

CHAPTER-I

Finances of the State Government

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix 1.1- Part A*). The Finance Accounts of the Government of Uttar Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Uttar Pradesh. The lay out of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Uttar Pradesh for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/ disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non Plan	Plan	Total
45,349.15	I. Revenue receipts	60,599.52	46,617.14	I. Revenue expenditure	46,000.42	9,698.48	55,698.90
18,858.10	Tax revenue	22,997.97	20,919.68	General services	24,180.50	118.82	24,299.32
2,930.32	Non-tax revenue	6,532.64	15,609.70	Social services	11,879.62	7,368.44	19,248.06
18,202.93	Share of union taxes/duties	23,218.31	7,755.84	Economic services	7,198.05	2,211.22	9,409.27
5,357.80	Grants from Government of India	7,850.60	2,331.92	Grants-in-aid and contributions	2,742.25	----	2,742.25
Section-B: Capital							
----	II. Misc. capital receipts	----	8,711.23	II. Capital outlay	671.64	13,312.49	13,984.13
585.05	III. Recoveries of loans and advances	355.64	683.84	III. Loans and advances disbursed	325.69	561.86	887.55
14,257.46*	IV. Public debt receipts	11,711.50	5,252.34**	IV. Repayment of public debt	5,912.08	----	5,912.08
298.52	V. Contingency fund	644.79	182.77	V. Contingency fund	9.57	----	9.57
52,528.51	VI. Public account receipts	63,075.25	43,171.84	VI. Public account disbursements	52,901.28	----	52,901.28
95.16	Opening cash balance	8,494.69	8,494.69	Closing cash balance	15,487.88	----	15,487.88
1,13,113.85	Total	1,44,881.39	1,13,113.85	Total			1,44,881.39

* Excluding ways and means advances and overdraft

** Includes net transaction of Rs. 25.48 crore under WMA

Following are the significant changes during 2006-07 over the previous year;

- Revenue receipts grew by Rs. 15,251 crore over the previous year. The increase is mainly contributed by tax revenue (Rs. 4,140 crore), non-tax revenue (Rs. 3,603 crore) and State's share of union taxes and duties (Rs. 5,015 crore).
- Revenue expenditure and capital expenditure increased by Rs. 9,082 crore and Rs. 5,273 crore respectively over the previous year.
- Recoveries of loans and advances decreased from Rs. 585 crore in 2005-06 to Rs. 356 crore in 2006-07 as against an increase of Rs. 204 crore in disbursement (Rs. 888 crore) over the previous year.
- Public debt receipts decreased by Rs. 2,546 crore over previous year mainly due to decrease in internal debt receipts. Repayment of public debt, however, increased by Rs. 659.74 crore over the previous year.
- Public account receipts and disbursements increased by Rs. 10,547 crore and Rs. 9,729 crore respectively over the previous year.
- Cash balance of the State Government increased by Rs. 6993 crore over the previous year.

1.1.2 State fiscal position by key indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table-1.2**

Table- 1.2

(Rupees in crore)

2005-06	Sl. No.	Major aggregates	2006-07
45,349	1.	Revenue receipts (2+3+4)	60,600¹
18,858	2.	Tax revenue (Net)	22,998
2,930	3.	Non-tax revenue	6,533
23,561	4.	Other receipts	31,069
585	5.	Non-debt capital receipts	356
585	6.	<i>Of which</i> Recovery of loans	356
45,934	7.	Total receipts (1+5)	60,956
40,816	8.	Non-plan expenditure	46,998
40,172	9.	on Revenue account	46,000
9,098	10.	<i>Of which</i> Interest payments	10,477
539	11.	on Capital account	672
105	12.	Loans and advances disbursed	326
15,196	13.	Plan expenditure	23,573
6,445	14.	on Revenue account	9,699
8,172	15.	on Capital account	13,312
579	16.	Loans and advances disbursed	562
56,012	17.	Total expenditure (13+8)	70,571²
(-) 1,268	18.	Revenue deficit (-)/ surplus (+) [1-(9+14)]	(+) 4,901
(-) 10,078	19.	Fiscal deficit (-)/ surplus (+) (1+5-17)	(-) 9,615
(-) 980	20.	Primary deficit (-)/ surplus (+) [7-(17-10)]	(+) 862

¹ Includes the adjustments of Rs. 344.12 crore released by GOI under central assistance during earlier years.

² Includes the adjustments of Rs. 320.24 crore as final expenditure due to clearance of departmental adjusting account and recoupment to the State contingency fund for the period 1992-2006.

During the current year, revenue receipts increased by Rs 15,251 crore (33.63 per cent), whereas revenue expenditure increased by Rs 9,082 crore (19.48 per cent) over the previous year resulting in an increase of Rs 6,169 crore as surplus in revenue account from the deficit of Rs 1268 crore in 2005-06. Given the incremental revenue surplus along with a decline of Rs 229 crore; an increase Rs 5,273 crore (60.53 per cent) in capital expenditure as well as Rs 204 crore in disbursement of loans and advances resulted a decline of Rs 463 crore in fiscal deficit in the current year from the level of Rs 10,078 crore in 2005-06. The decline in fiscal deficit accompanied with an increase of Rs 1,379 crore in interest payments resulted in a primary surplus of Rs 862 crore from the deficit of Rs 980 crore in the previous year.

The improvement in fiscal position of the State in terms of the revenue surplus during 2006-07 should however be assessed keeping in view the fact that debt waiver of Rs 2,127.42 crore booked in the Finance Accounts of 2006-07 is inclusive of Rs 1,063.71 crore pertaining to 2005-06

1.2 Methodology adopted for the assessment of fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as they emerge from the Statements of Finance Accounts were analyzed over a period from 2001-02 to 2006-07. The norms/ ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in their Fiscal Responsibility and Budget Management Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP¹ as published by the Director of Economics and Statistics of Uttar Pradesh (**Table- 1.3**) is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. For revenue receipts, expenditure, etc. buoyancy projections are provided to estimate the range of fluctuations with reference to the base represented by the GSDP. The key fiscal aggregates for the purpose are grouped under four major heads: (i) trends and composition in aggregate receipts,, (ii) application of resources, (iii) assets and liabilities, and (iv) management of deficits. Observations made also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State 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. In addition, selected indicators of financial performance of the Government are listed in this section; some of the terms used in this context are explained in *Appendix 1.1.-Part C*. Summarised financial position of the State Government as on 31 March 2007, abstract of receipts and disbursement for the year 2006-07, sources and application of funds and the time series data on State Government finances are given in *Appendices 1.2 to 1.5*.

¹ GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production.

Table- 1.3 Trends in growth and composition of GSDP

Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP (Rs in crore)	1,90,407	2,05,395	2,24,859	2,42,282	2,73,785*	3,11,709**
GSDP (Rate of growth in <i>per cent</i>)	5.18	7.87	9.48	7.75	13.00	13.85

* *Quick estimates*, ** *Advance estimates*.

1.2.1 The Uttar Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2004

The State Government enacted the Uttar Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2004 to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on borrowings, government guarantees, debt and deficits, greater transparency in fiscal operations and use of a medium term fiscal frame work and for matters connected therewith or incidental thereto. The Government was also made responsible to lay Medium Term Fiscal Restructuring Policy (MTFRP) along with the annual budget in each financial year in the House, setting forth a five year rolling targets for the prescribed fiscal indicators and make rules for carrying out the provisions of the Act. FRBM Rules were notified in October 2006.

The following fiscal targets were set therein for the State Government to give effect to the fiscal management principle as laid down in the Act:

- Reduce revenue deficit to nil within a period of five financial years beginning from 1st day of April 2004 and ending on 31st day of March 2009.
- Reduce fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product (GSDP) by 31 March 2009.
- Ensure within a period of 14 financial years beginning from the initial financial year on 1st day of April 2004 and ending on the 31st March 2018, that the total liabilities at the end of last financial year do not exceed twenty five *per cent* of the estimated GSDP for that year.
- Ensure not to give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of the Act or any rules or law to be made by the State Government subsequent to coming into force of this Act.

Further the revenue deficit and fiscal deficit may not exceed the limits specified in the Act except on the ground(s) of unforeseen demands arising out of internal disturbances or natural calamities subject to the condition that the excess does not exceed the actual fiscal cost attributed to the calamities.

1.2.2 Fiscal Policy Statement 2006-07

In light of the recommendations of the TFC, the State Government developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome

indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix 1.6*) keeping in view the fiscal targets laid down in FRBM Act and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award.

The State Government has laid (February 2006) the FCP for the period 2005-10 before the State Legislature along with the annual budget for 2006-07, which *inter alia* contained:

- macro economic framework statement giving an overview of State economy.
- medium term fiscal restructuring policy statement prescribing fiscal targets and assumptions for achieving them.
- fiscal policy of the State for the ensuing years relating to taxation, expenditure, borrowings etc.
- the expenditure of the State Government towards salaries, pensions and interest payments.

1.2.3 Mid Term Review of Fiscal Situation

As per the half yearly review report, placed before State Legislature in compliance with section 6 (2) of FRBM Act 2004, the revenue collection to the end of September 2006 was below the target while the revenue and capital expenditure were kept within the target levels. However, due to constant efforts made to correct fiscal imbalance, the revenues realized (Rs 29,531 crore) up to the end of March 2007 exceeded the targets projected (Rs 25,281.90 crore) in the FCP and assessment (Rs 25,395.88 crore) of TFC but was well below to the budget estimates (Rs 35,092.50 crore). The revenue expenditure (Rs 55,699 crore) exceeded the targets projected in FCP (Rs 54,256 crore) and the budget estimates (Rs 55,021.23 crore). Non-plan revenue expenditure (NPRES) was Rs 46,000 crore which exceeded the assessment (Rs 37,140.59 crore) of TFC by Rs 8,859.41 crore for the year.

