

Chapter

**I**

# FINANCES OF THE GOVERNMENT

### 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 20.28 crore<sup>1</sup> (2012). 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 Gross State Domestic product (GSDP) growth of the state stood at a lower rate of 12.77 *per cent* in the last decade as compared to the average GSDP growth of General Category States of 14.46 *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

The State Government presented (February 2011) budget for the financial year 2011-12 against the backdrop of price instability and economic slowdown. The Government in its budget speech, recognizing the need for economic and social empowerment and educational upliftment of socially disadvantaged groups and marginalized section of the society, proposed provisions of ₹ 10,084 crore under various social security schemes. Similarly, the Government proposed a provision of ₹ 4,761 crore for welfare of women and children. Towards infrastructure, the Government proposed a provision of ₹ 8,227 crore for the energy sector. The Government also proposed substantial provisions for roads and bridges, irrigation, urban development, agriculture and other allied activities etc. Following the recommendations of the Thirteenth Finance Commission, the State Government took several initiatives such as addressing power losses in a time bound manner and attempting reduction in transmission and distribution losses of power under energy sector.

During 2011-12, there has been an increase in GSDP. It stood at ₹ 6,87,836 crore relative to ₹ 5,88,467 crore in 2010-11. The growth rate of GSDP, all along the years 2007-12, ranged between 14.37 *per cent* and 19.78 *per cent*. Though the outstanding fiscal liabilities of the State stood at ₹ 2,43,229 crore at the close of 2011-12, the growth rate was lower as compared to the previous year. However, as percentage to GSDP, the fiscal liability declined from 48.73 in 2007-08 to 35.36 in 2011-12. The economy of the State has been experiencing revenue surpluses since 2004 and at the end of the current fiscal year the primary deficit was completely wiped out and the State had primary surplus.

This chapter provides an audit perspective on finances of the Government of Uttar Pradesh during the year 2011-12 and analyses changes observed in the

<sup>1</sup> Provisional.

major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

The analysis is based on the Finance Accounts of Government of Uttar Pradesh and information provided therein. The structure of the Government Accounts has been explained in *Appendix 1.2 Part A* and the layout of Finance Accounts is depicted in *Appendix 1.2 Part B*.

## 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 (2011-12), *vis-à-vis*, previous year (2010-11), while *Appendix 1.3* presents abstract of receipts and disbursements as well as overall fiscal position during the current year.

**Table 1.1: Summary of Fiscal Transactions**

(₹ in crore)

Receipts			Disbursements						
	2010-11	2011-12	2010-11				2011-12		
Section A									
Items	Total	Total	Items	Non plan	Plan	Total	Non plan	Plan	Total
Revenue Receipts	1,11,183.76	1,30,869.70	Revenue expenditure	86,636.08	21,039.53	1,07,675.61	1,01,269.25	22,615.92	1,23,885.17
Tax revenue	41,109.85	52,613.43	General services	47,031.83	987.34	48,019.17	52,345.19	601.73	52,946.92
Non-Tax Revenue	11,176.21	10,145.30	Social services	23,737.14	15,829.56	39,566.70	29,781.35	17,609.59	47,390.94
Share of Union Taxes/ Duties	43,464.05	50,350.95	Economic services	11,502.40	4222.63	15,725.03	13,887.61	4,404.60	18,292.21
Grants from Gol	15,433.65	17,760.02 <sup>2</sup>	Grants-in-aid & Contributions	4,364.71	-	4,364.71	5,255.10	-	5,255.10
Section B									
Miscellaneous Capital Receipts	-	-	Capital Outlay	691.72	19581.08	20,272.80	838.86	20,735.10	21,573.96
Recoveries of Loans and Advances	485.17	133.17	Loans and Advances disbursed	350.94	617.28	968.22	561.09	414.48	975.57
Public Debt Receipts <sup>3</sup>	21,394.08	19,652.30	Repayment of Public Debt	7,383.08	-	7,383.08	8,287.61	-	8,287.61
Contingency Fund	-	39.89	Contingency Fund	39.90	-	39.90	309.64	-	309.64
Public Account Receipts	1,27,649.22	1,38,449.36	Public Account disbursements	1,17,472.99	-	1,17,472.99	1,30,970.76	-	1,30,970.76
Opening Cash Balance	3,405.36	10,304.99	Closing Cash Balance	10,304.99	-	10,304.99	13,446.70	-	13,446.70
Total	2,64,117.59	2,99,449.41	Total	2,22,879.70	41,237.89	2,64,117.59	2,55,683.91	43,765.50	2,99,449.41

Source: Finance Accounts 2011-12

Following are the significant changes during 2011-12 over the previous year:

- **Revenue Receipts** increased by ₹ 19,685.94 crore (18 *per cent*) over that of the previous year. The increase was mainly contributed by tax revenue (₹ 11,503.58 crore; 28 *per cent*) and Share of Union Taxes

<sup>2</sup> Includes Grants for Centrally Sponsored Plan Schemes of ₹ 6,337.44 crore.

<sup>3</sup> Includes net transactions under 'Ways and Means Advances'.

(₹ 6,886.90 crore; 16 percent). **Revenue Receipts of ₹ 1,30,869.70 crore was below the revised estimates of ₹ 1, 37,622.09 by ₹ 6,752.39 crore.**

- **Tax Revenue** increased by ₹ 11,503.58 crore (28 per cent) over the previous year. The increase was mainly contributed by the Taxes on Sales, Trade etc. (₹ 8,270 crore; 33 per cent), State Excise (₹ 1,416 crore; 21 per cent) and Stamps and Registration Fee (₹1,719 crore; 29 per cent) over the previous year. *The Tax Revenue at ₹ 52,613 crore was above the normative assessment made by the Thirteenth Finance Commission (₹ 41,811 crore).*
- **Non-tax Revenue** decreased by ₹ 1,031 crore (nine per cent) over the previous year. *It was below the normative projection made in Thirteenth Finance Commission (₹ 1,661 crore) and the revised estimates (₹ 3,415 crore). This was mainly due to decrease in Miscellaneous General Services (₹ 1,085 crore; 21 per cent) and Education, Sports, Art and Culture (₹ 606 crore; 23 per cent).*
- **Grants-in-aid** from the Government of India increased by ₹ 2,326 crore (15 per cent) over the previous year. *Grants-in-aid from Government of India were ₹ 17,760 crore against the revised estimates (₹ 21,276 crore). The receipts of ₹ 17,760 crore included ₹ 6,337 crore on account of Centrally Sponsored Schemes during 2011-12.*
- **State's Share in Union Taxes and Duties (₹ 50,351 crore)** increased by ₹ 6,887 crore (16 per cent) over the previous year. However, the *Share was lower than the Revised Budget Estimates (₹ 51,920 crore) by ₹ 1,569 crore.*
- **Revenue Expenditure** increased by ₹ 16,209 crore (15 per cent) over the previous year. *However it was lower than the Revised Estimates (₹ 1,29,646 crore).*
- **Within Revenue Expenditure**, Non-plan Expenditure increased by ₹ 14,633 crore (17 per cent) and plan expenditure increased by ₹ 1,576 crore (seven per cent) over the previous year. *Non-plan Revenue Expenditure was far ahead of the Thirteenth Finance Commission's normative projections by ₹ 36,848 crore (57 per cent).*
- **Capital Expenditure** increased by ₹ 1,301 crore (six per cent) over the previous year *mainly due to increase in Capital Outlay in Water Supply, Sanitation, Housing and Urban Development under Social Sector.*
- **Recovery of Loans and Advances** decreased by ₹ 352 crore (73 per cent) over the previous year *which fell short by ₹ 404 crore (75 per cent) than the Budget Estimates (₹ 537 crore). Disbursement of Loans and Advances (₹ 976 crore) was also lower than the Revised Budget Estimates (₹ 1,240 crore).*
- **Public Debt Receipts** decreased by ₹ 1,742 crore (eight per cent) over the previous year showing improvement in the State's debt management.



However, repayment increased by ₹ 905 crore (12 *per cent*) over the previous year.

- Increase in **Public Accounts Receipts** by ₹ 10,800 crore (eight *per cent*) was observed over the previous year, mainly due to increase of balances under Suspense and Miscellaneous head (₹ 13,491 crore; 18 *per cent*) partly offset by decrease in Deposits and Advances (₹ 5010 crore; 32 *per cent*).
- **Public Accounts Disbursement and Disbursements from the Contingency Fund** registered an increase by ₹ 13,498 crore (11 *per cent*) and ₹ 269.74 crore (676 *per cent*) over the previous year.
- **Cash Balances** at the close of 2011-12 (₹ 13,447 crore) increased by ₹ 3,142 crore (30 *per cent*) from the level of ₹ 10,305 crore in the previous year.

### 1.3 Fiscal Reforms

In February 2004, Government of Uttar Pradesh responded to the recommendations of the Twelfth Finance Commission by legislating the Fiscal Responsibility and Budget Management Act, 2004 (FRBM) and setting out a reform agenda of long-term goal of securing growth with stability for its economy. The Government enacted the Act for ensuring fiscal stability and sustainability, and enhancing scope for improving the social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on borrowings, Government guarantees, debt and deficits, greater transparency in fiscal operations and use of a medium term fiscal frame work and for matters connected therewith or incidental thereto. Under the Act, the State Government was also made responsible to lay Medium Term Fiscal Restructuring Policy along with the annual budget in the House, setting forth five year rolling targets for fiscal indicators and make rules for carrying out provisions of the Act. The Fiscal Responsibility and Budget Management Rules were notified in October 2006. The following fiscal targets were set therein to give effect to the principles of fiscal management as laid down in the Act.

- Reduce revenue deficit to nil within a period of five financial years beginning from 1<sup>st</sup> day of April 2004 and ending on 31<sup>st</sup> day of March 2009.
- Reduce fiscal deficit to not more than three *per cent* of estimated Gross State Domestic Product. However, considering overall slowdown in the economy, the Government of India had allowed the States to increase their fiscal deficit to as much as four *per cent* of their Gross State Domestic Product.
- Ensure within a period of 14 financial years, beginning from the initial financial year on 1<sup>st</sup> day of April 2004 and ending on the

31 March 2018, that the total liabilities at the end of last financial year do not exceed 25 *per cent* of the estimated Gross State Domestic Product for that year.

- Ensure not to give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of the Act or any rules or law to be made by the State Government subsequent to coming into force of this Act.
- Further, the revenue deficit and fiscal deficit may not exceed the limits specified in the Act except on the ground(s) of unforeseen demands arising out of internal disturbances or natural calamities subject to the condition that the excess does not exceed the actual fiscal cost attributed to the calamities.

The State Government also responded to the recommendations of the Thirteenth Finance Commission by amending FRBM Act, 2004 and developed its own Fiscal Consolidation Path for the years 2011-12 to 2014-15 with the key aim to eliminate revenue deficits and to bring about gradual reductions in fiscal and debt levels by 2014-15. The details are given in **Table 1.2**.

**Table 1.2: Fiscal Consolidation Path**

Year	Fiscal Deficit	Total Liability (in <i>per cent</i> )
2011-12	Not more than 3 <i>per cent</i> of GSDP	46.9
2012-13	Not more than 3 <i>per cent</i> of GSDP	45.1
2013-14	Not more than 3 <i>per cent</i> of GSDP	43.4
2014-15	Not more than 3 <i>per cent</i> of GSDP	41.9

Source: Uttar Pradesh Government Gazette Notification

While the aforesaid augurs well for medium-term fiscal sustainability of the Government, the eventual outcome would be shaped by the microeconomic conditions.

The performance of the State during 2011-12 in terms of the key fiscal targets set in FRBM Act as recommended by the Thirteenth Finance Commission are given in **Table 1.3**.

**Table 1.3: Performance of the State during 2011-12**

Key fiscal targets	Targets set in FRBM Act	Actuals (₹ in crore)
Revenue deficit (-) / surplus (+)	Nil deficit	(+) 6,984
Fiscal deficit (-) / GSDP ( <i>per cent</i> )	Not more than three <i>per cent</i> of GSDP i.e. ₹ (-) 20,635 crore	(-) 15,433
Total liability to GSDP	46.9 <i>per cent</i> of GSDP i.e. ₹ 3,22,595 crore	2,43,229

Source: Uttar Pradesh Government Gazette Notification

**Table** above indicates that while the Government had a revenue surplus, the fiscal deficit and total liability to GSDP were contained. This indicated that the Government had achieved the targets set in FRBM Act in regard to revenue, fiscal deficit and total liability.

The Government intimated (September 2012) that the receipts and expenditure were monitored continuously to ensure that the aforesaid targets were not violated.

## 1.4 Budget 2011-12

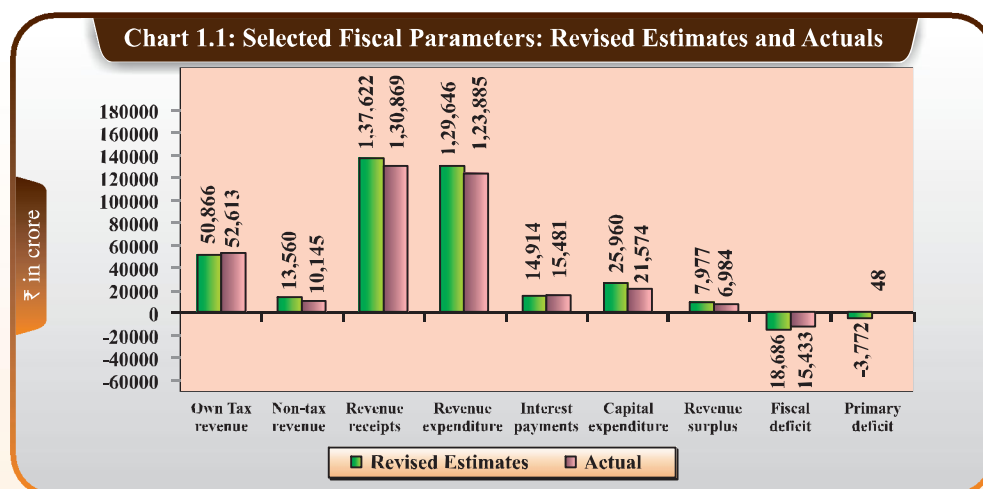
### 1.4.1 Revised Estimates

The revised estimates indicated the policy measures of the Government. On the revenue receipt side, the Government aimed at augmenting tax revenues mainly from the Government of India under Share from Union Taxes and Duties (₹ 73,196 crore) and on the expenditure side, focused at Social Services (revenue expenditure: ₹ 51,259 crore; capital expenditure: ₹ 6,835 crore) and to some extent the Economic Services (revenue expenditure: ₹ 20,291 crore; capital expenditure: ₹ 17,260 crore). On the fiscal side, the Government estimated revenue surplus, and fiscal and primary deficits.

### 1.4.2 Actuals vis- a- vis Revised Estimates

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 could be on account of unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation.

The budgeted and actual figures for important fiscal parameters for the year 2011-12 are shown in **Chart 1.1** and *Appendix 1.4*.



