CHAPTER-1

OVERVIEW

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1.1 Profile of the State

Uttarakhand is spread over an area of 53,483 sq km out of which 46,035 sq km is hilly and 7,448 sq km is plain. The State has a forest area of 38,117 sq km (71 *per cent*). The State has been organised into 13 districts, which is further divided into 110 sub-divisions, 95 blocks and 15,745 inhabited villages. According to the 2011 Census of India, Uttarakhand has a population of 1.01 crore, making it the 20th most populous State in India. The population density of the State at 189 persons per sq.km. was lower than the national average of 382 persons per sq.km.

The social indicators, *viz.* literacy rate and rate of infant mortality at birth indicate that the State had better literacy rate (78.80 *per cent*) in 2022-23 and infant mortality rate (24 per 1,000 live birth) in 2022-23 than the All-India average (73.00 *per cent* and 28 per 1,000 live births). The percentage of Below Poverty Line (BPL) population in the State at 11.26 *per cent* was also well below the All-India Average (21.92) ***(Appendix-1.1)***.

1.1.1 Gross State Domestic Product of Uttarakhand

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. Changes in sectoral contribution to the GSDP are also important to understand the changing structure of the economy. Economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

The State has seen considerable economic growth in the past decade and the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) and Per Capita GSDP at current prices for the period 2013-14 to 2022-23 has been 8.18 *per cent* and 6.93 *per cent* respectively; it, however, was below the CAGR of All India GDP (10.34 *per cent*) and All India per capita GDP (9.12 *per cent*) ***(Appendix-1.1)***.

Trends in annual growth of Uttarakhand's GSDP (nominal) *vis-à-vis* GDP of the country are given in **Table-1.1**.

Table-1.1: Trends in growth of GDP and GSDP at Current Prices

(₹ in crore)

Year	2018-19	2019-20	2020-21	2021-22♠	2022-23♥
INDIA					
GDP (2011-12 Series)	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012	2,72,40,712
GVA	1,71,75,128	1,83,81,117	1,81,88,780	2,14,38,883	2,47,42,871
Growth rate of GDP over previous year at current prices (*per cent*)	10.59	6.37	-1.36	18.36	16.06
Growth rate of GVA over previous year at current prices (*per cent*)	10.77	7.02	-1.05	17.87	15.41
Per Capita GDP (in ₹)	1,42,424	1,49,915	1,46,301	1,71,498	1,96,983

Year	2018-19	2019-20	2020-21	2021-22♠	2022-23♥
UTTARAKHAND					
GSDP (2011-12 Series)	2,30,314	2,39,247	2,36,860	2,72,159	3,02,621
GSVA	2,13,350	2,23,436	2,22,675	2,57,629	2,87,193
Growth rate of GSDP over previous year at current prices (*per cent*)	4.58	3.88	-1.00	14.90	11.19
Growth rate of GSVA over previous year at current prices (*per cent*)	6.48	4.73	-0.34	15.70	11.48
Per Capita GSDP (in ₹)	2,07,714	2,13,289	2,08,761	2,37,321	2,61,173

Source of data: ***Ministry of Statistics and Programme Implementation and Directorate of Economics and Statistics, Uttarakhand. ♥provisional Estimate, ♠Revised Estimate.***

As can be seen from the details above, the GSDP growth rate of Uttarakhand was higher than the National GDP growth rate only in the year 2020-21. However, for the years 2018-19, 2019-20, 2021-22 and 2022-23 it was lower than the national growth rate.

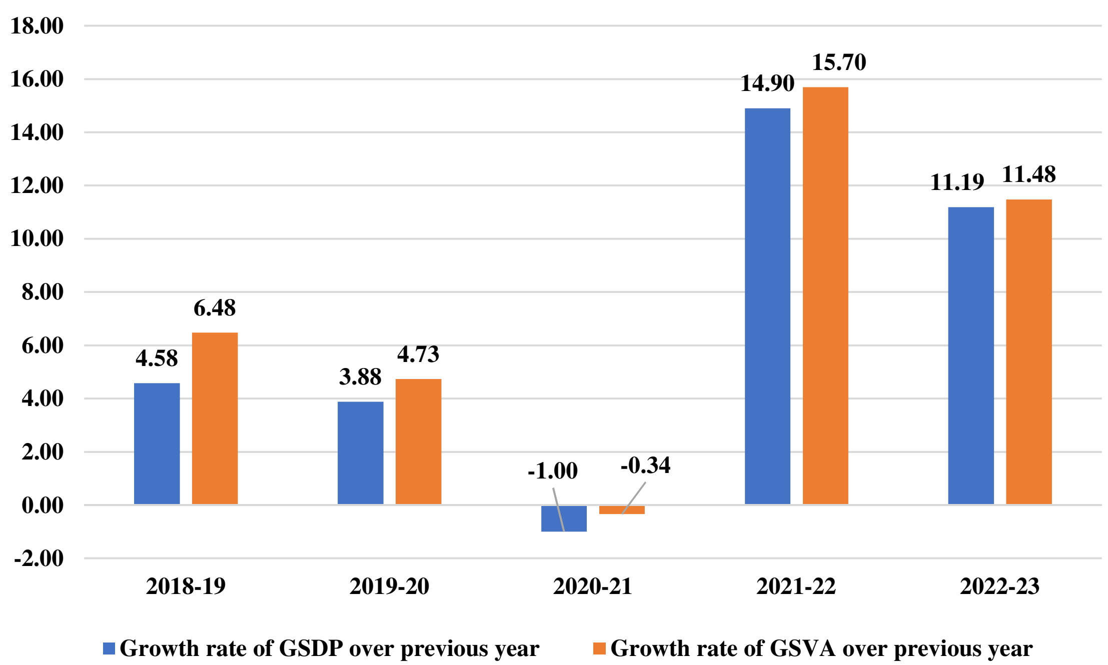
The Gross State Domestic Product (GSDP) at current prices grew at a growth rate of 11.19 *per cent* from ₹ 2,72,159 crore in 2021-22 to ₹ 3,02,621 crore in 2022-23 while as the GDP at current prices grew at a growth rate of 16.06 *per cent* from ₹ 2,34,71,012 crore in 2021-22 to ₹ 2,72,40,712 crore in 2022-23. Further, per capita GSDP of the State for the year 2022-23 was ₹ 2,61,173 while that of the country was ₹ 1,96,983. However, the growth in per Capita GSDP of the State (25.74 *per cent*) during the period 2018-19 to 2022-23 could not keep pace with the growth in per capita GDP of the country (38.31 *per cent*) during the same period. Per capita measures (GDP and GSDP) have been steadily increasing for both India and Uttarakhand, during 2018-19, 2019-20, 2021-22 and 2022-23 indicating an improvement in average income levels. However, during 2020-21 it declined. This could be due to the impact of Covid-19 pandemic in the country.