The State achieved fiscal target of reducing the revenue deficit laid down in the Act, two years ahead, with the current year ending in revenue surplus of Rs 4,901 crore. The fiscal deficit of Rs 9,615 crore was 3.08 *per cent* of GSDP indicating an improvement over the projection of 4.08 *per cent* in FCP. The ratio of outstanding fiscal liabilities to GSDP increased to 52.02 *per cent* against the projection of 50.1 *per cent* in FCP. However, the State Government received debt relief of Rs 2,127.42 crore during 2006-07 from the Government of India, under debt consolidation and Relief facility¹ due to the overall improvement in the fiscal indicators.

¹ In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme “**The States’ Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)**” under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

1.3 Trends and composition of aggregate receipts

The aggregate receipts of State 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 Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table- 1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs 1,36,387 crore. Of these, the revenue receipts were Rs 60,600 crore constituted 44 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from contingency funds and public account (*Appendix 1.5*)

Table- 1.4 Trends in growth and composition of aggregate receipts

(Rupees in crore)						
Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue receipts	25,598	27,821	31,638	37,617	45,349	60,600
II Capital receipts	11,749	12,,609	34,608	17,741	14,842	12,067
Recovery of loans and advances	366	219	12,498	278	585	356
Public debt receipts	11,383	12,390	22,110	17,463	14,257	11,711
Miscellaneous capital receipts	----	----	----	----	----	----
III Contingency fund	81	----	52	76	299	645
IV Public account receipts	36,965	37,327	46,875	45,213	52,529	63,075
a. Small savings, Provident fund <i>etc.</i>	1,935	3,116	3,124	3,226	3,605	4,858
b. Reserve fund	1,667	1,829	2,222	2,710	3,182	3,074
c. Deposits and advances	11,020	6,689	12,760	12,395	16,549	15,249
d. Suspense and miscellaneous	28,362	23,854	24,072	21,787	20,952	27,430
e. Remittances	(-) 6,019	1,839	4,697	5,095	8,241	12,464
Total receipts	74,393	77,757	1,13,173	1,00,647	1,13,019	1,36,387

The revenue and capital receipts constituted 44 and 9 *per cent* of total receipts respectively. However, other receipts came from Public Accounts and Contingency Funds. The total receipts of the State increased from Rs 74,393 crore in 2001-02 to Rs 1,36,387 crore in 2006-07. The Debt capital receipts which create future repayment obligation increased sharply from Rs 12,390 crore in 2002-03 to Rs 22,110 crore in 2003-04 but went down to Rs 11,711 crore in 2006-07 after showing a declining trend.

1.3.1 Revenue receipts

Statement – 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts of the GSDP and its buoyancies are indicated in **Table – 1.5**.

Table- 1.5 Revenue receipts - Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue receipts (RR) (Rupees in crore)	25,598	27,821	31,638	37,617	45,349	60,600
Own taxes (<i>per cent</i>)	10,330 (40.35)	12,767 (45.89)	13,601 (42.99)	15,693 (41.72)	18,858 (41.58)	22,998 (37.95)
Non-tax revenue (<i>per cent</i>)	1,787 (6.98)	1,913 (6.88)	2,282 (7.21)	2,720 (7.23)	2,930 (6.46)	6,533 (10.78)
Central tax transfers (<i>per cent</i>)	10,189 (39.80)	10,832 (38.93)	13,273 (41.95)	15,055 (40.02)	18,203 (40.14)	23,218 (38.31)
Grants-in-aid (<i>per cent</i>)	3,292 (12.86)	2,309 (8.30)	2,482 (7.85)	4,149 (11.03)	5,358 (11.82)	7,851 (12.96)
Rate of growth of RR (<i>per cent</i>)	3.46	8.68	13.72	18.90	20.55	33.63
RR/GSDP (<i>per cent</i>)	13.44	13.55	14.07	15.53	16.56	19.44
Revenue buoyancy (ratio)¹	0.668	1.103	1.447	2.439	1.581	2.428
State's own taxes buoyancy (ratio)	(-) 1.143	2.997	0.689	1.985	1.552	1.585
Revenue buoyancy with reference to State's own taxes (ratio)	(-) 0.584	0.368	2.100	1.229	1.019	1.532
GSDP growth (<i>per cent</i>)	5.18	7.87	9.48	7.75	13.00	13.85

General trends

The revenue receipts have shown an increasing trend over the period 2001-06 with only marginal changes in its composition i.e. the share of own taxes, non-tax revenue and central tax transfers. The rate of growth of 33.63 *per cent* in revenue receipts during 2006-07 over the previous year was mainly on account of increase in State's own taxes (22 *per cent*), non-tax revenue (123 *per cent*) and central tax transfers (28 *per cent*). However, share of own taxes in revenue receipt decreased from 41.58 *per cent* in 2005-06 to 37.95 *per cent* in 2006-07 where as relative share of non-tax revenue, it increased from 6.46 *per cent* to 10.78 *per cent* over the previous year. The revenue buoyancy ratio improved significantly from 1.581 in 2005-06 to 2.428 in 2006-07. The revenue buoyancy with reference to States' own taxes also increased form 1.019 in 2005-06 to 1.532 in 2006-07 which indicated that growth rate of revenue receipts was faster than increase in the growth rate of States' own taxes during the year.

Tax revenue

The tax revenue (Rs 22,998 crore) increased by 22 *per cent* during current year over previous year (Rs 18,858 crore). However, its percentage in revenue receipts went down from 42 *per cent* in 2005-06 to 38 *per cent* in current year. The revenue from trade tax not only contributed major share of tax revenue (58 *per cent*) but also increased 18 *per cent* over the previous year. However, Value Added Tax (VAT) was not implemented in the State during the year. Stamps and registration (20 *per cent*), state excise (15 *per cent*) and taxes on

¹ Buoyancy ratio indicates the elasticity or responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 2.42 during 2006-07 implies that revenue receipts tend to increase by 2.42 percentage points if the GSDP increases by one *per cent*.

vehicles (four *per cent*) remained other major constituents of States' own tax revenue. **Table- 1.6** below shows the trend of tax revenue during 2001-07.

Table- 1.6 Tax revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Land revenue	73	64	118	102	109	188
Stamps and registration	1,429	2,079	2,296	2,682	2,997	4,514
State excise	1,961	2,555	2,472	2,686	3,089	3,551
Trade tax/Sales tax	6,163	7,124	7,684	8,888	11,285	13,279
Taxes on vehicles	503	619	677	776	965	1,018
Other taxes*	201	326	354	559	413	448
Total	10,330	12,767	13,601	15,693	18,858	22,998

* Other Taxes: includes taxes on income and expenditure, taxes on immovable property other than agriculture land, taxes on goods and passengers, taxes on duties and electricity, other taxes on duties and commodities and services.

The increase of Rs 1,517 crore in stamps and registration was mainly due to increase of Rs 1,288 crore in sale of judicial stamps.

Non-tax revenue

Non-tax revenue which constituted 10.78 *per cent* of total revenue receipts increased by Rs 3,603 crore recording a growth of 123 *per cent* over the previous year. The steep increase in non-tax revenue was mainly on account of booking of Rs 2,127.42 crore received as debt waiver from GOI under DCRF under miscellaneous general receipts. The other areas where substantial increases were observed include power (Rs 1,012.31 crore), interest receipts, dividends and profits (Rs 372.13 crore), police (Rs 112.94 crore), and medium irrigation (Rs 89.51 crore).

The States' own resources mobilization vis-à-vis assessments made by TFC and State Government for the year 2006-07 are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in fiscal correction path	Actual
	(1)	(2)	(3)
Tax Revenue	22,413.41	22,640.00	22,997.97
Non-Tax revenue	2,982.47	2,641.90	6,532.64

Both tax and non- tax revenue have exceeded the normative assessed level of TFC and the projection of the State Government in FCP. A significant increase in non tax revenue was mainly due to the contra entry of debt waiver under miscellaneous general services.

Central Tax Transfers

The central tax transfers increased by Rs 5,015 crore over the previous year and constituted 38 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 2,220.66 crore), taxes on income other than

corporation tax (Rs 857.61 crore), customs and duties (Rs 979.88 crore) and service tax (Rs 885.17 crore).

Grants-in-aid

The grants-in aid from Government of India (GOI) increased from Rs 5,358 crore in 2005-06 to Rs 7,851 crore in the current year. The increase was mainly under State plan scheme (Rs 921.33 crore), non-plan grants (Rs 667.30 crore) and centrally sponsored schemes (Rs 910.52 crore) partly off set by decrease in central plan schemes (Rs 6.35 crore). The substantial increase of Rs 922 crore in grant for State plan schemes over the previous year was mainly due to increase of Rs 537 crore under block grants. Within the category of centrally sponsored schemes, a major share (Rs 476 crore) of the total increase of Rs 910 crore went to elementary education during the year. Against the recommendations of TFC for Rs 3101.49 crore in 2006-07 for non- plan specific purposes¹ (Rs 2184.13 crore), assistance to local bodies (Rs 689 crore) and natural calamities (Rs 228.36 crore), the GOI released full grants in respect of education, medical and health, maintenance of roads and bridges, heritage conservation and forestry and wild life as per recommendations of TFC. Only 50 *per cent* (Rs 75.03 crore) of the grants for maintenance of public buildings were released during the year. Under the allocations for specific needs of the State, grant of Rs 175 crore for the development of Purvanchal and Bunelkhand area was not released during the year. In addition, the second installment of Rs 292.80 crore for 2006-07 in respect of grants-in aid to Panchayati Raj Institutions was also not released. Details of grants-in-aid from GOI are given in **Table- 1.7**

Table- No- 1.7 Grants-in-aid from GOI

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	1,994	1,223	1,347	2,400	1,916	2,838
Non plan grants	453	425	569	335	2,027	2,694
Grants for central schemes	80	123	36	190	159	153
Grants for centrally sponsored schemes	765	538	530	1224	1256	2166
Total	3,292	2,309	2,482	4,149	5,358	7,851
Percentage of increase/ decrease over previous year	18.72	(-) 29.86	7.49	67.16	29.14	46.53

1.4 Application of resources

1.4.1 Growth of expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from

¹ Education: Rs. 806.87 crore, Health sector: Rs. 409.90 crore, Roads and Bridges: Rs. 600.79 crore, maintenance of public buildings: Rs. 150.07 crore, conservation of forest: Rs. 4 crore, conservation of historical monuments: Rs. 12.50 crore and specific needs of the State: Rs. 200 crore.

