

# 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 layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

#### 1.1.1 Summary of Receipts and Disbursements

**Table-1.1** summarizes the finances of the Government of Uttar Pradesh for the year 2007-08 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 2007-08**

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non Plan	Plan	Total
60,599.52	<b>I. Revenue receipts</b>	68,672.47	55,698.90	<b>I. Revenue expenditure</b>	53,479.29	11,743.92	65,223.21
22,997.97	Tax revenue	24,959.32	24,299.32	General services	26,457.90	92.85	26,550.75
6,532.64	Non-tax revenue	5,816.01	19,248.06	Social services	14,871.87	8,213.70	23,085.57
23,218.31	Share of union taxes/duties	29,287.74	9,409.27	Economic services	8,600.06	3,437.34	12,037.40
7,850.60	Grants from Government of India	8,609.40	2,742.25	Grants-in-aid and contributions	3,549.46	0.03	3,549.49
Section-B: Capital							
---	<b>II. Misc. capital receipts</b>	--	13,984.13	<b>II. Capital outlay</b>	3,230.54	13,719.84	16,950.38
355.64	<b>III. Recoveries of loans and advances</b>	448.61	887.55	<b>III. Loans and advances disbursed</b>	374.52	367.44	741.96
11,711.50	<b>IV. Public debt receipts</b>	9,078.70	5,912.08	<b>IV. Repayment of public debt</b>	5,368.87	---	5,368.87
644.79	<b>V. Contingency fund</b>	603.78	9.57	<b>V. Contingency fund</b>	116.72	---	116.72
63,075.25	<b>VI. Public account receipts</b>	77,870.18	52,901.28	<b>VI. Public account disbursements</b>	68,560.32	---	68,560.32
8,494.69	Opening cash balance	15,487.88	15,487.88	Closing cash balance	15,200.16	---	15,200.16
1,44,881.39	<b>Total</b>	1,72,161.62	1,44,881.39	<b>Total</b>	1,46,330.42	25,831.20	1,72,161.62

Followings are the significant changes during 2007-08 over the previous year:

- Revenue receipts grew by Rs 8,072 crore (13 per cent) over the previous year. The increase was mainly contributed through the State's share of union taxes and duties (Rs 6,069 crore), tax revenue (Rs 1,961 crore), Grants in aid from the GOI (Rs 759 crore) partly offset by decrease in non tax revenue (Rs 717 crore).
- Revenue expenditure and capital expenditure increased by Rs 9,524 crore (17 per cent) and Rs 2,966 crore (21 per cent) respectively over the previous year.
- Recoveries of loans and advances increased by Rs 93 crore (26 per cent) in 2007-08 as against a decrease of Rs 146 crore (16 per cent) in disbursement of loans and advances over the previous year.
- Public debt receipts decreased by Rs 2,633 crore (22 per cent) over previous year mainly due to decrease in internal debt receipts. Repayment of public debt also decreased by Rs 543 crore (nine per cent) over the previous year.
- Public account receipts and disbursements increased by Rs 14,795 crore (23 per cent) and Rs 15,659 crore (30 per cent) respectively over the previous year.
- Cash balance of the State Government decreased by Rs 288 crore (two per cent) from the level of Rs 15,488 crore in 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 : State Fiscal Position by key indicators**

(Rupees in crore)

2006-07	Sl. No.	Major aggregates	2007-08
<b>60,600<sup>1</sup></b>	<b>1.</b>	<b>Revenue receipts (2+3+4)</b>	<b>68,672</b>
22,998	2.	Tax revenue (Net)	24,959
6,533	3.	Non-tax revenue	5,816
31,069	4.	Other receipts	37,897
<b>356</b>	<b>5.</b>	<b>Non-debt capital receipts</b>	<b>449</b>
356	6.	<i>Of which</i> Recovery of loans	449
<b>60,956</b>	<b>7.</b>	<b>Total receipts (1+5)</b>	<b>69,121</b>
<b>46,998</b>	<b>8.</b>	<b>Non-plan expenditure</b>	<b>57,084</b>
46,000	9.	on Revenue account	53,479
10,477	10.	<i>Of which</i> Interest payments	10,820
672	11.	on Capital account	3,230
326	12.	Loans and advances disbursed	375
<b>23,573</b>	<b>13.</b>	<b>Plan expenditure</b>	<b>25,831</b>
9,699	14.	on Revenue account	11,744
13,312	15.	on Capital account	13,720
562	16.	Loans and advances disbursed	367
<b>70,571<sup>2</sup></b>	<b>17.</b>	<b>Total expenditure (13+8)</b>	<b>82,915</b>
(+) 4,901	18.	Revenue surplus (+) [1-(9+14)]	(+)3,449
(-) 9,615	19.	Fiscal deficit (-) (1+5-17)	(-)13,794
(+) 862	20.	Primary deficit (-)/ surplus (+) [7-(17-10)]	(-)2,974

<sup>1</sup> Includes the adjustments of Rs 344.12 crore released by GOI under Central assistance during earlier years.

<sup>2</sup> 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 8,072 crore (13.32 *per cent*) against an increase of Rs 9,524 crore (17.10 *per cent*) in revenue expenditure over the previous year resulting in a decrease of Rs 1,452 crore in revenue surplus from the level of Rs 4,901 crore in 2006-07. A decrease in revenue surplus along with an increase of Rs 93 crore in non-debt capital receipts accompanied with an increase of Rs 2,820 crore in capital expenditure including disbursement of loans and advances led to an increase of Rs 4,179 crore in fiscal deficit in 2007-08 over the previous year. Despite an increase of Rs 343 crore in interest payments in 2007-08, deterioration in fiscal deficit turned the primary surplus of Rs 862 crore in 2006-07 into a deficit of Rs 2,974 crore during the current year.

## 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 2002-03 to 2007-08. The norms/ceilings prescribed by the Twelfth Finance Commission (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 Act 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 Gross State Domestic Product (GSDP)<sup>1</sup> 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 percentages to the 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 2008, abstract of receipts and disbursement for the year 2007-08, sources and application of funds and the time series data on State Government finances are given in *Appendices 1.2 to 1.5*.

<sup>1</sup> 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	2002-03	2003-04	2004-05	2005-06	2006-07*	2007-08**
GSDP (Rs in crore) (at current price)	2,07,103	2,27,086	2,46,618	2,79,762	3,12,832	3,47,671
GSDP (Rate of growth in per cent)	8.71	9.65	8.60	13.44	11.82	11.14

\* 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 1<sup>st</sup> day of April 2004 and ending on 31<sup>st</sup> day of March 2009.
- Reduce fiscal deficit to not more than three *per cent* of 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 31<sup>st</sup> 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 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules***

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 TFC award. In its FCP, the State projected its own tax revenue and own non tax revenue at Rs 25,913.52 crore and Rs 2,782.47 crore respectively for the year 2007-08. Out of total revenue expenditure of Rs 60,596.12 crore, share of non- plan revenue expenditure (Rs 53,599.48 crore) was projected at 88 *per cent*. The revenue and fiscal deficits were projected at Rs 1,112.35 crore and Rs 11,725.08 crore respectively.

### ***1.2.3 Fiscal Policy Statement 2007-08***

As prescribed in the Act, the State Government laid the Mid Term Fiscal Restructuring Policy (MTFRP) Statement 2007 with the annual budget for the year 2007-08. As envisaged in the MTFRP, the State's own tax revenue was targeted at Rs 27,802.19 crore and own non tax revenue receipts were anticipated to be Rs 6,823.86 crore for 2007-08. The revenue expenditure was targeted to be maintained at the level of Rs 67,871.38 crore to result in revenue surplus of Rs 6,146.32 crore. However, the fiscal deficit was to remain at Rs 12,484.70 crore. In terms of the GSDP, the fiscal deficit was targeted to be contained at the level of 3.6 *per cent* of the GSDP. The aggregates of borrowings and other liabilities were to be at around 43 *per cent* of the GSDP.

### ***1.2.4 Mid Term Review of Fiscal Situation***

As per the half yearly review report placed (October 2007) before State Legislature in compliance with section 6 (2) of FRBM Act 2004, the revenue collection to the end of September 2007 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 30,775 crore) up to the end of March 2008 exceeded the targets projected (Rs 28,695.99 crore) in the FCP and assessment (Rs 29,223.30 crore) of TFC but was significantly below the budget estimates (Rs 34,626.05 crore). The revenue expenditure (Rs 65,223 crore) exceeded the projections made in FCP (Rs 60,596.12 crore) but was marginally below the budget estimates (Rs 67,871.38 crore). The NPRE budget estimate (Rs 53,945.97 crore) was reduced by Rs 928.05 crore in the revised estimate (RE) for the year. However, the actual NPRE (Rs 53,479 crore) was slightly above the RE.

### 1.2.5 Fiscal Performance in 2007-08

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF<sup>1</sup>. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and re-schedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. For States, which were in revenue surplus, as per the base year figure and continue to remain so in the subsequent years till the end of award period, the installment of repayment due on the Central loans may be written-off in each of the years from 2005-06 onwards so long as the revenue surplus of the States does not go below the base year level in absolute terms. As a result of improved fiscal performance in terms of this criterion, State Government received a debt waiver of Rs 1,063.82 crore for 2007-08.

The fiscal performance in terms of key fiscal parameters vis-à-vis targets and/norms laid down by FRBM Act/Rules and the TFC targets as well as the projections of State Government made in FCP and MTFRPS for 2007-08 is indicated in table 1.4.

