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## *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.*

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Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 9.69 per cent from ₹ 15,82,180 crore in 2018-19 to ₹ 22,57,575 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 9.96 per cent from ₹ 4,99,136 crore in 2018-19 to ₹ 6,85,556 crore in 2022-23.

There was 14.33 per cent growth in GSDP over 2021-22. The revenue receipts grew at 12.46 per cent and the percentage of revenue receipts over GSDP was 18.48 per cent in 2022-23 against 18.79 per cent in 2021-22. During the year 2022-23, the State's own tax revenue increased by 18.13 per cent over the previous year. The total expenditure (revenue expenditure, capital expenditure, loans and advances and appropriation to contingency fund) of the State of Uttar Pradesh increased from ₹ 4,11,237 crore in 2021-22 to ₹ 4,83,215 crore in the year 2022-23, increasing by 17.50 per cent. Of this, revenue expenditure showed 12.56 per cent increase from 2021-22. Revenue surplus increased from ₹ 33,430 crore to ₹ 37,263 crore registering 11.47 per cent increase over 2021-22, while fiscal deficit increased from ₹ 39,286 crore in 2021-22 to ₹ 64,636 crore in 2022-23 increasing by 64.53 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 accounts (assets creation, investments, etc).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 3,29,978 crore to ₹ 4,17,241 crore, with an average annual growth rate of 9.60 per cent. Capital receipts also increased from ₹ 56,908 crore to ₹ 68,184 crore during this period.

The share of Grants-in-aid in revenue receipts rose from 13.03 *per cent* in 2018-19 to 14.36 *per cent* in 2022-23, indicating increased reliance on support from the Government of India. The State Government received ₹ 35,575 crore as grants-in-aid for the Centrally Sponsored Schemes (CSS) during 2022-23. In 2022-23, the buoyancy of State's own revenue was 1.26 with respect to GSDP.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 3,01,728 crore (19.07 *per cent* of GSDP) to ₹ 3,79,978 crore (16.83 *per cent* of GSDP). It consistently made up a significant portion (79 to 85 *per cent*) of the total expenditure during this period, growing at an average annual rate of 7.58 *per cent*.

#### *Result of expenditure beyond means*

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The State witnessed revenue surplus during 2018-23, except in the year 2020-21 which had revenue deficit of ₹ 2,367 crore. The revenue surplus of the State increased to ₹ 37,263 crore (1.65 *per cent* of GSDP) in the current year from ₹ 28,250 crore (1.79 *per cent* of GSDP) in the year 2018-19.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 64,636 crore (2.86 *per cent* of GSDP) in 2022-23 from ₹ 35,203 crore (2.22 *per cent* of GSDP) in 2018-19. The State Government spent ₹ 93,028 crore as capital expenditure during 2022-23, which was 19.25 *per cent* of the total expenditure in 2022-23.

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 56 to 62 *per cent* of revenue expenditure during 2018-19 (56 *per cent*) and 2022-23 (59 *per cent*). The Committed expenditure increased at an average rate of 7.95 *per cent*, i.e., from ₹ 1,67,479 crore in 2018-19 to ₹ 2,22,893 crore in 2022-23 {an increase of 10.27 *per cent* over 2021-22 (₹ 2,02,126 crore)}. However, share of committed expenditure in Revenue Expenditure decreased during 2020-21 to 2022-23.

In addition to the committed expenditure, inflexible expenditure as a percentage of revenue expenditure decreased from 20.43 *per cent* (2018-19) to 14.94 *per cent* (2022-23). The inflexible expenditure increased from ₹ 48,526 crore in 2021-22 to ₹ 56,770 crore in 2022-23 registering an increase of 16.99 *per cent*. Inflexible expenditure during the period decreased from 2018-19 (₹ 61,633 crore) to 2022-23 (₹ 56,770 crore).

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 2,79,663 crore; 74 *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.

#### *Expenditure on Subsidies*

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 14,053 crore in 2018-19 to ₹ 21,267 crore in 2022-23 i.e., from 4.66 *per cent* of the total revenue expenditure in 2018-19 to 5.60 *per cent* in 2022-23. Power subsidies constituted a significant portion, ranging from 52 *per cent* to 68 *per cent* of the total subsidies during this period.

#### *Extra budget borrowings*

The State Government, through Public Sector Enterprises raised ₹ 24,314.36 crore as Extra-budget borrowings including ₹ 3,488 crore during the year; which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget.