Source: Budget and Finance Accounts

- During 2011-12, the **Actual Revenue Receipts** (₹ 1,30,869 crore) fell short by ₹ 6,752 crore of the revised estimates (₹ 1,37,622 crore). However, within the revenue receipts, the actual collection of **Own Tax Revenue** during the year increased by ₹ 1,747 crore (three per cent) over

the revised estimates and **Non-tax Revenue** for the year decreased by ₹ 3,415 crore (25 *per cent*). The increase in **Own Tax Revenue** was mainly due to increase in Taxes on Sales, Trade etc. (₹ 1,543 crore; five *per cent*) and Land Revenue (₹ 245 crore; 100 *per cent*). The decrease in **Non-tax Revenue** over the Revised Estimates for the year was mainly due to decrease in Other Non-Tax Revenue (₹ 2485 crore).

- During the year 2011-12, the **Revenue Expenditure** decreased (₹ 5,760 crore) relative to the Revised Estimates. The decreases were noticed in Development Expenditure (Social Services: ₹ 3,868 crore; eight *per cent* and Economic Services: ₹ 1,998 crore; 10 *per cent*).
- Within the **Social Services**, the decrease was mainly contributed by less expenditure in Education, Sport, Art and Culture (₹1,869 crore) followed by ₹ 1,107 crore in Social Welfare and Nutrition. Similarly, within the **Economic Services**, the decrease was mainly contributed by less expenditure in Agriculture and Allied Services (₹ 850 crore) followed by Irrigation and Flood Control (₹ 792 crore) partly counter balanced by more expenditure under Transport (₹ 103 crore).
- During the year 2011-12, **Interest Payments and Servicing of Debt** exceeded by ₹ 594 crore (three *per cent*) over the Revised Estimates of ₹ 23,514 crore.
- **Capital Expenditure vis-à-vis Revised Estimates** fell short by ₹ 4,386 crore (17 *per cent*). It was mainly due to less expenditure on Social Services by ₹ 1,648 crore (24 *per cent*) followed by Economic Services and General Services by ₹ 2,016 crore (12 *per cent*) and ₹ 721 crore (39 *per cent*) respectively.
- **Revenue Surplus** was less by ₹ 993 crore (12 *per cent*) over the revised projections (₹ 7,977 crore). However, the **Fiscal Deficit** improved by ₹ 3,253 crore (17 *per cent*) from the estimated budget projections (₹ 18,686 crore). Alongside, the revised estimate of **Primary Deficit** of ₹ 3,772 crore turned into Primary Surplus of ₹ 48 crore.

It can also be seen from the **Chart 1.1** that the pattern of expenditure varied from what was originally envisaged at the stage of budget formulations for the year 2011-12. Substantial variations of actuals *vis-a-vis* estimates for 2011-12 under various Sectors/Sub-sectors is also detailed in **Appendix 1.4**.

### 1.4.3 Grants received under recommendations of the Thirteenth Finance Commission

To improve various organs of the State Government, the Thirteenth Finance Commission recommended grants for the Government. The financial status of some of the grants is given in **Table 1.4**.

**Table 1.4: Financial status of The Thirteenth Finance Commission grants**  
(₹ in crore)

Number and Name of Grant	Budgeted amount	Status		
		Surrenders	Savings	Total
13 Agriculture and Other Allied Department (Rural Development)	50.00	Nil	34.36	34.36
14 Agriculture and other Allied Department (Panchayati Raj)	992.77	Nil	55.87	55.87
37 Urban Development Department	429.35	Nil	259.37	259.37
40 Planning Department	118.00	Nil	118.00	118.00
42 Judicial Department	106.11	81.16	-	81.16
58 Public Works Department	62.50	Nil	62.50	62.50
92 Culture Department	25.00	Nil	25.00	25.00
94 Irrigation Department (Works)	341.00		326.25	326.25
<b>Total</b>	<b>2,124.73</b>	<b>81.16</b>	<b>881.35</b>	<b>962.51</b>

Source: Appropriation Accounts for the year 2011-12

Thus, it can be seen from the above **Table 1.4** that out of the total budgeted amount of grants received by the Government under recommendations of the Thirteenth Finance Commission (₹ 2,124.73 crore), an amount of ₹ 962.51 crore constituting 45 *per cent* of the total amount was either surrendered to the Government (₹ 81.16 crore) or lapsed to the Government account (881.35 crore) at the close of 2011-12.

## 1.5 Resources of the State

### 1.5.1 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 (GoI). Capital Receipts comprise Miscellaneous Capital Receipts such as Proceeds from Disinvestments, Recoveries of Loans and Advances, Debt Receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from the Public Account.

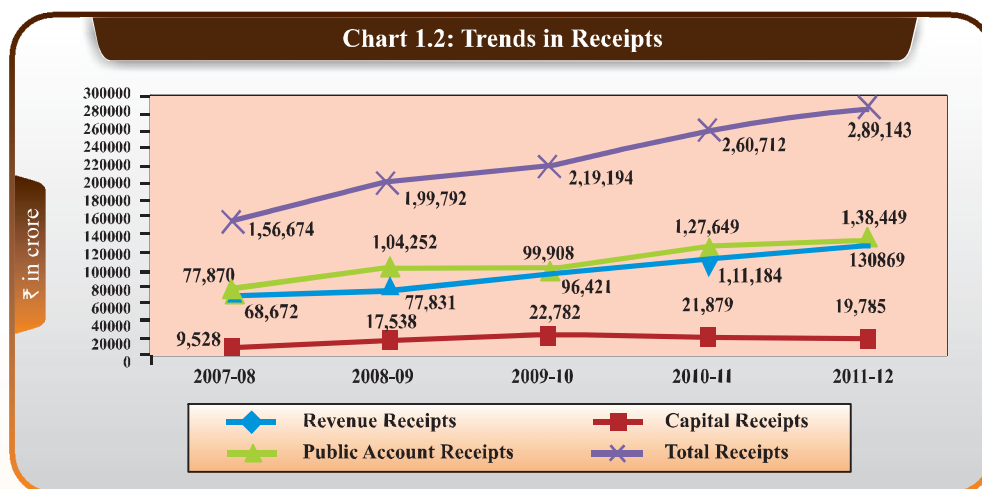
**Table 1.5** and **Chart 1.2** depict the trends in various components of the receipts during 2007-12. **Chart 1.3** depicts composition of resources of the State during 2011-12.

Table 1.5: Trends in Growth and Composition of Aggregate Receipts

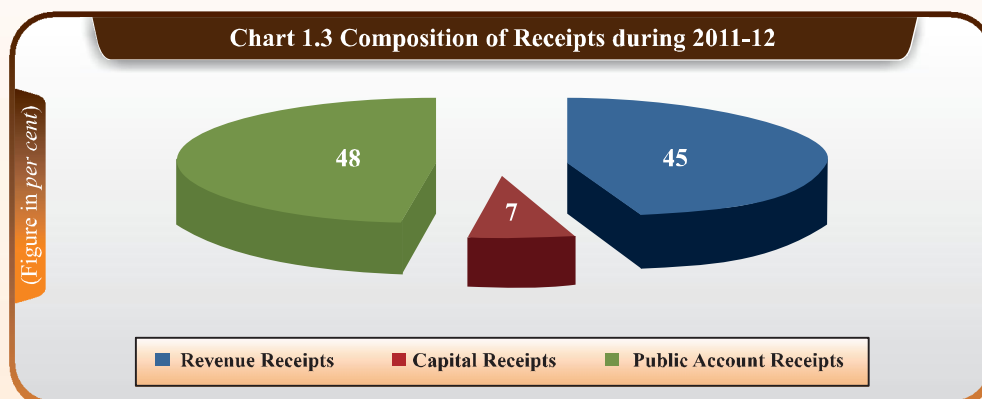
(₹ in crore)

Sources of State's Receipts	2007-08	2008-09	2009-10	2010-11	2011-12
<b>I Revenue Receipts</b>	68,672	77,831	96,421	1,11,184	1,30,869
<b>II Capital Receipts</b>	9,528	17,538	22,782	21,879	19,785
Recovery of Loans and Advances	449	778	293	485	133
Public Debt Receipts	9,079	16,760	22,489	21,394	19,652
Growth rate of debt capital receipts (in per cent)	(-) 22	85	34	(-)5	-8
Growth rate of non-debt capital receipts (in per cent)	26	73	(-) 62	66	-73
Growth rate of GSDP	14.37	15.27	19.20	19.78	16.89
<b>III Contingency Fund</b>	604	171	83	-	40
<b>IV Public Account Receipts</b>	77,870	1,04,252	99,908	1,27,649	1,38,449
a. Small Savings, Provident Fund, etc.	5,312	6,511	8,156	9,857	9,539
b. Reserve Fund	4,019	3,628	5,825	8,577	10,255
c. Deposits and Advances	19,450	22,656	17,260	15,560	10,551
d. Suspense and Miscellaneous	35,808	52,278	40,084	75,907	89,398
e. Remittances	13,281	19,179	28,583	17,748	18,706
<b>V Total Receipts</b>	<b>1,56,674</b>	<b>1,99,792</b>	<b>2,19,194</b>	<b>2,60,712</b>	<b>2,89,143</b>

Source: Finance Accounts



Source: Finance Accounts



Source: Finance Accounts



The Total Receipts of the State Government for the year 2011-12 was ₹ 2,89,143 crore. Of this, ₹ 1,30,869 crore was Revenue Receipts, ₹ 19,785 crore Capital Receipts, ₹ 40 crore Contingency Fund Receipts and the remaining ₹ 1,38,449 crore Public Accounts Receipts. Further, the Total Receipts of the State increased by ₹ 1,32,469 crore (85 *per cent*) from the level of ₹ 1,56,674 crore in 2007-08 to the level of ₹ 2,89,143 crore in 2011-12, of which increase in Revenue Receipts was 91 *per cent*; Capital Receipts 108 *per cent* and Public Account Receipts 78 *per cent* during the period. The increase of ₹ 1,38,449 crore was mainly shared between Revenue Receipts (₹ 62,197 crore) and Public Account Receipts (₹ 60,579).

The share of Revenue Receipts to the Total Receipts of the Government was 45 *per cent*, while that of Public Accounts Receipts 48 *per cent* and the Capital Receipts seven *per cent*. A meager amount of ₹ 40 crore was also drawn from the Contingency Fund.

Within the Capital Receipts, the Growth rate of Debt Capital Receipts declined from minus 22 *per cent* in 2007-08 to minus eight *per cent* in 2011-12. Apart from this, the recovery of Loans and Advances dipped from the level of ₹ 449 crore during 2007-08 to the level of ₹ 133 crore during 2011-12. Within the Public Accounts Receipts, the Suspense and Miscellaneous increased by 150 *per cent*. The rate of growth of Non-debt Capital Receipts decreased from 66 *per cent* in the previous year to minus 73 *per cent* during the current year.

### ***1.5.2 Funds Transferred to the State Implementing Agencies outside the State Budget***

GoI transfers funds directly to the State Implementing Agencies<sup>4</sup> 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. Direct transfer of funds from GoI to the State Implementing Agencies require to be accompanied by adequate control mechanisms for effective oversight of utilisation of funds, in the absence of which it could impact and inhibit the Fiscal Responsibility and Budget Management Act's requirement of transparency in fiscal operations and accountability.

The position of transfer of funds directly to the State Implementing Agencies by GoI is presented in **Table1.6**.

<sup>4</sup> 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.



**Table 1.6: Funds Transferred directly by GoI to the State Implementing Agencies**  
(₹ in crore)

S. No.	Programme/Scheme	Implementing Agency	2010-11	2011-12
1	Mahatma Gandhi National Rural Employment Guarantee Scheme	Commissioner Rural Development	5,266.59	4,240.48
2	Pradhan Mantri Gram Sadak Yojna	UP Rural Road Development Agency Lucknow	1,278.83	213.77
3	Sarva Siksha Abhiyan	Director UP Education For All Project Board Lucknow	3,104.63	2,097.33
4	National Rural Health Mission Normal	Director Health and Family Welfare	1,691.21	505.90
5	Indira Awas Yojna	Commissioner, Rural Development, Lucknow	1,151.00	1,680.43
6	Accelerated Rural Water Supply Scheme	Managing Director, UP Jal Nigam, Lucknow	421.60	802.32
7	Swarn Jayanti Gram Swarajgar Yojna	Commissioner, Rural Development, Lucknow	222.33	271.78
8	MPs Local Area Development Scheme	District Magistrate	207.00	276.00
9	Integrated Water Shed Management Programme	District Rural Development Agencies	151.73	168.91
10	Total Sanitary Campaign	Director Panchayati Raj Institutions Lucknow	225.94	169.20
11	Swarn Jayanti Shahari Rojgar Yojna	State Urban Development Agencies Uttar Pradesh	73.24	57.73
12	District Rural Development Agency Administration (DRDA Admn.)	Commissioner Rural Development Lucknow	43.18	63.26
13	Handlooms	Director Handloom and Textiles UPSG (PSU's)	0.61	0.04
14	Research and Development Support SERC	Different Statutory Bodies etc. e.g. IIT Kanpur, Banaras Hindu University	477.54	26.53
15	Integrated Oil Seeds, Oil Palm, Pulses, Maize Development	Different Government Autonomous Bodies	5.17	6.67
16	Medicinal Plants	Government Autonomous Bodies	5.08	1.80
17	Science and Technology Programme for Socio-Economic Development	Voluntary Institute for Community Applied Science	5.60	85.38
18	National Mission on Nano Science and Nano Technology	University of Allahabad	15.34	6.31
19	Technology Development Programme	National Research Centre for Agro Forestry	0.47	5.28
20	International Cooperation S&T	Central and State Statutory Bodies PSU's etc.	0.37	1.71
21	Assistance to Panchyati Raj Institutions Voluntary Organisation Self-Help	Different NGO's As Saheed Memorial Societies	0.98	1.68
<b>Total</b>			<b>14,348.44</b>	<b>10,682.51</b>

Source: Finance Accounts

Though the funds directly transferred by GoI to the State Implementing Agencies for implementation of various schemes/programmes, declined by 26 *per cent* during the current year *vis-a-vis* the previous year, a sizeable quantum of funds were transferred to Mahatma Gandhi National Rural Employment Guarantee Scheme (40 *per cent* of the total funds

transferred), *Sarva Shiksha Abhiyan* (20 per cent of the total funds transferred) and *Indira Avas Yojna* (16 per cent of the total funds transferred).

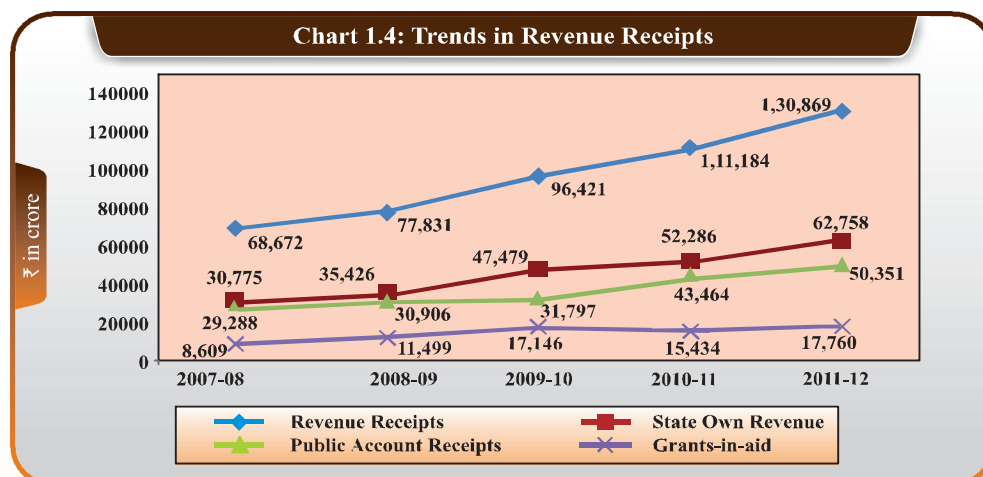
Significant decreases of ₹ 1,026.11 crore (19 per cent) under Mahatma Gandhi National Rural Employment Guarantee Scheme, ₹ 1,065.06 crore (83 per cent) under *Pradhan Mantri Gramin Sadak Yojna*, ₹ 1,007.30 crore (32 per cent) under *Sarva Shiksha Abhiyan* and ₹ 1,185.31 (70 per cent) under National Rural Health Mission, were noticed during 2011-12 over the previous year. Likewise, there were significant increases of ₹ 529.43 (46 per cent) under *Indira Avas Yojna* and ₹ 380.72 crore (90 per cent) under Accelerated Rural Water Supply Scheme during 2011-12 over the previous year.

