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*). 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 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 2011-12 to 2021-22 has been 7.57 *per cent* and 6.29 *per cent* respectively*;* it, however, was below the CAGR of GDP All India (10.11 *per cent*) and below the per capita GDP of All India (8.86 *per cent*).

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 2021-22 and infant mortality rate (24 per 1,000 live birth) in 2021-22 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.

Trends in annual growth of Uttarakhand's GSDP (nominal) *vis-à-vis* that 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	2017-18	2018-19	2019-20♠	2020-21♥	2021-22♣
GDP (2011-12 Series)	1,70,90,042	1,88,99,668	2,00,74,856	1,98,00,914	2,36,64,637
Growth rate of GDP over previous year at current prices (*per cent*)	11.03	10.59	6.22	-1.36	19.51
GSDP (2011-12 Series)	2,20,222	2,30,327	2,36,988	2,34,660	2,53,832
Growth rate of GSDP over previous year at current prices (*per cent*)	12.86	4.59	2.89	-0.98	8.17

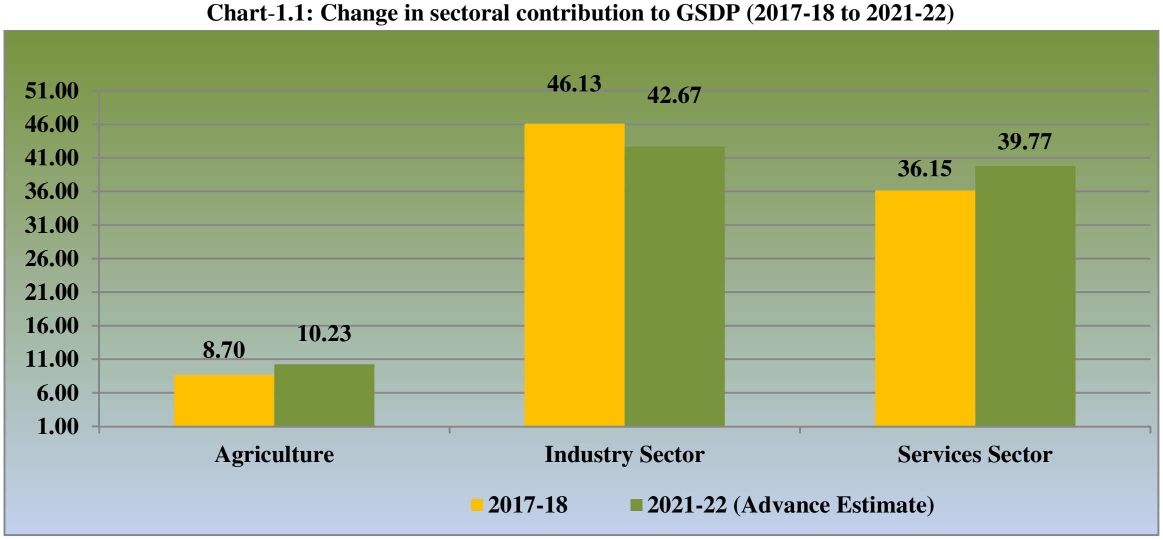
Source of data: Ministry of Statistics and Programme Implementation and Directorate of Economics and Statistics, Uttarakhand. ♥provisional Estimate, ♠Quick Estimate, ♣Advance Estimate.

As can be seen from the details above, the GSDP growth rate of Uttarakhand was higher than the national growth rate in the years 2017-18 and 2020-21. However, for the years 2018-19, 2019-20 and 2021-22 it was lower than the national growth rate.

1.1.2. Sectoral contribution to GSDP

Chart-1.1 reveals that during the five-year period from 2017-18 to 2021-22, there has been an increase in the relative shares of Agriculture and Service Sector in GSDP, appreciating from 8.70 *per cent* in 2017-18 to 10.23 *per cent* in 2021-22 and from 36.15 *per cent* in 2017-18 to 39.77 *per cent* in 2021-22 respectively. However, a decrease was seen in the relative share of Industry Sector from 46.13 *per cent* in 2017-18 to 42.67 *per cent* in 2021-22.

