INDIAN AUDIT AND ACCOUNTS DEPARTMENT

OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT), HIMACHAL PRADESH, SHIMLA-171003

PRESS RELEASE

on

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON STATE FINANCES FOR THE YEAR 2022-23 -- GOVERNMENT OF HIMACHAL PRADESH

Report of the Comptroller and Auditor General of India on State Finances for the year 2022-23 -- Government of Himachal Pradesh - Report No. 1 of the year 2024 - is prepared under provisions of Article 151 of the Constitution of India. The Report was forwarded to the Government of Himachal Pradesh on 11th November 2024 and laid on the table of Vidhan Sabha on______________________________.

The Report contains audit observations on the Finance and Appropriation accounts of the State Government for the year 2022-23 in five chapters and provides an overview of the status of the State Government's compliance with various financial rules, procedures and directives relating to financial reporting.

The gist of some of the important audit observations contained in the State Finances Audit Report are given under:

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 7.26 *per cent* from ₹ 1,48,383 crore in 2018-19 to ₹ 1,95,405 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 10.97 *per cent* from ₹ 46,984 crore in 2018-19 to ₹ 67,733 crore in 2022-23.

During 2022-23, there was 10.86 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 2.09 *percent* only and the percentage of revenue receipts over GSDP decreased from 21.17 *per cent* in 2021-22 to 19.49 *per cent* in 2022-23. The tax revenue increased by 8.29 *per cent* during the period and the State's own tax revenue increased by 9.07 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Himachal Pradesh increased from ₹ 42,602 crore in 2021-22 to ₹ 50,565 crore in 2022-23 increasing by 18.69 *per cent*. Of this, revenue expenditure showed 22.74 *per cent* increase from 2021-22. Revenue surplus (₹ 1,115 crore) of 2021-22 turned to Revenue deficit (₹ 6,336 crore) during 2022-23, while fiscal deficit increased from ₹ 5,245 crore in 2021-22 to ₹ 12,380 crore in 2022-23.

Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants in aid and transfers from the

Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 30,950.32 crore to ₹38,089.50 crore, with an average annual growth rate of 6.97 *per cent*. Capital receipts also increased from ₹ 1,784.70 crore to ₹ 12,331.41 crore during this period. The share of Grants-in-aid in revenue receipts ranged between 43.93 *per cent* and 55.06 *per cent* during 2018-23, indicating reliance on support from the Government of India. The State Government received ₹ 4,736.66 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 29,442.11 crore (19.84 *per cent* of GSDP) to ₹ 44,425.26 crore (22.73 *per cent* of GSDP). It consistently made up a significant portion (85 to 88 *per cent*) of the total expenditure during this period, growing at an average annual rate of 10.60 *per cent.*

Result of expenditure beyond means

The gap between revenue receipts and revenue expenditure results in revenue deficit. After experiencing revenue surplus during 2018-22 (except 2020-21), revenue surplus (₹ 1,114.76 crore) of 2021-22 turned to revenue deficit of ₹ 6,335.76 crore (3.24 *per cent* of GSDP) during 2022-23 due to substantial increase in revenue expenditure over the previous year.

The State Government spent ₹ 6,029 crore only on capital account. This was 11.92 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was just 26.95 *per cent* of the total borrowings during 2022-23. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/ development activities.

The gap between total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 12,380 crore (6.34 *per cent* of GSDP) in 2022-23 from ₹ 3,512 crore (2.37 *per cent* of GSDP) in 2018-19.

Under revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 64-70 *per cent* of revenue expenditure between 2018-19 and 2022-2023.

In addition to committed expenditure, inflexible expenditure increased from 2.45 *per cent* to 4.55 *per cent* of revenue expenditure during 2018-19 to 2022-23, indicating a rising trend. The inflexible expenditure increased from ₹ 1,607 crore in 2021-22 to ₹ 2,020 crore in 2022-23 registering an increase of 25.70 *per cent*.

Taken together, committed and inflexible expenditure in 2022-23 was ₹ 31,983.03 crore; 71.99 *per cent* of the revenue expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

Subsidies take away major portion of non-committed expenditure

Within non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 1,282.60 crore in 2018 -2019 to ₹ 1,973.32 crore in 2022-23 and constituted a share ranging between nine *per cent* and 14 *per cent* of the non-committed revenue expenditure during 2018-23. Power subsidies constituted a significant portion, ranging from 35 *per cent* to 53 *per cent* of the total subsidies during this period.

Contingent Liabilities on account of Guarantees

In 2022-23, the Government provided guarantees against borrowings of ₹ 643.61 crore. During the year, the Government did not invoke any amount against the guarantee.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, guarantees, subsidies, etc. So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, etc. and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, etc.

FRBM requirements and compliance with fiscal parameters

The FRBM Act / Rules laid down targets for revenue deficit, fiscal deficit and debt as a certain percentage of the Gross State Domestic Product (GSDP) and guarantees provided have to be a certain percentage of revenue receipts of the previous year. In 2022-23, revenue deficit was 3.24 *per cent* as against the target of being revenue surplus; fiscal deficit was 6.34 *per cent* as against the target of 6 *per cent or less*; debt was 42.05 *per cent* as against the target of 40.49 *per cent* and guarantees given were 4.77 *per cent* as against the target of 40 *per cent*.