## 1.6 Revenue Receipts

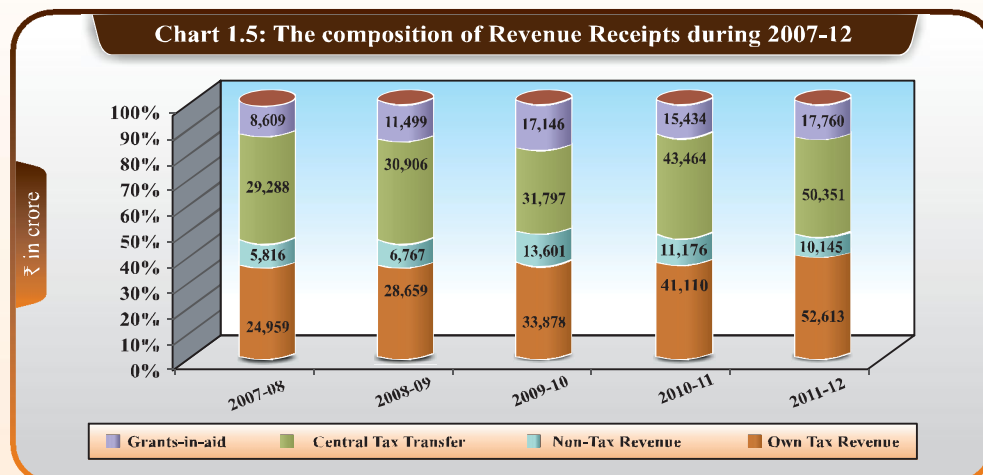
Revenue Receipts consist of State's own Tax and Non-tax revenues, Central Tax Transfers and Grants-in-aid from GoI. **Statement-11** of the Finance Accounts of 2011-12 depicts the Revenue Receipts of the Government.

### 1.6.1 Trends and Composition of Revenue Receipts

Trends and composition of Revenue Receipts over the period 2007-12 is presented in **Appendix 1.5** and also depicted in **Chart 1.4** and **1.5** respectively.



Source: Finance Accounts



Source: Finance Accounts

### General Trends

- During 2011-12, Revenue Receipts of the State increased by ₹ 19,685 crore over the previous year. All along the years 2007-12, the Revenue Receipts grew steadily from ₹ 68,672 crore to ₹ 1,30,869 crore.
- During 2011-12, 48 *per cent* the revenue came from own sources and the remaining from GoI as State's Share in Union Taxes and Duties (38 *per cent*) and Grants-in-aid (14 *per cent*).
- Within the State's Own Taxes during 2011-12, Tax Revenue and Non-Tax Revenue accounted for 84 *per cent* and 16 *per cent* respectively.
- The overall Revenue Receipts at ₹ 1,30,869 crore were below (₹ 6,752 crore; five *per cent*) the Revised Budget Estimates (₹ 1,37,622 crore) made by the Government for 2011-12.

The trends in revenue receipts relative to GSDP are presented in **Table 1.7**.

**Table 1.7: Trends in Revenue Receipts relative to GSDP**

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	68,672	77,831	96,421	1,11,184	1,30,869
Rate of growth of RR ( <i>per cent</i> )	13.32	13.34	23.89	15.31	17.70
RR/GSDP ( <i>per cent</i> )	19.21	18.88	19.63	18.89	19.03
Revenue Buoyancy w.r.t. GSDP	0.927	0.874	1.244	0.774	1.048
State's Own Tax Buoyancy w.r.t. GSDP	0.594	0.971	0.948	1.079	1.657
Revenue Buoyancy w.r.t. State's own taxes	1.562	0.901	1.312	0.717	0.633
*Gross State Domestic Product (₹ in crore)	3,57,557	4,12,151	4,91,302	5,88,467	6,87,836
Growth rate of GSDP	14.37	15.27	19.20	19.78	16.89

Source: Economic Survey of Uttar Pradesh- 2011-12

Ideally, the growth rate of revenue should be higher than GSDP growth rate so that over time the budget can be better balanced. An analysis of the **Table** revealed the followings:

- Revenue buoyancy with reference to GSDP improved during the current year relative to the previous year. During 2009-10 and 2011-12, the growth rate in revenue receipts kept pace with the growth in GSDP. However, during 2007-08, 2008-09 and 2010-11 the growth was not commensurate with the growth in GSDP.
- State's Own Taxes buoyancy with reference to GSDP also marginally improved during the current year relative to the previous year.

### Grants- in-Aid

Overall Grants-in-aid from GoI increased (15 *per cent*) from ₹ 15,433.65 crore in 2010-11 to ₹ 17,760.02 crore in 2011-12. The increase was mainly under Non Plan Grants (₹ 1,303.74 crore) followed by the Grants for Centrally Sponsored Plan Schemes (₹ 1,204.01 crore) and the decrease was under

Grants for Central Plan Schemes (₹ 222.71 crore). Component-wise Grants-in-aid received from GoI is given in **Table 1.8**.

**Table 1.8: Grants-in-Aid received from GoI**

(₹ in crore)					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Non Plan Grants	2,894.42	3,142.62	3,947.97	3,092.99	4,396.73
Grants for State plan Schemes (including Grant from UNDP of ₹ 0.12 crore)	2,795.49	5,195.76	5,624.02	6,772.07	6,813.40
Grants for Central Plan Schemes	261.90	235.36	3,992.43	435.16	212.45
Grants for Centrally Sponsored Plan Schemes	2,657.59	2,923.25	3,576.82	5,133.43	6,337.44
<b>Total</b>	<b>8,609.40</b>	<b>11,496.99</b>	<b>17,141.24</b>	<b>15,433.65</b>	<b>17,760.02</b>
Percentage of increase over previous year	9.67	33.54	49.09	(-) 9.96	15.07

Source: Finance Accounts

Analysis reveals that within the Non Plan Grants, the increases in grants received under provision to Article 275 (1) of the Constitution of India (₹ 1,481 crore) followed by 'Grant for Special Problems' (₹ 169 crore).

### Central Tax Transfers

Central Tax Transfers increased (72 *per cent*) from ₹ 29,288 crore in 2007-08 to ₹ 50,351 crore in 2011-12. The increase was mainly under Corporation tax (₹ 10,524 crore; 113 *per cent*) and Taxes on Income other than Corporation Tax (₹ 3,828 crore; 61 *per cent*), Custom Duty (₹ 3,194 crore; 58 *per cent*) and Service Tax (₹ 3,085 crore; 105 *per cent*).

### 1.6.2 State's Own Resources

The gross collection in respect of major Taxes and Duties as well as the Non-Tax Receipts for the period 2007-12 are presented in **Appendix 1.6**. These resources increased (104 *per cent*) from ₹ 30,775 crore in 2007-08 to ₹ 62,758 crore in 2011-12. Within the Revenue Receipts during 2011-12, gross collection in respect of major Taxes and Duties and the Non-tax Receipts constituted 40 and eight *per cent* respectively.

The actual Revenue Receipts during 2011-12, *vis-a-vis*, assessments made by the Thirteenth Finance Commission and the State Government are given in **Table 1.9**.

**Table 1.9: Revenue Receipts relative to the Thirteenth Finance Commission's Assessments and Revised Estimates**

(₹ in crore)					
Key fiscal variables	Thirteenth Finance Commission's assessments	Revised estimates of the Government for 2011-12	Actuals	Variations : Excess (+) and Shortfall (-)	
				Thirteenth Finance Commission's assessments	Revised estimates of the Government for 2011-12
				Per cent in bracket	
State's Own Tax Revenue	41,811.11	50,866.44	52,613.43	(+) 10,802.32 (25.84)	(+) 1,746.99 (3.43)
Non-Tax Revenue	8,483.95	13,559.81	10,145.30	(+) 1,661.35 (19.58)	(-) 3,414.51 (25.18)

Source: Thirteenth Finance Commission's recommendations, Budget Documents and Finance Accounts

State's Own Tax Revenue during 2011-12 increased by ₹ 10,802.32 crore (26 *per cent*) than the normative assessment made by the Thirteenth Finance Commission. It also increased by ₹ 1,747 crore (three *per cent*) than the Revised Budget Estimates during 2011-12.

Though performance under Non-tax Revenue registered significant improvement over the projections made by the Thirteenth Finance Commission, it failed to achieve the projections made by the State Government in the Revised Estimates.

### Tax Revenue

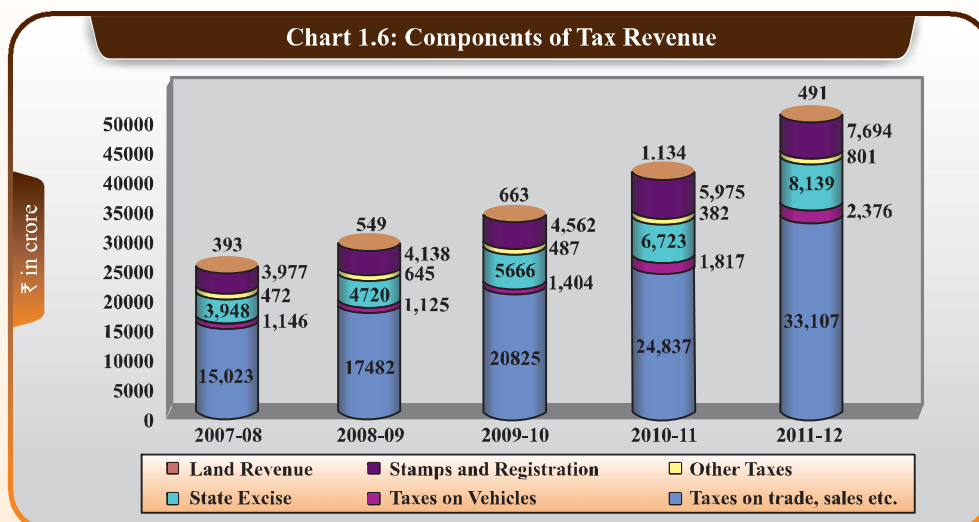
Tax Revenue comprises of Taxes on Sales and Trade etc., State Excise, Taxes on Vehicles and Stamp and Registration Fee etc. The component of Tax Revenue during five years period (2007-12) is shown in **Table 1.10** and **Chart 1.6**.

**Table 1.10: Components of Tax Revenue**

(₹ in crore)

Components of Revenues	2007-08	2008-09	2009-10	2010-11	2011-12		
					Revised Estimates	Actuals	Percentage w.r.t Budget Estimates
Taxes on Sales, Trade, etc.	15,023	17,482	20,825	24,837	31,564	33,107	104.89
State Excise	3,948	4,720	5,666	6,723	8253	8,139	98.62
Taxes on Vehicles	1,146	1,125	1,404	1,817	2536	2,376	93.69
Stamps and Registration fee	3,977	4,138	4,562	5,975	7629	7,694	100.85
Land Revenue	393	549	663	1,134	246	491	195.59
axes on Goods and Passengers	110	266	271	242	-	5	500.00
Other Taxes	362	379	487	382	638	801	125.55
<b>Total</b>	<b>24,959</b>	<b>28,659</b>	<b>33,878</b>	<b>41,110</b>	<b>50,866</b>	<b>52,613</b>	<b>103.43</b>

Source: Finance Accounts and Budget Documents



Source: Finance Accounts

The realization of the Tax Revenue of the State was significant during 2011-12. There was marked increase in actuals when compared with Revised Estimates for the year 2011-12 and also with that of 2010-11. As compared to the Revised Estimates, the overall increase amounted to ₹ 1,747 crore (three *per cent*) and as compared to the previous year the increase amounted to ₹ 11,503 crore (28 *per cent*). The increases were due to more collection on account of Sales Tax, more realization of State Excise Duties on country spirits and foreign liquors, realization of more taxes on sale of vehicles and taxes under Motor Vehicles Act and sale of more non-judicial stamps. The increases were also partly counter balanced by decreases in revenue collections of fixed charges and in realization of arrears from improvement Trust, Ghaziabad and the Housing Boards.

### ***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 ₹ 10,145.30 crore in 2011-12 comprised mainly from Miscellaneous General Services ₹ 4,035 crore; (40 *per cent*), Education, Sports, Art and Culture ₹ 2,009 crore; (20 *per cent*), Non-ferrous Mining and Metallurgical Industries ₹ 593 crore; (six *per cent*) Interest Receipts ₹ 789 crore; (eight *per cent*), Medical and Public Health ₹ 108 crore; (one *per cent*) and Power ₹ 77 crore; (one *per cent*).

However, there was a substantial decrease of nine *per cent* in the Non tax Revenue receipts during 2011-12 over the previous year. The Receipts decreased due to less collection under 'Other Receipts' and under Miscellaneous General Services (Elementary Education).

### ***State's Non-tax Revenue vis-à-vis, Revised Budget Estimates***

State's Non-tax Revenue, *vis-à-vis*, the Revised Budget Estimates for the year 2011-12 is given in Table 1.11.

**Table 1.11: Non-tax Revenue, *vis-à-vis*, Revised Budget Estimates**

(₹ in crore)

Particulars	Assessments made in Revised Estimates	Actuals	Variations (Excess + and Shortfall -) <i>per cent</i> in brackets
Interest Receipts	924.55	789.22	-135.33 (15)
Miscellaneous General Services	4,522.75	4035.23	-487.52 (11)
Education, Sports, Art and Culture	4500.00	2008.55	-2,491.45 (55)
Medical and Public Health	142.40	107.93	-34.47 (24)
Power	180.00	76.83	-103.17 (57)
Non-ferrous Mining & Metallurgical Industries	900.00	593.28	-306.72 (34)

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 during 2011-12, *vis-à-vis*, Revised Estimates during the year. The decrease ranged between 11 *per cent* and 57 *per cent*.

Wide variations between the Revised Budget Estimates and Actuals indicated incorrect estimations at the Budget preparation stage.

The shortfalls in Non-tax Revenue during the current year relative to the previous year and Revised Budget projections indicate that the Government needs to explore the sources of Non-tax Revenue for sustainable growth and also for strengthening medium term macroeconomic prospects.

### ***Book adjustment of part of cost of Projects as Non-tax Revenue***

To regulate apportionment of cost of the project to be executed, the Finance Department issued an order in March 2010 according to which 93.125 *per cent* of the sanctioned cost of the project was to be released for execution of works and the remaining 6.875 *per cent* (on account of establishment charges) was to be accounted for as Non-tax Revenue, through book adjustments under the concerned departmental receipt heads. In April 2010, the above instruction was revised and the said 6.875 *per cent* was to be added to the cost of the project and the sanction was to be issued inclusive of it. Thus, if the cost of the project was ₹ 100, the Financial Sanction was to be accorded for ₹ 106.875.

