

# CHAPTER - I

## Overview



# CHAPTER-I

## OVERVIEW

### 1.1 Profile of the State

Uttar Pradesh in northern India is the most populous State and the third largest State economy of the country. Two in every three workers in the State works in agriculture sector<sup>1</sup>. Uttar Pradesh is a major producer of pulses, dairy, wheat, paddy, sugarcane, maize, potatoes, mangoes, leather and handicrafts. During 2019-20, per capita income of the State<sup>2</sup> stood at ₹ 65,704 at current prices which was 51 *per cent* lower than the per capita income (₹ 1,34,226) of India.

Table 1.1: General Data

Sl. No.	Particulars		Figures
1	Area		2,40,928 Sq. Km.
2	Population		
	a.	Census 2011 (As on 1 March 2011)	19.98 crore
	b.	Projected for the year 2021 (As on 1 March 2021)	23.09 crore
3	Density of Population (as per 2011 Census) (All India Density = 382 persons per Sq. Km)		829 persons per Sq. Km.
4	Decadal Population Growth <sup>3</sup> (2011-2021)	Uttar Pradesh	15.17 <i>per cent</i>
		All India (inclusive of UTs)	12.30 <i>per cent</i>
5	Literacy (as per 2011 Census) (All India Average = 73 <i>per cent</i> )		67.7 <i>per cent</i>
6	Infant mortality rate <sup>4</sup> (per 1000 live births) (All India Average = 30 per 1000 live births)		41
7	Life Expectancy at birth <sup>5</sup> (All India Average =69.4 years)		65.3 years
8	Gross State Domestic Product (GSDP) at current prices		₹ 17,05,593 crore
9	Per capita GSDP Compound Annual Growth Rate (CAGR) (2011-12 to 2020-21)	Uttar Pradesh	8.27 <i>per cent</i>
		All India (inclusive of UTs)	8.08 <i>per cent</i>
10	GSDP CAGR (2011-12 to 2020-21)	Uttar Pradesh	9.99 <i>per cent</i>
		All India (inclusive of UTs)	9.48 <i>per cent</i>
11	Population below poverty line (BPL) <sup>6</sup> (2011-12) (All India Average = 21.92 <i>per cent</i> )		29.43 <i>per cent</i>

<sup>1</sup> <http://up.gov.in/Social-Demography.pdf> (the strength of work force in the State is 23.7 *per cent*, out of which 65.9 *per cent* are farmers and 5.6 *per cent* are industrial workers)

<sup>2</sup> Quick Estimates as per Statistical Diary Uttar Pradesh 2020 published by Economic and Statistics Division, State Planning Institute, Planning Department, Uttar Pradesh.

<sup>3</sup> Projected population of the State increased from 20.17 crore in October 2011 to 23.23 crore in October 2021: Population Projections for India and States 2011-2036, Table 14 of the Report of the Technical Group on Population Projections (July 2020), National Commission on Population

<sup>4</sup> Sample Registration System (SRS) Bulletin, October 2021 (for the year 2019), office of the Registrar General, India.

<sup>5</sup> SRS Based Abridged Life Table 2014-18 published by the Office of the Registrar General & Census Commissioner, India (September 2020).

<sup>6</sup> Reserve Bank of India, Handbook of Statistics on Indian Economy 2020-21 (Table 151).

### 1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all goods and services produced within the boundaries of the State in a given time period. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices are given in **Table 1.2**.

**Table: 1.2: GDP of India and GSDP of the State at current prices (2011-12 series)<sup>7</sup>**

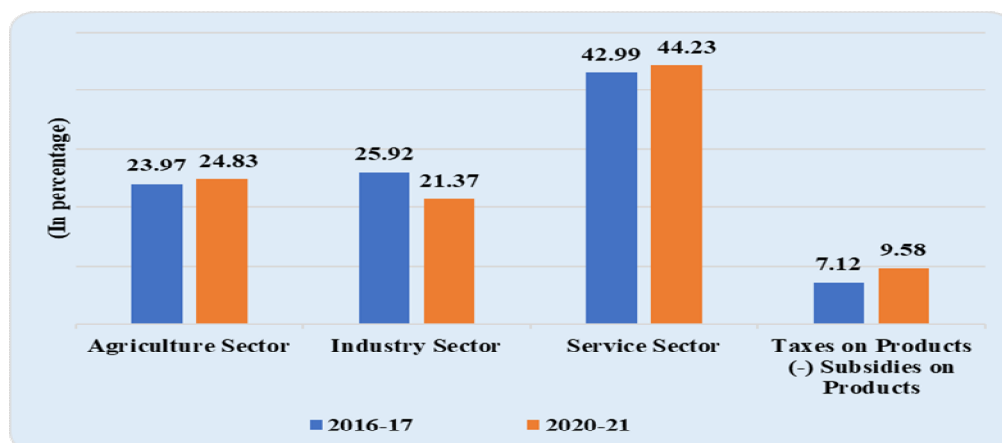
(₹ in crore)					
Year	2016-17	2017-18	2018-19	2019-20	2020-21
<b>GDP of India</b>	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
<b>Growth rate of GDP over previous year (in per cent)</b>	11.76	11.03	10.51	7.75	(-)2.97
<b>State's GSDP</b>	12,88,700	14,16,006	15,84,764	16,87,818	17,05,593
<b>Growth rate of GSDP over previous year (in per cent)</b>	13.26	9.88	11.92	6.50	1.05

Source: Ministry of Statistics and Programme Implementation, Government of India

The growth rate of GSDP of the State showed a decreasing trend from 11.92 per cent in the year 2018-19 to 1.05 per cent in the year 2020-21.

Changes in sectoral contribution to the GSDP is important to understand the changing structure of the economy. Economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to Agriculture, Industry and Service sectors respectively. Comparative position of sectoral contribution to GSDP in 2020-21 with that of 2016-17 and sectoral growth rates during this period are given in **Chart 1.1** and **Chart 1.2** respectively.

