

CHAPTER I

Finances of the State Government

In summary

Large revenue and fiscal deficits year after year indicates continued macroeconomic imbalances in the State. However, both revenue and fiscal deficits have consistently declined since 1998-99. While the revenue deficit has

declined from Rs. 8696 crore in 1998-99 to Rs. 5118 crore in 2002-03, fiscal deficit has reduced from Rs. 11633 crore to Rs. 9497 crore during the same period. As a result, the ratio of revenue deficit to fiscal deficit has decreased from 74.75 *per cent* in 1998-99 to 53.89 *per cent* in 2002-03.

Revenue receipts of the State increased from Rs. 17379 crore in 1998-99 to Rs. 27821 crore in 2002-03 at an average trend rate of 10.83 *per cent* per annum. The moderate growth (8.68 *per cent*) in revenue receipts in 2002-03 was primarily driven by 24 *per cent* growth in the tax revenue (16 *per cent* growth in Sales tax, 45 *per cent* growth in Stamps and Registration fees and 30 *per cent* growth in the State Excise duties).

Overall expenditure of the State increased from Rs. 29774 crore in 1998-99 to Rs. 37537 crore in 2002-03 at an average trend growth rate of 7.61 *per cent* per annum. Revenue expenditure, which contributed 87.5 *per cent* of total expenditure, grew at an average growth rate of 7.85 *per cent* per annum.

Salaries (Rs. 12717 crore), Interest Payments (Rs. 7060 crore), and Pensions (Rs. 2751 crore) alone consumed 81 *per cent* of total revenue receipts of the State during the year. Capital Expenditure has shown steady improvement from 7.44 *per cent* in 1998-99 to 10.33 *per cent* in 2002-03.

Overall fiscal liabilities of the State increased from Rs. 62725 crore in 1998-99 to Rs. 102485 crore in 2002-03 at an average growth rate of 13.92 *per cent*. These liabilities as ratio to GSDP increased from 43.5 *per cent* in 1998-99 to 50.5 *per cent* in 2002-03 and stood at about four times of its revenue receipts. Government had also invested Rs. 9050 crore in different Government Companies and Corporations etc, by the end of 2003 with a meagre (less than one *per cent*) return.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large deficits year after year, together with low or no return on investments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicates its increasing unsustainability. The passage of Fiscal Responsibility and Budget Management Act in February 2004, to ensure fiscal stability and sustainability by aiming to reduce revenue deficit to nil and fiscal deficit to three *per cent* of GSDP within five years is however a step in right direction.

## **1.1 Introduction**

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 Account of the State Government. The lay out of the Finance Accounts is depicted in the Box 1.1.

### **Box 1.1 Lay out of Finance Accounts**

Statement No 1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc in the Consolidated fund, Contingency fund and Public Account of the state.

Statement No 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2002-03.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporation, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated fund, Contingency fund and Public Account as on 31 March 2003.

Statement No.9 shows the revenue and expenditure under different heads for the year 2002-03 as a *per centage* of total revenue/expenditure.

Statement No.10 indicates the distribution between the charge and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2002-03.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2002-03.

Statement No.15 depicts the capital and other expenditure to the end of 2002-03 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of Uttar Pradesh.

Statement No.18 provides the detailed account of loans and advances given by the Government of Uttar Pradesh, the amount of loan repaid during the year, the balance as on 31 March 2003, and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserved funds.

## **1.2 Trend of Finances with reference to Previous year**

Finances of State Government during the current year as compared to previous year were as under:

(Rupees in crore)

<b>2001-02</b>	<b>Sl. No.</b>	<b>Major Aggregates</b>	<b>2002-03</b>
<b>25598</b>	1.	<b>Revenue Receipts (2+3+4)</b>	<b>27821</b>
10330	2.	Tax Revenue	12767
1787	3.	Non-Tax Revenue	1913
13481	4.	Other Receipts	13141
<b>366</b>	5.	<b>Non-Debt Capital Receipts</b>	<b>219</b>
366	6.	<i>Of which</i> Recovery of Loans	219
<b>25964</b>	7.	<b>Total Receipts (1+5)</b>	<b>28040</b>
<b>29374</b>	8.	<b>Non-Plan Expenditure (9+11+12)</b>	<b>30110</b>
28232	9.	On Revenue Account	29364
8220	10.	<i>Of which,</i> Interest Payments	7060
885	11.	On Capital Account	433
257	12.	Loans and advances disbursed	313
<b>6501</b>	13.	<b>Plan Expenditure (14+15+16)</b>	<b>7427</b>
3561	14.	On Revenue Account	3575
2671	15.	On Capital Account	3361
269	16.	Loans and advances disbursed	491

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2001-02	Sl. No.	Major Aggregates	2002-03
35875	17.	Total Expenditure (8+13)	37537
6195	18.	Revenue Deficit (9+14-1)	5118
9911	19.	Fiscal Deficit (17-7)	9497
1691	20.	Primary Deficit (+)/Surplus(-) (19-10)	2437

### 1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Uttar Pradesh for the year 2002-03 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, Contingency Fund receipts and disbursements and Public Account receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

**Table 1 : Summary of receipts and disbursements for the year 2002-2003**

(Rupees in crore)

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
		Section-A: Revenue			Non-Plan	Plan	Total
25597.91	I. Revenue receipts	27821.19	31792.70	I. Revenue expenditure	29363.71	3574.80	32938.51
10330.30	Tax revenue	12766.90	16178.45	General services	15540.14	42.56	15582.70
1787.08	Non-tax revenue	1913.49	9336.59	Social Services	8613.65	1694.39	10308.04
10189.01	Share of Union Taxes/Duties	10831.78	5349.73	Economic Services	4045.35	1837.85	5883.20
3291.52	Grants from Govt. of India	2309.02	927.93	Grants-in-aid / Contributions	1164.57	-----	1164.57
Section-B: Capital							
-----	II Misc. Capital Receipts	-----	3555.56	II Capital Outlay	433.00	3361.38	3794.38
365.58	III. Recoveries of Loans and Advances	219.11	526.35	III Loans and Advances disbursed	491.21	313.10	804.31
11382.58	IV Public debt receipts*	12389.57	2942.12	IV Repayment of Public Debt	6225.77#	----	6225.77
81.26	V Contingency Fund	---	9.99	V Contingency Fund	68.74	---	68.74
36965.31	VI Public account receipts	37327.05	35397.44	VI Public account disbursements	34358.56#	-----	34358.56

\* Includes net ways and means advances and over draft also

# Bifurcation of plan and non- plan not available

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
		Section-A: Revenue			Non-Plan	Plan	Total
232.28	Opening Balance	400.76	400.76	Closing Balance	(-)32.59#	----	(-)32.59
<b>74624.92</b>	<b>Total</b>	<b>78157.68</b>	<b>74624.92</b>	<b>Total</b>	<b>70908.40</b>	<b>7249.28</b>	<b>78157.68</b>

#### **1.4 Audit Methodology**

Audit observations on the Finance Accounts bring out trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2002-03 and wherever necessary, show these in the light of time series data (*Appendix-1.1-1.4*) and periodic comparisons.

