

# CHAPTER 1

## FINANCES OF THE GOVERNMENT

This chapter provides an audit perspective on finances of the State Government during 2016-17 and analyses changes in major fiscal aggregates relative to 2015-16 keeping in view overall trends during the preceding five years.

The analysis is based on details contained in the Finance Accounts of the Government of Uttar Pradesh (GoUP). The profile of the State is given in *Appendix 1.1*.

### 1.1 Gross State Domestic Product (GSDP)<sup>1</sup>

The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are given in **table 1.1**:

**Table 1.1: GDP of India and GSDP of the State**

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
GDP of India (₹ in crore)	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035	1,51,83,709
Growth rate of GDP (in per cent)	13.82	12.97	10.79	9.94	10.98
GSDP of the State at current prices (₹ in crore)	8,22,393	9,40,356	10,11,790	11,20,836	12,75,141
Growth rate of GSDP at current prices (in per cent)	13.58	14.34	7.60	10.78	13.77
GSDP of the State at constant prices (₹ in crore)	7,58,205	8,02,070	8,34,432	9,01,257	9,67,517
Growth rate of GSDP at constant prices (in per cent)	4.72	5.79	4.03	8.01	7.35

(Source: GDP/GSDP figures issued by MoSPI dated 01.08.2017)

The structure of the Government Accounts is explained in *Part A* and the layout of the Finance Accounts in *Part B* of *Appendix 1.2*.

#### 1.1.1 Summary of fiscal transactions

**Table 1.2** presents a summary of fiscal transactions of the State Government during 2016-17 *vis-à-vis* 2015-16. *Appendix 1.3* provides details of the receipts and disbursements as well as the overall fiscal position during 2016-17.

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<sup>1</sup> GDP and GSDP are the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time and are an important indicator of the Country and State's economy.

Report on State Finances for the year ended 31 March 2017

**Table 1.2: Summary of Fiscal Transactions in 2016-17**

(₹ in crore)

Receipts			Disbursements				
	2015-16	2016-17		2015-16	2016-17		
Section A: Revenue					Non Plan	Plan	Total
Revenue Receipts	2,27,076	2,56,875	Revenue Expenditure	2,12,736	1,86,886	49,706	2,36,592
Tax Revenue	81,106	85,966	General Services	72,228	88,111	144	88,255
Non-Tax Revenue	23,135	28,944	Social Services	82,487	50,703	41,158	91,861
Share of Union Taxes/ Duties	90,974	1,09,428	Economic Services	47,881	37,430	8,404	45,834
Grants from GoI	31,861	32,537	Grants-in-aid and Contributions	10,140	10,642	-	10,642
Section B: Capital & Others							
Miscellaneous Receipts under the Capital Section	-	-	Capital Expenditure	64,423	9,216	60,573	69,789
Recoveries of Loans and Advances	726	259	Loans and Advance disbursed	9,118	6,741	-	6,741
Public Debt Receipts	74,514	67,685	Repayment of Public Debt	17,673	20,303	-	20,303
Contingency Fund	201	173	Contingency Fund	44	349	-	349
Public Account Receipt <sup>2</sup>	2,65,972	3,06,406	Public Account Disbursements	2,64,294	2,96,523	-	2,96,523
Opening Cash Balance	(-) 401	(-)202*	Closing Cash Balance	(-) 200	899	-	899
<b>Total</b>	<b>5,68,088</b>	<b>6,31,196</b>	<b>Total</b>	<b>5,68,088</b>	<b>5,20,917</b>	<b>1,10,279</b>	<b>6,31,196</b>

(Source: Finance Accounts of 2015-16 & 2016-17)

\*Departmental Balance ₹ 2.04 crore and permanent imprest ₹ 0.03 crore allocated to the State of Uttarakhand on apportionment of balances as on 8 November 2000.

The trends of Revenue Receipts (RR) / Revenue Expenditure (RE) / Capital Expenditure (CE) relative to GSDP at current as well as constant prices are presented in **table 1.3** below:

**Table 1.3: Trends in RR/ RE/ CE relative to GSDP**

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Average
Revenue receipts relative to GSDP						
RR at current prices (₹ in crore)	1,45,904	1,68,214	1,93,422	2,27,076	2,56,875	-
Rate of growth of RR at current prices ( <i>per cent</i> )	11.49	15.29	14.99	17.40	13.12	14.46
RR at constant prices (₹ in crore)	1,34,516	1,43,477	1,59,517	1,82,590	1,94,905	-
Rate of growth of RR at constant prices ( <i>per cent</i> )	2.79	6.66	11.18	14.46	6.74	8.37
RR / GSDP	17.74	17.89	19.12	20.26	20.14	19.03
Revenue expenditure relative to GSDP						
RE at current prices (₹ in crore)	1,40,724	1,58,147	1,71,027	2,12,736	2,36,592	-
Rate of growth of RE at current prices ( <i>in per cent</i> )	13.59	12.38	8.14	24.39	11.21	13.94
RE at constant prices (₹ in crore)	1,29,740	1,34,890	1,41,048	1,71,060	1,79,515	-
Rate of growth of RE at constant prices ( <i>in per cent</i> )	4.73	3.97	4.56	21.28	4.94	7.90
RE/ GSDP	17.11	16.82	16.90	18.98	18.55	17.67

<sup>2</sup> Includes Major Heads from 8009 to 8782 (Statement 21 of Finance Accounts)

Capital expenditure relative to GSDP						
CE at current prices (₹ in crore)	23,834	32,863	53,297	64,423	69,789	-
Rate of growth of CE at current prices (in <i>per cent</i> )	10.48	37.88	62.18	20.88	8.33	27.95
CE at constant prices (₹ in crore)	21,974	28,030	43,955	51,802	52,953	-
Rate of growth of CE at constant prices (in <i>per cent</i> )	1.85	27.56	56.81	17.85	2.22	21.26
CE/ GSDP	2.90	3.49	5.27	5.75	5.47	4.58

As evident from the table above, revenue receipts, revenue expenditure and capital expenditure have increased from 2012-13 to 2016-17 as a percentage of GSDP even after accounting for inflation.

### 1.1.2 Review of fiscal situation

In view of the additional burden on the Government due to taking over of the debt of Power Distribution Companies (DISCOMs) on the implementation of the UDAY (Ujjwal DISCOM Assurance Yojana) scheme discussed in detail in **Para 1.6.4**, the fiscal policy enunciated in the documents of the State as well as guidelines of UDAY stipulate that the debt taken over by the State under UDAY would not be counted against the fiscal deficit limit of the State. The actual fiscal deficit and outstanding liabilities of the State after excluding UDAY was ₹ 41,187 crore and ₹ 4,08,422 crore respectively. Taking into account the various issues discussed in this report and detailed in **Para 3.17** and **table 3.11**, the revenue surplus overstated by ₹ 677.83 crore would be ₹ 19,605 crore and the fiscal deficit understated by ₹ 608.75 crore would be ₹ 41,796 crore as discussed in **table 3.11** at the end of the report. Further, the impact of sinking fund transactions discussed in **Para 1.5.2.1** and brought out in **Para 3.17** and **table 3.11** would result in increasing the outstanding liabilities (excluding UDAY) of State by ₹ 6,627 crore, i.e. ₹ 4,15,049 crore.

In view of the above, the performance of the State during 2016-17 under major variables provided in the budget, recommendations of the Fourteenth Finance Commission (XIV FC) and targeted in the Fiscal Responsibility and Budget Management (FRBM) Act as per actuals (excluding UDAY) and as worked out by Audit is given in **table 1.4**:

**Table 1.4: Performance of the State during 2016-17**

Key fiscal indicators	Targets set by the XIV FC	Targets in Budget Estimate	Targets as per FRBM Act	Actuals (excluding UDAY)	Actuals as worked out by Audit
Revenue deficit (-) /surplus(+) (₹ in crore)	Zero	Surplus of ₹ 28,201 crore	Surplus of ₹ 28,201 crore	Surplus of ₹ 20,283 crore	Surplus of ₹ 19,605 crore
Fiscal deficit (-) / GSDP (in <i>per cent</i> )	3.25	2.97	2.97	3.23	3.28
Ratio of total outstanding debt to GSDP (in <i>per cent</i> )	32.90	30.30	30.30	32.03	32.55

(Source: Report of Fourteenth Finance Commission and U.P. Government Gazette Notification dated 22 March 2016)

As seen from the above, the State has not achieved revenue surplus and ratio of outstanding debt to GSDP as targeted in budget estimate and FRBM Act. Further, the ratio of fiscal deficit to GSDP is also above the target of budget estimates 2016-17, XIV FC and FRBM Act.

### 1.1.2.1 Composition and financing of Fiscal Deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The financing pattern of the fiscal deficit is reflected in **table 1.5**:

**Table 1.5: Component and financing of Fiscal Deficit**

		(₹ in crore)				
Particulars		2012-13	2013-14	2014-15	2015-16	2016-17
<b>Fiscal deficit (including UDAY)*</b> (figures in brackets indicate <i>per cent</i> to GSDP)		<b>19,238</b> (2.34)	<b>23,680</b> (2.52)	<b>32,513</b> (3.21)	<b>58,475</b> (5.22)	<b>55,988</b> (4.39)
1	Revenue Surplus	5,180	10,067	22,394	14,340	20,283
2	Net Capital Expenditure	23,834	32,863	53,297	64,423	69,789
3	Net Loans and Advances	584	884	1,610	8,392	6,482
<b>Financing pattern of Fiscal Deficit*</b>						
1	Market Borrowings	6,263	5,054	13,513	25,301	36,904
2	Loans from GoI	(-)1,099	(-)1,075	(-) 875	(-) 803	(-)409
3	Special Securities Issued to NSSF	2,429	2,768	6,325	4,339	(-)4,532
4	Loans from Financial Institutions	(-) 681	(-)12	7,146	28,005	15,441
5	Small Savings, PF etc.	3,342	2,363	1,686	1,534	1,619
6	Deposits and Advances	1,753	5,037	1,050	(-) 1,543	(-)301
7	Suspense and miscellaneous	3,540	(-)9,637	535	(-) 677	592
8	Remittances	986	(-)98	1,608	(-) 197	748
9	Others <sup>3</sup>	2,705	19,280	1,525	(-) 2,516	5,926
<b>Fiscal deficit</b>		<b>19,238</b>	<b>23,680</b>	<b>32,513</b>	<b>58,475</b>	<b>55,988</b>

\*All these figures are net of disbursements/outflows during the year

(Source: Finance Accounts of the respective years)

\*The fiscal deficit in this table included the UDAY impact so as to match the figures in Finance Accounts given in the financing pattern.

