

Executive Summary

Background

This Report on the Finances of the Government of Tripura is being brought out with a view to assess objectively the financial performance of the State during the year 2010-11. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in Fiscal Responsibility and Budget Management Act, 2005 as well as in the Budget estimates of 2010-11. A comparison has been made to see whether the State had given adequate fiscal priority to developmental, social sector and capital expenditure and whether the expenditure had been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over five years since the FRBM legislation and has published five Reports already. Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to centre-stage once again, a stand-alone Report on State Government finances was considered as an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances". This Report is the third in this endeavour.

The Report

Based on the audited accounts of the Government of Tripura for the year ending March 2011, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Government of Tripura's fiscal position as on 31 March 2011. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route.

Chapter II is based on audit of Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of Tripura Government's compliance with various reporting requirements and financial rules. This chapter also provides details on non-

submission of annual accounts and also delays in placement of Separate Audit Reports in the Legislature by the Autonomous Bodies. Besides, cases of misappropriation and losses that indicate inadequacy of controls in the Government departments are also detailed in this chapter.

The report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit etc. indicated that the State had maintained revenue and primary surplus during the TFC award period i.e. 2005-10 (in 2009-10, the State had witnessed primary deficit). During the current year, there was a considerable improvement in revenue surplus, and the State managed to minimise fiscal deficit and also managed to turn around the primary deficit into primary surplus.

Revenue Receipts

During 2010-11, 85 *per cent* of the total revenue was from the Government of India as State share of central taxes (21 *per cent*) and Grants-in-aid (64 *per cent*). The Own Tax Revenue of the State constituted 12 *per cent* of the total revenue receipts. The OTR during 2010-11 remained a little above the normative assessment (by 4 *per cent*) made by the Thirteenth Finance Commission (XIII FC) for the State but remained lower (by 7 *per cent*) than the State's own projections. The non-tax revenue constituted 3 *per cent* of the total revenue receipts which was higher than both the XIII FC projection (by 2 *per cent*) and State's own projections (by 1 *per cent*).

The State Government should make efforts to increase tax compliance so that deficits are contained. Ensuring that the Government of India releases all grants due to the State by timely action on all conditionalities that are pre-requisites to the release would also increase the total receipts of the State.

Revenue Expenditure

During 2010-11, the Revenue expenditure stood at ₹ 4,359.48 crore (80.45 *per cent* of the total expenditure) and grew by ₹ 145.69 crore over the previous year. The capital expenditure during 2010-11 was ₹ 1,058.33 crore (19.53 *per cent* of the total expenditure), a decline of ₹ 273.89 crore over the previous year.

During 2010-11, the development expenditure (₹ 3,277.84 crore) decreased by ₹ 103.16 crore over the previous year and was much below the Budget Estimate (₹ 3,703.41 crore) for 2010-11. The relative share of the revenue development expenditure was 43.29 *per cent* of the total expenditure while this share in respect of capital development expenditure was only 17.20 *per cent*. The expenditure pattern of the State, thus, revealed that there was an increasing pressure on revenue expenditure as there was a decrease in capital expenditure during 2010-11.

The expenditure on non-plan salary and wage component during 2010-11 was also

significantly higher by ₹ 346.50 crore (around 23 *per cent*) than the assessment made by the XIII FC for the State (₹ 1505.05 crore).

The high proportion of salaries to total revenue expenditure much beyond the assessment of the XIII FC may impact on the State's finances as the State's own resources are meagre.

Fiscal Correction Path

During 2010-11, the state witnessed a significant growth in revenue surplus which stood at ₹ 809.12 crore and the fiscal deficit (₹ 247.37 crore) decreased by 79 *per cent* over the previous year. The State could also achieve the fiscal deficit target of 3.5 *per cent* of GSDP as prescribed in the TFRBM Act, 2005 for the year 2010-11, which stood at 1.52 *per cent* of GSDP.

Keeping in view the recommendations of the Thirteenth Finance Commission, the State should refix the targets as per the XIII FC requirements to enable the State to sustain its progress.

