

CHAPTER-I

Finances of the State Government

Summary

Large revenue and fiscal deficits year after year indicated continued macro-economic imbalances in the State. Revenue deficit (Rs 6993 crore) increased by 11.23 *per cent* in 2004-05 as compared to Rs 6287 crore in 2000-01. Fiscal deficit (Rs 12997 crore) also increased by 27.71 *per cent* in 2004-05 as compared to Rs 10177 crore in 2000-01. The Balance from the current revenues continued to be negative during 2004-05 also.

Revenue receipts of the State increased from Rs 24743 crore in 2000-01 to Rs 37617 crore in 2004-05. The growth (18.90 *per cent*) in revenue receipts in 2004-05 was primarily driven by 67 *per cent* growth in Grants-in-Aid from Government of India, 16 *per cent* growth in Trade Tax and 13 *per cent* growth in the State's Share of Union Taxes. Arrears of revenue as on 31.03.2005 were Rs 7922 crore constituting 43 *per cent* of tax and non-tax revenue of the State.

The total expenditure of the State increased from Rs 35216 crore in 2000-01 to Rs 50892 crore in 2004-05. Revenue expenditure contributed 88 *per cent* of the total expenditure.

Salaries (Rs 14058 crore), interest payments (Rs 11873 crore), and Pensions (Rs 3561 crore) constituted 78 *per cent* of total revenue receipts of the State during the year. Capital Expenditure had shown significant increase from 9.53 *per cent* of the total expenditure in 2000-01 to 11.25 *per cent* in 2004-05.

Overall fiscal liabilities of the State increased from Rs 80331 crore in 2000-01 to Rs 131401 crore in 2004-05. These liabilities as ratio to GSDP increased from 44.4 *per cent* in 2000-01 to 55.8 *per cent* in 2004-05. Net availability from borrowed funds was negative during the year.

The ratio of financial assets to liabilities was lowest at 0.45 in 2004-05. A greater part of liabilities was, therefore, without any asset back-up.

The returns on investment of Rs 9535.57 crore in Statutory Corporations, Joint Stock Companies etc. were nil during the year.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, deficits year after year, together with low or no return on investments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicated increasing unsustainability. The State passed the Fiscal Responsibility and Budget management Act in February 2004 to ensure fiscal stability and sustainability aiming to reduce the revenue and fiscal deficits.

1.1 Introduction

The Finance Accounts of the Government are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1.

Box 1.1

Lay out of Finance Accounts

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

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2004-05.

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

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

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

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

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

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the year 2004-05 as a percentage of total revenue/expenditure.

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

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

Statement No. 12 provides accounts of revenue expenditure by minor heads under Non-Plan, State Plan and Centrally Sponsored Schemes separately and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2004-05.

Statement No. 15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

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

Statement No. 18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2005, and the amount of interest received during the year.

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

1.2 Trend of Finances with reference to Previous year

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

(Rupees in crore)

| 2003-04 | Sl. No | Major Aggregates | 2004-05 |
|--------------|------------|---------------------------------------|--------------|
| 31638 | 1. | Revenue Receipts (2+3+4) | 37617 |
| 13601 | 2. | Tax Revenue | 15693 |
| 2282 | 3. | Non-Tax Revenue | 2720 |
| 15755 | 4. | Other Receipts | 19204 |
| 12498 | 5. | Non-Debt Capital Receipts | 278 |
| 12498 | 6. | Of which Recovery of Loans | 278 |
| 44136 | 7. | Total Receipts (1-5) | 37895 |
| 53541 | 8. | Non-Plan Expenditure (9+11+12) | 40688 |
| 46945 | 9. | On Revenue Account | 39512 |
| 10124 | 10. | Of which, Interest Payments | 11873 |
| 5883 | 11. | On Capital Account | 1035 |
| 713 | 12. | Loans and advances disbursed | 141 |
| 7242 | 13. | Plan Expenditure (14+15+16) | 10204 |
| 3276 | 14. | On Revenue Account | 5098 |
| 3437 | 15. | On Capital Account | 4618 |
| 529 | 16. | Loans and advances disbursed | 488 |
| 60783 | 17. | Total Expenditure (8+13) | 50892 |
| 18583 | 18. | Revenue Deficit (9+14-1) | 6993 |
| 16647 | 19. | Fiscal Deficit (17-1-5) | 12997 |
| 6523 | 20. | Primary Deficit (19-10) | 1124 |

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the Government for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, Contingency Fund receipts and disbursements and Public Account receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of receipts and disbursements for the year 2004-05

(Rupees in crore)

| 2003-04 | Receipts | 2004-05 | 2003-04 | Disbursements | 2004-05 | | |
|---------------------------|---------------------------------------|------------------|------------------|----------------------------------|-----------------|-----------------|------------------|
| Section-A: Revenue | | | | | | | |
| | | | | | Non-Plan | Plan | Total |
| 31637.96 | I. Revenue receipts | 37617.44 | 50221.11 | I. Revenue expenditure | 39512.26 | 5098.09 | 44610.35 |
| 13601.22 | Tax revenue | 15692.67 | 19540.53 | General services | 22692.09 | 69.34 | 22761.43 |
| 2282.08 | Non-tax revenue | 2720.29 | 10354.35 | Social Services | 9621.41 | 3468.31 | 13089.72 |
| 13272.97 | Share of Union Taxes/Duties | 15055.20 | 18969.70 | Economic Services | 5415.83 | 1560.44 | 6976.27 |
| 2481.69 | Grants from Govt. of India | 4149.28 | 1356.53 | Grants-in-aid / Contributions | 1782.93 | ---- | 1782.93 |
| Section-B: Capital | | | | | | | |
| ----- | II Misc. Capital Receipts | ---- | 9320.35 | II Capital Outlay | 1034.62 | 4618.73 | 5653.35 |
| 12497.76 | III. Recoveries of Loans and Advances | 277.63 | 1242.37 | III Loans and Advances disbursed | 141.28 | 487.70 | 628.98 |
| 22109.53 | IV Public debt receipts* | 17463.25 | 8987.43 | IV Repayment of Public Debt | 9156.70 | ---- | 9156.70 |
| 52.11 | V Contingency Fund | 75.69 | 85.33 | V Contingency Fund | 43.31 | ---- | 43.31 |
| 46875.31 | VI Public Account receipts | 45212.58 | 43497.74 | VI Public Account disbursements | 40262.49 | ---- | 40262.49 |
| (-)32.59 | Opening Balance | (-)196.25 | (-)196.25 | Closing Balance | 95.16 | ---- | 95.16 |
| 113140.08 | Total | 100450.34 | 113140.08 | Total | 90245.82 | 10204.52 | 100450.34 |

* Includes net ways and means advances and overdraft also

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and wherever necessary; show these in the light of time series data (*Appendix-1.1 - 1.4*) and periodic comparisons.

