EXECUTIVE SUMMARY

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Fiscal situation of the State

Revenue receipts: During 2018-19, the revenue receipts grew by 18.77 *per cent* over 2017-18. Buoyancy of revenue receipts with reference to GSDP increased from 0.35 (2017-18) to 1.36 (2018-19).

(Paragraphs 1.1.1 and 1.3)

Revenue expenditure: The revenue expenditure during 2018-19 grew by 17.47 *per cent*. However, as a percentage of GSDP, the revenue expenditure increased marginally from 11.48 in 2017-18 to 11.85 in 2018-19. The buoyancy of the revenue expenditure with reference to revenue receipts decreased from 2.22 in 2017-18 to 0.93 during 2018-19.

(Paragraphs 1.1.1 and 1.6.2)

Fiscal imbalance: The revenue deficit increased from ₹ 6,408 crore in 2014-15 (0.60 *per cent* of GSDP) to ₹ 23,459 crore (1.41 *per cent* of GSDP) in 2018-19. During 2018-19, though the State could contain its revenue deficit within the target proposed in the MTFP (₹ 25,335 crore), it failed to achieve the target proposed in the budget (₹ 17,491 crore) and exceeded target proposed in the budget estimate by 34.12 *per cent.*

The increasing trend in Revenue Deficit over the past five years is indicative of the fact that the State would not be able to adhere to the TNFR target of eliminating revenue deficit by 2019-20.

The primary deficit increased from ₹ 13,828 crore (0.95 *per cent* of GSDP) in 2017-18 to ₹ 18,578 crore (1.12 *per cent* of GSDP) in 2018-19.

The fiscal deficit of ₹ 39,840 crore during 2017-18, increased to ₹ 47,335 crore in 2018-19. However, the State could contain the fiscal deficit at 2.84 *per cent* of GSDP, well within the ceiling of three *per cent* of GSDP as envisaged under the TNFR Act, 2003 and Fourteenth Finance Commission (FFC), but marginally exceeded the target proposed in the Budget (2.79 *per cent*).

The high fiscal deficit of ₹ 47,335 crore as against the capital expenditure of only ₹ 24,311 crore is indicative of the fact that the borrowing during the year was utilised for financing the revenue expenditure, thereby according lower priority to the capital expenditure.

Audit findings: There were short transfers totaling to ₹ 1,366 crore towards various reserve funds (includes Sinking Fund and Guarantee Redemption Fund) and defined contributory pension scheme. Further, interest receipts of ₹ 2,461 crore towards capitalization of interest dues from certain loanee institutions, rectifications of (-) ₹ 80 crore due to misclassifications and write off of central loan of ₹ 9 crore were brought into accounts through book adjustments. The net book adjustments in addition to the short transfers resulted in understatement of Revenue and Fiscal Deficits to that extent. If the short transfers and book adjustments are taken into account, the revenue and fiscal deficit would be 1.64 *per cent* and 2.92 *per cent* respectively.

(Paragraphs 1.1.2 and 1.11.1)

Resource mobilisation

Revenue receipts: The rate of growth of revenue receipt was 18.77 *per cent* in 2018-19 and was higher than the growth rate (12.77 *per cent*) of revenue receipts in General Category States.

(Paragraph 1.3)

The **arrears of revenue** in major revenue heads as on 31 March 2019 was ₹ 36,450 crore, of which 59.63 *per cent* was under recovery process, 38.95 *per cent* was under litigation and action was to be initiated in respect of the remaining 1.42 *per cent*.

(Paragraph 1.3.6)

Share of Union taxes and duties and Grants-in-aid: The grants-in-aid from GoI increased from 10.03 *per cent* of revenue receipts in 2017-18 to 13.45 *per cent* during 2018-19. While the growth rate of the central tax transfers increased from 10.44 *per cent* in 2017-18 to 13.05 *per cent* in 2018-19, the central tax transfers as a percentage of revenue receipts decreased from 18.53 in 2017-18 to 17.63 in 2018-19. FFC grants amounting to ₹ 1,635 crore (includes second instalment of ₹ 758 crore for 2017-18) and ₹ 1,363 crore (includes second instalment of ₹ 632 crore for 2017-18) in respect of basic grants to PRIs and ULBs respectively were released during the year.