Gross Value Added (GVA) is being used for economic analysis by GoI and international organisations like IMF and World Bank as GVA is considered better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending. reflecting essentially on the demand conditions in the economy. Both measures have differences in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective it is therefore vital to have a comparison of the GVA and (Gross State Value Added) GSVA data for better analysis and making policy interventions.

The GVA of India and GSVA of Uttarakhand show a fluctuating pattern of growth over the given years. The GVA growth rate of India during the period 2018-19 to 2022-23 was in the range of -1.05 *per cent* to 17.87 *per cent* while as GSVA growth rate of Uttarakhand was in the range of -0.34 *per cent* to 15.70 *per cent* during 2018-19 to 2022-23. There is variation in growth rates both in GVA and GSVA, with some years experiencing higher growth compared to others. The years 2021-22 and 2022-23 stand out as periods of significant growth in both GVA (2021-22: 17.87 *per cent* and 2022-23: 15.41 *per cent*) and GSVA (2021-22: 15.70 *per cent* and 2022-23: 11.48 *per cent*), possibly indicating increased economic activity during these years. The year 2020-21 had negative growth rates in both GVA and GSVA, which could be attributed to the impact of COVID-19 pandemic, or other local factors.

The trends of GSDP and GSVA for the period from 2018-19 to 2022-23 is indicated in the **Chart-1.1** below:

Chart-1.1: Growth rate of GSDP and GSVA (2018-19 to 2022-23)

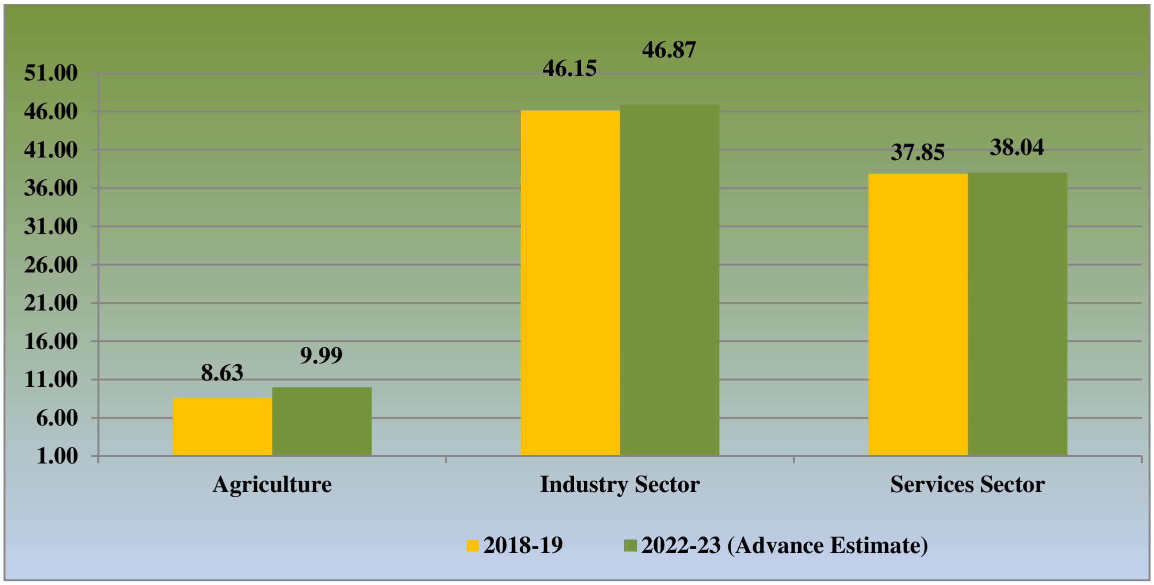


Source: SFAR Compilation & Directorate of Economics and Statistics, Uttarakhand.

1.1.2 Sectoral contribution to GSDP

Chart-1.2 reveals that during the five-year period from 2018-19 to 2022-23, there has been an increase in the relative shares of Agriculture, Industry and Service Sector in GSDP. The share of Agriculture Sector appreciated from 8.63 *per cent* in 2018-19 to 9.99 *per cent* in 2022-23 and share of Industry Sector showed meagre growth from 46.15 *per cent* in 2018- 19 to 46.87 *per cent* in 2022-23. Further, share of Service Sector also appreciated from 37.85 *per cent* in 2018-19 to 38.04 *per cent* in 2022-23.

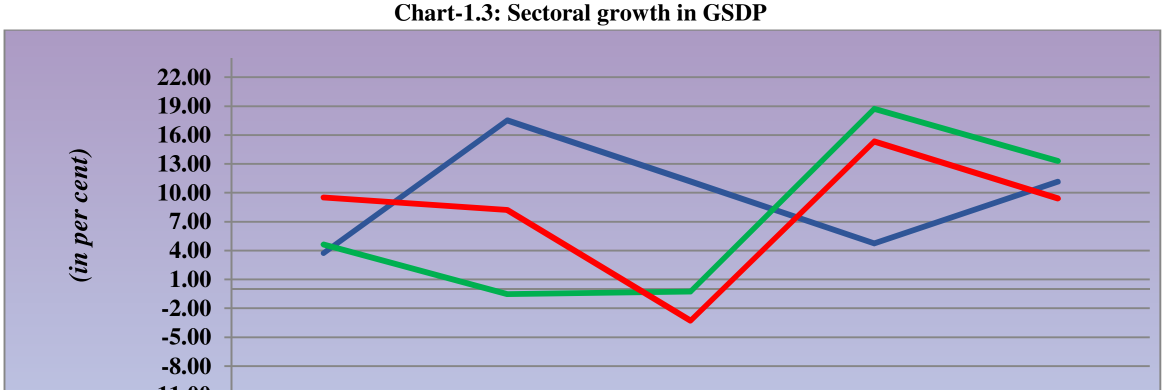
Chart-1.2: Change in sectoral contribution to GSDP (2018-19 to 2022-23)



Source of data: Directorate of Economics and Statistics, Uttarakhand.

