

EXECUTIVE SUMMARY



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About the Report

This Report of the CAG of India is on the State Finances for the year 2023-24. It provides an overview, finances of the State, budgetary management and quality of accounts and financial reporting practices.

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 10.92 *per cent* from ₹17,43,144 crore in 2019-20 to ₹27,21,571 crore in 2023-24. Budget Outlay of the State grew at an average growth rate of 10.88 *per cent* from ₹2,88,353 crore in 2019-20 to ₹4,46,888 crore in 2023-24.

There was 13.71 *per cent* growth in GSDP over 2022-23. The revenue receipts grew at 8.55 *percent* and the percentage of revenue receipts over GSDP decreased from 10.18 *per cent* in 2022-23 to 9.72 *per cent* in 2023-24. The tax revenue (Own Tax Revenue + Share of net proceeds of Taxes and Duties) increased by 12.91 *per cent* during the period and the State's own tax revenue increased by 11.35 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Tamil Nadu increased from ₹3,26,755 crore in 2022-23 to ₹3,59,063 crore in 2023-24, an increase of 9.89 *per cent*. Of this, revenue expenditure showed 10.63 *per cent* increase from 2022-23. Revenue deficit increased from ₹36,215 crore to ₹45,121 crore registering 24.59 *per cent* increase over 2022-23, while fiscal deficit increased significantly from ₹81,886 crore in 2022-23 to ₹90,430 crore in 2023-24 increasing by 10.43 *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 account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

From 2019-20 to 2023-24, revenue receipts grew from ₹1,74,526 crore to ₹2,64,597 crore, with an average annual growth rate of 9.08 *per cent*. Capital receipts increased from ₹72,158 crore to ₹1,35,634 crore during this period. The percentage of share of Grants-in-aid to revenue receipts decrease significantly from 15.92 *per cent* in 2019-20 to 9.58 *per cent* in 2023-24. The State

Government received ₹13,972 crore as Central share for the Centrally Sponsored Schemes (CSS) 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 2019-20 and 2023-24, revenue expenditure increased from ₹2,10,435 crore (12.07 *per cent* of GSDP) to ₹3,09,718 crore (11.38 *per cent* of GSDP). It consistently made up a significant portion (85.68 to 87.65 *per cent*) of the total expenditure during this period, growing at an average annual rate of 86.46 *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 ₹45,121 crore (1.66 *per cent* of GSDP) in the current year from ₹35,909 crore (2.06 *per cent* of GSDP) in the year 2019-20.

The State Government spent ₹40,500 crore only on capital account. This was 11.28 *percent* of the total expenditure in the year 2023-24. Capital expenditure was 31 *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 ₹90,430 crore (3.32 *per cent* of GSDP) in 2023-24 from ₹60,179 crore (3.45 *per cent* of GSDP) in 2019-20.

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 2019-20 (56 *per cent*) and 2021-22 (50 *per cent*). The Committed expenditure increased at an average rate of 8.42 *per cent* i.e. from ₹1,17,819 crore in 2019-20 to ₹1,63,355 crore in 2023-24 {an increase of 12.42 *per cent* over 2022-23 (₹1,45,306 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 16.76 *per cent* to 15.94 *per cent* of revenue expenditure during 2019-20 to 2023-24. The inflexible expenditure increased from ₹45,541 crore in 2022-23 to ₹49,346 crore in 2023-24 registering an increase of 8.36 *per cent*.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹2,12,701 crore; 68.68 *per cent* of the revenue expenditure. 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 ₹20,144 crore in 2019-20 to ₹37,749 crore in 2023-24 i.e., from 9.57 *per cent* of the total revenue expenditure in 2019-20 to 12.19 *per cent* in 2023-24. Apart from this, the State Government also spent ₹801.77 crore on implicit subsidies.

Off-Budget Borrowings

The State Government, through Public Sector Undertaking, raised ₹1,672.01 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 2023-24, the State Government provided ₹51.45 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 ₹1,22,269.91 crore as on 31 March 2024. This constituted 50.16 *per cent* of the total revenue receipts of 2022-23 (₹2,43,749.34 crore) and 4.49 *per cent* of the GSDP (₹27,21,571 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 fiscal deficit as a percentage of GSDP during 2023-24 stood at 3.32 *per cent* which was higher than the target of 3 *per cent* as set under TNFR Act. Outstanding liability (including Off Budget Borrowing) to GSDP was 28.00 *per cent* as against limit of 29.10 *per cent*.

As per the Debt Stabilisation Analysis, the overall debt of the Government of Tamil Nadu has grown on an average at the rate of 15.62 *per cent* annually of the outstanding overall debt between 2019-20 to 2023-24. Debt-GSDP ratio has increased from 24.35 *per cent* in 2019-20 to 28.00 *per cent* in 2023-24.

