EXECUTIVE SUMMARY

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Fiscal situation of the State

Revenue receipts: During 2017-18, the revenue receipts grew by 4.31 *per cent* over the previous year. Buoyancy of revenue receipts with reference to GSDP declined sharply from 1.09 (2016-17) to 0.35 (2017-18).

(Paragraphs 1.1.1 and 1.3)

Revenue expenditure: The revenue expenditure grew by 9.58 *per cent* over the previous year. However, as a percentage of GSDP, the revenue expenditure declined from 12.06 in 2016-17 to 11.76 in 2017-18. The buoyancy of the revenue expenditure with reference to revenue receipts during 2017-18 was 2.22, indicating disproportionately higher growth in revenue expenditure in relation to the revenue receipts.

(Paragraphs 1.1.1 and 1.6.2)

Fiscal imbalance: The revenue deficit increased from ₹ 1,788 crore in 2013-14(0.18 *per cent* of GSDP) to ₹ 21,594 crore (1.51 *per cent* of GSDP) in 2017-18. During 2017-18, though the State could contain its revenue deficit within the target proposed in the MTFP (₹ 35,473 crore), it failed to achieve the target proposed in the budget (₹ 15,930 crore).

The primary deficit decreased from ₹ 35,637 crore (2.8 *per cent* of GSDP) in 2016-17 to ₹ 13,828 crore (0.97 *per cent* of GSDP) in 2017-18.

The high fiscal deficit of ₹ 56,170 crore during 2016-17, which was on account of implementation of UDAY scheme for revival of electricity distribution company (TANGEDCO), came down to ₹ 39,840 crore in 2017-18. Thereby, the State could contain the fiscal deficit at 2.79 *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) as compared to 4.42 *per cent* (factoring UDAY Scheme) and 2.63 *per cent* (without UDAY) for the year 2016-17.

The high fiscal deficit of ₹ 39,840 crore as against the capital expenditure of only ₹ 20,203 crore is indicative of the fact that the borrowing during the year was utilised for the financing revenue expenditure, thereby according lower priority to the capital expenditure.

Audit findings: There were short transfers of ₹ 1,339 crore to Sinking Fund, Guarantee Redemption Fund, various reserve funds and defined contributory pension scheme, which resulted in understatement of Revenue and Fiscal Deficits to that extent. If these short transfers are taken into account, the revenue and fiscal deficits would be 1.61 *per cent* and 2.89 *per cent* of GSDP respectively.

(Paragraphs 1.1.2 and 1.11.1)

Resource mobilisation

Revenue receipts: The rate of growth of revenue receipt at 4.31 *per cent* in 2017-18 declined from 8.70 *per cent* in 2016-17, and also was much lower than the growth rate (11.30 *per cent*) of revenue receipts in General Category States.

(Paragraph 1.3)

The arrears of revenue in major revenue heads as on 31 March 2018 was ₹ 30,079 crore, of which 53.42 *per cent* was under recovery process, 32.55 *per cent* was under litigation and action was pending to be initiated in respect of the remaining 14.03 *per cent*.

(Paragraph 1.3.6)

Share of union taxes and duties and Grants-in-aid: While the central tax transfers increased from 17.50 *per cent* of revenue receipts in 2016-17 to 18.53 *per cent* during 2017-18, the grants-in-aid from GoI as a percentage of revenue receipts decreased from 14.15 in 2016-17 to 10.03 in 2017-18. FFC grants amounting to ₹ 758 crore and ₹ 815 crore in respect of basic grants to PRIs and ULBs respectively were not released by GoI, as the Local Body elections were not conducted.

(Paragraphs 1.3.2 and 1.3.3)

State's own tax revenue: The annual growth rate of own tax revenue during 2017-18 stood at 9.07 *per cent* over previous year, against 6.79 *per cent* during 2016-17. Though it registered increase, it still remained less than the average growth rate (12.20 *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 ₹ 93,737 crore against the FFC target of ₹ 1,46,893 crore and the budget projection of ₹ 99,590 crore. The shortfall was 36.19 *per cent* with reference to FFC target and 5.88 *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 Stats) 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.

