenue Receipts (ratio)	0.525	0.712	0.415	3.824	(-)0.591	0.219

The rate of growth of NPRE was lowest at 1.67 *per cent* in 2005-06 during the period 2000-06 except for 2004-05. The growth of plan expenditure was also highest at 26.42 *per cent* in 2005-06 during 2000-06 except for 2004-05 (55.62 *per cent*).

Buoyancy of RE with GSDP all along the years (2000-06) was below one except for 2000-01 (1.696) and 2003-04 (5.144). This ratio with RR was also below one during 2000-06 except for 2003-04 (3.824). However, the growth in NPRE was contained during 2005-06 and maintained below Rs 44021.08 crore assessed by the Government in its Fiscal Correction Path for the year. However, NPRE of Rs 40172 crore during 2005-06 exceeded by Rs 5677.50 crore over the assessment of Rs 34494.83 crore made by TFC. PRE increased by Rs 1347 crore (26 *per cent*) over the previous year mainly due to the increase of Rs1263 crore in Social Services.

1.5.3 Committed Expenditure

Expenditure on Salaries and Wages

The expenditure on salaries and wages including salaries paid out of grants-in-aid has been adopted from Voucher Level Compilation (VLC) data provided by Accountant General (Accounts and Entitlement) for the period 2001-06 and for 2000-01, the source of data is Finance Department. Table -9 given below indicates the position of expenditure on salaries and wages under plan and non-plan heads and also indicates it as percentage of GSDP and RR. As per recommendations of TFC, the total salary bill relative to revenue expenditure net of interest payments and pensions should not exceed 35 *per cent*. However, the ratio stood at 47 *per cent* during 2005-06.

Table-9: Expenditure on Salaries

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Salaries & Wages	11243.96	12348.12	13603.83	14332.85	15652.87
Of which					
Non-Plan Head	10804.50	11895.75	13107.81	13767.48	15125.08
Plan Head	439.46	452.37	496.02	565.37	527.79
As <i>per cent</i> of GSDP	6.20	6.25	6.25	6.08	6.03
As <i>per cent</i> of RR	43.93	44.38	43.00	38.10	34.52

The expenditure on salaries and wages was at around 6 *per cent* of GSDP during 2001- 06 while in the context of RR, it decreased from 43.93 *per cent* in 2001-02 to 34.52 *per cent* in 2005-06. However, the expenditure on salaries and wages exceeded by Rs 272.67 crore from that anticipated (Rs 15380.20 crore) in MTFRP.

Pension Payments**Table 10: Expenditure on Pensions**

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	2163.27	2391.74	2751.13	2900.10	3561.15	3990.80
As per cent of GSDP	1.25	1.32	1.39	1.33	1.51	1.54
As per cent of RR	8.75	9.34	9.89	9.17	9.47	8.80

The expenditure on pensions increased 84 *per cent* from Rs.2163.27 crore in 2000-01 to Rs.3990.80 crore in 2005-06. The ratio of pension payments with GSDP went up to 1.54 in 2005-06 from 1.25 in 2000-01. The pension payments in terms of RR were above to 9 *per cent* during 2001-04 but declined slightly to 8.8 *per cent* in 2005-06. The increase in pension payments during 2005-06 was within the limits assessed by the Government in its Fiscal Correction Path/ Medium Term Fiscal Policy statement. Moreover, pension payment was Rs 566.78 crore less than the assessed expenditure of Rs 4557.58 crore on pension payments during the year by TFC.

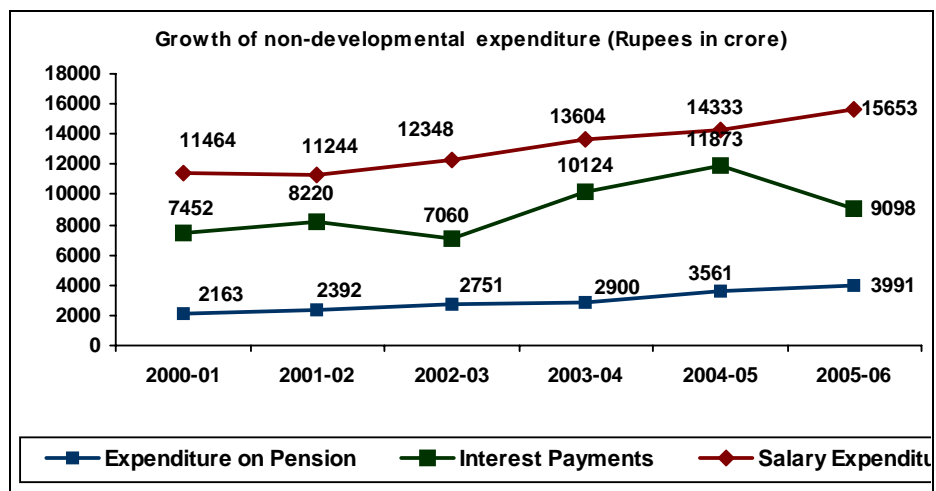
Interest payments

The interest payments and its percentage as total RR and RE is depicted in the following table:

Table-11: Interest payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2000-01	24743	7452	30	24
2001-02	25598	8220	32	26
2002-03	27821	7060	25	21
2003-04	31638	10124	32	20
2004-05	37617	11873	32	27
2005-06	45349	9098	20	20

Interest payments constituted 32 *per cent* of TRR and 27 *per cent* of TRE in 2004-05. However, it declined from Rs.11873 crore in 2004-05 to Rs.9098 crore in 2005-06 constituting 20 *per cent* of TRR and TRE during the year. The interest payments during 2005-06 were about Rs 994 crore less than that anticipated in the State's own Fiscal Correction Path for the year. The decrease in interest payments was due to the debt swap and also due to rescheduling and lowering of rate of interest of high cost GOI loans to 7.5 *per cent* as per recommendations of TFC.



