



FINANCES OF THE GOVERNMENT



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This chapter provides an audit perspective on finances of the State Government during 2017-18 and analyses changes in major fiscal aggregates relative to 2016-17 keeping in view overall trends during the preceding five years.

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

1.1 Gross State Domestic Product (GSDP)¹

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

Table 1.1: GDP of India and GSDP of the State

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
GDP of India at current prices (₹ in crore)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (in per cent)	12.97	10.99	10.40	10.82	9.96
GSDP of the State at current prices (₹ in crore)	9,40,356	10,11,790	11,37,210	12,50,213	13,75,607 ²
Growth rate of GSDP at current prices (in per cent)	14.3	7.6	12.4	9.9	10.0
GSDP of the State at constant prices (₹ in crore)	8,02,070	8,34,432	9,07,700	9,74,120	10,36,149
Growth rate of GSDP at constant prices (in per cent)	5.8	4.0	8.8	7.3	6.4

(Source: GDP/GSDP figures issued by Ministry of Statistics and Programme Implementation, Government of India (MoSPI, GoI) dated 28.08.2018)

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

1.2 Summary of fiscal transactions

Summary of fiscal transactions of the State Government during the years 2013-14 to 2017-18 is depicted in **Table 1.2** and **Table 1.3**. Details of the receipts and disbursements as well as the overall fiscal position during 2017-18 were given in *Appendix 1.3*.

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

² State Government informed (June 2019) that as per projected GSDP estimates (01.08.2017), GSDP of the State for the year 2017-18 was ₹ 13,78,643 crore. However, the revised GSDP figure for the year 2017-18, as per GSDP Statement released by MoSPI on 28.08.2018, has been included in this Audit Report.

Table 1.2: Summary of Receipts during 2013-18

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage increase in 2017-18 with respect to 2016-17
Section A: Revenue						
Revenue Receipts	1,68,214	1,93,422	2,27,076	2,56,875	2,78,775	8.53
Own Tax Revenue (OTR)	66,582	74,172	81,106	85,966	97,393	13.29
OTR/RR (per cent)	39.58	38.35	35.72	33.47	34.94	1.47
Own Non-Tax Revenue (NTR)	16,450	19,935	23,135	28,944	19,795	(-) 31.61
Own NTR/ RR (per cent)	9.78	10.31	10.19	11.27	7.10	(-) 4.17
Share of Union Taxes/ Duties	62,777	66,623	90,974	1,09,428	1,20,939	10.52
Grants from GoI	22,405	32,692	31,861	32,537	40,648	24.93
Section B: Capital and Others						
Miscellaneous Receipts under the Capital Section	-	-	-	-	-	-
Recoveries of Loans and Advances	589	262	726	259	236	(-) 8.88
Inter State Settlement	-	-	-	-	-	-
Public Debt Receipts	14,900	35,520	74,514	67,685	47,417	(-) 29.94
Contingency Fund	262	1	201	173	258	49.13
Public Account Receipts	2,26,078	2,30,199	2,65,972	3,06,406	3,20,471	4.59
Opening Cash Balance ³	15,218	4,066	(-) 356	(-) 157	944	701.27
Total	4,25,261	4,63,470	5,68,133	6,31,241	6,48,101	2.67

(Source: Finance Accounts of the respective years)

State's own revenue receipts form 42.04 *per cent* of total receipts for the year 2017-18. Further, the share of own tax revenue in total revenue receipt of the State decreased from 39.58 *per cent* in 2013-14 to 34.94 *per cent* in 2017-18. While the share of own non-tax revenue increased from 9.78 *per cent* in 2013-14 to 11.27 *per cent* in 2016-17, during 2017-18, it decreased to seven *per cent*. The decrease in non-tax revenue during 2017-18 was mainly due to change in accounting procedure for receipts under the head 'Education, Sports, Art and Culture' as detailed in **Para 1.4.1.1**.

³ The opening and closing cash balances includes the investment of earmarked fund, whereas in the preceding years report the cash balances excluding the investment of earmarked fund was exhibited.

Table 1.3: Summary of Expenditure during 2013-18

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage increase in 2017-18 with respect to 2016-17
Section A: Revenue						
Revenue Expenditure	1,58,147	1,71,027	2,12,736	2,36,592	2,66,224	12.52
General Services	61,984	64,305	72,228	88,255	1,05,782	19.86
Social Services	60,756	60,906	82,487	91,861	84,252	(-)8.28
Economic Services	25,711	34,885	47,881	45,834	64,635	41.02
Grants-in-aid and Contributions	9,696	10,931	10,140	10,642	11,555	8.58
Section B: Capital and Others						
Capital Expenditure	32,863	53,297	64,423	69,789	39,088	(-)43.99
Loans and Advances disbursed	1,473	1,873	9,118	6,741	1,509	(-)77.61
Inter State Settlement	-	-	-	-	-	-
Repayment of Public Debt	8,167	9,411	17,673	20,303	15,002	(-)26.11
Appropriation to Contingency Fund	87	203	44	349	413	18.34
Public Account Disbursements	2,20,459	2,28,014	2,64,294	2,96,523	3,14,384	6.02
Closing Cash Balance	4,066	-356	-157	944	11,481	1116.21
Total	4,25,262	4,63,469	5,68,131	6,31,241	6,48,101	2.67

(Source: Finance Accounts of the respective years)

The trends of Revenue Receipts (RR) / Revenue Expenditure (RE) / Capital Expenditure (CE) relative to GSDP at current as well as constant prices are presented in **Table 1.4**.

Table 1.4: Trends in RR/ RE/ CE relative to GSDP

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts relative to GSDP					
RR at current prices (₹ in crore)	1,68,214	1,93,422	2,27,076	2,56,875	2,78,775
Rate of growth of RR at current prices (<i>per cent</i>)	15.29	14.99	17.40	13.12	8.53
RR at constant prices (₹ in crore)	1,43,478	1,59,523	1,81,255	2,00,152	2,09,984
Rate of growth of RR at constant prices (<i>per cent</i>)	6.66	11.18	13.62	10.43	4.91
RR / GSDP at current as well as constant price (<i>per cent</i>)	17.89	19.12	19.97	20.55	20.27
Revenue Expenditure relative to GSDP					
RE at current prices (₹ in crore)	1,58,147	1,71,027	2,12,736	2,36,592	2,66,224
Rate of growth of RE at current prices (<i>per cent</i>)	12.38	8.14	24.39	11.21	12.52
RE at constant prices (₹ in crore)	1,34,892	1,41,053	1,69,808	1,84,348	2,00,530
Rate of growth of RE at constant prices (<i>per cent</i>)	3.97	4.57	20.39	8.56	8.78
RE/ GSDP at current as well as constant price (<i>per cent</i>)	16.82	16.90	18.71	18.92	19.35
Capital Expenditure relative to GSDP					
CE at current prices (₹ in crore)	32,863	53,297	64,423	69,789	39,088
Rate of growth of CE at current prices (<i>per cent</i>)	37.88	62.18	20.88	8.33	(-) 43.99
CE at constant prices (₹ in crore)	28,031	43,956	51,423	54,378	29,443
Rate of growth of CE at constant prices (<i>per cent</i>)	27.56	56.81	16.99	5.75	(-) 45.85
CE/ GSDP at current as well as constant price (<i>per cent</i>)	3.49	5.27	5.67	5.58	2.84

- Revenue receipts as well as revenue expenditure had an upward trend during 2013-14 to 2017-18. However, the revenue receipts as a *per cent* of GSDP increased from 2013-14 to 2016-17 but dipped in 2017-18, whereas revenue expenditure as a *per cent* of GSDP increased from 2013-14 to 2017-18 even after accounting for inflation.
- Capital expenditure had increased from 2013-14 to 2016-17 but during 2017-18, it recorded a decline of 44 *per cent*. Further, the capital expenditure as a *per cent* of GSDP also declined to 2.84 *per cent* in 2017-18 as compared to 3.49 *per cent* in 2013-14. The decline in capital expenditure during 2017-18 was on account of the fact that capital expenditure of ₹ 6,083 crore and ₹ 3,700 crore were expended during 2015-16 and 2016-17 respectively on UDAY⁴, whereas there was no such expenditure during 2017-18. Further, some schemes were non-operational during the year 2017-18 which led to decline in capital expenditure such as roads in Bharat Nepal frontline districts, Agra Lucknow Expressway and road works Samajwadi Purvanchal Expressway. Besides, there was decline of 26 *per cent* in the budget provision for capital expenditure during the year 2017-18 (₹ 53,258 crore) as compared to the year 2016-17 (₹ 71,878 crore) due to substantial budget provision of ₹ 36,000 crore for farm loan waiver of small/marginal farmers.

1.3 Review of fiscal situation

The performance of the State during 2017-18 under key fiscal indicators provided in the recommendations of the Fourteenth Finance Commission (XIV FC), budget estimates and targeted in the Uttar Pradesh Fiscal Responsibility Management (UPFRBM) Act as well as Medium Term Fiscal Restructuring Policy (MTFRP), 2017 laid under UPFRBM Act, is given in **Table 1.5**.

Table 1.5: Performance of the State during 2017-18

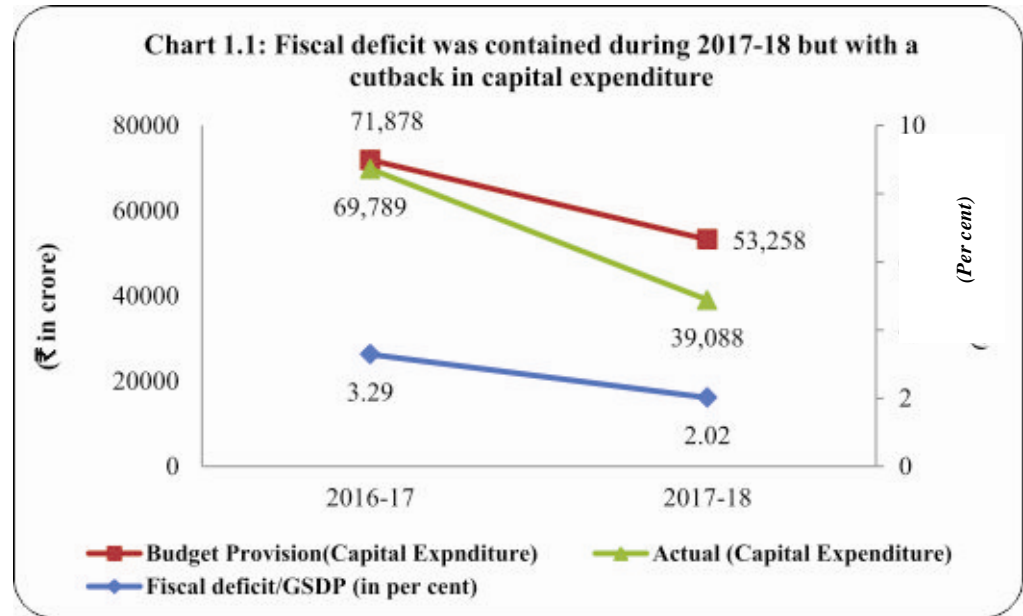
Key fiscal indicators	Targets set by the XIV FC	Targets as per UPFRBM Act	Targets as per Budget Estimate/ MTFRP	Actuals
Revenue deficit (-) /surplus(+) (₹ in crore)	Nil deficit	Nil deficit	Surplus of ₹ 12,279 crore	Surplus of ₹ 12,552 crore
Fiscal deficit (-) / GSDP (<i>per cent</i>)	3.25	Not more than three <i>per cent</i>	2.97	2.02
Ratio of total outstanding debt to GSDP (<i>per cent</i>)	32.44	30.50	28.60	34.01

(Source: Budget documents of the State Government, Report of Fourteenth Finance Commission, UPFRBM Act, 2004 and UPFRBM (Amendment) Act, 2016)

Though the State has achieved revenue surplus of ₹ 12,552 crore, but the same is overstated by ₹ 6,341 crore. Similarly, the fiscal deficit (₹ 27,810 crore) was also understated by ₹ 6,405 crore as detailed in **Para 3.8**.