Chart-1.3 shows that during 2022-23, the Industry sector and Services sectors saw decrease in growth rate, while Agriculture sector saw increase in growth rate as compared to previous year. The Agriculture sector showed increasing growth rate in all sub-sectors i.e., crops, livestock, forestry & logging and fishing & aquaculture. In Industry sector manufacturing sub-sector shows sharp declining growth as compared to previous year. Further, growth rate of Construction and other utility services sub sector under industry sector also declined as compared to previous year. In service sector, four sub-subsectors namely (i) Transport, storage, communication & services related to broadcasting, (ii) Trade, repair, hotels and restaurants and (iii) Public administration and (iv) real estate showed sharp decline growth while growth rate of financial services increased as compared to previous year.

Chart-1.3: Sectoral growth in GSDP



	2018-19	2019-20	2020-21 (RE)	2021-22 (PE)	2022-23 (AE)
Agriculture	3.74	17.54	11.18	4.72	11.14
Industry	4.62	-0.53	-0.27	18.72	13.29
Services	9.51	8.22	-3.28	15.33	9.40

Source of data: Directorate of Economics and Statistics, Uttarakhand.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Uttarakhand for the year ending 31 March 2023 has been prepared for submission to the Governor of Uttarakhand under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State for the year 2022-23 constitute the core data for this report. Other sources include the following:

- Budget of the State for the year 2022-23 forms an important source of data – both for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures.
- Results of audit carried out by the Office of the Principal Accountant General (Audit), Uttarakhand.
- Other data with Departmental Authorities and Treasuries (Accounting as well as Management Information System).
- GSDP data and other State related statistics; and
- Various Audit Reports of the CAG of India during 2018-23 have also been used to prepare this analysis/ commentary as appropriate.
- Information was also obtained from the State Government, where necessary.

The analysis has been carried out in the context of recommendations of the Fifteenth Finance Commission (FFC), Uttarakhand Fiscal Responsibility and Budget Management (UFRBM) Act 2023, best practices, and guidelines of the Government of India. An entry conference was held in September 2023 with the Additional Chief Secretary to the Government of Uttarakhand, Finance Department wherein the audit approach was explained. The draft Report was forwarded to the State Government in November 2023 for comments and Exit Conference was held in December 2023 wherein the audit findings were discussed. Replies of the Government have been incorporated in this Report at appropriate places.

1.3 Overview of Government Accounts Structure and Budgetary Processes

It is necessary to understand the structure of Government Accounts in order to appreciate the analysis of the finances of the State Government given in **Chapter-2** of this report. The Accounts of the State Government are kept in three parts:

1. Consolidated Fund of the State {Article 266 (1) of the Constitution of India}

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc*.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments, *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State {Article 267(2) of the Constitution of India}

This Fund is in the nature of an imprest which is established by the State Legislature by law and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure from the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Accounts of the State {Article 266(2) of the Constitution}

Apart from the above, all other public money received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes re-payables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document

A statement of estimated receipts and expenditures of the government in respect of every financial year is to be presented before the House or Houses of the Legislature of the State (Article 202). This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of tax revenue (Own Tax revenue plus share of Union Taxes/Duties), non-tax revenue and grants from Government of India.

Revenue Expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt taken by the government and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital Receipts consist of:

- **Debt Receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc*.
- **Non-Debt Receipts:** Proceeds from disinvestment, recoveries of loans and advances.

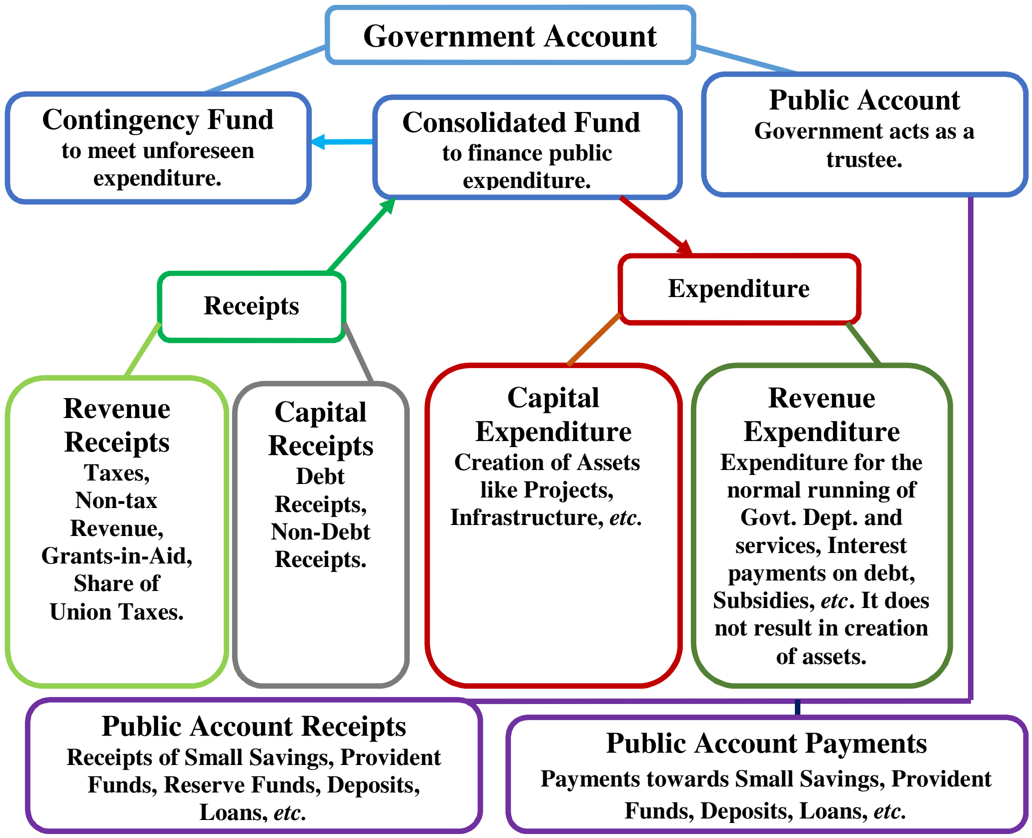
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances given by the government to Public Sector Undertakings (PSUs) and other parties.