The reporting parameters are depicted in the Box 1.2.

#### **Box 1.2 Reporting Parameters**

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 *per centage* to the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics Department 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.

For most series a trend growth during 1998-2003 has been indicated. *The erstwhile state of Uttar Pradesh has been bifurcated into a successor state of Uttar Pradesh and Uttaranchal with effect from 9.11.2000 as per the reorganization Act. Hence indicators of the financial performance of Government take into account the Finance Accounts figures of the combined state of Uttar Pradesh and Uttaranchal upto 8.11.2000 and from 9.11.2000 with reference to successor state of Uttar Pradesh.*

The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix- 1.5*.

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. 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. The accounts of the state Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

<b>Box 1.3</b>	
<b>State Government Funds and the Public Account</b>	
<p><b>Consolidated Fund</b> All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.</p>	<p><b>Contingency Fund</b> Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p><b>Public Account</b></p> <p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.</p>	

## **1.5 State Finances by key Indicators**

### ***1.5.1 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 Central Government. Capital receipts comprise of miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/ commercial banks etc and loans and advances from Government of India as well as accruals from Public account.

Table 2 shows that the total receipt of the State Government for the year 2002-03 was Rs. 77757 crore. Of this, revenue receipt was Rs. 27821 crore, constituting only 36 *per cent* of the total receipts. The balance of receipts came from borrowings and public account receipts.

**Table 2 : Resources of Uttar Pradesh**

(Rupees in crore)

<b><i>I Revenue Receipts</i></b>	<b>27821</b>
<b><i>II Capital Receipts</i></b>	<b>12609</b>
<i>a Miscellaneous Receipts</i>	----
<i>b Recovery of Loans and Advances</i>	219
<i>c Public Debt Receipts</i>	12390
<b><i>III Public Account Receipts</i></b>	<b>37327</b>
<i>a Small Savings, Provident Fund, etc.</i>	3116
<i>b Reserve Fund</i>	1829
<i>c Deposits and Advances</i>	6689
<i>d Suspense and Miscellaneous</i>	23854
<i>e Remittances</i>	1839
<b><i>Total Receipts</i></b>	<b>77757</b>

### 1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

**Table 3: Revenue Receipts – Basic Parameters**

(Values : Rupees in crore and others in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03
Revenue Receipts	17379	21495	24743	25598	27821
Own taxes	45.53	43.74	44.38	40.35	45.89
Non-Tax Revenue	8.49	9.36	7.86	6.98	6.88
Central Tax Transfers	33.20	34.79	36.56	39.80	38.93
Grants-in-aid	12.79	12.11	11.21	12.86	8.30
Rate of Growth	*	23.68	15.11	3.46	8.68
Revenue Receipts/GSDP	12.05	13.25	13.67	13.68	13.71
Revenue Buoyancy	*	1.902	1.311	1.010	1.031
GSDP Growth	11.00	12.45	11.53	3.42	8.42

\* Rate of growth of Revenue Receipts & Revenue Buoyancy was negative.

Revenue receipts of the State increased from Rs. 17379 crore in 1998-99 to Rs. 27821 crore in 2002-03 at an average trend rate of 10.83 per cent per annum. There were, however, inter year variations in the growth rates which

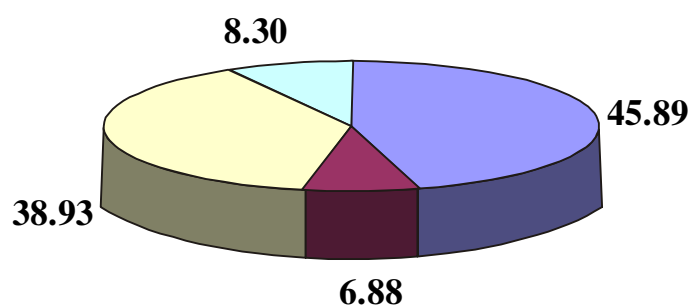
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decreased from a high of 23.68 *per cent* in 1999-2000 to 8.68 *per cent* in 2002-03. The increase in the tax revenue during the current year over the previous year was mainly on Sales Tax (Rs. 961 crore), Stamps and Registration fees (Rs. 650 crore) and State Excise (Rs. 594 crore).

While on an average only 53 *per cent* of the revenue had come from the State's own resources, central tax transfers and grants-in-aid together continued to contribute a huge portion (47 *per cent*) of the total revenue. Sales tax was the major source of State's own tax revenue having contributed 56 *per cent* of the tax revenue followed by State Excise (20 *per cent*), Stamp and Registration Fee (16 *per cent*) etc. Of non-tax revenue sources, Interest receipt (27 *per cent*), Education, Sports, Art and Culture (13 *per cent*), Non-Ferrous Mining, and Metallurgical Industries (14 *per cent*) were principal contributors.

**REVENUE RECEIPTS FOR 2002-03**

(Rupees in crore)



■ Own ■ Non-tax revenue ■ Tax transfer ■ Grants in aid

The current levels of cost recovery in supply of merit goods and services by Government are 6.82 *per cent* in public works, 3.40 *per cent* for secondary and higher education, 3.21 *per cent* and 0.37 *per cent* in medical & public health and family welfare respectively, zero *per cent* in water supply and sanitation and 15.94 *per cent* in major and medium irrigation.

The source of revenue receipts under different heads and GSDP during 1998-2003 is indicated in Table 4.

**Table 4 : Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1998-99	17379	762	9010	32839	59990	144274
1999-00	21495	263	10294	34406	66458	162243
2000-01	24743	296	9251	37567	71857	180948



2001-02	25598	366	11383	36965	74312	187141
2002-03	27821	219	12390	37327	77757	202904

## 1.6 Application of resources

### 1.6.1 Trend and Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased from Rs. 29774 crore in 1998-99 to Rs. 37537 crore in 2002-03 at an average trend rate of 7.61 *per cent* per annum. The rate of growth of total expenditure was lower than the rate of growth of revenue receipts during this period. There was sharp inter year variations in the expenditure.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts is indicated in Table-5 below:

**Table 5: Total Expenditure – Basic Parameters**

(Value: Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Total Expenditure	29774	32857	35216	35875	37537	34252
Rate of Growth	16.88	10.35	7.18	1.87	4.63	7.61*
TE/GSDP	20.64	20.25	19.46	19.17	18.50	19.52
Revenue Receipts/TE	70.04	76.47	71.64	74.01	73.99	73.23
<b>Buoyancy of Total Expenditure with</b>						
GSDP	1.534	0.831	0.623	0.547	0.550	0.817
Revenue Receipts	**	0.437	0.475	0.542	0.533	0.702

\*Average trend rate of growth.

