Executive Summary

The present study provides a critical analysis of the fiscal situation of UP government during the period 2002-03 to 2011-12. The analysis covers *inter alia* the trends in public revenue and expenditure, fiscal deficits, debt situation, subsidy, fiscal reforms carried out in the state, performance of the state public enterprises, power sector reforms and devolution to local bodies. The data for analysis have been taken from the state government budget documents, RBI reports on state finances and records of the concerned departments.

Fiscal Crisis of the 1990s

The budgetary trends in the last decade have been analysed in the backdrop of the fiscal crisis faced by the state in the 1990s. All the major fiscal indicators showed a continuous worsening of the situation in the state in the nineties. The proportion of non-development expenditure to total expenditure went up from around 30 per cent in the early nineties to around 40 per cent of total expenditure by the end of the decade. The burden of interest payment steadily increased and accounted for one-fourth of the revenue expenditure by 2001-02. The burden of capital repayment sharply increased. The State was able to finance only 40 percent of its total expenditure from its own tax and non-tax revenue receipts, rest being financed by central transfers and borrowings. Nearly two-thirds of borrowings were used to financing revenue expenditure. By the mid-nineties the fiscal crisis had assumed a serious proportion.

Alarmed by the fast deteriorating fiscal situation the State government came out with a *White Paper on the Fiscal Situation in the State* along with the budget of 1998-99. Following this, the State government announced *a Medium Term Fiscal Reform Policy (MTFRP)* along with its budget for 2000-2001. These measures did result in some improvement in the fiscal indicators during the years 1999-00 and 2000-01. However, the momentum of reform could not be sustained for long. The strong political will to stick to these targets was not forthcoming. Political instability also constrained the government to take strong measures on the fiscal front.

The UP Government adopted the Fiscal Responsibility and Budget Reform Act in 2004 and came out with a Medium Term Fiscal Reforms Policy with time bound targets for revenue and fiscal deficits and public debt. The reform measures adopted since 2004 did result in an improved fiscal situation of the state government as the analysis in this report shows.

Trends in Own Tax Revenue

The State government has been making efforts to augment its tax revenue through measures like simplification of procedure of tax collection, rationalization of tax structure, check on tax evasion, intensifying recovery efforts and increasing the tax base. As a result the Own Tax Revenue (OTR) of the state has grown at a fairly high rate of 17.7 per cent per annum during the period 2002-

12. The growth in OTR of UP government has matched the increase in its share in Central tax revenue. The share of OTR in total tax revenue of the state has remained around half throughout the last decade.

The OTR/GSDP ratio for the state improved from 5.17 per cent in 2001-02 to 6.84 per cent in 2006-07, and further to 7.69 per cent in 2011-12. The tax buoyancy for the decade has been estimated at 1.27. However, there is scope for increasing the Tax-GSDP ratio to at least 10 per cent. Efforts are required to check high levels of tax evasion prevalent in the state. It is suggested that a high level committee should be appointed to examine the extent and methods of tax evasion and suggest measures for checking evasion. Tax machinery should be strengthened and modernized. Tax rates should be rationalized and exemptions granted should be reviewed. The state should levy profession tax. There are huge arrears of tax and non-tax revenue. Efforts should be made to recover these amounts by expediting the legal proceedings and administrative orders.

Trends in Non-Tax Revenue

Own NTR of the state constituted 14 per cent of its total own revenue during 2001-06 and 21 per cent during 2006-12. Total NTR of UP Government recorded a compound annual growth rate of 9.9 per cent during 2001-02 to 2005-06. The growth rates jumped to 26.3 per cent during the period 2006-07 to 2011-12. Around 40 per cent of NTR is contributed by states own non-tax revenue and the remaining 60 per cent is contributed by plan grants from the Centre Comparing ONTR/GSDP ratio across the states we find that UP has a higher proportion of ONTR/GSDP ratio as compared to the general category states.

User Charges

Fees and other user charges for public services have not been determined on a rational basis. They often remain unchanged over long periods even when the cost of provision of the service has been increasing. These also do not take into account the ability of the people to pay. In many cases the state government has lowered or totally abolished particular service charges for populist considerations. Consequently, the recovery ratios are every low - around 10 per cent in case of education, 3 per cent in case of medical and health and 6 per cent in case of irrigation.