**Table 1.4 : Fiscal Performance in 2007-08**

Key fiscal variables	FRBM/ TFC targets	FCP 2007-08	MTFRP 2007-08	Actual	Variations		
					TFC	FCP	MTFRP
Revenue deficit (-)/ Revenue surplus (+)	0.0 (By 31.3.2009)	(-)1,112.35	(+)6,146.32	(+)3,449.00	FRBM/TFC target of eliminating RD is achieved ahead of time limit and experienced Rs since 2006-07 although it decreased in current year		
Fiscal deficit (-) (Relative to GSDP in <i>per cent</i> )	Not more than 3% by 31.3.2009	(-)11,725.08 (3.7)	(-)12,484.70 (3.6)	(-)13,794.00 (3.97)	(-) 0.97	(-) 0.27	(-) 0.37
States own tax revenue	25,640.94	25,913.52	27,802.19	24,959.32	(-) 681.62	(-) 954.20	(-) 2,842.87
Non-tax revenue	3,582.36	2,782.47	6,823.86	5,816.01	(+) 2,233.65	(+) 3,033.54	(-) 1,007.85
NPRE	41,561.50	53,599.48	53,945.97	53,479.29	(+) 11,917.79	(-) 120.19	(-) 466.68
Debt/GSDP Ratio	Not more than 25% by 2018	48.90	43.00	50.12	-	1.22	7.12

It is evident from the Table that State's own tax revenue in terms of the targets of TFC, FCP and MTFRP was 97 *per cent*, 96 *per cent* and 90 *per cent* respectively. The performance under non tax revenue, however, registered improvement against the TFC (162 *per cent*) and FCP (209 *per cent*). The position of the revenue deficit also improved significantly relative to the projections made in FCP as it turned into revenue surplus (Rs 3,449 crore) during the year. However, it was only 56 *per cent* of the projections made in the MTFRP -2007-08. The fiscal deficit, however, increased considerably relative to the projection in FCP (118 *per cent*) and the estimates of MTFRP (110 *per cent*) mainly due to increase in non-plan capital expenditure on power projects. The fiscal deficit at Rs 13,794 crore during 2007-08 was 3.97 *per cent* of the GSDP against the projection of 3.64 *per cent* in FCP and 3.6

<sup>1</sup> Debt Consolidation and Relief Facility: 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 State 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.

per cent in the MTFRP. The ratio of outstanding fiscal liabilities to GSDP also increased to 50.12 per cent against the projection of 48.9 per cent in FCP and BE of 43 per cent for the year.

### 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- 1.5** shows that the total receipts of the State Government for the year 2007-08 were Rs 1,56,674 crore. Of these, the revenue receipts were Rs 68,672 crore constituted 44 per cent of total receipts. The balance came from capital receipts (six per cent) and receipts from public account (50 per cent) (*Appendix 1.5*)

**Table 1.5 : Trends in growth and composition of aggregate receipts**

(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Revenue receipts</b>	<b>27,821</b>	<b>31,638</b>	<b>37,617</b>	<b>45,349</b>	<b>60,600</b>	<b>68,672</b>
<b>II Capital receipts</b>	<b>12,609</b>	<b>34,608</b>	<b>17,741</b>	<b>14,842</b>	<b>12,067</b>	<b>9,528</b>
Recovery of loans and advances	219	12,498	278	585	356	449
Public debt receipts	12,390	22,110	17,463	14,257	11,711	9,079
Miscellaneous capital receipts	----	----	----	----	----	----
<b>III Contingency fund</b>	<b>----</b>	<b>52</b>	<b>76</b>	<b>299</b>	<b>645</b>	<b>604</b>
<b>IV Public account receipts</b>	<b>37,327</b>	<b>46,875</b>	<b>45,213</b>	<b>52,529</b>	<b>63,075</b>	<b>77,870</b>
a. Small savings, Provident fund <i>etc.</i>	3,116	3,124	3,226	3,605	4,858	5,312
b. Reserve fund	1,829	2,222	2,710	3,182	3,074	4,019
c. Deposits and advances	6,689	12,760	12,395	16,549	15,249	19,450
d. Suspense and miscellaneous	23,854	24,072	21,787	20,952	27,430	35,808
e. Remittances	1,839	4,697	5,095	8,241	12,464	13,281
<b>Total receipts</b>	<b>77,757</b>	<b>1,13,173</b>	<b>1,00,647</b>	<b>1,13,019</b>	<b>1,36,387</b>	<b>1,56,674</b>

The total receipts of the State increased from Rs 77,757 crore in 2002-03 to Rs 1,56,674 crore in 2007-08. The public debt 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 steadily to Rs 9,079 crore in 2007-08 thereafter. Sharp increase in Public Account Receipts was mainly attributed to increase in Deposits and Advances (27.55 per cent) and Suspense and Miscellaneous (30.54 per cent) during the year. However, if the receipts under these heads are netted out against the disbursements, the net increase during the year amounts to Rs 889.63 crore under deposit and advances while it has declined by Rs 1,623.62 crore under suspense and miscellaneous heads relative to the previous year.

### 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 to the GSDP and its buoyancies are indicated in **Table – 1.6**.

**Table 1.6 : Revenue receipts - Basic parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue receipts (RR) (Rupees in crore)</b>	<b>27,821</b>	<b>31,638</b>	<b>37,617</b>	<b>45,349</b>	<b>60,600</b>	<b>68,672</b>
Own taxes ( <i>per cent</i> )	12,767 (45.89)	13,601 (42.99)	15,693 (41.72)	18,858 (41.58)	22,998 (37.95)	24,959 (36.35)
Non-tax revenue ( <i>per cent</i> )	1,913 (6.88)	2,282 (7.21)	2,720 (7.23)	2,930 (6.46)	6,533 (10.78)	5,816 (8.47)
Central tax transfers ( <i>per cent</i> )	10,832 (38.93)	13,273 (41.95)	15,055 (40.02)	18,203 (40.14)	23,218 (38.31)	29,288 (42.65)
Grants-in-aid ( <i>per cent</i> )	2,309 (8.30)	2,482 (7.85)	4,149 (11.03)	5,358 (11.82)	7,851 (12.96)	8,609 (12.53)
<b>Rate of growth of RR (<i>per cent</i>)</b>	<b>8.68</b>	<b>13.72</b>	<b>18.90</b>	<b>20.55</b>	<b>33.63</b>	<b>13.32</b>
<b>RR/GSDP (<i>per cent</i>)</b>	<b>13.43</b>	<b>13.93</b>	<b>15.25</b>	<b>16.21</b>	<b>19.37</b>	<b>19.75</b>
<b>Revenue buoyancy (ratio)<sup>1</sup></b>	<b>0.997</b>	<b>1.422</b>	<b>2.198</b>	<b>1.529</b>	<b>2.845</b>	<b>1.196</b>
<b>State's own taxes buoyancy (ratio)</b>	<b>2.708</b>	<b>0.677</b>	<b>1.788</b>	<b>1.501</b>	<b>1.857</b>	<b>0.766</b>
<b>Revenue buoyancy with reference to State's own taxes (ratio)</b>	<b>0.368</b>	<b>2.100</b>	<b>1.229</b>	<b>1.019</b>	<b>1.532</b>	<b>1.562</b>
<b>GSDP growth (<i>per cent</i>)</b>	<b>8.71</b>	<b>9.65</b>	<b>8.60</b>	<b>13.44</b>	<b>11.82</b>	<b>11.14</b>

#### *General trends*

The revenue receipts have shown an increasing trend over the periods 2002-08 with significant changes in its composition i.e. the share of States own resources have declined from 53 *per cent* in 2002-03 to 45 *per cent* in 2007-08 while the share of central transfers have correspondingly increased from 47 to 55 *per cent* during the period. Specifically, the share of own taxes in revenue receipt decreased steadily from 45.89 *per cent* to 36.35 *per cent* during the period 2002-08 and the relative share of non-tax revenue marginally improved from 6.88 *per cent* in 2002-03 to 8.47 *per cent* in 2007-08. Within the central transfers, the State's share in union taxes and duties contributed significantly during the period which has increased by 170.4 *per cent* from Rs 10,832 crore in 2002-03 to Rs 29,288 crore in 2007-08 but its share has marginally improved from 38.93 *per cent* to 42.65 *per cent* during the period. The grants from Government of India although increased from Rs 2,309 crore to Rs 8,609 crore during the period but their relative share remained between 8 to

<sup>1</sup> 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 1.20 during 2007-08 implies that revenue receipts tend to increase by 1.20 percentage points if the GSDP increases by one *per cent*.



13 *per cent* during these years. It is evident that the buoyancies of revenue receipts and State's own taxes relative to GSDP have steeply declined in 2007-08 primarily due to a significant decline in their rates of growth from 33.63 *per cent* to 13.32 *per cent* in respect of revenue receipts and from 21.95 *per cent* to 8.53 *per cent* for state's own taxes during 2007-08 over the previous year.

### **Tax revenue**

The tax revenue (Rs 24,959 crore) increased by 9 *per cent* during current year over previous year (Rs 22,998 crore). However, its percentage in revenue receipts went down from 38 *per cent* in 2006-07 to 36 *per cent* in current year. The revenue from trade tax not only contributed major share of tax revenue (60 *per cent*) but also increased 13 *per cent* over the previous year. Stamps and registration (16 *per cent*), state excise (16 *per cent*) and taxes on vehicles (five *per cent*) remained other major constituents of States' own tax revenue. **Table- 1.7** below shows the trend of tax revenue during 2002-08.

**Table 1.7 : Tax revenue**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Land revenue	64	118	102	109	188	393
Stamps and registration	2,079	2,296	2,682	2,997	4,514	3,977
State excise	2,555	2,472	2,686	3,089	3,551	3,948
Taxes on trade, sales etc.	7,124	7,684	8,888	11,285	13,279	15,023
Taxes on vehicles	619	677	776	965	1,018	1,146
Other taxes*	326	354	559	413	448	472
<b>Total</b>	<b>12,767</b>	<b>13,601</b>	<b>15,693</b>	<b>18,858</b>	<b>22,998</b>	<b>24,959</b>

\* 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 decrease of Rs 537 crore in stamps and registration during 2007-08 was mainly under sale of non- judicial stamps. Like-wise, increase of Rs 1,744 crore was under Trade/ Sales tax primarily due to increased receipts under the Sales Tax Act.

### **Non-tax revenue**

The non tax revenue receipts at Rs 5,816.01 crore in 2007-08 decreased by 10.98 *per cent* relative to the previous year comprised of receipts mainly from education, sports, art and culture (Rs 1,217.62 crore; 20.94 *per cent*), interest receipts (Rs 1,247.84 crore; 21.46 *per cent*), Miscellaneous General Services (Rs 1,153.53 crore; 19.83 *per cent* mainly on account of credit entry due to incentive given in the form of debt waiver), non-ferrous mining and metallurgical industries (Rs 395.20 crore; 6.80 *per cent*), power (Rs 342.25 crore; 5.88 *per cent*) and medium irrigation projects (Rs 319.43 crore; 5.49 *per cent*). A decline was noted in the current year primarily due to the fact that during 2006-07 State Government received an incentive of 2,127.64 crore as debt waiver for two years (2005-06 and 2006-07) while during 2007-08, an incentive of Rs 1,063.82 crore in the form

of debt waiver pertained to the current year. It was further compounded by sharp decrease of Rs 818.76 crore in receipts from the power sector relative to the previous year. These shortfalls were, however, partly counter balanced by an increase of Rs 402.66 crore under education, sports, art and culture and Rs 176.14 crore from medium irrigation projects. The States' own resources mobilization vis-à-vis assessments made by TFC and State Government in FCP for the year 2007-08 are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in FCP	Actual
	(1)	(2)	(3)
Tax Revenue	25,640.94	25,913.52	24,959.32
Non-Tax revenue	3,582.36	2,782.47	5,816.01

Non- tax revenue has exceeded the normative assessed level of TFC and the projection of the State Government in FCP while the tax revenue was below the assessments made by the TFC and also the projection of the State Government in FCP.