### 1.1.2.2 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and decomposition of primary deficit<sup>4</sup> into primary revenue deficit<sup>5</sup> and capital expenditure (including loans and advances) indicate the quality of deficit in the States' finances. A persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was shrinking and a part of borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of primary deficit (**Table 1.6**) indicates the extent to which deficit has been on account of enhancement in capital expenditure which may be desirable to improve productive capacity of the Government.

<sup>3</sup> Transactions under Contingency Fund, Reserve Fund, Cash Balances, Investment and Bonds

<sup>4</sup> Primary deficit is fiscal deficit excluding interest payments

<sup>5</sup> Primary revenue deficit is the gap between non-interest revenue expenditure of the state and its non- debt receipts and indicates the extent to which the non-debt receipts are sufficient to meet the primary expenditure incurred under revenue account.

Table 1.6: Primary Deficit/Surplus

(₹ 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)
2012-13	1,46,323	1,23,803	23,834	1,003	1,48,640	(+)22,520	(-)2,317
2013-14	1,68,803	1,40,735	32,863	1,473	1,75,071	(+)28,068	(-)6,268
2014-15	1,93,684	1,52,162	53,297	1,873	2,07,332	(+)41,522	(-)13,648
2015-16	2,27,802	1,91,288	64,423	9,118	2,64,829	(+)35,514	(-)37,027
2016-17	2,57,134	2,09,656	69,789	6,741	2,86,186	(+)47,478	(-)29,052

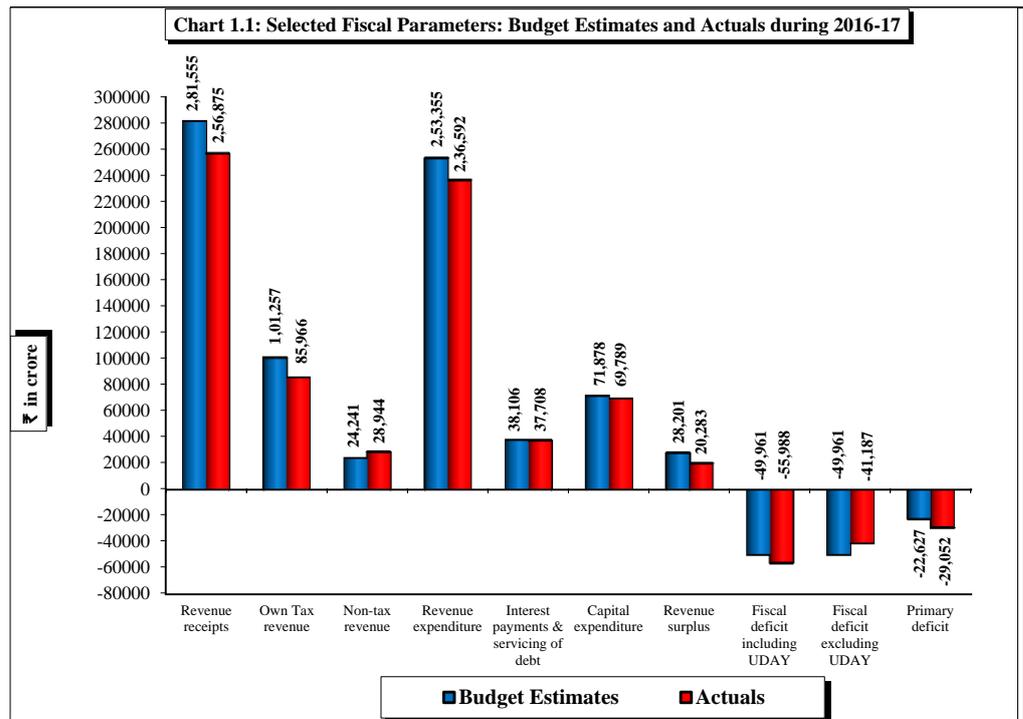
(Source: Finance Accounts of the respective years)

The fact that primary deficit of the Government of Uttar Pradesh increased from ₹ 2,317 crore (2012-13) to ₹ 29,052 crore during 2016-17 indicates that the non-debt receipts were not sufficient to meet the primary expenditure of the State.

### 1.1.3 Budget Estimates and actuals

Shortfalls of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives.

Actuals *vis-à-vis* Budget Estimates of selected fiscal parameters for 2016-17 are shown in **chart 1.1** and **Appendix 1.4**.



(Source: Budget and Finance Accounts 2016-17)

- Shortfalls in tax revenue were mainly under taxes on sales, trade etc. (₹ 6,057 crore) followed by state excise (₹ 4,977 crore) and from stamps and registration fee (₹ 4,756 crore).

- Increases in non-tax revenue (₹ 4,703 crore) were mainly under other non-tax revenue (₹ 4,150 crore) and interest receipts (₹ 415 crore) on investment of cash balances.
- The major shortfalls in revenue expenditure were in Social Services (₹ 9,929 crore), General Services (₹ 4,601 crore) and Economic Services (₹ 2,187 crore).
- Decreases in capital expenditure (₹ 2,089 crore) were due to decrease in Social Services (₹ 1,859 crore) and General Services (₹ 1,097 crore) counter-balanced by excess expenditure of ₹ 867 crore under Economic Services.

**Recommendation:** The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between the budget estimate and actuals is bridged.

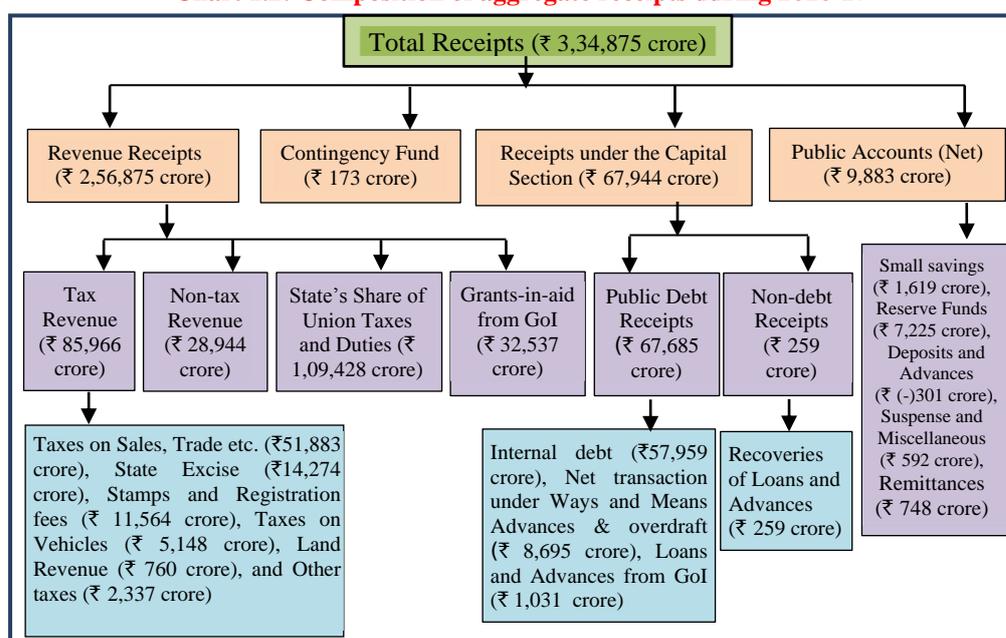
## 1.2 Financial Resources of the State

### 1.2.1 Resources of the State as per Annual Finance Accounts

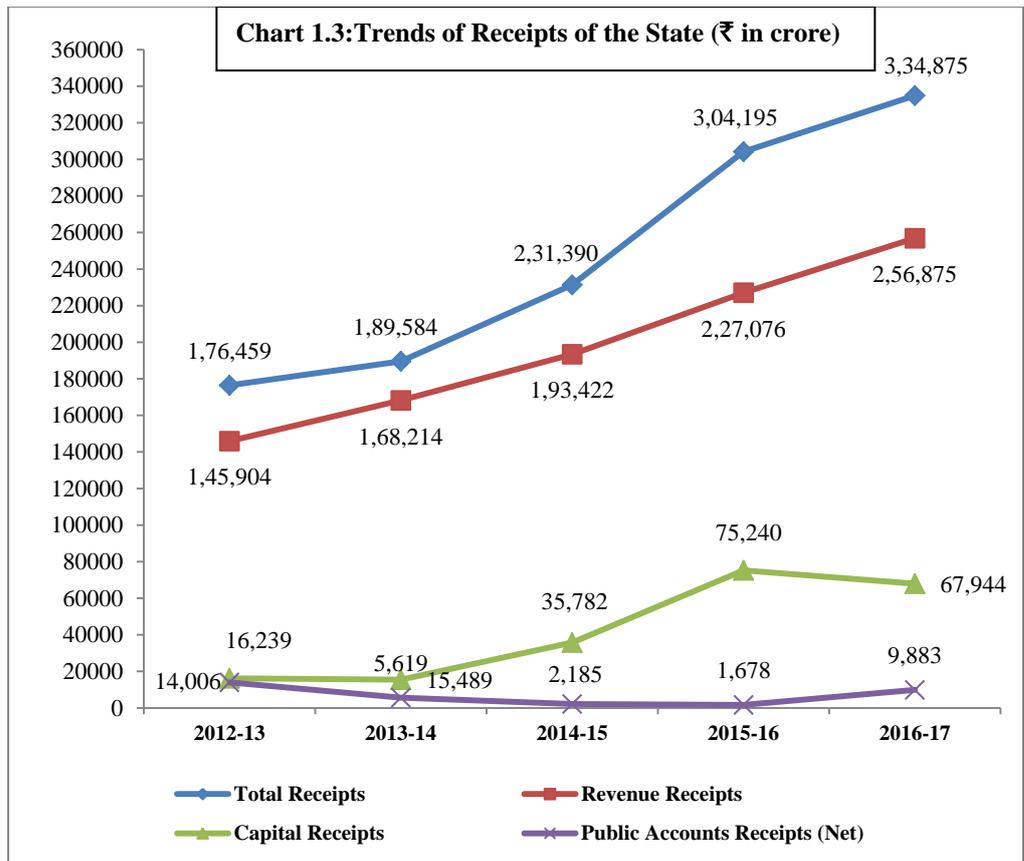
Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from Government of India (GoI). Receipts under Capital Section comprise miscellaneous Receipts under the Capital Section such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as balances in Public Accounts.