#### *Contingent Liabilities on account of Guarantees*

The total outstanding guarantee at the end of the year 2022-23 was ₹ 1,70,780.52 crore. The outstanding guarantees at the end of the year 2022-23 was 7.56 *per cent* of GSDP. During the year 2022-23, State Government did not receive any guarantee commission, out of the receivable guarantee commission of ₹ 4.41 crore from Uttar Pradesh State Warehousing Corporation.

#### *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 for revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP). In 2022-23, the State has registered revenue surplus of ₹ 37,263.44 crore against target of nil revenue deficit under FRBM Act. Further, fiscal deficit for the year 2022-23 was ₹ 64,636.26 crore which was 2.86 *per cent* of GSDP as against the limit of 3.50 *per cent* under FRBM Act. The ratio of total outstanding Liabilities to GSDP during the year 2022-23 was 28.71 *per cent* which remained within the target (32.50 *per cent*) set out in the Medium-Term Fiscal Restructuring Policy 2022.

The State Government resorted to extra-budget borrowings through State owned PSUs/Authorities for meeting expenditure having implication on debt parameters of the State. As per information furnished by the State Government, the outstanding extra budget borrowings was ₹ 24,314.36 crore as on 31 March 2023, which included borrowings of ₹ 3,488 crore during 2022-23. Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (includes Public Debt and Public Account Liabilities) of the Government was 29.79 *per cent* of the GSDP.

As per the debt stabilisation analysis, the public debt of the Government of Uttar Pradesh has grown on an average at a rate of 10.65 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. Public debt-GSDP ratio of Uttar Pradesh has increased from 23.08 *per cent* in 2018-19 to 24.53 *per cent* in 2022-23. However, the growth of rate of interest was lower than the rate of growth of the GSDP ( $g-r > 0$ ) in 2019-20, 2021-22 and 2022-23 as per the Domar model analysis. Nevertheless, when examining the Domar gap ( $g-r$ ), the real interest rate has surpassed the real economic growth rate in 2018-19 and 2020-21. The positive Domar gap coupled with Primary Surplus led to decline in Debt to GSDP ratio in 2021-22. Further, despite the Primary Deficit generated in 2022-23, the positive Domar Gap in 2022-23 was adequate to absorb the Primary Deficit and primarily contributed to further keep the debt to GSDP ratio in a declining trend. However, the real growth rate of GSDP ( $g$ ) and domar gap ( $g-r$ ) during post Covid-19 year (i.e., 2021-22 and 2022-23) should be read with negative GSDP growth rate during 2020-21 resulting in low base for computation of GSDP growth rates during subsequent years. From the above discussion, it can be concluded that Debt/GSDP ratio in the past five years remained fluctuating and thus, it is early to conclude that debt is on the path of stabilisation.

### ***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 (-) 18.81 *per cent*. This was due to deviation up 0 to  $\pm 25$  *per cent* in 45 grants, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 40 grants; and between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in six grants and equal to or more than 100 *per cent* in one grant. In the Capital section, deviation in outturn compared with BE was (-) 23.99 *per cent*. This was due to deviation up 0 to  $\pm 25$  *per cent* in 45 grants, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 21 grants; and between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in 19 grants and equal to or more than 100 *per cent* in seven grants.

### *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. During 2022-23, deviation in outturn in the Revenue section compared with Revised Estimates (RE) was (-) 12.63 per cent. This was due to deviation up 0 to  $\pm 25$  per cent in 64 grants, between  $\pm 25$  per cent and  $\pm 50$  per cent in 23 grants and between  $\pm 50$  per cent and  $\pm 100$  per cent in five grants. In the Capital section, deviation in outturn compared with RE was (-) 24.31 per cent. This was due to deviation up 0 to  $\pm 25$  per cent in 53 grants, between  $\pm 25$  per cent and  $\pm 50$  per cent in 14 grants, between  $\pm 50$  per cent and  $\pm 100$  per cent in 20 grants and equal to or more than 100 per cent in five grants.

It was noticed that supplementary provisions of ₹ 5,256.75 crore during the year 2022-23 in 42 cases (₹ one crore or more than ₹ one crore in each case), including 28 cases in Revenue Voted Section and 14 cases in Capital Voted Section, proved unnecessary, as the expenditure did not come up even to the level of original provisions.

