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 2009-10. 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 2009-10. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to other States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over four years since the FRBM legislation and have published four 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 is considered 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 second in this endeavour.

The Report

Based on the audited accounts of the Government of Tripura for the year ending March 2010, 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 2010. 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. Besides, consequent upon the implementation of the State's Pay Revision, there was substantial increase in revenue expenditure by 2009-10, which had a bearing on the fiscal position of the State.

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 delay in placement of Separate Audit Reports in the Legislature by the Autonomous Bodies. Besides, the 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 last five years period except in 2009-10, in which, the State had witnessed primary deficit. During the current year, there was no further improvement in revenue surplus, and the State managed to minimize holding of large cash surplus.

Revenue Receipts

During 2009-10, 86 *per cent* of the total revenue came from the Government of India as Central transfers (16 *per cent*) and Grants-in-aid (69 *per cent*) while the Own Tax Revenue of the State constituted 12 *per cent* of the total revenue receipts and remained far below the normative assessment made by the Twelfth Finance Commission (TFC) for the State for 2009-10 and State's own projection in the Budget Estimates. Similarly, the non-tax revenue constituted 3 *per cent* of the revenue receipts which was also significantly lower than both the TFC projection and State's own projection in the Budget Estimates.

The State Government should mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. It should also make efforts to collect revenue arrears. Efforts should also be made to increase tax compliance, reduce tax administration costs, etc. 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 will also increase the total receipts of the State. There is an urgent need to improve collection of non-tax revenue so that recourse to borrowed funds can be reduced.

Revenue Expenditure

During 2009-10, the Revenue expenditure stood at ₹ 4,213.79 crore (75.74 *per cent* of the total expenditure) which grew by ₹ 1084.34 crore over the previous year while the expenditure incurred under capital head was ₹ 1,332.22 crore (23.95 *per cent* of the total expenditure).

During 2009-10, though the development expenditure (₹ 3,398.56 crore) increased by ₹ 657.83 crore over the previous year, yet it was much below the Budget Estimate (₹ 2,212.41 crore) for 2009-10. The relative share of the revenue development expenditure was 66.58 *per cent* of the total expenditure while this share in respect of capital development expenditure was only 32.90 *per cent*. The expenditure pattern of the State, thus, reveals that there is an increasing pressure on revenue expenditure even though there is a marginal increase in capital expenditure.

The expenditure on salaries and wages increased by 39 *per cent* (from ₹ 1,466.30 crore in 2008-09 to ₹ 2,042.75 crore in 2009-10) against the TFC norms of growth rate of 6 *per cent*. According to recommendation of the TFC, the State should follow a recruitment and wages policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 *per cent*. This norm was not followed in the State and the salary and wages expenditure stood at 62.94 *per cent* during 2009-10.

Though expenditure incurred under Capital Heads had been increasing over the years, yet the State needs to prioritize spending more under this head as central grants are meant to improve services mostly in Social and Economic Sectors. A monitoring organ should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Government money are being utilised so that value for money is channelised in its entirety to the intended beneficiaries. The State should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to cut down interest payments.

Fiscal Correction Path

During 2009-10, there was a sudden fall in revenue surplus by ₹ 759.77 crore and consequently, the fiscal deficit increased by ₹ 915.82 crore over the previous year mainly due to increase in expenditure both in the revenue and capital heads. The State could not manage to achieve the fiscal deficit target of 3 *per cent* of GSDP as prescribed in the TFRBM Act, 2005 for the year 2009-10, which stood at 10.63 *per cent*.

There is a reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, reduce tax collection costs, collection of revenue arrears and prune unproductive expenditure so that deficits are contained.

Fiscal Priority

The State had attached low fiscal priority towards development expenditure, as the Development Expenditure/Aggregate Expenditure ratio was much lower than the national average in 2009-10. Since the population of Tripura is low, the per capita expenditure in DE, SSE and CE was higher than the national average but if the DE/AE ratio had been as high as the national average for Tripura, the per capita expenditure would have been much higher.

The increase in the ratio of developmental expenditure to aggregate expenditure indicates that State attaches more fiscal priority towards its development. From the point of view of improving developmental expenditure, it is pertinent for Government of Tripura to take appropriate expenditure measures and lay emphasis on provision of expending more under social and economic sectors.

Fiscal liabilities

The percentage of outstanding liabilities to GSDP during 2009-10 was higher (by 16.63 *per cent*) than the projection (36.36 *per cent*) made in the Medium Term Fiscal Policy Statement (MTFPS). The committed liabilities for the State projected by the TFC was ₹ 1,324.07 crore of non-plan revenue expenditure for the year 2009-10. Compared to this, there was an increase of 43.88 *per cent* in the actual expenditure during 2009-10. During 2009-10, interest receipts, as percentage of outstanding loans and advances was 1.43 whereas interest paid by the Government as percentage to outstanding liabilities was 7.98. The State Government retained a cash balance of ₹ 485.36 crore at the end of 2009-10, which has decreased by ₹ 414.60 crore as compared to previous year.

To match the State's flow of resources with its expenditure obligations, retention of cash balances need to be minimised. A Proper debt management taken up by the State Government through advance planning could reduce the need for holding further cash surplus.

Investment and Returns

Investment of the Government money in the Government Companies and Statutory Corporations are increasing year after year, but no returns from this investment has been received by the Government during 2009-10.

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 justify if high cost borrowings are worth to be channelised there.

Debt sustainability

The State could hardly manage to achieve the debt-GSDP target of 40 *per cent* by 31 March 2010, as set out in TFRBM Act as well as the target fixed in the Twelfth Finance Commission, consequent upon which the position of the Consolidated Debt stood volatile during 2009-10 like the previous years. This is indicative of an adverse impact on the debt position in coming years and the State is unlikely to achieve the Debt-GSDP ratio of 25 *per cent* by 2014-15 as recommended by the Thirteenth Finance Commission.

The State should make efforts to return to primary surplus as were in the past years and continue to be revenue surplus. Maintaining a calendar of borrowings to avoid lumping towards the end of the fiscal year and a clear understanding of the maturity profile of debt payment will go a long way in prudent debt management.

Fiscal position of Tripura among NE States

This year, an attempt has been made to compare the fiscal position of the State of Tripura with that of the other NE States, the objective of which was to have an insight on where Tripura stands amongst the other NE States.

In respect of GSDP – one of the major key fiscal indicators, the Compound Annual Growth Rate for Tripura is 10.97 *per cent* against NE average of 11.97 *per cent* and it ranks sixth in the NE States. Again in respect of Per Capita Income during 2008-09, Tripura stands eighth with ₹ 28,595 against the NE average of ₹ 34,177.

To keep pace with the NE States, the Government of Tripura ought to identify the gaps and take effective measures for mobilizing its own resources so that the State can improve its ranking among the NE States.

Fiscal space

Fiscal space can be characterized as concrete policy actions for enhancing domestic resource mobilisation and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective. The Government should create a fiscal space which would enable undertaking of large investment in both social and physical infrastructure sectors in the State.

In Tripura, raising the ratio of State's own tax and non-tax revenue to GSDP would be a possible way of creating fiscal space.