Rs 35,875 crore in 2001-02 to Rs. 70,571 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State's GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.8**

Table-1.8: Total expenditure – Basic Parameters
(Value Rupees in crore and others in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE)* (Rupees in crore)	35,875	37,537	60,783	50,892	56,012	70,571
Rate of growth (per cent)	1.87	4.63	61.93	(-) 16.27	10.06	25.99
TE/GSDP Ratio (per cent)	18.84	18.28	27.03	21.01	20.46	22.64
RR /TE ratio (per cent)	71.35	74.12	52.05	73.92	80.96	85.87
Buoyancy of total expenditure with reference to:						
GSDP (ratio)	0.361	0.588	6.533	--	0.774	1.877
RR (ratio)	0.540	0.533	4.514	--	0.490	0.773

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

The total expenditure during the current year increased by Rs. 14,559 crore over the previous year of which revenue expenditure shared Rs. 9,082 crore, capital expenditure contributed Rs. 5,273 crore followed by disbursement of loans and advances (Rs. 204 crore). During the current year, 86 per cent of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.88 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

The total expenditure sharply increased from Rs. 35,875 crore in 2001-02 to Rs. 60,783 crore in 2003-04. It fell to Rs. 50,892 crore in 2004-05 reaching Rs. 70,571 crore in 2006-07. The revenue expenditure increased by Rs. 3,379.65 crore in general services, Rs. 3,638.36 crore in social services and Rs. 1,653.43 crore in economic services over the previous year. The capital expenditure also increased substantially by Rs. 3,911.63 crore in economic services where as it increased by Rs. 1,021 crore in social services.

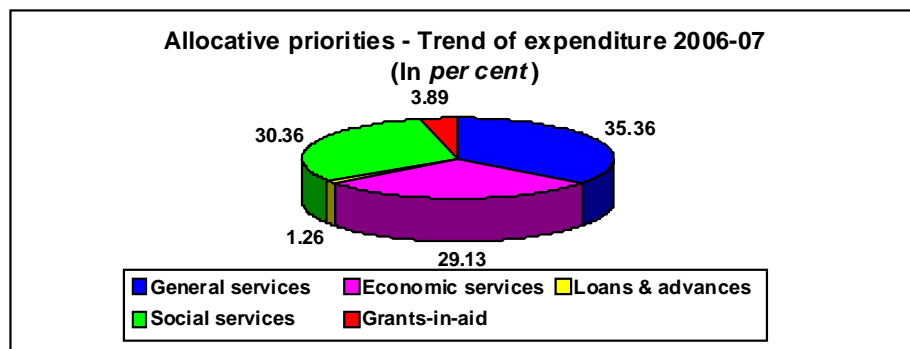
Trends in total expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.9**

Table-1.9: Components of expenditure – Relative share

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General services	45.45	42.39	32.52	45.23	37.91	35.36
<i>Of which Interest payments</i>	22.91	18.81	16.66	23.33	16.24	14.85
Social services	26.61	28.23	17.58	26.70	29.94	30.36
Economic services	23.88	24.13	45.63	23.34	26.77	29.13
Grants-in-aid	2.59	3.11	2.23	3.49	4.16	3.89
Loans and advances	1.47	2.14	2.04	1.24	1.22	1.26



The share of total expenditure in general services declined from 45.45 *per cent* in 2001-02 to 35.36 *per cent* in 2006-07 with inter year variations. However, the expenditure on social services in terms of total expenditure is went up from 26.70 *per cent* in 2004-05 to 30.36 *per cent* in 2006-07. Similar was the position in respect of economic services where it registered an improvement from 23.34 *per cent* in 2004-05 to 29.13 *per cent* in 2006-07. The increase in economic services was mainly due to three fold increase in plan capital expenditure. The disbursement of loans and advances ranged between 1.22 *per cent* and 2.14 *per cent* during 2001-07.

1.4.2 Incidence of revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such, does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.10**.

Table-1.10: Revenue expenditure: Basic parameters

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue expenditure (RE)	31,793	32,939	50,221	44,610	46,617	55,699
<i>Of which</i>						
Non-plan revenue expenditure (NPRE)	28,232	29,364	46,945	39,512	40,172	46,000
Plan revenue expenditure (PRE)	3,561	3,575	3,276	5,098	6,445	9,699
Rate of growth (<i>per cent</i>)						
NPRE	3.25	4.01	59.87	(-) 15.83	1.67	14.51
PRE	(-) 3.39	0.39	(-) 8.36	55.62	26.42	50.49
NPRE/GSDP (<i>per cent</i>)	14.83	14.30	20.88	16.31	14.67	14.76
NPRE as <i>per cent</i> of TE	78.70	78.23	77.23	77.64	71.72	65.18
NPRE as <i>per cent</i> of RR	110.29	105.55	148.38	105.04	88.58	75.91
Buoyancy of revenue expenditure with						
GSDP (ratio)	0.475	0.458	5.535	----	0.346	1.406
Revenue receipts (ratio)	0.712	0.415	3.824	----	0.219	0.579

The revenue expenditure increased by 75 *per cent* from Rs. 31,793 crore in 2001-02 to Rs. 55,699 crore in 2006-07. The NPRE continued to share the dominant portion of revenue expenditure ranging between 83 and 89 *per cent*

during 2001-07 except for 2003-04 (93.48 *per cent*) in which it increased sharply by 59.87 *per cent* over the preceding year due to write off of power sector loans (Rs. 12,277.40 crore). The plan revenue expenditure on the other hand reflected wide fluctuations varying from a decline of 8.36 *per cent* in 2003-04 to an increase of 50.49 *per cent* during the current year. The increase in NPRE during the current year was mainly due to increase in salaries (Rs. 2,079.28 crore), pension (Rs. 858.79 crore) and interest payments (Rs. 1,379 crore). The increase in PRE by Rs. 3,254 crore over the previous year was mainly due to increase in education, sports, art and culture (Rs. 985.93 crore), social welfare and nutrition (Rs. 833.22 crore), water supply, sanitation, housing and urban development (Rs. 373.66 crore), rural development (Rs. 388.18 crore) etc.

The actual non-plan revenue expenditure vis-à-vis assessments made by TFC and State Government for 2006-07 is given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in fiscal correction path	Actual NPRE
	(1)	(2)	(3)
Non-plan revenue expenditure	37,140.59	47,972.97	46,000

Although NPRE was maintained below the assessment of the Government in its Fiscal Correction path for the year, it was significantly on higher side by Rs. 8,859.41 crore over the TFC assessment of Rs. 37,140.59 crore.

1.4.3 Committed expenditure

Expenditure on salaries and wages

The trends in expenditure on salaries both under plan and non-plan heads are presented in **Table- 1.11**

Table-1.11: Expenditure on salaries

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on salaries & wages *	11,243.96	12,348.12	13,603.83	14,332.85	15,652.87	17,946.02
<i>Of which</i>						
Non-plan head	10,804.50	11,895.75	13,107.81	13,767.48	15,125.08	17,204.36
Plan head**	439.46	452.37	496.02	565.37	527.79	741.66
As per cent of GSDP	5.90	6.01	6.05	5.92	5.72	5.76
As per cent of RR	43.93	44.38	43.00	38.10	34.52	29.61

* Expenditure under 01- salaries, 02- wages, 03- dearness allowances, 06- other allowances, 38- interim relief, 50- dearness pay and 43- grants in aid towards salaries under revenue and capital sections of both non plan and plan.

** Plan head also includes the salaries and wages paid under Centrally Sponsored Scheme.

The expenditure on salaries and wages under plan and non-plan during the current year was Rs. 741.66 crore and Rs. 17,204.36 crore recording a growth rate of 40.52 *per cent* and 13.75 *per cent* respectively. The salary expenditure however, exceeded the projected expenditure (Rs. 16,303.01 crore) in the FCP by Rs. 1,643.01 crore. The total salary bill relative to revenue expenditure net

of interest payments and pension payments during 2006-07 was 44.45 *per cent* which was in excess to the norm of 35 *per cent* recommended by the TFC.

Pension payment

Table- 1.12: Expenditure on pensions

(Rupees in crore)						
Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on pensions	2,391.74	2,751.13	2,900.10	3,561.15	3,990.80	4,849.59
Rate of growth	10.56	15.03	5.41	22.79	12.06	21.52
As per cent of GSDP	1.26	1.34	1.29	1.47	1.46	1.56
As per cent of RR	9.34	9.89	9.17	9.47	8.80	8.00
As per cent of RE	7.52	8.35	5.77	7.98	8.56	8.71

The pension payments during the current year have increased by Rs. 858.79 crore recording a growth rate of 21.52 *per cent* over the previous year. The comparative analysis of actual pension payments and assessment/projections made by TFC and State Government (**Table- 1.13**) reveals that actual pension payment was within the limits of the assessments of TFC and the projected expenditure in FCP.