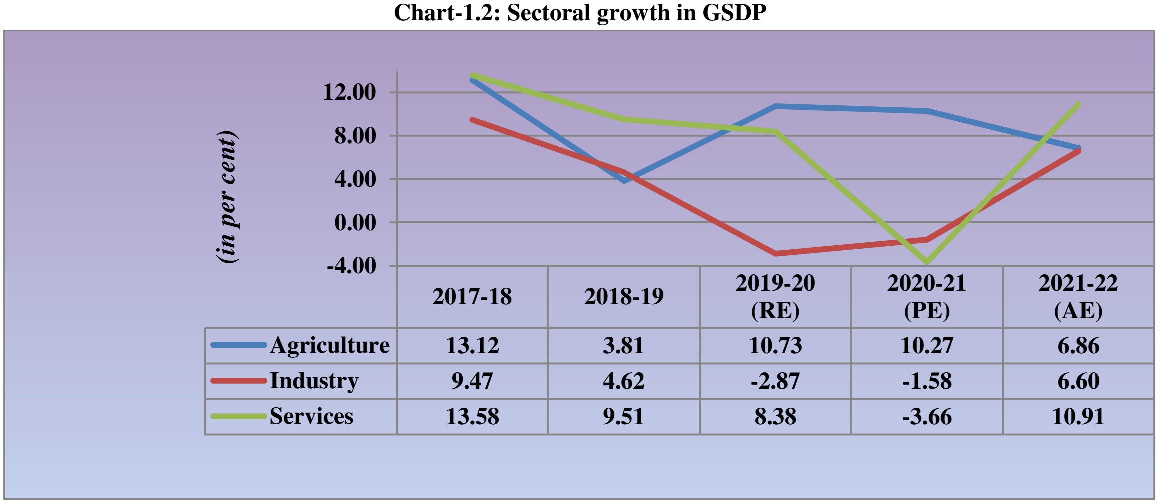
Chart-1.1: Change in sectoral contribution to GSDP (2017-18 to 2021-22)



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

During 2021-22, the Industry sector and Services sectors saw increase in growth rate, while Agriculture sector saw decline in growth rate as compared to previous year as can be seen from **Chart-1.2**:

Chart-1.2: Sectoral growth in GSDP



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 2022 has been prepared for submission to the Governor of Uttarakhand under Article 151 (2) of the Constitution of India.

Principal 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 2021-22 constitute the core data for this report. Other sources include the following:

- Budget of the State for the year 2021-22 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 2017-22 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 2020, best practices, and guidelines of the Government of India. An entry conference was held in December 2022 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 January 2023 for comments and Exit Conference was held in February 2023 wherein the audit findings were discussed. Replies of the Government have been incorporated in this Report at appropriate places.

During the Exit Conference the recommendations made in the Report were accepted by the State Government.

1.3 Report Structure

The SFAR is structured into the following five Chapters:

Chapter - 1	***Overview*** This Chapter describes the basis and approach to the Report and the underlying data; and provides an overview of the structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.
Chapter - 2	***Finances of the State*** This chapter provides a broad perspective of the finances of the State; analyses critical changes in major fiscal aggregates relative to the previous year; overall trends during the period from 2017-18 to 2021-22; debt profile of the State; and key Public Account transactions, based on the Finance Accounts of the State.
Chapter - 3	***Budgetary Management*** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - 4	***Quality of Accounts & Financial Reporting Practices*** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter - 5	***Role of Government in Public Sector Undertakings*** This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.

1.4 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 repayables 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.