**Chart 1.1 Change in sectoral contribution to GSDP during the period 2016-21**

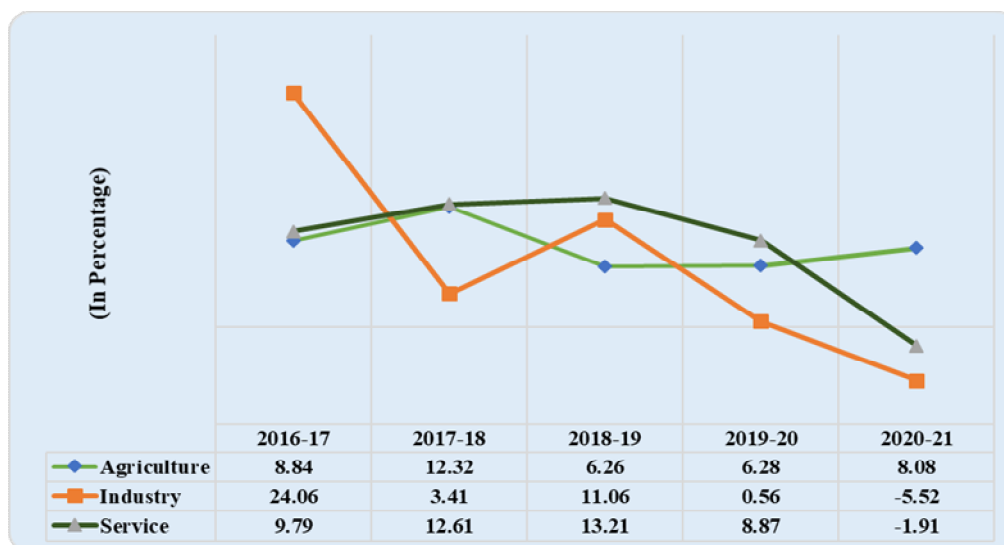


Source: Ministry of Statistics and Programme Implementation, Government of India (GSVA/NSVA by economic activities 2011-12 series as on 02.08.2021)

**Note:** **Agriculture (Primary) Sector** includes Agriculture, Animal Husbandry, Forestry, Fishing and Mining and quarrying; **Industry (Secondary) Sector** includes Manufacturing, Electricity, Gas, Water supply & other utility services and Construction and **Service (Tertiary) Sector** includes Trade, Hotels and restaurants, Transport, Storage, Communication, Financial services, Real estate, Public administration and Other services.

<sup>7</sup> GDP and GSDP at current prices for the years 2016-17 to 2019-20 are revised by the Central/State Government, hence, percentage ratio/buoyancies of various parameters with reference to GDP/GSDP for 2016-17 to 2019-20 indicated in earlier State Finances Audit Reports have also been revised.

Chart 1.2 Sectoral growth rate during the period 2016-21



Source: Ministry of Statistics and Programme Implementation, Government of India

It is evident from the above charts that Service sector was the largest contributor (44.23 per cent) to State's GSDP followed by Agriculture sector (24.83 per cent) and Industry sector (21.37 per cent). However, the growth rate of Service Sector and Industry sector showed a declining trend after the year 2018-19, which led to decreasing trend in GSDP growth of the State in the years 2019-20 and 2020-21.

During the year 2020-21, the economy of the country was severely affected due to COVID-19 pandemic and GDP of the country contracted by 2.97 per cent. The impact of COVID-19 pandemic on the economic scenario also adversely affected State's GSDP growth rate during the year 2020-21, though the State's GSDP grew by 1.05 per cent. These had a negative impact on State's own tax revenue and Central tax transfers with concomitant impact on fiscal parameters of the State. The State recorded Revenue Deficit of ₹ 2,367.13 crore during the year 2020-21 after 14 successive years of Revenue Surplus since the year 2006-07, as detailed in **Paragraph 1.4.1** and **Chapter II** of this report.

## 1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151(2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State together with the Budget document of the State constitute the core data for this Report. Other sources include the following:

- Results of audit carried out by the Office of the Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS); and
- GSDP data and other State related statistics.

The analysis was also carried out in the context of recommendations of the XIV and XV Finance Commissions, Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 as amended from time to time, Budget Estimates along with Medium Term Fiscal Restructuring Policy (MTFRP), best practices and guidelines of the Government of India (GoI). The draft Report was forwarded to the State Government for comments on 27 October 2021. Replies of the State Government are awaited (March 2022).

### 1.3 Report Structure

The SFAR is structured into the following six Chapters:

<b>Chapter - I</b>	<b>Overview</b> This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.
<b>Chapter - II</b>	<b>Finances of the State</b> This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
<b>Chapter - III</b>	<b>Budgetary Management</b> This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from constitutional provisions relating to budgetary management. Observations with respect to integrity and effectiveness of budgetary and accounting process, viz., misclassification of expenditure between capital and revenue and <i>vice versa</i> , excess expenditure and its regularisation, persistent savings, delayed surrender of savings, unnecessary re-appropriation have been included.
<b>Chapter - IV</b>	<b>Quality of Accounts and Financial Reporting Practices</b> This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government. Observations with respect to completeness, transparency and measurement of accounts along with issues related to disclosures have been included.

<b>Chapter-V</b>	<b>Financial Performance of State Public Sector Undertakings</b> This chapter discusses the financial performance of State Public Sector Undertakings (PSUs), investment in PSUs, budgetary support to PSUs, Return on Equity, Return on Capital employed, erosion of Net Worth of PSUs, etc.
<b>Chapter-VI</b>	<b>Oversight Role of Comptroller and Auditor General of India</b> This chapter discusses position of submission of accounts by State PSUs, impact of not finalising accounts of PSUs, significant comments issued as a result of supplementary/sole audit of the financial statements of the PSUs conducted by CAG, etc.