Table- 1.13: Actual pension payments vis-à-vis projections

(Rupees in crore)			
	Assessments made by TFC	Assessments made by State Government in fiscal correction path	Actual Exp. on pensions
	(1)	(2)	(4)
Pension payments	5,013.34	5,021.87	4,849.59

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

Interest payments

The interest payments and its percentage as total RR and RE are depicted in the following table:

Table-1.14: Interest payments

Year	Total revenue receipts	Total revenue expenditure	Interest payments	Percentage of interest payments with reference to	
				Total revenue receipts	Revenue expenditure
(Rs. in crore)					
2001-02	25,598	31,793	8,220	32	26
2002-03	27,821	32,939	7,060	25	21
2003-04	31,638	50,221	10,124	32	20
2004-05	37,617	44,610	11,873	32	27
2005-06	45,349	46,617	9,098	20	20
2006-07	60,600	55,699	10,477	17	19

The major source of borrowings was market loans at the interest rates varying from six *per cent* to 14 *per cent*. Interest payments with reference to total revenue receipts came down from 32 *per cent* in 2001-02 to 17 *per cent* in 2006-07 whereas it ranged between 19 *per cent* and 27 *per cent* in terms of revenue expenditure. The decrease of Rs. 2,775 crore in 2005-06 in interest payment was mainly due to rescheduling and lowering of the rate of interest of high cost GOI loans to 7.5 *per cent* as per recommendations of TFC. The

increase in interest payments in 2006-07 over the previous year was mainly due to increase of Rs. 718.16 crore in payment of interest on special securities issued to National Small Savings Fund of the GOI by the State Government. However, the interest payments (Rs. 10,477 crore) during 2006-07 were less than that anticipated in the State's Own Fiscal Correction Path (Rs. 11,299 crore) for the year but were above to the assessment (Rs. 9,688.60 crore) of the TFC.

Subsidies

Though the Government was paying subsidy to various corporations etc., the State budget was not being prepared to exhibit subsidies as a distinct item despite the recommendations of TFC to account for these transactions in the Finance Accounts.

1.5 Expenditure by allocative priorities

1.5.1 Quality of expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure.

Table- 1.15 gives these ratios during 2001-07.

Table- 1.15 – Indicators of quality of expenditure

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital expenditure	3,556	3,794	9,320	5,653	8,711	13,984
Revenue expenditure	31,793	32,939	50,221	44,610	46,617	55,699
<i>Of which</i>						
Social and economic services with	14,686.32	16,191.25	29,324.05	20,066.00	23,365.55	28,657.33
(i) Salary & wage component	3,347.61	3,643.65	3,987.05	4,161.84	4,377.92	4,863.73
(ii) Non-salary & wage component	11,338.71	12,547.60	25,337.00	15,904.16	18,987.63	23,793.60
As per cent of total expenditure						
Capital expenditure	9.91	10.11	15.33	11.11	15.55	19.82
Revenue expenditure	88.62	87.75	82.62	87.66	83.23	78.93
As per cent of GSDP						
Capital expenditure	1.87	1.85	4.14	2.33	3.18	4.49
Revenue expenditure	16.70	16.04	22.33	18.41	17.03	17.87

Though no specific norms were laid down for prioritization of capital expenditure, the progressive increase in capital expenditure during the last two years indicates the improvement in quality of expenditure and impetus is being given to asset formation. Energy (Rs. 3,083.75 crore), transport (Rs. 4,557.30 crore), health and family welfare (Rs. 1,481.67 crore) and irrigation and flood control (Rs. 2,373.13 crore) were beneficiary sectors where expenditure was absorbed. The non-salary and wages component constituted 83 per cent of revenue expenditure under social and economic

services. The capital expenditure was 4.49 per cent of GSDP during 2006-07 against its projection for 3.39 per cent in its FCP for the year. There was an increase of Rs. 4,214 crore in capital expenditure (Rs. 13,984 crore) over the projection of Rs. 9,770 crore in FCP.

1.5.2 Expenditure on social services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with the eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table- 1.16** gives these ratios during 2001-07.

Table- 1.16: Expenditure on social services

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education, sports, art and culture	6,088.10	6,137.28	6,315.77	7,379.08	9,112.03	11,001.77
Revenue expenditure	6,042.38	6,067.05	6,254.58	7,272.46	8,789.90	10,704.44
<i>Of which</i>						
(a) Salary & wage component	321.88	370.91	379.32	392.47	426.20	491.39
(b) Non-Salary & wage component ¹	5,720.50	5,696.14	5,875.26	6,879.99	8,363.70	10,213.05
Capital expenditure	45.72	70.23	61.19	106.62	322.13	297.33
Health and family welfare	1,376.51	1,579.27	1,896.57	2,254.89	3,067.43	4,301.83
Revenue expenditure	1,356.11	1,565.01	1,753.85	2,037.25	2,595.61	2,820.16
<i>Of which</i>						
(a) Salary & wage component	1,009.24	1,128.86	1,306.75	1,395.56	1,497.28	1,615.85
(b) Non-Salary & wage component	346.87	436.15	447.10	641.69	1,098.33	1,204.31
Capital expenditure	20.40	14.26	142.72	217.64	471.82	1,481.67
Water supply, sanitation, housing and urban development	710.04	514.98	593.31	692.41	1,520.51	1,507.41
Revenue expenditure	614.39	484.32	528.18	564.64	753.34	1,188.37
<i>Of which</i>						
(a) Salary & wage component	5.39	5.78	6.46	6.88	7.24	8.71
(b) Non-Salary & wage component	609.00	478.54	521.72	557.76	746.10	1,179.66
Capital expenditure	95.65	30.66	65.13	127.77	267.17	319.04
Other social services	1,373.00	2,364.70	1,877.56	3,259.55	3,568.57	4,616.88
Revenue expenditure	1,323.71	2,191.66	1,817.74	3,215.37	3,470.86	4,535.09
<i>Of which</i>						
(a) Salary & wage component	190.81	213.72	222.52	232.94	257.11	294.81
(b) Non-Salary & wage component	1,132.90	1,977.94	1,595.22	2,982.43	3,213.75	4,240.28
Capital expenditure	49.29	173.04	59.82	44.18	97.71	81.79
Total (social services)	9,547.65	10,596.23	10,683.21	13,585.93	16,768.54	*21,427.89(31)
Revenue expenditure	9,336.59	10,308.04	10,354.35	13,089.72	15,609.71	19,248.06
<i>Of which</i>						
(a) Salary & wage component	1,527.32	1,719.27	1,915.05	2,027.85	2,187.83	**2,410.76 (11)
(b) Non-Salary & wage component	7,809.27	8,588.77	8,439.30	11,061.87	13,421.88	16,837.30
Capital expenditure	211.06	288.19	328.86	496.21	1,158.83	2,179.83

* The figure in bracket indicates the percentage of expenditure on social service to total expenditure.

** The figure in bracket against salary and wage component indicates its percentage to expenditure on social service.

¹ Includes the expenditure on salary of teaching and non-teaching staff of the government aided educational institutions (2001-02: Rs. 4,163.08 crore; 2002-03: Rs. 4,746.39 crore; 2003-04: Rs. 5,394.08 crore; 2004-05: Rs. 5,687.06 crore; 2005-06: Rs. 6,385.66 crore and 2006-07: Rs. 7,515.59 crore).

The expenditure under social sector increased from Rs. 9,548 crore in 2001-02 to Rs. 21,428 crore in 2006-07 indicating the Government's commitment to improve social well being of the society. The expenditure on social services during current year accounted for 30 *per cent* of total expenditure and 51 *per cent* of developmental expenditure¹. The expenditure on education increased by Rs. 1,890 crore over previous year mainly due to increase in assistance to educational institutions for improvement in elementary education while the expenditure on health and family welfare also increased by Rs. 1,234 crore. Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by 15 *per cent* over 2005-06 while non salary and wage component by 22 *per cent*. Similarly under health and family welfare sector, the salary and wage component increased by 8 *per cent* while non-plan salary and wage component increased by 10 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

The capital expenditure under health and family welfare went up significantly to Rs. 1,481.67 crore during 2006-07 from Rs. 471.82 crore in 2005-06. The increase was mainly in respect of the construction works in Government medical colleges at Azamgarh, Kannauj, Jalaun and Jhansi (Rs. 708 crore) under Medical Education and Training followed by Rural Health mainly on construction of buildings for new Community Health Centres (Rs. 296.66 crore).

1.5.3 Expenditure on economic services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs. 20,560 crore) accounted for 29 *per cent* of the total expenditure and 49 *per cent* of developmental expenditure (**Table- 1.17**). Transport consumed 29 *per cent* followed energy (24 *per cent*) and irrigation and flood control (21 *per cent*) of the expenditure on economic services indicating the Government's commitment to improve the infrastructure of surface transport, power supply and irrigation in the State. The expenditure on agriculture and allied activities was only eight *per cent* of total expenditure on economic services against 11 *per cent* in the previous year. As compared to 2001-02, significant increase in 2006-07 was observed in transport (653 *per cent*) energy (354 *per cent*) and irrigation and flood control (104 *per cent*) while expenditure on agriculture and allied activities fell down by 27 *per cent* during this period and was, thus, indicative of shrinkage of the agricultural activities in the State.

¹ Developmental expenditure is defined as the total expenditure made on social and economic services.

