

# EXECUTIVE SUMMARY



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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 2023-24. 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 a Compounded Annual Growth Rate (CAGR) of 7.32 *per cent* from ₹ 24,990 crore in 2019-20 to ₹ 35,579 crore in 2023-24. Budget Outlay of the State grew at a Compounded Annual Growth Rate (CAGR) of 4.21 *per cent* from ₹ 14,346.73 crore in 2019-20 to ₹ 17,636.10 crore in 2023-24.

There was 15.93 *per cent* growth in GSDP from ₹ 30,690 crore in 2022-23 to ₹ 35,579 crore in 2023-24. The revenue receipts grew at 11.01 *percent* and the percentage of revenue receipts over GSDP decreased from 33.50 *per cent* in 2022-23 to 32.08 *per cent* in 2023-24. The tax revenue increased by 17.03 *per cent* during the period and the State's own tax revenue increased by 8.51 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Mizoram increased from ₹ 11,416.22 in 2022-23 to ₹ 12,115.72 crore in 2023-24 increasing by 6.13 *per cent*. Of this, revenue expenditure showed 7.38 *per cent* increase from 2022-23. Revenue Surplus increased from ₹ 189.89 to ₹ 577.09 crore registering 203.91 *per cent* increase over 2022-23, while fiscal deficit decreased from ₹ 1,107.67 crore in 2022-23 to ₹ 677.70 crore in 2023-24 decreasing by 38.82 *per cent*.

### *Revenue Receipt and Expenditure*

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 2019-20 to 2023-24, revenue receipts grew at a CAGR of 3.40 *per cent* from ₹ 9,658.26 crore to ₹ 11,414.05 crore. Capital receipts also increased from ₹ 1,102.09 crore to ₹ 1,977.42 crore with a CAGR of 12.40 *per cent* during this period. The share of Grants-in-aid in revenue receipts fell from 55.78 *per cent* in 2019-20 to 30.54 *per cent* in 2023-24 at CAGR of -8.34 *per cent*, indicating decreased reliance on support from the Government of India. In 2023-24, the buoyancy of Revenue Receipts and Own Revenue Receipts with respect to GSDP was 0.69 and 0.44 respectively. The State Government received ₹ 1,777.72 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 2019-20 and 2023-24, revenue expenditure increased from ₹ 9,453.96 crore (37.83 *per cent* of GSDP) to ₹ 10,836.96 crore (30.46 *per cent* of GSDP). It consistently made up a significant portion (86 to 90 *per cent*) of the total expenditure during this period, growing at a CAGR of 2.77 *per cent* during the period.

### **Result of expenditure beyond means**

The gap between the revenue receipt and revenue expenditure results in revenue deficit/surplus. The revenue surplus of the State increased to ₹ 577.09 crore (1.62 *per cent* of GSDP) in the current year from ₹ 204.30 crore (0.82 *per cent* of GSDP) in the year 2019-20.

The State Government spent ₹ 1,253.78 crore only on capital account. This was 10.35 *per cent* of the total expenditure in the year 2023-24. Capital expenditure was just 64.19 *per cent* of the total borrowings which indicated that the borrowed funds were also being used for meeting current consumption and repayment of borrowings in addition to capital creation/development activities.

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 ₹ 677.71 crore (1.90 *per cent* of GSDP) in 2023-24 from ₹ 1,224.29 crore (4.90 *per cent* of GSDP) in 2019-20.

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 & wages and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 63-70 *per cent* of revenue expenditure during 2019-20 (62.59 *per cent*) and 2023-24 (65.77 *per cent*). The Committed expenditure grew at CAGR of 3.79 *per cent* from ₹ 5,917.66 crore in 2019-20 to ₹ 7,126.85 crore in 2023-24 {an increase of 5.93 *per cent* over 2022-23 (₹ 6,727.78 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 9.18 *per cent* to 4.22 *per cent* of revenue expenditure during 2019-20 to 2023-24, indicating a declining trend. However, in absolute terms, inflexible expenditure increased from ₹ 309.96 crore in 2022-23 to ₹ 457.19 crore in 2023-24 registering an increase of 47.50 *per cent*. Inflexible expenditure fell at a CAGR of -12.04 *per cent* during 2019-20 to 2023-24.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹ 7,584.04 crore, 69.98 *per cent* of the revenue expenditure. High committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

### **Status of Subsidies given by the Government**

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 52.09 crore in 2019-20 to ₹ 142.61 crore in 2023-24 i.e., from 0.55 *per cent* of the total revenue expenditure in 2019-20 to 1.32 *per cent* in 2023-24. The Compound Annual Growth Rate (CAGR) in respect of Subsidies was 22.31 *per cent*.

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

At the beginning of the year, the outstanding amount of guarantees given by the Government stood at ₹ 120.10 crore. The outstanding guarantees worked out to 0.34 *per cent* of the GSDP of the year 2023-24 (₹ 35,579 crore) and was well within the prescribed ceiling of ₹ 8,894.75 crore. During 2023-24, Government of Mizoram had issued fresh guarantee of ₹ 2.12 crore to Mizoram Co-operative Apex Bank Ltd. and guarantee to the extent of ₹ 19.52 crore was invoked.