### ***Central Tax Transfers***

The Central tax transfers increased by Rs 6,069 crore over the previous year and constituted 43 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 2,048.56 crore), taxes on income other than corporation tax (Rs 1,838.29 crore), customs duties (Rs 1,007.33 crore) and service tax (Rs 696.99 crore).

### ***Grants-in-aid***

The grants-in aid from Government of India (GOI) increased (10 *per cent*) from Rs 7,851 crore in 2006-07 to Rs 8,609 crore in the current year. The increase was mainly under Centrally sponsored schemes (Rs 492 crore; 23 *per cent*) and non-plan grants (Rs 200 crore; 7 *per cent*), which was partly off set by decrease in State plan schemes (Rs 43 crore). Within the category of Centrally sponsored schemes, major increases were under the schemes of Urban Development (Rs 397 crore), Secondary Education (Rs 859 crore) and Labour Welfare (Rs 878 crore). The TFC had recommended release of Rs 2,307.92 crore for non-plan specific purpose, Rs 689 crore for assistance to local bodies and Rs 235.10 crore for natural calamities during 2007-08. While the GOI released grants in full in respect of maintenance of roads and bridges, heritage conservation, forestry and wild life, and assistance to local bodies but only 50 *per cent* of the grants for education (Rs 441.76 crore), medical & health (Rs 228.52 crore) and maintenance of public buildings (Rs 75.03 crore) were released during the year. It appears that State Government failed to fulfill the conditionality prescribed by TFC for the release of grants especially for the education and health sectors as a result of which the subsequent installment of grants were not released by the Government of India. Similarly, under the allocations for specific needs of the State, grant of Rs 175 crore for the development of Purvanchal and Bundelkhand area, renovation of over 100

years old collectorate buildings (Rs 15 crore), development of urban areas (Rs 10 crore for Allahabad city) was not released during the year. Details of grants-in-aid from GOI are given in **Table- 1.8**

**Table 1.8 : Grants-in-aid from GOI**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	1,223	1,347	2,400	1,916	2,838	2,795
Non plan grants	425	569	335	2,027	2,694	2,894
Grants for Central plan schemes	123	36	190	159	153	262
Grants for Centrally sponsored schemes	538	530	1224	1256	2166	2,658
<b>Total</b>	<b>2,309</b>	<b>2,482</b>	<b>4,149</b>	<b>5,358</b>	<b>7,851</b>	<b>8,609</b>
Percentage of increase/ decrease over previous year	(-) 29.86	7.49	67.16	29.14	46.53	9.65

## 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 Rs 37,537 crore in 2002-03 to Rs 82,915 crore in 2007-08. 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-1.9**

**Table 1.9 : Total expenditure – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE)* (Rupees in crore)	37,537	60,783	50,892	56,012	70,571	82,915
Rate of growth ( <i>per cent</i> )	4.63	61.93	(-) 16.27	10.06	25.99	17.49
TE/GSDP Ratio ( <i>per cent</i> )	18.12	26.77	20.64	20.02	22.56	23.85
RR /TE ratio ( <i>per cent</i> )	74.12	52.05	73.92	80.96	85.87	82.82
<b>Buoyancy of total expenditure with reference to:</b>						
GSDP (ratio)	0.532	6.418	--	0.749	2.199	1.570
RR (ratio)	0.533	4.514	--	0.490	0.773	1.313

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

The total expenditure steadily increased from Rs 37,537 crore in 2002-03 to Rs 82,915 crore in 2007-08 except a dip in 2004-05 when it fell to Rs 50,892 crore. The total expenditure during the current year increased by Rs 12,344 crore over the previous year of which revenue expenditure shared Rs 9,524 crore, capital expenditure contributed Rs 2,966 crore partially offset by decrease of Rs 146 crore in disbursement of loan and advances. The trends indicate the declining share of NPE in total expenditure significantly from 88.09 *per cent* in 2003-04 to 68.85 *per cent* in 2007-08 and the share of plan

expenditure correspondingly increased during the period. During 2007-08, the non-plan expenditure shared 81.7 *per cent* (Rs 10,086 crore) and plan expenditure shared only 18.3 *per cent* (Rs 2,258 crore) of the increase in total expenditure. The major increases under revenue expenditure were observed under salaries (Rs 1,407 crore), pension (Rs 1,287 crore), interest payment and servicing of debts (Rs 343 crore), administrative services (Rs 395 crore), social welfare and nutrition (Rs 1,687 crore), assistance to non government primary and secondary schools (Rs 1,348 crore) and water supply and sanitation (Rs 780 crore), agriculture and allied activities (Rs 673 crore), rural development (Rs 962 crore) and irrigation and flood control (Rs 491 crore). The increase in capital expenditure was primarily attributed to the increase of Rs 2,133 crore under power sector of which Rs 1,535 crore was made under non-plan head as investment in UP Electricity Corporation and Rs 598 crore under plan head for thermal power generation projects (Rs 692.45 crore) and investment in the share capital of UP Vidyut Nigam Limited (Rs 321.87 crore) which was partly offset by decrease in share capital of UP Electricity Corporation for rural electrification (Rs 443.84 crore). During the current year, 83 *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 1.57 in 2007-08 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

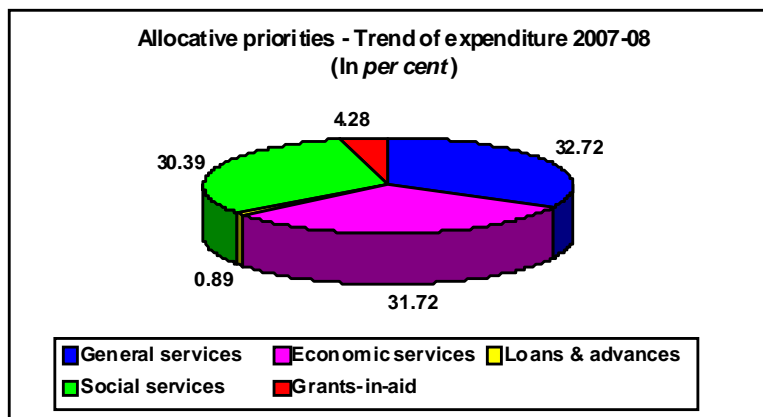
***Trends in total expenditure by activities***

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-1.10**

**Table 1.10: Components of expenditure – Relative share**

*(In per cent)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>General services</b>	42.39	32.52	45.23	37.91	35.36	32.72
<i>Of which</i> Interest payments	18.81	16.66	23.33	16.24	14.85	13.05
<b>Social services</b>	28.23	17.58	26.70	29.94	30.36	30.39
<b>Economic services</b>	24.13	45.63	23.34	26.77	29.13	31.72
<b>Grants-in-aid</b>	3.11	2.23	3.49	4.16	3.89	4.28
<b>Loans and advances</b>	2.14	2.04	1.24	1.22	1.26	0.89



The expenditure on general services went down steadily from 45.23 *per cent* in 2004-05 to 32.72 *per cent* during 2007-08. However, the share of expenditure in social services increased from 26.70 *per cent* in 2004-05 to 30.39 *per cent* in 2007-08. Like-wise, the share of expenditure on economic services also increased from 23.34 *per cent* in 2004-05 to 31.72 *per cent* in 2007-08. The disbursement of loans and advances ranged between 0.89 and 2.14 *per cents* during 2002-08. In effect, share of development expenditure increased from 50 *per cent* in 2004-05 to 62 *per cent* in 2007-08.

#### 1.4.2 Incidence of revenue expenditure

Revenue expenditure had the dominant 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-1.11**.

**Table 1.11: Revenue expenditure: Basic parameters**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue expenditure (RE)	32,939	50,221	44,610	46,617	55,699	65,223
<i>Of which</i>						
Non-plan revenue expenditure (NPRE)*	29,364 (89)	46,945 (93)	39,512 (89)	40,172 (86)	46,000 (83)	53,479 (82)
Plan revenue expenditure (PRE)*	3,575 (11)	3,276 (7)	5,098 (11)	6,445 (14)	9,699 (17)	11,744 (18)
Rate of growth ( <i>per cent</i> )						
NPRE	4.01	59.87	(-) 15.83	1.67	14.51	16.26
PRE	0.39	(-) 8.36	55.62	26.42	50.49	21.08
NPRE/GSDP ( <i>per cent</i> )	14.18	20.67	16.02	14.36	14.70	15.38
NPRE as <i>per cent</i> of TE	78.23	77.23	77.64	71.72	65.18	64.50
NPRE as <i>per cent</i> of RR	105.55	148.38	105.04	88.58	75.91	77.88
<b>Buoyancy of revenue expenditure with</b>						
GSDP (ratio)	0.414	5.437	----	0.335	1.648	1.535
Revenue receipts (ratio)	0.415	3.824	----	0.219	0.579	1.284

\*The figures in brackets under NPRE & PRE indicates its percentage to RE.

The revenue expenditure increased by 98 per cent from Rs 32,939 crore in 2002-03 to Rs 65,223 crore in 2007-08. The NPRE continued to share the dominant portion of revenue expenditure ranging between 82 and 89 per cent during 2002-08 except for 2003-04 (93 per cent) in which it increased sharply due to write off of power sector loans (Rs 12,277.40 crore). In 2007-08, the share of NPRE in RE was 82 per cent (Rs 53,479 crore) against 83 per cent in 2006-07. The plan revenue expenditure on the other hand steadily increased from seven per cent in 2003-04 to 18 per cent in 2007-08. The rate of growth in PRE reflected fluctuations varying from a decline of 8.36 per cent in 2003-04 to an increase of 21.08 per cent during the current year. The increase in NPRE during the current year was mainly due to increase in salaries and wages (Rs 1,419.92 crore), pension (Rs 1,286.65 crore) and interest payments (Rs 343 crore). The increase in PRE by Rs 2,045 crore over the previous year was mainly due to increase of (Rs 697.03 crore) under water supply, sanitation housing and urban development comprising assistance (Rs 605 crore) to Local Bodies Corporations, Urban Development Authorities, Town Improvement Boards etc., Agriculture and Allied activities (Rs 620.93 crore), Social Welfare and Nutrition (Rs. 821.03 crore) and Rural Development (Rs. 294.32 crore). The major beneficiaries under Agriculture and Allied activities were crop husbandry (Rs 252 crore), Soil and Water Conservation (Rs 224 crore) and Dairy Development (Rs100 crore) where as major share of the increase under Social Welfare and Nutrition went to welfare of aged, infirm and destitute (Rs 401 crore) and child welfare (Rs 291 crore). The benefit of the increase in Rural Development mainly went to Rural Development Programme (Rs 257 crore).