Audit findings: Against the projected revenue of ₹ 29,032.77 crore during July 2017 to March 2018, the receipt was ₹ 28,577.61 crore under the new tax regime, which worked out to a growth of 12.21 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 ₹ 1,99,950 crore during 2016-17, which included a loan of ₹ 22,815 crore to TANGEDCO under UDAY scheme, came down marginally to ₹ 1,94,594 crore during 2017-18 which included a grant of ₹ 4,563 crore to TANGEDCO under UDAY scheme.

Revenue expenditure: Of the total expenditure of ₹ 1,94,594 crore during 2017-18, revenue expenditure (₹ 1,67,874 crore) accounted for 86.27 *per cent*. The ratio of revenue expenditure to GSDP ranged between 11.34 and 12.06 *per cent* during 2013-18. It stood at 11.76 *per cent* during the current year as against 12.06 *per cent* for 2016-17.

(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 ₹ 1,06,333 crore during 2017-18. This constituted 72.69 *per cent* of the total revenue receipts and 63.34 *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 72.69 *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 63.34 *per cent* in 2017-18.

(Paragraph 1.6.3)

Subsidies: Subsidies consumed 10.41 *per cent* of State's revenue receipts. On a positive side, after continuous increase for four years from ₹ 9,646 crore in 2013-14 to ₹ 16,092 crore in 2016-17, the expenditure on subsidies showed marginal decline to ₹ 15,230 crore during 2017-18. As a percentage of revenue expenditure, the decrease was from 10.50 in 2016-17 to 9.07 in 2017-18.

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 ₹ 4,433 crore in 2017-18.

(Paragraph 1.6.3.2)

Capital expenditure: Capital expenditure decreased by ₹ 506 crore (2.44 *per cent*) over the previous year. The percentage of capital expenditure to aggregate expenditure of the State stood at 10.38 during 2017-18, which was less than the average of 14.40 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:

- Government's matching contribution to the Pension Fund fell short by ₹ 204.89 crore during 2015-18.
- Out of the Pension Fund balance of ₹ 23,392.42 crore accumulated in the Deposit head under Public Account, only ₹ 22,506.24 crore stood invested in 91 days Treasury Bills as of March 2018.
- During 2015-18, Government earned interest at a range of 6.03 *per cent* to 7.85 *per cent* by investing the fund balance. However, the interest paid to individual pension account holders ranged from 7.60 *per cent* to 8.70 *per cent* 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, declined from 15.74 in 2016-17 to 13.64 in 2017-18, which was much lower than 16.10 *per cent* in General Category States.

(Paragraph 1.7.1)

Priority of expenditure: Development expenditure, as a percentage of aggregate expenditure declined from 67.51 in 2016-17 to 62.45 in 2017-18, which was much lower than 67.90 *per cent* in General Category States.

(Paragraph 1.7.1)

Efficiency of expenditure: While the development revenue expenditure as compared to the aggregate expenditure marginally declined from 50.23 *per cent* in 2013-14 to 49.31 *per cent* in 2017-18, the development capital expenditure declined steeply from 12.82 *per cent* to 9.95 *per cent* during the same period. As compared with 2016-17, the development revenue expenditure increased by 7.48 *per cent* and development capital expenditure decreased by three *per cent* during 2017-18.

(Paragraph 1.7.2)

Incomplete projects: Blocking of funds on incomplete projects impinges negatively on the quality of expenditure. As on 31 March 2018, 134 projects wherein Government had invested ₹ 1,276.27 crore remained incomplete beyond their scheduled completion date.

(Paragraph 1.8.2)

Investment and return

Investments: Government invested ₹ 33,579 crore (up to March 2018) in the share capital of statutory corporations, joint stock companies and co-operatives.

Return on investment: The average rate of return, which increased from 0.20 *per cent* in 2013-14 to 0.62 *per cent* in 2016-17, declined to 0.45 *per cent* in 2017-18. The low returns on investment was mainly on account of poor financial results of public sector undertakings. The return on investment was meagre compared to Government's average rate of borrowing of 8.53 *per cent* during the year.

(Paragraph 1.8.3)

Fiscal liabilities

Outstanding liabilities: The outstanding fiscal liabilities had increased by 15.22 *per cent* from ₹ 2,83,394 crore at the end of 2016-17 to ₹ 3,26,518 crore at the end of 2017-18. The fiscal liabilities at the end of 2017-18 represented 223.21 *per cent* of the revenue receipts during the year as against 202.09 *per cent* of the revenue receipts during 2016-17. The outstanding liabilities as a percentage of GSDP was 22.88, which was marginally above the norm of 22.54 prescribed for the year 2017-18 as per FFC.

