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.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 8.85 *per cent* from ₹ 2,39,263 crore in 2019-20 to ₹ 3,46,206 crore in 2023-24. Budget Outlay of the State grew at an average growth rate of 13.23 *per cent* from ₹ 51,198 crore in 2019-20 to ₹ 88,728 crore in 2023-24.

There was 13.97 *per cent* growth in GSDP in 2023-24 over 2022-23. The revenue receipts grew at 3.12 *per cent and* the percentage of revenue receipts over GSDP decreased from 16.16 *per cent* in 2022-23 to 14.62 *per cent* in 2023-24. The tax revenue increased by 14.99 *per cent* during the period and the State's own tax revenue increased by 12.53 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Uttarakhand increased from ₹ 52,061 crore in 2022-23 to ₹ 58,380 crore, increasing by 12.14 *per cent*. Of this, revenue expenditure showed 8.00 *per cent* increase from 2022-23. Revenue surplus decreased from ₹ 5,310 crore to ₹ 3,341 crore registering 37.08 *per cent* decrease over 2022-23, while fiscal deficit increased from ₹ 2,949 crore in 2022-23 to ₹ 7,749 crore in 2023-24 increasing by 162.77 *per cent*.

Receipt vis-à-vis 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 from ₹ 30,723 crore to ₹ 50,615 crore, with an average growth rate of 10.52 *per cent*. Capital receipts also increased from ₹ 6,167 crore to ₹ 9,928 crore during this period. The share of Grants-in-aid in revenue receipts rose from 27.04 *per cent* in 2019-20 to 28.30 *per cent* in 2023-24, indicating increased reliance on support from the Government of India. The State Government received ₹ 5,675.90 crore as Grants-in-Aid for the Centrally Sponsored Schemes (CSSs) during the year 2023-24.

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 ₹ 32,859 crore (13.73 *per cent* of GSDP) to ₹ 47,274 crore (13.65 *per cent* of GSDP). It consistently made up a significant portion (81 to 86 *per cent*) of the total expenditure during this period, growing at an average growth rate of 8.07 *per cent*.

Expenditure analysis

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State of ₹ 2,136 crore (0.89 *per cent* of GSDP) in the year 2019-20, however, changed to revenue surplus of ₹ 3,341 crore (0.97 *per cent* of GSDP) in the current year.

The State Government spent ₹ 10,982 crore on capital account. This was 18.81 *per cent* of the total expenditure in the year 2023-24.

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 ₹ 7,749 crore (2.24 *per cent* of GSDP) in 2023-24 from ₹ 2,949 crore (0.97 *per cent* of GSDP) 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 57 to 66 *per cent* of revenue expenditure during 2019-20 (66.12 *per cent*) and 2023-24 (57.39 *per cent*). The Committed expenditure increased at an average rate of 4.89 *per cent* i.e. from ₹ 21,725 crore in 2019-20 to ₹ 27,130 crore in 2023-24 {an increase of 5.16 *per cent* over 2022-23 (₹ 25,800 crore)}.

In addition to the committed expenditure, inflexible expenditure increased from 6.10 *per cent* to 7.93 *per cent* of revenue expenditure during 2019-20 to 2023-24, indicating a rising trend. The inflexible expenditure increased from ₹ 2,549 crore in 2022- 23 to ₹ 3,750 crore in 2023-24 registering an increase of 47.12 *per cent*. The average growth of inflexible expenditure during the period from 2019-20 (₹ 2,004 crore) to 2023- 24 (₹ 3,750 crore) was 17.57 *per cent*.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹ 30,880 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 ₹ 35 crore in 2019-2020 to ₹ 428 crore in 2023-24 i.e., from 0.11 *per cent* of the total revenue expenditure in 2019-20 to 0.91 *per cent* in 2023-24. Food subsidy under Food Storage and Warehousing (₹ 104 crore) constituted 24.30 *per cent* of the total subsidies during current year. Apart from this, the State Government also spent ₹ 76.54 crore on implicit subsidies.

Contingent Liabilities on account of Guarantees

In 2023-24, the Government provided guarantees against borrowings of ₹ 167 crore. No guarantee was invoked during the year. The State Government received ₹ 0.23 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.

As per FRBM Act, Revenue Deficit should be Nil. Against this target, the state Government experienced revenue surplus of ₹ 3,341 crore in 2023-24 which was 0.97 *per cent* of GSDP, fiscal deficit was 2.24 *per cent* as against the limit of 3.00 *per cent* of GSDP, debt was 23.18 *per cent* (excluding back-to-back loan in lieu of GST compensation from GoI amounting to ₹ 5,649 crore received till 2021-22) as against limit of 33.10 *per cent* of GSDP as prescribed under FRBM Act. Similarly, total outstanding guarantees as on 31 March 2024 was ₹ 119 crore which is 0.03 *per cent* of GSDP for the year and hence was within the FRBM ceiling. Further, guarantees given during the year were 0.05 *per cent* as against the target of 0.30 *per cent* of the GSDP.