Subsidies

Though the Government was paying subsidies to various Corporations etc., the State budget was not being prepared to exhibit subsidies as a distinct item despite the recommendations of TFC to account for its transactions in the State's Finance Accounts.

1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 12** gives these ratios during 2000-06.

Table 12 – Indicators of Quality of Expenditure

(Rs in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	3268	3556	3794	9320	5653	8711
Revenue Expenditure	31030	31793	32939	50221	44610	46617
<i>Of which</i>						
Social and Economic Services with	14791.00	14686.32	16191.25	29324.05	20066.00	23365.55
(i) Salary & Wage Component	NA	3347.61	3643.65	3987.05	4161.84	4377.92
(ii) Non-Salary & Wage component	NA	11338.71	12547.60	25337.00	15904.16	18987.63
As per cent of Total Expenditure						
Capital Expenditure	9.28	9.91	10.11	15.33	11.11	15.55
Revenue Expenditure	88.11	88.62	87.75	82.62	87.66	83.23
As per cent of GSDP						
Capital Expenditure	1.89	1.96	1.92	4.28	2.40	3.35
Revenue Expenditure	17.93	17.54	16.68	23.08	18.93	17.94

The above table indicates that 88.11 *per cent* of total expenditure was incurred as revenue expenditure during 2000-01 leaving only 9.28 *per cent* for capital expenditure. However, revenue expenditure having a declining trend since 2001-02 (except for 2004-05:87.66 *per cent*) came down to 83.23 *per cent* in 2005-06 and thus resulted in increase in capital expenditure to 15.55 *per cent*. MTFRP-2005 targeted to increase steadily annual growth rate under capital expenditure by 14 *per cent* for ensuring more investments on roads and bridges, irrigation, power and water supplies, education and public health etc. However, capital expenditure was confined only to 3.35 *per cent* of GSDP during 2005-06 against its projection for 3.56 *per cent* in its FCP for the year. There was also a shortfall of Rs 443.24 crore in Capital expenditure against the projection of Rs 9154.47 crore in FCP. Thus the objective of increasing the relative share of Capital expenditure to GSDP to 7 *per cent* by 2009-10 was doubtful.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 13** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2000-06.

Table 13: Expenditure on Social Services

	(Rs in Crore)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture					
Revenue Expenditure	6042.38	6067.05	6254.58	7272.46	8789.90
<i>Of which</i>					
(a) Salary & Wage Component	321.88	370.91	379.32	392.47	426.20
(b) Non-Salary & Wage component ¹	5720.50	5696.14	5875.26	6879.99	8363.70
Capital Expenditure	45.72	70.23	61.19	106.62	322.13
Health and Family Welfare					
Revenue Expenditure	1356.11	1565.01	1753.85	2037.25	2595.61
<i>Of which</i>					
(a) Salary & Wage Component	1009.24	1128.86	1306.75	1395.56	1497.28
(b) Non-Salary & Wage component	346.87	436.15	447.10	641.69	1098.33
Capital Expenditure	20.40	14.26	142.72	217.64	471.82
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	614.39	484.32	528.18	564.64	753.34
<i>Of which</i>					
(a) Salary & Wage Component	5.39	5.78	6.46	6.88	7.24
(b) Non-Salary & Wage component	609.00	478.54	521.72	557.76	746.10
Capital Expenditure	95.65	30.66	65.13	127.77	267.17

¹ Includes the expenditure on salary of teaching and non-teaching staff of the government aided educational institutions (2001-02: Rs 4163.08 crore; 2002-03: Rs 4746.39 crore; 2003-04: Rs 5394.08 crore; 2004-05: Rs 5687.06 crore and 2005-06: Rs 6385.66 crore).

Other Social Services					
Revenue Expenditure	1323.71	2191.66	1817.74	3215.37	3470.86
<i>Of which</i>					
(a) <i>Salary & Wage Component</i>	190.81	213.72	222.52	232.94	257.11
(b) <i>Non-Salary & Wage component</i>	1132.90	1977.94	1595.22	2982.43	3213.75
Capital Expenditure	49.29	173.04	59.82	44.18	97.71
Total (Social Services)					
Revenue Expenditure	9336.59	10308.04	10354.35	13089.72	15609.71
<i>Of which</i>					
(a) <i>Salary & Wage Component</i>	1527.32	1719.27	1915.05	2027.85	2187.83
(b) <i>Non-Salary & Wage component</i>	7809.27	8588.77	8439.30	11061.87	13421.88
Capital Expenditure	211.06	288.19	328.86	496.21	1158.83

The trends in various components of expenditure revealed that despite an increase of 216.64 per cent in non-salary and wages component under Health and Family Welfare from Rs346.87 crore in 2001-02 to Rs 1098.33 crore in 2005-06, it was only 8.18 per cent of total non-salary and wages component of Social Services. The 62.31 per cent of total expenditure of non-salary and wages component under Social Services was incurred on Education, Sports, Art and Culture during 2005-06 against 73.25 per cent in 2001-02. The trend of expenditure under salaries and wages however, indicated only a marginal increase during these years. The capital expenditure under Social Services went up to Rs 1158.83 crore in 2005-06 from Rs 211.06 crore in 2001-02.