Table-1.17: Expenditure on economic services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, allied activities.	2,324.07	1,914.93	1,515.70	2,351.44	1,711.96	1,697.20
Revenue expenditure	1,335.14	1,319.21	1,342.36	1,397.11	1,480.40	1,848.72
<i>Of which</i>						
(a) Salary & wage component	555.00	607.96	664.70	696.54	801.15	892.91
(b) Non-Salary & wage component	780.14	711.25	677.66	700.57	679.25	955.81
Capital expenditure	988.93	595.72	173.34	954.33	231.56	(-) 151.52¹
Irrigation and flood control	2,108.15	2,265.02	2,221.39	2,459.00	3,032.00	4,292.85
Revenue expenditure	1,338.05	1,536.82	1,480.41	1,580.34	1,390.73	1,919.72
<i>Of which</i>						
(a) Salary & wage component	511.11	550.18	605.33	645.29	636.53	910.90
(b) Non-Salary & wage component	826.94	986.64	875.08	935.05	754.20	1,008.82
Capital expenditure	770.10	728.20	740.98	878.66	1,641.27	2,373.13
Power & energy	1,091.36	745.78	1,9673.49	2,490.08	2,161.13	4,953.55
Revenue expenditure	350.00	413.76	13,438.68	1,443.89	1,401.05	1,869.80
<i>Of which</i>						
(a) Salary & wage component	----	----	----	----	----	----
(b) Non-Salary & wage component	350.00	413.76	13,438.68	1,443.89	1,401.05	1,869.80
Capital expenditure	741.36	332.02	6,234.81	1,046.19	760.08	3,083.75
Transport	782.85	1,554.05	1,613.14	1,709.58	3,951.52	5,892.37
Revenue expenditure	564.65	704.48	709.22	517.42	764.53	1,335.07
<i>Of which</i>						
(a) Salary & wage component	21.58	23.34	25.41	27.09	28.95	32.61
(b) Non-Salary & wage component	543.07	681.14	683.81	490.33	735.58	1,302.46
Capital expenditure	218.20	849.57	903.92	1,192.16	3,186.99	4,557.30
Other economic services	2,259.57	2,579.78	2,713.44	2,867.87	4,138.09	3,723.79
Revenue expenditure	1,761.89	1,908.94	1,999.03	2,037.51	2,719.13	2,435.96
<i>Of which</i>						
(a) Salary & wage component	732.60	742.90	776.57	765.06	723.46	616.55
(b) Non-Salary & wage component	1,029.29	1,166.04	1,222.46	1,272.45	1,995.67	1,819.41
Capital expenditure	497.68	670.84	714.41	830.36	1,418.96	1,287.83
Total (economic services)	8,566.00	9,059.56	27,737.16	11,877.97	14,994.70	* 20,559.76
	(24)	(24)	(46)	(23)	(27)	(29)
Revenue expenditure	5,349.73	5,883.21	18,969.70	6,976.27	7,755.84	9,409.27
<i>Of which</i>						
(a) Salary & wage component**	1,820.29 (21)	1,924.38 (21)	2,072.01 (7)	2,133.98 (18)	2,190.09 (15)	2,452.97 (12)
(b) Non-salary & wage component	3,529.44	3,958.83	16,897.69	4,842.29	5,565.75	6,956.30
Capital expenditure	3,216.27	3,176.35	8,767.46	4,901.70	7,238.86	11,150.49

* The figure in bracket expenditure indicates the percentage of expenditure on economic service to total expenditure.

** The figure in bracket against Salary and wage component indicates its percentage to expenditure on economic service.

¹ Minus expenditure was mainly due to excess receipt over expenditure under capital outlay on food storage and housing (Rs. 413.23 crore).

The salary component in total expenditure on economic services decreased from 21 *per cent* in 2001-02 to 12 *per cent* in 2006-07 except for 2003-04 wherein it was only seven *per cent* mainly due to steep increase (Rs. 12,939 crore) in Non-salary expenditure (Rs. 16,898 crore) over 2002-03 on economic services owing the write off of Power Sector loans of Rs. 12,277.40 crore. The salary component in revenue expenditure ranged between 10.92 *per cent* and 34.03 *per cent* during 2001-07 where as the share of non-salary component increased gradually from 65.97 *per cent* (Rs. 3,529 crore) in 2001-02 to 74 *per cent* (Rs. 6,956 crore) in 2006-07. Steep increase in relative share of expenditure on non salary component was indicative of improvement in the level of maintenance of capital assets and quality of services under economic sector.

The trend in revenue and capital expenditure on economic services indicate that capital expenditure with reference to of total expenditure on economic services consistently increased from Rs. 3,216 crore (37.55 *per cent*) in 2001-02 to Rs. 11,150 crore (54.23 *per cent*) in 2006-07 while the relative share of revenue expenditure declined from 62.45 *per cent* (Rs. 5,350 crore) to 45.76 *per cent* (Rs. 9,409 crore) during the period. An increase of Rs. 1,653 crore (21 *per cent*) during 2006-07 over previous year in revenue expenditure was mainly due to increase in energy (Rs. 469 crore), irrigation and flood control (Rs. 529 crore), transport (Rs. 571 crore) and agricultural and allied activities (Rs. 368 crore). An increase of Rs. 3,912 crore (54 *per cent*) in capital expenditure over the previous year was mainly due to increase in energy (Rs. 2,324 crore), irrigation and flood control (Rs. 732 crore) and transport (Rs. 1,370 crore).

1.5.4 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2001-07 is presented in **Table- 1.18**.

Table--1.18: Financial assistance by Government to local bodies and other institutions

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational institutions (aided schools, aided colleges, universities, etc.)	147.42	1.64	703.08	181.00	1,575.66 ¹	1,381.81
Municipal corporations and municipalities	50.89	77.40	68.73	89.99	452.01	365.24
Zilla parishads and other panchayati raj institutions	--	----	---	1,115.18	1,691.31	1194.18
Development agencies	1,300.62	----	835.46	288.49	361.02	479.57
Hospital and other charitable institutions	60.26	37.62	244.66	248.13	504.33	376.37
Other institutions	479.67	641.87	1,600.90	1,617.02	1,851.11	4,287.23
Total	2,038.86	758.53	3,452.83	3,539.81	6,435.44	8,084.40
Assistance as per percentage of RE	7	2	7	8	12	15

The grants and loan extended to local bodies and other institutions with inter year variations increased by 26 *per cent* from Rs. 6,435 crore in 2005-06 to

¹ Varies from the figures shown in 2005-06 due to delayed receipt of figures under Basic education (Rs. 1,183.25 crore) and Secondary education (Rs. 292.30 crore)

Rs. 8,084 crore in the current year. The share of grants and loans in revenue expenditure ranged between seven and 15 *per cent* during 2001-07 except for 2002-03 in which it declined to two *per cent* only. Another important trend emerged from the **Table-1.18** that share of educational institutions increased substantially since 2005-06 due to additional grants received from GOI under the recommendations of TFC. Financial assistance to Zila Parishads and Panchayati Raj Institutions decreased by Rs. 497.13 crore over previous year mainly due to non-receipt of second installment of central assistance (Rs. 292.80 crore) within the financial year. The share of other institutions sharply increased by more than two times from Rs. 1,851.11 crore in 2005-06 to Rs. 4,287.23 crore in 2006-07 indicating the fact that huge financial assistance was given on ad hoc basis to various State Government's institutions. During 2006-07, the major beneficiary under this category was Uttar Pradesh Power Corporation (Rs. 3,865.81 crore).

1.5.5 Delay in furnishing utilisation certificates

Of the 3070 utilization certificates (UC) due in respect of grants and loans aggregating Rs. 5,046.27 crore paid upto 2005-06, 1608 UCs for an aggregate amount of Rs. 1,398.32 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix -1.7**.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14, 15, 19 (3) and 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/ Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The submission of the accounts to Audit is a mandatory to examine whether these institutions attracted audit under the Act. However, submission of 29 accounts from 08 Autonomous Bodies for the period ranging from one to seven years, (two bodies for one year and six bodies for three years and more as detailed in **Appendix 1.8**) to the Principal Accountant General were awaited as of September, 2007.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 101 cases of misappropriation, defalcation, etc involving Government money amounting to Rs. 5.23 crore up to the period September 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.9**.

1.6.1 Write off of losses, etc

One case of write off of losses amounting to Rs. 3.23 lakh was reported by UP Public Works Department (Construction Division III, PWD, Lucknow) during 2006-07.

1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.2* gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms the assets grew by Rs. 18,189 crore (24.08 *per cent*) and liabilities grew by Rs. 13,288 crore (8.93 *per cent*) over previous year and continued the trend from earlier years. High priority on capital outlay and increase in expenditure on developmental activities coupled with reduction in revenue deficit had a favourable impact on asset creation. Though during the current year the assets have increased substantially, the ratio of liabilities to assets remained at 0.58. Thus, 42 *per cent* of the liabilities did not have asset back up. Moreover, the ratio of fiscal liabilities to GSDP went up to 52.02 *per cent* against the projection of 50.1 *per cent* in FCP.

1.7.1 Financial analysis of Government investments

Financial results of Irrigation Works

The receipts (Rs. 181.65 crore) from the major, medium and minor irrigation projects during 2006-07 was only 10.23 *per cent* of the expenditure of Rs. 1,776 crore on their operations and maintenance and thus much below the cost recovery assessment of 60 *per cent* of the TFC for the year.

As per Finance Accounts for the year 2006-07, the financial results of 16 major irrigation projects with a capital outlay of Rs. 4,268 crore at the end of March 2007 showed that revenue realized (Rs. 26.96 crore) from these projects during 2006-07 went down to 0.63 *per cent* of the capital outlay from 3.35 *per cent* in the previous year and, thus, not sufficient to cover even the interest on capital investment (Rs. 226.14 crore) during 2006-07. After meeting out the working and maintenance expenditure (Rs. 292.83 crore), the schemes suffered a net loss of Rs. 492 crore as against Rs. 187.39 crore in previous year. The increase of more than two times in the net loss on these projects indicated a reversing trend against the cost recovery norms¹ recommended by TFC.

Incomplete Projects

The position of incomplete projects (each costing above to Rs. five crore) as on 31 September 2007 is given in **Table- 1.19** on the basis of information made available by Irrigation and Public Works Department.

¹ The growth rate for the recovery of user charges to be fixed at higher level than the growth rate of their corresponding expenditure.

Table-1.19: Department wise profile of incomplete projects

(Rupees in crore)

Department	Number of incomplete projects	Initial budgeted cost	Cost over runs	Revised total cost of projects	Cummulative actual exp. as on 31.3.2007
Irrigation	48	2,923.44	6,173.32	9,096.76	5,301.58
PWD	10	120.97	80.41	201.38	105.11
Total	58	3,044.41	6,253.73	9,298.14	5,406.69

It is evident from the table that the expenditure of Rs. 5,406.69 crore (March 2007) remained largely unfruitful besides cost escalation of Rs. 6,253.73 crore. Further, there was a time overrun of one to 34 years in completion of major and medium irrigation projects whereas it was up to seven years in respect of the projects of PWD. In Irrigation Department, Saryu canal project was incomplete despite the expenditure of Rs. 1,820.83 crore (with cost escalation of Rs. 2,443.34 crore and time over run of 32 years). Bansagar project also was not completed despite the expenditure of Rs. 938.20 crore (cost escalation of Rs. 1,547.28 crore and time over run of 29 years). Non-completion of the projects within the stipulated period not only accounted for cost overrun and time overrun but also indicated that priority was given to creation of new assets sacrificing the maintenance and completion of old projects and even at the cost of the returns to service the Debt.