(Paragraphs 1.3.2, 1.3.3 and 1.3.4)

State's own tax revenue: The annual growth rate of own tax revenue during 2018-19 stood at 12.59 *per cent* against 9.07 *per cent* during 2017-18. Though it registered an increase, it still remained less than the average growth rate (12.72 *per cent*) of the own tax revenue of General Category States during the current year.

(Paragraph 1.3.1.1)

Audit findings: The State's own tax revenue stood at ₹ 1,05,534 crore against the FFC target of ₹ 1,68,564 crore and the budget projection of ₹ 1,12,616 crore. The shortfall was 37.39 *per cent* with reference to FFC target and 6.29 *per cent* with reference to what was projected in the budget.

(Paragraph 1.3.1)

Goods and Services Tax (GST): GoTN implemented the GST Act with effect from 1 July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. In Tamil Nadu, the revenue realised through the taxes since now subsumed into

GST was ₹ 29,786.36 crore during the base year (2015-16). The revenue to be protected for any year was to be calculated by applying a growth rate of 14 *per cent* per annum.

(Paragraph 1.3.1.2)

Audit findings: Against the projected revenue of ₹ 44,129.80 crore during 2018-19, the receipt was ₹ 41,684.09 crore under the new tax regime, which worked out to a growth of 7.68 *per cent* as against the projected growth of 14 *per cent*.

(Paragraph 1.3.1.2)

Application of resources

Total expenditure: The total expenditure of ₹ 1,94,594 crore during 2017-18, increased to ₹ 2,27,989 crore during 2018-19 which included a grant of ₹ 4,563 crore to TANGEDCO under UDAY scheme and ₹ 2,461 crore of interest dues capitalized and treated as fresh loans through book adjustments and not being actual loans disbursed during the year.

Revenue expenditure: Of the total expenditure of ₹ 2,27,989 crore during 2018-19, revenue expenditure (₹ 1,97,200 crore) accounted for 86.50 *per cent*. The ratio of revenue expenditure to GSDP ranged between 11.48 and 12.01 *per cent* during 2014-19. It stood at 11.85 *per cent* during the current year as against 11.48 *per cent* for 2017-18.

(Paragraphs 1.6.1 and 1.6.2)

Committed expenditure: The committed expenditure on salaries and wages, salary grants, interest payments, pension and subsidies was ₹ 1,26,858 crore during 2018-19. This constituted 73.02 *per cent* of the total revenue receipts and 64.33 *per cent* of the revenue expenditure. The Committed Expenditure as percentage of revenue receipts showed an increasing trend from 61.54 *per cent* in 2014-15 to 73.02 *per cent* in the current year. Similarly, the committed expenditure as percentage of revenue expenditure showed an increasing trend from 58.48 *per cent* in 2014-15 to 64.33 *per cent* in 2018-19.

(Paragraph 1.6.3)

Subsidies: Subsidies consumed 10.89 *per cent* of State's revenue receipts. The expenditure on subsidies increased sharply from ₹ 15,230 crore during 2017-18 to ₹ 18,922 crore in 2018-19. As a percentage of revenue expenditure, there was an increase from 9.07 in 2017-18 to 9.60 in 2018-19.

Implicit subsidies in the form of marriage assistance, maternity assistance, free supply of laptop, uniform, etc., has come down from ₹ 6,156 crore in 2015-16 to ₹ 4,198 crore in 2018-19.

(Paragraph 1.6.3.2)

Capital expenditure: Capital expenditure in 2018-19 increased by ₹ 4,108 crore (20.33 *per cent*) over the previous year. However, the percentage of capital expenditure to aggregate expenditure of the State stood at 10.66 during 2018-19, which was substantially lower than the average of 14.28 in General Category States.