1.6.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs 14994.70 crore) accounted for 26.77 per cent of the total expenditure (Table 14). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 19.38 per cent of the expenditure.

Table-14: Expenditure on Economic Sector

	(Rupees in crore)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities.					
Revenue Expenditure	1335.14	1319.21	1342.36	1397.11	1480.40
<i>Of which</i>					
(a) <i>Salary & Wage Component</i>	555.00	607.96	664.70	696.54	801.15
(b) <i>Non-Salary & Wage component</i>	780.14	711.25	677.66	700.57	679.25
Capital Expenditure	988.93	595.72	173.34	954.33	231.56
Irrigation and Flood Control					
Revenue Expenditure	1338.05	1536.82	1480.41	1580.34	1390.73
<i>Of which</i>					
(a) <i>Salary & Wage Component</i>	511.11	550.18	605.33	645.29	636.53
(b) <i>Non-Salary & Wage component</i>	826.94	986.64	875.08	935.05	754.20
Capital Expenditure	770.10	728.20	740.98	878.66	1641.27

Power & Energy					
Revenue Expenditure	350.00	413.76	13438.68	1443.89	1401.05
<i>Of which</i>					
(a) Salary & Wage Component	---	----	----	----	----
(b) Non-Salary & Wage component	350.00	413.76	13438.68	1443.89	1401.05
Capital Expenditure	741.36	332.02	6234.81	1046.19	760.08
Transport					
Revenue Expenditure	564.65	704.48	709.22	517.42	764.53
<i>Of which</i>					
(a) Salary & Wage Component	21.58	23.34	25.41	27.09	28.95
(b) Non-Salary & Wage component	543.07	681.14	683.81	490.33	735.58
Capital Expenditure	218.20	849.57	903.92	1192.16	3186.99
Other Economic Services					
Revenue Expenditure	1761.89	1908.94	1999.03	2037.51	2719.13
<i>Of which</i>					
(a) Salary & Wage Component	732.60	742.90	776.57	765.06	723.46
(b) Non-Salary & Wage component	1029.29	1166.04	1222.46	1272.45	1995.67
Capital Expenditure	497.68	670.84	714.41	830.36	1418.96
Total (Economic Services)					
Revenue Expenditure	5349.73	5883.21	18969.70	6976.27	7755.84
<i>Of which</i>					
(a) Salary & Wage Component	1820.29	1924.38	2072.01	2133.98	2190.09
(b) Non-Salary & Wage component	3529.44	3958.83	16897.69	4842.29	5565.75
Capital Expenditure	3216.27	3176.35	8767.46	4901.70	7238.86

Total expenditure of Rs1711.96 crore on agriculture and Allied activities constituted 11.42 *per cent* of the total expenditure (Rs.14994.70 crore) under Economic Services in 2005-06 with a substantial decrease from 27.13 *per cent* in 2001-02. While 86.47 *per cent* of funds were utilized in 2005-06 to meet revenue expenditure including the expenditure of Rs.801.15 crore on salaries and wages (46.79 *per cent*), the portion of revenue expenditure in total expenditure of Economic Services was only 27.13 *per cent* in 2001-02. In absolute terms the expenditure under capital expenditure went down from Rs.988.93 crore in 2001-02 to only Rs.231.56 crore in 2005-06. The decreasing trend of capital expenditure on Agricultural Services restricted the growth of rural economy.

Further, the ratio of expenditure on Irrigation and Flood Control with total expenditure on Economic Services also decreased from 24.61 *per cent* in 2001-02 to 21.55 *per cent* in 2005-06. The ratio of capital expenditure to total expenditure on Irrigation and Flood Control ranged between 32.15 *per cent* and 40.83 *per cent* during 2001-05 but slightly improved to 54.13 *per cent* in

2005-06. The expenditure on salaries and wages with regards to revenue expenditure went down from 38.20 *per cent* in 2001-02 to 28.24 *per cent* in 2005-06.

The ratio of expenditure on Power and Energy to total expenditure on Economic Services ranged between 8.23 *per cent* and 20.96 *per cent* during 2001-06 except for 2003-04 wherein it was 70.96 *per cent* mainly due to write off of power sector loans (Rs.12277.40 crore). Further, funds ranging between 55 to 68 *per cent* were utilised to meet revenue expenditure during 2002-06 leaving a little for capital investment.

During 2001-02, the expenditure on Transport was 9.14 *per cent* of total expenditure under Economic Services. However, after going up to 17.15 *per cent* in 2002-03, it fell down to 5.81 *per cent* in 2003-04. The expenditure on it during 2005-06 however improved significantly from 14.39 *per cent* in 2004-05 to 26.35 *per cent* in 2005-06 mainly due to the increase in capital expenditure from Rs.1192.16 crore to Rs 3186.99 crore over the previous year.

1.6.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the three year period 2003-06 is presented in **Table 15**.