There is an urgent need of rationalising and raising the user charges for public services not only to improve the fiscal health of the government but also to avoid wasteful use of scarce resources and bringing about improvement in the quality of service. It is suggested that every government department should examine critically the cost of providing various services rendered by it and fix appropriate level of user charges. These should be reviewed after every year period. Alternative ways of financing the services like privatisation and Public Private Participation should be examined.

Trends in Public Expenditure

Total public expenditure in UP increased at a compound annual growth rate of 15 per cent during the period 2001-12. Capital expenditure increased at the rate of 17.2 per cent and revenue expenditure at the rate of 14.6 per cent. Public expenditure as per cent of GSDP rose from 19.41 per cent in 2002-03 to 22.6 per cent in 2011-12.

The composition of public expenditure also shows qualitative improvement in the recent years. Thus, capital expenditure which was 16.60 per cent of total expenditure in 2001-02 increased to 19.93 per cent in 2011-12. The proportion of plan expenditure in total expenditure went up from 17.7 per cent in 2002-03 to 28.3 per cent in 2011-12.

Total revenue expenditure increased at an annual rate of 14.6 per cent over the decade. Expenditure on social services registered a high growth of 17.6 per cent, while expenditure on economic services increased at a rate of 13.1 per cent per annum. Interest payment grew at a modest rate of 6.5 per cent, while administrative services show a growth of 12.8 per cent per year. Comparing the CAGR of revenue expenditure on different head for the period 2000-01 to 2005-06 and 2006-07 to 2011-12, we find that growth rate of expenditure on all head has sharply increased over the second period as compared to the first period.

The share of social services shows a distinct improvement rising from 31.3 per cent to 38.3 per cent of total revenue expenditure. Revenue expenditure on education has improved by about 3 percentage point. However, the share of medical and health in revenue expenditure has remained low and fluctuated around 4 per cent.

Among the non-developmental expenditure head, there has been a marked decline in the ratio of interest payment to total revenue expenditure from 21.4 per cent in 2002-03 to 12.5 per cent in 2011-12. The share of administrative service has remained stable around 9 per cent. However, the burden of pension has been going up and presently accounts for about 12 per cent of revenue expenditure.

The analysis reveals that considering the entire period from 2002-03 to 2011-12 there has been a qualitative improvement in the state finance. The share of plan expenditure and capital expenditure in total expenditure has increased and greater priority has been given to social sectors especially education.

However, when one analysises the trends in two sub-periods namely 2001-06 and 2007-12 a different picture emerges. The first half of the last decade was the period of fiscal consolidation. The growth rate of public expenditure was moderate and composition of public expenditure had improved. However, there has been a fiscal slackening after 2006-07. The growth rate of public expenditure has shot up markedly and the qualitative improvements in its composition have reversed. This is reflected in a decline in the ratio of plan expenditure and capital expenditure in total expenditure in the recent years.

Trends in Plan Expenditure

The changing pattern of plan expenditure indicates the shift in plan priorities from economic infrastructure to education and social welfare. The share of plan expenditure on social services has increased from 26.3 per cent in 2002-03 to 40.4 per cent in 2006-07 and further to 52 per cent in 2011-12. Among social services, education, water, sanitation and urban development and other services show major gains in their share in plan expenditure, but share of medical and health has registered a decline.

The higher priority of education is a welcome shift, but health sector has been receiving much less attention than it deserves given the poor health indicator of the state. Among the economic services, lower priority to agriculture, irrigation and energy sectors is a matter of concern given the importance of these sectors for the state's economic growth. The revenue component of plan expenditure has been fairly high.

Efficiency of Public Expenditure

The efficiency of public expenditure measured in terms of outcome indicators remains low. The gains in outcome indicators have not been commensurate with the expansion in public investment. Delayed release of funds, rush of expenditure towards the end of the financial year, lack of emphasis on outcome indicators, substantial leakages in the system and weakness in financial control and monitoring systems are among the factors responsible for this situation. The large scale misuse of NRHM funds during the Eleventh Plan is the most glaring example of wastage of public money and systematic weaknesses in the administrative and financial control mechanism.

