

EXECUTIVE SUMMARY

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.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 10.10 *per cent* from ₹ 5,27,976 crore in 2018-19 to ₹ 7,51,396 crore in 2022-23. Budget Outlay (Expenditure) of the State grew from ₹ 1,60,317.66 crore in 2018-19 to ₹ 2,35,176.84 crore in 2022-23.

There was 15.55 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 08.75 *per cent* and the percentage of revenue receipts over GSDP fell from 24.42 *per cent* in 2021-22 to 22.98 *per cent* in 2022-23. The tax revenue increased by 10.55 *per cent* during the period and the State's own tax revenue increased by 26.29 *per cent* over the year 2021-22. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Bihar increased from ₹ 1,84,377 crore in 2021-22 to ₹ 2,17,553 crore in 2022-23, increasing by 17.99 *per cent*. Of this, revenue expenditure showed 15.55 *per cent* increase from 2021-22. Revenue deficit increased from ₹ 422.38 crore to ₹ 11,288.20 crore registering 2,572.52 *per cent* increase over 2021-22, while fiscal deficit increased from ₹ 25,551.26 crore in 2021-22 to ₹ 44,823.30 crore in 2022-23 increasing by 75.43 *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 accounts as well as capital expenditure (assets creation, loans and advances, investments, *etc.*).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 1,31,794 crore to ₹ 1,72,688 crore, with an average annual growth rate of 8.46 *per cent*. Capital receipts also increased from ₹ 20,493 crore to ₹ 48,325 crore during this period. The share of Grants-in-aid in revenue receipts decreased from 18.70 *per cent* in 2018-19 to 16.81 *per cent* in 2022-23. The State Government received ₹ 22,237.18 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 2018-19 and 2022-23, revenue expenditure increased from ₹ 1,24,897 crore (23.66 per cent of GSDP) to ₹ 1,83,976 crore (24.48 per cent of GSDP). It consistently made up a significant portion (84.57 per cent to 90.67 per cent) of the total expenditure during this period, growing at an average annual rate of 12.60 per cent.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue surplus State of Bihar has gradually decreased to revenue deficit of ₹ 11,288 crore ((-)1.50 per cent of GSDP) in the current year from ₹ 6,896.64 crore (1.31 per cent of GSDP) in the year 2018-19.

The State Government spent ₹ 31,520 crore on capital accounts. This was 14.49 per cent of the total expenditure in the year 2022-23. Capital expenditure was 24.26 per cent of the total borrowings. Thus, the rest of the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of 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 increased to ₹ 44,823.30 crore (5.97 per cent of GSDP) in 2022-23 from ₹ 13,806.76 crore (2.62 per cent of GSDP) in 2018-19.

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 34.30 per cent to 38.66 per cent of revenue expenditure during 2018-19 (36.85 per cent) and 2022-2023 (34.30 per cent). The Committed expenditure increased at an average rate of 9.0 per cent i.e., from ₹ 46,021.46 crore in 2018-19 to ₹ 63,107.43 crore in 2022-23 {an increase of 9.55 per cent over 2021-22 (₹ 57,604.03 crore)} but has declined during the last two years.

Subsidies constitute major portion of the non-committed expenditure

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 8,323.97 crore in 2018-2019 to ₹ 14,827.79 crore in 2022-23 i.e., from 6.66 per cent of the total revenue expenditure in 2018-19 to 8.06 per cent in 2022-23. Power subsidies constituted a significant portion, ranging from 68.92 per cent to 82.43 per cent of the total subsidies during this period.

Off-Budget borrowings

The State Government, through a Public Sector Undertaking, raised ₹ 686.77 crore as Off-Budget borrowings, which did not flow into the Consolidated Fund of the State but is required to be repaid and serviced through budget.

Contingent Liabilities on account of Guarantees

Up to the financial year 2022-23, the Government provided guarantees against borrowings including interest of ₹ 25,939.25 crore. They ranged from 4.17 per cent to 15.79 per cent of the State's revenue receipts and from 0.94 per cent to 3.86 per cent of GSDP, during the last five years.

