

Profile of Uttar Pradesh

Uttar Pradesh is the fifth largest State of India; it covers an area of 2.41 lakh square kilometer with a population of 19.96 crore as per 2011 census. In the last decade, the density of population in Uttar Pradesh has also increased from 690 persons per square km to 828 persons (**Appendix 1.1**).

Uttar Pradesh has a lower literacy rate, life expectancy at birth and higher infant mortality rate and more population below poverty line (BPL) when compared to All India average. The GSDP growth of the state stood at a lower rate of 13.35 *per cent* in the last decade as compared to the average GSDP growth of General Category States of 14.68 *per cent*. The per capita income growth in Uttar Pradesh has been lower than that of the General Category States in the current decade.

1.1 Introduction

This chapter provides an audit perspective of the finances of the Government of Uttar Pradesh during the year 2010-11 and analyses changes observed in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis is based on Finance Accounts of the Government and information provided by it. The structure of Government Accounts has been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is depicted in **Appendix 1.2 Part B**.

In February 2004, Government of Uttar Pradesh responded to the Twelfth Finance Commission's recommendations by legislating its 'Fiscal Responsibility and Budget Management Act' (FRBM) and setting out a reform agenda of long-term goal of securing growth with stability for its economy. The Government has also responded to the Thirteenth Finance Commission's recommendations and amended its FRBM Act 2004 and developed its own fiscal consolidation path for the year 2011-12 to 2014-15 to reduce fiscal deficit and total liabilities.

A summary of Fiscal Responsibility and Budget Management Act, 2004 and Uttar Pradesh Fiscal Responsibility and Budget Management (Second Amendment) Act, 2011 of the State are given in **Appendix 1.3.1** and **Appendix 1.3.2** respectively.

1.2 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11), *vis-à-vis*, previous year (2009-10), while **Appendix 1.5** presents abstract of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2009-10	2010-11		2009-10	2010-11		
Section A	Total	Total	Section A	Total	Non plan	Plan	Total
Revenue Receipts	96,420.95	1,11,183.76	Revenue expenditure	89,373.61	86,636.08	21,039.53	1,07,675.61
Tax revenue	33,877.60	41,109.85	General services	40,641.30	47,031.83	987.34	48,019.17
Non-Tax Revenue	13,601.09	11,176.21	Social services	32,064.28	23,737.14	15,829.56	39,566.70
Share of Union Taxes/ Duties	31,796.67	43,464.05	Economic services	13,308.00	11,502.40	4,222.63	15,725.03
Grants from GoI	17,145.59	15,433.65 ¹	Grants-in-aid and Contributions	3,360.03	4,364.71	-	4,364.71
Section B			Section B				
Miscellaneous Capital Receipts	-	-	Capital Outlay	25,091.23	691.72	19,581.08	20,272.80
Recoveries of Loans and Advances	293.08	485.17	Loans and Advances disbursed	941.85	350.94	617.28	968.22
Public Debt Receipts ²	22,489.07	21,394.08	Repayment of Public Debt	7,668.59	7,383.08	-	7,383.08
Contingency Fund	82.82	-	Contingency Fund	-	39.90	-	39.90
Public Account Receipts	99,907.88	1,27,649.22	Public Account disbursements	1,01,780.30	1,17,472.99	-	1,17,472.99
Opening Cash Balance	9,067.14	3,405.36	Closing Cash Balance	3,405.36	10,304.99	-	10,304.99
Total	2,28,260.94	2,64,117.59	Total	2,28,260.94	2,22,879.70	41,237.89	2,64,117.59

Source: Finance Account

Following are the significant changes during 2010-11 over the previous year:

- **Revenue receipts** grew by ₹ 14,762.81 crore (15 per cent) over the previous year. The increase was mainly contributed by tax revenue (₹ 7,232.25 crore; 21 per cent), and share of union taxes (₹ 11,667.38 crore; 37 per cent). Revenue receipts of ₹ 1,11,183.76 crore were very close to the normative projections made in the Mid Term Fiscal Restructuring Policy, 2011 (₹ 1, 11,620.61 crore).
- **Tax Revenue** increased by ₹ 7,232 crore (21 per cent) over the previous year. The increase was mainly contributed by the taxes on sales, trade etc. (₹ 4,012 crore; 19 per cent), state excise (₹ 1,057 crore; 19 per cent) and stamps and

¹ Includes Grants for centrally sponsored plan scheme of ₹ 5133.43 crore² Including net transactions under ways and means advances of ₹ 713.88 crore.

registration fees (₹ 1,413 crore; 31 *per cent*) over the previous year. The tax revenue at ₹ 41,110 crore significantly exceeded the normative assessment made by the Thirteenth Finance Commission (₹ 37,304 crore)

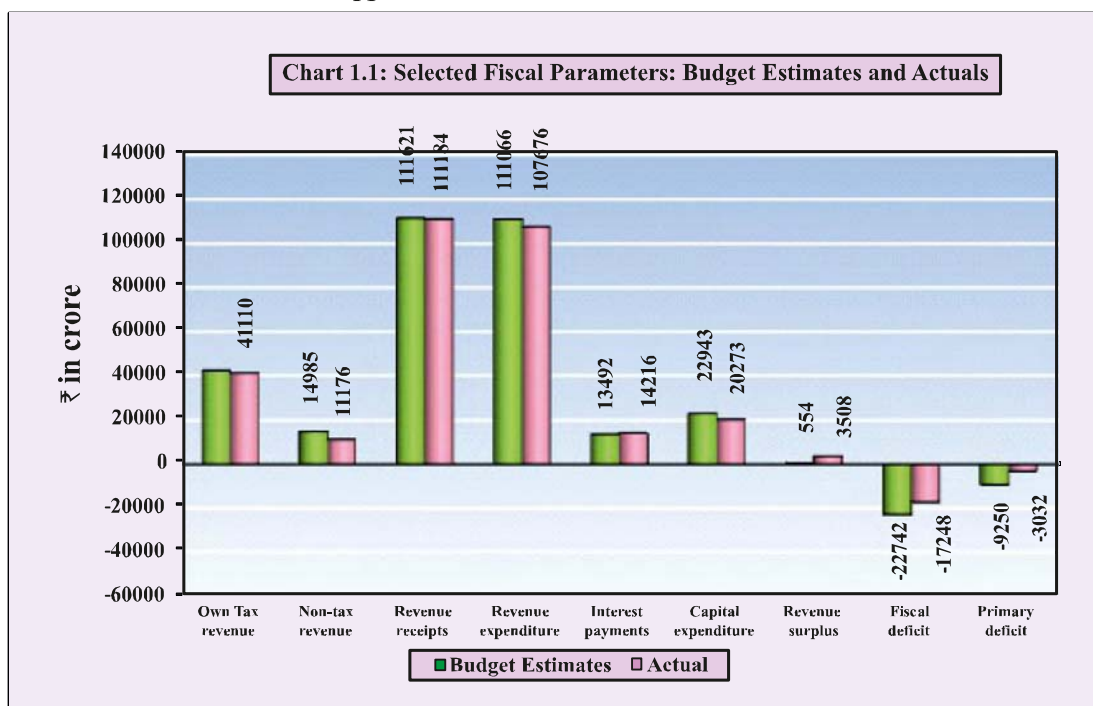
- **Non-tax revenue** decreased by ₹ 2,425 crore (18 *per cent*) over the previous year. It was however higher than the normative projection made in Thirteenth Finance Commission (₹ 3,577 crore) and lower than the projection of Mid Term Fiscal Restructuring Policy (₹ 3,809 crore). This was mainly due to decrease in miscellaneous general services (₹ 2,954 crore; 37 *per cent*) and power (₹ 79 crore; 46 *per cent*) partly offset by the increase under education, sports, art and culture by ₹ 274 crore.
- **Grants-in-aid** from Government of India decreased by ₹ 1,712 crore (10 *per cent*) over the previous year. Grants-in-aid from Government of India were ₹ 15,433.65 crore against the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 18,812 crore).
- **State's Share** in Union taxes and duties increased by ₹ 11,667 crore (37 *per cent*) over the previous year. The share (₹ 43,464 crore) was higher by ₹ 7,947 crore (22 *per cent*) the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 35,517 crore).
- **Revenue expenditure** increased by ₹ 18,302 crore (20 *per cent*) over the previous year. However it was lower than the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 1, 11,066 crore).
- **Within revenue expenditure**, non-plan expenditure increased by ₹ 12,964 crore (18 *per cent*) and plan expenditure increased by ₹ 5,338 crore (34 *per cent*) over the previous year. Non-plan revenue expenditure was far ahead of the Thirteenth Finance Commission normative projections by ₹ 26,830 crore (45 *per cent*).
- **Capital expenditure** decreased by ₹ 4,818 crore (19 *per cent*) over the previous year mainly due to huge reduction in Capital outlay in Agriculture and Allied activities and Energy under Economic Services. It was even lower than the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 22,943 crore).
- **Recovery of Loans and Advances** increased by ₹ 192 crore (66 *per cent*) over the previous year which fell short by ₹ 186 crore (28 *per cent*) than the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 671 crore). Disbursement of loans and advances (₹ 968 crore) was also lower than the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹ 1,025 crore).
- **Public Debt receipts** decreased by ₹ 1,095 crore (five *per cent*) over the previous year showed improvement in the State's debt management. Repayment also decreased by ₹ 286 crore over the previous year.
- Significant increase in **Public Accounts Receipt** by ₹ 27,741 crore (28 *per cent*) was observed over the previous year, mainly due to increase of balances under Suspense and Miscellaneous head (89 *per cent*) partly offset by decrease in remittances (38 *per cent*).

- **Public Accounts Disbursement** also registered an increase by ₹ 15,693 crore (15 *per cent*) over the previous year.
- **Cash balances** at the close of 2010-11 (₹ 10,305 crore) increased by ₹ 6,900 crore (203 *per cent*) from the level of ₹ 3,405 crore in the previous year. Of this ₹ 9,878 crore was invested in the Government of India Treasury bills and ₹ 45 crore in the Government of India securities.

1.3 Budget estimates and actuals

The budget presented by the Government provides estimated revenue receipts and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue receipts and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of desired fiscal objectives. It may be because of unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the Budget stage. Actual realization of revenue and its disbursement, however, depends on a variety of internal and external factors.

The budgeted and actual figures for some important fiscal parameters for the year 2010-11 are shown in **Chart 1.1** and **Appendix 1.6**.



Source: Budget and Finance Accounts

- During 2010-11, the actual **revenue receipts** (₹ 1,11,183.76 crore) were almost equal to the budget estimates (₹ 1,11,620.61 crore) while actual revenue expenditure fell short of ₹ 3,390.60 crore (three *per cent*) over budget estimates resulting in an increase of revenue surplus by ₹ 3,508 crore.

- The actual collection of **Own Tax Revenue** during the year also decreased by ₹ 1,196 crore (three *per cent*) over the budget estimates for the year mainly due to decrease in collection of taxes on sales, Trade etc. by ₹ 2,142 crore (eight *per cent*) and goods and passengers by ₹ 678 crore (74 *per cent*) over the budget estimates.
- **Non-tax revenue** for the year also decreased by ₹ 3,809 crore (25 *per cent*) over the budget estimates for the year mainly due to decrease in collection of miscellaneous general services by ₹ 1,997 crore (28 *per cent*) and interest receipts by ₹ 540 crore (44 *per cent*).
- The decrease in **Revenue Expenditure** during the current year was due to less expenditure under social services by ₹ 2,554 crore (six *per cent*) and economic services by ₹ 423 crore (three *per cent*).
- During the year 2010-11, **Interest payments and servicing** exceeded by ₹ 609 crore (three *per cent*) the budget estimates of ₹ 20,929 crore.
- **Capital Expenditure** vis-à-vis budget estimates fell short by ₹ 2,670 crore (12 *per cent*). It was mainly due to less expenditure on general services by ₹ 301 crore (23 *per cent*), social services by ₹ 317 crore (six *per cent*) and economic services by ₹ 2,052 crore (12 *per cent*).
- **Revenue Surplus** was considerably higher by ₹ 2,954 crore (533 *per cent*) over the estimated budget projections (₹ 554 crore).
- **Fiscal Deficit** was less by ₹ 5,494 crore (24 *per cent*) over the estimated budget projections (₹ 22,742 crore).
- **Primary Deficit** was less than the budget projections (₹ 9,250 crore) by ₹ 6,218 crore (67 *per cent*).

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the Government. 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. 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 Government of India as well as accruals from Public Account.