We observed that in Public Works Department, Non-tax Revenue Receipts registered an increase of ₹ 4.97 crore under the heads 1054-Roads and Bridges- 800-Other receipts-05-Receipts and 0059-Public Works Department-800-General-103 Recovery of Percentage Charges during the year 2011-12 as compared to 2010-11.

The matter was referred (September 2012) to the Government for comments; the reply was awaited (November 2012).

### ***1.6.3 Non/Short Levy of Tax***

During test check of the assessments of levy of taxes and other records of commercial tax offices, 2,451 cases of non/ short levy of tax due to misclassification of goods and applying incorrect rate of tax, allowing irregular exemption etc., came to notice during 2011-12. The details are given in **Table 1.12**.



**Table 1.12: Non/Short Levy of Tax**

S.No.	Categories	Number of Cases	Amount (₹ in crore)
1	Non/short levy of penalty/interest	949	39.21
2	Non levy/short levy of tax	230	7.41
3	Irregular grant of exemption from tax	263	32.37
4	Incorrect classification of rate of goods	256	13.26
5	Misclassification of goods	38	1.68
6	Irregularities relating to central sales tax	31	0.86
7	Mistake in computation	06	0.06
8	Turnover escaping tax	14	0.59
9	Other irregularities	664	37.23
<b>Total</b>		<b>2,451</b>	<b>132.67</b>

Source: AG (E&amp;RSA), UP

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

#### 1.6.4 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 2009-10, 2010-11 and 2011-12 along with the relevant All India average percentage of expenditure on collection for 2010-11 are mentioned in **Table 1.13** below:

**Table 1.13: Cost of Collection**

Particular	Year	Gross Collection	Expenditure on Collection	Percentage of cost of collection to gross collection	All India Average percentage for the year 2010-11
		(₹ in crore)			
Taxes on Sales and Trade etc.	2009-10	20,825.18	358.43	1.72	-
	2010-11	24,836.52	391.45	1.58	0.75
	2011-12	33,107.34	440.89	1.33	-
Stamp Duty and Registration Fee	2009-10	4,562.23	117.19	2.57	-
	2010-11	5,974.66	147.43	2.47	1.60
	2011-12	7,694.40	149.16	1.94	-

Source: AG (E&amp;RSA), UP and Finance Accounts

It is recommended that the Government analyse the high cost of collection and appropriate measures be taken in this regard.

#### 1.6.5 Revenue Arrears

Information regarding arrears of revenue was called for from the concerned Departments. The revenue arrears as on 31 March 2012 under some of Principal Heads of Revenue amounted to ₹ 19,358 crore, of which ₹ 11,860 crore were outstanding for more than five years (61 *per cent*). Further, relative to the financial year 2010-11, the revenue arrears registered an increase of ₹ 2,163 crore. The status as on 31 March 2012 under some heads is detailed in **Table 1.14**.

Table 1.14: Arrears of Revenue

(₹ in crore)

Head of Revenue	Amount of arrears	Arrears outstanding for over five years	Remarks
Taxes on Sales and Trade etc.	18,960.28	11,803.03	Out of ₹18,960.28 crore, demand for ₹ 1,576.23 crore had been certified for recovery as arrears of land revenue. Recovery certificates amounting to ₹ 913.17 crore have been sent to other States. Recoveries amounting to ₹ 4,260.46 crore had been stayed by the courts/appellate authority. Recoveries amounting to ₹ 495.62 crore were outstanding against the Government/semi Government departments. Arrears not covered under recovery certificates amounted to ₹ 10,146.84 crore. The demand for recovery of ₹ 1,498.03 crore was likely to be written off. ₹ 69.93 crore were outstanding from transporters.
State Excise	54.82	51.87	Out of ₹ 54.82 crore recoveries amounting ₹ 20.01 crore had been stayed by the courts/appellate authority, the demand for recovery of ₹ 5.56 crore was likely to be written off. The department stated that Recovery Certificates for the amount arrear ₹ 29.25 crore had been issued.
Entertainment Tax	13.37	4.61	Out of ₹ 13.37 crore, demand certificate/notice for ₹ 5.57 crore had been issued. The Department stated that Recoveries amounting to ₹ 7.80 crore stayed by the courts and appellate authority.
Stamp Duty and Registration Fee	329.53	Not furnished by the department	Out of ₹ 329.53 crore, recovery amounting to ₹ 186.59 crore had been stayed by the courts/appellate authority. The department had not furnished the details in respect of remaining ₹ 142.94 crore.
<b>Total</b>	<b>19,358.00</b>	<b>11,859.51</b>	

Source: Concerned Departments

It is recommended that the Government suitably analyse the reasons for substantial accumulation of arrears and initiate effective measures thereto.

## 1.7 Application of Resources

Analysis of the allocation of expenditure by the State Government assumes significance since the responsibility for effective management and application of the resources, is to be wielded by 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 process of fiscal correction and consolidation duly takes into account the focus of social and developmental expenditure without ignoring the increasing trend of public expenditure financed by borrowings.

### 1.7.1 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 payments for past obligations and as such does not result in any addition to the State's infrastructure and services network. Capital Expenditure increases State's infrastructure and services network (tangible assets).

### Total Expenditure

Growth rates of Total Expenditure (2007-12) its compositions, ratio and buoyancy with reference to GSDP and Revenue Receipts are presented in Table 1.15.

Table 1.15: Trends in Total Expenditure

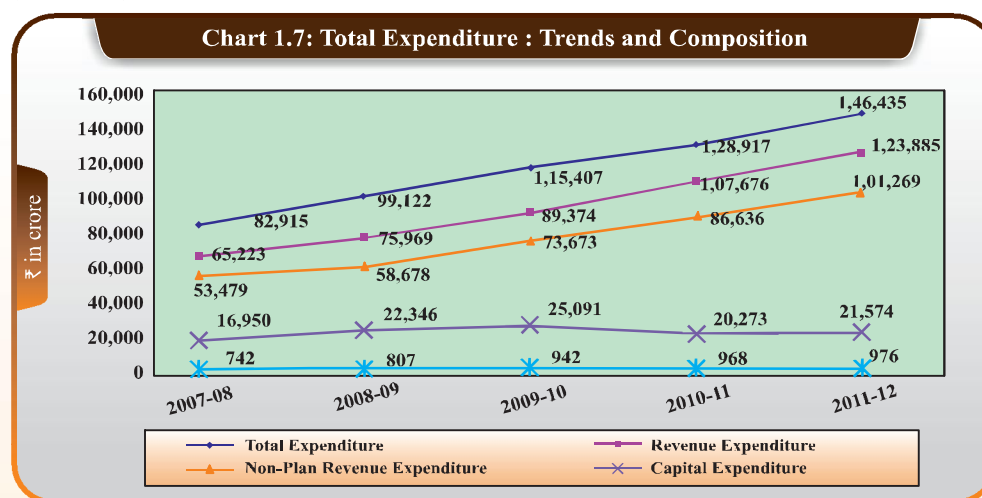
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Total Expenditure</b>	<b>82,915</b>	<b>99,122</b>	<b>1,15,407</b>	<b>1,28,917</b>	<b>1,46,435</b>
Revenue Expenditure	65,223	75,969	89,374	1,07,676	1,23,885
Non-plan Revenue Expenditure	53,479	58,678	73,673	86,636	1,01,269
Plan Expenditure	11,744	17,291	15,701	21,040	22,616
Capital Expenditure	16,950	22,346	25,091	20,273	21,574
Loans and Advances	742	807	942	968	976
<b>Rate of Growth of Total Expenditure</b>	<b>17.49</b>	<b>19.54</b>	<b>16.43</b>	<b>11.71</b>	<b>13.59</b>
<b>Total Expenditure/GSDP (ratio)</b>	<b>23.19</b>	<b>24.05</b>	<b>23.49</b>	<b>21.91</b>	<b>21.29</b>
<b>Revenue Receipts/Total Expenditure (ratio)</b>	<b>82.82</b>	<b>78.52</b>	<b>83.55</b>	<b>86.24</b>	<b>89.37</b>
<b>Buoyancy of Total Expenditure with</b>					
<b>GSDP</b>	<b>1.22</b>	<b>1.28</b>	<b>0.86</b>	<b>0.59</b>	<b>0.80</b>
<b>Revenue Receipts (ratio)</b>	<b>1.31</b>	<b>1.46</b>	<b>0.69</b>	<b>0.76</b>	<b>0.77</b>

Source: Finance Accounts

- The above Table indicates that Total Expenditure increased (₹ 63,520 crore; 77 per cent) from ₹ 82,915 crore in 2007-08 to ₹ 1,46,435 crore in 2011-12. The rate of growth of Total Expenditure indicates an uneven trend.
- Revenue Receipts, as a ratio to Total Expenditure, stood at 89 per cent (2011-12).as against 83 per cent in 2007-08.

Chart 1.7 presents the trends in Total Expenditure over a period of five years (2007-12).



Source: Finance Accounts

The Total Expenditure steadily increased during 2007-12. During 2011-12, it increased by ₹ 17,518 crore over 2010-11 of which, the share of Revenue Expenditure was ₹ 16,209 crore (93 per cent).

The **increase in Revenue Expenditure** during 2011-12 relative to 2010-11 was mainly under General Education, Pensions and Other Retirement

Benefits, Power etc. The heads under which the significant increases were noticed as discussed below:

- **General Education:** There was an increase of ₹ 5,037.12 crore (24 *per cent*) in General Education. It was due to assistance provided to the non Government primary schools under 'Drive for Education for All' and payment of pay arrears etc. However, there was decrease in expenditure of ₹ 304.10 crore under the Mid Day Meals Scheme.
- **Pensions and Other Retirement Benefits:** There was an increase of ₹ 1,509.22 crore (12 *per cent*) in Pensions and Other Retirement Benefits. This was due to payment of pension liabilities to Uttarakhand State and payment of arrears on account of revision of pension, family pension, gratuity and other retirement benefits on implementation of Sixth Pay Commission's recommendations.
- **Power:** There was an increase of ₹ 1,349.07 crore (63 *per cent*) under major head 'Power'. The expenditure increased due to grant of subsidies for compensation for loss of electricity to the UP Power Corporation Limited.
- **Appropriation for Reduction or Avoidance of Debt:** There was an increase of ₹ 1,303.92 crore (18 *per cent*) in Appropriation for Reduction or Avoidance of Debt. This was due to transfer of more amounts to the Sinking Fund.
- **Interest Payments:** There was an increase of ₹ 1,265.38 crore (nine *per cent*) in Interest Payments. This was due to payment of more interest on market loans and on special securities issued to National Small Saving Funds by GoI.
- **Social Security and Welfare:** There was an increase of ₹ 1,051 crore (14 *per cent*) in Social Security and Welfare under the programme 'Integrated Child Development Scheme', Welfare of Aged, Infirm and Destitute.

There were **decreases in Revenue Expenditure** during 2011-12 relative to 2010-11. The heads under which the significant decreases were noticed is discussed below:

- **Taxes on Sales and Trade etc.:** There was a decrease of ₹ 329 crore (26 *per cent*). This was due to less transfer of funds to Reserve Fund- Other Development and Welfare Fund- UP Trade Development Fund.
- **Crop Husbandry:** There was a decrease of ₹ 208 crore (12 *per cent*) under the Crop Husbandry. This was due to reduction in subsidies for National Agriculture Scheme etc.

The **increase in Capital Expenditure** during 2011-12 relative to 2010-11 was mainly under Urban Development, Housing etc. The heads under which the significant increases were noticed are discussed below:

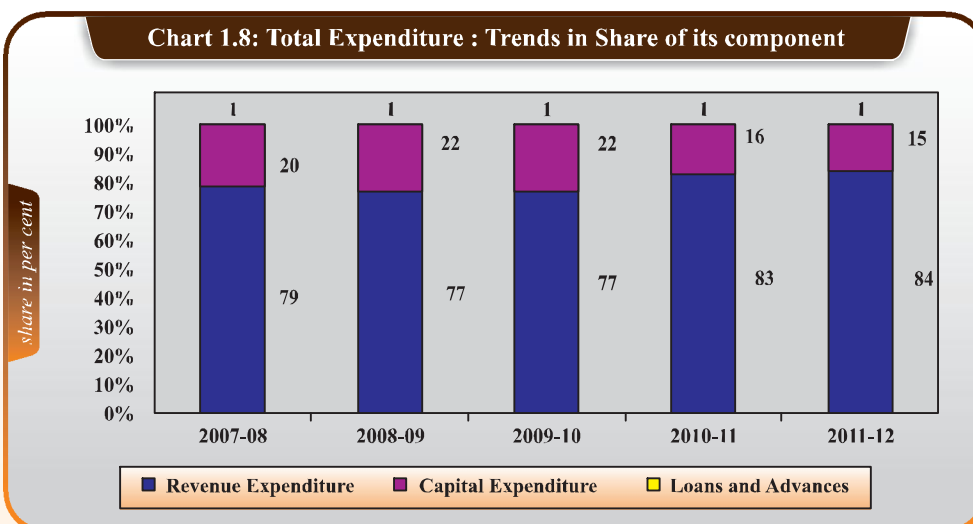
- **Urban Development:** There was an increase of ₹ 641 crore (30 *per cent*) under Urban Development due to more release of grant to Urban Local Bodies under JNNURM scheme.
- **Housing:** There was an increase of ₹ 561.26 crore (619 *per cent*) under Housing due to major construction works for residential buildings and more grants released under Special Component Plan for Scheduled Castes.
- **Food Storage and Warehousing:** There was an increase of ₹ 555 crore (46 *per cent*) under it for food and procurement /supply.

The **decrease in Capital Expenditure** during 2011-12 relative to 2010-11 was mainly under Education, Sports, Arts and Culture and Major Irrigation etc. The heads under which the significant decreases were noticed is discussed below:

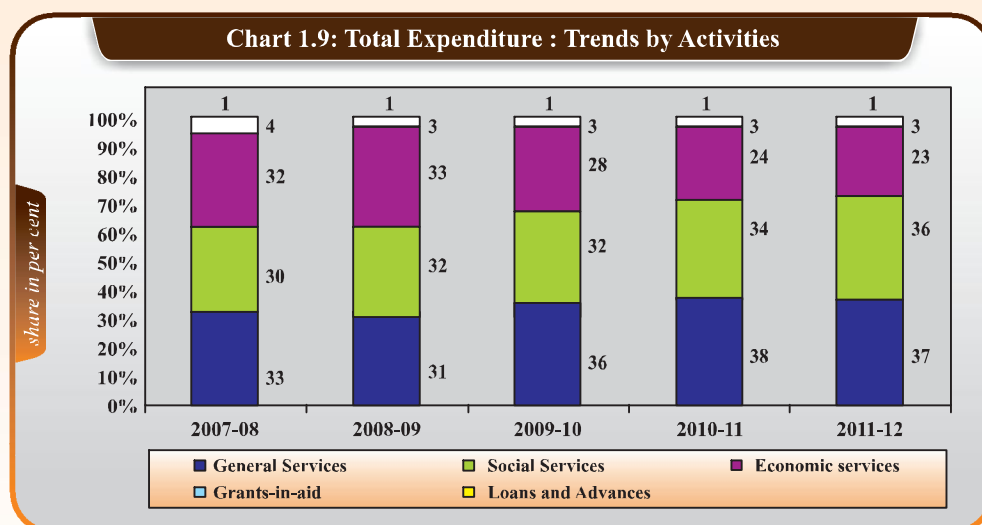
- **Education, Sports, Art and Culture:** There was a decrease of ₹ 379 crore (52 *per cent*) under Education, Sports, Art and Culture due to less expenditure on construction works in University and higher education centres and on establishment of polytechnics and engineering colleges under Special Component Plan for Scheduled Castes.
- **Major Irrigation:** There was a decrease of ₹ 265 crore (18 *per cent*) under Major Irrigation due to less expenditure on maintenance of Sharda Sahayak Canal Division Project and Arjun Subsidiary Project.