The actual non-plan revenue expenditure vis-à-vis assessments made by TFC and State Government for 2007-08 are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government		Actual NPRE
		in FCP	in MTFRP	
	(1)	(2)	(3)	(4)
Non-plan revenue expenditure	41,561.50	53,599.48	53,945.97	53,479

Although NPRE was maintained below the assessment of the Government in its FCP as well as MTFRP for the year, it was significantly on higher side by Rs 11,917.50 crore over the TFC assessment of Rs 41,561.50 crore.

#### ***1.4.3 Committed expenditure on salaries and wages***

The trends in expenditure on salaries both under plan and non-plan heads are presented in **Table- 1.12**.

Table 1.12: Expenditure on salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Expenditure on salaries &amp; wages *</b>	<b>12,348.12</b>	<b>13,603.83</b>	<b>14,332.85</b>	<b>15,652.87</b>	<b>17,946.02</b>	<b>19,352.55</b>
<i>Of which</i>						
Non-plan head	11,895.75	13,107.81	13,767.48	15,125.08	17,204.36	18,624.28
Plan head**	452.37	496.02	565.37	527.79	741.66	728.27
As per cent of GSDP	5.96	5.99	5.81	5.60	5.74	5.57
As per cent of RR	44.38	43.00	38.10	34.52	29.61	28.18

\* 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 schemes.

The expenditure on salaries and wages under non-plan during the current year was Rs 18,624.28 crore recording a growth rate of 8.25 per cent during the current year over the previous year. However, it decreased by 1.80 per cent under plan during the current year over the previous year. The salary expenditure, however, exceeded the projected expenditure (Rs 17,281.19 crore) in the FCP by Rs 2,071.36 crore. The total salary bill under non-plan head relative to non-plan revenue expenditure net of interest payments and pension payments during 2007-08 was 51 per cent which remained significantly in excess to the norm of 35 per cent as recommended by the TFC.

#### **Pension payment**

Table 1.13: Expenditure on pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Expenditure on pensions</b>	<b>2,751.13</b>	<b>2,900.10</b>	<b>3,561.15</b>	<b>3,990.80</b>	<b>4,849.59</b>	<b>6,136.24</b>
Rate of growth	15.03	5.41	22.79	12.06	21.52	26.53
As per cent of GSDP	1.33	1.28	1.44	1.43	1.55	1.76
As per cent of RR	9.89	9.17	9.47	8.80	8.00	8.94
As per cent of RE	8.35	5.77	7.98	8.56	8.71	9.41

The pension payments during the current year have increased by Rs 1,286.65 crore (26.53 per cent) due to increase in number of pensioners (38,181) over the previous year. The comparative analysis of actual pension payments and assessment/projections made by TFC and State Government (Table- 1.14) reveals that actual pension payment exceeded the limits of the assessments of TFC by Rs 621.57 crore (11 per cent) and the projected expenditure in FCP by Rs 799.64 crore (15 per cent).

Table 1.14: 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	5,514.67	5,336.60	6,136.24

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 1.15: 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)					
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
2007-08	68,672	65,223	10,820	16	17

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 2003-04 to 16 *per cent* in 2007-08 whereas it ranged between 17 *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 2007-08 over the previous year was mainly due to increase of Rs 467.02 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 10,820 crore) during 2007-08 were less than that anticipated in the State's Own FCP (Rs 12,383 crore) and MTFRP (Rs 11,061.44 crore) for the year but was above the assessment (Rs 10,318.35 crore) of the TFC.

***Subsidies***

Though the Government was paying subsidies 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- 1.16** gives these ratios during 2002-08.

**Table 1.16 : Indicators of quality of expenditure**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital expenditure</b>	<b>3,794</b>	<b>9,320</b>	<b>5,653</b>	<b>8,711</b>	<b>13,984</b>	<b>16,950</b>
<b>Revenue expenditure</b>	<b>32,939</b>	<b>50,221</b>	<b>44,610</b>	<b>46,617</b>	<b>55,699</b>	<b>65,223</b>
<i>Of which</i>						
Social and economic services with	16,191.25	29,324.05	20,066.00	23,365.55	28,657.33	35,122.97
(i) Salary & wage component <sup>1</sup>	8,390.04	9,381.13	9,848.90	10,763.58	12,379.32	13,476.95
(ii) Non-salary & wage component	7801.21	19,942.92	10,217.10	12,601.97	16,278.01	21,646.02
<b>As per cent of total expenditure</b>						
Capital expenditure	10.11	15.33	11.11	15.55	19.82	20.44
Revenue expenditure	87.75	82.62	87.66	83.23	78.93	78.66
<b>As per cent of GSDP</b>						
Capital expenditure	1.83	4.10	2.29	3.11	4.47	4.88
Revenue expenditure	15.90	22.12	18.09	16.66	17.80	18.76

Though no specific norms were laid down for prioritization of capital expenditure, the progressive increase in capital expenditure during the last three years indicates the improvement in quality of expenditure and impetus is being given to asset formation. Energy (Rs 5,216.91 crore), transport (Rs 4,381.82 crore), health and family welfare (Rs 1,074.83 crore) and irrigation and flood control (Rs 2,192.08 crore) were the beneficiary sectors where expenditure was absorbed. The expenditure on salary and wages component under social and economic services steadily went down from 51.82 per cent in 2002-03 to 38.37 per cent in 2007-08 while the non salary component of revenue expenditure registered corresponding increase during the period. Assuming that capital expenditure is incurred on creating physical and social infrastructure and non-salary component of revenue expenditure on efficient running and maintenance of social and economic services, then trends presented in the table would tend to indicate improvement in quality of development expenditure in state during the period.

### 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- 1.17** gives these ratios during 2002-08.

<sup>1</sup> Includes subsidiary grant for pay and allowances to the Government aided institutions

**Table 1.17: Expenditure on social services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, sports, art and culture</b>	<b>6,137.28</b>	<b>6,315.77</b>	<b>7,379.08</b>	<b>9,112.03</b>	<b>11,001.77</b>	<b>12,328.42</b>
<b>Revenue expenditure</b>	<b>6,067.05</b>	<b>6,254.58</b>	<b>7,272.46</b>	<b>8,789.90</b>	<b>10,704.44</b>	<b>11,675.68</b>
<i>Of which</i>						
(a) Salary & wage component	5,117.30	5,773.40	6,079.53	6,811.86	8,006.98	8,459.19
(b) Non-Salary & wage component	949.75	481.18	1192.93	1978.04	2697.46	3,216.49
<b>Capital expenditure</b>	<b>70.23</b>	<b>61.19</b>	<b>106.62</b>	<b>322.13</b>	<b>297.33</b>	<b>652.74</b>
<b>Health and family welfare</b>	<b>1,579.27</b>	<b>1,896.57</b>	<b>2,254.89</b>	<b>3,067.43</b>	<b>4,301.83</b>	<b>4,176.55</b>
<b>Revenue expenditure</b>	<b>1,565.01</b>	<b>1,753.85</b>	<b>2,037.25</b>	<b>2,595.61</b>	<b>2,820.16</b>	<b>3,101.72</b>
<i>Of which</i>						
(a) Salary & wage component	1,128.86	1,306.75	1,395.56	1,497.28	1,615.85	1,883.10
(b) Non-Salary & wage component	436.15	447.10	641.69	1,098.33	1,204.31	1,218.62
<b>Capital expenditure</b>	<b>14.26</b>	<b>142.72</b>	<b>217.64</b>	<b>471.82</b>	<b>1,481.67</b>	<b>1,074.83</b>
<b>Water supply, sanitation, housing and urban development</b>	<b>514.98</b>	<b>593.31</b>	<b>692.41</b>	<b>1,520.51</b>	<b>1,507.41</b>	<b>2,208.94</b>
<b>Revenue expenditure</b>	<b>484.32</b>	<b>528.18</b>	<b>564.64</b>	<b>753.34</b>	<b>1,188.37</b>	<b>1,968.62</b>
<i>Of which</i>						
(a) Salary & wage component	5.78	6.46	6.88	7.24	8.71	15.41
(b) Non-Salary & wage component	478.54	521.72	557.76	746.10	1,179.66	1,953.21
<b>Capital expenditure</b>	<b>30.66</b>	<b>65.13</b>	<b>127.77</b>	<b>267.17</b>	<b>319.04</b>	<b>240.32</b>
<b>Other social services</b>	<b>2,364.70</b>	<b>1,877.56</b>	<b>3,259.55</b>	<b>3,568.57</b>	<b>4,616.88</b>	<b>6,485.29</b>
<b>Revenue expenditure</b>	<b>2,191.66</b>	<b>1,817.74</b>	<b>3,215.37</b>	<b>3,470.86</b>	<b>4,535.09</b>	<b>6,339.55</b>
<i>Of which</i>						
(a) Salary & wage component	213.72	222.52	232.94	257.11	294.81	380.47
(b) Non-Salary & wage component	1,977.94	1,595.22	2,982.43	3,213.75	4,240.28	5,959.08
<b>Capital expenditure</b>	<b>173.04</b>	<b>59.82</b>	<b>44.18</b>	<b>97.71</b>	<b>81.79</b>	<b>145.74</b>
<b>Total (social services)</b>	<b>10,596.23</b>	<b>10,683.21</b>	<b>13,585.93</b>	<b>16,768.54</b>	<b>*21,427.89(31)</b>	<b>*25,199.20(30)</b>
<b>Revenue expenditure</b>	<b>10,308.04</b>	<b>10,354.35</b>	<b>13,089.72</b>	<b>15,609.71</b>	<b>19,248.06</b>	<b>23,085.57</b>
<i>Of which</i>						
(a) Salary & wage component	6,465.66 (63)	7,309.13 (71)	7,714.91 (59)	8,573.49 (55)	**9,926.35 (52)	**10,738.17 (47)
(b) Non-Salary & wage component	3,842.38 (37)	3,045.22 (29)	5,374.81 (41)	7,036.22 (45)	9,321.71 (48)	12,347.40 (53)
<b>Capital expenditure</b>	<b>288.19</b>	<b>328.86</b>	<b>496.21</b>	<b>1,158.83</b>	<b>2,179.83</b>	<b>2,113.63</b>

\* Figure in bracket indicates the percentage of expenditure on social service to total expenditure.