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;

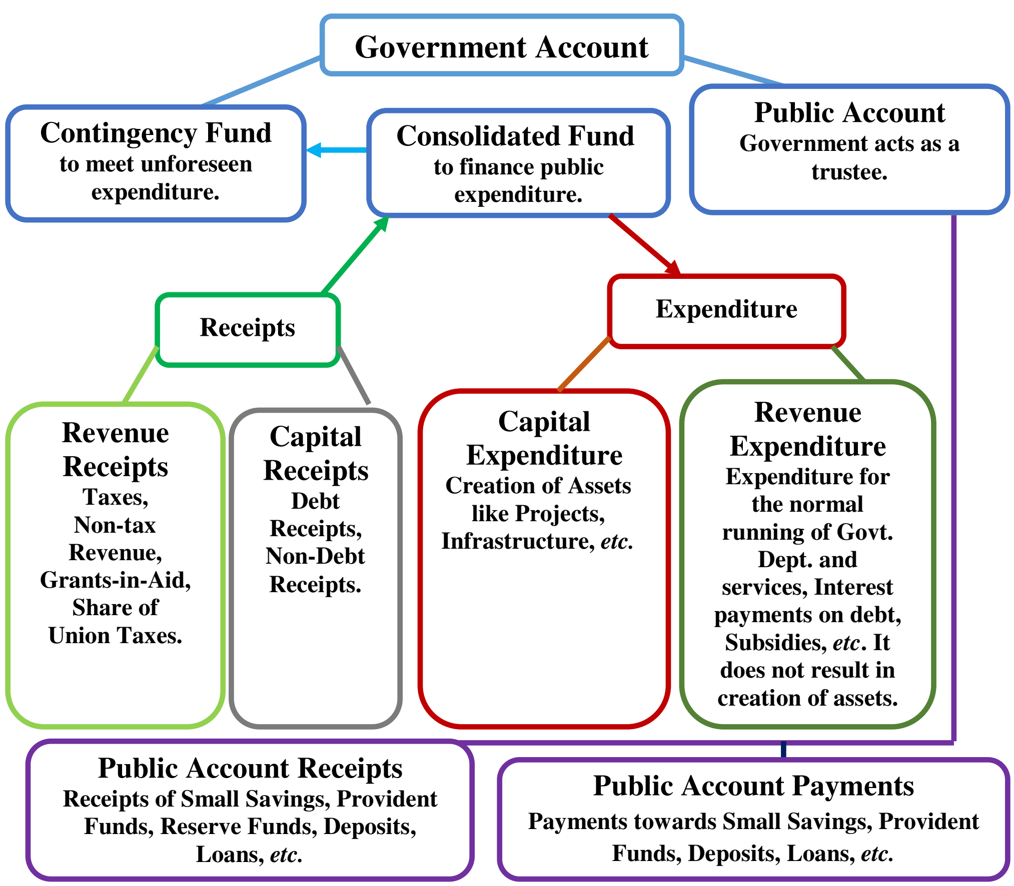
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances given by the government to Public Sector Undertakings (PSUs) and other parties.

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

	Attribute of transaction	Classification
Standardized 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



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.

1.4.1 Snapshot of Finances

Table-1.2 provides the details of actual financial results *vis-à-vis* Budget Estimates for the year 2021-22 *vis-à-vis* actual of 2020-21.

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

(₹ in crore)