Departmental commercial undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually *pro forma accounts* in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma accounts* and the investment made by the Government etc. are given in ***Appendix 1.10*** and ***Appendix 1.11***. The investment made by the Government in departmental commercial undertakings and summarized financial results of these are given in ***Appendix 1.12***.

It would be seen that there were 11 departmental commercial undertakings under the State Government (excluding one undertaking whose accounts were not rendered since inception) in which Government had invested Rs. 549.66 crore as of March 2007. Of these one undertaking did not prepare its account since inception, two undertakings for more than 15 years and one undertaking¹ for more than three years.

The statement showing the summarized financial results of Government commercial and quasi commercial undertakings revealed that one undertaking each, under animal husbandry, food & civil supplies and health departments made no returns during 2006-07 on their mean capital (Rs 317.16 crore). Six irrigation workshop divisions of irrigation department, however, made return of 28.70 *per cent* on their mean capital during the year.

¹ Scheme for public distribution system of food grains.

Government investments and returns

As of 31 March 2007, Government had invested Rs. 18,546 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table-1.20**). The sectors where major investments were made during 2006-07 were (i) Power Projects (Rs. 3,039.45 crore), (ii) Road Transport (Rs. 47 crore) and (iii) Dairy Development (Rs. 7.43 crore). The return on this investment ranged between 0.001 *per cent* and 0.15 *per cent* during 2001-2007 while the Government paid interest at an average rate of 6.49 to 9.49 *per cent* on its borrowings during 2001-2007. As against the investment of Rs. 17,708 crore in 71 Government Companies, only one declared dividend of Rs. 0.15 crore in 2006-07.

Table-1.20: Return on investment

Year	Investment at the end of the year (Rs. in crore)	Return	Percentage of return	Average rate of interest on government borrowing (per cent)	Difference between interest rate and return
2001-02	4,033.27 ¹	6.24	0.15	9.49	3.25
2002-03	9,049.70 ²	7.26	0.08	7.22	(-)0.04
2003-04	9,412.65 ³	7.40	0.07	9.13	1.73
2004-05	9,535.57 ⁴	--	--	9.47	9.47
2005-06	15,464.60 ⁵	0.15	0.001	6.49	6.34
2006-07	18,545.82 ⁶	0.85	0.005	6.74	5.89

Despite the write off of power sector loan Rs. 12,277.40 crore in 2003-04 and issuance of special bonds (Rs. 5,871.86 crore) up to 15 years in October 2001, the Uttar Pradesh Power Corporation suffered an accumulated loss of Rs. 6,321.39 crore as of 31 March 2005 (**Appendix 1.13**). The accumulated loss reported by UP State Road Transport Corporation at the end of 2005-06 was of Rs. 768.34 crore. Thus, the trend of extremely low returns/ losses in relation to huge funds locked up in State Level Public Enterprises (SLPEs) vitiated the objective to have small but viable SLPEs by 2009-10 as per recommendations of TFC.

Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organizations. Total outstanding loans and advances as on 31 March 2007, were Rs. 8,692 crore (**Table- 1.21**). Interest received against these loans advanced was 0.55 *per cent* during 2006-07 as against 0.76 *per cent* in previous year. The interest receipts on outstanding loans and advances were well below one *per cent* all along the period except 2003-04 and 2004-05 against the average interest rate of the borrowed funds ranging between 9.49 *per cent* and 6.74 *per cent* indicated that revenue receipts were not adequate to cover the interest liabilities required to service the Debt.

¹ Excludes Rs 596.37 crore pending reconciliation.
² Includes Rs 4,044.60 crore pending reconciliation.
³ Excludes Rs 1,834.60 crore pending reconciliation.
⁴ Excludes Rs 2,774.90 crore pending reconciliation.
⁵ Includes Rs 2,289.78 crore pending reconciliation.
⁶ Includes Rs 1,953.63 crore pending reconciliation.

Table-1.21: Average interest received on loans advanced by the State Government

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening balance	18,218	18,379	18,965	7,709	8,061	8,160
Amount advanced during the year	527	805	1242	629	684	888
Amount repaid during the year	366	219	12498	278	585	356
Closing balance	18,379	18,965	7,709	8,060	8,160	8,692
Net addition	161	586	(-) 11256	351	99	531
Interest received	51	42	187	106	62	48
Interest received to loans and advances (in <i>per cent</i>)	0.28	0.22	2.43	1.31	0.76	0.55
Average interest paid by the State Government to fiscal liabilities (in <i>per cent</i>)	9.49	7.22	9.13	9.47	6.49	6.74
Difference between interest received and paid (<i>per cent</i>)	(-) 9.21	(-) 7.00	(-) 6.70	(-) 8.16	(-) 5.73	(-) 6.19

During the current year major portion of loan was advanced to UP State Govt. Undertakings/ Corporation/ Autonomous Bodies (Rs. 103 crore) for strengthening their financial set up under general services, local bodies for development activities (Rs. 220 crore) under social services and Industries and Minerals (Rs. 339 crore) under economic services. Major portion of loan under economic services went to Cooperative Sugar Mills (Rs. 164.59 crore), Industrial Financial Institutions (Rs. 88.60 crore), Power Projects (Rs. 35 crore) and Cooperative Spinning Mills (Rs. 33.14 crore)

1.7.2 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 mismatches in the flow of resources and expenditure obligations, a mechanism of ways and means advances (WMA) - ordinary and special- from Reserve Bank of India has been put in place. The operative limit for normal ways and means advances is reckoned on the three year average of revenue receipts and the operative limit for special ways and means advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

The State Government's cash balances at the end of the current year amounted to Rs. 15,487.88 crore. The major portion of which (Rs. 15,459.07 crore) is invested in the cash balance investment account. The Government purchased treasury bills amounting to Rs. 2,40,532.68 crore and sold treasury bills amounting to Rs. 2,33,403.65 crore earning Rs. 491.34 crore as interest during current year. Further, an amount of Rs. 45.20 crore is invested in earmarked funds. Ways and means advances (WMA) and overdrafts availed, the number of occasions it was availed and interest paid by the State during 2001-07 is detailed in **Table- 1.22**. It is evident from the table that the fiscal reforms initiated by the State made a visible impact of improvement in its financial health during 2006-07 and enabled the State to avoid WMA and overdraft for the first time in the past many years.

**Table-1.22: Ways and means and overdrafts of the State and interest paid thereon
(Rupees in crore)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and means advances						
Availed in the year	6,146.49	7,663.83	11,526.87	13,982.12	2,707.99	-----
Number of occasions	91	115	147	158	30	-----
Outstanding WMAs, if any	746.12	-----	-----	25.48	-----	-----
Interest paid	21.70	28.67	34.08	40.91	4.56	-----
Number of days	----	224	322	324	48	-----
Overdraft						
Availed in the year	3,282.11	3,753.64	4,904.18	6,268.88	373.16	-----
Number of days	88	88	100	98	11	-----
Interest paid	4.79	4.31	9.56	8.23	0.57	-----

1.8 Un-discharged liabilities

According to UPFRBM Act 2004, the total liabilities means the liabilities under the consolidated fund and the Public Accounts of the State and shall also include borrowings by the public Sector undertakings and other instruments including guarantees where the principal and/ or interest are to be serviced out of the State budget.

1.8.1 Fiscal liabilities – Public debt and guarantees

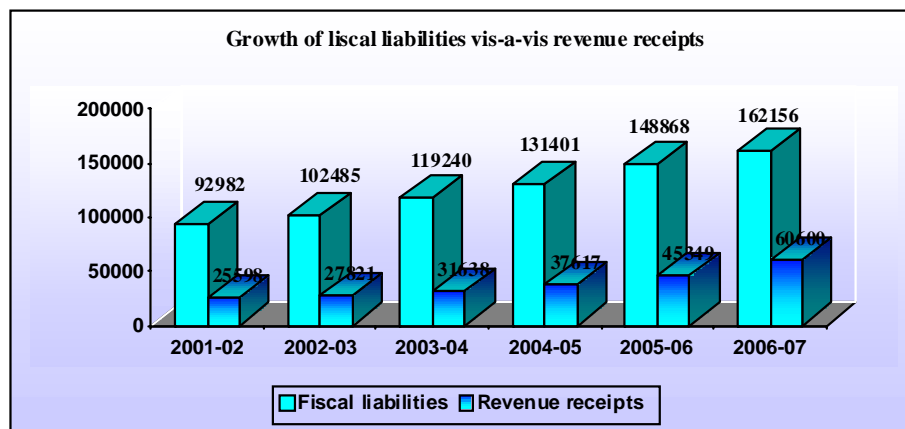
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the consolidated fund – capital accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a 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 the Act of its legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings schemes, provident funds and other deposits.

Table-1.23 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.23: Fiscal liabilities – Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal liabilities (Rupees in crore)	92,982	1,02,485	1,19,240	1,31,401	1,48,868	1,62,156
Rate of growth (<i>per cent</i>)	15.75	10.22	16.35	10.20	13.29	8.93
Ratio of fiscal liabilities to						
GSDP (<i>per cent</i>)	48.83	49.90	53.03	54.23	54.37	52.02
Revenue receipts (<i>per cent</i>)	363.2	368.4	376.9	349.3	328.30	267.6
Own resources (<i>per cent</i>)	767.4	698.1	750.7	713.6	683.9	549.1
Buoyancy of fiscal liabilities to						
GSDP (ratio)	3.040	1.299	1.725	1.316	1.022	0.645
Revenue receipts (ratio)	4.558	1.177	1.192	0.540	0.647	0.265
Own resources (ratio)	*	0.483	1.995	0.640	0.730	0.251

* Own Resources in 2001-02 had a negative growth



Overall fiscal liabilities of the State increased from Rs. 92,982 crore in 2001-02 to Rs. 1,62,156 crore in 2006-07. Fiscal liabilities of the State comprised Consolidated Fund Liabilities and public account liabilities. The consolidated fund liability (Rs. 1,04,010 crore) comprised of market loans (Rs. 82,046 crore) and loans from Government of India (Rs. 21,964 crore). The public account liabilities (Rs. 58,146 crore) comprised of small savings, provident fund (Rs. 19,963 crore), interest bearing obligations (Rs. 5,652 crore) and non interest bearing obligations (Rs. 32,531 crore). The growth rate was 8.93 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP also increased from 48.8 *per cent* in 2001-02 to nearly 52.02 *per cent* in 2006-07. These liabilities stood at 2.68 times the revenue receipts and 5.49 times of the States' own resources at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.645 indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.65 *per cent*.