(Paragraphs 1.1.1 and 1.7.1)

Defined Contributory Pension Scheme: The state did not join the NPS architecture created by GoI under PFRDA Act for managing staff pension. The Pension Fund balance is invested by Government in 91 days Treasury Bills.

Audit findings: Out of the Pension Fund balance of ₹ 29,601.05 crore accumulated in the Deposit head under Public Account, only ₹ 25,697.31 crore stood invested in 91 days Treasury Bills as of March 2019.

During 2018-19, Government earned an interest of ₹ 1,331.66 crore by investing the fund balance. However, the interest paid to individual pension account holders during the period was ₹ 1,913.90 crore, the rates being at par with interest paid to GPF Subscribers.

(Paragraph 1.6.3.1)

Quality of expenditure

Adequacy of expenditure: The aggregate expenditure, as a percentage of GSDP, increased from 13.31 in 2017-18 to 13.70 in 2018-19, but was much lower than 16.05 *per cent* in General Category States.

(Paragraph 1.7.1)

Priority of expenditure: Development expenditure, as a percentage of aggregate expenditure declined from 62.45 in 2017-18 to 61.22 in 2018-19 and was also much lower than 67.04 *per cent* in General Category States.

(Paragraph 1.7.1)

Efficiency of expenditure: While the development revenue expenditure as compared to the aggregate expenditure declined from 49.31 *per cent* in 2017-18 to 48.19 *per cent* in 2018-19, the development capital expenditure increased from 9.95 *per cent* to 10.29 *per cent* during the same period.

(Paragraph 1.7.2)

Incomplete projects: Blocking of funds on incomplete projects impinges negatively on the quality of expenditure. As on 31 March 2019, 121 projects wherein Government had invested ₹ 1,274.57 crore remained incomplete beyond their scheduled completion date.

(Paragraph 1.8.2)

Investments and returns

Investments: Government invested ₹ 36,480 crore (up to March 2019) in the share capital of statutory corporations, joint stock companies and co-operatives.

Return on investment: The average rate of return, declined from 0.45 *per cent* in 2017-18 to 0.37 *per cent* during the current year. The return on investment was meagre compared to Government's average rate of borrowing of 8.27 *per cent* during the year.

(Paragraph 1.8.3)

Restructuring of Loans and advances

Loans and advances: Prior to migration to the Integrated Financial and Human Resources Management System (IFHRMS) the State Government undertook cleansing and restructuring of data relating to loans and advances. This has enabled correction of past errors and misclassifications present in the legacy data. The restructuring of loans and advances is a positive step towards efficient loan management and monitoring.

(Paragraph 1.8.4)

Fiscal liabilities

Outstanding liabilities: The outstanding fiscal liabilities had increased by 12.93 *per cent* from ₹ 3,26,518 crore at the end of 2017-18 to ₹ 3,68,736 crore at the end of 2018-19. The fiscal liabilities at the end of 2018-19 represented 212.23 *per cent* of the revenue receipts during the year as against 223.21 *per cent* of the revenue receipts during 2017-18. The outstanding liabilities as a percentage of GSDP was 22.16, which was well below the norm of 23.01 prescribed for the year 2018-19 as per FFC.

(Paragraph 1.9.3)

Contingent liabilities: Guarantees given by Government increased from 2.47 *per cent* of GSDP in 2017-18 to 2.62 *per cent* of GSDP in 2018-19. As a percentage of revenue receipts of previous year, it increased from 25.77 in 2017-18 to 29.85 in 2018-19. On the positive side, the risk weighted guarantees were well within the TNFR Act ceiling of 75 *per cent* of revenue receipts of the previous year or 7.50 *per cent* of the GSDP.

(Paragraph 1.9.5)

Audit findings: The fiscal liabilities captured in the Accounts did not include borrowings of ₹ 5,276.30 crore made by three Government agencies for funding Government schemes and Government undertook to repay these borrowings. These off-budget borrowings resulted in understating the fiscal liabilities to that extent.