*Overall Budget reliability assessment indicates that the deviations between the actual expenditure and total budget as well as between the actual expenditure and the revised estimates were 24 per cent and 16 per cent respectively. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grants. 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 funds outside the Government accounts, non- or short- discharging of liabilities and misclassification of transactions.

### *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 (1) (b) of the constitution. It was observed that excess disbursements of ₹ 32,533.46 crore pertaining to 2005-06 to 2020-21 were yet to be regularized.

### *Reconciliation*

As per para 124 of UP Budget Manual, Chief Controlling Officer (CCOs)/ Controlling Officer(COs) are required to reconcile their expenditure and

receipts with the expenditure booked in the accounts in the Accountant General Office. The State Government reconciled 97.41 *per cent* of the total expenditure and 99.27 *per cent* of the total receipts during the year 2022-23.

#### *Compliance with IGAS*

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

#### *Operation of Personal Deposit (PD) Accounts*

Uttar Pradesh Government order (March 1999) provides that Administrators of PD Accounts were required to reconcile and verify their balances with the treasury figures and annual verification certificates were also required to be submitted to the Accountant General. However, during the year 2022-23, out of 12 Administrators of PD accounts of the State, only nine Administrators have reconciled and verified their balances with the treasury figures.

#### *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 PFMS portal of the CGA, the State Government received ₹ 32,239.40 crore being Central share during the year 2022-23 in its Treasury Accounts. As on 31 March 2023, the Government transferred Central share of ₹ 40,531.31 crore received in Treasury Accounts and State share of ₹ 38,533.68 crore to the SNAs. As per PFMS portal of CGA, ₹ 28,980.96 crore is 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, 30,906 outstanding UCs of ₹ 19,981.24 crore were pending as on 31 March 2023 in respect of grants-in-aid released by the State Government during the period 2001-02 to 2021-22 (up to September 2021).

#### *Detailed Countersigned Contingent (DC) bills against Abstract Contingent (AC) bills*

Despite the requirement of submitting DC Bills against the advance money withdrawn through AC Bills, 842 AC bills of ₹ 8.52 crore were pending for

submission of DC bills as on 31 March 2023, out of which 788 AC Bills amounting to ₹ 5.09 crore pertained to the period upto 2021-22.

#### *Funds outside Government Account*

Section 103 of the Electricity Act, 2003 provides that State Government shall constitute a Fund to be called the State Electricity Regulatory Commission Fund and there shall be credited thereto any grants and loans made to the State Commission by the State Government, all fees received by the State Commission under the Act and all sums received by the Commission from such other sources as may be decided upon by the State Government. GoUP did not constitute State Electricity Regulatory Commission Fund under Public Account of the State. As a result, fees received by the Uttar Pradesh Electricity Regulatory Commission (UPERC) are deposited in bank accounts maintained by the Commission. As such, as on 31 March 2023, an amount of ₹ 111.14 crore was kept outside the Public Account of the State in violation of Article 266(2) of the Constitution.

The State Government directed (August 2013 and September 2016) to deposit the cess collected under 'The Building and Other Construction Workers (BOCW) Welfare Cess Act, 1996' into the nationalised bank account of the UP BOCW Board. The orders to transfer cess directly to the bank account of the Board without bringing it into Government Accounts violates the provisions of Article 266 (2) of the Constitution of India. As per information provided by the BOCW ₹ 4,479.59 crores were available with the Board as on 31 March 2023.

*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; partially compliance with IGAS; funds remaining outside Government accounts have impacted the quality of accounts adversely.*

#### **Working of State Public Sector Enterprises (SPSEs)**

As on 31 March 2023, there were 113 SPSEs in Uttar Pradesh, including six Statutory Corporations, 86 Government Companies (including 41 inactive Government Companies) and 21 Government Controlled Other Companies (GCOCs) under the audit jurisdiction of the Comptroller and Auditor General of India. Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 101 SPSEs whose 1,047 accounts were in arrears. Out of the total profit of ₹ 2,169.50 crore earned by 39 SPSEs as per their latest finalised financial statements, 89.14 per cent was contributed by six SPSEs only. Out of total loss of ₹ 32,429.90 crore incurred by 27 SPSEs as per their latest finalised financial statements, loss of ₹ 31,632.46 crore (97.54 per cent) was attributed to five Power Sector SPSEs. Net-worth of 15

SPSEs had been completely eroded due to accumulated losses as per their latest finalised accounts.

*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.*