### *Trends in Total Expenditure in terms of Activities*

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

Viewed against the Total Expenditure, it can be seen that the trends indicate inter-year variations in the shares of both Revenue and Capital Expenditure during the period 2007-12.

A comparison of expenditure under Economic, Social and General Services during 2011-12 with the projections made by the Thirteenth Finance Commission is indicated in **Table 1.16**.

**Table 1.16: Actual Expenditure as against the Projections of Thirteenth Finance Commission**

(₹ in crore)

Particulars	Projections of TFC	Actuals (NPRE)	Variations (excess percentage in bracket)
General services	31,765.38	52,345.19	20,579.81 (65)
Social services	5,453.40	29,781.35	24,327.95 (446)
Economic services	6,307.05	13,887.61	7,580.56 (120)

Source: TFC's recommendations, Finance Accounts

Thus, it can be seen that the actual expenditure exceeded the projections of the Thirteenth Finance Commission by 65 *per cent*, 446 *per cent* and 120 *per cent* under General Services, Social Services and Economic Services, respectively. The increase in Social Services was significantly higher.

### 1.7.2 Committed Expenditure

The Committed expenditure of the Government on revenue account mainly consists of Interest Payments, expenditure on Salaries and Wages, Pensions and Subsidies. This constitutes a major component of Non-developmental Revenue Expenditure and consumed 82 *per cent* of the NPRE. **Table 1.17** and **Chart 1.10** present the trends in the expenditure on these components during 2007-12.

Table 1.17: Components of Committed Expenditure

(₹ in crore)

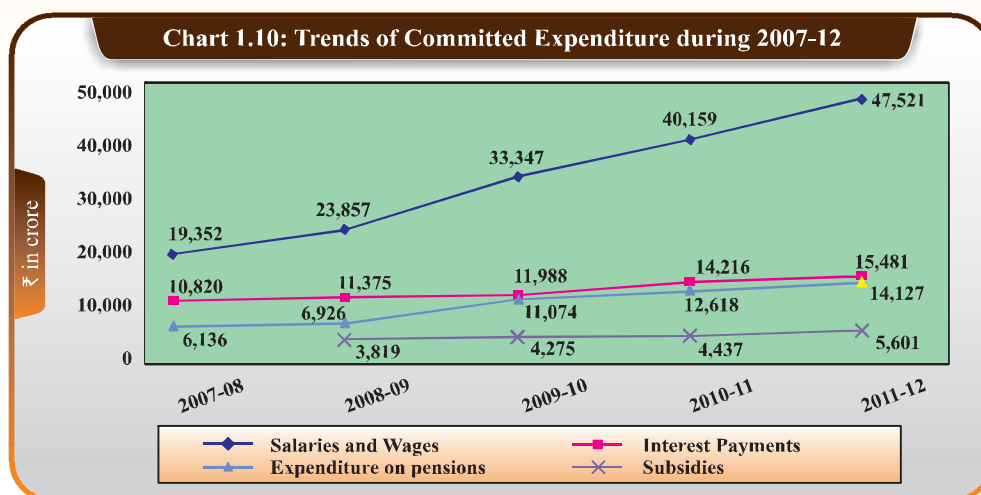
Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					Revised Estimates	Actuals
Salaries* & wages, Of which	19,352 (28)	23,857(31)	33,347(35)	40,159(36)	47,270	47,521(36)
Non-Plan Head	18,624	22,834	31,137	36,316		42,244
Plan Head**	728	1,023	2,210	3,843		5,277
Interest Payments	10,820 (16)	11,375(14)	11,988 (13)	14,216(13)	14,914	15,481(12)
Expenditure on Pensions	6,136(9)	6,926(9)	11,074 (11)	12,618(11)	13,744	14,127(11)
Subsidies	-	3,819 (5)	4,275 (4)	4,437(4)	6,670	5,601(4)
Total Committed Expenditure	36,308 (53)	45,977(59)	60,684 (63)	71,430(64)	82,598	82,730(63)

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



Source: Finance Accounts

Committed expenditure of the Government showed increasing trends in all its constituents over the period 2007-12. It increased (128 *per cent*) from the level of ₹ 36,308 crore in 2007-08 to ₹ 82,730 crore in 2011-12. The increase was mainly under salaries, wages and pensions.

### Salaries and Wages

An analysis of the expenditure on Salaries and Wages revealed an increasing trend during 2007-12 under Non-plan heads and Plan heads. The expenditure under non-plan heads increased (127 *per cent*) from ₹ 18,624 crore in 2007-08 to ₹ 42,244 crore in 2011-12. The expenditure under the Plan heads increased (625 *per cent*) from ₹ 728 crore in 2007-08 to ₹ 5,277 crore in 2011-12.

The Thirteenth Finance Commission had recommended that the State should follow a recruitment policy such so that Salary Expenditure does not exceed 35 *per cent* of Revenue Expenditure net of Interest Payments and Pensions. The Thirteenth Finance Commission also limited the impact of pay revision to Salary Expenditure within the normative ceiling and recommended that the expenditure over and above the ceiling should be successively reduced by 10 *per cent* of the amount every year. However, the Total Salary Bill relative



to Revenue Expenditure net of Interest Payments and Pensions during 2010-11 and 2011-12, remained almost static at 50 *per cent*.

### Pension Payments

The expenditure on Pensions showed an increasing trend during 2007-12. It increased (130 *per cent*) from ₹ 6,136 crore in 2007-08 to ₹ 14, 127 crore in 2011-12. Relative to 2010-11, it increased by ₹ 1,509 crore (12 *per cent*). Actual Pension Payments, however, was above the projection of Thirteenth Finance Commission (₹ 10,467) by ₹ 3,660 crore (35 *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.

### Interest Payments

Interest Payments relative to Total Revenue Receipts reduced from 16 *per cent* in 2007-08 to 12 *per cent* in 2011-12 whereas it ranged between 12 *per cent* and 17 *per cent* during 2007-12 in relation to Revenue Expenditure. Actual Interest Payments (₹ 15,481 crore) exceeded the Revised Estimates (₹ 14,914 crore) by ₹ 567 crore and the Thirteenth Finance Commission's projections (₹ 15,326 crore) by ₹ 155 crore.

### Subsidies

Government paid Subsidies amounting to ₹ 5,601 crore during 2011-12, which constituted four *per cent* of the Revenue Receipts and four *per cent* of the Total Expenditure. Of the total subsidies paid, ₹ 3,776 crore (67 *per cent*) was disbursed under Non-plan, ₹ 1,005 crore (18 *per cent*) under Plan and ₹ 820 crore (15 *per cent*) under Centrally Sponsored Schemes<sup>5</sup>. The major activities given Subsidy included Energy (₹ 3,517; 63 *per cent*), Agriculture and Other Allied Activities (₹ 1,770 crore; 32 *per cent*), Industry and Minerals (₹ 65 crore; one *per cent*) Irrigation and Flood Control Relief (₹ 233 crore; four *per cent*) and Science, Technology and Environment (₹ 16 crore; negligible in *per cent*). Subsidy payments *vis-a-vis* Revised Estimates are detailed in **Table 1.18**.

**Table 1.18: Subsidy Payments with reference to the Revised Estimates**

Particulars	Revised estimates		Actuals		Variations	
	Amount (₹ in crore)	Per cent of GSDP	Amount (₹ in crore)	Per cent of GSDP	Amount (₹ in crore)	Per cent of GSDP
Energy	2,985	0.43	3,517	0.51	(-) 532	(-) 0.08
General	2,951	0.43	2,084	0.30	867	0.13
<b>Total</b>	<b>5,936</b>		<b>5,601</b>			

Source: Finance Accounts & State Budget

**Table** revealed that the actuals of the energy subsidy exceeded the Revised Estimates by ₹ 532 crore. This indicated that in terms of percentage to GSDP, energy sector was given more priority than the others.

<sup>5</sup> Funds routed through State Budget.

Power Losses are a major burden on the finances of the State Government. Accordingly, the Thirteenth Finance Commission recommended that the Government should take initiatives to curb the losses in a time bound manner. The Government intimated (September 2012) that various initiatives including double metering system for specified consumers, replacement of naked conductors by Aerial Bunch Conductors in excessive power theft areas, have been taken. The Thirteenth Finance Commission also recommended that the transmission and distribution losses should be reduced. In this connection, the Government also intimated (September 2012) that the Feeder Separation Scheme was introduced *ab initio* in certain areas of the State. Under the Scheme, the agriculture feeder was to be separated from the rural feeders (that is feeders for light and fan connections) However, the above scheme was reported to be in progress only in Meerut Division as of August 2012.

### 1.7.3 Financial Assistance to Local Bodies and Other Institutions

**Table 1.19** presents quantum of assistance provided by way of grants and loans to local bodies and others during the last five years and compared with current year relative to the previous year.

**Table 1.19: Financial Assistance to Local Bodies etc.**

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities etc.)	10,503.38	10,642.76	10,364.69	17,919.87	18,345.95
Municipal Corporations and municipalities/ Development Agencies	948.61	1,262.59	2,461.05	1,864.41	3,567.02
Zila Parishads and Other Panchayati Raj Institutions	3,549.49	3,504.21	2,369.77	2,878.74	2,922.91
Hospitals and Other Charitable Institutions	130.18	121.76	249.65	25.95	14.63
Other Institutions <sup>6</sup>	228.73	291.16	2,674.87	7,994.17	14,363.80
<b>Total</b>	<b>15,360.39</b>	<b>15,822.48</b>	<b>18,120.03</b>	<b>30,683.14</b>	<b>39,214.31</b>
Assistance as per percentage of Revenue Expenditure	24	21	20	28	32

Source: Finance Accounts

The assistance to local bodies and other institutions increased (₹ 23,853.92 crore; 155 *per cent*) from ₹ 15,360.39 crore in 2007-08 to ₹ 39,214.31 crore in 2011-12. Relative to 2010-11, the growth (₹ 8531.17 crore) was 28 *per cent*.

The assistance, as a percentage of Revenue Expenditure, ranged between 20 and 32 *per cent*. However, it was at the highest level of 32 *per cent* during 2011-12. Within the quantum of assistance provided during 2011-12, the educational institutions continued to be the main beneficiaries of the assistance followed by *Zila Parishads* and *Other Panchayati Raj Institutions*.

<sup>6</sup> Includes (i) UP Chief Minister *Mahamaya Garib Aarthic Madad Yojana* (ii) National Programme of Mid-day meal-cooking cost (iii) Appointment of teachers (iv) Accelerated Rural Water Supply Programme (ARWSP) (v) *Mahamaya Garib Balika Ashirwad* (vi) National Social Assistance Programme (vii) Old Age/Farmer Pension (viii) Payment of residuals etc.

### 1.7.4 Urban Local Bodies

The Urban Local Bodies (ULBs) comprise *Nagar Nigams*, *Nagar Palika Parishads* and *Nagar Panchayats*. The 74<sup>th</sup> Constitutional Amendment (1992) paved the way for decentralization of powers, transfer and devolution of more functions and funds to them. To incorporate provisions of the Amendment, the legislature enacted UP Urban Local Self Government Laws (Amendment) Act, 1994. There were 630 ULBs in the State, which were governed by an elected board of members.

#### Transfer of Functions

The Government devolved 13 out of 18 functions<sup>7</sup> (enshrined in Twelfth Schedule of the Constitution) to ULBs. However, five functions<sup>8</sup> were not devolved. In addition to 13 functions, one more function (i.e. parking places for vehicles which were outside the Twelfth Schedule of the Constitution) was also devolved. However, despite devolution neither the activities nor the functionaries in respect of six functions<sup>9</sup> out of 14 devolved, were transferred to ULBs (December 2011). Thus, the transfer of functions did not result in the devolution of funds.

#### Devolution of Grants

The Second State Finance Commission recommended that 7.5 *per cent* of the net proceeds of Tax Revenue of the Government should be devolved to ULBs. However, the Third State Finance Commission reduced it to seven *per cent*. The funds to be devolved and those actually devolved by the Government are given in **Table 1.20**.

**Table 1.20: Devolution of Grants**

					(₹ in crore)
Year	Net proceeds of Tax Revenue of State Government	Funds to be devolved	Funds devolved	Short release (per cent)	
2007-08	24,959	1,872	1,838	34	(2)
2008-09	28,659	2,149	1,986	163	(8)
2009-10	33,878	2,541	2,121	420	(17)
2010-11	41,110	2,878	2,566	312	(16)
2011-12	52,613	3,683	2,751	932	(22)
<b>Total</b>	<b>1,81,219</b>	<b>13,123</b>	<b>11,262</b>	<b>1,861</b>	<b>(14)</b>

Source: Director Urban Local Bodies, Lucknow

<sup>7</sup> (i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Planning for economic and social development, (iv) Roads and bridges, (v) Water supply for domestic, industrial and commercial purposes, (vi) Public health, sanitation, conservancy and solid waste management, (vii) Fire services, (viii) Urban forestry, protection of the environment and promotion of ecological aspects, (ix) Safeguarding the interests of weaker sections of society including the handicapped and mentally retarded, (x) Slum improvement and up gradation, (xi) Urban poverty alleviation, (xii) Provision for urban amenities and facilities such as parks, gardens, playgrounds, (xiii) Promotion of cultural, educational and aesthetic aspects, (xiv) Burials and burial grounds, cremations, cremation grounds and electric crematorium, (xv) Cattle ponds, prevention of cruelty to animals, (xvi) Vital statistics including registration of births and deaths, (xvii) Public amenities including street lighting, parking lots, bus stops and public conveniences, (xviii) Regulation of slaughter houses and tanneries.

<sup>8</sup> (i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Roads and Bridges, (iv) Fire services, (v) Promotion of cultural, educational and aesthetic aspects.

<sup>9</sup> (i) Planning of economic and social development, (ii) Urban forestry, (iii) Safeguarding the interest of weaker sections of society, (iv) Urban poverty alleviation (v) Slum improvement and up gradation, (vi) Parking places for vehicles.

It can be seen from the **Table** above that the Government did not devolve an amount of ₹ 1,861 crore (14 *per cent*) to ULBs, thereby resulting in non-transfer of better civic services to the people. The Government reply is awaited (November 2012).

### **Revenue Generated from Own Resources**

ULBs generated revenues by collecting taxes, rent, fee etc. The position of targets fixed by the Government for revenue generation during 2009-12 and achievement thereagainst is given below in **Table 1.21**.