The State government has set up a sinking fund for amortization of open market loans and has been contributing every year from revenue and also by interest accrued on the investments made out of the fund. As on 31 March 2007, the outstanding balance in sinking fund was Rs. 18,433.39 crore.

1.8.2 Status of guarantees – Contingent liabilities

Guarantees are liabilities contingent on the consolidated fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 are given in **Table- 1.24**.

Table-1.24: Guarantees given by the Government of Uttar Pradesh

(Rupees in crore)

Year	Max. amount guaranteed	Outstanding amount of guarantees	Revenue receipts	Percentage of maximum amount guaranteed to total revenue receipt
2001-02	11,013	6,997	25,598	43.02
2002-03	10,840	6,270	27,821	38.96
2003-04	10,549	3,601	31,638	33.34
2004-05	22,770	10,354	37,617	60.53
2005-06	15,073	8,433	45,349	33.24
2006-07	12,235	11,056	60,600	20.19

The Government has not set up any fund for meeting liabilities, which may arise on invoking of the guarantees. The Government has however, safeguarded its interest by obtaining counter guarantees from parties on whose behalf the guarantees were given.

1.8.3 Off - budget borrowings

The borrowings of a State are governed under Article 293(1) of the Constitution of India. In addition to the liabilities shown in **Table- 1.23**, the State guaranteed loans availed of by Government companies/ corporations. These companies/ corporations borrowed funds from the market/ financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/ corporations outside the State budget, however in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. However, Finance Department stated (September, 2007) that Government of UP has never resorted to off budget borrowings through Special Purpose Vehicles (SPVs).

1.9 Debt sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilization in terms of debt/ GSDP ratio.

1.9.1 Debt stabilization

A necessary condition for stability that if the rate of growth of economy exceeds the interest rate or cost of public borrowing, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are

moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (debt* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table- 1.26**.

Table-1.25: Debt sustainability–Interest rate and GSDP growth

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average interest rate	9.49	7.22	9.13	9.47	6.49	6.74
GSDP growth	5.18	7.87	9.48	7.75	13.00	13.85
Interest spread	(-) 4.31	0.65	0.35	(-) 1.72	6.51	7.11
Fiscal liabilities (Rs. in crore)	80,331	92,982	1,02,485	1,19,240	1,31,401	1,48,868
Quantum spread (Rs. in crore)	(-) 3,462	604	359	(-) 2,051	84	10,585
Primary deficit(-)/ surplus(+) (Rs. in crore)	(-) 1,691	(-) 2,437	(-) 6,523	(-) 1,124	(-) 980	(+) 862

Table- 1.25 reveals that quantum spread together with primary deficit has been negative during 2001-05 indicating rising debt-GSDP ratios during those years. Debt- GSDP had increased steadily from 48.83 *per cent* in 2001-02 to 54.23 *per cent* in 2004-05. It was only from 2005-06, the quantum spread together with primary deficit turned into positive resulting in decline debt/GSDP ratio to 52.02 *per cent* in 2006-07. The ratio of fiscal deficit to GSDP also moved almost on the similar trajectory indicating a significant decline only after 2004-05 and brought down to 3.08 *per cent* in 2006-07. These trends indicate the State was moving towards the debt stabilization which is a step forward towards attaining to the debt sustainability in medium to long run.

1.9.2 Sufficiency of non-debt receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table- 1.26** indicates the resources gap as defined for the period 2002-07.

Table- 1.26: Incremental revenue receipts and revenue expenditure

(Rupees in crore)

Period	Incremental				Resource gap
	Non-debt receipts	Primary expenditure	Interest payments	Total expenditure	
2001-02	925	(-) 109	768	659	(+) 266
2002-03	2,076	2,822	(-) 1,160	1,662	(+) 414
2003-04	16,096	20,182	3,064	23,246	(-) 7,150
2004-05	(-) 6,241	(-) 11,640	1,749	(-) 9,891	(+) 3,650
2005-06	8,039	7,895	(-) 2,775	5,120	(+) 2,919
2006-07	15,022	13,180	1,379	14,559	(+) 463

The negative resource gap indicates the non-sustainability of debt while positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2001-07, only one year (2003-04) reflects the negative gap but the remaining years are the pointers towards the increasing capacity of the State to sustain the debt in the medium to long run. The non- debt receipts exceeded not only the primary expenditure during 2005-06 and 2006-07 but were also adequate to meet the incremental interest liabilities which indicated that non- debt receipts were available to meet the expenditure under capital account.

1.9.3 Net availability of borrowed funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue.

Table-1.27 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table-1.27: Net availability of borrowed funds

(Rs. in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt						
Receipt	7,935	9,282	19,029	14,597	13,931	11,332
Repayment (principal + interest)	4,467	3,895	7,545	10,412	10,286	10,725
Net fund available	3,468	5,387	11,484	4,185	3,645	607
Net fund available (<i>per cent</i>)	44	58	60	29	26	5
Loans and advances from GOI						
Receipt	2,757	3,108	3,081	2,841	326	379
Repayment (principal + interest)	5,378	7,747	10,673	9,640	3,110	4,022
Net fund available	(-) 2,621	(-) 4,639	(-) 7,592	(-) 6799	(-) 2784	(-) 3,643
Net fund available (<i>per cent</i>)	(-) 95	(-) 149	(-) 246	(-) 239	(-) 854	(-) 961
Other obligations						
Receipt	14,538	11,556	18,025	18,238	23,184	22,972
Repayment (principal + interest)	11,643	9,334	15,285	15,361	15,651	17,125
Net fund available	2,895	2,222	2,740	2,877	7,533	5,847
Net fund available (<i>per cent</i>)	19.91	19.23	15.20	15.77	32.49	25.45
Total liabilities						
Receipt	25,230	23,946	40,135	35,676	37,441	34,683
Repayment (principal + interest)	21,488	20,976	33,503	35,413	29,047	31,872
Net fund available	3,742	2,970	6,632	263	8,394	2,811
Net fund available (<i>per cent</i>)	14.83	12.40	16.52	0.74	22.42	8.10

The net funds available on account of the internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayments varied from 0.74 *per cent* to 22.42 *per cent* during the period 2001-07. During the current year the Government repaid internal debt Rs. 3,737.72 crore, Government of India loans: Rs. 2,174.36 crore and also discharged other obligations of Rs. 15,483 crore along with interest of Rs. 10,476.78 crore as a result of which percentage of availability of borrowed funds declined to Rs. 8.10 crore. Due to the large cash balance during current year, the Government has been able to discharge its debt obligation both on account of principal and interest payments on loans raised from the market as well from the Government of India.

1.10 Management of deficits

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

1.10.1 Trends in deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table- 1.28**.

Table-1.28: Fiscal imbalances: Basic parameters

(Values Rupees in crore and ratios in *per cent*)

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-)/Surplus (+)	(-)6,195	(-)5,118	(-)18,583	(-)6,993	(-)1,268	(+)4,901
Fiscal deficit (-)/Surplus (+)	(-)9,911	(-)9,497	(-)16,647	(-)12,997	(-)10,078	(-)9,615
Primary deficit (-)/Surplus (+)	(-)1,691	(-)2,437	(-)6,523	(-)1,124	(-)980	(+)862
RD/GSDP (<i>per cent</i>)	3.25	2.49	8.26	2.89	0.46	----
FD/GSDP (<i>per cent</i>)	5.21	4.62	7.40	5.36	3.68	3.08
PD/GSDP (<i>per cent</i>)	0.89	1.19	2.90	0.46	0.36	----
RD/FD (<i>per cent</i>)	62.51	53.89	111.63	53.80	12.58	----