\*\*Revenue Receipts had a negative growth.

There was upward trend in the ratio of revenue receipts to total expenditure from 70.04 *per cent* in 1998-99 to 73.99 *per cent* in 2002-03, indicating that approximately 74 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowings.

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 and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

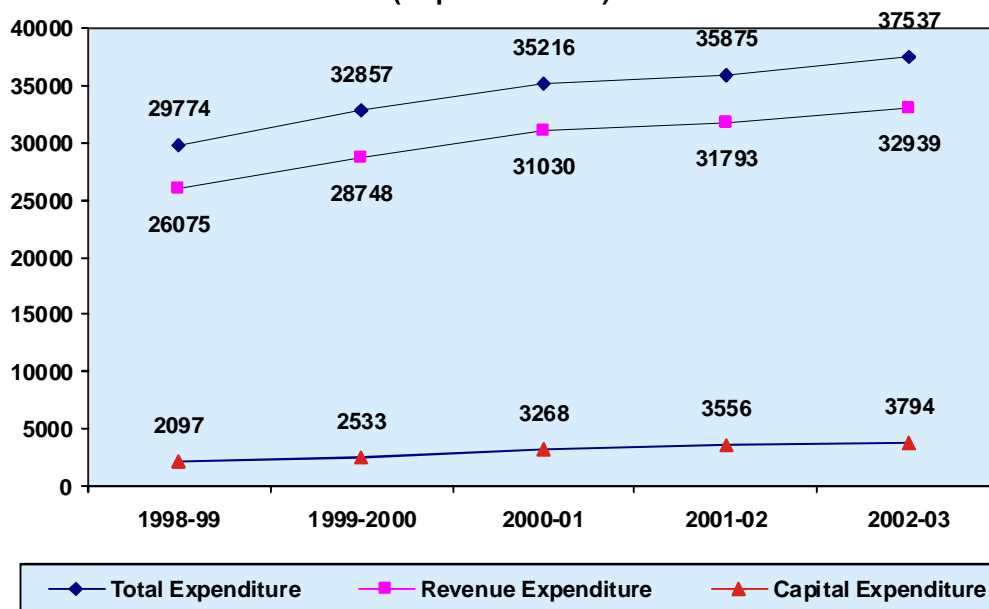
**Table 6: Components of expenditure – Relative Share (in *per cent*)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	38.97	41.11	43.34	45.45	42.39	42.25
Social Services	30.76	27.19	26.92	26.61	28.23	27.94
Economic Services	21.96	24.28	24.06	23.88	24.13	23.66

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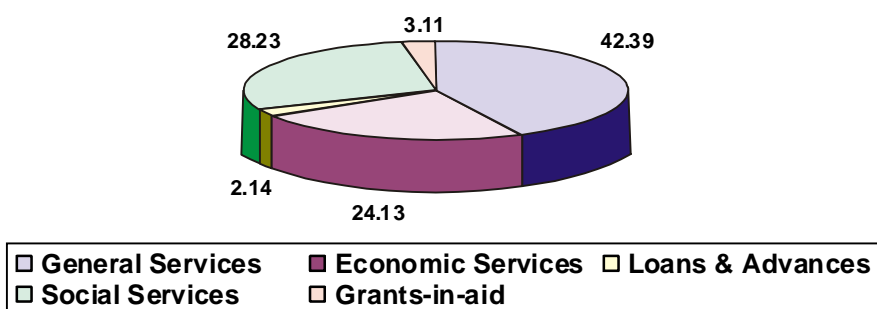
Grants-in-aid	2.93	2.62	3.07	2.59	3.11	2.87
Loans and advances	5.38	4.80	2.61	1.47	2.14	3.28

**GROWTH OF TOTAL EXPENDITURE**  
(Rupees in crore)



The movement of relative share of these components of expenditure indicated that while the share of Social Services in total expenditure declined from 30.76 per cent in 1998-99 to 28.23 per cent in 2002-03, the relative share of General Services and Economic Services increased from 38.97 and 21.96 per cent in 1998-99 to 42.39 and 24.13 per cent respectively in 2002-03.

**Allocative Priorities - Trend of Expenditure 2002-03**  
(Rupees in crore)



**1.6.2 Incidence of Revenue expenditure**

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services.

Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in Table 7 below:

**Table 7: Revenue Expenditure – Basic Parameters**

(Value: Rupees in crore and others in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure	26075	28748	31030	31793	32939	30117
Rate of Growth	17.48	10.25	7.94	2.46	3.60	7.85*
RE/ GSDP	18.07	17.72	17.15	16.99	16.23	17.16
RE as per cent of TE	87.58	87.49	88.11	88.62	87.75	87.93
RE as per cent to Revenue Receipts	150.04	133.74	125.41	124.20	118.40	128.66
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP	1.589	0.823	0.689	0.718	0.428	0.843
Revenue Receipts	**	0.433	0.525	0.712	0.415	0.725

\* Average trend rate of growth.

\*\* Revenue Receipts had a negative growth.

Revenue expenditure of the State increased from Rs. 26075 crore in 1998-1999 to Rs. 32939 crore in 2002-03 at an average trend rate of 7.85 per cent per annum. The increase in the revenue expenditure during the current year was mainly due to more expenditure on pension and other retirement benefits (Rs. 359 crore), Social Welfare and Nutrition (Rs. 685 crore), Irrigation and Flood Control (Rs. 199 crore) and Transport (Rs. 140 crore) in comparison to previous year.

Revenue expenditure accounted for 88 per cent of total expenditure during 1998-2003. Revenue expenditure, however, continued to exceed revenue receipts during this period, which has led to revenue deficit. Though the ratio of revenue expenditure to revenue receipts marginally declined from 150.04 per cent in 1998-99 to 118.40 per cent in 2002-03, the dependence of the State on borrowings, for meeting its current expenditure continued. This was primarily due to the fact that salaries (Rs. 12717 crore), interest payments (Rs. 7060 crore), and pensions (Rs. 2751 crore) alone consumed 81 per cent of total revenue receipts of the State during the year.