### ***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 for guarantees as a percentage of revenue receipts of the previous year. In 2023-24, revenue surplus was 1.62 *per cent* of GSDP (₹ 35,579); fiscal deficit was 1.90 *per cent* of GSDP as against the limit of 3.50 *per cent*; total outstanding liability was 33.96 *per cent* of GSDP as against the limit of 37.84 *per cent*.

Debt/GSDP (*per cent*) has fluctuated over the five-year period and is currently on the decline from 35.75 *per cent* in 2022-23 to 33.96 *per cent* in 2023-24 indicating that debt sustainability is more stable compared to the previous year.

During the five-year period from 2019-20 to 2023-24, the State had primary deficit in four years except 2021-22. In the pre-Covid period of 2019-20, the real growth rate of the GSDP was 11.08 *per cent* which had increased to 11.62 *per cent* in 2023-24 after contracting in the intervening period. Additionally, the steadily declining trend in the debt-to-GDP ratio since 2021-22 can be mainly attributed to the nominal growth. If the State maintains this trend of consistent decline, its debt burden may stabilise in medium term.

### ***Budget performance***

#### ***Aggregate Budget 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 Revenue section, Budget Estimates was 2.28 *per cent* more than expenditure outturn. This was due to deviation between 0 and 25 *per cent* in 36 grants, between 25 to 50 *per cent* in nine grants, between 50 to 100 *per cent* in two grants.

In Capital section, Budget Estimates were 49.07 *per cent* less than expenditure outturn. This was due to deviation between 50 to 100 *per cent* in four grants and equal to or more than 100 *per cent* in 11 grants and one appropriation.

### ***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 Revenue section, expenditure outturn was 14.94 *per cent* less than revised estimates. This was due to deviation between 0 and 25 *per cent* in 38 grants and one appropriation, between 25 to 50 *per cent* in eight grants and between 50 to 100 *per cent* in one grant.

In Capital section, expenditure outturn was 29.50 *per cent* more than revised estimates. This was due to deviation between 0 to 25 *per cent* in 12 grants, between 25 to 50 *per cent* in five grants, between 50 to 100 *per cent* in eight grants and equal to or more than 100 *per cent* in one grant and one appropriation.

It was noticed that supplementary provisions of ₹ 698.64 crore during the year 2023-24 in 16 cases (more than ₹ 50 lakh in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

### ***Regularization 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. Excess expenditure of ₹ 2,167.16 crore under two Grants and one Appropriation occurring during the period 2019-20 to 2022-23 was not yet regularised in accordance with Article 205 of the Constitution. Additionally, during 2023-24, there was a total excess disbursement of ₹ 3,446.17 crore which also needed to be regularised.

*Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and original budget was less than 5 percent, there were deviations up to 25% 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 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.

### ***Reconciliation***

All Departments are required to reconcile their expenditure and receipts with the figures booked in the accounts in the Accountant General Office. The State Government reconciled 99.99 *per cent* of the total expenditure and 100 *per cent* of the receipts during the year.

### ***Compliance with IGAS***

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government partially complied with IGAS.

### ***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 ₹ 1,672.41 crore being Central share of Centrally Sponsored Scheme during the year 2023-24 in its Treasury Accounts. As on 31 March 2024, the Government transferred Central share of ₹ 1,613.55 crore received in Treasury Accounts and State share of ₹ 211.19 crore to the Single Nodal Agencies leading to short transfer of ₹ 58.86 crore of Central Share. As per SNA report of Public Financial Management System portal, ₹ 408.47 crore was lying unspent in the bank accounts of SNAs as on 31 March 2024.

Scrutiny of PFMS reports<sup>1</sup> revealed that the SNAs' accounts were credited a total amount of ₹ 43.82 crore (Central share ₹ 39.48 crore and State share ₹ 4.34 crore) as interest earned during the year as on 31 March 2024. Out of this, Central share of interest amounting ₹ 11.87 crore was yet to be deposited into SNA accounts.

### ***Utilisation Certificates against conditional grants***

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, during the year 2023-24 ₹ 245.55 crore pertaining to 42 UCs were added to the previous year's due of ₹ 16.06 crore pertaining to 9 UCs. Out of these, ₹ 25.99 crore pertaining to 19 outstanding UCs were cleared leaving a balance of 32 UCs amounting to ₹ 235.62 crore outstanding at the end of the year. Pendency of UCs was fraught with the risk of misappropriation of funds and fraud.

### ***DCC bills against AC bills***

Similarly, despite the requirement of submitting Detailed Countersigned Contingency (DCC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills. DCC Bills in respect of 92 AC bills amounting to ₹ 472.19 crore were not received as on 31 March 2024. Advances drawn and not accounted for increased the possibility of wastage/Misappropriation /malfeasance, etc.

### ***Funds outside Government Account***

It has been observed that many Drawing and Disbursing Officer (DDOs) have opened Current/Savings Accounts in Commercial Banks. As per information furnished by 178 out of 1,276 DDOs in the State, there was an amount of ₹ 317.21 crore lying in Savings/ Current Bank Account as on 31 March 2024.

*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 and funds remaining outside Government accounts have impacted the quality of accounts adversely.*

<sup>1</sup> SNA 04 – Interest Income Report and SNA 04A – Interest Deposited Report

