EXECUTIVE SUMMARY

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About the Report

This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 6.71 *per cent* from ₹ 2,30,314 crore in 2018-19 to ₹ 3,02,621 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 10.59 *per cent* from ₹ 48,037 crore in 2018-19 to ₹ 71,012 crore in 2022-23.

There was 11.19 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 14.00 *percent and* the percentage of revenue receipts over GSDP improved from 15.82 *per cent* in 2021-22 to 16.22 *per cent* in 2022-23. The tax revenue increased by 15.10 *per cent* during the period and the State's own tax revenue increased by 20.65 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Uttarakhand increased from ₹ 46,810 crore in 2021-22 to ₹ 52,061 crore, increasing by 11.22 *per cent*. Of this, revenue expenditure showed 12.44 *per cent* increase from 2021-22. Revenue surplus increased from ₹ 4,128 crore to ₹ 5,310 crore registering 28.63 *per cent* increase over 2021-22, while fiscal deficit decreased from ₹ 3,736 crore in 2021-22 to ₹ 2,949 crore in 2022-23 decreasing by 21.07 *per cent*.

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 ₹ 31,216 crore to ₹ 49,083 crore, with an average annual growth rate of 12.93 *per cent*. Capital receipts decreased from ₹ 7,302 crore to ₹ 5,065 crore during this period. The share of Grants-in-aid in revenue receipts rose from 24.69 *per cent* in 2018-19 to 34.63 *per cent* in 2022-23, indicating increased reliance on support from the Government of India. The State Government received ₹ 5,968.47 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 the past obligation. 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 ₹ 32,196 crore (13.98 *per cent* of GSDP) to ₹ 43,773 crore (14.46 *per cent* of GSDP). It consistently made up a significant portion (83 to 86 *per cent*) of the total expenditure during this period, growing at an average annual rate of 8.61 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State of ₹ 980 crore (0.43 *per cent* of GSDP) in the year 2018-19, however, changed to revenue surplus of ₹ 5,310 crore (1.75 *per cent* of GSDP) in the current year.

The State Government spent ₹ 8,194 crore only on capital account. This was 15.74 *per cent* of the total expenditure in the year 2022-23.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State decreased to ₹ 2,949 crore (0.97 *per cent* of GSDP) in 2022-23 from ₹ 7,320 crore (3.18 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 59 to 66 *per cent* of revenue expenditure during 2018-19 (66.46 *per cent*) and 2022-23 (58.94 *per cent*). The Committed expenditure increased at an average rate of 5.78 *per cent* i.e. from ₹ 21,396 crore in 2018-19 to ₹ 25,800 crore in 2022-23 {an increase of 8.77 *per cent* over 2021-22 (₹ 23,720 crore)}.

In addition to the committed expenditure, inflexible expenditure increased from 5.91 *per cent* to 8.51 *per cent* of revenue expenditure during 2018-19 to 2021-22, indicating a rising trend. The inflexible expenditure decreased from ₹ 3,311 crore in 2021-22 to ₹ 2,549 crore in 2022-23 registering a decrease of 23.01 *per cent*. The average growth of inflexible expenditure during the period from 2018-19 (₹ 1,903 crore) to 2022-23 (₹ 2,549 crore) was 8.17 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 28,349 crore: 65 *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 in the non-committed expenditure

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 174 crore in 2018-2019 to ₹ 289 crore in 2022-23 i.e., from 0.54 *per cent* of the total revenue expenditure in 2018-19 to 0.66 *per cent* in 2022-23. Food subsidy under Food Storage and Warehousing (₹ 94 crore) constituted 33 *per cent* of the total subsidies during current year. Apart from this, the State Government also spent ₹ 83.17 crore on implicit subsidies.

Contingent Liabilities on account of Guarantees

In 2022-23, the Government provided guarantees against borrowings of ₹ 386 crore. No guarantee was invoked during the year. The State Government received ₹ 4.57 crore as Guarantee Commission.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, 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 prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly outstanding guarantees are capped within one *per cent* of the GSDP of that particular year and new guarantee given during any year should not be more than 0.30 *per cent* of the GSDP of that year.

In 2022-23, revenue surplus was 1.75 *per cent* of GSDP against the limit of nil revenue deficit; fiscal deficit was 0.97 *per cent* as against the limit of 3.5 *per cent* of GSDP; debt was 24.08 *per cent* as against limit of 33.30 *per cent* of GSDP as prescribed under FRBM Act. Similarly, total outstanding guarantees as on 31 March 2023 was 117 crore which is 0.04 *per cent* of GSDP for the year and hence was within the FRBM ceiling. Further, guarantees given during the year were 0.13 *per cent* as against the target of 0.30 *per cent* of the GSDP.

As per the debt stabilisation analysis, the public debt of the Government of Uttarakhand has grown on an average rate of 6.71 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. Total Debt Liability-GSDP ratio of Uttarakhand has decreased from 25.20 *per cent* in 2018-19 to 24.08 *per cent* in 2022-23, which indicates that debt stabilisation may be possible.

The Domar gap (expressed as g-r) was negative during the COVID year (2020-21). However, during the years 2021-22 and 2022-23, the Domar gap turned positive due to high growth rate in GSDP. Positive Domar gap due to high growth rate may also be seen with reference to low base for comparison in the previous year. Further, in 2021-22 and 2022-23, there is a also a primary surplus of ₹ 1,203 crores and ₹ 2,155 crores respectively. This suggests that Public Debt as percentage of GSDP should converge to a stable level less than zero leading to public savings. A substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 28 *per cent* and 81 *per cent* during the period 2018-2023.