#### **1.4 Overview of Government Accounts Structure and Budgetary Processes**

The Accounts of the State Government are kept in three parts:

##### **i. Consolidated Fund of the State (Article 266 (1) of the Constitution of India)**

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments, etc.), constitute a charge upon the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

##### **ii. Contingency Fund of the State (Article 267(2) of the Constitution of India)**

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

##### **iii. Public Account of the State (Article 266(2) of the Constitution)**

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also

included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

**Revenue receipts** consist of own tax revenue, non-tax revenue, share of Union Taxes/ Duties and grants-in-aid from GoI.

**Revenue expenditure** consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government and grants-in-aid given to various institutions (even though some of the grants may be meant for creation of assets).

**Capital receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Ways and Means Advances, Loans and Advances from Central Government, etc.
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances, etc.

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares and loans and advances by the government to PSUs and other parties.

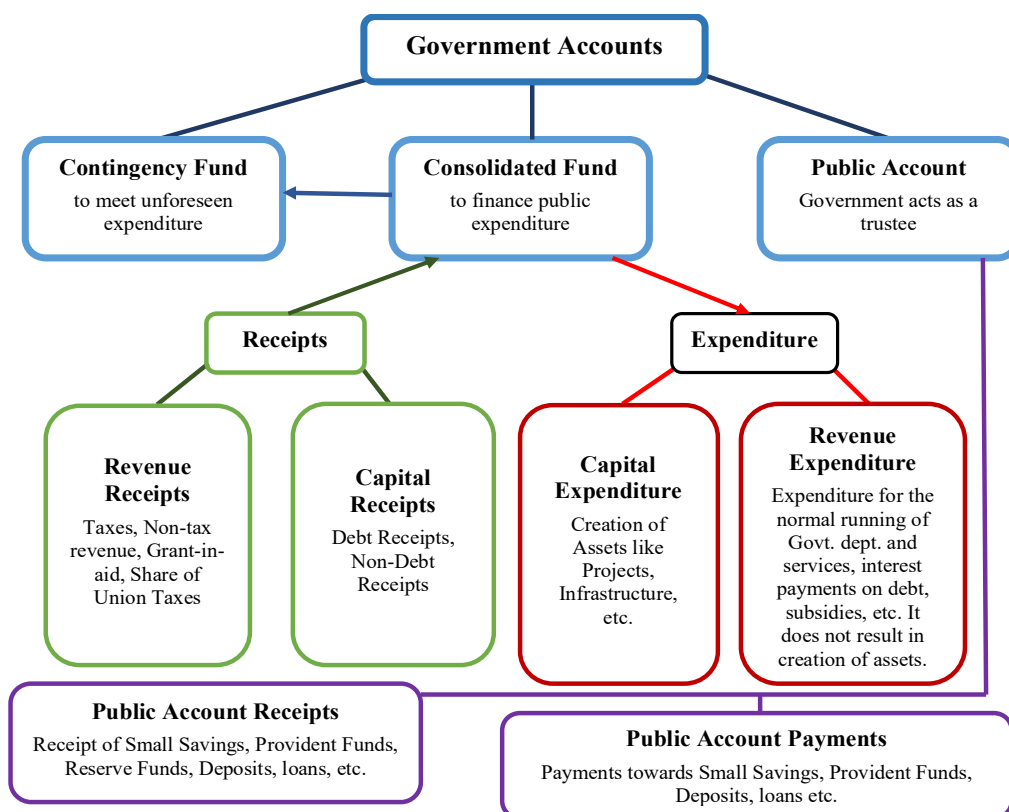
At present, there is an accounting classification system in government that is both functional and economic.

	Attribute of Transaction	Classification
Standardised in List of Major and Minor Heads (LMMH) of Account of Union and States, issued by Controller General of Accounts (CGA)	Function- Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-Salary, Minor Works, etc. (2-digit)

The functional classification helps in identifying the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. Object head is the primary unit of appropriation in the budget documents.



Chart 1.3: Structure of Government Accounts



### ***Finance Accounts and Appropriation Accounts***

The transactions of the State Government are captured in Finance Accounts and Appropriation Accounts, which are prepared by the office of the Accountant General (Accounts & Entitlement), Uttar Pradesh.

**Finance Accounts** of the State present the accounts of receipts and outgoings of the Government for the year, together with the financial results disclosed by the Revenue and Capital accounts, the accounts of the Public Debt and the liabilities and assets of the State Government as worked out from the balances recorded in the accounts. The Finance Accounts, generally (with some exceptions), depict transactions upto the Minor Head. The figures in the Finance Accounts are depicted at net level, i.e., after accounting for recoveries as reduction of expenditure.

**Appropriation Accounts** are accounts of the expenditure of the Government for each financial year, compared with the amounts of Grants voted and Appropriations charged for different purposes as specified in the schedules appended to the Appropriation Act passed under Articles 204 and 205 of the Constitution of India. Appropriation Accounts are on gross basis. These Accounts facilitate understanding of utilisation of funds, the management of finances and monitoring of budgetary provisions and are, therefore, complementary to the Finance Accounts.

### ***Budgetary Processes***

In terms of Article 202 of the Constitution of India, the Governor of the State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year, referred to as the **Annual Financial Statement**. In terms of Article 203, the Statement is submitted to

the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The Uttar Pradesh Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

#### 1.4.1 Snapshot of Finances

**Table 1.3** provides the details of actual financial results *vis-à-vis* Budget Estimates for the year 2020-21 *vis-à-vis* actuals of 2019-20.