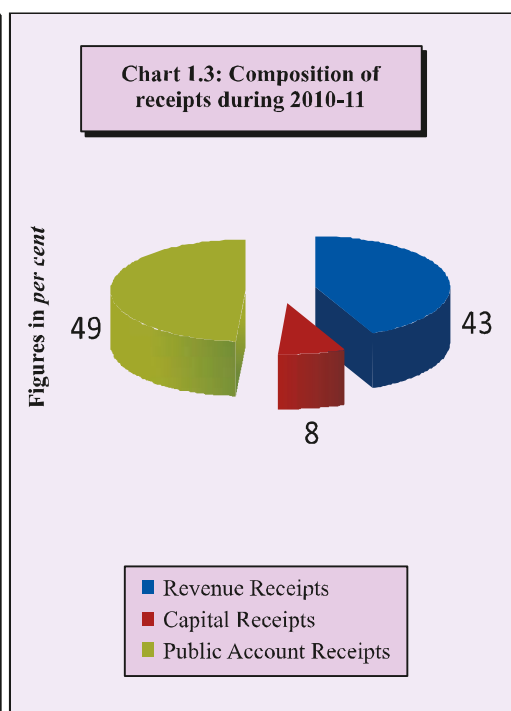
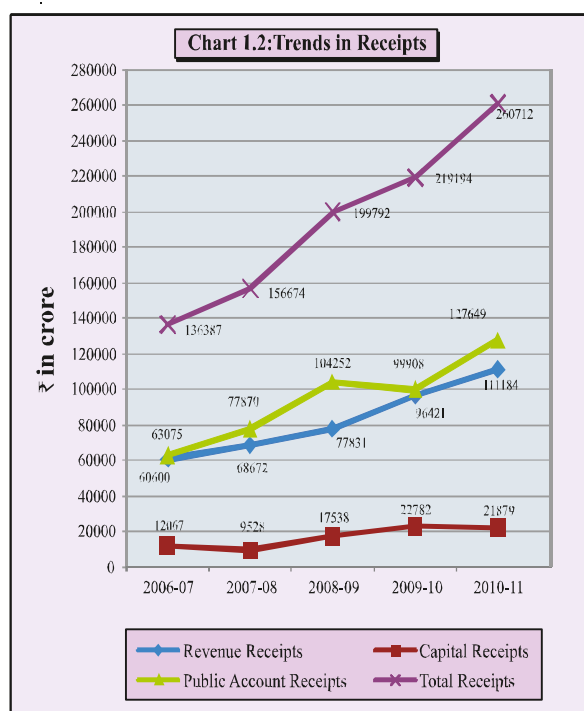
Table 1.2 and **Chart 1.2** depict the trends in various components of the receipts during 2006-11. **Chart 1.3** depicts composition of resources of the State during 2010-11.

Table 1.2: Trends in growth and composition of aggregate receipts

(₹ in crore)

Sources of State's Receipts	2006-07	2007-08	2008-09	2009-10	2010-11
I Revenue Receipts	60,600	68,672	77,831	96,421	1,11,184
II Capital Receipts	12,067	9528	17,538	22,782	21,879
Recovery of Loans and Advances	356	449	778	293	485
Public Debt Receipts	11,711	9,079	16,760	22,489	21,394
Growth rate of debt capital receipts	(-) 18	(-) 22	85	34	(-)5
Growth rate of non-debt capital receipts	(-) 39	26	73	(-) 62	66
Growth rate of GSDP	12.83	14.37	15.27	19.20	19.78
III Contingency Fund	645	604	171	83	-
IV Public Account Receipts	63,075	77,870	1,04,252	99,908	1,27,649
a. Small Savings, Provident Fund, etc.	4,858	5,312	6,511	8,156	9,857
b. Reserve Fund	3,074	4,019	3,628	5,825	8,577
c. Deposits and Advances	15,249	19,450	22,656	17,260	15,560
d. Suspense and Miscellaneous	27,430	35,808	52,278	40,084	75,907
e. Remittances	12,464	13,281	19,179	28,583	17,748
V Total Receipts	1,36,387	1,56,674	1,99,792	2,19,194	2,60,712

Source: Finance Accounts



Source: Finance Accounts

It would be seen from the above that the total receipts of the State increased by 91 per cent from ₹ 1,36,387 crore in 2006-07 to ₹ 2,60,712 crore in 2010-11, of which increase in revenue receipts was by 83 per cent; capital receipts by 81 per cent and Public Account receipts by 102 per cent during the period.

Though there was an increasing trend in total receipts during 2010-11, which registered a growth of 19 *per cent* from ₹ 2,19,194 crore in 2009-10 to ₹ 2,60,712 crore in 2010-11. However, Capital receipts declined by four *per cent* in 2010-11 relative to the year 2009-10. This was attributable to a decline under public debt receipts by five *per cent*.

Public debt receipts, which create future repayment obligations, were 98 *per cent* of total capital receipts in 2010-11.

Public Account receipts registered an increase of 28 *per cent* over the previous year. This was attributable to a massive increase under suspense and miscellaneous head ₹ 35,822.49 crore (89 *per cent*) relative to the year 2009-10.

1.4.2 Funds transferred to State Implementing Agencies outside State Budget

Government of India transfers funds directly to State implementing agencies³ for implementation of various Schemes/Programmes. As these funds are not routed through the State Budget/State treasury system, the annual Finance Accounts do not capture the flow of these funds and to that extent, States receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. The position of transfer of funds directly to State implementing agencies by the Government of India is presented in **Table 1.3**.

Table 1.3: Funds transferred directly by the Government of India to the State implementing agencies

(₹ in crore)

Programme/ Scheme	Implementing agency in the State	2009-10	2010-11
National Rural Health Mission	State Health Society of UP, Lucknow	1,808.67	1,691.21
Total Sanitation Campaign	Department of Panchayati Raj	112.65	225.94
Pradhanmantri Gram Sadak Yojna	UP Rural Roads Development Agency	2,084.51	1,278.83
Indira Avas Yojna	Commissioner Rural Development	814.59	1,151.00
Rural Drinking Water- Accelerated Drinking Water Supply Programme	Jal Nigam UP, Lucknow	536.61	421.60
National Rural Employment Guarantee Act	Commissioner Rural Development	5,318.86	5,266.59
Sarva Shiksha Abhiyan	Project Board UP Education for All	1,960.12	3,104.63
Swarn Jayanti Gram Swarajgar Yojna	Commissioner Rural Development	413.39	222.33
MPs Local Area Development Programme	District Magistrates	155.00	207.00
Integrated Watershed Management Programme	District Rural Development Agencies	147.82	151.73
Integrated Child Development Services	Women and Child Development	141.97	0.00
Others	-	216.00	627.58 ⁴
Total		13,710.19	14,348.44

Source: Finance Accounts

³ State implementing agency includes any organization/institution including non- governmental organization, which is authorized by the State Government to receive funds from GOI for implementing specific programmes in the State, e.g., State Health Society of UP, Lucknow for National Rural Health Mission.

⁴ 2010-11: Assistance to Panchayati Raj Institutions ₹ 0.98 crore; DRDA Administration: ₹ 43.18 crore; Handlooms: ₹ 0.61 crore; International Cooperation S&T: ₹ 0.37 crore; ISOPOM: ₹ 5.17 crore; Medicinal Plant: ₹ 5.08 crore; National Mission on Nano Technology: ₹ 15.34 crore; Research and Development Support: ₹ 477.54 crore; Science and Technology Programme ₹ 5.60 crore; Swarn Jayanti Shahri Rojgar Yojna: ₹ 73.24 crore; Technology Development Programme: ₹ 0.47 crore.

It was observed that the Government of India transferred funds to the extent of ₹ 14,348.44 crore, directly to the State implementing agencies for implementation of various schemes/programmes against ₹ 13,710.19 crore provided in the previous year. A significant increase of ₹ 1,144.51 crore (58 per cent) under *Sarva Shiksha Abhiyan*, ₹ 411.58 crore (191 per cent) under other schemes, ₹ 336.41 crore (41 per cent) under *Indira Awas Yojna* and ₹ 113.29 crore (101 per cent) was under the Sanitation Campaign. Likewise, there was a significant decrease of ₹ 805.68 crore (39 per cent) under *Pradhanmantri Gram Sadak Yojna*, ₹ 191.06 crore (46 per cent) under *Swarn Jayanti Gram Swarojgar Yojna*, ₹ 41.97 crore (100 per cent) under *Integrated Child Development Services* and ₹ 115.01 crore (21 per cent) under Rural Drinking Water- Accelerated Drinking Water Supply Programme.

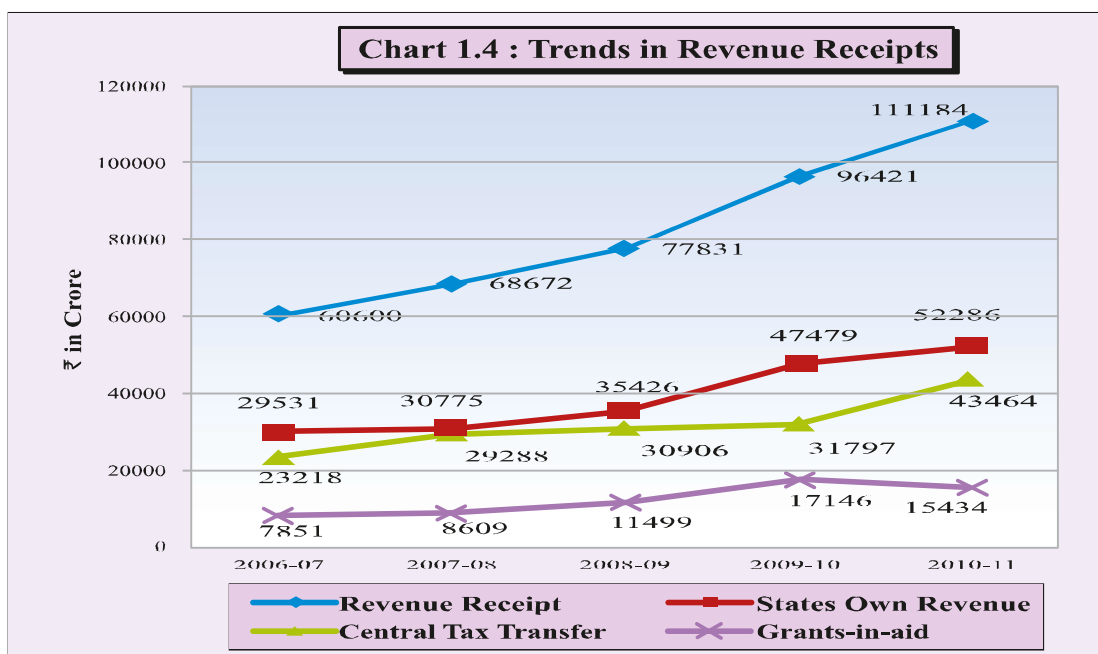
Direct transfer of funds from the Government of India to State implementing agencies runs the risk of poor oversight of utilisation of funds. Unless uniform accounting practices are followed by all the State implementing agencies with proper documentation and timely reporting of expenditure, it will be difficult to monitor the proper end use of these direct transfers. Besides, it also inhibits the Fiscal Responsibility and Budget Management Act requirement of transparency in fiscal operations and thus bypasses accountability.

1.5 Revenue receipts

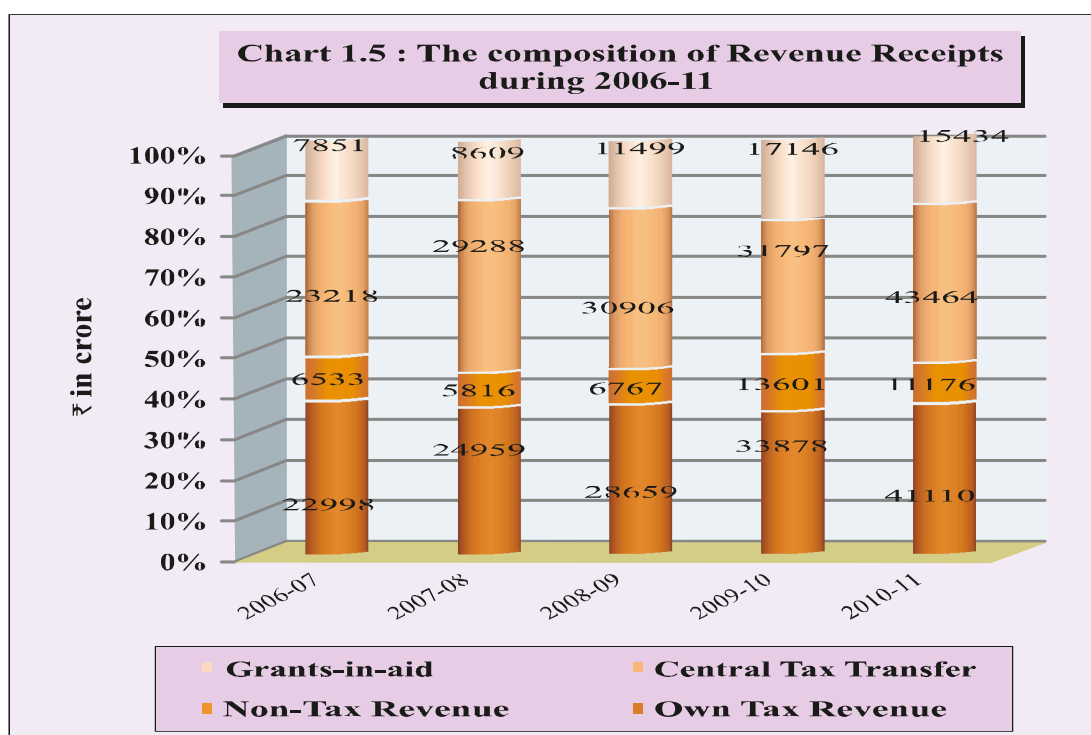
Revenue receipts consist of State's own tax and non-tax revenues, Central tax transfers and Grants-in-aid from Government of India. **Statement-11** of the Finance Accounts of 2010-11 depicts the revenue receipts of the Government.

1.5.1 Trends and composition of revenue receipts

Trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix 1.7** and also depicted in **Chart 1.4** and **1.5** respectively.