Table-15: Financial Assistance

(Rupees in crore)

	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	703.08	181.00	100.11
Municipal Corporations and Municipalities	68.73	89.99	452.01
Zilla Parishads and Other Panchayati Raj Institutions	---	1115.18	1691.31
Development Agencies	835.46	288.49	361.02
Hospital and Other Charitable Institutions	244.66	248.13	504.33
Other Institutions ¹	1600.90	1617.02	1851.11
Total	3452.83	3539.71	4959.89
Assistance as per percentage of RE	7	8	11

It would be seen that financial assistance to local bodies increased substantially from Rs.3539.71 crore to Rs.4959.89 crore over the previous year mainly due to the increase of Rs.576.13 crore in financial assistance to Zila Parishads and other PRIs and of Rs.360.02 crore to Municipal Corporations and Municipalities. However, Grants-in-Aid to Educational Institutions in 2005-06 decreased Rs.80.89 crore from the preceding year.

1.6.5 Delay in furnishing utilisation certificates

Of the 1935 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 1404 crore paid upto 2005-06, 865 UCs for an aggregate amount of Rs 207 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in *Appendix -1.7*.

¹ UP Power Corporation: Rs 1137.61 crore; Khadi Gramodyog Board: Rs 29.08 crore; Agricultural Institutions: Rs 240.00 crore; Sugar Industry: Rs125 crore, etc.

1.6.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of June, 2006, five departments of the Government have not furnished details for the year 2005-06, three departments for the period 2004-06 and one department for the period 2003-06 as shown in *Appendix-1.8*.

1.6.7 Abstract of performance of the autonomous bodies

The audit of accounts of eight bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature as of September 2006 is indicated in *Appendix-1.9*.

1.6.8 Misappropriations, losses, defalcations, etc

State Government reported 98 cases of misappropriation, defalcation, etc involving Government money amounting to Rs 5.04 crore during the period from 1966-67 to the end of October 2006 on which final action was pending. The department-wise break up of pending cases is given in *Appendix-1.10*.

1.6.9 Write off of losses, etc

No case of write off of losses, etc. during 2005-06 was reported to Audit as of October 2006.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix-1.3* gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. *Appendix-1.6* depicts the time series data on State Government finances for the period 2000-2006.

1.7.1 Financial Results of Irrigation Works

As per Finance Accounts for the year 2005-06 the financial results of 16 major irrigation projects with a capital outlay of Rs.3982.89 crore at the end of

March 2006 showed that revenue realized (Rs 133.26 crore) from these projects during 2005-06 was negligible (3.35 per cent) compared to the capital outlay which was not sufficient to cover even the interest on capital investment during 2005-06. After meeting the working and maintenance expenditure (Rs 110.03 crore) and interest charges (Rs210.62 crore), the schemes suffered a net loss of Rs.187.39 crore.

1.7.2 Incomplete projects

The position of incomplete projects as on 31st March 2006 is given in **Table 16** on the basis of information made available by Irrigation and Public Works Departments.

Table 16: Department-wise Profile of Incomplete Projects

(Rs in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Cost Over Runs	Revised Total Cost of Projects	Cum. Actual Exp as on 31.3.2006
Irrigation	22	750.82	3973.15	4723.97	3509.24
PWD ¹	5	65.54	9.44	74.98	41.45
Total	27	816.36	3982.59	4798.95	3550.69

Consequently, expenditure of Rs.3550.69 crore (March 2006) on these projects remained unproductive, besides cost escalation of Rs 3982.59 crore. Further, there was a time overrun of one to 38 years in completion of Major and Medium Irrigation Projects whereas it was five to 16 years in respect of the projects of PWD.

1.7.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually *proforma accounts* in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in **Appendix-1.11 and 1.12** respectively. The summarized financial statement of these undertakings is given in **Appendix-1.13**.

It would be seen that there were 11 Departmental Commercial Undertakings under the State Government as of March 2006. Of these one undertaking² did not prepare its account since inception, two undertakings³ for more than 10 years and one undertaking⁴ for more than one year. The State Government has invested Rs 65.12 crore in these 11 undertakings (excluding one undertaking whose accounts are in arrears since inception) up to the end of the financial year for which their accounts had been completed.

¹ Excluding the construction of bridges executed through UP State Bridge Corporation.

² Erection Division, Faizabad

³ Criminal Tribes Settlement Tailoring Factory, Kanpur and State Pharmacy of Ayurvedic and Unani Medicines, Lucknow

⁴ Scheme for public distribution system of food grains

Despite the comments in the Reports of Comptroller General of India in the Audit Reports of the State every year regarding the failure of the heads of the Departments and the management of undertakings in timely preparation of the *pro-forma* accounts, the accounts in a number of cases were still in arrears. As a result, accountability of the management and the Government in respect of the Public Funds spent by these undertakings is not ensured.

The statement showing the summarized financial results of Government Commercial and quasi commercial undertakings revealed that one undertaking each, under Animal Husbandry, Food & Civil Supplies and Health departments made no returns during 2005-06 on their mean capital (Rs.18.85 crore). Six Irrigation Workshop Divisions of Irrigation Department, however, made return of 28.23 *per cent* of their mean capital during the year.