At present, we have an accounting classification system in government that is both functional and economic.

	Attribute of transaction	**Classification**
Standardised in List of Major and Minor Heads by CGA	Function-Education, Health *etc*./Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, *etc.* (2-digit)

The functional classification lets us know the department, function, scheme or programme and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt, *etc*. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, *etc*. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally 'salary' object head is revenue expenditure, 'construction' object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Structure of Government Accounts



Public Debt and Public Liability

In this Report 'Public Debt' has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loans given by Central Government etc. For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration.

Further, the transactions relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to 'Remittances' and 'Suspense' under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this Report, 'Public Liability' has been taken to include the transactions under major heads 8001 to 8554 relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' along with the transactions under major heads 6003 and 6004.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the

State in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The Uttarakhand State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter-3** of this Report.

1.3.1 Snapshot of Finances

Table-1.2 provides the details of actual financial results *vis-à-vis* Budget Estimates for the year 2022-23 *vis-à-vis* actual of 2021-22.

Table-1.2: Comparison of Budget *vis-à-vis* Actuals

(₹ in crore)

Sl. No.	Components	2021-22 (Actuals)	2022-23 (Budget Estimate)	2022-23 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1.	Tax Revenue	24,082	24,500	27,719	*113.14*	*9.16*
(i)	Own Tax Revenue	14,176	15,370	17,102	*111.27*	*5.65*
(ii)	Share of Union Taxes/Duties	9,906	9,130	10,617	*116.29*	*3.51*
2.	Non-Tax Revenue	2,756	5,521	4,367	*79.10*	*1.44*
3.	Grants-in-aid and Contributions	16,219	21,453	16,997	*79.23*	*5.62*
4.	**Revenue Receipts (1+2+3)**	**43,057**	**51,474**	**49,083**	***95.35***	***16.22***
5.	Recovery of Loans and Advances	17	25	17	*68.00*	*0.01*
6.	Other Receipts	0	0	12	*0.00*	*0.00*
7.	Borrowings and other Liabilities (a)	3,736*	8,809	2,949	*33.48*	*0.97*
8.	**Capital Receipts (5+6+7)**	**3,753**	**8,834**	**2,978**	***33.71***	***0.98***
9.	**Total Receipts (4+8)**	**46,810**	**60,308**	**52,061**	***86.33***	***17.20***
10.	**Revenue Expenditure**	**38,929**	**49,013**	**43,773**	***89.31***	***14.46***
11.	Interest payments	4,939	6,018	5,104	*84.81*	*1.69*
12.	**Capital Expenditure**	**7,881**	**10,990**	**8,288**	***75.41***	***2.74***
13.	Capital outlay	7,534	10,840	8,194	*75.59*	*2.71*
14.	Loan and advances	347	150	94	*62.67*	*0.03*
15.	**Total Expenditure (10+12)**	**46,810**	**60,003**	**52,061**	***86.76***	***17.20***
16.	**Revenue Deficit/ Surplus (-/+) (4-10)**	**4,128**	**2,461**	**5,310**	***215.77***	***1.75***
17.	**Fiscal Deficit {15-(4+5+6)}**	**3,736**	**8,504**	**2,949**	***34.68***	***0.97***
18.	**Primary Deficit/Surplus (-/+)**	**1,203**	**(-) 2,486**	**2,155**	***186.69***	***0.71***

Source: Finance Accounts.

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

**** Includes ₹ 3,333 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.***

During the year 2022-23, the revenue receipts of the State, though increased by 14 *per cent* over the previous year, fell short by five *per cent* than the budget estimates. During the current year, there was excess of revenue receipts (₹ 49,083 crore) over revenue expenditure (₹ 43,773 crore), thereby resulting in a revenue surplus of ₹ 5,310 crore.

1.3.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix-1.2*** gives an abstract of such liabilities and assets as on 31 March 2023, compared with the corresponding position of previous year. The liabilities consist mainly of internal borrowings, loans, and advances from GoI, receipts from Public Account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. Summarised position of Assets and Liabilities of the State is given in **Table-1.3** below:

Table-1.3: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					Assets				
		2021-22	**2022-23**	***Per cent* increase**			**2021-22**	**2022-23**	***Per cent* increase**
Consolidated Fund									
A	Internal Debt	53,759.17	53,558.43	*-0.37*	**a**	Gross Capital Outlay	71,858.97	80,053.48	*11.40*
B	Loans and Advances from GoI*	7,443.32	8,600.36	*15.54*	**b**	Loans and Advances	2,378.28	2,454.61	*3.21*
	Contingency Fund	231.34	321.50	*38.97*					
Public Account									
A	Small Savings, Provident Funds, *etc.*	9,330.63	9,453.58	*1.32*		Advances	0.42	0.42	*0.00*
B	Deposits	3,536.19	3,880.65	*9.74*		Cash balance (Including investment in Earmarked Fund)	3,837.19	2,318.65	*-39.57*
C	Reserve Funds	4,653.02	4,824.64	*3.69*					
D	Suspense and Miscellaneous	481.01	208.80	*-56.59*		***Total***	***78,074.86***	***84,827.16***	***8.65***
E	Remittances	71.01	88.23	*24.25*		Cumulative excess of Receipt over Expenditure	1,430.83	-3,890.97	*-371.94*
	Total	***79,505.69***	***80,936.19***	***1.80***		***Total***	***79,505.69***	***80,936.19***	***1.80***

Source: Finance Accounts.

* ***Till the financial year 2021-22, it includes back-to-back loan of ₹ 5649 crore, in lieu of GST compensation shortfall received from GoI.***

1.4 Fiscal Balance: Achievement of Deficit and Total Debt Targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Deficits are financed by borrowing, giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in its goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust was towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

1.4.1 FRBM Targets on Key Fiscal Parameters and Achievements thereon

With the objective of ensuring prudence in fiscal management, the State Government had passed Fiscal Responsibility and Budget Management Act,2005 (FRBM), amended in 2011, 2016, 2020 and 2023.This was to be done by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the FRBM Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

As per GoI FRBM Act, the Union Government expanded its definition of Debt. Debt as per amendments in 2018 in the FRBM Act now includes public debt (internal and external debt), total outstanding liabilities on public account and 'such financial liabilities of any-body corporate or other entity owned or controlled by the Central Government, which the Government has to repay or service from the Annual Financial Statement (AFS), reduced by cash balance at the end of that date'.