⁴ Under Ujjwal Discom Assurance Yojana (UDAY) scheme launched by GoI in November 2015, State Governments were required to take over 75 *per cent* of the Discom debt as on 30 September 2015 (50 *per cent* in the year 2015-16 and 25 *per cent* in the year 2016-17).

During 2017-18, the ratio of fiscal deficit to GSDP was within the targets as set in the budget estimates, MTFRP and Fourteenth Finance Commission. Further, the fiscal deficit (₹ 27,810 crore) of the State decreased by 32 per cent as compared to 2016-17 (after excluding UDAY impact during 2016-17). However, it was concomitant with a significant reduction of capital expenditure which reduced by 44 per cent in 2017-18 as compared to 2016-17, as reflected in **Chart 1.1**.



1.3.1 Composition and financing of Fiscal Deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The financing pattern of the fiscal deficit is reflected in **Table 1.6**.

Table 1.6: Component and financing of Fiscal Deficit

Particulars		(₹ in crore)				
		2013-14	2014-15	2015-16	2016-17	2017-18
Fiscal deficit (1 to 3)* (figures in brackets indicate <i>per cent</i> to GSDP)		(-) 23,680 (2.52)	(-) 32,513 (3.21)	(-) 58,475 (5.14)	(-) 55,988 (4.48)	(-) 27,810 (2.02)
1	Revenue Surplus	(+) 10,067	(+) 22,394	(+) 14,340	(+) 20,283	(+) 12,552
2	Net Capital Expenditure ⁵	(-) 32,863	(-) 53,297	(-) 64,423	(-) 69,789	(-) 39,088
3	Net Loans and Advances ⁶	(-) 884	(-) 1,610	(-) 8,392	(-) 6,482	(-) 1,274

*The fiscal deficit in this table included the expenditure on UDAY during 2015-16 and 2016-17 so as to match the figures in Finance Accounts given in the financing pattern. As per the guidelines of UDAY, the debt taken over by the State under UDAY would not be counted against the fiscal deficit limit of the State. The fiscal deficit after excluding UDAY was ₹ 34,143 crore and ₹ 41,187 crore during 2015-16 and 2016-17 respectively.

⁵ Net Capital Expenditure = Capital Receipt *minus* Capital Expenditure; minus figure indicate that the capital expenditure was more than the capital receipt during the year.

⁶ Net Loans and advances = Recoveries of Loans and Advances *minus* disbursement of loans and advances; minus figure indicate that disbursement of loans and advances was more than the recovery during the year.

Financing pattern [#] of fiscal deficit						
Particulars		2013-14	2014-15	2015-16	2016-17	2017-18
1	Market Borrowings	5,054	13,513	25,301	36,904	37,178
2	Loans from GoI	(-)1,075	(-) 875	(-) 803	(-)409	(-)438
3	Special Securities issued to NSSF	2,768	6,325	4,339	(-)4,532	(-)4,643
4	Loans from Financial Institutions	(-)12	7,146	28,005	15,441	317
5	Small Savings, PF etc.	2,363	1,686	1,534	1,619	2,530
6	Deposits and Advances	5,037	1,050	(-) 1,543	(-)301	1,414
7	Suspense and miscellaneous	(-)9,637	535	(-) 677	592	(-)2,215
8	Remittances	(-)98	1,608	(-) 197	748	(-)3,906
9	Others ⁷	19,280	1,525	2,516	5,926	(-)2,427
Total		23,680	32,513	58,475	55,988	27,810

#All the figures are net of disbursements/ outflows during the year.
(Source: Finance Accounts of the respective years)

1.3.2 Quality of Deficit/Surplus

The decomposition of primary deficit⁸ into primary revenue deficit⁹, capital expenditure and loans and advances, as well as the ratio of revenue deficit to fiscal deficit, as given in **Table 1.7**, indicates the quality of deficit in the State's finances.

Table 1.7: Primary Deficit/Surplus

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	₹ in crore)	
						Primary Revenue deficit (-) /surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2013-14	1,68,803	1,40,735	32,863	1,473	1,75,071	(+)28,068	(-)6,268
2014-15	1,93,684	1,52,162	53,297	1,873	2,07,332	(+)41,522	(-)13,648
2015-16	2,27,802	1,91,288	64,423	9,118	2,64,829	(+)35,514	(-)37,027
2016-17	2,57,134	2,09,656	69,789	6,741	2,86,186	(+)47,478	(-)29,052
2017-18	2,79,011	2,37,088	39,088	1,509	2,77,685	(+)41,923	(+)1,326

(Source: Finance Accounts of the respective years)

Thus, the primary deficit of the State Government improved from (-) ₹ 6,268 crore (2013-14) to ₹ 1,326 crore during 2017-18 which indicates that during the year, non-debt receipts were enough to meet the primary expenditure of the State. However, this was accompanied by a significant contraction of capital expenditure during 2017-18 as depicted in **Chart 1.1 (Para 1.3)**.

1.3.3 Budget Estimates and Actuals

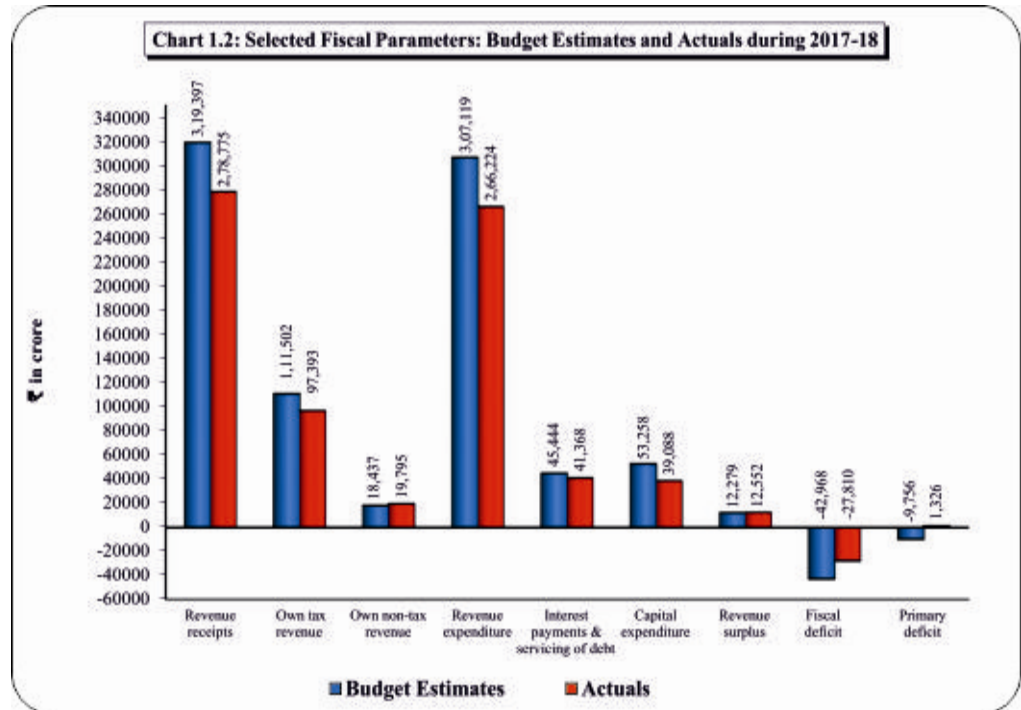
Shortfalls of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives.

Actuals *vis-à-vis* Budget Estimates of selected fiscal parameters for 2017-18 are shown in **Chart 1.2** and **Appendix 1.4**.

⁷ Transactions under Contingency Fund, Reserve Fund, Cash Balances, Investment and Bonds.

⁸ Primary deficit is fiscal deficit excluding interest payments.

⁹ Primary revenue deficit is the gap between non-interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts are sufficient to meet the primary expenditure incurred under revenue account.



(Source: Budget documents and Finance Accounts 2017-18)

- Shortfalls in revenue receipts (₹ 40,622 crore) vis-à-vis estimates were due to shortfall in own tax revenue (₹ 14,109 crore), grants-in-aid from GoI (₹ 27,404 crore) and share of union taxes and duties (₹ 467 crore) though there was an increase of ₹ 1,358 crore under own non-tax revenue.
- Shortfalls in own tax revenue (₹ 14,109 crore) vis-à-vis estimates were mainly under taxes on sales, trade etc. (₹ 5,285 crore) followed by stamps and registration fee (₹ 4,061 crore) and State excise (₹ 3,723 crore). State Excise Department attributed the shortfall to excessive budget projection wherein though the Compound Annual Growth Rate (CAGR) of last 10 years was 15.9 per cent, during the year 2017-18, the budget estimate was 44.3 per cent higher than the actual receipts during 2016-17. The actual receipts under State Excise increased by 21.34 per cent during 2017-18 as compared to 2016-17. State Excise Department further attributed the less State Excise receipts to higher Maximum Retail Price of liquor as compared to neighbouring States leading to smuggling of liquor from other States, specifically Haryana¹⁰.
- Due to substantial increase in the budget provision of ₹ 36,000 crore for waiver of crop loans of small and marginal farmers under revenue expenditure during 2017-18, budget provision for capital expenditure in 2017-18 (₹ 53,258 crore) was 26 per cent less than the budget provision during 2016-17 (₹ 71,878 crore).
- The major shortfalls in revenue expenditure (₹ 40,895 crore) were in Economic Services (₹ 18,460 crore), Social Services (₹ 17,155 crore),

¹⁰ Also see CAG's Report No. 1 of 2019 – Government of Uttar Pradesh.

General Services (₹ 5,257 crore) and Grants-in-aid and contribution (₹ 23 crore). Decreases in capital expenditure (₹ 14,170 crore) were due to decrease in expenditure on Economic Services (₹ 9,859 crore), Social Services (₹ 3,486 crore) and under General Services (₹ 825 crore). The shortfall in revenue and capital expenditure, as ascertained from the Appropriation Accounts 2017-18 of the State Government, was due to excess budget provision, non-issuance of financial sanction, non-release of fund, non-sanction of scheme, vacant posts, etc.