Keeping in view the Central Finance Commission Report and, the Fiscal Responsibility and Budget Management (FRBM) Review Committee Report recommendations, Bihar has exceeded the limit and recorded more than the limit of 0.5 *per cent* of its GSDP during the period of last five years. In the year 2022-23, outstanding guarantees were 3.45 *per cent* of GSDP. GoB provided guarantees to its entities, but no fees was paid by the beneficiaries. This resulted not only in short collection of revenue, but also violation of Indian Government Accounting Standard-1 (IGAS-1).

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.*

Bihar Fiscal Responsibility and Budget Management (BFRBM) requirements and compliance with fiscal parameters

The BFRBM Act prescribes certain limits within which revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be. In 2022-23, the State has incurred revenue deficit against the target of revenue surplus; fiscal deficit was 5.97 *per cent* as against the limit of four *per cent* and debt was 39.03 *per cent* as against limit of 40.80 *per cent*.

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 39.13 *per cent* of the GSDP.

As per the debt stabilization analysis, the public debt of the Government of Bihar has grown on an average at a rate of 16.23 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. The public debt-GSDP ratio of Bihar has increased from 23.89 *per cent* in 2018-19 to 32.32 *per cent* in 2022-23, which indicates entailing risk in debt stabilization.

Bihar has been a primary deficit State for the period 2018-19 to 2022-23. The Domar gap (g-r) was positive during the entire period from 2018-19 to 2022-23 except 2020-21. Considering the debt sustainability conditions under the Domar model, the fiscal liabilities of the State Government satisfied the condition of debt sustainability ($g-r > 0$), except in 2020-21. The Domar gap (g-r) has registered a rising trend in last two years, after the Covid-19 period, where the Domar gap was negative (in 2020-21).

During the years 2021-22 and 2022-23, though the Domar gap (expressed as g-r) was positive, and its value also increased from the preceding years, the primary deficit was not stable and increased by more than twice in 2022-23, over the previous year. Further, a substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 68.82 *per cent* and 83.55 *per cent* during the period 2018-2023.

Budget performance

Aggregate expenditure outturn (Expenditure in relation to Budget Estimate)

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 savings. In the Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 2.46 per cent. This was due to deviation between 0 and ± 25 per cent in 32 grants, between more than $(\pm)25$ per cent and $(\pm)50$ per cent in 15 grants; and between more than $(\pm)50$ per cent and $(\pm)100$ per cent in three grants. In the Capital section, deviation in outturn compared with BE was (+) 4.84 per cent. This was due to deviation between 0 and $(\pm)25$ per cent in seven grants, between more than $(\pm)25$ per cent and $(\pm)50$ per cent in eight grants; and between more than $(\pm)50$ per cent and $(\pm)100$ per cent in nine grants and equal to or more than 100 per cent in five grants. No provisions were made in respect of 19 grants of the Capital section.

Expenditure composition outturn (Expenditure in relation to Revised Estimate)

Budget performance also looks at the extent to which the re-allocation between the Budget estimate (BE) budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the Revised Estimate (RE) and the actual expenditure. In the Revenue section, deviation in outturn compared with Revised Estimates (RE) was (-) 19.85 per cent. This was due to deviation between 0 and ± 25 per cent in 31 grants, between more than ± 25 per cent and ± 50 per cent in 15 grants and between more than ± 50 per cent and ± 100 per cent in four grants. In the Capital section, deviation in outturn compared with RE was (-) 14.58 per cent. This was due to deviation between 0 and ± 25 per cent in 11 grants, between more than $(\pm) 25$ per cent and $(\pm)50$ per cent in eight grants, between more than $(\pm)50$ per cent and $(\pm)100$ per cent in nine grants and equal to or more than 100 per cent in one grant.

The Outturn against the Total Budget measures the extent to which the original budget categories supplemented during execution have contributed to variance in expenditure composition.

