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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 10.84 *per cent* from ₹ 29,813 crore in 2019-20 to ₹ 44,995 crore in 2023-24. Budget Outlay of the State grew at a Compounded Annual Growth Rate (CAGR) of 16.66 *per cent* from ₹ 20,961.51 crore in 2019-20 to ₹ 38,819.61 crore in 2023-24.

There was 11.81 *per cent* growth in GSDP from ₹ 40,243 crore in 2022-23 to ₹ 44,995 crore in 2023-24. The revenue receipts decreased by 7.47 *per cent* and the percentage of revenue receipts over GSDP decreased from 39.49 *per cent* in 2022-23 to 32.68 *per cent* in 2023-24. The tax revenue increased by 7.48 *per cent* during the period and the State's own tax revenue decreased by 34.50 *per cent* in 2023-24. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State decreased from ₹ 17,650.80 in 2022-23 to ₹ 16,570.59 crore in 2023-24, decreasing by 6.12 *per cent*. Of this, revenue expenditure showed a 2.38 *per cent* decrease from 2022-23. Revenue Surplus decreased from ₹ 1,734.17 to ₹ 884.42 crore registering 49.00 *per cent* decrease over 2022-23, while fiscal deficit increased from ₹ 1,756.55 crore in 2022-23 to ₹ 1,863.34 crore in 2023-24, increasing by 6.08 *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 8.32 *per cent* from ₹ 10,684.16 crore to ₹ 14,706.17 crore. Capital receipts also increased from ₹ 1,209.42 crore to ₹ 2,534.93 crore with a CAGR of 20.32 *per cent* during this period.

The share of Grants-in-aid in revenue receipts fell from 49.61 *per cent* in 2019-20 to 35.26 *per cent* in 2023-24 at CAGR of -0.55 *per cent*, indicating decrease in reliance on support from the Government of India. The State Government received ₹ 2,641.62 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 ₹ 10,238.63 crore (34.34 *per cent* of GSDP) to ₹ 13,821.75 crore (30.72 *per cent* of GSDP). It consistently made up a significant portion (80 to 90 *per cent*) of the total expenditure during this period, growing at a CAGR of 7.79 *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 ₹ 884.42 crore (1.97 *per cent* of GSDP) in the current year from ₹ 445.53 crore (1.49 *per cent* of GSDP) in the year 2019-20.

The State Government spent ₹ 2,748.59 crore only on capital account. This was 16.59 *per cent* of the total expenditure in the year 2023-24. Capital expenditure was just 28.17 *per cent* of the total borrowings which indicated that the borrowed funds were 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 increased to ₹ 1,863.34 crore (4.14 *per cent* of GSDP) in 2023-24 from ₹ 708.91 crore (2.38 *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 57-65 *per cent* of revenue expenditure during 2019-20 to 2023-24. The Committed expenditure grew at CAGR of 9.53 *per cent* from ₹ 6,262.69 crore in 2019-20 to ₹ 9,012.53 crore in 2023-24 {a decrease of 0.80 *per cent* over 2022-23 (₹ 9,085.51 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 9.11 *per cent* to 6.90 *per cent* of revenue expenditure during 2019-20 to 2023-24, indicating a declining trend. However, in absolute terms, inflexible expenditure increased from ₹ 539.47 crore in 2022-23 to ₹ 953.06 crore in 2023-24 registering an increase of 76.67 *per cent*. Inflexible expenditure increased at a CAGR of 0.55 *per cent* during 2019-20 to 2023-24.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹ 9,965.59 crore, 72.10 *per cent* of the revenue expenditure. High committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

### *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 Public Financial Management System (PFMS) portal, during 2023-24, the State Government transferred ₹ 2,295.13 crore to the Single Nodal Account. The whole amount was transferred through Abstract Contingent bills. As on 31 March 2024, an amount of ₹ 619.46 crore, including both Central and State shares, were parked in SNA bank account.

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

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 120.11 crore in 2019-20 to ₹ 358.24 crore in 2023-24 i.e., from 1.17 *per cent* of the total revenue expenditure in 2019-20 to 2.59 *per cent* in 2023-24. The Compound Annual Growth Rate (CAGR) in respect of Subsidies was 0.01 *per cent* during the period 2019-24.

### *Off-budget borrowings*

The State Government, through Public Sector Undertakings, raised ₹ 153.07 crore as off-budget borrowings, which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget. In 2022-23, the State Government provided assistance / grants in aid of ₹ 43.01 crore for repayment (Principal: ₹ 13.08 crore and Interest ₹ 29.93 crore) and servicing of the off-budget borrowings.