As per Uttarakhand FRBM Act, 2005 the total outstanding debt/liabilities includes only liabilities upon the Consolidated Fund of the State and Public Account of the State.

As per the amendment to the FRBM Act in 2011 the State Government was required to reduce Fiscal Deficit to three *per cent* of the estimated GSDP by 2013-14 and maintain the same level thereafter. The FRBM Act amended in 2016 did not mention any target for Revenue Deficit. Further, the Act also envisaged that the State Government would limit the total outstanding debt to 25 *per cent* of GSDP.

The amendment to the FRBM Act in July 2020 incorporated the recommendations of the Fifteenth Finance Commission (FFC) relating to limit of Fiscal Deficit recommended for the State during its award for the year 2020-21. As per the Act, The Fiscal deficit of the State will provide stability of the annual limit of three *percent* of GSDP. The State may get an additional limit of 0.50 *per cent* of GSDP for the year 2020-21. The State Government had not notified the FRBM Act for the year 2021-22, so we had assumed limit of Fiscal Deficit as 3.5 *per cent* of GSDP for the year 2021-22 as was already notified for the year 2020-21.

To ensure compliance to the recommendations of FFC and instructions of Government of India, the State Government further amended its FRBM Act in April 2023 to follow the indicative path of fiscal deficit given by FFC. The FRBM Act included the recommendations of the FFC relating to limit of Fiscal Deficit recommended for the State during its award period for the year 2021-22 to 2025-26. The Fiscal Deficit of the State as percentage of the GSDP shall reduce with consistent compliance with the goals set up in the FRBM Act.

The Fiscal Deficit of the State as a *per cent* of Gross State Domestic Product (GSDP) for the financial year 2021-22 and 2022-23 shall not exceed 4.0 and 3.5 respectively. Further, the FRBM (Amendment) Act, 2023 provides that the total liabilities as a *per cent* of GSDP for the financial Year 2021-22 and 2022-23, shall not exceed 32.60 and 33.30 respectively.

The targets relating to key fiscal parameters envisaged in the FRBM (Amendment) Act, 2023 and their achievement during the five year period from 2018-19 to 2022-23 are given in **Table-1.4**

Table-1.4: Compliance with provisions of FRBM Act

Fiscal Parameters[1]		**Achievement *(₹ in crore)***				
		2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Revenue Deficit (-) / Surplus (+) ***(₹ in crore)***	T	0	0	0	0	0
	A	(-) 980	(-) 2,136	(+) 1,114	(+) 4,128	(+) 5,310
		✗	✗	✓	✓	✓
Fiscal Deficit (-)/ Surplus (+) **(as *percentage of GSDP*)**	T	*3.00*	*3.00*	*3.50*	*4.00*	*3.50*
	A	(-) 7,320 *(3.18)*	(-) 7,657 *(3.20)*	(-) 5,439 *(2.30)*	(-) 3,736 *(1.37)*	(-) 2,949 *(0.97)*
		✗	✗	✓	✓	✓
Ratio of total outstanding liability to GSDP *(in per cent)*	T	*25*	*25*	*25*	*32.60*	*33.30*
	A	*25.20*	*27.58*	*30.16**	*26.23**	*24.08**
		✗	✗	✗	✓	✓

Source: Finance Accounts and FRBM Act & XVth Finance Commission Report

**** it excludes Back- to-back loans of ₹ 5,649 crore received till 2021-22 crore, in lieu of GST compensation shortfall received from GoI which was not to be treated as debt of the State for any norms as per GoI clarification[2].***

The State did not achieve the target of revenue surplus and fiscal deficit during 2018-19 and 2019-20 but was successful in 2020-21 to 2022-23.

During the period from 2018-19 to 2020-21 outstanding debt of the State remained above the FRBM target of 25 *per cent* of GSDP i.e., it was above the norms prescribed in the FRBM Act, by 0.20 *per cent*, 2.58 *per cent*, 5.16 *per cent* respectively. However, during the years 2021-22 and 2022-23 outstanding debt as percentage of GSDP was below the FRBM target of 32.60 *per cent* and 33.30 *per cent* by 6.37 *per cent* and 9.22 *per cent* respectively.

Being the factual position, the Government accepted the facts during exit conference.

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1 Para 1.5 of the report depicts post audit factors of RD, FD and Outstanding Liabilities after considering misclassification between Revenue and Capital, non-transfer of Cess and short contribution to Reserve Funds, etc.

2 Government of India, Ministry of Finance, Department of Expenditure letter No. F.No.40 (1) PF-S/ 2021-22 dated 10 December 2021.

1.4.2 Medium Term Fiscal Plan

As per the FRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium-Term Fiscal Policy Statement (MTFPS) has to set forth a five-year rolling target for the prescribed fiscal indicators.

Table-1.5 indicates the variation between the projections made for 2022-23 in MTFPS presented to the State Legislature and Actuals of the year.

Table-1.5: Actuals *vis-à-vis* projection in MTFP for 2022-23

(₹ in crore)

Sl.No.	Fiscal Variables	Projection as per MTFPS	Actuals (2022-23)	Variation (in *per cent*)
1.	**Own Tax Revenue**	16,952	17,102	*0.88*
2.	**Non-Tax Revenue**	4,977	4,367	*-12.26*
3.	**Share of Central Taxes**	10,568	10,617	*0.46*
4.	**Grants-in-Aid from GoI**	19,548	16,997	*-13.05*
5.	**Revenue Receipts (1+2+3+4)**	52,045	49,083	*-5.69*
6.	**Revenue Expenditure**	49,594	43,773	*-11.74*
7.	**Revenue Deficit (-)/ Surplus (+) (5-6)**	2,451	5,310	*116.65*
8.	**Fiscal Deficit (-)/ Surplus (+)**	-8,108	-2,949	*-63.63*
9.	**Fiscal Deficit as percentage of GSDP**	2.68	0.97	*-1.71*
10.	**Debt-GSDP ratio (*per cent*)**	28.11	24.08*	*-4.03*
11	**GSDP growth rate at current prices (*per cent*)**	11.19	11.19	*0.00*

Source: Finance Accounts and Budget document of Uttarakhand 2022-23.