Source: Finance Accounts



Source: Finance Accounts

Revenue receipts have shown steady increase over the period 2006-11 with marginal changes in its composition. On an average, 47 *per cent* revenue came from States' own taxes during the period 2006-11. Within the State's own taxes during 2010-11, tax revenue and non-tax revenue accounted for 78 *per cent* and 22 *per cent* respectively. The revenue receipts at ₹ 1, 11,184 crore were very close to the projections made by the State in its Mid Term Fiscal Restructuring Policy (₹1,11,621 crore) for the year 2010-11. The trends in revenue receipts relative to GSDP are presented in **Table 1.4**.

Table 1.4: Trends in revenue receipts relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	60,600	68,672	77,831	96,421	1,11,184
Rate of growth of RR (<i>per cent</i>)	33.63	13.32	13.34	23.89	15.31
RR/GSDP (<i>per cent</i>)	19.38	19.21	18.88	19.63	18.89
Revenue Buoyancy w.r.t GSDP	2.621	0.927	0.874	1.244	0.774
State's Own Tax Buoyancy w.r.t GSDP	1.711	0.594	0.971	0.948	1.079
Revenue Buoyancy w.r.t State's own taxes	1.532	1.562	0.901	1.312	0.717
*Gross State Domestic Product (₹ in crore)	3,12,627	3,57,557	4,12,151	4,91,302	5,88,467
Growth rate of GSDP	12.83	14.37	15.27	19.20	19.78

Source: Economic Survey of Uttar Pradesh

Except during 2006-07 and 2009-10, the growth in revenue receipts was not commensurate with the growth in GSDP.

Grants- in-aid

Grants-in-aid from Government of India decreased (10 *per cent*) from ₹ 17,141.24 crore in 2009-10 to ₹ 15,433.65 crore in 2010-11 (**Table 1.5**). The decrease was mainly under Central Plan Schemes ₹ 3,557.27 crore followed by non-plan grants ₹ 854.98 crore.

Table 1.5: Grants-in-aid from the Government of India

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Non Plan Grants	2,693.81	2,894.42	3,142.62	3,947.97	3,092.99
Grants for State plan Schemes	2,837.57	2,795.49	5,195.76	5,624.02	6,772.07
Grants for Central Plan Schemes	153.13	261.90	235.36	3,992.43	435.16
Grants for Centrally Sponsored Plan Schemes	2,166.09	2,657.59	2,923.25	3,576.82	5,133.43
Total	7,850.60	8,609.40	11,496.99	17,141.24	15,433.65
Percentage of increase over previous year	46.53	9.67	33.54	49.09	(-)9.96

Source: Finance Accounts

Decrease under non-plan grants was due to less receipt of grants under the proviso to Article 275 (1) of the Constitution of India. Decrease under Central plan schemes was due to less receipt of grants by the Food and Civil Supply Department (₹ 3,785.38 crore; 99.94 *per cent*) and Higher Education (₹ 43.71 crore; 43.71 *per cent*).

Central tax transfers

Central tax transfers increased (37 *per cent*) from ₹ 31,797 crore in 2009-10 to ₹ 43,464 crore in 2010-11. The increase was mainly under Corporation tax (₹ 3,807.21 crore; 29 *per cent*) and Taxes on income other than corporation tax (₹ 1,637.67 crore; 22 *per cent*), Custom duty (₹ 3,107.23 crore; 70 *per cent*) and Union excise duties (₹ 1,913.11 crore; 53 *per cent*).

1.5.2 State's own resources

The gross collection in respect of major taxes and duties as well as the non-tax receipts for the period 2006-11 are presented in **Appendix 1.4**. These resources increased (77 *per cent*) from ₹ 29,531 crore in 2006-07 to ₹ 52,286 crore in 2010-11. Within revenue receipts, its share ranged between 45 *per cent* and 49 *per cent* during 2006-11.

The actual revenue receipts during 2010-11, *vis-a-vis*, assessments made by the Thirteenth Finance Commission and the State Government are given in **Table 1.6**.

**Table 1.6: Revenue receipts relative to
Thirteenth Finance Commission's and State's projections**

(₹ in crore)

Key fiscal variables	Thirteenth Finance Commission	MTFRP2010-11	Actuals	Variations : Excess (+) and Shortfall (-)	
				13 th Finance Commission	MTFRP 2010-11
				Per cent in bracket	
State's Own Tax Revenue	37,303.77	42,305.87	41,109.85	(+) 3,806.08 (10.20)	(-) 1,196.02 (2.83)
Non-Tax Revenue	7,598.95	14,985.48	11,176.21	(+) 3,577.26 (47.08)	(-) 3,809.27 (25.42)

Source: 13thFC's recommendations, MTFRP and Finance Accounts

State's own tax revenue during 2010-11 increased by ₹ 3,806.08 crore (10.20 *per cent*) than the normative assessment made by the Thirteenth Finance Commission but it fell short by ₹ 1,196.00 crore (2.83 *per cent*) than the projections made by the State Government in its Mid Term Fiscal Restructuring Policy 2011.

Though performance under non-tax revenue registered significant improvement over the projections made in the 13th Finance Commission but failed to achieve the projections made by the State Government in its Mid Term Fiscal Restructuring Policy 2011.

Tax revenue

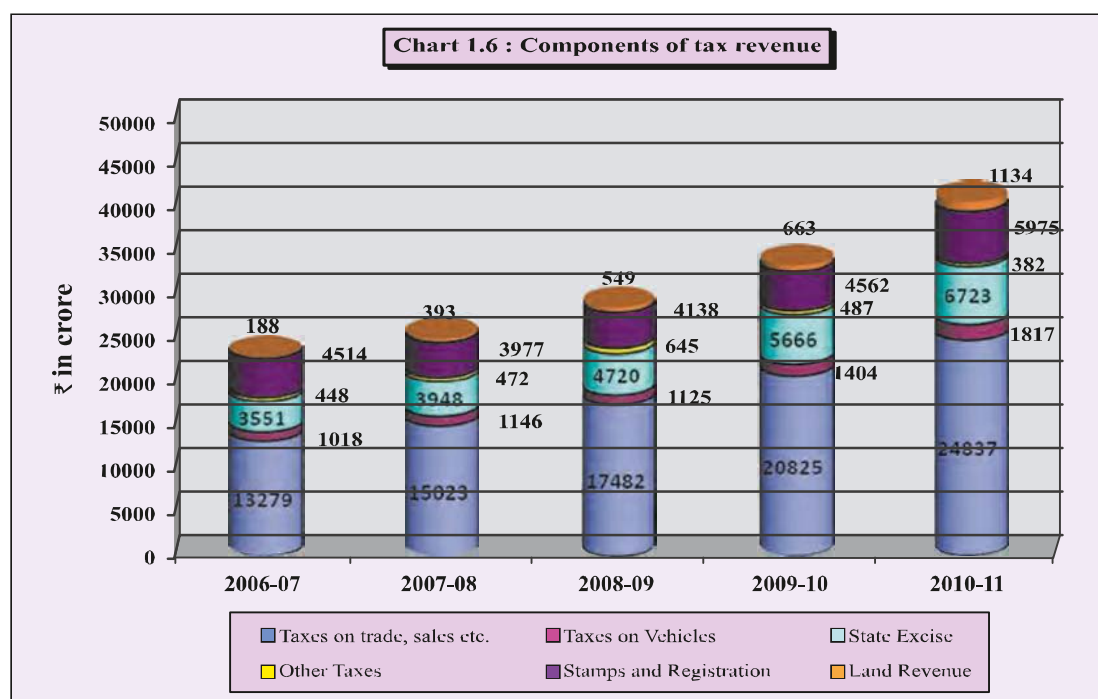
Tax revenue comprises of taxes on sales, trade, etc. state excise, taxes on vehicles, stamp and registration fee etc. The component of tax revenue during five years period (2006-11) is shown in **Table 1.7** and **Chart 1.6**.

Table 1.7: Components of tax revenue

(₹ in crore)

Components of revenues	2006-07	2007-08	2008-09	2009-10	2010-11		
					Budget estimates	Actuals	Percentage w.r.t budget estimates
Taxes on Sales, Trade etc.	13,279	15,023	17,482	20,825	26,978	24,837	92.06
State Excise	3,551	3,948	4,720	5,666	6,763	6,723	99.41
Taxes on Vehicles	1,018	1,146	1,125	1,404	1,170	1,817	155.30
Stamps and Registration fees	4,514	3,977	4,138	4,562	5,737	5,975	104.15
Land Revenue	188	393	549	663	205	1,134	553.17
Taxes on Goods and Passengers	109	110	266	271	920	242	26.30
Other Taxes	339	362	379	487	533	382	71.67
Total	22,998	24,959	28,659	33,878	42,306	41,110	97.17

Source: Finance Accounts



Source: Finance Accounts

The tax revenue of the State during 2010-11 was below the budget estimates by ₹ 1,196 crore. However it increased by ₹ 7,232 crore (21 *per cent*) over the previous year. The reason for increase over the previous year was due to increased realisation of Court fee under stamps and registration fee. Similarly, the increase in state excise was due to realisation of arrears fines on *Bhatti* of country liquor, fee on country wines and liquor and license fee of wine shops. The increase in land revenue was due to collection of fixed charges, realisation of arrears, current demand of land revenue/taxes, Ghaziabad Housing and Development Board and other organisations. Increase under taxes on vehicle was due to realisation of taxes on sale of vehicles and collection of taxes under State Motor Vehicle Act.

Tax revenue as a percentage to GSDP (6.99 per cent) was lower than the normative assessment made by the Government in its Mid Term Fiscal Restructuring Policy (8.30 per cent) and the projections made by the Thirteenth Finance Commission (8.27 per cent).

Non-tax revenue

Non-tax revenue comprises receipts mainly from education, power, interest, forestry and wild life, industries, medical and public health, irrigation, agriculture and other allied activities.

Non-tax revenue receipts of ₹ 11,176 crore in 2010-11 comprised mainly from miscellaneous general services ₹ 5,121 crore; (46 *per cent*), education, sports, art and culture ₹ 2,614 crore; (23 *per cent*), non-ferrous mining and metallurgical industries ₹ 653 crore; (six *per cent*) interest receipts ₹ 689 crore; (six *per cent*), medical and public health ₹ 101 crore; (one *per cent*) and power ₹ 92 crore; (one *per cent*).

However, there was a substantial decrease of 18 *per cent* in the receipts in 2010-11 over previous year. The receipts decreased by ₹ 2,954 crore (37 *per cent*) under miscellaneous general services due to less collection under sale of land and property. The decrease in Industries by ₹ 205.56 crore was due to deposit of ₹ 1.37 crore only as unspent money by the PD account holders in comparison to ₹ 211.19 crore during previous year. Under Medium Irrigation head decrease of ₹ 91.58 crore was due to less realisation of water tax on sale of water from Ghaghra and Garai canals. Power receipts also decreased by ₹ 78.92 crore due to less realisation of electric charges from rural areas.

State's non-tax revenue, vis-à-vis, budget estimates

State's non-tax revenue, *vis-à-vis*, budget estimates for the year 2010-11 is given in Table 1.8.

Table 1.8: Non-tax revenue, *vis-à-vis*, budget estimates

(₹ in crore)

Particulars	Assessments made in budget	Actuals	Variations (Excess + and Shortfall -) <i>per cent</i> in brackets
Interest Receipts	1,229.49	689.32	(-) 540.17 (44)
Miscellaneous General Services	7,118.06	5,120.67	(-) 1,997.39 (28)
Education, Sports, Art and Culture	2,987.49	2,614.11	(-) 373.38 (12)
Medical and Public Health	131.18	101.35	(-) 29.83 (23)
Power	270.00	91.79	(-) 178.21 (66)
Non-ferrous Mining & Metallurgical Industries	838.97	653.39	(-) 185.58 (22)

Source: State budget and Finance Accounts

Non-tax revenue under miscellaneous general services, non-ferrous mining and metallurgical industries, medical and public health, education, sports, art and culture, interest receipts and power decreased, *vis-à-vis*, budget estimates during the year. The decrease ranged between 12 and 66 *per cent*. ***Wide variations between the budget estimates and actuals indicated incorrect estimations at the budget preparation stage.***

1.5.3 Non/short levy of tax

During 2010-11 on test check of the assessments and other records of commercial tax offices 2,647 cases of non/short levy of tax due to misclassification of goods and incorrect rate of tax, irregular exemption, etc., came to notice as detailed in Table 1.9.

Table 1.9: Non/short levy of tax

Sl. No.	Categories	Number of Cases	Amount (₹ in crore)
1	Non/short levy of penalty/interest	749	18.41
2	Non levy/short levy of tax	256	5.87
3	Irregular grant of exemption from tax	610	11.28
4	Incorrect classification of rate of goods	556	5.79
5	Misclassification of goods	53	0.96
6	Irregularities relating to central sales tax	28	0.26
7	Mistake in computation	30	0.63
8	Turnover escaping tax	21	2.30
9	Other irregularities	344	24.78
	Total	2,647	70.28

Source: AG (C&RA), UP

The Government needs to take appropriate measures to reduce the number of such cases.