### *Contingent Liabilities on account of Guarantees*

In 2023-24, the State Government issued fresh guarantees of ₹ 305.40 crore to Urban Development and Housing (₹ 96.00 crore), Power Sector (₹ 133.43 crore) and Manipur Police Housing Corporation MPHC (₹ 75.97 crore). There was an outstanding guarantee of ₹ 1,482.56 crore as on 31 March 2024. The State Government was yet to collect ₹ 3.05 crore as guarantee commission for the fresh guarantee given in 2023-24.

### *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 1.97 *per cent* of GSDP (₹ 44,995); fiscal deficit was 4.14 *per cent* of GSDP as against the limit of 3 *per cent*; total outstanding liability was 41.94 *per cent* of GSDP (MFRBM Act has not provided the targets after 2014-15).

Debt/GSDP (*per cent*) has fluctuated over the five-year period and is currently on the decline from 42.61 *per cent* in 2022-23 to 41.94 *per cent* in 2023-24 indicating that debt sustainability is more stable compared to the previous year.

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 would be 42.28 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

A primary deficit can be seen from 2019-20 to 2023-24 and hence, it becomes evident that depending solely on economic growth would not suffice to cover the debt obligations of the State. The State generally maintained sustainable debt practices as the Growth Interest Differential (GID) is positive in four out of five years during 2019-24. It shows that the real growth exceeded the real effective interest rate in four years except during the year 2020-21.

### *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 were (-) 32.59 *per cent* more than expenditure outturn. This was due to deviation between 0 and  $\pm 25$  *per cent* in 11 Grants and 01 Appropriation, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 20 Grants and 02 Appropriations and between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in 18 Grants and equal to or more than 100 *per cent* in 01 Grant.

In Capital section, Budget Estimates was (-) 25.64 *per cent* more than expenditure outturn. This was due to deviation between 0 and  $\pm 25$  *per cent* in 02 Grants, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 02 Grants, between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in 19 Grants and 01 Appropriation and equal to 100 *per cent* in 15 Grants.

#### *Expenditure composition outturn*

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution has 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 (-) 26.47 *per cent* more than revised estimates. This was due to deviation between 0 and  $\pm 25$  *per cent* in 18 Grants and 01 Appropriation, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 18 Grants and 02 Appropriations, between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in 14 Grants.

In Capital section, expenditure outturn was (-) 21.90 *per cent* more than revised estimates. This was due to deviation between 0 and  $\pm 25$  *per cent* in 08 Grants and 01 Appropriation, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 05 Grants, between  $\pm 50$  *per cent* and  $\pm 100$  *per cent* in 25 Grants and equal to 100 *per cent* in 11 Grants.

It was noticed that supplementary provision of ₹ 426.04 crore during the year 2023-24 in 9 cases under 9 Grants (more than ₹ 10 crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provision.

#### *Regularization of Excess Expenditure 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 ₹ 11,205,82 crore under Appropriation No. 2 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 ₹ 1,509.24 crore under one Grant and one Appropriation which also requires regularisation.

*Excess of expenditure over budgetary provisions under different grants is a serious lapse of budget rules and dilutes legislative approval over budgets. Departments which had incurred excess expenditure persistently should be identified to closely monitor their progressive expenditure and to seek supplementary grants/re-appropriations in time.*

#### *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 73.59 *per cent* of the total expenditure and 95.03 *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 partly 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 the Government.**

*Utilisation Certificates against conditional grants*

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 6,599 outstanding UCs of ₹ 15,086.85 crore were pending as on 31 March 2024. Non-submission of UCs is fraught with the risk of misappropriation of funds and frauds.

*Detailed Countersigned Contingency (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, 1,917 AC bills of ₹ 7,379.84 crore were pending for submission of DCC bills as on 31 March 2024, out of which 1,645 AC Bills amounting to ₹ 5,257.59 crore pertained to the period up-to 2022-23. Non-submission of DCC within prescribed time breaches financial discipline and entails risks of misappropriation of public money and unhealthy practices.

*Funds outside Government Account*

A test-check of records revealed that in respect of 152 Drawing and Disbursing Officers (DDOs), funds amounting to ₹ 155.80 crore in 226 current/savings bank accounts which pertain to non-salary payments were parked in Commercial/Nationalised Banks which is in contravention of the order of Finance Department.

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