

# EXECUTIVE SUMMARY



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### 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 10.16 *per cent* from ₹16,30,209 crore in 2018-19 to ₹23,64,514 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 10.85 *per cent* from ₹2,67,993 crore in 2018-19 to ₹3,94,256 crore in 2022-23.

There was 14.16 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 17.47 *per cent* and the percentage of revenue receipts over GSDP improved from 10.02 *per cent* in 2021-22 to 10.31 *per cent* in 2022-23. The tax revenue increased by 23.93 *per cent* during the period and the State's own tax revenue increased by 22.27 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Tamil Nadu increased from ₹2,94,682 crore in 2021-22 to ₹3,26,755 crore in 2022-23, an increase of 10.88 *per cent*. Of this, revenue expenditure showed 10.21 *per cent* increase from 2021-22. Revenue deficit decreased from ₹46,538 crore to ₹36,215 crore registering 22 *per cent* decrease over 2021-22, while fiscal deficit increased marginally from ₹81,835 crore in 2021-22 to ₹81,886 crore in 2022-23 increasing by 0.06 *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 ₹1,73,741 crore to ₹2,43,749 crore, with an average annual growth rate of 11.13 *per cent*. Capital receipts increased from ₹54,850 crore to ₹1,02,182 crore during this period. The share of Grants-in-aid in revenue receipts marginally rose from 13.45 *per cent* in 2018-19 to 15.48 *per cent* in 2022-23. The State Government

received ₹15,270 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 ₹1,97,201 crore (12.10 *per cent* of GSDP) to ₹2,79,964 crore (11.84 *per cent* of GSDP). It consistently made up a significant portion (86.50 to 87.65 *per cent*) of the total expenditure during this period, growing at an average annual rate of 86.50 *per cent*.

### ***Result of expenditure beyond means***

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹36,215 crore (1.53 *per cent* of GSDP) in the current year from ₹ 23,459 crore (1.44 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹39,530 crore only on capital account. This was 12.10 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was 39 *per cent* of the total borrowings. Thus, 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 ₹81,886 crore (3.46 *per cent* of GSDP) in 2022-23 from ₹ 47,335 crore (2.90 *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 50-56 *per cent* of revenue expenditure during 2018-19 (56%) and 2022- 2023 (52%). The Committed expenditure increased at an average rate of 9.99 *per cent* i.e. from ₹1,09,573 crore in 2018-19 to ₹1,45,306 crore in 2022-23 {an increase of 14.85 *per cent* over 2021-22 (₹1,26,523 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 18.24 *per cent* to 16.27 *per cent* of revenue expenditure during 2018-19 to 2022-23. The inflexible expenditure increased from ₹42,552 crore in 2021-22 to ₹45,541 crore in 2022-23 registering an increase of 7.02 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹1,90,847 crore; 68 *per cent* of the revenue expenditure. The upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

#### *Subsidies constitute major portion of the non-committed expenditure*

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹18,922 crore in 2018-19 to ₹29,559 crore in 2022-23 i.e., from 9.60 *per cent* of the total revenue expenditure in 2018-19 to 10.56 *per cent* in 2022-23. Apart from this, the State Government also spent ₹438.87 crore on implicit subsidies.

#### *Off-budget borrowings*

The State Government, through Public Sector Undertaking, raised ₹1,184.69 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 ₹128.11 crore for repayment and servicing of the off-budget borrowings. This was in addition of the repayment and interests paid on the borrowings by the Government.

#### *Contingent Liabilities on account of Guarantees*

The total outstanding guarantees of the State Government were ₹90,709.22 crore as on 31 March 2023. This constituted 43.72 *per cent* of the total revenue receipts of 2021-22 (₹2,07,492.40 crore) and 3.84 *per cent* of the GSDP (₹23,64,514 crore at current prices). No guarantee was invoked during the year.

#### *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 targeted timeline to eliminate revenue deficit and reduce fiscal deficit was fixed by GoTN from time to time by amending the Tamil Nadu Fiscal Responsibility Act, 2003. In compliance with the provisions of TNFR Act, 2003, the targets for the period 2022-23 were set. The State had witnessed Revenue Deficit (₹36,215) during the year whereas the target set was to achieve revenue surplus by 2023-24. The fiscal deficit as a percentage of GSDP during 2022-23 stood at 3.46 which is within the projections of 3.5 *per cent* in Medium Term Fiscal Plan (MTFP). Outstanding liability to GSDP was 28.64 *per cent* as against limit of 29.30 *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 28.73 *per cent* of the GSDP.

As per the debt stabilisation analysis, the public debt of the Government of Tamil Nadu had grown at an average rate of 15.86 *per cent* between 2018-19 and 2022-23. Public debt-GSDP ratio has increased from 11.38 *per cent* in 2018-19 to 14.02 *per cent* in 2022-23.