**Table 1.3: Budget Estimates *vis-à-vis* actuals of 2020-21**

(₹ in crore)						
Sl. No.	Components	2019-20 (Actuals)	2020-21 (Budget Estimates)	2020-21 (Actuals)	2020-21 Percentage of Actuals to Budget Estimates	2020-21 Percentage of Actuals to GSDP
1.	Own Tax Revenue	1,22,825.83	1,66,021.00	1,19,897.30	72.22	7.03
2.	Non-Tax Revenue	81,705.08	31,178.93	11,846.15	37.99	0.69
3.	Share of Union taxes/duties	1,17,818.30	1,52,863.17	1,06,687.01	69.79	6.26
4.	Grants-in-aid from GoI	44,043.97	72,504.73	57,745.87	79.64	3.39
5.	<b>Revenue Receipts (1+2+3+4)</b>	<b>3,66,393.18</b>	<b>4,22,567.83</b>	<b>2,96,176.33</b>	<b>70.09</b>	<b>17.37</b>
6.	Recovery of Loans and Advances (Non-Debt Capital Receipt)	5,640.58	2,200.00	1,134.73	51.58	0.07
7.	Public Debt Receipts	73,808.69	75,790.70	86,858.87	114.60	5.09
8.	<b>Capital Receipts (6+7)</b>	<b>79,449.27</b>	<b>77,990.70</b>	<b>87,993.60</b>	<b>112.83</b>	<b>5.16</b>
9.	<b>Total Receipts (5+8)</b>	<b>4,45,842.45</b>	<b>5,00,558.53</b>	<b>3,84,169.93</b>	<b>76.75</b>	<b>22.52</b>
10.	<b>Revenue Expenditure of which</b>	<b>2,98,833.04</b>	<b>3,95,116.95</b>	<b>2,98,543.46</b>	<b>75.56</b>	<b>17.50</b>
11.	Interest payments	34,813.02	38,091.26	37,428.48	98.26	2.19
12.	<b>Capital Expenditure of which</b>	<b>62,118.03</b>	<b>82,846.34</b>	<b>53,389.71</b>	<b>64.44</b>	<b>3.13</b>
13.	Capital Outlay	59,998.03	81,209.49	52,237.10	64.32	3.06
14.	Disbursement of Loans and advances	2,120.00	1,636.85	1,152.61	70.42	0.07
15.	<b>Total Expenditure (10+12)</b>	<b>3,60,951.07</b>	<b>4,77,963.29</b>	<b>3,51,933.17</b>	<b>73.63</b>	<b>20.63</b>

Sl. No.	Components	2019-20 (Actuals)	2020-21 (Budget Estimates)	2020-21 (Actuals)	2020-21 Percentage of Actuals to Budget Estimates	2020-21 Percentage of Actuals to GSDP
16.	Revenue Deficit (-)/ Surplus (+) (5-10)	67,560.14	27,450.88	(-)2,367.13	-	0.14
17.	Fiscal Deficit (-)/ Surplus (+) (5+6-15)	11,082.69	(-)53,195.46	(-)54,622.11	102.68	3.20
18.	Primary Deficit (-)/ Surplus <sup>8</sup> (+) {(5+6) – (15-11)}	45,895.71	(-)15,104.20	(-) 17,193.63	113.83	1.01

Source: Finance Accounts of the respective years and budget documents of the State Government

The revenue surplus of ₹ 67,560.14 crore and fiscal surplus of ₹ 11,082.69 crore during the year 2019-20 was mainly due to transfer of book balance of ₹ 71,180.23 crore from Sinking Fund to revenue receipts of the State without actual cash receipt. During the year 2020-21, the State had registered revenue deficit and fiscal deficit of ₹ 2,367.13 crore and ₹ 54,622.11 crore respectively. It is pertinent to mention here that the State was in revenue surplus since the year 2006-07. While submitting the revised estimates for the year 2020-21 (Budget Document 2021-22), State Government has attributed lockdown in the State as a main reason that affected State's revenue during the year 2020-21. Further, State had borrowed more fund (17.68 per cent increase) as compared to previous year 2019-20 whereas the total expenditure of the State was a shade less (2.50 per cent) than the previous year.

As detailed in **Paragraph 2.4.2.2**, Goods and Services Tax (Compensation to States) Act, 2017 provides for compensation to the States in case of loss of revenue arising on account of implementation of Goods and Services Tax (GST), which is a revenue receipt of the State. However, in addition to receiving the GST compensation of ₹ 9,323.98 crore as revenue receipts during the year 2020-21, State Government also received debt receipts (back-to-back loan) of ₹ 6,007.00 crore from GoI in lieu of GST compensation shortfall due to inadequate balance in GST Compensation Fund. The debt servicing of this loan would be done from the collection of cess in the GST Compensation Fund<sup>9</sup> and hence, the repayment obligation will not be met from the other resources of the State. Due to this arrangement, the revenue deficit of ₹ 2,367.13 crore and fiscal deficit of ₹ 54,622.11 crore during the year 2020-21 may be read in conjunction with debt receipts of ₹ 6,007.00 crore in lieu of GST compensation.

#### 1.4.2 Snapshot of Assets and liabilities of the Government

Government Accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

<sup>8</sup> Primary Deficit/Surplus refers to the fiscal deficit *minus* the interest payments.

<sup>9</sup> GST Compensation Fund forms part of the Public Account of India as provided in Section 10(1) of the Goods and Services Tax (Compensation to States) Act, 2017.

An abstract of liabilities and the assets as on 31 March 2021 compared with the corresponding position on 31 March 2020 is given in **Table 1.4**.