Charts 1.2, 1.3 and 1.4 below depicts the composition of aggregate receipts, the trends in various components of receipts during 2012-17 and the composition of resources during 2016-17 respectively.

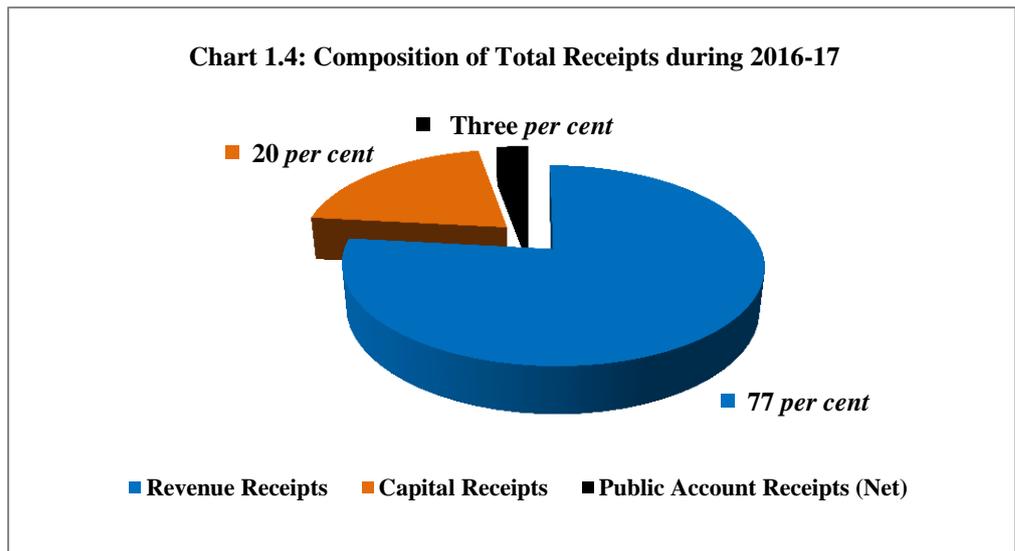
**Chart 1.2: Composition of aggregate receipts during 2016-17**



(Source: Finance Accounts 2016-17)



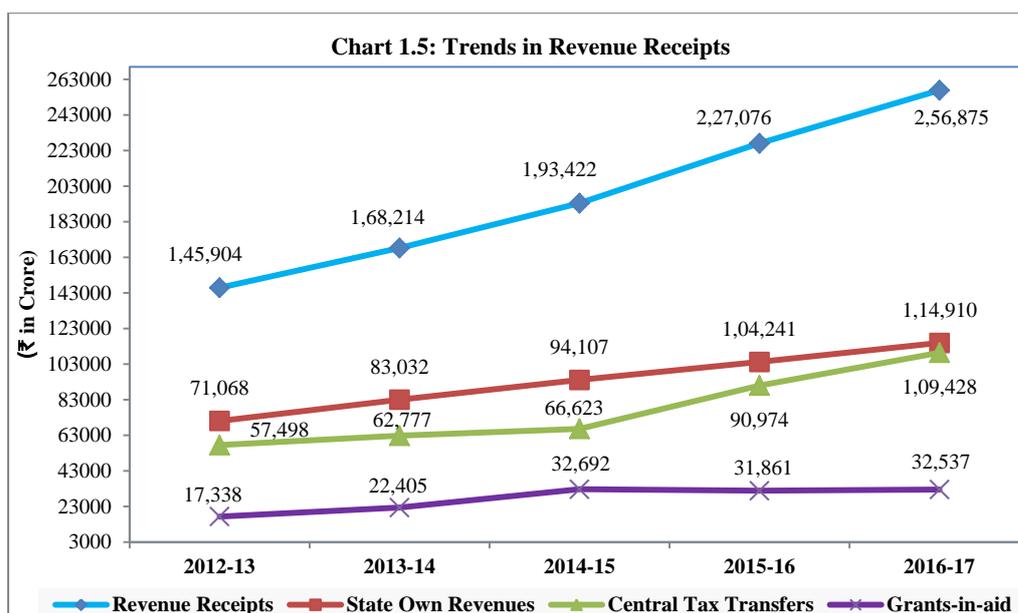
(Source: Finance Accounts of the respective years)



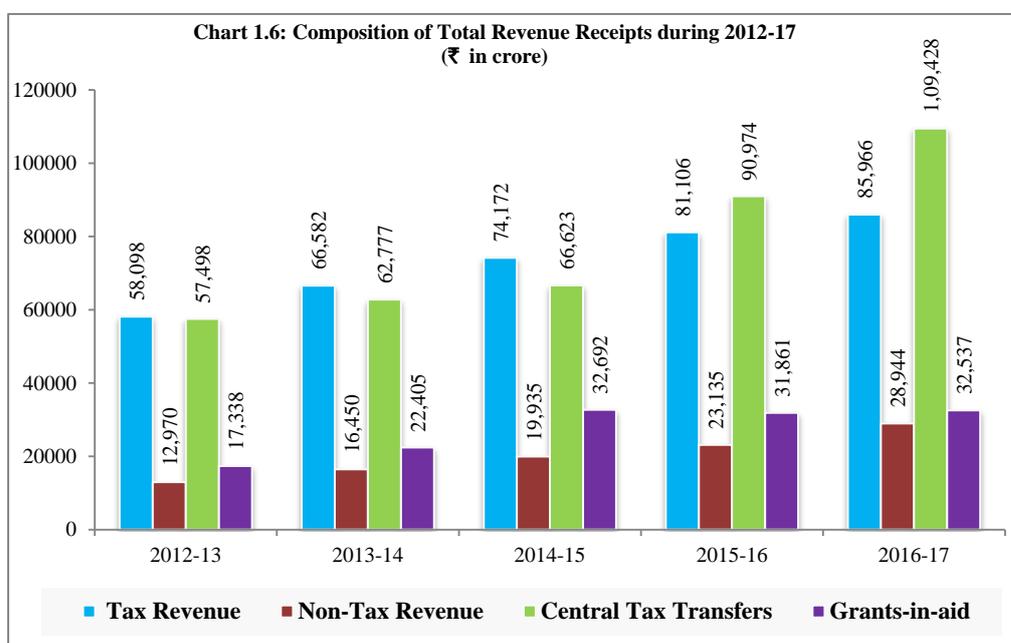
(Source: Finance Accounts 2016-17)

### 1.2.2 Revenue Receipts

**Statement 14** of the Finance Accounts gives details of the revenue receipts of the Government. The trends and composition of revenue receipts during 2012-17 are presented in *Appendix 1.5* and also depicted in **chart 1.5** and **chart 1.6** respectively.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years)

The increase (₹ 29,799 crore; 13 per cent) in revenue receipts during 2016-17 was mainly due to increased net proceeds assigned to the State by GoI (20 per cent), more collection of taxes under VAT and sales tax (11 per cent), realisation of more taxes under the State Motor Vehicles Taxation Act (43 per cent), reimbursement of salaries disbursed under *Sarv Shiksha Abhiyan* (32 per cent) and receipts from Government of India for share capital to Uttar Pradesh Power Corporation Limited (UPPCL) for rural electrification (109 per cent) partly counterbalanced by less receipts under *Panchayati Raj Act* (61 per cent), less receipts from sale of stamps and registration fees (24 per cent), Employees State Insurance Scheme (60 per cent), less contributions from patients (37 per cent), less receipts from sale of timber and other forest produce and other receipts under forestry and

wild life and less receipt of fees of examination by Uttar Pradesh Public Service Commission (UPPSC)/ Subordinate Services Selection Commission (42 per cent).

### 1.2.2.1 State's Own Resources

The State's performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue, not including the State's share in central taxes and grants-in-aid which is based on the recommendations of the Finance Commission.

Details of collections of tax revenue and non-tax revenue for 2012-17 are presented in *Appendix 1.6*. These increased by ₹ 43,842 crore (62 per cent) from ₹ 71,068 crore in 2012-13 to ₹ 1,14,910 crore in 2016-17.