Sl.No.	Components	2020-21 (Actual)	2021-22 (Budget Estimate)	2021-22 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1.	Tax Revenue	18,507	20,195	24,082	119.25	*9.49*
(i)	Own Tax Revenue	*11,938*	*12,754*	14,176	111.15	5.58
(ii)	Share of Union Taxes/Duties	*6,569*	*7,441*	9,906	133.13	3.90
2.	Non-Tax Revenue	4,171	3,294	2,756	83.67	1.09
3.	Grants-in-aid and Contributions	15,527	20,662	16,219	78.50	6.39
4.	**Revenue Receipts (1+2+3)**	**38,205**	**44,151**	**43,057**	**97.52**	**16.96**
5.	Recovery of Loans and Advances	*23*	23	17	73.91	0.01
6.	Other Receipts	*0.20*	0	0	0.00	0.00
7.	Borrowings and other Liabilities (a)	5,439	9,401	3,736	39.74	1.47
8.	**Capital Receipts (5+6+7)**	**5,462**	**9,424**	**3,753**	**39.82**	**1.48**
9.	**Total Receipts (4+8)**	**43,667**	**53,575**	**46,810**	**87.37**	**18.44**
10.	**Revenue Expenditure**	**37,091**	**44,036**	**38,929**	**88.40**	**15.33**
11.	Interest payments	4,773	6,053	4,939	81.60	1.95
12.	**Capital Expenditure**	**6,576**	**9,122**	**7,881**	**86.40**	**3.10**
13.	Capital outlay	6,538	8,973	7,534	83.96	2.97
14.	Loan and advances	38	149	347	232.89	0.14
15.	**Total Expenditure (10+12)**	**43,667**	**53,158**	**46,810**	**88.06**	**18.44**
16.	**Revenue Deficit/ Surplus (-/+) (4-10)**	**1,114**	**115**	**4,128**	**3,589.57**	**1.63**
17.	**Fiscal Deficit {15-(4+5)}**	**5,439**	**8,984**	**3,736**	**41.59**	**1.47**
18.	**Primary Deficit/Surplus(-/+) (17- 11)**	**(-) 666**	**(-) 2,931**	**1,203**	**141.04**	**0.47**

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.

1.4.2 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. 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				
		2020-21	**2021-22**	***Per cent* increase**			**2020-21**	**2021-22**	***per cent* increase**
Consolidated Fund									
A	Internal Debt	53,301.55	53,759.17	*0.86*	**a**	Gross Capital Outlay	64,325.48	71,858.97	*11.71*
B	Loans and Advances from GoI	3,813.10	7,443.32	*95.20*	**b**	Loans and Advances	2,047.91	2,378.28	*16.13*
	Contingency Fund	7.45	231.34	*3,005.23*					
Public Account									
A	Small Savings, Provident Funds, *etc.*	8,996.75	9,330.63	*3.71*		Advances	0.42	0.42	*00*
B	Deposits	4,217.28	3,536.19	*(-) 16.15*		**Cash balance (including investment in Earmarked Fund)**	**3,575.97**	**3,837.19**	***7.30***
C	Reserve Funds	4,910.59	4,653.02	*(-) 5.25*					
D	Suspense and Miscellaneous	203.19	481.01	*136.73*		***Total***	***69,949.78***	***78,074.86***	***11.62***
E	Remittances	58.72	71.01	*20.93*		**Deficit in Revenue Account**	**5,558.85**	**1,430.83**	***(-) 74.26***
	Total	***75,508.63***	***79,505.69***	***5.29***		***Total***	***75,508.63***	***79,505.69***	***5.29***

Source: Finance Accounts.

1.5 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.

Revenue Deficit/ Surplus (Revenue Expenditure – Revenue Receipts)	*Refers to the difference between revenue expenditure and revenue receipts.* • When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure. • Existence of revenue deficit is a cause of concern as revenue receipts were not able to meet even revenue and maintenance expenditure. Moreover, parts of capital receipts were utilized to meet revenue expenditure, reducing availability of capital resources to that extent for creation of capital assets. • This situation means that the government will have to borrow not only to finance its investment but also its consumption requirements. This leads to a build-up of stock of debt and interest liabilities and forces the government, eventually, to cut expenditure. • If major part of revenue expenditure is committed expenditure (interest liabilities, salaries, pensions), the government reduces productive expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.
Fiscal Deficit/ Surplus {Total expenditure– (Revenue receipts + non-debt capital receipts)}	*It is the difference between the Revenue Receipts plus Non-debt Capital Receipts and the total expenditure. FD is reflective of the total borrowing requirements of the Government.* • Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. • Non-debt creating capital receipts are those receipts, which are not borrowings, and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of PSUs. • The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government. Governments usually run fiscal deficits and borrow funds for capital/ assets formation or for creation of economic and social infrastructure, so that assets

	created through borrowings could pay for themselves by generating an income stream. Thus, it is desirable to fully utilize borrowed funds for the creation of capital assets and to use revenue receipts for the repayment of principal and interest.
Primary Deficit (Gross fiscal deficit – Net Interest liabilities)	*Refers to the fiscal deficit minus the interest payments.* • Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending. • The borrowing requirement of the government includes interest obligations on accumulated debt. To obtain an estimate of borrowing because of current expenditures exceeding revenues, we need to calculate the primary deficit.