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

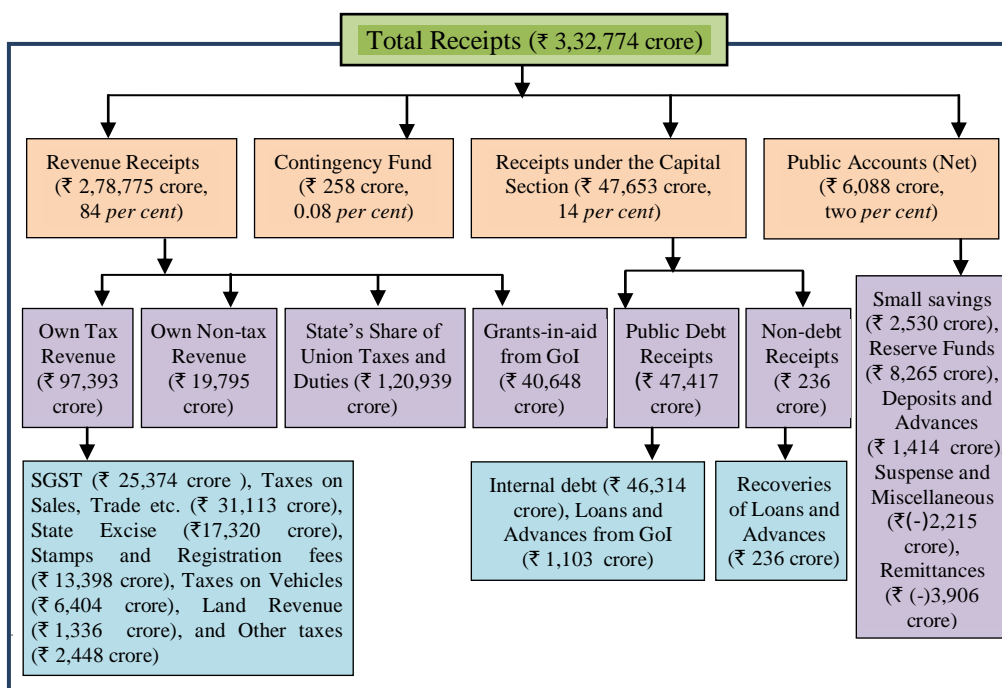
1.4 Financial Resources of the State

Resources of the State as per Annual Finance Accounts

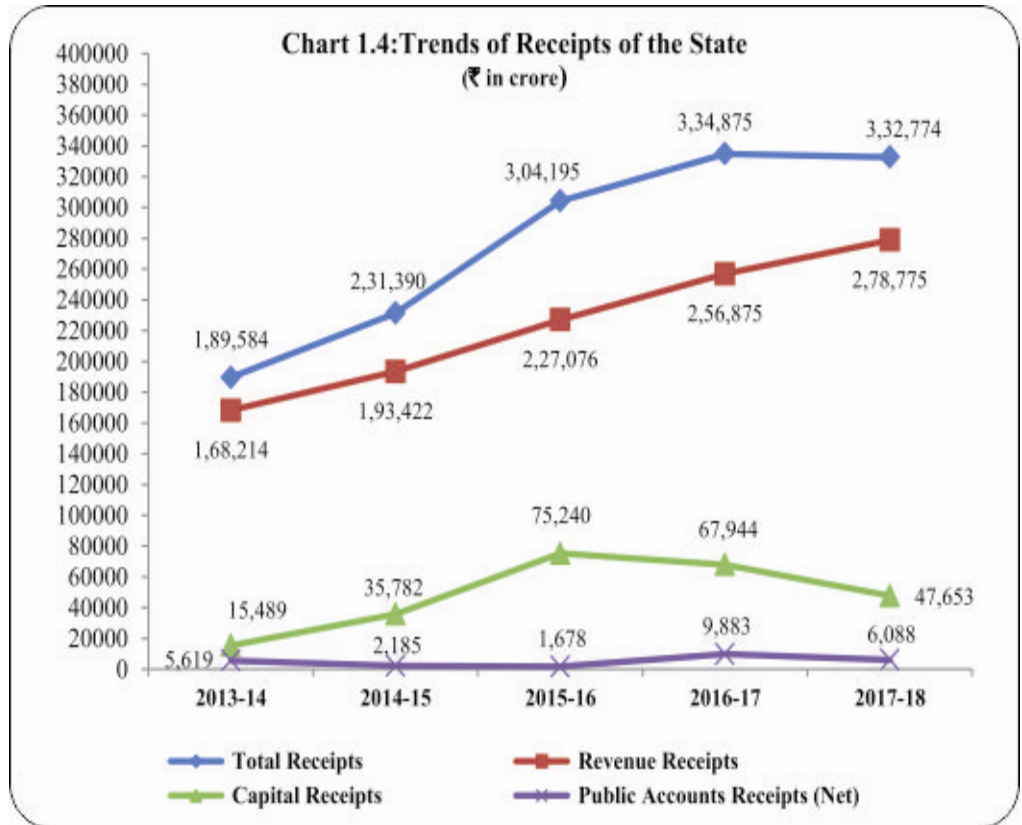
Revenue receipts consist of own tax revenues, own non-tax revenues, State’s share of union taxes and duties and grants-in-aid from Government of India (GoI). Receipts under capital section comprise miscellaneous capital receipts under the capital section such as proceeds from disinvestments, recoveries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

Chart 1.3 and **Chart 1.4** depict the composition of aggregate receipts, the trends in various components of receipts during 2013-18 and the composition of resources during 2017-18 respectively.

Chart 1.3: Composition of aggregate receipts during 2017-18



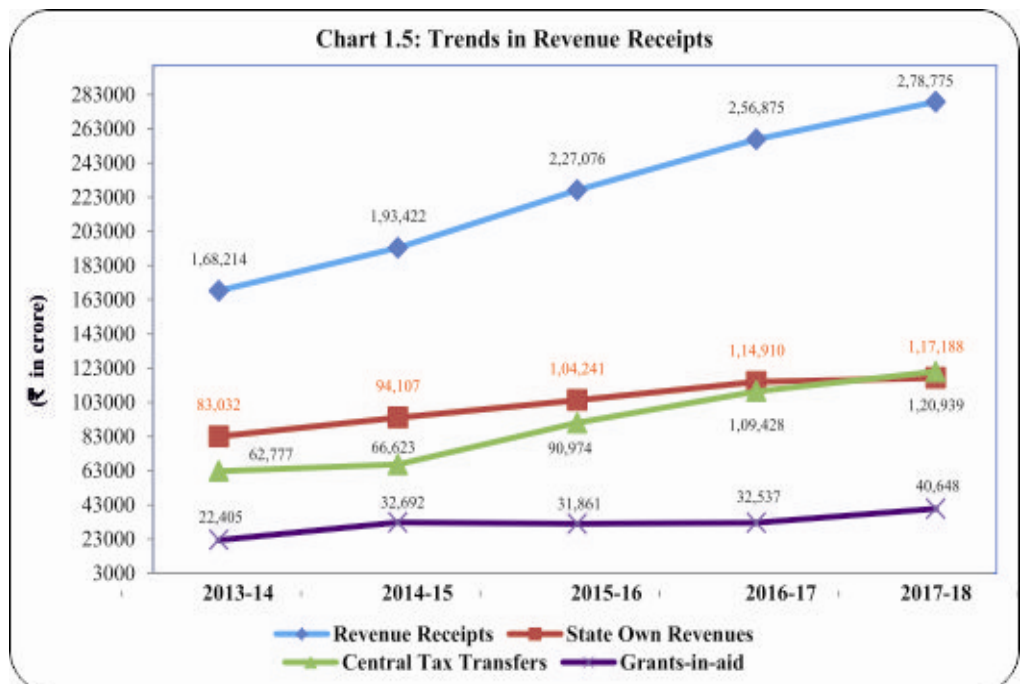
(Source: Finance Accounts 2017-18)



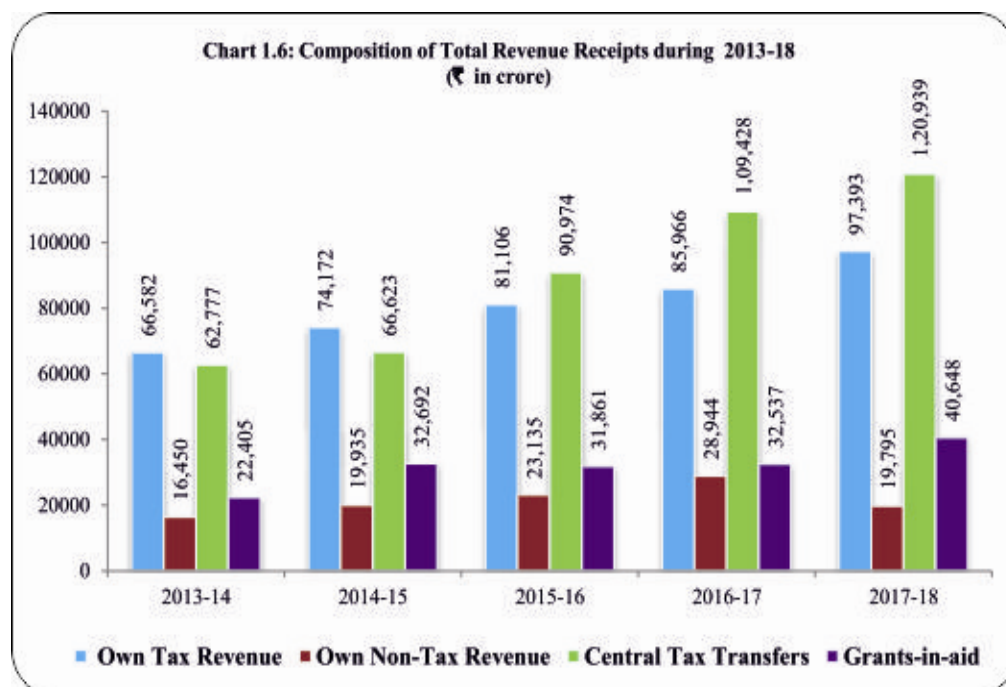
(Source: Finance Accounts of the respective years)

1.4.1 Revenue Receipts

Statement 14 of the Finance Accounts gives details of the revenue receipts of the Government. The trends and composition of revenue receipts during 2013-18 are presented in *Appendix 1.5* and also depicted in **Chart 1.5** and **Chart 1.6** respectively.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years)

The revenue receipt of ₹ 2,78,775 crore during 2017-18 include ₹ 1,17,188 crore from State's own (tax/non-tax) revenue and ₹ 1,61,587 crore received from GoI. While there was overall increase of ₹ 21,900 crore in the revenue receipts during 2017-18 as compared to 2016-17, State's own resources grew by ₹ 2,278 crore (1.98 per cent) whereas the receipts from GoI increased by ₹ 19,622 crore (12 per cent); these are further analysed in the succeeding paragraphs.

1.4.1.1 State's Own Resources

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

Details of collections of own tax revenue and own non-tax revenue for 2013-18 are presented in **Appendix 1.6**. These increased by ₹ 34,156 crore (41 per cent) from ₹ 83,032 crore in 2013-14 to ₹ 1,17,188 crore in 2017-18.

The own tax revenue and own non-tax revenue of the State for 2017-18, vis-à-vis budget projections are given in **Table 1.8**.

Table 1.8: Actuals of Own Tax and Own Non-tax Revenue for 2017-18 vis-à-vis Budget Estimates
(₹ in crore)

Particulars	Budget Estimates	Actuals
Own Tax Revenue	1,11,502	97,393
Own Non-Tax Revenue	18,436	19,795
Total	1,29,938	1,17,188

(Source: Budget documents and Finance Accounts 2017-18)

Own Tax Revenue

Details of own tax revenue during 2013-18 are given in **Table 1.9**.

Table 1.9: Components of own tax revenue

Particulars	(₹ in crore)					Variation (<i>per cent</i>) during 2017-18 over 2016-17
	2013-14	2014-15	2015-16	2016-17	2017-18	
Taxes on sales, trade etc.	39,645 (60)	42,934 (58)	47,692 (59)	51,883 (60)	31,113 (32)	(-) 40.03
SGST	-	-	-	-	25,374 (26)	-
State excise	11,644 (17)	13,483 (18)	14,084 (17)	14,274 (17)	17,320 (18)	21.34
Taxes on vehicles	3,441 (5)	3,797 (5)	4,410 (5)	5,148 (6)	6,404 (7)	24.40
Stamps and registration fees	9,521 (14)	11,803 (16)	12,404 (15)	11,564 (13)	13,398 (14)	15.86
Land revenues	772 (1)	527 (1)	505 (1)	760 (1)	1,336 (1)	75.79
Taxes and duties on Electricity	1,048 (2)	1,085 (1)	1,338 (2)	1,556 (2)	2,124 (2)	36.50
Other taxes	511 (1)	543 (1)	673 (1)	781 (1)	324 (0)	(-) 58.39
Total	66,582	74,172	81,106	85,966	97,393	13.29
GSDP (at current price)	9,40,356	10,11,790	11,37,210	12,50,213	13,75,607	10.03
Own tax revenue as <i>per cent</i> of GSDP	7.08	7.33	7.13	6.88	7.08	-

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

- The overall growth of 13.29 *per cent* in own-tax revenue during 2017-18 was mainly due to increase in ‘State Excise’ (by ₹ 3,047 crore), ‘Stamp and Registration’ (by ₹ 1,834 crore), ‘Taxes on Vehicle’ (by ₹ 1,255 crore), ‘Land Revenue’ (by ₹ 576 crore) and ‘Taxes and Duties on Electricity’ (by ₹ 568 crore).
- Taxes on sales, trade etc. decreased by ₹ 20,770 crore during 2017-18 in comparison to the previous year, as this tax was subsumed in Goods and Services Tax (GST) which was implemented from 1 July 2017. However, State GST (SGST) collection during the year was ₹ 25,374 crore.
- The growth in ‘State Excise’ was due to increase in sale of country liquor (by ₹ 892 crore), India Made Foreign Liquor (by ₹ 795 crore) and Beer (by ₹ 279 crore). The State Excise Department also received ₹ 373 crore

during the year from e-lottery tendering process for shops for the year 2018-19.