### Tax Revenue

Details of tax revenue during 2012-17 are given in **table 1.7** below:

**Table 1.7: Components of tax revenue**

(₹ in crore)						
Tax revenues	2012-13	2013-14	2014-15	2015-16	2016-17	Variation (per cent) during 2016-17 over 2015-16
Taxes on sales, trades etc.	34,870 (60)	39,645 (60)	42,934 (58)	47,692 (59)	51,883 (60)	8.79
State excise	9,782 (17)	11,644 (18)	13,483 (18)	14,084 (17)	14,274 (17)	1.35
Taxes on vehicles	2,993 (5)	3,441 (5)	3,797 (5)	4,410 (5)	5,148 (6)	16.73
Stamps and registration fees	8,742 (15)	9,521 (14)	11,803 (16)	12,404 (15)	11,564 (13)	(-)6.77
Land revenues	805 (1)	772 (1)	527 (1)	505 (1)	760 (1)	50.50
Taxes on goods and passengers	1 (0)	1 (0)	1 (0)	1 (0)	0 (0)	(-)100
Other taxes	905 (2)	1,558 (2)	1,627 (2)	2,010 (3)	2,337 (3)	16.27
<b>Total</b>	<b>58,098</b>	<b>66,582</b>	<b>74,172</b>	<b>81,106</b>	<b>85,966</b>	<b>5.99</b>

(Source: Finance accounts of the respective years) (Figures in brackets are percentage of collection to total)

### Non-tax Revenue

Details of receipts from non-tax revenues during 2012-17 are given in **table 1.8** below:

**Table 1.8: Non-tax revenue**

(₹ in crore)						
Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Variation (per cent) of 2016-17 over 2015-16
Interest receipts	1,186 (9)	1,619 (10)	2,303 (12)	633 (3)	1,165 (4)	84.04
Dividends	63 (1)	5 (0)	8 (0)	43 (0)	86 (0)	100
Other non-tax receipts	11,721 (90)	14,826 (90)	17,624 (88)	22,459 (97)	27,693 (96)	23.30
<b>Total</b>	<b>12,970</b>	<b>16,450</b>	<b>19,935</b>	<b>23,135</b>	<b>28,944</b>	<b>25.11</b>

(Source: Finance Accounts of the respective years) (Figures in brackets are percentage of collection to total)

### 1.2.2.2 Cost of collection

Details of collection and cost thereof in respect of major revenue receipts during 2016-17 are given in **table 1.9**:

**Table 1.9: Cost of collection**

Particulars	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average of previous year
	(₹ in crore)			
Taxes on sales, trade etc.	51,883	613	1.18	0.66
Stamp duty and registration fees	11,564	261	2.26	2.87
State excise	14,273	163	1.15	3.21
Taxes on vehicles	5,148	133	2.58	4.99

(Source: Concerned Department)

Though the cost of collection of state excise, taxes on vehicles and stamp duties and registration fees was lower than the all India average of the preceding year, the cost of collection of taxes on sales, trade etc., was higher than the all India average. Collection of taxes on sales, trade etc., by the GoUP is nearly twice as high as the all India average and also higher than that of neighbouring States<sup>6</sup>. A trend analysis of the taxes on sales, trade etc., to GSDP ratio of Uttar Pradesh compared to the all India tax (receipts under State Sales Tax) to GDP ratio also indicates a higher ratio as given in **table 1.10** below:

**Table 1.10: Taxes on sales, trade etc., with GSDP ratio**

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Taxes on sales, trade etc. (₹ in crore)	34,870	39,645	42,934	47,692	51,883
Taxes on sales, trade etc./GSDP ratio of Uttar Pradesh	4.24	4.22	4.24	4.25	4.07
All India tax (Receipts under State Sales Tax) to GDP ratio	0.02	0.01	0.02	0.02	0.02

A further trend analysis of the actual collection of taxes on sales, trade etc., of the State for the five year period (2012 – 2017) also indicated that the actual collection has always been lower than budget estimates as shown in **table 1.11** below:

**Table 1.11: Trend analysis of Budget estimate and actuals**

Taxes on sales, trade etc.	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Budget estimates	32,000	43,936	47,500	52,673	57,940
Actuals	34,870	39,645	42,934	47,692	51,883

The shortfall in collection of taxes on sales, trade etc. during the past three years reveals the extent of imbalance between the estimation and the tax collection efforts.

**Recommendation:** *The Finance Department and the Sales Tax Department should analyse why the cost of collection of taxes on sales, trade etc., is nearly twice as high as the all India average and introduce measures to reduce the cost of collection.*

<sup>6</sup> Bihar – 0.72; Jharkhand – 0.41; Madhya Pradesh – 0.57.

### 1.2.2.3 Grants- in-aid from GoI

The State Government receives grants-in-aid and share of Union taxes and duties, based on the recommendations of the Finance Commission. Details of GoI grants are given below in **table 1.12**:

**Table 1.12: Grants-in-aid from Government of India**

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non plan grants	4,341	7,934	6,809	8,274	9,335
Grants for State plan schemes	5,519	6,595	6,576	1,933	232
Grants for Central plan schemes	12	226	17	16	56
Grants for Centrally sponsored plan schemes	7,466	7,650	19,289	21,638	22,914
<b>Total grants</b>	<b>17,338</b>	<b>22,405</b>	<b>32,691</b>	<b>31,861</b>	<b>32,537</b>
Percentage of increase/decrease over previous year	(-2.38)	29.22	45.91	(-) 2.54	2.12
Revenue receipts	1,45,904	1,68,214	1,93,422	2,27,076	2,56,875
Total grants as a percentage of revenue receipts	11.88	13.32	16.90	14.03	12.67

(Source: Finance Accounts of the respective years)

### 1.2.2.4 Arrears of revenue

Details of arrears of revenue are detailed in **table 1.13** below:

**Table 1.13: Arrears of revenue**

(₹ in crore)				
Sl. No.	Head of revenue	Name of Department	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years
1.	Taxes on sales, trade etc.	Sales Tax Department	27,214.14	11,803.03
2.	Entertainment tax	Institutional Finance Department	336.00	8.02
<b>Total</b>			<b>27,550.14</b>	<b>11,811.05</b>

(Source: Concerned Department)

**Recommendation:** *The Finance Department should evolve a mechanism whereby arrears of revenue are expeditiously collected.*

### 1.2.3 Receipts under the capital section

Trends of receipts under the capital section during 2012-17 are given in **table 1.14**:

**Table 1.14: Trends in receipts under the capital section**

(₹ in crore)					
Sources of State's Receipts under the Capital Section	2012-13	2013-14	2014-15	2015-16	2016-17
Receipts under the capital section	<b>16,239</b>	<b>15,489</b>	<b>35,782</b>	<b>75,240</b>	<b>67,944</b>
Recovery of loans and advances	419	589	262	726	259
Public debt receipts	15,820	14,900	35,520	74,514	67,685
Rate of growth of non-debt receipts under the capital section	215	41	(-)56	177	(-)64
Rate of growth of debt receipts under the capital section ( <i>per cent</i> )	(-)18	(-)5	131	110	(-)10

(Source: Finance Accounts of the respective years)

### 1.2.3.1 Debt receipts from internal sources

Details of debt receipts from internal sources during 2012-13 to 2016-17 are given in **table 1.15**:

**Table 1.15: Debt receipts from internal sources**

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Market borrowings	9,500	8,000	17,500	30,000	41,050
Loans from financial institutions	1,421	1,494	7,176	31,669	16,909

(Source: Finance Accounts of the respective years)

The impact of borrowings at a higher rate of interest than investments by the State is discussed in **Para 1.4.3**.

### 1.2.3.2 Loans and advances from GoI

Details of loans and advances received by the State Government from GoI during 2012-17 are given in **table 1.16**:

**Table 1.16: Loans and advances from GoI**

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Loans and advances from GoI	296	390	486	594	1,031

(Source: Finance Accounts of the respective years)

### 1.2.3.3 Public accounts receipts

Receipts and disbursements under small savings, provident funds and reserve funds etc., which do not part of the Consolidated Fund, are kept in Public Accounts set up under Article 266(2) of the Constitution of India and are not subject to vote by the Legislature. Here, the Government acts as a banker or trustee. The status of receipts and disbursement under Public Accounts are shown in **Statement 21** of the Finance Account and the details of public accounts (net) are given in **table 1.17**:

**Table 1.17: Status of Public Accounts (Net)**

(₹ in crore)					
Resources under various heads	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Public Accounts (Net)</b>	<b>14,006</b>	<b>5,619</b>	<b>2,185</b>	<b>1,678</b>	<b>9,883</b>
A. Small savings, provident fund etc.	3,341	2,363	1,686	1,534	1,619
B. Reserve funds	4,386	7,954	(-) 2,694	2,561	7,225
C. Deposits and advances	1,753	5,037	1,050	(-)1,543	(-)301
D. Suspense and miscellaneous	3,540	(-) 9,637	535	(-)677	592
E. Remittances	986	(-) 98	1,608	(-)197	748

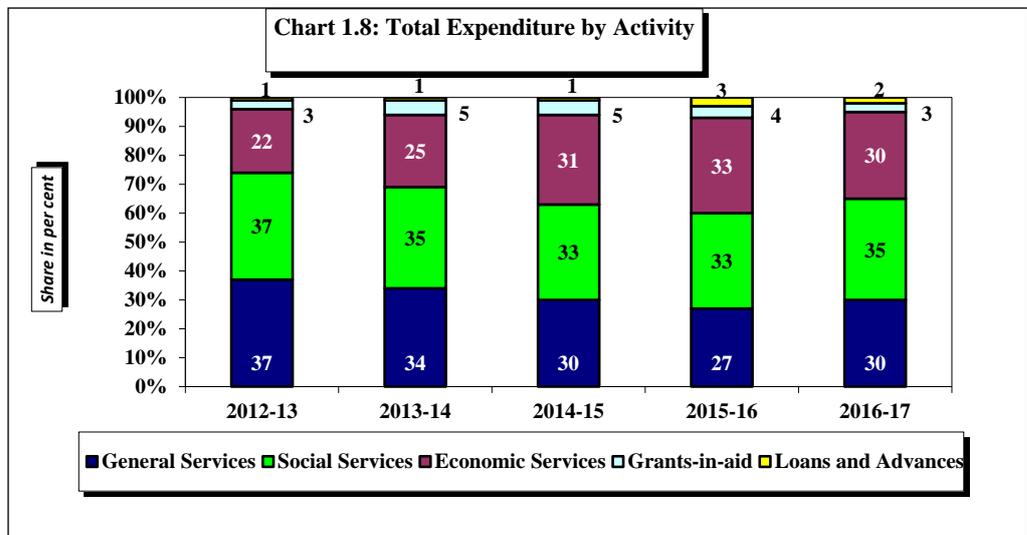
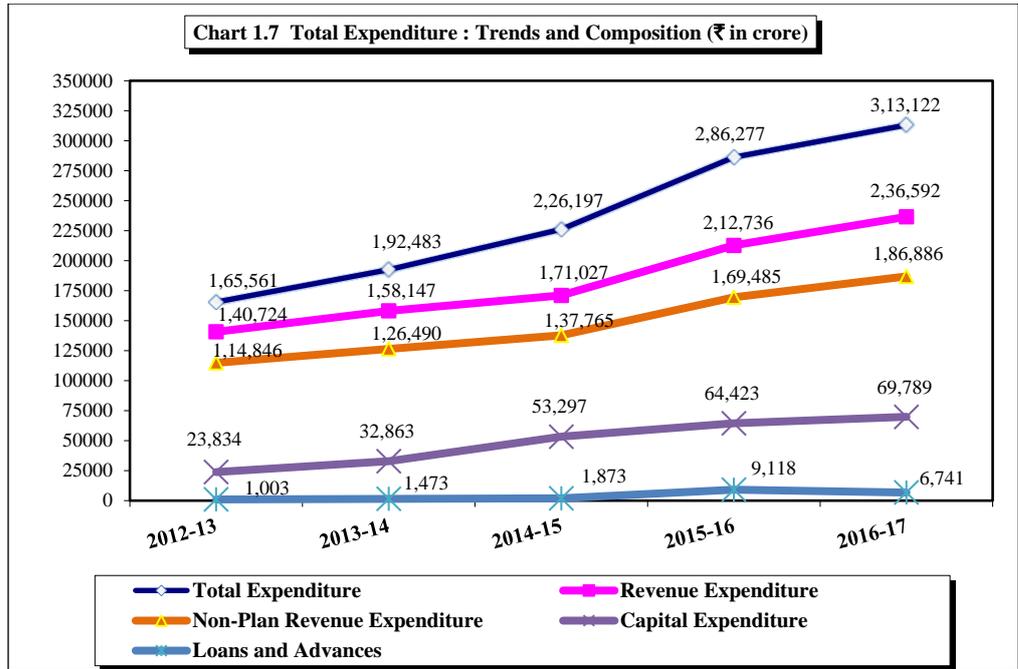
(Source: Finance Accounts of the respective years)

The impact of transactions under Reserve Funds are discussed in **Para 1.5.2**.