1.5.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection for 2009-10 are mentioned in **Table 1.10** below:

Table 1.10: Cost of collection

(₹ in crore)

Particular	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the year 2009-10
Taxes on Sales, Trade etc.	2008-09	17,482.05	272.54	1.56	-
	2009-10	20,825.18	358.43	1.72	0.96
	2010-11	24,836.52	391.45	1.58	-

Source: Concerned departments

The cost of collection was about one and half times higher than the All India average. *The Government needs to take appropriate measures to bring it down.*

1.5.5 Revenue arrears

Information regarding arrears of revenue was called for from the concerned departments. The revenue arrears as on 31 March 2011 in some of principal heads of revenue amounted to ₹ 17,194.92 crore of which ₹ 12,368.88 crore were outstanding for more than five years. Relative to the financial year 2009-10, the revenue arrears registered an increase of ₹ 77 crore under principal heads of receipts. The status of revenue arrears as on 31 March 2011 under some heads is detailed in **Table 1.11**.

Table 1.11: Arrears of revenue

(₹ in crore)

Head of Revenue	Amount of arrears	Arrears outstanding for over five years	Remarks
Taxes on Sales Trade etc.	16,665.41	11,804.32	Out of ₹ 16,665.41 crore, demand for ₹ 1,211.60 crore had been certified for recovery as arrears of land revenue. Recovery certificates amounting to ₹ 948.97 crore have been sent to other States. Recoveries amounting to ₹ 2,429.15 crore had been stayed by the courts/appellate authority. Recoveries amounting to ₹ 468.39 crore were outstanding against the Government/semi Government departments. Arrears not covered under recovery certificates amounted to ₹ 10,195.24 crore. The demand for recovery of ₹ 1,342.74 crore was likely to be written off. ₹ 69.32 crore were outstanding from transporters.
State Excise	56.72	51.56	Out of ₹ 56.72 crore recoveries amounting ₹ 21.41 crore had been stayed by the courts/ appellate authority, the demand for recovery of ₹ 2.72 crore was likely to be written off. The department stated that Recovery Certificates for entire amount arrear ₹ 56.72 crore had been issued.
Entertainment Tax	13.15	5.13	Out of ₹ 13.15 crore, demand for ₹ 4.35 crore had been certified for recovery as arrears of land revenue. The Department had not furnished the details in respect of remaining ₹ 8.80 crore.
Stamp and Registration	459.64	Not furnished by the department	Out of ₹ 459.64 crore, recovery amounting to ₹ 311.58 crore had been stayed by the courts/ appellate authority. The department stated that Recovery Certificates for entire arrears of ₹ 459.43 crore had been issued.
Total	17,194.92	11,861.01	

Source: Concerned departments

Commercial tax accounted for ₹ 16,665.41 crore i.e.97 *per cent* of the overall arrears as on 31 March 2011. Out of ₹ 16,665.41 crore, demand for ₹ 2,429.15 crore was stayed by the courts/appellate authority. The Government needs to take appropriate measures to bring down the revenue arrears.

1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.6.1 Growth and composition of expenditure

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

Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network. The capital expenditure increases State's infrastructure and services network (tangible assets).

Total expenditure

Growth rates of total expenditure (2006-11) its compositions, ratio and buoyancy with reference to GSDP and revenue receipts are presented in **Table 1.12**.

Table 1.12: Total expenditure-its basic parameters

(₹ in crore)

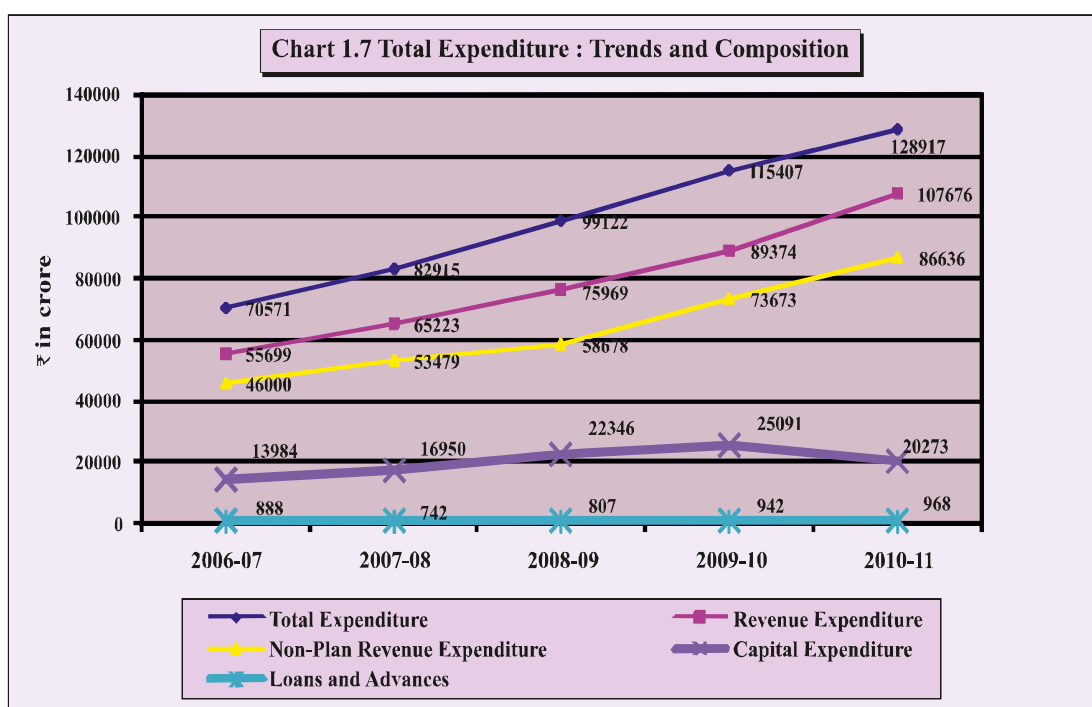
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Total expenditure	70,571	82,915	99,122	1,15,407	1,28,917
Revenue expenditure	55,699	65,223	75,969	89,374	1,07,676
Non-plan revenue expenditure	46,000	53,479	58,678	73,673	86,636
Plan expenditure	9,699	11,744	17,291	15,701	21,040
Capital expenditure	13,984	16,950	22,346	25,091	20,273
Loans and advances	888	742	807	942	968
Rate of growth of total expenditure	25.99	17.49	19.54	16.43	11.71
Total expenditure/GSDP (ratio)	22.57	23.19	24.05	23.49	21.91
Revenue receipts/total expenditure (ratio)	85.87	82.82	78.52	83.55	86.24
Buoyancy of total expenditure with					
GSDP	2.03	1.22	1.28	0.86	0.59
Revenue receipts (ratio)	0.77	1.31	1.46	0.69	0.76

Source: Finance Accounts

Total expenditure increased (83 *per cent*) from ₹ 70,571 crore in 2006-07 to ₹ 1,28,917 crore in 2010-11. Its rate of growth decreased from 25.99 *per cent* in 2006-07 to 11.71 *per cent* in 2010-11. Increase in total expenditure was due to increase in revenue expenditure (₹ 51,977 crore), capital expenditure (₹ 6,289 crore) and disbursement of loans and advances (₹ 80 crore) during 2006-11.

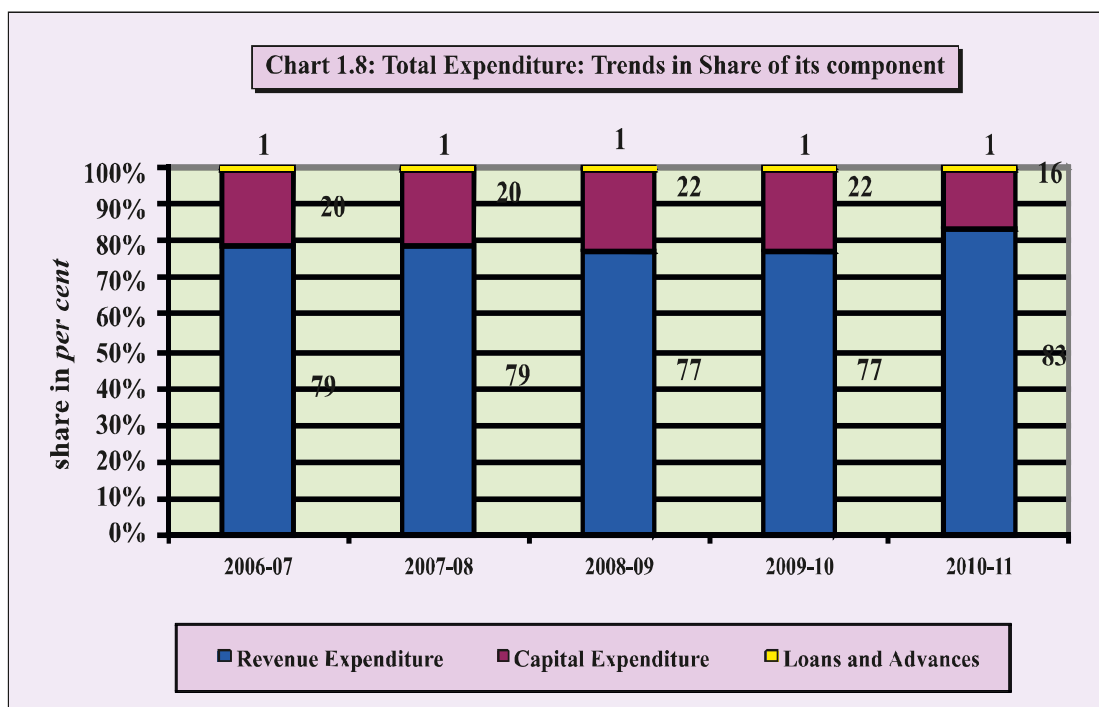
Revenue receipts, as a ratio of total expenditure, stood at 86 *per cent* (2010-11), indicating that 86 *per cent* of total expenditure was met out of revenue receipts.

Chart 1.7 presents the trends in total expenditure over a period of five years (2006-11).

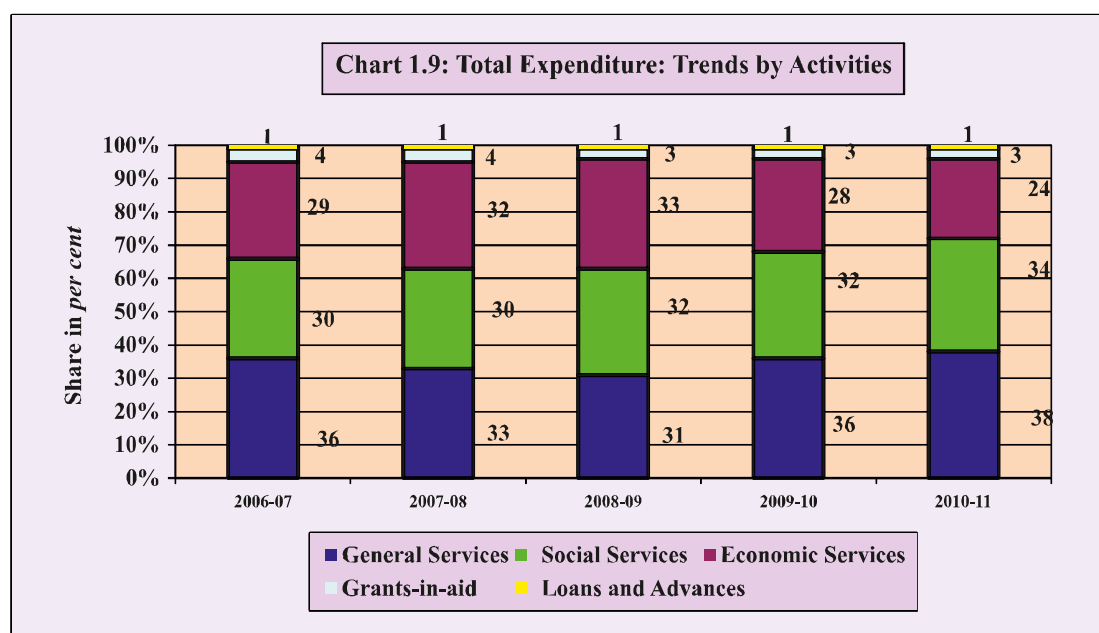


Source: Finance Accounts

The total expenditure steadily increased during 2006-11. During 2010-11, it increased by ₹ 13,510 crore over 2009-10 of which, the share of revenue expenditure was ₹ 18,302 crore (135 per cent) and was partly offset by decrease in capital expenditure by ₹ 4818 crore (19 per cent). The composition of total expenditure both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.8** and **1.9**.



Source: Finance Accounts



Source: Finance Accounts

The trends indicated a declining share of revenue expenditure and increasing share of capital expenditure in total expenditure during 2006-10. However, this trend changed in 2010-11 and share of revenue expenditure increased to 83 *per cent* in total expenditure due to decrease in the share of capital expenditure which declined to 16 *per cent*. In 2009-10 their shares in total expenditure were at 77 and 22 *per cent* respectively. Loans and advances contributed one *per cent* share during 2006-11.

Expenditure by activities during 2006-11 indicated inter-year variations in its composition. Expenditure on general services ranged between 31 and 38 *per cent* while social services consumed 30 and 34 *per cent* spending during 2006-11. Expenditure on economic services was lowest at 24 *per cent* in 2010-11 which, however, ranged between 24 and 33 *per cent* in 2006-11. Share of grants-in-aid (three and four *per cent*) and loans and advances (one *per cent*) were negligible. A comparison of expenditure under economic, social and general services during 2010-11 with the projections made by the Thirteenth Finance Commission is indicated in **Table 1.13**

Table 1.13: Expenditure, *vis-à-vis*, Thirteenth Finance Commission's projections

(₹ in crore)

Particulars	TFC's projections	Actual (NPPE)	Variations (excess; percentage in bracket)
General services	29,143.25	47,031.83	17,888.58 (61)
Social services	5,049.44	23,737.14	18,687.70 (370)
Economic services	5,973.03	11,502.40	5,529.37 (93)

Source: TFC recommendations, Finance Accounts

The expenditure exceeded the projections of the Thirteenth Finance Commission by 61 *per cent*, 370 *per cent* and 93 *per cent* under general services, social services and economic services, respectively. The increase in social services was significantly higher.