**Table 1.21: Revenue Generated from Own Resources**

Number and Name of ULBs	2009-10		2010-11		2011-12	
	Target fixed by Government	Achievement ( <i>per cent</i> )	Target fixed by Government	Achievement ( <i>per cent</i> )	Target fixed by Government	Achievement ( <i>per cent</i> )
	(₹ in crore)					
13 Nagar Nigams	478.78	527.57 (110)	810.00	676.67 (84)	788.74	720.62 (91)
194 Nagar Palika Parishads	149.96	178.37 (119)	240.80	211.79 (88)	237.85	227.72 (96)
423 Nagar Panchayats	40.53	45.43 (112)	61.44	53.07 (86)	72.51	57.66 (80)
<b>Total</b>	<b>669.27</b>	<b>751.37</b>	<b>1,112.24</b>	<b>941.53</b>	<b>1,099.10</b>	<b>1,006.00</b>

Source: Director, Urban Local Bodies, Lucknow

**Table** revealed that the achievements by *Nagar Nigams*, *Nagar Palika Parishads* and *Nagar Panchayats* exceeded their targets during 2009-10. However, their achievements fell short of targets during 2010-11 and 2011-12.

### **Audit Arrangement**

- Director, Local Fund Audit of the State Government, is the primary auditor of the Urban Local Bodies in terms of the Uttar Pradesh Local Fund Audit Act, 1984. However, due to shortage of manpower, the accounts of such bodies ranging from 11 *per cent* to 15 *per cent* remained unaudited<sup>10</sup> during 2009-12. The Government intimated (September 2012) that the Department of Local Fund Audit organized (2011-12) 21 training programmes for audit staff, as a part of capacity building, in terms of the recommendations of the Thirteenth Finance Commission.
- Director, Local Fund Audit, in terms of Section 8 (3) of Uttar Pradesh Local Fund Audit Act, 1984, was required to prepare a consolidated audit report on the accounts of the Urban Local Bodies and submit it to the Government for placing it before the Legislative Assembly. Such reports upto the year 2008-09 only, had been prepared and placed.

<sup>10</sup>

Year	Number of units to be audited	Number of units actually audited	Units in arrear ( <i>per cent</i> in bracket)
2009-10	623	556	67 (11)
2010-11	624	542	82 (13)
2011-12	625	529	96 (15)

### 1.7.5 Panchayati Raj Institutions

Keeping in view the 73<sup>rd</sup> Constitutional Amendment 1992, the UP *Kshetra Panchayat and Zila Panchayat Adhiniyam*, 1961 was amended in 1994 for establishing a three-tier *Panchayati Raj* Institutions (PRIs) system of elected bodies and thereby decentralizing power to the rural self-governing bodies viz., *Gram Panchayat* at village level, *Kshetra Panchayat* at intermediate level and *Zila Panchayat* at District level. The system of PRIs aimed at increasing participation of people in local governance and effective implementation of rural development programmes. At the end of March 2012, there were 51,914 *Gram Panchayats*, 821 *Kshetra Panchayats* and 72 *Zila Panchayats* in the State.

#### Devolution of Grants

Second Finance Commission recommended that five *per cent* of net proceeds of the total Tax Revenue should be devolved to PRIs. However, the Third State Finance Commission increased it to 5.5 *per cent*. The devolution of funds and actual release of funds to PRIs by the Government during 2007-12 is given in **Table 1.22**:

**Table 1.22: Devolution of Grants**

(₹ in crore)

Year	Net proceeds of Tax Revenue of	Funds to be devolved	Funds devolved	Shortfall/ Excess	Per cent
2007-08	24,959	1,248	1441	(+) 193	(+) 15
2008-09	28,659	1,433	1,282	(-)151	(-) 11
2009-10	33,878	1,694	1,262	(-)432	(-) 26
2010-11	41,110	2,261	1,788	(-) 473	(-) 21
2011-12	52,613	2,893	2,172	(-) 721	(-) 25
<b>Total</b>	<b>1,81,219</b>	<b>9,529</b>	<b>7,945</b>	<b>(-) 1,584</b>	<b>(-) 17</b>

**Source:** Finance Accounts and Director Panchayati Raj Lucknow, Dy. Director Zila Panchayat Monitoring Cell Lucknow, Commissioner Rural Development Lucknow

We observed that while there was an overall short devolution (₹ 1,584 crore) during 2007-12, the maximum shortfall was during 2010-11 when only ₹ 1,788 crore was devolved against ₹ 2,261 crore.

#### Audit Arrangement

- The Chief Audit Officer, Co-operative Societies and *Panchayats*, is the primary auditor for all the three tiers of PRIs. However, majority of PRIs remained unaudited at the end each year. The details are given in *Appendix 1.7*.
- As per instruction of C&AG of India about the Technical Guidance and Supervision, the report of the test check conducted by Principal Accountant General<sup>11</sup> would be sent to the Chief Audit Officer, Co-operative Societies and Panchayats and the Director, Panchayati Raj for action. However, 16,037 paragraphs were outstanding at the end of 2011-12. The year wise details are given in *Appendix 1.8*.

<sup>11</sup> Re-designated as Principal Accountant General (General & Social Sector Audit) with effect from April 2012.

## 1.8 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).

### 1.8.1 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 1.23** analyses the fiscal priorities of the State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure during 2011-12.

**Table 1.23: Fiscal priorities of the State in 2008-09 and 2011-12**

(in per cent)

Fiscal Priority by the State*	AE/GS DP	DE/A E <sup>#</sup>	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Uttar Pradesh's Average (Ratio) 2008-09	24.05	52.56	31.77	22.54	13.95	4.98
General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Uttar Pradesh's Average (Ratio) 2011-12	21.29	59.34	35.91	14.73	17.96	4.58
*As per cent 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 Priorities:

- Aggregate expenditure of Uttar Pradesh as a ratio to GSDP was higher in both the years 2008-09 and 2011-12 as compared to General Category States.
- Uttar Pradesh Government has not given adequate fiscal priority to Development Expenditure in 2008-09 and 2011-12, as its ratio to AE was lower than the corresponding ratio for General Category States.
- The ratio of Social Sector Expenditure to AE in 2008-09 as well as in 2011-12 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 2008-09 and 2011-12.



- The ratio of expenditure on Education Sector to AE increased from 13.95 *per cent* in 2008-09 to 17.96 *per cent* in 2011-12. The priority given to Education in Uttar Pradesh was lower in 2008-09 and higher in 2011-12 as compared to General Category States.
- Expenditure on the Health Sector in Uttar Pradesh has been significant as *its ratio* was higher than *the Average* of General Category States in 2008-09 and 2011-12.

### 1.8.2 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 Goods 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 1.24** presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during 2011-12, *vis-à-vis*, budgeted for the year as well as actuals in the previous years.

**Table 1.24: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					Revised Estimates	Actuals
<b>Development Expenditure (a to c)</b> (Figures in parentheses indicate percentage to Aggregate Expenditure)	<b>52,102</b> (63)	<b>64,737</b> (65)	<b>70,554</b> (61)	<b>75,019</b> (58)	<b>91,527</b> (58)	<b>86,897</b> (59)
a. Development Revenue Expenditure	35,123 (67)	42,695 (66)	45,372 (64)	55,292 (74)	67,940 (74)	65,683 (76)
b. Development Capital Expenditure	16,375 (31)	21,504 (33)	24,480 (35)	19,271 (26)	22,776 (25)	20,431 (23)
c. Development Loans and Advances	604 (1)	538 (1)	702 (1)	456 (0)	811 (1)	783 (1)

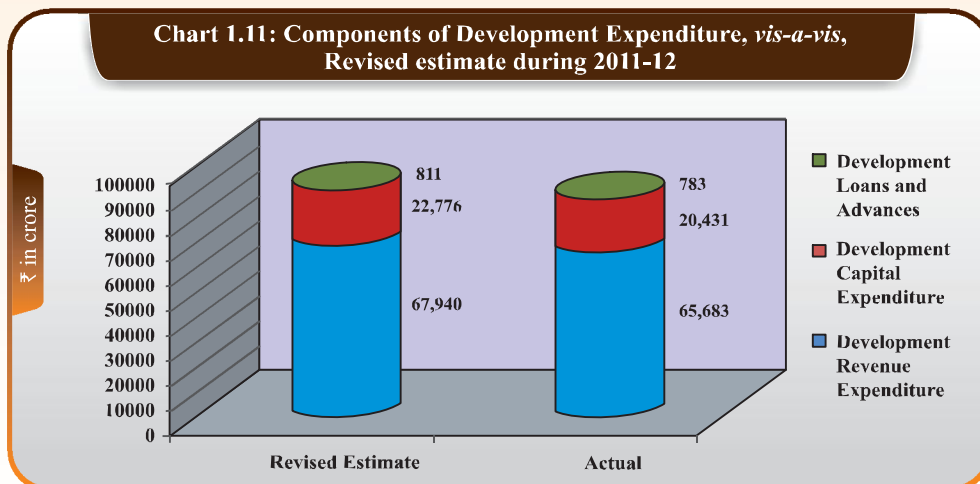
Source: Finance Accounts

Development Expenditure, comprising of Revenue and Capital Expenditure and Loans and Advances for socio-economic services, increased by ₹ 34,795 crore (67 *per cent*) from the level of ₹ 52,102 crore in 2007-08 to the level of ₹ 86,897 crore in 2011-12. Relative to the previous year, the growth in Development Expenditure in 2011-12 was ₹ 11,878 crore (16 *per cent*).

Within the Development Expenditure, the growth was shared by Revenue Expenditure and Capital Expenditure in the ratio of 87 *per cent* and 10 *per cent* respectively while Loans and Advances for socio-economic services shared only three *per cent*.



The position of Development Expenditure, *vis-a-vis*, Revised Estimates during 2011-12 is presented in the **Chart 1.11** below. The chart reveals that the Development Revenue Expenditure and Development Capital Expenditure had declined from their respective Revised Estimates by ₹ 2,257 crore and ₹ 2,345 crore respectively.



Source: Finance Accounts

**Table 1.25** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of the selected social and economic services.

**Table 1.25: Efficiency of Expenditure use in Selected Social and Economic Services**

(In per cent)

Social/Economic Infrastructure	2010-11			2011-12		
	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	1.63	82.60	0.07	1.27	87.89	0.04
Health and Family Welfare	15.94	77.66	0.70	14.04	77.67	1.49
WS, Sanitation, & HUD	55.38	0.96	2.16	61.55	3.06	3.13
Total (SS)	10.74	56.41	0.26	9.80	59.49	0.36
Economic Services (ES)						
Agriculture & Allied Activities	0.00	46.50	0.97	- 3.61	46.41	1.07
Irrigation and Flood Control	41.39	58.95	22.36	34.64	53.96	28.90
Power & Energy	65.34	0.67	0.00	54.96	0.45	0.00
Transport	72.67	4.15	94.80	70.53	3.56	94.99
Total (ES)	47.66	39.07	15.99	44.84	36.77	16.79
Total (SS+ES)	25.69	51.48	4.74	23.51	53.16	4.94
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.						

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 (under Social Services and Economic Services) to Total Expenditure declined by 2.18 *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 0.94 and 2.82 *per cent* respectively. Under the Social Services, the decrease in the ratio of

Capital Expenditure to Total Expenditure during 2011-12 over the previous year was 1.90 *per cent* in the area of Health and Family Welfare. Under the Economic Services, there was decrease of 6.75 *per cent* in irrigation and flood control, 10.38 *per cent* in power and energy and 2.14 *per cent* in transport.

The share of Salaries and Wages to Total Expenditure increased (1.68 *per cent*) from 51.48 *per cent* in 2010-11 to 53.16 *per cent* in 2011-12. The increases were contributed by increase in Social Services (3.08 *per cent*) partly counterbalanced by decrease (2.30 *per cent*) in Economic Services. Within the Social Services, the increase of 5.29 *per cent* was noticed under General Education during 2011-12 relative to 2010-11.

The share of O&M expenditure in the Revenue Expenditure under Social Services increased from 0.26 *per cent* in the previous year to 0.36 *per cent* in the current year. Similarly, the overall share of O&M expenditure in the Revenue Expenditure under the Economic Services increased from 15.99 *per cent* in the previous year to 16.79 *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 6.54 *per cent*.

## 1.9 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the Government is expected to keep its fiscal deficit (and borrowings) 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.

### 1.9.1 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 (₹ 232 crore) from the major, medium and minor irrigation projects during 2011-12 were only six *per cent* of the expenditure of ₹ 3,736 crore on their operation and maintenance which was much below the cost recovery assessment of 35 *per cent* of the Thirteenth Finance Commission for the year. **Table 1.26** depicts that the Government could not achieve the norms fixed by the Twelfth Finance Commission and Thirteenth Finance Commission for the period 2007-12 in respect of the cost recovery rate and maintenance expenditure for major, medium and minor irrigation works.

**Table 1.26: Cost Recovery Rate and Maintenance Expenditure with reference to Norms of Twelfth/ Thirteenth Finance Commission**

Year	Revenue Expenditure	Revenue Receipts	Revenue Receipts to Revenue Expenditure	Cost recovery assessment of 12 <sup>th</sup> FC (2005-10) and 13 <sup>th</sup> FC (2010-15)	Shortfall in cost recovery
	₹ in crore		In per cent		
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
2011-12	3,736	232	6	35	29

Source: Finance Accounts and recommendations of TFC

The gap in cost recovery relative to the assessment of Twelfth and Thirteenth Finance Commissions showed increasing trend all along the periods 2007-10. The shortfall increased from 54 *per cent* in 2007-08 to 80 *per cent* in 2009-10.

However, the gap in cost recovery relative to the assessment of Thirteenth Finance Commission showed increasing trend. These projects were able to recover only six *per cent* of running and maintenance expenditure incurred on these during 2011-12 as against the recommended 35 *per cent*. It puts a question mark on their viability.

The financial results of 16 major irrigation projects with a capital outlay of ₹ 6,514.53 crore at the end of March 2012 revealed that revenue realised (₹ 75.20 crore) from these projects during 2011-12 increased to 1.15 *per cent* of the capital outlay from the level of 1.12 *per cent* in the previous year and was insufficient to cover even the interest on capital investments (₹ 337.05 crore) during 2011-12. The revenue realized (₹ 75.20 crore) from these 16 schemes, expenditure incurred (₹ 685.13 crore) on the working and maintenance of these schemes during 2011-12 and taking into account the interest of ₹ 337.05 crore on capital outlay, there was a net loss of ₹ 946.98 crore.

### 1.9.2 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The department wise position of incomplete projects, each costing above ₹ one crore and due for completion by March 2012, is given in Table 1.27.

**Table 1.27: Department-wise Profile of Incomplete Projects**

(₹ in crore)

Department	No. of Incomplete Project	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Overrun <sup>3</sup>	Cumulative Actual Expenditure (March 2012)
Public Works (Roads and Bridges)	163	2,069.62	208.50 (13 projects)	66.68 <sup>1</sup>	979.93
Irrigation	20	795.66	1,760.58 (20 projects)	964.92 <sup>2</sup>	1,473.46
<b>Total</b>	<b>183</b>	<b>2,865.28</b>	<b>1,969.08</b>	<b>1,031.60</b>	<b>2,453.39</b>
1. Pertaining to 13 incomplete projects (initial budget cost: ₹ 141.82 crore, revised cost: ₹ 208.50 crore)					
2. Pertaining to 20 incomplete projects (initial budget cost: ₹ 795.66 crore, revised cost: ₹ 1,760.58 crore)					
3. Cost overrun in respect of revised project only.					