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

The expenditure under social sector increased from Rs 10,596 crore in 2002-03 to Rs 25,199 crore in 2007-08 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 49 per cent of developmental expenditure<sup>1</sup>. The expenditure under social services comprised *inter alia* Education, Sports, Art and Culture (Rs 12,328.42 crore; 49 per cent), Health and Family Welfare (Rs 4,176.55 crore; 16 per cent), Water Supply, Sanitation, Housing and Urban Development (Rs 2,208.94 crore; 9 per cent) and remaining in Other Social

<sup>1</sup> Developmental expenditure is defined as the total expenditure made on social and economic services.

Services (Rs 6,485.29 crore; 26 per cent). The expenditure on Education, Sports, Art and Culture increased by Rs 1,327 crore (12 per cent) mainly due to increase in assistance to educational institutions for improvement in elementary education and by Rs 702 crore (46.6 per cent) under Water Supply, Sanitation, Housing and Urban Development over the previous year.

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 under health and family welfare sector, the salary and wage component increased by 17 per cent while non-salary and wage component increased by one per cent. The salary and wage component under education sector has increased by six percent and non-salary and wage component by 19 per cent. The expenditure pattern in education and health services need slight variations to ensure the conformity to the norms of the TFC in the ensuing years.

### 1.5.3 Expenditure on economic services

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs 26,299 crore) accounted for 32 per cent of the total expenditure and 51 per cent of developmental expenditure (Table- 1.18). Energy consumed 27 per cent followed by transport (22 per cent) and irrigation and flood control (18 per cent) indicating the Government's commitment to improve the infrastructure of power supply, surface transport and irrigation and flood control in the State. The expenditure on agriculture and allied activities was 14 per cent of total expenditure on economic services against eight per cent in the previous year. As compared to 2002-03, significant increase during current year was under energy (856 per cent), transport (272 per cent) and irrigation and flood control (103 per cent) while expenditure on agriculture and allied activities increased by 86 per cent indicating low prioritization in agricultural activities.

**Table 1.18: Expenditure on economic services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, allied activities.</b>	<b>1,914.93</b>	<b>1,515.70</b>	<b>2,351.44</b>	<b>1,711.96</b>	<b>1,697.20</b>	<b>3,557.47</b>
<b>Revenue expenditure</b>	<b>1,319.21</b>	<b>1,342.36</b>	<b>1,397.11</b>	<b>1,480.40</b>	<b>1,848.72</b>	<b>2,522.06</b>
<i>Of which</i>						
(a) Salary & wage component	607.96	664.70	696.54	801.15	892.91	979.56
(b) Non-Salary & wage component	711.25	677.66	700.57	679.25	955.81	1,542.50
<b>Capital expenditure</b>	<b>595.72</b>	<b>173.34</b>	<b>954.33</b>	<b>231.56</b>	<b>(-) 151.52<sup>1</sup></b>	<b>1,035.41</b>

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

<b>Irrigation and flood control</b>	<b>2,265.02</b>	<b>2,221.39</b>	<b>2,459.00</b>	<b>3,032.00</b>	<b>4,292.85</b>	<b>4,603.03</b>
<b>Revenue expenditure</b>	<b>1,536.82</b>	<b>1,480.41</b>	<b>1,580.34</b>	<b>1,390.73</b>	<b>1,919.72</b>	<b>2,410.95</b>
<i>Of which</i>						
(a) Salary & wage component	550.18	605.33	645.29	636.53	910.90	992.35
(b) Non-Salary & wage component	986.64	875.08	935.05	754.20	1,008.82	1,418.60
<b>Capital expenditure</b>	<b>728.20</b>	<b>740.98</b>	<b>878.66</b>	<b>1,641.27</b>	<b>2,373.13</b>	<b>2,192.08</b>
<b>Power &amp; energy</b>	<b>745.78</b>	<b>1,9673.49</b>	<b>2,490.08</b>	<b>2,161.13</b>	<b>4,953.55</b>	<b>7,131.02</b>
<b>Revenue expenditure</b>	<b>413.76</b>	<b>13,438.68</b>	<b>1,443.89</b>	<b>1,401.05</b>	<b>1,869.80</b>	<b>1,914.11</b>
<i>Of which</i>						
(a) Salary & wage component	----	----	----	----	----	6.05
(b) Non-Salary & wage component	413.76	13,438.68	1,443.89	1,401.05	1,869.80	1,908.06
<b>Capital expenditure</b>	<b>332.02</b>	<b>6,234.81</b>	<b>1,046.19</b>	<b>760.08</b>	<b>3,083.75</b>	<b>5,216.91</b>
<b>Transport</b>	<b>1,554.05</b>	<b>1,613.14</b>	<b>1,709.58</b>	<b>3,951.52</b>	<b>5,892.37</b>	<b>5,785.44</b>
<b>Revenue expenditure</b>	<b>704.48</b>	<b>709.22</b>	<b>517.42</b>	<b>764.53</b>	<b>1,335.07</b>	<b>1,403.62</b>
<i>Of which</i>						
(a) Salary & wage component	23.34	25.41	27.09	28.95	32.61	38.46
(b) Non-Salary & wage component	681.14	683.81	490.33	735.58	1,302.46	1,365.16
<b>Capital expenditure</b>	<b>849.57</b>	<b>903.92</b>	<b>1,192.16</b>	<b>3,186.99</b>	<b>4,557.30</b>	<b>4,381.82</b>
<b>Other economic services</b>	<b>2,579.78</b>	<b>2,713.44</b>	<b>2,867.87</b>	<b>4,138.09</b>	<b>3,723.79</b>	<b>5,222.30</b>
<b>Revenue expenditure</b>	<b>1,908.94</b>	<b>1,999.03</b>	<b>2,037.51</b>	<b>2,719.13</b>	<b>2,435.96</b>	<b>3,786.66</b>
<i>Of which</i>						
(a) Salary & wage component	742.90	776.57	765.06	723.46	616.55	722.36
(b) Non-Salary & wage component	1,166.04	1,222.46	1,272.45	1,995.67	1,819.41	3,064.30
<b>Capital expenditure</b>	<b>670.84</b>	<b>714.41</b>	<b>830.36</b>	<b>1,418.96</b>	<b>1,287.83</b>	<b>1,435.64</b>
<b>Total (economic services) *</b>	<b>9,059.56</b>	<b>27,737.16</b>	<b>11,877.97</b>	<b>14,994.70</b>	<b>20,559.76</b>	<b>26,299.26</b>
	(24)	(46)	(23)	(27)	(29)	(32)
<b>Revenue expenditure</b>	<b>5,883.21</b>	<b>18,969.70</b>	<b>6,976.27</b>	<b>7,755.84</b>	<b>9,409.27</b>	<b>12,037.40</b>
<i>Of which</i>						
(a) Salary & wage component **	1,924.38	2,072.01	2,133.98	2,190.09	2,452.97	2,738.78
	(33)	(11)	(31)	(28)	(26)	(23)
(b) Non-salary & wage component	3,958.83	16,897.69	4,842.29	5,565.75	6,956.30	9,298.62
<b>Capital expenditure</b>	<b>3,176.35</b>	<b>8,767.46</b>	<b>4,901.70</b>	<b>7,238.86</b>	<b>11,150.49</b>	<b>14,261.86</b>

\* The figure in bracket 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.

The trend in rate of growth of capital and revenue expenditure on economic services indicates that capital expenditure relative to total expenditure on economic services consistently increased from 41.27 per cent during 2004-05 to 54.23 per cent during the current year while the relative share of revenue expenditure declined from 58.73 per cent to 45.77 per cent during the period. An increase of 28 per cent in capital expenditure during the current year over the previous year was mainly due to increase in power and energy (69 per cent) and agriculture and allied activities<sup>1</sup>, partly offset by transport, irrigation and flood control. An increase of 28 per cent during current year

<sup>1</sup> From (-) Rs151.52 crore in 2006-07 to Rs1,035.41 crore in 2007-08

over previous year in revenue expenditure was mainly due to increase in irrigation and flood control (26 per cent) and agricultural and allied activities (36 per cent). Within the revenue expenditure, the salary component decreased from 33 per cent in 2002-03 to 23 per cent in 2007-08 except for 2003-04 wherein it was only eleven per cent mainly due to steep increase (Rs 12,939 crore) in non-salary expenditure over 2002-03 owing to write off of Power Sector loans of Rs 12,277.40 crore. The non-salary component on the other hand correspondingly increased from 67 to 77 per cent during the period which might be considered as an indicative of improvement in the level of maintenance of capital assets and quality of services under economic sector.

#### 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 2002-08 is presented in **Table- 1.19**.

**Table 1.19: Financial assistance by Government to local bodies and other institutions**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational institutions (aided schools, aided colleges, universities, etc.)	1.64	703.08	181.00	1,575.66 <sup>1</sup>	1,381.81	1,507.72
Municipal corporations and municipalities	77.40	68.73	89.99	452.01	365.24	354.42
Zila parishads and other panchayati raj institutions	----	---	1,115.18	1,691.31	1194.18	2,916.47
Development agencies	----	835.46	288.49	361.02	479.57	843.46
Hospital and other charitable institutions	37.62	244.66	248.13	504.33	376.37	560.41
Other institutions <sup>2</sup>	641.87	1,600.90	1,617.02	1,851.11	4,287.23	8,649.45
<b>Total</b>	<b>758.53</b>	<b>3,452.83</b>	<b>3,539.81</b>	<b>6,435.44</b>	<b>8,084.40</b>	<b>14,831.93</b>
Assistance as per percentage of RE	2	7	8	12	15	23

The grants and loan extended to local bodies and other institutions increased by 83 per cent from Rs 8,084.40 crore in 2006-07 to Rs 14,831.93 crore during the current year. The share of grants and loans in revenue expenditure also increased from two per cent in 2002-03 to 23 per cent in the current year. Another important trend was that share of financial assistance to Zila Parishads and Panchayati Raj Institutions increased by Rs 1,722.29 crore over previous year mainly due to receipt of Rs 388.55 crore for implementation of four<sup>3</sup> new schemes and also enhanced receipt of Rs 878.40 crore on the recommendations of the TFC against Rs 292.80 crore in the previous year. The share of other institutions in total financial assistance by the State Government more than doubled (Rs 8,649.45 crore) in 2007-08 from Rs 4,287.23 crore in 2006-07 mainly due to release of fund to Uttar Pradesh Rajya Vidyut Utpadan Nigam (Rs 1,026 crore) for establishing Thermal Power Station at Anpara and to Uttar Pradesh Power Corporation (Rs 1,561.54 crore) for strengthening of transmission and distribution network (Rs 441.57 crore) and rural electrification (Rs 477 crore). During 2007-08, the major beneficiaries under the head 'development agencies' was Lucknow Development Authority (Rs 377.58 crore) and under hospital and charitable

<sup>1</sup> 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)

<sup>2</sup> Sugar commissioner: Rs 424.50 crore; Director of Industries: Rs 284.98 crore; Director of Agriculture: Rs 240.70 crore; Minor Irrigation: Rs 204.23 crore and Director Handicapped welfare: Rs 200.34 crore etc.