In the Revenue section, the deviation in outturn, compared with the Total Budget, was (-) 21.65 per cent. This was due to deviation between 0 and ± 25 per cent in 30 grants, between more than ± 25 per cent and ± 50 per cent in 16 grants, between more than ± 50 per cent and ± 100 per cent in four grants.

In the Capital section, deviation in outturn, compared with the Total Budget was (-)23.57 per cent. This was due to deviation between 0 and ± 25 per cent in 12 grants, between more than ± 25 per cent and ± 50 per cent in nine grants, between more than ± 50 per cent and ± 100 per cent in eight grants.

It was noticed that supplementary provisions of ₹ 18,491.79 crore during the year 2022-23 in 22 cases (more than ₹ 100 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, as well as between the actual expenditure and the total budget were more than 22 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 needs 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-discharging of liabilities and misclassification of transactions and data gaps.

Reconciliation

As per Para 96 of the Bihar Budget Manual, 2016, the controlling officers are required to reconcile their monthly/quarterly figures with those recorded in the books of the Accountant General. The State Government did not reconcile 17.11 per cent of total receipts and 24.23 per cent of the total expenditure.

Compliance with Indian Government Accounting Standards (IGAS)

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make compliance with IGAS-1: Guarantees given by the Government, IGAS-2: Accounting and classification of Grants-in-Aid (GIA), and IGAS-3: Loans and Advances, made by the Government.

Operation of Personal Deposit (PD) Accounts

The Government has not migrated 05 PD Accounts with a combined balance of ₹ 1.54 crore, to Comprehensive Financial Management System (CFMS).

Funds to Single Nodal Agency (SNA)

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 the Finance Accounts 2022-23, the State Government had received ₹ 22,481.46 crore during 2022-23, in its Treasury Accounts. As on 31 March 2023, the Govt. had transferred Central share of ₹ 22,231.91 crore, received in the Treasury Accounts and State Share of ₹ 14,190.40 crore, to the SNAs. However, as per Public Financial Management System (PFMS), GoI had released ₹ 24,398.36 crore for CSS under Single Nodal Account. Out of the total transfer of ₹ 36,422.31 crore, ₹ 745.69 crore had been transferred through Abstract Contingent (AC) Bills,

₹ 52.99 crore through Bills for Scholarships and Stipends, ₹ 5,996.11 crore through Fully Vouched Contingent Bills and ₹ 29,627.52 crore through GIA bills, which was against the directions of GoI.

Utilisation Certificates (UCs)

Despite the requirement of submitting Utilisation Certificates (UCs) within a stipulated time period, 41755 outstanding UCs of ₹ 87,947.88 crore were not received by Accountant General (Accounts & Entitlements), Bihar, as on 31st March 2023.

Detailed Contingent (DC) bills against Abstract Contingent (AC) bills

Despite requirement of submitting Detailed Contingent (DC) Bills against the advance money withdrawn through Abstract Contingent (AC) Bills, 27392 AC bills of ₹ 7,489.05 crore were pending for submission of DC bills as on 31st March 2023, out of which 26574 AC Bills amounting to ₹ 6,450.17 crore pertained to the period upto 2021-22.

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 grants; non-submission of DC bills against AC bills; non-compliance with IGAS; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.

Working of State Public Sector Enterprises (SPSEs)

As on 31 March 2023, there were 76 State Public Sector Enterprises (SPSEs) in Bihar, including three Statutory Corporations and 69 Government Companies (including 39 inactive Government Companies) and four Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 59 SPSEs whose 1133 accounts were in arrears. Out of the total profit of ₹ 317.65 crore earned by 16 working SPSEs, 57.84 per cent was contributed by three SPSEs only. Out of total loss of ₹ 2,847.74 crore incurred by 15 working SPSEs, loss of ₹ 2,798.28 crore was incurred by five SPSEs. The financial impact of CAG's comments issued during August 2022 to July 2023 on financial statements of SPSEs was ₹ 568.65 crore on profitability and ₹ 4,154.13 crore on the financial position.

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.