## 1.3 Application of resources

### 1.3.1 Growth and composition of expenditure

**Charts 1.7** and **1.8** present the trends and composition of total expenditure during 2012-17 respectively.



(Source: Finance Accounts of the respective years)

There was an overall increase of ₹ 23,856 crore (11 per cent) in revenue expenditure of 2016-17 over 2015-16. The increases over the previous year were mainly under elections<sup>7</sup>(175 per cent), other rural development programmes<sup>8</sup> (80 per cent), and appropriations for reduction or avoidance of debt<sup>9</sup> (55 per cent). The decreases during 2016-17 were mainly under industries<sup>10</sup> (91 per cent), relief on account of natural calamities (46 per cent), and water supply and sanitation<sup>11</sup>(40 per cent).

Similarly, there was a net increase in capital expenditure of ₹ 5,366 crore (eight per cent) over the previous year. The increases were mainly under food

<sup>7</sup> Expenditure in conducting elections to State Legislature in 2016-17 (₹ 253 crore)

<sup>8</sup> Assistance to Panchayati Raj Institutions (₹ 691 crore) and Gram Panchayats (₹ 5,289 crore)

<sup>9</sup> Appropriation for reduction or avoidance of debt (₹ 3,806 crore)

<sup>10</sup> Sugar Industries (₹ 2,302 crore)

<sup>11</sup> Water supply works in urban areas (₹ 64 crore), sewerage services (₹ 112 crore), assistance to local bodies and municipalities (₹ 145 crore)

storage and warehousing<sup>12</sup> (518 per cent), education, sports, art and culture<sup>13</sup> (79 per cent), roads and bridges<sup>14</sup> (46 per cent). The decreases were mainly under co-operation<sup>15</sup> (99.98 per cent) and other rural development programmes<sup>16</sup> (53 per cent).

### 1.3.2 Revenue expenditure

#### Plan and non-plan revenue expenditure

Details of plan and non-plan revenue expenditure are given in **table 1.18**:

**Table 1.18: Plan and Non-plan Revenue Expenditure**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Total expenditure</b>	<b>1,65,561</b>	<b>1,92,483</b>	<b>2,26,197</b>	<b>2,86,277</b>	<b>3,13,122</b>
Revenue expenditure	1,40,724	1,581,47	1,71,027	2,12,736	2,36,592
Non-plan revenue expenditure	1,14,846	1,26,490	1,37,765	1,69,485	1,86,886
Plan revenue expenditure	25,878	31,657	33,262	43,251	49,706
Rate of growth of non-plan revenue expenditure (in per cent)	13	10	9	23	10
Rate of growth of plan revenue expenditure (in per cent)	14	22	5	30	15

(Source: Finance Accounts of the respective years)

### 1.3.3 Capital Expenditure

#### Plan and non-plan Capital Expenditure

Details of plan and non-plan capital expenditure are given in **table 1.19**:

**Table 1.19: Plan and Non-plan Capital Expenditure**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Total Expenditure</b>	<b>1,65,561</b>	<b>1,92,483</b>	<b>2,26,197</b>	<b>2,86,277</b>	<b>3,13,122</b>
Capital expenditure	23,834	32,863	53,297	64,423	69,789
Non-plan capital expenditure	1,226	2,255	8,881	15,378	9,216
Plan capital expenditure	22,608	30,608	44,416	49,045	60,573
Rate of growth of non-plan capital expenditure (in per cent)	46.13	83.93	293.84	73.16	(-)/40.07
Rate of growth of plan capital expenditure (in per cent)	9.03	35.39	45.11	10.42	23.50

(Source: Finance Accounts of the respective years)

### 1.3.4 Committed expenditure

Committed expenditure of the Government under revenue head mainly consists of interest payments (₹ 26,936 crore), expenditure on salaries and wages (₹ 85,416 crore), pensions (₹ 28,227 crore) and subsidies (₹ 8,045 crore). Committed expenditure (₹ 1,48,624 crore) constitutes a major

<sup>12</sup> Foodgrains support project (₹ 1,829 crore), Double fortified salt (₹ 79 crore), Sugar Khandsari scheme (₹ 498 crore).

<sup>13</sup> Establishment of new sainik schools (₹ 77 crore), Implementation of National Higher Education Campaign (₹ 112 crore), Establishment of State University at Allahabad (₹ 338 crore), Construction of international cricket stadium Saifai Sports college Etawah (₹ 220 crore).

<sup>14</sup> Agra to Lucknow expressway (₹ 261 crore), Construction of State Highways (₹ 272 crore), Samajwadi Purvanchal Expressway (₹ 3,382 crore), PMGSY and general bridge work (₹ 866 crore), Widening and strengthening of road of Allahabad district for arrangement of Kumbh Mela (₹ 3,167 crore).

<sup>15</sup> Share capital to non-licensed District Co-operative Bank (₹ 1,276 crore).

<sup>16</sup> National Rural Employment Guarantee Scheme (₹ 2,508 crore).

component of revenue expenditure and consumed 80 *per cent* of the non-plan revenue expenditure (₹ 1,86,886 crore).

**Table 1.20** present the trends under the committed expenditure during 2012-17.

**Table 1.20: Trends in Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actuals
<b>Salaries* and wages, of which</b>	<b>52,755</b>	<b>54,892</b>	<b>62,147</b>	<b>74,439</b>		<b>85,416</b>
	(36)	(33)	(32)	(33)	<b>89,799</b>	(33)
Non-Plan	46,007	47,654	51,195	58,537		66,424
Plan **	6,748	7,238	10,952	15,902		18,992
<b>Interest payments</b>	<b>16,921</b>	<b>17,412</b>	<b>18,865</b>	<b>21,448</b>	<b>27,334</b>	<b>26,936</b>
	(12)	(10)	(10)	(9)		(11)
<b>Expenditure on pensions</b>	<b>17,921</b>	<b>19,521</b>	<b>22,305</b>	<b>24,150</b>	<b>28,503</b>	<b>28,227</b>
	(12)	(12)	(11)	(11)		(11)
<b>Subsidies</b>	<b>5,964</b>	<b>6,608</b>	<b>7,661</b>	<b>7,691</b>	<b>8,783</b>	<b>8,045</b>
	(4)	(4)	(4)	(3)		(3)
<b>Total committed expenditure</b>	<b>93,561</b>	<b>98,433</b>	<b>1,10,978</b>	<b>1,27,728</b>	<b>1,54,419</b>	<b>1,48,624</b>
	(64)	(59)	(57)	(56)		(58)

Figures in the parentheses indicate percentage to Revenue Receipts.

\*Includes salaries paid out of Grants-in-aid.

\*\*Includes salaries and wages paid under centrally sponsored schemes.

(Source: Finance Accounts and data compiled by the Accountant General (A&E))

### 1.3.4.1 Pension payments

State Government employees recruited on or after 1 April 2005 are covered under the New Pension Scheme (NPS) which is a defined contributory pension scheme. In terms of the scheme, the employee contributes 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/ Trustee Bank.

The details of pension contributions made under NPS from 2005 to 2008 are not available in the State Accounts due to which Audit has been unable to estimate whether the amounts actually due to be deducted from employees since the inception of the scheme have been deducted, fully matched with Government share, and transferred to NSDL. Failure to ensure appropriate contributions from employees and matching them with Government contributions, and further failure in investing these amounts with NSDL denies employees of the benefits of the New Pension Scheme.

As against the employees contribution of ₹ 2,830 crore from 2008-09 to 2016-17, the actual contribution made by the State Government was only ₹ 2,247 crore, resulting in short contribution of ₹ 583 crore. This short contribution has resulted in overstatement of the Revenue Surplus and understatement of the Fiscal Deficit in the respective years.

Apart from the above, against the total contribution of ₹ 5,660 crore (employees' share and Government share for the period 2008-09 to 2016-17), only ₹ 5,001.71 crore was transferred to NSDL leaving a balance of ₹ 545.68 crore in the Public Account under MH 8342 – 117 Defined Contribution Pension Scheme.

The above mentioned short contributions and short transfers have resulted in denying Government employees of their entitlement to have their balances invested by NSDL under the New Pension Scheme.

Further, and most serious, it was noticed from the State Accounts that the employees' contributions (representing deductions from employees recruited on or after 1 April 2005) which had increased from ₹ 5.03 crore booked in 2008-09 to ₹ 636.51 crore in 2015-16, significantly dropped to ₹ 199.24 crore in 2016-17. This drop can only be attributed to irregular transfer of employees' contributions elsewhere than the Public Account specified for NPS under MH 8342, and is required to be rectified immediately.

Un-transferred amounts, with accrued interest, represent outstanding liabilities under the scheme.