The reporting parameters are depicted in Box 1.2.

| Box 1.2 |
|---|
| Reporting Parameters |
| <p>Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics Department of the Government have been used.</p> <p>For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>For most series a trend growth during 2000-01 to 2004-05 has been indicated. The erstwhile State of Uttar Pradesh has been bifurcated into a successor State of Uttar Pradesh and Uttaranchal with effect from 9.11.2000 as per the reorganization Act. Hence indicators of the financial performance of Government take into account the Finance Accounts figures of the combined State of Uttar Pradesh and Uttaranchal upto 8.11.2000 and from 9.11.2000 with reference to successor State of Uttar Pradesh.</p> <p>The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in <i>Appendix-1.5</i>.</p> |

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The accounts of the Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

| Box 1.3 | |
|--|---|
| Government Funds and the Public Account | |
| <p>Consolidated Fund</p> <p>All revenues received by the Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of</p> | <p>Contingency Fund</p> <p>Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by</p> |

| | |
|---|--|
| loans shall form one Consolidated Fund entitled 'the Consolidated Fund of State' established under Article 266 (1) of the Constitution of India. | Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund. |
| Public Account | |
| Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266 (2) of the Constitution and the related disbursement are made from it. | |

1.5 State Finances by key Indicators

1.5.1 Resources by volumes and sources

Resources of the Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise of miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/ commercial banks, etc and loans and advances from Government of India as well as accruals from Public Account.

Table 2 shows that the total receipt of the Government for the year 2004-05 was Rs 1,00,571 crore. Of this, revenue receipt was Rs 37,617 crore, constituting only 37 per cent of the total receipts. The balance came from borrowings and Public Account receipts.

Table 2 : Resources of Uttar Pradesh

| | | (Rupees in crore) |
|------------------------------------|--|-------------------|
| I Revenue Receipts | | 37,617 |
| II Capital Receipts | | 17,741 |
| <i>a</i> | <i>Miscellaneous Receipts</i> | -- |
| <i>b</i> | <i>Recovery of Loans and Advances</i> | 278 |
| <i>c</i> | <i>Public Debt Receipts</i> | 17463 |
| III Public Account Receipts | | 4,5213 |
| <i>a</i> | <i>Small Savings, Provident Fund, etc.</i> | 3226 |
| <i>b</i> | <i>Reserve Fund</i> | 2710 |
| <i>c</i> | <i>Deposits and Advances</i> | 12395 |
| <i>d</i> | <i>Suspense and Miscellaneous</i> | 21787 |
| <i>e</i> | <i>Remittances</i> | 5095 |
| Total Receipts | | 1,00,571 |

The source of revenue receipts under different heads and GSDP during 2000-2005 is indicated in Table 3.

Table 3: Sources of Receipts: Trends

| Year | Revenue Receipts | Capital Receipts | | | Total Receipts | Gross State Domestic product |
|---------|------------------|-------------------|---------------|----------------------------|----------------|------------------------------|
| | | Non-Debt Receipts | Debt Receipts | Accruals in Public Account | | |
| 2000-01 | 24743 | 296 | 9251 | 37567 | 71857 | 180948 |
| 2001-02 | 25598 | 366 | 11383 | 36965 | 74312 | 187141 |
| 2002-03 | 27821 | 219 | 12390 | 37327 | 77757 | 202904 |
| 2003-04 | 31638 | 12498 | 22110 | 46875 | 113121 | 217573 |
| 2004-05 | 37617 | 278 | 17463 | 45213 | 100571 | 235678 |

1.5.2 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 4.

Table 4: Revenue Receipts – Basic Parameters

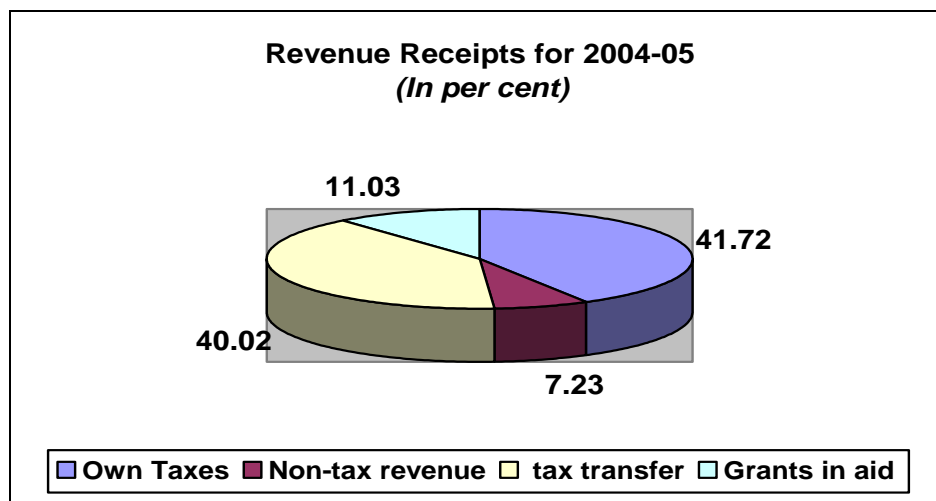
| | (Values Rupees in crore and others in per cent) | | | | |
|--------------------------------------|---|-----------------|--------------|--------------|--------------|
| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
| Revenue Receipts | 24743 | 25598 | 27821 | 31638 | 37617 |
| Own taxes* | 44.38 | 40.35 | 45.89 | 42.99 | 41.72 |
| Non-Tax Revenue* | 7.86 | 6.98 | 6.88 | 7.21 | 7.23 |
| Central Tax Transfers* | 36.56 | 39.80 | 38.93 | 41.95 | 40.02 |
| Grants-in-aid* | 11.21 | 12.86 | 8.30 | 7.85 | 11.03 |
| Rate of Growth[#] | 15.11 | 3.46 | 8.68 | 13.72 | 18.90 |
| Revenue Receipts/GSDP | 13.67 | 13.68 | 13.71 | 14.54 | 15.96 |
| Revenue Buoyancy | 1.311 | 1.010 | 1.031 | 1.898 | 2.271 |
| GSDP Growth | 11.53 | 3.42 | 8.42 | 7.23 | 8.32 |
| Revenue Buoyancy of Own taxes | 1.457 | (-)1.731 | 2.802 | 0.903 | 1.848 |

* As a percentage of Revenue Receipt

Revenue receipts and other parameters are not strictly comparable because of bifurcation of State in November 2000. However, since this affected all the parameters equally, relative shares and buoyancy and other derived indicators are none-the-less comparable.