Deficits must be 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 has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

1.5.1 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 and 2020.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 Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

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 has not notified the FRBM act for the year 2021-22, so we assume that limit of Fiscal Deficit as 3.5 *per cent* of GSDP for the year 2021-22 as notified for the year 2020-21.

The targets relating to key fiscal parameters envisaged in the FRBM (Amendment) Act, 2020 and their achievement during the five-year period from 2017-18 to 2021-22 are given in **Table-1.4**.

Table-1.4: Compliance with provisions of FRBM Act

Fiscal Parameters	**Fiscal targets set in the Act**	**Achievement *(₹in crore)***				
		2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Revenue Deficit (-) / Surplus (+) *(₹in crore)*	Revenue deficit to be zero	(-) 1,978	(-) 980	(-) 2,136	(+) 1,114	(+) 4,128
		✗	✗	✗	✓	✓
Fiscal Deficit (-)/ Surplus (+) (as *percentage of GSDP*)	Three *per cent from 2017-18 to 2019-20 and 3.5 per cent in 2020-21 and 2021-22*	(-) 7,935 *(-3.60)*	(-) 7,320 *(-3.18)*	(-) 7,657 *(-3.23)*	*(-) 5,439 (-2.32)*	*(-) 3,736 (-1.47)*
		✗	✗	✗	✓	✓
Ratio of total outstanding debt to GSDP *(in per cent)*	25 *per cent*	*23.54*	*25.20*	*27.84*	*30.44**	*28.12**
		✓	✗	✗	✗	✗

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

**** Back- to-back loans of ₹ 2,316 crore and ₹ 3,333 crore received from GoI during the year 2020-21 and 2021-22 respectively in lieu of GST compensation shortfall has been excluded for computing the ratio of outstanding debt to GSDP. As per GoI clarification[1] this borrowing would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc.***

The State did not achieve the target of revenue surplus and fiscal deficit during 2017-18 to 2019-20 but was successful in 2020-21 and 2021-22.

During 2017-18 outstanding debt of the State remained below 25 *per cent* of GSDP, i.e., within the norms prescribed in the FRBM Act. However, from 2018-19 to 2020-21 it was above the FRBM target of 25 *per cent* by 0.20 *per cent*, 2.84 *percent,* 5.44 *per cent* respectively when compared to previous year. During the year 2021-22 outstanding debt as percentage of GSDP decreased by 2.32 *per cent* but was above the target of 25 *per cent* by 3.12 *per cent.*

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

During the exit conference, Secretary Finance stated that 15th Finance Commission has recommended a path for 2020-21 to 2025-26. Accordingly, the limit for Debt to GSDP ratio for 2021-22 is 32.60 per cent. Thus, ratio is within the limit. He further apprised that amendment in FRBM Act is in process.

1.5.2 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 2021-22 in MTFPS presented to the State Legislature and Actuals of the year.