Fiscal liabilities

The percentage of fiscal liabilities to GSDP during 2010-11 was 39.58, which was within the projection in the Fiscal Indicator (42.37 *per cent*) in the Medium Term Fiscal Policy Statement (MTFPS), and was also less than the projection (45.20 *per cent*) made in the TFRBM Act. During 2010-11, interest receipts, as percentage of outstanding loans and advances was 1.18 whereas interest paid by the Government as percentage to outstanding liabilities was 6.92.

Investment and Returns

Investment of Government money in Government Companies and Statutory Corporations are increasing year after year, but a very negligible return of ₹ 0.13 crore from this investment had been received by the Government during 2010-11.

A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and analyse whether it is justified to invest high cost borrowings in these Companies.

Debt sustainability

The State had managed to achieve the debt-GSDP ratio target of 45.20 *per cent* during 2010-11, as set out in TFRBM Act as well as the target fixed in the Thirteenth Finance Commission.

Fiscal discipline

Consequent upon the implementation of the Thirteenth Finance Commission, the fiscal discipline is assessed mainly on the amendment of the Fiscal Reforms Legislations(FRL) by the States which had already enacted their respective FRLs and adherence to parameters prescribed therein. Tripura had enacted TFRBM Act long

back in 2005, and has also amended it in 2010-11 with reference to XIII Finance Commission. The pattern of transfers through the Finance Commission channel shows that the share in central taxes had persistently been the predominant component of revenue receipts. The contribution of Tripura's own tax revenue to the overall revenue account of Tripura also remained relatively low.

The tax compliances and realisations of arrears of revenue should be strengthened and capital expenditure increased particularly in development sector. Tripura should also continue to strive to remain revenue surplus as it results into minimising the Fiscal Deficit-GSDP ratio.

Financial Management and Budgetary Control

There was an overall saving of ₹ 1,758.80 crore and excess expenditure of ₹ 20.62 crore against 56 grants/appropriations during 2010-11. The excess expenditure of ₹ 1,310.53 crore up to 2009-10 increased to ₹ 1,331.15 crore in 2010-11. This excess requires regularisation by the Legislature under Article 205 of the Constitution of India.

A rush of expenditure was also observed towards the end of the year. In respect of 3 grants/appropriations, more than 50 *per cent* of the total expenditure during the year was incurred in the last month of the financial year.

The Abstract Contingent Bills amounting to ₹ 147.74 crore were not adjusted for long periods and therefore, were fraught with the risk of mis-appropriation.

As per financial rules, the spending departments are required to surrender the anticipated savings to the Finance Department. The Department should follow more reliable mechanism in budgeting to avoid persistent savings or excess. A close and rigorous monitoring mechanism should be put in place by the DDOs to adjust the Abstract Contingent Bills within sixty days from the date of drawal of the amount as required under the extant Rules.

Financial Reporting

The UCs for an amount of ₹ 259.80 crore for the year 2010-11 and UCs (250) for ₹ 0.27 crore pertaining to the year 2009-10 were awaited. There were delays in placement of Separate Audit Reports to Legislature and huge arrears in finalisation of accounts by the Autonomous Bodies/Authorities were also noticed. Besides, there were cases of misappropriation and losses which indicated inadequacy of controls in the departments.

The practice of non-furnishing of Utilisation Certificates in time against grants received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of accounts in time revealed the non-compliance of the financial rules. There is a need to ensure that the audit reports of the Autonomous Bodies are placed in the legislature on time.

Tripura's strength and weakness in terms of State Finances

GEOGRAPHICAL AS WELL AS ECONOMICAL STRENGTH AND WEAKNESS

Weakness

- Tripura is a land-locked border area State and has constraints like low resource base, under developed infrastructure, low levels of investment, geographical isolation, insurgency problems etc.

Strength

- Though more than 50 *per cent* of the population of the State are dependent on agriculture for earning their livelihood, yet the contribution of agriculture to GSDP is just 20 *per cent* which is higher than the All India contribution of Agriculture to GDP (15.70 *per cent*).
- Tripura had enacted FRL way back in 2005 and during 2010-11, the performance of State remains largely satisfactory in terms of the targets fixed in the FRBM Act, 2005. Tripura had achieved 3 out of 4 targets in 2010-11 as set out in the FRBM targets. The TFRBM Act had been amended in 2010-11 and the targets were revised in view of the XIII FC recommendation.