<sup>3</sup> Underground drainage construction, Nali-Kharanja (Grant No.81&83), Backward area grant fund.

institutions was Sanjay Gandhi Post Graduate Institute, Lucknow (Rs 102.95 crore).

#### ***1.5.5 Delay in furnishing utilization certificates***

Of the 4,291 utilization certificates (UCs) due in respect of grants and loans aggregating Rs 9,461.94 crore paid upto 2006-07, 1,678 UCs (39 per cent) for an aggregate amount of Rs 1,822.18 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 and 15 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. As of September 2008, seven departments of the Government have not furnished details as such, for the year 2007-08, three departments for the period 2006-08 and one department for the period 2005-08 as shown in ***Appendix-1.8***.

#### **1.5.7 Abstract of performance of the autonomous bodies**

The audit of accounts of eight bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to Audit and issuance of Separate Audit Reports (SAR) as of September 2008 is indicated in ***Appendix-1.9***. It would be seen that accounts of two bodies were in arrears for three years, three bodies for two years and two bodies for one year. SAR of UP Khadi and Gramodyog Board Lucknow was pending from 2004-05 due to non entrustment of audit for the period 2004-14.

### **1.6 Misappropriations, losses, defalcations, etc.**

State Government reported 136 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs 5.37 crore up to the period March 2008. Action on these cases was pending. The department-wise break up of pending cases is given in ***Appendix 1.10***.

### **1.7 Assets and liabilities**

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts 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 2008, compared with the corresponding position as on 31 March 2007. 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 15, 541 crore (16.58 per cent) and liabilities grew by Rs 12,092 crore (7.46 per cent) over previous year and continued the trend from earlier years. High

priority on capital outlay and increase in expenditure on developmental activities had a favourable impact on asset creation. Though during the current year, the assets have increased substantially, the ratio of assets to liabilities remained at 0.63. Thus, 37 per cent of the liabilities did not have asset back up. Moreover, the ratio of fiscal liabilities to GSDP was 50.12 per cent against 52.02 per cent in the preceding year.

### 1.7.1 Financial analysis of Government investments

#### Financial results of Irrigation Works

The receipts (Rs 353.22 crore) from the major, medium and minor irrigation projects during 2007-08 was only 15.61 per cent of the expenditure of Rs 2,263 crore on their operations and maintenance which was much below the cost recovery assessment of 70 per cent of the TFC for the year.

As per Finance Accounts for the year 2007-08, the financial results of 16 major irrigation projects with a capital outlay of Rs 4,631 crore at the end of March 2008 showed that revenue realized (Rs 289.94 crore<sup>1</sup>) from these projects during 2007-08 increased to 6.26 per cent of the capital outlay from 0.63 per cent in the previous year and was sufficient to cover only the interest on capital investment (Rs 245.90 crore) during 2007-08. After meeting out the working and maintenance expenditure (Rs 475.77 crore), the schemes suffered a net loss of Rs 431.73 crore as against Rs 492 crore in previous year.

#### Incomplete Projects

The position of incomplete projects (each costing above Rs. five crore) as on 31 March 2008 is given in **Table- 1.20** on the basis of information made available by Irrigation and Public Works Department.

**Table 1.20: 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 expenditure as on 31.3.2008
Irrigation	43	2,599.00	5,709.77	8,308.77	5,759.72
PWD	10	110.68	68.90	179.58	103.48
<b>Total</b>	<b>53</b>	<b>2,709.68</b>	<b>5,778.67</b>	<b>8,488.35</b>	<b>5,863.20</b>

It is evident from the table that the expenditure of Rs 5,863.20 crore (March 2008) remained largely unfruitful besides cost escalation of Rs 5,778.67 crore. Further, there was a time overrun of one to 33 years in completion of major and medium irrigation projects whereas it was three to eight years in respect of the projects of PWD. In Irrigation Department, Saryu Canal Project was incomplete despite the expenditure of Rs 2,114.26 crore (with cost escalation of Rs 2,443.34 crore and time over run of 33 years). Bansagar project also was not completed despite the expenditure of Rs 1,290.35 crore (cost escalation of Rs 1,547.28 crore and time over run of 30 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.

<sup>1</sup> Increase in revenue realization by Rs 262.98 crore in the current year over the previous year was due to depiction of revenue realization (Rs 265.14 crore) of Ghagra Canal during this year.

**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 1.11** and **Appendix 1.12**. The investment made by the Government in departmental commercial undertakings and summarized financial results of these are given in **Appendix 1.13**.

There were 11 departmental commercial undertakings under the State Government (including one undertaking whose accounts were not rendered since inception) in which Government had invested Rs 544.76 crore as of March 2008. Of these, one undertaking did not prepare since its inception while two undertakings for one year, one undertaking for two years and two undertakings over 20 years did not prepare their accounts.

The statement showing the summarized financial results of Government commercial and quasi commercial undertakings revealed that one undertaking each under Animal Husbandry Department, Food & Civil Supplies Department and Health Department had no returns on their mean capital (Rs 678.04 crore) during 2007-08. While two undertakings under the Irrigation Department had a negative mean capital, four irrigation workshop divisions of the Department, had returns of 6.98 *per cent* on their mean capital during the year.

**Government investments and returns**

As of 31 March 2008, Government had invested Rs 12,188.76 crore in Statutory Corporations (Rs 374.41 crore), Government Companies (Rs 11,342.30 crore), Joint Stock Companies (Rs 0.10 crore) and Co-operatives societies and federations (Rs 471.95 crore) (**Table- 1.21**). The return on this investment ranged between 0.001 *per cent* and 0.08 *per cent* during 2002-08 while the Government paid interest at an average rate of 6.43 to 9.47 *per cents* on its borrowings during 2002-08. As against the investment of Rs 11,342.30 crore in 71 Government Companies, only one declared dividend of Rs 0.15 crore in 2007-08.

**Table 1.21: Return on investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing	Difference between interest rate and per centage of return
	(Rs. in crore)			(per cent)	
2002-03	9,049.70	7.26	0.08	7.22	7.14
2003-04	9,412.65	7.40	0.07	9.13	9.06
2004-05	9,535.57	--	--	9.47	9.47
2005-06	15,464.60	0.15	0.001	6.49	6.49
2006-07	18,545.82	0.85	0.005	6.74	6.74
2007-08	12,188.76 <sup>1</sup>	1.05	0.009	6.43	6.42

The accumulated losses of the PSUs at the end of March 2008 could not be worked out due to non availability of their updated accounts. However, as per

<sup>1</sup> Excludes Rs 9,688.71 crore pending reconciliation



available accounts of the PSUs under Transport (2006-07) and Power Sectors (2003-08) the accumulated losses stood at Rs 12,176.39 crore at the end of March 2008. Despite the write off of power sector loan of 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 6,664.12 crore as of 31 March 2006 (*Appendix 1.14*). The accumulated loss reported by UP State Road Transport Corporation at the end of 2006-07 was of Rs 851.85 crore. Thus, the trend of extremely low returns/ losses in relation to huge funds locked up in State Level Public Enterprises (SLPEs) vitiated the basic objective of setting them up for the cost effective delivery of services to the public in the State.

#### *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 2008, were Rs 8,985 crore (**Table- 1.22**) under Economic Services (Rs 6,619.94 crore), Social Services (Rs 1,617.72 crore) and General Services (Rs 747.18 crore). Under the Economic Services, major portion of the outstanding loans pertained to the Energy (Rs 3,160.89 crore), Industries and Minerals (Rs 2614.16 crore) and Agriculture and Allied Activities (Rs 525 crore). Under the Social Services sector, the major recipients of government loans included Water Supply and Sanitation (Rs 1,139.19 crore) and Urban Development (Rs 430 crore). The major portion of the loans during 2007-08 were given to Consumer Industries (Rs 228.20 crore) under the Economic Services and Water Supply and Sanitation (Rs 197.43 crore) under Social Services. Interest received against these loans advanced was 0.35 *per cent* during 2007-08 as against 0.55 *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 9.47 *per cent* and 6.43 *per cent* indicating that interest receipts were not adequate to cover the interest liabilities required to service the Debt.

**Table 1.22: Average interest received on loans advanced by the State Government**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening balance	18,379	18,965	7,709	8,061	8,160	8,692
Amount advanced during the year	805	1242	629	684	888	742
Amount repaid during the year	219	12498	278	585	356	449
Closing balance	18,965	7,709	8,060	8,160	8,692	8,985
Net addition	586	(-) 11256	351	99	531	293
Interest received	42	187	106	62	48	31
Interest received to loans and advances (in <i>per cent</i> )	0.22	2.43	1.31	0.76	0.55	0.35
Average interest paid by the State Government to fiscal liabilities (in <i>per cent</i> )	7.22	9.13	9.47	6.49	6.74	6.43
Difference between interest received and paid ( <i>per cent</i> )	(-) 7.00	(-) 6.70	(-) 8.16	(-) 5.73	(-) 6.19	(-) 6.08

### **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. WMAs and overdrafts availed, the number of occasions it was availed and interest paid by the State during 2002-08 is detailed in **Table- 1.23**. It is evident from the table that the fiscal reforms initiated by the State Government made a visible impact of improvement in its financial health during 2007-08 and enabled the State to avoid WMA and overdraft for last two years.

The State Government's cash balances at the end of the current year amounted to Rs 15,200.16 crore. The major portion of which (Rs 14,945.56 crore) is invested in the cash balance investment account. Further, an amount of Rs 45.20 crore is invested in earmarked funds. The Government purchased treasury bills amounting to Rs 1,52,903.41 crore and sold these for earning Rs 866.19 crore as interest during current year.