Table-1.5: Actuals *vis-à-vis* projection in MTFP for 2021-22

(₹ in crore)

Sl.No.	Fiscal Variables	Projection as per MTFPS	Actuals (2021-22)	Variation (in *per cent*)
1.	**Own Tax Revenue**	14,122	14,176	0.38
2.	**Non-Tax Revenue**	2,631	2,756	4.75
3.	**Share of Central Taxes**	9,897	9,906	0.09
4.	**Grants-in-Aid from GoI**	17,051	16,219	-4.88
5.	**Revenue Receipts (1+2+3+4)**	43,701	43,057	-1.47
6.	**Revenue Expenditure**	41,466	38,929	-6.12
7.	**Revenue Deficit (-)/ Surplus (+) (5-6)**	2,235	4,128	84.70
8.	**Fiscal Deficit (-)/ Surplus (+)**	-4,904	-3,736	23.82
9.	**Debt-GSDP ratio (*per cent*)**	31.03	(-) 28.12*	2.91
10.	**GSDP growth rate at current prices (*per cent*)**	8.17	8.17	0.00

Source: Finance Accounts and Budget document of Uttarakhand 2021-22.

** **Back- to-back loan of ₹ 3,333 crore received from GoI during the year 2021-22 in lieu of GST compensation shortfall has been excluded for computing the ratio of outstanding debt to GSDP. As per GoI clarification this borrowing would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc.***

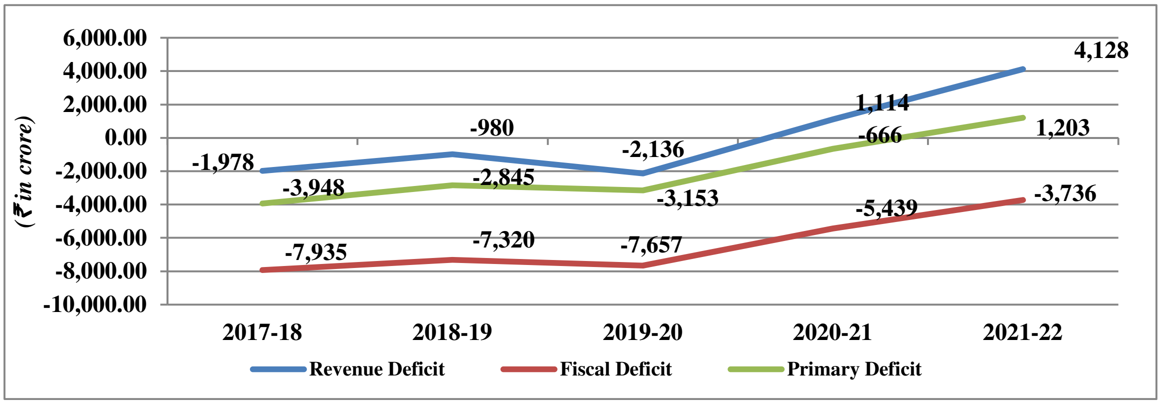
As can be seen from the above table, the State had projected Revenue Surplus of ₹ 2,235 crore in MTFPS during 2021-22, against which the State generated a surplus of ₹ 4,128 crore exceeding the anticipation by 84.70 *per cent*. Similarly, the target of Fiscal Deficit projected in MTFPS was ₹ 4,904 crore against which ₹ 3,736 crore Fiscal Deficit was achieved. Projection relating to Debt-GSDP ratio was not met, as the year ended with a lower Debt to GSDP ratio than was projected in the MTFPS, however, it was above the norm of 25 *per cent* prescribed in the FRBM act.

1.5.3 Trends of Deficit/Surplus

The State was able to achieve the targets specified by the XV FC during 2021-22 with regard to the key fiscal parameters. It had a fiscal deficit of ₹ 3,736 crore during the year 2021-22, representing 1.47 *per cent* of the GSDP. The Primary Deficit of ₹ 666 crore during 2020-21 converted to Primary Surplus of ₹ 1,203 crore during the current year and the Revenue Surplus of ₹ 1,114 crore in 2020-21 increased to ₹ 4,128 crore during 2021-22. The trend of these Surplus/Deficit over the five-year period from 2017-18 to