As per Domar model, in the initial two years of the subject period i.e. 2019-20 and 2020-21, the primary deficit was on an increasing trend. The Domar gap (g-r) which was positive during 2019-20, turned negative during the year 2020-21 showing that the overall Debt as percentage of GSDP would increase indefinitely, without converging to a stable level. However, during 2021-22 and 2022-23, the Domar gap again turned positive as its value considerably increased from the preceding years. The Domar gap decreased marginally during 2023-24 and stood at 5.80. Thus, as per the Domar model analysis of Debt sustainability, the overall debt would converge to a stable level.

Funds to Single Nodal Agency

The State Government received ₹13,133.76 crore being SNA's Central Share of CSS Schemes during the year. In compliance with GoI's directions, as on 31 March 2024, the State Government had transferred ₹13,487.29 crore being Central Share and corresponding State share of ₹12,198.81 crore (including State top up share of ₹17.26 crore) to the SNA accounts. As of 31 March 2024, the unspent amounts lying in the SNA Accounts was ₹10,083.87 crore. There were delays ranged between one day and 106 days in release of GOI share and State Government share to SNA in seven schemes shared by the Central and the State schemes and delays in release of GOI share between one and 24 days in three Central schemes.

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 1.96 *per cent*. This was due to deviation up to 25 *per cent* in 47 grants, more than 25 *per cent* and up to 50 *per cent* in two grants, and more than 50 *per cent* and up to 100 *per cent* in four grants and more than 100 *per cent* in two grants. In the Capital section, deviation in outturn compared with BE was (-) 4.21 *per cent*. This was due to deviation up to 25 *per cent* in 11 grants, more than 25 *per cent* and up to 50 *per cent* in eight grants, more than 50 *per cent* and up to 100 *per cent* in 18 grants and more than or equal to 100 *per cent* in six grants respectively. The original provision was not given under eight grants and the original provision was withdrawn in respect of two grants.

Expenditure Composition Outturn

The Expenditure Composition Outturn reflects the extent to which the re-allocations under budget categories effects the expenditure composition during the execution stage. In Revenue section, deviation in Actual expenditure compared with Revised Estimate (RE) was 0.37 *per cent*. This was due to deviation upto 25 *per cent* in 50 grants, more than 25 *per cent* and up to 50 *per cent* in three grants, and more than 50 *per cent* and up to 100 *per cent* in one

grant and more than 100 *per cent* in one grant. In the Capital section, deviation in outturn compared with RE was (-) 0.05 *per cent*. This was due to deviation up to 25 *per cent* in 22 grants, more than 25 *per cent* and up to 50 *per cent* in ten grants, more than 50 *per cent* and up to 100 *per cent* in three grants and more than 100 *per cent* in one grant respectively. Expenditure was incurred without provision either in Original budget or RE in one grant.

It was noticed that supplementary provisions of ₹1,078 crore during the year 2023-24 in 81 cases under 26 grants (more than ₹50 lakh in each case) was 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.

Expenditure incurred without authority of law

In nine Heads of account, an expenditure of ₹42.42 crore was incurred without provision either in the Original Budget or in the Supplementary estimates, which led to incurring of expenditure on the schemes without the authority of legislature.

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 ₹968.12 crore relating to 2019-23 was yet (August 2024) to be regularised by the State Legislature.

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 2.89

per cent of the Revenue expenditure, 1.15 *per cent* of Capital expenditure and 6.14 *per cent* of Revenue receipts and 2.81 *per cent* of Loans and Advances.

The remaining unreconciled amounts of both receipts and expenditure relates to 41.43 *per cent* and 38.60 *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 2023-24, 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, 111 outstanding UCs of ₹2,805.94 crore were pending as on 31 March 2024. Non-submission of UCs indicates the failure of the departmental officers to comply with the rules to ensure accountability. The pendency of UCs are fraught with the risk of misappropriation of funds and fraud.

Temporary Advance

383 number of temporary advances amounting to ₹216.46 crore drawn by various DDOs, which remains unadjusted as on 31 March 2024. Out of which 99 temporary advances amounting to ₹181.58 crore pertained to the period upto 2022-23. Temporary Advances drawn and not accounted for increase the possibility of wastage/misappropriation/malfeasance, etc., of public money.

Funds outside Government Account

During the year, TANGEDCO collected ₹1,985.03 crore as Electricity Tax from consumers, but remitted only ₹1,457.75 crore. The amount of electricity tax collected but not remitted into the consolidated fund as of 31 March 2024 was ₹507.43 crore (after retaining collection charges of ₹19.85 crore). Such non-remittance to the Government account and retaining the collected tax for such a long period is fraught with the risk of suspected temporary misappropriation.