The DOMAR analysis showed that the Domar gap (g-r) was positive during the period from 2018-19 and 2022-23, except 2020-21. During the pre-COVID period i.e 2018-19 and 2019-20, the real growth rate of the GSDP was 7.01 *per cent* and 3.25 *per cent* respectively and the Domar gap (expressed as g-r) remained positive but there was primary deficit in the State. Covid-19 affected the real growth rate of GSDP during 2020-21 and the Domar gap turned negative during the year. In the subsequent years (2021-22 and 2022-23), the Domar gap became positive along with primary deficit, which reflect that Public Debt as a percentage of GSDP tends towards a stable value and is therefore sustainable. Depending on the stock of debt, it will either increase or decrease in time to reach a stable level greater than zero.

***Funds to Single Nodal Agency***

The State Government received ₹14,137.90 crore being SNA's Central Share of CSS Schemes during the year. In compliance with GoI's directions, as on 31 March 2023, the State Government had transferred ₹13,629.21 crore being Central Share and corresponding State share of ₹11,311.31 crore to the SNA accounts. As of 31 March 2023, the amount of unspent amounts lying in the SNA Accounts was ₹11,453.81 crore. There was delay of 10 to 20 days beyond 21 days in release of GoI share to SNA in two schemes viz., Implementation of Project Tiger and PMAY and 1 to 20 days beyond 40 days in release of State Government share in two schemes viz National Mission on Edible Oil – Oil Palm and PMAY.

### ***Budget performance***

#### ***Aggregate expenditure 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 the Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 0.99 *per cent*. This was due to deviation up to 25 *per cent* in 41 grants, more than 25 *per cent* and up to 50 *per cent* in eight grants and more than 50 *per cent* and up to 100 *per cent* in six grants respectively. In the Capital section, deviation in outturn compared with BE was (-) 7.66 *per cent*. This was due to deviation up to 25 *per cent* in 13 grants, more than 25 *per cent* and up to 50 *per cent* in nine grants, more than 50 *per cent* and up to 100 *per cent* in six grants and more than or equal to 100 *per cent* in 15 grants respectively. The original provision given under five grants were surrendered and no expenditure incurred.

It was noticed that supplementary provisions of ₹441 crore during the year 2022-23 in 59 cases under 27 grants (more than ₹50 lakh 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 was less than 10 *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 should need to deal with such deviations.

#### ***Regularization of Excess 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 ₹2,854.07 crore relating to 2014-22 was yet (September 2023) to be regularised by the State Legislature.

#### ***Misclassification in accounts***

During the year, capital expenditure of an amount of ₹5.74 crore booked under the Major Head 5054 was to be transferred to 'State Infrastructure and Amenities Fund'. Instead, due to misclassification, the sum of ₹5.74 crore was transferred from Major Head 2217 to the 'State Infrastructure and Amenities Fund' as 'Expenditure met from Reserve Fund'. This had resulted in understatement of Revenue Expenditure to that extent.

### **Quality of Accounts & Financial Reporting Practices**

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**

As per the Tamil Nadu Treasury Rules, all Departments are required to reconcile their expenditure and receipts with the expenditure booked in the accounts in the Accountant General Office. The State Government did not reconcile 5.21 *per cent* of the total expenditure and 6.14 *per cent* of the receipts.

*The remaining unreconciled amounts both receipts and expenditure relates to 44 per cent of the CCOs.*

#### **Compliance with IGAS**

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government partly complied with IGAS-3: Loans and Advances made by the Government. The reconciliation of figures booked under the loan heads was not completed during 2022-23, subsequent to the restructuring of loans and advances given by the Government during the year 2018-19. Reconciliation with the State is under process.

#### **Utilisation Certificates against conditional grants**

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 48 outstanding UCs of ₹1,435.43 crore were pending as on 31 March 2023.

#### **Temporary Advance**

693 number of temporary advances amounting to ₹296.97 crore drawn by various DDOs, which remained unadjusted as on 31 March 2023. Out of which 112 temporary Advances amounting to ₹ 110.73 crore pertained to the period upto 2021-22.

#### **Funds outside Government Account**

It was noticed that TANGEDCO collected ₹5,493.40 crore as Electricity Tax from consumers but remitted only ₹1,228.79 crore. The amount of electricity tax collected but not remitted into the consolidated fund as of 31 March 2023 stood at ₹4,264.61 crore.



***Working of State Public Undertakings***

As on 31 March 2023, there were 102 State Public Sector Undertakings (PSUs) in Tamil Nadu, including 74 Government Companies (including two inactive Government Companies), one Statutory Corporation and 27 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 16 PSUs whose 22 accounts were in arrears. Out of the total profit of ₹2,560.42 crore earned by 54 working PSUs, 63.81 *per cent* was contributed by three PSUs only. Out of total loss of ₹16,047.99 crore incurred by 35 working PSUs, loss of ₹9,848.74 crore was incurred by three power sector PSUs and ₹6,077.86 crore by eight PSUs in Transport sector. The financial impact of CAG's comments on the financial statements of PSUs during the year 2022-23 was as ₹393.52 crore on profitability.

The State Government may impress upon the managements of PSUs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such PSUs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making PSUs and initiate steps to make their operations efficient and profitable.