Following suggestions are made to improve the allocative and technical efficiency of public expenditure in the state:

1. Strict watch should be placed on the uncontrolled growth of public expenditure especially low priority and wasteful expenditure.
2. Budget preparation should be more meticulously done and the procedures laid down in the Budget Manual should be strictly adhered to.
3. Expenditure on public health and power should be given higher priority.
4. Budgetary control mechanism should be strengthened in all Government departments.
5. Timely release of funds should be ensured to avoid end of the year rush in expenditure.
6. Adequate attention should be paid to the outcome indicators and quality of infrastructure created rather than simply ensuring financial targets.
7. Greater openness and public participation in budget formulation and monitoring should be promoted.

8. The legislative control on budget should be made effective. For many years state budgets have been passed in the state assembly without adequate debate. Minimum days of discussion on the government budget proposals should be laid down.
9. The practice of out of budget announcement of schemes by Chief Minister and other ministers should be kept in check and recourse to supplementary budgets should be only in case of urgent and unavoidable cases.
10. The working of the Public Accounts Committee of state legislature should be made more effective and regular.

Trends in Fiscal Deficits and Debt

The analysis of debt and deficits indicates that UP government finances are on the way of fiscal consolidation. The state has been to achieve mandated targets within given timeframe. The There has been able surplus in the revenue account since 2006-07. Fiscal deficit has also been contained within the limit mandated by state's FRBM Act. Trends in primary deficit indicates decline in debt servicing.

Analysis of the composition of fiscal deficit revealed that the share of capital outlay has increased sharply. Distinct changes are also evident in financing pattern of the fiscal deficit. Share of market borrowings and reserve funds has increased and dependence upon loans from the Centre and financial institutions has recorded a decline in the last decade.

Similar signs of improvement can also be seen from the recent data of balance from current revenues (BCR) for plan financing. In the post-FRBM years the state was able to have positive BCR. Positive BCR implies that the state government has been able to finance part of its plan expenditure from its own resources.

The debt burden as well as debt servicing is on the decline as evident from the declining trend in debt-GSDP ratio. The decline in the debt burden and servicing is the result of better revenue realization, healthy income growth and the impact of DSS and DCRF.

Trends in composition of outstanding debts are in conjunction with trends in financing. Public debt is now being financed mainly from the market borrowings and the share of loans and advances from the central government has declined.

The analysis of contingent liabilities indicates that the amount of guarantees given by UP government was on the rise upto 2009-10, but after that it became stable. However, outstanding guarantees including interest are rising continuously at a compound annual growth rate of 14.49 percent. The proportion of maximum amount of guarantee to total revenue receipt was quite high during the period 2001-02 to 2004-05, but has come down since then.

The FRBM Act 2004 provided for framing rules for fixing a limit on state guarantees. However, the government has not framed any rules in this regard so far. 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 Thirteenth Finance Commission.

Looking at the nominal GSDP growth and nominal interest rates we find that income growth rate in UP has been consistently higher than average interest rate after 2002-03, indicating strong sustainability according to Domar condition. The primary deficit has also been declining. The results of our study confirm weak debt sustainability for Uttar Pradesh in pre-FRBM years, but strong debt sustainability in post-FRBM period.

Although the debt situation shows an improvement over time and is sustainable as per fiscal indicators, it would be desirable if the state government keeps its borrowing levels low and brings down the Debt/GSDP ratio further to about 25 per cent to keep the burden of debt serving low.

Fiscal Reforms and Financial Management

The UP government has undertaken desirable fiscal reforms to improve financial health of the state. The FRBM Act was passed in 2004-05 and a Medium Term Fiscal Restructuring Policy covering the period 2004-05 to 2008-09 was adopted. Efforts were made to enhance the revenues and re-prioritise expenditure towards infrastructure and human development. The computerization of treasuries was successfully undertaken. Efforts have been made to follow rule based fiscal policy and the state has been able to adhere to the fiscal targets. All these effort have resulted in improvement in the fiscal health of the state and resulted in reduction of the debt burden.

However, there are still some important reforms which need to be implemented by the state. The UP government has not imposed any ceilings on guarantees extended by the state as mandated by the FRBM Act. The state government has also failed to setup Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF) so far. It would be desirable that these measures are undertaken expeditiously by the state government.