### **High salary expenditure**

Salaries alone accounted for about 49 per cent of the revenue receipts of the State. The expenditure on salaries increased from Rs. 10230.06 crore in 1998-99 to Rs..12717.07 crore in 2002-03 as indicated in the table eight:

**Table 8 : Salary Expenditure**

(Rupees in crore)

Heads	1998-99	1999-2000	2000-01	2001-02	2002-03
Salary expenditure*	10230.06	10858.75	11464.43	10860.40	12717.07**
As percentage to GSDP	7.09	6.79	6.34	5.80	6.27
As percentage to Revenue Receipts	58.86	50.52	46.33	42.43	45.71

\* Source : State Government.

\*\* Revised estimate.

## *Audit Report (Civil) for the year ended 31 March 2003*

As could be seen from the table, salaries as percentage of GSDP having downwards trend upto 2001-02 had increased marginally during 2002-03.

### ***Huge expenditure on pension payments***

Pension payments have increased by 56.11 *per cent* from Rs. 1762.32 crore in 1998-99 to Rs. 2751.13 crore in 2002-03.

Year-wise breakup of expenditure incurred on pension payments during the years 1998-99 to 2002-03 was as under:

**Table 9: Pension Payments**

<b>Year</b>	<b>Expenditure (Rupees in crore)</b>	<b>Percentage to total revenue</b>
1998-99	1762.32	10.14
1999-2000	2060.68	9.59
2000-01	2163.27	8.75
2001-02	2391.74	9.34
2002-03	2751.13	9.89

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired state employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

### ***Interest payments***

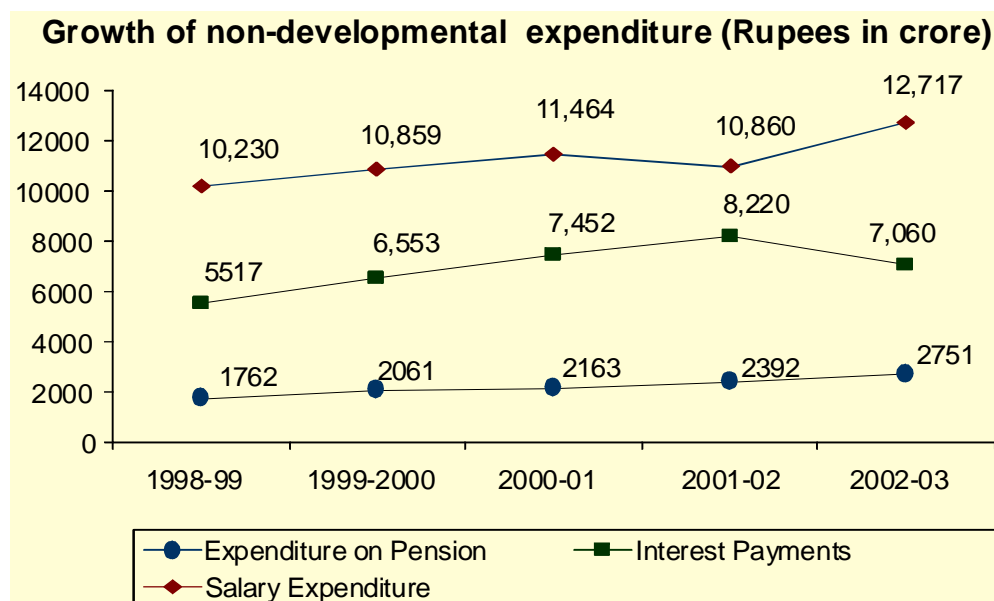
The Eleventh Finance Commission (August 2000) has recommended that as a medium term objective, states should endeavour to keep interest payment as a ratio to revenue receipts to 18 *per cent*. It was however observed that interest payments as percentage of revenue receipts ranged between 25 and 32 during the last five years.

**Table 10 : Interest Payments**

<b>Year</b>	<b>Interest Payment (Rupees in crore)</b>	<b>Percentage of interest payment with reference to</b>	
		<b>Revenue Receipts</b>	<b>Revenue Expenditure</b>
1998-99	5517	32	21
1999-2000	6553	30	23
2000-01	7452	30	24
2001-02	8220	32	26
2002-03	7060	25	21

In absolute terms, interest payments increased by 28 *per cent* from Rs. 5517 crore in 1998-99 to Rs. 7060 crore in 2002-03 primarily due to continued reliance on borrowings for financing the fiscal deficit. There was, however a decline in interest payments in 2002-03 due to softening of interest rates.

Growth of non-developmental expenditure (Rupees in crore)



### 1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, the quality of expenditure is deemed to be better. Table 11 below gives the percentage share of these components of expenditure in the State's total expenditure

**Table 11: Quality of expenditure (per cent to total expenditure\*)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan Expenditure	20.26	19.40	19.09	17.63	18.88	18.99
Capital Expenditure	7.44	8.10	9.53	10.06	10.33	9.19
Developmental Expenditure	55.71	54.06	52.34	51.25	53.51	53.26

\* Total expenditure exclude expenditure on loans and advances.

Except Capital Expenditure, which showed a marginal improvement from 7.44 per cent in 1998-99 to 10.33 per cent in 2002-03, other two components of expenditure showed a relative decline during 1998-2003.

Out of the developmental expenditure (Rs. 19655 crore), social services (Rs. 10596 crore) accounted for 54 per cent of the developmental expenditure during the year. General Education, Health and Family Welfare and Water and Sanitation consumed nearly four-fifths (78 per cent) of the expenditure on Social Sector.

**Table 12 : Social Sector Expenditure**

(Rupees in crore and GSDP in brackets)

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Education	5761(3.99)	5734(3.53)	6173(3.41)	6088(3.25)	6137(3.02)
Medical and Public Health	1292(0.90)	1333(0.82)	1459(0.81)	1377(0.74)	1579(0.78)
Water Supply and Sanitation	572(0.40)	425(0.26)	399(0.22)	710(0.38)	515(0.25)
<b>Total</b>	<b>7625</b>	<b>7492</b>	<b>8031</b>	<b>8175</b>	<b>8231</b>

Similarly, the expenditure on Economic Services (Rs. 9059 crore) accounted for 46 *per cent* of the developmental expenditure. Of which, Rural development (Rs. 2040 crore), Irrigation and Flood Control (Rs. 2265 core), Transport (Rs. 1554 crore) and Agriculture and Allied activities (Rs..1915 crore) accounted for 86 *per cent* of the expenditure on Economic services.