Revenue receipts of the State increased from Rs 24743 crore in 2000-01 to Rs 37617 crore in 2004-05. The increase of Rs 5979 crore during the current year over the previous year was mainly due to increase in State's share of Union Taxes (Rs 1782 crore), Grants-in-Aid from GOI (Rs 1667 crore) and Trade Tax (Rs 1204 crore).

While on an average only 49 per cent of the revenue had come from the State's own resources, Central tax transfers and grants-in-aid together contributed remaining 51 per cent. Trade tax was the major source of State's own tax revenue having contributed 57 per cent of the tax revenue followed by State Excise and Stamp and Registration Fee (17 per cent each). Of non-tax revenue sources, interest receipts (22 per cent), Education, Sports, Art and Culture (21 per cent), Non-Ferrous Mining and Metallurgical Industries (11 per cent) and Power (9 per cent) were the principal contributors.



Relatively lower contribution of non-tax revenue to overall revenue receipts was due to poor recovery of the cost of social and economic services provided by the State. The current levels of cost recovery¹ in supply of merit goods and services by Government were 6.43 *per cent* in Public Works, 7.99 *per cent* in Education, Sports, Art and Culture, 2.58 *per cent* in Medical and Public Health, 0.04 *per cent* in Water Supply and Sanitation and 15.27 *per cent* in Major and Medium irrigation and 16.80 *per cent* in Power.

1.6 Application of resources

1.6.1 Trend and Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased from Rs 35,216 crore in 2000-01 to Rs 50,892 crore in 2004-05. There were sharp inter year variations in the rate of growth of expenditure ranging between 7.21 *per cent* in 2000-01 to 61.93 *per cent* in 2003-04. During the current year the expenditure decreased by Rs 9891 crore (16.27 *per cent*) compared to the preceding year. The drop in the expenditure during 2004-05 in comparison to the preceding year was mainly due to unusual increase in 2003-04 due to write-off of power sector loans (Rs 12277 crore). In fact, in real terms, there was no reduction in expenditure during the year.

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

Table 5: Total Expenditure – Basic Parameters

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

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|----------|
| Total Expenditure | 35216 | 35875 | 37537 | 60783 | 50892 |
| Rate of Growth | 7.18 | 1.87 | 4.63 | 61.93 | (-)16.27 |
| TE/GSDP | 19.46 | 19.17 | 18.50 | 27.94 | 21.59 |
| Revenue Receipts/TE | 70.26 | 71.35 | 74.12 | 52.05 | 73.92 |
| Buoyancy of Total Expenditure with | | | | | |
| GSDP | 0.623 | 0.547 | 0.550 | 8.566 | -- |
| Revenue Receipts | 0.475 | 0.542 | 0.533 | 4.514 | -- |

¹ Cost recovery is defined as revenue receipts from these functions divided by revenue expenditure.

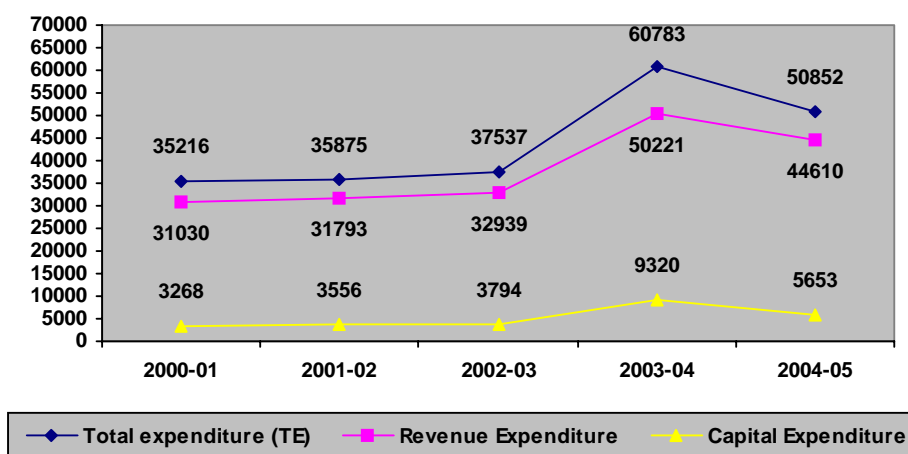
The ratio of revenue receipts to total expenditure increased from 70.26 per cent in 2000-01 to 74.12 per cent in 2002-03 and declined to 52.05 per cent in 2003-04 which further increased to 73.92 per cent in 2004-05. This indicated that 73.92 per cent of the expenditure during 2004-05 was met from its current revenue, leaving the balance to be financed from borrowings.

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

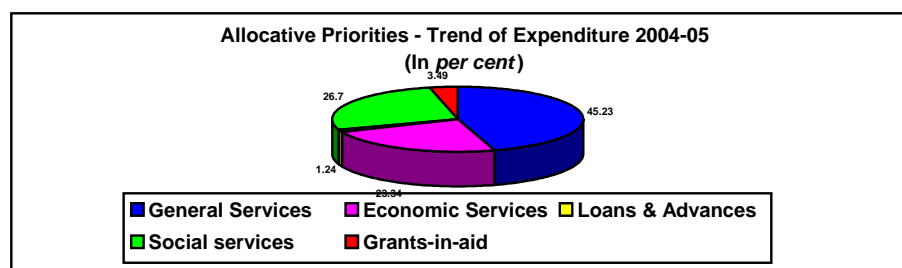
Table 6: Components of expenditure – Relative Share (in per cent)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--------------------|---------|---------|---------|---------|---------|
| General Services | 43.34 | 45.45 | 42.39 | 32.52 | 45.23 |
| Social Services | 26.92 | 26.61 | 28.23 | 17.58 | 26.70 |
| Economic Services | 24.06 | 23.88 | 24.13 | 45.63 | 23.34 |
| Grants-in-aid | 3.07 | 2.59 | 3.11 | 2.23 | 3.49 |
| Loans and advances | 2.61 | 1.47 | 2.14 | 2.04 | 1.24 |

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



The movement of relative share of these components of expenditure indicated that while the share of Economic Services and Social Services in total expenditure slightly decreased from 24.06 and 26.92 per cent in 2000-01 to 23.34 and 26.70 per cent in 2004-05, the relative share of General Services increased from 43.34 per cent in 2000-01 to 45.23 per cent in 2004-05. While the share of General Services in total expenditure increased from 32.52 per cent (2003-04) to 45.23 per cent (2004-05) the share of expenditure on Economic Services declined from 45.63 per cent to 23.34 per cent during the period showing that the Government could not focus on development during the year.