Further, the overall liability (which includes Public Debt and Public Account Liabilities) of the Government was 42.05 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilisation analysis, the public debt of the Government of Himachal Pradesh has grown at an average annual rate of 11.46 *per cent* between 2018-19 to 2022-23. Public debt-GSDP ratio has increased from 24.55 *per cent* in 2018-19 to 30.17 *per cent* in 2022-23.

Domar gap (g-r) was negative during 2020-21(Covid year). However, during post Covid years 2021-22 and 2022-23, though the Domar gap (expressed as g-r) was positive due to high growth of GSDP (this may be seen with the reference to low base with reference to covid year), the primary deficit was not stable and increased sharply in 2022-23 over the previous year. Therefore, the trends of strong economic growth (expressed as g-r>0) by only observing the Domar gap in 202l-22 and 2022-23 cannot be conclusively generalised. Further, substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 45.31 *per cent* and 74.11 *per cent* during the period 2018-2023. Thus, it becomes evident that depending solely on economic growth (expressed as g-r>0 from 2021-2023) would not suffice to cover the debt obligations of the State.

Going by the analysis and results as discussed above, the finances of the State of Himachal Pradesh are stressed due to the continuous mismatch between receipt and expenditure coupled with an increasing trend of liabilities (debt repayment, guarantees etc.,) which poses risk to the target of debt stabilisation and debt sustainability.

Budget performance

Aggregate expenditure outturn

Budget performance in terms of budgetary intent and budget implementation was examined to assess the extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In the Revenue section, there was excess of 8.51 *per cent* compared with Budget Estimates (BE). This was due to the excess of actual over original provision in 26 Grants. In six grants, deviation was more than +50 *per cent*. In six other grants, there was a shortage of actual over original, where deviation ranged from -3.00 *per cent* to -24.58 *per cent*. In the Capital section, deviation in outturn compared with BE was +46.45 *per cent*. This was due to the excess of actual over original provision in 17 Grants. In six other grants, deviation was more than +100 *per cent*. Further, out of these six grants, four grants have deviation more than +400 *per cent*.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In the revenue section, deviation in outturn compared with

RE was -3.96 *per cent*. This was due to shortage of actual over revised estimates in 25 grants, with the deviation ranging from -0.14 *per cent* to -24.58 *per cent*. In the Capital section, deviation in outturn compared with RE was -12.48 *per cent*. This was due to shortage of actual over revised estimates in 18 grants and in three grants deviation was more than -50 *per cent*.

It was noticed that supplementary provisions of ₹ 246.39 crore during the year 2022-23 in seven cases (more than ₹ one crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and original budget as well as between the actual expenditure and the final budget ranged between 6 per cent to 16 per cent, there were deviations up to 400 per cent in different grants. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budgetary practice is required to deal with such deviations.

Quality of Accounts and Financial Reporting

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

Regularization of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per Articles 204 and 205 of the Constitution of India. It was observed that in 2022-23 there was excess expenditure of ₹ 662.14 crore under 16 grants and two appropriations which required regularisation. Further, excess disbursements of ₹ 10,600.63 crore pertaining to the period 2014-15 to 2021-22 were yet to be regularised.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make compliance partially with IGAS-2: Accounting and Classification of Grants-in-aid.

Operation of PD Accounts

Against the requirement of Treasury reconciling Personal Deposit (PD) Accounts with respective administrators, there was no reconciliation in two cases (out of 68).

Funds to Single Nodal Agency

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, the State Government received ₹ 3,621.78 crore being the Central share during the year. The State Government transferred ₹ 4,078.23 crore (₹ 3,294.07 crore of Central share and State share of ₹ 784.16 crore) to the SNAs during 2022-23. As on 31 March 2023, ₹ 2,722.47 crore was lying unspent in the bank accounts of SNAs.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 4,106 outstanding UCs of ₹ 4,242.51 crore were pending as on 31 March 2023.

DC bills against AC bills

State Government w.e.f. October 2022, implemented a mechanism for identification/ distinction and codification for drawing advances through AC bills and adjustments thereof through DC bills.

Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; and partial non-compliance with IGAS-2.

Working of State Public Sector Undertakings

As on 31 March 2023, there were 30 (including two inactive and one under liquidation) State Public Sector Enterprises (SPSEs) in Himachal Pradesh. They included two Statutory Corporations and four Government Controlled Other Companies. The prescribed timelines regarding submission of Financial Statements were not adhered to by 27 SPSEs whose 73 accounts were in arrears. Out of the total profit of ₹ 20.21 crore earned by 13 working SPSEs, 69.32 *per cent* was contributed by three SPSEs only. Out of total loss of ₹ 604.94 crore incurred by eight working SPSEs, loss of ₹ 594.70 crore (98.31 *per cent*) was incurred by four SPSEs.

The State Government may impress upon the managements of SPSEs to expedite the finalisation of their financial statements which are in arrears so that they remain within the oversight of State Legislature. The State Government may also analyse the reasons of losses of those SPSEs whose net worth had been eroded and initiate steps to make their operations efficient and profitable.