(Paragraph 1.9.3)

Contingent liabilities: Guarantees given by Government increased from 2.32 *per cent* of GSDP in 2016-17 to 2.53 *per cent* of GSDP in 2017-18. As a percentage of revenue receipts of previous year, it increased from 20.19 in 2016-17 to 24.70 in 2017-18. 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 1.9.6)

Audit findings: The fiscal liabilities captured in the Accounts did not include borrowings of ₹ 3,754 crore made by four 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 1.9.7)

Debt Management

Interest burden: The burden of interest payments (interest payments/revenue receipts) increased from 11.48 *per cent* in 2013-14 to 17.78 *per cent* in 2017-18.

Net debt availability: Out of a total borrowings of ₹ 45,722 crore, the net debt available to the Government was only ₹ 15,064 crore due to repayment of

₹ 8,991 crore and interest payments of ₹ 21,667 crore. The net debt available was only 33 *per cent* of the total borrowings during the current year as compared to 61 *per cent* during 2016-17 and 41 *per cent* during 2015-16.

(Paragraph 1.10)

Budgetary Control

Summary: During 2017-18, expenditure of ₹ 2,08,622.18 crore was incurred against the total grants and appropriations of ₹ 2,36,801.62 crore, resulting in savings of ₹ 28,179.44 crore.

Excess expenditure: During the year, expenditure under four voted grants and five charged appropriations exceeded the grant / appropriations.

Excess expenditure of ₹ 1,099.58 crore pertaining to the period from 2012 to 2017 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 26 grants and four appropriations during 2013-18. Supplementary provisions of ₹ 50 lakh or more in each case aggregating ₹ 967.99 crore obtained in 25 cases during the year 2017-18 proved unnecessary, as the original provisions also was not utilised. An amount of ₹ 10,938.92 crore (4.62 *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 and 2.3.7)

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 2018 in 119 sub-heads. Further, in the fourth quarter of the year, expenditure under 40 major heads exceeded *50 per cent* of the total expenditure, reflecting poor expenditure control.

(Paragraph 2.3.12)

Financial Reporting

Utilisation Certificates: Departmental officers failed to ensure timely submission of Utilisation Certificates in respect of grants released. As on 31 March 2018, 24 UCs for a total of ₹ 367.49 crore were pending.

(Paragraph 3.1)

Submission of Accounts: 308 autonomous bodies/institutions did not submit their accounts due up to 2017-18 to Audit, out of which 225 institutions did not submit their respective accounts for more than one year.

(Paragraph 3.3)

Temporary Advance: Temporary advances drawn up to 31 March 2018 by the DDOs involving an amount of ₹ 261.90 crore in 791 cases remained unadjusted, which included 16 advances totaling ₹ 1.34 crore remaining unadjusted for more than ten years.

(Paragraph 3.4)

Personal Deposit Accounts: 24 Personal Deposit Accounts opened by transferring funds from service heads of consolidated fund with a balance of ₹ 30.05 crore were not closed by returning the balance to the service heads concerned during 2017-18.

(Paragraph 3.5)

Other Deposits: As on 31 March 2018, ₹ 4,466.55 crore was lying in the deposit accounts of various public sector undertakings/ autonomous bodies. 46 deposit accounts with a balance of ₹ 805.29 crore did not have any transactions during 2017-18.

Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO), a PSU involved in administering Government funds meant for Local Bodies under various schemes, withdrew ₹ 1,861.22 crore of scheme funds from its deposit accounts and invested in Banks. This has resulted in overstatement of the expenditure of the Government as the money was actually not released to local bodies but invested in banks.

(Paragraph 3.5.1)

Misappropriation and losses: The State Government departments reported 363 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 14.94 crore up to March 2018 on which final action was pending. This included 181 cases involving a total amount of ₹ 8.04 crore awaiting departmental and criminal investigations. Out of 363 cases, 341 cases (94 *per cent*) were pending for more than 10 years.

(Paragraph 3.6)

Parking of funds in Banks: Field offices of Social Welfare and Nutritious Meal Programme Department held a balance of ₹ 362.33 crore in 422 bank accounts as on 31 March 2018 out of funds released for implementation of various schemes. This included ₹ 201.31 crore in 153 inoperative accounts.

(Paragraph 3.11)