Devolution of Functions and Funds to Local Bodies

UP amended its existing Panchayati Raj and urban local bodies' acts in 1994 to bring them in line with the provisions of the 73rd and 74th Constitutional amendments. Since then four rounds of elections to the local bodies have been conducted in the states under the supervision of the State Election Commission. Three State Finance Commissions have submitted their reports during this period and the Fourth State Finance Commission has been set up.

In spite of the lapse of almost two decades the functional devolution to the local bodies has remained limited. In 1999, GOs were issued transferring 13 functions to the PRIs. These functions are nominal in nature and do not empower the PRIs to function as effective bodies for rural development. The government programmes are planned and implemented through the line departments. The PRIs have been reduced to perform some agency function only.

The functional devolution in case of ULBs has also remained limited and truncated. Only 12 out of the 18 functions in Schedule XII have been transferred to the ULBs. These functions are being performed by multiple agencies. ULBs have been given limited role with respect to planning for economic and social development. ULBs enjoy limited autonomy and remain under the effective control of the state government.

The present arrangement with respect to the functional devolution is not in keeping with the spirit of the 74th Constitutional amendment. Moreover, functionaries of different departments have not been placed under the control of the local bodies. The political commitment of the State Government for real empowerment of PRIs and ULBs has been missing. The state government should prepare a time bound road map to transfer the functions and functionaries to the local bodies in the true spirit of the 73rd and 74th constitutional amendments.

The record of the state government is better in respect of the financial devolution to the local bodies. The state government has regularly appointed the State Finance Commissions. Presently the state government has been transferring 12.5 per cent of its own tax revenue - 5 per cent to PRIs and 7.5 per cent to ULBs.

Transfers to the local bodies show a continuous increase from ` 1126.64 crore in 2001-02 to ` 2408.26 crore in 2005-06 and further to ` 4923 crore in 2011-12. Though the total devolution to the local bodies has been going up from year to year, the rate of increase has been uneven. The rate of devolution has also fallen much short of the increase in state tax revenue, though logically the same ratio should have been maintained. The devolutions have fallen short of the recommended 12.5 per cent of OTR of the state except in the year 2007-08. This aspect has to be given due attention so that the transfers to local bodies are in accordance with the recommendations of the SFC.

No significant measures have been adopted by the state government to transfer more taxation powers to the local bodies to enable them to raise own resources. The local bodies have also proved derelict in tapping their own resources with the result that they remain heavily dependent on transfers from the state and the central governments and enjoy limited fiscal autonomy.

UP has been a main beneficiary of the funds distributed under JNNURM. The state has also carried out most of the reforms for urban governance as per the MOU with the Government of India. The overall achievement for Uttar Pradesh is 85.4 per cent in the urban reform score card prepared by the Ministry of Urban Development. This indicates that the state has carried out most of the required reforms at the state and ULB level. The state should take steps to adopt the remaining reforms.

State Public Sector Enterprises

Over the years the state government has set up a large number of companies and statutory bodies in the public sector. Total investment of the PSUs in UP was ` 97,987.69 crore as on 31 March 2012. In term of total investment and turnover the energy sector PSUs dominate. The non-energy sector PSUs as a whole have earned a net income during the last four years. On the other hand, energy sector PSUs incurred huge losses. The result was that the public sector units as a whole were in the red in all the four years. The net losses of PSUs amounted to ` 7463.52 crore in 2011-12. The net loss of UPPCL alone was ` 8109 crore in 2011-12. The accumulated losses of the state PSUs have increased to ` 29380 crore in 2011-12.

Total subsidies to PSUs increased from ` 6472.05 in 2008-09 to ` 11424.79 crore in 2011-12 Total subsidy to PSUs accounts for about 11 per cent of total Non Plan Revenue Expenditure of the state and about three-fourth of GFD by 2011-12. In addition substantial amount of loan was converted into equity to help the PSUs. The state government has also been issuing guarantees to the PSUs on market loans, which adds to contingent liabilities of the state.

The state government formulated the policy of privatization/disinvestment of PSUs in June 1994. But the progress in this respect has been slow. In 2010-11 21 sugar mills in the public sector were privatized. There were 43 non-working PSUs in the state at the end of the fiscal year 2012. Out of these, 12 PSUs had gone into liquidation process. The Government may take a decision regarding winding up of 31 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down the non-working companies.