**Table 1.23: Ways and means and overdrafts of the State and interest paid thereon**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and means advances</b>						
Availed in the year	7,663.83	11,526.87	13,982.12	2,707.99	-----	-----
Number of occasions	115	147	158	30	-----	-----
Outstanding WMAs, if any	-----	-----	25.48	-----	-----	-----
Interest paid	28.67	34.08	40.91	4.56	-----	-----
Number of days	224	322	324	48	-----	-----
<b>Overdraft</b>						
Availed in the year	3,753.64	4,904.18	6,268.88	373.16	-----	-----
Number of days	88	100	98	11	-----	-----
Interest paid	4.31	9.56	8.23	0.57	-----	-----

## 1.8 Un-discharged liabilities

According to State FRBM 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.

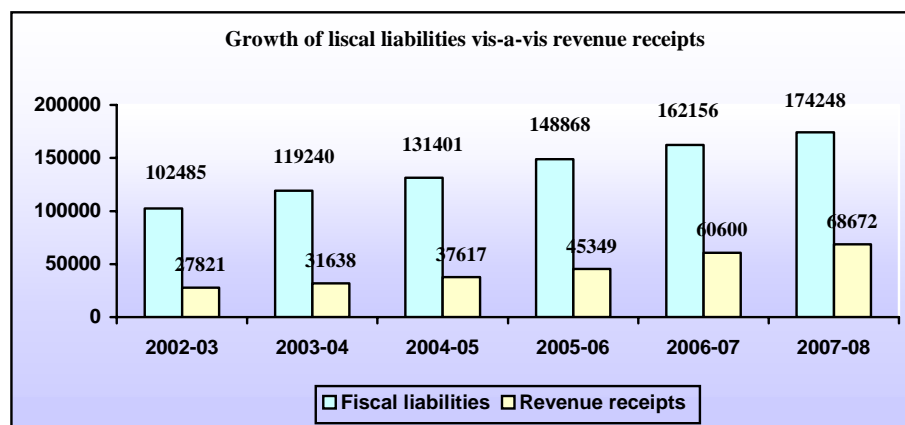
### 1.8.1 Fiscal liabilities – Public debt and guarantees

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-1.24** 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 1.24: Fiscal liabilities – Basic parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal liabilities (Rupees in crore)	1,02,485	1,19,240	1,31,401	1,48,868	1,62,156	1,74,248
Rate of growth ( <i>per cent</i> )	10.22	16.35	10.20	13.29	8.93	7.46
<b>Ratio of fiscal liabilities to</b>						
GSDP ( <i>per cent</i> )	49.49	52.51	53.28	53.21	51.83	50.12
Revenue receipts ( <i>per cent</i> )	368.4	376.9	349.3	328.3	267.6	253.7
Own resources ( <i>per cent</i> )	698.1	750.7	713.6	683.9	549.1	566.2
<b>Buoyancy of fiscal liabilities to</b>						
GSDP (ratio)	1.173	1.694	1.186	0.989	0.755	0.670
Revenue receipts (ratio)	1.177	1.192	0.540	0.647	0.265	0.560
Own resources (ratio)	0.483	1.995	0.640	0.730	0.251	1.768



The Overall fiscal liabilities of the State increased from Rs 1,02,485 crore in 2002-03 to Rs 1,74,248 crore in 2007-08. Fiscal liabilities of the State comprised Consolidated Fund Liabilities and Public Account Liabilities. The Consolidated Fund Liabilities (Rs 1, 07,720 crore) comprised of market loans (Rs 86,577 crore) and loans from Government of India (Rs 21,142 crore). The Public Account Liabilities (Rs 66,528 crore) comprised of small savings, provident fund (Rs 22,414 crore), and interest bearing obligations (Rs 4,795 crore) and non- interest bearing obligations (Rs 39,319 crore). The growth rate was 7.46 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP also increased from 49.49 *per cent* in 2002-03 to 50.12 *per cent* in 2007-08. These liabilities stood at 2.54 times the revenue receipts and 5.66 times of the States' own resources at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 0.670 indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.67 *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 2008, the outstanding balance in sinking fund was Rs 21,491.32 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 2002-03 are given in **Table- 1.25**.

**Table 1.25: 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
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
2007-08	18,144	12,736	68,672	26.42

Despite the fact FRBM Act, 2004 laid down that the State Government 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, Government has not enacted any law or framed any rules for fixing the ceiling limit on the guarantees given by the State Government on its consolidated Fund. As a result, it is not possible to make observation on the maximum or outstanding guarantees of State government in

a year. The Government has also not set up any fund for meeting contingent liabilities, which may arise on invoking of the guarantees as recommended by the TFC. Therefore, the guarantee fee charged by the Government on the outstanding guarantees form the part of the revenue receipts rather than being kept in the designated Fund to meet any eventuality of invoking of the state guarantees.

### ***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- 1.24**, 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 2008) that the State Government 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 1.26: Debt sustainability–Interest rate and GSDP growth**

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>GSDP growth rate</b>	8.71	9.65	8.60	13.44	11.82	11.14
<b>Average interest rate</b>	7.22	9.13	9.47	6.49	6.74	6.43
<b>Interest spread</b>	1.49	0.52	(-) 0.87	6.95	5.08	4.71
<b>Previous year's Fiscal liabilities (Rs in crore)</b>	92,982	1,02,485	1,19,240	1,31,401	1,48,868	1,62,156
<b>Quantum spread (Rs in crore)</b>	1,385	533	(-) 1,037	9,132	7,562	7,638
<b>Primary deficit(-)/ surplus(+) (Rs in crore)</b>	(-) 2,437	(-) 6,523	(-) 1,124	(-) 980	(+) 862	(-) 2,974

**Table- 1.26** reveals that quantum spread together with primary deficit has been negative during 2002-05 indicating rising debt-GSDP ratios during those years. It was only from 2005-06, the quantum spread together with primary deficit turned into positive resulting in decline debt/ GSDP ratio to 50.12 per cent in 2007-08. These trends indicate the State may be able to stabilize its debt in ensuing years provided it contains its fiscal and primary deficits within sustainable limits.

### 1.9.2 Sufficiency of non-debt receipts

The debt sustainability could significantly be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table- 1.27** indicates the resources gap as defined for the period 2002-08.

**Table 1.27: Incremental revenue receipts and revenue expenditure**

(Rs in crore)

Period	Incremental				Resource gap
	Non-debt receipts	Primary expenditure	Interest payments	Total expenditure	
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
2007-08	8,165	12,001	343	12,344	(-) 4,179

The positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run while the negative resource gap indicates otherwise. The oscillations between the negative and positive resources gaps during the period 2002-08 indicate towards the need for sustainability in its incremental non debt receipts which widely fluctuated during the period 2002-08.

### 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-1.28** 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 1.28: Net availability of borrowed funds**

(Rs in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt</b>						
Receipt	9,282	19,029	14,597	13,931	11,332	8,710
Repayment (principal + interest)	3,895	7,545	10,412	10,286	10,725	11,657
Net fund available	5,387	11,484	4,185	3,645	607	(-) 2,947
Net fund available ( <i>per cent</i> )	58	60	29	26	5	(-) 34
<b>Loans and advances from GOI</b>						
Receipt	3,108	3,081	2,841	326	379	369
Repayment (principal + interest)	7,747	10,673	9,640	3,110	4,022	2,906
Net fund available	(-) 4,639	(-) 7,592	(-) 6,799	(-) 2,784	(-) 3,643	(-) 2,537
Net fund available ( <i>per cent</i> )	(-) 149	(-) 246	(-) 239	(-) 854	(-) 961	(-) 688
<b>Other obligations</b>						
Receipt	11,556	18,025	18,238	23,184	22,972	28,505
Repayment (principal + interest)	9,334	15,285	15,361	15,651	17,125	21,749
Net fund available	2,222	2,740	2,877	7,533	5,847	6,756
Net fund available ( <i>per cent</i> )	19.23	15.20	15.77	32.49	25.45	23.70
<b>Total liabilities</b>						
Receipt	23,946	40,135	35,676	37,441	34,683	37,584
Repayment (principal + interest)	20,976	33,503	35,413	29,047	31,872	36,312
Net fund available	2,970	6,632	263	8,394	2,811	1,272
Net fund available ( <i>per cent</i> )	12.40	16.52	0.74	22.42	8.10	3.38

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 2002-08. During the current year, the Government repaid internal debt: Rs 4,178.70 crore, Government of India loans: Rs 1,190.70 crore and also discharged other obligations of Rs 20,123 crore along with interest of Rs 10,820 crore as a result of which percentage of availability of borrowed funds declined to 3.38 *per cent*. The trends presented in the Table indicate wide fluctuations in debt redemption ratio which varied 99 *per cent* in 2004-05 to 78 *per cent* in 2005-06 indicating that more than 3/4<sup>th</sup> of the borrowed funds were being used to discharge the State's past debt obligations.

### 1.10 Management of deficits

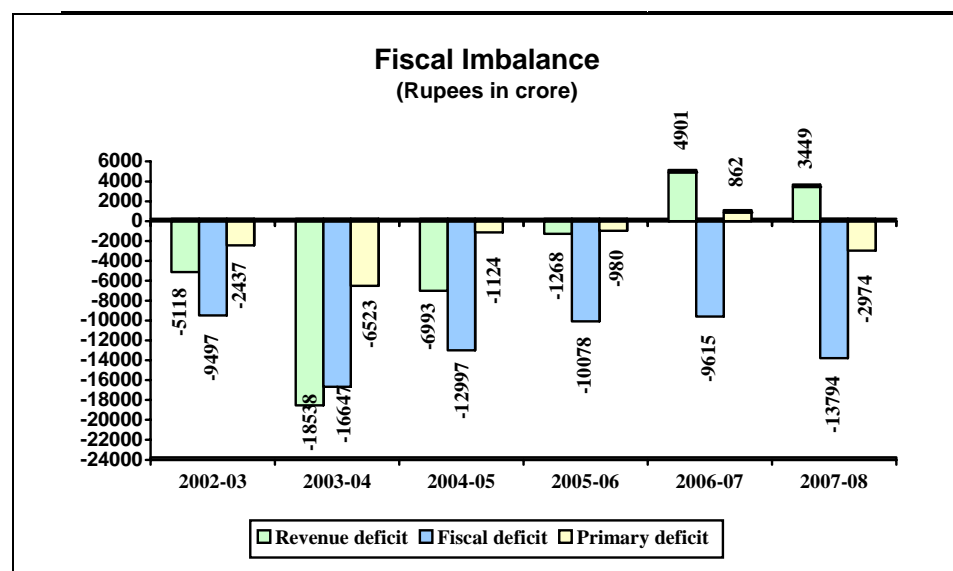
The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers 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- 1.29**