**Recommendation:** *The State Government should initiate action immediately to ensure that employees recruited on or after 1 April 2005 are fully covered under the New Pension Scheme from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL in a timely manner.*

#### 1.3.4.2 Subsidies

Department/head-wise details of subsidies paid by Government on subsidies during 2016-17 are given in **Appendix II** of the Finance Accounts. An amount of ₹ 8,045 crore was paid during the year which constituted three *per cent* of the revenue receipts. Of the total subsidy paid, ₹ 6,035 crore (75 *per cent*) was disbursed under non-plan, ₹ 1,186 crore (15 *per cent*) under plan and ₹ 824 crore (10 *per cent*) under centrally sponsored schemes routed through the State budget. The subsidy given to major activities were under energy activities: ₹ 5,673 crore (71 *per cent*); agriculture and other allied activities: ₹ 1,940 crore (24 *per cent*) and social welfare: ₹ 234 crore (three *per cent*).

Some of the implicit subsidies during 2016-17 are detailed in **table 1.21**:

**Table 1.21: Details of some implicit subsidies in 2016-17**

Sl. No.	Schemes/ Subsidy	Name of department	Amount (₹ in crore)
1	Distribution of free books to boys of General category	Education Department (Primary Education)	36.33
2	Distribution of free books for Class 6 to 8 boys of General category	Education Department (Primary Education)	32.02
3	Free uniforms to children studying in primary and higher primary schools	Education Department (Primary Education)	19.34
4	Kanya Vidya Dhan Scheme	Education Department (Secondary Education)	236.08
5	Free laptops to 12 <sup>th</sup> passed boys/ girls	Education Department (Secondary Education)	75.65
<b>Total</b>			<b>399.42</b>

(Source: Appropriation Accounts 2016-17)

#### 1.3.5 Quality of expenditure

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 effectiveness (assessment of outlay-outcome relationships for services).

### 1.3.5.1 Adequacy of public expenditure

The fiscal priorities of the State Government with regard to development expenditure, social services expenditure and capital expenditure during 2016-17 are analysed in **table 1.22**:

**Table 1.22: Fiscal Priorities of the State during 2012-13 and 2016-17**

Fiscal Priority (percentage to GSDP)	(in per cent)						
	AE/ GSDP	DE <sup>#</sup> / AE	SSE/ AE	ESE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2012-13	14.80	70.00	38.20	29.80	13.70	17.70	4.60
Uttar Pradesh Average (Ratio) 2012-13	20.13	59.13	36.93	22.20	14.39	18.17	5.22
General Category States* Average (Ratio) 2016-17	16.70	70.90	32.20	35.10	19.70	15.20	4.80
Uttar Pradesh (Ratio) 2016-17	24.56	66.52	35.24	31.28	22.29	17.32	5.04

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Services Expenditure; ESE: Economic Services Expenditure; CE: Capital Expenditure.

\*Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal

#Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

As evident from the table, the ratio of development expenditure and economic services expenditure to aggregate expenditure was less than the average for the General Category States.

### 1.3.6 Efficiency of expenditure use

Details of capital and revenue expenditure on maintenance of social and economic services are given in **table 1.23** below:

**Table 1.23: Efficiency of expenditure use in selected social and economic services**

Social/Economic infrastructure	2015-16			2016-17		
	Ratio of CE to TE	Revenue xpenditure (₹ in crore)		Ratio of CE to TE	Revenue expenditure (₹ in crore)	
		S&W	O&M		S&W	O&M
<b>Total (SS)</b>	11.82	47,866	347	15.54	55,711	269
<b>Total (ES)</b>	42.72	8,921	3,688	47.90	9,918	2,685
<b>Total (SS+ES)</b>	28.16	56,787	4,035	30.76	65,629	2,953
<b>Major components of Social Services</b>						
General Education	2.47	39,986	24	3.72	46,892	28
Health and Family Welfare	16.77	6,238	109	18.51	7,002	144
Water Supply, Sanitation, Housing and Urban Development	45.66	139	187	64.44	153	68
<b>Major components of Economic Services</b>						
Agriculture and Allied Activities	28.04	2,310	46	37.94	2,754	29
Irrigation and Flood Control	48.74	2,514	1,223	48.76	2,570	517
Power and Energy	38.35	31	01	39.15	27	00
Transport	81.35	99	2,389	82.29	107	2136
<b>TE: Total Expenditure; CE: Capital Expenditure; S&amp;W: Salaries and Wages; O&amp;M: Operations and Maintenance.</b>						

(Source: Finance Accounts and voucher level computerisation data of AG (A&E) for 2015-16 and 2016-17)

## 1.4 Government expenditure and investments

### 1.4.1 Financial results of irrigation works

The Thirteenth and Fourteenth Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The position of irrigation projects in the State for the period 2012-17 is depicted in **table 1.24**:

**Table 1.24: Cost recovery position of irrigation projects**

Year	Revenue expenditure	Revenue receipts	Cost recovery assessment of XIII FC(2010-15)/XIV FC (2015-20)	Revenue receipts to revenue expenditure	Gap in cost recovery
	₹ in crore		In per cent		
2012-13	4,323	258	45	6	39
2013-14	4,472	550	60	12	48
2014-15	5,009	397	75	8	67
2015-16	4,891	651	35	13	22
2016-17	5,230	782	35	15	20

(Source: Finance Accounts of the respective years and Reports of Thirteenth and Fourteenth Finance Commission)

The gap in cost recovery which has improved over the past two years period is better during 2016-17 than the neighbouring State of Bihar (31). But it has to further improve in comparison with the other neighbouring States (Jharkhand 8.47, Madhya Pradesh (-) 49, and Chhattisgarh (-) 87).

**Recommendation:** *The State Government may initiate measures to improve cost recovery on irrigation projects.*

### 1.4.2 Incomplete projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The details of incomplete projects as given in the Finance Accounts is summarised below in **table 1.25**:

**Table 1.25: Department-wise profile of incomplete projects as on 31 March 2017**

Department	No. of incomplete projects*	Initial budgeted cost	Revised cost of Projects
Public Works (Roads & Bridges)	571	8,017	676 (15 works)
Irrigation	40	3,773	16,334 (all 40 works)
<b>Total</b>	<b>611</b>	<b>11,790</b>	<b>17,010</b>

(Source: Finance Accounts 2016-17)

\*Details in Appendix IX of Finance Accounts

**Recommendation:** *The Public Works Department and Irrigation Department may evolve a mechanism to ensure timely completion of projects to minimize cost overrun.*

### 1.4.3 Investments and Returns

The position of return on investments<sup>17</sup> during 2012-17 is given in **table 1.26**:

<sup>17</sup> In Statutory Corporations, Government Companies, Co-operative Societies and Banks.

**Table 1.26: Return on investments**

Investment/return/cost of borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	46,228	52,467	58,606	84,357	96,400
Returns (₹ in crore)	62.70	5.23	8.08	42.66	86.34
Returns (per cent)	0.14	0.01	0.01	0.05	0.09
Average rate of interest on Government borrowings <sup>18</sup> (per cent)	6.73	6.43	6.40	6.35	6.82
Difference between interest rate on Government borrowings and interest received on returns (per cent)	6.59	6.42	6.39	6.30	6.73
Notional loss due to difference between interest rate of Government borrowings and return on investments (₹ in crore)	3,048	3,368	3,745	5,315	6,488

(Source: Finance Accounts of the respective years)

Over the past five years the State Government has incurred a notional loss of ₹ 21,964 crore on return on investment on account of difference between the Government’s borrowing cost and the return on investment on working PSUs. The return on investment on non-working PSUs cannot be estimated.

It is of specific interest to observe that in spite of the poor return on investments, the Finance Department has regularly provided budgetary support to these PSUs by way of infusion of equity, loans, grants-in-aid/subsidies which had not even finalised their accounts as per the provisions of the Companies Act discussed in detail in **Para 3.6**.

#### 1.4.4 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. Details are given in **table 1.27**:

**Table 1.27: Outstanding loans and advances and interest receipts and payments by State Government**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Opening balance of loans and advances</b>	10,988	11,572	12,456	14,067	22,459
Amount advanced during the year	1,003	1,473	1,873	9,118	6,741
Amount repaid during the year	419	589	262	726	259
<b>Closing balance of loans and advances</b>	11,572	12,456	14,067	22,459	28,447*
Net addition of loans and advances	584	884	1,611	8,392	5,988
Interest receipts	26	19	14	26	566
Interest receipts as per cent to outstanding Loans and Advances <sup>19</sup>	0.22	0.15	0.10	0.12	1.99
Average rate of interest on Government borrowings <sup>20</sup> (per cent)	6.73	6.43	6.40	6.35	6.82
Difference between interest rate on Government borrowings and interest received on loans (per cent)	6.51	6.28	6.30	6.23	4.83
Loss due to the difference between interest rate of Government borrowings and interest received on loans (₹ in crore)	65	93	118	568	326

(Source: Finance Accounts of the respective years)

(\* ₹ 494 crore pertaining to the period of the composite State of Uttar Pradesh was allocated to Uttarakhand)

<sup>18</sup> Interest payment / [(Amount of previous year’s Fiscal Liabilities + Current year’s Fiscal Liabilities)/2]\*100

<sup>19</sup> Interest Received [(Opening balance + Closing balance of Loans and Advance )/2]\*100

<sup>20</sup> Interest payment / [(Amount of previous year’s Fiscal Liabilities + Current year’s Fiscal Liabilities)/2]\*100

Over the past five years the State Government has incurred a notional loss of ₹ 1,170 crore towards interest on account of difference in the interest received on the loans advanced and that the Government incurred on its borrowings.

Details of loans and advances made by the Government are detailed in **Section-1** of **Statement 18** of Finance Accounts and details of entities that were in arrears of repayment of loans are detailed in **Section-2** of **Statement 18** of Finance Accounts.

**Recommendation:** *The State Government should rationalise its investments and loans advanced to various entities such that the return on investment and loans at least matches the Government borrowing costs.*

#### 1.4.5 Public private partnership projects

The Government of Uttar Pradesh has informed the Accountant General (A&E) of details of 73 public-private partnership (PPP) projects involving ₹ 65,825.72 crore (**Annexure – G** of **Finance Accounts**), where developers have been selected. The Government has not intimated its financial obligations under the PPP arrangement.