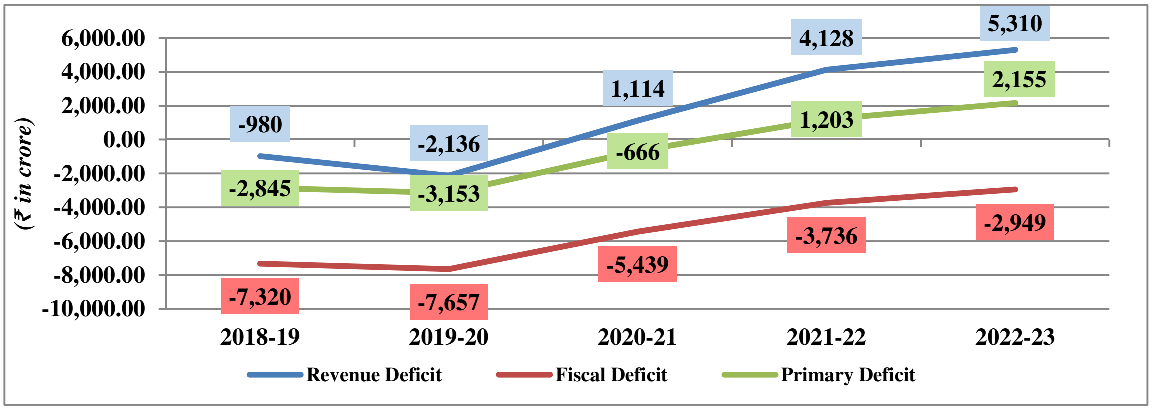
**** It excludes Back- to-back loans of ₹ 5,649 crore, in lieu of GST compensation shortfall received from GoI during 2020-21 and 2021-22.***

As can be seen from the above table, the State had projected Revenue Surplus of ₹ 2,451 crore in MTFPS during 2022-23, against which the State generated a surplus of ₹ 5,310 crore exceeding the anticipation by 116.65 *per cent*. Similarly, the target of Fiscal Deficit projected in MTFPS was ₹ 8,108 crore against which ₹ 2,949 crore Fiscal Deficit was achieved and was below the targets fixed in MTFPS by 63.63 *per cent*. Further, Fiscal Deficit as percentage of GSDP during 2022-23 was also below the targets fixed in MTFPS by 1.71 *per cent*. Projection relating to Debt-GSDP ratio was also met, as the year ended with a lower Debt to GSDP ratio and was below the targets projected in the MTFPS by 4.03 *per cent.*

1.4.3 Trends of Deficit/Surplus

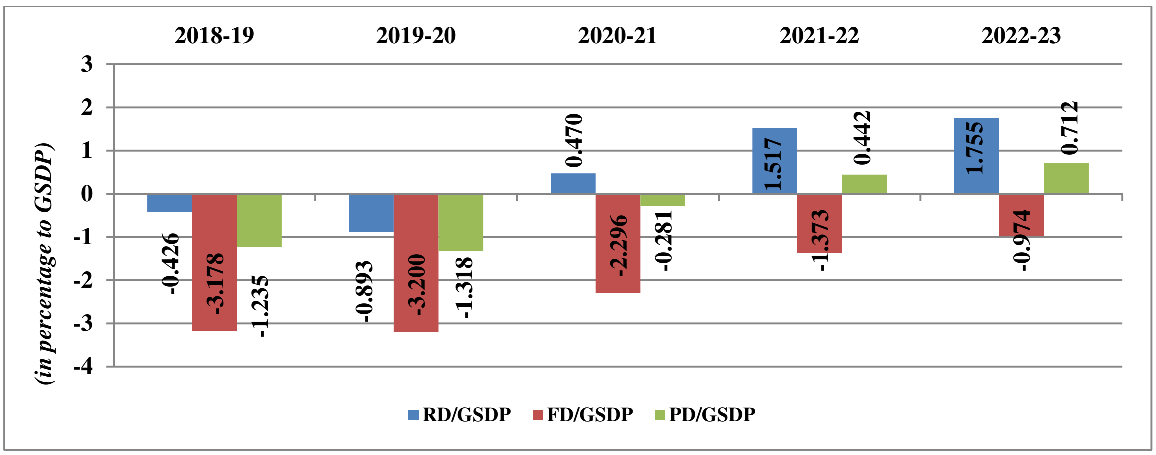
The State was able to achieve the targets specified by the FFC during 2022-23 with regard to the key fiscal parameters. It had a fiscal deficit of ₹ 2,949 crore during the year 2022-23, representing 0.97 *per cent* of the GSDP. The Primary Surplus of ₹ 1,203 crore during 2021-22 increased to ₹ 2,155 crore during the current year and the Revenue Surplus of ₹ 4,128 crore in 2021-22 increased to ₹ 5,310 crore during 2022-23. The trend of these Surplus/Deficit over the five-year period from 2018-19 to 2022-23 is depicted in **Chart-1.4** and trend in deficit relative to GSDP is given in **Chart-1.5**. Component and trend of Fiscal Liabilities and its percentage to GSDP is also given the **Chart-1.6**.