1.6.2 Incidence of Revenue expenditure

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

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

Table 7: Revenue Expenditure – Basic Parameters

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

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|----------|
| Revenue Expenditure | 31030 | 31793 | 32939 | 50221 | 44610 |
| Rate of Growth | 7.94 | 2.46 | 3.60 | 52.47 | (-)11.17 |
| RE/ GSDP | 17.15 | 16.99 | 16.23 | 23.08 | 18.93 |
| RE as per cent of TE | 88.11 | 88.62 | 87.75 | 82.62 | 87.66 |
| RE as per cent to Revenue Receipts | 125.41 | 124.20 | 118.40 | 158.74 | 118.59 |
| Buoyancy of Revenue Expenditure with | | | | | |
| GSDP | 0.689 | 0.718 | 0.428 | 7.257 | (-)1.343 |
| Revenue Receipts | 0.525 | 0.712 | 0.415 | 3.824 | (-)0.591 |

Revenue expenditure of the State increased from Rs 31030 crore in 2000-01 to Rs 44610 crore in 2004-05.

Revenue expenditure continued to exceed revenue receipts during 2000-2005, which has led to revenue deficit. During 2004-05, the revenue deficit registered a decrease of 62.37 per cent over the previous year. The ratio of revenue expenditure to revenue receipts decreased from 125.41 per cent in 2000-01 to 118.59 per cent in 2004-05. The dependency of the State on borrowings, for meeting its current expenditure persisted during the year due to high expenditure on salaries (Rs 14058 crore), interest payments (Rs 11873 crore) and pensions (Rs 3561 crore) which together consumed 78 per cent of total revenue receipts of the State in 2004-05.

High salary expenditure

Salaries alone accounted for about 37 per cent of the revenue receipts of the State. The expenditure on salaries increased from Rs 11464.43 crore in 2000-01 to Rs 14058.09 crore in 2004-05 as indicated in table 8:

Table 8: Salary Expenditure

(Rupees in crore)

| Heads | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-----------------------------------|-----------|-----------|------------|-----------|----------|
| Salary expenditure | 11464.43* | 10860.40* | 12717.07** | 12965.40* | 14058.09 |
| As percentage to GSDP | 6.34 | 5.80 | 6.27 | 5.95 | 5.97 |
| As percentage to Revenue Receipts | 46.33 | 42.43 | 45.71 | 40.98 | 37.37 |

* Source: State Government.

** Revised estimate.

Though salary expenses relative to GSDP and revenue receipts indicated a declining trend during 2000-05, these have continued to be sizable.

Huge expenditure on pension payments

Pension payments increased by 64.62 *per cent* from Rs 2163.27 crore in 2000-01 to Rs 3561.15 crore in 2004-05.

Year-wise breakup of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 9: Pension Payments

| Year | Expenditure (Rupees in crore) | Percentage to total revenue |
|---------|-------------------------------|-----------------------------|
| 2000-01 | 2163.27 | 8.75 |
| 2001-02 | 2391.74 | 9.34 |
| 2002-03 | 2751.13 | 9.89 |
| 2003-04 | 2900.10 | 9.17 |
| 2004-05 | 3561.15 | 9.47 |

The increase of 23 *per cent* in pension payments during 2004-05 compared to 2003-04 was mainly due to payment of retirement benefits, which were postponed following enhancement (November 2001) of the retirement age from 58 years to 60 years. With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retiring State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

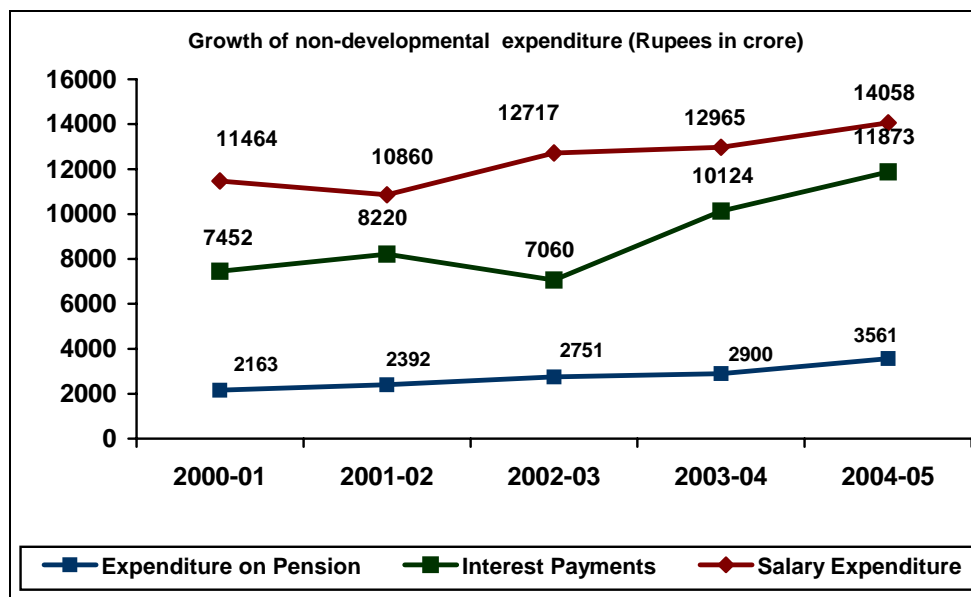
Interest payments

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

Table 10 : Interest Payments

| Year | Interest Payment | Percentage of interest payment with reference to | |
|---------|-------------------|--|---------------------|
| | (Rupees in crore) | Revenue Receipts | Revenue Expenditure |
| 2000-01 | 7452 | 30 | 24 |
| 2001-02 | 8220 | 32 | 26 |
| 2002-03 | 7060 | 25 | 21 |
| 2003-04 | 10124 | 32 | 20 |
| 2004-05 | 11873 | 32 | 27 |

In absolute terms, interest payments significantly increased from Rs 7452 crore in 2000-01 to Rs 11873 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit. There was, however, a decline in interest payments in 2002-03 which again increased by 43 *per cent* in 2003-04 and further increased by 17 *per cent* in 2004-05 despite the fact that interest rates have come down in the last few years.



1.7 Expenditure by Allocative Priorities

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

Table 11: Quality of expenditure (per cent to total expenditure^{*})

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---------------------------|---------|---------|---------|---------|---------|
| Plan Expenditure | 19.09 | 17.63 | 18.88 | 11.27 | 19.33 |
| Capital Expenditure | 9.53 | 10.06 | 10.33 | 15.65 | 11.25 |
| Developmental Expenditure | 52.34 | 51.25 | 53.51 | 64.53 | 50.66 |

* Total expenditure excludes expenditure on loans and advances.