- The receipts under ‘Stamp and Registration’ increased mainly due to annual revision of circle rates of land, more receipts from fees for registering documents (58 *per cent*) and sale of judicial and non-judicial stamps (23 *per cent*). The increase of receipts ‘Taxes and Duties on Electricity’ was due to more collection on taxes on sale and consumption of electricity (41 *per cent*).
- Own tax revenue relative to GSDP of the State was 7.08 *per cent* during 2017-18 which was higher as compared to other States i.e. Chhattisgarh (6.82 *per cent*), Madhya Pradesh (6.34 *per cent*), Rajasthan (6.02 *per cent*), Gujarat (5.42 *per cent*), Jharkhand (4.84 *per cent*) and Bihar (4.74 *per cent*).

Own Non-tax Revenue

Details of receipts from own non-tax revenues during 2013-18 are given in Table 1.10.

Table 1.10: Own Non-tax revenue and its major components

Particulars	(₹ in crore)					Variation (<i>per cent</i>) during 2017-18 over 2016-17
	2013-14	2014-15	2015-16	2016-17	2017-18	
Non-ferrous Mining and Metallurgical Industries	913(6)	1,029(5)	1,222(5)	1,548(5)	3,259(16)	110.53
Power	1,061(6)	966 (5)	1,322(6)	2,939 (10)	4,696(24)	59.78
Interest receipts	1,619(10)	2,303(12)	633(3)	1,165(4)	1,093(6)	(-) 6.18
Misc. General Services	3,194(19)	6,400(32)	4,949(21)	4,460 (15)	4,841(24)	8.54
Medium Irrigation	325(2)	326(1)	557(3)	652(2)	834 (4)	27.91
Education, Sports, Art and Culture	6,414 (39)	5,799(29)	10,652(46)	14092(49)	432 (2)	(-)96.93
Other non-tax receipts	2,924(18)	3,112(16)	3,800(16)	4,088(15)	4,640(24)	(-)13.50
Total	16,450	19,935	23,135	28,944	19,795	(-) 31.61

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

There was overall decrease of 31.61 *per cent* in own non-tax receipts amounting to ₹ 9,149 crore during 2017-18 over 2016-17. The decrease was mainly on account of the receipts under the head ‘Education, Sports, Art and Culture’ due to the fact that during 2017-18, the compensation by the Department in lieu of salary to the teachers appointed under *Sarva Shiksha Abhiyan* was accounted for as reduction in expenditure of the Primary

Education Department, which was earlier was shown as own non-tax receipts of the Government. Further, the increase in realisation of mineral concession fees, rent and royalties (186 per cent) led to higher receipts under 'Non-ferrous mining and metallurgical industry', which was mainly due to revision of rates of royalty/dead rent of various minerals.

1.4.1.2 Grants- in-aid from GoI

The State Government receives grants-in-aid and share of Union taxes and duties, based on the recommendations of the Finance Commission. Details of GoI grants are given in **Table 1.11**.

Table 1.11: Grants-in-aid from Government of India

(₹ in crore)					
Particulars (sub major head)	2013-14	2014-15	2015-16	2016-17	2017-18
Non plan grants (01)	7,934	6,809	8,274	9,335	-
Grants for State plan schemes (02)	6,595	6,577	1,933	232	-
Grants for Central plan schemes (03)	226	17	16	56	-
Grants for Centrally sponsored plan schemes (04)	7,650	19,289	21,638	22,914	-
Grants for Centrally sponsored schemes (06)	-	-	-	-	27,731
Finance Commission Grants (07)	-	-	-	-	8,849
Other Transfer/Grants (08)	-	-	-	-	4,068
Total grants	22,405	32,692	31,861	32,537	40,648
Percentage of increase/ decrease over previous year	29.22	45.91	(-) 2.54	2.12	24.93
Revenue receipts	1,68,214	1,93,422	2,27,076	2,56,875	2,78,775
Total grants as a percentage of revenue receipts	13.32	16.90	14.03	12.67	14.58

(Source: Finance Accounts of the respective years)

State Government received grants-in-aid under different sub-major heads 'Grants for Centrally Sponsored Schemes' (₹ 27,731 crore), 'Finance Commission Grants' (₹ 8,849 crore) and 'Other transfer/grants' (₹ 4,068 crore) during 2017-18 due to modification of accounting sub-heads by the Controller General of Accounts with effect from 1 April 2017. The increase in grants-in-aid by ₹ 8,111 crore in 2017-18 over the previous year was mainly due to compensation given for loss of revenue arising out of implementation of GST (₹ 2,124 crore) and increase in grants for Rural Development (₹ 1,464 crore), Panchayati Raj and Youth Welfare (₹ 1,579 crore), Urban Development (₹ 1,247 crore), Bundelkhand Project (₹ 917 crore) and Central Road Fund (₹ 671 crore).

1.4.1.3 Central Tax Transfers

The GoI transfers share of State Government in Union Taxes and Duties such as Income Tax, Service Tax, Union Excise Duties etc. (also Central Goods and Service Tax and Integrated Goods and Service Tax since 2017-18). The trends in these Central tax transfers during 2013-18 are given in **Table 1.12**.

Table 1.12: Central Tax Transfers

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total Central Tax Transfers	62,777	66,623	90,974	1,09,428	1,20,939
Central Goods and Services Tax (CGST)	-	-	-	-	1,718
Integrated Goods and Services Tax (IGST)	-	-	-	-	12,212
Service Tax	10,227	9,822	15,682	17,515	13,719
Taxes on income other than Corporation Tax	13,902	16,614	19,815	24,394	31,280
Union Excise Duties	7,234	6,084	12,206	17,241	12,761
Corporation Tax	21,113	23,265	28,603	35,099	37,043
Taxes on wealth	58	63	08	81	(-2)
Customs	10,243	10,775	14,587	15,098	12,208
Other taxes and duties on commodities and services	0	0	73	0	0

(Source: Finance Accounts of the respective years)

Out of total Central tax transfer of ₹ 1,20,939 crore, ₹ 13,930 crore was on account of IGST and CGST. The overall increase in the Central tax transfers was ₹ 11,511 crore (11 per cent) in the year 2017-18 as compared to the year 2016-17.

1.4.1.4 Goods and Services Tax (GST)

The State Government implemented the Goods and Services Tax (GST) Act, which became effective from 1 July 2017. Under GST (Compensation to States) Act, 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. A base year (2015-16) revenue figures of taxes subsumed under GST was finalised under GST Act. The projected revenue for any year in a State was to be calculated by applying the projected growth rate (14 per cent per annum) over the base year revenue of that State.

Revenue figure under GST for the year 2017-18 has been depicted in Finance Accounts as per nature of receipts i.e. State Goods and Services Tax (SGST), Input Tax Credit Cross Utilization of SGST and IGST (Integrated Goods and Services Tax), Apportionment of IGST-transfer-in of Tax Component of SGST and Advance apportionment from IGST. In case of Uttar Pradesh, the revenue from subsumed taxes was ₹ 33,359 crore during the base year (2015-16). Thus, projected revenue for the year 2017-18 in accordance with the base year figure was ₹ 32,514.75 crore for July 2017 to March 2018 against which SGST amounting to ₹ 25,374 crore was collected. This amount was inclusive of ₹ 1,460 crore received from the GoI as provisional/ advance settlement of IGST with the condition that amount will be adjusted in the year 2018-19 from the regular settlement of IGST on the basis of monthly returns in ten equal instalments starting from April 2018.

1.4.2 Receipts under the Capital Section

Trends of receipts under the Capital Section during 2013-18 are given in **Table 1.13**.

Table 1.13: Trends in receipts under the Capital Section

Sources of State's Receipts under the Capital Section	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts under the capital section	15,489	35,782	75,240	67,944	47,653
Recovery of loans and advances	589	262	726	259	236
Public debt receipts	14,900	35,520	74,514	67,685	47,417
Rate of growth of non-debt receipts under the capital section (<i>per cent</i>)	41	(-) 56	177	(-) 64	(-) 9
Rate of growth of debt receipts under the capital section (<i>per cent</i>)	(-) 5	138	110	(-) 9	(-) 30

(Source: Finance Accounts of the respective years)

Out of total public debt receipts of ₹ 47,417 crore, ₹ 1,103 crore was loans and advances from the GoI and remaining ₹ 46,314 crore was internal debt of the State Government.

1.4.2.1 Receipts from internal debt of the State Government

Details of debt receipts from internal sources during 2013-14 to 2017-18 are given in **Table 1.14**.

Table 1.14: Debt receipts from internal debt of the State Government

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Market loans	8,000	17,500	30,000	41,050	41,600
Ways and Means Advances from RBI	8	1,732	4,499	8,695	2,933
Loans from financial institutions	1,494	7,176	31,669	16,909	1,781
Special Securities issued to National Small Savings Fund	5,008	8,626	7,752	0	0
Total	14,510	35,034	73,920	66,654	46,314
Percentage of receipt of internal debt to total public debt and other liabilities receipts	26.35	49.03	65.12	58.90	51.43

(Source: Finance Accounts of the respective years)

Debt receipts from internal sources declined to ₹ 46,314 crore in 2017-18 due to a decrease in loans from financial institutions and special securities issued to National Small Savings Fund.

During the year 2014-17, the debt receipts from internal sources had increased from ₹ 35,034 crore to ₹ 66,654 crore due to loans raised by issue of Bonds under financial restructuring (UDAY) scheme during the year 2015-16 (₹ 24,332 crore) and 2016-17 (₹ 14,801 crore) which increased the loans from financial institution vis-à-vis public debt receipts.

The impact of borrowings at a higher rate of interest than investments by the State is discussed in **Para 1.8.4**.

1.4.2.2 Loans and advances from GoI

Details of loans and advances received by the State Government from GoI during 2013-18 are given in **Table 1.15**.

Table 1.15: Loans and advances from GoI

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Loans and advances from GoI	390	486	594	1,031	1,103

(Source: Finance Accounts of the respective years)

1.4.3 Public accounts receipts

Receipts and disbursements under small savings, provident funds and reserve funds etc., which do not form a part of the Consolidated Fund, are kept in Public Accounts set up under Article 266(2) of the Constitution of India and are not subject to vote by the Legislature. Here, the Government acts as a banker or trustee. The status of receipts and disbursement under Public Accounts are shown in **Statement-21** of the Finance Accounts and the details of Public Accounts (Net) are given in **Table 1.16**.

Table 1.16: Status of Public Accounts (Net)

(₹ in crore)

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
Public Accounts (Net)	5,619	2,185	1,678	9,883	6,088
A. Small savings, provident fund etc.	2,363	1,686	1,534	1,619	2,530
B. Reserve funds	7,954	(-) 2,694	2,561	7,225	8,265
C. Deposits and advances	5,037	1,050	(-)1,543	(-)301	1,414
D. Suspense and miscellaneous	(-) 9,637	535	(-)677	592	(-)2,215
E. Remittances	(-) 98	1,608	(-)197	748	(-)3,906

(Source: Finance Accounts of the respective years)

The impact of transactions under Reserve Funds are discussed in **Para 1.9.2**.