Chart-1.4: Trends in Deficit Parameters



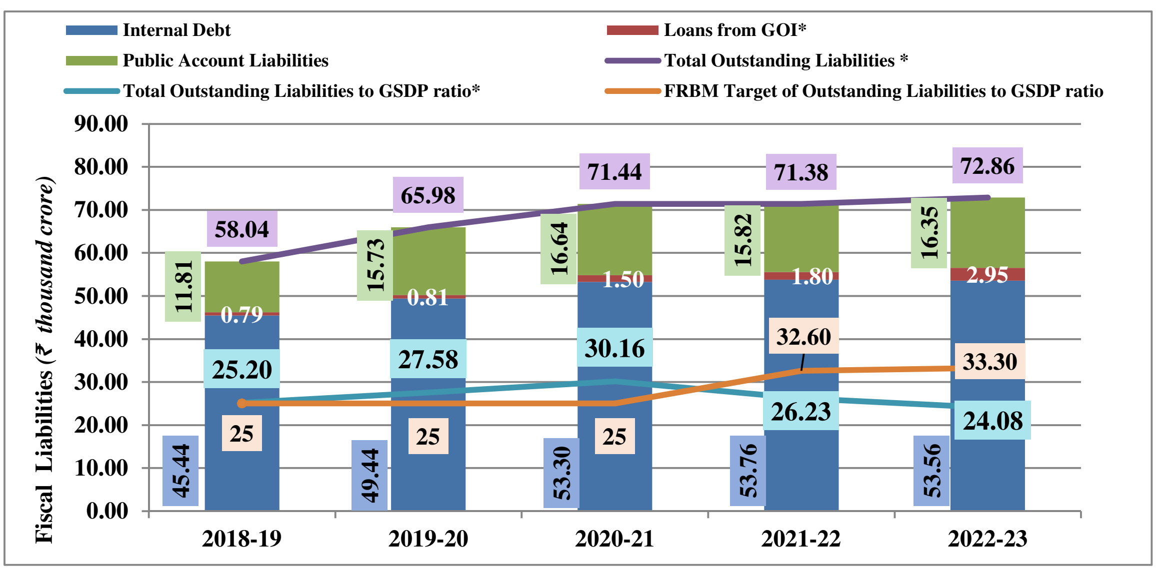
Source: Finance Accounts.

Chart-1.5: Trends in Deficit relative to GSDP



Source: Finance Accounts.

Chart-1.6: Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts.

** It excludes Back- to-back loans of ₹ 2,316 crore till 2020-21 and ₹ 5,649 crore received till 2021-22, in lieu of GST compensation shortfall received from GoI.*

As can be seen from the graph above, total Outstanding Liabilities grew by 25.54 *per cent* (excluding Back-to-Back loan from GoI in lieu of GST compensation) during the past five years and was above FRBM target during the period from 2018-19 to 2020-21. However, it was below the FRBM target of 32.60 *per cent* and 33.30 *per cent* during 2021-22 and 2022-23.

1.4.4 Performance of the State Government with respect to borrowings according to the limits fixed by the GoI

Article 293 (3) of the Constitution of India inter alia, provides that a State may not raise any loan without the consent of Government of India (Gol) if any part of a loan, which has been made to the State by Gol, is still outstanding.

The Gol, Ministry of Finance, Department of Expenditure fixed (March 2022) the net borrowing ceiling of the Uttarakhand State Government for the financial year 2022-23 as ₹ 8,620.00 crore and instructed the State Government to ensure that its incremental borrowings from all sources remained within this ceiling.

Additional borrowing ceiling of 0.50 *per cent*[3] over and above the aforementioned ceiling of 3.50 *per cent* of GSDP was to be allowed to the State based on certain performances criteria in the Power Sector.

The said Net Borrowing Ceiling (NBC) covers all sources of borrowings, including Open Market Borrowings, Negotiated Loans from financial institutions, National Small Saving Fund Loans, Central Government loans including EAP loans, other liabilities arising out of Public Account transfer under Small Savings, Provident funds, Reserve Funds, Deposits etc. as reflected in Statement 6 of the State's Finance Accounts.

As per Statement 6 (Statement of Borrowings and Other Liabilities) of the Finance Accounts, incremental borrowings and other liabilities of the State Government were ₹ 1,485.34 crore (0.49 *per cent* of revised GSDP) during the financial year 2022-23 which remained within the borrowing ceiling of 3.5 per cent of GSDP (₹ 10,591.74 crore).

1.5 Deficits and Total Debt after Examination in Audit

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits, ceiling on debt and on guarantees, etc. The Revenue Deficit and the Fiscal deficit as worked out for the State gets impacted due to various circumstances.

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3 The State Government did not avail this additional borrowing limit of 0.50 *per cent* of GSDP, because while forwarding the component wise break up of consent sought under Article 293(3) of the Constitution of India to the Government of India in (July 2022) the State government did not mention this additional borrowing of 0.50 *per cent* of GSDP.

1.5.1 Post Audit - Deficits

In order to present a better picture of State Finances, States sometimes may classify revenue expenditure as capital expenditure and conduct off budget fiscal operations Besides, deferment of clear-cut liabilities, non-recoupment of the Contingency Fund, not depositing Cess /royalty to Consolidated Fund, short contribution to New Pension Scheme, redemption funds, *etc*., also impact the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the effect of misclassification of revenue expenditure/capital outlay and/ or any such misclassification needs to be included and the impact of such irregularities needs to be reversed. Analysis of deficits after examination in audit are given in **Table-1.6**.

Table-1.6: Impact on Revenue and Fiscal Deficit, post examination by Audit during 2022-23

(₹ in crore)

Particulars	Impact on Revenue Surplus {Understated (+)/ overstated (-)}	Impact on Fiscal Deficit {Understated (+)/ overstated (-)}	Para Reference
Non-Transfer of Guarantee Commission fee to Public Account.	(-) 0.98	(+) 0.98	2.8.2.4
Major works booked under Revenue section instead of Capital.	(+) 15.23	--	2.6.3.2 (iii)
Extra payment of Interest liabilities against Reserve Funds and Deposit and Advances.	(+) 121.65	(-) 121.65	4.1
Less Contribution Towards NPS.	(-) 3.34	(+) 3.34	2.6.2.4
Non-accounting of Central Road Fund.	(-) 378.17	--	4.3 (C)
Non-Transfer of Green Energy Cess to Green Energy Fund.	(-) 72.00	(+) 72.00	5(B) (v) of NTA
Non-Recoupment of Contingency Fund during 2022-23.	(-) 147.49	(+) 178.50	--
Short Contribution to Guarantee Redemption Fund	(-) 64.87	(+) 64.87	5(ii)(B)(b) of NTA
Short Contribution to Consolidated Sinking Fund	(-) 285.12	(+) 285.12	5(ii)(B)(a) of NTA
Total	***(-) 815.09***	***(+) 483.16***	

Source: Finance Accounts and audit analysis.

After considering all the factors mentioned above, the Revenue Surplus would decrease from ₹ 5,310 crore to ₹ 4,495 crore and Fiscal Deficit would increase from ₹ 2,949 crore (*Refer para 1.4.1*) to ₹ 3,432 crore (1.13 *per cent* of GSDP), which would still be within mandated target of 3.5 *per cent* in FRBM act, 2005 (amended in 2023).