Source: Finance Accounts

An expenditure of ₹ 2,453.39 crore (March 2012) remained unfruitful on the aforesaid 183 incomplete projects. Further, of 183 incomplete projects, the initial budgeted cost of 33 projects was revised by the Government involving a cost overrun of ₹ 1,031.60 crore.

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

### 1.9.3 Investments and Returns

As of 31 March 2012, Government had invested ₹ 42,607.07 crore in Statutory Corporations (₹ 398.69 crore), Government companies (₹ 41,217.24 crore) and Co-operatives (₹ 991.14 crore). The average returns on the investments was 0.06 *per cent* in the last three years while the Government paid at an average interest rate of 6.48 *per cent* on its borrowings during the same period (**Table 1.28**).

**Table 1.28: Returns on Investment**

Investment/return/cost of borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	12,188.76	14,866.13	39,666.64	38,272.54	42,607.07 <sup>12</sup>
Returns (₹ in crore)	1.05	1.26	8.36	26.81	38.17
Returns ( <i>per cent</i> )	0.009	0.008	0.021	0.07	0.09
Average rate of interest on Government borrowings ( <i>per cent</i> )	6.43	6.29	6.16	6.67	6.62
Difference between interest rate and returns ( <i>per cent</i> )	6.42	6.28	6.14	6.60	6.53

Source: Finance Accounts

During 2011-12, the Government mainly invested in the share capital of corporations engaged in the thermal power generation, power transmission and distribution and rural electrification, etc.

### 1.9.4 Loans and Advances by State Government

In addition to the investments in the Co-operative Societies, Corporations and Companies, the Government has also been providing Loans and Advances to many of these institutions/ organizations. **Table 1.29** presents the position of outstanding Loans and Advances as on 31 March 2012, Interest Receipts, *vis-à-vis*, Interest Payments during the last three years.

<sup>12</sup> Includes ₹ 8,783.40 crore pertaining to 2011-12 and previous years, which is under reconciliation.

Table: 1.29 Average Interests received on Loans Advanced by the Government

(₹ in crore)

Amount of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12	
			Revised Estimates	Actuals
<b>Opening Balance</b>	<b>9,014</b>	<b>9,663</b>	<b>-</b>	<b>10,146</b>
Amount advanced during the year	942	968	1,240	976
Amount repaid during the year	293	485	537	133
<b>Closing Balance</b>	<b>9,663</b>	<b>10,146</b>	<b>-</b>	<b>10,989<sup>13</sup></b>
Net addition	649	483	703	843
Interest Receipts	39	65	-	101
Interest Receipts as <i>per cent</i> to outstanding Loans and advances	0.41	0.64	-	0.92
Interest Payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	5.94	6.32	-	6.36
Difference between Interest Payments and Interest Receipts ( <i>per cent</i> )	(-) 5.53	(-) 5.68	-	(-) 5.44

Source: Finance Accounts

Amounts advanced during 2011-12 decreased from the provisions made in the Revised Budget by ₹ 264 crore (21 *per cent*). However, the repayment of loans (₹ 133 crore) was four times below the estimates (₹ 537 crore).

Major portion of the loans were advanced during 2011-12 under Economic Sector (₹ 456.80 crore) followed by Social Service Sector (₹ 326.38 crore). Under the Economic Sector, the major Loans and Advances were given to 'Other Outlays on Industries and Minerals' (₹ 102.14 crore) and for Consumer Industries (₹ 353.10 crore). Similarly, under the Social Service Sector, loans were given for Water Supply and Sanitation (₹ 323.17 crore).

Amount of outstanding Loans and Advances increased from ₹ 10,146 crore at the close of March 2011 to ₹ 10,989 crore at the close of March 2012 that is by ₹ 843 crore. The sector wise break-up of the major outstanding amounts were: Economic Services (₹ 7,019 crore), Social Services (₹ 2,452 crore), General Services (₹ 1,344 crore) and Government servants (₹ 172 crore). Under the Economic Services, major portion of the outstanding loans pertained to the Energy (₹ 2,681 crore), Industries and Minerals (₹ 3,362 crore) and Agriculture and Other Allied Activities (₹ 350 crore).

Interest Receipts against outstanding Loans and Advances were below one *per cent* all along the periods 2009-12 against interest rate of borrowed funds ranging between 5.94 *per cent* (2009-10) and 6.36 *per cent* (2011-12) indicating that Interest Receipts were inadequate to cover the interest liabilities required to service the debt.

### 1.9.5 Cash Balances and Investment of Cash Balances

**Table 1.30** depicts the Cash Balances and Investments made by the State Government out of Cash Balances during the year. At the close of the year

<sup>13</sup> Differs by ₹ one crore due to rounding off. The opening balance for 2012-13 would be ₹ 10,988 crore.

2011-12, the Government had substantial Cash Balances amounting to ₹ 13,447 crore.

**Table 1.30: Cash Balances and Investment of Cash Balances**

(₹ in crore)

Particulars	As on 31 March 2011	As on 31 March 2012	Increase (+)/ Decrease (-)
<b>Cash balances</b>	<b>10,304.99</b>	<b>13446.70</b>	<b>3141.71</b>
<b>Investments from cash balances (a &amp; b)</b>	<b>9,877.81</b>	<b>14052.72</b>	<b>4174.91</b>
a. GoI Treasury Bills	9,877.81	14052.72	4174.91
b. GoI Securities	-	-	-
<b>Investment from earmarked balances (a and b)</b>	<b>45.20</b>	<b>45.20</b>	<b>-</b>
a. GoI Treasury Bills	-	-	-
b. GoI Securities	45.20	45.20	-
<b>Interest realised on Investment of Cash Balances</b>	<b>231.87</b>	<b>311.96</b>	<b>80.09</b>

Source: Finance Accounts

Interest received on Investment of Cash Balance was 2.22 *per cent*<sup>14</sup> during 2011-12 while the Government paid interest at 6.62 *per cent* on its borrowings during the year.

### 1.9.6 Ways and Means Advances

Under an agreement with the Reserve Bank of India, the State is required 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 however did not avail of this facility during 2007-10 and 2011-12. However during 2010-11, the Government obtained ₹ 713.88 crore and repaid the entire amount during 2010-11 itself.

## 1.10 Assets and Liabilities

### 1.10.1 Growth and Composition of Assets and Liabilities

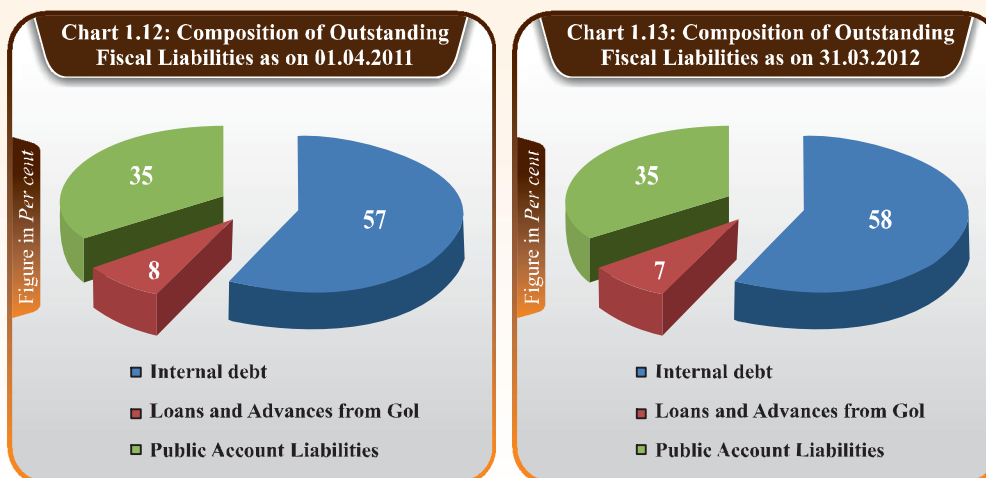
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts capture financial liabilities of the Government and assets created out of the expenditure incurred. *Appendix 1.9* gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in *Appendix 1.9* 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.

<sup>14</sup> Rate of interest calculated on the average amount of rediscounted Treasury Bills.



### 1.10.2 Fiscal Liabilities

Trends in outstanding fiscal liabilities of the State are indicated in **Appendix 1.9** and the composition of fiscal liabilities during the year 2011-12, *vis-à-vis*, previous year is presented in **Chart 1.12** and **1.13**.



Source: Finance Accounts

**Table 1.31** 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 1.31: Fiscal Liabilities- Basic Parameters**

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Fiscal Liabilities (₹ in crore)</b>	<b>1,74,248</b>	<b>1,87,411</b>	<b>2,01,720</b>	<b>2,24,785</b>	<b>2,43,229</b>
Rate of Growth ( <i>per cent</i> )	7.46	7.55	7.64	11.43	8.21
<b>Ratio of Fiscal Liabilities to</b>					
GSDP ( <i>per cent</i> )	48.73	45.47	41.06	38.20	35.36
Revenue Receipts ( <i>per cent</i> )	253.74	240.79	209.21	202.17	185.86
Own Resources ( <i>per cent</i> )	566.20	529.02	424.86	429.91	387.56
<b>Buoyancy of Fiscal Liabilities with reference to</b>					
GSDP (ratio)	0.519	0.494	0.398	0.578	0.486
Revenue Receipts (ratio)	0.561	0.566	0.320	0.747	0.464
Own Resources (ratio)	1.772	0.500	0.225	1.129	0.410

Source: Finance Accounts

Overall Fiscal Liabilities of the State increased (40 *per cent*) from ₹ 1,74,248 crore in 2007-08 to ₹ 2,43,229 crore in 2011-12. Fiscal Liabilities of the State under the Consolidated Fund (₹ 1,57,899 crore) comprised internal debt (₹ 1,40,388 crore) and loans from Government of India (₹ 17,511 crore). The Public Account Liabilities (₹ 85,330 crore) comprised Small Savings, Provident Fund (₹ 37,730 crore), Deposits (₹ 16,016 crore) and Reserve Funds (₹ 31,584 crore). The growth rate of Fiscal Liability was 8.21 *per cent* during

2011-12 as against 11.43 *per cent* in the previous year. The ratio of Fiscal Liabilities to GSDP decreased from 48.73 *per cent* in 2007-08 to 35.36 *per cent* in 2011-12. These liabilities stood at 1.86 times of the Revenue Receipts and 3.88 times of the States' own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during the year was 0.486 indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.486 *per cent*.

The State raised loans amounting to ₹ 19,336.67 crore during 2011-12 which, amongst many sources, included ₹ 15,830 crore of Borrowings. However, despite the availability of surplus cash balances, the State Government raised loans without utilizing the same. In the interest of prudent financial management the State Government should have complied with the recommendation of the Thirteenth Finance Commission according to which states with large Cash Balances should make efforts towards utilizing the same before resorting to fresh borrowings.

The Government had set up a Sinking Fund for amortisation of open market loans and has been contributing every year from its revenue. The balance in Sinking Fund as on 31 March 2012 stood at ₹ 29,809.67 crore<sup>15</sup> as against ₹ 24,179.80 crore in previous year.

### **1.10.3 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, 2004 the State Government should 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 Thirteenth Finance Commission.

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 outgo in the 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 1.32**.

<sup>15</sup> A difference of ₹ 193.87 crore from CB of 8222-01-101 in Statement No. 18 of the Finance Account 2011-12 is under reconciliation. ₹ 29,809.67 crore includes credit balance of ₹ 6,166.40 crore of undivided Uttar Pradesh.

Table 1.32: Guarantees given by the Government

(₹ in crore)

Particulars	2009-10	2010-11	2011-12
Maximum amount guaranteed	29,311	29,778	29,629
Outstanding amount of guarantees (including interest)	20,038	20,162	21,752
Percentage of maximum amount guaranteed to total revenue receipts	30.40	26.78	22.64

Source: Finance Accounts

The maximum amount guaranteed increased (one *per cent*) from the level of ₹ 29,311 crore in 2009-10 to ₹ 29,629 crore in 2011-12. The outstanding amount of guarantees also increased (nine *per cent*) from ₹ 20,038 crore in 2009-10 to ₹ 21,752 crore in 2011-12. The percentage of maximum amount guaranteed to Total Revenue Receipts decreased from 30.40 *per cent* in 2009-10 to 22.64 *per cent* in 2011-12, although it decreased by 4.14 percentage points relative to 2010-11. The outstanding amount of guarantees, including interest, as on 31 March 2012 stood against State Financial Corporation (₹ 80.14 crore), institutions engaged in the energy sector (₹ 17,607.58 crore), cooperative institutions (₹ 2,791.86 crore) and other institutions (₹ 1,268.48 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 39 *per cent* from 35 *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.

### 1.11 Debt Sustainability

Apart from the magnitude of debt of the 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 1.33** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from the year 2007-08.

Table 1.33: Debt Sustainability- Indicators and Trends

(₹ in crore)

Indicators of debt sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Debt stabilization (Quantum spread + primary deficit)</b>	<b>4,664</b>	<b>8,426</b>	<b>17,733</b>	<b>23,413</b>	<b>23,134</b>
Sufficiency of Non-debt Receipts (resource gap)	(-) 4,179	(-) 6719	1,820	1,445	1,815
Net availability of borrowed funds	1,272	1,788	2,387	8,915	3,051
Burden of Interest Payments (IP/RR ratio)	16	15	12	13	12

Source: Finance Accounts

### 1.11.1 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 2007-12, the quantum spread together with primary deficit remained positive indicating declining trends in debt/ GSDP ratio and sustainable level of public debt.

### 1.11.2 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. A 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 had recovered during 2009-10, 2010-11 and 2011-12.

### 1.11.3 Net Availability of Borrowed Fund

The net funds available on account of the Internal Debt and Loans and Advances from Government of India and other obligations after providing for the interest and repayments varied between 3.38 and 16.14 *per cent* during 2007-12<sup>16</sup>. During the year 2010-11, Government repaid internal debt of ₹ 6,973 crore, GoI loans of ₹ 1,315 crore and also discharged other obligations of ₹ 23,117 crore along with interest of ₹ 15,481 crore as a result of which percentage of availability of borrowed funds declined to 6.12 *per cent* during the year 2011-12 from 16.14 *per cent* in previous year. The trends in debt redemption ratio varied between 84 and 97 *per cent* during 2007-12. About 91 *per cent* of borrowed funds were used for discharging debt liabilities of the State in the last three years.