**Table 13 : Economic Sector Expenditure**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Agriculture and allied activities	1156.53	2184.57	1733.18	2324.06	1914.93
Rural Development	1235.90	1944.54	1854.38	1827.60	2040.24
Irrigation and flood control	1855.13	1778.04	2153.13	2108.15	2265.02
Transport	1035.18	978.53	1145.79	782.85	1554.05
<b>Total</b>	<b>5282.74</b>	<b>6885.68</b>	<b>6886.48</b>	<b>7042.66</b>	<b>7774.24</b>

### ***1.7.1 Financial assistance to local bodies and other institutions***

Autonomous bodies and authorities are set up to discharge generally non-commercial functions. These bodies/authorities are registered/ established under the respective State and Central Acts and receive substantial government grants which are intended essentially for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospitals buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different local bodies etc. during the period of five years ending 2002-03 was as follows:

**Table 14 : Financial Assistance to Local Bodies and other Institutions**

(Rupees in crore)

Sl. No.	Name of institutions	1998-99	1999-2000	2000-01	2001-02	2002-03
1.	Universities and Educational Institutions	5026.40	2486.06	849.06	147.42	1.64
2.	Energy	---	1005.14	294.01	88.56	277.57
3.	Agriculture, Land Reform and Forestry	---	593.19	738.75	34.01	0.05
4.	Municipal Corporations and Municipalities	566.04	860.90	1084.63	50.89	77.40
5.	Hospitals and Charitable Institutions	308.72	300.23	390.84	60.26	37.62
6.	Development Agencies	218.32	1005.59	29.53	1300.62	---
7.	Labour and Industry	---	216.51	350.58	171.25	157.56
8.	Co-operative	---	45.03	43.86	47.18	.---
9.	Animal Husbandry, Dairy Development and Fisheries	---	5.54	17.30	9.91	5.00
10.	Sugar and Cane	---	---	---	124.63	201.69
11.	Zila Panchyat Parishad and Panchayati Raj Institutions	7.08	---	---	---	---
12.	Others	2472.92	3.31	40.00	4.13	---
	<b>Total</b>	<b>8599.48</b>	<b>6887.50</b>	<b>3838.56</b>	<b>2038.86</b>	<b>758.53</b>
	<b>Percentage of growth over previous year</b>	<b>(-) 2</b>	<b>(-) 20</b>	<b>(-) 44</b>	<b>(-) 47</b>	<b>(-) 63</b>
	<b>Assistance as percentage of revenue expenditure</b>	<b>33</b>	<b>24</b>	<b>12</b>	<b>7</b>	<b>2</b>

### **Delay in furnishing of Utilisation Certificates**

Of the 2410 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs. 2476.22 crore paid upto 2001-02, 1070 utilisation certificates for Rs. 2090.41 crore were furnished and 1340 utilisation certificates for Rs. 385.81 crore were awaited as of August 2003.

### **Delay in submission of Accounts**

Under Section 14 of the C.A.G's (DPC) Act 1971, where any body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State, the CAG shall audit all receipt and expenditure of that body or authority and report on the receipts and expenditure audited by him. Besides, under section 15 CAG, scrutinises the procedures by which the sanctioning authority satisfies itself as to the fulfilment of the conditions subject to which grant or loans is given for any specific purpose from the Consolidated Fund of India or of any State to any authority or body not being a foreign State or international organization.

Government/Heads of Departments were requested to furnish to Audit detailed information in a specified proforma\* about the financial assistance given to various institutions. Information called for in 2002-03 for the year 2001-02 was however, awaited from 12 departments as of August 2003 as indicated below:

\* Indicating opening balance, receipt of Government grant/loan and own receipts separately, expenditure and closing balance of Government grants/loans and own receipts during the year.

**Table 15 : Delay in submission of accounts**

<b>Sl. No.</b>	<b>Name of Department</b>	<b>Year from which information had not been furnished</b>
1.	Education (Universities)	1997-98
2.	Industries	1996-97
3.	Dairy Development	1997-98
4.	Fisheries	1993-94
5.	Sugarcane	1995-96
6.	Medical Education and Training	1993-94
7.	Family Welfare	1993-94
8.	Social Welfare	1997-98
9.	Zila Panchayat Parishad	1998-99
10.	Science and Technology	1997-98
11.	Energy	1993-94
12.	Area Development	1998-99

**Statutory audit arrangements.**

Statutory Audit of Development Authorities, Municipal Corporations, Government aided Degree Colleges, Universities etc, is conducted by the Director, Local Fund Accounts. Audit of Co-operative Societies and Panchayats is conducted by the Chief Auditor, Co-operative Societies and Panchayats.

For the period 1999-2000 to 2001-02 statutory audit of Co-operative Societies was in arrears, which ranged between 61.12 *per cent* and 64.03 *per cent* as per details furnished below:

**Table 16 : Statutory audit arrears**

<b>Year</b>	<b>No. of units</b>	<b>Units in arrear</b>	<b>Percentage</b>
1999-2000	15500	9474	61.12
2000-2001	14101	9029	64.03
2001-2002	13295	8290	62.35

Besides, under section 8(3) of Uttar Pradesh, Local Fund Accounts Act, 1984, Director, Local Fund Accounts was required to submit his Audit Report, on the accounts of Development Authorities, Municipal Corporations, Universities etc., annually to the State Legislature. The last such Audit Report tabled till June, 2003 was for the year 1996-97.

The Comptroller & Auditor General of India (CAG) also conducts audit of accounts of corporations/bodies/authorities when such audit is entrusted to him. The audit of Khadi and Village Industries Board (KVIB) Lucknow was entrusted to CAG of India. The accounts after audit, were required to be submitted to the Legislature. The last audit report on KVIB issued by the CAG pertained to the year 1997-98. For the last four years 1998-99 to 2001-02, the KVIB has not been able to furnish its accounts for audit by CAG. Accounts are



instruments for financial control. Prolonged delay in finalisation and submission of these accounts is fraught with risks. The possibility of fraud and embezzlement can not also be ruled out.

**1.7.2 Misappropriation, defalcations etc.**

There were 2196 cases of misappropriation, defalcations etc. of Government money amounting to Rs..394.15 crore which came to notice during the transaction audit of various departments and also reported by the Government. These cases pertained to the period from 1994-95 to 2003-03 are shown below:

**Table 17 : Misappropriation, defalcation cases**

(Rupees in crore)

Sl. No.	Department	No. of cases	Amount
1	Medical	281	21.82
2	Cooperative	1	0.85
3	Home guard/Police/PAC	1800	359.97
4	Education	68	9.97
5	Sports	3	0.29
6	Employment	8	0.47
7	Art and culture	4	0.60
8	Irrigation	31	0.18
	<b>Total</b>	<b>2196</b>	<b>394.15</b>

**1.8 Assets & Liabilities**

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-1.1* presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government.