Budget performance

Aggregate expenditure outturn

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In the Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 10.69 *per cent*. This was due to deviation up to ± 25 *per cent* in 26 grants, between ± 25 *per cent* and ± 50 *per cent* in five grants. In the Capital section, deviation in outturn compared with BE was (+) 1.58 *per cent*. This was due to deviation up to ± 25 *per cent* in 14 grants, between ± 25 *per cent* to ± 50 *per cent* in eight grants; and between ± 50 *per cent* to ± 100 *per cent* in six grants and equal to 100 *per cent* and above in two grants. No provision was made in respect of one grant of the Capital section.

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 Revised Estimates (RE) was (-) 11.74 *per cent*. This was due to deviation up to ± 25 *per cent* in 25 grants, between ± 25 *per cent* to ± 50 *per cent* in six grants. In the Capital section, deviation in outturn compared with RE was (-) 7.37 *per cent*. This was due to deviation up to ± 25 *per cent* in 19 grants, between ± 25 *per cent* and ± 50 *per cent* in six grants, between ± 50 *per cent* to ± 100 *per cent* in three grants and equal to 100 *per cent* and above in two grants. No provision was, however, made in respect of one grant in Capital section.

It was noticed that supplementary provisions of ₹ 3,355.57 crore during the year 2022-23 in 33 cases (more than ₹ ten 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 were less than 12 *per cent*, there were deviations up to 25 *per cent* and even above 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 budget practice should need 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.

Regularisation of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205 (1) (b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹ 896.53 crore under one grant which required regularisation. Further, excess disbursements of ₹ 47,758.16 crore pertaining to 2005-06 to 2021-22 were yet to be regularised.

Reconciliation

In terms of paragraph 109 of the Uttarakhand Budget Manual 2012, all the Controlling Officers are required to reconcile the Receipts and Expenditure of the Government with the figures recorded in the office of the Accountant General (Accounts and Entitlement) every month.

The State Government did not reconcile 5.85 *per cent* of the total expenditure and 0.47 *per cent* of the receipts.

Misclassification in accounts

It was noticed that an expenditure of ₹ 15.23 crore had been booked under Revenue section. This expenditure should have been booked under the Capital section as this expenditure pertains to major works and land purchase.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government partially complied the IGAS-1: Guarantees given by the Government; IGAS-2: Accounting and Classification of Grants-in-Aid; and IGAS-3: Loans and Advances made by the Government.

Operation of PD Accounts

Against the requirement of Treasury reconciling Personal Deposit (PD) Accounts with respective administrators, there was no reconciliation in one case. Also, despite the lapse of the authorised period, 25 PD Accounts were not closed and their balances were not transferred to the Consolidated Fund of the State as on 31st March 2023. Further, out of total 25 PD Accounts, 12 Accounts have nil balance, 11 PD accounts were inoperative for more than five years and 05 PD accounts were inoperative for more than three years.

Funds to Single Nodal Agency

Ministry of Finance, Government of India vide letter No. 1(13) PFMS/FCD/2020 dated 23 March 2021 had notified procedure for release of funds under Centrally Sponsored Scheme (CSS) and monitoring utilisation of the funds released through SNA. For each CSS, SNA is set up with own Bank Account in scheduled Commercial Bank authorised to conduct Government business by the State Government. As per the procedure, the State Government is to transfer the Central share received in its accounts to the concerned SNA's account along with corresponding State share.

As per information available on the PFMS portal, the State Government received ₹ 4,916.41 crore, being Central share during the year, in its treasury accounts against which it transferred Central share of ₹ 4,988.15 crore, State share of ₹ 1,303.48 crore and ₹ 81.18 crore as unclassified amount to the SNAs. The total transfer of ₹ 6,372.81 crore was through Fully Vouched Contingent Bills. Detailed vouchers and supporting documents of actual expenditure were not received by AG office from the SNAs. As per information available on PFMS portal ₹ 3,331.68 crore are lying unspent in the bank accounts of SNAs as on 31 March 2023.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 268 outstanding UCs of ₹ 864.32 crore were pending as on 31st March 2023.

DC bills against AC bills

Similarly, despite the requirement of submitting Detailed Debit Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 74 AC bills of ₹ 11.36 crore were pending for submission of DC bills as on 31st March 2023, out of which 37 AC Bills amounting to ₹ 10.60 crore pertained to the period 2021-22.

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; non-submission of DC bills against AC bills; non-compliance with IGAS-1, 2 & 3; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.

Working of State Public Sector Undertakings

As on 31 March 2023, there were 33 State Public Sector Enterprises (SPSEs) in Uttarakhand, including four Statutory Corporations and 28 Government Companies (including nine inactive Government Companies) and one Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 24 SPSEs whose 282 accounts were in arrears. Out of the total profit of ₹ 232.20 crore earned by 12 working SPSEs, 80.39 *per cent* was contributed by three SPSEs only. Out of total loss of ₹ 1,272.90 crore incurred by seven working SPSEs, loss of ₹ 1,223.64 crore was incurred by one SPSE (UPCL). The financial impact of CAG's significant comments on Government Companies issued during October 2022 to September 2023 on financial statements of SPSEs was ₹ 58.45 crore on profitability and ₹ 147.61 crore on the financial position. Further, financial impact of some of the significant comments issued by CAG on the financial statements of the Statutory Corporations where CAG is the sole/supplementary auditor, was ₹ 339.60 crore on the profitability and financial position-assets/liabilities.

The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.

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