1.5 Arrears of revenue

Arrears of revenue as on 31 March 2018 in respect of some principal heads of revenue amounted to ₹ 22,457.97 crore, of which ₹ 10,516.93 crore were outstanding for more than five years. Details as provided by the Departments are given in **Table 1.17**.

Table 1.17: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Name of Department	Total amount outstanding as on 31 March 2018	Amount outstanding for more than five years
1.	Commercial Taxes	Sales Tax Department	21,548.61	10,257.17
2.	Entertainment Tax	Entertainment and Betting Tax Department	348.74	13.14
3.	State Excise	Excise Department	52.37	52.08
4.	Stamps and Registration fee	Stamps and Registration Department	398.47	140.71
5.	Taxes on Vehicles, Goods and Passengers	Transport Department	109.78	53.83
Total			22,457.97	10,516.93

(Source: Concerned Departments)

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

1.6 Cost of collection

Details of collection and cost thereof in respect of major revenue receipts during 2017-18 are given in **Table 1.18**.

Table 1.18: Cost of collection

Particulars	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average of previous year
	(₹ in crore)			
Taxes on sales, trade etc.	56,487	790	1.40	0.69
Stamps duty and registration fees	13,398	268	2.00	2.99
State excise	17,320	188	1.09	2.01
Taxes on vehicles	6,404	169	2.67	2.61

(Source: Information provided by concerned Departments and Finance Accounts)

Though the cost of collection of state excise and stamps duty and registration fees was lower than the all India average of the preceding year, the cost of collection of taxes on vehicles was higher than the all India average while the cost of collection of VAT, GST and other subsumed taxes by the State Government was nearly twice as high as the all India average.

A trend analysis of the taxes on sales, trade etc. to GSDP ratio of Uttar Pradesh compared to the Union Taxes (receipts under State Sales Tax) to GDP ratio, also indicates a higher ratio as given in **Table 1.19**.

Table 1.19: Taxes on sales, trade and SGST with GSDP ratio

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Taxes on sales, trade and SGST (₹ in crore)	39,645	42,934	47,692	51,883	56,487
Taxes on sales, trade etc. with SGST/GSDP ratio of Uttar Pradesh	0.04	0.04	0.04	0.04	0.04
Union taxes (Receipts under State Sales Tax) to GDP ratio	0.01	0.02	0.02	0.02	0.01

(Source: State Finance Accounts and Union Finance Accounts of the respective years)

A further trend analysis of the actual collection of taxes on sales, trade and SGST indicated that it has been lower than budget estimates as shown in **Table 1.20**.

Table 1.20: Trend analysis of budget estimate and actuals

Taxes on sales, trade etc. and SGST	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Budget estimates	43,936	47,500	52,673	57,940	68,000
Actuals	39,645	42,934	47,692	51,883	56,487

(Source: Finance Accounts and budget documents of the respective years)

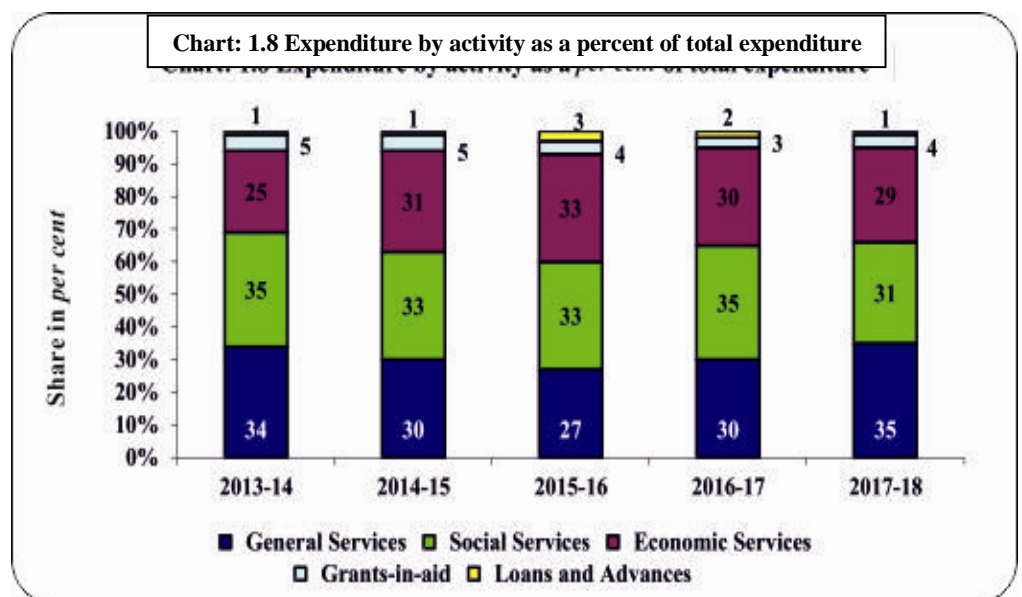
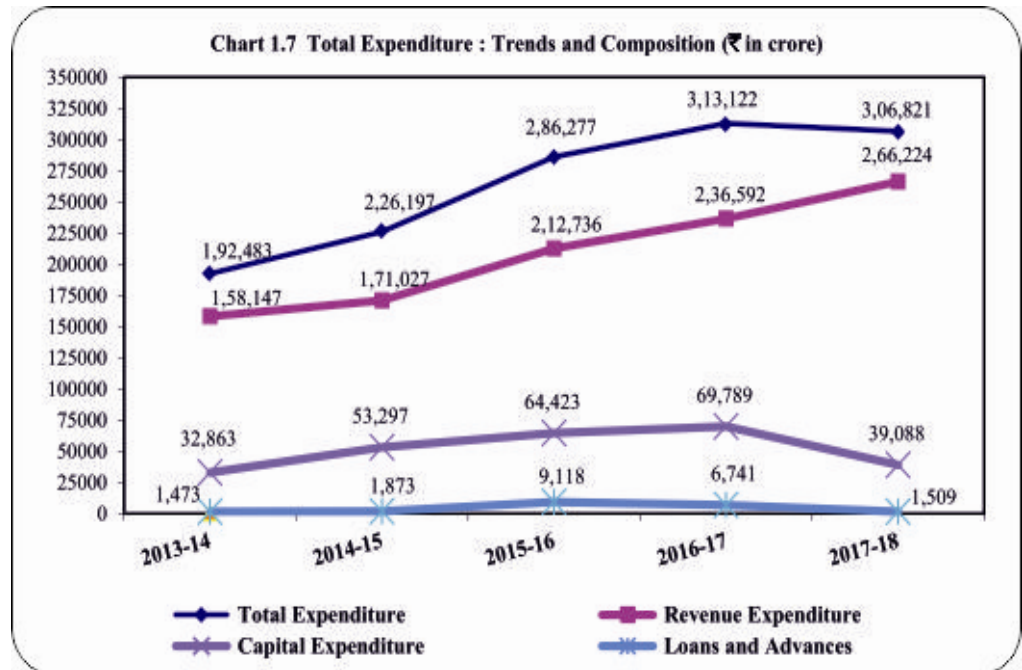
The shortfall in collection of taxes on sales, trade and SGST during the past five years reveals the extent of imbalance between the estimation and the actual tax collected.

Recommendation: The Finance Department and the Sales Tax Department should analyse why the cost of collection of VAT, GST and other subsumed taxes is nearly twice as high as the all India average and introduce measures to reduce the cost of collection.

1.7 Application of resources

1.7.1 Growth and composition of expenditure

Chart 1.7 and Chart 1.8 present the trends and composition of total expenditure during 2013-18 respectively.



(Source: Finance Accounts of the respective years)

1.7.1.1 Revenue Expenditure

Details of revenue expenditure are given in Table 1.21.

Table 1.21: Details of Revenue Expenditure

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	
					BE	Actuals
Revenue expenditure	1,58,147	1,71,027	2,12,736	2,36,592	2,66,224	
Rate of growth of revenue expenditure (in per cent)	12.38	8.14	24.39	11.21	12.52	

(Source: Finance Accounts of the respective years)

There was an overall increase of ₹ 29,632 crore (13 per cent) in revenue expenditure of 2017-18 over 2016-17. The increases during 2017-18 were mainly under crop husbandry¹¹ (₹ 21,500 crore), pension and other retirement benefits (₹ 10,250 crore), interest payments (₹ 2,200 crore), police (₹ 1,767 crore), medical and public health (₹ 1,600 crore), urban development (₹ 1,216 crore), public works (₹ 942 crore) and minor irrigation (₹ 740 crore). The decreases over previous year were mainly under power¹² (52 per cent) and social security and welfare¹³ (28 per cent).

1.7.1.2 Committed Expenditure

Committed expenditure of the Government under revenue head mainly consists of interest payments (₹ 29,136 crore), expenditure on salaries and wages (₹ 85,076 crore), pensions (₹ 38,476 crore) and subsidies (₹ 9,284 crore). Trends of committed expenditure during 2013-18 are presented in Table 1.22.

Table 1.22: Trends in Components of Committed Expenditure

Components of Committed Expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	
					BE	Actuals
Salaries* and wages, of which	54,892 (33)	62,147 (32)	74,439 (33)	85,416 (33)	95,080	85,076 (31)
Non-Plan	47,654	51,195	58,537	66,424		
Plan **	7,238	10,952	15,902	18,992		
Interest payments	17,412 (10)	18,865 (10)	21,448 (9)	26,936 (11)	33,212	29,136 (10)
Expenditure on pensions	19,521 (12)	22,305 (11)	24,150 (11)	28,227 (11)	35,889	38,476 (14)
Subsidies	6,608 (4)	7,661 (4)	7,691 (3)	8,045 (3)	10,060	9,284 (3)
Total committed expenditure	98,433 (59)	1,10,978 (57)	1,27,728 (56)	1,48,624 (58)	1,74,241	1,61,972 (58)

Figures in the parentheses indicate percentage to Revenue Receipts.
 *Includes salaries paid out of Grants-in-aid.
 **Distinction of plan and non-plan are merged since 2017-18.

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

Committed expenditure (₹ 1,61,972 crore), which was 58 per cent of revenue receipt (₹ 2,78,775 crore) during 2017-18, constitutes a major component of revenue expenditure and consumed 61 per cent of the revenue expenditure (₹ 2,66,224 crore).

¹¹ Increase was mainly due to expenditure on farm loan waiver under the scheme for small/ marginal farmers.¹² Decrease was mainly under the head 'Other expenditure' of Power Department (decrease by ₹ 7,533 crore)¹³ Decrease was mainly under 'Tribal Area sub-plan' and 'Special component plan for Scheduled Castes' (decrease by ₹ 3,840 crore)

1.7.1.3 Defined Contribution Pension Scheme

State Government employees recruited on or after 1 April 2005 are covered under the Defined Contribution Pension Scheme. It is also applicable to the new entrants of Government aided educational institutions and autonomous bodies financed by the Government as well. In terms of the Scheme, the Government employees contribute 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/ Trustee Bank.

State Government did not discharge its statutory liability as it failed to contribute ₹ 465.10 crore during the financial year 2017-18 as its matching share under Defined Contribution Pension Scheme in respect of employees of Government aided institutions and autonomous bodies. During the previous financial years 2008-09 to 2016-17, State Government did not contribute ₹ 211.69 crore as its matching share under Defined Contribution Pension Scheme in respect of Government employees and employees of Government aided institutions and autonomous bodies.