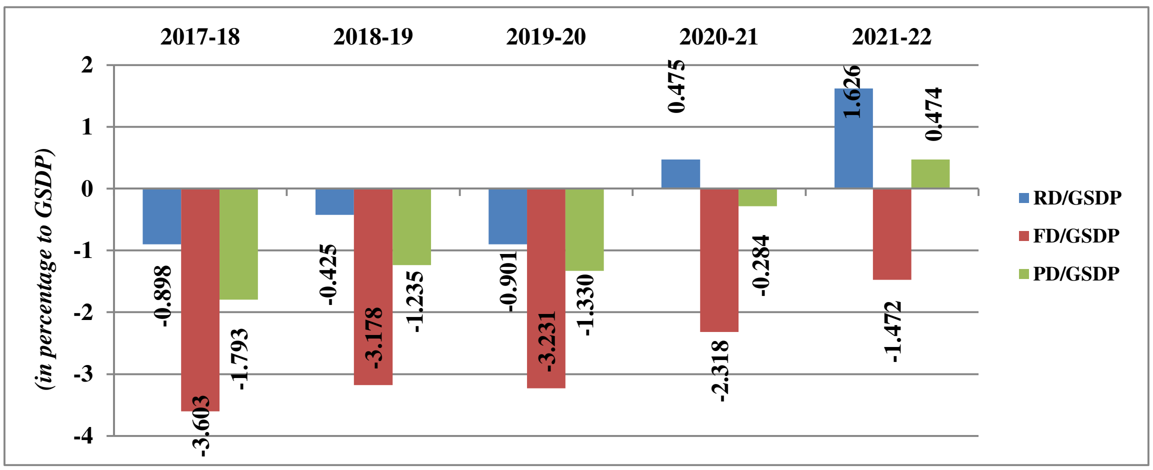
2021-22 is depicted in **Chart-1.3** and trend in deficit relative to GSDP is given in **Chart-1.4**. Component and trend of Fiscal Liabilities and its percentage to GSDP is also given the **Chart-1.5**.

Chart-1.3: Trends in Deficit Parameters



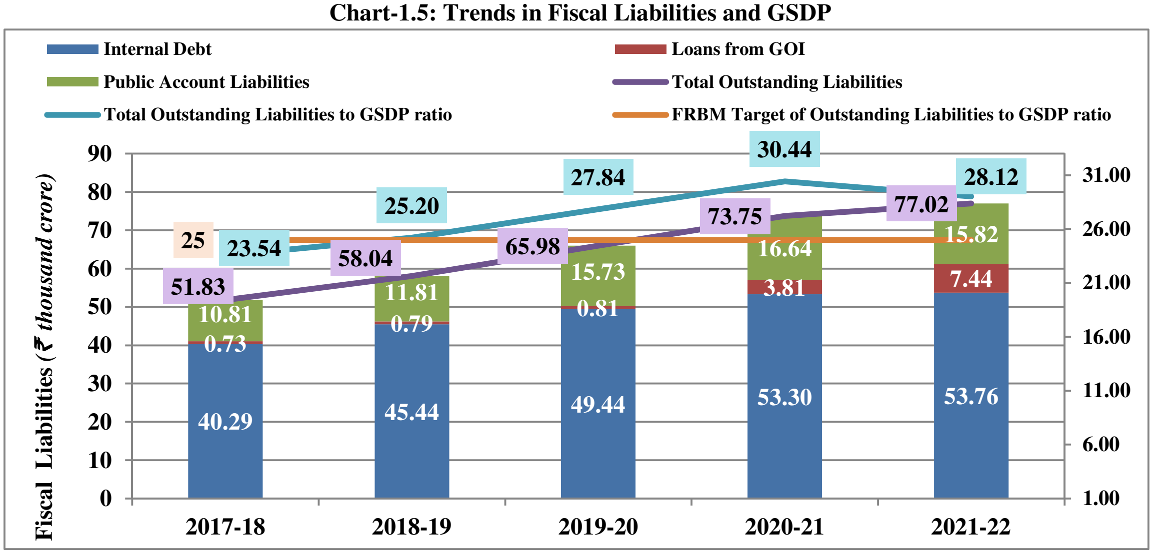
Source: Finance Accounts.