**Table 1.4: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities				Assets					
Particulars	As on 31 March 2020	As on 31 March 2021	Per cent increase/decrease	Particulars	As on 31 March 2020	As on 31 March 2021	Per cent increase/decrease		
<b>Consolidated Fund</b>									
A	Internal Debt	4,05,048.84	4,58,552.23	13.21	A	Gross Capital Outlay	5,81,865.12	6,34,102.22	8.98
B	Loans and Advances from GoI	11,528.75	18,106.74	57.06	B	Loans and Advances	27,188.98	27,206.86	0.07
<b>Contingency Fund</b>									
	Contingency Fund (Corpus)	600.00	600.00	0.00		Contingency Fund (unrecouped)	0.00	100.00	-
<b>Public Account</b>									
A	Small Savings, Provident Funds, etc.	57,727.01	58,789.41	1.84	A	Advances	58.43	58.58	0.26
B	Deposits	23,581.17	25,496.10	8.12	B	Remittance	0.00	125.05	-
C	Reserve Funds	4,526.25	5,027.19	11.07	C	Suspense and Miscellaneous Balances	4,909.54	3,212.06	(-34.58)
D	Remittances	200.41	0.00	(-100.00)		Cash balance (including investment from Earmarked Fund)	21,443.36	31,652.77	47.61
E	Cumulative Excess of Receipt over expenditure	1,32,253.00	1,29,885.87	(-1.79)		Cumulative Excess of Expenditure over Receipts	-	-	-
	<b>Total</b>	<b>6,35,465.43</b>	<b>6,96,457.54</b>			<b>Total</b>	<b>6,35,465.43</b>	<b>6,96,457.54</b>	

Source: Finance Accounts 2020-21

According to UPFRBM Act, 2004, the total liabilities means the liabilities under the Consolidated Fund of the State and the Public Account of the State. The total liabilities of the State stood at ₹ 5,02,412.02 crore as on 31 March 2020 which increased to ₹ 5,64,971.68 crore as on 31 March 2021. Net increase in liabilities on market loans by 22 per cent (₹ 63,499.68 crore) and Loans and Advances from GoI by 57 per cent (₹ 6,578 crore) as compared to previous year was the main contributing factor. However, the increase in Loans and Advances from GoI included back-to-back loan of ₹ 6,007.00 crore in lieu of GST compensation shortfall, with no repayment liability to the State as it is to be repaid from the collection of cess in the GST Compensation Fund. Debt management of the State Government is detailed in **Chapter II** of this report.

### 1.5 Fiscal Balance: Achievement of deficit and total debt targets

The Government of Uttar Pradesh enacted the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit, establishing improved debt management,

improving transparency in fiscal operations of the State Government and using a medium term fiscal framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

The performance of the State during the period 2016-21 under key fiscal indicators provided in the UPFRBM Act as amended from time to time is depicted in **Table 1.5**.

**Table 1.5: Compliance with provisions of UPFRBM Act**

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Reduce Revenue Deficit to Nil by year ending on 31 March 2009	20,283	12,552	28,250	67,560	(-) 2,367
		✓	✓	✓	✓	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	Not more than three <i>per cent</i> of estimated GSDP up to 2019-20 and five <i>per cent</i> for 2020-21	(-) 41,187 <sup>10</sup> (3.20)	(-) 27,810 (1.96)	(-) 35,203 (2.22)	11,083 (0.66)	(-) 54,622 (3.20)
		✗	✓	✓	✓	✓
Ratio of total outstanding debt to GSDP (in <i>per cent</i> )	Not more than 31 <i>per cent</i> during 2016-17, 30.50 <i>per cent</i> during 2017-18 and 2018-19 and 30.00 <i>per cent</i> during 2019-20 and 32.00 <i>per cent</i> during 2020-21.	31.69	33.04	32.69	29.77	32.77*
		✗	✗	✗	✓	✗

*Source: Budget documents of the State Government, UPFRBM Act, 2004 as amended from time to time and Finance Accounts of the respective years*

\*Back-to-back loan of ₹ 6,007 crore received from GoI during the year 2020-21 in lieu of GST compensation shortfall has been excluded for computing the ratio of outstanding debt to GSDP. As per GoI clarification<sup>11</sup>, this borrowing would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc.

Since COVID-19 pandemic adversely affected the resources of the States and the Centre, GoI allowed an additional borrowing limit of two *per cent* of GSDP to the State Governments for the year 2020-21. Accordingly, the UPFRBM Act, 2004 was amended (August 2020) to increase the limit of fiscal deficit for the year 2020-21 from three *per cent* of GSDP to five *per cent* of GSDP.

As indicated in the Accounts, the ratio of fiscal deficit to GSDP was within the targets of five *per cent* set out in the UPFRBM (Second Amendment) Act, 2020. However, the State could not maintain its target of revenue surplus during the year 2020-21. Further, the ratio of total outstanding debt to GSDP (32.77 *per cent*) was not within the limit (32.00 *per cent* of GSDP) stipulated in the UPFRBM (Second Amendment) Act, 2020 for the year 2020-21.

<sup>10</sup> Fiscal deficit and Total outstanding debt during 2016-17 excludes borrowings of ₹ 14,801 crore under Ujjwal Discom Assurance Yojna (UDAY) 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. Fiscal deficit and total outstanding debt as percentage to GSDP were 4.34 *per cent* and 32.84 *per cent* respectively after including UDAY borrowings.

<sup>11</sup> Government of India, Ministry of Finance, Department of Expenditure letter no. F. No. 40 (1) PF-S/2021-22 dated 10 December 2021.

### 1.5.1 Medium Term Fiscal Restructuring Policy

UPFRBM Act, 2004 lays down that the State Government shall in each financial year lay before both Houses of the Legislature a Medium-Term Fiscal Restructuring Policy (MTFRP) along with the annual budget. The MTFRP shall set forth a five-year rolling targets for the prescribed fiscal indicators with specification of under lying assumptions.

### 1.5.2 Comparative position of fiscal parameters: Projected in MTFRP with Actuals

Comparison of targets for fiscal parameters projected in MTFRP 2020 presented to the State Legislature with actuals for the year 2020-21 are depicted in **Table 1.6**.