Except Developmental expenditure, which decreased from 52.34 *per cent* in 2000-01 to 50.66 *per cent* in 2004-05, other two components of expenditure showed a marginal improvement during 2000-2005. The share of Capital Expenditure decreased from 15.65 *per cent* in the previous year to 11.25 *per cent* during 2004-05, as such the quality of expenditure deteriorated during the year.

The expenditure on Social Services (Rs 13586 crore) accounted for 53 *per cent* of the developmental expenditure. Of which, Education, Sports, Art and Culture (Rs 7379 crore), Health and Family Welfare (Rs 2255 crore), and Social Welfare and Nutrition (Rs 1691 crore) accounted for 83 *per cent* of the expenditure on Social Sector.

Table 12: Social Sector Expenditure

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Education, Sports, Art and Culture | 6173 | 6088 | 6137 | 6316 | 7379 |
| Health and Family Welfare | 1459 | 1377 | 1579 | 1897 | 2255 |
| Social Welfare and Nutrition | 532 | 549 | 1234 | 883 | 1691 |
| Total | 8164 | 8014 | 8950 | 9096 | 11325 |

Out of the developmental expenditure (Rs 25464 crore), Economic Services (Rs 11878 crore) accounted for 47 per cent during the year. Energy, Irrigation and Flood Control and Rural Development consumed (60 per cent) of the expenditure on Economic Services.

Table 13 : Economic Sector Expenditure

(Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|------------------------------|-------------|-------------|-------------|--------------|-------------|
| Energy | 780 | 1091 | 746 | 19673 | 2490 |
| Irrigation and Flood Control | 2153 | 2108 | 2265 | 2221 | 2459 |
| Rural Development | 1854 | 1828 | 2040 | 2036 | 2209 |
| Total | 4787 | 5027 | 5051 | 23930 | 7158 |

1.7.1 Financial assistance to local bodies and other institutions

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

Grants/loans amounting to Rs 721.43 crore were given to various autonomous bodies and others for specific purposes and Rs 2818.28 crore as assistance (total: Rs 3539.71 crore) broadly grouped as under during 2004-05:

Table 14: Financial Assistance to Local Bodies and other Institutions

(Rupees in crore)

| Sl. No. | Name of institutions | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---|----------------|----------------|---------------|----------------|----------------|
| 1. | Universities and Educational Institutions | 849.06 | 147.42 | 1.64 | 703.08 | 181.00 |
| 2. | Energy | 294.01 | 88.56 | 277.57 | 1224.35 | 1147.26 |
| 3. | Agriculture, Land Reform and Forestry | 738.75 | 34.01 | 0.05 | 146.21 | 267.66 |
| 4. | Municipal Corporations and Municipalities | 1084.63 | 50.89 | 77.40 | 68.73 | 89.99 |
| 5. | Hospitals and Charitable Institutions | 390.84 | 60.26 | 37.62 | 244.66 | 248.13 |
| 6. | Development Agencies | 29.53 | 1300.62 | --- | 835.46 | 288.49 |
| 7. | Labour and Industry | 350.58 | 171.25 | 157.56 | 186.17 | 150.57 |
| 8. | Co-operative | 43.86 | 47.18 | --- | 5.78 | 10.81 |
| 9. | Animal Husbandry, Dairy Development and Fisheries | 17.30 | 9.91 | 5.00 | 33.92 | 10.38 |
| 10. | Sugar and Cane | --- | 124.63 | 201.69 | --- | 26.86 |
| 11. | Others | 40.00 | 4.13 | --- | 4.47 | 1118.56 |
| Total | | 3838.56 | 2038.86 | 758.53 | 3452.83 | 3539.71 |
| Percentage of growth over previous year | | (-) 44 | (-) 47 | (-) 63 | 355 | 2.52 |
| Assistance as percentage of revenue expenditure | | 12 | 7 | 2 | 7 | 8 |

Reduction in the amount of the financial assistance to Universities and Educational Institutions was mainly due to less grants released by the GOI for Literacy and Optional Education. Major increase under 'others' was mainly due to additional releases by the Government for strengthening of Panchayati Raj Institutions on the recommendations of the State Finance Commission.

Delay in submission of Accounts

Accounts of seven autonomous bodies had not been submitted to PAG for audit under Section 19(3) and 20(1) of the CAG's (DPC) Act, 1971 for the period ranging from one to ten years as detailed below:

Table: 15 Delay in submission of Accounts

| Sl. No. | Name of the Body | Period of latest entrustment of audit of accounts to CAG | Period for which accounts awaited (years) |
|----------------------|---------------------------------------|--|---|
| Section 19(3) | | | |
| 1. | UP Khadi and Village Industries Board | 1998-2003 | 2002-03 (01) |
| Section 20(1) | | | |
| 2. | Agra Jal Sansthan | 2001-2010 | 1995-96 to 2004-05 (10) |
| 3. | Allahabad Jal Sansthan | 2001-2010 | 2000-01 to 2004-05 (5) |
| 4. | Jhansi Jal Sansthan | 2001-2010 | 2001-02 to 2004-05 (4) |
| 5. | Kanpur Jal Sansthan | 2001-2010 | 1997-98 to 2004-05 (8) |
| 6. | Lucknow Jal Sansthan | 2001-2010 | 2004-05 (1) |
| 7. | Varanasi Jal Sansthan | 2001-2010 | 2001-02 to 2004-05 (4) |

Statutory audit arrangements

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

Out of 13568 units of Co-operative Societies, statutory audit of 8271 units (60.96 per cent) for the period 2000-01 to 2004-05 was in arrears.

1.7.2 Misappropriation, defalcations etc.

State Government reported 92 cases of misappropriations, defalcations, etc. involving Rs 4.82 crore of Government money. These cases pertained to the period from 1966-67 to the end of March 2005 on which final action was pending at the end of December 2005. The department-wise/ year-wise and category-wise breakup of pending cases is given in *Appendix-1.6 and 1.7* respectively.

1.8 Assets & Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. *Appendix-1.1* presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government.

The liabilities of Government of Uttar Pradesh depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/letters of comforts issued by the State Government. *Appendix-1.4* depicts the Time Series Data on State Government Finances for the period 2000-2005.

1.8.1 Financial results of irrigation works

The financial results of 16 major irrigation projects as reported by the Government with a capital outlay of Rs 3897.24 crore at the end of March 2005 showed that revenue realized (Rs 35.33 crore) from these projects during 2004-05 was negligible (0.91 *per cent*) compared to the capital outlay which was not sufficient to cover even the direct working expenses (Rs 99.48 crore) during 2004-05. After meeting the working and maintenance expenditure (Rs 100.47 crore) and interest charges (Rs 200.15 crore), the schemes suffered a net loss of Rs 265 crore.