Chart-1.4: Trends in Deficit relative to GSDP



Source: Finance Accounts.

Chart-1.5: Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts.

As can be seen from the graph above, total Outstanding Liabilities grew by 48.61 *per cent* during the past five years and was above FRBM target during the last four years.

1.6 Deficits and Total Debt after Examination in Audit

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.

1.6.1 Post Audit - Deficits

Misclassification of revenue expenditure as capital and off budget fiscal operations impacts deficit figures. Besides, deferment of clear-cut liabilities, 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 impact of such irregularities was analysed and depicted in the **Table-1.6** below:

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

(₹ in crore)

Particulars	Impact on Revenue Surplus {Understated (+)/ overstated (-)}	Impact on Fiscal Deficit {Understated (+)/ overstated (-)}	Para Reference
Deferment of clear-cut liabilities to next financial year	(-) 182.28	(+) 182.28	4.2
Non-Transfer of Guarantee Commission fee to Public Account	(-) 1.87	(+) 1.87	2.8.2.3
Major works booked under Revenue section instead of Capital	(+) 19.64	0	2.6.3.2 (iv)
Grants-in-Aid booked under Capital section instead of Revenue	(-) 25.57	0	2.6.3.2 (iv)
Non discharge of Interest liabilities against Reserve Funds and Deposit and Advances	(-) 156.49	(+) 156.49	4.3
Over Contribution Towards NPS	(+) 38.05	(-) 38.05	2.6.2.3
Non-accounting of Central Road Fund	(-) 98.80	(-) 131.66	4.10 (C)
Non-Transfer of Green Energy Cess to Green Energy Fund	(-) 72.00	(+) 72.00	5(B) (v) of NTA
Total	***(-) 479.32***	***(+) 242.93***	

Source: Finance Accounts and audit analysis.

After considering all the factors mentioned above, the Revenue Surplus would decrease from ₹ 4,128 crore to ₹ 3,649 crore and Fiscal Deficit would increase from ₹ 3,736 crore to ₹ 3,979 crore (1.58 *per cent* of GSDP), which would still be within mandated target of FRBM act, 2005 (amended in 2020).

During the exit conference the Finance Department stated that these matters will be worked out and compliance would be made during current year 2022-23. Further, he also stated that corrective measures for booking of Major works under Revenue and Grants-in-aid under Capital Section will be taken for the year 2023-24.

1.6.2 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 recognized 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).

Recently 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[2], which the Government has to repay or service from the AFS, reduced by cash balance at the end of that date'.

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.

1.7 Conclusions

- The State had a Revenue Deficit of ₹ 1,978 crore in 2017-18 which slightly improved in 2018-19 to ₹ 980 crore. The Revenue Deficit further deteriorated in 2019-20 and was ₹ 2,136 crore. During 2020-21 Revenue Deficit improved to Revenue Surplus of ₹ 1,114 crore. During the current year Revenue Surplus was ₹ 4,128 crore (1.63 *per cent* of GSDP). Revenue Surplus was overstated by ₹ 479 crore (11.60 *per cent*) on account of the deferred liability, misclassification between Revenue and Capital Expenditure, non-transfer of interest liability, *etc*.

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2 As per UKFRBM act, total outstanding debt/liabilities to include only liabilities upon the Consolidated Fund and Public Account of the State.

- During the current year, the fiscal deficit at ₹ 3,736 crore (1.47 *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 2020-21. During the year, the Fiscal Deficit improved on account of Revenue Surplus. Fiscal Deficit was understated by ₹ 243 crore (6.50 *per cent*), on account of deferred liability, non-transfer of interest liability, *etc*.

1.8 Recommendations

- ***The Uttarakhand Government has a Revenue Surplus during the current year (2021-22) and needs to sustain the same in coming years. It may take appropriate steps in discharging its current liabilities and not defer these so that the correct financial position is depicted. Provision of interest on Reserves and Deposits, bearing interest, should be made by the State Government.***