1.6.2 Committed expenditure

The Committed expenditure of the Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. It constituted 82 *per cent* of the NPRE. Table 1.14 and Chart 1.10 present the trends in the expenditure on these components during 2006-11.

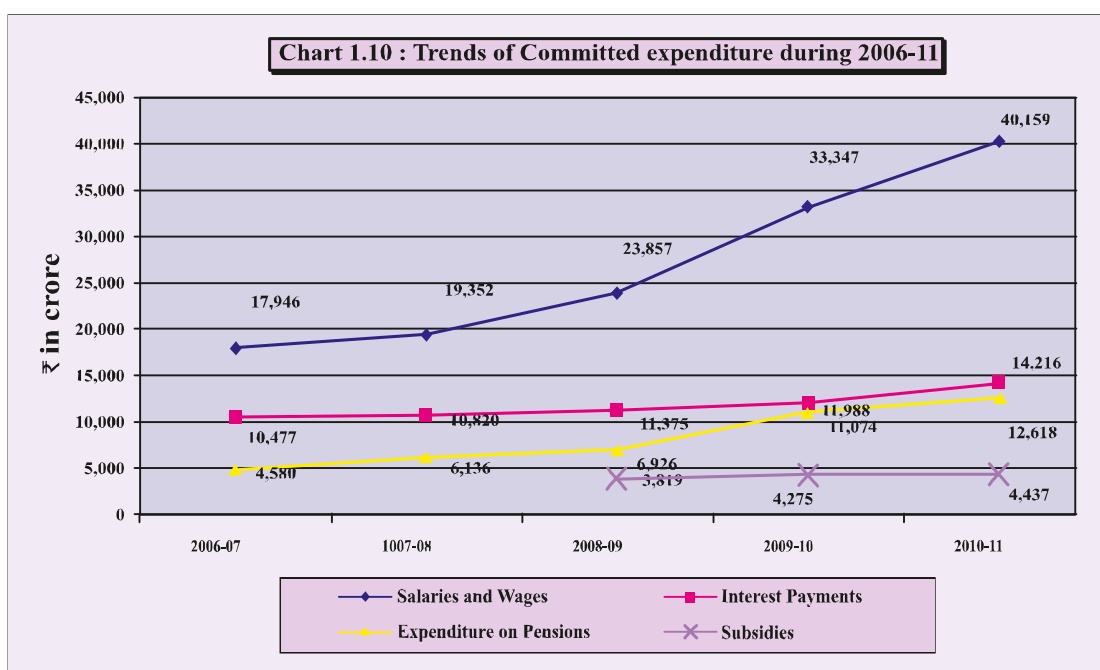
Table 1.14: Components of committed expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries* & Wages , Of which	17,946 (30)	19,352 (28)	23,857 (31)	33,347 (35)	41,217	40,159(36)
Non-Plan Head	17,204	18,624	22,834	31,137		36,316
Plan Head**	742	728	1,023	2,210		3,843
Interest Payments	10,477 (17)	10,820 (16)	11,375(14)	11,988 (13)	13,492	14,216(13)
Expenditure on Pensions	4,850 (8)	6,136 (9)	6,926 (9)	11,074 (11)	12,857	12,618(11)
Subsidies	-	-	3,819 (5)	4,275 (4)	4,635	4,437(4)
Total committed Expenditure	33,273 (55)	36,308 (53)	45,977 (59)	60,684 (63)	72,201	71,430(64)

Figures in the parentheses indicate percentage to Revenue Receipts
 * It also includes the salaries paid out of grants-in-aid.
 **Plan Head also includes the salaries and wages paid under Centrally sponsored schemes.

Source: Finance Accounts and VLC data.



Source: Finance Accounts

Committed expenditure of the Government showed increasing trends in all its constituents over the period 2006-11. It increased (115 *per cent*) from the level of ₹ 33,273 crore in 2006-07 to ₹ 71,430 crore in 2010-11. The increase was mainly under salaries, wages and pensions.

Salaries and wages

Expenditure on salaries and wages revealed an increasing trend during 2006-11 under non-plan heads and fluctuating trend under plan heads. The expenditure under non-plan heads increased (111 *per cent*) from ₹ 17,204 crore in 2006-07 to ₹ 36,316 crore in 2010-11. A growth of 17 *per cent* was recorded during 2010-11 over the previous year. The expenditure under the plan heads increased by 418 *per cent* from ₹ 742 crore in 2006-07 to ₹ 3,843 crore in 2010-11.

Total salary bill relative to revenue expenditure net of interest payments and pensions during 2010-11 was 50 per cent which was substantially higher than the normative ceiling of 35 per cent set by the Thirteenth Finance Commission.

Pension payments

The expenditure on pensions showed an increasing trend during 2006-11. It increased (160 *per cent*) from ₹ 4,850 crore in 2006-07 to ₹ 12,618 crore in 2010-11. Relative to 2009-10, it increased by ₹ 1,544 crore (14 *per cent*). Actual pension payments (₹ 12,618 crore) exceeded the projection of Thirteenth Finance Commission (₹ 9,516 crore) by ₹ 3,102 crore (33 *per cent*).

The Government had introduced a Contributory Pension Scheme for its employees recruited on or after 1 April 2005 to mitigate the impact of rising pension liabilities in future.

Interest payments

Interest payments relative to total revenue receipts came down from 17 *per cent* in 2006-07 to 13 *per cent* in 2010-11 whereas it ranged between 13 and 19 *per cent* during 2006-11 in relation to revenue expenditure. Actual Interest payments (₹ 14,216 crore) exceeded the Budget Estimates (₹ 13,492 crore) by ₹ 724 crore and the Thirteenth Finance Commission projections (₹ 14,200 crore) by ₹ 16 crore.

Interest payments during 2010-11 were marginally over the assessments made by the Thirteenth Finance Commission. These were, however, above the assessment made by the Government in its budget estimates.

Subsidies

Government paid subsidies amounting to ₹ 4,437 crore during 2010-11 which constituted four *per cent* of the revenue receipts and three *per cent* of the total expenditure. Of the total subsidies paid, ₹ 2,184 crore (49 *per cent*) was disbursed under non-plan, ₹ 1,503 crore (34 *per cent*) under plan and ₹ 750 crore (17 *per cent*) under centrally sponsored schemes. The major sectors given subsidy included energy (₹ 1,885 crore; 42 *per cent*), agriculture and other allied activities (₹ 1,650 crore; 37 *per cent*) and relief and rehabilitation (₹ 589 crore; 13 *per cent*).

Subsidy payments with reference to projections in Mid Term Fiscal Restructuring Policy are detailed in **Table 1.15**.

Table 1.15: Subsidy payment with reference to projections in BE

Particulars	Projection in MTFRP		Actuals	
	Amount (₹ in crore)	Per cent of GSDP	Amount (₹ in crore)	Per cent of GSDP
Energy	1,885	0.37	1,909	0.32
General	2,750	0.54	2,528	0.43
Total	4,635		4,437	

Source: Finance Accounts & State Budget

Within the subsidies projected under MTFRP, the actual of the energy subsidy was exceeded by ₹ 24 crore (one *per cent*). However, the general subsidies decreased by ₹ 222 crore (eight *per cent*) indicating that energy sector received priority over the general sector.

Subsidy payments during 2010-11 were well within the projections made by the Government in Mid Term Fiscal Restructuring Policy for 2010-11.

1.6.3 Financial Assistance by Government to Local Bodies and other Institutions

Table 1.16 presents quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years.

Table 1.16: Financial Assistance to Local Bodies etc.

Financial Assistance to Institutions	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	9,146.53	10,503.38	10,642.76	10,364.69	17,919.87
Municipal Corporations and Municipalities/Development Agencies	350.32	948.61	1,262.59	2,461.05	1,864.41
Zila Parishads and Other Panchayati Raj Institutions	2,742.25	3,549.49	3,504.21	2,369.77	2,878.74
Hospitals and Other Charitable Institutions	96.10	130.18	121.76	249.65	25.95
Other Institutions ⁵	149.11	228.73	291.16	2,674.87	7,994.17
Total	12,484.31	15,360.39	15,822.48	18,120.03	30,683.14
Assistance as per percentage of Revenue Expenditure	22	24	21	20	28

Source: Finance Accounts

Assistance to Local Bodies and other Institutions increased (₹ 18,198.83 crore; 146 *per cent*) from ₹ 12,484.31 crore in 2006-07 to ₹ 30,683.14 crore in 2010-11. Relative to 2009-10, the growth (₹ 12,563.11 crore) was 69 *per cent*.

⁵Cooking Cost 2010-11: ₹ 1,030.36 crore; National Old Age Pension Scheme ₹ 1,064.03 crore and Payment of Residuals ₹ 1,782.61 crore.

The assistance, as a percentage of revenue expenditure, ranged between 20 and 28 *per cent*. However, it was at the highest level of 28 *per cent* during 2010-11. Within the quantum of assistance provided during 2010-11, the educational institutions continued to be the main beneficiaries of the assistance followed by Zila Parishads and Other Panchayati Raj Institutions.

1.7 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector if it is below the respective National Average. **Table 1.17** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11.

Table 1.17: Fiscal priority of the State in 2007-08 and 2010-11

(in *per cent*)

Fiscal Priority by the State*	AE/GSDP	DE/AE [#]	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Uttar Pradesh's Average (Ratio) 2007-08	23.19	62.84	30.64	20.44	14.87	5.04
General Category Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Uttar Pradesh's Average (Ratio) 2010-11	21.91	58.19	34.63	15.73	16.80	5.02
*As <i>per cent</i> to GSDP AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure [#] Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed. Source : For GSDP, the information was collected from the State's Directorate of Economic and Statistics						

Fiscal Priority:

- Aggregate Expenditure of Uttar Pradesh as a ratio to Gross State Domestic Product was higher in both the years 2007-08 and 2010-11 as compared to General Category States.
- Uttar Pradesh Government has not given adequate fiscal priority to development expenditure in 2007-08 and 2010-11, as its ratio to AE was lower than the corresponding ratio for General Category States.

- The ratio of Social Sector Expenditure to AE in 2007-08 as well as in 2010-11 was lower than the corresponding ratio for General Category States.
- The ratio of Capital expenditure to AE was higher than the corresponding ratio for General Category States in 2007-08 and 2010-11.
- The ratio of expenditure on education to AE increased from 14.87 *per cent* in 2007-08 to 16.80 *per cent* in 2010-11. The priority given to education in Uttar Pradesh was higher in 2007-08 and lower in 2010-11 as compared to General Category States.
- Expenditure on health sector in Uttar Pradesh has been significant as its ratio was higher than the General Category States in 2007-08 and 2010-11.

1.7.2 Efficiency of expenditure use

In view of the importance of public expenditure from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods. Apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure, the better would be the quality of expenditure.

Table 1.18 presents the trends in development expenditure relative to the aggregate expenditure of the State during 2010-11, *vis-à-vis*, budgeted for the year as well as actuals in the previous years.

Table 1.18: Development Expenditure

(₹ in crore)

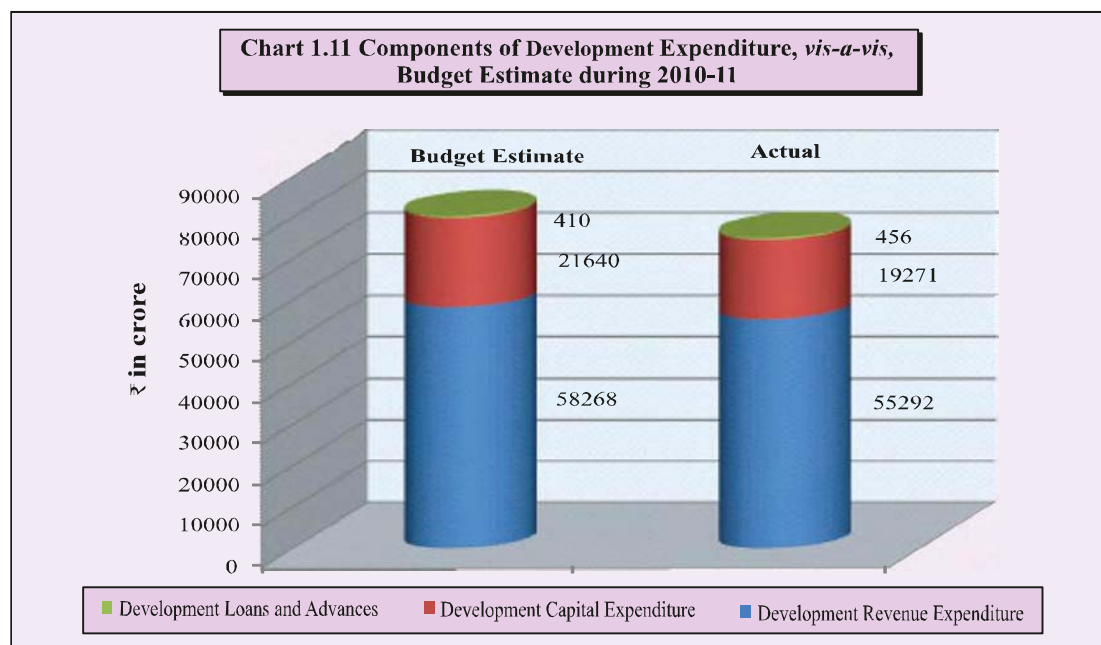
Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development expenditure (a to c) (Figures in parentheses indicate percentage to aggregate expenditure)	42,661 (60)	52,102 (63)	64,737 (65)	70,554 (61)	80,318 (59)	75,019 (58)
a. Development revenue expenditure	28,657 (67)	35,123 (67)	42,695 (66)	45,372 (64)	58,268 (73)	55,292 (74)
b. Development capital expenditure	13,330 (31)	16,375 (31)	21,504 (33)	24,480 (35)	21,640 (27)	19,271 (26)
c. Development loans and advances	674 (2)	604 (1)	538 (1)	702 (1)	410 (0)	456 (0)
(Figures in bracket indicate percentage to development expenditure)						

Source: Finance Accounts

Development expenditure comprising revenue and capital expenditure and loans and advances for socio-economic services increased (76 *per cent*) from the level of

₹ 42,661 crore in 2006-07 to the level of ₹ 75,019 crore in 2010-11. Relative to the previous year, the growth in development expenditure in 2010-11 was ₹ 4,465 crore (six *per cent*). Within the development expenditure, the growth was shared by revenue expenditure and capital expenditure in the ratio of 74 and 26 *per cent* respectively. The share of capital expenditure in development expenditure decreased from 35 *per cent* in 2009-10 to 26 *per cent* in 2010-11 indicating deterioration in quality of expenditure and asset creation.