The liabilities of Government of Uttar Pradesh depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comforts issued by the State Government. *Appendix- 1.4* depicts the Time Series Data on State Government Finances for the period 1998-2003.

**1.8.1 Financial results of irrigation works**

The financial results of 16 major irrigation projects as reported by the Government with a capital outlay of Rs. 3807.65 crore at the end of March 2003 showed that revenue realized from these projects during 2002-2003 (Rs. 10.97 crore) was negligible (0.29 *per cent*) compared to the capital outlay which was not sufficient to cover even the direct working expenses (Rs. 96.28 crore) during 2002-03. After meeting the working and maintenance expenditure (Rs. 97.24 crore) and interest charges (Rs. 195.84 crore), the schemes suffered a net loss of Rs. 282 crore.

**1.8.2 Incomplete projects**

As per information received from the State Government, as of 31 March 2003, there were 27 incomplete projects costing more than rupees one crore in which Rs. 2073.14 crore were blocked as shown below:

**Table 18 : Incomplete Projects**

(Rupees in crore)

Sl. No.	Name of Department	Number of Projects	Original Estimated Cost	Revised Estimated Cost	Expenditure incurred up to March 2003	Percentage of Cost escalation due to time overrun ( <i>Per cent</i> )
1	Irrigation	9	1939.17	5029.17	1963.81	159.35
2	PWD	18	132.03	145.39	109.33	10.12
	<b>Total</b>	<b>27</b>	<b>2071.20</b>	<b>5174.56</b>	<b>2073.14</b>	<b>58.43</b>

Consequently, expenditure of Rs. 2073.14 crore (March 2003) on these projects remained unproductive besides non-achievements of the intended benefit. The maximum cost escalation (159.35 *per cent*) related to major and medium irrigation projects.

**1.8.3 Investments and returns**

As on 31 March 2003, Government had invested Rs. 9049.70 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was not only meagre (less than one *per cent*), it was also on a continuous decline as indicated in Table 19 below :

**Table 19 : Return on Investment**

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing ( <i>per cent</i> )
1998-1999	2357.72	4.46	0.19	9.55
1999-2000	2413.59	5.05	0.21	9.50
2000-2001	3962.89	6.27	0.16	9.58
001-2002	4033.27	6.24	0.15	9.49
2002-2003	9049.70*	7.26	0.08	7.22

\* Includes Rs. 4044.60 crore pending reconciliation.

### **1.8.4 Loans and advances by State Government**

In addition to its investment, Government has also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs. 18965 crore as on 31 March 2003 (Table 20). Overall, interest received against these advances declined to 0.22 *per cent* during 2002-03.

**Table 20 : Average Interest Received on Loans Advanced by the State Government**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening Balance	15444	16284	17596	18218	18379
Amount advanced during the year	1602	1575	918	527	805
Amount repaid during the year	762	263	296	366	219
<b>Closing Balance</b>	<b>16284</b>	<b>17596</b>	<b>18218</b>	<b>18379</b>	<b>18965</b>
Net Addition (+) / Reduction (-)	840	1312	623	161	586
Interest Received (Rupees in crore)	51	82	39	51	42
Interest received as <i>per cent</i> to outstanding Loans and Advances	0.31	0.47	0.21	0.28	0.22
Average rate of interest paid by the State	9.55	9.50	9.58	9.49	7.22
Difference between interest paid and received	(-) 9.24	(-) 9.03	(-) 9.37	(-) 9.21	(-) 7.00

### **1.8.5 Commercial activities**

#### **Lack of accountability for the use of public funds in departmental commercial undertakings**

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that the Government can assess the results of their working. The Heads of Departments in the Government are to ensure that the undertakings, which are funded by the budgetary release, prepare the accounts on timely basis and submit the same to Accountant General for audit.

As of March 2003, there were 11 such undertakings in the Government of Uttar Pradesh. Of these, only three\* undertakings finalised their accounts upto 2002-03. Further, among eight undertakings where the accounts were in arrears, one undertaking† did not prepare its accounts since inception. Rupees 1939.84 lakh had been invested by the State Government in these 11 undertakings at the end of the financial year up to which their accounts were completed.

\* IWD: Bareilly, Kanpur and Allahabad

† Erection Division, Faizabad

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The department-wise position of preparation of accounts in respect of these undertakings was as follows:

**Table 21 : Position of preparation of accounts in departmental commercial undertakings**

Sl. No.	Department	Accounts not finalised (name of undertakings)	Year from which accounts are due	Investment as per last accounts (Rupees in lakh)	Remarks
1	Food and Civil Supplies	Scheme for public distribution system of foodgrains	2000-01	991.77	Investment represents balance of capital account plus reserved fund for capital works
2	Animal Husbandry	Consolidated accounts of Government Live Stock and Agriculture Farms	1998-99	187.29	
3	Irrigation	Irrigation Workshop Division, Meerut	2002-03	20.01	
		Irrigation Workshop Division, Jhansi	2002-03	68.54	
		Irrigation Workshop Division, Bareilly	---	301.91	Accounts are due up-to-date( 2002-03)
		Irrigation Workshop Division, Kanpur	---	12.54	Accounts are due up-to-date( 2002-03)
		Irrigation Workshop Division, Allahabad	---	202.19	Accounts are due up-to-date (2002-03)
		Irrigation Workshop Division, Gorakhpur	2002-03	142.76	Accounts prepared since 1987-88 without details about opening balances
		Erection Division, Faizabad	1985-86	---	Accounts not prepared since inception
4	Samaj Kalyan	Criminal Tribes Settlement Tailoring Factory (Kanpur)	1980-81	3.67	
5	Health	State Pharmacy of Ayurvedic and Unani medicines	1988-89	9.16	
			<b>Grand Total</b>	<b>1939.84</b>	

It would be seen that the undertaking relating to Samaj Kalyan Department had not prepared its accounts for more than 20 years whereas two undertakings relating to Health Department and Irrigation Department had not prepared their accounts for more than 10 years.

### 1.8.6 Management of Cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank a minimum balance of Rs. 4.71 crore on all days. In 2002-03, this minimum balance fell short on 115 days for which Government took ways and means advances (Rs. 7663.83 crore) from RBI. Resort to overdraft (OD), which is over and above the WMA limits, is all the more undesirable. The State used the OD facilities for 88 days during the year. Both WMA (Rs. 7663.83 crore) and over draft (Rs. 3753.64 crore) taken during the year were fully repaid by the Government. In a nutshell, the State managed its cash requirements in a much better manner this year than in the previous year.