(Paragraph 1.9.6)

Debt Management

Interest burden: The burden of interest payments (interest payments/revenue receipts) decreased from 17.78 *per cent* in 2017-18 to 16.55 *per cent* in 2018-19.

Net debt availability: Out of the total borrowings of ₹ 47,936 crore, net debt available to the Government was only ₹ 8,562 crore due to repayment of ₹ 15,064 crore and interest payments of ₹ 24,310 crore. The net debt available was only 17.86 *per cent* of the total borrowings during 2018-19 as compared to 32.95 *per cent* during 2017-18 and 61.54 *per cent* during2016-17.

(Paragraph 1.10)

Budgetary Control

Summary: During 2018-19, expenditure of ₹ 2,48,170.03 crore was incurred against the total grants and appropriations of ₹ 2,67,993.42 crore, resulting in savings of ₹ 19,823.39 crore.

The percentage of savings declined from 11.90 *per cent* in 2017-18 to 7.40 *per cent* during the current year indicating that the Government has been able to prioritize expenditure at par with the budget thereby reducing the gap between total provision and expenditure.

Excess expenditure: During the year, expenditure under seven voted grants exceeded the overall grant.

Excess expenditure of ₹ 1,177.13 crore pertaining to the period from 2012 to 2018 had escaped legislative oversight, as it was pending regularisation as per Article 205 of the Constitution of India.

(Paragraphs 2.2, 2.3.2 and 2.3.3)

Persistent Savings: There were persistent savings of more than five *per cent* of the total provision in 25 grants and five appropriations during 2014-19.

There were 24 schemes in which a total expenditure of ₹ 8.15 crore was incurred without Final Modified Appropriation (FMA). Supplementary provisions of ₹ 50 lakh or more in each case aggregating ₹ 3,093.34 crore obtained in 34 cases during the year 2018-19 proved unnecessary, as the original provisions also was not utilised. An amount of ₹ 13,221.31 crore (4.93 *per cent* of the total provision) was surrendered by the departments on the last day of the financial year.

(Paragraphs 2.3.4, 2.3.6, 2.3.7 and 2.3.8)

Rush of expenditure: Rush of expenditure at the end of the year was noticed, as the entire expenditure of more than ₹ 1 crore was incurred only in the month of March 2019 in 57 sub-heads, for which provision was made in the original grant, reflecting poor expenditure control.

(Paragraph 2.3.13)

Financial Reporting

Utilisation Certificates: Departmental officers failed to ensure timely submission of Utilisation Certificates in respect of grants released. As on 31 March 2019, 29 UCs for a total of ₹ 353.47 crore were pending.

(Paragraph 3.1)

Submission of Accounts: 243 autonomous bodies/institutions did not submit their accounts due upto 2018-19 to Audit, out of which 207 institutions did not submit their respective accounts for more than one year.

(Paragraph 3.3)

Temporary Advances: Temporary advances drawn up to 31 March 2019 by the DDOs involving an amount of ₹ 425.51 crore in 988 cases remained unadjusted, which included 17 advances totaling ₹ 3.83 crore remaining unadjusted for more than ten years.

(Paragraph 3.4)

Personal Deposit Accounts: 16 Personal Deposit Accounts opened by transferring funds from service heads of consolidated fund with a balance of ₹ 13.59 crore were not closed by remitting the balance to the service heads concerned during 2018-19.

(Paragraph 3.5)

Other Deposits: As on 31 March 2019, ₹ 7,500.71 crore was lying in the deposit accounts of various public sector undertakings/autonomous bodies. 136 PD Accounts with a total balance of ₹ 964.88 crore, including 44 of them with negative balances of ₹ 1,834.51 crore (minus), did not have any transaction during 2018-19.

(Paragraph 3.5.1)

Misappropriation and losses: The State Government departments reported 348 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 14.71 crore upto March 2019 on which final action was pending. This included 170 cases involving a total amount of ₹ 7.91 crore awaiting departmental and criminal investigations. Out of 348 cases, 331 cases (95 *per cent*) were pending for more than 10 years.

(Paragraph 3.6)