The state PSUs are putting a serious financial burden on the state budget and many of them are not serving the purpose for which they were set up effectively. A time bound programme of restructuring of the state PSUs should be adopted to deal with this unhappy situation. The non-working units should be wound up as early as possible. Some of the working units which are not serving useful social purpose should also be closed down. The remaining PSUs should be revamped to improve their working. These should be managed in a professional manner and state intervention should be minimized. Special attention needs to be paid to the power sector utilities, which are running into huge losses and straining the government finances.

Impact of Power Sector Reforms on State Finances

The UP Government came out with a power sector policy statement in January 1999 with a view to improve the power situation and to make the power sector commercially viable so that it ceases to be a burden to the state's budget and eventually becomes a net generator of financial resources. The reforms aimed at giving autonomy to power sector utilities to function on commercial lines and to encourage entry of private sector in power generation and distribution. To give legislative backing to these reforms, the UP Electricity Reforms Act was passed by the UP legislature and notified in July 1999.

As part of the reform process, the Uttar Pradesh Electricity Regulatory Commission (UPERC) was established in 1999. The erstwhile Uttar Pradesh State Electricity Board (UPSEB) was unbundled in January 2000 into three separate entities entrusted with generation, transmission and distribution of power. Subsequently, four new distribution companies (Discoms) were created in August 2003 to undertake distribution and supply of electricity in the areas under their respective zones specified in the scheme. The state government also entered into a MOU with Government of India to introduce reforms in power sector with specified milestones.

The reform initiatives taken in recent years have been in the right direction. The reforms have, however, fallen short of bringing about a change in the ownership arrangement and market structure. The progress towards privatization of generation and distribution has been very slow and halting. The power industry in UP is still predominantly government-owned in all its segments. Thus, the reform measures taken so far have virtually done nothing to change the market structure which could introduce competition into the sector. The government has continued to interfere in the day to day operations of the newly formed corporations. Thus, in most of the indicators of performance like PLF and AT & C losses the power utilities in the state present a dismal picture without any significant improvement over the years.

The power sector reforms have failed to bring about any substantial improvement in the operational and financial performance of the public sector units. State power utilities taken together have been incurring heavy losses in the last four years, mainly on account of the poor financial performance of UPPCL. The UPPCL has not been able to meet its operation and maintenance cost since 2004-05. The gap between the operational revenue and operational costs stood at ` 5294.94 crore in 2011-12. The UPPCL suffered a loss of ` 8108.75 crore in 2011-12. The accumulated losses of UPPCL stood at a staggering ` 31393.27 crore in 2011-12.

The losses of the public sector power utilities have been mainly on account of heavy T& D losses, rampant power theft, irrigational power tariff and poor realisation. The T&D losses have remained in the range of 30 to 34 per cent during 2002-03 and 2010-11. The AT&C losses are still higher and were as high as 36.71 percent in 2010-11.

The average cost of power supply in the state has been rising over time. There is heavy cross subsidization also. Cost per unit for the industrial sector is almost double for domestic consumers, while the agricultural sector is paying much lower charges for electricity. The average revenue per unit has fallen short of the supply of power unit consistently over the years. Considerable amount of electricity charges remains un-collected every year with the result that the cumulative arrear have been going up. The arrear increased from ` 10143.40 crore in 2006-07 to ` 25517.70 crore in 2011-12. About one-third of the arrears are due on the government departments.

The precarious financial situation of the power sector is affecting the fiscal health of the state government, which has been providing direct subsidy to UPPCL for concessional supply of power to the agricultural sector, handloom weavers and BPL families. The state government has also been meeting the expenses on account of restructuring of the power sector utilities. Total budgetary support under Non Plan head to the power sector amounted to ` 1304.4 crore in 2004-05, which increased to ` 3483.6 crore in 2011-12. In addition, the state government has been giving guarantees on the market loan raised by UPPCL, which add to the contingent liabilities of the state government.

The power sector in the state is again in crisis. It is not only affecting the financial health of the state government, but is also one of the major constraints on faster economic development of the state. Urgent steps are required for restructuring of the power sector beyond the occasional bail out by the state and the central governments. Unless hard budget constraint is imposed on the power sector utilities, they are unlikely to take steps to become commercially viable. Effective autonomy has to be given to the public power sector units. Their management has to be professionalised and government interference in their day to day working has to be stopped. A competitive environment has to be created in the generation, transmission and distribution of power by encouraging the private sector to enter in the field in a big way. These reforms require a strong political commitment, which has not been forthcoming so far.