**Table 1.6: Projection in MTFRP vis-à-vis Actuals for 2020-21**

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFRP	Actuals (2020-21)	Variation (in per cent)
1	Own Tax Revenue	1,66,021.00	1,19,897.30	(-)27.78
2	Non-Tax Revenue	31,178.93	11,846.15	(-)62.01
3	Share of Union taxes/duties	1,52,863.17	1,06,687.01	(-)30.21
4	Grants -in-aid from GoI	72,504.73	57,745.87	(-)20.36
<b>5</b>	<b>Revenue Receipts (1+2+3+4)</b>	<b>4,22,567.83</b>	<b>2,96,176.33</b>	<b>(-)29.91</b>
6	Revenue Expenditure	3,95,116.95	2,98,543.46	(-)24.44
7	Revenue Deficit (-)/ Surplus (+)	27,450.88	(-) 2,367.13	(-)108.62
8	Fiscal Deficit (-)/ Surplus (+)	(-)53,195.46	(-) 54,622.11	2.68
9	Primary Deficit (-)/ Surplus (+)	(-)15,104.20	(-) 17,193.63	13.83
10	Debt stock-GSDP ratio (per cent)	28.82	32.77*	13.71
11	GSDP growth rate at current prices (per cent) <sup>12</sup>	6.00	1.05	(-) 82.50

Source: Finance Accounts 2020-21 and budget documents of State Government

\*Debt stock-GSDP ratio has been arrived at after excluding back-to-back loan of ₹ 6,007 crore received from GoI during the year 2020-21 in lieu of GST compensation.

As detailed in **Table 1.6**, against the projection for Revenue Surplus of ₹ 27,450.88 crore in MTFRP for 2020-21, State has registered Revenue Deficit of ₹ 2,367.13 crore during the year. There was a shortfall of Revenue Receipts by ₹ 1,26,391.50 crore (29.91 per cent) from MTFRP projections, which was due to less receipts of Own Tax Revenue (₹ 46,123.70 crore), Share of Union Taxes/Duties (₹ 46,176.16 crore) and Grants-in-aid from GoI (₹ 14,758.86 crore) as compared to MTFRP projections. Further analysis revealed that shortfalls in Own Tax Revenue vis-à-vis budget projections were mainly under State Goods and Services Taxes (₹ 20,421 crore) followed by State excise (₹ 7,439 crore), Stamps and Registration fee (₹ 6,722 crore), Taxes on sales, trade etc. (₹ 6,160 crore), Taxes and duties on electricity (₹ 2,663 crore), Taxes on vehicles (₹ 2,167 crore) and Land Revenue (₹ 559 crore).

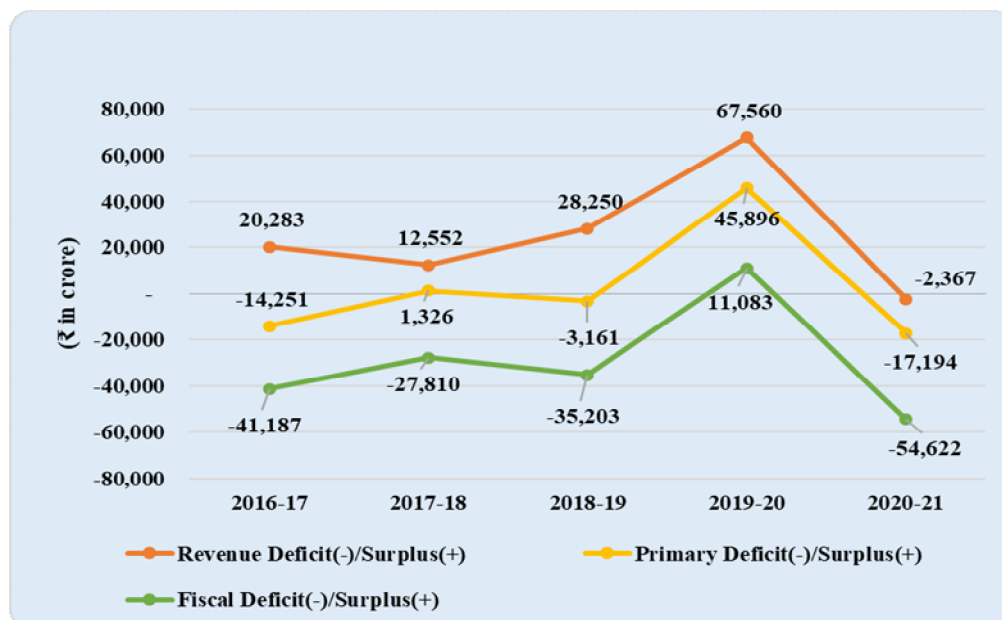
Less revenue expenditure (₹ 96,573 crore) as compared to MTFRP projections were due to lower expenditure in all the four sectors: General Services (₹ 50,658 crore), Social Services (₹ 27,752 crore), Economic Services (₹ 16,871 crore) and Grants-in-aid & contributions (₹ 1,292 crore). The trend of revenue expenditure has been analysed in **Paragraph 2.7.2** of the Report.

<sup>12</sup> In MTFRP 2020, the State Government had projected GSDP of ₹ 17,91,263 crore for the year 2020-21 and Revised Estimates for the year 2019-20 was ₹ 16,89,871 crore.

### 1.5.3 Trend analysis of Key Fiscal Indicators

Trend analysis for the period 2016-21 of key fiscal indicators viz. deficit parameters (fiscal deficit/surplus, revenue deficit/surplus and primary deficit/surplus), ratio of surplus/deficit to GSDP and fiscal liabilities to GSDP are depicted in the following **Charts 1.4 to 1.6**.