**Table 22: Ways and Means and Overdrafts of the State and Interest paid thereon**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>Ways and Means Advances</b>						
Taken in the Year	3849.53	5723.94	2217.57	6146.49	7663.83	5120.27
Outstanding	530.80	620.74	609.82	746.12	-----	-----
Interest Paid	19.68	40.79	27.56	21.70	28.67	27.68
<b>Overdraft</b>						
Taken in the Year	4589.33	11395.94	7696.62	3282.11	3753.64	6143.53
Outstanding	39.81	1604.71	-----	-----	-----	-----
Interest Paid	7.06	16.58	12.04	4.79	4.31	8.96
Number of Days State was in Overdraft	133	237	161	88	88	141

### 1.8.7 Undischarged Liabilities

#### Fiscal liabilities – public debt and guarantees

The Constitution of India provides that 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 an Act of Legislature. A Fiscal Responsibility and Budget Management Act has been passed in February 2004, which indicates the resolution of the Government to reduce the fiscal deficit to not more than 3 per cent of the estimated GSDP within a period of five years. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

It would be observed that the overall fiscal liabilities of the State increased from Rs. 62725 crore in 1998-99 to Rs. 102485 crore in 2002-03 at an average growth rate of 13.92 per cent. These liabilities as ratio to GSDP increased from 43.5 per cent in 1998-99 to 50.5 per cent in 2002-03 and stood at over three and a half times of its revenue receipts and seven times its own resources comprising its own tax and non-tax revenue.

Table 23 below gives the fiscal Liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

**Table 23 : Fiscal Imbalances–Basic Parameters**

(Rupees in crore and Ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Fiscal Liabilities	62725	75291	80331	92982	102485	82763
Rate of growth	18.79	20.03	6.69	15.75	10.22	13.92
<b>Ratio of Fiscal Liabilities to</b>						
GSDP	43.5	46.4	44.4	49.7	50.5	47.2
Revenue Receipts	360.9	350.3	324.7	363.2	368.4	352.8
Own Resources	668.2	659.7	621.5	767.4	698.1	679.6
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	1.708	1.608	0.581	4.601	1.213	1.495
Revenue Receipts	*	0.846	0.443	4.558	1.177	1.285
Own Resources	1.420	0.928	0.505	*	0.483	1.317

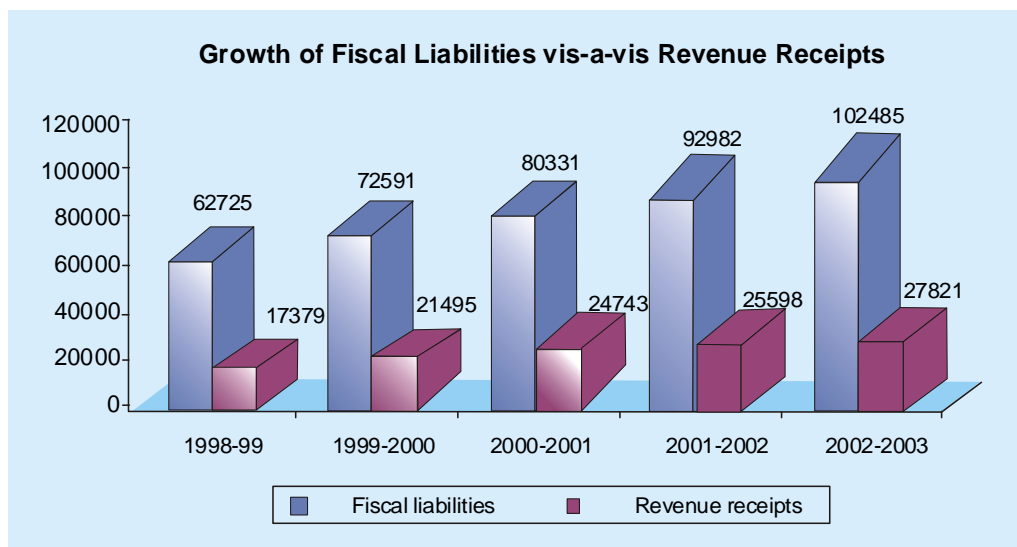
\* Revenue Receipts in 1998-99 and own resources in 2001-02 had a negative growth.

In addition to these liabilities, Government had guaranteed loans of its various Corporations and others, which in 2002-03 stood at Rs. 6270 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities exceed three times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP. Increasing liabilities had raised the issue of sustainability of State Government. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 24.

**Table 24 : Debt Sustainability – Interest Rate and GSDP Growth  
(in per cent)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>Weighted Interest Rate</b>	9.55	9.50	9.58	9.49	7.22	9.07
<b>GSDP Growth</b>	11.00	12.45	11.53	3.42	8.42	9.31
<b>Interest spread</b>	1.45	2.96	1.95	(-)6.06	1.20	0.24



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

The State Government raised market loans of Rs. 3411.00 crore during the year. The weighted average rate of market borrowings (Rs. 3411 crore) during the year was 7.22 per cent. Further, borrowed Rs. 5074.44 crore from National Small Saving Fund and Rs. 3107.91 crore from Government of India. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined steeply from 29 per cent to 6 per cent during 1998-2003.

Table 25 below gives the position of the receipts and repayments of internal debt over the last 5 years.

**Table 25: Net Availability of Borrowed Funds**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>Internal Debt*</b>						
Receipts	2792	3560	6734	7935	9282	6061
Repayments (Principal + Interest)	1960	2208	2641	4467	3895	3034
Net Funds Available	832	1352	4093	3468	5387	3026
Net Funds Available (per cent)	30	38	61	44	58	50
<b>Loans and Advances from Government of India</b>						
Receipts	5687	5834	3317	2757	3106	4140
Repayments (Principal + Interest)	4068	4847	5080	5378	7747	5424
Net Funds Available	1619	987	(-1763)	(-2621)	(-4641)	(-1284)
Net Funds Available (per cent)	28	17	(-53)	(-95)	(-149)	(-31)

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<b>Total Public Debt</b>						
Receipts	8479	9394	10051	10692	12388	10201
Repayments (Principal + Interest)	6028	7055	7721	9845	11642	8458
Net Funds Available	2451	2339	2330	847	746	1742
Net Funds Available (per cent)	29	25	23	8	6	17

\* Internal debt excluding ways and means advances

### **1.9 Management of deficits**

#### **1.9.1 Fiscal imbalances**

The deficits in Government accounts represent 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 so raised are applied are important pointers to the fiscal health.