1.8.2 Incomplete projects

As per information received from the State Government, as of 31 March 2005, there were 35 incomplete projects costing more than Rupees one crore in which Rs 5804.47 crore were blocked as shown below:

Table 16: Incomplete Projects

| (Rupees in crore) | | | | | | |
|-------------------|--------------------|--------------------|-------------------------|------------------------|---------------------------------------|-------------------------------|
| Sl. No. | Name of department | Number of Projects | Original estimated Cost | Revised Estimated Cost | Expenditure incurred up to March 2005 | Percentage of cost escalation |
| 1 | Irrigation | 08 | 1928.38 | 5026.16 | 2533.45 | 160.64 |
| 2 | PWD | 27 | 13759.25 | 13838.74 | 3271.02 | 0.58 |
| | Total | 35 | 15687.63 | 18864.90 | 5804.47 | 20.25 |

Consequently, expenditure of Rs 5804.47 crore (March 2005) on these projects remained unproductive. The cost escalation (160.64 *per cent*) was related to major and medium irrigation projects.

1.8.3 Investments and returns

As on 31 March 2005, Government had invested Rs 9535.57 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was nil as indicated in Table 17 below:

Table 17: Return on Investment

| (Rupees in crore) | | | | |
|-------------------|-----------------------------------|--------|----------------------|--|
| Year | Investment at the end of the year | Return | Percentage of return | Average rate of interest on Government borrowing (<i>per cent</i>) |
| 2000-2001 | 3962.89 | 6.27 | 0.16 | 9.58 |
| 2001-2002 | 4033.27 | 6.24 | 0.15 | 9.49 |
| 2002-2003 | 9049.70 ¹ | 7.26 | 0.08 | 7.22 |
| 2003-2004 | 9412.65 ² | 7.40 | 0.07 | 9.13 |
| 2004-2005 | 9535.57 | -- | -- | 9.47 |

1.8.4 Loans and advances by State Government

In addition to its investments, the Government has also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs 8060 crore as on 31 March 2005 (Table 18). Overall, interest received against these advances increased from 0.21 *per cent* in 2000-01 to 1.33 *per cent* in 2004-05. The interest realized on these loans and advances during 2004-05 was 8.16 *per cent* lower than the average borrowing rate of 9.47 *per cent* of the Government.

¹ Includes Rs 4044.60 crore pending reconciliation.

² Excludes Rs 1834.60 crore pending reconciliation.

Table 18 : Interest received on loans advanced by the State Government

| | (Rupees in crore) | | | | |
|--|-------------------|--------------|--------------|-------------|-------------|
| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
| Opening Balance | 17596 | 18218 | 18379 | 18965 | 7709 |
| Amount advanced during the year | 918 | 527 | 805 | 1242 | 629 |
| Amount repaid during the year | 296 | 366 | 219 | 12498 | 278 |
| Closing Balance | 18218 | 18379 | 18965 | 7709 | 8060 |
| Net Addition (+) / Reduction (-) | 623 | 161 | 586 | (-)11256 | 351 |
| Interest Received (Rupees in crore) | 39 | 51 | 42 | 187 | 106 |
| Interest received as <i>per cent</i> to outstanding Loans and Advances | 0.21 | 0.28 | 0.22 | 2.43 | 1.31 |
| Average rate of interest paid by the State | 9.58 | 9.49 | 7.22 | 9.13 | 9.47 |
| Difference between interest paid and received | (-) 9.37 | (-) 9.21 | (-) 7.00 | (-)6.70 | (-)8.16 |

1.8.5 Commercial activities

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

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

As of March 2005, there were 11 such undertakings under the Government of Uttar Pradesh. Of these, two¹ finalised their accounts upto 2004-05 and accounts of nine Undertakings were in arrear, as detailed below:

Table 19: Position of preparation of accounts in departmental commercial undertakings

| Sl. No. | Department | Accounts not finalised (name of undertakings) | Year from which accounts are due |
|---------|-------------------------|---|----------------------------------|
| 1 | Food and Civil Supplies | Scheme for public distribution system of food grains | 2002-03 |
| 2 | Animal Husbandry | Government Live Stock and Agriculture Farms | 1998-99 |
| 3 | Social Welfare | Criminal Tribes Settlement Tailoring Factory (Kanpur) | 1980-81 |
| 4 | Health | State Pharmacy of Ayurvedic and Unani medicines | 1988-89 |
| 5 | Irrigation | Irrigation Workshop Division, Meerut | 2004-05 |
| 6 | | Irrigation Workshop Division, Kanpur | 2004-05 |
| 7 | | Irrigation Workshop Division, Allahabad | 2004-05 |
| 8 | | Irrigation Workshop Division, Gorakhpur | 2004-05 |
| 9 | | Erection Division, Faizabad | 1985-86 |

It would be seen that the undertaking under the Social Welfare Department had not prepared its accounts for more than 24 years whereas two

¹ IWD: Bareilly, Jhansi.

undertakings under the Health and Irrigation departments had not prepared their accounts for more than 16 years.

1.8.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-match in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Under an agreement with the Reserve Bank of India, the State Government has to maintain with the Bank a minimum balance of Rs 4.71 crore on all days. In 2004-05, this minimum balance fell short on 158 days for which Government took WMAs (Rs 13982.12 crore) from RBI. Resort to overdraft (OD), which is over and above the WMA limits, is all the more undesirable. The State used the OD facilities for 98 days during the year. While OD (Rs 6268.88 crore) was fully repaid, Rs 25.48 crore out of the WMA (Rs 13982.12 crore) remained unpaid as of March 2005.

Table 20: Ways and Means and Overdrafts taken and interest paid thereon

| | (Rupees in crore) | | | | |
|---------------------------------------|-------------------|---------|---------|----------|----------|
| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
| Ways and Means Advances | | | | | |
| Taken during the year | 2217.57 | 6146.49 | 7663.83 | 11526.87 | 13982.12 |
| Outstanding | 609.82 | 746.12 | ----- | ----- | 25.48 |
| Interest paid | 27.56 | 21.70 | 28.67 | 34.08 | 40.91 |
| Overdraft | | | | | |
| Taken in the year | 7696.62 | 3282.11 | 3753.64 | 4904.18 | 6268.88 |
| Outstanding | ----- | ----- | ----- | ----- | -- |
| Interest paid | 12.04 | 4.79 | 4.31 | 9.56 | 8.23 |
| Number of days State was in Overdraft | 161 | 88 | 88 | 100 | 98 |

1.8.7 Undischarged liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that the State may borrow within the territory of India, upon the security of its Consolidated Fund within such limits, as may from time to time, be fixed by an Act of Legislature. A Fiscal Responsibility and Budget Management Act has been passed in February 2004, with the aim to reduce the fiscal deficit to not more than 3 *per cent* of the estimated GSDP within a period of five years. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

It would be observed that the over all fiscal liabilities of the State increased from Rs 80331 crore in 2000-2001 to Rs 131401 crore in 2004-05. These liabilities as ratio to GSDP increased from 44.4 *per cent* in 2000-01 to 55.8 *per cent* in 2004-05 and stood at around three and half times of its revenue receipts and more than seven times and its own resources comprising tax and non-tax revenue.