Further, State Government collected ₹ 8,205.66 crore as share of Government employees, employees of Government aided institutions and autonomous bodies as well as Government share, under Defined Contribution Pension Scheme during 2008-09 to 2017-18, but did not deposit ₹ 703.16 crore with the designated authority for further investment as per provisions of the Scheme. Thus, as on 31 March 2018, there was a short transfer of ₹ 1,379.95 crore (₹ 465.10 crore + ₹ 211.69 crore+ ₹ 703.16 crore) to the designated authority and the current liability stands deferred to future year(s). Further, the State Government has created uncertainty in respect of benefits due to the employees/ avoidable financial liability to Government in future, and, thus leading to possible failure of the scheme itself.

There was an outstanding balance of ₹ 545.68 crore at the beginning of the year 2017-18 under Deposits bearing interest, relating to Defined Contribution Pension Scheme and the State Government had paid interest thereon of ₹ 25.78 crore which was calculated on the basis of annual interest rate applicable on the interest rate of GPF of the Government employees. However, the adequacy of interest paid on outstanding balance could not be vouched, as Directorate of Pension did not provide the related calculation for audit examination.

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

1.7.1.4 Capital Expenditure

Details of capital expenditure are given in **Table 1.23**.

Table 1.23: Details of Capital Expenditure

Particulars	₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Capital expenditure	32,863	53,297	64,423	69,789	39,088
Rate of growth of Capital expenditure (in <i>per cent</i>)	37.88	62.18	20.88	8.33	(-) 43.99
Capital expenditure as a percentage of GSDP at current prices (in <i>per cent</i>)	3.49	5.27	5.67	5.58	2.84

(Source: Finance Accounts of the respective years)

Out of total capital expenditure of ₹ 39,088 crore during 2017-18, State Government made an investment of ₹ 8,380 crore in Public Sector Undertakings (PSUs), Statutory Corporations and Cooperative Societies, of which ₹ 8,271 crore was invested as Share Capital in Power Sector PSUs for rural electrification, strengthening of distribution network, Deen Dayal Upadhyay Gram Jyoti Yojna, Har Ghar Bijli Yojna, etc. Other major areas included a spending of ₹ 7,635 crore on roads and bridges, ₹ 2,313 crore on rural development programme, ₹ 5,617 crore on housing, ₹ 1,811 crore on water supply and sanitation and ₹ 1,010 crore on public works.

There was an overall decrease in capital expenditure by ₹ 30,701 crore (44 *per cent*) over the previous year. Decreases were mainly under roads and bridges, power projects, food storage and warehousing, housing and forestry and wild life as detailed in **Table 1.24**.

Table 1.24: Details on decrease in capital expenditure in 2017-18

Major Head of Expenditure	Decrease in capital expenditure from 2016-17		Main Reason for decrease in expenditure in 2017-18 as compared to 2016-17
	₹ in crore)	Percentage	
5054-Capital Outlay on Roads and Bridges	14,724	66	Decrease in expenditure on construction work of State Highways and upgradation of district roads.
4801-Capital Outlay on Power Projects	3,369	29	Decrease in expenditure on investment in Uttar Pradesh State Electricity Production Nigam Limited and share capital to Uttar Pradesh Power Corporation Limited for strengthening of transmission and distribution; no expenditure on account of UDAY in 2017-18.
4408-Capital Outlay on Food Storage and Warehousing	1,748	61	It was due to decrease in expenditure on Food Grains Supply Projects.
4700-Capital Outlay on Major Irrigation	1,586	44	Decrease in expenditure on Upper Ganga Canal, Lower Ganga Canal, Sharda Canal and Sharda Sahayak Canal etc.
4202-Capital Outlay on Education, Sports, Art and Culture	1,080	55	Decrease in expenditure on establishment of Government Schools and State University.

Major Head of Expenditure	Decrease in capital expenditure from 2016-17		Main Reason for decrease in expenditure in 2017-18 as compared to 2016-17
	(₹ in crore)	Percentage	
4216-Capital Outlay on Housing	1,045	16	Decrease in expenditure on Lohiya Gramin Awas Yojna, Ashrya Yojana and construction of Government residential buildings.
4406-Capital Outlay on Forestry and Wild Life	491	67	Decrease in expenditure on Green Belt Development Scheme, Social Forestry and forestry related project.

(Source: Finance Accounts 2017-18)

Capital expenditure relative to GSDP of the State was 2.84 *per cent* during 2017-18 which was lower than other States of Bihar (5.93 *per cent*), Jharkhand (4.68 *per cent*), Madhya Pradesh (4.37 *per cent*) and Chhattisgarh (3.43 *per cent*), but was higher than Rajasthan (2.45 *per cent*) and Gujarat (1.99 *per cent*).

1.7.2 Quality of Expenditure

Quality of expenditure basically involves three aspects, *viz.*, adequacy of the expenditure (i.e., adequate provisions for providing public services); efficiency of expenditure use, and effectiveness (assessment of outlay-outcome relationships for services).

1.7.2.1 Adequacy of Public Expenditure

The fiscal priorities of the State Government with regard to development expenditure, social services expenditure, economic services expenditure and capital expenditure during 2013-14 and 2017-18 are compared with General Category States in **Table 1.25**.

Table 1.25: Fiscal Priorities of the State during 2013-14 and 2017-18

Fiscal Priority (Percentage to GSDP)	AE/ GSDP	DE [#] / AE	SSE/ AE	ESE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2013-14	14.7	66.5	37.6	28.9	13.6	17.2	4.5
Uttar Pradesh Average (Ratio) 2013-14	20.5	60.9	35.4	25.5	17.1	16.7	4.8
General Category States* Average (Ratio) 2017-18	16.1	67.9	36.7	29.6	14.4	15.5	4.9
Uttar Pradesh (Ratio) 2017-18	22.3	60.8	31.3	29.5	12.7	15.3	5.5

(in *per cent*)

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Services Expenditure; ESE: Economic Services Expenditure; CE: Capital Expenditure.
*Excluding Goa.
#Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

During 2017-18, the ratio of aggregate expenditure to GSDP and expenditure on health services to aggregate expenditure was higher than the average for the General Category States. However, the ratio of development expenditure, expenditure on education and expenditure on economic services to aggregate expenditure was less than the average of the General Category States. The decline in ratio of social services expenditure for 2017-18 was on account of

the lower rate of increase in the social services expenditure (41 *per cent*) as compared to the increase in the aggregate expenditure (59 *per cent*) during the period 2013-18.

1.7.2.2 Efficiency of Expenditure use

Details of capital and revenue expenditure on maintenance of social and economic services are given in **Table 1.26**.

Table 1.26: Efficiency of expenditure use in selected social and economic services

Social/Economic infrastructure	2016-17			2017-18		
	Ratio of CE to TE	Revenue expenditure (₹ in crore)		Ratio of CE to TE	Revenue expenditure (₹ in crore)	
		S&W	O&M		S&W	O&M
Total (SS)	15.54	55,711	269	12.08	50,533	393
Total (ES)	47.90	9,918	2,685	27.31	11,544	4,567
Total (SS+ES)	30.76	65,629	2,954	19.46	62,077	4,960
Major components of Social Services (SS)						
Education	3.72	46,892	28	1.99	40,757	13
Health and Family Welfare	18.51	7,002	144	12.49	8,050	152
Water Supply, Sanitation, Housing and Urban Development	64.44	153	68	52.63	159	204
Major components of Economic Services (ES)						
Agriculture and Allied Activities	37.94	2,754	29	5.55	3,228	22
Irrigation and Flood Control	48.76	2,570	517	30.80	2,840	2,205
Power and Energy	39.15	27	00	53.72	38	00
Transport	82.29	107	2,136	66.87	120	2,323
TE: Total Expenditure; CE: Capital Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance.						

(Source: Finance Accounts and voucher level computerisation data of AG (A&E) for 2016-17 and 2017-18)

The share of capital expenditure to total expenditure during 2017-18 under social services decreased by 3.46 *per cent* and under economic services by 20.59 *per cent* over the previous year. Under the social services, the decrease in the ratio of capital expenditure to total expenditure during 2017-18 over the previous year was mainly in the area of water supply, education, sanitation and urban housing development (11.81 *per cent*). Under the economic services, there was decrease of 32.39 *per cent* in agriculture and allied activities.

The share of salaries and wages in revenue expenditure decreased by ₹ 3,552 crore (five *per cent*) in 2017-18 as compared to 2016-17. The overall share of O&M expenditure in the revenue expenditure increased by ₹ 2,006 crore (68 *per cent*), comprising an increase of ₹ 1,882 crore (70 *per cent*) under economic services and ₹ 124 crore (40 *per cent*) under social services in 2017-18 as compared to 2016-17.

1.7.2.3 Development and Non-Development Expenditure

All expenditure relating to revenue head, capital outlay and loans and advances are categorised into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

The rate of growth of development and non-development expenditure of the Government during 2013-18 are given in **Table 1.27**.

Table 1.27: Development and Non-Development Expenditure

(₹ in crore)					
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue expenditure	1,58,147	1,71,027	2,12,736	2,36,592	2,66,224
Capital expenditure	32,863	53,297	64,423	69,789	39,088
Loans and advances	1,473	1,873	9,118	6,741	1,509
Total expenditure	1,92,483	2,26,197	2,86,277	3,13,122	3,06,821
Development expenditure	1,17,209	1,46,705	1,98,456	2,08,290	1,86,578
Rate of growth of development expenditure (<i>per cent</i>)	20	25	35	05	(-)10
Non-development expenditure	75,274	79,492	87,821	1,04,832	1,20,243
Rate of growth of non-development expenditure (<i>per cent</i>)	11	6	10	19	15

(Source: Finance Accounts of the respective years)

The rate of growth of development expenditure exceeded in comparison to the rate of growth of non-development expenditure significantly in 2015-16. Subsequently, it decreased sharply up-to minus 10 *per cent* during 2017-18. The rate of growth of non-development expenditure increased from 11 *per cent* in 2013-14 to 19 *per cent* in 2016-17 but decreased to 15 *per cent* in 2017-18.

1.8 Government Expenditure and Investments

1.8.1 Financial results of Irrigation Works

The Thirteenth and Fourteenth Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The position of cost recovery of irrigation projects in the State for the period 2013-18 is depicted in **Table 1.28**.

Table 1.28: Cost recovery position of irrigation projects

Year	Revenue expenditure	Revenue receipts	Cost recovery assessment of XIII FC(2010-15)/XIV FC (2015-20)	Revenue receipts to revenue expenditure	Gap in cost recovery
₹ in crore		In per cent			
2013-14	4,472	550	60	12	48
2014-15	5,009	397	75	8	67
2015-16	4,891	651	35	13	22
2016-17	5,230	782	35	15	20
2017-18	6,706	953	35	14	21

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

The gap in cost recovery improved during 2015-16 and 2016-17, but increased slightly by one *per cent* during 2017-18. Though, it is better than the neighbouring State of Bihar (29 *per cent*), yet it has to further improve in comparison with the other States (Chhattisgarh (-) 76 *per cent* and Madhya Pradesh (-) 47 *per cent*).

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

1.8.2 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The details of incomplete projects as given in the Finance Accounts is summarised in **Table 1.29**.

Table 1.29: Department-wise profile of incomplete projects as on 31 March 2018

(₹ in crore)

Department	No. of incomplete projects	Initial estimated cost	No. of projects for which costs were revised	Estimated cost of project for which costs were revised	
				Initial estimated cost	Revised estimated cost
Public Works Department (Roads & Bridges)	1,006	12,953	08	355	460
Irrigation Department	59	5,344	01	657	1,514
Total	1,065	18,297	09	1,012	1,974

(Source: Appendix IX of Finance Accounts 2017-18)

Out of total 1,065 incomplete projects, the estimated cost was revised for only nine projects (overall increase of estimated cost by 95 per cent). Since the State Government has not evaluated the cost of remaining incomplete projects, the funds required to complete these projects could not be ascertained.

Recommendation: The Finance Department and the concerned departments may re-evaluate the cost of all incomplete projects and evolve a mechanism to ensure timely completion of projects.