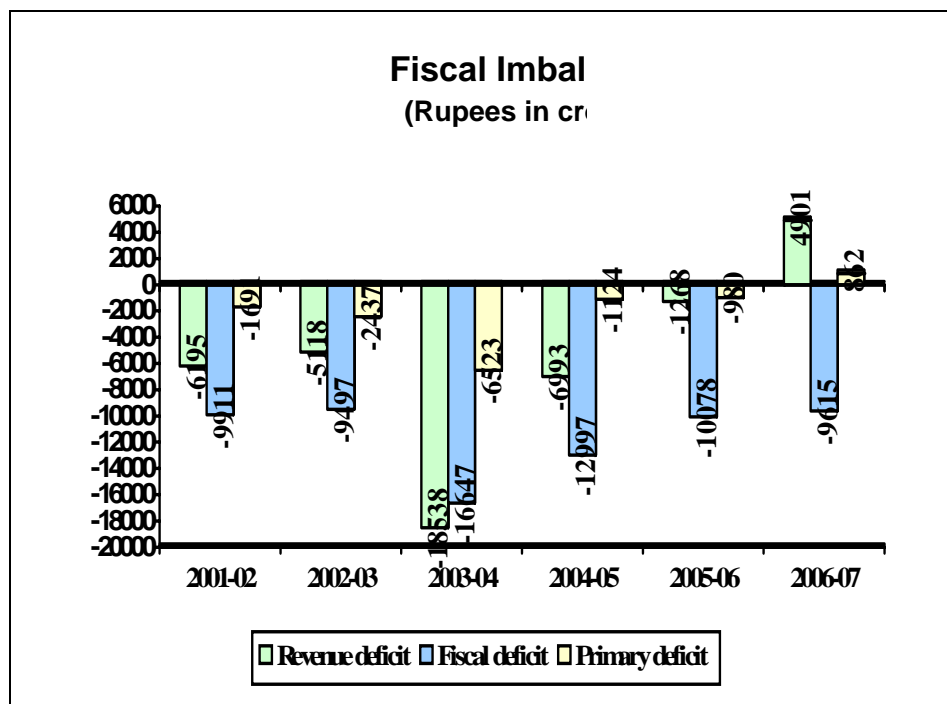


Table- 1.28 reveals that the revenue account experienced a situation of huge deficit during the period of 2001-05 which hovered around an average of Rs. 9,222 crore during these years. The revenue deficit was reduced sharply to Rs. 1,268 crore during 2005-06 and revenue account turned into a revenue surplus of Rs. 4,901 crore during the current year. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs. 15,251 crore in revenue receipts (33.63 per cent) against the increase of Rs. 9,082 crore in revenue expenditure (19.48 per cent). The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in States' own taxes Rs. 4,139.87 crore (21.95 per cent), non-tax revenue Rs. 3,602.32 crore (122.97 per cent), central tax transfer Rs. 5,015.38 crore (27.55 per cent) and GIA from GOI Rs. 2,492.80 crore (46.53 per cent). The substantial increase in non- tax revenue was mainly due to a contra entry of debt waiver of Rs. 2,127.42 crore provided by the GOI under DCRF as non- tax revenue receipts during 2006-07. Besides, increase of Rs. 5,015.38 crore in central transfers resulted in huge surplus during the current year. On the other hand, despite a big push in plan revenue expenditure (50 per cent), Government could maintain the growth in revenue expenditure below the revenue receipts by containing the growth in NPRES (14.51 per cent).

The fiscal deficit, which represented the total borrowings of the Government and its total resource gap, decreased from Rs. 10,078 crore in 2005-06 to Rs. 9,615 crore in 2006-07. However, it almost remained at par with Rs. 9,911 crore in 2001-02. Despite this, fiscal deficit was marginally reduced by Rs. 463 crore over the previous year due to a sharp increase of Rs. 5,273 crore in capital expenditure and an increase of Rs. 204 crore in loans and advance disbursed during the current year.

The primary deficit has been persisting in the State budget during the period 2001-06. However, it turned into the primary surplus of Rs. 862 crore mainly due to increase in interest payment by Rs. 1,379 crore and fall in fiscal deficit by Rs. 463 crore during the current year.

1.10.2 Quality of deficit/ surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit¹ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD steeply declined from 111.63 *per cent* in 2003-04 to 12.58 *per cent* in 2005-06 and RD further wiped out and turned into surplus during the current year. This trajectory shows a consistent improvement in the quality of the deficit and during 2006-07 the borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset back up of the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (**Table- 1.29**) that during 2001-06, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State government. In other words, non debt receipts of the State were enough to meet the primary expenditure² requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit. However, non-debt receipts exceeded the primary expenditure for the first time in 2006-07 resulting in the primary surplus. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table- 1.29: Primary deficit/ surplus – Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary deficit (-)/ surplus (+) with reference to revenue expenditure	Primary deficit (-)/ surplus (+) with reference to capital expenditure
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2001-02	25,964	23573	3556	526	27,655	(+) 2,391	(-) 1,691
2002-03	28,040	25,879	3,794	804	30,477	(+) 2,161	(-) 2,437
2003-04	44,136	40,097	9,320	1242	50,659	(+) 4,039	(-) 6,523
2004-05	37,895	32,737	5,653	629	39,019	(+) 5,158	(-) 1,124
2005-06	45,934	37,519	8,711	684	46,914	(+) 8,415	(-) 980
2006-07	60,956	45,222	13,984	888	60,094	(+) 15,734	(+) 862

¹ Primary revenue deficit defined as gap between non- interest revenue expenditure of the State and its non- debt receipts indicates the extent to which the non- debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

² Primary expenditure of the state defined as the total expenditure net of interest payments indicates the expenditure incurred on the transactions undertaken during the year.

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.30** below presents a summarized position of Government finances over 2001-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-1.30: Indicators of fiscal health

(in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
I Resource mobilization						
Revenue receipt/GSDP	13.44	13.55	14.07	15.53	16.56	19.44
Revenue buoyancy	0.668	1.103	1.447	2.439	1.581	2.428
Own tax/GSDP	5.43	6.22	6.05	6.48	6.89	7.38
II Expenditure management						
Total expenditure/GSDP	18.84	18.28	27.03	21.01	20.46	22.64
Revenue receipts/Total expenditure	71.35	74.12	52.05	73.92	80.96	85.87
Revenue expenditure/Total expenditure	88.62	87.75	82.62	87.66	83.23	78.93
Salary & wage expenditure on social and economic services / Revenue expenditure	10.53	11.06	7.94	9.33	9.39	8.73
Non-salary & wage expenditure on social and economic services / Revenue expenditure	35.66	38.09	50.45	35.65	40.73	42.72
Capital expenditure/Total expenditure	10.06	10.33	15.65	11.25	15.74	19.82
Capital expenditure on social and economic services/Total expenditure.	9.55	9.23	14.97	10.61	14.99	18.89
Buoyancy of TE with RR	0.540	0.533	4.514	(-) 0.861	0.490	0.773
Buoyancy of RE with RR	0.712	0.415	3.824	(-) 0.591	0.219	0.579
III Management of fiscal Imbalances						
Revenue deficit(-)/ surplus (+) (Rs. in crore)	(-) 6,195	(-) 5,118	(-) 18,583	(-) 6,993	(-) 1,268	----
Fiscal deficit (Rs. in crore)	(-) 9,911	(-) 9,497	(-) 16,647	(-) 12,997	(-) 10,078	(-) 9,615
Primary deficit (Rs. in crore)	(-) 1,691	(-) 2,437	(-) 6,523	(-) 1,124	(-) 980	----
Revenue deficit(-)/ surplus (+) /Fiscal deficit	(-) 62.51	(-) 53.89	(-) 111.63	(-) 53.80	(-) 12.58	----
IV Management of fiscal liabilities						
Fiscal liabilities/GSDP	48.8	49.9	53.0	54.2	54.4	52.02
Fiscal liabilities/RR	363.2	368.4	376.9	349.3	328.3	267.6
Buoyancy of FL with RR	4.558	1.177	1.192	0.540	0.647	0.265
Buoyancy of FL with own receipt	(-) 2.519	0.483	1.995	0.640	0.730	0.251
Interest spread	(-) 4.31	0.65	0.35	(-) 1.72	6.51	7.11
Net funds available	14.83	12.40	16.52	0.74	22.42	8.10
V Other fiscal health indicators						
Return on investment	6.24	7.26	7.40	--	0.15	0.85
Balance from current revenue (Rs. in crore)	(-) 4147	(-) 1918	(-) 15401	(-) 3413	4482	12314
Financial assets/liabilities	0.56	0.55	0.46	0.45	0.51	0.58

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. Revenue receipts are comprised not only of the tax and non tax resources of

the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during 2006-07 was 19.44 *per cent* with an increase of about three *per cent* over previous year. The ratio of own taxes to GSDP also showed continued improvement all along the period 2001-07 except for 2003-04 when it declined marginally.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure remained stable at around 88 *per cent* till 2004-05 (except for 2003-04: 83 *per cent*) and registered a declining trend thereafter. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicated the propensity of the State Government to create assets by resorting to, *inter alia*, capital expenditure. Increasing reliance on revenue receipts to finance the total expenditure which amounted to 86 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both development and quality of expenditure.

Revenue surplus and significant decline in fiscal deficit during 2006-07 indicates an improvement in fiscal position of the State. The balance from current revenue (BCR) (Rs. 12,314 crore) increased by 175 *per cent* over previous year thus ample funds were available for creation of assets and to meet State plan schemes.

1.12 Conclusion

The key fiscal parameters - revenue and fiscal deficits - reveal a significant improvement in the fiscal situation of the State during 2006-07 over the previous year. The revenue surplus of Rs. 4,901 crore in 2006-07 relative to a deficit of Rs. 1,268 crore in the previous year, however, needs to be assessed in view of the fact that 49 *per cent* of incremental revenue receipts (Rs. 15,251 crore) were contributed by increase of central transfers comprising of State's share in Union pool of taxes and duties (Rs. 5,015 crore) and grants-in-aid from Government of India (Rs. 2,493 crore) in 2006-07 over the previous year. Moreover, of the total increase of Rs. 7,743 crore in States' own resources, around 27 *per cent* was on account of contra entry of debt waiver booked as miscellaneous general receipts during the year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure varied within a narrow range of 79 -89 *per cent* during the period 2001-07 leaving inadequate resources for expansion of services and creation of assets as a result of which 42 *per cent* of fiscal liabilities of the State were still without the asset backup up during 2006-07. Moreover, within the revenue expenditure, NPRE at Rs. 46,000 crore in 2006-07 remained significantly higher than the normative assessment of Rs. 37,141 crore made by TFC for the year. Further, three components – salary expenditure, pension liabilities and interest payments – constitute about 72 *per cent* of the NPRE during 2006-07. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities due

to continued prevalence of fiscal deficit accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress on the State in medium to long run unless a suitable measures are initiated to make the investments including loans and advances commercially viable; to compress the non-plan revenue expenditure and to mobilize the additional resources both through the tax and non-tax sources in ensuing years. Moreover, fiscal liabilities relative to GSDP at 52 *per cent* in 2006-07 appears to be on the higher side especially in view of the FRBM target to contain it to 25 *per cent* during the next ten years. Besides, the inordinate delays in completion of 48 major and medium irrigation projects in the State leading to the cost escalation of Rs 6,173 crore of these projects and a steep increase of Rs. 6,993 crore in closing cash balances of the State increasing them to Rs. 15,488 crore at the close of the year, as revealed by the Report, also needs attention of the State Government.