#### 1.4.6 Cash Balances and Investment of Cash Balances

During 2016-17, Reserve Bank Deposits (RBD) of the Government decreased by nine *per cent* and their investment increased by 81 *per cent*. Resultantly, general cash balance of the Government increased by 32 *per cent*. Details of cash balance and investment of cash balance is given in **table 1.28** below:

**Table 1.28: Cash balances and investment of cash balances**

(₹ in crore)

Particulars	Opening balance as on 01 April 2016	Closing balance as on 31 March 2017 <sup>21</sup>
<b>(a) General cash balances</b>		
Cash in Treasuries	00.00	00.00
Deposits with Reserve Bank	(-) 1,409.33	(-) 1,280.65
Remittances in Transit- local	00.00	00.00
<b>Total</b>	<b>(-) 1,409.33</b>	<b>(-) 1,280.65</b>
Investment held in Cash Balance Investment Account	1,196.44	2,168.23
<b>Total (a)</b>	<b>(-) 212.89</b>	<b>887.58</b>
<b>(b) Other cash balances and investments</b>		
Cash with Departmental Officers viz., Public Works Departmental Officers, Forest Departmental Officers, District Collectors	10.17	10.69
Permanent Advances for contingency expenditure with Departmental Officers	0.44	0.44
Investment of Earmarked Funds	45.20	45.20
<b>Total (b)</b>	<b>55.81</b>	<b>56.33</b>
<b>Grand Total (a) + (b)</b>	<b>(-) 157.08</b>	<b>943.91</b>

(Source: Finance Accounts 2015-16 and 2016-17)

Note: Cash balances are denoted as negative (-) figures.

<sup>21</sup> Balances as on 08.11.2000 have been allocated between successor States of Uttar Pradesh and Uttarakhand except the balances under Deposit and Advances heads amounting to ₹ 8,757.37 crore.

## 1.5 Assets and Liabilities

### 1.5.1 Growth and composition of assets and liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. *Appendix 1.7* gives an abstract of such liabilities and assets, as on 31 March 2017, compared with the corresponding position on 31 March 2016. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from public accounts and reserve funds, the assets comprise mainly of capital outlay and loans and advances given by the State Government and the cash balances.

### 1.5.2 Transactions under Reserve Funds

There are 21 Reserve Funds in the Public Accounts of the State Government, which have been created for specific purposes. Details are given in *Appendix 1.8* and summarised in **table 1.29**:

**Table 1.29: Position of reserve funds during 2016-17**

(₹ in crore)

Sl. No.	Head of Accounts	Opening balance as on 1 April 2016	Receipts during 2016-17	Disbursements during 2016-17	Closing balance as on 31 March 2017
<b>(a) Reserve funds bearing interest</b>					
1	8115-Depreciation/ Renewal Reserve Fund	00 Dr. 44.42	00	00	00 Dr. 44.42
2	8121-General and other Reserve Fund	Dr. 0.06 0.06	00	00	Dr. 0.06 0.06
<b>Total (a)</b>		<b>00 Dr. 44.42</b>	<b>00</b>	<b>00</b>	<b>00 Dr. 44.42</b>
<b>(b) Reserve funds not bearing interest</b>					
1	8222-Sinking Fund	43,032.65	10,772.35	4,145.61	49,659.39
2	8223-Famine Relief Fund	00 Dr. 0.78	00	00	00 Dr. 0.78
3	8225-Roads and Bridges Fund	(-)321.46	4,400.00	4,400.00	(-)321.46
4	8226-Depreciation/ Renewal Reserve Fund	(-)7.99	00	00	(-)7.99
5	8229-Development and Welfare Funds	676.07	2,500.00	2,287.76	888.31
6	8235-General and Other Reserve Funds	411.06	2333.45	1947.41	797.10
<b>Total</b>		<b>43,790.33 Dr. 45.20</b>	<b>20,005.80</b>	<b>12,780.78</b>	<b>51,015.35 Dr. 45.20</b>

(Source: Finance Accounts 2016-17)

Out of 21 reserve funds (with a closing balance of ₹ 51,015.35 crore), 18 were operative and three reserve funds<sup>22</sup> were not operated during the period 2014-17. It was however observed that no investment of this huge balance of

<sup>22</sup> 8115-105-Depreciation Reserve Fund – Investment Account, 8121-111- Contingency Reserve Fund-Electricity, 8223-102-Famine Relief Fund - Investment Account.

18 operative funds was made during the last five years. It was also observed that in respect of the remaining three inoperative Reserve Funds, an amount of ₹ 45.20 crore under MH 8115-Depreciation Reserve Fund (₹ 44.42 crore) and MH 8223-Famine Relief Fund (₹ 0.78 crore) was invested decades before, but no interest thereon has been credited in the account.

Transfers into reserve funds and disbursement therefrom are effected through debit and credit entries under the appropriate revenue and expenditure heads under the Consolidated Fund. These represent actual cash transfers only if they impact the Reserve Bank Deposits (RBD) either directly or by way of investment. Since there was no actual cash outflow, these transactions depicted by GoUP against reserve funds are only book entries which violates the spirit underlying the creation and operation of reserve funds. Their only impact is to depict an unduly favourable Revenue Surplus and Fiscal Deficit position for the relevant years.

Nevertheless, these balances in the funds lying outstanding over the years represent huge liability of the State. Negative and debit balances against specific reserve funds need regularisation by appropriation from the Consolidated Fund. Detailed analysis of some reserve fund transactions are discussed below.

**Recommendation:** *The Finance Department should review the practice of treating transaction and balances under reserve funds as book entries and adhere to the principles of cash accounting by actual investment of balances with the Reserve Bank of India.*

### **1.5.2.1 Sinking Fund**

#### **Creation of Consolidated Sinking Fund**

The Twelfth Finance Commission (XII FC) recommended creation of Consolidated Sinking Fund (CSF) by the State Governments, for amortisation of outstanding liabilities<sup>23</sup>. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 per cent of outstanding liabilities at the end of the previous financial year. Accordingly, the State Government was required to contribute ₹ 1,836.26 crore (0.5 per cent of ₹ 3,67,251.80 crore, i.e., the outstanding liabilities as on 31 March 2016) in 2016-17.

The State Government, however, has not taken any action to set up the CSF (subsuming the existing Fund) in terms of these guidelines<sup>24</sup>.

#### **Operation of existing Sinking Fund**

During 2016-17 the State Government made a provision of ₹ 10,772.35 crore for reduction or avoidance of debt (under Major Head 2048) and appropriated to Sinking Fund (Major Head 8222) under Public Accounts by book transfer. Out of this fund, an amount of ₹ 4,145.61 crore equivalent to repayment of market loans, was transferred and credited to Revenue Receipts (under Major

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<sup>23</sup> Defined as comprising Internal Debt and Public Account liabilities of the State Government.

<sup>24</sup> Unlike States like Andhra Pradesh, Gujarat, Karnataka, West Bengal, Telangana, Odisha and Jammu & Kashmir which have set up Consolidated Sinking Funds in terms of the guidelines.

Head 0075-Miscellaneous General Services) under the Consolidated Fund. The net impact of ₹ 6,626.74 crore would result in increasing the outstanding liabilities of the State to that extent i.e., the outstanding liabilities would be ₹ 4,15,049 crore instead of ₹ 4,08,422 crore (excluding UDAY) as depicted in table 1.32.

Unlike in the case of the CSF maintained by other State Governments which have accepted the XII FC recommendations, the transactions of the Government of Uttar Pradesh against the Sinking Fund are only book entries and do not represent actual movement of cash. This militates against the spirit underlying the creation and operation of sinking funds.

**Recommendation:** *The State Government may consider accepting the recommendation of the XII FC and create a Consolidated Sinking Fund to be invested by RBI. Further, transfer out of the fund are not to be treated as Revenue Receipts. In any event, the State Government should ensure that the Fund balances are actually invested and are not mere book entries.*

### 1.5.2.2 Expenditure on State Roads and Bridges

During 2016-17, the State Government made provision of ₹ 2,500 crore and ₹ 1,900 crore under MH 3054 and MH 5054 relating to revenue and capital expenditure respectively on Roads and Bridges and transferred these amounts to the Reserve Fund MH 8225- Roads and Bridges Fund. The same amounts (i.e., ₹ 2,500 crore and ₹ 1,900 crore respectively) were shown as expended during the year on Roads and Bridges and booked as deduct entries under MH 3054 and 5054 respectively. The purpose of creating Reserve Fund is nullified if the net effect of the transfers during the year is nil. In this connection, Audit observes as under:

- The State Government has been making such identical transfers and reverse transfers between MH 3054/5054 and MH 8225- Roads and Bridges Fund for many years.
- Further, the Fund had a negative opening balance of ₹ (-) 321.46 crore as on 31 March 2017, indicating excess of disbursement over available balances. This negative figure has been appearing from the accounts of 2014-15 onwards. The negative balance is to be regularised by appropriation from the Consolidated Fund.

**Recommendation:** *The Finance Department should examine the need to maintain the Reserve Fund on Road and Bridges under MH 8225- Roads and Bridges Fund and also immediately regularise the negative balance of ₹ (-) 321.46 crore.*

### 1.5.2.3 State Disaster Response Fund (SDRF)

#### Non- accounting of SDRF as interest bearing Reserve Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. The guidelines of SDRF stipulate the following:

- The Fund should be operated under the category “Reserve Fund bearing Interest” below Major Head-8121-General and Other Reserve Funds.
- The State Government shall pay interest to the SDRF at the average of interest applicable on Ways and Means Advances as per RBI guidelines.

It was observed, however, that the Government of Uttar Pradesh operates its SDRF under the category “Reserve Funds not bearing Interest” below Major Head 8235- General and Other Reserve Funds. The balances in the Fund are also not invested in the manner specified by the Government of India. Consequently, the balances in the Fund are only book entries and do not represent actual cash balances. Further, the interest of ₹ 19.08 crore for the year 2016-17 (at the rate of 7.5 per cent as the average of interest on Ways and Means Advances) had not been paid by the State Government. Consequently, the Revenue Expenditure of the State Government has been understated by ₹ 19.08 crore. The unpaid interest since the operation of SDRF represents the unaccounted liabilities of the State.