1.8.3 Investments and Returns

The position of return on investments¹⁴ during 2013-18 is given in **Table 1.30**.

Table 1.30: Return on investments

Investment/return/cost of borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (₹ in crore)	52,467	58,606	84,357	96,400	1,04,779
Returns (₹ in crore)	5.23	8.08	42.66	86.34	30.84
Returns (per cent)	0.01	0.01	0.05	0.09	0.03
Average rate of interest on Government borrowings ¹⁵ (per cent)	6.43	6.40	6.35	6.82	6.54
Difference between interest rate on Government borrowings and interest received on returns (per cent)	6.42	6.39	6.30	6.73	6.51
Notional loss due to difference between interest rate of Government borrowings and return on investments (₹ in crore)	3,368	3,745	5,315	6,488	6,821

(Source: Finance Accounts of the respective years)

Over the past five years the State Government has incurred a notional loss of ₹ 25,737 crore on return on investment on account of difference between the Government's borrowing cost and the return on investment on working PSUs. It is of specific interest to observe that in spite of the poor return on

¹⁴ In Statutory Corporations, Government Companies, Co-operative Societies and Banks.

¹⁵ Interest payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100

investments, the Finance Department has regularly provided budgetary support to these PSUs by way of infusion of equity, loans, grants-in-aid, subsidies which had not even finalised their accounts as per the provisions of the Companies Act, as discussed in **Para 3.13**.

As per the dividend policy, all profit earning PSUs are required to pay a minimum dividend of five *per cent* on the paid up share capital contributed by the State Government. However, out of 20 profit earning PSUs only 11 PSUs declared a dividend of ₹ 8.56 crore and the remaining nine profit earning PSUs did not declare dividend of ₹ 540.36 crore, as discussed in **Para 3.14**.

1.8.4 Loans and Advances by State Government

In addition to investments in co-operative societies, corporations and companies, State Government has also been providing loans and advances to many of these institutions/organisations, including loans and advances to the Government Servants. Details are given in **Table 1.31**.

Table 1.31: Outstanding loans and advances and interest receipts and payments by State Government

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Opening balance of loans and advances	11,572	12,456	14,067	22,459	28,447
Amount advanced during the year	1,473	1,873	9,118	6,741	1,509
Amount repaid during the year	589	262	726	259	236
Closing balance of loans and advances	12,456	14,067	22,459	28,447*	29,720
Net addition of loans and advances	884	1,611	8,392	5,988	1,273
Interest receipts	19	14	26	566	606
Interest receipts as <i>per cent</i> to outstanding Loans and Advances ¹⁶	0.15	0.10	0.12	1.99	2.08
Average rate of interest on Government borrowings ¹⁷ (<i>per cent</i>)	6.43	6.40	6.35	6.82	6.54
Difference between interest rate on Government borrowings and interest received on loans (<i>per cent</i>)	6.28	6.30	6.23	4.83	4.46
Loss due to the difference between interest rate of Government borrowings and interest received on loans (₹ in crore)	93	118	568	326	67

(Source: Finance Accounts of the respective years)

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

Out of total amount repaid during the year (₹ 236 crore), ₹ 102 crore (43 *per cent*) was repaid by the Government servants. Over the past five years the State Government has incurred a notional loss of ₹ 1,172 crore towards interest on account of difference in the interest received on the loans advanced and that the Government incurred on its borrowings.

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

¹⁶ Interest Received / [(Opening balance + Closing balance of Loans and Advance)/2] *100.

¹⁷ Interest payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

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

1.8.5 Public Private Partnership Projects

The State Government has informed details of 71 Public Private Partnership (PPP) projects involving ₹ 92,621.88 crore (**Annexure–I of Finance Accounts Volume-1**) to the Accountant General (A&E), where developers have been selected. The Government has not intimated its financial obligations under the PPP arrangement.

1.8.6 Cash Balances and Investment of Cash Balances

Details of cash balance and investment of cash balance is given in **Table 1.32**.

Table 1.32: Cash balances and investment of cash balances

(₹ in crore)		
Particulars	Opening balance as on 01 April 2017	Closing balance as on 31 March 2018
(a) General cash balances		
Cash in Treasuries	00	00
Deposits with Reserve Bank	(-) 1,280.65	265.21
Remittances in Transit- local	00	00
Total	(-) 1,280.65	265.21
Investment held in Cash Balance Investment Account	2,168.23	11,159.38
Total (a)	887.58	11,424.59
(b) Other cash balances and investments		
Cash with Departmental Officers viz., Public Works Departmental Officers, Forest Departmental Officers, District Collectors	10.69	10.87
Permanent Advances for contingency expenditure with Departmental Officers	0.44	0.49
Investment of Earmarked Funds	45.20	45.20
Total (b)	56.33	56.56
Grand Total (a) + (b)	943.91	11,481.15

(Source: Finance Accounts 2017-18)

During 2017-18, the opening balance of investment held in cash balance investment accounts was ₹ 2,168.23 crore. Treasury Bills amounting to ₹ 3,52,907.61 crore were purchased and instruments amounting to ₹ 3,43,916.47 crore were sold during the year, leaving a balance of ₹ 11,159.38 crore. An amount of ₹ 471.26 crore and ₹ 15.35 crore were received as interest on investment under Treasury Bills and Long Term Government of India's Securities respectively.

1.9 Assets and Liabilities

1.9.1 Growth and Composition of Assets and Liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government,

these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. *Appendix 1.7* gives an abstract of such liabilities and assets, as on 31 March 2018, compared with the corresponding position on 31 March 2017. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from public accounts and reserve funds, the assets comprise mainly of capital outlay and loans and advances given by the State Government and the cash balances.

1.9.2 Transactions under Reserve Funds

During the year 2017-18, the State Government made a net transfer of ₹ 8,264.72 crore to various Reserve Funds under Public Accounts of the State, which have been created for specific purposes. Details are given in *Appendix 1.8* and summarised in **Table 1.33**.

Table 1.33: Position of Reserve Funds during 2017-18

(₹ in crore)

Sl. No.	Head of accounts	Opening balance as on 1 April 2017	Receipts during 2017-18	Disbursements during 2017-18	Closing balance as on 31 March 2018
(a) Reserve Funds bearing interest					
1	8115-Depreciation/ Renewal Reserve Fund <i>Investment</i>	00 (-) 44.42	00	00	00 (-) 44.42
2	8121-General and other Reserve Fund	(-) 0.06 0.06	00	00	(-) 0.06 0.06
Total (a) <i>Investment</i>		00 (-) 44.42	00	00	00 (-) 44.42
(b) Reserve Funds not bearing interest					
1	8222-Sinking Fund	49,659.39	12,232.23	4,422.00	57,469.62
2	8223-Famine Relief Fund <i>Investment</i>	00 (-) 0.78	00	00	00 (-) 0.78
3	8225-Roads and Bridges Fund	(-)321.46	2,000.00	2,000.00	(-)321.46
4	8226-Depreciation/ Renewal Reserve Fund	(-)7.99	00	00	(-)7.99
5	8229-Development and Welfare Funds	888.31	218.44	143.95	962.80
6	8235-General and Other Reserve Funds	797.10	816.86	436.86	1,177.10
Total (b) <i>Investment</i>		51,015.35 (-) 0.78	15,267.53	7,002.81	59,280.07 (-) 0.78
Grand Total <i>Investment</i>		51,015.35 (-) 45.20	15,267.53	7,002.81	59,280.07 (-) 45.20

(Source: Finance Accounts 2017-18)

Out of 44 reserve funds (with an opening balance of ₹ 51,015.35 crore) at the beginning of 2017-18, 32 were operative and three reserve funds were not operated during the period 2014-18 having balance of ₹ 20.67 crore and nine funds were closed during 2017-18. Out of operative 32 reserve funds (having balance of ₹ 59,259.40 crore), 19 funds were having zero balance. The total accumulated balance at the end of 2017-18 in these 35 reserve funds was ₹ 59,280.07 crore. It was however, observed that no investment of this huge balance of reserve funds was made during the last five years. It was also

observed that in respect of two inoperative reserve funds, an amount of ₹ 45.20 crore (which was debit book balance) under MH 8115- Depreciation Reserve Fund (₹ 44.42 crore) and MH 8223- Famine Relief Fund (₹ 0.78 crore) was invested decades ago, but no interest thereon has been credited in the account.

Transfers into reserve funds and disbursement therefrom are effected through debit and credit entries under the appropriate revenue and expenditure heads under the Consolidated Fund. These represent actual cash transfers only if they impact the Reserve Bank Deposits (RBD) either directly or by way of investment. The transfer of ₹ 15,268 crore to reserve fund and disbursements of ₹ 7,003 crore therefrom (i.e. net transfer of ₹ 8,265 crore) during the year 2017-18 were in nature of book adjustments. Since there was no actual cash outflow, these transactions depicted by the State Government against reserve funds were merely the book entries which violates the spirit underlying the creation and operation of reserve funds.

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

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

1.9.2.1 Sinking Fund

Creation of Consolidated Sinking Fund

The Twelfth Finance Commission (XII FC) recommended creation of Consolidated Sinking Fund (CSF) for amortisation of outstanding liabilities¹⁸ by the State Governments. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 per cent of outstanding liabilities at the end of the previous financial year. Accordingly, the State Government was required to contribute ₹ 2,116.12 crore (0.5 per cent of ₹ 4,23,223.78 crore, i.e. the outstanding liabilities as on 31 March 2017) in 2017-18.

The State Government, however, has not taken any action to setup the CSF (subsuming the existing Fund) in terms of these guidelines¹⁹.

¹⁸ Defined as comprising Internal Debt and Public Account liabilities of the State Government.

¹⁹ Unlike States like Andhra Pradesh, Gujarat, Karnataka, West Bengal, Telangana, Odisha and Jammu & Kashmir which have set up Consolidated Sinking Funds in terms of the guidelines.

Operation of existing Sinking Fund

During 2017-18, the State Government made a provision of ₹ 12,232.23 crore for reduction or avoidance of debt (under Major Head 2048) and appropriated to Sinking Fund (Major Head 8222) under Public Accounts by book transfer. Out of this fund, an amount of ₹ 4,422 crore, equivalent to repayment of market loans, was transferred and credited to Revenue Receipts (under Major Head 0075-Miscellaneous General Services) under the Consolidated Fund without involving any cash outflow from Sinking Fund. The amount transferred from the Sinking Fund (₹ 4,422 crore) to the Revenue Account overstated the Revenue Surplus of the Year.

Unlike in the case of the CSF maintained by the other State Governments which have accepted the XII FC recommendations, the transactions of the Government of Uttar Pradesh against the Sinking Fund are only book entries and do not represent actual movement of cash. This militates against the spirit underlying the creation and operation of Sinking Funds. Further, there was no investment against the closing balance of ₹ 57,469.61 crore in the Sinking Fund as on 31.03.2018. Apart from this, the net addition of ₹ 7,810 crore to the Sinking Fund during the year 2017-18 resulted in increasing the outstanding liabilities of the State to that extent.

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

1.9.2.2 State Roads and Bridges Fund

State Government had created Roads and Bridges Fund for meeting expenditure on the development of roads and communications (Bridges) in the State. During 2017-18, the State Government made provision of ₹ 1,500 crore and ₹ 500 crore under MH 3054 and MH 5054 relating to revenue and capital expenditure respectively on Roads and Bridges and transferred these amounts to the Reserve Fund MH 8225- Roads and Bridges Fund. The same amounts (i.e., ₹ 1,500 crore and ₹ 500 crore respectively) were shown as expended during the year on Roads and Bridges and booked as deduct entries under MH 3054 and MH 5054 respectively. In this connection, Audit observed as under:

- The State Government has been making such identical transfers and reverse transfers between MH 3054/5054 and MH 8225- Roads and Bridges Fund for many years.
- Further, the Fund had a negative balance of (-) ₹ 321.46 crore as on 31 March 2018, indicating excess of disbursement over available balances. This negative figure has been appearing from the accounts of 2014-15 onwards. The negative balance is to be regularised by appropriation from the Consolidated Fund.