State Subsidies

The state government has been giving subsidy for various purposes like subsidized public services, support to BPL families, promotion of weaker sections, agricultural and industrial development, etc. The subsidies are divided into two groups - explicit and implicit. Since 2008-09 the budget document are giving information on explicit budgeted subsidies. The explicit subsidy increased from ` 3819 crore in 2008-09 to ` 5601 crore in 2011-12. Energy sector accounted for a major part of subsidy, its share rising from 36 percent to 63 per cent in 1911-12. Total direct subsidies amount to about 1 per cent of GSDP and 4 per cent of total expenditure.

Implicit subsidy has been calculated through the cost recovery approach, according to which subsidy amount to the difference between revenue from a particular head and expenditure on that head. Total implicit subsidy has increased from ` 11583.5 crore in 2002-03 to ` 38915.3 crore in 2011-12. The Merit I subsidy accounted for about two thirds of the total implicit subsidy throughout the period. The share of Merit Subsidy II declined from 23.2 per cent in 2002-03 to 18.8 per cent in 2011-12, while the share of Non-Merit Subsidy has doubled from 8.73 per cent to 15.24 percent over this period.

Education, sports, art and culture accounted for 74.1 per cent of total Merit I subsidy in 2011-12. The share of medical and health was 15.5 per cent. About 10 per cent of subsidy was accounted for social welfare. In the subsidies falling under the category of Merit-II, major share has gone to rural Development, Major and Medium Irrigation and Roads and Bridges. The largest share of Non-Merit subsidy goes to power sector, which accounted for nearly 60 per cent of total Non-Merit subsidy in 20011-12. Other important sectors getting Non-merit subsidy are Natural Calamities, Crop Husbandry and Minor Irrigation.

Total implicit subsidy has hovered around 5 percent of GSDP in most of the years. They account for over one fourth of total budgetary expenditure. Many of the subsidies being paid by the government can be justified on economic and social ground. However, a strict watch on the subsidies is needed to ensure that they reach the targeted beneficiaries and serve the purpose for which these are given. No systematic surveys of the state government services have been carried out. However, the limited field surveys, which are supported by general perception, indicate that the subsidies are not well targeted and there are significant errors of exclusion and inclusion in the list of beneficiaries. Bureaucratic corruption leads to significant leakages in the benefits and culture of touts has become dominant. Subsidies need to be scrutinized carefully to see if they are serving a useful purpose. The deficiencies in the distribution of subsidies need to be minimized through an effective system of monitoring and evaluation.

Concluding Remarks

The analysis of budgetary trends of the UP Government during the period 2002-03 to 2011-12 reveals that the state government has managed its finances well. The state is well on the path of fiscal consolidation as indicated by most of the fiscal indicators related to revenue and fiscal deficits, outstanding debt, tax-GSDP ratio, etc. There has been a qualitative improvement in the composition of expenditure in favour of capital expenditure. Plan expenditure has increased markedly. Social sector has been given high priority.

However, some weak spots in fiscal reform process continue to exist and there is a need for strict vigil to keep the fiscal reforms on track. The growth of revenue expenditure has been quite high and should be kept in check. Expenditure on medical and health and power sector needs to be stepped up. The government should also fix limit on its contingent liabilities and create a debt redemption fund. State public enterprises are putting a heavy pressure on state finances, there is an urgent need to restructure the PSUs and privatise the non-functional and low priority PSUs. Especial attention needs to be paid to the functioning of the power sector.

There is also a large scope for raising tax and non-tax revenues in the state. Tax rates need to be rationalized. Tax collection machinery needs to be streamlined and modernized. The large evasion in taxes should be strongly curbed. The user charges for public services need to be rationalized and linked to cost of provision of the service. Subsidy should be restricted only to the deserving sections.

The budget formulation and budgetary control systems also need to be streamlined. The legislative approval and control system on government budget needs to be tightened. Public participation in determining fiscal priorities and public expenditure should be encouraged to improve the outcome and effectiveness of public expenditure.