1.7.4 Investments and returns

As of 31 March 2006, Government had invested Rs 15465 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 17**). The return on this investment was negligible and much below one *per cent* in the last six years while the Government paid interest at an average rate of 9.58 to 6.49 *per cent* on its borrowings during 2000-2006.

Table-17: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return	Percentage of return	Average rate of interest on government borrowing (per cent)	Difference between interest rate and return
2000-01	3962.89	6.27	0.16	9.58	3.31
2001-02	4033.27	6.24	0.15	9.49	3.25
2002-03	9049.70 ¹	7.26	0.08	7.22	(-)0.04
2003-04	9412.65 ²	7.40	0.07	9.13	1.73
2004-05	9535.57	--	--	9.47	9.47
2005-06	15464.60	0.15	0.001	6.49	6.34

Out of total investment of Rs.15464.60 crore, the investment of Rs.14627.38 crore (94.59 *per cent*) was made in Government Companies as of March 2006. Out of it, investment of Rs.11341.95 crore (73.34 *per cent* of total investment) was made in UP Power Corporation Ltd. Lucknow. There was an increase of Rs.12863.13 crore in investment in Power Corporation since 2001-02 including the fresh investment of Rs.6634.50 crore during 2005-06. However, there was no return on investments made in it.

1.7.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2006, were Rs 8160 crore (**Table 18**). Interest received against these loans advanced was 0.76 *per cent* during 2005-06 as against 1.31 *per cent* in previous year.

¹ Includes Rs 4044.60 crore pending reconciliation

² Excludes Rs 1834.60 crore pending reconciliation

Table-18: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	17596	18218	18379	18965	7709	8061
Amount advanced during the year	918	527	805	1242	629	684
Amount repaid during the year	296	366	219	12498	278	585
Closing Balance	18218	18379	18965	7709	8060	8160
Net addition	623	161	586	(-)11256	351	99
Interest Received	39	51	42	187	106	62
Interest received as <i>per cent</i> to outstanding Loans and advances	0.21	0.28	0.22	2.43	1.31	0.76
Average interest rate (in <i>per cent</i>) paid on borrowings by State Government.	9.58	9.49	7.22	9.13	9.47	6.49
Difference between average interest paid and received (<i>per cent</i>)	(-) 9.37	(-) 9.21	(-) 7.00	(-)6.70	(-)8.16	(-)5.73

Out of total loans and advances of Rs.4805 crore during 2000-06, Rs.3434.70 crore (71.48 *per cent*) went to Economic Services. The major portion of loans (Rs.1538.61 crore) were made for Energy (44.80 *per cent*) followed by the Industry and Minerals (Rs.1470.71 crore) (42.81 *per cent*) of the total loans from Economic services.

1.7.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) ordinary and special from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Maximum limit of Normal and Special Ways and Means Advances are Rs.920 crores and Rs251.02 crore since April 01, 2005. During 2005-06, Maximum amount of Special WMA (Rs.251.02 crore) was taken for 19 days. However, the maximum Ordinary WMA of Rs.175.92 crore for ten days was within the limits prescribed by RBI.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 19**.

Table-19: Ways and Means and Overdrafts of the State

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances						
Availed in the Year	2217.57	6146.49	7663.83	11526.87	13982.12	2707.99
Number of Occasions	83	91	115	147	158	30
Outstanding WMAs, if any	609.82	746.12	-----	-----	25.48	-----
Interest Paid	27.56	21.70	28.67	34.08	40.91	4.56
Number of Days	----	----	224	322	324	48

Overdraft						
Availed in the year	7696.62	3282.11	3753.64	4904.18	6268.88	373.16
Number of Days	161	88	88	100	98	11
Interest Paid	12.04	4.79	4.31	9.56	8.23	0.57

1.8 Undischarged Liabilities

As per MTFRP-2005 of the Government, the total outstanding debt and liabilities during 2003-04 was of Rs.107490.04 crore and its projections for 2005-06 was for Rs.134497.50 crore.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

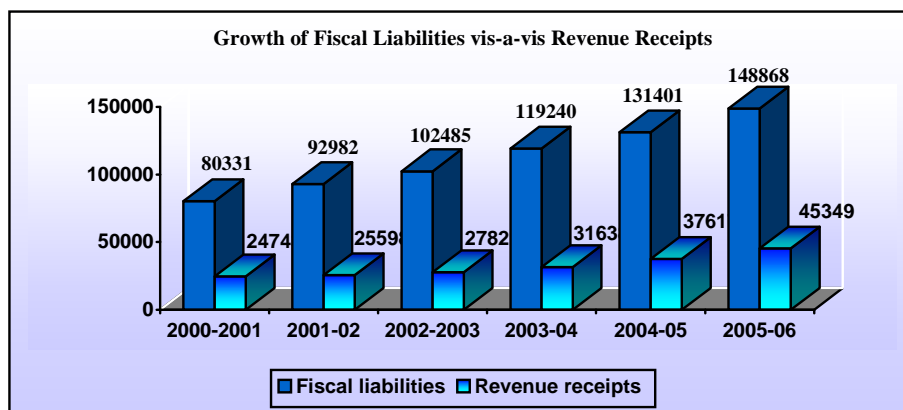
Table-20 gives the fiscal liabilities¹ of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-20: Fiscal Liabilities – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore)	80331	92982	102485	119240	131401	148868
Rate of Growth (<i>per cent</i>)	6.69	15.75	10.22	16.35	10.20	13.29
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	46.4	51.3	51.9	54.8	55.8	57.3
Revenue Receipts (<i>per cent</i>)	324.7	363.2	368.4	376.9	349.3	328.30
Own Resources (<i>per cent</i>)	621.5	767.4	698.1	750.7	713.6	683.90
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.429	3.316	1.150	1.603	1.226	1.300
Revenue Receipts (ratio)	0.443	4.558	1.177	1.192	0.540	0.647
Own Resources (ratio)	0.505	*	0.483	1.995	0.640	0.730

* Own Resources in 2001-02 had a negative growth

¹ Includes Internal Debt, Loans and Advances from GOI, Small Savings and Provident fund, Deposits and Reserve funds.