**Chart 1.4: Trends in Surplus/Deficit Parameters**

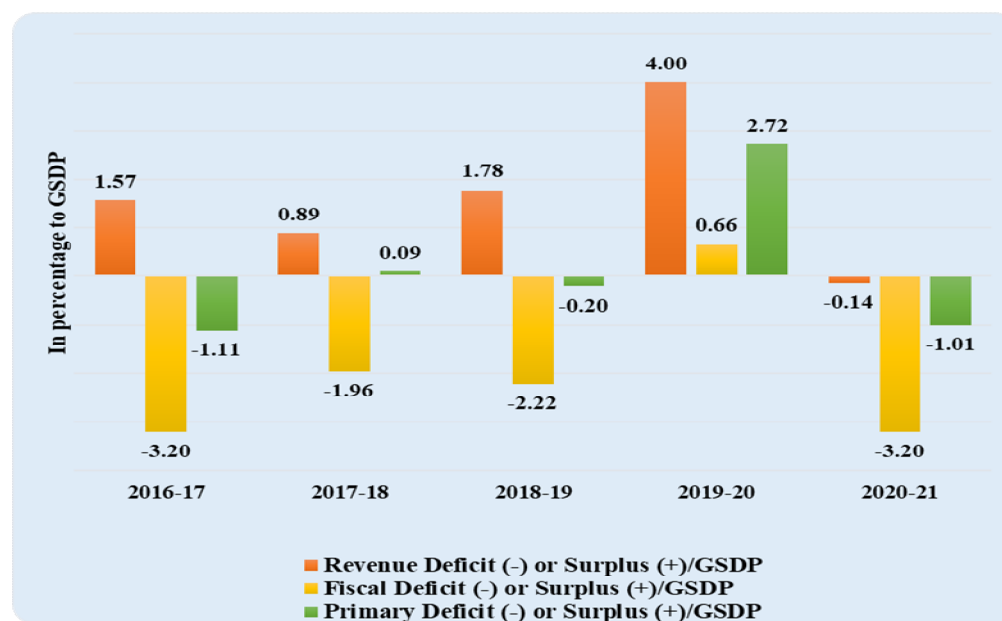


Source: Finance Accounts of the respective years

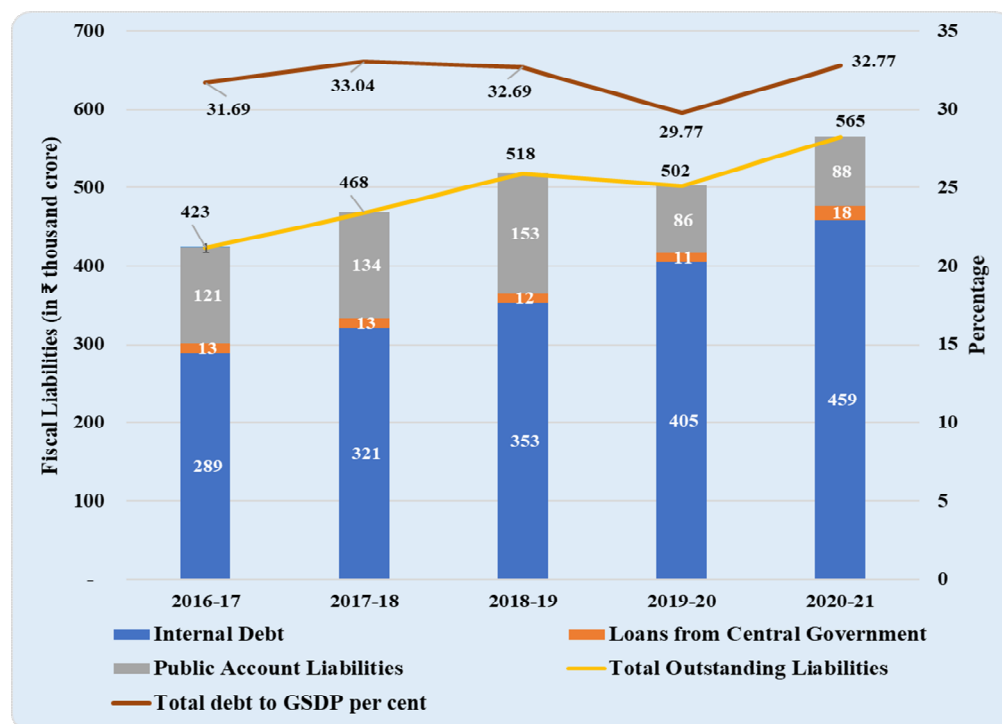
Note: (i) Revenue Deficit and Fiscal Deficit during the year 2016-17 exclude the expenditure on UDAY, as the debt taken over by the State Government would not be counted against the fiscal deficit limit of the State

(ii) Revenue Surplus, primary surplus and Fiscal Surplus during the year 2019-20 were mainly due to transfer of book balance of ₹ 71,180 crore of Sinking Fund in March 2020 to Non Tax Revenue without actual cash receipt.

**Chart 1.5: Trends in Surplus/Deficit relative to GSDP**



Source: Finance Accounts of the respective years

Chart 1.6: Trends in Fiscal Liabilities<sup>13</sup> and GSDP

Source: Finance Accounts of the respective years

The outstanding fiscal liabilities of the State increased by ₹ 94,871 crore (22.42 per cent) during the period 2016-19. During the year 2019-20, it however decreased by 3.03 per cent (₹ 15,683 crore) from ₹ 5,18,095 crore to ₹ 5,02,412 crore over the previous year. Further during the year 2020-21, outstanding fiscal liabilities of the state increased by ₹ 62,560 crore (12.45 per cent) over the previous year. The average per capita debt<sup>14</sup> increased significantly by 26.57 per cent during the period 2016-21 from ₹ 19,432 (2016-17) to ₹ 24,596 (2020-21). However, as against the outstanding fiscal liabilities of ₹ 5,64,972 crore as on 31 March 2021, the effective outstanding fiscal liabilities of the State would be ₹ 5,58,965 crore after excluding back-to-back loan of ₹ 6,007 crore received from GoI during the year 2020-21 in lieu of GST compensation shortfall with no repayment liability for the State.