### 1.11.4 Maturity Profile

In terms of maturity profile, while the State has not defined clearly 1.63 *per cent* of the debt stock, 52.93 *per cent* of the outstanding State debt

<sup>16</sup>

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Receipt	37,584	49,193	53,485	55,236	49,849
Repayment (principal and interest)	36,312	47,405	51,098	46,321	46,797
Net fund available	1,272	1,788	2,387	8,915	3,051
Net fund available (in <i>per cent</i> )	3.38	3.64	4.46	16.14	6.12

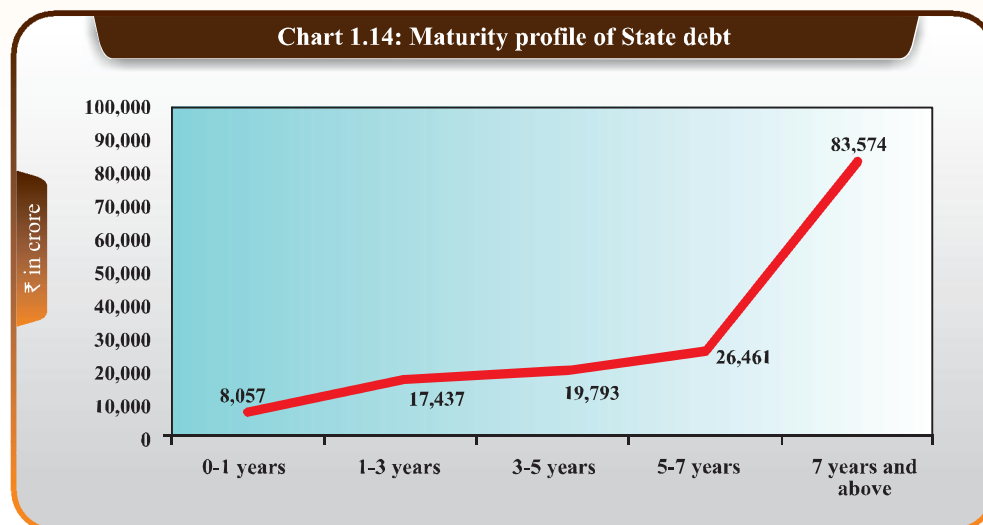
belonged to the maturity bracket of seven years and above. **Table 1.34** and **Chart 1.14** present the maturity profile of State debt.

**Table 1.34: Maturity Profile of State Debt**

(₹ in crore)

Maturity profile	Internal Debt	Loans & Advances from the Central Government	Total	Per cent
0 – 1 year	6,729	1,328	8,057	5.10
1 – 3 years	14,744	2,693	17,437	11.04
3 – 5 years	17,064	2,729	19,793	12.54
5 – 7 years	23,710	2,751	26,461	16.76
7 years and above	75,564	8,010	83,574	52.93
Information not furnished by the Government	2,577	0	2,577	1.63
<b>Total</b>	<b>1,40,388</b>	<b>17,511</b>	<b>1,57,899</b>	<b>100</b>

Source: Finance Accounts



Source: Finance Accounts

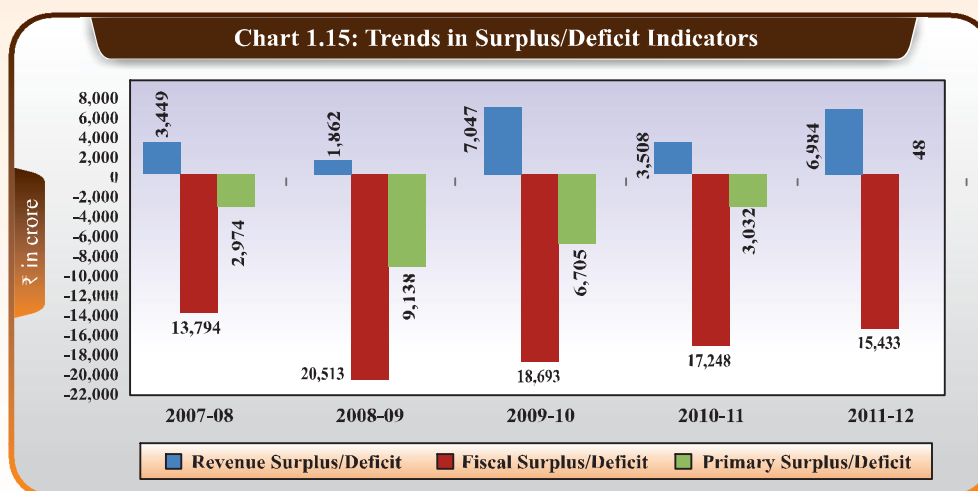
The above chart indicates that there will be bunching of repayment after one year and seven years and the repayment burden will be critical. A well thought out debt re-payment strategy will ensure that no additional borrowings which mature during these critical years are undertaken.

## 1.12 Fiscal Imbalances

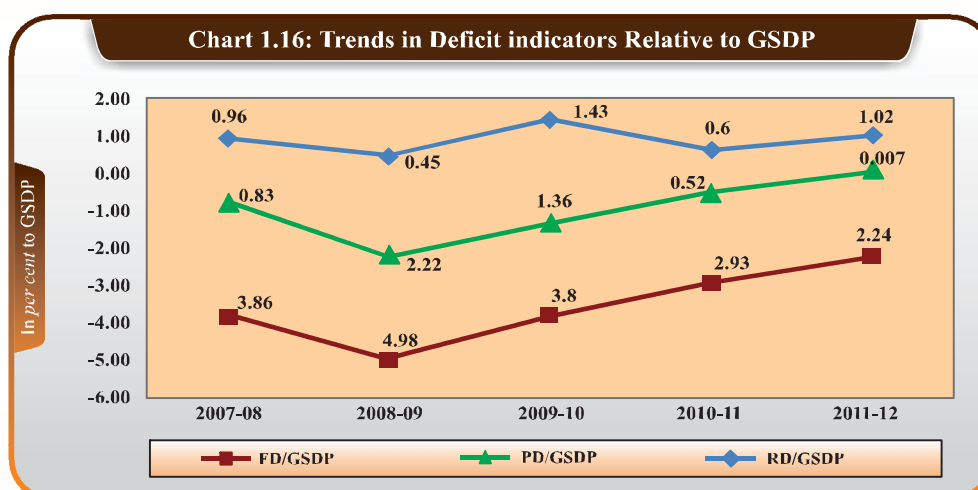
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit 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, 2004/Rules for the financial year 2011-12.

### 1.12.1 Trends of Deficits

Chart 1.15 and 1.16 present the trends in deficit indicators over the period 2007-12.



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 amended in 2011 according to which the revenue deficit was to remain nil and the fiscal deficit was to be reduced to three *percent of* GSDP by the end of 2011-12.

The State achieved the target of reducing revenue deficit to nil, three years ahead in 2006-07 when the huge deficit turned into surplus of ₹ 4,901 crore in 2006-07. This surplus 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. During 2011-12, it increased to ₹ 6,984 crore. The rise in revenue surplus during 2011-12 was mainly due to lesser increase (₹ 16,209 crore) in revenue expenditure against the increase (₹ 19,685 crore) in revenue receipts relative to previous year.



The fiscal deficit declined from the level of ₹ 17,248 crore in 2010-11 to ₹ 15,433 crore in 2011-12. This was mainly due to the fact that the increase in Revenue and Capital expenditure was commensurate with increase in Revenue and non-debt Capital receipts during the current fiscal year relative to the previous year. During the current year the Revenue and non-debt capital receipts increased by 17 *per cent* (despite a dip of nine *per cent* in non-tax revenue collections during the current year relative to previous year) while the Revenue and Capital expenditure (taken together) increased by 14 *per cent* only. Within the Revenue and Capital expenditure taken together, the increase of ₹ 17,510 crore was mainly shared between them in the ratio of 12:1. Thus, the fiscal deficit decreased due to less expenditure in capital accounts. As a result, relative to GSDP, the fiscal deficit declined from 2.93 *per cent* in 2010-11 to 2.24 *per cent* in 2011-12 which was below the revised FRBM norm of three *per cent*.

The primary deficit of ₹ 3,032 crore during the previous fiscal year was completely wiped out during the current fiscal year and turned into a surplus by ₹ 48 crore. This was primarily due to a decline (₹ 1,815 crore) in fiscal deficit in 2011-12 relative to the previous year, as aforesaid coupled with an increase in Interest Payments by ₹ 1,265 crore.

### 1.12.2 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 the Revenue and Non-debt Receipts. The financing pattern of the fiscal deficit is reflected in the **Table 1.35**.

**Table 1.35: Components of Fiscal Deficit and its Financing Pattern**  
(₹ in crore)

Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
<b>Decomposition of Fiscal Deficit</b>						
<b>Fiscal deficit (1 to 3)</b>		<b>13,794 (3.86)</b>	<b>20,513 (4.98)</b>	<b>18,693 (3.80)</b>	<b>17,248 (2.93)</b>	<b>15,433 (2.24)</b>
1	Revenue Deficit/Surplus (-)	(-) 3,449	(-) 1,862	(-) 7,047	(-) 3,508	(-) 6,984
2	Net Capital Expenditure	16,950	22,346	25,091	20,273	21,574
3	Net Loans and Advances	293	29	649	483	843
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	2,628	10,296	11,421	10,074	12,834
2	Loans from GOI	(-) 821	(-) 778	(-) 917	(-) 937	(-) 999
3	Special Securities Issued to NSSF	1,423	426	3,899	5,415	395
4	Loans from Financial Institutions	1,068	628	418	(-) 541	(-) 865
5	Small Savings, PF etc.	2,451	2,944	3,870	4,871	3,630
6	Deposits and Advances	2,683	(-) 2,525	93	1,843	(-) 2,038
7	Suspense and miscellaneous	654	973	(-) 1,365	757	608
8	Remittances	273	78	3	367	(-) 209
9	Others (i.e. transactions under Contingency Fund, Reserve Fund, Cash Balances Investment)	3,435	8,471	1,271	(-) 4,601	2,077
<b>Total</b>		<b>13,794</b>	<b>20,513</b>	<b>18,693</b>	<b>17,248</b>	<b>15,433</b>
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 2007-12 ranged between ₹ 13,794 crore (2007-08) and ₹ 20,513 crore (2008-09). The fiscal deficit, relative to previous year, decreased by 11 *per cent*, from ₹ 17,248 crore to ₹ 15,433 crore during 2011-12.

There was also a compositional shift in the pattern of financing fiscal deficit in 2011-12 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 Deposits and Advances, etc., underwent significant changes in the current year.

Market Borrowings dominantly continued to finance the fiscal deficit of the State during 2007-12. During 2007-08, 19 *per cent* of the deficit was met from the Market Borrowings which increased to 83 *per cent* during 2011-12. Another major source of financing the deficit was the National Small Saving Fund loans. During 2011-12, its share in financing the deficit was 24 *per cent* while it was 18 *per cent* in 2007-08.

### 1.12.3 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. 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 1.36**) indicates 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 1.36: 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)
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
2011-12	1,31,002	1,08,404	21,574	976	1,30,954	(+) 22,598	(+) 48

Source: Finance Accounts

- During the period 2007-08 to 2011-12, the Non-debt Receipts increased by 90 *per cent* from the level of ₹ 69,121 crore to the level of ₹ 1,31,002 crore.
- The Government experienced primary deficit ranging from ₹ 3,032 crore to ₹ 9,138 crore during 2007-08 to 2010-11 because Non Debt Receipts were not sufficient to meet the capital expenditure. However, during

2011-12, the primary deficit was wiped out and turned into primary surplus. This was due to adequacy of Non debt Receipts to meet primary expenditure.

### 1.13 Conclusion and Recommendations

**Performance of the State:** The Government had revenue in surplus and at the same time it contained the fiscal deficit to below three *per cent* of GSDP and the Total Liability below 46.9 *per cent* of GSDP at the close of the financial year 2011-12 as envisaged in FRBM Act, 2004 and Second Amendment Act, 2011.

**Revised Estimates and Actuals:** There had been wide variations in the Revised Estimates and Actuals during 2011-12. While the Revenue Receipts and Revenue Expenditure fell short of the Revised Estimates, the Interest Payments and Servicing of Debts exceeded them. It reflects non-optimisation of the desired fiscal objectives.

#### Recommendation

*Adequate measures be initiated by the Government in regard to fiscal management and continuous monitoring in order to bridge the gap between the wide variations in the Revised Estimates and Actual Expenditure.*

**Revenue Receipts:** The Revenue Receipts increased by 18 *per cent* during 2011-12 over the preceding year mainly due to 28 *per cent* increase in Tax Revenue and 16 *per cent* increase in Share of Union Taxes. Revenue Receipts of ₹ 1,30,869 crore were below the target set under the Revised Estimates (₹ 1,37,622 crore). Tax Revenue which is a major constituent of the Revenue Receipts was below the target of estimates by ₹ 1,747 crore while it was above the projection made by the Thirteenth Finance Commission by ₹ 10,802 crore. Similarly, the Non- tax Revenue was also below the Revised Estimates by ₹ 3,415 crore but was above the normative assessment made by the Thirteenth Finance Commission by ₹ 1,661 crore.

**Oversight of funds transferred directly by the Government of India to the State Implementing Agencies:** The Government of India directly transfers substantial amount of funds to the State Implementing Agencies. However, there is no mechanism available with the State Government for monitoring, on a regular basis, its utilisation.

#### Recommendation

*A system should be in place for ensuring proper accounting, regular updation and validation of funds directly transferred by the Government of India to the State Implementing Agencies.*

**Revenue Expenditure:** During 2011-12, the Revenue Expenditure increased by 15 *per cent* relative to 2010-11. Within the Revenue Expenditure, the Plan Expenditure increased by seven *per cent* over the previous year and the Non-plan Expenditure by 17 *per cent*. The increases under Plan Expenditure

show growth of infrastructure and services network of the State. The Total Expenditure had also shown increasing trends during the five years period (2007-12). The Committed Expenditure on Salary, Pension, Interest Payments and Subsidies consumed 63 *per cent* of the Revenue Receipts of the Government.

### **Recommendation**

*The Government should carry out fiscal consolidation based on avoidance of unproductive expenditure and at the same time ensure sustainable and viable service delivery.*

**Power Losses:** With a view to the addressing the problem of Power Losses in the State, the Government took various initiatives such as double metering system for specified consumers, replacement of naked conductors by Aerial Bunch Conductors in excessive power theft areas etc. and Feeder Separation Scheme.

### **Recommendation**

*The Government should consider appropriately addressing the problem relating to power losses in the State of Uttar Pradesh as a whole.*

**Returns on Government Investments:** The Average Return on Government's Investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives was 0.06 *per cent* in the last three years, whereas its Average Interest outgo on its borrowings was 6.48 *per cent* during the corresponding period.

### **Recommendation**

*The performance of State-owned Public Sector Undertakings, incurring losses may be reviewed.*

**Cost Recovery of Irrigation Works:** The irrigation projects were able to recover only six *per cent* of the running and maintenance expenditure incurred during 2011-12 as against 35 *per cent* recommended by the Thirteenth Finance Commission.

### **Recommendation**

*In view of the low recovery affected during 2011-12, the Government should take effective measures for ensuring the viability of the irrigation projects.*

**Incomplete Projects:** The incidence of incomplete projects pertaining to Public Works and Irrigation Departments was abnormally high as 183 projects in 2011-12 remained to be completed, thereby resulting in cost overrun in addition to the denial and non-availability of facilities to the beneficiaries.

### **Recommendation:**

*Due priority should be accorded by the Government for completion of the incomplete projects.*

**Debt Sustainability:** The trajectory of debt-GSDP ratio was declining and stood at 35 *per cent* at the end of 2011-12 from 49 *per cent* in 2007-08. The negative resource gap since 2009-10 indicated sustainability of the debt position of the State. Nearly 91 *per cent* of borrowed funds were used for discharging debt liabilities in the last three years.

#### **Recommendation**

*The Government was maintaining a Sinking Fund but the balances may not be sufficient for amortisation of loans. As such the Government should ensure a well thought out debt repayment strategy to avoid the bunching of repayments.*

**Cash Balances:** At the close of the year 2011-12, the Government had substantial Cash Balances amounting to ₹ 13,447 crore.

#### **Recommendation**

*The Government should effectively plan the utilisation of surplus Cash Balances before resorting to fresh borrowings in terms of the recommendation of the Thirteenth Finance Commission.*