Table 21 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

Table 21 : Fiscal Imbalances–Basic Parameters

(Rupees in crore and Ratios in per cent)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---------|---------|---------|---------|---------|
| Fiscal Liabilities | 80331 | 92982 | 102485 | 119240 | 131401 |
| Rate of growth | 6.69 | 15.75 | 10.22 | 16.35 | 10.20 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP | 44.4 | 49.7 | 50.5 | 54.8 | 55.8 |
| Revenue Receipts | 324.7 | 363.2 | 368.4 | 376.9 | 349.3 |
| Own Resources | 621.5 | 767.4 | 698.1 | 750.7 | 713.6 |
| Buoyancy of Fiscal Liabilities to | | | | | |
| GSDP | 0.581 | 4.601 | 1.213 | 2.261 | 1.226 |
| Revenue Receipts | 0.443 | 4.558 | 1.177 | 1.192 | 0.540 |
| Own Resources | 0.505 | * | 0.483 | 1.995 | 0.640 |

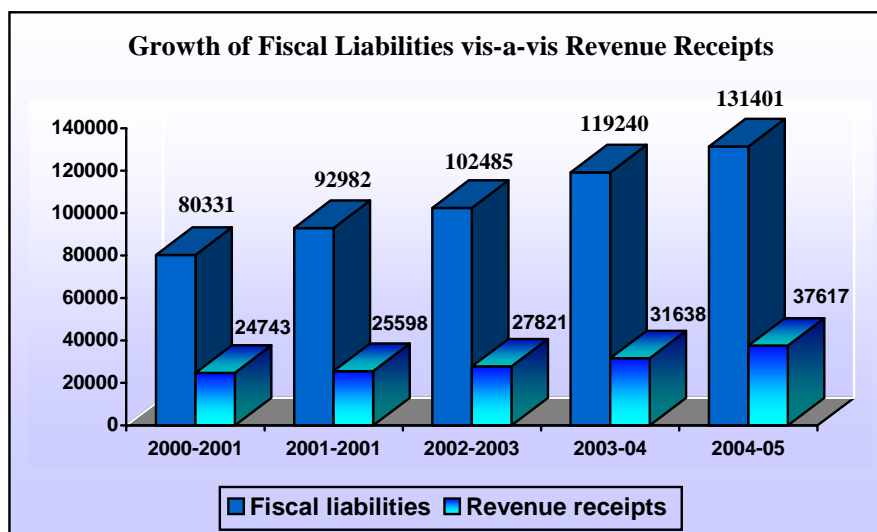
* Own resources in 2001-02 had a negative growth.

In addition to these liabilities, Government had guaranteed loans raised by various Corporations and others, which in 2004-05 stood at Rs 10354 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities were about three and half times the revenue receipts of the State. The fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP. Increasing liabilities had raised the issue of sustainability. One of the conditions of debt sustainability is the existence of a positive spread between the rate of growth of GSDP and the average interest rate.

Debt sustainability with reference to weighted interest rate, GDSP growth rate and interest spread is indicated in Table 22.

Table 22 : Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-------------------------------|---------|---------|---------|---------|---------|
| Weighted Interest Rate | 9.58 | 9.49 | 7.22 | 9.13 | 9.47 |
| GSDP Growth | 11.53 | 3.42 | 8.42 | 7.23 | 8.32 |
| Interest- spread | 1.95 | (-)6.06 | 1.20 | (-)1.90 | (-)1.15 |



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

The Government raised market loans of Rs 4867.16 crore during the year. The weighted average interest rate of market borrowings during the year was 9.47 *per cent*. The Government also borrowed Rs 7181.49 crore from National Small Saving Fund and Rs 2840.87 crore from Government of India. The net from the internal debt and loans and advances from Government of India after providing for the interest and repayments declined from 23 *per cent* to (-) 15 *per cent* during 2000-2005. It is evident that Government has repaid more than received under Public Debt.

Table 23 gives the position of the receipts and repayments of internal debt over the last 5 years.

Table 23: Net Availability of Borrowed Funds

(Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---------|---------|---------|---------|---------|
| Internal Debt* | | | | | |
| Receipts | 6734 | 7935 | 9282 | 19029 | 14597 |
| Repayments (Principal + Interest) | 2641 | 4467 | 3895 | 7545 | 10412 |
| Net Funds Available | 4093 | 3468 | 5387 | 11484 | 4185 |
| Net Funds Available (<i>per cent</i>) | 61 | 44 | 58 | 60 | 29 |
| Loans and Advances from Government of India | | | | | |
| Receipts | 3317 | 2757 | 3106 | 3081 | 2841 |
| Repayments (Principal + Interest) | 5080 | 5378 | 7747 | 10673 | 9640 |
| Net Funds Available | (-)1763 | (-)2621 | (-)4641 | (-)7592 | (-)6799 |
| Net Funds Available (<i>per cent</i>) | (-)53 | (-)95 | (-)149 | (-)246 | (-)239 |
| Total Public Debt | | | | | |
| Receipts | 10051 | 10692 | 12388 | 22110 | 17438 |
| Repayments (Principal + Interest) | 7721 | 9845 | 11642 | 18218 | 20052 |
| Net Funds Available | 2330 | 847 | 746 | 3892 | (-)2614 |
| Net Funds Available (<i>per cent</i>) | 23 | 8 | 6 | 18 | -- |

* Internal debt excluding ways and means advances

1.9 Management of deficits

1.9.1 Fiscal imbalances

The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health.