The State Government stated (June, 2017) that since only a negligible amount remains in the Fund at the end of the year, the Fund has not been categorised as “Interest bearing Reserve Fund” and no provision has been made for interest payment. The reply is not relevant. By categorising the Fund under “Reserve Funds not bearing interest” and by not investing the balances in the Fund or paying interest thereon, the fund balances are essentially only book entries, militating against the letter and spirit of the guidelines of the Fund and also of Government accounting itself, which follows the principle of cash accounting.

**Recommendation:** *The State Government should transfer the SDRF balances to MH 8121- General and Other Reserve Funds under the category “Reserve Funds bearing Interest” and remit to the Fund accrued interest as applicable to average of Ways and Means Advances interest rate by the RBI. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.*

### **1.5.3 Contingent Liabilities – Status of Guarantees**

#### **Guarantee Redemption Fund**

Though recommended by the XII FC, the State Government has not created a Guarantee Redemption Fund or framed any rules for fixing a ceiling on guarantees. Under the XII FC guidelines, the State Government was required to make minimum annual contributions of ₹ 298.27 crore (0.5 per cent of outstanding guarantee of ₹ 59,653.72 crore at the beginning of the year 2016-17) which was not done.

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 1.30**:

**Table 1.30: Guarantees given by the Government**

Particulars	(₹ in crore)		
	2014-15	2015-16	2016-17
Maximum amount guaranteed	78,023	78,826	66,702 <sup>25</sup>
Total revenue receipts	1,93,422	2,27,076	2,56,875
Outstanding amount of guarantees at the end of the year (including interest)	70,740	57,618	55,825
Percentage of maximum amount guaranteed to total revenue receipts	40.34	34.71	25.97

(Source: Finance Accounts of the respective years)

The composition of the maximum amount guaranteed was towards: three power sector entities<sup>26</sup> (₹ 59,434 crore), one co-operative bank<sup>27</sup> (₹ 4,000 crore), 11 institutions of other sectors<sup>28</sup> (₹ 2,058 crore) and U.P. State Financial Corporation (₹ 1,210 crore).

### Guarantee Fee

As per recommendations of XII FC, the guarantee redemption fund should be set up to earmarked guarantee fees which should be preceded by risk weighting of guarantees. The GoUP issued guarantees in respect of 16 institutions, of which only two institutions were to pay guarantee fee and the remaining 14 institutions<sup>29</sup> were exempted. It was noticed that, both the institutions had not paid the guarantee fee of ₹ 0.92 crore that was due (U.P. Power Transmission Corporation Limited-₹ 82 lakh and U.P. Rajya Vidyut Utpadan Nigam Limited- ₹ 9.51 lakh). It was observed that Government extended financial assistance in 2016-17 to both the institutions in the form of equities and subsidies though the accounts of both the companies were in arrears from 2015-16 onwards.

Against the maximum amount of ₹ 15,690 crore guaranteed to U.P. Rajya Vidyut Utpadan Nigam Limited, the outstanding amount guaranteed (₹ 19,252 crore) exceeded by ₹ 3,562 crore. This contravenes the UPFRBM Act, which stipulated that guarantee could not be given in excess of maximum amount guaranteed.

**Recommendation:** *The State Government should create and operate the guarantee redemption fund as per the guidelines of XII FC and also ensure that guarantees to any institution do not exceed the maximum limits fixed. GoUP should also ensure that guarantee fees are realised promptly.*

<sup>25</sup> Decrease due to discharge of guarantee amount of ₹ 36,282 crore during the year pertaining to U.P. Power Corporation Ltd. (₹ 33,726 crore), U.P. Power Transmission Corporation Ltd. (₹ 270 crore), U.P. Rajya Vidyut Utpadan Nigam Ltd. (₹ 71 crore), U.P. Co-operative Village Development Bank Ltd. (₹ 627 crore), U.P. Cooperative Sugar Mill Federation Ltd., Lucknow (₹ 1,584 crore) and Co-operative Spinning Mills Federation (₹ four crore).

<sup>26</sup> U.P. Power Corporation Ltd., U.P. Power Transmission Corporation Ltd., U.P. Rajya Vidyut Utpadan Nigam Ltd.

<sup>27</sup> U.P. Cooperative Village Development Bank Ltd.

<sup>28</sup> U.P. Cooperative Sugar Mills Federation Ltd., Lucknow, Pradeshiya Industrial and Investment Corporation of U.P. Ltd., U.P. Backward Finance and Development Corporation, U.P. State Hartico ITR Company Ltd., Bareilly, U.P. State Industrial Development Corporation Ltd., Kanpur, Cooperative Spinning Mills Corporation, U.P. State Textile Corporation, Kanpur, U.P. (Madhya) Cane Seed and Development Corporation Ltd., U.P. (West) Cane Seed and Development Corporation Ltd., Mujaffar Nagar, U.P. Khadi and Gramodhyog Board.

<sup>29</sup> U.P. Power Corporation Ltd., U.P. Cooperative Village Development Bank Ltd., U.P. Cooperative Sugar Mills Federation Ltd., Lucknow, Pradeshiya Industrial and Investment Corporation of U.P. Ltd., U.P. Backward Finance and Development Corporation, U.P. State Hartico ITR Company Ltd., Bareilly, U.P. State Industrial Development Corporation Ltd., Kanpur, Cooperative Spinning Mills Corporation, U.P. State Textile Corporation, Kanpur, U.P. (Madhya) Cane Seed and Development Corporation Ltd., U.P. (West) Cane Seed and Development Corporation Ltd., MujaffarNagar, U.P. Khadi and Gramodhyog Board, U.P. State Financial Corporation Ltd.

The Government should stop financial support to these institutions which have not paid the guarantee fees and/or are also in arrears of accounts.

## 1.6 Debt Management

### 1.6.1 Net availability of borrowed funds

Details of net availability of borrowed funds during 2012-17 are given in table 1.31:

Table 1.31: Net availability of Borrowed Funds

Particulars	₹ in crore				
	2012-13	2013-14	2014-15	2015-16	2016-17
Receipts under public debt and other liabilities	44,039	55,057	71,455	1,13,502	1,13,172
Repayments (principal and interest) under public debt and other liabilities	44,502	50,316	64,103	75,557	84,034
Net funds available	(-463)	4,741	7,352	37,945	29,138
Percentage of net funds available to receipts under public debt	(-1.05)	8.61	10.29	33.43	25.75

(Source: Finance Accounts of the respective years)

### 1.6.2 Debt sustainability

Debt sustainability indicates the ability of the State to service its debts in future. Table 1.32 presents indicators of debt sustainability for the period of five years beginning from 2012-13.

Table 1.32: Debt Sustainability- Indicators and Trends

Indicators of debt sustainability	₹ in crore				
	2012-13	2013-14	2014-15	2015-16	2016-17
Net availability of borrowed funds	(-463)	4,741	7,352	38,011	29,138
Burden of interest payments (interest payment/revenue receipt ratio)	12	10	10	9	10
Revenue receipts	1,45,904	1,68,214	1,93,422	2,27,076	2,56,875
Outstanding debt excluding UDAY	2,59,621	2,81,709	3,07,859	3,42,920	4,08,422
Rate of growth of outstanding debt excluding UDAY (in per cent)	7	9	9	11	19
Outstanding debt (Fiscal Liabilities)/GSDP excluding UDAY (in per cent)	32	30	30	31	32
Interest payment	16,921	17,412	18,865	21,448	26,936
Average interest rate of outstanding debt (in per cent)	7	6	6	6	6

(Source: Finance Accounts of the respective years)

### 1.6.3 Maturity Profile of Market Borrowings

Details of the maturity profile<sup>30</sup> of the State debt are given in table 1.33:

<sup>30</sup> A loan amount of ₹ 10.19 crore written off by the Government of India has not been included in the maturity profile.

Table 1.33: Maturity Profile of State Debt

(₹ in crore)

Maturity profile	Internal Debt	Loans and advances from GoI	Total	per cent (w.r.t total)
0 – 1 year	10,501	1,430	11,931	3.97
1 – 3 years	65,423	4,477	69,900	23.27
3 – 5 years	45,946	3,041	48,987	16.31
5 – 7 years	44,698	1,962	46,660	15.53
7 years and above	1,20,393	2,543	1,22,936	40.92
<b>Total</b>	<b>2,86,961</b>	<b>13,453</b>	<b>3,00,414</b>	<b>100</b>

#### 1.6.4 Ujjwal Discom Assurance Yojana (UDAY)

UDAY is the financial turnaround and revival package for electricity distribution companies of India. It seeks to make DISCOMs financially and operationally viable to facilitate supply of adequate power at affordable rates. Under the scheme, States are required to take over 75 per cent of the DISCOM debt as on 30 September, 2015 (50 per cent in FY 2015-16 and 25 per cent in FY 2016-17), issue non-SLR Bonds to take over debt and transfer the proceeds to DISCOM in a mix of grant, loan and equity. The outstanding debt level of the U.P. DISCOMs as per Ministry of Finance was ₹ 59,205 crore at the end of September 2015.

As per the MoU of the State Government with Government of India and the DISCOMs<sup>31</sup>, the State Government was to take over a total amount of ₹ 44,403 crore (₹ 29,602 crore in 2015-16 and ₹ 14,801 crore in 2016-17).

As against the requirement of bonds to be issued for the purpose of discharging the DISCOM debt of ₹ 44,403 crore, the State Government had taken over the entire debt by issuing bonds for the entire amount i.e., ₹ 29,602 crore in 2015-16 and ₹ 14,801 crore in 2016-17.

#### 1.7 Follow up

Separate Report on State Finances is being prepared from the year 2008-09 onwards and presented to the State Legislature. The Public Accounts Committee is yet to discuss these reports.

<sup>31</sup> U.P. Power Corporation Limited, for and on behalf of its subsidiaries, viz., Dakshinanchal Vidyut Vitran Nigam Limited, Kanpur Electricity Supply Company Limited, Madhyanchal Vidyut Vitran Nigam Limited, Pashchimanchal Vidyut Vitran Nigam Limited and Purvanchal Vidyut Vitran Nigam Limited.