As per the debt stabilization analysis, The State's debt burden, measured by the total liabilities to GSDP ratio, has started improving after showing an upward trend till 2020- 21, while a consistent decline has been observed in the last three years of the period (2019- 2024) considered for debt sustainability analysis. The debt-GSDP ratio increased from 25.20 *per cent* in 2018- 19 to 27.58 *per cent* in 2019-20 and to 31.66 *per cent* in 2020- 21 as compared to the previous year. After registering a historic increase of 4.08 percentage points in 2020- 21 due to the impact of the pandemic, when nominal growth contracted by 5.70 *per cent*, it declined to 26.72 *per cent* in the post-pandemic year (2021-22), registering a significant improvement of 4.94 *per cent* points as compared to the previous year. Following a downward trend, the overall liabilities-GSDP ratio reached to 23.98 *per cent* in 2022-23 and 23.18 *per cent* in 2023-24. The steady decline in the state's debt burden, measured by the overall liabilities-GSDP ratio, since 2021-22 indicates that it has started stabilizing.

As per the Domar criterion, despite the fluctuating trend, the real interest rate remained favourable during 2019-2024 except for the pandemic year (2020-21) given a

significant contraction of 12.10 *per cent* registered in real growth. Both the nominal growth and effective rate of interest largely remained driven by inflation. Despite the 5-year low real rate of interest, when CPI inflation almost intensified to the level of the effective nominal rate of interest, the GID turned unfavourable in 2020-21. Thereafter, consistent economic growth supported by the easing of CPI inflation helped the GID to remain favourable over the next three years. On average, the CPI inflation during the period 2019-2024 remained above tolerance band of 2-6 *per cent* determined by the RBI.

A substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 30 *per cent* and 81 *per cent* during the period 2019- 2024.

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 (-) 10.38 *per cent*. This was due to deviation up to ± 25 *per cent* in 20 grants, between ± 25 *per cent* and ± 50 *per cent* in nine grants and between ± 50 *per cent* and ± 100 *per cent* in two grants. In the Capital section, deviation in outturn compared with BE was (+) 39.24 *per cent*. This was due to deviation equal to zero *per cent* in one grant, up to ± 25 *per cent* in 15 grants, between ± 25 *per cent* to ± 50 *per cent* in six grants; and between ± 50 *per cent* to ± 100 *per cent* in seven grants and equal to 100 *per cent* and above in two grants. No provision was made in respect of two grants 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 (-) 8.36 *per cent*. This was due to deviation up to ± 25 *per cent* in 25 grants, between ± 25 *per cent* to ± 50 *per cent* in five grants and between ± 50 *per cent* and ± 100 *per cent* in one grant. In the Capital section, deviation in outturn compared with RE was (+) 30.54 *per cent*. This was due to deviation up to ± 25 *per cent* in 18 grants, between ± 25 *per cent* and ± 50 *per cent* in five grants, between ± 50 *per cent* to ± 100 *per cent* in four grants and equal to 100 *per cent* and above in two grants. No provision was, however, made in respect of two grant in Capital section.

It was noticed that supplementary provisions of ₹ 4,183.84 crore during the year 2023-24 in 24 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 was more than 5.43 *per cent* and between the actual expenditure and the final budget were more than 4.78 *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.

Regularization of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularized by the State Legislature as per article 204 and 205 (1) (b) of the constitution. It was observed that in 2023-24 there was excess expenditure of ₹ 7,302.10 crore under one grant which required regularization. Further, excess disbursements of ₹ 48,654.69 crore pertaining to 2005-06 to 2022-23 were yet to be regularized.

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 13.00 *per cent* of the total expenditure and 4.94 *per cent* of the receipts.

Misclassification in accounts

It was noticed that an expenditure of ₹ 62.66 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. Further, an expenditure of ₹ 605.82 crore had been booked under Capital section. This expenditure should have been booked under the Revenue section as this expenditure pertains to Grants-in-aid.

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.

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 utilization of the funds released through SNA. For each CSS, SNA is set up with own Bank Account in scheduled Commercial Bank authorized 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 ₹ 4,509.85 crore, being Central share during the year, in its treasury accounts against which it transferred Central share of ₹ 4,907.20 crore, State share of ₹ 1,400.43 crore and ₹ 258.57 crore as unclassified amount and top-up to the SNAs. The total transfer of ₹ 6,566.20 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 ₹ 2,773.16 crore are lying unspent in the bank accounts of SNAs as on 31 March 2024.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 210 outstanding UCs of ₹ 1,395.68 crore were pending as on 31 March 2024.

In the absence of UCs, it could not be ascertained whether the recipients had utilized the grants for the intended purpose for which these were sanctioned. The pendency of UCs was fraught with the risk of misappropriation of funds.

DC 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, 164 AC bills of ₹ 17.92 crore were pending for submission of DCC bills as on 31st March 2024, out of which 27 AC Bills amounting to ₹ 7.05 crore pertained to the period 2021-22 and 2022-23.

Advances drawn and not accounted for, increase the possibility of wastage/ misappropriation/malfeasance, *etc.* and, therefore, requires close monitoring for ensuring submission of DCC bills. Further, to the extent of non-receipt of DCC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

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 DCC 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.

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