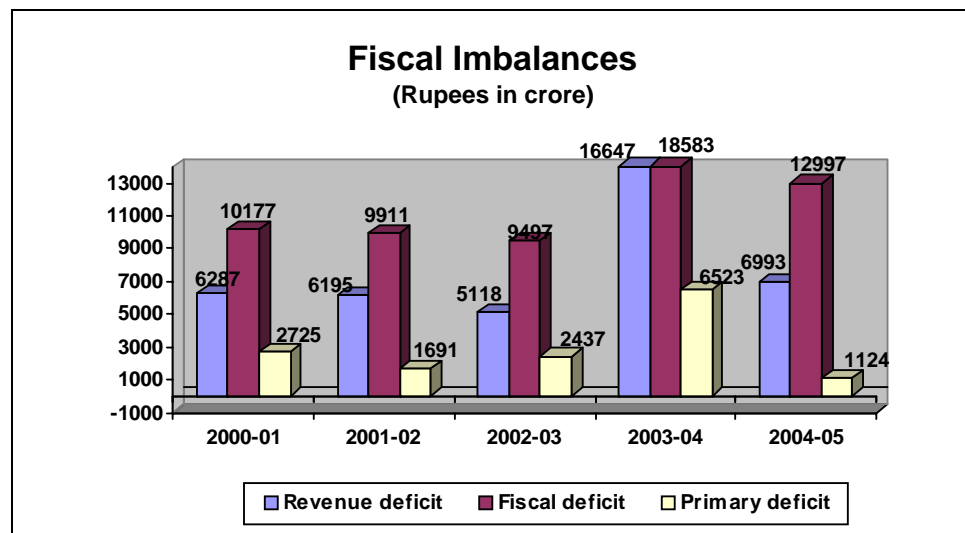
The Revenue deficit (Statement 1 of Finance Account) of the State is the excess of its revenue expenditure over revenue receipt. Revenue Deficit which was on a continuous decline from Rs 6287 crore in 2000-01 to Rs 5118 crore in 2002-03 increased to Rs 18583 crore in 2003-04 and again declined of Rs 6993 crore in 2004-05. The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased from

Rs 10177 crore in 2000-01 to Rs 12997 crore in 2004-05. The primary deficit decreased from Rs 2725 crore to Rs 1124 crore during the period.

Table 24: Fiscal Imbalances – Basic Parameters

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

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-----------------|---------|---------|---------|---------|---------|
| Revenue deficit | 6287 | 6195 | 5118 | 18583 | 6993 |
| Fiscal deficit | 10177 | 9911 | 9497 | 16647 | 12997 |
| Primary Deficit | 2725 | 1691 | 2437 | 6523 | 1124 |
| RD/GSDP | 3.47 | 3.31 | 2.52 | 8.54 | 2.97 |
| FD/GSDP | 5.62 | 5.30 | 4.68 | 7.65 | 5.51 |
| PD/GSDP | 1.51 | 0.90 | 1.20 | 3.00 | 0.48 |
| RD/FD | 61.78 | 62.51 | 53.89 | 111.63 | 53.80 |



The ratio of revenue deficit to fiscal deficit decreased from 61.78 *per cent* in 2000-01 to 53.80 *per cent* in 2004-05. As proportion to GSDP, revenue deficit has decreased from 3.47 in 2000-01 to 2.97 in 2004-05 and fiscal deficit from 5.62 in 2000-01 to 5.51 *per cent*. The persistent revenue deficit indicated that the revenue receipts of the State were not able to meet its current maintenance expenditure and Government had to borrow funds to meet its current obligations.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 25 below presents a summarized position of Government finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization. The ratio of revenue expenditure to total expenditure slightly declined to 87.66 during 2004-05 compared to 88.11 in 2000-01. The percentage of Developmental expenditure to total expenditure decreased from 52.34 (2000-01) to 50.66 (2004-05). The capital expenditure as percentage to total expenditure also decreased from 15.65 in 2003-04 to 11.25 in 2004-05.

However, as compared to 2000-01 (9.53 *per cent*) it had slightly improved during 2004-05.

Table 25: Ratios of Fiscal Efficiency (in *per cent*)

| Fiscal Ratios | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|----------|----------|----------|-----------|----------|
| Resources Mobilization | | | | | |
| Revenue Receipts/GSDP | 13.67 | 13.68 | 13.71 | 14.54 | 15.96 |
| Revenue Buoyancy | 1.311 | 1.010 | 1.031 | 1.898 | 2.271 |
| Own Tax / GSDP | 6.07 | 5.52 | 6.29 | 6.25 | 6.66 |
| Expenditure Management | | | | | |
| Total Expenditure/GSDP | 19.46 | 19.17 | 18.50 | 27.94 | 21.59 |
| Revenue Receipts/ Total Expenditure | 70.26 | 71.35 | 74.12 | 52.05 | 73.92 |
| Revenue Expenditure/Total Exp. | 88.11 | 88.62 | 87.75 | 82.62 | 87.66 |
| Capital Expenditure/TE | 9.53 | 10.06 | 10.33 | 15.65 | 11.25 |
| Developmental Expenditure/TE | 52.34 | 51.25 | 53.51 | 64.53 | 50.66 |
| Buoyancy of TE with RR | 0.475 | 0.542 | 0.533 | 4.514 | (-)0.861 |
| Buoyancy of RE with RR | 0.525 | 0.712 | 0.415 | 3.824 | (-)0.591 |
| Management of Fiscal Imbalances | | | | | |
| Revenue deficit (Rs in crore) | (-)6287 | (-)6195 | (-)5118 | (-)18583 | (-)6993 |
| Fiscal deficit (Rs in crore) | (-)10177 | (-)9911 | (-)9497 | (-)16647 | (-)12997 |
| Primary Deficit (Rs in crore) | (-)2725 | (-)1691 | (-)2437 | (-)6523 | (-)1124 |
| Revenue Deficit/Fiscal Deficit | (-)61.78 | (-)62.51 | (-)53.89 | (-)111.63 | (-)53.80 |
| Management of Fiscal Liabilities | | | | | |
| Fiscal Liabilities/GSDP | 44.4 | 49.7 | 50.5 | 54.8 | 55.8 |
| Fiscal Liabilities/RR | 324.7 | 363.2 | 368.4 | 376.9 | 349.3 |
| Buoyancy of FL with RR | 0.443 | 4.558 | 1.177 | 1.192 | 0.540 |
| Buoyancy of FL with OR | 0.505 | (-)2.519 | 0.483 | 1.995 | 0.640 |
| Other Fiscal Health Indicators | | | | | |
| Return on Investment | 6.27 | 6.24 | 7.26 | 7.40 | -- |
| BCR ¹ (Rs in crore) | (-)3895 | (-)4147 | (-)1918 | (-)15401 | (-)3413 |
| Financial Assets/Liabilities | 0.57 | 0.56 | 0.55 | 0.46 | 0.45 |

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large revenue and fiscal deficit year after year, together with low or no return on investments indicated that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicates its increasing unsustainability. The State's continuous declining low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. Financial liabilities constituted 55.8 *per cent* of the GSDP and net availability from borrowed funds during 2004-05 was negative. The ratio of the State's financial assets to liabilities was lowest at 0.45 in 2004-05. A greater part of liabilities was therefore, without any asset back-up. This indicates that either the State has to generate more revenue out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance of current revenue (BCR) of the State also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of funds for additional infrastructure support and other revenue generating investment.

¹ Balance from the current revenues.