**Table 1.29: Fiscal imbalances-Basic parameters**  
(Values: Rupees in crore and ratios in *per cent*)

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (-)/Surplus (+)	(-)5,118	(-)18,583	(-)6,993	(-)1,268	(+)4,901	(+) 3,449
Fiscal deficit (-)/Surplus (+)	(-)9,497	(-)16,647	(-)12,997	(-)10,078	(-)9,615	(-) 13,794
Primary deficit (-)/Surplus (+)	(-)2,437	(-)6,523	(-)1,124	(-)980	(+)862	(-) 2,974
RD/GSDP ( <i>per cent</i> )	2.47	8.18	2.84	0.45	----	----
FD/GSDP ( <i>per cent</i> )	4.59	7.33	5.27	3.60	3.07	3.97
PD/GSDP ( <i>per cent</i> )	1.18	2.87	0.46	0.35	----	0.86
RD/FD ( <i>per cent</i> )	53.89	111.63	53.80	12.58	----	----



**Table- 1.29** reveals that the revenue account experienced a situation of huge deficit during the period of 2002-05 which hovered around an average of Rs 10,231 crore during these years. The revenue deficit was reduced sharply to Rs 1,268 crore during 2005-06 and the revenue account turned into a revenue surplus of Rs 4,901 crore in 2006-07 which, however, declined to Rs 3,449 crore during 2007-08. The decline was mainly on account of increase of Rs 9,524 crore in revenue expenditure against the increase of Rs 8,072 crore in revenue receipts in 2007-08 relative to the previous year. Despite the fact that central transfers contributed around 85 *per cent* (Rs 6,828 crore) in the incremental revenue receipts (Rs 8,072 crore) during 2007-08, the lower growth rate in revenue receipts was primarily on account of sluggish growth rate of 8.53 *per cent* (Rs 1,961 crore) in State's own tax revenue as compared to 22 *per cent* (Rs 4,140 crore) in the previous year resulting in decline in revenue surplus in the current year.



Even with a revenue surplus of Rs 3,449 crore in 2007-08, the fiscal deficit, which represented the total borrowings of the Government and its total resource gap, increased from Rs 9,615 crore in 2006-07 to Rs 13,794 crore in 2007-08 mainly due to sharp increase in capital expenditure by Rs 2,966 crore (21.21 *per cent*) during the year. As result, relative to GSDP fiscal deficit has increased from 3.07 *per cent* in 2006-07 to 3.97 *per cent* thus moving away from the norm of 3 *per cent* to be achieved by the State by the end of 2009 as per the FRBM Act, 2004. Despite an increase of Rs 343 crore in interest payments, primary surplus of Rs 862 crore turned into a huge deficit of Rs 2,974 crore primarily due to the sharp deterioration in fiscal deficit (Rs 4,179 crore ) in 2007-08 relative to the previous year.

### 1.10.2 Quality of deficit/ surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit<sup>1</sup> 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 in 2006-07 which was maintained during the current year although its quantum declined by 30 *per cent* relative to the previous year. This trajectory shows that the borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset back up of the State during 2007-08.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table- 1.30**) that during 2002-06 and 2007-08 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 expenditure<sup>2</sup> 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 which however, again turned into deficit during the current year. 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.

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

<sup>2</sup> 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.

**Table 1.30: Primary deficit/ surplus – Bifurcation of factors**

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Non debt receipts vis-à-vis Primary Revenue Expenditure	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
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
2007-08	69,121	54,403	16,950	742	72,095	(+) 14,718	(-) 2,974

### 1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.31** below presents a summarized position of Government finances over 2002-2008 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 1.31: Indicators of fiscal health**

(in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
<b>I Resource mobilization</b>						
Revenue receipt/GSDP	13.43	13.93	15.25	16.21	19.37	19.75
Revenue buoyancy	0.997	1.422	2.198	1.529	2.845	1.196
Own tax/GSDP	6.16	5.99	6.36	6.74	7.35	7.18
<b>II Expenditure management</b>						
Total expenditure/GSDP	18.12	26.77	20.64	20.02	22.56	23.85
Revenue receipts/Total expenditure	74.12	52.05	73.92	80.96	85.87	82.82
Revenue expenditure/Total expenditure	87.75	82.62	87.66	83.23	78.93	78.66
Salary & wage expenditure on social and economic services / Revenue expenditure	11.06	7.94	9.33	9.39	8.73	20.66
Non-salary & wage expenditure on social and economic services / Revenue expenditure	38.09	50.45	35.65	40.73	42.72	33.19
Capital expenditure/Total expenditure	10.33	15.65	11.25	15.74	19.82	20.44
Capital expenditure on social and economic services/Total expenditure.	9.23	14.97	10.61	14.99	18.89	19.75
Buoyancy of TE with RR	0.533	4.514	(-) 0.861	0.490	0.773	1.313
Buoyancy of RE with RR	0.415	3.824	(-) 0.591	0.219	0.579	1.284
<b>III Management of fiscal imbalances</b>						
Revenue deficit(-)/ surplus (+) (Rs. in crore)	(-) 5,118	(-) 18,583	(-) 6,993	(-) 1,268	(+)4,901	(+)3,449
Fiscal deficit (-) (Rs. in crore)	(-) 9,497	(-) 16,647	(-) 12,997	(-) 10,078	(-) 9,615	(-) 13,794
Primary deficit (-) (Rs. in crore)	(-) 2,437	(-) 6,523	(-) 1,124	(-) 980	(+)862	(-) 2,974
Revenue deficit(-)/ surplus (+) /Fiscal deficit	(-) 53.89	(-) 111.63	(-) 53.80	(-) 12.58	----	-----

<b>IV Management of fiscal liabilities</b>						
Fiscal liabilities/GSDP	49.5	52.5	53.3	53.2	51.8	50.1
Fiscal liabilities/RR	368.4	376.9	349.3	328.3	267.6	253.7
Buoyancy of FL with RR	1.177	1.192	0.540	0.647	0.265	0.560
Buoyancy of FL with own receipt	0.483	1.995	0.640	0.730	0.251	1.768
Interest spread	1.49	0.52	(-) 0.87	6.95	5.08	4.71
Net funds available	12.40	16.52	0.74	22.42	8.10	3.38
<b>V Other fiscal health indicators</b>						
Return on investment	7.26	7.40	--	0.15	0.85	1.05
Balance from current revenue (Rs. in crore)	(-) 1,918	(-) 15,401	(-) 3,413	4,482	12,314	12,536
Financial assets/liabilities	0.55	0.46	0.45	0.51	0.58	0.63

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 showed continued improvement year after year and was 19.75 per cent during 2007-08 with an increase of about two per cent over previous year. The improvement in this ratio was attributable mainly to nearly two fold increases in State's share in Union taxes and 95 per cent increase in tax revenue during 2002-08. The ratio of own taxes to GSDP also showed continued improvement all along the periods 2002-08 except for 2003-04 and 2007-08 when it declined marginally. Despite these improvements, the ratio of own taxes to GSDP had been less than those projected in the FCP all along the period. During 2007-08 also, this ratio (7.18 per cent) was, however, below both the projections made in the FCP (8.04 per cent) and the BE (8 per cent).

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 showed a declining trend continuously from 87.66 per cent in 2004-05 to 78.66 per cent in 2007-08. As a result, the share of CE in TE steadily went up to 20.44 per cent in 2007-08 from 11.25 percent in 2004-05. The higher buoyancy ratio of total expenditure with respect to revenue receipts also indicated the propensity of the State Government to create assets by resorting to, *inter alia*, capital expenditure. The revenue receipts to finance the total expenditure increased significantly from 52.05 per cent in 2003-04 to 83 per cent in 2007-08. Rising trend of the share of RR in TE indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan and capital expenditure in the total expenditure also indicates improvement in both development and quality of expenditure.

Revenue surplus was maintained consecutively for the second year in 2007-08 although it declined by Rs 1,452 crore relative to the previous year. The fiscal deficit increased by Rs 4,179 crore as result relative to GSDP it increased by 0.9 percentage points in the current year from 3.07 in 2006-07. The balance

from current revenue (BCR) (Rs 12,536 crore) although marginally increased by 222 crore over the previous year but it indicates the availability of funds for plan and development purposes. The steep increase in capital expenditure as well as keeping significantly high level of loans and advances resulted in a steep increase in the ratio of assets to financial liabilities from 0.51 in 2005-06 to 0.58 in 2006-07 and further to 0.63 in 2007-08. However, still 37 per cent of fiscal liabilities of the State do not have the asset back up as on 31 March 2008.

### **1.12 Conclusion**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit and primary deficit – has shown deterioration in 2007-08 relative to previous year. Not only revenue surplus declined by Rs 1,452 crore (30 per cent) in 2007-08 but fiscal deficit has increased by Rs 4,179 crore (43.46 per cent) and primary surplus turned into huge deficit when compared to previous year. Moreover, the fiscal performance of the State in terms of deficit indicators *vis-à-vis* targets set in FCP as well as MTFRP for 2007-08 also indicated a dismal picture during the year. Despite the fact that central transfers increased by Rs 6,828 crore in 2007-08 and contributed around 85 per cent of incremental revenue receipts during the year, the lower growth rate in revenue receipts in 2007-08 was primarily on account of sluggish growth rate of 8.53 per cent (Rs 1,961 crore) in State's own tax revenue as compared to 22 per cent (Rs 4,140 crore) in the previous year resulting in decline in revenue surplus in the current year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure varied within a narrow range of 79–88 per cent during the period 2002-08 and stood at 79 per cent in 2007-08 leaving inadequate resources for expansion of services and creation of assets as a result of which 37 per cent of fiscal liabilities of the State were still without the asset backup at the close of current financial year. Moreover, within the revenue expenditure, NPRES at Rs 53,479 crore in 2007-08 remained significantly higher than the normative assessment of Rs 41,561.50 crore made by TFC for the year. Further, committed expenditure – salary expenditure, pension liabilities and interest payments – constitute about 68 per cent of the NPRES during 2007-08. 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 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 50 per cent in 2007-08 appears to be on the higher side especially in view of the FRBM target to contain it to 25 per cent by the end of 2018. Besides, the inordinate delays in completion of 43 major and medium irrigation projects in the State leading to the cost escalation of Rs 5,710 crore of these projects also needs attention of the State Government.