## 1.6 Deficits and Total Debt after examination in audit

Deficits and debt position are two important fiscal indicators in assessing the financial health of the State. These indicators are also critically viewed by other stakeholders, viz., Union Government, Financial Institutions, Banks, etc., while offering any further financial support by way of grant/loan, etc. In order to present a better picture of State Finances, classification of revenue expenditure as capital expenditure and conducting extra budget fiscal operations which came to notice of Audit are detailed in the following paragraphs.

<sup>13</sup> Fiscal liabilities include borrowings on account of UDAY during the year 2016-17 and back-to-back loan in lieu of GST compensation shortfall during the year 2020-21 so as to match Finance Accounts figures for the respective years. However, total debt to GSDP per cent in the Chart excludes UDAY borrowings during the year 2016-17 and back-to-back loan in lieu of GST compensation shortfall during the year 2020-21.

<sup>14</sup> Debt divided by the population of previous calendar year; the population in a particular calendar year is as on the first day of October of that year.



### 1.6.1 Post audit – Deficits/surplus

Certain issues, viz., misclassification of revenue expenditure as capital and vice versa, amount not transferred to ‘Uttar Pradesh Road Transport Accident Relief Fund’, interest not credited in interest-bearing reserves, etc., which are discussed in the Report in succeeding Chapters have had an impact on revenue deficit and fiscal deficit indicated in Finance Accounts 2020-21. In order to arrive at actual deficit figures, the impact of the aforesaid issues needs to be addressed and appropriately factored in to ascertain actual deficit.

The impact of the above issues has resulted in understatement of revenue deficit and fiscal deficit by ₹ 1,650.70 crore and ₹ 1,565.32 crore respectively during the year 2020-21 which has been worked out in **Table 1.7** and result of audit impact has been depicted in **Table 1.8**.

**Table 1.7: Revenue and Fiscal Deficits post examination by Audit**

Particulars	Impact on Revenue Deficit		Impact on Fiscal Deficit	
	Over-statement	Under-statement	Over-statement	Under-statement
(1)	(2)	(3)	(4)	(5)
Short transfer to State Disaster Response Fund and not crediting interest due to the Fund (Refer to Paragraph 2.8.2.3)	-	1,380.24	-	1,380.24
Interest not credited in State Compensatory Afforestation Fund (Refer to Paragraph 2.8.2.5)	-	59.75	-	59.75
Misclassification of expenditure between Revenue to Capital and vice-versa. (Refer to Paragraph 3.2.2.1 and 3.2.2.2)	1.19	86.57	-	-
Interest not credited on balances of Defined Contributory Pension scheme (Refer to Paragraph 4.3)	-	24.90	-	24.90
Uttar Pradesh Road Transport Accident Relief Fund not established due to which amount not transferred to the Fund (Refer to Paragraph 4.4)	-	100.43	-	100.43
<b>Total</b>	<b>1.19</b>	<b>1,651.89</b>	<b>-</b>	<b>1,565.32</b>
<b>Net Impact</b>	<b>₹ 1,650.70 crore (Understatement of revenue deficit)</b>		<b>₹ 1,565.32 crore (Understatement of fiscal deficit)</b>	

Source: Finance Accounts 2020-21 and audit analysis

**Table 1.8: Result of audit impact**

Sl. No.	Particular	As per Accounts	Understated by	Actual/ Post audit examination
1	2	3	4	5 = 3-4
1	<b>Revenue Surplus (+)/ Deficit (-)</b>	(-)2,367.13	1,650.70	(-) 4,017.83
2	<b>Fiscal Surplus (+)/ Deficit (-)</b>	(-)54,622.11	1,565.32	(-)56,187.43

Source: Audit analysis

### 1.6.2 Post audit – Total Public Debt

Apart from usual components of debts viz. market borrowings, borrowings from Financial Institutions/Banks, etc., the broader definition of ‘total outstanding public debt’ also includes the extra-budget borrowings. Extra-budget borrowings or extra-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/those years for seeking grant/appropriation, and hence remaining outside legislative control. These are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government has to repay the debt and/or service the debt from its budget. Therefore, extra-budget borrowings/financing involve payment of interest and repayment of the borrowings from budget as and when it is due.

The State Government, may bypass the stipulated Net Borrowing Ceiling by routing loans outside the budget through various State Government PSUs/Corporations/other Bodies despite being responsible for repayment of such loans. Extra-budget borrowings have an impact on the Revenue Deficit and Fiscal Deficit. Creating such liabilities, without disclosing them in the budget, raises questions both of transparency and of inter-generational equity. Such extra-budget borrowings are not taken in the disclosure statements in the budget documents or in the accounts, nor do these have legislative approval.

Examination of Audit revealed that during the period 2017-19, the State Government resorted to extra-budget borrowings of ₹ 8,716.40 crore. This issue is discussed in detail in **Paragraph 4.2** of the Report. Out of this extra-budget borrowings, ₹ 7,079.51 crore was repaid by respective PSUs/Authorities during the period 2017-21 through financial assistance received from State Government. The outstanding extra-budget debt of ₹ 1,636.89 crore has impact on the overall debt stock of the State as given in **Table 1.9**.

**Table 1.9: Overall debt, post examination by Audit**

Sl. No	Particulars	Amount (₹ in crore)	Percentage of GSDP
1.	Overall Debt as per Accounts (as on 31.03.2021)	5,64,971.68*	32.77*
2.	Understated debt due to extra-budget borrowings (Refer to Paragraph 4.2)	1,636.89	0.10
	<b>Total</b>	<b>5,66,608.57</b>	<b>32.87</b>

*Source: Finance Accounts 2020-21 and information provided by respective PSUs/Authorities*

\* After excluding back-to-back loan of ₹ 6,007 crore received from GoI during the year 2020-21 in lieu of GST compensation shortfall which has no repayment liability for the State, the effective outstanding overall debt would be ₹ 5,58,964.68 crore.

It is evident from **Table 1.9** that due to extra-budget borrowings the ratio of debt stock to GSDP has increased to 32.87 per cent from 32.77 per cent.