Overall fiscal liabilities of the State increased from Rs 80331 crore in 2000-01 to Rs 148868 crore in 2005-06. The growth rate was 13.29 per cent during 2005-06 over previous year. The ratio of fiscal liabilities to GSDP also increased from 46.4 per cent in 2000-01 to nearly 57.31 per cent in 2005-06. These liabilities stood at more than three times the revenue receipts and seven times of the States own resources as at the end of 2005-06. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 1.300 indicating that for each one per cent increase in GSDP; fiscal liabilities grew by 1.3 per cent.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2000-01 are given in **Table 21**.

Table-21: Guarantees given by the Government of Uttar Pradesh
(Rupees in crore)

Year	Max. amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2000-01	16934	7421	68.44
2001-02	11013	6997	43.02
2002-03	10840	6270	38.96
2003-04	10549	3601	33.34
2004-05	22770	10354	60.53
2005-06	15073	8433	33.24

Government had guaranteed loans raised by various Corporations and others, which in 2005-06 stood at Rs.8433 crore. Guarantees were given for raising working capital by the UP Financial Corporation (Rs.486.37 crore), raising loans, debentures, bonds etc. by Statutory Corporations and Boards (Rs.2814.60 crore), Government Companies (Rs.1381.21 crore) Cooperative Banks and Societies (Rs.3241.98 crore) etc. No law under Article 293(1) of the Constitution had been passed by the State Legislature up to 2003-04 laying

down the limits within which Government may give guarantee on the security of the Consolidated Fund of the State. The Government has not set up any Fund for meeting liabilities, which may arise on the invoking of guarantees. The Government has however, safeguarded its interest by obtaining counter guarantees from parties on whose behalf the guarantees were given.

1.8.3 Off - Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in Table 20, the State guaranteed loans availed of by Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/corporations outside the State budget, however in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. However, Finance Department stated (October, 2006) that no 'off budget borrowing' was made by the Government.

1.8.4 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GDP ratio would be constant or sustainable. On the other hand, if $PD > QS$, debt-GDP ratio would be rising and if $PD < QS$, it would be falling.

Table-22: Debt Sustainability–Interest Rate and GSDP Growth

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Average Interest Rate	9.58	9.49	7.22	9.13	9.47	6.49
GSDP Growth	4.68	4.75	8.89	10.20	8.32	10.23
Interest spread	(-)4.90	(-)4.74	1.67	1.07	(-)1.15	3.74
Fiscal Liabilities (Rupees in crore)	80331	92982	102485	119240	131401	148868
Quantum Spread (Rs Crores)	(-)3936	(-)4407	1711	1276	(-)1511	5568
Primary Deficit (Rs Crores)	2725	1691	2437	6523	1124	980

PD was more than QS during 2000-05 indicating that Debt-GSDP ratio increased during those years. The sum of QS and PD during 2000-02 and 2004-05 was negative and thus debt-GSDP ratio was not sustainable during those years. However, less PD as compared to QS during 2005-06 indicated the decrease in Debt-GSDP ratio.

1.8.5 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

Table-23 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table-23: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt						
Receipt	6734	7935	9282	19029	14597	13931
Repayment (Principal + Interest)	2641	4467	3895	7545	10412	10286
Net Fund Available	4093	3468	5387	11484	4185	3645
Net Fund Available (<i>per cent</i>)	61	44	58	60	29	26
Loans and Advances from GOI						
Receipt	3317	2757	3106	3081	2841	326
Repayment (Principal + Interest)	5080	5378	7747	10673	9640	3110
Net Fund Available	(-1763)	(-2621)	(-4641)	(-7592)	(-6799)	(-2784)
Net Fund Available (<i>per cent</i>)	(-53)	(-95)	(-149)	(-246)	(-239)	(-854)
Other obligations						
Receipt	10561	12602	8440	14901	15013	19578
Repayment (Principal + Interest)	8263	9640	7403	13163	13063	13169
Net Fund Available	2298	2962	1037	1738	1950	6409
Net Fund Available (<i>per cent</i>)	21.76	23.50	12.29	11.66	12.99	32.74
Total liabilities						
Receipt	20612	23294	20828	37011	32451	33835
Repayment (Principal + Interest)	15984	19485	19045	31381	33115	26565
Net Fund Available	4628	3809	1783	5630	-664	7270
Net Fund Available (<i>per cent</i>)	22.45	16.35	8.56	15.21	-2.05	21.49