During exit conference, the Government said that corrective measures will be taken. Regarding non accounting of central road fund, non-transfer of green energy cess to green energy fund, short contribution to guarantee redemption fund and short contribution to consolidated sinking fund, the Government stated that guidelines in this regard will be reviewed and necessary action will be taken in future. Further, the Government stated that a committee will be formed for reconciliation / suggestions.

1.5.2 Post Audit – Total Public Debt

Public sector debt in its broadest definition comprises debt from:

- the government (including the central, social security funds, and extra-budgetary funds).
- financial public enterprises (including the central bank); and the non-financial public enterprises.
- long term obligations of government, such as unfunded liabilities of social security funds (when they are not explicitly recognised as part of general government debt).
- known and anticipated recognition of contingent liabilities (such as, from ongoing restructurings of financial institutions or from public-private partnerships where demand or other guarantees have been or are poised to be triggered).

For assessing debt sustainability, ideally, broad public debt coverage is important. Moreover, gross debt is the appropriate concept as it measures the burden of financing of debt service obligations for which the government is responsible. The availability of liquid financial assets mitigates, but may not eliminate, risks to debt sustainability (such as currency or maturity mismatches, and as some minimum levels of assets are required for normal government operations).

As intimated by the State Government there were no cases of off-budget fiscal operations such as borrowings by State PSUs, Special Purpose Vehicles (SPVs), *etc.*, on behalf of the State Government where principal and / or interest are to be serviced out of the State budgets.

As per Uttarakhand FRBM Act, the total outstanding debt/liabilities means only the liabilities under the Consolidated Fund and Public Account of the State. The outstanding debt/liabilities can be split into various components as given in **Table-1.7**.

Table-1.7: Components of outstanding debt/liabilities as on 31 March 2023

Borrowings and other liabilities as per Finance Accounts	Amount *(₹ in crore)*	
	Pre-Audit	Post-Audit
Internal Debt (A)	**53,558.43**	**53,558.43**
Market Loans bearing interest	44,910.00	44,910.00
Market Loans not bearing interest	0.02	0.02
Compensation and other Bonds	0.77	0.77
Loans from other Institutions *etc.*	3,334.94	3,334.94
Special Securities issued to the National Small Savings Fund of the Central Government	5,312.70	5,312.70
Loans and Advances from Central Government (B)	**8,600.36**	**2,951.36**[4]
Non-Plan Loans	1.80	1.80
Loans for State Plan Schemes	377.36	377.36
Others	8,221.20	2,572.20
Liabilities upon Public Accounts (C)	**16,350.25**	**16,350.25**
Small Savings, Provident Funds *etc.*	9,453.58	9,453.58
Deposits	3,880.65	3,880.65
Reserve Funds	3,016.02	3,016.02
Total (A+B+C)	***78,509.04***	***72,860.04***

Source: Finance Accounts

[4] The difference of ₹ 5,649 crore is due to accumulation of back-to-back loan (₹ 5,649 crore) in lieu of GST Compensation Shortfall up to FY 2021-22.

The Total borrowing and liabilities at the end of the financial year 2022-23 mainly comprises of Internal Debt (68 *per cent*), Loans and Advances from Government of India (11 *per cent*) and liabilities under Public Account (21 *per cent*). Further, at the end of the year 2022-23, the overall liabilities of the State was 25.94 *per cent* of the GSDP which were within the normative assessment of 28.11 *per cent* under MTFP statement and within the norms of 33.30 *per cent* prescribed under FRBM Act of the State for the year 2022-23.

As can be seen from the **Table-1.7** above, total borrowing and liabilities during the year 2022-23 was overstated by ₹ 5,649 crore (1.87 *per cent* of GSDP). This was due to inclusion of Back-to-Back Loan of ₹ 5,649 crore received from GoI (during 2020-21 and 2021-22) in lieu of GST Compensation, which was not to be treated as debt of the State as its repayment is to be borne from the collection of Cess in the GST compensation fund by GoI and hence, the repayment will not be borne on the resources of the State. Further, non-accounting of Back-to-Back loan also let the overstatement of total borrowing and liabilities to the extent of ₹ 5,649 crore. By excluding this, Debt-GSDP ratio would reduce to 24.08 *per cent* of GSDP.

1.6 Conclusion

- The State had a Revenue Deficit of ₹ 980 crore in 2018-19 which further deteriorated in 2019-20 to ₹ 2,136 crore. During 2020-21 Revenue Deficit improved to Revenue Surplus of ₹ 1,114 crore. Revenue Surplus further improved in the year 2021-22 and it was ₹ 4,128 crore. During the current year the state experienced revenue surplus of ₹ 5,310 crore (1.75 *per cent* of GSDP). Revenue Surplus was overstated by ₹ 815 crore (15.35 *per cent*) on account of less contribution towards NPS, non-accounting of Central Road Fund, non-transfer of Green Energy Cess to Green Energy Fund, non-recoupment of Contingency Fund, short contribution to Guarantee Redemption Fund and Consolidated Sinking Fund, *etc*.

- During the current year, the fiscal deficit at ₹ 2,949 crore (0.97 *per cent* of GSDP) was within the normative target of 3.5 *per cent* of GSDP as fixed by the State Government in the FRBM Act for the year 2022-23. During the year, the Fiscal Deficit further improved on account of increase in Revenue Surplus during the year. Fiscal Deficit was understated by ₹ 483 crore (16.38 *per cent*), on account of less contribution towards NPS, non-transfer of Green Energy Cess to Green Energy Fund, non-recoupment of Contingency Fund, short contribution to Guarantee Redemption Fund and Consolidated Sinking Fund, *etc.* After considering understatement of ₹ 483 crore, the Fiscal Deficit would increase from ₹ 2,949 crore to ₹ 3,432 crore (1.13 *per cent* of GSDP), which would still be within mandated target of 3.5 *per cent* in FRBM act, 2005 (amended in 2023).

1.7 Recommendation

- ***The State Government may take appropriate steps in avoiding misclassification of revenue expenditure/capital outlay, start proper accounting of Central Road Fund as per provisions, make mandated contribution to the reserve fund, and transfer Cess to its designated fund so that the correct financial position is depicted.***