The position of development expenditure, *vis-a-vis*, budget estimates during 2010-11 is presented in the **Chart 1.11** below. The chart reveals that the development capital expenditure and revenue expenditure declined from their respective estimates by ₹ 2,369 crore and ₹ 2,976 crore respectively.



Source: Finance Accounts

Table 1.19 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.19: Efficiency of expenditure use in selected social and economic services

(In *per cent*)

Social/Economic Infrastructure	2009-10			2010-11		
	Share of CE to TE	In RE, the share of		Share of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	1.03	81.59	0.37	1.63	82.60	0.07
Health and Family Welfare	20.91	76.64	21.92	15.94	77.66	0.70
WS, Sanitation, & HUD	58.36	0.69	1.56	55.38	0.96	2.16
Total (SS)	12.72	54.49	5.53	10.74	56.41	0.26

Economic Services (ES)						
Agriculture & Allied Activities	60.23	42.89	7.12	0.00	46.50	0.97
Irrigation and Flood Control	45.02	50.74	12.83	41.39	58.95	22.36
Power & Energy	72.86	0.50	0.84	65.34	0.67	0.00
Transport	73.51	3.60	95.50	72.67	4.15	94.80
Total (ES)	58.87	33.78	19.71	47.66	39.07	15.99
Total (SS+ES)	34.70	48.41	9.69	25.69	51.48	4.74
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.						

Source: Finance Accounts and VLC data

The share of Capital Expenditure to Total Expenditure declined by 9.01 *per cent* during the current year over the previous year. The share of Capital Expenditure under social and economic services also decreased over the previous year by 1.98 and 11.21 *per cent* respectively. Under the social services, the decrease in the ratio of capital expenditure to total expenditure during 2010-11 over the previous year was 4.97 *per cent* in the area of Health and Family Welfare and 2.98 *per cent* in the area of water supply, sanitation, housing and urban development. Under the economic services, there was *per cent* decrease in the area of agriculture and other allied activities, 3.63 *per cent* in irrigation and flood control, 7.52 *per cent* in power and energy and 0.84 *per cent* in transport.

The share of Operations & Maintenance expenditure in the revenue expenditure under social services decreased from 5.53 *per cent* in the previous year to 0.26 *per cent* in the current year. Similarly, the overall share of O&M expenditure in the revenue expenditure under the economic services decreased from 19.71 *per cent* in the previous year to 15.99 *per cent* in the current year. However, O&M expenditure under irrigation and flood control which is one of the constituents of economic services, increased by 9.53 *per cent*.

1.8 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the Government is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in the transition to complete dependence on market based resources, the Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the financial analysis of investments and other capital expenditure undertaken by the Government during the current year, *vis-à-vis*, preceding years.

1.8.1 Financial results of irrigation works

For ensuring commercial viability of irrigation projects, the Thirteenth Finance Commission in an assessment of irrigation receipts had prescribed cost recovery rates in relation to the maintenance expenditure.

Receipts (₹ 186 crore) from the major, medium and minor irrigation projects during 2010-11 were only five *per cent* of the expenditure of ₹ 3,409 crore on their operation and

maintenance which was much below the cost recovery assessment of 25 *per cent* of the Thirteenth Finance Commission for the year. **Table 1.20** depicts that the Government could not achieve the norms fixed by the Twelfth and Thirteenth Finance Commission for the period 2006-11 in respect of the cost recovery rate and maintenance expenditure for major, medium and minor irrigation works.

Table 1.20: Cost recovery rate and Maintenance Expenditure with reference to Twelfth/ Thirteenth FC norms

Year	Revenue Expenditure	Revenue receipts	Revenue receipts to revenue expenditure	Cost recovery assessment of 12 th FC (2005-10) and 13 th FC (2010-15)	Shortfall in cost recovery
	₹ in crore		In per cent		
2006-07	1,776	182	10	60	50
2007-08	2,263	353	16	70	54
2008-09	2,520	295	12	80	68
2009-10	2,633	267	10	90	80
2010-11	3,409	186	5	25	20

Source: Finance Accounts and recommendations of TFC

The gap in cost recovery relative to the assessment of Twelfth Finance Commission showed increasing trend all along the periods 2006-10. The shortfall increased from 50 *per cent* in 2006-07 to 80 *per cent* in 2009-10. However, under the cost recovery assessment of the Thirteenth Finance Commission the short fall was 20 *per cent* from the assessment of 13thFC. These projects were able to recover only five *per cent* of running and maintenance expenditure incurred on these during 2010-11 which puts a question mark on their viability.

The financial results of 16 major irrigation projects with a capital outlay of ₹ 6,095 crore at the end of March 2011 revealed that revenue realised (₹ 68.14 crore) from these projects during 2010-11 increased to 1.12 *per cent* of the capital outlay from the level of 0.30 *per cent* in the previous year and was insufficient to cover even the interest (₹ 269.38 crore) on capital investments during 2010-11. The revenue realised (₹ 68.14 crore) from these 16 schemes, expenditure incurred (₹ 552.68 crore) on the working and maintenance of these schemes during 2010-11 and taking into account the interest of ₹ 269.38 crore on capital outlay, there was a net loss of ₹ 215.16 crore.

1.8.2 Incomplete projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The departmentwise position of incomplete projects, each costing above ₹ one crore and due for completion by March 2011, is given in **Table 1.21**.

Table 1.21: Departmentwise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Project	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Overrun ³	Cumulative Actuals Expenditure (March 2011)
Public Works (Roads and Bridges)	93	1,124.41	151.20	33.43 ¹	534.95
Irrigation	26	2,162.93	2,296.44	1,433.05 ²	2,200.26
Total	119	3,287.34	2447.64	1,466.48	2,735.21
1. Pertaining to 9 incomplete projects (initial budget cost : ₹ 117.77 crore, revised cost : ₹ 151.20 crore) 2. Pertaining to 16 incomplete projects (initial budget cost : ₹ 863.39 crore, revised cost : ₹ 2,296.44 crore) 3. Cost overrun in respect of revised project only.					

Source: Finance Accounts

An expenditure of ₹ 2,735.21 crore (March 2011) remained largely unfruitful on the aforesaid 119 incomplete projects. Further, of 119 incomplete projects, the initial budgeted cost of 25 projects was revised by the Government involving a cost overrun of ₹ 1,466.48 crore. No reasons for delay in their completion were furnished by the concerned departments. In Irrigation Department, Chaudhary Charan Singh Lahchura Dam and Rest of Gandak Canal system which were due for completion by March 2011 were lying incomplete, as of March 2011, even after an expenditure of ₹ 250.13 crore.

Non-completion of the projects within the stipulated period not only resulted in cost overrun but also indicated that priority was given to creation of new assets sacrificing the completion of old projects and even at the cost of the returns to service the debts.

1.8.3 Investment and returns

As of 31 March 2011, Government had invested ₹ 38,272.54 crore in Statutory corporations (₹ 393.04 crore), Government companies (₹ 36,848.55 crore) and Co-operatives (₹ 1,030.95 crore). The average return on the investment was 0.033 per cent in the last three years while the Government paid at an average interest rate of 6.37 per cent on its borrowings during the same period (Table 1.22).

Table 1.22: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	18,545.82	12,188.76	14,866.13	39,666.64	38,272.54 ⁶
Return (₹ in crore)	0.85	1.05	1.26	8.36	26.81
Return (per cent)	0.005	0.009	0.008	0.021	0.07
Average rate of interest on Government borrowing (per cent)	6.74	6.43	6.29	6.16	6.67
Difference between interest rate and return (per cent)	6.74	6.42	6.28	6.14	6.60

Source: Finance Accounts

⁶ Includes ₹ 9,979.75 crore pertaining to 2010-11 and previous years, which is under reconciliation and it differs by ₹ 5,850.44 crore from the figures appearing in the Commercial Audit Report 2010-11.

During 2010-11, the Government mainly invested in the share capital of corporations engaged in the thermal power generation, power transmission and distribution and rural electrification, etc.

1.8.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments.

The Government had invested ₹ 2,159.57 crore in eleven undertakings. Seven of eleven undertakings earned net profit amounting to ₹ 71 lakh against the capital investment of ₹ 9.76 crore. The main profit earning undertakings were Irrigation Workshop Divisions at Allahabad, Bareilly, Gorakhpur, Jhansi, Kanpur and Meerut under Irrigation Department. Two undertakings pertaining to Food and Civil Supplies Department and Health Department were, however, incurring losses continuously for more than five years.

In view of the losses of some of the undertakings, the Government should review their working so as to wipe out their losses in the short run and to make them self-sustaining in medium to long term.

1.8.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many of these institutions/organizations. **Table 1.23** presents the position of outstanding loans and advances as on 31 March 2011, interest receipts, *vis-à-vis*, interest payments during the last three years.

Table 1.23: Average interest received on loans advanced by the Government

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2008-09	2009-10	2010-11	
			BE	Actuals
Opening Balance	8,985	9,014	-	9,663
Amount advanced during the year	807	942	1,025	968
Amount repaid during the year	778	293	671	485
Closing Balance	9,014	9,663	-	10,146
Net addition	29	649	354	483
Interest Receipts	53	39	-	65
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.59	0.41	-	0.64
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.06	5.94	-	6.32
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 5.47	(-)5.53	-	(-)5.68

Source: Finance Accounts

Amounts advanced during 2010-11 decreased from the provision made in the budget by ₹ 57 crore (5.56 *per cent*) and the repayment of loans was also below the level of assessment made in the budget by ₹ 186 crore (27.72 *per cent*).

Major portion of the loans were advanced during 2010-11 under social service sector (₹ 282.78 crore) followed by economic sector (₹ 172.96 crore). Under the economic sector, the major loans and advances were given to other outlays on Industries and minerals (₹ 155.13 crore) and for consumer industries (₹ 16.53 crore). Similarly, under the social service sector, loans were given for water supply and sanitation (₹ 223.20 crore).

Amount of outstanding loans and advances increased from ₹ 9,663 crore at the close of March 2010 to ₹ 10,146 crore at the close of March 2011 that is by ₹ 483 crore. The sectorwise break-up of the major outstanding amounts was: economic services (₹ 6,664 crore) and social services (₹ 2,075 crore) and general services (₹ 1,276 crore) and Government servants (₹ 131 crore). Under the economic services, major portion of the outstanding loans pertained to the energy (₹ 2,681 crore), industries and minerals (₹ 2,988 crore) and agriculture and other allied activities (₹ 367 crore).

Interest receipts against outstanding loans and advances were well below one *per cent* all along the periods 2008-11 against interest rate of borrowed funds ranging between 5.94 *per cent* (2009-10) and 6.32 *per cent* (2010-11) indicating that interest receipts were inadequate to cover the interest liabilities required to service the debt.

1.8.6 Cash balances and investment of cash balances

Table 1.24 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.24: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2010	As on 31 March 2011	Increase/ Decrease (-)
Cash balances	3,405.36	10,304.99	6,899.63
Investments from cash balances (a & b)	3,194.59	9,877.81	6,683.22
a. GOI Treasury Bills	3,194.59	9,877.81	6,683.22
b. GOI Securities	-	-	-
Investment from earmarked balances (a and b)	45.20	45.20	-
a. GOI Treasury Bills	-	-	-
b. GOI Securities	45.20	45.20	-
Interest realised on Investment of cash balances	217.36	231.87	14.51

Source: Finance Accounts

Interest received on investment of cash balance was 2.35 *per cent*⁷ during 2010-11 while the Government paid interest at 6.67 *per cent* on its borrowings during the year.

⁷ Rate of interest calculated on the average amount of rediscounted Treasury Bills.