The Internal Debt of the State increased by Rs.7197 crore (106.87 *per cent*) from Rs. 6734 crore in 2000-01 to Rs 13931 crore in 2005-06. However, despite continuous increase in Internal Debt, availability of net funds decreased from 61 *per cent* in 2000-01 to 26 *per cent* in 2005-06 after repayment of principal and interest on the borrowed funds. As per MTFRP 2005, Rs 2021 crore of old costly GOI loans (14.50 *per cent*) were retired by the low cost small savings loans (Rs 573 crore) and extra market loans (Rs1448 crore) under Debt Swap Scheme during 2002-03. Similarly, Rs.4885 crore in 2003-04 and Rs.4458 crore in 2004-05 were utilised to swap high cost debt with low cost debt after maintaining the percentage of small saving loans (30 *per cent* in 2003-04 and 40 *per cent* in 2004-05). This resulted in interest savings of Rs 711.81 crore during 2002-05. Under the Debt Write off Scheme, write off of repayments on the consolidated central loans, due for 2005-06 to 2009-10 was to be linked to the absolute amount by which the revenue deficit was reduced in each successive year. As per Finance Department, GOI approved write off of the central debt of Rs 1063.71 crore under the Debt Write off Scheme.

The net availability of Loans and Advances from GOI decreased from (-) 239 *per cent* in 2004-05 to (-) 854 *per cent* in 2005-06. All along the years (2000-06), repayments of Loans and Advances from GOI exceeded the actual receipts with an increasing trend.

1.9 Management of deficits

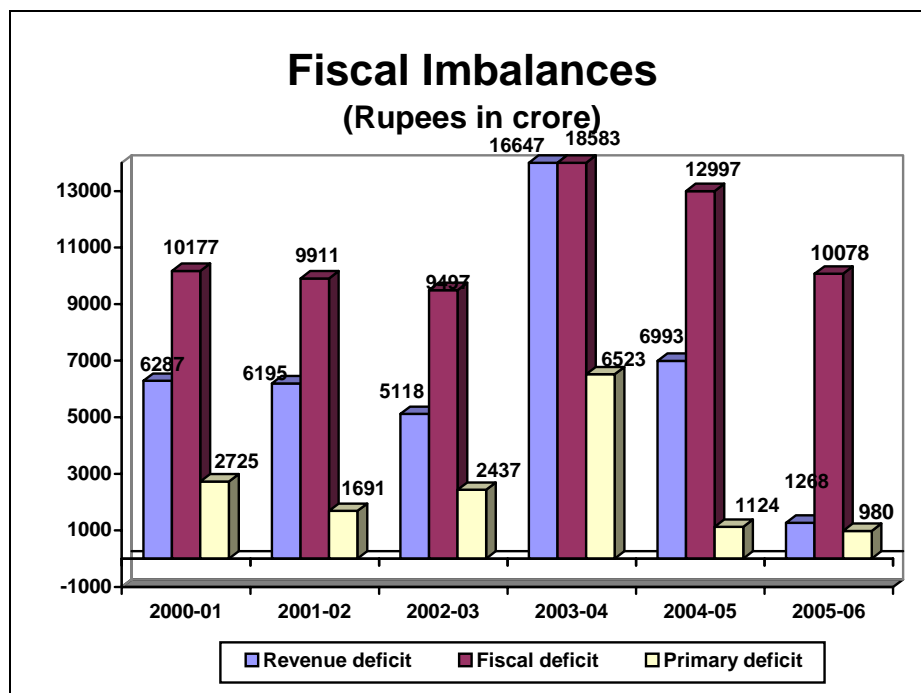
The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health.

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased from Rs 6287 crore in 2000-01 to Rs 1268 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, marginally decreased from Rs 10177 crore in 2000-01 to Rs 10078 crore in 2005-06. The State also had a primary deficit of Rs 2725 crore in 2000-01 which decreased to Rs 980 crore in 2005-06 as indicated in **Table-24**.

The ratio of revenue deficit to fiscal deficit was 12.58 *per cent* during 2005-06 indicating that nearly Rs.1268 crore of the borrowed funds were used for current consumption. As proportion to GSDP, the revenue deficit had reached 0.49 *per cent* and fiscal deficit had reached 3.88 *per cent* in 2005-06. Persistently, high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a part of borrowings (fiscal liabilities) were not having any asset backup during 2000-05. However, this ratio has four fold decrease in 2005-06 from 53.80 *per cent* in 2004-05.

Table-24: Fiscal Imbalances: Basic Parameters

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (Rupees in crore)	6287	6195	5118	18583	6993	1268
Fiscal deficit (Rupees in crore)	10177	9911	9497	16647	12997	10078
Primary deficit (Rupees in crore)	2725	1691	2437	6523	1124	980
RD/GSDP (<i>per cent</i>)	3.63	3.42	2.59	8.54	2.97	0.49
FD/GSDP (<i>per cent</i>)	5.88	5.47	4.81	7.65	5.51	3.88
PD/GSDP (<i>per cent</i>)	1.57	0.93	1.23	3.00	0.48	0.38
RD/FD (<i>per cent</i>)	61.78	62.51	53.89	111.63	53.80	12.58



The annual reduction targets for revenue deficit as laid down under FRBM Act and MTFRP 2005 was achieved substantially during 2005-06 mainly due to the increase of Rs.3165 crore under tax revenue, Rs.3148 crore under State's share in Union Taxes and Rs.1209 crore under Grants-in-Aid from GOI and also due to containing the revenue expenditure at the level of 83 per cent of the total expenditure as against 88 per cent in 2004-05. However, despite the substantial reduction in RD, the reduction in FD was moderate only due to the increase in Capital expenditure. PD decreased over the previous year due to the decrease in interest payments. FD-GSDP ratio also decreased from 5.51 per cent in 2004-05 to 3.88 per cent by containing the level of revenue expenditure at 83 per cent of total expenditure over the previous year. Despite this, the tax –GSDP ratio during 2005-06 was only 7.26 per cent against the projected ratio of 7.70 per cent in MTFRP.