Recommendation: *The Finance Department should immediately regularise the negative balance of (-) ₹ 321.46 crore.*

1.9.2.3 State Disaster Response Fund (SDRF)

Non-accounting of SDRF as interest bearing Reserve Fund

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

- The Fund should be operated under the category “Reserve Fund bearing Interest” below Major Head-8121-General and Other Reserve Funds-122-State Disaster Response Funds.
- The State Government shall pay interest to the SDRF at the interest applicable to overdrafts under Overdraft Regulation Guidelines of the RBI.

It was observed, however, that the State Government operates its SDRF under the category “Reserve Funds not bearing Interest” below Major Head 8235-General and Other Reserve Funds-111- State Disaster Response Funds. The balances in the Fund are also not invested in the manner specified by the GoI under the SDRF guidelines. Consequently, the balances in the Fund are only book entries and do not represent actual cash balances. Further, as per Finance Accounts 2017-18, the interest of ₹ 37.22 crore due for the year 2017-18 had not been paid by the State Government.

The State Government stated (June, 2018) that since only a negligible amount remains in the Fund at the end of the year, the Fund has not been categorised as “Interest bearing Reserve Fund” and no provision has been made for interest payment. The reply is not relevant. By categorising the Fund under “Reserve Funds not bearing Interest” and by not investing the balances in the Fund or paying interest thereon, the fund balances are essentially only book entries, militating against the letter and spirit of the guidelines of the Fund and also of Government accounting itself, which follows the principle of cash accounting.

In terms of the National Disaster Response Fund (NDRF) guidelines (July 2015), the Government of India provides additional assistance to the States from NDRF which does not require State’s share, when natural calamities require expenditure in excess of the balances available under SDRF. As per Para 11.3 and 11.4 of the guidelines, the State Governments would make suitable budget provisions on expenditure side of their budget under the head 2245-80-103, and the actual expenditure out of NDRF should be booked thereunder. Direct expenditure by the State Government from the Public Account should not be made.

The State Government received ₹ 119.67 crore from NDRF during the year 2017-18 which was booked under MH 1601- Grants-in-aid from Central Government and treated as receipt. However, no budget provision was made nor expenditure booked under Major Head 2245-80-103-Assistance from NDRF during the year as per the prescribed procedure. Thus, the grants-in-aid of ₹ 119.67 crore received from NDRF was not transferred to the State's SDRF account during the year 2017-18. As a result, the revenue surplus of the State Government was also overstated and fiscal deficit understated by ₹ 119.67 crore.

Recommendation: The State Government should transfer the SDRF balances to MH 8121- General and Other Reserve Funds under the category "Reserve Funds bearing Interest" and remit to the Fund accrued interest as per SDRF guidelines. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.

1.9.3 Contingent Liabilities – Status of Guarantees

1.9.3.1 Guarantee Redemption Fund

For the purpose of redemption of guarantees, the State Government was required to create a Guarantee Redemption Fund as per the recommendations of Twelfth Finance Commission. However, State Government has not created a Guarantee Redemption Fund. Under the RBI Guidelines 2013, it was required to make minimum annual contributions of ₹ 290.75 crore (0.5 per cent of outstanding guarantee of ₹ 58,149.03 crore²⁰ at the beginning of the year 2017-18) which was not done. This has impact of overstating the revenue surplus and understating the fiscal deficit by ₹ 290.75 crore.

As per **Statement-9** of the Finance Accounts, the maximum amount for which guarantees were given by the Government and those outstanding for the last three years is given in **Table 1.34**.

Table 1.34: Guarantees given by the Government

Particulars	(₹ in crore)		
	2015-16	2016-17	2017-18
Maximum amount guaranteed (Principal)	78,826	66,702 ²¹	74,303
Total revenue receipts	2,27,076	2,56,875	2,78,775
Outstanding amount of guarantees at the end of the year	57,618	55,825	74,841
Percentage of maximum amount guaranteed to total revenue receipts	34.71	25.97	26.65

(Source: Finance Accounts of the respective years)

²⁰ There was a difference of ₹ 2,324 crore between outstanding guarantee at the end of 2016-17 (₹ 55,825 crore) and that at the beginning of 2017-18 (₹ 58,149 crore), which was under reconciliation.

²¹ Decrease was due to discharge of guarantee amount of ₹ 36,282 crore during the year pertaining to U.P. Power Corporation Ltd. (₹ 33,726 crore), U.P. Power Transmission Corporation Ltd. (₹ 270 crore), U.P. Rajya Vidhyut Utpadan Nigam Ltd. (₹ 71 crore), U.P. Co-operative Village Development Bank Ltd. (₹ 627 crore), U.P. Cooperative Sugar Mill Federation Ltd., Lucknow (₹ 1,584 crore) and Co-operative Spinning Mills Federation (₹ four crore).

The composition of the maximum amount guaranteed was towards: four power sector entities²² (₹ 65,507 crore), two co-operative banks²³ (₹ 4,583 crore), nine institutions of other sectors²⁴ (₹ 3,002 crore) and U.P. State Financial Corporation (₹ 1,211 crore).

1.9.3.2 Guarantee Fee

As per recommendations of XII FC, the guarantee redemption fund should be set up through earmarked guarantee fees which should be preceded by risk weighting of guarantees. The State Government issued guarantees in respect of 16 institutions, of which only two institutions were to pay guarantee fee and the remaining 14 institutions²⁵ were exempted. It was noticed that out of total receivable guarantee fee of ₹ 10.56 crore from two institutions, only ₹ 0.82 crore was paid by U.P. Power Transmission Corporation Limited, whereas, the U.P. Rajya Vidyut Utpadan Nigam Limited had not paid the guarantee fee of ₹ 9.74 crore.

Recommendation: *The State Government should create and operate the guarantee redemption fund as per the guidelines of XII FC. State Government should also ensure that guarantee fees are realised promptly. The Government should stop financial support to the institutions which have not paid the guarantee fees and/or are also in arrears of accounts.*

1.10 Debt Management

1.10.1 Net availability of funds on account of Public Debt and Public Account liabilities

Details of net availability of funds on account of public debt and public account liabilities during 2013-18 are given in **Table 1.35**.

Table 1.35: Net available fund on account of public debt and other obligations

Particulars	₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts under public debt and other liabilities	55,057	71,455	1,13,502	1,13,172	90,052
Repayments (principal and interest) under public debt and other liabilities	50,316	64,103	75,557	84,034	74,570
Net funds available	4,741	7,352	37,945	29,138	15,482
Percentage of net funds available to receipts under public debt	8.61	10.29	33.43	25.75	17.19

(Source: Finance Accounts of the respective years)

²² U.P. Power Corporation Ltd., U.P. Power Transmission Corporation Ltd., U.P. Rajya Vidyut Utpadan Nigam Ltd. and Jawaharpur Vidyut Utpadan Nigam Ltd.

²³ U.P. Cooperative Bank Ltd. and U.P. Cooperative Village Development Bank Ltd.

²⁴ U.P. Cooperative Sugar Mills Federation Ltd., U.P. Backward Finance and Development Corporation, U.P. State Hortico, U.P. (Madhya) Cane Seed and Development Corporation Ltd., U.P. (West) Cane Seed and Development Corporation Ltd., U.P. Khadi and Gramodhyog Board, ITR Company Ltd., Pradeshiya Industrial and Investment Corporation of U.P. Ltd. and Cooperative Spinning Mills Federation.

²⁵ U.P. Power Corporation Ltd., Jawaharpur Vidyut Utpadan Nigam Ltd., U.P. Cooperative Bank Limited, U.P. Cooperative Village Development Bank Ltd., U.P. Cooperative Sugar Mills Federation Ltd., U.P. Backward Finance and Development Corporation, U.P. State Hortico, U.P. (Madhya) Cane Seed and Development Corporation Ltd., U.P. (West) Cane Seed and Development Corporation Ltd., U.P. Khadi and Gramodhyog Board, ITR Company Ltd., Pradeshiya Industrial and Investment Corporation of U.P. Ltd, Cooperative Spinning Mills Corporation and U.P. State Financial Corporation Ltd.

As evident from **Table 1.35**, 82.81 *per cent* of borrowed funds were used for discharging existing liabilities during 2017-18 and could not be used for capital formation/development activities of the State. As compared to the other States, net availability of borrowed funds of Uttar Pradesh (17.19 *per cent*) was less than that of Chhattisgarh (35.01 *per cent*) and Jharkhand (22.24 *per cent*) though it was more than that of Madhya Pradesh (13.37 *per cent*) and Bihar (15.15 *per cent*).

1.10.2 Debt Sustainability

Debt sustainability indicates the ability of the State to service its debts in future. **Table 1.36** presents indicators of debt sustainability for the period of five years beginning from 2013-14.

Table 1.36: Debt Sustainability- Indicators and Trends

(₹ in crore)					
Indicators of debt sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Net availability of borrowed funds	4,741	7,352	37,945	29,138	15,482
Burden of interest payments (interest payment/revenue receipt ratio)	10.35	9.75	9.45	10.48	10.45
Revenue receipts	1,68,214	1,93,422	2,27,076	2,56,875	2,78,775
Outstanding debt (excluding UDAY for 2015-16 and 2016-17)	2,81,709	3,07,859	3,42,920	4,08,422	4,67,842
Rate of growth of outstanding debt (in <i>per cent</i>)	9	9	11	19	15
Outstanding debt (Fiscal Liabilities)/ GSDP (in <i>per cent</i>)	30	30	30	33	34
Interest payment	17,412	18,865	21,448	26,936	29,136
Average interest rate of outstanding debt (in <i>per cent</i>)	6.43	6.40	6.35	6.82	6.54

(Source: Finance Accounts of the respective years)

An important condition for debt sustainability is stabilisation in terms of debt/GSDP ratio. However, the ratio of interest payment to revenue receipts increased from 9.45 *per cent* to 10.45 *per cent* during 2015-18 and the debt/GSDP ratio also spiked from 30 *per cent* to 34 *per cent* during the same period.

State Government in its reply (June 2019) contended that the outstanding debt of State Government as on 31 March 2018 was ₹ 4,08,716.49 crore as against ₹ 4,67,842 crore mentioned by Audit. State Government further stated that Sinking Fund was created for amortisation of market loan on their maturity in lump sum. Accordingly, for this purpose funds from the revenue head were transferred in installments against maturity value of market loan on a recurring basis. For repayment of market loan, funds were provisioned in Account Head “6003-Internal debt of State Government” and the same amount was credited in Account Head “0075-Miscellaneous General Services” as revenue receipts debiting Sinking Fund Account Head “8222-Sinking Fund”. Thus, a part of the market loan under public debt was included in the balances of the Sinking Fund which was shown as liabilities in the Finance Accounts. Therefore, due

to this reason, the outstanding liabilities of the State Government depicted in the Finance Accounts increased by the same amount of the balances of Sinking Fund.

The contention of the State Government is not acceptable, as the sinking fund to the extent to which it has not been invested constitute the liability of the State Government. Further, outstanding balance of ₹ 57,469.61 crore as on 31 March 2018 under Sinking Fund was not invested by the State Government. Pertinently, while communicating (August 2017) annual borrowing ceiling of the State Government for the year 2017-18, Ministry of Finance, GoI also mentioned that borrowings include open market borrowings, Central Government loans, other liabilities arising out of public account transfers under small savings, Provident Funds, Reserve Funds, Deposits, etc., as reflected in **Statement-6** of the State's Finance Accounts.

1.11 Follow up

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