1.8.7 Ways and Means Advances

Under an agreement with the Reserve Bank of India, the State has to maintain a minimum cash balance of ₹ 4.71 crore and in case, it falls below this limit the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time. The Government did not avail this facility during 2006-10. However, the Government obtained ₹ 713.88 crore as ways and means advances and repaid the entire amount during 2010-11.

1.9 Assets and liabilities

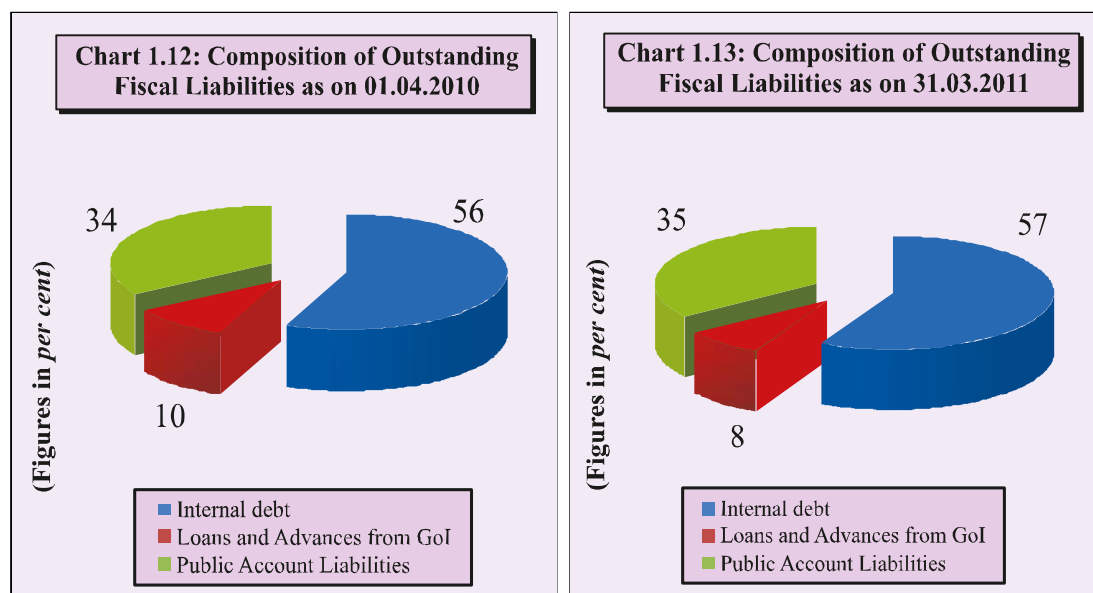
1.9.1 Growth and composition of assets and liabilities

In the existing 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 1.8* gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in *Appendix 1.8* consist mainly of internal borrowings, loans and advances from the Government of India, 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.

The Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004 has defined the total liabilities as the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.9.2 Fiscal liabilities

Trends in outstanding fiscal liabilities of the State are indicated in *Appendix 1.8* and the composition of fiscal liabilities during the year 2010-11, *vis-à-vis*, previous year is presented in **Chart 1.12** and **1.13**.



Source: Finance Accounts

Table 1.25 presents the fiscal liabilities of the State, their rate of growth, their ratio to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.25 : Fiscal liabilities- basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal liabilities (₹ in crore)	1,62,156	1,74,248	1,87,411	2,01,720	2,24,785
Rate of growth (<i>per cent</i>)	8.93	7.46	7.55	7.64	11.43
Ratio of fiscal liabilities to					
GSDP (<i>per cent</i>)	51.87	48.73	45.47	41.06	38.20
Revenue receipts (<i>per cent</i>)	267.58	253.74	240.79	209.21	202.17
Own resources (<i>per cent</i>)	549.10	566.20	529.02	424.86	429.91
Buoyancy of fiscal liabilities with reference to					
GSDP (ratio)	0.696	0.519	0.494	0.398	0.578
Revenue receipts (ratio)	0.266	0.561	0.566	0.320	0.747
Own resources (ratio)	0.251	1.772	0.500	0.225	1.129

Source: Finance Accounts

Overall fiscal liabilities of the State increased (38.62 *per cent*) from ₹ 1,62,156 crore in 2006-07 to ₹ 2,24,785 crore in 2010-11. Fiscal liabilities of the State under the Consolidated Fund (₹ 1,46,535 crore) comprised internal debt (₹ 1,28,025 crore) and loans from Government of India (₹ 18,510 crore). The Public Account liabilities (₹ 78,250 crore) comprised small savings, provident fund (₹ 34,100 crore), deposits (₹ 18,054 crore) and reserve funds (₹ 26,096 crore). The growth rate of fiscal liability was 11.43 *per cent* during 2010-11 as against 7.64 *per cent* in the previous year. The ratio of fiscal liabilities to GSDP decreased from 51.87 *per cent* in 2006-07 to 38.20 *per cent* in 2010-11. These liabilities stood at 2.02 times the revenue receipts and 4.30 times of the States' own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.578 indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.578 *per cent*.

The State raised loans amounting to ₹ 21,030.71 crore during 2010-11 which, amongst many sources, included ₹ 11,999.80 crore from the market. However, viewed in terms of availability of surplus cash balances raising such loans could have been avoided.

The Government has set up a sinking fund for amortisation of open market loans and has been contributing every year from its revenue and interest accrued on the investments made out of the fund. The balance in sinking fund as on 31 March 2011 stood at ₹ 24,179.80 crore⁸ as against ₹ 20,782.48 crore in previous year.

1.9.3 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. According to the FRBM Act,

⁸ A difference of ₹ 191.48 crore from CB of 8222-01-101 in Statement No. 19 of the Finance Account 2010-11 is under reconciliation. ₹ 24,179.80 crore includes credit balance of ₹ 6,166.40 crore of undivided Uttar Pradesh.

2004 the State Government would not give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government. *The Government had, however, not enacted any law or framed any rules for fixing the ceiling on the guarantees to be given by the State Government. The Government had also not set up any fund for meeting contingent liabilities, which may arise on invoking of the guarantees, as recommended by the 13th FC.*

Consequently, the guarantee fee charged by the Government on the outstanding guarantees formed a part of the revenue receipts rather than being kept in the designated fund to meet any eventuality of invoking of the State guarantees.

As per **Statement 9** of the Finance Accounts, the maximum amount for which guarantees were given by the Government and those outstanding for the last three years is given in **Table 1.26**

Table: 1.26 Guarantees given by the Government

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed	27,892	29,311	29,778
Outstanding amount of guarantees (including interest)	16,084	20,038	20,162
Percentage of maximum amount guaranteed to total revenue receipts	35.84	30.40	26.78

Source: Finance Accounts

The maximum amount guaranteed increased (seven *per cent*) from the level of ₹ 27,892 crore in 2008-09 to ₹ 29,778 crore in 2010-11. The outstanding amount of guarantees also increased from ₹ 16,084 crore in 2008-09 to ₹ 20,162 crore in 2010-11 (25 *per cent*). The percentage of maximum amount guaranteed to total revenue receipts decreased from 35.84 *per cent* in 2008-09 to 26.78 *per cent* in 2010-11, although it decreased by 3.62 percentage points relative to 2009-10. The outstanding amount of guarantees as on 31 March 2011 was against State Financial Corporation (₹ 80.11 crore), institutions engaged in energy sector (₹ 17,140.21 crore), cooperative institutions (₹ 2,791.86 crore) and other institutions (₹ 149.85 crore).

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the percentage of total liabilities to GSDP would increase to 42 from 38 per cent.

The fiscal liabilities relative to GSDP were on lower side especially in view of the FRBM (second amendment) Act 2011 target to contain it to 42 per cent by the end of 2014-15.

1.10 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation; sufficiency of non-debt receipts; net availability of borrowed funds; burden of interest payments (measured

by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.27** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from the year 2006-07.

Table 1.27: Debt sustainability - indicators and trends

(₹ in crore)

Indicators of debt sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt stabilization (Quantum spread + primary deficit)	8,424	4,664	8,426	17,733	23,413
Sufficiency of non-debt receipts (resource gap)	463	(-) 4,179	(-) 6719	1,820	1,445
Net availability of borrowed funds	2,811	1,272	1,788	2,387	8,915
Burden of interest payments (IP/RR ratio)	17	16	15	12	13

Source: Finance Accounts

1.10.1 Debt stability

An important condition for debt sustainability is stabilization in terms of debt/ GSDP ratio. When the quantum spread and primary deficit are negative, the debt GSDP ratio will be high indicating unsustainable levels of public debt and when the quantum spread and primary deficit are positive, debt GSDP ratio will be low indicating sustainable levels of public debt.

During 2006-11, the quantum spread together with primary deficit remained positive indicating declining trends in debt/ GSDP ratio and sustainable level of public debt.

1.10.2 Sufficiency of incremental non-debt receipts (Resource gap)

Another indicator of debt sustainability is the sufficiency of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. This positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run while the negative resource gap indicates otherwise. The negative resource gap during 2007-09 indicated that the capacity of the State to sustain the debt in the medium and long run weakened but during 2009-10 and 2010-11 it has recovered.

1.10.3 Net availability of borrowed fund

The net funds available on account of the internal debt and loans and advances from GoI and other obligations after providing for the interest and repayments varied between 3.38 and 16.14 *per cent* during 2006-11⁹. During the year 2010-11, Government repaid internal debt

⁹

	2006-07	2007-08	2008-09	2009-10	2010-11
Receipt	34,683	37,584	49,193	53,485	55,236
Repayment (principal and interest)	31,872	36,312	47,405	51,098	46,321
Net fund available	2,811	1,272	1,788	2,387	8,915
Net fund available (in <i>per cent</i>)	8.10	3.38	3.64	4.46	16.14

(₹ in crore)

of ₹ 6,083 crore, GoI loans of ₹ 1,300 crore and also discharged other obligations of ₹ 24,788 crore along with interest of ₹ 14,216 crore as a result of which percentage of availability of borrowed funds improved to 16.14 *per cent* during the year 2010-11 over 4.46 *per cent* in previous year. The trends in debt redemption ratio varied between 84 and 97 *per cent* during 2006-11. About 92 *per cent* of borrowed funds were used for discharging debt liabilities of the State in the last three years.

1.10.4 Maturity profile

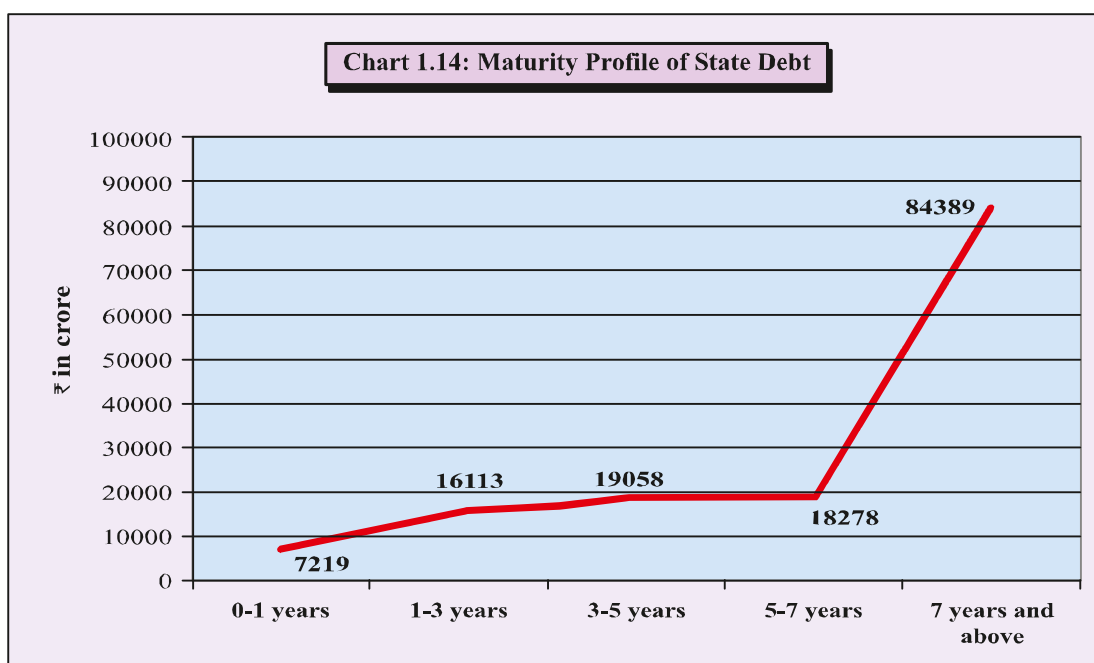
In terms of maturity profile, while the State has not defined clearly 1.01 *per cent* of the debt stock, 58 *per cent* of the outstanding State debt belonged to the maturity bracket of seven years and above. **Table 1.28** and **Chart 1.14** present the maturity profile of State debt.