However, there was no contribution of Uttar Pradesh Power Corporation and UP State Road Corporation to improve the fiscal imbalances of the State despite the huge investments made by the Government in their infrastructure.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-25** below presents a summarized position of Government finances over 2000-2006, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-25: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7
I Resource Mobilisation						
Revenue Receipt/GSDP	14.30	14.12	14.09	14.54	15.96	17.46
Revenue Buoyancy	3.229	0.728	0.976	1.345	2.271	2.010
Own Tax/GSDP	6.34	5.70	6.47	6.25	6.66	7.26
II Expenditure Management						
Total Expenditure/GSDP	20.35	19.79	19.01	27.94	21.59	21.56
Revenue Receipts/Total Expenditure	70.26	71.35	74.12	52.05	73.92	80.96
Revenue Expenditure/Total Expenditure	88.11	88.62	87.75	82.62	87.66	83.23
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	10.53	11.06	7.94	9.33	9.39
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	35.66	38.09	50.45	35.65	40.73
Capital Expenditure/Total Expenditure	9.53	10.06	10.33	15.65	11.25	15.74
Capital Expenditure on Social and Economic Services/Total Expenditure.	NA	9.55	9.23	14.97	10.61	14.99
Buoyancy of TE with RR	0.475	0.542	0.533	4.514	(-)0.861	0.489
Buoyancy of RE with RR	0.525	0.712	0.415	3.824	(-)0.591	0.219
III Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	(-)6287	(-)6195	(-)5118	(-)18583	(-)6993	(-)1268
Fiscal deficit (Rs in crore)	(-)10177	(-)9911	(-)9497	(-)16647	(-)12997	(-)10078
Primary Deficit (Rs in crore)	(-)2725	(-)1691	(-)2437	(-)6523	(-)1124	(-)980
Revenue Deficit/Fiscal Deficit	(-)61.78	(-)62.51	(-)53.89	(-)111.63	(-)53.80	(-)12.58
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	46.4	51.3	51.9	54.8	55.8	57.3
Fiscal Liabilities/RR	324.7	363.2	368.4	376.9	349.3	328.3
Buoyancy of FL with RR	0.443	4.558	1.177	1.192	0.540	0.647
Buoyancy of FL with Own Receipt	0.505	(-)2.519	0.483	1.995	0.640	0.730
Primary deficit vis-à-vis quantum spread	(-)0.06	(-)0.03	0.12	0.28	(-)0.06	0.02
Net Funds Available	71949	74393	77757	113173	100647	113019
V Other Fiscal Health Indicators						
Return on Investment	6.27	6.24	7.26	7.40	--	0.15
Balance from Current Revenue (Rs in crore)	(-)3895	(-)4147	(-)1918	(-)15401	(-)3413	4482
Financial Assets/Liabilities	0.57	0.56	0.55	0.46	0.45	0.51

1.11 Conclusion

Medium Term Fiscal Restructuring Policy 2005 aimed to achieve the objectives of improving the ratio of Own Tax Revenue to GSDP by rationalisation of tax structure, prioritisation of expenditure on education health care, irrigation, roads, reduction in subsidies by containing salaries and pension etc. However, mode of implementation of fiscal reforms was yet to be devised. Mid term review of fiscal reforms revealed that there was a shortfall of Rs 922 crore in realisation of Own Tax Revenue against the projection made in MTFRP for 2005-06. The growth of GSDP based on advance estimates was only 10.23 *per cent* against the projected growth rate of 12 *per cent*. The revenue deficit was brought down to Rs 1268 crore against Rs 3597 crore anticipated in MTFRP. The capital expenditure was 3.35 *per cent* of GSDP against the target of 3.56 *per cent* during 2005-06 in Fiscal Correction Path for the year. Tax-GSDP ratio was only 7.26 *per cent* in 2005-06 against the projections of 7.70 *per cent* in MTFRP. The replacement of high cost GOI loan of Rs 11364.31 crore under debt swap scheme resulted in the interest saving of Rs 711.81 crore during 2002-05. The total salary bill relative to revenue expenditure net of interest payments and pension payments stood at 47 *per cent* against the limit of 35 *per cent* recommended by Twelfth Finance Commission. While the revenue deficit decreased substantially due to increase in revenue receipts and containing of revenue expenditure, decrease in fiscal deficits over the previous year was moderate due to the increase in capital expenditure. Repayments of Central loans of Rs 1063.71 crore were written off under Debt Write off Scheme on account of reduction in RD.

An amount of Rs 3550.69 crore remained locked up in 27 incomplete projects as of March 2006 despite cost escalation of Rs 3982.59 crore. Return on investment of Rs 15464.60 crore in Statutory Corporations, Joint Stock Companies, Co-operatives etc., was negligible.