The Revenue deficit (Statement 1 of Finance Account) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs. 8696 crore in 1998-99 to Rs. 5118 crore in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, also decreased from Rs. 11633 crore in 1998-99 to Rs. 9497 crore in 2002-03. State also had a primary deficit decreasing from Rs. 6116 crore in 1998-99 to Rs. 2437 crore in 2002-03.

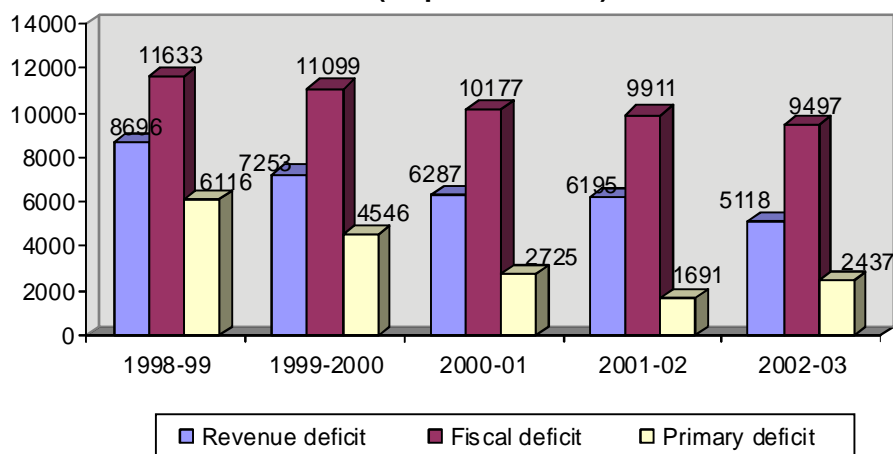
**Table 26 : Fiscal Imbalances – Basic Parameters**

(Value: Rupees in crore and Ratios in per cent)

	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>Average</b>
Revenue deficit	8696	7253	6287	6195	5118	6710
Fiscal deficit	11633	11099	10177	9911	9497	10463
Primary Deficit	6116	4546	2725	1691	2437	3503
RD/GSDP	6.03	4.47	3.47	3.31	2.52	3.82
FD/GSDP	8.06	6.84	5.62	5.30	4.68	5.96
PD/GSDP	4.24	2.80	1.51	0.90	1.20	2.00
RD/FD	74.75	65.35	61.78	62.51	53.89	64.13



### Fiscal Imbalances (Rupees in crore)



The ratio of revenue deficit to fiscal deficit has however decreased from 74.75 *per cent* in 1998-99 to 53.89 *per cent* in 2002-03. As proportion to GSDP, revenue deficit had decreased from 6.03 in 1998-99 to 2.52 *per cent* in 2002-03 and fiscal deficit from 8.06 in 1998-99 to 4.68 *per cent*. Notwithstanding these improvements, persistent revenue deficit indicated that the revenue receipts of the State were not able to meet its revenue expenditure because of poor tax administration and Government had to borrow funds to meet its current obligations.

#### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 26 below presents a summarized position of Government finances over 1998-2003, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. Revenue receipts comprise not only the tax and non-tax resources of the State but also the transfers from Union Government. It indicates sum total of the resources which the State has access to, for which there is no direct services provision obligations recovery of users charges for the social and economic services provided by it and its entitlement from the central pool of resources. These ratios, show an improvement during 1998-2003 indicating mobilization of resources and its sustainability.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilization. The ratio of revenue expenditure to total expenditure in the last five years almost remained constant and ranged between 87.49 and 88.62 *per cent* whereas Developmental expenditure to total expenditure declined in 2002-03 as compared to 1998-99 and 1999-2000. The capital expenditure as percentage to total expenditure has however increased to 10.33 *per cent* in 2002-03.

**Table 27 : Ratios of Fiscal Efficiency (in per cent)**

<b>Fiscal Ratios</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>Average</b>
<b>Resources Mobilization</b>						
Revenue Receipts/GSDP	12.05	13.25	13.67	13.68	13.71	13.34
Revenue Buoyancy	(-)0.099	1.902	1.311	1.010	1.031	1.163
Own Tax/GSDP	5.48	5.79	6.07	5.52	6.29	5.86
<b>Expenditure Managements</b>						
Total Expenditure/GSDP	20.64	20.25	19.46	19.17	18.50	19.52
Revenue Receipts/ Total Expenditure	70.04	76.47	71.64	74.01	73.99	73.23
Revenue Expenditure/Total Exp.	87.58	87.49	88.11	88.62	87.75	87.93
Capital Expenditure/TE	7.44	8.10	9.53	10.06	10.33	9.19
Developmental Expenditure/TE	55.71	54.06	52.34	51.25	53.51	53.26
Buoyancy of TE with RR	(-)15.444	0.437	0.475	0.542	0.533	0.702
Buoyancy of RE with RR	(-)15.998	0.433	0.525	0.712	0.415	0.725
<b>Management of Fiscal Imbalances</b>						
Revenue deficit (Rs in crore)	(-)8696	(-)7253	(-)6287	(-)6195	(-)5118	(-)6710
Fiscal deficit (Rs in crore)	(-)11633	(-)11099	(-)10177	(-)9911	(-)9497	(-)10463
Primary Deficit (Rs in crore)	(-)6116	(-)4546	(-)2725	(-)1691	(-)2437	(-)3503
Revenue Deficit/Fiscal Deficit	(-)74.75	(-)65.35	(-)61.78	(-)62.51	(-)53.89	(-)64.13
<b>Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	43.5	46.4	44.4	49.7	50.5	47.2
Fiscal Liabilities/RR	360.9	350.3	324.7	363.2	368.4	352.8
Buoyancy of FL with RR	(-)17.192	0.846	0.443	4.558	1.177	1.285
Buoyancy of FL with OR	1.420	0.928	0.505	(-)2.519	0.483	1.317
<b>Other Fiscal Health Indicators</b>						
Return on Investment	4.46	5.05	6.27	6.24	7.26	5.86
BCR <sup>▼</sup> (Rs in crore)	(-)7145	(-)5438	(-)3895	(-)4147	(-)1918	(-)4509
Financial Assets/Liabilities	0.61	0.57	0.57	0.56	0.55	0.57

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large revenue and fiscal deficit year after year, together with low or

▼ Balance from the current revenues.

no return on investments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicates its increasing unsustainability. There has also been a decline in net availability of funds for infrastructural development from its borrowings as a larger portion of these funds was being used for debt servicing and on establishment expenditure. The State's continuous declining low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. The ratio of State's total financial assets to liabilities has declined in 2002-03, a greater part of liabilities are still without an asset back-up. This indicates that either the State has to generate more revenue out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance of current revenue (BCR) of the State has also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of funds for additional infrastructure support and other revenue generating investment.