REVENUE RECEIPTS STRENGTH AND WEAKNESS

Strength

- The collection of revenue receipts had increased to 17 *per cent* during 2010-11 from 8 *per cent* in 2009-10. The OTR as well as the NTR had also increased by 18.09 *per cent* and 5.09 *per cent* respectively during the current year. The percentage of OTR and NTR to revenue receipts stood at 12.04 *per cent* and 2.55 *per cent* respectively. The major portion of revenue receipts came from Grants-in-aid which was about 64 *per cent*.
- Tripura had witnessed Revenue Surplus for the last four years and during 2010-11, the Revenue Surplus stood at ₹ 809.12 crore which increased by 331.39 *per cent* over the previous year. Tripura had a primary deficit in 2009-10, which turned into primary surplus during 2010-11.

Weakness

- The collection of State's own tax revenue (₹ 622.34 crore) and non-tax revenue (₹ 131.79 crore) is less than the Revised Estimates by 0.66 *per cent* and 0.95 *per cent* respectively and consequently, the percentage of State's own tax revenue receipt to total revenue receipts remained almost static (12 *per cent*) in 2010-11.
- The tax-GSDP ratio during 2010-11 stood at 3.81 *per cent* as against 5 *per cent* fixed by the Government of Tripura and the arrears of revenue at the end of September 2011 stood at ₹ 23.23 crore.
- The State had persistently been suffering from fiscal deficit since 2007-08. During 2010-11, the fiscal deficit stood at ₹ 247.37 crore which as a percentage to GSDP was 1.52 and was well within the FRBM target of 3.5 *per cent*.

EXPENDITURE OF THE STATE – STRENGTH AND WEAKNESS

Weakness

- The expenditure on collection of Stamps and Registration Fees and Taxes on Vehicles were much higher as compared to the All India average cost of collections during 2010-11 (3 *per cent* and 4 *per cent* respectively).
- The expenditure on non-plan salary and wage component during 2010-11 was also significantly higher by ₹ 346.50 crore (around 23 *per cent*) over the assessment made by the XIII FC for the State (₹ 1505.05 crore).
- As the Government of Tripura had neither availed any loans and advances from GOI nor from market, yet the expenditure on interest payment was 8.65 *per cent* of the RR (XIII FC norm: 15 *per cent*) which needs to be minimized.
- The expenditure on development sector during 2010-11 was ₹ 3278.68 crore which was on an decreasing trend as compared to previous year (around 4 *per cent*).
- During 2010-11, there had been no growth in Capital expenditure which decreased by 20.56 *per cent* over the previous year.

Strength

- The Burden of Interest payment (IP/RR ratio) during 2010-11 was less by 6.78 *per cent* over the previous year.

DEBT POSITION – STRENGTH AND WEAKNESS

Strength

- The debt-GSDP ratio during 2010-11 was 39.58 *per cent* against the FRBM target of 40 *per cent*.
- The Debt of the State was stable during the last three years except 2009-10 as the quantum spread + primary surplus remained positive.

Weakness

- The State Government during 2010-11 borrowed from the financial institutions at an average interest rate of 8 *per cent* while the interest earned on investment in Government treasury bills was only 5.50 *per cent*.
- The outstanding fiscal liabilities during 2010-11 was higher than that of previous year by 10.77 *per cent* which, as a percentage to GSDP, stood at 39.20 *per cent* and if this be the case, the State would not be able to achieve the target of 25 *per cent* at the end of 2014-15 as set out by the XIII FC.

INVESTMENT – STRENGTH AND WEAKNESS

Strength

- Against investment of ₹ 73.29 crore in Tripura State Electricity Corporation Limited, the Power Department registered a profit of ₹ 8.81 crore during 2010-11.
- An amount of ₹ 12.76 lakh was received in respect of one Government Company (TIDCL) as dividend against the total investment of ₹ 16.91 crore at the end of the year 2010-11. As per the latest finalised accounts, seven companies out of 12 had been marked as profit earning.

Weakness

- During 2010-11, the Government invested ₹ 102.41 crore in Government companies, corporations etc. The return from investment was just ₹ 0.13 crore which was just 0.01 *per cent* of the total investment.