Table 1.28: Maturity profile of State debt

(₹ in crore)

Maturity profile	Internal Debt	Loans & Advances from the central Government	Total	Per cent
0 – 1 year	5,912	1,307	7,219	4.93
1 – 3 years	13,463	2,650	16,113	11.00
3 – 5 years	16,362	2,696	19,058	13.00
5 – 7 years	15,561	2,717	18,278	12.47
7 years and above	75,249	9,140	84,389	57.59
Information not furnished by the Government	1,478	0	1,478	1.01
Total	1,28,025	18,510	1,46,535	100

Source: Finance Accounts



Source: Finance Accounts

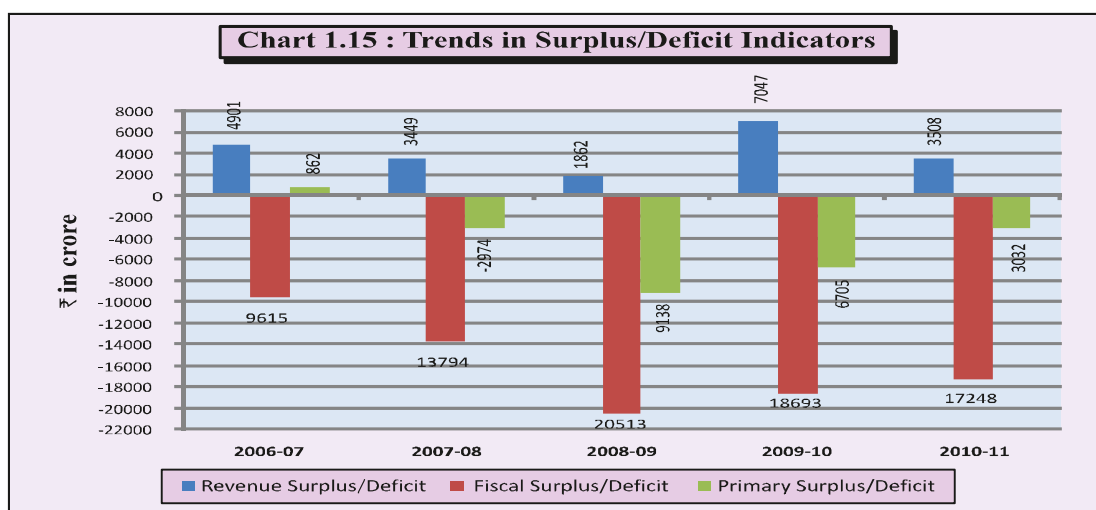
As above chart indicates, there will be bunching of repayment immediately after one year and after seven years the repayment burden will be critical. A well thought out debt re-payment strategy will ensure that no additional borrowings which mature during these critical years are undertaken.

1.11 Fiscal imbalances

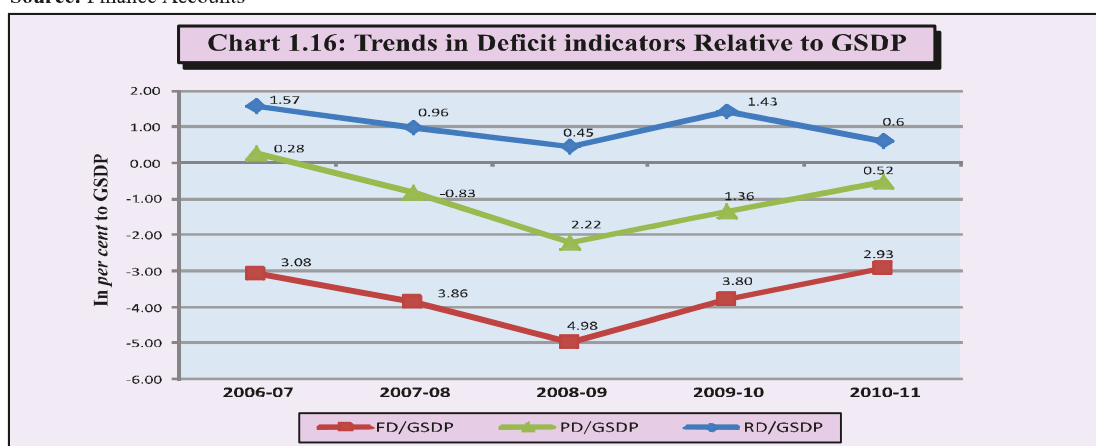
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit 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. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits, *vis-à-vis*, targets set under FRBM Act/Rules for the financial year 2010-11.

1.11.1 Trends of deficits

Chart 1.15 and 1.16 present the trends in deficit indicators over the period 2006-11.



Source: Finance Accounts



Source: Finance Accounts

As per the fiscal target set for the Government in the Fiscal Responsibility and Budget Management Act, 2004, the revenue deficit was to be reduced to nil by March 2010. It was further amended vide FRBM (second amendment) Act 2011 by setting the target of revenue deficit as nil and fiscal deficit to three *per cent* of GSDP by the end of the year 2011-12. However, the State achieved this target three years ahead in 2006-07 when the huge deficit turned into surplus of ₹ 4,901 crore in 2006-07 which, declined to ₹ 3,449 crore during 2007-08 and further to ₹ 1,862 crore during 2008-09. It increased to ₹ 7,047 crore in 2009-10 but again decreased to ₹ 3,508 crore in 2010-11. The decline in revenue surplus during 2010-11 was mainly due to increase of ₹ 18,302 crore in revenue expenditure against the increase of ₹ 14,763 crore only in revenue receipts relative to previous year.

The fiscal deficit decreased from ₹ 18,693 crore in 2009-10 to ₹ 17,248 crore in 2010-11 mainly due to decrease in capital expenditure by 19 *per cent* over the previous year which declined from ₹ 25,091 crore in 2009-10 to ₹ 20,273 crore in 2010-11. As a result, relative to GSDP, the fiscal deficit has declined from 3.80 *per cent* in 2009-10 to 2.93 *per cent* in 2010-11 which was below the revised FRBM norm of three *per cent*.

The primary deficit of ₹ 3,032 crore in 2010-11 declined from the level of ₹ 6,705 crore in 2009-10, primarily due to the decline in fiscal deficit in 2010-11 relative to the previous year.

1.11.2 Components of fiscal deficit and its financing pattern

Fiscal deficit is the total borrowing requirement of the State and is the excess of the revenue expenditure and capital expenditure including loans and advances over revenue and non debt capital receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts. The financing pattern of the fiscal deficit is reflected in the **Table 1.29**.

Table 1.29: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit						
Fiscal deficit (1 to 3)		9,615 (3.08)	13,794 (3.86)	20,513 (4.98)	18,693 (3.80)	17,248 (2.93)
1	Revenue Deficit/Surplus (-)	(-) 4,901	(-) 3,449	(-) 1,862	(-) 7,047	(-) 3,508
2	Net Capital Expenditure	13,984	16,950	22,346	25,091	20,273
3	Net Loans and Advances	532	293	29	649	483
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	2,219	2,628	10,296	11,421	10,074
2	Loans from GOI	(-) 1795	(-) 821	(-) 778	(-) 917	(-) 937
3	Special Securities Issued to NSSF	5,831	1,423	426	3,899	5,415
4	Loans from Financial Institutions	131	1,068	628	418	(-) 541
5	Small Savings, PF etc.	2,733	2,451	2,944	3,870	4,871
6	Deposits and Advances	1,794	2,683	(-) 2,525	93	1,843
7	Suspense and miscellaneous	2,277	654	973	(-) 1,365	757
8	Remittances	407	273	78	3	367
9	Others (i.e. transactions under Contingency Fund, Reserve Fund, Cash Balances Investment)	(-) 3,982	3,435	8,471	1,271	(-) 4,601
Total		9,615	13,794	20,513	18,693	17,248
Figures in brackets indicate the <i>per cent</i> to GSDP.						
*All these figures are net of disbursements/outflows during the year						

Source: Finance Accounts

Fiscal deficit during 2006-11 ranged between ₹ 9,615 crore (2006-07) and ₹ 20,513 crore (2008-09). The fiscal deficit, relative to previous year, decreased by eight *per cent*, from ₹ 18,693 crore to ₹ 17,248 crore during 2010-11. Reduction of 19 *per cent* in capital expenditure over the previous year was a major factor contributing to the decline in the fiscal deficit during the current year.

There was also a compositional shift in the pattern of financing fiscal deficit in 2010-11 relative to the previous years. The role of market borrowings, Special Securities issued to the National Small Savings Fund of the Central Government and Small Savings and Provident Funds, etc., underwent significant changes in the current year.

Market borrowings dominantly continued to finance the fiscal deficit of the State during 2006-11. During 2006-07, 23 *per cent* of the deficit was met from the market borrowings which increased to 58 *per cent* during 2010-11. Another major source of financing the deficit was the National Small Saving Fund loans. During 2010-11, its share in financing the deficit was 31 *per cent* which though financed the deficit to the extent of 61 *per cent* in 2006-07.

1.11.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.30**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State.

Table 1.30: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	60,956	45,222	13,984	888	60,094	(+) 15,734	(+) 862
2007-08	69,121	54,403	16,950	742	72,095	(+) 14,718	(-) 2,974
2008-09	78,609	64,594	22,346	807	87,747	(+) 14,015	(-) 9,138
2009-10	96,714	77,386	25,091	942	1,03,419	(+) 19,328	(-) 6,705
2010-11	1,11,669	93,460	20,273	968	1,14,701	(+)18,209	(-)3,032

Source: Finance Accounts

The Government, during 2006-07 for the first time, had a primary surplus of ₹ 862 crore. This turned into deficit in the succeeding years as non-debt receipts were not sufficient to meet enhanced capital expenditure. If this trend continues, debt sustainability

will be jeopardised as ideally non-debt receipts every year should not only cover primary expenditure but also incremental interest burden.

1.12 Conclusion and recommendations

Revenue receipts: The revenue receipts increased by 15 *per cent* during 2010-11 over the preceding year mainly due to 21 *per cent* increase in tax revenue and 37 *per cent* increase in share of union taxes. Revenue receipts of ₹ 1,11,184 crore were very close to the target set under the Mid Term Fiscal Restructuring Policy (MTFRP) for 2010-11 (₹ 1,11,621 crore). Tax revenue which is a major constituent of the revenue receipt was below the target of MTFRP by ₹ 1,196 crore while it was above the projection made by Thirteenth Finance Commission by ₹ 3,806 crore. Similarly non tax revenue was also below the target of MTFRP by ₹ 3,809 crore but was above the normative assessment made by the 13th FC by ₹ 3,577 crore.

Revenue expenditure: During 2010-11, the revenue expenditure increased by 20 *per cent* (₹ 18,302 crore) relative to 2009-10. Within revenue expenditure, plan expenditure increased by ₹ 5,338 crore (34 *per cent*) over the previous year and the non-plan expenditure increased by ₹ 12,964 crore (18 *per cent*). The increases under plan expenditure show growth of infrastructure and services network of the State. The revenue expenditure as a percentage of total expenditure increased from 77 *per cent* in the previous year to 83 *per cent* in the current year. The committed expenditure on salary, pension, interest payments and subsidies constituted 82 *per cent* of the non-plan revenue expenditure during 2010-11. ***It is advisable for the Government to redefine its expenditure pattern by cutting down unproductive expenditure and to incur more plan expenditure for the growth of infrastructure facility especially in information and broadcasting, energy and transport sectors.***

Priority to economic and social sector expenditure: The fiscal priority given to development, social and education sectors was not adequate in 2010-11 as their ratio to aggregate expenditure was less than the General Category States Average except education which was marginally higher, development and social sectors were also less than the general category states in 2007-08. ***In view of the literacy rate in the State being much below the All India Average and the infant mortality being higher than the All India Average, the Government may consider re-prioritising its public expenditure by giving priority to the Social Sector.***

Resource mobilisation: There had been increasing trend in generation of State's own revenues all along the period 2006-11. Tax revenue-GSDP ratio remained constant around 7 *per cent* and non-tax revenue-GSDP ratio substantially decreased from 2.77 *per cent* in 2009-10 to 1.90 *per cent* in 2010-11. The sharp decrease in non-tax revenue-GSDP ratio during 2010-11 was mainly due to decrease under misc. general services. ***The Government should mobilise additional resources by expanding the tax base and rationalisation of user charges.***

Review of Government investments: The average return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operatives was

0.033 per cent in the last three years, whereas its average interest outgo on its borrowings was 6.67 per cent during the corresponding period. This is clearly an unsustainable proposition. *The State Government should therefore, seek better value for money in investments. Otherwise, high-cost of borrowed funds invested in projects with low financial return will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritised with full justification for the high-cost borrowings. The working of State-owned public sector undertakings, incurring huge losses may be reviewed and appropriate decision for their closure or otherwise may be taken depending on their strategic value and revival potential.*

Debt sustainability: The debt-GSDP ratio was 38 per cent at the end of 2010-11. The Government of Uttar Pradesh was able to achieve the normative debt-GSDP ratio of 42 per cent by the year 2014-15 as specified in FRBM (second amendment 2011) Act. Nearly 92 per cent of borrowed funds were used for discharging debt liabilities in last three years. The Government was maintaining a sinking fund but the balances may not be sufficient for amortisation of loans.

Revenue surplus: The revenue surplus decreased from ₹ 7,047 crore in 2009-10 to ₹ 3,508 crore in 2010-11. Though the ratio of fiscal deficit to GSDP reduced from the level of 3.80 per cent in 2009-10 to 2.93 per cent in 2010-11, it was due to decrease in capital expenditure by ₹ 4,818 crore in 2010-11 over the previous year. There is much scope of improving it by recovery of cost of maintenance of the irrigation projects, timely completion of projects of Irrigation and Public Works departments and making these a source of revenue.

Cash Balances: *The Government having large cash balances should make efforts towards utilising these before resorting to fresh borrowings.*

Oversight of funds transferred directly from the Government of India to the State implementing agencies: The Government of India directly transferred substantial amount of funds to the State Implementing Agencies, which is fraught with the risk of their improper utilisation by these agencies. As there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes. *A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General.*